FitchRatings

Insurance
Non-Life Insurers
United Kingdom

Lloyd's of London

Key Rating Drivers

Very Strong Business Profile: Fitch Ratings ranks Lloyd's of London's business profile as 'Favourable' compared with that of global insurance and reinsurance companies. The ranking is driven by the market's strong franchise, large operating scale and significant diversification within property and casualty (P&C) insurance and reinsurance. Lloyd's is one of a small group of global (re)insurance providers capable of attracting high-quality and specialised business.

Very Strong Capital Position: Lloyd's central solvency coverage ratio was very strong at 412% at end-2022 (end-2021: 388%), following the implementation of reinsurance cover against large losses. This is comfortably in excess of the company's risk appetite of 200%. The market-wide solvency ratio was also very strong at 181% at end-2022 (end-2021: 177%).

Unique Recapitalisation Process: Lloyd's employs a unique to the market annual 'coming into line' process, which ensures a certain capital level is maintained and that all members have sufficient eligible assets to meet their underwriting liabilities. Lloyd's collected funds from members to fully cover large losses including pandemic-related losses. In the longer term, this resilience relies on the willingness and ability of members to recapitalise following significant losses.

Underwriting Drives Strong Financial Performance: Fitch's assessment of Lloyd's financial performance is driven by the level and volatility of the underwriting results. We expect Lloyd's to maintain the improvements in its underlying underwriting performance, but the overall results are likely to remain volatile, given its exposure to catastrophe-exposed lines.

Lloyd's underwriting performance was strong in 2022, despite the marketplace booking sizeable large losses related to Hurricane Ian and the war in Ukraine. The combined ratio further improved to 91.9% (2021: 93.5%), helped by further reductions in the attritional loss ratio and the expense ratio.

Net Loss in 2022: However, Lloyd's reported an overall net loss of GBP0.8 billion for 2022, driven by valuation losses on its bond portfolio following the rise in interest rates. Given the short duration of the investment portfolio, these losses are expected to reverse in 2023-2024 as the bonds are typically held to maturity. Moreover, improved reinvestment yields are expected to contribute strongly to overall earnings. Lloyd's net result has limited bearing in our overall assessment of the market's earnings profile.

Favourable Pricing Conditions: In 2022, Lloyd's reported strong growth in premiums of 19.1%. The strong growth was supported by favourable pricing conditions: in 2022 Lloyd's reported overall risk-adjusted rate rises (a measure of pricing per unit of risk) of 7.7% (2021: 10.9%; 2020: 10.8%; 2019: 5.4%). Fitch expects pricing conditions to remain favourable in 2023 amid inflationary pressures and limited capacity in some business lines. These favourable pricing conditions should support Lloyd's strong underwriting profitability and capital generation.

Strong Reserve Adequacy: We view Lloyd's reserve adequacy as strong, supported by stable market-level surplus in the held reserves and continued reserve releases. This is reinforced by an independent review of reserves, which confirmed the market level of surplus estimated by Lloyd's. Our favourable view of reserve adequacy is further supported by robust market oversight of reserving practices, which is increasingly important, given the impact of inflation.

Ratings

Lloyd's of London	
Insurer Financial Strength	AA-
Subsidiaries	
Insurer Financial Strength	AA-

Note: See additional ratings on page 10.

Outlooks

Insurer Financial Strength	Stable

Financial Data

Lloyd's of London

(GBPm)	31 Dec 22	31 Dec 21
Total assets	127,275	173,555
Total equity and reserves	39,602	35,757
Total gross written premiums	46,705	39,216
Net income	-769	2,277

Note: Reported on a yearly basis.
Source: Fitch Ratings, Lloyd's of London

Applicable Criteria

Insurance Rating Criteria (July 2022)

Related Research

London Market Insurance Dashboard: 2022 Results (March 2023)

UK Non-Life Insurance Outlook 2023 (November 2023)

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Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- A significant improvement in Lloyd's general competitive position. However, we view this as unlikely in the medium term.

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- A five-year average combined ratio above 104% (reported five-year average to 2022: 100.5%) on a sustained basis or the underlying annual combined ratio, before major losses, weakening to above 92% on a sustained basis.
- Inability to recapitalise after a large loss event as part of the market's 'coming into line' process.

