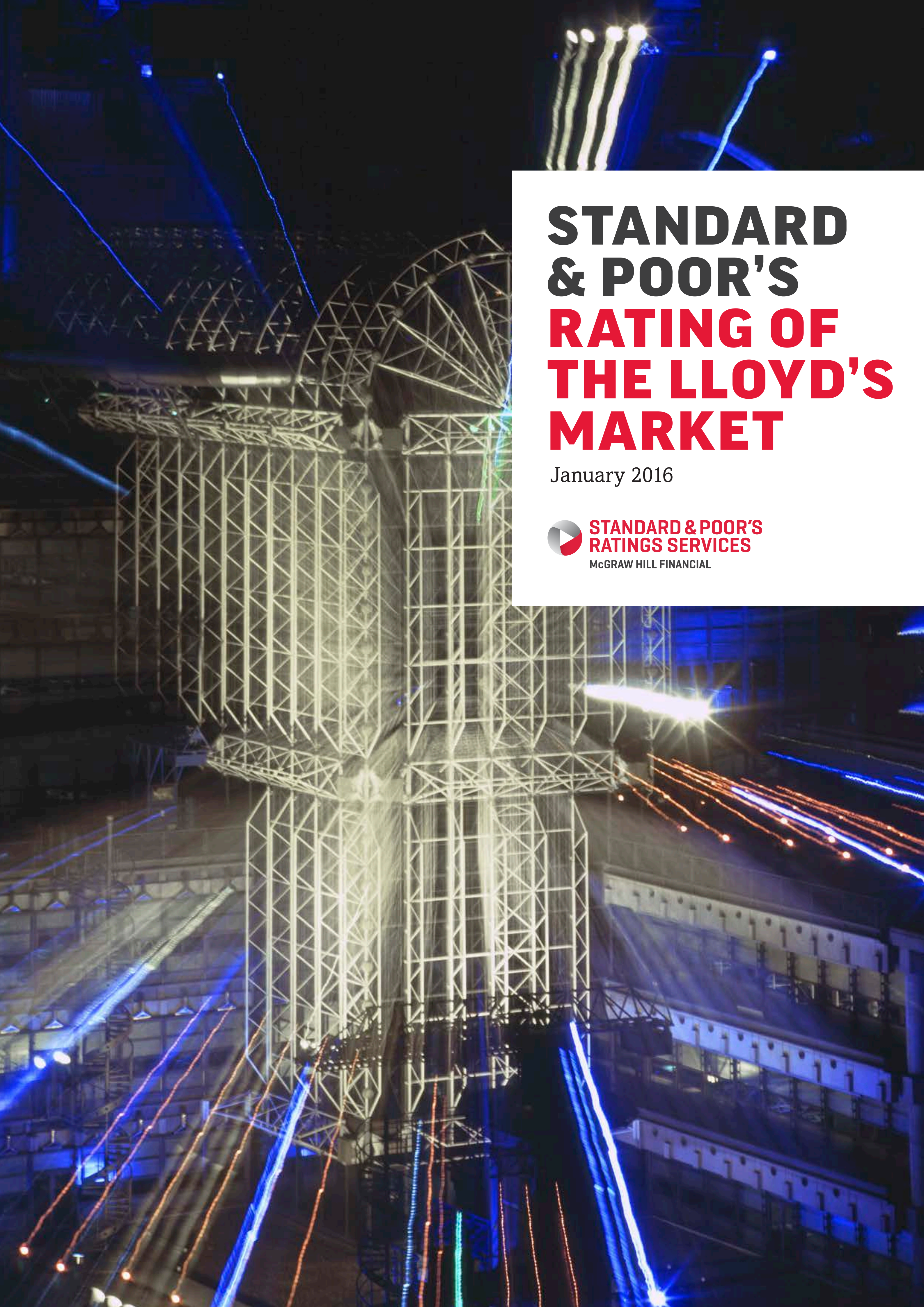


STANDARD & POOR'S RATING OF THE LLOYD'S MARKET

January 2016

STANDARD & POOR'S
RATINGS SERVICES
McGRAW HILL FINANCIAL

STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

STANDARD & POOR'S RATING OF THE LLOYD'S MARKET

January 2016

Principal Analysts:

Mark Nicholson
Director, London

Dennis Sugrue
Director, London

Research Contributor:
Emma Millson, London

Published by Standard & Poor's Insurance Ratings

For further information please contact:

Mark Nicholson
Standard & Poor's
20 Canada Square
London E14 5LH
Tel: +44 (0)20 7176 7991
Fax: +44 (0)20 7176 7003
mark.nicholson@standardandpoors.com

CONTENTS

INTRODUCTION

Lloyd's is an insurance market, not a single legal insurance entity. Capital providers termed "members" or "Names", each providing capital to back their liabilities, underwrite the insurance business within the Market on a several basis. In practice the members group into syndicates for the purposes of assuming insurance liabilities. Lloyd's structure, however, includes a Central Fund that provides partial mutualisation of the capital base. As a result, all Lloyd's policies are backed by Lloyd's common security, which enables Standard & Poor's to assign an Insurer Financial Strength Rating that applies across the Market.

The Insurer Financial Strength Rating of Lloyd's is a rating that applies currently and prospectively to each policy issued by Lloyd's from the 1993 year of account onwards. Lloyd's non-life liabilities for the years 1992 and prior, including those that are asbestos exposed, were mostly reinsured into Equitas Limited (Equitas). The rating does not apply to Equitas.

The rating applies to all syndicates regardless of their individual performance relative to other syndicates and Market aggregates. Inter alia, better performing syndicates contribute positively, and poorer performing syndicates contribute negatively, to the rating.

The rating has been prepared based on information provided at formal meetings with the Corporation of Lloyd's management and participants in the Market including leading underwriters, managing agents and capital providers. The extensive programme of meetings with representatives of the above, together with confidential and public information supplied, has formed the basis for the rating. Standard & Poor's has maintained continuous "surveillance" over the rating since it was first assigned in 1997. This involves a review of public and confidential information, as it becomes available, and an ongoing dialogue with Lloyd's management.

EXECUTIVE SUMMARY

Financial Strength Rating
Local Currency A+/Stable/--

Rationale

Business Risk Profile

- Very strong competitive position as a leading global subscription and specialty market.
- Very wide geographic and product coverage; able to accept business from more than 200 countries and territories.
- Venerable brand and resurgent franchise, which attracts a regular flow of new members and therefore business.
- Price competition across the global reinsurance industry that will require Lloyd's to defend its market position.

Financial Risk Profile

- Very strong capital and earnings supported by strong historical earnings generation, and capital adequacy that exceeds our benchmark for 'AAA'. This is slightly offset by constraints on fungibility and reliance on letters of credit, and the underlying financial strength of some of the capital providers.
- We anticipate that the inflow of new capital and changing buyer demand will create further negative pressures on profitability and revenues in the reinsurance and specialty lines sectors.
- High risk position, reflecting our view that the potential loss severity of the business written presents a very material risk to Lloyd's financial risk profile.
- Strong financial flexibility due to diverse and growing base of capital providers and mutual structure.

Other Factors

- Strong enterprise risk management, characterized by a strong risk culture, strategic risk management, and risk controls.
- We positively view the role of the corporation in supervising syndicates' business plans and capital allocation.

Outlook

The outlook is stable. We expect that the market will produce a combined ratio of 94% in 2015 and 99% in 2016, assuming normalized catastrophe losses. Such performance would imply profitability of £1.8 billion and £1.2 billion, respectively. We anticipate that premiums written in the market will decline modestly over 2015-2016 as soft pricing conditions continue.

We are unlikely to raise our rating in the next 12-24 months. This would require a marked improvement in the reinsurance sector's pricing environment.

We are also unlikely to lower our rating in the next two years. This is due to Lloyd's competitive and capital strengths. A catastrophe loss significantly outside Lloyd's expectation or tolerance levels could, however, prompt a negative rating action.

Base-Case Scenario

Macroeconomic Assumptions

- Government yields to increase over the next two-to-three years, but to remain below long-term historical norms until at least 2016
- Economic growth in developed markets to improve, but remain sluggish, lagging growth in developing markets. For detailed macroeconomic forecasts, see "Insurance Industry And Country Risk For The Global Property/Casualty Reinsurance Sector Is Intermediate," published on July 18, 2014.

Company-Specific Assumptions

- Pricing in Lloyd's main lines of business to decline by 0%-10%, on average, over the next two years in the absence of any major loss event.
- Capital adequacy to remain above the 'AAA' benchmark through 2015.
- The combined ratio to remain strong between 98%-102% from 2015-2017, including an average catastrophe load of 12 points.
- Reserve releases to continue.
- Broker-led capacity facilities do not lead to material deterioration of the market's competitive position.
- Catastrophe risk exposure to remain manageable, and within stated risk tolerance.

Key Metrics

KEY METRICS FORECAST

	2016f	2015f	2014	2013	2012
Gross written premiums (Mil. £)	24,279	24,525	25,283	26,106	25,500
Combined Ratio (nonlife) (%)	99.00	94.00	88.13	85.67	90.67
Net income (Mil. £)	1,120	1,802	3,161	3,205	2,771
Net investment yield (%)	2.00	1.60	1.69	2.12	1.94
Return on revenue (%)	5.60	9.10	14.96	16.94	12.84

f--Forecast.

COMPANY DESCRIPTION

Diversified Global Multiline Insurer

The London-based Lloyd's insurance market is a major participant in specialty commercial insurance and reinsurance worldwide. Lloyd's wrote gross premiums in 2014 of £25.3 billion (2013: £26.1 billion) across a diverse range of classes, predominantly via broker distribution.

Lloyd's has very wide geographic coverage, with specific trading rights to write insurance business in over 75 jurisdictions and the ability to write reinsurance in over 200 countries and territories. Nevertheless, a significant majority of income continues to be sourced from North America and the U.K. About one quarter of the net premium written relates to property catastrophe business. Lloyd's currently operates in over 25 countries and has established offices in Singapore, Japan, China, Canada and Brazil.

CHOICE OF ANCHOR

The ratings reflect our views of Lloyd's business risk profile as very strong and its financial risk profile as moderately strong. These factors lead to an anchor of either 'a' or 'a+'. We used an 'a+' anchor because we believe that Lloyd's overall creditworthiness benefits from its positive brand and reputation differentiation. It also benefits from the diversification of its product offering, to an extent not fully captured in our business risk profile assessment.

BUSINESS RISK PROFILE

Insurance industry and country risk: Intermediate risk, owing to high product risk and globally diverse operations in major stable economies
We assess Lloyd's industry and country risk as intermediate, reflecting its exposure to moderate risk in non-life reinsurance and low country risk. Our view of Lloyd's low country risk reflects its globally diversified risk exposures, mainly in major global developed markets.

We view the subscription business written at Lloyd's as reinsurance for the purposes of our industry and country risk analysis. We therefore apply our assessment of moderate non-life reinsurance industry risk to the rating on Lloyd's. Product risk is a typical feature of the reinsurance industry because of the unpredictable nature of catastrophes. A large proportion of Lloyd's product offering is exposed to this risk.

Competitive position: Unique brand as the world's leading subscription market, and diverse capital base and products
Lloyd's has a unique brand, being the world's largest subscription market, and having a large geographic footprint from which it distributes its wide product offering.

Although Lloyd's managing agents operate as independent businesses, the size and diversity of underwriting capacity and expertise within the market allows it to compete with the largest global (re)insurance groups.

We feel that the increased level of competition in the global market will force Lloyd's to focus its efforts on defending its competitive position, particularly the market shares of its smaller, more narrowly focused managing agents. The society is promoting consortia as a way of enhancing the market power of its smaller members.

While broker facilities have not yet challenged its premium inflow, Lloyd's remains relatively dependent on brokers for its distribution, and many broker panels are consolidating and seeking single-capacity providers. The top six global brokers provide 50% of Lloyd's business.

We view Lloyd's brand and reputation as a key differentiator for the rating. The ability for one-stop shopping for various niche and standard products, the expertise of Lloyd's underwriters, and the strong face-to-face culture has led to policyholder and broker loyalty that we view as a competitive strength. Broker facilities and alternative capital have not materially impacted the market's premium base in recent years, although both remain latent threats.

Lloyd's enjoys a leading position in the global re/insurance market, which we view favorably. The market consistently ranks among the top five global reinsurers, and has taken over as the top excess and surplus writer in the U.S. since 2011. 2011. The Lloyd's market is also the leading reinsurer for global marine business.

In our opinion, Lloyd's geographic scope and presence in the global reinsurance market add to its strong diversification. However, Lloyd's underwriting portfolio and primary distribution channels lead to it being more credit-sensitive than some of its larger reinsurance peers. A significant majority of Lloyd's income (61%) is sourced from the U.S., Canada, and the U.K., which are particularly credit-sensitive markets compared with those in Continental Europe.

The market's long-term plan aims to support economic growth trends in emerging markets by providing re/insurance protection and attracting globally diverse business, capital, and expertise to London. However, we believe that this initiative will not be material for some time, especially given the challenge of retaining fresh business on the Lloyd's platform.

There are a number of other threats to Lloyd's very strong competitive position, in our view. First, we believe that the recent trend of broker-led capacity facilities being placed in the market could lead to increased competition, and deterioration in underwriting rigor if they were to substantiate to a level where they began to drive the terms and conditions of placements. It is still early though, and initial indications support the brokers' claims that these facilities are actually bringing more premium to Lloyd's and prices have not yet seen a material deterioration that can be reliably attributed to these facilities. The growing amount of alternative capital in the wider re/insurance market poses a similar threat to Lloyd's competitive position via competition and pricing. However, Lloyd's has been active in attracting new forms of capital to the market, notably through special purpose syndicates. Many syndicates can also benefit from the use of alternative capital in their own reinsurance protection programs.

Four new syndicates started to write business at Lloyd's in 2014 with two more in the first half of 2015. The effect on premiums and the additional diversification offered by these ventures has been limited. The purchase of Lloyd's participants by outside capital, much of it from Asia, has been more significant for the society's plans to bring fresh capital to the market.

The society continues to be active in acquiring licences for its members to do business in new territories and defending its existing market access as regulation evolves.

We expect negative pricing trends in Lloyd's major lines of business over the next 12 months. In addition, risk-adjusted rate adequacy continues to deteriorate.

