AM Best
September 2022
Lloyd’s

Best’s Rating of Lloyd’s 2022

AM BEST SINCE 1899 ®

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LLOYD'S

Our Insight, Your Advantage™

September 2022

Lloyd's Credit Report

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AMB#: 85202
AIIN#: AA-1122000

Best's Credit Ratings:

Rating Effective Date: July 15, 2022

Best's Financial Strength Rating:	A	**Outlook:**	Stable	**Action:**	Affirmed
Best's Issuer Credit Rating:	a+	**Outlook:**	Stable	**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
078649	Lloyd's Ins Co (China) Ltd
095926	Lloyd's Insurance Co. S.A.

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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 (2017-2021) combined ratio of 104.9%.
- Improving market conditions as well as the robust performance oversight by the Corporation have started to materialise in measurable improvements in underwriting performance, as evidenced by the year-end 2021 combined ratio of 93.5%.
- The market's expense ratio is high compared with 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.

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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.

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 underwriting cycle given remedial actions taken to address performance as well as 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 should Lloyd's fail to maintain underlying performance in line with expectations.
- 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.
- Positive rating pressure could arise following the successful execution of Lloyd's strategy, which leads to improvements in the resilience of the market's balance sheet and enhances its competitiveness against peers.

Key Financial Indicators

AM Best may recategorise 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	99.5	99.6
BCAR Score	75.9	63.2	57.1	55.4

Source: Best's Capital Adequacy Ratio Model - Global

Key Financial Indicators GBP (000)	**2021**	**2020**	**2019**	**2018**	**2017**
Net Premiums Written:					
Non-Life	28,439,000	25,826,000	25,659,000	25,681,000	24,869,000
Composite	28,439,000	25,826,000	25,659,000	25,681,000	24,869,000
Net Income	2,277,000	-887,000	2,532,000	-1,001,000	-2,001,000
Total Assets	138,155,000	128,304,000	119,878,000	118,008,000	108,396,000
Total Capital and Surplus	35,757,000	33,146,000	29,844,000	27,428,000	26,767,000

Source: BESTLINK - Best's Financial Suite

Key Financial Indicators & Ratios GBP (000)	**2021**	**2020**	**2019**	**2018**	**2017**	**Weighted 5-Year Average**
Profitability:						
Balance on Non-Life Technical Account	1,741,000	-2,676,000	-538,000	-1,130,000	-3,421,000	...
Net Income Return on Revenue (%)	8.1	-3.2	8.9	-3.8	-7.7	0.7
Net Income Return on Capital and Surplus (%)	6.6	-2.8	8.8	-3.7	-7.3	0.6
Non-Life Combined Ratio (%)	93.5	110.3	102.1	104.5	114.0	104.7
Net Investment Yield (%)	1.8	2.2	3.5	1.4	2.1	2.2
Leverage:						
Net Premiums Written to Capital and Surplus (%)	79.5	77.9	86.0	93.6	92.9	...

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 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 capital, the market's elevated exposure to catastrophe risk, and continued dependence on reinsurance to manage this risk, are considered to be the primary offsetting factors for the balance sheet strength assessment.

Capitalisation

The BCAR scores shown in this report are based on the 2021 year-end figures published in the Lloyd's annual report, which contains the audited 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 5% (previously 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 5% 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 protection to the Central Fund and help to support sustainable and profitable long-term market growth. The structure provides increased protection for Lloyd's customers and the market against severe tail 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).

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 2021, LOCs accounted for 20% of total FAL and all Lloyd’s Tier 2 assets were eligible to meet the MWSCR.

The MWSCR coverage ratio stood at 177% at year-end 2021 (2020: 147%) and the CSCR coverage ratio at 388% (2020: 209%). 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 Lloyd’s CSCR has improved materially reflecting the reductions in the SCR primarily driven by the modelled benefits of the Central Fund insurance. 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 each year. However, Lloyd’s can require a member to recapitalise outside of this process 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 2021. 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 (%)	2021	2020	2019	2018	2017
Liquid Assets to Total Liabilities	69.9	70.7	69.9	67.5	72.0
Total Investments to Total Liabilities	82.0	84.0	81.3	78.6	83.2

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 2021. Lloyd's capital (FAL and the Central Fund) is largely matched in terms of currency to exposure.

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).

During 2021 and into 2022 the Corporation has worked on launching an investment platform to pool assets across the market. Lloyd's announced the appointment of Schroders Solutions as the platform investment advisor and Waystone as the platform operator. The initial platform funds will launch in the second half of 2022. Should participation in the investment platform be in line with the Corporation's expectations this could lead to some meaningful enhancements in non-technical returns for members, particularly smaller managing agents. Through co-investment in private assets this is also a vehicle to support Lloyd's in achieving its Net-Zero commitments.

Composition of Cash and Invested Assets GBP (000)	2021	2020	2019	2018	2017
Total Cash and Invested Assets	83,934,000	79,951,000	73,193,000	71,240,000	67,902,000
Cash (%	13.1	13.1	13.2	15.3	17.9
Bonds (%)	60.7	59.7	60.4	58.5	54.8
Equity Securities (%)	11.6	11.3	12.4	12.0	14.0
Real Estate, Mortgages and Loans (%)	11.0	12.1	10.4	10.9	10.1
Other Invested Assets (%)	3.6	3.8	3.6	3.3	3.3
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 2021, 88% of syndicates held UK GAAP reserves above the Statement of Actuarial Opinion best estimate.

Total reserve releases over 2021 were higher relative to prior year at 2.1% (2020: 1.8%). This was driven by a GBP 600 million prior year release on property reserves, which was partially offset by a GBP 300 million strengthening on casualty business. Market messaging, particularly regarding concerns over social inflation, and Lloyd's increased oversight were the main drivers for this increase.

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, an ongoing 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. Further reductions have been made in recent years. At the beginning of 2021, there were nine syndicates whose 2017 and 2018 underwriting years remained open. These run-off years reported an aggregate loss of GBP 100 million, including investment return, in 2021. There were five syndicates whose 2017/2018 underwriting years remained open post 31 December 2021, in addition to four syndicates whose 2019 underwriting year has remained open.

1992 and Prior Reserving: Equitas

Lloyd's exposure to uncertainty arising from adverse development of the 1992 and prior years' reserves was 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 (2017-2021) combined ratio of 104.9%. However, improving market conditions, as well as the robust performance oversight by the Corporation, has started to materialise in measurable improvements in underwriting performance, as evidenced by the year-end 2021 combined ratio of 93.5%.

Moreover, 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 2021. Furthermore, a number of syndicate closures since 2018 has been noted. This coincides with the initiation of Lloyd's 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 coming 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 7.9% and 9.2% on the ten-year (2012-2021) weighted average ROE ratio and combined ratio. The market's performance in 2021 was impacted by major claims that contributed 11.2% to the combined ratio (2020: 23.0%). Major losses for 2021 have arisen from three major catastrophe events, Hurricane Ida, US Winter Storm Uri, and the European Floods, with losses concentrated in property (Direct & Facultative) and property treaty lines. COVID-19 loss estimates have remained stable and have had very little impact in the current year.

The attritional loss ratio improved by 3.0 percentage points (pp) to 48.9% in 2021. The improvement is partly the result of the market's actions to drive sustainable profitable performance and sustained risk-adjusted rate increases across a number of lines. An improvement in the market's expense ratio, which reduced to 35.5% from 37.2%, was driven primarily by improvements in the acquisition ratio.

In 2021, the market reported investment income of GBP 948 million (2020: GBP 2.3 billion), representing a return of 1.2% on invested assets, which supplemented the underwriting profit of GBP 1.7 billion (2020: GBP 2.7 billion loss).

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 3.0 billion (net) in 2021. Despite the decrease in the frequency of catastrophe loss activity during 2021, major losses still added 11.2pp (2020: 23.0pp) to the calendar-year combined ratio, compared to the five-year (2017-2021) and ten-year (2012-2021) averages of 11.2pp and 10.2pp, respectively.

