Fitch Ratings-London-09 July 2012: 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 Insurance 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+' (see below).

The affirmations reflect the strong financial profile of Lloyd's, which has demonstrated the ability to absorb what proved to be an unprecedented level of natural catastrophe losses sustained by the insurance industry during 2011. The rating actions also reflect Fitch's expectations that Lloyd's earnings will recover through 2012, driven by a marked improvement in the underwriting result. The agency's central forecast includes a pre-tax profit of GBP1.6bn and combined ratio of 95%, assuming a normalised level of catastrophe losses through the remainder of 2012. Lloyd's strong capital position and the conservative allocation of both several and mutual assets are also viewed as positive rating factors.

Fitch remains cautious about the significance that rising premium prices will play in improving 2012 profitability, noting that meaningful premium rate rises during H112 have been confined to loss affected insurance classes and geographies. This expectation is reflected by the Stable Outlook.

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 a key mechanism in improving the stability of earnings at Lloyd's in the medium term.

A marked erosion of capital strength, as measured on Fitch's risk-adjusted basis, but also considering losses falling to central fund assets, and poor underwriting performance relative to peers could lead to a downgrade.

Key drivers for an upgrade would be a reduced level of earnings volatility and underwriting results 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 GBP23.5bn of gross written premiums in 2011, a y-o-y increase of 3.9% (6% at a constant rate of exchange) and a loss before tax of GBP516m. 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+'
GBP392m 7.421% per annum perpetual subordinated debt, callable in 2017, affirmed at 'BBB+'

Contact:
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Additional information is available on www.fitchratings.com. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.


Applicable Criteria and Related Research:
Insurance Rating Methodology

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