Latest Developments

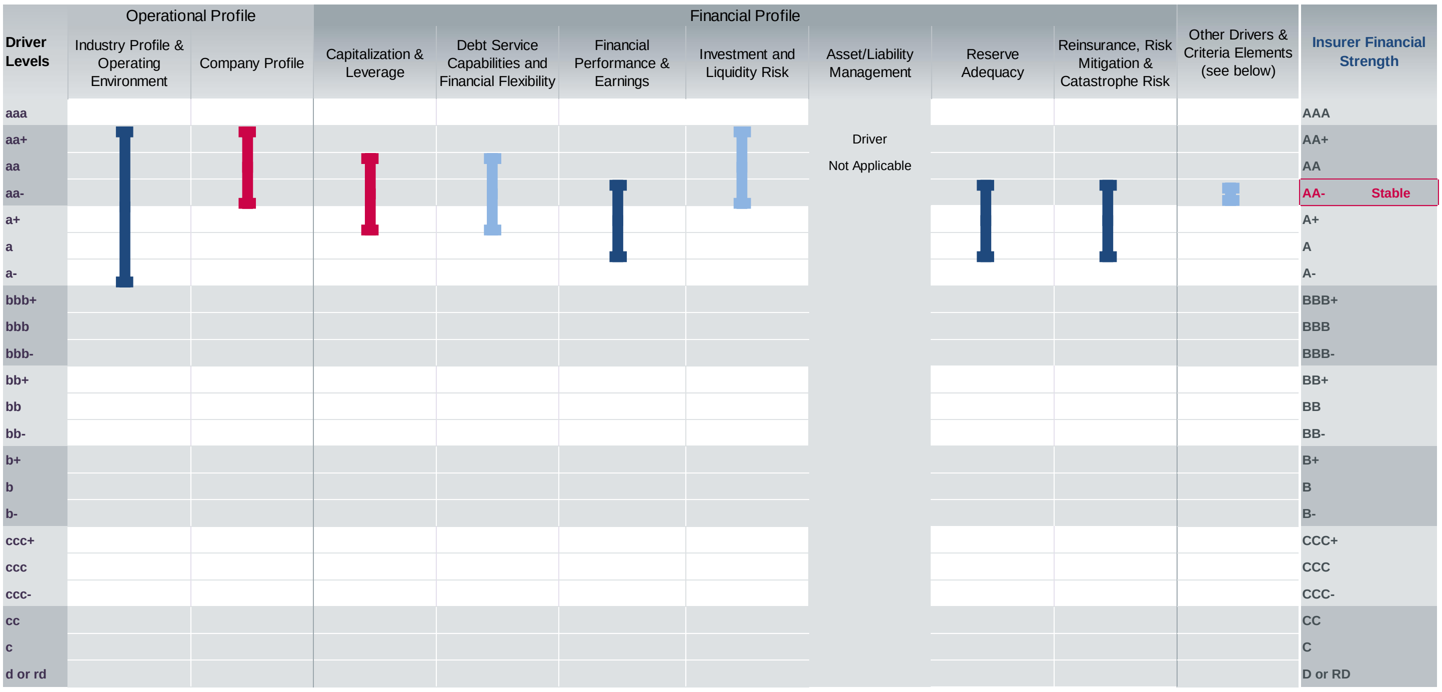
- Premiums grew strongly in 2022, supported by favourable pricing conditions. Gross premiums increased by 19.1%, of which 7.7% were attributed to price increases.
- Lloyd's reported that it estimates net claims from the Hurricane Ian to be GBP2.0 billion
- Estimated net claims related to the war in Ukraine were GBP1.4 billion at end-2022. Given that most of these claims are related to incurred but not reported losses, there is still a great deal of uncertainty over the ultimate loss.

Key Rating Drivers – Scoring Summary

Lloyd's of London

ESG Relevance:

Insurance Navigator
EMEA Non-Life



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

Bar Chart Legend:	
Vertical Bars = Range of Driver	
Bar Colors = Relative Importance	
	Higher Influence
	Moderate Influence
	Lower Influence
Bar Arrows = Driver Outlook	
⇧	Positive
⇩	Negative
⇳	Evolving
☐	Stable

Company Profile

Very Strong Business Profile

Fitch ranks Lloyd's business profile as 'Favourable' compared to that of global insurance and reinsurance companies. This is driven by the company's strong franchise, large operating scale and significant diversification within P&C (re)insurance. Lloyd's is one of a small group of global (re)insurance providers capable of attracting high-quality and specialised business. Fitch takes a positive view of the presence of a detailed and defined business strategy executed by the executive team of the Corporation of Lloyd's (see *Appendix A*). Given this ranking, Fitch scores Lloyd's business profile at 'aa' under its credit factor scoring guidelines.