The cost of doing business at Lloyd's has constrained our assessment of the market's competitive position. Lloyd's expense ratio has been 3-5 percentage points higher than the global reinsurance average over the last five years, driven by higher acquisition costs. Lloyd's management has sought to reduce the cost of doing business at Lloyd's in recent years, notably through simplifying claims handling. Nevertheless, rising regulatory costs have kept the market's expense ratio relatively high (39% in 2014--the highest of the last five years). We view managing the market's expense ratio as a key component of retaining business on the Lloyd's platform.

In 2014 the Lloyd's market produced a combined ratio of 88%, giving a £3.2 billion profit. The combined ratio benefited from 8% of reserve releases and only 3.4% of catastrophe losses, against our normalised expectation of 10%-12%.

In our base-case scenario, we expect Lloyd's to continue to exhibit strong earnings to sustain its extremely strong capital adequacy. We forecast a combined (loss and expense) ratio for the market of 94%-96% in 2015 and 98%-102%in 2016-2017, assuming average catastrophe (cat) loss levels. Historically, cat losses have been around 12 points of the combined ratio. In our view, the market should generate a return on capacity of 12% over 2015 and a return on revenue of 10%-15%. We base these projected returns on strong net income of £1.5 billion-£2 billion. We expect weakening rates to drive premiums 3% lower over 2015 to £25 billion and not to recover in 2016.

TABLE 1: LLOYD'S COMPETITIVE POSITION

	--Year ended Dec. 31--				
(Mil. £)	**2014**	**2013**	**2012**	**2011**	**2010**
Gross premiums written	25,283	26,106	25,500	23,477	22,592
Change in gross premiums written (%)	(3.15)	2.38	8.62	3.92	2.82
Net premiums written	20,024	20,231	19,435	18,472	17,656
Change in net premiums written (%)	(1.02)	4.10	5.21	4.62	2.54
Net premiums earned	19,575	19,725	18,685	18,100	17,111
P/C: reinsurance utilization - premiums written (%)	20.8	22.5	23.78	21.32	21.85

P/C--Property casualty.

FINANCIAL RISK PROFILE

We consider that Lloyd's enjoys extremely strong capital adequacy according to our model. The group's significant exposure to high severity products, and the resultant volatility in the market's earnings and balance sheet, offset the capital strength, however, and is a key risk to the ratings.

Capital and earnings: Capital adequacy to remain above the 'AAA' benchmark

The Lloyd's market has robust capital and has enjoyed strong earnings over 2012-2014 in the absence of significant catastrophic losses. This view is partially offset by the market's reliance on letters of credit (LOCs), which weakens our view of the quality of capital. However, we take comfort from the efficacy of the capital-setting processes. Reserve adequacy is strong, in our view, and we believe that there will continue to be a surplus position for the market.

Our capital model indicates extremely strong capital adequacy at year-end 2014. However, as the model is an aggregate of all the syndicates within the market, it cannot differentiate between the varying capital positions of the individual managing agencies and syndicates. We view the financial strength of some of the smaller capital providers as weak.

In addition, earnings in the market are re-distributed to capital providers after closing of years of account. Therefore, strong earnings do not necessarily indicate the ability to generate capital as directly as with a typical re/insurer. However, we believe that the market's track record of strong earnings generation attracts new capital, and incentivizes long-term commitment as losses can be recouped quickly.

Lloyd's central assets for solvency purposes were £3.2 billion as of December 2014. Lloyd's is required to hold central assets in excess of any solvency deficits at individual syndicates--although calls on the Central Fund have been limited to £11 million over the last five years. Additionally, 'open years' of account, with the potential to draw on central resources, are now greatly reduced.

Lloyd's' allowance of LOCs for members' provision of their funds at Lloyd's (FAL) requirements weakens the quality of the market's capital base, in our opinion. In 2014, LOCs accounted for 50% of the total £15.7 billion FAL. LOCs are suited to Lloyd's unique operating structure whereby syndicates are annual ventures, and thus the funds are committed at the start of each year of account. However, we view LOCs to be a short-term capital solution and therefore of less permanence and quality than other forms of capital, concentrated with a small number of banks, and relied on by some capital providers that might not be able to substitute with alternative capital.

TABLE 2: LLOYD'S CAPITALIZATION STATISTICS

	--Year ended Dec. 31--				
(Mil. £)	**2014**	**2013**	**2012**	**2011**	**2010**
Common shareholders' equity	22,586	20,386	19,300	18,216	18,191
Change in common shareholders' equity (%)	10.79	5.63	5.95	0.14	0.15
Total reported capital	23,471	21,107	20,193	19,114	19,121
Change in total capital (reported) (%)	11.20	4.53	5.65	(0.04)	0.00

TABLE 3: LLOYD'S EARNINGS STATISTICS

	--Year ended Dec. 31--				
(Mil. £)	**2014**	**2013**	**2012**	**2011**	**2010**
Total revenue	20,539	20,881	19,747	19,086	18,276
EBIT adjusted	3,073	3,537	2,536	(488)	2,115
EBITDA adjusted	3,078	3,550	2,536	(488)	2,115
Net income (attributable to all shareholders)	3,161	3,205	2,771	(516)	2,195
Return on revenue (%)	14.96	16.94	12.84	(2.56)	11.57
Return on shareholders' equity (reported) (%)	14.71	16.15	14.77	(2.84)	12.08
P/C: net expense ratio (%)	39.14	37.1	36.62	(2.84)	34.71
P/C: net loss ratio (%)	48.99	48.57	54.04	71.27	58.61
P/C: net combined ratio (%)	88.13	85.67	90.67	106.83	93.32

P/C--Property casualty.

Risk position: High risk position driven by potential for material volatility from catastrophe exposure

Lloyd's is significantly exposed to potential capital and earnings volatility through catastrophe risk. Of Lloyd's premiums, 66% come from the more catastrophe-exposed lines of reinsurance, property, and energy. We believe that these potential aggregations of risk represent a very material threat to Lloyd's risk profile, even though major losses for Lloyd's and the reinsurance market as a whole have been sparse over 2012-2015. While Lloyd's monitors its syndicates' exposure levels closely, its most recent risk management regime has not been tested by a major catastrophic loss.

We consider Lloyd's reserves to be strong, on a market-level, because its market reserving team centrally estimates and monitors held reserves, the results of which continue to indicate robust confidence levels. Reserve releases have materially bolstered the market's technical result in recent years. In 2014, there were significant reserve releases from the 2012 and 2013 policy years. The market's reserving protocols suggest to us that significant reserve releases will continue to support results in 2015-2017.

Lloyd's investment portfolio supports the rating, in our opinion, as it is well diversified across asset classes and obligors, with a manageable exposure to high-risk assets across the entire invested asset portfolio. Only 14% of the market's investments as of June 2014 were in equities or alternative asset classes, with the remainder in highly rated bonds or cash.

The Central Fund's investment policy has always been somewhat more aggressive. Given the intended long-term nature of the Central Fund, this approach is understandable. As of December 2014, 26% of investments were held in equities and hedge funds, and 5% in high-yield or emerging market bonds.

TABLE 4: LLOYD'S RISK POSITION					
	--Year ended Dec. 31--				
(Mil. £)	**2014**	**2013**	**2012**	**2011**	**2010**
Total invested assets	54,860	51,494	51,767	51,416	48,483
Net investment income	899	1,094	1,001	906	1,099
Net investment yield (%)	1.69	2.12	1.94	1.81	2.32
Net investment yield including realized capital gains/(losses) (%)	1.81	2.06	2.11	1.93	2.49
Portfolio composition (% of general account invested assets)					
Cash and short term investments (%)	26.89	28.32	29.76	30.16	28.33
Bonds (%)	58.24	56.75	58.86	59.91	61.14
Equity investments (%)	14.71	14.73	11.31	9.89	10.49
Other investments (%)	0.16	0.19	0.07	0.04	0.04

Financial flexibility: Strong, reflecting a broad range of capital providers and supportive leverage and coverage

In our view, the market benefits from its mutual structure, with the ability to access diverse capital providers in order to protect and enhance its Central Fund. Lloyd's has also demonstrated a willingness and ability to access the hybrid capital market and routinely places material reinsurance protection with highly rated carriers. Additionally, managing agents have been active in the alternative capital markets, mainly through sidecar vehicles. The market continues to improve the diversity of its capital and product base, as well as its business processes, which are designed to make Lloyd's more competitive and easier to do business with. Continued interest in Lloyd's from capital providers supports its attractiveness as an operating platform.

Financial leverage and fixed-charge coverage support the rating on Lloyd's. Notes maturing and redeemed in 2014 were replaced by a £500 million 10-year fixed-rate subordinated note issued in October 2014. Lloyd's financial leverage ratio was 4% as of December 2014. We expect this ratio to fall slightly over the rating horizon. Fixed-charge coverage was in excess of 30x in 2014, and our baseline forecast expects this to continue in excess of 20x through 2017.

OTHER ASSESSMENTS

Enterprise risk management: Strong controls and strategic risk management in a highly complex market

We have a positive view of Lloyd's risk-management culture, risk controls, and its strategic and emerging risk management of this highly complex marketplace. We believe that enterprise risk management (ERM) is of high importance to Lloyd's operations. Standard & Poor's believes that it is unlikely that Lloyd's will experience losses outside its risk tolerances.

For our ERM assessment we have considered the Central Fund as a provider of protection to the market and have assessed the risk controls and strategic risk management with this in mind. This ERM assessment is not a reflection of the ERM capabilities of the participants in the Lloyd's market.

Preparations for Solvency II at both central and syndicate level are now well advanced. Lloyd's ERM processes continue to develop, with enhanced focus in 2014-2015 on catastrophe modelling, emerging risk and conduct issues.

Management and governance: Strength of management team and tools support the market's improved financial strength

We consider that Lloyd's central management and the managing agents collectively, have significant expertise and experience.

We also hold a positive view of Lloyd's robust strategic planning process, which has been established and improved by its performance management and finance directorates in recent years. The initiatives implemented include a stringent business planning process and benchmarking exercises, and have fuelled significant improvements in performance standards and measurement.

We have not identified any governance deficiencies in our assessment.

Liquidity: Strong, thanks to ample sources

Lloyd's premium income flow provides readily available liquidity. The market also has a highly liquid asset portfolio that contains more than £40 billion in marketable securities. The entire Lloyd's chain of security could be liquidated in 90 days. We also credit the market's ability to call on members for capital injections throughout the year and withhold profits in order to ensure claims are paid as a positive factor for its liquidity assessment.

RELATED CRITERIA, RESEARCH AND RATINGS DETAIL

Related research

- Insurance Industry And Country Risk For The Global Property/Casualty Reinsurance Sector Is Intermediate, July 18, 2014

Related criteria

- Insurers: Rating Methodology, May 7, 2013
- Enterprise Risk Management, May 7, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Use of CreditWatch and Outlooks, Sept. 14, 2009
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

TABLE 1: RATINGS DETAIL (AS OF JULY 21, 2015)

Lloyd's	
Financial Strength Rating	
Local Currency	A+/Stable/–
Related Entities	
Lloyd's Insurance Co. (China) Ltd.	
Financial Strength Rating	
Local Currency	A+/Stable/–
The Society of Lloyd's	
Issuer Credit Rating	
Local Currency	A+/Stable/–
Junior Subordinated	A–
Subordinated	A–
Underwriters at Lloyds of London, Illinois	
Financial Strength Rating	
Local Currency	A+/Stable/–
Underwriters at Lloyds of London, Kentucky	
Financial Strength Rating	
Local Currency	A+/Stable/–
Holding Company	The Society of Lloyd's
Domicile	United Kingdom

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

OVERVIEW OF THE LLOYD'S MARKET

1. **Lloyd's market participants**
2. **Lloyd's business profile**
3. **Governance and management of the Lloyd's market**
4. **Lloyd's "chain of security"**
5. **Market business process reform**
6. **Regulation of the Lloyd's Market**
7. **Distribution of profits**
8. **Lloyd's Trust Funds**

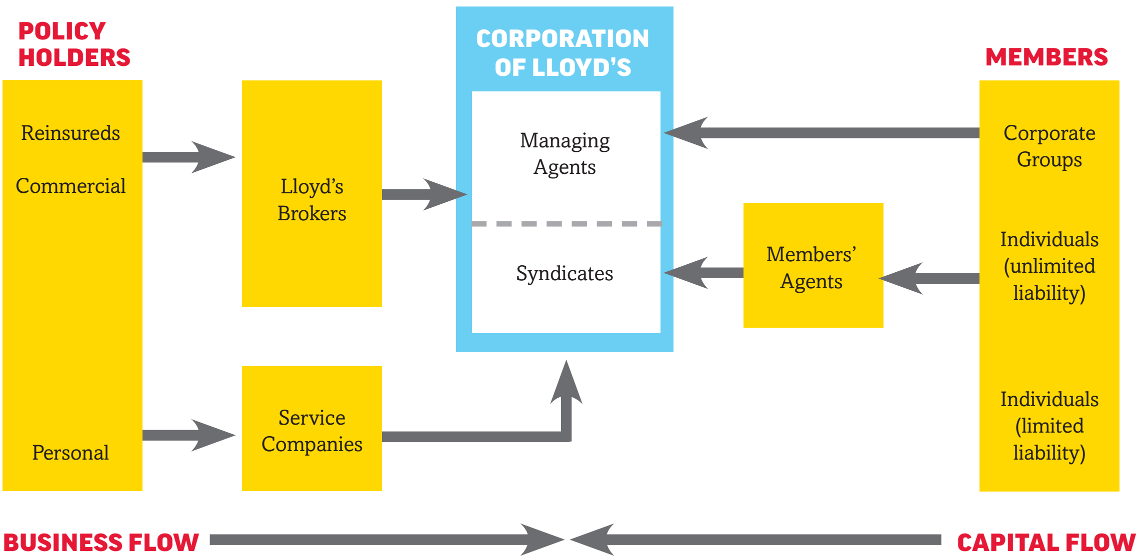
1. Lloyd's market participants

The Lloyd's Market is a unique insurance provider. First established in the late 17th century, it has, in the intervening 300 years, developed a worldwide reputation for an ability to provide innovative solutions for its clients. Lloyd's is not an insurance or reinsurance company, but a partially mutualized, competitive market place. Within it, buyers of insurance and reinsurance look to have their demand satisfied by risk carriers -- the Lloyd's capital providers (also referred to as 'Names' or 'members'), with the risk transfer process being facilitated by brokers.

