S&P Global
Ratings

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Lloyd's

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Lloyd's

Anchor	a+
Business Risk	**Very Strong**
Competitive position	Very strong
IICRA	Intermediate
Financial Risk	**Satisfactory**
Capital and earnings	Very strong
Risk exposure	High
Funding structure	Neutral

\+

Modifiers	0
Governance	Neutral
Liquidity	Adequate
Comparable ratings analysis	0

=

SACP	a+

\+

Support	**0**
Group support	0
Government support	0

=

A+/Stable/--
Financial strength rating

IICRA--Insurance Industry And Country Risk Assessment.
SACP--Stand-alone credit profile.

Credit Highlights

Overview

Key strengths	**Key risks**
Unique brand and reputation, based on its position at the center of underwriting specialist risks.	Lloyd's is still more exposed to catastrophe risk than most its peers, according to our metrics.
Revenue comes from diverse geographic locations across several different lines.	Management is undertaking a large modernization program, which carries execution risks.
Management's appropriate intervention in the market to improve underwriting discipline is paying dividends with a strong underwriting result in 2021 despite higher-than-average natural catastrophes.	

We expect Lloyd's management will maintain a 'AAA' level capital adequacy, measured by S&P Global Ratings' risk-based capital model, despite mark-to-market losses in first-half 2022. Lloyd's incurred £3.1 billion of net investment losses in first-half 2022, driving an overall loss for the market of £1.8 billion. The investment losses were mainly driven by mark-to-market losses that were seen across the wider (re)insurance sector. However, on an economic basis, we expect that an increased discount rate on Lloyd's insurance liabilities will offset the potential pressure on Lloyd's capital adequacy. Therefore, we expect Lloyd's will maintain a 'AAA' level of capital through 2022-2023.

Lloyd's profitable underwriting momentum is expected to continue through year-end 2023. We forecast the combined ratio will be 92%-94% over 2022-2023, considering annual major losses of near 10-12 percentage points in terms of the combined ratio. Currently we estimate the impact of Hurricane Ian is likely to be contained within our forecast catastrophe impact on the combined ratio. Lloyd's half-year 2022 net combined ratio improved to 91.2% (half-year

2021: 92.2%), even after reserving £1.1 billion for Russia-Ukraine related losses. The reserves set aside for the losses from the Russia-Ukraine conflict was offset by an improved underlying attritional loss ratio of 48.9% (first-half 2021: 50.5%) and favorable prior year development of 2.8% (first-half 2021: 0.9%). Lloyd's continues to achieve positive rate increases, leading to strong top-line growth in the first-half 2022. With a better-rated book of business compared with prior years, strict discipline in syndicate underwriting, and positive pricing momentum, Lloyd's is in a good position to navigate 2022-2023.

Lloyd's has a unique brand and place in the insurance industry. It enjoys worldwide recognition and is considered a leading center for the writing of specialist insurance risks. We expect the market will continue to attract business and loyalty from brokers, thanks to the depth of its underwriting expertise and face-to-face culture. The corporation's "Future at Lloyd's" blueprint aims to improve its competitiveness compared with other major reinsurance hubs like Bermuda. We believe that the program is essential for Lloyd's to maintain and improve its competitive position but recognize the significant execution risk involved.

Outlook: Stable

The stable outlook signifies that we expect management to continue to focus on Lloyd's underwriting performance and address its overall cost structure, which has hindered the market over the years. We also expect that the market will continue to hold capital exceeding our 'AAA' level.

Downside scenario

We could lower our ratings by one notch if Lloyd's cannot maintain capital above our 'AA' requirement over 2022-2023, or if its competitive strength significantly weakens. This could follow a deterioration in underlying performance, compared with similarly rated reinsurers and insurers.

Upside scenario

We could raise the ratings by one notch if Lloyd's demonstrates that it can maintain a strong underwriting performance.

