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FOR IMMEDIATE RELEASE

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AM Best Affirms Credit Ratings of Lloyd's

LONDON, 10 July 2019—AM Best has affirmed the Financial Strength Rating of A (Excellent) and the Long-Term Issuer Credit Ratings (Long-Term ICR) of “a+” of Lloyd's (United Kingdom), Lloyd's Insurance Company (China) Limited (Lloyd's China) (China) and Lloyd's Insurance Company S.A. (Lloyd's Brussels) (Belgium). Concurrently, AM Best has affirmed the Long-Term ICR of “a” of Society of Lloyd's (the Society) (United Kingdom) and the Long-Term Issue Credit Ratings of “a-” on the GBP 500 million 4.750% subordinated loan notes maturing 30 October 2024 and on the GBP 300 million 4.875% subordinated notes maturing 7 February 2047. The outlooks of these Credit Ratings (ratings) remains stable.

The ratings reflect Lloyd's balance sheet strength, which AM Best categorises as very strong, as well as its strong operating performance, favourable business profile and appropriate enterprise risk management.

The Lloyd's market benefits from its risk-adjusted capitalisation being at the strongest level, as measured by Best's Capital Adequacy Ratio (BCAR). Capital adequacy is supported by a robust risk-based approach to setting member-level capital and a strong Central Fund, which is available to meet the policyholder obligations of all Lloyd's members. AM Best's assessment of the balance sheet strength of Lloyd's takes into account the

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fungibility constraints of capital held at the member level and the market's good financial flexibility, which is enhanced by the diversity of its capital providers.

The market's exposure to catastrophe risk is an offsetting rating factor. However, the requirement for members to replenish their funds at Lloyd's to meet their current underwriting liabilities, as part of the "coming into line" process, partly mitigates the potential for volatility in risk-adjusted capitalisation due to operating losses. Despite pre-tax losses in 2017 and 2018, due to above average natural catastrophe losses, risk-adjusted capitalisation was stable as member-level capital was replenished in line with expectations.

The operating performance assessment reflects Lloyd's long-term record of strong technical performance over the underwriting cycle as demonstrated by the 10-year (2009-2018) average combined ratio and return on equity of 96.6% and 7.1%, respectively. Technical performance is subject to volatility due to the nature of the business underwritten and in 2018, major losses added 11.6 points to the combined ratio. Adjusted for average catastrophe experience, recent technical performance has been outside AM Best's expectations for the strong assessment. However, AM Best expects robust remedial actions by the Corporation of Lloyd's and individual managing agents to support further incremental improvements in attritional accident-year performance over the next three years. The market's expense ratio continues to be higher than its peers. Actions are being taken to reduce the cost of placing business at Lloyd's but these are subject to a high degree of execution risk due to the initial investment and culture change required.

The favourable business profile assessment reflects the strong position of Lloyd's in its core markets, as a leading writer of reinsurance and specialty property and casualty insurance. Lloyd's has an excellent brand in these markets but an increasingly difficult operating environment poses challenges to Lloyd's competitive position. The market's business mix is well-diversified but with some geographical bias toward North America and product bias towards moderate to high-risk commercial specialty lines products.

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The ratings of Lloyd's China and Lloyd's Brussels reflect reinsurance support from Lloyd's in the form of quota share contracts between Lloyd's and the syndicates participating on the China and Brussels platforms.

The rating of the Society is notched from the rating of the Lloyd's market, reflecting the unique relationship between the Society and the Lloyd's market, which means that the ability of the Society to meet its obligations is inextricably linked to the ability of Lloyd's to meet its obligations.

This press release relates to Credit Ratings that have been published on AM Best's website. For all rating information relating to the release and pertinent disclosures, including details of the office responsible for issuing each of the individual ratings referenced in this release, please see AM Best's [Recent Rating Activity](#) web page. For additional information regarding the use and limitations of Credit Rating opinions, please view [Understanding Best's Credit Ratings](#). For information on the proper media use of Best's Credit Ratings and AM Best press releases, please view [Guide for Media - Proper Use of Best's Credit Ratings and AM Best Rating Action Press Releases](#).

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