The key components of the Lloyd's market are:

- Members;
- Syndicates;
- Managing agents;
- The Society of Lloyd's;
- Brokers; and
- Members' agents.

The structure of the marketplace can be represented diagrammatically as follows:



1.1 Members

Members are the capital providers and risk carriers at Lloyd's. Each year, they group together to form syndicates, managed on their behalf by managing agents, in order to severally accept insurance risk in return for insurance premiums.

Prior to the 1994 underwriting year, all Lloyd's members were private individuals who accepted insurance risk on a bespoke and unlimited-liability basis, that is, individually they put at risk the whole of their personal wealth. Following the severe losses suffered by Lloyd's in the 1988 to 1992 underwriting years, the wealth of the supporting members was seriously eroded. As a result, the Market's governing body, the Council, looked to corporations to solve the developing capital shortage problem.

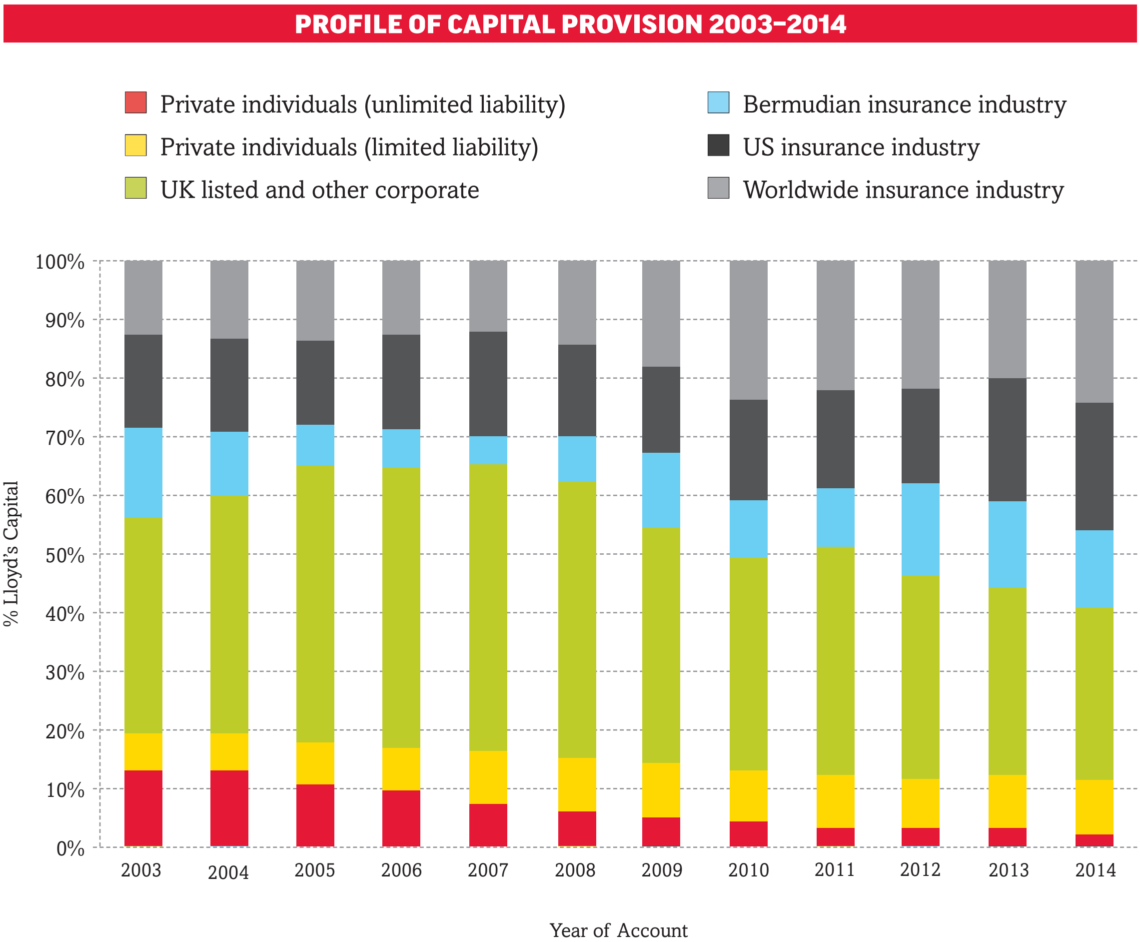
Corporate members, when introduced for 1994, were initially restricted to spread vehicles, that is, they did not restrict their capital support to one syndicate or managing agency. From the 1995 year of account, the nature of corporate capital provision took a significant turn with the creation within the market of Integrated Lloyd's Vehicles (ILVs).

In its purest form, an ILV involves the common ownership (by a holding company) of both a managing agency and corporate member, thereby integrating the provision of management and capital to a single syndicate.

ILVs have developed either by starting fresh or through the purchase, by investors, of an existing managing agency, followed by the gradual acquisition by those investors of participation rights on an established syndicate managed by the purchased agency. ILVs are expected to remain the dominant membership structure at Lloyd's over the long term.

As a direct result of this structural reform, the Lloyd's market capital base has altered markedly since the mid-1990s, with a dramatic decline in both the number of "traditional" unlimited members and the total value of the capacity they contribute to the market. New unlimited liability members are no longer admitted to the market. As a result, their number has declined steadily, either through conversion to limited liability, resignation, or death (average age is currently more than 65). However, unlimited liability members have been exiting the market far more slowly in recent years; the remaining core has shown a desire to continue underwriting. Some had been reluctant to move to limited liability arrangements because previous tax laws meant this would cause them to forfeit any accrued tax losses. This barrier to conversion was removed in 2005 by changes to the governing legislation. This partially explains the sharp decline seen in the number of unlimited members in that year.

The following chart shows the progression in the mix of capital providers at Lloyd's since 1995.



The table shows a healthy diversity of capital providers both from inside and outside the insurance industry and the sustained growth in capacity provided by UK ILVs, particularly over the past decade.

1.2 Syndicates

Syndicates, which have unique numeric identifiers, consist of groups of Lloyd's members, and are not legal entities in themselves. Excluding reinsurance-to-close syndicates, there were a total of 93 trading at the beginning of the 2014 year of account, this increased to 96 at April 2015. Each one is managed by an appointed managing agent, on behalf of the members.

Syndicates are annual ventures, meaning that they form at the beginning of each underwriting year and disband or close once the result for the underwriting year is determined, usually three years after its commencement. Each annual venture is closed once all outstanding and incurred but not reported claims are reinsured into a successor syndicate through the reinsurance-to-close (RITC) mechanism.

Part of a managing agent's role is capital management. Members have a right of tenure for the capacity on a syndicate they support and are required to indicate their intentions as to their future support in advance of each underwriting year. Members may increase their participation ("pre-empt") if the syndicate's managing agent indicates that additional capacity is required or decrease it ("de-empt"). Rights of tenure may be transferred bilaterally or in annual "capacity auctions" organized by Lloyd's.

The trend towards ILVs--and, in the short term, Solvency II demands--mean that syndicate consolidation is likely to continue. However, Lloyd's is characterized by an entrepreneurial spirit and the presence of capital providers willing to back underwriting teams. As a result, the formation of new syndicates, which has increased since 2006, will remain a constant feature of the market.

Special-purpose syndicates (SPS), of which there were 12 on Dec. 31, 2014, were a new feature of the market for 2007. These facilitate unaligned capital participation via a reinsurance arrangement for a predefined period, rather than direct participation on a syndicate.

See Appendix 2 for a list of the 20 largest syndicates operating at Lloyd's.

1.3 Managing agents

Managing agents provide management and other services to syndicates. The agent appoints and employs the underwriter(s), other management, and staff, and determines the underwriting policy of the syndicate in conjunction with underwriters. It also provides the syndicate's business infrastructure (staff, premises, and computer systems, etc.). The associated costs are normally charged directly to the syndicate. The agent usually charges capacity-based fees and profit commissions to members to cover non-syndicate-specific costs and to supply profits. The number of managing agents has fallen dramatically to 56 on Dec. 31, 2014, from 196 in 1985. The falling number of managing agents reflects the fall in the numbers of members and consequent increase in consolidation across the market.

1.4 The Society of Lloyd's

The Society of Lloyd's oversees and supports the underwriting activity of Lloyd's members. It is not permitted to transact insurance business in its own right. The Society acts through the Council of Lloyd's, its governing body. The Council's powers are wide-ranging and include the ability:

- To manage and supervise the affairs of the Society;
- To regulate and direct the business of insurance within the Market;
- To borrow money or apply levies to members in order to raise funds for use as central assets; and
- To apply central assets to meet members' liabilities.

1.5 Brokers

Nearly all insurance business conducted within the Lloyd's market involves a broker acting as a facilitator between clients (and/or another broker) and underwriters. The ability to place business with Lloyd's syndicates was historically restricted to a limited number of "Lloyd's brokers", although non-Lloyd's brokers could place business via a Lloyd's broker. In addition, some managing agents have established service companies to market their syndicates' business (mainly U.K. motor and other personal lines) directly to non-Lloyd's brokers or to policyholders.

Recent changes to the Lloyd's Act 1982 removed the restriction that had required managing agents to accept or place most business only through a Lloyd's broker. Nevertheless, the Lloyd's broker designation has been retained. The U.K. Government believed that the pre-existing constraints on broker access placed an unnecessary burden on Lloyd's, which represented a potential barrier to further business development.'

In 2001, following a review of distribution arrangements, Lloyd's implemented a Lloyd's broker accreditation process, which was also designed to widen access to Lloyd's by enabling non-Lloyd's brokers from around the world to become Lloyd's brokers.

Lloyd's brokers were regulated by Lloyd's until July 2000; thereafter, Lloyd's in effect delegated this role to the General Insurance Standards Council, an industrywide nonstatutory body established to accredit and regulate U.K. brokers. This responsibility transferred to the Financial Services Authority in 2005. Lloyd's continues to control the accreditation of Lloyd's brokers centrally; applicants for accreditation as Lloyd's brokers must meet certain financial and suitability criteria and Lloyd's is therefore able to exercise some control over reputational risks to the market. The onus, however, has shifted to managing agents to manage the credit risks related to Lloyd's brokers.

Today, Lloyd's brokers range from subsidiaries of the major global broking groups to specialist brokers focusing on particular business lines. The number of Lloyd's brokers has risen since accreditation was introduced and in January 2015, there were 219 Lloyd's brokers bringing business from over 200 countries and territories.

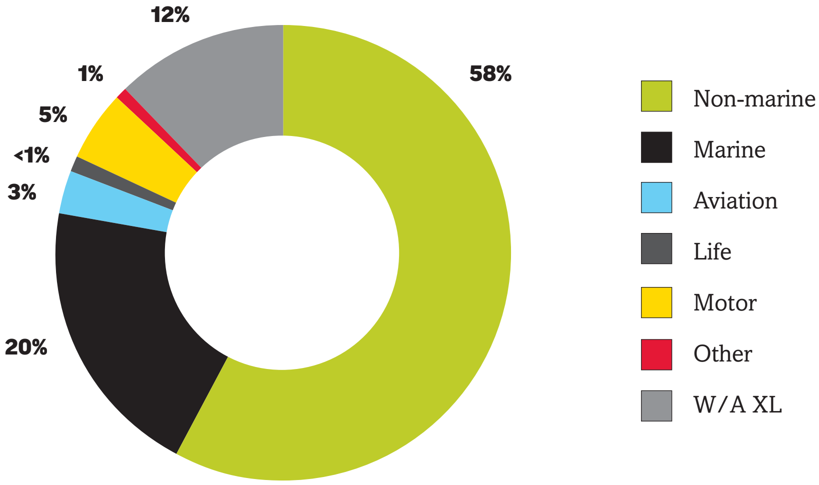
1.6 Members' agents

Members' agents manage the supply of predominantly private (though also some corporate) capital to syndicates, through the provision of advisory (they assist members with their syndicate selection) and administrative services to individual members. Given the declining numbers of members, the number of members' agents has also reduced markedly to just three in 2015, from 268 in 1985 (of which 158 were combined managing/members' agents).

2. Lloyd's business profile

Lloyd's underwriting portfolio is extremely diverse, having evolved over its 300-year history from a focus on marine insurance. Except for motor and life business, lines of business underwritten at Lloyd's are typically complex and involve large monetary exposure levels and a high severity/low frequency risk profile, reflecting the market's risk appetite.

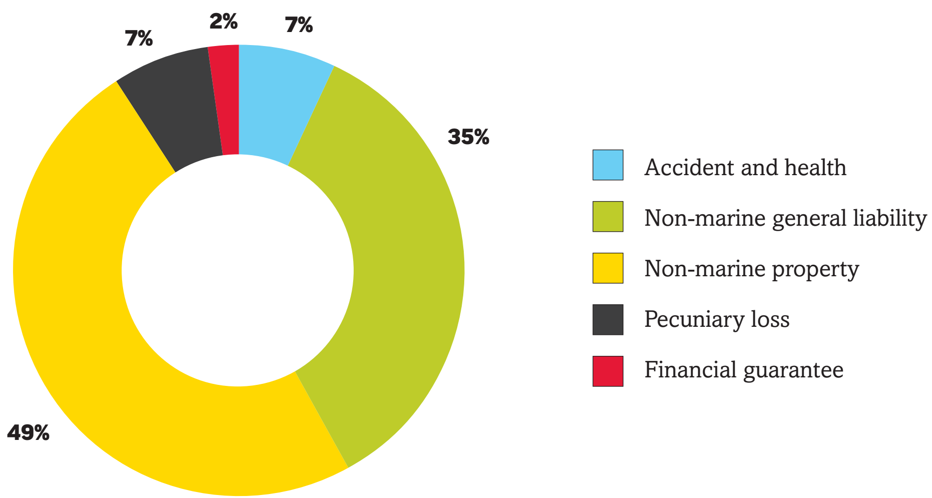
CLASS OF BUSINESS ANALYSIS - GROSS PREMIUMS 2014



2.1 Non-marine

The sector includes a very diverse range of property and casualty business classes. Initially, this line of business was incidental to marine (hence the origin of its name) but it is now the market's most significant sector in terms of premium volume.

