LLOYD'S

Full Year Results

2021

Sharing risk to create a braver world

Overview

John Neal, Chief Executive Officer

Returning the market to sustainable, profitable performance

Sustainable performance

- Performance-led approach has delivered sustainable underwriting profit of £1.7bn and combined ratio of 93.5%.
- Attritional loss ratio of 48.9% demonstrates significant underwriting remediation.
- Catastrophe risk appetite well within appetite and well managed.
- Expense ratio of 35.5% shows continued improvement.

Profitable growth

- Premium growth of 11% with GWP rising to £39.2bn.
- 10.9% average risk adjusted rate increase.
- Sustainable, improved performance positions the market for growth in 2022.
- Pricing and risk selection remain a key area of focus in 2022.

Strong capital

- Resilient balance sheet can withstand threat from systemic risk and capital markets.
- Increased central solvency ratio to 388%.
- Central Fund Cover reinforces the resilience of the Lloyd's market by £650m.
- Maintained strong ratings with all four rating agencies.

Talented people

- The world's most innovative and talented marketplace.
- Progress made with more women in leadership across the market.
- Aspirational 'whole of workforce' ethnicity target set.
- Corporation achieves gender parity across leadership and is closing gender pay gap.

Ukraine developments

- A humanitarian crisis in the wake of COVID-19.
- Direct exposures represent less than 1% of written premiums.
- Exposure to aviation, credit, cyber and political risk classes are within manageable tolerances.
- Frequent engagement with regulators and governments around the world.

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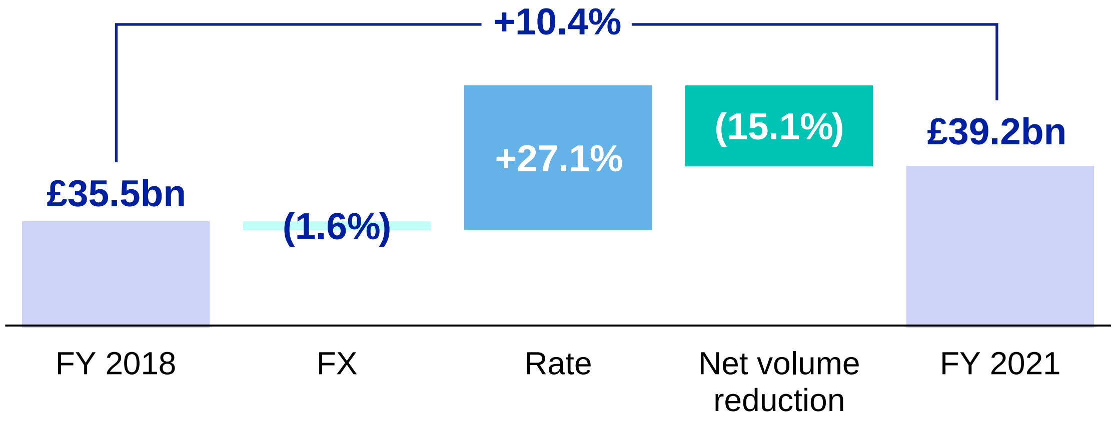
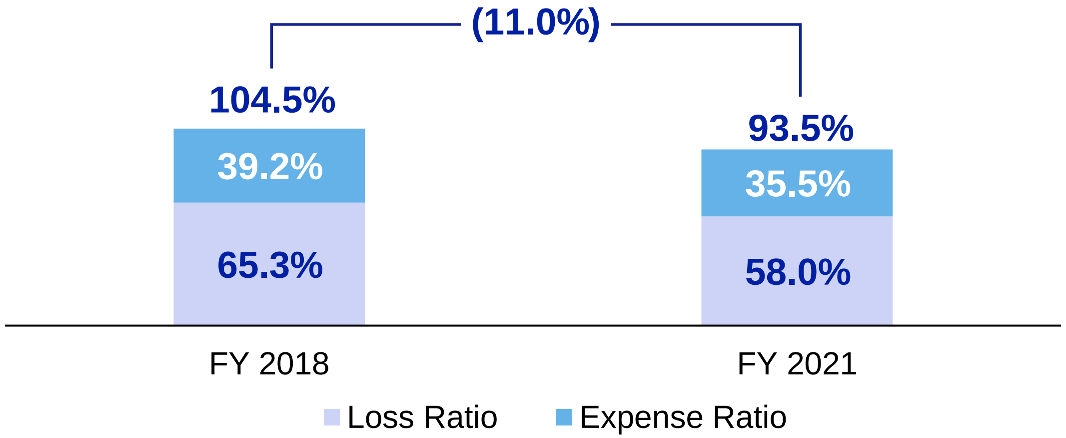
Track record of successful management actions

