# Best's Rating of Lloyd's 2016

September 2016

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Credit Report

Lloyd's
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# Best's Financial Strength Rating

Based on A.M. Best's opinion of the financial strength of Lloyd's, the Lloyd's market is assigned a Best's Financial Strength Rating of A (Excellent) and an issuer credit rating of a+. Each rating has a stable outlook. The market is assigned the Financial Size Category of Class XV.

## Rating Rationale

A.M. Best's ratings of Lloyd's reflect its stable and strong risk-adjusted capitalisation and good financial flexibility, together with its excellent business profile and recent strong underwriting performance.

Lloyd's benefits from strong and stable risk-adjusted capitalisation, supported by a robust risk-based approach to setting member level capital. The exposure of central resources to insolvent members has fallen significantly over the past ten years and is now at a very low level. When setting the member level capital requirement, Lloyd's applies a 35% economic capital uplift to each syndicate's solvency capital requirement. This level of uplift has been retained for 2016, but should it change, A.M. Best will review the implications for risk-adjusted capitalisation and react accordingly.

Lloyd's financial flexibility continues to be good, enhanced by the diversity of its capital providers, which include corporate and non-corporate investors.

Lloyd's operating performance has been good in recent years, supported by strong technical performance as demonstrated by an average five-year combined ratio of 91% (2011-2015). The combined ratio of 89% for 2015 benefited from benign catastrophe experience and another year of material reserve releases. However, prospective performance is expected to be weaker than in the recent past due to deterioration in premium rates and assuming average catastrophe experience and a lower level of reserve releases.

Lloyd's benefits from an excellent position in the global insurance and reinsurance markets. The collective size of the market and its unique capital structure enable syndicates to compete effectively with large international insurance groups under the well-recognised Lloyd's brand. However, an increasingly difficult operating environment poses challenges to Lloyd's competitive position. In particular, the growth of regional (re)insurance hubs combined with the comparatively high cost of placing business at Lloyd's is reducing the flow of business into the London market. There has been a proactive response by Lloyd's to these threats. Improved access to international business is being supported by the Vision 2025 strategy and the establishment of regional platforms, and Lloyd's continues to implement initiatives to improve efficiency and reduce operating costs. A.M. Best will continue to closely monitor Lloyd's ability to defend its strong competitive position against the prevailing market headwinds.

Upward rating movements are considered unlikely in the short term. Longer term, positive rating pressure could arise if Lloyd's business profile and operating performance remain strong in spite of challenging market conditions.

An increase in risk-adjusted capitalisation from the current strong level could lead to positive rating pressure, if A.M. Best expected risk-adjusted capitalisation to be maintained at this higher level long term.

Unexpectedly weak operating performance or a significant erosion of capital would put downward pressure on the ratings.

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## Business Review

Lloyd's occupies an excellent position in the global general insurance and reinsurance markets as a specialist writer of property and casualty risks. Its competitive strength derives from its reputation for innovative and flexible underwriting, supported by the pool of underwriting expertise in London.

Although Lloyd's syndicates operate as individual businesses, the collective size of the market allows them to compete effectively with major international groups under the well-recognised Lloyd's brand and with the support of the Central Fund. Since 2001 especially, the Lloyd's market has withstood strong competition from Bermuda and other international markets and enhanced its business profile by the resilience of its operating performance and capitalisation in difficult economic conditions. It has proved attractive to international investors in recent years, as demonstrated by numerous acquisitions of Lloyd's managing agents. Furthermore, while a number of traditional Lloyd's businesses have established alternative underwriting platforms, they have remained committed to the Lloyd's market.

Excluding reinsurance to close syndicates, but including special-purpose syndicates, there were 98 syndicates at 1 January 2016, up from 93 at 1 January 2015. Nine new syndicates, of which five were special-purpose, entered the market while two syndicates merged and two special-purpose syndicates ceased at the end of 2015.

The competitive position of Lloyd's and the London market is under threat from the growth of local and regional (re)insurance hubs and a preference by clients to place business locally. In response to this threat, Lloyd's launched its Vision 2025 in May 2012, aiming to be "the global centre for specialist insurance and reinsurance". Described as a new strategic direction, Vision 2025 has at its heart profitable, sustainable growth, particularly from emerging and developing economies. The steps that the Lloyd's market must take in the early years to achieve this vision are set out in Lloyd's latest three-year plan, Lloyd's Strategy 2016-2018, published in April 2016.

