Lloyd's of London

Affirmed		Rating	Outlook
Lloyd's of London	IFSR	AA-	Stable

Methodologies

Insurer & Insurance Holding Company Global Rating Methodology

ESG Global Rating Methodology

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Ratings Summary:

KBRA Europe (KBRA) has affirmed the insurance financial strength rating (IFSR) for Lloyd's of London (Lloyd's or the Lloyd's market). Lloyd's is a society of members, both corporate and individual, that underwrite insurance via syndicates. Each syndicate can comprise one single member or any number of members, underwriting severally for their own account. The Society of Lloyd's oversees the members and through the Corporation of Lloyd's manages the day-to-day operations of the managing agents. Collectively, this constitutes the Lloyd's market.

The rating reflects Lloyd's strong risk-adjusted capitalisation, favourable capital trends, multi-faceted capital structure, conservative underwriting leverage, sound technical reserves, strong liquidity profile, diversified earnings sources, broad distribution channels and comprehensive risk management programme. At end-2021, Lloyd's market wide Solvency II ratio was 177%. Lloyd's capital has grown at a compound annual growth rate of 5.2% over the last five years and is up 7.7% at end-2021 over prior year. Lloyd's capital structure incorporates multiple successive layers of claims paying resources. KBRA believes that the increase in the callable layer from 3% to 5% plus a £650 million layer of reinsurance to protect the Central Fund, in conjunction with reduced risk and improved performance, materially enhances Lloyd's financial position. In combination, these changes resulted in a central Solvency II ratio of 388% at end-2021. KBRA believes that this represents an extremely strong backstop over and above capital resources at the market level. Compared to peers, Lloyd's maintains conservative premium and reserve leverage metrics. At end-2021, net carried reserves exceeded market and central actuarial best estimates. Lloyd's invests its assets conservatively and holds approximately 85% of its investments in cash and liquid, high credit quality fixed income securities. As one of the largest insurance underwriters in the world, Lloyd's writes business across all major sectors and covers over sixty lines of insurance and reinsurance in more than two hundred countries and territories. Approximately 55% of 2021 gross premiums emanated from the U.S. and Canada while around 36% of gross premiums consisted of reinsurance. KBRA believes that Lloyd's credit profile is enhanced by its expansive coverholder distribution network that provides it broad access to risks across the globe. Lloyd's has a robust, dynamic risk management framework and processes characterized by well-articulated risks and conservative risk tolerances which are regularly monitored and subject to various stress tests and scenario analysis.

Balancing these strengths are recent unfavourable underwriting performance, an elevated expense ratio, heavy reliance on reinsurance and exposure to event risk. While Lloyd's has reported a cumulative result before tax from 2017-2021 of £0.9 billion, it has been driven by net investment income of £9.1 billion, offset by cumulative underwriting losses of £6.0 billion. While some of the underwriting loss is attributable to major and catastrophe events in 2017, 2018 and 2020, attritional losses during 2017 – 2019 were elevated as well. Lloyd's reported attritional loss ratio improvement in 2020 and again in 2021 due to continued focus on performance since 2018. KBRA expects Lloyd's to report attritional loss ratios generally in line with 2020 and 2021 over the medium term. While Lloyd's expense ratio showed continued improvement in 2021, it remains elevated compared to peers. As implementation of the Future at Lloyd's programme begins, KBRA expects more meaningful expense reductions will materialise. Since each syndicate structures and purchases its own reinsurance programme, Lloyd's is more heavily dependent on reinsurance than peers which utilise reinsurance more strategically although this weakness is partially offset by central management's detailed monitoring of counterparty credit risk across the market. Due to its wide product and geographic footprints, Lloyd's incurs claims for most catastrophic events around the world. While exposure to catastrophes is partially mitigated by appropriate risk tolerances and high-credit quality reinsurance, KBRA expects Lloyd's to continue to provide material cover for large loss-generating events going forward.

Outlook

The Stable Outlook reflects KBRA's expectations that Lloyd's will continue to maintain sound capitalisation while prudently executing its various strategic initiatives. Additionally, KBRA expects Lloyd's to continue its focus on performance management to maintain the current level of underlying underwriting results.

Key Credit Considerations	+/−
Strong Risk Adjusted Capitalisation and Favourable Capital Trends Market Wide Solvency Capital Requirement (MWSCR) of 177% at end-2021. Market capital has grown at a compound annual growth rate (CAGR) of 5.2% over the last five years and is up 7.7% at end-2021 over the prior year. The Lloyd's market has limited debt in its capital structure (0.8% debt-to-capital at end-2021) and primarily backs its underwriting liabilities with high credit quality liquid assets.	+
Enhanced Capital Structure Lloyd's capital structure consists of successive layers that either respond severally or mutually to policyholder claims. During 2021, Lloyd's enhanced its financial position by increasing the Central Fund callable layer from 3% to 5% of members' overall premium limits in any one calendar year and purchasing insurance for the Central Fund. The Society of Lloyd's Central Solvency Requirement (CSCR) of 388% at end-2021 provides a strong backstop to the Lloyd's market in the event certain members cannot pay their losses.	+
Conservative Net Underwriting Leverage and Sound Technical Reserves Lloyd's net premium leverage of 0.8x at end-2020 compares favourably to peers. Net reserve leverage edged lower to 1.2x at end-2021 (from 1.3x at end-2020). At end-2021, Lloyd's net carried reserves continued to be more than the best estimates from syndicates as well as Lloyd's central best estimate for the market.	+
Strong Liquidity Profile and Asset/Liability Management Cash and liquid investment grade fixed income securities comprised 79% of invested assets at end-2021. The fixed income securities' average credit quality was AA. Average asset duration was 1.8 years with average liability duration of 4.0 years. In addition, aggregate assets are reasonably well matched to technical provisions by major currency.	+
Diversified Earnings Sources Lloyd's writes business in every sector and covers more than sixty lines of insurance and reinsurance in more than two hundred countries and territories. Approximately 55% of 2021 gross written premium of £39.2 billion emanated from the US and Canada, with the UK and Europe following at 12% and 11%, respectively. At 36%, reinsurance comprised the largest line of business, followed by casualty insurance and property insurance at 26% and 24% respectively.	+
Insurance Industry Market Leader Lloyd's is ranked among the top global (re)insurers. As an industry leader in underwriting specialty risks, Lloyd's provides thought leadership to the insurance industry and continues to provide coverage for many emerging, complex, and unique risks.	+
Broad, Multi-channel Distribution Sources At end-2021, Lloyd's had over 4,300 distribution sources comprised of brokers (>300) and coverholders (>4,000). Coverholders serve as important distributors for Lloyd's as they offer local access across the globe.	+
Comprehensive Risk Management Programme Lloyd's has a robust risk management framework and processes. Risks are well articulated. Risk tolerances are conservative and monitored by the Risk and Regulatory function. The Prudential Regulatory Authority (PRA) requires Lloyd's to perform an Own Risk and Solvency Assessment (ORSA). The framework has various stress tests using Realistic Disaster Scenarios embedded within it, including reverse stress testing of the Central Fund.	+
Future at Lloyd's Programme Makes Significant Progress, but Still Carries Execution Risk The Future of Lloyd's is an initiative to modernise the market through digitalisation of the marketplace. During 2021, Lloyd's signed an agreement for a new joint venture between Lloyd's, market associations and DXC Technology (NYSE: DXC) to create one foundation for digital processing across Lloyd's and the London market; the market sponsored Data Council approved the Core Data Record; Lloyd's published the second Interactive Guide to help senior leaders get ready for the new digital marketplace; and material progress was made in developing and launching components of the delegated authority ecosystem. However, execution risk remains as the programme is large and complex and Lloyd's cannot mandate that managing agents adopt the new automated, digital processes and practices.	+/−