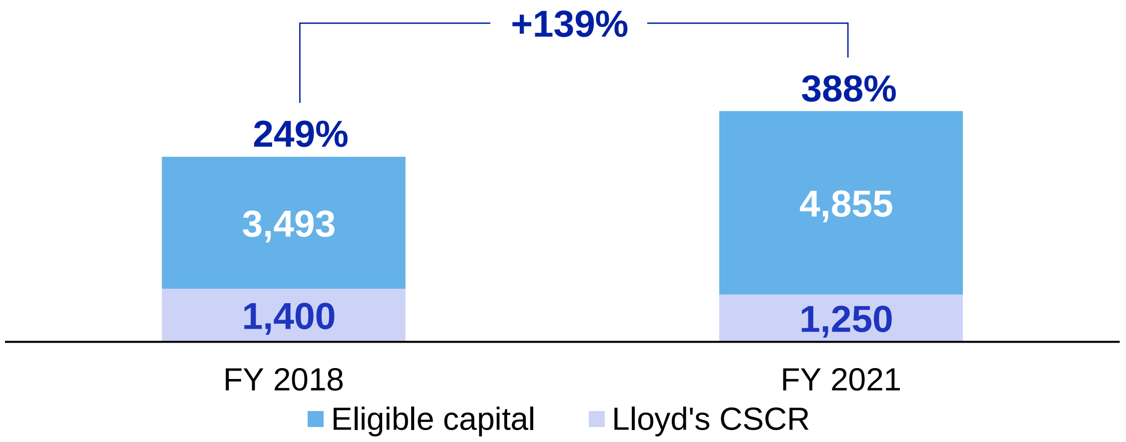
Premium changes 2018 – 2021



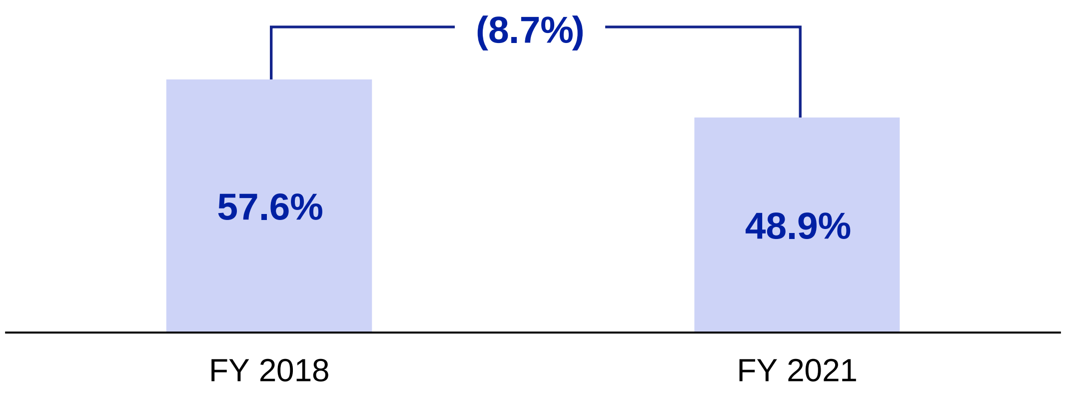
Combined ratio



Central solvency coverage ratio (£m)



Attritional loss ratio



Financials

Burkhard Keese, Chief Operating and Chief Financial Officer

2021 Full Year Results

- Underwriting results
- Pricing environment
- Resilient capital position
- Prudent asset allocation
- 2022 Outlook

Strong underwriting performance drives high quality results

£m	2019	2020	2021	Change
Gross written premium	35,905	35,466	39,216	+11%
Net earned premium	25,821	25,876	26,657	+3%
Net incurred claims and operating expenses	(26,359)	(28,552)	(24,916)	(13%)
Underwriting result	**(538)**	**(2,676)**	**1,741**	
Net investment income	3,537	2,268	948	(58%)
Other expenses and FX	(467)	(479)	(412)	(14%)
Profit/(loss) before tax	**2,532**	**(887)**	**2,277**	

Loss ratio	**63.4%**	**73.1%**	**58.0%**	**(15.1%)**
Attritional losses	57.3%	51.9%	48.9%	(3.0%)
Prior year development	(0.9%)	(1.8%)	(2.1%)	(0.3%)
Major claims excluding COVID-19	7.0%	9.7%	11.2%	+1.5%
COVID-19 major claims	-	13.3%	-	(13.3%)
Expense ratio	**38.7%**	**37.2%**	**35.5%**	**(1.7%)**
Combined ratio	**102.1%**	**110.3%**	**93.5%**	**(16.8%)**
Combined ratio excluding COVID-19	102.1%	97.0%	93.5%	(3.5%)

Strong underwriting performance drives high quality results

High quality of results

- Return to underwriting profitability with an overall profit of £2.3bn.
- £1,741m underwriting profit with a 93.5% combined ratio, a 11 percentage points improvement since 2018, is proof of our capabilities to restore profitability.
- 48.9% attritional loss ratio, a 8.7 percentage points improvement since 2018, and a 3.0 percentage points improvement year on year.

Profitable growth

- Return to profitability permitting exposure and price growth.
- 11% profitable GWP growth with a 93.5% combined ratio is an outstanding result.
- Reduced unprofitable business by 15.1%.

Expense management

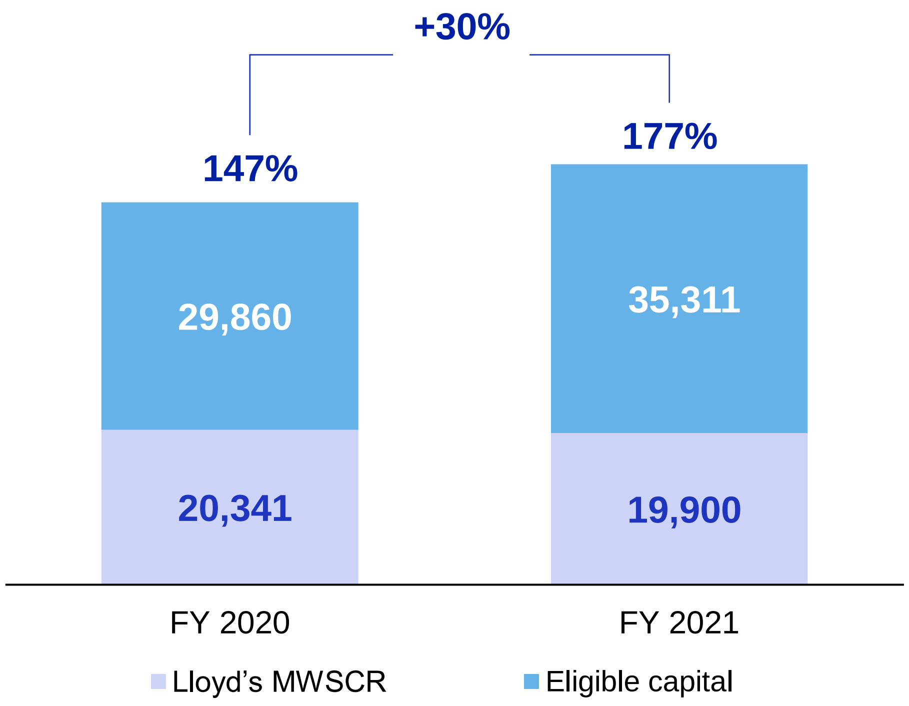
- Good progress made on expense reduction from 37.2% to 35.5% over the year and 4 percentage points reduction since 2018, but further work needed by all market participants.
- The Future at Lloyd's programme will structurally take out a significant amount of cost after implementation.
- Our digitalisation and platform rebuild is designed to reduce costs further with the latter bringing a 40% reduction.