On 23 June 2016, a referendum was held in the United Kingdom as to whether the country should leave or remain in the European Union (EU). The result, by a slim majority of 4% of those that voted, was to leave. Depending on the outcome of the exit negotiations, leaving the EU could restrict Lloyd's access to European insurance business. Lloyd's has a number of options available to it to ensure continued access to this business if its passporting rights in the EU are no longer available. However, the fact that Lloyd's is a market, and not an insurance company, restricts these options somewhat. For instance, the option of setting up a licensed subsidiary in an EU country would not be as simple for Lloyd's as it would be for an insurance company. A.M. Best will continue to monitor closely Lloyd's plans for accessing European insurance business as well as any impact this may have on its business profile.

Lloyd's is a significant writer of catastrophe and reinsurance business and is also a leading player in its core marine, energy, aviation and specialty markets. Direct business continues to form the larger proportion of Lloyd's overall underwriting portfolio, with insurance representing 68% of gross premium in 2015 (2014: 66%) and reinsurance accounting for the balance.

**Exhibit 1** shows Lloyd's calendar-year premium in 2014 and 2015, split by the principal lines of business. The market's overall gross written premium (GWP) increased by a little under 6% in 2015 to GBP 26,690 million from GBP 25,259 million in 2014. A significant driver of this net increase was movements in average rates of exchange, particularly for the U.S. dollar against sterling.

Although at constant exchange rates there was modest growth in GWP in 2015, as in the previous year this was less than the syndicates originally planned, since premium rates again weakened across most lines as the year progressed. The risk-adjusted premium rate for renewal business fell nearly 5% overall. However, the reported growth in GWP was achieved by the reinsurance segment as a whole and the direct classes of property, casualty, marine and aviation business, offset by reduced premium volume for energy, both direct and reinsurance business, and motor.

## Exhibit 1

### Calendar Year Gross Written Premium by Main Business Class (2014-2015)

(GBP Millions)

| | 2014 | 2015 | % change |
|---|---|---|---|
| Reinsurance | 8,488 | 8,593 | 1.2% |
| Property | 6,274 | 6,893 | 9.9% |
| Casualty | 4,959 | 5,764 | 16.2% |
| Marine | 2,140 | 2,245 | 4.9% |
| Energy | 1,532 | 1,414 | -7.7% |
| Motor | 1,213 | 1,120 | -7.7% |
| Aviation | 581 | 587 | 1.0% |
| Life | 72 | 74 | 2.8% |
| **Total calendar year premium income** | **25,259** | **26,690** | **5.7%** |

Note: Figures include brokerage and commission.
Source: Lloyd's Annual Report 2015

For the reinsurance segment, GWP increased by just over 1% overall, with some variation across the classes within the segment. Property reinsurance, which accounts for over half the reinsurance segment, reported a 3.5% increase in GWP, largely attributable to exchange rate strengthening of U.S. dollar denominated business. Although the rate of decline has slowed in some key markets, in the absence of major natural catastrophe events premium rates continue to soften and terms and conditions to widen. There were several large loss events during 2015, including severe winter weather in the United States, a European windstorm and cyclone damage in Australia, but none of these losses, either alone or in aggregate, had a lasting positive effect on premium rates, particularly with capital in the reinsurance market continuing to be plentiful.

It was a similar scenario of surplus capacity and softening rates in the casualty market, with casualty reinsurance seeing only 1% growth in GWP during 2015. The remainder of the reinsurance segment, specialty reinsurance, which comprises marine, energy and aviation, saw a reduction in GWP of 3%, driven by a decrease of 22% in the energy sector, primarily as a result of the low oil price leading to reduced exploration and investment in new oilfields. The aviation sector was again affected by substantial losses during the year, including the Germanwings crash in March, the Shoreham airshow crash in August and the downing of the Russian Metrojet flight over Sinai (Egypt) in October. Yet again, however, these losses failed to halt the general decline in aviation premium rates given the surplus capacity in the market.

The surplus capacity in the reinsurance market has, on the other hand, made more retrocessional cover available to syndicates than previously.

The direct property sector achieved premium growth of 10% in 2015, in spite of the familiar scenario of plentiful capacity and softening rates in the absence of significant catastrophe events, coupled with competition from domestic markets. The main areas of growth were in U.S. surplus and excess lines and binding authority business.