The market's combined ratio benefited from favourable prior year reserve movements of 2.0pp in 2021; although at a significantly reduced level compared to the recent past. Prior year reserve movements improved the combined ratio by 1.8pp in 2020 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 89.1% in 2020 to 84.3% in 2021. This compares well to the 2016 position of 93.9%, and has been 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, often in the mid-to-high 30% ranges. The ratio has been steadily decreasing over the last 5 years, from 39.5% in 2017 to 35.5% in 2021. 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 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:
The accident-year combined ratios saw notable improvements across all lines of business (excluding motor) versus the prior year. Calendar year loss ratios for some lines benefitted from stronger favourable reserve development; albeit casualty (reinsurance and direct) saw another year of reserve strengthening. Overall, the combined ratio improved materially in 2021 to 93.5% (2020: 110.3%).

Reinsurance - The reinsurance book consists of property, casualty and specialty reinsurance. The performance of the property book was affected by high severity catastrophic events in the US and Europe during 2021 and favourable prior year reserve releases. The performance of the casualty book saw improvements from prior year, in part due to the tightening policy coverage and price strengthening across most lines of business. Emerging trends such as social inflation are driving increased uncertainty on this line and some carriers have strengthened their reserves as a result. The specialty book generated an underwriting profit supported by increasing pricing levels and remediated terms, which partially offset a notable increase in claims inflation in the US. Overall, the reinsurance book has returned an underwriting loss of GBP 2.4 billion over the 2017-2021 period, driven primarily from significant losses in the property book (2021: GBP 489 million profit).

Property - The property book is diversified and global, 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. 2021 was impacted by catastrophic losses, with Winter Storm Uri and Hurricane Ida having materially affected many syndicates writing business in the US. Moreover, material events occurred across parts of central Europe, South Africa, Australia and Canada. As a result, while the market reported a lower attritional loss ratio, the catastrophe component remains under pressure. Overall, this class has returned a material underwriting loss of GBP 4.2 billion over the 2017-2021 period (2021: GBP 336 million profit).

Casualty - The casualty book is dominated by general liability and professional liability and also includes shorter tails lines such as accident and health and cyber. Losses in the contingency lines of business have slowed dramatically with almost all policies now excluding coverage. There has been a pronounced shift away from certain lines, exposures, and occupations. In particular, cyber lines saw significant repricing, with capacity also becoming more restricted for certain segments. Reserve deterioration was reported on a number of casualty lines, most notably on financial lines such as D&O and professional indemnity insurance. Overall, this class has returned an underwriting loss of GBP 1.5 billion over the 2017-2021 period (2021: GBP 17 million loss).

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. Following several years of remediation efforts in the marine portfolio, including consecutive years of compound rate increase as well as tightening of wordings and conditions, results are significantly improved. The strengthening of terms and conditions was coupled with lower loss activity on the aviation book, with many carriers reporting benign attritional claims experience as a result of reduced exposures due to the pandemic. Overall, these classes has returned a combined underwriting loss of GBP 444 million over the 2017-2021 period (2021: GBP 388 million profit).

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. Downstream lines continued to report double digit price increases in comparison with lower single digit for upstream property and exploration and production exposures. Despite an active Atlantic windstorm season, the Gulf of Mexico remained relatively unscathed and energy lines have once again benefitted from a benign year in regard to natural catastrophe losses, with the exception of Winter Storm Uri. Overall, this class has returned an underwriting profit of GBP 395 million over the 2017-2021 period (2021: GBP 71 million profit).

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, as well as a focus on increased deductibles and tightening of terms and conditions. The market reported strong reserve releases driven by favourable claims experience against expectation for both UK and overseas motor, possibly driven by reduced economic activity due to COVID-19. Overall, this class has returned an underwriting loss of GBP 82 million over the 2017-2021 period (2021: GBP 35 million profit).

Investment Performance:

Investment returns (including gains/losses) for the market were on average 2.4% in the period 2017-2021, ranging from 0.7% to 4.9%. Financial markets over 2021 were again dominated by the COVID-19 pandemic, as new variants caused further lockdowns resulting in market volatility. Equity markets managed a positive return for the year as a whole while fixed income markets (the largest asset class for Lloyd's) fared worse due to rises in inflation expectations and higher bond yields. Hence, the market reported a modest investment return of 1.2%.

Performance on a Year of Account Basis:

The 2019 YOA closed at the end of 2021 with an overall loss of GBP 953 million (2018: GBP 1.9 billion loss). The 2019 pure underwriting YOA reported an underwriting loss that was partially offset by releases from 2018 and prior years, which were reinsured to close at the end of 2020. These releases amounted to GBP 497 million.

Financial Performance Summary GBP (000)	2021	2020	2019	2018	2017
Pre-Tax Income	2,277,000	-887,000	2,532,000	-1,001,000	-2,001,000
Net Income after Non-Controlling Interests	2,277,000	-887,000	2,532,000	-1,001,000	-2,001,000

Source: BESTLINK - Best's Financial Suite

Operating and Performance Ratios (%)	2021	2020	2019	2018	2017
Overall Performance:					
Return on Assets	1.7	-0.7	2.1	-0.9	-1.9
Return on Capital and Surplus	6.6	-2.8	8.8	-3.7	-7.3
Non-Life Performance: Loss and LAE Ratio	73.2	63.4	65.3	74.5	57.3
Loss and LAE Ratio	57.9	73.2	63.4	65.3	74.5
Expense Ratio	35.5	37.2	38.7	39.2	39.5
Non-Life Combined Ratio	93.5	110.3	102.1	104.5	114.0

Source: BESTLINK - Best's Financial Suite

Ukraine Conflict:

Losses stemming from the current conflict in Ukraine are expected to be major albeit financially manageable for the market. Exposure data returns for Aviation, Political & Credit Risk, and Political Violence lines of business were issued to the market during Q1 2022 to gain an early indication of key exposures. The current view of the loss estimate is within the market's annual catastrophe budget. How well current loss estimates hold up over time will depend on how the situation in Ukraine develops compared to expectations.

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. Product risk is moderate to high. 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 5th largest

global non-life reinsurer based on 2020 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.

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 63% of premium revenue in 2021 (2020: 65%), and reinsurance accounted for the balance. This split has been relatively stable in recent years.

Overall GWP grew by 10.6% in 2021 to GBP 39.2 billion (2020: GBP 35.5 billion) supported by continued favourable rate increases as well as exposure growth from the better performing syndicates.

The market is well diversified by line of business, although very little life business is written (<0.1% of GWP in 2021) 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. High product risk lines include reinsurance, energy, aviation, most marine business, and a high proportion of the casualty and property business written (although some of the property and casualty business written through coverholders is lower risk).

Reinsurance is the market’s largest segment and accounted for 37% of GWP in 2021. Reinsurance business comprises of 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 7th largest by reinsurance GWP based on 2020 premiums and the 5th largest when life premiums are excluded.

Casualty business is Lloyd’s second largest segment in 2021, having previously been somewhat smaller than the direct property book. In 2021, casualty business accounted for 27% of GWP. 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.

Property insurance business is now Lloyd’s third largest segment, accounting for 24% of GWP in 2021. The property book is a global book but with some concentration towards US excess and surplus lines business. There is also a bias towards commercial risks with residential risks, written being mainly on a non-standard basis. The book also includes terrorism, power generation, engineering and nuclear risks.

The remaining lines of marine, aviation, and transport (7%), energy (3%), motor (2%), and life (<0.1%) together accounted for approximately 12% of GWP in 2021. Lloyd’s is a leader within the 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 the UK covering commercial and personal motor business (with a focus on niche personal risks). An international book is also written, with a focus on North America. 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 55% of GWP in 2021. The remainder was split 11% rest of Europe, 12% UK, 11% Central Asia and Asia Pacific, 7% 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, geographical 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 the UK's 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 at 1 January 2019. On 25 November 2020, Lloyd's received final approval to transfer EEA non-life business written by Lloyd's between 1993 to 2020 to Lloyd's Brussels. For the year-ended 31 December 2021, Lloyd's Brussels wrote EUR 3.1 billion (business as usual) 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 solutions that will address the regulators concerns were presented, and some were implemented. Over 200 underwriters are now seconded to Lloyd's Europe from managing agents and 6 service companies were created.

After the initial confusion and additional administrative burden, the European platform is now fully dedicated to serving customers in Europe.

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 licensing 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 related issues.

Distribution Channels:
The distribution of Lloyd’s business is dominated by insurance brokers, and in particular by the three largest global brokers. Lloyd’s brokers play an active part in the placement of risks and in providing access to regional markets.

