

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

Fitch Ratings-London-20 July 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 Lloyd's strong operating performance during 2009, with reported results ahead of Fitch's expectations. The agency notes that Lloyd's 2009 performance was supported by a series of beneficial factors that are unlikely to be repeated in 2010. These included a benign US windstorm season, a recovery in investment results, favourable foreign exchange movements in respect of gross written premium (GWP) growth and improved pricing conditions. Lloyd's strong capital position and the conservative allocation of both several and mutual assets are also considered to be positive rating factors.

The Stable Outlook reflects Fitch's expectation that 2010 will prove to be a more challenging year for Lloyd's.

"A series of large losses that occurred in the first quarter of 2010 have worsened underwriting performance for both primary and reinsurance participants, including Lloyd's," says Martyn Street, an Associate Director in Fitch's Insurance Group. "When considered against other factors, including Fitch's expectation of reduced investment returns and a pricing environment that is less favourable than that experienced during 2009, the agency anticipates that Lloyd's will report a reduced level of earnings for 2010."

Despite this expectation, however, Fitch believes that Lloyd's will remain profitable and continue to strengthen its financial profile going forward.

The agency notes that 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 high catastrophe activity.

"In the near- to medium-term, Fitch believes that the work of Lloyds' Performance Management Directorate (PMD), which reviews and controls the performance of individual syndicates, will be reflected in a reduced level of earnings volatility which would put positive pressure on Lloyd's rating," says Chris Waterman, Managing Director in Fitch's Insurance Group.

Market participants at Lloyd's collectively underwrote GBP22.0bn of gross written premiums (GWP) in 2009, marking a y-o-y increase of 22% (8% on a currency adjusted basis) and profit before tax (PBT) of GBP3.9bn, a y-o-y increase of 103.7%. The improvement in the 2009 underwriting result was reflected in an accident year combined ratio of 91.7% (2008: 100.5%), with major losses adding just 2.1% to the combined ratio (2008: 12.7%).

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.

Applicable criteria, 'Insurance Rating Methodology', dated 29 December 2009, and 'Non-Life Insurance Rating Criteria (Global)', dated 2 March 2007, are available on [www.fitchratings.com](http://www.fitchratings.com)

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

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