NON-MARINE - GROSS PREMIUMS 2014



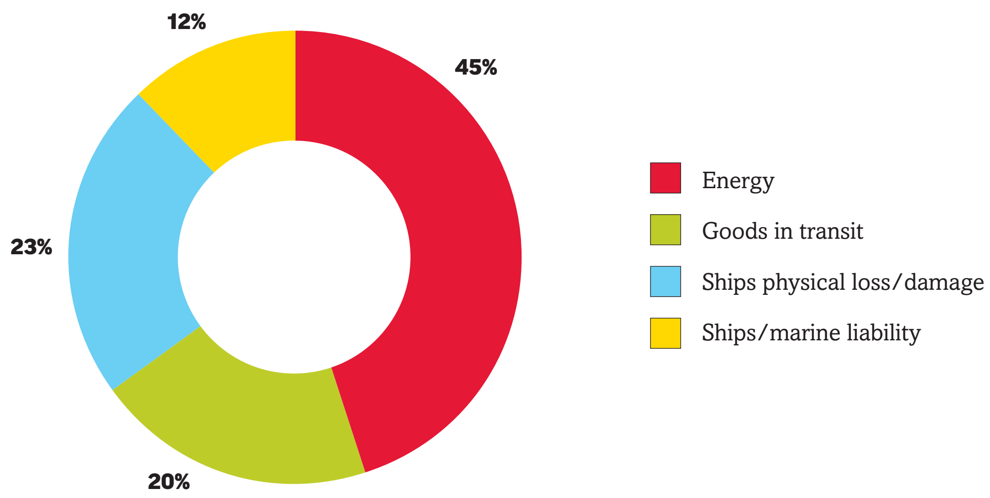
Lloyd's is arguably not the "natural" home for much nonmarine business, in the way that it is perhaps for marine and aviation; this is reflected in a low estimated global market share. However, Lloyd's has a number of significant global positions in diverse lines such as property facultative and risk excess, property catastrophe reinsurance, directors and officers liability (D&O; although in recent years the market has significantly curtailed its exposure to the U.S. market and reinsurance of this line), errors & omissions (E&O), and professional indemnity. Lloyd's remains a leader of catastrophe business and despite the emergence of Bermuda in the mid-1980s has increased its market share of global reinsurance.

A substantial amount of business is drawn from the U.S. excess and surplus lines market, where Lloyd's is the largest writer. Lloyd's is an eligible excess and surplus lines insurer in all states except Kentucky and has direct licenses in Illinois, Kentucky, and the U.S. Virgin Islands.

2.2 Marine

Marine was the Lloyd's market's original business line. Today, the sector includes traditional marine (hull and cargo), liability, energy (offshore and onshore oil and gas installations and associated liability), as well as reinsurance of these lines (Lloyd's provides a significant proportion of the International Association of Protection & Indemnity (P&I) Clubs' reinsurance requirements).

MARINE - GROSS PREMIUMS 2014



London is the natural home of the marine market because of several historical factors:

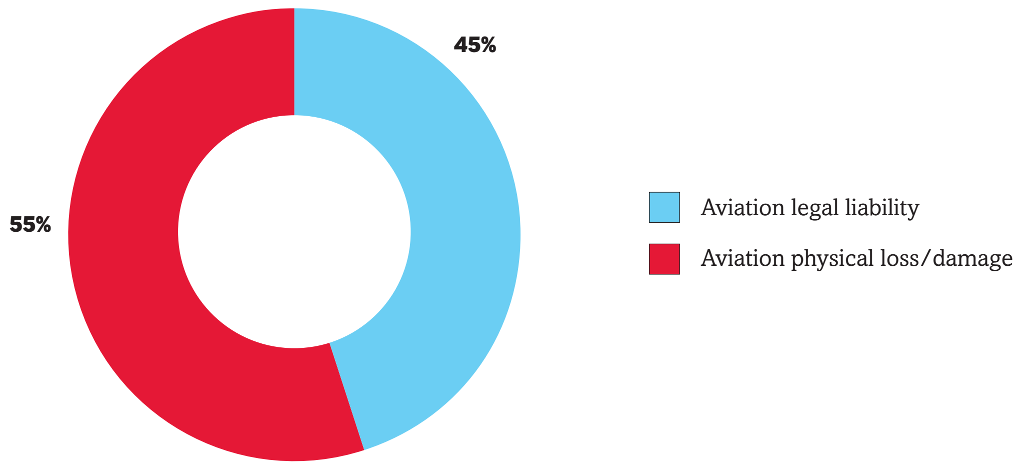
- Britain was a major seafaring nation and established dependencies across the globe;
- London has, for centuries, provided a critical mass of marine underwriting and broking expertise;
- Marine law was formed under English law and the predominance of the English courts and arbitration continues today for marine business; and
- Other support functions to the sector, such as the Salvage Association and Lloyd's Register of Shipping, are based in London.

Nevertheless, Lloyd's estimated market share has declined quite significantly in recent years. This reduction has occurred through the natural development of domestic marine insurance markets and through greater risk retention by the P&I clubs and oil and gas company captive insurers. Outside London, Lloyd's major competitors lie in the U.S., Scandinavia, France, Germany, and, increasingly, in Russia and Asia.

2.3 Aviation

The characteristics of the aviation market are similar to those of the marine market, except that it is inherently even more volatile. Aviation business covers hull, liability risks, and the reinsurance thereof.

AVIATION ANALYSIS: GROSS PREMIUMS 2014



London is also the natural home of this market. Reasons for this include:

- Aviation underwriting is highly specialized. There is a critical mass of respected underwriters based at Lloyd's, supported by London broking expertise;
- Aviation has a need for large amounts of capital that can, in nearly all cases, only be provided on a subscription basis;
- Lloyd's participates in aviation business across the globe because the volatile nature of the business ensures that local insurance markets tend to retain little or no exposure to it; and
- Support functions to the sector (such as the major international aircraft hull surveyor firms) are concentrated in London.

As a result, the London market is shown virtually all of the major worldwide airline business, causing a number of major insurers to set up companies in London in order to participate in this market.

That said, there has been a degree of consolidation within the aviation sector and Lloyd's has lost market share to some other markets, particularly the specialist aviation pools.

2.4 Motor

The profile of the motor business line is out of character with the others present at Lloyd's, it being more high-frequency, low-severity in nature. It represented about 5% of Lloyd's 2014 gross premiums written, and is almost entirely written on an insurance, rather than reinsurance, basis.

Collectively, Lloyd's remains one of the largest insurers in the U.K. motor market, based on premiums. However, a number of the motor writers have concluded that they do not require the comprehensive international infrastructure (with the associated expense, in what is a very price-sensitive sector) found at Lloyd's. The result has been the migration of a number of businesses from Lloyd's to either U.K. PRA regulated companies or to Gibraltar (in order to take advantage of the lowest minimum capital requirements in the EU).

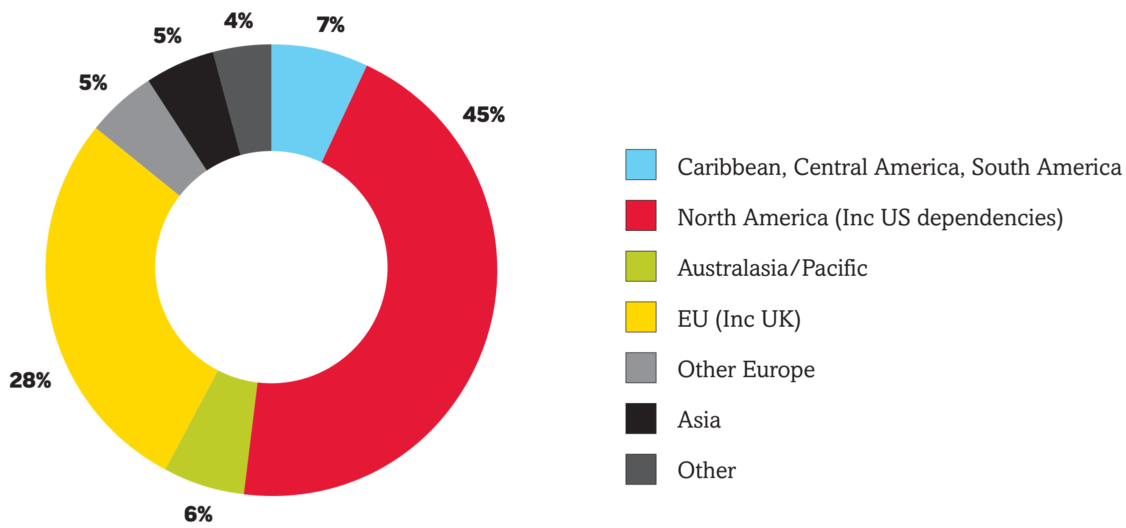
2.5 Life

Life business at Lloyd's has traditionally been restricted to key man, group life and term life insurance. Lloyd's restriction on the ability of its members to write life business with a tenure exceeding 10 years was lifted for the 2001 year of account, with the term limit now being set at 25 years. Despite this, the sector is likely to remain small in future (under 0.4% of Lloyd's 2014 gross premiums written).

2.6 Geographic diversification

Lloyd's has a very wide geographic coverage, with specific trading rights to write insurance business in over 75 jurisdictions and the ability to write reinsurance in over 200 countries and territories.

TERRITORY ANALYSIS - GROSS PREMIUMS 2014



A significant majority of income continues to be sourced from the U.S. and U.K. (known to be particularly credit-sensitive markets). Many managing agents have recognized this territorial dependence and are attempting to enhance their positions elsewhere around the globe, some independently of their Lloyd's operations. Particular emphasis is being placed on the Far East and continental Europe. Lloyd's has established three trading platforms to access business in China, Japan, and Singapore, as well as full-time country managers in numerous countries across Europe and in South Africa. In addition to this diversification, Lloyd's plans to reinforce its position as the global center for specialist insurance and reinsurance by expanding further into China, Mexico, India, Turkey, and Brazil (where it is the second-largest reinsurer).

3. Governance and management of the Lloyd's market

The governing body of the Lloyd's market is the Council of Lloyd's (the Council), a statutory body established by the Lloyd's Act 1982. The Council is responsible for the management and supervision of the market. As at November 2015, the 18 Council members included six members who work in the Lloyd's market (working members), six external members, and six nominated members. Members of the Council (other than the chief executive officer) are normally appointed for a term of three years to serve no more than nine years in aggregate as a member of the council. All Council members are approved by the PRA. Recent amendments to the Lloyd's Act 1982 have removed the restriction on a working member of Council serving consecutive three-year terms. Previous requirements mandated that a working member take a minimum of a year's break between terms. The recent amendments have also relaxed the rule requiring the Chairman and Deputy Chairman of Lloyd's to be elected from the working members of the Council. Hence, it is now feasible for a nonworking member of Council to become Chairman.

While the Council remains the governing body of Lloyd's and discharges some functions directly, it mainly acts through the Franchise Board (see 3.2).

The day-to-day running of the market is undertaken by the Corporation of Lloyd's. It is responsible for developing the strategy for Lloyd's, for monitoring the performance management of the market, and for determining the appropriate levels of capital for those that wish to operate at Lloyd's. In addition, it provides certain central services such as accounting, treasury, general administration, and property management to market participants, recovering the cost of these services through fees, levies, and recharges. It employs the market's executive, including the chief executive officer, the directors, and staff (the executive).

3.1 The Lloyd's Franchise

The franchise business model, introduced in 2003, is intended to improve Lloyd's long-term profitability and performance, through the creation of a more-disciplined market place. In addition, Lloyd's has recognized that within the specialty niches it focuses on, it has to compete for increasingly transient capital and business. The concept of an "optimal platform" has been developed to provide strategic direction for the market.

The optimal platform concept, with its associated workstreams and milestones, is designed to deliver five clear benefits, characterized by a set of features describing what the Lloyd's platform will offer to businesses in the market.

1. **A clear and transparent performance management framework that supports the achievement of superior operating returns through recognizing the specific characteristics of each managing agent.**

   Features of this benefit would include:

- A performance framework that recognizes, reacts to, and rewards the relative performance of individual managing agents and raises standards across the market;
- Provision of differentiated levels of support and intervention by the Corporation, depending on the capabilities of each managing agent; and
- Business planning tools that enable managing agents, their capital providers, and the Corporation to better understand the risks and performance potential of individual businesses.

2. **A capital framework in which the benefits of mutuality demonstrably outweigh the costs and which cannot be readily duplicated outside Lloyd's.**

   Features of this benefit would include:

- Risk-adjusted capital-setting process, based on the PRA's ICAS+ regime and prospectively on the Solvency II regime when it is implemented, reflects the level of exposure of mutual assets to an individual business and commercially prices this accordingly, taking into account the market's ratings requirements and each managing agent's enterprise risk management capability;
- Capital structures, including mutual assets, that can be tailored and give managing agents the opportunity to benefit from strong ratings and obtain increased returns for their capital providers, compared to trading on a stand-alone basis;
- Maintenance of Lloyd's mutual assets, which is targeted to cost less than 0.5% of gross written premiums on average across the insurance cycle; and
- Opportunities for managing agents to increase their capital resources expeditiously to take advantage of business opportunities as they arise.

3. **A secure, highly rated market.**

   Features of this benefit would include:

- Within reasonable bounds of expectation, necessary ratings maintained throughout the insurance cycle; and
- Capability to survive a one-in-200-year industry-level event and enable managing agents to trade forward with a secure rating.

4. **Cost effective, easy access to the world's major markets, supported by a global brand and license network.**

   Features of this benefit would include:

- A turnkey license structure that offers access to the major markets in specialist property and casualty risks;
- Access to a variety of distribution channels for managing agents, while allowing brokers to place risks with Lloyd's in a simple, cost-effective manner;
- Proactive market development, in partnership with managing agents and a network of international offices that provide support services; and
- A leading global brand and reputation, which help managing agents to win and retain preferred business.

5. **A framework of standards for business processes that enables firms to deliver services to customers at a cost and level of risk comparable with other platforms, and offsets the inherent costs of a subscription market.**

   Features of this benefit would include:

- Fast, expert service from quotation through to claims settlement;
- Simple, streamlined processes enable brokers and other producers to deal easily with Lloyd's underwriters at a cost comparable with other markets;
- Easy access to Lloyd's underwriting expertise and range of insurance products irrespective of location; and
- Centrally sponsored, value-added services and tools that support high quality, efficient transaction of business.