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 overall 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 Lloyd’s market at a competitive disadvantage compared to the large global reinsurance groups, which have stronger individual positions with brokers as well as being able to distribute some of their business direct 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 prospectus called the Future at Lloyd’s. The proposed reforms included 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.

The areas of focus highlighted in Blueprint Two (published in November 2020) include:

i) Data, promoting a single data standard and strengthening quality;
ii) Digital processing, including the reconstituted contract with important third parties;
iii) Delegated authority solutions, improving efficiency and driving cost benefit for customers; and
iv) Next generation placing platform and improved connectivity for the market.

While the Blueprint Two initiatives were expected to be completed during 2021, delays and setbacks were experienced. A second interactive guide for Blueprint Two was published in January 2022, which sets specific delivery dates and provides granular details on the implementation of placement and claims platforms. This public disclosure is expected to keep the Corporation accountable to deliver on these much-needed modernisation initiatives, which will support the market to become better-equipped to meet evolving customer needs and realise future cost savings.

Failure to deliver on these initiatives successfully could reduce the confidence and support of the market in the Corporation's wider Future at Lloyd's ambitions. Over the longer-term, it may reduce the attractiveness of Lloyd's as capital providers choose more cost effective insurance hubs to operate in.

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 that are also managed through the risk functions of individual managing agents. Nonetheless, 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 Board manages risks by setting and monitoring a risk appetite framework. The risk appetites are reviewed on a regular basis and may be updated as required. 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. This additional scrutiny has led to meaningful improvements in underlying performance over the last several years.

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 will continue.

Lloyd’s uses an internal capital model to calculate its SCR and SCR coverage ratios, 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.

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 will limit the exposure growth of syndicates with poor performance track records. 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) continue to 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 27.5% of its GWP in 2021. 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.

Environmental, Social & Governance

As a writer of global commercial property policies, Lloyd’s is exposed to the impacts of changing climate trends, namely the increased severity and frequency of natural catastrophe losses. The market uses reinsurance to manage climate risk and increased oversight by the Corporation has led to a reduction in those syndicates approved to write catastrophe-exposed business (based on their past performance). Catastrophe modelling and accumulations are managed to ensure that the market’s exposure to natural catastrophes is maintained within its risk appetite.

Furthermore, to actively support the transition to a low-carbon economy, the Corporation published best practice directional guidance to the market on how to embed ESG frameworks and strategies across their operations, underwriting, and investments. As part of the 2023 business planning exercise, ESG plans of all syndicates will be reviewed by the Corporation. No mandated exclusions from certain industries have been required.

Lloyd’s has a large book of US casualty business which is susceptible to adverse social inflation trends. AM Best defines social inflation as the rise in cost of current and future claims caused by higher court awards and legislated rises in claims payments driven by changing social behaviour. This has contributed to reserve strengthening of casualty provisions over the last several years and has been an area of focus by the Corporation’s actuarial team who performed a thematic review of reserving practices across the market and shared their findings including recommendations on best practice. This has led to increased prudence, through the selection of higher loss picks, being noted across the market.

During 2021, Lloyd’s strengthened its position in the sector in terms of ESG leadership, joining the Net-Zero Insurance Alliance and becoming the leader of the SMI Insurance Task Force. The market also established the Lloyd’s ESG Committee of the Council, which is responsible for driving action and providing robust challenge across their environmental and social priorities and commitments. Despite this, Lloyd’s has been the target of various climate activist campaigns, which could potentially damage the market’s reputation over the short- and medium-term.

Financial Statements

Balance Sheet	12/31/2021 GBP (000)	%	12/31/2021 USD (000)
Cash and Short Term Investments	10,957,000	7.9	14,782,637
Bonds	50,929,000	36.9	68,710,860
Equity Securities	9,721,000	7.0	13,115,087
Other Invested Assets	12,327,000	8.9	16,630,972
Total Cash and Invested Assets	**83,934,000**	**60.8**	**113,239,556**
Reinsurers' Share of Reserves	28,284,000	20.5	38,159,359
Debtors / Amounts Receivable	20,315,000	14.7	27,407,982
Other Assets	5,622,000	4.1	7,584,921
Total Assets	**138,155,000**	**100.0**	**186,391,818**
Unearned Premiums	19,074,000	13.8	25,733,687
Non-Life - Outstanding Claims	67,800,000	49.1	91,472,370
Total Gross Technical Reserves	86,874,000	62.9	117,206,057
Debt / Borrowings	1,095,000	0.8	1,477,319
Other Liabilities	14,429,000	10.4	19,466,885
Total Liabilities	**102,398,000**	**74.1**	**138,150,262**
Retained Earnings	2,277,000	1.6	3,072,015
Other Capital and Surplus	33,480,000	24.2	45,169,542
Total Capital and Surplus	**35,757,000**	**25.9**	**48,241,557**
Total Liabilities and Surplus	**138,155,000**	**100.0**	**186,391,818**

Source: BESTLINK – Best’s Financial Suite
US $ per Local Currency Unit 1.34915 = 1 British Pound (GBP)

Income Statement	Non-Life GBP (000)	Life GBP (000)	Other GBP (000)	12/31/2021 Total GBP (000)`	12/31/2021 Total USD (000)
Gross Premiums Written	39,216,000	...	...	39,216,000	52,908,266
		...	...	25,876,000	35,137,538
Net Premiums Earned	26,657,000	...	...	26,657,000	35,964,292
Net Investment Income	...	...	1,461,000	1,461,000	1,971,108
Realized capital gains / (losses)	...	...	-102,000	-102,000	-137,613
Unrealized capital gains / (losses)	...	...	-411,000	-411,000	-554,501
Total Revenue	26,657,000	...	948,000	27,605,000	37,243,286
Benefits and Claims	15,440,000	...	...	15,440,000	20,830,876
Net Operating and Other Expense	9,476,000	...	412,000	9,888,000	13,340,395
Total Benefits, Claims and Expenses	**24,916,000**	**...**	**412,000**	**25,328,000**	**34,171,271**
Pre-Tax Income	**1,741,000**	**...**	**536,000**	**2,277,000**	**3,072,015**
Net Income before Non-Controlling Interests	**...**	**...**	**...**	**2,277,000**	**3,072,015**
Net Income/(loss)	**...**	**...**	**...**	**2,277,000**	**3,072,015**

Source: BESTLINK – Best’s Financial Suite
US $ per Local Currency Unit 1.34915 = 1 British Pound (GBP)

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 online at www.ambest.com

Our Insight, Your Advantage™

Best's Credit Report: Society Of Lloyd's

Best's Credit Ratings:

Rating Effective Date: July 15, 2022

Best's Issuer Credit Rating:	a	Outlook:	Stable	Action:	Affirmed

The rating of the Society is notched from the rating of the Lloyd's market, reflecting the unique relationship between the Society and the Lloyd's market, which means that the ability of the Society to meet its obligations is inextricably linked to the ability of Lloyd's to meet its obligations.

Holding Company Assessment

Financial Leverage Summary - Holding Company

Financial Leverage Ratio (%)	26.50
Adjusted Financial Leverage Ratio (%)	18.00
Interest Coverage (x)	0.30

Key Financial Indicators

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

Key Financial Indicators GBP (000)	2021	2020	2019	2018	2017
Net Premiums Written:					
Net Income	94,000	46,000	137,000	163,000	156,000
Total Assets	14,360,000	14,509,000	7,857,000	4,911,000	4,550,000
Total Capital and Surplus	3,050,000	3,023,000	2,601,000	2,417,000	2,188,000

Source: BESTLINK - Best's Financial Suite

Key Financial Indicators GBP (000)	2021	2020	2019	2018	2017	Weighted 5-Year Average
Profitability:						
Balance on Non-Life Technical Account	90,000	125,000	125,000	137,000	113,000	...
Net Income Return on Revenue (%)	74.0	44.2	53.9	93.7	123.8	75.9
Net Income Return on Capital and Surplus (%)	3.1	1.6	5.5	7.1	7.5	4.7
Net Investment Yield (%)	-0.3	-0.5	2.9	0.6	...	0.5