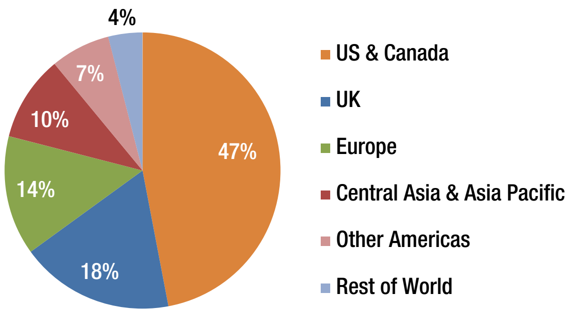
The casualty market in 2015 was similar to that in 2014, with excess capacity continuing to put rates under pressure. Nevertheless, the sector increased its GWP by 16%, in spite of profitability remaining marginal. Some of this growth comes from new products, such as cyber liability. In addition, there is some organic premium growth from liability business dependent on turnover and payroll figures, for example, which are increasing in the improving U.S. economic environment. However, the recovery from the global financial crisis remains fragile, with some economies continuing to be vulnerable. With the financial services sector in particular still facing soft market conditions and a challenging, albeit improving, economic environment, casualty lines remain a cause for concern as it is likely to be some time before the full effects of the economic downturn on litigation and claims are known.

As with the casualty market, abundant capacity was again an aspect of both the marine and energy markets in 2015. In the marine sector premiums increased by 5%, due principally to exchange rate strengthening of U.S. dollar denominated business as rates continued to be depressed, particularly in the hull and cargo business, with increased limits of cover and broader terms and conditions. The energy sector saw a reduction in premiums of nearly 8%, in spite of a significant positive impact from exchange rate movements. The fall in the oil price has led to reduction in both exploration and investment in new oilfields, resulting in a lower premium base. Additionally, offshore energy business, particularly in the Gulf of Mexico, reported significant rate reductions on the back of another year without a major windstorm.

Lloyd's motor business comprises mainly U.K. private car, particularly niche risks, commercial and fleet business, although international business, especially North American, is also written. Conditions in the U.K. motor market continue to be challenging but towards the end of 2015 premium rates for private vehicles rose to 2011 levels, a previous peak, while increases for commercial business were achieved throughout the year. Total GWP for the motor sector, however, reduced by nearly 8%, following the withdrawal of one major syndicate from this class of business and the increase in premium rates was not enough to keep pace with claims. The fall in the oil price has led to more miles being driven, with a commensurate increase in claims frequency and severity. Concerns over whiplash claims continue and fraudulent claims activity is still an issue.

Lloyd's is a leading player in the global aviation market, writing across all the main business classes, including airline, aerospace, general aviation and space, with airline hull and liability being the largest line. There continues to be significant over-capacity in the market, with the result that a soft rating environment persists, despite a series of major airline disasters and spacecraft and satellite losses in the last few years, particularly 2014 and 2015. Even the substantial increases to aviation war rates, which followed the loss in 2014 of Malaysia Airlines flight MH17 over eastern Ukraine and the destruction of several aircraft from fighting around Libya's Tripoli airport, appear to have evaporated by the end of that year. In 2015, total GWP grew by only 1%, in spite of a significant positive impact from exchange rate movements, as premium rates continued to decline.

## Exhibit 2
**Gross Premium by Territory (2015)**




Source: Lloyd's Annual Report 2015

The territorial scope of business written at Lloyd's and the market's worldwide access to business remain positive rating factors. Through its global infrastructure and network of licences, Lloyd's provides syndicates with access to a wide international client base. Although the existing geographical bias toward North America and the United Kingdom is likely to be maintained, Lloyd's is committed to expanding its global reach. In 2015, these mature markets accounted for 47% and 18% respectively of Lloyd's GWP, as compared to 44% and 18% in 2014. The proportion of GWP relating to European business reduced to 14% from 15%, while business written in Central Asia and Asia Pacific, Central and South America and the rest of the world together decreased by two percentage points to 21% of GWP see **Exhibit 2**. One of the areas of focus within the Three-Year Plan is international growth and diversification and Lloyd's has identified Malaysia, India, Turkey and Tanzania as priority target markets for 2016. The fact that in the course of 2015 growth was in the developed markets of the United States and Canada indicates that achieving sustainable growth in more diverse markets continues to be challenging.

Nevertheless, in recent years Lloyd's has made good progress in geographical diversification, building on earlier developments, such as becoming the first admitted reinsurer in Brazil and opening a representative office in Rio de Janeiro in 2009. In China, where Lloyd's has been granted licences to write both reinsurance and direct business in Shanghai, a licence to open a branch in Beijing was granted in September 2014. In November 2014, Lloyd's received approval to open a representative office in Mexico City and is now working to develop the office opened in 2015. Similarly, in Colombia, Lloyd's appointed a local representative during 2015 and received approval to begin underwriting reinsurance business within its new office, which opened in June 2016. Elsewhere, a presence in Dubai was established, with ten managing agents participating in the platform, which opened in March 2015.