Investments

- Prudent asset allocation resulted in a depressed investment income in 2021, however, the market is well positioned for the expected interest rate rises.
- The Investment Platform will allow for co-investments in attractive classes for market participants.

Long term capital planning builds resilience

Market wide solvency coverage ratio (£m)



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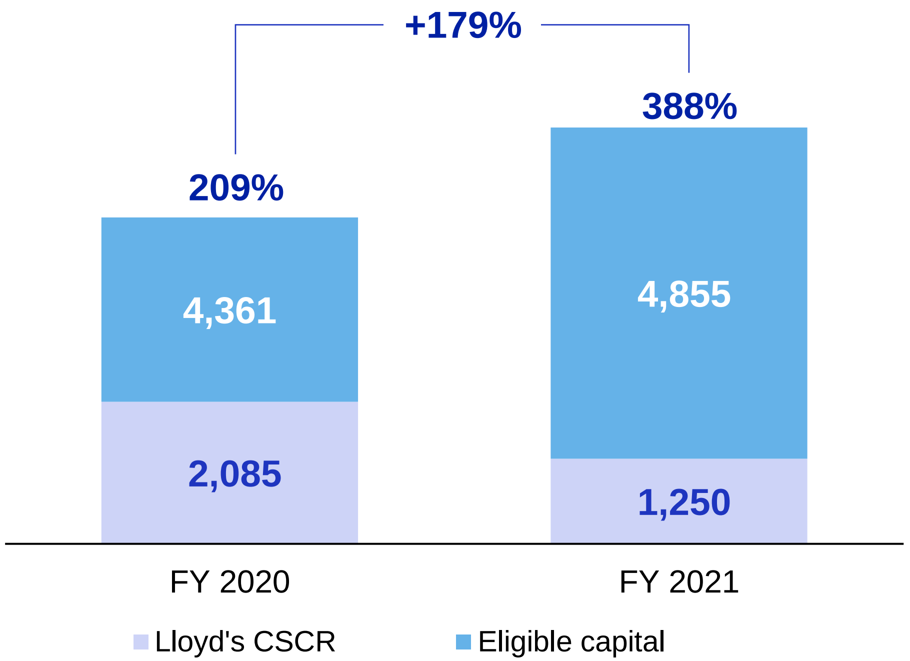


A+
Standard & Poor’s

A
AM Best

AA–
Fitch Ratings

AA–
KBRA

Long term capital planning builds resilience

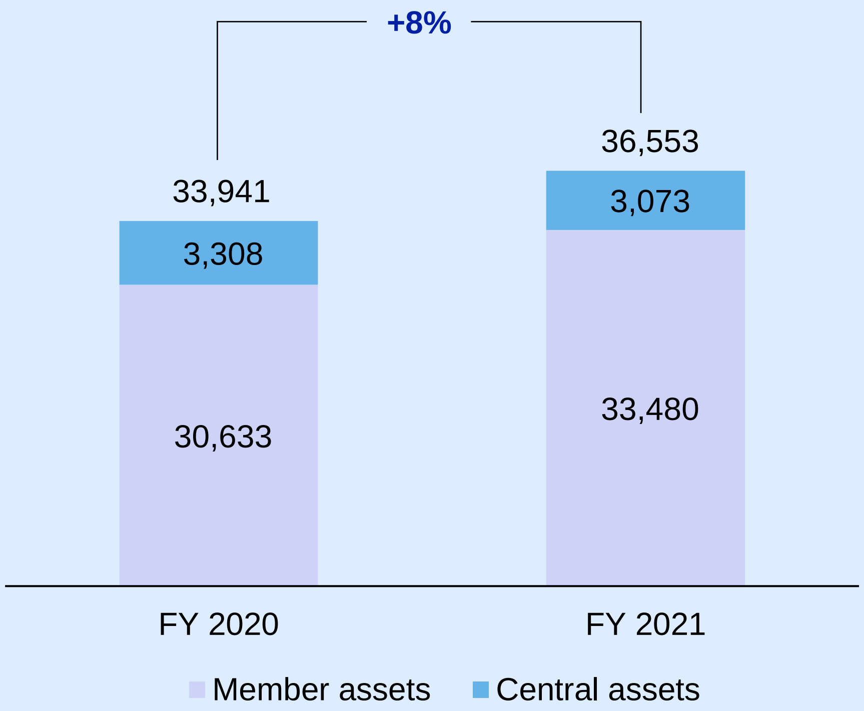
Central Fund Cover

- Central Fund Cover reinforces the resilience of the Lloyd's market by £650m.
- It supports the envisaged future growth of the market and substitutes around £2bn of otherwise required additional Funds at Lloyd's.
- Provided by eight of the largest global reinsurers and JPMorgan which demonstrates the trust organisations have in Lloyd's.