Lloyd's is a global insurance and reinsurance market comprising 92 syndicates managed by 52 managing agents at end-2022. It writes business from more than 200 countries and territories, and reported 2022 gross written premiums (GWP) of GBP46.7 billion (2021: GBP39.2 billion).

Product distribution at Lloyd's is primarily carried out through brokers and cover holders, with some business placed directly with service companies (see *Appendix A*) owned by managing agents. Most business is placed into the market by brokers.

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

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

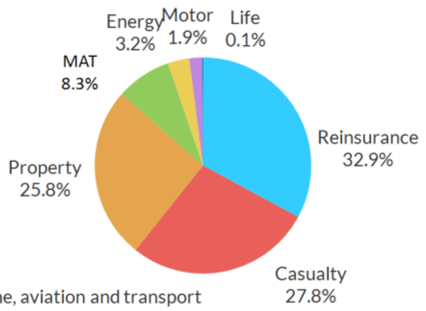
Company Profile Scoring

Business profile assessment	Favourable
Business profile sub-factor score	aa
Corporate governance assessment	Moderate/Favourable
Corporate governance impact (notches)	Zero
Company profile factor score	aa

Source: Fitch Ratings

Gross Written Premium by Line of Business

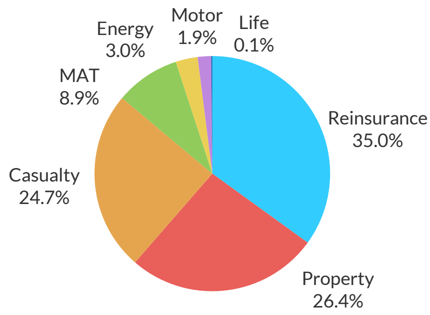
2022



MAT: marine, aviation and transport
Source: Fitch Ratings, company data

Net Earned Premium by Line of Business

2022

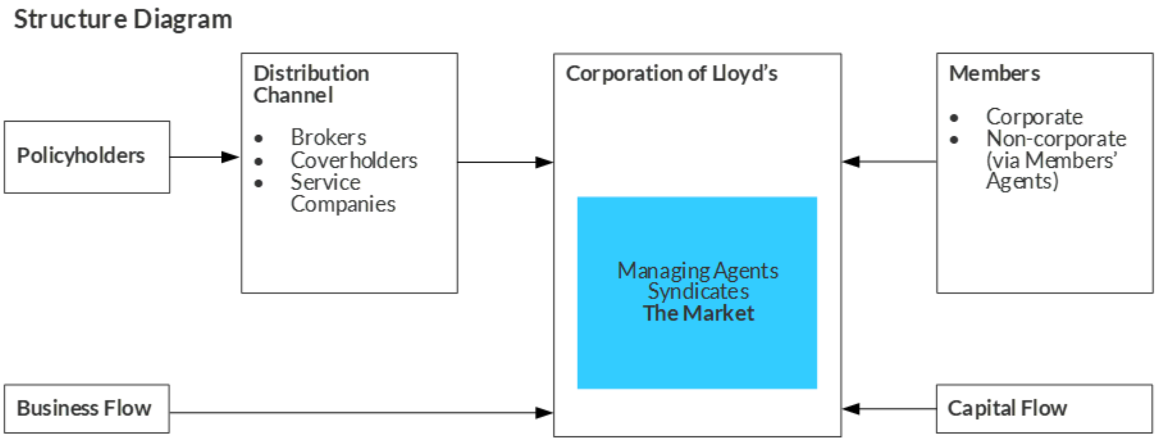


Source: Fitch Ratings, company data

Ownership

Market Structure Supports Ratings

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



Capitalisation and Leverage

Very Strong Capitalisation and Leverage

Fitch views Lloyd's capitalisation and leverage as very strong and supportive of its rating level. This view is supported by very strong regulatory solvency ratios, 'Strong' Prism Factor-Based Capital Model score, very low financial leverage and total financing commitment (TFC) ratios. Moreover, Lloyd's employs a unique to the market annual 'coming into line' process, which keeps capital level constant and ensures that all members have sufficient eligible assets to meet their current and future underwriting liabilities.