Key Assumptions

- Rising rates, increased European energy insecurity, and the lingering effects of COVID-19 are hitting growth almost everywhere; Asia-Pacific remains a relative outperformer. We forecast global GDP growth of 3.1% in 2022, a 20-basis-point (bps) reduction relative to our previous quarterly update, followed by 2.4% growth in 2023, a 110 bps reduction relative to our previous quarterly update.
- Global inflation has moved to the front and center as a policy challenge. In response to the unexpected rise of inflation in many economies, central bank policy rates have risen quickly and are expected to climb higher.
- We expect 10-year U.S. government bond yields will increase to 2.8% and 3.3% in 2022 and 2023, respectively, from 1.4% in 2021.

- We believe global reinsurers will likely assume about one-half of the potential specialty insurance losses arising from the Russia-Ukraine conflict. Losses from specialty lines are likely to be an earnings event for most reinsurers but could become a capital event for a few outliers.
- Mark-to-market losses will erode shareholder's equity in 2022, but improving underwriting earnings, increasing investment income, prudent capital management, and sophisticated levels of risk management should sustain the industry's capital adequacy, and we expect it to remain a strength for the sector.

Lloyd's--Key Metrics

	2023f	2022f	2021	2020	2019	2018	2017
GPW (mil. £)	~46,000	~44,000	39,216.0	35,466.0	35,905.0	35,527.0	33,591.0
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Excellent	Excellent	Very strong	Satisfactory
Net combined ratio (non-life, %)	~92.0	~94.0	93.5	110.3	102.1	104.5	114.0
Net investment yield (%)	~2.3	~2.0	1.8	2.2	3.5	1.4	2.1
Net income (mil. £)	~3,000	~(1,000)	2,277.0	(887.0)	2,532.0	(1,001.0)	(2,001.0)
Financial leverage (%)	~3.5	~3.5	3.3	3.6	3.1	2.8	2.9
Fixed-charge coverage (x)	>30.0	<0.0	46.3	(23.3)	31.7	(12.1)	(41.6)
Return on shareholders' equity (%)	~9.0	~(3.0)	6.6	(2.8)	8.8	(3.7)	(7.4)

f--Forecast. GPW--Gross premium written.

Business Risk Profile: Very Strong

In our opinion, Lloyd's benefits from its unique brand; the attraction of being the world's largest subscription market; and its broad geographic presence, from which it distributes its wide product offering. The expense of doing business at Lloyd's slightly offsets these strengths.

We believe that Lloyd's brand and reputation will continue to be key differentiators for the rating. The availability of one-stop shopping for various niche and standard products, the expertise of the Lloyd's market underwriters, and the strong face-to-face culture will continue to attract policyholder and broker loyalty: We view this as a competitive strength.

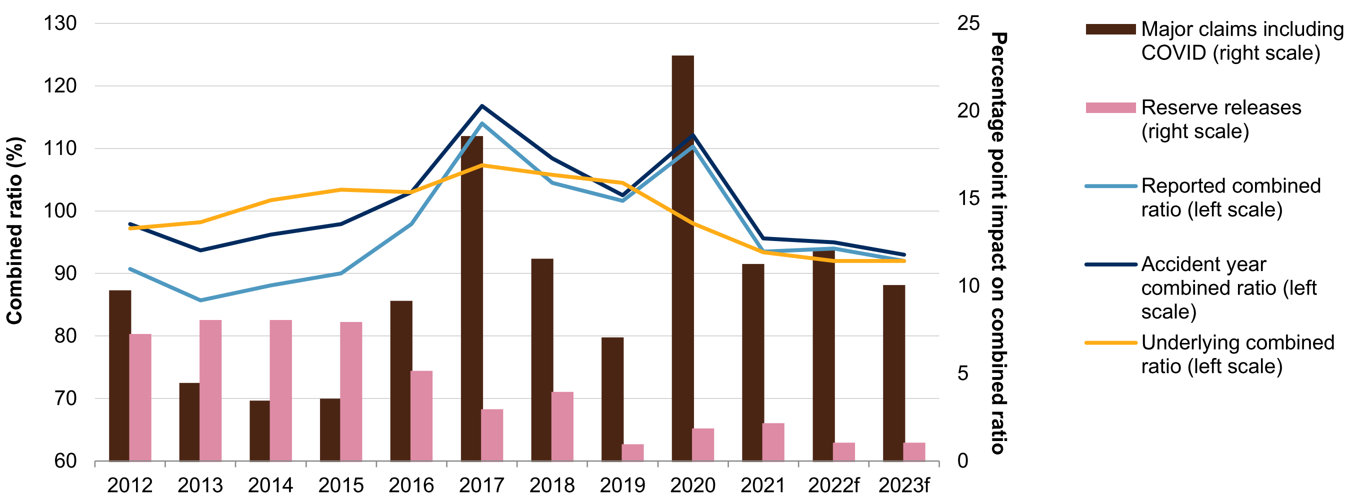
We expect Lloyd's will continue to enjoy a leading position in the global specialty and reinsurance market, consistently ranking among the top-five global reinsurers, alongside peers Munich Re, Swiss Re, Hannover Re, and Scor, and among U.S. primary insurers like AIG and Chubb. Lloyd's has been the leading excess and surplus writer in the U.S. since 2011 and we expect it will retain this position. In addition, the Lloyd's market is the leading (re)insurer for global marine and aviation business. Most of its revenue (about 70%) comes from the U.S., Canada, and the U.K., which are more credit-sensitive markets than those in continental Europe.

