Lloyd's

AMB #: 085202 | **AIIN#:** AA-1122000
Ultimate Parent: AMB # 051215 - Society of Lloyd's

Best's Credit Ratings - for the Rating Unit Members

Financial Strength Rating (FSR)	Issuer Credit Rating (ICR)
A	**a+**
Excellent	**Excellent**
Outlook: **Stable**	Outlook: **Stable**
Action: **Affirmed**	Action: **Affirmed**

Assessment Descriptors

Balance Sheet Strength	**Very Strong**
Operating Performance	**Strong**
Business Profile	**Favorable**
Enterprise Risk Management	**Appropriate**

Rating Unit - Members

Rating Unit: Lloyd's | AMB #: 085202

AMB #	Rating Unit Members	AMB #	Rating Unit Members
078649	Lloyd's Ins Co (China) Ltd	095926	Lloyd's Insurance Co. S.A.

Best's Credit Rating Effective Date

July 21, 2021

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Information

Best's Credit Rating Methodology

Guide to Best's Credit Ratings

Market Segment Outlooks

Financial Data Presented

The financial data in this report reflects the most current data available to the Analytical Team at the time of the rating. Updates to the financial exhibits in this report are available here: Best's Financial Report.

Printed for Jessica Botelho on August 10, 2021

Rating Rationale

Balance Sheet Strength: Very Strong

- The market has the strongest level of risk-adjusted capitalisation, as measured by Best's Capital Adequacy Ratio (BCAR).
- A robust capital-setting regime, which incorporates a risk-based approach to setting member-level capital, helps protect risk-adjusted capitalisation from volatility.
- Member-level capital is subject to fungibility constraints as it is held on a several rather than joint basis.
- Balance sheet strength is underpinned by a strong Central Fund that is available, at the discretion of the Council of Lloyd's, to meet the policyholder obligations of all Lloyd's members.
- An offsetting factor is the market's significant, albeit reducing, exposure to catastrophe risk and its dependence on reinsurance to manage this risk.

Operating Performance: Strong

- Lloyd's is expected to report strong operating performance across the underwriting cycle, taking into account potential volatility due to its catastrophe exposure. However, recent underwriting performance has been below AM Best's expectations for a strong assessment, demonstrated by a five-year (2016-2020) combined ratio of 105.9%.
- Improving market conditions as well as the robust performance oversight by the Corporation have started to materialise in measurable improvements in the attritional accident-year performance. Further improvements are expected over the next three years.
- The market's expense ratio is high compared to that of peers. Actions are being taken through the Future at Lloyd’s initiative to reduce the cost of placing business at Lloyd’s, the benefits of which should start to be realised over the short term.
- The market's consolidated operating performance cannot be viewed as a leading indicator of its future balance sheet strength to the same extent as it is for other insurers. Earnings generated by the market do not directly build or erode Lloyd's capital base, as profits and losses are distributed to the market's capital providers when a year of account is closed. Despite recent underwriting performance, Lloyd's continues to demonstrate that it is able to retain and attract capital to the market.

Business Profile: Favorable

- Lloyd's has a strong position in the global general insurance and reinsurance markets as a leading writer of specialty property and casualty risks.
- Although Lloyd's syndicates operate as individual businesses, the collective size of the market allows them to compete with international groups under the Lloyd's brand.
- The markets in which Lloyd's operates are highly competitive. Lloyd's reliance on brokers to underwrite specialty and reinsurance business makes it vulnerable to price-based competition.
- The portfolio is well diversified but with some geographical bias towards North America and product bias towards commercial specialty lines products.
- Product risk is moderate to high. Higher-risk lines include reinsurance, energy, aviation, some marine business and a high proportion of the casualty and property business written. The majority of small commercial and consumer business, as well as some of the business written through coverholders, is lower risk.

Enterprise Risk Management: Appropriate

- Lloyd's enterprise risk management framework is well developed and appropriate for the size and complexity of the Lloyd's market.
- Risk management capabilities are aligned with the market's risk profile.
- The Corporation's risk management function works closely across other functional areas of the Corporation to provide the market additional oversight.
- An internal capital model, in place since 2012, is used to calculate the solvency capital requirement under the Solvency II regime as well as to stress test the market's risk-adjusted capitalisation. In AM Best's opinion, the internal capital model strongly supports the Corporation's ability to assess the capital adequacy of the market.

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Outlook

- The stable outlooks reflect AM Best's expectation that risk-adjusted capitalisation will remain at the strongest level, supported by Lloyd's capital management strategy and the requirement for members to replenish their funds at Lloyd's following losses. Operating performance is expected to remain supportive of the strong assessment over the cycle underpinned by the market's ability to retain and attract capital. Lloyd's is expected to maintain its favourable business profile, underpinned by the strong Lloyd's brand, its international network of licences, and underwriting expertise.

Rating Drivers

- Negative rating actions could arise following a material deterioration in the market's risk-adjusted capitalisation, for instance, due to a substantial loss to the Central Fund or a reduction in member-level capital requirements set by Lloyd's.
- Negative rating actions could arise if Lloyd's underlying performance does not improve in line with expectations.
- Upward rating movements are considered unlikely in the short term. Longer term, positive rating pressure could arise supported by the successful execution of the Future at Lloyd's strategy and reducing catastrophe exposure.

Key Financial Indicators

AM Best may recategorize company-reported data to reflect broader international reporting standards and increase global comparability.

