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A.M. BEST EUROPE – RATING SERVICES LIMITED, LONDON

FOR IMMEDIATE RELEASE

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A.M. Best Affirms Ratings of Lloyd's of London

LONDON, 14 July 2011—A.M. Best Europe – Rating Services Limited has affirmed the financial strength rating of A (Excellent) and issuer credit rating (ICR) of “a+” of **Lloyd's of London** (Lloyd's) (United Kingdom) and **Lloyd's Insurance Company (China) Limited** (LICCL) (China). At the same time, A.M. Best has affirmed the ICR of “a” and the debt ratings of “a-” on the subordinated loan notes issued in two tranches in November 2004 (6.875% subordinated notes of GBP 300 million maturing 17 November 2025 and 5.625% subordinated notes of EUR 253 million maturing 17 November 2024), as well as the 7.421% GBP 419 million junior perpetual subordinated loan notes issued in June 2007 of the **Society of Lloyd's** (United Kingdom). The outlook for all ratings is stable.

Lloyd's capitalisation is expected to remain strong into 2012, underpinned by a stable central capital base. Central assets for solvency purposes rose 8% in 2010 to GBP 3,046 million and are likely to remain close to this level throughout 2011. The exposure of central resources to insolvent members continues to diminish as run-off liabilities decline. In addition, the Corporation's robust risk-based approach to setting member level capital, as well as its close monitoring of the various syndicates' performance and catastrophe exposure, should reduce the risk of material drawdowns on the central fund from future member insolvencies.

Earnings in 2011 are expected to deteriorate from the solid GBP 2,195 million reported in 2010, reflecting above average catastrophe losses in the first half of the year, and to a lesser extent, challenging market conditions

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for casualty business. The largest losses to date relate to the earthquake and tsunami in Japan, with overall net claims to Lloyd's estimated at GBP 1,220 million, the earthquake in New Zealand estimated at GBP 750 million and the flooding in Australia at GBP 406 million. Although these loss estimates remain subject to considerable uncertainty, current figures do not exceed A.M. Best's expectation for Lloyd's exposure to such events, and central capital is unlikely to be affected.

A positive overall result in 2011 is possible in spite of the difficult start to the year, with the support of prior year surpluses and investment earnings. An underwriting loss is anticipated, but this is likely to be modest in the absence of above average catastrophe losses in the second half of the year. A pre-tax profit of GBP 2,195 million in 2010 (2009: GBP 3,868 million) represented a good result for Lloyd's after 2009's record performance. The reduction in earnings reflected the impact of the year's catastrophes, particularly the Chilean and New Zealand earthquakes and the Deepwater Horizon oil rig explosion. Results benefited from an overall reserve release of GBP 1,016 million (2009: GBP 934 million), despite the adverse development of motor reserves and lower surpluses on casualty reserves.

Lloyd's benefits from an excellent position in the global insurance and reinsurance markets. The collective size of the market and its unique capital structure enable syndicates to compete effectively with large international insurance groups under the well recognised Lloyd's brand. Good financial flexibility is enhanced by the diversity of capital providers, which include corporate and non-corporate investors. Although a number of traditional Lloyd's businesses have established other underwriting platforms in locations such as Bermuda, the United States and Switzerland, their commitment to the market remains strong. In addition, Lloyd's continues to attract international businesses, drawn by its capital efficient structure and global licences.

A smooth transition to the Solvency II regulatory regime in 2013, including the approval of a Solvency II compliant internal capital model, is crucial if Lloyd's is to retain its unique capital efficiencies. The calibration of

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the Solvency II standard formula has yet to be finalised, but the fifth Quantitative Impact Study (QIS5) provided some insight into the capital burden that may result if internal model approval is not achieved. Preparations are well advanced at both Corporation and managing agent level, but Lloyd's is working to a tight timetable and published deadlines must be met if compliance and model approval are to be achieved.

The ratings of LICCL reflect explicit support from Lloyd's in the form of quota share retrocession contracts that transfer all reinsurance risk underwritten to syndicates that elect to write business through LICCL. In addition, the ratings take into account the operating model that LICCL will use to write direct insurance business employing mechanisms that comply with local regulatory requirements but that transfer the greater part of the risk to Lloyd's.

The principal methodology used in determining these ratings is [Best's Credit Rating Methodology -- Global Life and Non-Life Insurance Edition](#), which provides a comprehensive explanation of A.M. Best's rating process and highlights the different rating criteria employed. Additional key criteria utilised include: "Risk Management and the Rating Process for Insurance Companies"; "Rating Members of Insurance Groups"; and "A.M. Best's Ratings & the Treatment of Debt". Methodologies can be found at www.ambest.com/ratings/methodology.

In accordance with Regulation (EC) No. 1060/2009, the following is a link to required disclosures:

[A.M. Best Europe - Rating Services Limited Supplementary Disclosure](#).

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