Our base-case assumption is that, Lloyd's underwriting results will remain in line with our expectation of a 94% net combined ratio for year-end 2022 despite provisions of £1.1 billion for claims relating to the Russia-Ukraine conflict in the first-half 2022. We expect the combined ratio to further improve to 92% by year-end 2023. Lloyd's claims provisions for the conflict are much higher than those of most similar sized peers (for example, Swiss Re, SCOR SE, and Munich Reinsurance Co). This partly reflects Lloyd's position as the prominent insurer of war, terrorism, aviation, political, and marine risks. There could be further losses in the coming quarters for the sector due to the conflict and it is not yet clear if policy cancellations by (re)insurers will prove effective. The effect of these additional reserves is offset by Lloyd's underwriting discipline, evident in improved attritional loss experience and a favorable prior year development in first-half 2022 with a solid net combined ratio of 91.4%.

Lloyd's underlying loss ratio, which excludes catastrophe losses and prior-year developments, continued to improve to 48.9% in first-half 2022 (first-half 2021: 50.5%). The improvement in Lloyd's underwriting performance has exceeded top global reinsurers' performance, but still lags the performance of top U.S. primary players.

Chart 1

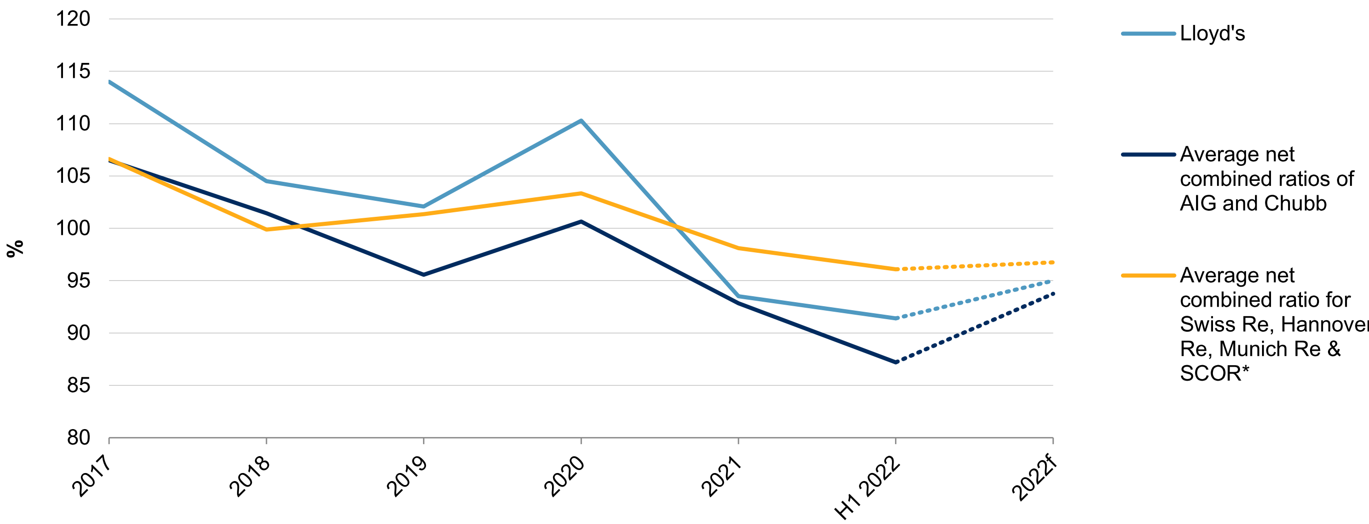
Lloyd's Underwriting Has Turned The Corner With Improvements In Headline And Underlying Combined Ratios



