

Lloyd's Principles Based Oversight Framework

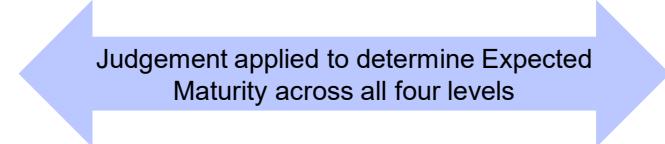
Materiality Measures for setting Expected Maturity

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Materiality Measures for setting Expected Maturity

- The guidance supporting Lloyd's Principles for Doing Business is expressed across four levels of maturity. These levels are Foundational, Intermediate, Established and Advanced.
- The Expected Maturity level for each syndicate or managing agent is determined by materiality metrics, which are specific to each Principle (or Dimension).
- The following slides provide high-level detail of the materiality metrics and their thresholds.
- Materiality metrics drive expected maturity in most cases. However, Lloyd's may also, in exceptional circumstances, choose to override the data-led expected maturity, where the risk for a specific syndicate is not adequately captured by this.

Materiality measures and thresholds (1 of 5)

Principle	Materiality measure	Foundational	Intermediate	Established	Advanced
Principle 1: Underwriting Profitability	<p><i>Metric to determine overall Principle-level materiality:</i></p> <ul style="list-style-type: none"> • Gross Written Premium (current year SBF) <p><i>Sub-principle 6, Pricing: Criteria to determine differentiated materiality:*</i></p> <ul style="list-style-type: none"> • The starting point for expected maturity is GWP as per the above thresholds. Judgement is applied by Lloyd's Pricing team, considering a range of factors to determine the final sub-principle materiality 	< £100m	>= £100m	>= £500m	> £1bn
	<p><i>Sub-principle 8, Sustainability: Criteria to determine differentiated materiality:*</i></p> <ul style="list-style-type: none"> • Strategic intent 	<p>Less sophisticated</p> <ul style="list-style-type: none"> • Low frequency classes • Limited exposure data • Low policy volumes • Heterogeneous risks • Portfolio rating 	 <p>Judgement applied to determine Expected Maturity across all four levels</p>		<p>More sophisticated</p> <ul style="list-style-type: none"> • High frequency classes • High volume of exposure data • High policy volumes • Homogeneous risks • Individual risk rating
		<ul style="list-style-type: none"> • No business written relating to transition and sustainability. • No business written that may be at risk in the future due to transition difficulties • TCX class not within the SBF. 	<ul style="list-style-type: none"> • Some business written by the syndicate relating to transition and sustainability. • Minor risk to the syndicate from business written that may be at risk in the future due to transition difficulties • Unlikely to have dedicated staff. 	<ul style="list-style-type: none"> • Transition and sustainability are a material / important part of the business the syndicate writes. • Medium to significant risk to the syndicate from business written that may be at risk in the future due to transition difficulties • Likely to have dedicated staff. 	<ul style="list-style-type: none"> • Primary strategic intent relates to transition and sustainability.

* Differentiated Expected Maturity at sub-principle level is described within the commentary on the Syndicate on a Page (SOAP) for Underwriting Profitability. Where this is not described, the Expected Maturity for those sub-principles remains as per the overall Expected Maturity for Underwriting Profitability.

Materiality measures and thresholds (2 of 5)

Principle	Materiality measure	Foundational	Intermediate	Established	Advanced
Principle 1a: Legacy Reinsurance Underwriting Profitability (Applies to RITC syndicates only)	Gross Booked Reserves (Technical Provisions)	<= £1bn	N/A	> £1bn	> £2bn
Principle 2a: Catastrophe Exposure - Natural Catastrophe	<p><i>Maximum of</i></p> <ul style="list-style-type: none"> Level of the Gross Catastrophe Risk (Gross WW All Perils TVaR 1:200) <hr/> <ul style="list-style-type: none"> Catastrophe Risk Concentration (Final Net WW All Perils VaR 1:200/ ECA+Profit) 	>= 2,000,000	>= 100,000,000	>= 300,000,000	>= 800,000,000
Principle 2b: Catastrophe Exposure – Non-Natural Catastrophe	<p><i>Either / Or:</i></p> <ul style="list-style-type: none"> Exposure to non-nat cat exposed classes of business in absolute terms (GWP) <hr/> <ul style="list-style-type: none"> Proportion of non-nat cat exposed business written relative to total business written (GWP) / Materiality to syndicate <hr/> <ul style="list-style-type: none"> Exposure to potential major non-nat cat losses (RDS analysis) 	< £50m	>= £50m	>= £250m	> £1bn
Principle 3: Outwards Reinsurance	<ul style="list-style-type: none"> YOA Gross RI Premium (£m) <hr/> <ul style="list-style-type: none"> YOA Gross RI Premium as % of GWP <hr/> <ul style="list-style-type: none"> LCM5 1:200 AEP RI Recovery (£m) <hr/> <ul style="list-style-type: none"> Balance Sheet RI Recoverables (£m) <hr/> <ul style="list-style-type: none"> Balance Sheet RI Recoverables as % of ECA 	< £90m	>= £90m	>= £225m	>= £600m
		<30%	>=30%	N/A	N/A
		< £180m	>= 180m	>= £450m	>= £1,200m
		< £200m	>= £200m	>= £400m	>= £900m
		<100%	>=100%	N/A	N/A