Ratings

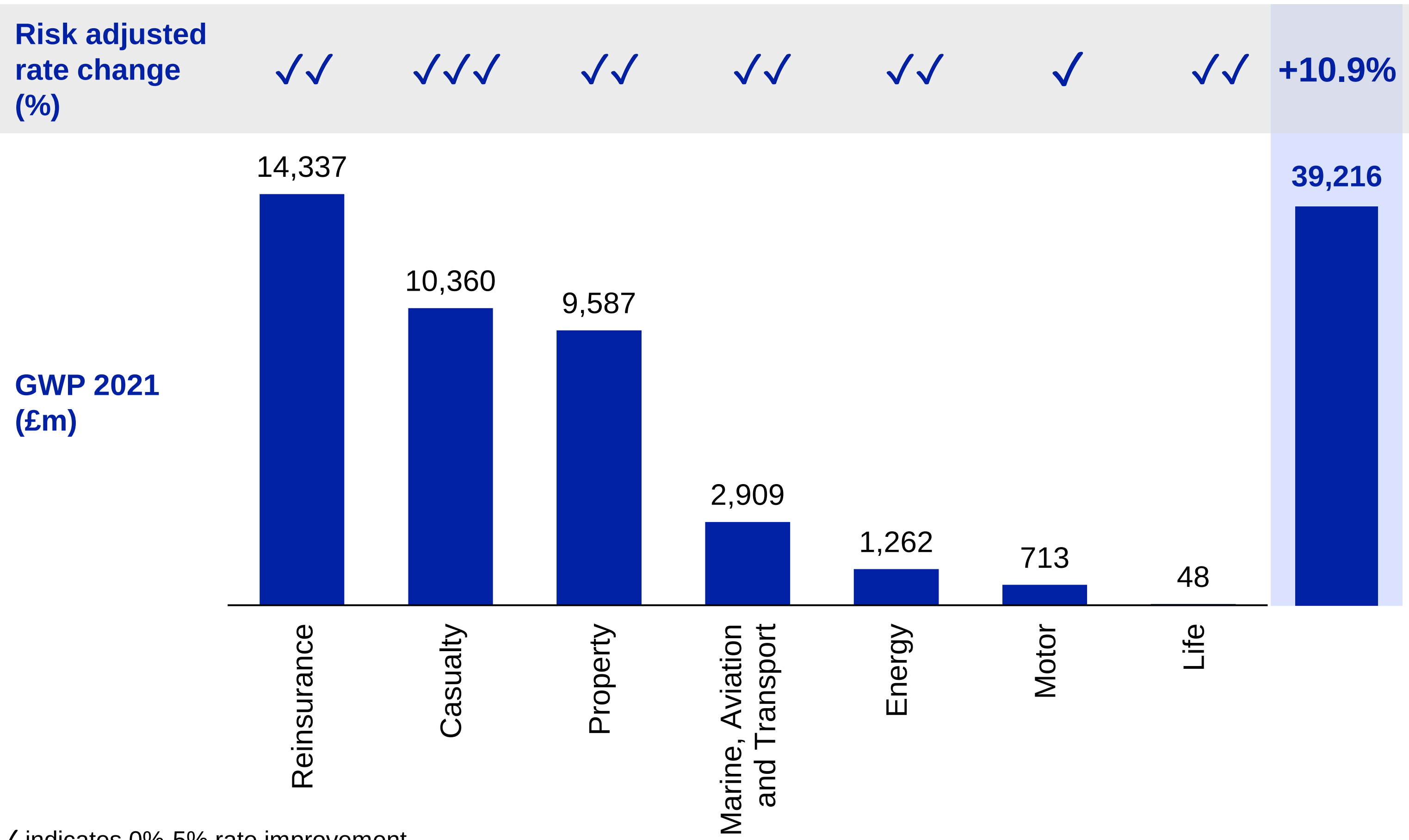
- We maintain a strong and stable rating with all four of our rating agencies; A with AM Best, A+ with Standard & Poor's and AA- with Fitch Ratings and Kroll Bond Rating Agency.
- We expect a positive impact from the proposed revision of the quantitative S&P model.

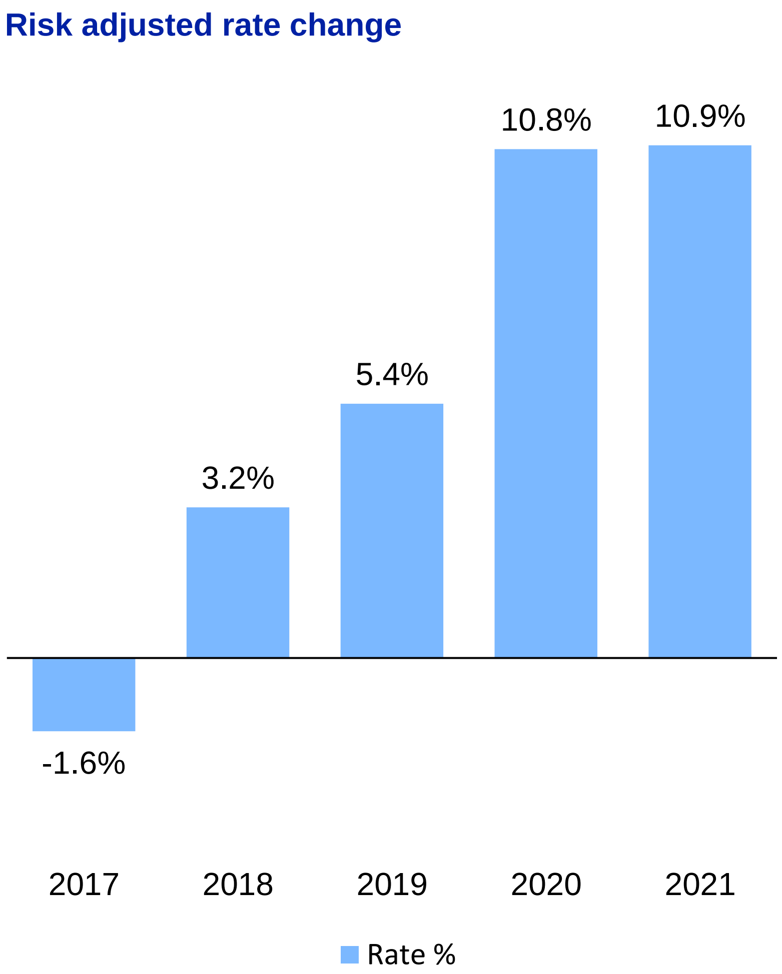
Movements in capital FY 2020 – FY 2021 (£m)