f--Forecast. Source: S&P Global Ratings.

Chart 2

Lloyd's Improved Underwriting Performance In H1 2022 Is In Between Top U.S. Primary Insurers' Performance And Average Performance Of Top Global Reinsurers

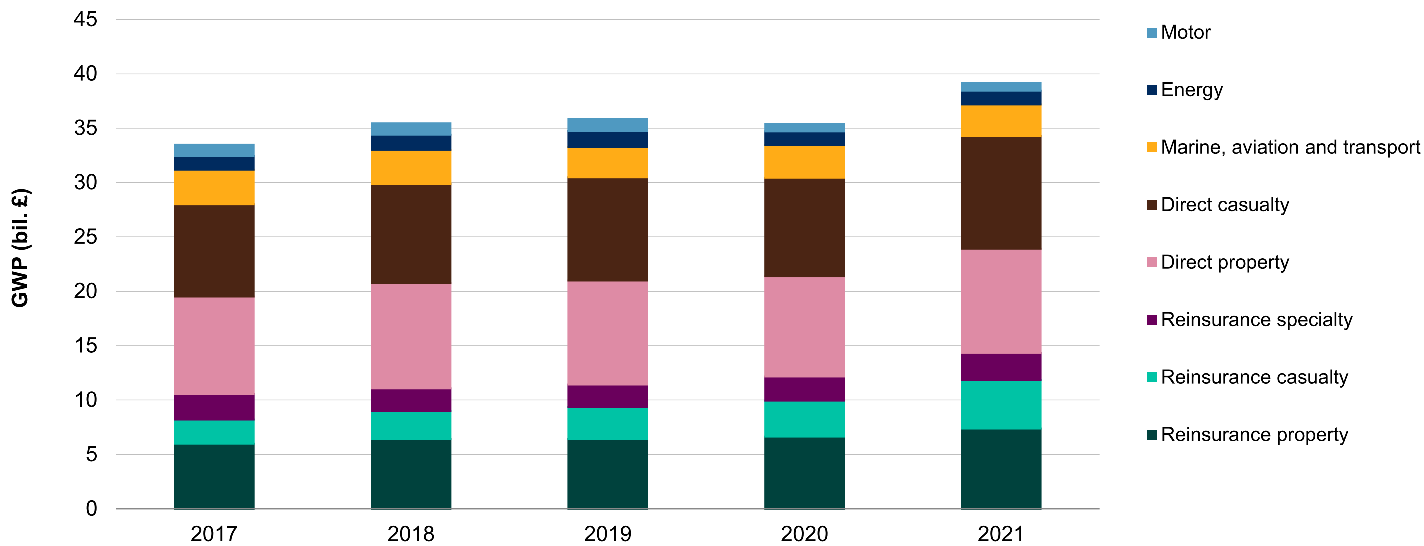


*H1 2022 net combined ratio for Swiss Re, Hannover Re and SCOR are as per ratios reported by company. Combined ratio for Munich Re includes P/C Reinsurance, P/C Germany and ERGO International. H1 --First half. f--Forecast. Source: S&P Global Ratings.