Existing underwriting, risk management and policyholder service guidelines are key available levers for improving the market's profitability. Each managing agent is expected to compile syndicate business plans within them. If a managing agent wishes to operate outside the guidelines, it has to justify its position and obtain approval. The guidelines are designed to address issues such as:

- Profitability by product line--There should be a reasonable expectation of making a gross underwriting profit on each line of business every year.
- Catastrophe exposure--Catastrophe exposure should be analyzed using approved tools or methods, with each managing agent managing its exposure to a minimum agreed return period. The maximum allowable (that is, without the specific consent of the Franchise Board) gross and final net exposure to a single Lloyd's specified Realistic Disaster Scenario (RDS) event for a given syndicate is 80% and 30% of Syndicate ECA, respectively.
- Reinsurer selection--Syndicates are obliged to place their reinsurance with reputable, secure providers. To ensure this is the case, each managing agent must have an approved reinsurer selection process.
- Gross line size--Individual risks should not be allowed to threaten large portions of a syndicate's capital. With effect from Jan. 1, 2016, the maximum gross line size that a syndicate should have on an individual risk will be reduced from 10% to 8% of gross written premium (before a special dispensation must be sought from the Franchise Board).
- Reinsurance leverage--Each syndicate should retain a net minimum amount of exposure on each risk and no syndicate should pursue an aggressive arbitrage strategy.
- Service standards--Each managing agent should adhere to the service standards covering policy production and premium and claims payment as defined by the "London Market Principles" (LMP; see section 5).

The Corporation is committed to raising standards in the market. During 2005 and 2006, principles and minimum standards with regard to claims were published, followed by principles and minimum standards for risk management and underwriting. In subsequent years, three additional standards have been introduced covering "Effective Operational Processes," "Governance," and "Protecting Lloyd's Reputation and Brand." These provide a broad range of measures against which managing agents are monitored, with the results of this exercise being factored into regulatory capital requirements. From 2007, and now as a precondition of business plan approval, all managing agents are required to be able to demonstrate their compliance with the minimum standards. Some examples of the requirements in respect of a selection of the minimum standards are provided below:

Risk management:
- There is a clear governance structure in place that supports risk management by providing clearly defined accountabilities, expectations, and reporting requirements for all relevant parties;
- The organization has a process to identify and understand all significant risks to the achievement of its business objectives;
- The organization has in place sufficient measures and checks to enable the ongoing monitoring of its internal and external risk environment; and
- The organization's risk management framework is integrated with the capital modeling processes and methodology, allowing management effectively to assess overall capital needs, enhance capital allocations, and measure the return on risk.

Underwriting:
- There is an effective process for challenging the annual business plan, which itself forms part of the long-term plan for each managed syndicate;
- There are effective systems and controls over each managed syndicate's underwriting, including where underwriting authority has been delegated to another entity;
- The syndicate has appropriate pricing methodologies and effective rate monitoring processes;
- There are effective systems in place for the recording and reporting of underwriting-related data to management and the Corporation; and

- There are effective controls in place with regard to outward reinsurance arrangements.

Claims:
- Managing agents should have appropriate claims resources, skills, and management controls in place in each line of business they propose to write;
- Reserves on open claims should be reviewed and, as appropriate, revalidated at least every 12 months;
- Reserves on open claims should be reassessed within 30 days of receipt of additional information that could have a bearing on the level of the reserve; and
- Reserves for major claims should be validated via an internal peer review process.

The Corporation's role is intended to be primarily facilitative. However, it is understood that it will become increasingly prescriptive in requiring change when a managing agent does not respond to the facilitative approach, or where a managing agent's underperformance threatens the security and the profitability of the Lloyd's market. The options available to Lloyd's include:

- The ability to conduct a detailed review of a managing agent and its syndicates;
- The imposition of constraints on the managing agent, such as limits on underwriting for the rest of that year on a particular line of business;
- The application of capital loadings to the syndicate's ICA;
- The imposition of other requirements, such as requiring the managing agent to purchase additional reinsurance to cover overexposure to a RDS on a net basis; and
- As a last resort, the managing agent's removal from the Lloyd's franchise.

Lloyd's Franchise governance structure is summarized in the diagram on the next page.

3.2 The Franchise Board

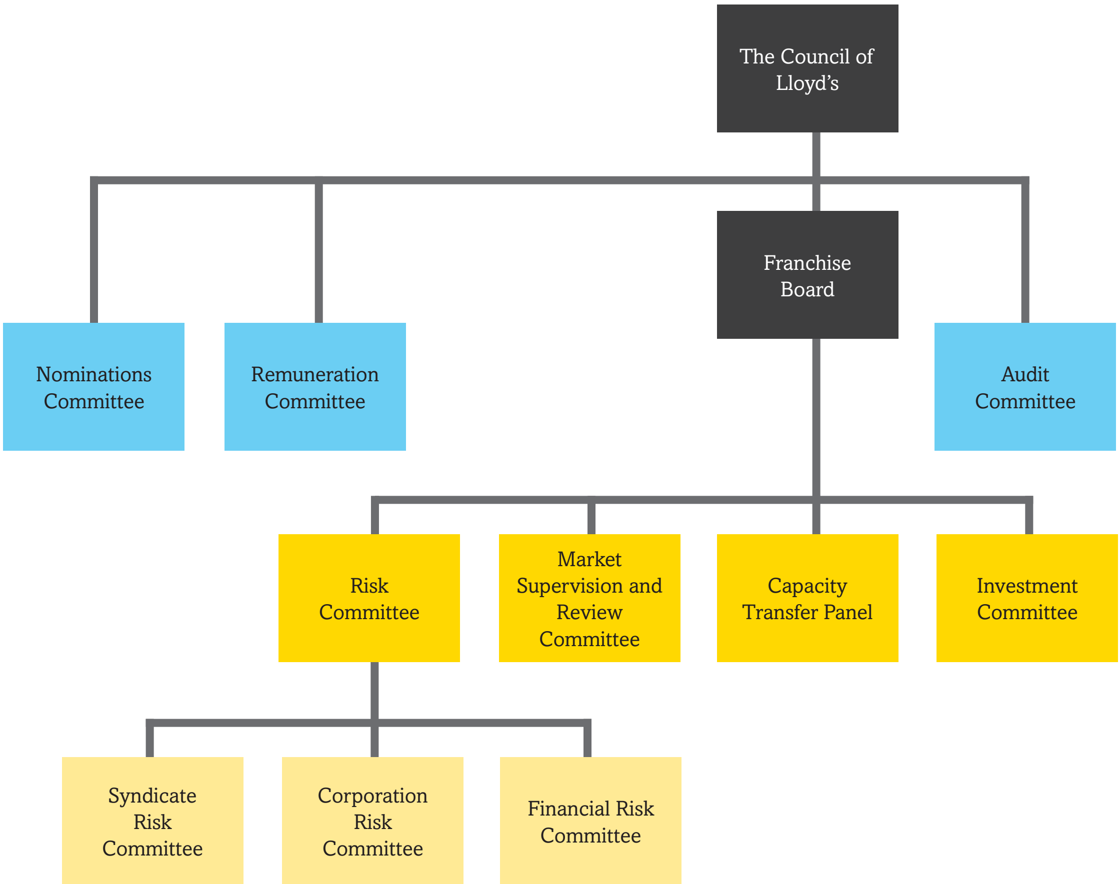
The Franchise Board has 12 members drawn from inside and outside the Lloyd's market. The chairman of Lloyd's, the chief executive officer, director of finance, risk management and operations and the director of performance management are joined by a maximum of four nonexecutive members drawn from outside the market and a maximum of three nonexecutive members drawn from experienced practitioners within the Lloyd's market. Franchise Board appointments are made by Council upon the recommendation of the nominations, appointments, and compensation committee of the council (NACC).

Specific Franchise Board functions include:

- Supervising, regulating, and directing the business of insurance at Lloyd's;
- Setting the market supervision framework, in compliance with PRA and FCA requirements;
- Setting policy for the admission and removal of participants in the Lloyd's market;
- Admitting and removing managing agents; and
- Determining the guidelines for managing agents and approving the annual plan and budget of Corporation.

The Council on recommendation from the NACC, appoints the CEO to carry out the day-to-day operation of the Corporation. The CEO, in turn, appoints the directors and other members of the executive to carry out those functions.

LLOYD'S PRINCIPAL COMMITTEES



3.3 Risk Committee

The risk committee is in charge of overseeing the key risks that face the market and Society, and is supported by three subcommittees that specialize in different areas of oversight. The syndicate risk committee monitors all individual and systemic risks faced by syndicates and the wider market. The financial risk committee oversees market, credit and liquidity risk to the market. Finally, the corporation risk committee supervises all nonfinancial corporation risks. The risk committee and subcommittees are charged with aligning the reporting of risk and capital management information, and are responsible for producing Lloyd's Society Own Risk and Solvency Assessment (ORSA). Ultimately, the Franchise Board is responsible for risk management, so the risk committee provides another layer of assurance that risk to the market and Society is identified and managed.

3.4 The Market Supervision and Review Committee (MSARC)

MSARC takes decisions regarding the exercise of Lloyd's enforcement powers. It also acts as a review body capable, where appropriate, of amending, modifying, or withdrawing certain decisions taken by the executive affecting managing agents.

3.5 The Capacity Transfer Panel

The capacity transfer panel has been established principally to exercise the Council's powers in relation to minority buyouts and mergers.

3.6 The Investment Committee

The investment committee sets the investment objectives and parameters of centrally managed assets and is responsible for monitoring the performance of these funds. In addition, it monitors the investment operations of the Treasury department in respect of all funds under its management and approves all investment counterparties.

3.7 The Audit Committee

The audit committee's role ensures that the financial activities of Lloyd's are subject to independent review and audit. Reports from internal and external auditors on aspects of internal control and reports from the legal and compliance department on internal and overseas compliance are reviewed by the audit committee and appropriate action taken in response.

3.8 Nominations, Appointments and Compensation Committee (NACC)

The NACC is principally responsible for making recommendations to the Council on the appointment of the chairman, CEO, new nominated council members, franchise board members, members of a number of the council and franchise board committees and the secretary to the council. The NACC reviews the remuneration of these individuals and makes recommendations to the Council on the remuneration of the members of these bodies.

3.9 The Remuneration Committee

The remuneration committee's role is to review and make recommendations to the Council as to the framework or broad policy for the remuneration of the members of the executive management, as well as to review and update that policy. The committee is also responsible for overseeing any of the incentive schemes operated by the corporation, and setting the pensions and other benefits of the executive management or any other employee benefit structures throughout the corporation. In addition to providing other advice to the Council on matters of remuneration, the committee also oversees the evaluation of the executive management and any contractual terms on termination of employment of the chairman of Lloyd's, the CEO, an executive director, or the secretary to the council.

4. Lloyd's "chain of security"

The following diagram sets out the current "chain of security" available to support policies underwritten at Lloyd's.

		Individual Members	Corporate Members
Several Assets	First Link	Premiums Trust Funds	Premiums Trust Funds
	Second Link	Funds at Lloyd's	Funds at Lloyd's
Mutual Assets	Third Link	Central Assets	

Recourse to a link in the chain takes place upon the non-availability of assets in the preceding link.

4.1 Premiums Trust Funds (PTFs)

These funds are held at syndicate level and are the resource for the payment of policyholder claims in normal circumstances. As well as paying claims, underwriting (syndicate and personal) expenses are paid from the PTFs and overseas regulatory deposits are funded from them. They are held under the trusteeship of directors or officers of Lloyd's managing agents. They consist of investments, debtors, creditors and cash. The PTFs are segmented into funds covering non-U.S.-dollar cash flows (the Sterling Premium Trust Funds or SPTF) and those covering U.S.-dollar cash flows (the Lloyd's Dollar Trust Fund or LDTF). Details of the PTFs and other trust fund arrangements to which Lloyd's has to comply are provided in section 8 below.

4.2 Funds at Lloyd's

Funds at Lloyd's (FAL) are member-specific and are held under the trusteeship of Lloyd's. The amount of FAL provided determines the maximum amount of gross premiums that may be written on behalf of each member for each year of account. In 2014, the valuation of members' FAL totaled £15.7 billion (2013: £15.1). The methodology as to how members' FAL is calculated is set out in section 6.2.

Each new member's FAL must be a minimum of £350,000 for the first 12 months of underwriting. After the first year of underwriting, the capital requirement is based on the funding requirement established through the ECA capital setting process, with no minimum. The minimum was as little as £100,000 in 1989.

FAL consists of cash, investments, letters of credit, and bank and other guarantees held in the following funds:

- Lloyd's life and non-life deposits.
- Personal reserve funds--noncompulsory funds consisting of profits retained from closed years of account and other amounts paid in by the member.
- Special reserve funds--noncompulsory, tax-efficient funds consisting of a proportion of retained profits from closed years of account. They relate to individual members only.

4.3 Funds in Syndicates (FIS)

Since 2007, fully aligned corporate members have been able to hold the capital supporting their underwriting within the syndicate Premiums Trust Fund as FIS, rather than under the trusteeship of Lloyd's.

4.4 Central assets

Lloyd's central assets are the most tangible form of mutualization within the market. They can be applied at the Council's discretion in order to:

- Extinguish a member's underwriting liability (with a right of reimbursement from the member);
- Enable a member to confirm annual solvency; and
- Cover any other purpose appearing to the Council to further the "objects" of Lloyd's.

Central assets consist of the Central Fund, the callable layer and "other" central assets.

4.4.1 The Central Fund

The Central Fund, consisting mainly of investments and cash (rather than letters of credit), is Lloyd's fund of last resort. It partially mutualizes Lloyd's capital base since annual contributions to it from all members are available to pay for the liabilities of insolvent members. PTFs and FAL are member specific as Lloyd's members trade on a several, not joint, liability basis. As a consequence and unlike the Central Fund, the capital provided by a member backs only that member's share of liabilities attributable to each syndicate on which that member participates. It is not available to support the risks of other members participating on the same or other syndicates.

All members contribute annually towards the Central Fund. Currently members contribute at the rate of 0.5% of their overall premium limit. New corporate members underwriting on new syndicates contribute at a rate of 2.0% for their first three years of operation at Lloyd's.

From 2005 the Central Fund has been bolstered by the proceeds of debt issuance.