Lloyd's U.S.-domiciled business consists primarily of reinsurance and surplus lines see **Exhibit 3**. In July 2014, Lloyd's was granted surplus lines eligibility in Kentucky, at last enabling such business to be written in all 50 states. Lloyd's participation in admitted U.S. business (i.e. direct business excluding surplus lines) is relatively modest. Lloyd's has admitted licences in Illinois, Kentucky and the U.S. Virgin Islands and also writes direct, non-surplus lines business in lines exempt from surplus lines laws (principally marine, aviation and transport risks). Lloyd's single-state licences were initially secured for historical reasons and are not widely exploited by syndicates. Almost half of surplus lines business written by Lloyd's syndicates is via coverholders. This distribution channel is also important in Canada, where Lloyd's writes primarily direct business, with reinsurance accounting for a much smaller share. In order to comply with local regulations, all Canadian business is written in Canada.

Although the June referendum decision for the United Kingdom to leave the European Union has introduced uncertainty, and much will be dependent on the outcome of the exit

## Exhibit 3
### U.S. Profile of Lloyd's (2011-2015)
(USD Millions)

| | 2011 | 2012 | 2013 | 2014 | 2015 | Compound Annual Growth Rate |
|---|---|---|---|---|---|---|
| Lloyd's Surplus Lines Premium | 5,790 | 6,270 | 7,099 | 8,157 | 8,645 | 11% |
| Total U.S. Surplus Lines Premiums | 31,140 | 34,808 | 37,813 | 40,234 | 41,250[1] | 7% |
| Lloyd's Share of U.S. Surplus Lines Premium | 19% | 18% | 19% | 20% | 21% | |
| Lloyd's U.S. Direct Business (Excluding Surplus Lines) | 1,227 | 1,275 | 1,418 | 1,235 | 1,198 | -1% |
| Lloyd's U.S. Reinsurance | 5,048 | 4,869 | 5,170 | 5,299 | 5,222 | 1% |
| Lloyd's Total U.S. Situs Business | 12,065 | 12,414 | 13,688 | 14,691 | 15,065 | 6% |

Notes: [1]Estimated
Source: Lloyd's, A.M. Best and National Association of Insurance Commissioners

negotiations, Europe is a region where Lloyd's has identified opportunities for syndicates to increase their share of niche business, particularly small, specialist risks. It remains the market's third-largest segment at 14% of premiums, but the fact that this proportion has fallen by two percentage points over the last five years reflects the competitiveness of the European market, which is already well served by established companies. Lloyd's main focus is on France and Germany in northern Europe and Italy and Spain in southern Europe, although options for direct licences in Turkey continue to be discussed with the Turkish regulator. In order to compete in Europe, Lloyd's syndicates need to focus on niche lines where they can add value compared with the local market.

The distribution of Lloyd's business is dominated by insurance brokers. They play an active part in the placement of risks and in providing access to regional markets, which is especially important as regional insurance centres continue to grow, threatening the flow of business into London. During 2015, 24 new Lloyd's brokers were approved, of whom 12 were from outside the U.K., bringing the total Lloyd's registered brokers at the end of 2015 to 242. However, the largest source of Lloyd's business continues to be the three largest global brokers.

A related area, where Lloyd's has an on-going strategy to facilitate access to the market, is that of coverholders, who write business on behalf of syndicates under the terms of a binding authority. They are important in bringing regional business to Lloyd's and providing the market with access to small and medium-sized risks. In order to facilitate expansion through this distribution channel, audit procedures have been streamlined and reporting standards for premiums and claims have been introduced. Lloyd's has also established minimum standards to address conduct risk, the risk that a managing agent or its agents (including coverholders) will fail to pay due regard to the interests of Lloyd's customers or will fail to treat them fairly at all times. These standards came into effect at the beginning of 2015 and a further standard on the provision of management information came into effect at the beginning of 2016.

In 2015, 341 coverholder applications were approved and a further 77 in the first four months of 2016. Northern Europe and the United Kingdom continue to be priority markets for regional development through the coverholder model.

## Business Environment

### *General Market Conditions*

The underwriting years since the exceptional series of natural catastrophes in 2010 and 2011 are considered relatively benign in terms of catastrophe losses, although there have been substantial losses from headline events such as the grounding of the Costa Concordia, Superstorm Sandy, Malaysia Airlines flights MH370 and MH17 and other significant marine, aviation and weather-related losses, including the two extremes of flooding and devastating wild fires. Yet none of these events has had a material impact on insurers' capital or a lasting positive effect on premium rates. The reinsurance market, in particular, has seen a continual influx of new and alternative capital, such as that provided by pension funds. The increased availability of capital, combined with the overall low level of loss activity, has led to softening rates in many lines of business in each of the last four years, including 2016.