Lloyd's reports its Solvency II coverage on both a central and market-wide basis. The market-wide solvency capital ratio (SCR) reflects the aggregation of all eligible market-wide assets, and Lloyd's reported a ratio of 181% end-2022 (end-2021: 177%) – comfortably above the risk appetite of 125%. On a central basis, reflecting the vulnerability of the central fund, the Lloyd's central SCR coverage remains very strong at 412% at end-2022 (end-2021: 388%) due to the implementation of the central fund reinsurance cover.

In 2021 Lloyd's announced, the placement of GBP650 million five-year cover for the central fund. The multi-layered cover will reimburse aggregate payments from the central fund in excess of GBP600 million up to GBP1.25 billion and will serve as a key component in Lloyd's chain of security. It is supported by J.P. Morgan and a panel of eight reinsurers with very strong credit ratings.

The Fitch-calculated financial leverage ratio for Lloyd's was a very low 2% at end-2022 (end-2021: 3%).

Financial Highlights

(x)	31 Dec 22	31 Dec 21
TFC/total equity	0	0
Net leverage	2.6	2.4
Gross leverage	3.8	3.5
Net written premium/ equity	0.9	0.8
Net financial leverage (%)	2.4	3.2

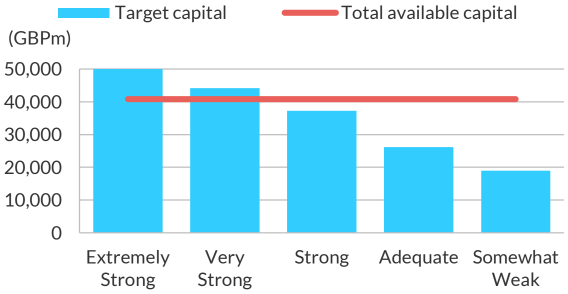
Note: Reported on a yearly basis.
Source: Fitch Ratings, Lloyd's of London

Fitch's Expectations

- Capitalisation to remain very strong given Lloyd's unique recapitalisation mechanism as well as the central fund cover available.
- Regulatory solvency ratios to remain stable and resilient following the implementation of the central fund cover which aims to reduce the volatility of the central SCR coverage.
- No significant change in financial leverage over the next two years.

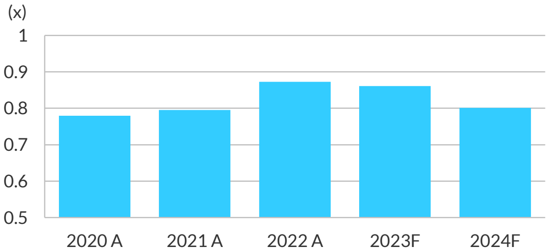
Capitalisation Adequacy

Prism FBM



Source: Fitch Ratings

Capitalisation: NWP/Surplus



A: Actual
F: Forecast
Source: Fitch Ratings

Financial Highlights

	2022	2021
Prism score	Strong	Strong
Prism total AC (GBPm)	40,795	35,802
Prism AC/TC at Prism score (%)	110	117
Prism AC/TC at higher Prism score (%)	92	99

AC – Available capital. TC – Target capital
Note: Reported on a yearly basis.
Source: Fitch Ratings, Lloyd's of London

Debt Service Capabilities and Financial Flexibility

Very Strong Financial Flexibility

Lloyd's maintains very strong financial flexibility, with various options available to raise capital when required including member calls, central fund contributions, the requirement of additional capital on top of the economic capital assessment (ECA), charging a premium levy, and raising additional subordinated debt.

Fitch also expects Lloyd's to maintain a strong ability to cover its debt servicing requirements in the medium term. The fixed-charge coverage including unrealised gains and losses was negative at 20x in 2022 (2021: 36x) due to unrealised losses on the investment portfolio and we expect it to revert it to strong levels in 2023. On a society basis, fixed-charge coverage decreased to -3x in 2022 from 1x in 2021, driven by a reduction in finance income at the society level.