- In November 2005 Lloyd's issues long term debt consisting of a sterling tranche of £300 million and a second Euro tranche of €300 million.
- In June 2007 the Society issued a further £500 million of Tier 1 subordinated debt, enabling it to fully refinance the £333 million of outstanding syndicate loans.
- In April 2009 €47.3 million of the Euro denominated notes, and £59.6 million of the Tier 1 issuance was repurchased by the Society.
- In May 2013, Lloyd's offered to buy back up to £200m of the securities from debt holders. Lloyd's purchased a principal amount of around €39m of the Subordinated Notes, maturing in 2024 and £147m of the Subordinated Notes, maturing in 2025.
- In 2014 Lloyd's issued £500 million of 10-year fixed-rate notes. This allowed the calling of the remaining £153 million of the 2005 Euro issue and the redemption of all but £5 million of the 2005 Sterling issue.

4.4.2 The 'Callable Layer' and 'Other Assets'

Lloyd's has the right to make a pro-rata call of up to 3% of a member's overall premium limit in the underwriting year in which the call is made. This callable layer can be drawn directly from PTFs without seeking the consent of members. Further calls can be made but only with the consent of members in a general meeting.

Finally remaining net assets of the Corporation are also available to meet liabilities.

4.4.3 A solution to the problem of run-off years

Lloyd's has recognized the need for a solution to the problem of run-off years of account (that is underwriting years of account remaining open after 3 years) in order to further reduce a risk factor to the Central Fund. The numbers of open syndicate years continues to decline. There were 4 such years of account as at December 31, 2014 (6 at December 31, 2013), split by underwriting year as follows:

UNDERWRITING YEAR	NUMBER OF OPEN YEARS	NUMBER OF OPEN YEARS	NUMBER OF OPEN YEARS	NUMBER OF OPEN YEARS
	(Year-end 2014)	**(Year-end 2013)**	**(Year-end 2012)**	**(Year-end 2011)**
2003 & Prior	0	0	1	1
2004	0	0	0	0
2005	0	0	0	0
2006	0	0	0	0
2007	1	1	1	1
2008	0	0	1	2
2009	0	1	2	3
2010	1	2	3	
2011	1	2		
2012	1			
Total	**4**	**6**	**8**	**7**

Commercial solutions continue to be pursued, facilitated by Lloyd's. Significant progress is now being made, due to a more active RITC market, which has made RITC premium quotations more economically viable from a cedant's perspective, and reduced uncertainty as liabilities mature.

Lloyd's continues to take an interest in the effective management of remaining open years of account via regular meetings with runoff managers. Historically efforts have included:

- The implementation of a standard risk based approach to run off;
- Strengthening of Lloyd's run off team;
- Monthly or quarterly reporting requirements on all open years, including the reasons for non closure and the strategy and timetable for achieving closure;
- Centralized approach to investment management; and
- Standardized approach to reinsurance asset protection, claims management, reporting, outsourcing and service levels.

5. Market business process reform

The London insurance and reinsurance market has gradually evolved over time in a piecemeal fashion. As a result many of the administrative processes operating within it are not as efficient as those of global market peers, reducing the attractiveness of London to policyholders in terms of service quality and cost. Recognizing this a joint IUA-Lloyd's Forum was set up in July 1999 to create and launch a common set of far reaching standards and protocols, the "London Market Principles" (LMP), now referred to as Market reform.

5.1 Market reform

Market reform draws support from within both the London underwriting and broking businesses. Key sponsors include Lloyd's, the International Underwriting Association (IUA; the London based organization for international and wholesale insurance and reinsurance companies), the Lloyd's Market Association (LMA; represents the interests of managing agents and syndicates operating at Lloyd's) and the London and International Insurance Brokers Association (LIIBA; representative body of the London broking community).

Market reform operates through the renamed London Market Reform Group (LMG). The LMG and Lloyd's jointly set strategy for and drive market modernization. Each of the key Market reform work streams is driven by a Project Board of specialist practitioners, reporting to the LMG.

Recent market reform initiatives—contract placement, electronic claims files (ECF) and electronic accounting and settlement—have delivered notable efficiencies and are now considered business as usual, albeit some enhancements are still to be made. ECF "went live" in September 2006 and 86% of new 'in scope' claims are now processed via ECF. A new claims transformation programme has been launched, which is intended to improve the speed of claims handling by standardising and simplifying the processing of low value claims in particular.

After a slow start, Market participants appear to have become more engaged in electronic messaging via The Exchange, whereby ACORD (a not-for-profit insurance data standards body based in New York and London) international data standards are used to transmit basic information between brokers and managing agents. The move to electronic claims files and accounting submissions have impressively cut processing times, to enable all managing agents, and brokers to be connected. Other initiatives such as claims transformation aimed at improving claims handling, and the administration of cover holders has been centralized through the Atlas platform, which allows agents to monitor cover holder details, audits, approval, and compliance information. Lloyd's does not intend to turn itself into an electronic trading platform, however, which might in the future be to the advantage of competing marketplaces.

The LMG is also tasked with improving the process by which cover holders access and operate within the Market by improving data processing, claims processes, standards and communications. The aim is to increase ease of doing business within Lloyd's and attracting new cover holders to the Market.

6. Regulation of the Lloyd's Market

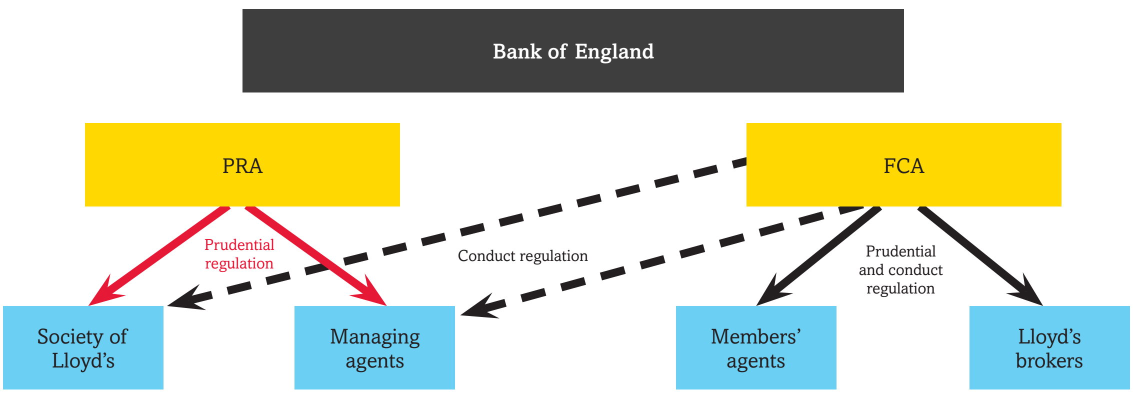
The regulatory oversight environment with regards to Lloyd's has continued to evolve over the past decade. On April 1, 2013 responsibility for the regulation of the Lloyd's market was transferred from the now-defunct FSA to the two new arms of the Bank of England's financial services regulatory regime, the Prudential Regulatory Authority (PRA) and Financial Conduct Authority (FCA). The PRA assumed responsibility for the prudential regulation of the Society and the managing agents in the market. Its overriding aim is to develop requirements that ensure Lloyd's policyholders continue to have a similar level of protection to that which policyholders of other insurers have. In addition the PRA has stated that it will continue to ensure the requirements for Lloyd's and insurance companies are consistent unless there are justifiable reasons why they should not be.

The FCA regulates the conduct of the Society and its managing agents, and has prudential and conduct regulatory authority over the members' agents and advisors, as well as Lloyd's brokers.

The FCA and PRA have developed a memorandum of understanding between themselves outlining how the two authorities will work together, cooperate and coordinate activities in certain areas such as information sharing, policy and rule-making and supervision of dual-regulated firms. The memorandum contains a separate section for the authorities' supervision of Lloyd's which mandates a supervisory college to coordinate supervision.

In practical terms, prior to January 1, 2003 the Lloyd's Council had previously performed its regulatory role through delegation to the Lloyd's Regulatory Board (LRB) and in turn the Regulatory division of the Corporation of Lloyd's. With the implementation of the Franchise structure, the LRB was abolished effective January 1, 2003. The former Market Supervision department was also restructured and renamed Risk Management. Other selective functions previously undertaken by Market Supervision were reassigned / realigned (e.g. responsibility for run off fell under the Performance Management Directorate (PMD). The primary role of Risk Management is to identify, monitor and address operational, aggregate and systemic risks that threaten the Lloyd's franchise and to implement an effective Risk Model for Lloyd's. This includes collecting, reviewing and processing market level data, which is analyzed by the PMD.

LLOYD'S IN THE REGULATORY REGIME



6.1 The PRA's prudential regulation of the Lloyd's market

The PRA continues to recognize The Society's role in supervision and regulation of the Lloyd's Market, as stipulated in the Lloyd's Act. The Society and the individual managing agents are considered by the PRA to manage all the significant prudential risks that affect Lloyd's policyholders. Accordingly the PRA applies prudential requirements to the Society and managing agents on the basis of whichever of the two is best placed to control the relevant risk.

Lloyd's

Regulatory oversight occurs at Lloyd's centrally in respect of the insurance business of each member, or the resources that it holds in support of the members business (such as FAL and central assets). Ultimately Lloyd's is centrally required by the PRA to:

- Establish and maintain appropriate controls over the risks affecting funds held and managed centrally, including managing risk within appropriate limits.
- Assess the capital needs for each member, taking into account the capital needed to support the insurance business carried on through each syndicate, as assessed by managing agents. This reflects the fact that Lloyd's centrally has an aggregate view across the market and that managing agents do not. In particular Lloyd's can take account of members' participations on more than one syndicate, assets held outside syndicates, and the liabilities central assets are exposed to.

The Franchise Board is treated similarly to the way the PRA regards the equivalent bodies of other firms. Lloyd's chooses how to carry out its functions and makes its own rules and imposes its own capital requirements.

The main purpose of Lloyd's risk management function is the management of risk throughout the franchise as a whole. Risk management also looks to ensure that members and the market as a whole are not exposed to undue risk, and therefore that the central assets (Central Fund, other assets etc.) represent tangible protection for policyholders. Finally it provides support to the activity of the Franchise Board (discussed earlier).

The PRA's assessment of the effectiveness of the functions Lloyd's performs helps to guide how much work is needed to be done by the PRA and in which areas, consistent with its overall risk-based approach to supervision.

Managing Agents

Prudential regulatory oversight occurs at the managing agency level in respect of the insurance business carried on through each managed syndicate as if the business of the syndicate were the business of a firm. Ultimately each managing agent is required to:

- Establish and maintain appropriate controls over risks affecting insurance business carried on through syndicates, including credit risk and market risk, within limits that are substantially the same as those for insurance companies; and
- Assess the capital needed to support the insurance business carried on through each managed syndicate.

The PRA's approach and the amount of work undertaken is driven by the risk each managing agent poses to its statutory objectives. The PRA assesses this through the same risk assessment framework applied to other regulated firms (including the Society). There is a base level of supervision with regard to each managing agent. Partially through on-site visits to managing agents the PRA considers:

- A managing agent's overall business strategy;
- The nature and permanence of the capital supporting the business managed;
- The risks underwritten;
- The systems put in place to ensure proper control and monitoring of their underwriting;
- Agent high level controls (committee structures, reporting lines, the role and effectiveness of non-executive directors, internal audit arrangements) and other key aspects of the systems and controls.

6.2 Regulatory capital adequacy assessment.

The PRA's overall aim is to ensure that the amount of capital held by regulated entities is adequate to protect against significant risk of insolvency. To this end and after extensive consultation, a new capital adequacy assessment framework, consistent with that applied to other regulated insurance entities, has been rolled out at Lloyd's. From 2013 Lloyd's has used its internal model (LIM) for capital setting and benchmarking.

6.2.1 Framework overview

At a minimum Lloyd's is required to hold at all times capital (of a prescribed quality) sufficient to meet the "Minimum Capital Requirement" (MCR), being the capital requirement set out in the European Directives.

6.2.2 Generation of syndicate ICAs

Managing agents are required to carry out regular assessments of the amount of capital that is adequate for the size and nature of each managed syndicate (ICA), calibrated such that the probability of resources being insufficient to meet liabilities is no more than 0.5% to ultimate based on one year of new business. In doing so they must consider the potential risks facing the syndicate operation including:

- Insurance risk: the risk of loss arising from the inherent uncertainties as to the occurrence, amount and timing of insurance liabilities;
- Credit risk: the risk of loss if another party fails to perform its obligations or fails to perform them in a timely fashion (e.g. reinsurers, brokers, coverholders);
- Market risk: the risk that arises from fluctuations in values of, or income from assets, or in the interest or exchange rates;
- Liquidity risk: the risk that sufficient financial resources are not maintained to meet liabilities as they fall due;
- Group risk: the potential impact of risk events, of any nature, arising in or from membership of a corporate group; and
- Operational risk: the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

Under current proposals for Solvency II, insurers will be required to hold capital to capture the risk of resources being insufficient to meet liabilities over the next 12 months. This solvency capital requirement (One year SCR) differs from the current ICA which expects capital to be held to cover adverse developments until all liabilities have been paid (SCR to ultimate). The PRA has introduced a hybrid framework (ICAS+) to allow insurers to incorporate their Solvency II internal models into their ICAS models. This framework requires a reconciliation of a firm's Solvency II model and its ICA model.

Member capital is not held at the syndicate level and the framework introduces the concept of a "Balancing Amount" as a mechanism to translate between member capital and required syndicate capital. This is the amount of capital which, following analysis, is needed to support syndicate-level risks but which is in excess of that held within the syndicate itself e.g. held by Lloyd's centrally as FAL or central assets. Each managing agent is required to inform Lloyd's of the required balancing amount for each syndicate. Lloyd's has to then confirm back to the managing agent the balancing amount that will be considered in setting centrally held capital. Following that confirmation, managing agents are able to comply with the requirement to ensure that capital resources are adequate for each syndicate.

The PRA has confirmed that it will continue to permit the admissibility of letters of credit while they are exceptionally allowed at Lloyd's under the Insurance Directives and permit them to be counted as tier 1 capital. However, under Solvency II, letters of credit for FAL are expected to be counted as tier 2 capital. According to Solvency II proposals, at least 50% of the regulatory capital requirement under Solvency II should be met by Tier 1 capital.

As noted above managing agents are now required to calculate a one-year SCR and SCR to ultimate for the syndicate and use these as a benchmark for the ICA. The standard SCR model comprises capital charges based on asset categories, claims and premium reserves that vary depending on the class of underwriting business and whether the business is written directly or is proportional or non-proportional reinsurance.