We believe that Lloyd's management will maintain strict discipline in syndicate underwriting, with a focus on technical rates and ensuring that market participants are addressing the potential erosion of margins due to higher-than-expected inflation. The market has continued its positive rate momentum in 2022 and has now seen 19 consecutive quarters of rate improvement including second-quarter 2022. We expect this momentum will likely continue in 2023. Lloyd's achieved a 7.7% price increase in first-half 2022 (2021: 10.9%) according to its own analysis; a more than 10.0% increase on its casualty book; and a 5.0%-10.0% rate increase in most other major lines of business. These rate increases were supplemented by 4.7% volume growth and 5.0% gain on the U.S. dollar strengthening against pound sterling in first-half 2022. This resulted in Lloyd's top-line growth increasing to £24.0 billion in first-half 2022 compared with £20.4 billion in first-half 2021. For year-ends 2022 and 2023, we expect the gross written premiums base to grow to about £44.0 billion and £46.0 billion, respectively.

Chart 3

Positive Pricing Momentum Leads Lloyd's Toward Top Line Growth After A Three-Year Plateau



GWP--Gross written profit. Source: S&P Global Ratings.

We believe that the expenses associated with doing business at Lloyd's will likely remain a challenge for its growth strategy. Although the corporation's expense ratio reduced in first-half 2022 to 35.4% (first-half 2021: 35.8%, first-half 2020: 37.7%), it is still higher than that of most peers: Allianz stood at 26.9% and Chubb at 26.8% in first-half 2022. Management has been working on improving the market's efficiency by introducing initiatives such as electronic placement and simplifying claims handling. So far, we consider that these programs have been more successful than previous attempts to modernize the market. We forecast the expense ratio will be close to or below 35% in 2022-2023.

Lloyd's still has significant work to do to ensure that the market can maintain--and improve--its competitiveness against other major (re)insurance hubs such as Bermuda, Zurich, and Singapore. The "Future at Lloyd's" blueprint lays out six initiatives that management hopes will make the corporation "the most advanced marketplace in the world." We believe that the program is essential for Lloyd's to maintain and improve its competitive position, but recognize the significant execution risk involved and the strain it might place on the management team. Although the pandemic slowed pace of change in some areas, it also accelerated the market's use of electronic placement and proved business can be placed without a physical market. We expect management to work on the modernization program while maintaining recent progress in improving underwriting performance.