Indirect Influence Over Market Participants' Behaviour While the Lloyd's Council governs the activities of the market to achieve the Society's goals, in contrast to traditional insurance company organizations, the Lloyd's management team lacks the authority to mandate direct specific actions by market participants. Various oversight frameworks and the ability to restrict a member's ability to trade forward which indirectly influences market participants' behaviour partially mitigates the lack of direct management control. The system relies heavily on shared goals among all market participants to maintain the viability of the market.	−/+
Elevated Expense Ratio Lloyd's 2021 expense ratio still compares unfavourably to peers at 35.5%, although it has improved 1.7 points over the prior year. The benefits derived from the Future at Lloyd's programme are expected to materially improve the expense ratio over the medium term.	−
Heavy Reliance on Reinsurance Since each syndicate structures and purchases its own reinsurance programme, Lloyd's is more heavily dependent on reinsurance than peers who utilise reinsurance more holistically across their entire organizations. Reinsurance costs across the Lloyd's market in 2021 was 27.5%, significantly elevated compared to peers. This elevated reliance on reinsurance is partially offset by central oversight and selected management of counterparty credit risk across the Lloyd's market by monitoring detailed metrics regarding scale of premium, amount of losses recoverable, concentration, financial strength, and the amount of aged debt/disputes.	−
Exposure to Event Risk Due to the broad classes written and a wide geographic footprint, Lloyd's pays claims for most catastrophe events across the world. Reinsurance and a reduction in catastrophe risk appetite mitigates net exposure. In addition, due to the de-risking of the Central Fund equity and alternative investments and reallocation to high credit quality fixed income securities during 2020, Lloyd's now has increased vulnerability to asset devaluation from inflation and rising interest rates in the current macroeconomic environment.	−

Rating Sensitivities	
▪ Successful implementation of the principles-based Managing Agent oversight framework ▪ Consistent net attritional underwriting loss ratios in the low to mid 50's over the medium term ▪ Successful execution of the Future at Lloyd's programme	+
▪ Unfavourable, or inconsistent, attritional underwriting experience over the medium term ▪ Meaningful reduction in capital ▪ Drop in Solvency ratios below Lloyd's targets	−

Recent Developments

Major Events

At end-2021, major claims for the Lloyd's market were £3.0 billion, net of reinsurance and including reinstatements payable and receivable. Major losses for 2021 were from Hurricane Ida (£1.5 billion), US Winter Storm Uri (£0.8 billion), the European Floods (£0.3 billion) and four other events (£0.4 billion) with losses concentrated in property (D&F) and property treaty lines. COVID-19 loss estimates remained stable and had minimal impact in the current year. In 2021, there was a decrease in the frequency of catastrophe loss activity with the Lloyd's market suffering insured losses from less than half the number of events experienced in 2020.

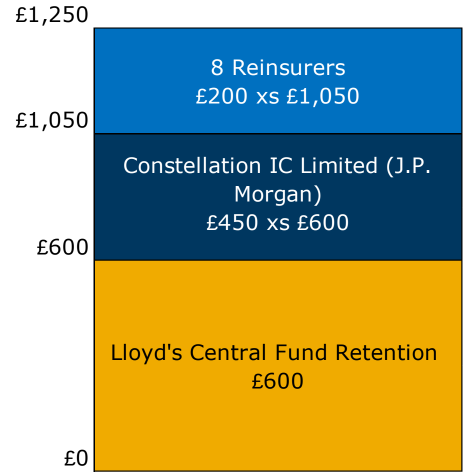
Central Fund Insurance

On 17 June 2021, Lloyd's of London announced that it had executed a £650 million cover to protect its Central Fund against significant loss events. Established in 1923, the Lloyd's Central Fund serves as the market's ultimate financial backstop if members cannot pay valid claims' obligations and the Council of Lloyd's approves paying those claims with Central Fund monies. At end-2021, the Central Fund contained £2.5 billion, a 2.3% increase over end-2020. The Central Fund historically has not purchased any (re)insurance cover.

The agreement covers aggregate losses in excess of £600 million annually with a maximum limit of £650 million over a five-year term effective 1 January 2021, as shown in the graph to the left. The first £450 million layer of the cover is fully collateralized and funded by J.P. Morgan through a newly created Guernsey incorporated cell company, Constellation IC Limited. A panel of eight reinsurers provides the second layer. KBRA believes that the counterparties in the structure are well diversified and that the collateralization and high credit quality of the reinsurers minimises credit risk.

KBRA believes that the Central Fund cover strengthens Lloyd's balance sheet and provides cost-effective financing for the market's growth ambitions.

Structure of Central Fund Cover



Major Model Change Application (MMCA)

On 30 June 2021, Lloyd's submitted a MMCA to the Prudential Regulatory Authority (PRA). The MMCA reflected (1) Lloyd's current risk profile with the ability to adapt to changes in the risk profile going forward and (2) the Central Fund Insurance. The PRA approved the MMCA in December 2021, resulting in healthy margins above Lloyd's targets in the end-2021 SCRs (177% MWSCR; 388% CSCR).

Future at Lloyd's/Blueprint Two

The Future of Lloyd's initiative is designed to make doing business with Lloyd's easier, faster (seconds and minutes rather than weeks) and at less cost through digitalisation of the marketplace, avoiding errors and rework. Blueprint Two creates the foundation needed to be able to build the digitalized marketplace.

During 2021, Lloyd's achieved the following with respect to delivering Blueprint Two:

- Published the second edition of its Interactive Guide, including a detailed delivery roadmap, to help senior leaders get ready for the new digital marketplace
- Signed an agreement for a new joint venture between Lloyd's, London market associations and DXC, creating one foundation for digital processing across Lloyd's and the London market
- Received approval from the market sponsored Data Council for the Core Data Record
- Created new market wide engagement and governance forums to ensure that there is interoperability in the solutions
- Launched Delegated Contract and Oversight Manager, a binder registration platform that is a key component in digitising end-to-end processing for delegated authority business
- Launched Faster Claims Pilot for delegated authority business
- Published a new Cash Call Template for delegated authority business
- Published the Delegated Authority Claims Status Tracker, a dashboard available to the entire market to reduce operational effort across the market

Insurance Entity Financials

Lloyd's of London Market Results (PFFS)					
GBP in millions	2021	2020	2019	2018	2017
Gross Written Premiums (GWP)	39,216	35,466	35,905	35,527	33,591
Net Written Premiums (NWP)	28,439	25,826	25,659	25,681	24,869
Net Earned Premiums	26,657	25,876	25,821	25,178	24,498
Net Claims Incurred	15,440	18,929	16,361	16,438	18,250
Net Operating Expenses	9,476	9,623	9,998	9,870	9,669
Net Underwriting Gain (Loss)	1,741	(2,676)	(538)	(1,130)	(3,421)
Total Investment Return	948	2,268	3,537	504	1,800
Result before Tax	2,277	(877)	2,532	(1,001)	(2,001)
Loss & LAE Ratio	58.0	73.2	63.4	65.3	74.5
Expense Ratio	35.5	37.2	38.7	39.2	39.5
Combined Ratio	93.5	110.3	102.1	104.5	114.0
GWP/Capital, Reserves & Subordinated De	1.1	1.0	1.2	1.3	1.2
NWP/Capital, Reserves & Subordinated De	0.8	0.8	0.8	0.9	0.9
Total Assets	138,155	128,304	119,878	118,008	108,396
Capital, Reserves & Surbordinated Debt	36,553	33,941	30,638	28,222	27,560
Market Wide Solvency II Ratio	177%	147%	156%	148%	144%
Central Solvency II Ratio	388%	209%	238%	249%	215%

Stress Testing

In addition to its own stress testing, KBRA reviewed output from Lloyd's Internal Model (LIM). Lloyd's undertakes a wide range of testing to validate the LIM, covering a range of return periods and risk areas in order to test the full range of potential financial losses. KBRA also reviewed the results of Lloyd's one year mandatory regulatory stress tests at end-Q3 2021 and concluded that Lloyd's market capital was sufficient to withstand a range of adverse events.