Best's Capital Adequacy Ratio (BCAR) Scores (%)

Confidence Level	95.0	99.0	99.5	99.6
BCAR Score	73.4	61.1	55.4	53.7

Source: Best's Capital Adequacy Ratio Model - Universal

Key Financial Indicators	2020 GBP (000)	2019 GBP (000)	2018 GBP (000)	2017 GBP (000)	2016 GBP (000,000)
Net Premiums Written:					
Non-Life	25,826,000	25,659,000	25,681,000	24,869,000	23,066
Composite	25,826,000	25,659,000	25,681,000	24,869,000	23,066
Net Income	-887,000	2,532,000	-1,001,000	-2,001,000	2,107
Total Assets	128,304,000	119,878,000	118,008,000	108,396,000	101,602
Total Capital and Surplus	33,146,000	29,844,000	27,428,000	26,767,000	27,714

Source: BestLink® - Best's Financial Suite

Key Financial Indicators & Ratios	2020 GBP (000)	2019 GBP (000)	2018 GBP (000)	2017 GBP (000)	2016 GBP (000,000)	Weighted 5-Year Average
Profitability:						
Balance on Non-Life Technical Account	-2,676,000	-538,000	-1,130,000	-3,421,000	468	...
Net Income Return on Revenue (%)	-3.2	8.9	-3.8	-7.7	8.9	0.6
Net Income Return on Capital and Surplus (%)	-2.8	8.8	-3.7	-7.3	8.1	0.5
Non-Life Combined Ratio (%)	110.3	102.1	104.5	114.0	97.9	105.9
Net Investment Yield (%)	2.2	3.5	1.4	2.1	1.7	2.2
Leverage:						
Net Premiums Written to Capital and Surplus (%)	77.9	86.0	93.6	92.9	83.2	...

Source: BestLink® - Best's Financial Suite

Credit Analysis

Balance Sheet Strength

Lloyd's balance sheet strength assessment of very strong is underpinned by risk-adjusted capitalisation at the strongest level, as measured by Best's Capital Adequacy Ratio (BCAR), as well as its strong financial flexibility. The market has significant exposure to catastrophe losses and is dependent on reinsurance to manage this risk. However, a robust market-wide capital-setting regime, which

Balance Sheet Strength (Continued...)

incorporates a risk-based approach to setting member-level capital and the requirement for members to replenish their Funds at Lloyd's (FAL) after a loss, helps protect risk-adjusted capitalisation against volatility.

Balance sheet strength is supported by a strong Central Fund that is available, at the discretion of the Council of Lloyd's, to meet the policyholder obligations of all Lloyd's members. It is the existence of this partially mutualising link that is the basis for a market-level rating.

The market's member-level capital is held on a several rather than joint basis and is only available to meet the liabilities of that particular member. The resulting fungibility constraints on available capital, as well as the significant proportion of member-level capital provided through letters of credit (LOCs), the market's significant exposure to catastrophe risk and its dependence on reinsurance to manage this risk, are limiting factors for the balance sheet strength assessment.

Capitalisation

The BCAR scores shown in this report are based on the 2020 year-end figures published in the Lloyd's annual report, which contains the financial results of Lloyd's and its members in pro forma financial statements and includes the financial statements of the Society of Lloyd's (referred to in this report as the Society or the Corporation). The pro forma financial statements include the aggregated accounts, which are based on the accounts of each Lloyd's syndicate, members' FAL and the Society's financial statements.

The Society was formed in 1871, when the then existing association of underwriters at Lloyd's was incorporated by the Lloyd's Act. The Society produces consolidated financial statements that cover Lloyd's activities outside the underwriting market and Lloyd's central resources (the Central Fund).

Lloyd's benefits from risk-adjusted capitalisation at the strongest level, as measured by BCAR. This assessment takes into account capital resources available at member level, in the form of Members' FAL, and centrally in the form of the Central Fund and net assets of the Corporation. Capital credit is given in BCAR for subordinated debt issued by the Society, as well as for FAL provided through LOCs as if drawn these LOCs will turn into Tier 1 capital for Lloyd's. Nonetheless, the extensive, albeit reducing, use of LOCs as FAL reduces somewhat the quality of available capital. AM Best does not give explicit credit for contingent capital in the 'callable layer', which is the ability of the Corporation to supplement central assets by calling funds from members of up to 3% of their overall premium limits.

Any assessment of Lloyd's capital strength is complicated by the compartmentalisation of capital at member level. Member-level capital in the form of FAL and members' balances are held on a several rather than joint basis, meaning that any member need meet only its share of claims. However, Lloyd's central assets are available, at the discretion of the Council of Lloyd's, to meet policyholder liabilities that any member is unable to meet in full. This link in the Chain of Security comprises of the Central Fund and other central assets, as well as subordinated debt. These central assets can be supplemented by funds called from members of up to 3% of their overall premium limits. It is the existence of this partially mutualising third link, and the liquid Central Fund in particular, that is the basis for a market-level rating.

During 2021, Lloyd's secured insurance for the Central Fund through a five-year, multi-layered cover, which will reimburse aggregate payments from the Central Fund that are in excess of GBP 600 million and up to GBP 1.25 billion. Cover is provided by international reinsurers of excellent credit quality. Furthermore, the first layer is supported by a newly created cell company, Constellation IC Limited, and financed by a global investment bank.

The Central Fund insurance will provide greater stability and protection to the Central Fund and help to support sustainable and profitable long-term market growth. The structure also provides increased protection for Lloyd's customers and the market against severe tail end events, as well as working to further improve the quality and financial strength of the market's balance sheet.

Lloyd's Internal Model (LIM) captures Lloyd's unique capital structure and takes into account fungibility constraints on member-level capital and the mutual nature of central assets. If a severe market loss led to the exhaustion of some members' FAL, central assets would be exposed to any further losses faced by these members. The model captures this mutualised exposure, so that, at different return periods, the exposure of both member-level capital and central capital is demonstrated.

Lloyd's is subject to the Solvency II regulatory regime. As agreed with the UK regulator, the Prudential Regulation Authority (PRA), Lloyd's calculates two separate Solvency Capital Requirements (SCRs) and two separate SCR coverage ratios: a market-wide SCR (MWSCR) and a central SCR (CSCR). The MWSCR calculates the total capital consumed at a 99.5% value at risk (VaR) confidence level over a one-year period for the Lloyd's market as a whole (including the exposure of both member-level and central assets).

Balance Sheet Strength (Continued...)