- Net resources increased by 29.5% since 2018 whereas GWP increased by 10.4%.

17 consecutive quarters of positive rate movement





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

17 consecutive quarters of positive rate movement

Observed pricing trends

- 10.9% risk adjusted rate increase in 2021.
- Expectation that rates could slow in 2021 did not materialize and risk adjusted rate change remains in line with that observed in 2020.

Class of business

- Positive rate across all classes of business.
- Risk adjusted rate change in excess of 5% in all material classes of business.
- Largest rate increase observed across the business areas where performance improvement is still needed.

Outlook

- Globally observed inflation rates must be adequately reflected in pricing in 2022.
- Positive risk adjusted rate change planned for and expected in 2022.
- Rate rises observed in Q1 2022 and are expected for full year 2022.

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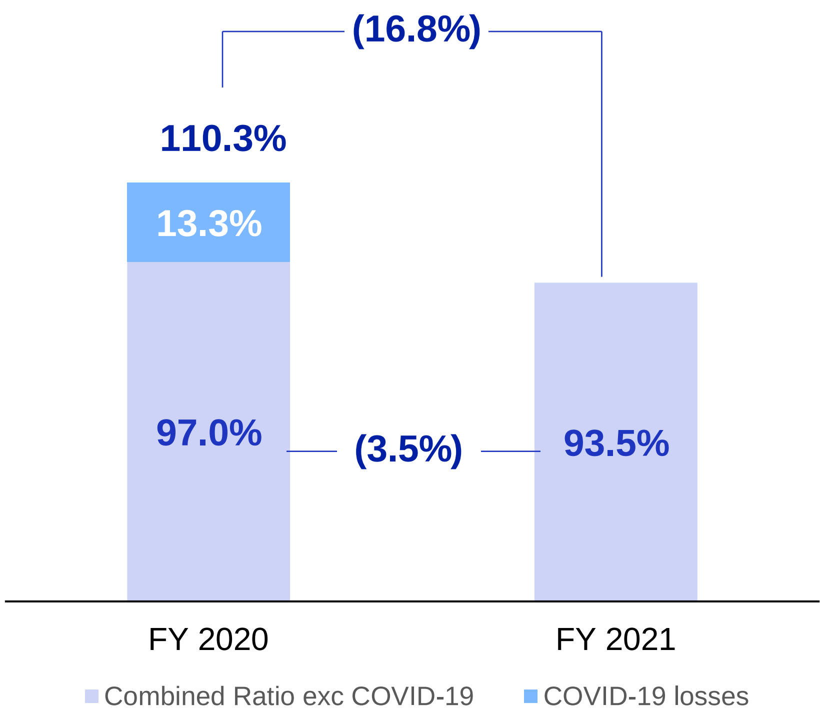
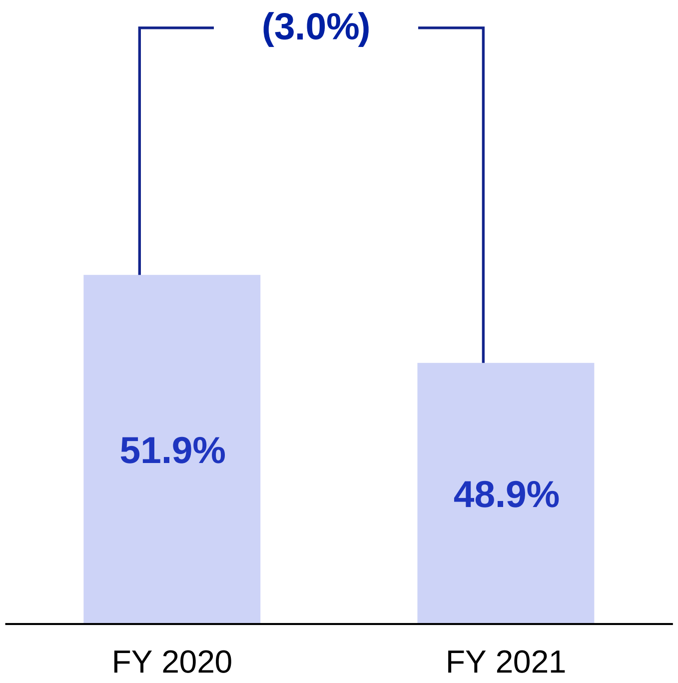
Market leading underwriting result