In practice the ICA and SCRs are discussed between the managing agent and Lloyd's (the PRA retains the right to undertake this work but is currently happy to delegate it to Lloyd's and review managing agency output on a sample basis) before one of two outcomes is agreed:

1. The ICA is confirmed as adequate; or
2. The ICA is not considered adequate in which case advice is given by Lloyd's to managing agents as to how much the ICA should be increased.

If following its sampling of managing agency ICAs the PRA feels they are not adequate, "Individual Capital Guidance" (ICG) can be given as to how much additional capital over and above the ICA is required. As for insurance companies, managing agents would need to be able to demonstrate how they could raise capital to the level of any ICG or alternatively how they could control the identified risks.

6.2.3 Translation of syndicate ICAs to member ECAs

The PRA recognizes that Lloyd's responsibility for setting the member capital requirements is fundamental to its role of ensuring that central assets are adequate, are not exposed to undue risk and represent tangible protection for policyholders. Hence Lloyd's is required to carry out regular assessments of the amount of capital that is adequate for the size and nature of business underwritten by each member utilizing the ICAS+ approach, described above.

Work undertaken by the managing agents is the main input for Lloyd's assessment of capital required at a member level (syndicate SCRs and ICAs being apportioned to members based upon their syndicate participation per year of account). However Lloyd's, in calculating the 'Member ICA,' also considers factors such as the risks and controls relating to FAL and central assets, diversification benefits accruing to members underwriting on more than one syndicate.

As regulatory benchmarks are considered by the PRA to be the minimum level of capital required, Lloyd's remains free to set a higher overall capital requirement for its members after considering franchise/commercial perspectives. In deciding whether to further enhance Member capital requirements above the regulatory minimum as presented by Member ICAs, Lloyd's considers for example the target ratings necessary to support Lloyd's core business lines, perceived capital strength of competitors, default statistics and third party capital models. If deemed necessary capital uplifts aimed at achieving the non-regulatory driven aims can be included resulting in an "Economic Capital Assessment" (ECA) for each member. The current level of uplift applied to standalone syndicate ICAs is 35%.

The current minimum FAL ratio is 25% of capacity for members where EU motor is at least 85% of their portfolio (and 40% for all others). The gearing inherent in the ratio is a major attraction of Lloyd's to capital providers.

6.2.4 The Lloyd's market ICA

To arrive at the Lloyd's market ICA, the six risk categories (insurance, credit, market, liquidity, group and operational risk) are considered with regard to Lloyd's centrally and if necessary additional capital requirements are set, after considering the degree of correlation between the identified risks. Examples of risk at this level include:

- Insurance risk: the run off of orphan syndicates being supported by the Central Fund;
- Credit risk: exposure to providers of letters of credit;
- Market risk: risk to Central Fund assets of changes in interest rates, equity volatility;
- Liquidity risk: risk of Central Fund cash calls in excess of solvency deficits;
- Group risk: exposure to subsidiaries such as Lioncover Insurance Company Ltd; and
- Operational risk: underwriting cycle mismanagement and the risk of loss of the 1986 Lloyd's building.

Capital available to meet these risks is provided by Lloyd's central resources (see section 4.3).

The output of the Lloyd's ICA is discussed with the PRA before one of two outcomes is agreed:

1) The ICA is confirmed as adequate.
2) The ICA is not considered adequate in which case "Individual Capital Guidance" (ICG) is given as to how much additional capital over and above the ICA is required.

6.3 The Insurers reorganization and winding up directive for Lloyd's

On August 10, 2005 Directive 2001/17/EC of the Council of March 19, 2001 was implemented with regard to the Lloyd's market. Previously there did not exist a legal mechanism for the coordinated application of reorganization measures and winding-up procedures to the Lloyd's market as a whole.

The directive requires, first, that only the competent authorities of the home state of the insurance undertaking are entitled to commence reorganizing or winding up proceedings and, secondly, that in the event of a winding-up of an insurance undertaking, direct insurance claims (not reinsurance claims) shall take precedence over any other claim on the whole of the insurance undertaking's assets with only some permissible exceptions (e.g. claims by social security systems and claims on assets subject to 'rights in rem' i.e. security interests).

The regulated "insurance undertaking" for the purpose of this and other EU insurance directives is "the association of underwriters known as Lloyd's" (members of Lloyd's taken together), which, however, is not a legal entity.

The directive's provisions were therefore interpreted in the implementing regulations not to apply directly to the isolated insolvency of particular members of Lloyd's. Rather the scope of the directive's provisions was deemed appropriate only where there is a material risk that the solvency requirements applicable to the undertaking as a whole will not be met (i.e. that not all policyholders will be paid).

Despite the importance of the Central Fund being recognized there are no provisions within the regulations that grant members' insurance creditors any rights over the Society's assets (in particular the Central Fund). Technically the general position is that insurance creditors at Lloyd's are the creditors of the relevant members as opposed to the Society. Therefore in the distribution of the Society's assets in a winding-up the senior creditors of the Society would rank ahead of policyholders. The exception to this general position is where the Society has given a Central Fund undertaking to a corporate member who is otherwise insolvent. Policyholders of this member have the benefit of that undertaking which represents a senior liability of the Society. As such it ranks pari passu with the other senior creditors of the Society.

In practice Standard & Poor's believes that with the intervention of the courts and PRA the vast majority of the Central Fund's assets will be applied for the benefit of policyholders. In a winding up scenario a small portion would be made available to pay for the winding up/runoff process but it is expected that there would be external pressure to ensure that amounts were kept to a minimum.

7. Distribution of profits

Lloyd's move to annual accounting has been accompanied by changes to the rules governing the distribution of profits from the Market. Previously a member would typically have to wait three and a half years from commencement of underwriting before receiving cash profits. The underwriting year result would be declared after three years and profit distribution would occur roughly six months later. The process in effect trapped profits within the market and was argued to put Lloyd's at a competitive disadvantage compared to other insurance companies.

From 2006 managing agents have been able to make interim profit distributions from syndicate premium trust funds to members personal reserve funds (PRFs) by reference to the annual accounting result at the end of each calendar year if they consider it appropriate having regard to the need for working capital and prudential margins and any requirements made by the Council of Lloyd's. Payment of profit to members out of the PRF is controlled by a release test which for active members ensures funds in excess of required capital only are released. Additional prudential safeguards have been put in place in the release test for non-active capital providers.

The Franchise board has also agreed that from 2006 profits/losses reported in half year interim results will be recognized within the capital setting process for the forthcoming trading year and for release test purposes.

8. Lloyd's Trust Funds

Lloyd's has a complex and burdensome trust fund structure. Lloyd's is required to hold all underwriting income in trust for the benefit of policyholders.

- PTFs are funds held at syndicate level and are used for all non-dollar underwriting cash flows. Individuals from Lloyd's managing agents are the trustees. The PTFs also include non- US/Canadian overseas deposits held by Additional Securities Limited, a subsidiary of Lloyd's.
- The LDTFs are similar to PTFs. The funds were set up in 1995 for business denominated in US dollars incepting from August 1995.
- The LATFs are similar to the PTFs and covered all Lloyd's business denominated in US dollars written before August 1995. However, the relevant forms of trust deed were amended in March 2009 so that these liabilities are now secured by assets held in the CRTFs and SLTFs.
- The JATFs comprise two funds (the Reinsurance Fund and the Surplus or Excess Lines Fund) and are required to support US situs business. Each is held in two mutual funds in New York with Citibank as trustee. These funds can only be accessed when a policyholder's claim remains unpaid after recourse to the other relevant US funds. It is possible that the continuing Lloyd's market would be required to replenish them if they were used to pay US reinsurance or surplus lines claims not met by Equitas.
- The CRTFs and SLTFs are similar to the LATFs, but relate to US situs reinsurance and surplus lines business. Lloyd's US licensing terms require the CRTFs and SLTFs to be adequate to meet 100% and 30% respectively of gross US liabilities, i.e., without giving credit for reinsurance ceded by Lloyd's to US companies. Lloyd's must provide quarterly reports and annual actuarial certifications of liabilities. These trust funds are funded by the Premium Trust Funds.
- The Illinois and Kentucky Trust Funds are held to back Lloyd's direct underwriting licenses in those states.
- The LCTFs are similar to the PTFs except that the funds are located in Canada and the Royal Trust Corporation of Canada is the trustee.

Whilst Lloyd's is not disadvantaged relative to other alien (re)insurers in the US, the CRTF and the JATFs still represent substantial over funding of US dollar liabilities. This practice has been raised within the EU and amongst US regulators as being both anti-competitive and protectionist (there is no similar regime within the EU). Discussions aimed at creating a level playing field in this regard between the EU and US are progressing, and some states, including New York and Florida, have reduced the amount of collateral required for non-US reinsurers to do business in those states.

LARGEST 20 SYNDICATES BY GROSS PREMIUMS WRITTEN

			2012			2013			2014		
Rank	Syndicate	Managing Agent	GWP	% Total (£m)	Cum. % Market GWP	GWP	% Total (£m)	Cum. % Market GWP	GWP	% Total (£m)	Cum. % Market GWP
1	2003	Catlin Underwriting Agencies Limited	1,836	7.20	7.20	1,911	7.46	7.46	1,975	7.81	7.81
2	2001	Amlin Underwriting Limited	1,470	5.76	12.96	1,472	5.75	13.21	1,538	6.08	13.89
3	2987	Brit Syndicates Limited	1,089	4.27	17.24	1,183	4.62	17.83	1,303	5.15	19.05
4	623/2623	Beazley Furlonge Limited	1,276	5.00	22.24	1,333	5.20	23.03	1,259	4.98	24.03
5	4472	Liberty Syndicate Management Limited	1,107	4.34	26.58	1,268	4.95	27.98	1,234	4.88	28.91
6	510	Tokio Marine Kiln Syndicates Limited	1,153	4.52	31.10	1,169	4.56	32.54	1,097	4.34	33.25
7	1084	Chaucer Syndicates Limited	906	3.55	34.65	888	3.47	36.01	899	3.56	36.80
8	2999	QBE Underwriting Limited	1,155	4.53	39.18	1,118	4.36	40.37	888	3.51	40.32
9	33	Hiscox Syndicates Limited	825	3.24	42.42	823	3.21	43.59	832	3.29	43.61
10	4444	Canopius Managing Agents Limited	648	2.54	44.96	704	2.75	46.34	727	2.88	46.48
11	1183	Talbot Underwriting Limited	681	2.67	47.63	698	2.72	49.06	669	2.65	49.13
12	2007	Novae Syndicates Limited	612	2.40	50.03	608	2.37	51.43	659	2.61	51.73
13	1414	Ascot Underwriting Limited	654	2.56	52.60	625	2.44	53.87	574	2.27	54.00
14	457	Munich Re Underwriting Limited	494	1.94	54.53	511	1.99	55.87	446	1.76	55.77
15	3000	Markel Syndicate Management Limited	386	1.51	56.05	369	1.44	57.31	419	1.66	57.43
16	218	Equity Syndicate Management Limited	449	1.76	57.81	406	1.59	58.90	388	1.53	58.96
17	1200	Argo Managing Agency Limited	375	1.47	59.28	425	1.66	60.55	380	1.50	60.46
18	2488	ACE Underwriting Agencies Limited	352	1.38	60.66	371	1.45	62.00	375	1.48	61.95
19	1225	AEGIS Managing Agency Limited	371	1.45	62.11	367	1.43	63.44	371	1.47	63.41
20	609	Atrium Underwriters Limited	353	1.38	63.50	380	1.48	64.92	365	1.44	64.86
		GWP of 20 largest syndicates	**16,192**			**16,629**			**16,398**		
		Lloyd's Market GWP	**25,500**			**25,615**			**25,283**		

GROSS PREMIUMS
BY RISK GROUP AND REGION

	2012			2013			2014		
£ million	Direct	R/I	Total	Direct	R/I	Total	Direct	R/I	Total
Aviation combined	0	0	0	0	0	0	0	0	0
Aviation legal liability	254	215	469	232	198	430	217	176	393
Aviation physical loss/ damage	290	304	594	262	278	540	227	245	472
Long term	86	10	96	86	7	93	84	7	91
Energy	1,502	952	2,454	1513	908	2,421	1392	910	2,302
Goods in transit	715	278	993	741	285	1,026	769	253	1,022
Ships physical loss/damage	952	310	1,262	946	310	1,256	919	270	1,189
Ships/marine liability	297	283	580	333	303	636	319	284	603
Motor	1,420	43	1,463	1268	35	1,303	1233	37	1,270
Accident and health	778	231	1,009	837	241	1,078	790	252	1,042
Non-marine general liability	3,685	680	4,365	4111	714	4,825	4384	770	5,154
Non-marine property	4,951	2,231	7,182	5279	2137	7,416	5308	1855	7,163
Pecuniary loss	676	126	802	871	119	990	977	121	1,098
Financial Guarantee	125	90	215	158	93	251	167	92	259
Specific inwards XL RI	2	206	208	1	206	207	0	170	170
Lloyd's Japan	0	3	3	0	2	2	0	2	2
Third party RITC	0	0	0	0	0	0	0	0	0
Whole a/c XL RI	4	3,801	3,805	0	3632	3,632	0	3053	3,053
Total	15,737	9,763	25,500	16638	9,468	26,106	16786	8,497	25,283

	2012			2013			2014		
£ million	Direct	R/I	Total	Direct	R/I	Total	Direct	R/I	Total
Caribbean	360	739	1,099	390	647	1037	395	536	931
Central America	30	268	298	21	274	295	19	247	266
North America	7,569	2,922	10,491	8,220	3,068	11288	8,547	2,759	11306
South America	36	583	619	29	556	585	36	622	658
US Dependencies	58	24	82	65	26	91	56	22	78
Africa	196	263	459	188	213	401	177	226	403
Indian and Atlantic Oceans	8	8	16	7	12	19	14	12	26
Asia	404	1,272	1,676	363	1,188	1551	342	994	1336
Australasia/Pacific	1,415	433	1,848	1,374	386	1760	1,199	318	1517
Middle East	171	301	472	193	300	493	167	282	449
Eastern Europe	33	64	97	47	63	110	47	56	103
EFTA	433	209	642	443	232	675	370	197	567
European Union	4,824	2,329	7,153	5,096	2,213	7309	5,208	1,938	7146
Former USSR Republics	20	171	191	18	145	163	19	152	171
Other Western Europe	180	177	357	184	145	329	190	136	326
Inter-syndicate reinsurance	0	0	0	0	0	0	0	0	0
Worldwide Total	15,737	9,763	25,500	16,638	9,468	26,106	16,786	8,497	25,283

EARMARKING OF THE CENTRAL FUND

All figures in £million

YEAR	CENTRAL FUND NET ASSETS	SOLVENCY SHORTFALLS
1971	24.3	0.6
1972	28.5	0.6
1973	29.1	0.7
1974	23	0.2
1975	35.9	0.1
1976	38.8	-
1977	52.3	-
1978	58.1	0.1
1979	59.8	0.5
1980	72.5	0.8
1981	83.4	0.8
1982	108.8	0.5
1983	135.8	1.7
1984	173.4	6.2
1985	211.5	64.8
1986	279.2	237.3
1987	254.4	24
1988	303.6	12.9
1989	384.5	21.8
1990	376.2	30.3
1991	438	67.9
1992	1,113.00	354.9
1993	903.7	661.6
1994	737.5	1,057.9*
1995	540.9	1,001.2*
1996	236.3	0.5
1997	144.2	1.7
1998	212.2	6.4
1999	252.8	7.4
2000	322.8	11.5
2001	326.8	92.6
2002	476.2	85.1
2003	711	79.8
2004	604.5**	91.9
2005	555.8**	163.9
2006	626.8**	147.4
2007	767.0**	123.2
2008	852.0**	93
2009	983.0**	45.3
2010	1,284**	9.1
2011	1,361.1**	7.7
2012	1,459.9	14.0
2013	1,513	11
2014	1,590	6

Source: Lloyd's Market Reporting

1. Central Fund balance represents the net value of the Fund after provision has been made for taxation.

2. The earmarkings for 1986 include an extraordinary amount relating to the PCW settlement.

3. Solvency shortfalls are those at the relevant year end, not after the completion of the subsequent solvency test in respect of that year.