Management is undertaking ongoing work to better understand Lloyd's potential exposure to the impacts of climate change. Climate risks are being embedded into the risk framework, and Lloyd's, along with ten Managing Agents, took part in the Bank of England's Climate Biennial Exploratory Scenario (CBES) exercise during 2021.

Balance Sheet Management

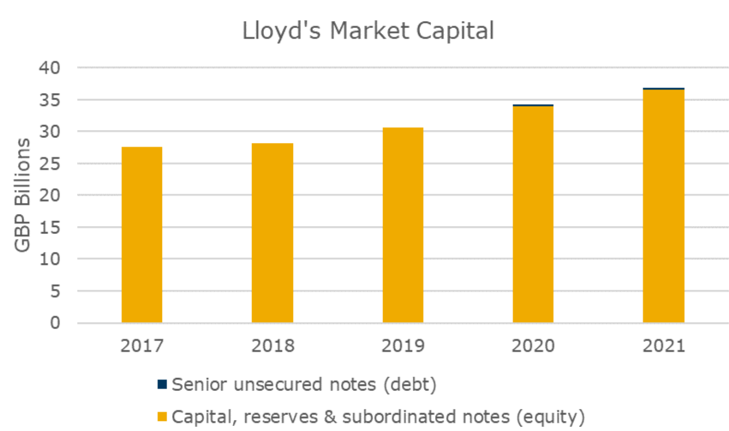
Quality of Capital/Underwriting Leverage

Lloyd's capital structure consists of successive layers that either respond severally or mutually to policyholder claims, as shown in the chart below.

Lloyd's Capital Structure					
Claims / Losses	Several Assets	First Layer	Syndicate Level Assets		All premiums received by a syndicate are held in its premium trust fund and are the first resource for paying that syndicate's policyholder claims.
		Second Layer	Members' Funds at Lloyd's (FAL)		Each member provides capital to support its underwriting at Lloyd's. Each managing agent produces its own capital assessment in respect of each managed syndicate stating how much capital it considers it needs to cover a 1-200 loss to ultimate with a 99.5% confidence level. This amount is uplifted by 35% to determine each syndicate's Economic Capital Assessment (ECA) and each member's FAL.
	Mutual Assets	Third Layer	Central Fund Corporation Net Assets[1]	Callable Layer[2]	The central assets 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. It is funded by members' annual contributions, reinsurance purchased by the Society in 2021 for a five year term, and subordinated debt issued by the Society in 2014 and 2017.
			£450mm xs £600mm aggregate Central Fund reinsurance		
			£200mm xs £1,050mm aggregate Central Fund reinsurance		
			Subordinated Debt		

[1] Corporation net assets = Corporation Reserve, Associates Reserve, Revaluation Reserve, and Transition Reserve.
[2] Callable layer = Central Fund assets may be supplemented by a 'callable layer' of up to 5% (up from 3% in 2020) of members' overall premium limits in any one calendar year. These funds would be drawn from premium trust funds.

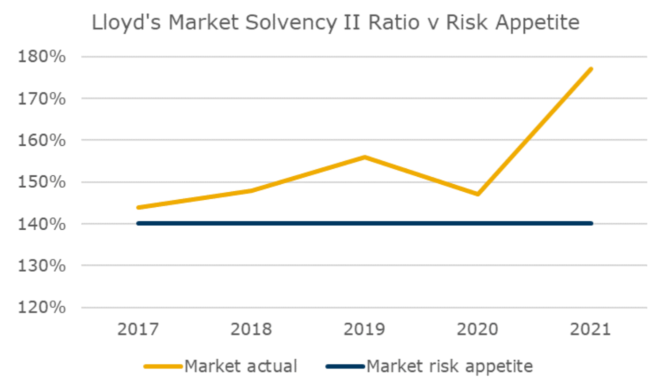
KBRA views favourably the quality of Lloyd's capital as it is almost entirely equity. The subordinated notes issued by the Society are structured such that the capital raised in these issuances is available to the Central Fund prior to the repayment of note holders, thereby qualifying it for equity treatment at a market level. The proceeds from the senior unsecured notes issued on 21 January 2020 are earmarked to finance the Future at Lloyd's programme and are payable ahead of policyholder claims. Accordingly, these securities are treated as debt, although KBRA notes that the Lloyd's market debt-to-capital is very conservative at 0.8% at end-2021. In addition, KBRA views the assessable features of the capital structure as a credit strength as it provides an additional and reliable source of claims paying resources to cover liabilities at the syndicate level.



At a market level, capital has grown at a CAGR of 5.2% over the past 5 years and increased by 7.7% over prior year in 2021. KBRA views Lloyd's ability to grow capital favourably as it demonstrates improving attritional experience as well as strong support from members.

Lloyd's is a regulated undertaking and is subject to supervision by the Prudential Regulatory Authority under the Financial Services and Market Act 2000. Within this construct, Lloyd's applies capital requirements at both the member level and centrally to ensure that it complies with Solvency II as well as to meet the Society's own capital management objectives.

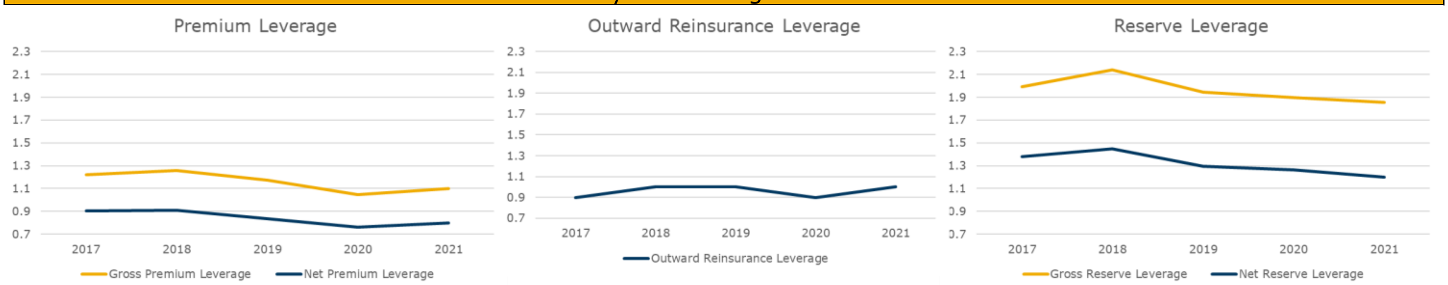
The Lloyd's Internal Model is used to calculate the Lloyd's market wide SCR (MWSCR). The MWSCR is calculated to cover all market risks of Lloyd's at a 99.5% confidence level over a one-year time horizon. The various components of market capital taken together are available to meet the MWSCR. Currently the MWSCR risk appetite is 140% (up from 125% in 2020).