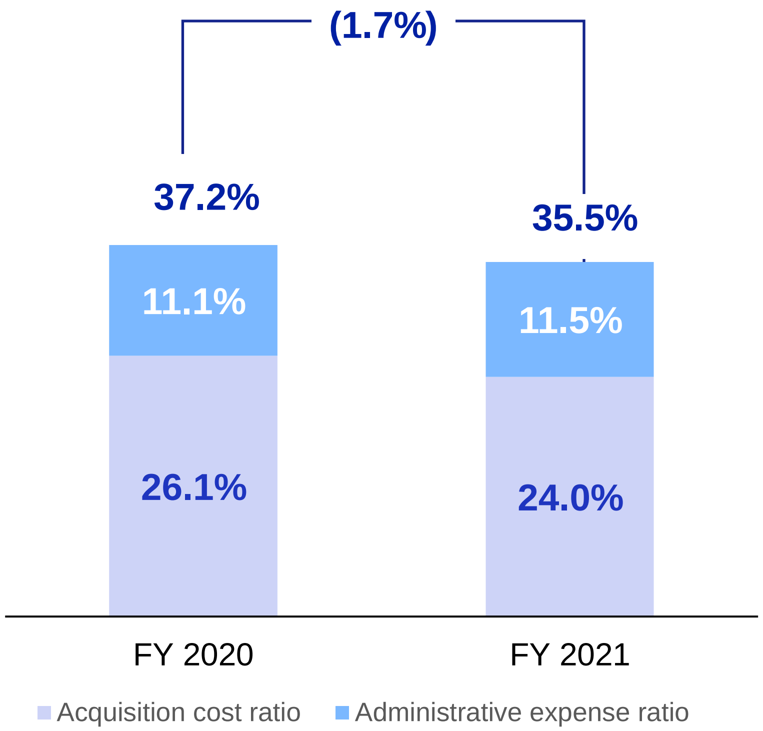
Combined ratio



Attritional loss ratio



Expense ratio



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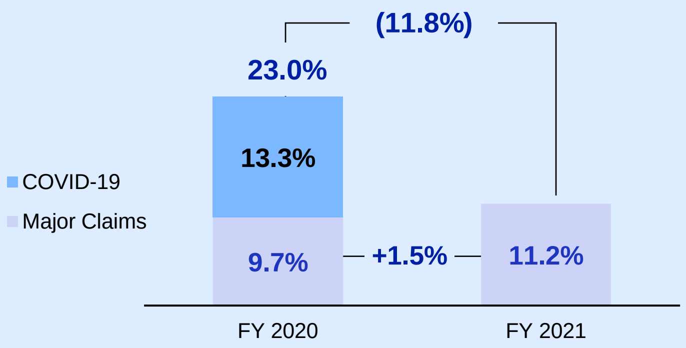
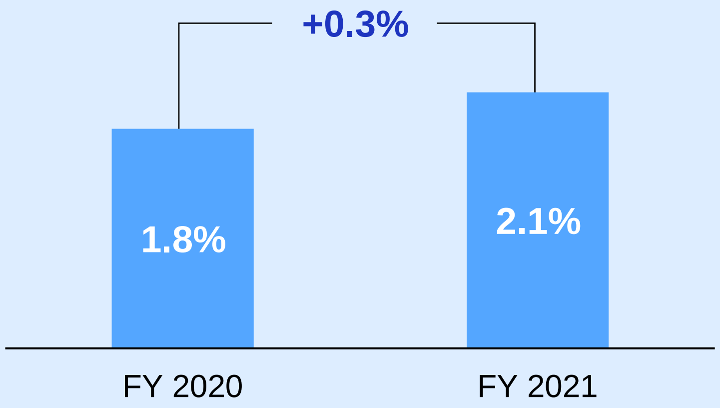
Market leading underwriting result

Major Claims



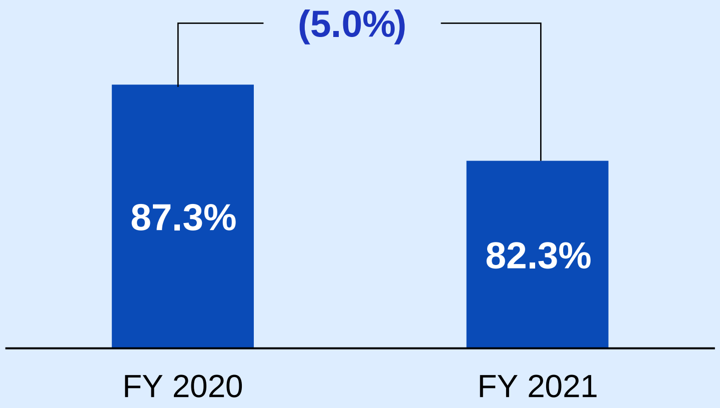
- Major losses contributed 11.2% to the combined ratio, compared to 10.2% 10 year average, excluding COVID-19.
- Reported major losses for 2021 totalled £3.0bn which is slightly greater than the 10 year average, £2.8bn (£2.5bn excluding COVID-19).
- 13.3% or £3.4bn COVID-19 losses drove 2020 major losses.
- Relative value of major claims has increased therefore ensuring appropriate rate is even more important.

Prior Year Release



- We continue to maintain a strong reserve position.
- Syndicate Signing Actuaries reported a reserve margin increase of £0.2bn to £3.0bn.
- Prior year reserve release increased from £461m to £552m, despite casualty reserve strengthening of £301m which amounts to 1.4% of the Casualty held earned reserves.

Underlying Combined Ratio*



- 5.0% improvement in the underlying combined ratio.
- Attritional loss ratio has improved significantly to 48.9%; an improvement of 3.0 percentage points compared to 2020.
- Expense ratio has improved 1.7 percentage points to 35.5%, compared with 37.2% in 2020. This is driven by a 2.1 percentage points improvement in acquisition cost ratio.

Note: *Underlying combined ratio is defined as the combined ratio excluding major claims.