The CSCR is calculated at a 99.5% VaR confidence level over a one-year period in respect of risks facing the Society and its Central Fund. It captures exposure to losses that would not affect the majority of syndicates (and so would not erode capital at overall member level) but would have an impact on central assets. Calculating a CSCR addresses the fact that a 1-in-200 year loss to central assets could be bigger than the loss to central assets in a 1-in-200 year market loss event. By calculating both figures, Lloyd's has a better view of the likelihood that central and market level assets are sufficient.

Lloyd's has approval from the PRA to use existing LOCs, in the form that they are provided as FAL, as Tier 2 capital for Solvency II purposes. However, any new LOCs provided as FAL need to be individually approved. Under Solvency II, at least 50% of the solvency capital requirement must be met by Tier 1 capital.

Since 2018 Lloyd's has been implementing a phased reduction in the proportion of FAL that can be provided via LOCs, and, from 1 December 2020 members' Tier 2 capital should not exceed 50% of their economic capital assessment (ECA) in order to minimise assets ineligible for regulatory capital credit. Consequently, as at 31 December 2020, LOCs accounted for 21% of total FAL and all Lloyd's Tier 2 assets were eligible to meet the MWSCR.

The MWSCR coverage ratio stood at 147% at year-end 2020 (2019: 156%) and the CSCR coverage ratio at 209% (2019: 238%). Lloyd's risk appetite for MWSCR coverage is a minimum of 125% and the CSCR coverage is a minimum of 200%. The MWSCR target range is low relative to peers, but this should be seen in light of Lloyd's good financial flexibility and capital-setting process. The stability in the market's regulatory solvency levels, as a result of the capital-setting process, is considered to be a strength for the balance sheet strength assessment.

Lloyd's employs strict capital-setting criteria both at member level and centrally. Member-level capital is determined using syndicates' SCRs calibrated to correspond to a 99.5% VaR confidence level, provided on a one-year and -to-ultimate basis and calculated using syndicates' internal capital models. A 35% uplift is applied to the ultimate SCR to arrive at the FAL requirement.

Lloyd's members are required to replenish their FAL to meet their current underwriting liabilities as part of the "coming into line" process in June and November. However, Lloyd's can require a member to recapitalise in between these dates if deemed necessary. Most members underwrite with limited liability. However, if FAL are eroded due to underwriting losses, affected members will have to provide additional funds to support any outstanding underwriting obligations to continue to underwrite at Lloyd's. This requirement in effect provides the market with access to funds beyond those reflected in its capital structure.

Member contributions to the Central Fund reduced in 2016 to 0.35% of gross written premiums (from 0.50% of capacity) per annum, and remained at this level in 2020. The contribution rate can be increased to strengthen the Central Fund at any time.

Lloyd's good financial flexibility is enhanced by the diversity of its capital providers which include corporate and individual investors. Traditional Lloyd's businesses remain committed to the market. In addition, Lloyd's continues to attract new investors, drawn by its capital efficient structure and global licences. As the capital to support underwriting at Lloyd's is supplied by members on an annual basis, an important factor in AM Best's analysis of the market is its ability to retain and attract the capital required for continued trading.

Liquidity Analysis (%)	2020	2019	2018	2017	2016
Liquid Assets to Total Liabilities	70.7	69.9	67.5	72.0	80.7
Total Investments to Total Liabilities	84.0	81.3	78.6	83.2	91.6

Source: BestLink® - Best's Financial Suite

Asset Liability Management - Investments

The majority of Lloyd's investments are managed independently by the individual syndicates' managing agents, while the assets in the Lloyd's Central Fund are managed centrally by the Corporation. Although syndicates are able to define their own investment strategy, asset risk is generally low, with more than three quarters of the market's total investments held in bonds and cash/deposits or represented by LOCs.

Assets held by individual members are generally liquid, with the majority held in cash (which includes LOCs) and bonds. Equity and risk asset exposure accounted for circa 14% of invested assets in 2020. Lloyd's capital (FAL and the Central Fund) is largely matched in terms of currency to exposure.

Balance Sheet Strength (Continued...)

In AM Best's opinion, Lloyd's maintains good overall liquidity. Managing agents are responsible for the investment of syndicate premium trust funds, although Lloyd's monitors liquidity levels at individual syndicates as part of its capital adequacy review. Overall, these funds exhibit a high level of liquidity, as most syndicate investment portfolios tend to consist primarily of cash and high-quality, fixed-income securities of relatively short duration. Lloyd's also monitors projected liquidity for its central assets, which are tailored to meet the disbursement requirements of the Central Fund and the Corporation (including its debt obligations).

Composition of Cash and Invested Assets	2020 GBP (000)	2019 GBP (000)	2018 GBP (000)	2017 GBP (000)	2016 GBP (000,000)
Total Cash and Invested Assets	79,951,000	73,193,000	71,240,000	67,902,000	67,646
Cash (%)	13.1	13.2	15.3	17.9	18.2
Bonds (%)	59.7	60.4	58.5	54.8	56.5
Equity Securities (%)	11.3	12.4	12.0	14.0	13.5
Real Estate, Mortgages and Loans (%)	12.1	10.4	10.9	10.1	8.9
Other Invested Assets (%)	3.8	3.6	3.3	3.3	2.9
Total Cash and Unaffiliated Invested Assets (%)	100.0	100.0	100.0	100.0	100.0
Total Cash and Invested Assets (%)	100.0	100.0	100.0	100.0	100.0

Source: BestLink® - Best's Financial Suite

Reserve Adequacy

Robust oversight of reserves is provided by the Corporation. In AM Best's opinion, reserving in the Lloyd's market tends to be prudent, with the majority of market participants incorporating an explicit margin in reserves above actuarial best estimates. Reserve surpluses, which are not fungible across the market, vary significantly between syndicates. However, signing actuaries note that at year-end 2020, 94% of syndicates held UK GAAP reserves above the Statement of Actuarial Opinion best estimate.

Aggregate reserves have developed positively overall in every year since 2003. In 2020, the market reported reserve redundancies across all lines of business, with the exception of casualty. Total reserve releases during 2020 were higher relative to prior year, albeit lower than the five-year average. Casualty reserves were strengthened in 2020 at a market-level in response to the market's prudence in relation to social inflation as well as Lloyd's increased oversight. The strengthening of casualty reserves was in line with Lloyd's expectation for this class. Property releases were lower than in prior years.