The MWSCR improved in 2021 as a result of a reduction in the SCR due to a PRA approved Major Model Change Application as well as an increase in assets due to increased profitability, greater FAL, and higher discount rates driving lower technical provisions.

Lloyd's net leverage at end-2021 was 2.9x, materially more conservative than peer benchmarks, comprised of the following components:

Lloyd's Leverage Metrics



Net premium leverage was 0.8x at end-2021, also more conservative than peer benchmarks, primarily reflecting Lloyd's greater overall utilisation of reinsurance as outward reinsurance leverage at 1.0x was approximately double peer benchmarks.

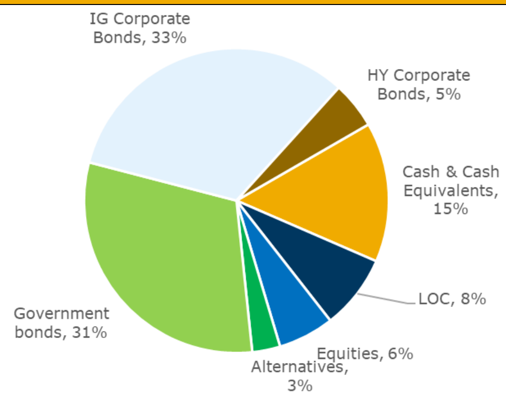
Net reserve leverage edged lower in 2021 to 1.2x (from 1.3x in 2020) and compares favourably to peer benchmarks. The scale of reinsurance dependance remains material due to the aggregate value of recoveries from catastrophe losses, COVID-19, and legacy reinsurance protections, causing less improvement (1.85x in 2021 v 1.90x in 2020) in gross reserve leverage.

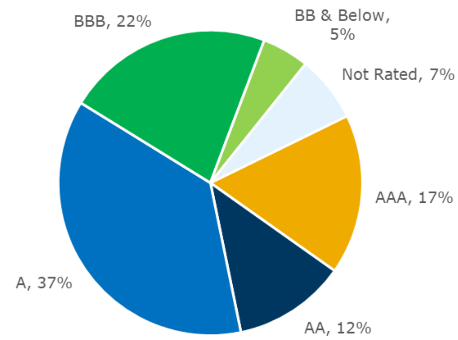
Asset Quality and Investment Risk

For the market as a whole[1], Lloyd's cash and invested assets have grown at a 4.4% CAGR over the past 5 years from £67.6 billion to £83.9 billion at end-2021. Asset allocation and fixed income credit quality at end-2021 are shown in the charts below. The average credit quality of the fixed income portfolio is AA with a duration of 2.7 years.

[1] Market assets consist of syndicate assets held in premium trust accounts (PTFs) at £49 billion, Funds at Lloyd's (FAL) at £31 billion and central assets at £5 billion at end-2021.

Lloyd's Asset Allocation & Fixed Income Credit Quality
31 December 2021
£83.9 bn Cash & Invested Assets

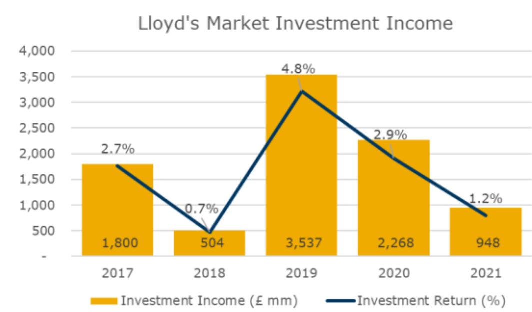




The Lloyd's market benefits from a short duration portfolio that is heavily weighted to high credit quality fixed income government and corporate bonds. As respects the impact from rising rates and inflation, Lloyd's regularly stresses the portfolio against various downside scenarios and has made capital model adjustments to account for higher inflation by stretching inflation distribution for claims and overwriting nominal rates to reflect its current inflation expectations.

At end-2021, the Central Fund was allocated 85% fixed income/15% risk assets. The Central Fund remains defensively positioned given continued volatility in the markets.

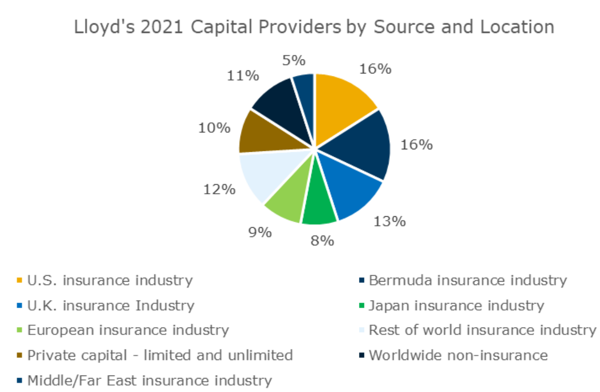
During 2021, Lloyd's investment income was £948 million, weaker than 2020, but strong in the context of the macro environment during the year. Returns were strong through Q3 but slowed in Q4 as the market experienced mark-to-market losses in fixed income assets due to rising interest rates and higher expectations of inflation. This was mitigated by the portfolio's short duration position and partially offset by the strong performance of risk assets (equities) in Q4.



Financial Flexibility and Access to Capital

Lloyd's capital providers are geographically well distributed around the world, with the US, Bermuda, and UK insurance industries accounting for 45% of the total in 2021.

The Society has the right to make a call on members of up to 5% (strengthened from 3%) of members' premium limits (callable contributions). The callable contributions can be drawn from members' premium trust funds without the members' consent. KBRA believes that this feature of Lloyd's capital structure provides financial flexibility to Lloyd's to ensure that all policyholders' claims are paid in a timely manner should a syndicate have insufficient liquid assets to pay claims in accordance with contractual policy terms.



On 14 January 2021, Lloyd's received regulatory approval from the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) to set up London Bridge Risk PCC Ltd., a new multi–Insurance Special Purpose Vehicle. The new vehicle complements the more traditional approaches to deploying capital at Lloyd's by providing additional optionality. The PCC provides an access point for all investors, including insurance-linked securities investors, to deploy and manage funds in an efficient, tax transparent manner into the Lloyd's market. The approval was a key milestone in the Future at Lloyd's programme which, among other things, aims to create an insurance market that attracts new forms of capital. In November 2021, Lloyd's announced that the Ontario Teachers' Pension Plan Board became the first investor to provide capital through London Bridge

Risk PCC. The transaction provides reinsurance cover to a member supporting three syndicates in the Lloyd's market: CFC Syndicate 1988, Beazley's Syndicate 5623, and Beat's Syndicate 1416. Coverage began in 2021 and will be expanded in 2022, providing initial capital in excess of £100 million, which is anticipated to grow over time.

On 17 June 2021, Lloyd's of London announced that it had executed a £650 million cover to protect its Central Fund against significant loss events. The agreement covers aggregate losses in excess of £600 million annually with a maximum limit of £650 million over a five-year term effective 1 January 2021. The first £450 million layer of the cover is fully collateralized and funded by J.P. Morgan. A panel of eight reinsurers provides the second layer. KBRA believes that the Central Fund cover provides innovative, cost-effective financing for the market's growth ambitions.

KBRA believes that Lloyd's has favourable financial flexibility and access to capital, with internal access to additional funds supplemented by multiple sources of external capital.