As in 2015, there have been no major catastrophes in the first half of 2016 but there have been large loss events, such as the Kumamoto earthquake in Japan, flooding in the U.K. and northern Europe, hailstorms and other severe weather in the United States and Australia, the loss of an Egyptair Airbus, and the Fort McMurray (Canada) wildfire. The U.S. weather losses are helping sustain the hardening of U.S. property rates achieved in recent years following severe storm and tornado losses. However, the trend of rate increases being driven principally by loss activity, with flat or lower rates in unaffected areas, appears to be less certain than in the past, as demonstrated by the fact that the 2014 aviation war losses did not lead to higher rates for that line of business.

Casualty rates generally remained under pressure in 2015 and this is likely to be the case throughout 2016. The 2002-2006 years, when pricing and terms and conditions were good, are running off well, allowing insurers to make releases from reserves. However, the level of releases is diminishing as more recent years require reserve strengthening, with the financial crisis beginning to have an impact on loss experience. Although opportunities for business growth have been provided by the modest improvement in the U.S. economy, with surplus capacity remaining and comparatively little support from investment income, continued underwriting discipline is required in 2016 if even the marginal profitability of this class of business is to be maintained.

### *Operational Change at Lloyd's*

Lloyd's continues to make good progress in reforming key operational processes. A number of reform projects have been successfully completed but, in line with its Vision 2025 focus on being the global centre for specialist insurance and reinsurance, Lloyd's recognises that much work has still to be done. Following the launch in 2015 of a comprehensive modernisation programme for the London market, the London Market Target Operating Model (TOM), priority projects for 2016 include completion of the post-bind submission element of the Central Services Refresh Programme, implementation of e-trading via Placing Platform Limited (PPL) and improving Delegated Authority processes.

The Central Services Refresh Programme (CSRP) is a joint market initiative to improve the central services operations, processes and systems as delivered to the broad London market. The aim of CSRP is to remove a large proportion of broker administration specific to the London market and during 2015 the project made progress on its post-bind submission model. This allows brokers to adopt global standard processes and so reduce the cost of processing business through the Lloyd's and London market by removing fifteen London-specific processes. After a pilot run in the first half of 2016, a full roll-out is planned for later in the year.

Placing Platform Limited (PPL) was set up by the International Underwriting Association, the London and International Insurance Brokers' Association and the Lloyd's Market Association to identify possible suppliers of electronic placing platform services. After a formal tender exercise across the two potential solutions currently in live use in the London market, a preferred supplier was appointed during 2015. Although contractual issues have delayed market acceptance testing, PPL is working towards a launch date in late 2016, with terrorism as the first line of business to be delivered.

During 2015 a successful pilot for a one-touch process for transferring binding authority data demonstrated substantial time saving over existing processes. Further development of this initiative followed in 2016, along with centralised compliance and trialling straight-through processing of coverholder business.

## Regulatory and Accounting Environment

Regulatory oversight of the Society of Lloyd's and its managing agents is currently the responsibility of two separate bodies. The Bank of England, acting through the Prudential Regulation Authority (PRA), oversees the solvency position of all U.K. banks and insurers while the Financial Conduct Authority (FCA) is responsible for consumer protection.

In a paper entitled "The Prudential Regulation Authority's approach to insurance supervision", the PRA has explained that as the prudential supervisor of the Society of Lloyd's and the managing agents that operate within the Lloyd's market, the PRA has regard to two principles: first, that the Lloyd's market should be supervised to the same standards as the insurance market outside of Lloyd's, and second, that supervision of the various entities that make up the Lloyd's market should take place primarily at the level in the market where risk is managed. To achieve this, the PRA applies supervision at two levels – to the Society of Lloyd's itself and to each of the managing agents.

There is a Memorandum of Understanding between the FCA and the PRA which sets out how they co-ordinate in respect of the supervision of the Lloyd's market. In general the FCA and the PRA will consult with the other before using a power of direction over members and, in particular, will obtain consent from the other when exercising powers to require members of Lloyd's to become authorised.

The principal regulatory challenge that Lloyd's, along with other insurers in the EU, has had to face in recent years is the implementation of Solvency II. This new regulatory and capital regime, which, after several delays, came into force on 1 January 2016, is designed to bring a harmonised, principles-based approach to insurance regulation within the EU. It applies to the "association of underwriters known as Lloyd's" as a collective entity. Neither Solvency II nor existing European insurance directives make provision for the authorisation as insurers of Lloyd's members or syndicates on their own behalf.

In view of its position at the centre of the association of underwriters, the Corporation of Lloyd's actively sought to ensure that all syndicates met the Solvency II requirements. This work consumed a significant amount of resources both at the Corporation and at individual managing agents. To reduce the risk that costs would continue to rise when implementation was delayed, Lloyd's strove to adhere to the previous implementation date of 1 January 2013. Consequently, the Lloyd's market was fully prepared for the actual implementation of Solvency II on 1 January 2016. Although the referendum decision for the United Kingdom to leave the EU has introduced uncertainty, it is likely that the Solvency II form of regulatory and capital regime will continue after the country's exit from the EU.

