Fitch Ratings-London-22 July 2011: Fitch Ratings has 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 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 at 'BBB+', as detailed at the end of this comment.

The rating affirmation reflects the strong financial profile of Lloyd's, which has successfully withstood the unprecedented catastrophe losses sustained by the insurance industry during Q111. The rating action also reflects Fitch's expectations that Lloyd's will remain profitable in 2011, despite the Q111 catastrophe events. The agency forecasts a pre-tax profit of GBP575m, but notes that this figure relies primarily on investment income and assumes that catastrophe losses through the remainder of 2011 revert to more normal levels. 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. This expectation is reflected by the Stable Outlook.

"While Fitch anticipates that Lloyds' results will be weaker for the 2011 financial year, it believes that the market will remain profitable," says Martyn Street, Director in Fitch's Insurance Group. "The agency continues to view Lloyd's earnings resilience to events such as those that occurred at the start of 2011 as the primary driver for Lloyd's rating," Street added.

The historical 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. 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.

A marked decline in the level of reported profitability, erosion of capital, including central fund assets, and poor performance relative to peers could lead to a downgrade.

Key drivers for an upgrade would be 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.

Market participants at Lloyd's collectively underwrote GBP22.6bn of gross written premiums (GWP) in 2010, a y-o-y increase of 3% and profit before tax (PBT) of GBP2.2bn, a y-o-y decrease of 43%. 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.

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+'
GBP419m 7.421% per annum perpetual subordinated debt, callable in 2017, affirmed at 'BBB+'