Syndicates in run-off have historically been the principal source of reserve deterioration for Lloyd's. However, Lloyd's exposure to open run-off years has significantly reduced, principally due to better management of these years. In 2010, a focus on promoting efficiency and finding a means to close syndicates (largely through third-party reinsurance to close) supported a fall in the number of syndicate years of account in run-off. At the beginning of 2020, there were three syndicates whose 2017 underwriting years remained open. These run-off years reported an aggregate loss of GBP 2 million, including investment return, in 2020. There were six syndicates whose 2018 underwriting years remained open post year-end 2020 taking the total number of open underwriting years at 1 January 2021 to nine.

1992 and Prior Reserving: Equitas

Lloyd's exposure to uncertainty arising from adverse development of the 1992 and prior years' reserves was further reduced by the High Court order in June 2009 approving the statutory transfer of 1992 and prior non-life business of members and former members of Lloyd's to Equitas Insurance Ltd., a new company in the Equitas group.

This transfer was the final phase of a two-phase process, and with its completion policyholders benefit from a total of USD 7 billion of reinsurance cover from National Indemnity Co., a subsidiary of Berkshire Hathaway Inc., over and above Equitas' 31 March 2006 carried reserves of USD 8.7 billion. The transfer provided finality in respect of Lloyd's members and former members for their 1992 and prior years' non-life liabilities under English law and the law of every state within the European Economic Area. However, there continues to be some uncertainty as to the recognition of the transfer in overseas jurisdictions, including the United States.

Operating Performance

Lloyd's is expected to report strong operating performance across the underwriting cycle, taking into account potential volatility due to its catastrophe exposure.

Recent underwriting performance has been below AM Best's expectations for a strong assessment, demonstrated by a five-year (2016-2020) combined ratio of 105.9%. However, the market's consolidated operating performance cannot be viewed as a leading indicator of its future balance sheet strength to the same extent as it is for other insurers. Earnings generated by the market do not directly build or erode Lloyd's capital base. The capital to support underwriting at Lloyd's is instead supplied by capital providers. Therefore, we need to consider the impact of the market's results on its ability to retain and attract the capital required for continued trading.

Despite the market's recently weaker operating performance, it continues to attract new capital, with several new syndicates launching during 2020. Furthermore, a number of syndicate closures since 2018 has been noted. This coincides with the initiation of the Decile 10 review and the winnowing out of weaker performing syndicate's from the market at the hand of the Corporation's Performance Management Directorate (PMD) strategy. Improving market conditions as well as the robust performance oversight by the Corporation have started to materialise in measurable improvements in attritional accident-year performance. Further improvements are expected over the next three years.

The market's operating performance assessment is based on analysis of the overall consolidated performance of Lloyd's, taking into account the stability, diversity, and sustainability of the market's sources of earnings. The assessment also incorporates analysis of the performance of individual syndicates, including the spread between the strongest and worst performers, with a particular focus on the potential exposure of central capital resources to losses from individual members.

Performance is subject to volatility, as illustrated by a standard deviation of 8.4% and 9.4% on the ten-year (2011-2020) ROE ratio and on the ten-year combined ratio. The market's performance in 2020 was impacted by major claims that contributed 23.0% to the combined ratio (2019: 7.0%), with COVID-19-related claims accounting for a significant portion, at 13.3%. The impact of COVID-19 overshadows the improvement in underlying performance. The attritional loss ratio improved by 5.4 percentage points to 51.9% in 2020. The improvement is the result of sustained risk-adjusted rate increases on renewal business and market's actions to drive sustainable profitable performance. An improvement in the market's expense ratio, which reduced to 37.2% from 38.7%, was also noted.

The market has generated strong investment income of GBP 2.3 billion (2019: GBP 3.5 billion), representing a return of 2.9% on invested assets, which partially offset the underwriting loss of GBP 2.7 billion (2019: GBP 538.0 million).

AM Best expects underlying performance to continue to improve gradually over the next several years, supported by the hardening market conditions as well as the continued performance oversight by the PMD.

Underwriting Performance:

Underwriting performance is subject to volatility due to the market's exposure to catastrophe and other major losses. Major claims for the market were GBP 6.0 billion (net) in 2020, with COVID-19 losses accounting for nearly 60% (GBP 3.4 billion). The 2020 year saw an increase in the frequency of catastrophe loss activity with the Lloyd's market suffering insured losses from more then 40 events. The largest losses related to Hurricanes Laura, Sally, Zeta, Delta, and Isaias; Iowa derecho; the tornadoes in Tennessee; the explosion in Beirut; and the world wide protests against racial injustice. Unsurprisingly, major losses were severe and added 23.0pts (2019: 7.0pts) to the calendar-year combined ratio , compared to the five-year and ten-year averages of 10.1pts and 10.5pts, respectively.

The market's combined ratio once again benefited from favourable prior year reserve movements of 1.8 percentage points (pp) in 2020; although at a significantly reduced level compared to the recent past. Prior year reserve movements improved the combined ratio by 0.9pp in 2019 compared to 5pp in 2016 and circa 8pp each year in the period 2013-2015.

The market's attritional accident-year combined ratio (excluding major claims) improved significantly from 96.0% in 2019 to 89.1% in 2020. This is benchmarking well compared to the 2016 position of 93.9%, supported by the remedial actions of the PMD team and the favourable rate environment.

The market's operating expense ratio is high compared to peers at circa 40pp. The ratio has been relatively stable over the last 5 years, ranging between 38.7%-40.6%. Pre-2014 expense ratios were slightly lower, ranging between 34.2%-37.1%, albeit still high relative to peers. An increase in acquisition costs due to a change in business mix with more business written through coverholders, as well as costs associated with SII implementation, partly explain the step change in the expense ratio. Actions are being taken through the

Operating Performance (Continued...)