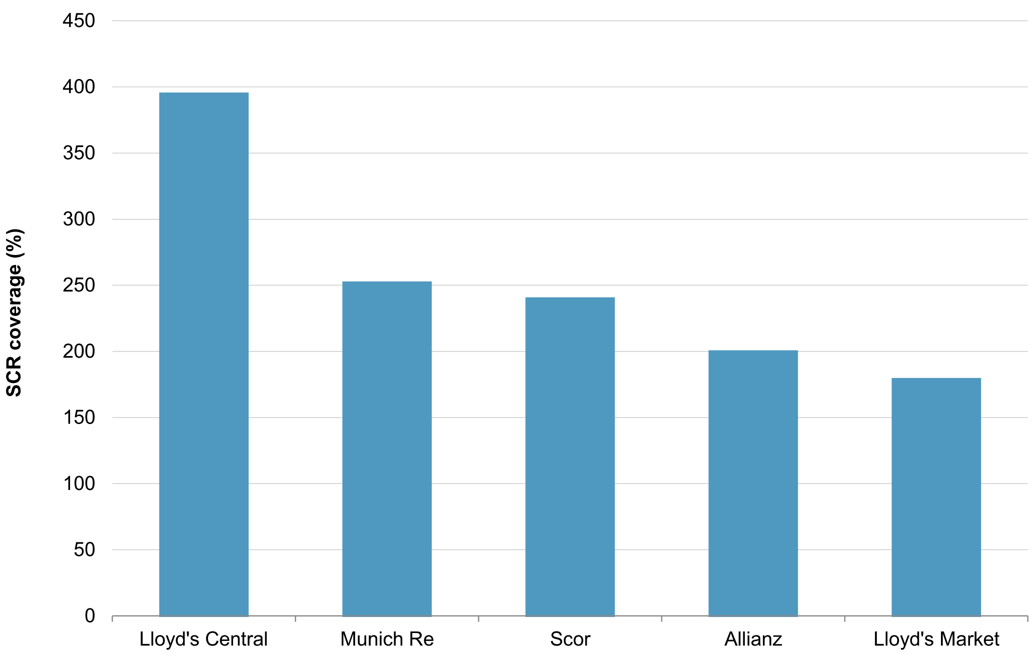
Financial Risk Profile: Satisfactory

Lloyd's has a very strong capital position, in our view, based on its excess of capital at the 'AAA' benchmark as per our risk-based model. We expect Lloyd's overall loss in first-half 2022 (of £1.8 billion before tax compared with a profit of £1.4 billion for first-half 2021), due to mark-to-market losses on its bond and equity portfolios, will put pressure on Lloyd's full-year earnings. However, we expect the effect will not be material on an economic basis. We expect the mark-to-market losses on the bond portfolio will unwind as the bond portfolio reaches maturity, keeping in mind the average duration of the bond portfolio is less than three years.

In regulatory terms, Lloyd's holds comfortable capital surpluses in both its half-year 2022 market-wide regulatory solvency ratio of 179% and central solvency ratio of 395%. We expect that negative earnings will weaken Lloyd's fixed-charge coverage levels in 2022, but we anticipate coverage will recover with improvement in earnings in 2023. In recent years, Lloyd's has acted quickly to address large claims events by accelerating capital collection from members. Should another significant claims event occur, like the 2017 hurricanes or COVID-19, we expect management will again seek to quickly address any capital shortfalls. For example, it purchased a reinsurance cover to protect the capital position of the central fund.

Chart 4

Although Lloyd's Central Solvency Ratio Is Stronger Than Peers', Its Market Wide Solvency Ratio Is Lower At H1 2022



H1--First half. SCR--Solvency capital requirement. Source: S&P Global Ratings.

Not all the capital held by the corporation is fungible--only the central fund and corporation assets are available to pay all claims. However, this risk is offset by the corporation's strong history of managing capital appropriately at the syndicate level. The most recent central fund loss was from the 2007 year of account. Lloyd's has also proved its ability to ask the market to recapitalize, as demonstrated in 2017 when the market injected £3 billion following hurricanes Harvey, Irma, and Maria; and in 2020, when it injected a further £3.5 billion following pandemic-related losses.

Lloyd's has a fairly conservative approach to investments and, as such, we expect future returns to increase marginally reflecting the increasing interest rate environment. According to our base-case scenario, Lloyd's will see net investment income of about 2.0%-2.3% over the next two years. Its recently launched investment platform may provide an opportunity to reduce investment expense and increase returns.

Lloyd's holds minimal levels of leverage. It has subordinated debt of £796 million and £300 million of senior notes (which do not qualify as capital in our model). These comprise just over 3% of the market's capital. We do not expect Lloyd's capital structure to change significantly over the next two to three years.

Capital Structure And Equity Content

Issuer	Amount (Mil. £)	Coupon (%)	Issue Date	Maturity Date	Equity Content	ISIN
Senior						
Society of Lloyd's	60	2.48	2020	2030	No equity content	Private placement
Society of Lloyd's	40	2.48	2020	2031	No equity content	Private placement
Society of Lloyd's	70	2.61	2020	2035	No equity content	Private placement
Society of Lloyd's	130	2.81	2020	2045	No equity content	Private placement
Subordinated						
Society of Lloyd's	300	4.875	2017	2047	Intermediate equity content	XS1558089261
Society of Lloyd's	500	4.75	2014	2024	No equity content	XS1130913558

Other Key Credit Considerations

Governance

We have a positive view of the market's governance, reflecting the significant expertise and experience of Lloyd's managing agents and the market's overall governance. We consider the management team, which has been in place for over three years now (under the guidance of chairman Bruce Carnegie-Brown) has made a positive impact and demonstrated its willingness to address Lloyd's key challenges. This is evidenced by the above-mentioned 2021 and half-year 2022 strong underwriting performance.

