

# 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 company's strong franchise, large operating scale and significant diversification within property and casualty (P&C) insurance and reinsurance. Lloyd's is one of a small group of global (re)insurance providers capable of attracting high-quality and specialised business.

**Capital Collection Strengthened Solvency:** The Lloyd's central solvency coverage ratio was very strong on a central fund basis at 250% at end-1H20 (end-2019: 238%). This is comfortably in excess of the company's risk appetite of 200%. The improvement was mainly driven by Lloyd's having collected capital from members in June 2020 in respect of pandemic-related net losses. However, in the longer term, this resilience relies on the willingness and ability of members to recapitalise, following significant losses.

**Substantial Pandemic Losses:** Lloyd's reported GBP2.4 billion pandemic-related losses in 1H20, leading to a GBPO.4 billion overall loss and combined ratio of 110.4% (91.7% without pandemic-related losses). The losses are driven by contingency, property and casualty classes. As at end-1H20 the company estimated its net ultimate losses from the pandemic to be GBP3 billion by end-2020. Although there is uncertainty over the ultimate losses we believe this magnitude to be manageable for Lloyd's.

**Improved Underlying Underwriting Performance:** Lloyd's underlying combined ratio before major losses improved to 90% in 1H20 from 95% in 2019, reflecting positive results stemming from the company's performance management actions that were initiated in 2018. The attritional loss ratio reduced to 52.6% in 1H20 (1H19: 59.7%). This improvement in underlying underwriting performance will help Lloyd's absorb possible increases in its 2020 pandemic-related losses, given the material market-wide uncertainties regarding ultimate claims costs.

**Rates Rises Accelerate:** As a result of the profitability review, and the significant catastrophe losses of the past two years, Lloyd's reported overall risk-adjusted price rises in 1H20 of 8.7% (2019: 5.4%; 2018: 3%). Fitch expects pandemic-related losses that market has to absorb and ongoing performance management actions to support favourable pricing conditions in 2021.

### Rating Sensitivities

**Coronavirus Impact:** A material adverse change in Fitch's rating assumptions with respect to the impact of the coronavirus pandemic could lead to a downgrade. A positive rating action would be prefaced by Fitch's ability to reliably forecast the impact of the pandemic on Lloyd's financial profile.

**Deteriorating Underwriting Performance:** The ratings are likely to be downgraded if the five-year average combined ratio, excluding 2020 pandemic-related losses, rising above 104% (reported five-year average to 2019: 102%) or the underlying annual combined ratio, before major losses, weakening to above 92% on a sustained basis.

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

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

### Ratings

**Lloyd's of London**  
Insurer Financial Strength Rating AA-

**The Society of Lloyd's**  
Long-Term IDR A+  
Subordinated Debt A-

**Lloyd's Insurance Company (China) Limited**  
Insurer Financial Strength Rating AA-

**Lloyd's Insurance Company SA**  
Insurer Financial Strength Rating AA-

### Outlooks

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

### Financial Data

Lloyd's of London		
(GBPm)	2018	2019
Total assets	118,008	119,878
Total equity and reserves	27,428	29,844
Gross written premiums	35,527	35,905
Profit before tax	-1,001	2,532
Combined ratio (%)	104.5	102.1
Net income return on equity (%)	-4	9

Source: Fitch Ratings; Lloyd's of London

### Applicable Criteria

[Insurance Rating Criteria \(August 2020\)](#)

### Related Research

[London Market Insurance Dashboard: 1H20 Update \(September 2020\)](#)

[Global Reinsurance Guide 2021 \(September 2020\)](#)

[Fitch Ratings 2021 Outlook: Global Reinsurance \(September 2020\)](#)

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## Key Credit Factors – Scoring Summary

### Lloyd's of London



### Insurance Ratings Navigator EMEA Non-Life

Factor Levels	Operational Profile			Financial Profile			Asset/Liability Management	Reserve Adequacy	Reinsurance, Risk Mitigation & Catastrophe Risk	Other Factors & Criteria Elements (see below)	Insurer Financial Strength
	Industry Profile & Operating Environment	Business Profile	Capitalization & Leverage	Debt Service Capabilities and Financial Flexibility	Financial Performance & Earnings	Investment and Liquidity Risk					
aaa											AAA
aa+											AA+
aa											AA
aa-											AA
a+											AA- Stable
a											A+
a-											A
bbb+											A-
bbb											BBB+
bbb-											BBB
bb+											BBB-
bb											BB+
bb-											BB
b+											BB-
b											B+
b-											B
ccc+											B-
ccc											CCC+
ccc-											CCC
cc											CCC-
c											CC
d or rd											C
											D or RD