Source: BESTLINK - Best's Financial Suite

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Credit Analysis

Balance Sheet Strength

Capitalisation

Capital Generation Analysis

GBP (000)	2021	2020	2019	2018	2017
Beginning Capital and Surplus	3,023,000	2,601,000	2,417,000	2,188,000	1,996,065
Net Income	5,000	46,000	137,000	163,000	156,000
Net Unrealized Capital Gains (Losses)	...	...	...	2,000	...
Currency Exchange Gains (Losses)	-31,000	16,000	-14,000	4,000	-5,000
Stockholder Dividends	-19,000	-4,000	...	...	...
Other Changes in Capital and Surplus	72,000	364,000	61,000	60,000	40,935
Net Change in Capital and Surplus	27,000	422,000	184,000	229,000	191,935
Ending Capital and Surplus	3,050,000	3,023,000	2,601,000	2,417,000	2,188,000
Net Change in Capital and Surplus (%)	0.9	16.2	7.6	10.5	9.6

Source: BESTLINK - Best's Financial Suite

Liquidity Analysis (%)	2021	2020	2019	2018	2017
Liquid Assets to Total Liabilities	46.7	45.3	76.9	150.9	137.7
Total Investments to Total Liabilities	48.8	46.7	87.0	170.4	163.6

Source: BESTLINK - Best's Financial Suite

Asset Liability Management - Investments

Composition of Cash and Invested Assets

GBP (000)	2021	2020	2019	2018	2017
Total Cash and Invested Assets	5,518,000	5,360,000	4,575,000	4,250,000	3,864,000
Cash (%)	47.2	48.5	37.1	39.7	25.1
Bonds (%)	42.2	40.4	43.2	43.0	48.9
Equity Securities (%)	6.5	8.1	8.0	5.9	10.1
Real Estate, Mortgages and Loans (%)	1.9	0.6	0.7	0.8	1.0
Other Invested Assets (%)	1.6	1.9	10.5	10.2	14.3
Total Cash and Unaffiliated Invested Assets (%)	99.3	99.6	99.5	99.6	99.5
Investments in Affiliates (%)	0.7	0.4	0.5	0.4	0.5
Total Cash and Invested Assets (%)	100.0	100.0	100.0	100.0	100.0

Operating Performance

Financial Performance Summary

GBP (000)	2021	2020	2019	2018	2017
Pre-Tax Income	**91,000**	**56,000**	**170,000**	**202,000**	**187,000**
Net Income after Non-Controlling Interests	94,000	46,000	137,000	163,000	156,000

Source: BESTLINK - Best's Financial Suite

Operating and Performance Ratios (%)	2021	2020	2019	2018	2017
Overall Performance:					
Return on Assets	0.7	0.4	2.1	3.4	3.5
Return on Capital and Surplus	3.1	1.6	5.5	7.1	7.5

Source: BESTLINK - Best's Financial Suite

Financial Statements

Balance Sheet	12/31/2021 GBP (000)	%	12/31/2021 USD (000)
Cash and Short Term Investments	2,603,000	18.1	3,511,837
Bonds	2,327,000	16.2	3,139,472
Equity Securities	357,000	2.5	481,647
Other Invested Assets	231,000	1.6	311,654
Total Cash and Invested Assets	**5,518,000**	**38.4**	**7,444,610**
Reinsurers' Share of Reserves	6,873,000	47.9	9,272,708
Debtors / Amounts Receivable	1,609,000	11.2	2,170,782
Other Assets	360,000	2.5	485,694
Total Assets	**14,360,000**	**100.0**	**19,373,794**
Unearned Premiums	1,219,000	8.5	1,644,614
Non-Life - Outstanding Claims	5,654,000	39.4	7,628,094
Total Gross Technical Reserves	6,873,000	47.9	9,272,708
Debt / Borrowings	1,902,000	13.2	2,566,083
Other Liabilities	2,535,000	17.7	3,420,095
Total Liabilities	**11,310,000**	**78.8**	**15,258,887**
Other Capital and Surplus	3,050,000	21.2	4,114,908
Total Capital and Surplus	**3,050,000**	**21.2**	**4,114,908**
Total Liabilities and Surplus	**14,360,000**	**100.0**	**19,373,794**

Source: BESTLINK – Best's Financial Suite
US $ per Local Currency Unit 1.34915 = 1 British Pound (GBP)

Income Statement	Non-Life GBP (000)	Life GBP (000)	Other GBP (000)	12/31/2021 Total GBP (000)`	12/31/2021 Total USD (000)
Gross Premiums Written	2,732,000	...	...	2,732,000	3,685,878
Net Investment Income	...	...	-16,000	-16,000	-21,586
Realized capital gains / (losses)	...	...	11,000	11,000	14,841
Unrealized capital gains / (losses)	...	...	6,000	6,000	8,095
Other Income	143,000	...	...	143,000	192,928
Total Revenue	143,000	...	1,000	144,000	194,278
Net Operating and Other Expense	53,000	...	...	53,000	71,505
Total Benefits, Claims and Expenses	53,000	...	...	53,000	71,505
Pre-Tax Income	**90,000**	**...**	**1,000**	**91,000**	**122,773**
Income Taxes Incurred	...	...	...	-3,000	-4,047
Net Income before Non-Controlling Interests	**...**	**...**	**...**	**94,000**	**126,820**
Net Income/(loss)	**...**	**...**	**...**	**94,000**	**126,820**

Source: BESTLINK – Best's Financial Suite
US $ per Local Currency Unit 1.34915 = 1 British Pound (GBP)

October 13, 2017

Rating Lloyd's Operations

Outline

The following criteria procedure should be read in conjunction with *Best's Credit Rating Methodology (BCRM)* and all other related BCRM-associated criteria procedures. The BCRM provides a comprehensive explanation of AM Best's rating process.

A. Market Overview

This criteria procedure focuses on AM Best's rating process for all of Lloyd's operations: the Society of Lloyd's, the Lloyd's market, and Lloyd's syndicates, including insurance groups with corporate members that contribute capital to Lloyd's syndicates.

The Society of Lloyd's and the Lloyd's Market

Lloyd's is the London-based market where individual syndicates underwrite all types of insurance and reinsurance other than long-term life insurance. Each syndicate consists of members of Lloyd's. These members are mainly corporate entities, although private individuals still provide a small proportion of Lloyd's underwriting capacity. The syndicates operate as individual businesses, but the collective size of the market allows them to compete effectively with global (re)insurance groups, under the Lloyd's brand and with the support of Lloyd's Central Fund.

The Society of Lloyd's (the Society) is the legal entity that oversees the Lloyd's market. The Society's purpose is to facilitate the underwriting of insurance business by Lloyd's members, to protect members' Lloyd's-related interests, and to maintain the Central Fund.

Method of Accounting

Lloyd's annual report contains the financial results of Lloyd's and its members in pro forma financial statements (PFFS), and includes the financial statements of the Society. The PFFS include the aggregate accounts, which are based on the accounts of each Lloyd's syndicate, members' funds at Lloyd's (FAL) and the Society's financial statements.

The Society produces a consolidated financial statement that covers Lloyd's activities outside the underwriting market and Lloyd's central resources (including the Central Fund).

To ensure that the PFFS are reported on the same accounting basis as other insurers, Lloyd's makes adjustments (such as a notional investment return on the FAL in the non-technical account) to its capital and investment returns. The PFFS (which incorporate Lloyd's central resources) are in accordance with U.K. GAAP, rather than the International Financial Reporting Standards (IFRS), which the Society has adopted for its financial reporting.

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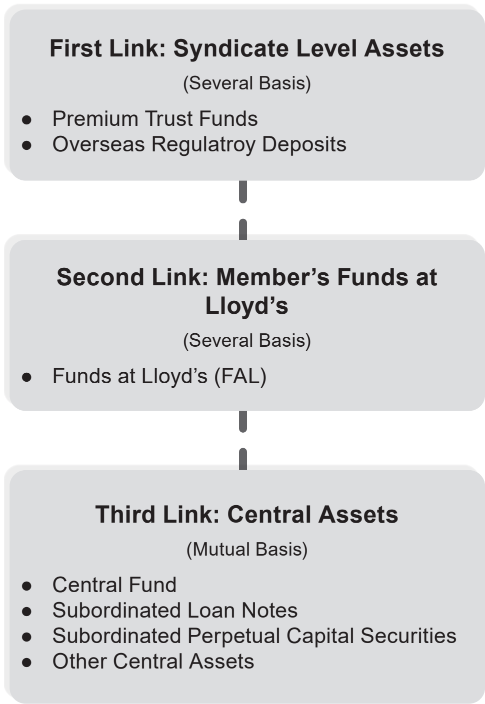
Lloyd's "Chain of Security"

AM Best's assessment of Lloyd's balance sheet strength is based on the company's unique capital structure, which Lloyd's calls the "chain of security." This "chain of security" encompasses the Premium Trust Funds, FAL, the Central Fund, the Society's net assets, and other assets, as **Exhibit A.1** shows, and is a critical element in AM Best's rating assessment of the Lloyd's market.