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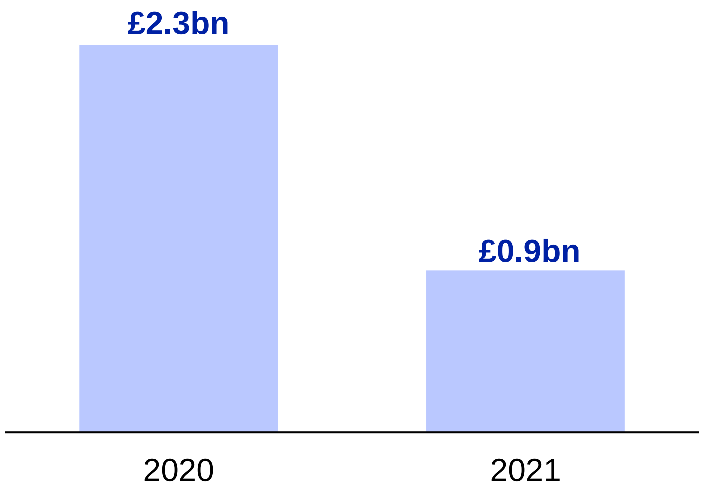
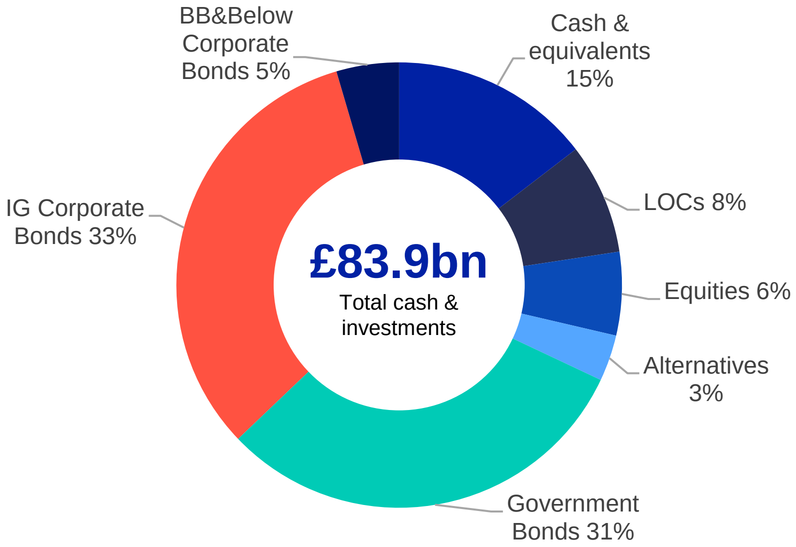
Prudent asset allocation well positioned for interest rate rises

Investment income

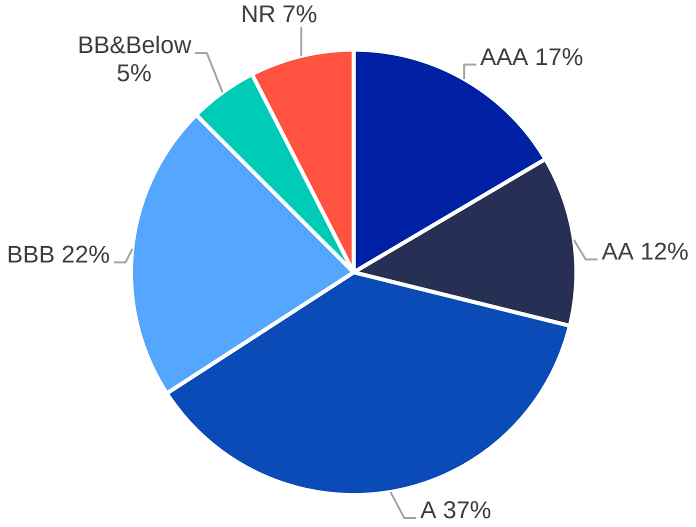


	2020	2021
Investment income (£m)	2,268	948
Investment return (%)	2.9	1.2

Asset allocation as at 31 December 2021



Corporate bonds by rating



Notes:
1. Asset allocation and co-exposure includes 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 other credit instruments and corporate bond debt funds c. 8%
3. BB&Below Corporate bonds includes NR assets, except where NR assets are shown separately
4. Asset allocation excludes deposits to cedants and syndicate loans to the Central Fund
5. Asset allocation uses a risk rating to determine asset categorisation and more accurately attribute an assets risk versus pure bond rating. For example:
    1. Sub-IG Government bonds are mapped to BB&Below Corporate Bonds
    2. Collateralised securities with rating A and BBB are mapped to BB&Below Corporate Bonds
    3. Government guaranteed assets with a sub-IG rating are considered IG Corporate bonds

Prudent asset allocation well positioned for interest rate rises

Defensively positioned portfolio weathers interest rate rises

- Investment income of £948mn (1.2% return) despite increase in interest rates.
- Strong risk asset performance helped offset negative returns from fixed income as S&P 500 rose by over 25% in 2021 despite tightening monetary policies.
- Market positioning remains conservative. Portfolio currently invested 86% core assets and 14% growth assets.

Economic drivers

- Despite pandemic risk falling, supply-chain bottlenecks have caused inflation expectations to increase, driving yields higher.
- However, corporate earnings remain strong and should continue to support credit markets.
- Premium Trust Funds generated 0.2% (c.8% in risk assets), whereas Funds at Lloyd's generated 2.7% helped by slightly higher exposure to risk assets (c.26% in risk assets). Central Fund delivered -0.1% given the de-risking in 2020.