We view the corporation's robust strategic planning process, established and improved by its performance management and finance directorates in recent years, as positive. Initiatives include a stringent business planning process and benchmarking exercises, and have fueled significant improvements in performance standards and measurement. In particular, Lloyd's introduced Blueprint Two in 2020, which is a key program under Future at Lloyd's to digitize the Lloyd's market and partnered with Schroders Solutions on a new investment platform in March 2022.

These are in addition to the reinsurance cover purchased to protect the central fund.

Liquidity

Lloyd's premium income flow provides readily available liquidity. The market also has a highly liquid asset portfolio that contains more than £65 billion in marketable securities. Most of the chain of securities could be liquidated within 90 days. We also credit the market's ability to call on members for capital injections throughout the year and withhold profits to ensure claims are paid as a positive factor for its liquidity assessment.

Environmental, social, and governance

ESG Credit Indicators

E-1	E-2	E-3	**E-4**	E-5
S-1	**S-2**	S-3	S-4	S-5
G-1	**G-2**	G-3	G-4	G-5

Environmental	Social	Governance
- Physical risk	- N/A	- N/A

N/A--Not applicable. ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

In our view, Lloyd's is more exposed to environmental risk than the insurance industry average because it writes significant amounts of property reinsurance and insurance. However, Lloyd's catastrophe exposure is in line with that of most P/C reinsurance or specialty writers. Lloyd's exposure to environmental risk mainly stems from the prospect of increased claims from extreme weather events, including windstorms, wildfires, or floods, due to climate change. That said, we recognize Lloyd's (in common with its peers) has the option to reprice its catastrophe contracts annually or cede the risks to help it absorb a gradual increase in claims.

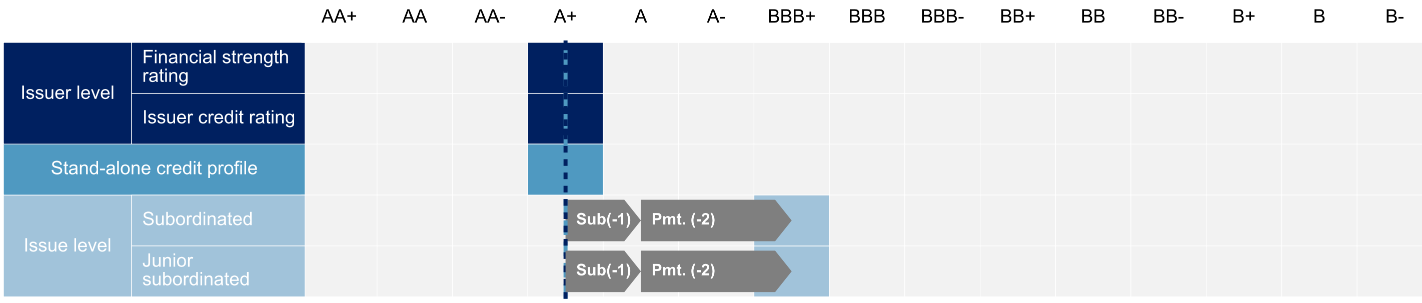
Accounting considerations

Although the Lloyd's market itself is not a legal entity, the corporation provides an audited pro forma set of financial statements that combine the financial results of the Lloyd's syndicates, members funds at Lloyd's, and results of the Society of Lloyd's, allowing comparison with other insurance companies. These accounts will continue to be prepared, where practicable, under U.K. generally accepted accounting principles. We view the market's financial communication and disclosure as sound and transparent.

Hybrid and senior debt issue ratings

We rate Lloyd's debt instruments according to their respective features (see chart below).