Any assessment of Lloyd's capital strength is complicated by the compartmentalisation of capital at the member level. The first two links in the chain of security—the Premium Trust Funds and FAL— are on a several rather than joint basis, meaning that a member needs to meet only its share of claims. In contrast, the third link (Lloyd's central assets) is available—at the discretion of the Council of Lloyd's—to meet the policyholder liabilities that any member is unable to meet in full. This third link comprises not just the Central Fund but also the net assets of the Corporation of Lloyd's and any issued hybrid securities that qualify for capital credit, and can be supplemented by a call on members' funds up to a specified percentage of their overall premium limits. This partially mutualising third link , and the liquid Central Fund in particular, is the basis for a market-level rating.

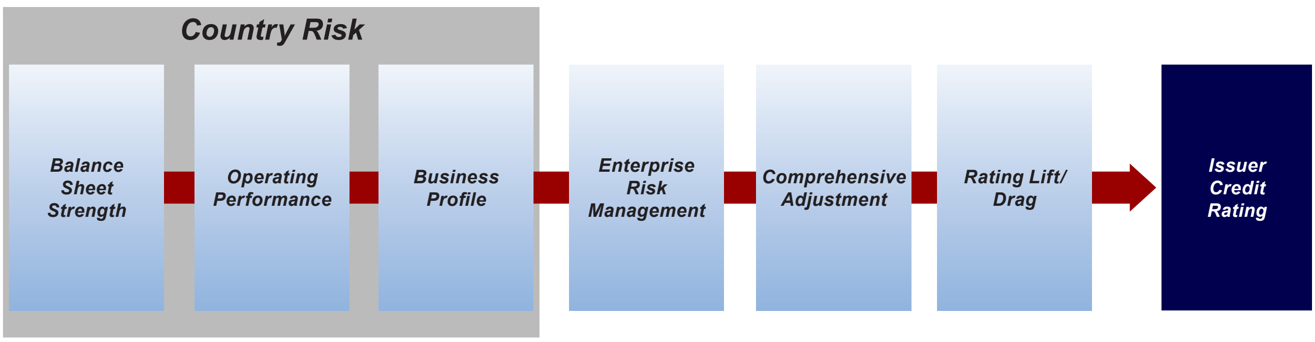
Exhibit A.1: Lloyd's Chain of Security



The Lloyd's market rating is the "floor of security" for all policies written at Lloyd's. It reflects the chain of security and, in particular, the role of the Central Fund, which partially mutualises capital at the market level, ensuring that each syndicate is backed by capital consistent with an Issuer Credit Rating (ICR) of at least that of the Lloyd's market. A policyholder exposed to a syndicate weaker than the market would still have market-level security, given the Central Fund's role as a guarantee fund. However, AM Best believes that the characteristics of some syndicates could be consistent with an ICR at or above the level of the market rating.

A change to the market rating would automatically trigger a review of all syndicate ratings, as these cannot be viewed in isolation from the market as a whole—but would not necessarily mean that any particular rating would change. A change to a syndicate's rating would depend not just on the reason for the change to the Lloyd's market rating but also on the specific characteristics that support the syndicate's rating.

Exhibit A.2: AM Best's Rating Process



The Rating Process

AM Best’s rating process for all of Lloyd’s-related operations is based on the same building blocks as the process for conventional insurers (**Exhibit A.2**). For syndicate-specific ratings, an “s” modifier— e.g., “A+ s”—differentiates ratings on individual syndicates from other ratings.

Assessing Syndicates

To understand the link between the Lloyd’s market’s rating and the ratings on individual Lloyd’s syndicates, the following considerations should be taken into account:

- Syndicates cannot exist or be analysed in isolation from their participation in Lloyd’s market.
- When assigning ratings to individual syndicates, this dependence must be taken into account.
- All syndicates benefit from the financial strength of Lloyd’s; therefore, the rating on a syndicate will be at least equal to the rating on Lloyd’s.
- A syndicate could have a higher rating than the Lloyd’s market usually for two reasons: 1) its operating performance or 2) lift from a financially stronger group.

B. Balance Sheet Strength

Lloyd’s Market

Capital Management Strategy

Best’s Capital Adequacy Ratio (BCAR) is used in the assessment of risk-adjusted capitalization for the Lloyd’s market based on the PFFS. Lloyd’s balance sheet strength assessment takes into account capital resources available at the member level and centrally; the fungibility constraints on member- level capital; and the likelihood and potential impact of future draw downs on central assets by Lloyd’s members.

Because Lloyd’s capital structure consists of both mutual capital, which can be used to meet the obligations of all syndicates, and member-level capital, which is available to meet that member’s obligations only, it has specific fungibility considerations. The BCAR cannot capture the lack of fungibility in some parts of the capital structure. However, given that Lloyd’s stochastic internal capital model (LIM) fully reflects these unique features of Lloyd’s capital structure, the market’s Solvency Capital Ratio (SCR)—as approved by the regulator—is taken into consideration as an additional indicator of capital adequacy.

The Corporation of Lloyd’s is responsible for annually setting capital at member level, using the syndicates’ SCRs. AM Best’s assessment of the market’s balance sheet strength incorporates a view of the appropriateness of Lloyd’s approach to setting member’s-level capital. A critical component of the Lloyd’s market balance sheet strength assessment involves not only the adequacy of the capital requirements, but also the market’s ability to fulfil those requirements.

Financial Flexibility

AM Best’s assessment of Lloyd’s financial flexibility takes into account its ability to access a broad range of capital providers, which include corporate and individual investors, as well as the option to make additional capital calls when required. Although equity credit may be given for qualifying hybrid instruments issued by the Society of Lloyd’s, no explicit credit is typically given in the BCAR for the “callable layer”. The callable layer does not necessarily provide additional funds to meet Lloyd’s market liabilities, as capital is drawn from member-level capital to supplement central assets.

However, AM Best recognizes in its assessment of the fungibility of Lloyds capital that the existence of the “callable layer” means that there is the potential, in an extreme stress scenario, for some of the member level funds to be made available to support central resources.

Letters of Credit

Historically, a significant and stable proportion of FAL is accounted for by letters of credit (LOCs). In its calculation of available capital, AM Best will consider including FAL provided as LOCs, given that such LOCs can be drawn at the discretion of Lloyd's, and that, if drawn, will become Tier 1 capital for the Lloyd's market.

Assessing Syndicates

A syndicate's balance sheet strength assessment will be the same as that of Lloyd's, given that fundamentally all of the syndicates are protected by the central resources of the Lloyd's market. A syndicate's assessment does not include a separate holding company assessment. The balance sheet assessment assigned will be that of the Lloyd's market, which already incorporates a holding company assessment.

C. Operating Performance

Lloyd's Market

Market Performance

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

Lloyd's performance is not directly comparable to that of other insurers, because it is not actively managed centrally. The Corporation's Performance Management Directorate has a definite role in agreeing to business plans and monitoring performance, but Lloyd's is ultimately a market of competing businesses, each of which has its own decision-making process.

In addition, 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 (usually at the end of 36 months). The capital to support underwriting at Lloyd's is instead supplied by capital providers (members) annually. Therefore, greater weight may be given to the impact of the market's results on its ability to retain and attract the capital required for continued trading.

Any assessment of Lloyd's operating performance must also take into account the potential erosion of central capital resources owing to losses incurred by individual members. Most members of Lloyd's write with limited liability. In the event of substantial underwriting losses, if those members are unwilling or unable to provide additional funds to support any outstanding underwriting obligations, there may be a drawdown on central capital resources.

Assessing Syndicates

Due to the role of the Central Fund and the protection it provides to its members, the operating performance of Lloyds acts as a floor to the assessment of the syndicate. However, in AM Best's opinion, a syndicate could have a higher rating than the Lloyd's market because of a more favourable operating performance assessment, principally because an individual syndicate's profits are not made available to meet the obligations of other members. Therefore, the assessment of Lloyd's market's operating performance may not fully reflect the positive impact that an individual syndicate's standalone earnings can have on its ability to meet its own obligations to policyholders.