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

Financial Highlights

	31 Dec 22	31 Dec 21
Fixed-charge coverage ratio (including gains and losses)	-20	36
Fixed-charge coverage ratio (excluding gains and losses)	38	44
Interest coverage (x)	-3	1
Interest paid (GBPm)	47	62

Note: Reported on a yearly basis.
Source: Fitch Ratings, Lloyd's of London

Fitch's Expectations

- Lloyd's ability to service its low cost of debt obligations to remain strong, driven by consistent operating profits.

Financial Performance and Earnings

Improved Underlying Underwriting Performance

Lloyd's reported a loss of GPB0.8 billion in 2022 (2021: GBP2.3 billion profit). The loss was driven by a GBP3.7 billion accounting loss due to increase of US treasury base rate in 2022. This loss is expected to unwind over two to three years as the investment portfolio duration is short. Lloyd's expects investment return of around 3% in 2023.

On the other hand, the underwriting performance continued to improve. Lloyd's reported underwriting profit of GBP2.6 billion in 2022 (2021: GBP1.7 billion), supported by favourable pricing conditions and performance remediation work since 2018. Despite sizeable large losses, the combined ratio further improved to 91.9% in 2022 (93.5% in 2021, 2020: 110% or 97% excluding pandemic-related losses) helped by reductions in attritional loss ratio and expense ratio.

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

As a result of profitability review conducted since 2018, and the significant natural catastrophe losses of the past two years, the impact of the pandemic and rising inflation, Lloyd's reported overall risk-adjusted price rises in 2022 of 7.7% (2021: 10.9%, 2020: 10.8%, 2019: 5.4%). We believe favourable market conditions will continue to support the company's strong underwriting performance in 2023 despite rising inflation and uncertainty surrounding potential losses stemming from the war in Ukraine.

Financial Highlights

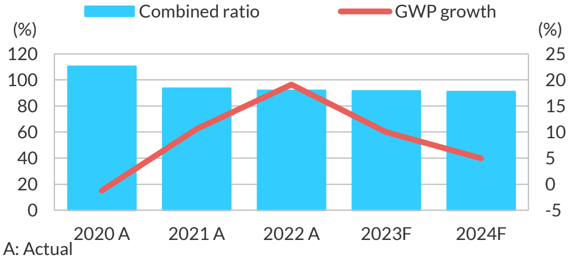
(%)	31 Dec 22	31 Dec 21
Net income (GBPm)	**-769**	**2,277**
Net income return on equity	-2.0	6.6
Net combined ratio	91.9	93.5
Net loss ratio	57.5	57.9
Net expense ratio	34.4	35.5
Change in GWP	19	11

Source: Fitch Ratings

Fitch's Expectations

- Lloyd's to report strong underwriting results in 2023 as reflected in a combined ratio of low 90s due to favourable pricing conditions, performance improvement work and focus on expense reduction.
- Growth in premiums to moderate given slowing down momentum in rates rises.
- Although there are significant uncertainties around the potential magnitude of losses caused by the war in Ukraine, we believe these are manageable for Lloyd's and not likely to exceed a medium-sized catastrophe loss.
- Investment returns to improve in 2023-2024 due to increased reinvestment yields on core portfolio.

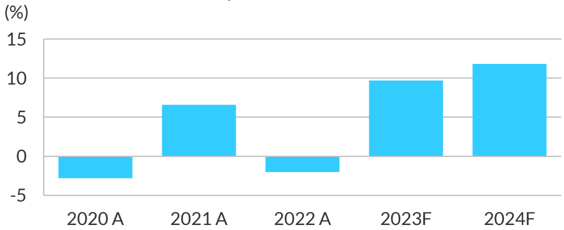
Financial Performance



A: Actual
F: Forecast
Source: Fitch Ratings

Financial Performance

Net income return on surplus



A: Actual
F: Forecast
Source: Fitch Ratings

Investment and Asset Risk

Low Investment and Asset Risk

Fitch views Lloyd's investment and asset risk as low and liquidity as strong. The investment portfolio remains stable and low-risk with premium trust funds being made up of high-quality, short-duration assets, mainly bonds and cash. The quality of the funds at Lloyd's has been stable as the proportion represented by letters of credit (LOCs) remained at 22% in 2022 (2021: 22%). Lloyd's normally takes moderately more risk with central fund assets and we expect it to gradually re-risk its portfolio in 2023, following the substantial de-risking of the central fund in 2Q20 in light of market volatility and given stronger central solvency ratio, following the implementation of the central fund reinsurance cover.