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

#### Bar Chart Legend

Vertical Bars = Range of Rating Factor  
Bar Colors = Relative Importance

- Higher Influence
- Moderate Influence
- Lower Influence

Bar Arrows = Rating Factor Outlook

- ↑ Positive      ↓ Negative
- ↕ Evolving    □ Stable

## Latest Developments

- In 1H20 Lloyd's reported significant improvement in underlying underwriting performance as demonstrated by attritional loss ratio reducing to 52.6% in 1H20 from 59.7% in 1H19.
- Lloyd's reported a GBP0.4 billion overall loss in 1H20 (GBP1.9 billion profit excluding pandemic-related losses) and a combined ratio of 110.4% including pandemic-related losses, and 91.7% without pandemic-related losses.
- Lloyd's booked GBP2.4 billion pandemic-related losses in 1H20 and expects the ultimate net claims costs to be GBP3 billion for end-2020.
- Lloyd's successfully collected capital from members to fully compensate for pandemic-related losses in June 2020.

### Industry Profile and Operating Environment (IPOE)

Click [here](#) for a link to a report that summarises the main factors driving the above IPOE score.

## Business Profile

### 'Favourable' Business Profile

Fitch ranks Lloyd's business profile as 'favourable' compared to that of global insurance and reinsurance companies. This is driven by the company's strong franchise, large operating scale and significant diversification within P&C (re)insurance. Lloyd's is one of a small group of global (re)insurance providers capable of attracting high-quality and specialised business. 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 B: 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 93 syndicates managed by 53 managing agents at end-2019. It writes business from more than 200 countries and territories, and reported 2019 gross written premiums (GWP) of GBP35.9 billion (2018: 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 B: Glossary](#)) owned by managing agents. Most business is placed into the market by brokers.

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

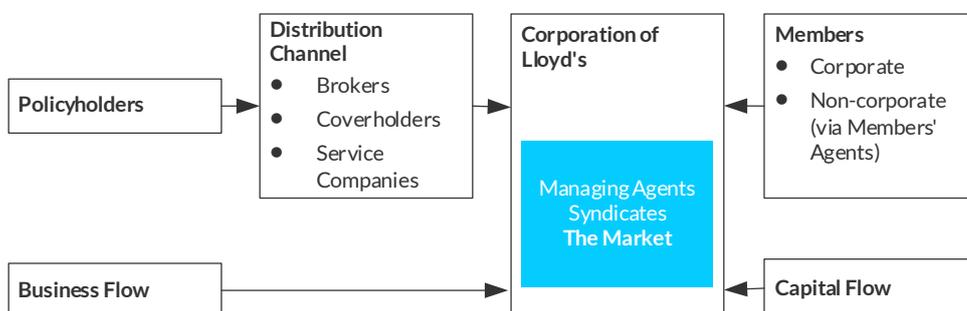
The US represents the main geographical region for the second major class, property, which includes commercial and private property. The other major class, casualty, includes professional indemnity, medical malpractice, accident and health, directors' and officers' liability, financial institutions,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

## Ownership

### Market Structure Is a Marginal Positive

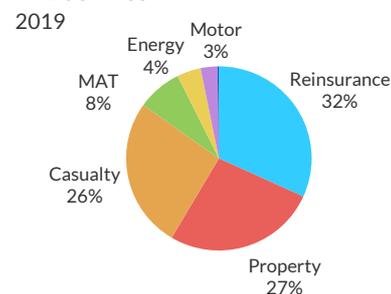
The market structure of Lloyd's is marginally positive for its ratings compared with the structure of traditional corporate insurers or reinsurers. This view accounts for the 'chain of security', which provides a mixture of several and mutual claims-paying capital.