Liquidity and Asset/Liability Management

From a quantitative perspective, KBRA views Lloyd's market liquidity metrics as sound with current liquidity ratios above 100% between 2017-2021. Catastrophe and major losses create volatility in liquidity on a year over year basis. As part of its credit assessment, KBRA also analysed the percentage of assets held in cash and high credit quality fixed income assets within each layer of Lloyd's capital structure.

Syndicate and Funds at Lloyd's (FAL) liquidity remained stable during 2021 from end-2020. Central Fund liquidity improved substantially due to reductions in allocations to high-yield, equity, and alternative investment sectors. KBRA views this reduction in investment risk favourably as it better aligns the liquidity risk profile of the Central Fund with its function as a backstop in the event that members cannot meet their claims payment obligations.

As part of its transition to principles-based oversight, Lloyd's has clarified the liquidity requirements to specify that syndicates are responsible for maintaining access to sufficient liquidity to meet a 1 in 200-year liquidity event. In addition, the liquidity risk appetite of the Central Fund was reviewed earlier in 2022 and Lloyd's concluded there was significant capacity for less liquid assets and has adopted a longer-term investment horizon to consider opportunities to improve risk-adjusted returns. For example, the Central Fund strategic asset allocation includes plans to begin investing more into private assets in 2023.

Since Letters of Credit (LOCs) make up a sizable percentage of FAL assets, KBRA believes that close monitoring of bank credit quality is important to the liquidity profile of these assets. Lloyd's performs in-depth credit analysis on 28 bank entities representing ~96% of the LOCs and maintains concentration limits per bank.

Average asset duration for the market overall is 1.8 years while average liability duration is 4.0 years. In addition, aggregate assets are reasonably well matched to technical provisions by currency. Individual syndicates may, or may not, maintain such favourable matching which reinforces the importance of the liquidity profile of the Central Fund.

Operating Fundamentals

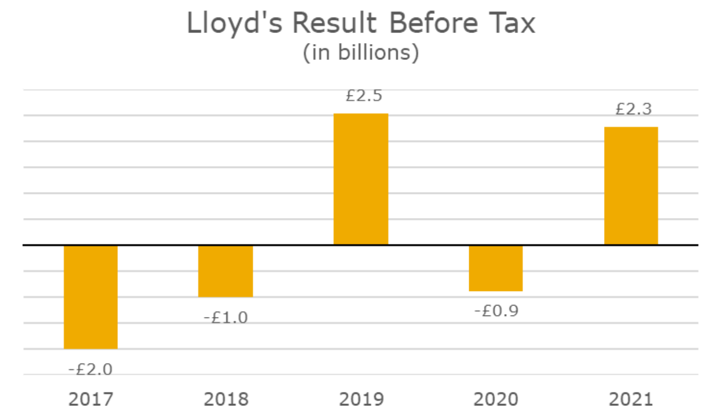
Drivers of Profitability

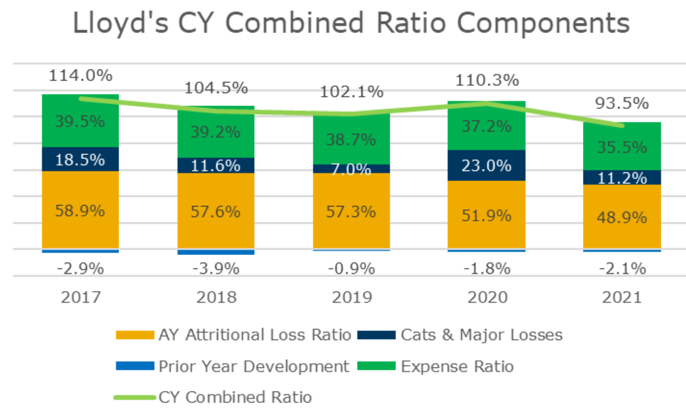
A key driver of future profitability will be to maintain the attritional loss ratio in the low 50's over the medium term. While Lloyd's portfolio management approach to remediate performance issues approach over the past three years was prescriptive, the result has been to drive improvement in syndicate performance across all quartiles. Close monitoring of syndicates identified as still underperforming based on consistent GAAP losses across the 2019 to 2021 financial years is ongoing as Lloyd's works to implement a principles-based oversight framework for the 2023 business plan process.

KBRA believes that the market has successfully remediated past issues and is ready to move forward on opportunities but will monitor the transition to the principles-based oversight framework closely to ensure underwriting profitability, as measured by the attritional loss ratio, does not slip as a result.

Another key driver of future profitability will be reduction in the expense ratio. Much progress has been made to date in the execution of the Future of Lloyd's initiative. An agreement with DXC and IUA to transform digital processing for Lloyd's and the London market was signed in December 2021. The Core Data Record (CDR) was approved by the Data Council. Lloyd's published the second Interactive Guide, including a detailed road map to Q2 2024 and progress was made during 2021 in developing a delegated authority ecosystem and new claims solutions. Lloyd's anticipates a material reduction in processing costs upon completion of the Future of Lloyd's initiative. KBRA notes that these expected savings assume market adoption of the changes and conclusion of the initiative on time and within budget.

Consistency of Profitability





Lloyd's reported a positive cumulative result before tax[2] from 2017 through 2021 of £0.9 billion. The result was driven by cumulative net investment income of £9.1 billion offset by cumulative net underwriting losses of £6.0 billion for the same period. A significant driver of the poor underwriting results was elevated levels of major losses in 2017 (£4.7 billion), 2018 (£2.9 billion) and 2020 (£6.0 billion, of which £3.4 billion or 13.3% of the CY Combined Ratio relates to COVID-19). Lloyd's five-year average for major losses is £3.7 billion or 13.7% of the CY combined ratio. KBRA expects ongoing volatility in Lloyd's underwriting results due to natural and man-made catastrophes as insuring property exposed to such risks is a component of Lloyd's business. KBRA believes that the ability of Lloyd's to recapitalise from members after such events effectively offsets the earnings volatility that catastrophe exposed risks might otherwise generate.

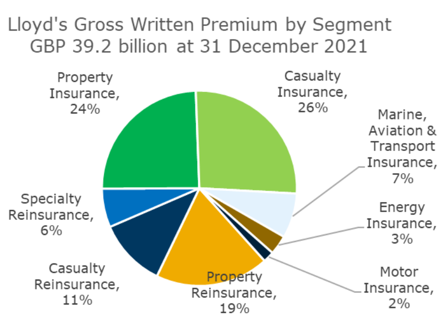
While overall prior year reserve releases improved in 2021 to £552 million (from £461 million in 2020), casualty reserves were strengthened again by £301 million or 1.4% of the held earned reserves. KBRA anticipates further reserve strengthening over the medium term as casualty losses continue to be exposed to an elevated risk of change due to evolving societal, legal, and regulatory environments over the life of the claim settlement process. The current financial pressure from rising inflation and other macro-economic factors adds further uncertainty to the claims environment.

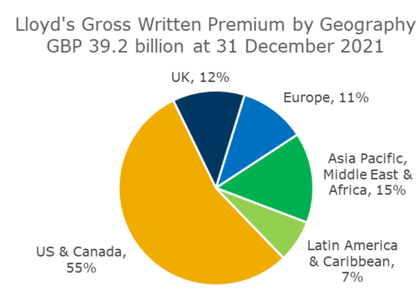
Lloyd's expense ratios compare unfavourably to peers, running approximately 6 points higher than peers in 2021. The improvement in 2021 is driven by a 2.1 percentage points improvement in the acquisition ratio. KBRA believes that the benefits from digitalisation as part of the Future at Lloyd's programme may bring expenses more in line with peers over the medium term.