4. For 2002/2003 the figure in the shortfall column represents unutilized undertakings rather than solvency shortfalls.

*The shortfalls were covered by the available assets of the Central Fund, the net assets of the Society and a credit for part of a double count in respect of losses which are covered by errors and omissions reserves.

** Reported under IFRS - 2004 restated. Figures presented for net assets in 2004 – 2006 exclude loans to the Central Fund.

CREDIT FAQ: LLOYD'S - IDENTIFYING THE MARKET'S FINANCIAL STRENGTH

The Lloyd's insurance market (Lloyd's or the Market) is a unique insurance provider, and needs to be addressed in a way that acknowledges these qualities when it comes to its rating.

Standard & Poor's Ratings Services already rates the financial strength of the Market (insurer financial strength rating A+/Stable), as well as assigning ratings and assessments to a number of Market participants, to The Society of Lloyd's (the Society; A+/Stable/—), and to the Society's subordinated debt issues (A-).

However, Lloyd's is not an insurance or reinsurance company, but a partially mutualized, competitive marketplace within which buyers of insurance and reinsurance look to have their demand for risk transfer satisfied by risk carriers—the Lloyd's members.

The Lloyd's members (or capital providers) are the ultimate risk carriers at Lloyd's. Annually, the capital providers group together to form syndicates in order to accept risk, severally not jointly. It is because of this unique structure that a specialized approach is needed when offering opinions on the individual syndicates.

Frequently Asked Questions

How can Standard & Poor's provide a rating opinion on the Lloyd's Market?
Lloyd's structure includes a Central Fund that provides partial mutualization of the capital base. As a result, all Lloyd's policies are backed by Lloyd's common security, which enables Standard & Poor's to assign an insurer financial strength rating (FSR) that applies across the Market.

To what does Standard & Poor's rating on the Lloyd's Market apply?
Standard & Poor's FSR on Lloyd's applies currently and prospectively to each policy issued by Lloyd's from the 1993 year of account onward.

Lloyd's non-life liabilities for 1992 and prior years have been reinsured into Equitas Ltd. The FSR on Lloyd's does not apply to Equitas.

The rating scale used for Lloyd's is consistent with all Standard & Poor's FSRs, enabling the financial security offered by Lloyd's to be compared directly with insurance companies. But importantly, the FSR on Lloyd's applies to all syndicates, regardless of their individual performance relative to other syndicates and market aggregates.

Why doesn't Standard & Poor's assign FSRs to syndicates?
Standard & Poor's does not believe that under the Market's current legal and regulatory structure FSRs on syndicates are appropriate. This view reflects the fact that syndicates are groupings of one or more capital providers, managed on their behalf by a managing agent, and are not legal entities in themselves. Furthermore, regulatory action is the arbiter of default in an FSR and, due to the mutualization of Lloyd's through the Market's Central Fund, regulatory action resulting from concerns as to ability to meet claims would be marketwide, not syndicate specific.

To address these issues and meet the insurance and capital markets' need for a more specific view of the syndicates, Standard & Poor's does offer an opinion on a syndicate's continuity characteristics in the form of a Lloyd's Syndicate Assessment (LSA). This measures the dependency of syndicates on Lloyd's Central Fund, brand, international licensing agreements, infrastructure, and, ultimately, on the Lloyd's FSR.

How should the LSAs be used and interpreted?
LSAs are assigned on a scale of 'LSA 1' to 'LSA 5', indicating the likely continuity of each syndicate reflecting its relative dependency on Lloyd's support, both financial and nonfinancial. A syndicate assigned an LSA of 'LSA 5' is considered to have 'very low dependency', which Standard & Poor's views as positive, whereas 'LSA 1' indicates 'very high dependency', which is viewed as negative.

The lower the LSA, in our view the lower the likelihood of the syndicate being a long-term Market participant, at least in its current form. This measure of continuity has been welcomed by cedents and brokers, who wish to ensure that relationships can be maintained over the life of the policy and claims period.

Are there any circumstances under which Standard & Poor's can assign an FSR to a Lloyd's capital provider?
Where a capital provider is an incorporated legal entity and where a guarantee is provided by another rated entity, an FSR can be assigned. The guarantee must meet Standard & Poor's guarantee criteria, and must be enhanced to reflect the unique features of the Lloyd's Market. Specifically, this means:

The guarantee needs to explicitly address the requirement that, should the central Lloyd's claims payment process be inoperable for whatever reason, including regulatory action, there is a method through which valid claims can continue to be paid to policyholders; and

The guarantee is triggered when the corporate capital member does not make timely payment of any amount, once finally determined to be due and payable, from premium trust funds and funds at Lloyd's. There should be no reliance upon payments from the Lloyd's Central Fund.

How does having this guaranteed capital provider rating affect policyholder security?
If a syndicate retains the corporate capital provider as its single capital provider, then all policies issued by Lloyd's on behalf of the syndicate in effect benefit fully from the guarantee provided.

How is the Lloyd's Market's creditworthiness with respect to financial obligations assessed?
The Society of Lloyd's, the entity whose members provide the capital to underwrite the insurance and reinsurance risks assumed by Lloyd's, carries a counterparty credit rating predicated upon the current 'A+' long-term FSR on the Lloyd's Market.

Standard & Poor's considers that senior creditors of the Society have access to the same pool of central assets that is available to policyholders. Senior creditors have the power to petition for the winding-up of the Society. In the event of a winding-up of the Society, senior creditors of the Society would currently rank at least pari passu with the policyholders of members. In carrying out its functions, it is expected that the Society will ensure it can meet its obligations to repay its own senior creditors when applying central assets to meet the underwriting liabilities of its members.

How do these different ratings relating to Lloyd's—the FSR on Lloyd's, the counterparty credit rating on The Society of Lloyd's, the subordinated debt rating on the notes issued by the Society, the FSRs on Lloyd's capital providers, and the LSAs on the syndicates—interact?
Standard & Poor's singular measure of financial strength for the Lloyd's Market is its FSR on Lloyd's, which applies to all policies issued by Lloyd's from 1993 onward.

The rating on the subordinated debt issued by the Society of Lloyd's relates to the Society's financial capacity to meet obligations under the terms of the notes.

Where a syndicate retains a single rated corporate capital provider, all policies issued by Lloyd's on behalf of the syndicate in effect benefit fully from the guarantee provided, and therefore offer the financial security of the guarantor.

The LSAs provide a benchmark to counterparties looking for an opinion on the likelihood of the continued presence of their underwriting partner. LSAs can be used to differentiate syndicates, all of which benefit from at least the financial strength of the Lloyd's Market.

Therefore, when determining the financial strength backing a policy issued by Lloyd's on behalf of a syndicate, the Lloyd's Market FSR always applies. But if the syndicate is backed by a single guaranteed corporate capital provider, then the FSR on the capital provider should be used. The LSAs offer differentiation of syndicates with a focus on likely continuity of Market participation.

STANDARD & POOR'S INSURER FINANCIAL STRENGTH RATINGS

A Standard & Poor's insurer financial strength rating is a forward-looking opinion about the financial security characteristics of an insurance organization with respect to its ability to pay under its insurance policies and contracts in accordance with their terms. Insurer financial strength ratings are also assigned to health maintenance organizations and similar health plans with respect to their ability to pay under their policies and contracts in accordance with their terms.

This opinion is not specific to any particular policy or contract, nor does it address the suitability of a particular policy or contract for a specific purpose or purchaser. Furthermore, the opinion does not take into account deductibles, surrender or cancellation penalties, timeliness of payment, nor the likelihood of the use of a defense such as fraud to deny claims.

Insurer financial strength ratings do not refer to an organization's ability to meet nonpolicy (i.e., debt) obligations. Assignment of ratings to debt issued by insurers or to debt issues that are fully or partially supported by insurance policies, contracts, or guarantees is a separate process from the determination of insurer financial strength ratings, and follows procedures consistent with those used to assign an issue credit rating. An insurer financial strength rating is not a recommendation to purchase or discontinue any policy or contract issued by an insurer.

Long-Term Insurer Financial Strength Ratings: Rating Scale

An insurer rated 'AAA' has extremely strong financial security characteristics. 'AAA' is the highest insurer financial strength rating assigned by Standard & Poor's.

An insurer rated 'AA' has very strong financial security characteristics, differing only slightly from those rated higher.

An insurer rated 'A' has strong financial security characteristics, but is somewhat more likely to be affected by adverse business conditions than are insurers with higher ratings.

An insurer rated 'BBB' has good financial security characteristics, but is more likely to be affected by adverse business conditions than are higher-rated insurers.

An insurer rated 'BB' or lower is regarded as having vulnerable characteristics that may outweigh its strengths. 'BB' indicates the least degree of vulnerability within the range; 'CC' the highest.

An insurer rated 'BB' has marginal financial security characteristics. Positive attributes exist, but adverse business conditions could lead to insufficient ability to meet financial commitments.
An insurer rated 'B' has weak financial security characteristics. Adverse business conditions will likely impair its ability to meet financial commitments.

An insurer rated 'CCC' has very weak financial security characteristics, and is dependent on favorable business conditions to meet financial commitments.

An insurer rated 'CC' has extremely weak financial security characteristics and is likely not to meet some of its financial commitments.

An insurer rated ‘SD’ (selective default) or ‘D’ is in default on one or more of its insurance policy obligations but is not under regulatory supervision that would involve a rating of ‘R’. The ‘D’ rating also will be used upon the filing of a bankruptcy petition or the taking of similar action if payments on a policy obligation are at risk. A ‘D’ rating is assigned when Standard & Poor’s believes that the default will be a general default and that the obligor will fail to pay substantially all of its obligations in full in accordance with the policy terms. An ‘SD’ rating is assigned when Standard & Poor’s believes that the insurer has selectively defaulted on a specific class of policies but it will continue to meet its payment obligations on other classes of obligations. A selective default includes the completion of a distressed exchange offer. Claim denials due to lack of coverage or other legally permitted defenses are not considered defaults.

An insurer rated ‘R’ is under regulatory supervision owing to its financial condition. During the pendency of the regulatory supervision, the regulators may have the power to favor one class of obligations over others or pay some obligations and not others. The rating does not apply to insurers subject only to nonfinancial actions such as market conduct violations.

An insurer designated ‘NR’ is not rated, which implies no opinion about the insurer’s financial security.

Ratings from ‘AA’ to ‘CCC’ may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

CreditWatch highlights our opinion regarding the potential direction of a short-term or long-term rating. It focuses on identifiable events and short-term trends that cause ratings to be placed under special surveillance by Standard & Poor’s analytical staff. Ratings may be placed on CreditWatch under the following circumstances:

- When an event has occurred or, in our view, a deviation from an expected trend has occurred or is expected and when additional information is necessary to evaluate the current rating. Events and short-term trends may include mergers, recapitalizations, voter referendums, regulatory actions, performance deterioration of securitized assets, or anticipated operating developments.
- When we believe there has been a material change in performance of an issue or issuer, but the magnitude of the rating impact has not been fully determined, and we believe that a rating change is likely in the short-term.
- A change in criteria has been adopted that necessitates a review of an entire sector or multiple transactions and we believe that a rating change is likely in the short-term.

A CreditWatch listing, however, does not mean a rating change is inevitable, and when appropriate, a range of potential alternative ratings will be shown. CreditWatch is not intended to include all ratings under review, and rating changes may occur without the ratings having first appeared on CreditWatch. The “positive” designation means that a rating may be raised; “negative” means a rating may be lowered; and “developing” means that a rating may be raised, lowered, or affirmed.

The analyses, including ratings, of Standard & Poor’s and its affiliates (together, Standard & Poor’s) are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or make any investment decisions. Standard & Poor’s assumes no obligation to update any information following publication. Users of ratings or other analyses should not rely on them in making any investment decision. Standard & Poor’s opinions and analyses do not address the suitability of any security. Standard & Poor’s does not act as a fiduciary or an investment advisor except where registered as such. While Standard & Poor’s has obtained information from sources it believes to be reliable, Standard & Poor’s does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Ratings and other opinions may be changed, suspended, or withdrawn at any time.

NOTES

Boston
Buenos Aires
Chicago
Dallas
Dubai
Frankfurt
Hong Kong
Johannesburg
London
Madrid
Melbourne
Mexico City
Milan
Moscow
New York
Paris
San Francisco
São Paulo
Singapore
Stockholm
Tokyo
Toronto
Washington, D.C.

www.standardandpoors.com