#### Structure Diagram



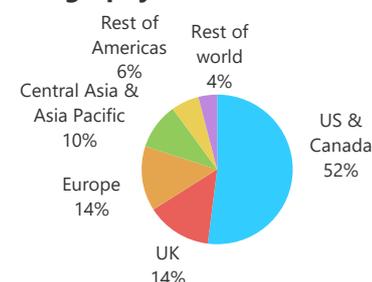
Source: Fitch Ratings, Lloyd's

### Gross Written Premium by line of Business



Source: Fitch Ratings, Lloyd's

### Premium Distribution by Geography in 2019



Source: Fitch Ratings, Lloyd's

## 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, low leverage and total financing commitment (TFC) and 'Strong' Prism Factor-Based Capital Model (FBM) score. Moreover, Lloyd's employs a unique to the market biannual 'coming into line' process, which keeps capital level constant and ensures that all members have sufficient eligible assets to meet their current and future underwriting liabilities.

Lloyd's reports its Solvency II coverage on both a central and market-wide basis. The market-wide Solvency Capital Ratio reflects the aggregation of all eligible market-wide assets, and Lloyd's reported a ratio of 155% at end-1H20 (end-2019: 156%) – comfortably above the risk appetite of 125%. On a central basis, reflecting the vulnerability of the central fund, the Lloyd's central SCR remained strong at 250% at 1H20 (end-2019: 238%), which was also in excess of the risk appetite of 200%.

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

The Fitch-calculated financial leverage ratio for Lloyd's was 3% at end-2019 (end-2018: 3%).

### Fitch Expectations

- Assuming major losses fall within the bounds anticipated by Lloyd's for the rest of 2020, we expect capital also to remain stable.
- We do not expect a significant change in leverage over the next two years.

## Debt Service Capabilities and Financial Flexibility

### Very Strong Coverage and Financial Flexibility

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

The fixed-charge coverage excluding unrealised gains and losses was 32x in 2019 (2018: -14x). On a five-year average basis, coverage is strong at 9x, although it was negatively affected by two years of negative coverage due to large catastrophe losses in 2017 and 2018. On a society basis, fixed-charge coverage decreased to 4x in 2019 from 6x in 2018, driven by an increase in finance costs from GBP39 million in 2018 to GBP51 million in 2019.

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

### Fitch Expectations

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

### Financial Highlights

(GBPm)	2019	2018
Financial leverage (%)	3	3
Net written premiums/equity (x)	0.9	0.9
Net leverage (x)	2.6	2.9
Gross leverage (x)	3.8	4.2
TFC ratio (x)	0	0

Source: Fitch Ratings; Lloyd's

### Financial Highlights

(GBPm)	2019	2018
Interest coverage - market (x)	32	-14
Interest coverage - society (x)	4	6
Interest paid	51	39

Source: Fitch Ratings; Lloyd's

### Debt Maturities

(At 31 December 2019)	
Subordinated notes GBP300m	2047
Subordinated notes GBP500m	2024

Source: Fitch Ratings; Lloyd's

## Financial Performance and Earnings

### Improving Underlying Underwriting Performance

Fitch believes that the trend of worsening underwriting performance for Lloyd's has been reversed. We expect Lloyd's to report improving underwriting profits, excluding major losses, supported by robust performance management and hardening market conditions. In 1H20 Lloyd's reported a loss of GBP0.4 billion (2019: profit of GBP2.5 billion) and a combined ratio of 110.4% (2019: 102.1%). Excluding pandemic-related losses, the company's profit was GBP1.9 billion and its combined ratio was 91.7%. Lloyd's reported combined ratio averaged 102% at end-2019 and we expect it to remain below 105%, excluding 2020 pandemic-related losses.

Lloyd's underlying underwriting performance significantly improved in 1H20, as demonstrated by its attritional loss ratio reducing to 52.6% from 59.7% in 1H19. This is driven by actions the company's performance management division (PMD) have taken since 2018 in order to reverse the deteriorating performance caused by soft market conditions.

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

As a result of profitability review, and the significant natural catastrophe losses of the past two years, Lloyd's reported overall risk-adjusted price rises in 1H20 of 8.7% (2019: 5.4%; 2018: 3%). We believe favourable market conditions will continue to support improvements in the company's underwriting performance.

### Fitch Expectations

- Fitch considers the pandemic-related losses to be one-off in nature and expects Lloyd's to report stronger underlying underwriting performance during the next 12–24 months due to improved pricing and ongoing remediation work on underperforming segments.
- We expect investment returns to remain low due to lower available yields on core portfolio and de-risking of the central fund Lloyd's completed in June 2020.