AM Best's assessment of an individual syndicate's operating performance considers the same factors as that for conventional insurers in that it centres on the stability, diversity, and sustainability of its earnings sources. Expenses will include costs associated with operating at Lloyd's, such as contributions to central resources..

D. Business Profile

Lloyd's Market

The business profile assessment of the Lloyd's market follows the process outlined in the BCRM.

Assessing Syndicates

The business profiles of all of the syndicates are inextricably linked to that of Lloyd's. As a result, the assessment of Lloyd's business profile acts as a floor for the assessment of any syndicate's business profile. Likewise, any weakening of Lloyd's business position will act as a drag on an individual syndicate's rating.

E. Enterprise Risk Management (ERM)

Lloyd's Market

AM Best's ERM assessment of the Lloyd's market evaluates both the overall risk management framework of Lloyd's and the risk management framework for each individual syndicate. Failure at one syndicate could lead to pressures on the Lloyd's market's ERM assessment even if the overall risk management framework is considered appropriate.

Assessing Syndicates

AM Best acknowledges that all syndicates benefit from the ERM framework and risk monitoring at Lloyd's level. As a result, the assessment of Lloyd's ERM acts as a floor for the assessment of any syndicate's ERM. Likewise, any weakening of Lloyd's ERM will act as a drag on an individual syndicate's rating.

F. Lift for Syndicates

Although AM Best considers the market's rating a "floor" for all of the syndicates' ratings, certain syndicates could merit higher ratings. One reason is simply because of the steps described in theprevious sections—such as the case of a syndicate with a more favourable operating performance assessment. Also, syndicates that belong to wider (re)insurance or non-insurance groups may be eligible for a higher rating owing to rating lift.

Rating lift may apply if the syndicate is backed by a capital provider (the lead rating unit) that, in AM Best's opinion, has a higher credit rating than the market. The lead rating unit is also expected to be fully committed to supporting the syndicate beyond its corporate member's limited liability obligations and before recourse to Lloyd's Central Fund. AM Best undertakes a detailed analysis of the capital provider's commitment and would have to be satisfied that the capital provider would not cease underwriting at Lloyd's under adverse circumstances not related to its own syndicate's performance (e.g., an additional Central Fund levy). Eligibility for rating lift owing to capital backing may be affected if the corporate member participates in other syndicates, since capital held at the member level is fungible across all of the syndicates in which the member participates.

G. Rating the Society of Lloyd's

The rating on the Society is derived by notching from the rating on Lloyd's and reflects AM Best's opinion that the ability of the Society to meet its obligations is inextricably linked to that of Lloyd’s. The rating on Lloyd’s also takes into account the assets and liabilities of the Society (as the analysis is based on consolidated financials), as well as the financial flexibility of the Society, including its ability to raise debt.

The central assets of the Society of Lloyd’s, including the Central Fund, are available to meet the Society’s senior obligations. The Society of Lloyd’s can increase the contributions to the Central Fund from members of the Lloyd’s market. The Society’s senior obligations include, but are not limited, to Central Fund “undertakings,” whereby the Central Fund meets the insurance liability of insolvent members of Lloyd’s on a discretionary basis. Under normal circumstances, Lloyd’s Council executes an undertaking for a 12-month period to meet these liabilities (which can be renewed). Central Fund undertakings constitute unsecured obligations of the Society that rank *pari passu* with the Society’s other unsecured senior obligations.

Accordingly, there can be no distinction between the ability of the Lloyd’s market and the Society to meet their senior obligations: The Society’s ability to meet its senior obligations is therefore the same as Lloyd’s. However, in practice, Lloyd’s policyholders are likely to be paid ahead of senior debtholders. Therefore, in the absence of any other relevant information, the ICR on the Society is placed one notch below the ICR on Lloyd’s.

H. Insurance Groups with Lloyd’s Operations

Market Knowledge

An insurance group writing business at Lloyd’s will typically own a corporate member that participates in the Lloyd’s market by providing capacity to one or more syndicates. It accepts insurance business through syndicates on a several basis for its own profit and loss and holds the capital supporting itsshare of business written in the form of FAL. For these insurance groups, both the performance of and the capital supporting business written at Lloyd’s are captured in the consolidated analysis via the corporate member.

The rating process for groups with a Lloyd’s platform is substantially the same as it is for all insurance groups. However, the unique capital structure and practices of the Lloyd’s market introduce distinct issues, particularly with respect to the analytical treatment of group capital used to support underwriting at Lloyd’s.

Balance Sheet Strength

As part of the analysis of a group’s consolidated balance sheet strength, AM Best uses the BCAR to calculate the net required capital to support the group’s financial risks (including those of the corporate member) and compares it with the group’s available capital (including capital lodged as FAL), to estimate excess or shortfall.

The level of FAL determines the amount of insurance business a member can underwrite at Lloyd’s. Consequently, a member unable or unwilling to replenish its FAL will have to reduce the amount of Lloyd’s business it writes. Thus, if its FAL are exhausted and not replenished, the corporate member will no longer be able to underwrite at Lloyd’s.

Notably, if a member’s FAL are inadequate to meet its syndicate’s losses, a managing agent may ask Lloyd’s to meet the cash call out of its central assets. However, in the group’s consolidated BCAR analysis, AM Best gives no capital credit for the access a member’s insurance creditors have to Lloyd’s central assets, primarily because only the obligations of the corporate member—not those of the wider group—can be met by Lloyd’s central assets.

AM Best's analysis of a group's Lloyd's business focuses on an assessment of the risks generated directly by the syndicates in which the corporate member participates.

Segregation of Capital for Lloyd's Business

FAL are defined as capital lodged and held in trust at Lloyd's as security for policyholders and to support a member's overall underwriting business. The funds lodged can be investments and cash but are often letters of credit (LOCs) drawn on one or more banks.

When investments and cash are provided by a group company, or when an LOC is backed by collateral from a group company, the assets are clearly encumbered. To reflect the limitations on the transfer of this capital across the group, AM Best applies a nominal 1% capital charge to the group assets that support FAL in the group's consolidated BCAR. This is in line with AM Best's baseline treatment of balances associated with non-controlled assets.

The analyst may increase the asset risk factor beyond the nominal 1% following an evaluation of the likelihood that FAL will be used to pay syndicate losses. The evaluation would take into account the historical and expected performance of the group's Lloyd's business, as well as the potential exposure of this business to large, market-wide losses.

Letters of Credit Supporting FAL for Insurance Groups with Lloyd's Operations Insurance groups commonly use LOCs—either collateralized or uncollateralized—to meet their FAL requirements. In the case of a collateralized LOC, assets backing the LOC are included in AM Best's assessment of a group's available capital, although a capital charge may be applied to the assets.

An undrawn, uncollateralized LOC supporting FAL receives no capital credit in a group's consolidated BCAR. The rationale for this treatment is that, if the LOC were to be drawn down, it would become short-term bank debt on the group's balance sheet; AM Best does not afford capital credit to short- term bank debt.

However, AM Best does recognize that, under a stress scenario, an uncollateralized LOC could be converted readily to cash to meet the group's Lloyd's obligations. For this reason, AM Best would take into account an uncollateralized LOC in its assessment of the group's financial flexibility and liquidity.

Letters of Credit Supporting FAL for Insurance Groups with Lloyd's Operations

Insurance groups commonly use LOCs—either collateralized or uncollateralized—to meet their FAL requirements. In the case of a collateralized LOC, assets backing the LOC are included in AM Best's assessment of a group's available capital, although a capital charge may be applied to the assets.

An undrawn, uncollateralized LOC supporting FAL receives no capital credit in a group's consolidated BCAR. The rationale for this treatment is that, if the LOC were to be drawn down, it would become short-term bank debt on the group's balance sheet; AM Best does not afford capital credit to short-term bank debt.

However, AM Best does recognize that, under a stress scenario, an uncollateralized LOC could be converted readily to cash to meet the group's Lloyd's obligations. For this reason, AM Best would take into account an uncollateralized LOC in its assessment of the group's financial flexibility and liquidity.