For 2021, Lloyd's achieved an overall risk adjusted rate change of 10.9% and an exposure change of 0.6%. While every class is showing rate increases, not all have become profitable yet and performance management remains a key priority for Lloyd's as it plans to grow its exposure base in 2022.

Earnings Diversification: Product/Geography

Lloyd's insures people, businesses, and communities in more than two hundred countries and territories and is constantly working to lead the insurance industry into new markets and to develop products and solutions to meet complex and emerging risks. Lloyd's develops tailor-made policies for customers in every sector and covers more than sixty lines of insurance and reinsurance. KBRA believes that Lloyd's has a favourable earnings diversification profile both on product and geographic bases.

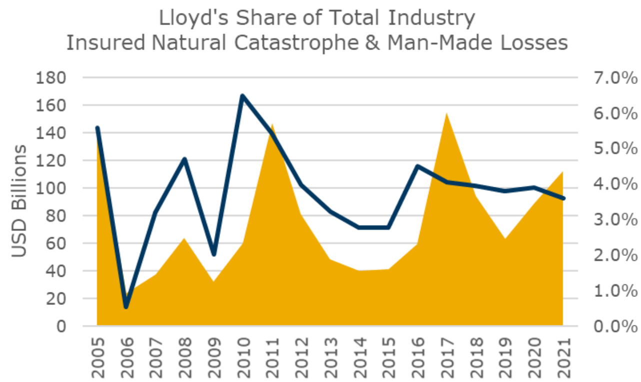




[2]The result before tax for the Lloyd's market is the equivalent of net income for traditional insurance companies and is one of two key performance indicators (KPIs) used to assess both the performance of the market and individual syndicates. The other KPI is Combined Operating Ratio, known more commonly as Combined Ratio.

Exposure to Event Risk

Lloyd's pays claims for most natural and man-made catastrophe events due to its expansive lines of business and its wide geographic footprint. Net exposure is mitigated to varying degrees year-over-year through the purchase of outward reinsurance. On a net basis, Lloyd's members must "come in line" after major loss events and provide additional funds to honor claims obligations to policyholders. As a backstop, the Central Fund and Central Fund reinsurance cover is available in the event a syndicate's member(s) are unable to provide funds to pay claims owed to policyholders. Lloyd's monitors its exposure to catastrophes through minimum standards for syndicates and extensive modelling of disaster scenarios. KBRA notes that Lloyd's share of insured industry losses reduced in 2021. At £3.0 billion, major losses were below the five-year average of £3.7 billion, but above the 15-year average of £2.3 billion. Despite efforts to contain catastrophe exposures and year-to-year fluctuations, KBRA believes that Lloyd's will continue to provide material protection for global catastrophes.



Lloyd's maintains an investment portfolio comprised primarily of cash and fixed income securities, with approximately 9% of the portfolio in equity and alternative investments at end-2021 (18% at end-2020). While the credit quality of the fixed income portfolio is high, KBRA notes that fixed income portfolios have increased vulnerability to mark-to-market losses during periods of rising interest rates. KBRA believes that Lloyd's monitoring of investment risk is appropriate relative to its financial market event exposure.

Company Profile and Risk Management

Management Profile and Strategy

Lloyd's is run by a highly experienced management team with oversight by the Council of Lloyd's. The entire Lloyd's management team has extensive experience in the (re)insurance industry.

Lloyd's remains focused on its four strategic priorities: performance, digitalisation, purpose, and culture.

With respect to Performance, KBRA expects continued focus on improved and sustainable profitability and will closely monitor the effectiveness of the new principles-based oversight regime. KBRA views favourably management's continuing focus on performance.

With respect to Digitalisation, KBRA believes that the result of Lloyd's efforts will bring the market into the digital age and minimise strategic threats, but also notes that there is execution risk as Lloyd's cannot mandate that managing agents adopt the new automated, digital processes and practices. KBRA views favourably the efforts by Lloyd's to minimise disruption to market participants by integrating Lloyd's platform into existing systems thereby maximising efficiencies for market participants while still achieving targeted levels of accuracy and consistency. KBRA also views favourably the outreach to market participants for feedback.

KBRA views favourably Lloyd's forward-looking plans in all areas within its purpose strategic priority.

KBRA believes that Lloyd's efforts to build a more inclusive workplace align well with its goal of being the most advanced marketplace in the world. Lloyd's seeks the best talent to develop solutions to solve the most complex risk challenges facing society, such as climate change and cybercrime.

Market Position

KBRA believes that Lloyd's overall market position is favourable. Lloyd's is consistently ranked among the top global (re)insurers. Lloyd's benefits from its strong brand recognition and reputation. As an industry leader in underwriting specialty risks, Lloyd's provides thought leadership to the industry and continues to provide coverage for many complex and unique risks. However, historically Lloyd's has lagged the industry from an ease of doing business standpoint and has been slightly slower than its peers to adopt digitalisation.

Distribution

Lloyd's is a broker market. There are currently more than three hundred brokers placing business in the Lloyd's market. Another vital distribution channel for Lloyd's are coverholders which offer local access to the Lloyd's market around the world. There were more than 4,000 coverholders at end-2021. KBRA believes that Lloyd's has a multi-channel, multi-jurisdiction distribution network that allows it to source attractive new business opportunities.

While distribution appears concentrated in coverholders, KBRA does not view this qualitative aspect of Lloyd's distribution network unfavourably. Rather, the Lloyd's market knows that its capacity is essential for a proportion of risks to secure sufficient cover and coverholders provide easy access regardless of where the risk is located. Lloyd's also provides essential cover for risks that (re)insurance companies do not have the appetite, underwriting expertise, distribution network or financial strength to write.

Risk Management

Lloyd's Risk Management Policy describes its overall framework and approach for the management of risk, including the risk strategy, internal governance arrangements, tools, processes, and reporting procedures. The relevant Solvency II requirements are also incorporated into the policy. The guiding principle of Lloyd's risk management approach is that there is one framework which encompasses all risks at every level. The framework is also built on the principle that risk management is a continuous and dynamic process, where Lloyd's understanding of the risks it faces is continuously evolving in light of new information. The framework is designed to be both effective and pragmatic to maximise the business benefit.

While the policy is authored and maintained by the Risk and Regulatory function, Lloyd's views the management of risk as the responsibility of each and every employee. The Risk Management function and the various risk committees provide a secondary check and balance to ensure that the range of risks is well understood, effectively managed and in line with Lloyd's overall strategy and risk appetite. This is achieved through the operation of the Risk Management Framework which collectively ensures that all Lloyd's risks are effectively identified, assessed, monitored, and managed.

Lloyd's takes a consistent approach to identifying risks through a bi-annual risk and control self-assessment (RCSA) process. The process reassesses existing risks, identifies any new exposures, evaluates the performance of key controls, and monitors existing risk plans.

The Risk Appetite Framework outlines the risk appetite that will achieve the goals of Lloyd's. Risk appetite statements are organized into three pillars, with high level, delivery, and monitoring metrics.