Premium trust funds are the first resource for paying policyholder claims from a syndicate. Investments are held in liquid, short-duration, high-quality assets, with 97% of assets invested in bonds or cash.

Funds at Lloyd's represent the second layer of capital provided by members to support their underwriting. The capital is held in trusts as readily realisable assets. LOCs remain a significant proportion of assets within funds at Lloyd's but the proportion has decreased in recent years. Fitch considers the pool of banks providing LOCs to Lloyd's as well diversified with strong ratings.

Central fund assets are the third level of security at Lloyd's and are available at the discretion of the Council of Lloyd's to meet any valid claim that cannot be met by the resources of any member.

Financial Highlights

(%)	31 Dec 22	31 Dec 21
Risky assets/capital (total)	42	49
Unaffiliated shares/capital (total)	31	35
Non-investment-grade bonds/capital (total)	11	14
Investments in affiliates/capital (total)	0	0
Total liquid assets/non-life loss reserves	177	181

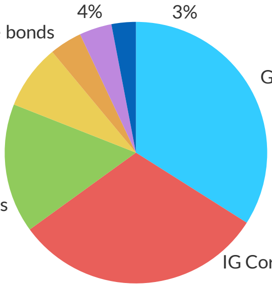
Note: Reported on a yearly basis.
Source: Fitch Ratings, Lloyd's of London

Fitch's Expectations

- The investment profile and strategy to remain stable and conservative in the near term.

Investment Split

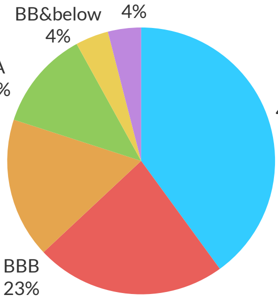
2022



Source: Fitch Ratings, company data

Corporate Bond Portfolio Credit Quality

2022



Source: Fitch Ratings, company data

Reserve Adequacy

Strong Reserve Adequacy

Fitch considers the market's reserving practices to be prudent and supportive of the rating. For any large losses Lloyds employs probability-weighted approach, allowing it to recognise the uncertainty early in the process. Prudent reserving practices are supported by continued reserve releases and stable market-level surplus in the held reserves over the best estimate at 6.9% at end-2022. The view is reinforced by the independent reserve review of reserves, which confirmed the market level of surplus estimated by Lloyd's.

In 2022 Lloyd's reported reserve releases of 3.6% of net earned premium (2021: 2.1%, 2020: 1.8%). Fitch expects that Lloyd's will continue to benefit from favourable reserve development. In our analysis, we assess the sustainability of reserve releases across all lines of business, particularly for more recent years and casualty lines in light of the rising inflation.

Reserving is an important credit factor for Lloyd's, given its reserve leverage to both capital and to incurred losses (2022: 1.3x and 2.5x, respectively). Fitch monitors reserve and related exposure growth by checking the ratio of paid to incurred losses and the change in loss reserves relative to earned premium growth. Loss reserves have grown in line with underwriting exposures in most years.

Financial Highlights

(%)	31 Dec 22	31 Dec 21
Reserve development/prior-year capital	-3.3	-1.7
Reserve development/net earned premium	-3.6	-2.1
Net technical reserves/net written premiums	202	206
Net loss reserves/incurred losses (x)	2.5	2.8

Note: Reported on a yearly basis.
Source: Fitch Ratings, Lloyd's of London

Fitch's Expectations

- Reserves of prior underwriting years to develop favourably and the absolute amount of reserve releases to be broadly maintained.

Reinsurance, Risk Mitigation and Catastrophe Risk

High but Manageable Exposure to Catastrophe Risk

Fitch considers Lloyd's to have high exposure to catastrophe risk, particularly in relation to US and cyber risks, despite reduction of catastrophe risk appetite since 2018. Strong oversight provided by Lloyd's helps to mitigate these risks. In our analysis, we assess the development of the risk-adjusted catastrophe-exposure levels compared to its stated risk appetite and to its peers.

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

Reinsurance recoverables on Lloyd's balance sheet are of good credit quality, with 98% in the 'A' rating range or above at end-2021. Reinsurance recoverables as a percentage of equity was moderate at end-2021, and supportive of the rating. Lloyd's has substantial exposure to reinsurance recoveries related to pandemic losses (44% of the gross loss at end-2021), however to date Lloyd's has not experienced any issues related to collecting loss recoveries.