Future at Lloyd’s initiative to reduce the cost of placing business at Lloyd’s, the benefits of which should start to be realised over the short term.

Underwriting Performance by Line of Business:

Despite COVID-19, the accident-year combined ratios saw some improvement versus the prior year, particularly for certain insurance lines. Calendar year loss ratios for some lines benefitted from stronger favourable reserve development; albeit casualty (direct) saw another year of reserve strengthening. Overall, the combined ratio deteriorated in 2020 to 110.3% (2019: 102.1%), although when excluding the impact of COVID-19 an improvement to 97.0% was noted.

Reinsurance - The reinsurance book consists of property, casualty and specialty reinsurance. The performance of the property book was affected by a high frequency of catastrophic events during 2020 and favourable prior year reserve releases (although there was strengthening on a number of historical catastrophe events). Despite 2020 being a year of relatively benign claims experience, emerging trends such as social inflation are driving increased uncertainty on this line. The specialty book also generated an underwriting loss despite general hardening of the marine market, with rate increase being more modest for marine reinsurance.Overall, the reinsurance book has returned an underwriting loss of GBP 2.3 billion over the 2016-2020 period, stemming from significant losses in the property book.

Property - The property book is diversified globally, and made up of predominately excess and surplus lines business with a weighting in favour of the industrial and commercial sectors. Business is written through the broker network with a significant proportion through coverholders. The year-end 2020 results have been impacted by business interruption losses related to the COVID-19 pandemic. In addition, 2020 saw an abnormally high frequency of natural catastrophe events (both primary and secondary perils). Finally, social unrest in the US during 2020 has impacted some syndicates’ results. Unsurprisingly, property was the main driver of the market's poor performance in 2020, generating a material loss of GBP 2.1 billion. Overall, this class has returned a material underwriting loss of GBP 4.8 billion over the 2016-2020 period.

Casualty - The casualty book is dominated by general liability and professional liability and also includes accident and health and cyber. As anticipated, due to the impact of COVID-19, contingency business suffered unprecedented losses because of subsequent event cancellations. Unrelated reserve strengthening of 5.1% was noted during the period. Syndicates appear to have shifted their views around the prevalence of social inflation and strengthened casualty reserves accordingly. Furthermore, cyber has also seen a rise in claims in recent years, particularly stemming from the emergence of ransomware claims. Overall, this class has returned an underwriting loss of GBP 1.6 billion over the 2016-2020 period.

Marine, Aviation, & Transport - The marine book is well diversified and includes cargo, hull, marine liability, specie and fine art. In aviation, Lloyd's writes across all main business sectors including airline, aerospace, general aviation, space, and war. Marine continues to undergo extensive remediation efforts. Consequently, these remediation measures as well as contraction in capacity, have led to significant pricing improvement in 2020, which supported profitability. Attritional claims in hull have reduced. This was coupled by less loss activity on the aviation book. The COVID-19 pandemic drove the grounding of fleets for extended periods of time, which meant significantly less loss activity in 2020. Overall, these classes returned a combined underwriting loss of GBP 0.9 billion over the 2016-2020 period.

Energy - The energy book consists of onshore and offshore property and liability business. This incorporates the oil and gas industry and the growing renewable energy sector. The results have benefitted from a somewhat benign large and catastrophic loss activity in upstream lines, which is the largest part of the overall energy account, in terms of risk count, written premium, and exposure. Strong prior year reserve releases of 8.2% and positive pricing momentum on across all energy lines, albeit mostly downstream energy, also supported the positive underwriting result. Overall, this class has returned an underwriting profit of GBP 383 million over the 2016-2020 period.

Motor - Lloyd's motor market primarily covers international motor with a large proportion written in North America and with an increasing focus on property damage over liability risks. International motor has continued to see positive pricing trends. During 2020 the impact of COVID-19 has resulted in a significant shift in exposure, particularly for standard comprehensive motor policies, where the number of vehicles on the road has decreased during the various lockdowns globally. Overall, this class has returned an underwriting loss of GBP 220 million over the 2016-2020 period.

Investment Performance:

Operating Performance (Continued...)

Investment returns (including gains/losses) for the market were on average 2.6% in the period 2016-2020, ranging from 0.7% to 4.9%. The market's investment portfolio is considered low risk, which is commensurate with the relatively modest investment returns. Although 2020 was initially a very turbulent year for financial markets due to the COVID-19 pandemic, the markets rallied and at year-end Lloyd's reported an investment return (including gains/losses) of 3.0%. Most equity markets generated a strong level of return for the calendar year, with large gains coming over the last three quarters of the year. In fixed interest markets, the aggressive easing of monetary policy drove a reduction in risk-free yields resulting capital gains for government bonds. Corporate bonds, along with risk markets, suffered large losses early in the year but ended 2020 with above average returns.

Performance on a Year of Account Basis:

The 2018 YOA closed at the end of 2020 with an overall loss of GBP 1.9 billion (2017: GBP 2.4 billion loss). The 2018 pure underwriting year suffered losses from a number of catastrophic events, including Hurricanes Florence and Michael; California wildfires and Typhoon Jebi. The 2018 underwriting loss was partially offset by releases (GBP 311 million) from 2017 and prior years, which were reinsured to close at the end of 2019.

Financial Performance Summary	2020 GBP (000)	2019 GBP (000)	2018 GBP (000)	2017 GBP (000)	2016 GBP (000,000)
Pre-Tax Income	-887,000	2,532,000	-1,001,000	-2,001,000	2,107
Net Income after Non-Controlling Interests	-887,000	2,532,000	-1,001,000	-2,001,000	2,107

Source: BestLink® - Best's Financial Suite

Operating and Performance Ratios (%)	2020	2019	2018	2017	2016
Overall Performance:					
Return on Assets	-0.7	2.1	-0.9	-1.9	2.3
Return on Capital and Surplus	-2.8	8.8	-3.7	-7.3	8.1
Non-Life Performance:					
Loss and LAE Ratio	73.2	63.4	65.3	74.5	57.3
Expense Ratio	37.2	38.7	39.2	39.5	40.6
Non-Life Combined Ratio	110.3	102.1	104.5	114.0	97.9

Source: BestLink® - Best's Financial Suite

Business Profile

Lloyd's favourable business profile reflects its strong position in the global general insurance and reinsurance markets as a leading writer of specialty property and casualty risks. Its network of global licences is a key competitive strength. The portfolio is well diversified but with some geographical bias towards North America and product bias towards commercial specialty lines products. Product risk is moderate to high. High product risk lines include reinsurance, energy, aviation, some marine business and a high proportion of the casualty and property business written. The majority of small commercial and consumer business, as well as some of the business written through coverholders is lower risk. The markets in which Lloyd's operates are highly competitive. A reliance on brokers makes Lloyd's particularly vulnerable to price-based competition.