A key risk measurement tool in Lloyd's risk management framework is Lloyd's Internal Model (LIM). The LIM is a purpose-built model, approved by the PRA, designed to calculate the Solvency Capital Requirement (SCR) for Lloyd's as required under Solvency II. The LIM is used in place of the Standard Formula. The LIM is comprised of a core calculation kernel and two core sub-models: the Lloyd's Catastrophe Model and the Lloyd's Investment Risk Model. In addition to calculating the SCR, the LIM supports other aspects of risk management. For example, LIM produces various risk appetite metrics, underpins Lloyd's Own Risk and Solvency Assessment report (ORSA), and generates other stress and scenario tests.

Lloyd's has put in place a robust LIM Governance framework to ensure that change, operation, and validation of the LIM are performed in line with internal procedures and in accordance with Solvency II requirements for proprietary models. The Council has the ultimate responsibility for LIM and, through the Risk Committee, oversees the high-level governance of LIM and its operation. The Risk and Regulatory function has overall responsibility for ensuring the LIM is used in decision-making by senior management. The Risk and Regulatory function also conducts annual validation of the LIM. This process is supported by an external consultancy which reviews key model components in detail as enhancements to the model are introduced.

Lloyd's continuously seeks to identify and examine stress tests and scenarios which may adversely impact its business to ensure potential risks are clearly understood and effectively monitored and that adequate controls are in place. The outcomes/conclusions of the stress tests and scenarios form an integral part of the overall risk management system and prompt senior management to act across a range of areas such as, changes in the LIM, re-evaluation of risk appetites, syndicate business plans and capital management decisions (e.g., setting Economic Capital).

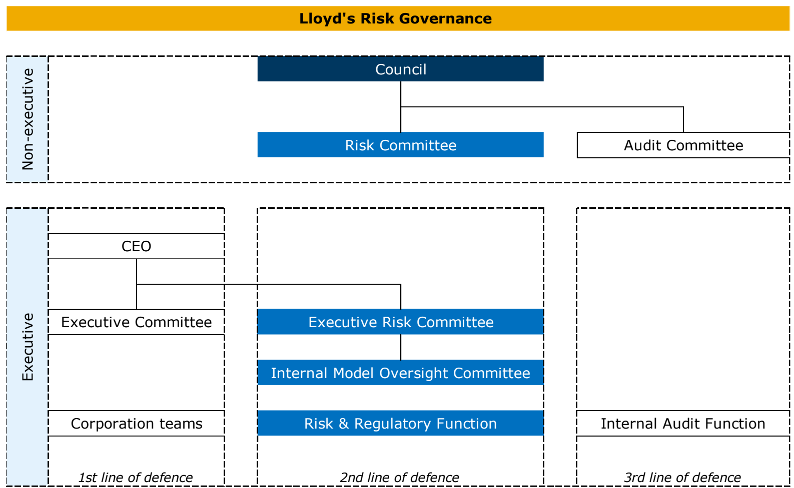
The two main applications of stress tests and scenarios are:

1. As a management tool – At least once a year the impact of extreme scenarios is evaluated, including a reverse stress test on the Central Fund. The results from both the extreme scenarios and the reverse stress test feed into the Lloyd's Recovery and Resolution Plan.
2. As a complement to the LIM – Stress tests and scenarios are used to inform the parameter revisions of certain components of the LIM (e.g., operational risk) and to help validate the model.

In addition to stress tests and scenarios, the Risk and Regulatory function frequently undertakes thematic reviews of evolving and complex areas (e.g., cyber, inflation, Ukraine) to ensure that the risk profile is well understood and effectively managed. These reviews provide insight and thought leadership over medium- and longer-term risks to management and the Council.

All risks at Lloyd's are managed under the "Three Lines of Defence" model:

- **1st line of defence**: functions that own and manage risks
- **2nd line of defence**: functions that oversee or specialise in compliance or management of risk
- **3rd line of defence**: functions that provide independent assurance



The Lloyd's risk governance structure (shown to the left) incorporates all three lines of defence in monitoring risks facing the market based on both qualitative and quantitative risk information.

Regular reporting of the risk profile to the Risk Committee is coordinated by the Risk and Regulatory function. This includes quarterly reporting of the risk appetite metrics via a Risk Dashboard. Any breaches of appetite are accompanied by a "Get to Green" plan setting out the actions to bring the risk category back in line with appetite. Risk incidents reported to the Risk and Regulatory function are escalated in line with the Risk Incident Reporting process. Other reporting includes the annual ORSA report, an annual report setting out the outcomes of the Capital Planning Group process, as well as the biannual RCA.

For 2022, the Risk and Regulatory function has five strategic priorities:

1. Implement the new principles-based oversight model for the market, ensuring that the controls over the market remain effective and that exposures remain within risk appetites
2. Support and challenge the Future at Lloyd's across execution and end state risks
3. Provide robust oversight of Lloyd's cyber and data controls, focusing on cyber maturity, pen testing, and System Development Lifecycle (SDLC) controls
4. Continue to embed risk culture and accountability across the market
5. Ensuring that Lloyd's continues to remain alert to threats and prepares for potential systemic risk, focusing on emerging risk, resolution planning, climate, and inflation

Reinsurance

Lloyd's relies heavily on reinsurance, although all purchasing decisions are made at a syndicate level. Because each syndicate structures and purchases their own reinsurance programme, there are limited economies of scale and no comprehensive reinsurance strategy. Reinsurance costs in 2021 were on par with the prior year at 27.5% (2020: 27.2%), whereas the peers' reinsurance costs in 2021 were 13% of gross written premium. KBRA believes that, given the structure of the Lloyd's market, the increased reinsurance costs compared to peers is prudent. While KBRA expects some fluctuation in response to pricing conditions, KBRA anticipates that Lloyd's reinsurance as a percentage of premium will continue to remain elevated compared to peer benchmarks over the medium term.

While elevated dependence on reinsurance presents greater counterparty credit risk to the market, Lloyd's oversees reinsurance credit exposure centrally across the entire market and takes selected management action when considered necessary. Within the risk appetite framework, Lloyd's closely monitors reinsurance premiums, reinsurance losses recoverable and reinsurer financial strength around conservative risk appetites. Accordingly, KBRA believes that Lloyd's has low reinsurance counterparty risk.

Protection structures are dominated by traditional reinsurance products from leading players in the market. At end-2021, total reinsurance recoverable balances remain substantial, mainly due to recent year natural catastrophe losses, COVID-19, and additional legacy protections put in place during 2021.

ESG Management

KBRA's ratings incorporate all material credit factors including those that relate to Environmental, Social and Governance (ESG) factors. KBRA captures the impact of ESG factors in the same manner as all other credit-relevant factors. KBRA does not deploy ESG scores, but instead analyzes ESG factors through the lens of how company management plans for and manages relevant ESG risks and opportunities. More information on KBRA's approach to ESG can be found here. KBRA believes stakeholder perspectives and emerging disclosure requirements will remain prominent components of (re)insurer approaches to ESG.

Environmental Factors

In 2021, Lloyd's committed to transition all its operations, investments, and underwriting to net zero by 2050 or sooner and its operational emissions to net zero by 2025. In the past year, the corporation achieved a 12.5% drop in emissions per employee. Since 2013, Lloyd's has managed to reduce its carbon footprint by 57%.

In its 2021 annual report, Lloyd's disclosed its scope 1, 2, and 3 emissions. KBRA believes that, without context, total emissions disclosures do not adequately inform stakeholders of the monetary impact of the transition to net-zero. As outlined in a recent KBRA research report, scope 1 and 2 emissions can be used to calculate KBRA Carbon Quantum (KCQ) Ratios, a carbon transition risk metric. KBRA believes this calculation is a better approach to assessing a company's financial capacity to absorb any future costs associated with greenhouse gas emissions. According to KBRA's calculations, KBRA believes that Lloyd's will likely meet its net zero target by 2025 with minimal to no financial impact.