Internal Reinsurance and Lloyd's Business

In an insurance group, earnings from the group's corporate member are often transferred to another group entity, typically to realize tax efficiencies—and frequently through quota-share reinsurance, with the group reinsurer providing a share of the corporate member's FAL matching the proportion of risk assumed. For example, if there is a 50% whole-account quota share in place, the corporate member and reinsurer each may provide 50% of the FAL.

When determining the appropriate treatment in the reinsurer's BCAR of the Lloyd's business assumed and the FAL lodged to support this business, AM Best will first conduct a detailed review of the reinsurance contract and the treatment of the risk assumed in the reinsurer's accounts.

If the Lloyd's-related risk is reflected accurately on the reinsurer's balance sheet and income statement—for example, if there is a standard quota share agreement in place—AM Best will includ e the risk associated with this business and the capital supporting this risk (a share of FAL) in its analysis of risk-adjusted capitalization in the BCAR. AM Best will also conduct a BCAR analysis excluding the risk and capital relating to the Lloyd's business.

When the proportion of FAL provided by the reinsurer exceeds the proportion of the Lloyd's business it assumes, AM Best will deduct an amount equal to the excess from capital in its analysis of the reinsurer, to avoid giving credit for capital that supports risks not captured in the reinsurer's accounts and BCAR.

Occasionally, the transfer of premium and reserve risk to the reinsurer is not reflected in the reinsurer's accounts in a manner that allows AM Best to capture the assumed risk accurately in the BCAR—for example, when the reinsurance transaction is a quota share of the corporate member's profit/loss. In this case, in the absence of additional information, AM Best will deduct from available capital an amount equivalent to the reinsurer's share of FAL. Additional adjustments may be made to ensur e that neither the Lloyd's-related risk assumed by the reinsurer nor the capital supporting this risk (FAL) is reflected in BCAR.

Because participation in Lloyd's is on a limited liability basis, the group reinsurer is not usually legally obliged to pay out more than its share of FAL to support its Lloyd's losses. By deducting FAL from available capital, AM Best reflects the maximum loss that the reinsurer would incur from the assumed Lloyd's business. Any business or reputational issues that may arise if the group is unable or unwilling to replenish its FAL are captured by AM Best in the consolidated analysis of the insurance group.

Determination of the IHC's Rating Through Notching

AM Best's rating on an insurance holding company (IHC) is based on the Issuer Credit Rating of the operating insurer(s) on which the IHC primarily depends to meet its obligations. The rating reflects the analysis of (1) the credit risk implications of the IHC as a legal entity separate from the operating insurer(s) and (2) the normal subordination of IHC creditors to operating company policyholders.

For an insurance group with a significant Lloyd's operation, the entity on which the holding company most depends to meet its obligations may be a Lloyd's syndicate. In this case, using the syndicate rating in the notching process is seldom appropriate.

Lloyd's chain of security—in particular, the role of the Central Fund, which partly mutualises capital at the market level—ensures that each Lloyd's syndicate is backed by capital consistent with the ICR of at least that of the Lloyd's market. Consequently, a syndicate rating cannot fall below the Lloyd's market rating.

Lloyd's central assets are available to meet only the insurance liabilities of the corporate member. When determining the holding company ICR of a group with a significant Lloyd's operation, AM Best conducts an enterprise-level analysis of the consolidated organization (excluding any credit for Lloyd's central assets). This forms the basis for an overall operating company ICR, which is then used in the notching process.

Appendices

Appendix 1

Gross Written Premium by Syndicate (2021)

(GBP Millions)

Syndicate	Managing Agent	Gross Written Premium	Syndicate	Managing Agent	Gross Written Premium
33	Hiscox Syndicates Limited	1,524	2,121	Argenta Syndicate Management Limited	655
44	Canopius Managing Agents Limited	0	2,232	Allied World Managing Agency Limited	252
218	IQUW Syndicates Management Limited	319	2,288	Asta Managing Agency Limited	66
308	Tokio Marine Kiln Syndicates Limited	1	2,357	Nephila Syndicate Management Limited	491
318	Cincinnati Global Underwriting Agency Limited	179	2,468	RiverStone Managing Agency	-2
382	Hardy (Underwriting Agencies) Limited	254	2,488	Chubb Underwriting Agencies Limited	561
386	QBE Underwriting Limited	412	2,525	Asta Managing Agency Limited	113
435	Faraday Underwriting Limited	450	2,623	Beazley Furlonge Limited	2,569
457	Munich Re Syndicate Limited	897	2,689	Asta Managing Agency Limited	86
510	Tokio Marine Kiln Syndicates Limited	1,365	2,789	Asta Managing Agency Limited	190
557	Tokio Marine Kiln Syndicates Limited	25	2,791	Managing Agency Partners Limited	367
609	Atrium Underwriters Limited	711	2,987	Brit Syndicates Limited	2,022
623	Beazley Furlonge Limited	564	2,988	Brit Syndicates Limited	195
727	S.A. Meacock & Company Limited	92	2,999	QBE Underwriting Limited	1,483
1,084	Chaucer Syndicates Limited	1,300	3,000	Markel Syndicate Management Limited	483
1,110	Capita Managing Agency Limited	1	3,002	AXA XL Underwriting Agency Limited	26
1,176	Chaucer Syndicates Limited	26	3,010	Lancashire Syndicates Limited	192
1,183	Talbot Underwriting Limited	943	3,268	Asta Managing Agency Limited	143
1,200	Argo Managing Agency Limited	600	3,500	RiverStone Managing Agency Ltd	1,712
1,218	Newline Underwriting Management Limited	258	3,622	Beazley Furlonge Limited	22
1,221	Navigators Underwriting Agency Limited	321	3,623	Beazley Furlonge Limited	231
1,225	AEGIS Managing Agency Limited	774	3,624	Hiscox Syndicates Limited	206
1,274	Antares Managing Agency Limited	402	3,902	Ark Syndicate Management Limited	134
1,301	Inigo Managing Agency	317	4,000	Hamilton Managing Agency Limited	414
1,414	Ascot Underwriting Limited	1,044	4,020	Ark Syndicate Management Limited	374
1,416	Asta Managing Agency Limited	2	4,141	HCC Underwriting Agency Ltd	171
1,458	RenaissanceRe Syndicate Management Limited	840	4,242	Asta Managing Agency Limited	231
1,492	Probitas Managing Agency	169	4,444	Canopius Managing Agents Limited	1,414
1,609	Asta Managing Agency Limited	83	4,472	Canopius Managing Agents Limited	1,424
1,618	Brit Syndicates Limited	293	4,711	Aspen Managing Agency Limited	494
1,686	AXIS Managing Agency Limited	1,092	4,747	Asta Managing Agency Limited	21
1,729	Asta Managing Agency Limited	185	5,000	Travelers Syndicate Management Limited	337
1,796	Ascot Underwriting Limited	0	5,151	Endurance at Lloyd's Limited	77
1,840	Munich Re Syndicate Limited	4	5,623	Beazley Furlonge Limited	119
1,856	IQUW Syndicates Management Limited	190	5,886	Blenheim Underwriting Limited	286
1,861	Canopius Managing Agents Limited	92	6,103	Managing Agency Partners Limited	41
1,880	Tokio Marine Kiln Syndicates Limited	315	6,104	Hiscox Syndicates Limited	18
1,884	Premia Managing Agency	10	6,107	Beazley Furlonge Limited	87
1,892	Asta Managing Agency Limited	15	6,111	Catlin Underwriting Agencies Limited	2
1,910	Argo Managing Agency Limited	380	6,117	Argo Managing Agency Limited	84
1,919	Starr Managing Agents Limited	328	6,117	Argo Managing Agency Limited	82
1,945	Sirius International Managing Agency Limited	111	6,118	Arch Managing Agency Limited	-6
1,947	Hamilton Managing Agency Limited	121	6,123	Asta Managing Agency Limited	0
1,955	Arch Managing Agency Limited	342	6,125	Hamilton Managing Agency Limited	9
1,967	W R Berkley Syndicate Management Limited	367	6,125	Hamilton Managing Agency Limited	18
1,969	Apollo Syndicate Management Limited	522	6,126	Asta Managing Agency Limited	0
1,971	Apollo Syndicate Management Limited	118	6,129	AXIS Managing Agency Limited	-1
1,975	Coverys Managing Agency Limited	52	6,130	Chaucer Syndicates Limited	2
1,991	Coverys Managing Agency Limited	57	6,131	Asta Managing Agency Limited	14
2,001	MS Amlin Underwriting Limited	1,340	6,131	Asta Managing Agency Limited	9
2,003	AXA XL Underwriting Agency Limited	1,363	6,132	Arch Managing Agency Limited	52
2,008	Enstar Managing Agency Limited	418	6,132	Arch Managing Agency Limited	40
2,010	Lancashire Syndicates Limited	276	6,133	Apollo Syndicate Management Limited	62
2,012	Arch Managing Agency Limited	317	6,133	Apollo Syndicate Management Limited	56
2,015	The Channel Managing Agency Limited	266	6,134	Argenta Syndicate Management Limited	133
2,019	Talbot Underwriting Limited	573	6,134	Argenta Syndicate Management Limited	144
Total					**41,427**

Source: BESTLINK

No adjustments made for Reinsurance to close, hence the difference between Appendices.