Market Position:

Lloyd's occupies an excellent position in the global general insurance and reinsurance markets as a leading writer of specialty property and casualty risks. The market's position is particularly strong in non-life reinsurance, where Lloyd's was ranked as the 4th largest global non-life reinsurer based on 2019 gross written premiums (GWP). Lloyd's is also a market leader in marine insurance, and has a strong position in aviation, energy, and specialty property and casualty insurance.

Although Lloyd's syndicates operate as individual businesses, the collective size of the market allows them to compete with major international groups under the Lloyd's brand. The market's competitive strength stems from its strong brand, licences, and reputation for innovative and flexible underwriting, supported by the pool of underwriting expertise in London.

While Lloyd's position remains excellent in its core markets, it should be noted that the level of competition in these markets is very high.

Business Profile (Continued...)

Product Diversification and Product Risk:

Lloyd's is a significant writer of catastrophe and reinsurance business and is also a leading player in its core marine, aviation, energy and specialty property and casualty markets. Insurance business accounted for 65% of GWP in 2020 (2019: 68%), with reinsurance accounting for the balance. This split has been relatively stable in recent years.

Overall GWP decreased by 1.2% in 2020 to GBP 35.5 billion (2019: GBP 35.9 billion), a lower level of growth than the 5.8% increase experienced in 2018.

The market is well diversified by line of business, although very little life business is written (<0.1% of GWP in 2020) and there is a bias towards commercial lines business over personal lines. Product risk is moderate to high, as the business that comes to Lloyd's is predominantly specialty business that requires expert underwriting.

Reinsurance is the market's largest segment and accounted for 35% of GWP in 2020. Reinsurance business comprises property, casualty and specialty reinsurance (primarily marine, aviation and energy reinsurance). Lloyd's is a leading player in the global reinsurance space, ranking as the 6th largest by reinsurance GWP based on 2019 premiums and the 4th largest when life premiums are excluded.

Property insurance business is Lloyd's second largest segment, which accounted for 26% of GWP in 2020. The property book is a global book but with some bias towards US excess and surplus lines business. There is also a bias towards commercial risks with residential business written being mainly non-standard risks. The book also includes terrorism, power generation, engineering and nuclear risks.

Casualty business accounted for 25% of GWP in 2020. The book has a focus towards the US, but the UK, Canada, and Australia are also significant markets. The main products written are general liability and professional indemnity. Accident and health business is also accounted for within this segment.

The remaining lines of marine, aviation, and transport (8%), energy (4%), motor (3%), and life (<0.1%) together accounted for approximately 15% of GWP in 2020. Lloyd's is a leader within the global marine market, writing a diversified marine book, including cargo, hull, marine liability, specie and fine art. The energy book consists of onshore and offshore property and liability risks. The motor book is focused on international motor with a large proportion written in North America and with an increasing focus on property damage over liability risks. Aviation business includes airlines, general aviation, space and war.

Geographical Diversification:

Lloyd's writes a global portfolio, albeit with some bias to North America, which accounted for 53% of GWP in 2020. The remainder was split 15% rest of Europe, 12% UK, 10% Central Asia and Asia Pacific, 6% Other Americas and 4% rest of the world. The market's network of licences provides syndicates with access to a wide international client base, which is of benefit in particular to the syndicates that are not part of global insurance groups.

Lloyd's US domiciled business consists primarily of reinsurance and surplus lines insurance, which can be written in all 50 states. Lloyd's participation in admitted US business (i.e. insurance business excluding surplus lines) is relatively modest. Lloyd's has admitted licences in Illinois, Kentucky and the US Virgin Islands and also writes non-surplus insurance business in lines exempt from surplus lines laws (principally marine, aviation and transport risks).

In Canada, Lloyd's writes primarily insurance business, with reinsurance business accounting for a smaller share. In order to comply with local regulations, all Canadian business is written in Canada.

Over the past 20 years, Lloyd's has built out its licence network considerably, to be able to write insurance and/or reinsurance business in Brazil, Mexico, Colombia, Dubai, China, Singapore, and India, as well as a number of smaller markets. This work was undertaken in response to the growth of local and regional (re)insurance hubs and the preference of clients to place business locally. Under the new management team, growth has been less of an area of focus as the Corporation prioritises the remediation of performance and market modernisation.

In order to continue to access insurance business in the EU and wider European Economic Area (EEA) after a UK exit from the EU and its single market (referred to as "Brexit"), Lloyd's has established an insurance company domiciled in Belgium. Lloyd's Insurance Company S.A. (Lloyd's Brussels) is a wholly owned subsidiary of The Society of Lloyd's. The entity is incorporated, capitalised and has received regulatory approval. It started writing business on 1 January 2019. On 25 November 2020, Lloyd's received final approval to

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Business Profile (Continued...)

transfer EEA non-life business written by Lloyd's between 1993 to 2020 to Lloyd's Brussels. For the year-ended 31 December 2020, Lloyd's Brussels wrote EUR 2.5 billion (business as usual) and EUR 4.3 billion (Part VII transfer) of premiums.

In October 2020, the Belgian regulators voiced concern at the possibility that some of the services performed by Managing Agents could be held to constitute insurance distribution, as defined under the Insurance Distribution Directive. A preliminary assessment of four different potential solution that will address the regulators concerns were made and presented. Formal feedback was received that confirmed "no objection" in principle to the four possible solutions.