### Financial Highlights

(GBPm)	2019	2018
Net income	2,532	-1,001
Change in GWP (%)	1	6
Operating ratio (%)	92.2	100.7
Combined ratio (%)	102.1	104.5
Net loss ratio (%)	63.4	65.3
Admin expense ratio (%)	8.3	9.0
Commission ratio (%)	30.4	30.2
Return on equity (%)	9	-4

Source: Fitch Ratings; Lloyd's

## Investment and Asset Risk

### Low Investment and Asset Risk

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

Premium trust funds (PTFs) are the first resource for paying policyholder claims from a syndicate. Investments are held in liquid, short-duration, high-quality assets, with 94% 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 at Lloyd's, and are available at the discretion of the council of Lloyd's to meet any valid claim that cannot be met by the resources of any member.

### Fitch Expectations

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

## Reserve Adequacy

### Strong Reserve Adequacy

Fitch considers the company's reserving practices to be prudent and supportive of the rating. This is supported by continued, albeit at lower level, reserve releases and stable market-level surplus in the held reserves over the best estimate at 6.5% at end-2019. The view is reinforced by the independent reserve review of reserves as at end-2018, which confirmed the market level of surplus estimated by Lloyd's.

In 2019 Lloyd's reported substantially lower reserve releases of 0.9% of net earned premium than in prior years (2018: 3.9%; 2017: 2.9%). The reduction was mainly due to a one-off industry-wide strengthening for the 2018 hurricane Jebi loss and strengthening of US casualty reserves by some market participants amid rising claims inflation and worsening loss experience. Fitch expects that Lloyd's will benefit less from favourable reserve development than it has in the recent years. Fitch is monitoring the sustainability of reserve releases across all lines of business, particularly for more recent years.

Reserving is an important credit factor for Lloyd's, given its reserve leverage to both capital and to incurred losses (2019: 1.3x and 2.5x, respectively). Fitch monitors reserve and related exposure growth by checking the ratio of paid to incurred losses and the change in loss reserves relative to earned premium growth. Loss reserves have grown in line with underwriting exposures in most years.

### Fitch Expectations

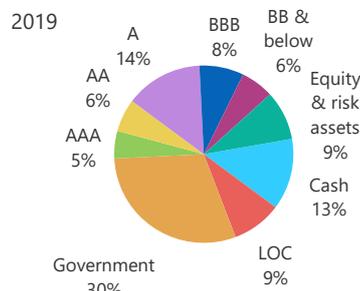
- Fitch anticipates that the aggregate of prior underwriting years will develop favourably, but the absolute amount of reserve releases will decrease as the favourable reserve development on the older years of the account become exhausted.

### Financial Highlights

(GBPm)	2019	2018
Invested assets	73,231	71,275
Investment return (%)	4.9	0.7
Liquid assets/tech reserves (%)	176	168
Risky assets/equity (%)	49	48
Non-investment grade bonds to equity (%)	10	9
Unaffiliated shares to equity (%)	39	39

Source: Fitch Ratings; Lloyd's of London

### Market Assets Allocation



Source: Fitch Ratings, Lloyd's

### Financial Highlights

(%)	2019	2018
Loss reserves/current-year incurred losses (x)	2.5	2.4
Loss reserves/policyholder surplus (x)	1.3	1.5
Current-year paid losses/incurred losses (x)	1.0	0.9
Change in loss reserves/earned premium	-5	5
Loss reserve development/equity	-1	-4
Loss reserve development/prior year loss reserves	-1	-3

Source: Fitch Ratings; Lloyd's

## Reinsurance, Risk Mitigation and Catastrophe Management

### High but Manageable Exposure to Catastrophe Risk

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

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

Reinsurance recoverables on Lloyd's' balance sheet are of good credit quality, with 99% in the 'A' rating range or above at end-2019. Reinsurance recoverables as a percentage of equity was moderate at end-2019, and supportive of the rating.

### Fitch Expectations

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

### Financial Highlights

(%)	2019	2018
Net written premiums/GWP	72	72
Reinsurance recoverables/equity	77	80

Source: Fitch Ratings; Lloyd's

## Appendix A: Peer Analysis

### No Directly Comparable Peers

Lloyd's has no directly comparable peers, due to its unique structure and the mix of business underwritten. Below is a comparison of Lloyd's with the global group of reinsurance companies that have some similarities in scale and geographical scope.

On average, Lloyd's has an underwriting performance in line with other multinational reinsurers. However, it has higher volatility in the combined ratio, indicating the higher exposure to catastrophe risk. Lloyd's has the lowest financial leverage in the peer group.