Outlook

- 2022 has had a volatile start as the Russian invasion of Ukraine has shocked markets and political tensions remain volatile. YTD S&P 500 has lost 8.1%; the impact of this has been partially offset as the 'flight to quality' has meant that treasuries and gilts prices have rallied as yields have reversed some of their gains.
- While the situation remains uncertain, Central Banks have the potential to reverse tightening of monetary policy, which should help to dampen market volatility.
- There is no direct exposure to Russia and Ukraine within the Letters of Credit held at Lloyd's and minimal indirect exposure. The counterparties are under continuous review.

2022 Outlook

Opportunities

- Growth in profitable classes
- Robust rate environment
- Capital prospects
- Investment Platform

Challenges

- Political uncertainty
- Inflation
- Volatility and climate
- Acquisition costs

2022 Outlook

Opportunities

Growth in profitable classes

- Planned growth in profitable lines of business.
- The low interest rate environment, inflation and political uncertainty need to be balanced by rate.

Robust rate environment

- 17 quarters of positive rates including the first quarter of 2022 and a good outlook for the remainder of 2022.
- 2022 market rate is firm and developing above plan.

Capital prospects

- London Bridge Risk Protected Cell Company is the only ILS platform in the UK which allows for global investment.
- The platform is tailor made for institutional investors and makes it easier for investors to access the Lloyd's market.

Investment Platform

- Allows for co-investments in attractive classes for market participants.
- Access to a broader range of asset classes at a low cost via a range of tailored co-investment funds.
- Creates investment opportunities from all private assets and will significantly increase profitability.

Challenges

Political uncertainty

- Proactive engagement with the market, UK government and global regulators.
- Understand Lloyd's exposure from direct and indirect impacts of sanctions.
- Ensure we meet the expectations of our customers at their urgent point of need.

Inflation

- Increase in globally observed levels of inflation.
- Increasing trends in claims and social inflation.
- Ongoing monitoring of rate development.
- Explicit inflations assumptions in reserves.

Volatility and climate

- Claims likely to continue to increase.
- Cat loss pricing assumptions must be realistic for both current environment and historic performance.
- Ongoing development to understand the impact of climate change needed.

Acquisition costs

- Reduction since 2018, however remains high in comparison to peers.
- The Future at Lloyd's programme expected to deliver significant cost benefits.
- Ongoing oversight focuses on transparency and administration expense benchmarking.

2021 in summary

Performance

- 93.5% combined ratio.
- 3.0 percentage points improvement to the attritional loss ratio to 48.9%.
- 1.7 percentage point reduction to the expense ratio to 35.5%.
- Prior year development continues to benefit the combined ratio amounting to 2.1 percentage points for 2021, compared to 1.8 percentage point in 2020.

Pricing

- 17 consecutive quarters of positive rate movements including the first quarter of 2022.
- Positive rate across all classes of business.
- Expect rate growth throughout 2022.

Balance sheet

- Outstanding Solvency II ratio.
- Strong and stable financial strength ratings.
- 8% growth in capital.
- 1.2% investment return and good positioning for the uptick in interest rates.

2022 Outlook

- Highly resilient capital and balance sheet position with a central solvency ratio of 388%, high profitability and established management procedures in place.
- Strong management focus on consequences of inflation and efforts to manage volatility of the market.
- London Bridge Risk Protected Cell Company and the Investment Platform are exciting new commercial initiatives.

Looking ahead

John Neal, Chief Executive Officer

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2022 priorities

Performance

- Performance remains our number one priority.
- Focus on technical underwriting, including improved price benchmarking and catastrophe modelling.
- Heightened focus on cyber classes.
- Implementation of principles-based oversight framework.

Digitalisation

- Delivery of Blueprint Two solutions aligned to our roadmap.
- Execution focused on open market, delegated authority and claims solutions.
- Tackling operating expenses.
- Market engagement and adoption is paramount.

Purpose

- Sustainability, climate and inclusion front and centre.
- Position Lloyd's as the insurer of transition to net zero.
- Delivering commitments of the SMI Insurance Task Force.
- Develop Futureset, our global research platform.

Culture

- Developing our culture strategy for the Lloyd's market.
- Progressing action following third annual Culture Survey.
- Culture a core principle in our oversight approach.
- Effective return of face-to-face trading, whilst continuing to benefit from digital trading.

Appendix

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Major losses

Largest net losses (£bn)	2020	2021
Hurricane Ida	-	1.5
Storm Uri	-	0.8
European Floods	-	0.3
COVID-19	3.4	-
Hurricane Laura	0.8	-
Hurricane Sally	0.4	-
Derecho Severe Weather	0.3	-
All other	1.1	0.4
Total excluding COVID-19	**2.6**	**3.0**
Total	**6.0**	**3.0**
Total number of major losses*	**17**	**7**

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

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Balance Sheet

£m	FY 2019	FY 2020	FY 2021
Cash and investments	73,193	79,951	83,934
Reinsurers' share of unearned premiums	3,700	3,588	4,076
Reinsurers' share of claims outstanding	19,897	21,485	24,208
Other assets	23,088	23,280	25,937
Total assets	**119,878**	**128,304**	**138,155**
Gross unearned premiums	(17,143)	(16,743)	(19,074)
Gross claims outstanding	(59,655)	(64,364)	(67,800)
Other liabilities	(12,442)	(13,256)	(14,728)
Net resources	**30,638**	**33,941**	**36,553**
Member assets	27,353	30,633	33,480
Central assets	3,285	3,308	3,073

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Our framework to ensure long term sustainability

1	Enhance our **value proposition** to customers and stakeholders	→ **Customer satisfaction and brand awareness** 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	↑ **Underwriting 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	
4	Create an **inclusive culture** to attract, develop and retain talented people	→ **Talent** KPI: Employee engagement survey	→ **Inclusion** KPI: Talent and inclusion measures	

Sustainable/at target
Non critical status but needs improvement
Critical status, not sustainable
↑ Trend

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