The unique Lloyd's structure subjects the market to regulatory event risk, as the risk of it losing its licence in a jurisdiction following regulatory changes are higher than for an insurance company. The licencing of Lloyd's often relies on unique solutions and agreements that reflect its structure. A mitigating factor is the significant expertise and experience of Lloyd's in dealing with regulatory and licence issues.

Distribution Channels:

The distribution of Lloyd's business is dominated by insurance brokers, and in particular by the top three (soon to be two) largest global brokers. Lloyd's brokers play an active part in the placement of risks and in providing access to regional market.

In addition, a significant part of Lloyd's business is distributed via coverholders (accounting for circa 30% of GWP), which write business on behalf of syndicates under the terms of a binding authority. Coverholders are important in bringing regional business to Lloyd's and providing the market with access to small and medium-sized risks. The growth in coverholder business in recent years has contributed to the higher expense ratio.

The Lloyd's distribution model is expensive, with business often passing through several distribution links before arriving at Lloyd's. Lloyd's reliance on brokers also makes the market vulnerable to price-based competition. Although Lloyd's is important to the large global brokers (as well as to the specialised London market brokers), the importance of individual syndicates is less. Overall, the Lloyd's distribution model is considered to place the market at a competitive disadvantage compared to the large global reinsurance groups, which have stronger individual positions with the brokers as well as being able to distribute some of their business directly to cedants.

Modernisation Programme:

A comprehensive modernisation programme for the London market, the London Market Target Operating Model (TOM), was launched in 2015, the aim of which is to make operating in the London market, including at Lloyd's, more efficient and less expensive. Joint market initiatives underway include additional and improved functionality in respect of electronic back office and claim office transactions within the Central Services Refresh Programme, further implementation of e-trading via Placing Platform Limited (PPL) and on-going improvements to the Delegated Authority processes.

Off the back of the TOM project, on 1 May 2019 Lloyd's executive team unveiled a modernisation plan called the Future at Lloyd's. The proposed reforms include plans to radically reduce the cost of doing business and creating new digital platforms for placing insurance risk and streaming claims services. If the plan is successfully implemented, meaningful cost reductions will support profitability. However, the plan is subject to a high degree of execution risk because it will likely require substantial investment and cultural change.

In some ways, COVID-19 has highlighted the importance of modernising the market and softened the resistance to change. The "underwriting room" was closed in March 2020 in response to the pandemic; the first closure of physical trading in the commercial market's 330-year history. Furthermore, PPL use has increased significantly. The Corporation has established a "virtual room" and is testing a number of digital platforms to allow brokers and underwriters to connect.

The latest areas of focus highlighted in Lloyd’s Blueprint 2, a follow up to the Future at Lloyd’s prospectus, include:

i) Approved and clear data standards that will support the next generation of placement platforms and solutions at Lloyd's;

ii) A new Lloyd's marketplace gateway and super-fast processing capability that will allow insurance cover to be evidence and issued in minutes, whilst simultaneously creating technical accounting records; and

iii) Automated claims recognition, routing, and orchestration that will facilitate faster claims payments.

The Corporation expects that these solutions will create more opportunities for the market to innovate to improve customer outcomes and operate more efficiently, at a lower cost base, which is estimated to collectively reduce costs by over GBP 800 million. As well as

Business Profile (Continued...)

direct cost savings, these efficiencies should enable the market to give more focus on value added activities such as innovation, product development, and risk mitigation which meet customers' needs.

Should Lloyd's be unsuccessful in its modernisation project and peers are able to widen the gap in both efficiency and ease of doing business, the consequences could be considerable for its business profile.

Corporate Overview:

Lloyd's is the London-based market where approximately 100 individual syndicates underwrite all types of insurance and reinsurance business apart from long term life insurance. Each syndicate is formed by one or more members of Lloyd's, who join together to provide capital and accept insurance risks. Lloyd's members are mainly corporate members although a small proportion of Lloyd's underwriting capacity continues to be provided by private individuals.

In 1871, the then existing association of underwriters at Lloyd's was incorporated by the Lloyd's Act as the Society and Corporation of Lloyd's (referred to in this report as the Society or the Corporation), making the Society the legal entity which oversees the Lloyd's market. Its purpose is to facilitate the underwriting of insurance business by Lloyd's members, to protect members' interests in this context and to maintain Lloyd's Central Fund. The Society is also the holding company for Lloyd's Insurance Company S.A. and Lloyd's Insurance Company (China) Limited.

Enterprise Risk Management

The enterprise risk management (ERM) of Lloyd's is assessed as appropriate. The market's enterprise risk framework is considered to be developed and risk management capabilities are aligned to the risk profile.

Lloyd's ERM is designed to manage risks arising from the market and the Society. It provides an extra layer of oversight over the market's risks which are also managed through the risk functions of individual managing agents. There are limitations on the ability of the Corporation to actively manage the market's risks, as it is supervising individual and competing syndicates each with their own risk appetites and commercial strategies.

Under the Lloyd's Act 1982, the Council of Lloyd's (the Council) is responsible for the management and supervision of the market as the governing body of the Society. The key committees of the Council are the Audit Committee, the Market Supervision and Review Committee and the Risk Committee. The risk committee is responsible for the identification and management of Lloyd's key risks. From 1 January 2017, the risk committee became a non-executive committee, with members drawn from the Lloyd's Council. Lloyd's Chief Risk Officer, a position established in 2014, attends Council meetings.

The Corporation manages risks by monitoring a risk appetite framework, which is established by the Council. The risk appetites are reviewed on a regular basis and may be updated as required i.e. behaviour/harassment is now included as separate risk. The framework includes 14 key risks and a number of underlying monitoring metrics. The risk appetites are structured under the three risk objective pillars of sustainability, solvency, and operational.