Financial Highlights

(%)	31 Dec 22	31 Dec 21
Reinsurance recoverables/capital	83	76
Net written premiums/gross written premiums	74	73
Reinsurers' share of earned premiums	27	28

Note: Reported on a yearly basis.
Source: Fitch Ratings, Lloyd's of London

Fitch's Expectations

- Lloyd's to maintain its well-established exposure management function and good-quality reinsurance counterparties.
- Catastrophe risk to remain high relative to peers.

Appendix A: Peer Analysis

Peer Comparison

Click here for a report that shows a comparative peer analysis of key rating driver scoring.

Appendix B: Industry Profile and Operating Environment

Industry Profile and Operating Environment (IPOE)

Click here for a link to a report that summarises the main factors driving the above IPOE score.

Appendix C: Other Rating Considerations

Below is a summary of additional ratings considerations that are part of Fitch's *Insurance Rating Criteria*.

Group Insurance Financial Strength (IFS) Rating Approach

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

Name	Type	Rating	Outlook
Lloyd's Insurance Company SA	IFS	AA-	Stable
Lloyd's Insurance Company (China) Ltd	IFS	AA-	Stable
The Society of Lloyd's	Long-Term IDR	A+	Stable
Subordinated debt	Long-Term Rating	A-	

Source: Fitch Ratings, Lloyd's of London

Notching

For notching purposes, Fitch assesses the UK regulatory environment as being 'Effective' and classified as following a group solvency approach.

The unique corporate structure of Lloyd's, as a market place rather than a corporation, makes reference to operating and holding companies inappropriate. A description of how the respective ratings of Lloyd's entities were reached is provided below.

Notching Summary

IFS Ratings
Due to the existence of policyholder priority, a baseline recovery assumption of 'Good' applies to the IFS rating, and Fitch used standard notching from the implied IDR. The insurance policies issued by Lloyd's are supported by a chain of security that includes Lloyd's premium trust funds, members' funds at Lloyd's and the central fund. The central fund and central assets of The Society of Lloyd's, a legal entity distinct from the members of Lloyd's, provide partial mutuality to the Lloyd's market. It is this mutuality that enables Fitch to assign an IFS rating to Lloyd's rather than to individual syndicates.
IDR Ratings
The Society of Lloyd's IDR is linked to the IFS rating assigned to Lloyd's. It has no legal liability for the insurance liabilities of members other than where it has issued an undertaking. Undertakings are liabilities of the society, and constitute unsecured obligations ranking pari passu with other senior unsecured liabilities. Fitch has therefore aligned The Society of Lloyd's IDR with the implied IDR of Lloyd's. Standard notching was applied between the implied insurance operating company and holding company IDRs for a group solvency regulatory environment.
Hybrids
For subordinated debt ratings of The Society of Lloyd's, a baseline recovery assumption of 'Below Average' and a non-performance risk assessment of Moderate were used. Notching of minus 2 was applied relative to the IDR, which was based on minus 1 for recovery and minus 1 for non-performance risk.

IFS – Issuer Financial Strength. IDR – Issuer Default Rating
Source: Fitch Ratings

Short-Term Ratings

Not applicable.

Hybrids Treatment

Hybrid	Amount	CAR Fitch (%)	CAR reg. override (%)	FLR debt (%)
The Society of Lloyd's				
XS1130913558	GBP500m	0	100	100
XS1558089261	GBP300m	0	100	100

CAR – Capitalisation ratio. FLR – Financial leverage ratio.
For CAR, % shows portion of hybrid value included as available capital, both before (Fitch %) and the regulatory override. For FLR, % shows portion of hybrid value included as debt in numerator of leverage ratio.
Source: Fitch Ratings

Recovery Analysis and Recovery Ratings

Not applicable.

Transfer and Convertibility Risk (Country Ceiling)

None.

Criteria Variations

None.

Appendix D: Glossary

Central Fund

The fund financed by (among other things) contributions from Lloyd's members, and administered by the council primarily as a fund for the protection of policyholders.

Corporation of Lloyd's

This comprises the executive of the Council of Lloyd's, the Lloyd's franchise board and their respective committees. The corporation does not underwrite insurance or reinsurance itself, but provides the licences and other facilities that enable business to be underwritten worldwide by managing agents acting on behalf of members.