Lloyd's own internal capital model (the LIM) was a key element in Lloyd's preparations for Solvency II. The building phase of the model started in the first quarter of 2010 and development was completed on schedule in April 2012. The LIM was immediately put to use to produce management information for Lloyd's Risk Committee and was refined to give enhanced input to the PMD and its strategy. The LIM was submitted to the U.K. regulator for approval as planned in 2012, enabling capital setting to be based on Solvency II principles under the transitional "ICAS+" arrangements.

Following the regulator's review of the LIM, Lloyd's was required to refine the model to meet various issues raised by the PRA. These issues were addressed in 2014 and early 2015 and, after close engagement with the PRA throughout, the model and supporting documentation were ready for a further submission to the PRA in mid-2015. In December 2015, Lloyd's received the PRA's approval of the internal model, although a number of minor refinements to the model need to be made by November 2016.

### *Method of Accounting*

Although financial information comparable to standard insurance companies has been presented since 2005, when annual accounting was introduced, Lloyd's method of accounting remains complex. The annual report includes pro forma financial statements (the financial results of Lloyd's and its members taken together) and the financial statements of the Society of Lloyd's (the Society). The traditional Lloyd's underwriting year of account information is no longer presented.

The pro forma financial statements (PFFS) include the aggregate accounts, based on the accounts of each Lloyd's syndicate, members' funds at Lloyd's (FAL) and the Society's financial statements. In order to ensure that the PFFS are presented on the same basis as other insurers, certain adjustments are made to Lloyd's capital and investment return (there is a notional investment return on FAL included in the non-technical account). The sum of the individual audited syndicate accounts is presented in the aggregate statements, the replacement for Lloyd's traditional three-year accounts. The PFFS are compiled in accordance with current U.K. generally accepted accounting principles (U.K. GAAP), which incorporate for the first time Financial Reporting Standards 102 and 103. The Society statements present the central resources of Lloyd's (e.g. the Central Fund). While the PFFS includes Lloyd's central resources, the presentation is in U.K. GAAP as opposed to International Financial Reporting Standards (IFRS), which the Society has adopted for its statements.

With certain exceptions, managing agents are required to prepare underwriting year accounts on a three-year funded basis as well as annual accounts for each syndicate in accordance with U.K. GAAP. The syndicate underwriting year accounts largely resemble Lloyd's traditional three-year accounts, which were used for Lloyd's accounts until 2005. This method of accounting is appropriate for the annual venture structure under which third-party capital providers can join and leave syndicates each year. If all the members agree or if there is no underwriting year being closed, then these accounts are not required. However, as underwriting year accounts are required for members' tax purposes, this is only likely to occur in practice on single-member corporate syndicates.

To bring the tax treatment of Lloyd's corporate members' reserves into line with the treatment for general insurers, a form of claims equalisation reserve (CER) was introduced in 2009. This tax adjustment for Lloyd's members had no impact on reserving for accounting purposes or for capital setting. However, the regulatory requirement that general insurers have to maintain CERs has been removed as a result of the implementation of the Solvency II Directive. With effect from 1 January 2016, the date that the Solvency II capital requirements came into force, built-up CERs held by both general insurers and Lloyd's corporate members are basically being taxed over a six-year period.

## Financial Performance

Overall performance is expected to remain good for 2016, assuming normal levels of catastrophe losses in line with the historical average, and continued material contribution from reserve releases. There were no major catastrophes in the first half of 2016, although there were large loss events, including the Fort McMurray (Canada) wildfire.

Full year 2016 underwriting results are likely to be supported by a high level of prior year reserve releases, as has been the case in recent years, and a calendar-year combined ratio around 95% is forecast (2015: 89%). Given the nature of the business written by Lloyd's, the final result for 2016 will depend on the frequency and severity of catastrophe losses in the remainder of the year, particularly with regard to the U.S. hurricane season.

Premium rates in most of the lines written by Lloyd's, and for property catastrophe business in particular, have been weak since 2013, due to over-capacity in the market. Despite the weak rating environment, global insurers and reinsurers have generally continued to report strong results, benefiting from benign catastrophe experience.

Prior to 2013, significant rate rises for property business were achieved in the areas of the Asia-Pacific region directly affected by the catastrophe events of 2011 and U.S. property rates hardened in the wake of the losses in 2012 from Superstorm Sandy and other U.S. weather events. However, the improvement in pricing did not spread to other territories or business lines. Similarly, in 2014 the aviation war losses in Ukraine and Libya led to rate increases that evaporated almost immediately. A strong, broad-based hard market is unlikely to materialise unless there is a significant reduction in capacity. This is not expected in the short term, as current economic conditions and a lack of alternative investment opportunities mean that capital continues to be attracted to the insurance industry.