With respect to Central Fund investments, Lloyd's currently has an allocation of 5% to impact investments that finance companies' transitions to net zero. Lloyd's also launched the Impact Investment Fund to deploy 3% of the Central Fund total investment allocation of 5%, to support its net-zero strategy.

To reach its overall goal of net zero, Lloyd's underwriting approach is multi-dimensional. The market continues to support harder-to-abate sectors that have a credible climate transition plan in place. In addition, Lloyd's is encouraging the market to develop new products for sustainable energy. Lloyd's ceased to provide new cover for thermal coal-fired plants, thermal coal mines, oil sands, and Arctic energy exploration activity as of the beginning of 2022 and will phase out existing cover by 2030.

Lloyd's Futureset, a leadership platform launched in 2021, will deliver actions to better support emerging sustainable energy solutions. Lloyd's also launched its first ESG dedicated syndicate in 2021. At the start of 2022, the corporation established an ESG committee, which meets quarterly, by merging two preexisting groups and appointed its first Sustainability Director.

Social Factors

In 2021, Lloyd's helped 50,000 individuals through its support of sixty charities. In the process, Lloyd's donated GBP 1.8 million through its charitable donations.

In 2021, Lloyd's was recognised as a Top 75 employer on the Social Mobility Foundation's Employer Index. This past year, Lloyd's also created a new archivist role to better document and understand Lloyd's history in the context of its strategy and mission.

Lloyd's has a well-developed Diversity & Inclusion initiative that is embedded across the corporation. In 2021, Lloyd's saw some progress in achieving its D&I targets, including an increase in Black and Ethnic Minority colleagues to 23% from 17% a year earlier. The corporation met its short-term goal of 20% female representation for members of its Council and Executive Committee. It also reduced its gender pay gap 33% since 2017 and filled 46% of leadership roles with women. Lloyd's also ran Pride and Allies Network campaigns throughout 2021.

Governance Factors

Lloyd's is closely monitoring its cyber risk exposure through increased underwriting oversight. The corporation has implemented a new 3-year Cyber Security Strategy, which began in 2021, with the aim of improving and evolving the Corporation's security. Lloyd's is working with syndicates to refine and validate the cyber-event Realistic Disaster Scenarios.

Lloyd's Futureset includes conducting a cyber focused research programme to help stakeholders understand and manage growing cyber threats and includes working with industry partners to raise awareness of cyber protection gaps and promote insurance resilience solutions.

External Considerations

A breach of Lloyd's market-wide solvency capital requirement would require an unprecedented and market changing scale of industry-wide losses. While the expectation is that capital providers would inject new capital into the market to cover losses, Lloyd's capital structure provides a backstop to cover members that cannot meet their obligations to the market. KBRA views these mutual resources as covering the extreme tail risk of the market. KBRA believes that a separate assessment of the Society's financial position is appropriate to determine the adequacy of these resources as a market backstop.

Society of Lloyd's					
(GBP millions)	2021	2020	2019	2018	2017
Total Assets	14,360	14,509	7,857	4,911	4,550
Intangible Assets	58	54	16	6	-
Senior Debt	299	299	-	-	-
Subordinated Debt	796	795	794	794	793
Equity	3,050	3,023	2,601	2,417	2,188
Total Capital	4,145	4,117	3,395	3,211	2,981
Central Solvency II Ratio	**388%**	**209%**	**238%**	**249%**	**215%**
Debt/Capital	26%	27%	23%	25%	27%
Intangibles/Capital	1%	1%	0%	0%	0%
Total Income (Revenue)	515	511	483	501	476
Central Fund Claims & Provisions Incurred	-	-	-	-	-
Surplus before Tax	2	56	170	202	187
Surplus (Net Income)	5	46	137	163	156
Finance Costs	62	59	51	39	55
Surplus before Tax/Interest	0.03	0.9	3.3	5.2	3.4
Surplus/Interest	0.08	0.8	2.7	4.2	2.8

The Central Solvency II Ratio covers the risks arising centrally to Lloyd's Corporation, predominantly member deficit risk (95%) with small amounts of operational, pension and investment risks.

The Lloyd's central SCR (CSCR) is calculated only with respect to the risks facing the Society, including the Central Fund, at the same confidence level and time horizon used to calculate the MWSCR. The major risk to the Society is that members do not have sufficient funds to meet their underwriting losses even after fully complying with Lloyd's capital setting process. Currently, the central risk appetite is 200% (unchanged from 2020). The central capital solvency requirement is over and above the market wide solvency capital requirement.

At end-2021, the central solvency capital requirement ratio stood at 388%, well above peers, based on GBP 4.9 billion in eligible assets and GBP 1.3 billion of capital required. The improvement over 2020 is driven by a reduction in the required capital due to the impact of the Central Fund reinsurance. Additionally, there was an increase in the callable layer with members' premium limits being increased to 5% from 3% for the 2022 and subsequent years of account. This is offset by an eligibility restriction to available capital. The inclusion of Tier 2 debt increases Lloyd's Tier 2 and 3 capital by £972 million. Up to £625 million is eligible in the solvency calculation.

For the Society of Lloyd's, debt-to-capital is 26% at end-2021. KBRA views the overall debt amount and coverage as reasonable. KBRA also views favourably the terms of the subordinated notes that make them available to the Central Fund as mutual resources for payment of policyholder claims prior to the repayment of bondholders.

KBRA notes that the Central Fund's ability to absorb a 1-200-year event is over and above the market's ability to absorb a 1-200-year event. A Central Fund loss of this magnitude would most likely be caused by systemic market wide losses or a smaller market wide loss that disproportionally impacts a small number of members. As some loss drivers are independent of others (e.g., catastrophe and non-catastrophe risks), KBRA notes that an extreme loss in one area may be offset from profits in another which would reduce the overall market wide impact. Financial drivers of losses of this magnitude are typically either systemic under-reserving issues or extremely large natural catastrophes where the Lloyd's market has greater exposure compared to peers.

KBRA believes that the standalone financial strength of the Society, its purpose as the ultimate backstop to maintain the Lloyd's market viability, and the limited need to use central resources to pay member obligations in the last five years are significant credit strengths for the Lloyd's market.

Transfer Risk

Managing agents must identify the main currencies in which each of their managed syndicates transacts its business and hold assets in each of those currencies to match the relevant liabilities. Managing agents must ensure that the assets match liabilities and take corrective action when a mismatch occurs. The Corporation also reviews the alignment of assets to liabilities at the syndicate level as well as at the market level. In addition, many members seek to match capital disposition by currency against peak exposures.

At end-2021, Lloyd's main currencies were USD, GBP, CAD, EUR, and AUD. Other currencies comprised approximately 2.2% of total assets. As exposure is predominantly to stable currencies that are freely convertible at any time, KBRA views Lloyd's exposure to transfer risk from sovereign capital controls as immaterial.

There are certain issuers, entities or transactions rated by KBRA Europe or KBRA UK that may be or have relationships with Shareholders and/or Shareholder-Related Companies, as that term is defined in KBRA's Shareholder and Shareholder Related Companies for KBRA Europe and KBRA UK Policy and Procedure. Relevant disclosure information may be found here.