Society of Lloyd's: Notching



Key to notching

Stand-alone credit profile
Issuer credit rating
Sub Contractual subordination
Pmt. Payment risk for example deferral of coupon or write down or conversion

Note: The number-letter labels in the table above are in reference to the notching steps we apply to hybrid capital instruments, as detailed in table 2 of our "Hybrid Capital: Methodology And Assumptions" criteria, published onJuly 1, 2019.

Related Criteria

- Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | Property/Casualty: Assessing Property/Casualty Insurers' Loss Reserves, Nov. 26, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Related Research

- Insured Losses From Hurricane Ian Will Likely Be Substantial But Manageable, Sept. 30, 2022
- Global Macro Update: Many Routes To The Bottom, Sept. 28, 2022
- Economic Outlook U.S. Q4 2022: Teeter Totter, Sept. 26, 2022
- Lloyd's Market Strong Underwriting Performance Overshadowed By Mark-To-Market Losses, Sept. 08, 2022
- Is The Global Reinsurance Sector About To Turn A Corner?, Sept. 06, 2022
- Lloyd's Market 2022 Review: Let The Good Times Roll?, Aug. 24, 2022

- Global Economic Outlook Q3 2022: Rates Shock Puts The Economy On A Slower Path, June 29, 2022
- Russia-Ukraine Conflict Adds To A Bumpy Start To 2022 For Global Reinsurers, March 31, 2022
- Lloyd's Strong 2021 Results Set It Up Well For 2022, March 24, 2022

Appendix

Lloyd's--Credit Metric History

Mil. £	2021	2020	2019
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent
Total invested assets	83,906.0	79,835.0	73,098.0
Total shareholder equity	35,757.0	33,146.0	29,844.0
Gross premium written	39,216.0	35,466.0	35,905.0
Net premium written	28,439.0	25,826.0	25,659.0
Net premium earned	26,657.0	25,876.0	25,821.0
Reinsurance utilization (%)	27.5	27.2	28.5
EBIT	2,339.0	(828.0)	2,583.0
Net income (attributable to all shareholders)	2,277.0	(887.0)	2,532.0
Return on revenue (%)	10.1	(5.1)	5.7
Return on assets (excluding investment gains/losses) (%)	2.7	(1.4)	1.7
Return on shareholders' equity (%)	6.6	(2.8)	8.8
Property/casualty: Net combined ratio (%)	93.5	110.3	102.1
Property/casualty: Net expense ratio (%)	35.5	37.2	38.7
Property/casualty: Return on revenue (%)	11.4	(3.6)	7.1
EBITDA fixed-charge coverage (x)	46.3	(23.3)	31.7
EBIT fixed-charge coverage (x)	46.0	(23.9)	31.5
EBIT fixed-charge coverage including realized and unrealized gains/losses (x)	37.7	(14.0)	50.6
Financial obligations/adjusted EBITDA (x)	0.4	(0.9)	0.6
Financial leverage including pension deficit as debt (%)	3.3	3.6	3.1
Net investment yield (%)	1.8	2.2	3.6
Net investment yield including investment gains/(losses) (%)	1.2	3.0	4.9

Business And Financial Risk Matrix

Business risk profile	Financial risk profile							
	Excellent	Very Strong	Strong	**Satisfactory**	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	aa-/a+	**a+/a**	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	a+/a	a/a-	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

Note: Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

Ratings Detail (As Of October 18, 2022)*

Holding Company: Society of Lloyd's (The)	
Issuer Credit Rating	
Local Currency	A+/Stable/--
Junior Subordinated	BBB+
Subordinated	BBB+
Operating Companies Covered By This Report	
Lloyd's	
Financial Strength Rating	
Local Currency	A+/Stable/--
Lloyd's Insurance Co. (China) Ltd.	
Financial Strength Rating	
Local Currency	A+/Stable/--
Lloyd's Insurance Co. S.A.	
Financial Strength Rating	
Local Currency	A+/Stable/--
Underwriters at Lloyds of London, Illinois	
Financial Strength Rating	
Local Currency	A+/Stable/--
Underwriters at Lloyds of London, Kentucky	
Financial Strength Rating	
Local Currency	A+/Stable/--
Domicile	United Kingdom

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.