Over the past several years, there has been a much tougher tone and more active approach taken by the Corporation's oversight functions to managing under-performing syndicates as well as the under-performing lines of generally well performing syndicates. The enhanced oversight has led to some syndicates being put into run-off as well as others exiting certain loss-making lines of business. Whether the Corporation's oversight functions are able to turn around the market's performance will be a key test of the effectiveness of the Council's activities.

The Society of Lloyd's and its managing agents are regulated by The Bank of England, acting through the PRA, as well as by the Financial Conduct Authority (FCA). Lloyd's remains subject to the Solvency II regulatory and capital regime, which came into force on 1 January 2016. It applies to the "association of underwriters known as Lloyd's" as a collective entity. Although the UK's referendum vote to leave the EU has introduced uncertainty in respect of future regulation of the market, it is likely that the Solvency II form of regulation and capital regime will continue following the UK's exit from the EU in the near term.

Lloyd's uses an internal capital model to calculate its SCR and SCR coverage ratio, with approval from the PRA. An internal model has been in use since 2012, although the current model has undergone radical change since then. In AM Best's opinion, the Corporation's ability to assess the capital adequacy of the market has been strongly improved by the modelling work undertaken for Solvency II.

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Enterprise Risk Management (Continued...)

Lloyd's recognises that one of the greatest risks to the Central Fund is the market's exposure to catastrophes. The catastrophe model component of Lloyd's internal capital model allows the Corporation to assess catastrophe risk across return periods and, in AM Best's opinion, has improved its ability to monitor the market's aggregate catastrophe exposure against a defined risk appetite. An enhancement noted in 2020 was the introduction of the Catastrophe Risk Oversight Framework, which limits the ability of syndicates with poor performance track records to grow their catastrophe exposure. Due to the nature of business written, Lloyd's has significant exposure to catastrophe losses, making this aspect of risk management particularly important.

Lloyd's Realistic Disaster Scenarios (RDSs) play a critical role in exposure management at Lloyd's, both as benchmark stress tests validating the internal model output and as a source of data. The scenarios are defined in detail annually by Lloyd's and are used to evaluate aggregate market exposures as well as the exposure of each syndicate to certain major events. Syndicate-level scenarios are prepared by each managing agent, reflecting the particular characteristics of the business each syndicate writes. In addition, Lloyd's asks for syndicates' aggregate exceedance probability (AEP) loss at a 30-year return period for various regional perils. As the Lloyd's RDSs represent different return periods for different syndicates, collecting this additional data helps to ensure a uniform treatment of syndicates' exposure to large losses.

Reinsurance Summary

Lloyd's use of reinsurance is relatively high when compared to other large specialty insurers and reinsurers. This is due to the nature of the market, which consists of small-to-medium sized business that independently purchase reinsurance. The market as a whole ceded 27.2% of its GWP in 2020. This amount includes reinsurance from syndicates to their related groups as well as reinsurance between individual Lloyd's syndicates.

Lloyd's oversight function monitors individual syndicates' reinsurance placements to ensure the appropriateness and credit quality of the market's overall use of reinsurance.

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Financial Statements

Balance Sheet	12/31/2020 GBP (000)	%	12/31/2020 USD (000)
Cash and Short Term Investments	10,473,000	8.2	14,221,496
Bonds	47,764,000	37.2	64,859,691
Equity Securities	8,998,000	7.0	12,218,564
Other Invested Assets	12,716,000	9.9	17,267,311
Total Cash and Invested Assets	79,951,000	62.3	108,567,062
Reinsurers' Share of Reserves	25,073,000	19.5	34,047,128
Debtors / Amounts Receivable	18,688,000	14.6	25,376,809
Other Assets	4,592,000	3.6	6,235,569
Total Assets	128,304,000	100.0	174,226,568
Unearned Premiums	16,743,000	13.0	22,735,655
Non-Life - Outstanding Claims	64,364,000	50.2	87,401,163
Total Gross Technical Reserves	81,107,000	63.2	110,136,817
Debt / Borrowings	1,094,000	0.9	1,485,564
Other Liabilities	12,957,000	10.1	17,594,569
Total Liabilities	95,158,000	74.2	129,216,951
Retained Earnings	-887,000	-0.7	-1,204,475
Other Capital and Surplus	34,033,000	26.5	46,214,091
Total Capital and Surplus	33,146,000	25.8	45,009,616
Total Liabilities and Surplus	128,304,000	100.0	174,226,568

Source: BestLink® - Best's Financial Suite
US $ per Local Currency Unit 1.35792 = 1 British Pound (GBP)

Income Statement	Non-Life GBP (000)	Life GBP (000)	Other GBP (000)	12/31/2020 Total GBP (000)	12/31/2020 Total USD (000)
Gross Premiums Written	35,466,000	...	...	35,466,000	48,159,991
Net Premiums Earned	25,876,000	...	...	25,876,000	35,137,538
Net Investment Income	...	...	1,686,000	1,686,000	2,289,453
Realized capital gains / (losses)	...	...	188,000	188,000	255,289
Unrealized capital gains / (losses)	...	...	394,000	394,000	535,020
Total Revenue	25,876,000	...	2,268,000	28,144,000	38,217,300
Benefits and Claims	18,929,000	...	...	18,929,000	25,704,068
Net Operating and Other Expense	9,623,000	...	479,000	10,102,000	13,717,708
Total Benefits, Claims and Expenses	28,552,000	...	479,000	29,031,000	39,421,776
Pre-Tax Income	-2,676,000	...	1,789,000	-887,000	-1,204,475
Net Income before Non-Controlling Interests	...	...	...	-887,000	-1,204,475
Net Income/(loss)	...	...	...	-887,000	-1,204,475

Source: BestLink® - Best's Financial Suite
US $ per Local Currency Unit 1.35792 = 1 British Pound (GBP)

Related Methodology and Criteria

Best's Credit Rating Methodology, 11/13/2020

Catastrophe Analysis in A.M. Best Ratings, 10/13/2017

Available Capital & Holding Company Analysis, 10/13/2017

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Rating Lloyd's Operations, 10/13/2017

Scoring and Assessing Innovation, 03/05/2020

Understanding Global BCAR, 07/22/2021

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