Surplus capacity continues to put downward pressure on pricing and profit margins in the casualty sector as well. At the same time, relatively weak economic conditions and the potential for increases in inflation could lead to higher casualty claims costs.

Prior-year reserve movements are likely to continue to make a positive contribution to the market's earnings in 2016 and beyond. However, while releases may continue to be substantial for a few more years, releases at the level seen in the recent past are not considered sustainable in the long term. Recent years' material reserve releases have reflected both the release of reserve margins and better than expected experience due in part to lower than anticipated inflation. A.M. Best believes that many syndicates have continued to build in margin in their accident-year reserving for the more recent years, which should support future releases. However, the run of years with better than expected experience is less likely to continue. As a result, long term sustainable redundancies are expected at a much lower level than in the recent past.

Investment income is likely to be modest for the market overall in 2016, reflecting the prevailing low interest rate environment. Earnings from syndicates' premium trust funds, which make the largest contribution to Lloyd's overall investment income, are likely to be similar to recent years. However, the potential for substantial investment losses is moderated by the conservative investment strategy pursued by the majority of syndicates. Central Fund assets are invested mainly in high-quality, fixed-interest securities, but riskier assets are held that are likely to contribute a more volatile element to the investment return.

## Performance in 2015

The Lloyd's market recorded a pre-tax profit of GBP 2,122 million in 2015 (2014: GBP 3,016 million). The reduction in overall profitability was primarily due to a very low investment return of GBP 402 million (2014: GBP 1,038 million) (see **Exhibit 4**).

Technical performance remained strong, benefiting from another benign year for catastrophes in line with 2013 and 2014. Major claims amounted to GBP 724 million in 2015 (2014: GBP 671 million) net of reinsurance and inwards and outwards reinstatement premiums. Large losses for the year were primarily man-made risk losses and included claims from the explosion at China's Tianjin Port and at Pemex's Abkatun A-Permanente oil platform in the Gulf of Mexico as well as several large aviation losses, including the Germanwings loss.

Large losses in 2014 included Hurricane Odile in Mexico, other weather-related losses in the United States and Japan, and substantial aviation losses following the loss of two Malaysia Airlines aircraft and several aircraft through fighting at Tripoli Airport (Libya).

Prior to 2010, given the nature of the business written by Lloyd's and a geographical bias toward the United States, a low level of hurricane losses meant that the Lloyd's market produced very strong results, as happened in 2007 and 2009. However, both 2010 and 2011 highlighted the market's exposure to catastrophes of a different nature, and results were materially affected by losses from floods in Australia, earthquakes in Japan and New Zealand, tornadoes and Hurricane Irene in the United States and flooding in Thailand. These losses added 26 percentage points to the market's 2011 combined ratio. In 2013-2015, major losses added between 3 and 4 percentage points to the market's combined ratio. As can be seen from **Exhibit 5**, the major losses burden was significantly below the 15-year average in this period.

For the 11th successive year, the underwriting result in 2015 benefited from an overall release from prior-year reserves. The release of GBP 1,621 million (2014: GBP 1,571 million) reduced the year's combined ratio by 7.9 percentage points. All classes developed favourably in 2015.

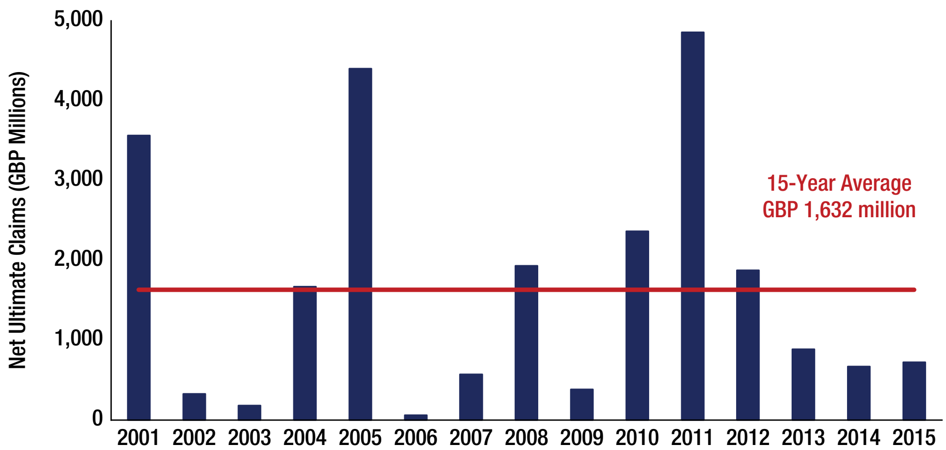
Lloyd's operating expense ratio (expressed as a percentage of net written premiums) in 2015 was 39%. The market's expense ratio was 35% in 2011 and has risen steadily over the past five years. The most significant component of operating expenses is acquisition costs, the compound annual average 5-year growth rate of which is 4.7% compared to 3.6% for net written premiums. The acquisition ratio is affected by business mix, with the reduction in contribution of reinsurance business to total premiums having a negative effect on the ratio. The other main element is administrative or management expenses, the compound annual average growth rate of which was 9.7% between 2011 and 2015. Costs associated with Solvency II have contributed to this rise.