### Peer Comparison

(USDm, As of 2019)	IFS Rating <sup>a</sup>	Net written premiums	Shareholders' equity	Combined ratio reinsurance (%)	Return on equity (%)	Financial leverage ratio (%)
Swiss Re Ltd	A+/Stable	39,649	31,037	108	3	23
Munich Reinsurance Company	AA/Stable	54,367	34,245	101	10	18
Berkshire Hathaway Inc.	AA+/Stable	62,811	428,563	100	21	8
Lloyd's of London	AA-/Stable	32,732	39,394	102	9	3
Hannover Rueck SE	AA-/Stable	22,787	12,717	99	13	23
SCOR SE	AA-/Stable	13,526	7,127	97	7	22
Partner Reinsurance Company Ltd.	A+/Negative	6,909	7,270	100	14	20

Combined ratio: Net losses and loss-adjustment expenses divided by net premiums earned plus underwriting expenses divided by net premiums earned

Shareholders' equity is organisation-wide equity and therefore depends on the company's reporting practices; it may include equity that supports operations other than P&C reinsurance operations

Financial statement figures for some European reinsurers have been translated into US dollars using year-end or 12-month average rates of exchange, as appropriate. This has led to some exchange-rate distortion between financial years

<sup>a</sup>Denotes operating company IFS rating

IFS – Insurer Financial Strength rating

Source: Fitch Ratings, company annual reports, financial supplements, and SEC filings

## Appendix B: 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.

### Coverholder

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

### Members' Agent

An underwriting agent that has permission from Lloyd's to be appointed by a member to provide services and perform duties of the same kind and nature as those set out in the standard members' agent agreement. These services and duties include advising the member on which syndicates 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' solvency capital requirement with an ultimate time limit. This percentage has not changed since 2006. Lloyd's reviews each syndicate's solvency capital requirement in detail, and requires additional capital loading if it considers that the syndicate's business plan exposes the central fund to additional risk.

All members are required to recapitalise, should the ECA that is available to any individual member fall below its required level due to a change in the underlying risk profile or an erosion of funds due to losses. This process ensures that no member poses a significant threat to the central capital of Lloyd's at any given time. In cases where Lloyd's deems business underwritten within the market as too risky, it can request 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 D: Other Ratings Considerations

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

### Group IFS Rating Approach

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

### Notching

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

### Notching Summary

#### IFS Ratings

Due to the existence of policyholder priority, a baseline recovery assumption of 'Good' applies to the IFS rating, and Fitch used standard notching from the implied IDR. The insurance policies issued by Lloyd's are supported by a chain of security that includes Lloyd's premium trust funds, members' funds at Lloyd's and the central fund. The central fund and central assets of The Society of Lloyd's, a legal entity distinct from the members of Lloyd's, provide partial mutuality to the Lloyd's market. It is this mutuality that enables Fitch to assign an IFS rating to Lloyd's rather than to individual syndicates.

#### IDR Ratings

The Society's IDR is linked to the IFS rating assigned to Lloyd's. The Society has no legal liability for the insurance liabilities of members other than where it has issued an undertaking. Undertakings are liabilities of the Society, and constitute unsecured obligations ranking pari passu with other senior unsecured liabilities. Fitch has therefore aligned the Society's IDR with the implied IDR of Lloyd's. Standard notching was applied between the implied insurance operating company and holding company IDRs for a group solvency regulatory environment.

#### Hybrids

For subordinated debt ratings of The Society of Lloyd's, a baseline recovery assumption of Below Average and a non-performance risk assessment of Moderate were used. Notching of minus 2 was applied relative to the IDR, which was based on minus 1 for recovery and minus 1 for non-performance risk.

Source: Fitch Ratings

### Corporate Governance and Management

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

### Transfer and Convertibility Risk (Country Ceiling)

None.

### Criteria Variations

None.

## Appendix E: Environmental, Social and Governance Considerations

### 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

#### 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 Principles 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.

### 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

CREDIT-RELEVANT ESG SCALE	
How relevant are E, S and G issues to the overall credit rating?	
5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

## ESG Considerations

Lloyd's has an ESG Relevance Score of '4' for Exposure to Environmental Impacts due to underwriting/reserving exposed to natural catastrophe risks, with its property business representing 45% of 2019 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](http://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.

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