Cover Holder

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

Members' Agent

An underwriting agent that has permission from Lloyd's to be appointed by a member to provide services and perform duties of the same kind and nature as those set out in the standard members' agent agreement. These services and duties include advising the member on which syndicates he should participate in, the level of participation in such syndicates, and liaising with the member's managing agents.

Underwriting Syndicates

Syndicates are the vehicles used to underwrite insurance. They are not legal entities, and are unique to the Lloyd's insurance market. Syndicates can be made up of a number of members or – as is becoming more common – just one corporate member.

Syndicates are run by managing agents, which are authorised and regulated legal entities. Managing agents' responsibilities are wide-ranging; they create and implement the syndicate's business plan, employ the underwriters that write the business, and process claims. Managing agents are required to report financial results quarterly for their syndicates to Lloyd's and to submit business plans annually, or more regularly if they change.

Risk-Based Approach to Setting Member and Central Capital

The Lloyd's ECA at the member level is set at 135% of the syndicates' solvency capital requirement with an ultimate time limit. This percentage has not changed since 2006. Lloyd's reviews each syndicate's solvency capital requirement in detail, and requires additional capital loading if it considers that the syndicate's business plan exposes the central fund to additional risk.

All members are required to recapitalise, should the ECA that is available to any individual member fall below its required level due to a change in the underlying risk profile or an erosion of funds due to losses. This process ensures that no member poses a significant threat to the central capital of Lloyd's at any given time. In cases where Lloyd's deems business underwritten within the market as too risky, it can request from the sponsoring parent (or the member) a full financial guarantee. In these cases, should losses exceed the ECA held, the additional capital required to make good the losses is taken directly from the capital provider, while the central fund remains untouched.

Appendix D: Environmental, Social and Governance Considerations

FitchRatings **Lloyd's of London**

Insurance Ratings Navigator
EMEA Non-Life

Credit-Relevant ESG Derivation

Lloyd's of London has 1 ESG rating driver and 6 ESG potential rating drivers

- Lloyd's of London has exposure to underwriting/reserving exposed to environmental and natural catastrophe risks; impact of catastrophes on own operations or asset quality; credit concentrations which, in combination with other factors, impacts the rating.
- Lloyd's of London has exposure to compliance risk; treating customers fairly; pricing transparency; privacy/data security; legal/regulatory fines; exposure to insured and own cyber risk but this has very low impact on the rating.
- Lloyd's of London has exposure to social responsibility and its effect on brand strength; increased vulnerability due to credit concentrations but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	1	issues	4
potential driver	6	issues	3
not a rating driver	2	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	2	Underwriting/reserving exposed to asbestos/hazardous materials risks	Capitalization & Leverage; Financial Performance & Earnings; Reserve Adequacy; Reinsurance, Risk Mitigation & Catastrophe Risk	2
Exposure to Environmental Impacts	4	Underwriting/reserving exposed to environmental and natural catastrophe risks; impact of catastrophes on own operations or asset quality; credit concentrations	Capitalization & Leverage; Financial Performance & Earnings; Reserve Adequacy; Reinsurance, Risk Mitigation & Catastrophe Risk; Investment & Asset Risk	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	1	n.a.	n.a.	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risk; treating customers fairly; pricing transparency; privacy/data security; legal/regulatory fines; exposure to insured and own cyber risk	Industry Profile & Operating Environment; Business Profile; Reserve Adequacy	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Corporate Governance & Management	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	3	Social responsibility and its effect on brand strength; increased vulnerability due to credit concentrations	Business Profile; Investment & Asset Risk; Financial Performance & Earnings; Reinsurance, Risk Mitigation & Catastrophe Risk	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Corporate Governance & Management; Business Profile	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Corporate Governance & Management	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Corporate Governance & Management; Ownership	3
Financial Transparency	3	Quality and timing of financial reporting and auditing processes	Corporate Governance & Management	2
				1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Priniciples for Responsible Investing (PRI) and the Sustainability Accounting Standards Board(SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

CREDIT-RELEVANT ESG SCALE
How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

ESG Considerations

Lloyd's has an ESG Relevance Score of '4' for Exposure to Environmental Impacts due to underwriting/reserving exposed to natural catastrophe risks, with its property business representing 42% of 2022 gross premiums written. This has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

Except for the matters discussed above, the highest level of ESG credit relevance, if present, is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.