

## **FITCH AFFIRMS LLOYD'S OF LONDON IFS RATING AT 'A+'; OUTLOOK STABLE**

Fitch Ratings-London-17 December 2010: Fitch Ratings has today affirmed Lloyd's of London's (Lloyd's) Insurer Financial Strength (IFS) rating at 'A+'. Fitch has also affirmed the Society of Lloyd's Long-term Issuer Default Rating (IDR) at 'A', and affirmed Lloyd's Reinsurance Company (China) Ltd's IFS rating at 'A+'. All three ratings have Stable Outlooks. Fitch has additionally affirmed Lloyd's subordinated debt issues, as detailed at the end of this comment, at 'BBB+'.

The rating affirmation reflects the strong financial profile of Lloyd's and robust operating performance so far during 2010, which has been achieved against an uptick in major loss events in H110. The rating action also reflects Fitch's expectations that Lloyds' FY2010 results will exceed the agency's earlier forecast, which anticipated FY2010 net income of GBP1.75bn. Lloyd's strong capital position and the conservative allocation of both several and mutual assets are also viewed as positive rating factors.

While Fitch expects lower premium pricing and reduced levels of investment income to create further earnings pressure in 2011, the agency believes that Lloyds' strong capital will help to mitigate the effects of any earnings volatility, with this expectation being reflected by the Stable Outlook.

"While the series of large losses experienced in the first half of 2010 has resulted in a deterioration in the 2010 underwriting performance versus the strong 2009 result achieved in relatively benign conditions, Fitch believes that prior year reserves will show a respectable level of surplus" says Martyn Street, Director in Fitch's Insurance Group. "Fitch also views positively the fact that Lloyd's has to date not had to revise its initial loss estimates upwards for the major events that occurred in H110."

The historic volatility of Lloyd's results has been driven by its substantial exposure to catastrophe events, which has resulted in higher-than-industry-average losses in years of significant catastrophe activity.

A marked decline in the level of reported profitability, erosion of capital, including Central Fund assets, and poor performance relative to peers would likely lead to downward rating pressure. Positive rating pressure would come from a reduced level of earnings volatility versus peers, in the wake of a large catastrophe event, or evidence of earnings resilience during a prolonged period of increased attritional losses and lower premium pricing conditions. Fitch continues to view the work of Lloyds' Performance Management Directorate (PMD), which reviews and controls the performance of individual syndicates, as being a key mechanism in improving the stability of earnings at Lloyd's in the medium term.

Market participants at Lloyd's collectively underwrote GBP13.5bn of gross written premiums (GWP) in H110, a y-o-y increase of 0.2% and profit before tax (PBT) of GBP628m, a y-o-y decrease of 52%. The major losses experienced in H110 were reflected in the combined ratio which deteriorated to 98.7% (6M09: 91.6%, with major losses adding 17.1% to the combined ratio (6M09: 3.2%).

The subordinated debt ratings are as follows:

GBP300m 6.875% per annum subordinated debt with final maturity in November 2025, callable from November 2015, affirmed at 'BBB+'

EUR253m 5.625% per annum subordinated debt with final maturity in November 2024, callable from November 2014, affirmed at 'BBB+'

GBP440m 7.421% per annum perpetual subordinated debt, redeemable in 2017, affirmed at 'BBB+'

Lloyd's has a global franchise and operates in over 200 countries and territories. It is a leading market for reinsurance and specialist property, casualty, marine, energy and aviation insurance.

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Additional information is available on [www.fitchratings.com](http://www.fitchratings.com).

Applicable criteria, 'Insurance Rating Methodology' dated 16 August 2010 and 'Non-Life Insurance Rating Methodology' dated 24 March 2010, are available on [www.fitchratings.com](http://www.fitchratings.com)

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