Materiality measures and thresholds (3 of 5)

Principle	Materiality measure	Foundational	Intermediate	Established	Advanced
Principle 4: Claims Management	<p><i>First three metrics aggregated to form an average to determine overall Principle-level materiality. 'Volume of open claims – lead' is double weighted:</i></p> <ul style="list-style-type: none"> Volume of open claims – lead (Absolute number) <ul style="list-style-type: none"> Proportion of delegated lead claims (%) <ul style="list-style-type: none"> Proportion of lead vs follow claims (%) <p><i>Sub-principle 5, (relating to third-party management): Criteria to determine differentiated materiality: Expected Maturity follows Principle-level unless meeting threshold for Advanced:</i></p> <ul style="list-style-type: none"> Active Lead Binders (Absolute number) 	<4,000	>= 4,000	>= 9,000	> 24,000
Principle 5: Customer Outcomes	<p><i>Metric to determine overall materiality:</i></p> <ul style="list-style-type: none"> Applicable Policyholders (Absolute number) <p>Applicable Policyholders is the number of Eligible Complainants reported to Lloyd's by the managing agent for the FCA Eligible Complainant Return; and the number of beneficiaries reported to Lloyd's by the managing agent on the Lloyd's Master Policy Return.</p> <p><i>Metric to determine materiality of Sub-principle 5 only (relating to delegated authority business): Expected Maturity follows Principle-level unless meeting threshold for Advanced:</i></p> <ul style="list-style-type: none"> Active Lead Binders (Absolute number) 	0	<= 250,000	N/A	>100

Materiality measures and thresholds (4 of 5)

Principle	Materiality measure	Foundational	Intermediate	Established	Advanced
Principle 6: Reserving	<i>Combination of:</i>				
	<ul style="list-style-type: none"> • Syndicate Net Best Estimate Reserves • Casualty classes as % of Syndicate Net Best Estimate Reserve Total (subject to minimum £100m net casualty reserve threshold) 	< £200m	>= £200m	>= £1bn	> £2bn
Principle 7: Capital	<ul style="list-style-type: none"> • Ultimate SCR (latest approved current year, excluding RICB) • Syndicate Tail Risk - 99.8 % to 99.5% Claims Ratio Thresholds (subject to minimum £250m uSCR materiality threshold) 	<ul style="list-style-type: none"> • < £100m • N/A 	<ul style="list-style-type: none"> • >= £100m • N/A 	<ul style="list-style-type: none"> • >= £250m & • <10% 	<ul style="list-style-type: none"> • > £500m or • uSCR >£250m & Syndicate Tail Risk >10%
Principle 8: Investments	<i>Asset allocation:</i>				
	<ul style="list-style-type: none"> • Allocation to cash and investment grade government bonds; and/or • Allocation to alternative assets 	<ul style="list-style-type: none"> • > 90%; and • 0% 	N/A	<ul style="list-style-type: none"> • < 90%; or • >0% 	<ul style="list-style-type: none"> • < 90%; and • >10%
Principle 9: Liquidity	Not Applicable – Expected Maturity for all syndicates set to Foundational				
Principle 10: Governance, Risk Management and Reporting	<i>Metrics to determine overall materiality for all managing agents except those with only RITC syndicates:</i>				
	<ul style="list-style-type: none"> • Gross Written Premium (current year SBF) 	< £250m	>= £250m	>= £750m	> £1.5bn
	<i>Metrics to determine overall materiality for managing agents with only RITC syndicates:</i>				
	<ul style="list-style-type: none"> • Total Size of Net Reserves 	< £200m	>= £200m	>= £1bn	> £2bn

Materiality measures and thresholds (5 of 5)

Principle	Materiality measure	Foundational	Intermediate	Established	Advanced
Principle 11: Regulatory and Financial Crime	<p><i>Metrics to determine overall materiality for all managing agents except those with only RITC syndicates:</i></p> <p><i>Either / Or:</i></p> <ul style="list-style-type: none"> Amount of premium from high-risk territories Amount of premium from sanctioned territories 	<40% <0.5%	>=40% >=0.5%	>=60% >=1%	>70% >=2%
Metrics considered both for business written and forecasted business in next year of account	<ul style="list-style-type: none"> Method of placement - number of coverholders domiciled in high-risk territories Method of placement - number of coverholders domiciled in sanctioned territories 	<40% <0.5%	>=40% >=0.5%	>=60% >=1%	>70% >=2%
	<ul style="list-style-type: none"> Amount of premium in high-risk classes of business 	<10%	>=10%	>=20%	>30%
	<p><i>Metrics to determine overall materiality for managing agents with only RITC syndicates:</i></p> <p><i>Either / Or:</i></p> <ul style="list-style-type: none"> Overall syndicate claims reserves arising from higher risk codes (class of business) Overall syndicate claims reserves arising from high-risk territories (including sanctioned) 	<=£50m	N/A	>£50m	>£100m
	<ul style="list-style-type: none"> Number of eligible complainants 	<=£50m	N/A	>£50m	>£100m
Principle 12: Operational Resilience	<p><i>Either / Or:</i></p> <ul style="list-style-type: none"> Total Size of Net Reserves 	<100,000	>=100,000	>=250,000	>750,000
	<ul style="list-style-type: none"> Total Workforce 	<100	>=100	>=500	N/A
Principle 13: Culture					