Appendix 2
Gross Written Premiums by Managing Agency Group (2021)
(GBP Millions)

Managing Agent	Gross Premiums Written	Managing Agent	Gross Premiums Written
Beazley Furlonge Limited	3,593	Markel Syndicate Management Limited	483
Canopius Managing Agents Limited	2,929	Lancashire Syndicates Limited	467
Brit Syndicates Limited	2,510	Faraday Underwriting Limited	450
QBE Underwriting Limited	1,896	Enstar Managing Agency Limited	418
Hiscox Syndicates Limited	1,748	Managing Agency Partners Limited	407
RiverStone Managing Agency Ltd	1,712	Antares Managing Agency Limited	402
Tokio Marine Kiln Syndicates Limited	1,706	W R Berkley Syndicate Management Limited	367
Talbot Underwriting Limited	1,516	Travelers Syndicate Management Limited	337
AXA XL Underwriting Agency Limited	1,389	Starr Managing Agents Limited	328
MS Amlin Underwriting Limited	1,340	Navigators Underwriting Agency Limited	321
Chaucer Syndicates Limited	1,328	Inigo Managing Agency	317
Asta Managing Agency Limited	1,158	Blenheim Underwriting Limited	286
Argo Managing Agency Limited	1,146	The Channel Managing Agency Limited	266
AXIS Managing Agency Limited	1,091	Newline Underwriting Management Limited	258
Ascot Underwriting Limited	1,044	Hardy (Underwriting Agencies) Limited	254
Argenta Syndicate Management Limited	932	Allied World Managing Agency Limited	252
Munich Re Syndicate Limited	901	Cincinnati Global Underwriting Agency Limited	179
RenaissanceRe Syndicate Management Limited	840	HCC Underwriting Agency Ltd	171
AEGIS Managing Agency Limited	774	Probitas Managing Agency	169
Apollo Syndicate Management Limited	759	Sirius International Managing Agency Limited	111
Arch Managing Agency Limited	745	Coverys Managing Agency Limited	109
Atrium Underwriters Limited	711	S.A. Meacock & Company Limited	92
Hamilton Managing Agency Limited	563	Endurance at Lloyd's Limited	77
Chubb Underwriting Agencies Limited	561	Premia Managing Agency	10
IQUW Syndicates Management Limited	509	Catlin Underwriting Agencies Limited	2
Ark Syndicate Management Limited	508	Capita Managing Agency Limited	1
Aspen Managing Agency Limited	494	RiverStone Managing Agency	-2
Nephila Syndicate Management Limited	491		
Total			**41,427**

Source: BESTLINK

No adjustments made for Reinsurance to close, hence the difference between Appendices.

Appendix 3
Overview of Premium Limits and Membership (1993-2021)

Year of Account	Individual Gross Premium Limit (GBP Millions)	Individual % of Total	Corporate Gross Premium Limit (GBP Millions)	Corporate % of Total	Total Gross Premium Limit (GBP Millions)	Number of Active Members: Individual	Corporate	Total
1993	8,724	100%			8,724	19,377		19,377
1994	9,236	85%	1,595	15%	10,831	17,370	95	17,465
1995	7,761	77%	2,360	23%	10,121	14,573	140	14,713
1996	6,900	69%	3,044	31%	9,944	12,683	162	12,845
1997	5,779	56%	4,529	44%	10,309	9,872	202	10,074
1998	4,013	40%	6,129	60%	10,142	6,765	436	7,201
1999	2,668	27%	7,188	73%	9,856	4,458	667	5,125
2000	1,985	20%	8,123	80%	10,108	3,270	854	4,124
2001	1,789	16%	9,462	84%	11,252	2,823	896	3,719
2002	1,754	13%	11,473	87%	13,227	2,445	838	3,283
2003	1,832	12%	13,022	88%	14,853	2,177	768	2,945
2004	1,852	12%	13,223	88%	15,076	2,029	754	2,783
2005	1,433	10%	12,382	90%	13,816	1,604	708	2,312
2006	1,425	9%	13,580	91%	15,005	1,478	717	2,195
2007	1,082	7%	15,351	93%	16,433	1,106	1,020	2,126
2008	915	6%	15,191	94%	16,106	897	1,162	2,059
2009	822	5%	17,314	95%	18,136	765	1,241	2,006
2010	848	4%	22,174	96%	23,022	691	1,445	2,136
2011	757	3%	22,539	97%	23,297	631	1,530	2,161
2012	693	3%	23,491	97%	24,184	575	1,576	2,151
2013	651	3%	24,346	97%	24,998	520	1,626	2,146
2014	592	2%	25,936	98%	26,527	444	1,688	2,132
2015	431	2%	25,835	98%	26,266	321	1,771	2,092
2016	407	1%	27,105	99%	27,512	289	1,760	2,049
2017	372	1%	29,923	99%	30,296	258	1,764	2,022
2018	361	1%	31,929	99%	32,290	243	1,753	1,996
2019	323	1%	30,806	99%	31,130	224	1,731	1,955
2020	311	1%	33,215	99%	33,526	217	1,691	1,908
2021	265	1%	36,952	99%	37,217	196	1,677	1,873

Only active members are shown. Members who are not underwriting but remain on the electoral register are not included in the figures.

Source: Lloyd's

Appendix 4
Calendar Year Gross Written Premium by Main Business Class (2020-2021)
(GBP Millions)

	2020	2021	% change
Reinsurance	12,159	14,337	17.9%
Property	9,227	9,587	3.9%
Casualty	9,067	10,360	14.3%
Marine, Aviation and Transport	2,976	2,909	-2.3%
Energy	1,265	1,262	-0.2%
Motor	720	713	-1.0%
Life	52	48	-7.7%
Total from syndicate operations	**35,466**	**39,216**	**10.6%**
Transactions between syndicates and the Society and insurance operations of the Society	0	0	
Total calendar year premium income	**35,466**	**39,216**	**10.6%**

Note: Figures include brokerage and commission.

Source: Lloyd's Annual Report 2021

Appendix 5
Gross Written Premium by Territory (2021)

	2021
US & Canada	55%
UK	12%
Rest of Europe	11%
Central Asia & Asia Pacific	15%
Other Americas	7%
Total	**100%**

Source: Lloyd's Investor Roadshow Presentation 2022

Appendix 6
Composition of Capital (2020-2021)
(%)

	2020	2021
US insurance industry	17	16
Bermudian insurance industry	15	16
UK insurance industry	15	13
Japan insurance industry	10	8
European insurance industry	10	9
Rest of the World insurance industry	11	12
Private capital - limited & unlimited	9	10
Worldwide non-insurance	8	11
Middle/Far East insurance industry	5	5
Total	**100**	**100**

Note: Capital providers shown as a percentage of overall capacity.

Source: Lloyd's Annual Report 2020 and Lloyd's Investor Roadshow Presentation 2022

Appendix 7
Chain of Security

Syndicate Level Assets	→	Premium Trust Funds Overseas Regulatory Deposits GBP60,600m (GBP55,194m) (Several basis)
Members' Funds at Lloyd's	→	Funds at Lloyd's GPB31,300m (GBP30,959m) (Several basis)
Central Assets	→	Central Fund GPB3,000m (GBP2,957m) Subordinated Loan Notes and Subordinated Perpetual Capital Securities GBP796m (GBP795m) Other Central Assets is Nil (GBP70m) (Mutual basis)

Note: Figures are shown as at 31 December 2021 (31 December 2020).

Source: Lloyd's

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