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A.M. Best Revises Outlook to Positive for Ratings of Lloyd’s, Lloyd’s Insurance Company (China) Limited and Society of Lloyd’s

LONDON, 19 July 2013—A.M. Best Europe – Rating Services Limited has revised the outlook to positive from stable and affirmed the financial strength rating (FSR) of A (Excellent) and issuer credit ratings (ICR) of “a+” of Lloyd’s (United Kingdom) and Lloyd’s Insurance Company (China) Limited (LICCL) (China). At the same time, A.M. Best has revised the outlook to positive from stable and affirmed the ICR of “a” of the Society of Lloyd’s (the Society) (United Kingdom) and the debt ratings of “a-” on the subordinated loan notes issued by the Society in two tranches in November 2004 (6.875% subordinated notes of GBP 153 million maturing 17 November 2025 and 5.625% subordinated notes of EUR 214 million maturing 17 November 2024), and the 7.421% GBP 392 million junior perpetual subordinated loan notes issued in June 2007.

The positive outlook reflects the market’s strong operating performance in recent years, in spite of the exceptional record of natural catastrophes, and A.M. Best’s assessment of the robust oversight of the market by Lloyd’s Performance Management Directorate and its demonstrable success in reducing earnings volatility. The outlook also reflects the steady improvement in the market’s risk-adjusted capitalisation and A.M. Best’s expectation that the current level of capitalisation will be maintained for the foreseeable future.

The stability of Lloyd’s central capital base supports A.M. Best’s view that capitalisation will remain strong in 2013 and into 2014. Central assets for solvency purposes rose over 4% in 2012 to GBP 3,215 million and are likely to remain close to this level throughout 2013, in spite of a buy-back of approximately GBP 180

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million of subordinated debt in May 2013. The exposure of central resources to insolvent members continues to diminish as run-off liabilities decline. In addition, Lloyd’s robust risk-based approach to setting member level capital, as well as its close monitoring of syndicates’ performance and catastrophe exposure, should reduce the risk of material drawdowns on the central fund. Moreover, A.M. Best believes that Lloyd’s internal capital model, which is already being used to determine its solvency capital ratio under transitional arrangements pending the implementation of Solvency II, enhances Lloyd’s understanding of the likelihood and potential magnitude of claims being made upon central assets from future member insolvencies.

After a pre-tax loss of GBP 516 million in 2011, one of the worst years on record for catastrophe losses, Lloyd’s reported an excellent profit in 2012 of GBP 2,771 million, in spite of losses arising from the Costa Concordia grounding, Hurricane Isaac and Superstorm Sandy. This result was supported by prior-year reserve releases of GBP 1,351 million, but the low interest rate environment continued, depressing investment returns.

Assuming another normal year for catastrophe events, performance in 2013 is expected to be similar to that in 2012, although there have been some significant losses in the first half of 2013. A combined ratio below 95% is anticipated (2012: 91%). Underwriting results are again likely to be supported by prior year reserve releases, albeit at a more modest level than in recent years.

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.

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 reinsurance business through LICCL. In addition, the ratings take into account the operating model that LICCL uses to write direct

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insurance business employing mechanisms that comply with local regulatory requirements but that transfer the greater part of the risk to Lloyd’s.

Following the revision of the outlook to positive from stable for the ratings of Lloyd’s, A.M. Best has reviewed the syndicates that have interactive ratings at the market level. The FSR of A (Excellent) and ICR of “a+” have been affirmed and the outlook for these ratings revised to positive from stable for the syndicates listed below, to reflect the rating action on Lloyd’s. These ratings are based on A.M. Best-specific syndicate criteria.

Continued strong operating performance and capitalisation could lead to a further positive rating action, but an unexpectedly weak performance or significant erosion of capital would put downward pressure on all ratings.

The FSR of A (Excellent) and ICR of “a+” have been affirmed, and the outlook for these ratings has been revised to positive from stable for the following Lloyd’s syndicates:

- **Lloyd’s Syndicate 33**, managed by Hiscox Syndicates Ltd
- **Lloyd’s Syndicate 2623**, managed by Beazley Furlonge Limited
- **Lloyd’s Syndicate 623**, managed by Beazley Furlonge Limited
- **Lloyd’s Syndicate 3623**, managed by Beazley Furlonge Limited
- **Lloyd’s Syndicate 3622**, managed by Beazley Furlonge Limited
- **Lloyd’s Syndicate 2010**, managed by Cathedral Underwriting Limited
- **Lloyd’s Syndicate 609**, managed by Atrium Underwriters Limited
- **Lloyd’s Syndicate 1225**, managed by AEGIS Managing Agency Limited
- **Lloyd’s Syndicate 510**, managed by R.J. Kiln & Co Limited
- **Lloyd’s Syndicate 2003**, managed by Catlin Underwriting Agencies Limited
- **Lloyd’s Syndicate 3000**, managed by Markel Syndicate Management Limited

The rating of **Lloyd’s Syndicate 2001**, managed by Amlin Underwriting Ltd, is not affected as this syndicate is currently rated above the Lloyd’s market level.

The methodology used in determining these ratings is Best’s Credit Rating Methodology, which provides a comprehensive explanation of A.M. Best’s rating process and contains the different rating criteria employed in the rating process. Best’s Credit Rating Methodology can be found at [www.ambest.com/ratings/methodology](http://www.ambest.com/ratings/methodology).
In accordance with Regulation (EC) No. 1060/2009, the following is a link to required disclosures:

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