## Exhibit 4
### Summary of Results (2011-2015)
From pro forma financial statements
(GBP Millions)

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Gross Written Premium | 23,337 | 25,173 | 25,615 | 25,259 | 26,690 |
| Net Written Premium | 18,472 | 19,435 | 20,231 | 20,006 | 21,023 |
| Net Earned Premium | 18,100 | 18,685 | 19,725 | 19,499 | 20,565 |
| Net Incurred Claims | 12,900 | 10,098 | 9,581 | 9,590 | 10,262 |
| Net Operating Expenses | 6,418 | 6,843 | 7,317 | 7,656 | 8,256 |
| **Underwriting Result** | **-1,218** | **1,744** | **2,827** | **2,253** | **2,047** |
| Other Income/(Expenses) | -253 | -284 | -461 | -275 | -327 |
| Investment Return | 955 | 1,311 | 839 | 1,038 | 402 |
| **Profit on Ordinary Activities** | **-516** | **2,771** | **3,205** | **3,016** | **2,122** |
| Loss Ratio | 71% | 54% | 49% | 49% | 50% |
| Expense Ratio | 35% | 35% | 36% | 38% | 39% |
| A.M. Best Combined Ratio | 106% | 89% | 85% | 87% | 89% |
| Investment Income Ratio | 5% | 7% | 4% | 5% | 2% |
| Operating Ratio | 101% | 82% | 80% | 82% | 87% |

Sources: Lloyd's Annual Report, A.M. Best

## Exhibit 5
### Net Ultimate Claims (2001-2015)




Note: Indexed for inflation to 2015. Claims in foreign currency translated at the exchange rates prevailing at the date of loss.
Source: Lloyd's Annual Report 2015

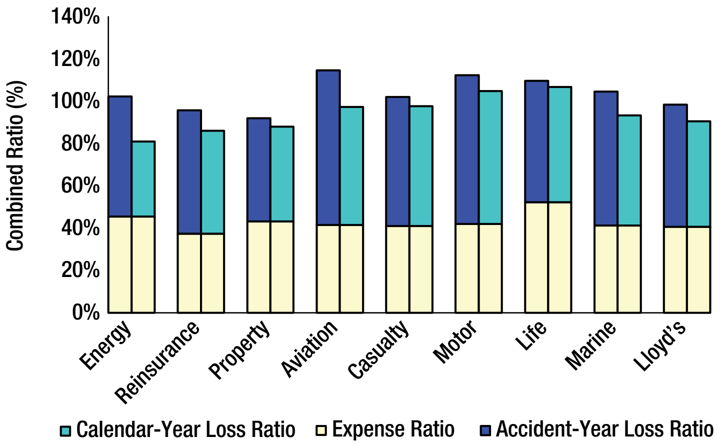
The market's overall investment return fell to 0.7% (2014: 2.0%), equivalent to GBP 402 million. This return is the lowest recorded by Lloyd's since annual accounting was introduced in 2001.

Investment income from syndicates' premium trust funds, which form the largest part of invested assets, fell to GBP 273 million in 2015 (2014: GBP 749 million), equating to an investment return of 0.8%. Although some syndicates invest a proportion of their premium trust funds in higher risk assets such as equities and hedge funds, most syndicate portfolios comprise short-dated, high quality, fixed-income securities. With interest rates still at historically low levels, fixed income securities provided a low level of income in 2015, and higher risk assets failed to boost the overall return.

The return on central assets in 2015 was higher than that on premium trust funds at 1.5% (2014: 3.6%). Central assets are actively managed by Lloyd's, which pursues a higher risk investment strategy than that generally taken by syndicates investing their premium trust funds, reflecting the longer investment time horizon for these assets. The notional return on members' FAL fell to 0.5% from 1.3% in 2014, reflecting the continuing low interest rates available to the high proportion of cash and cash equivalents held within members' capital, but improved by the better than expected returns achieved on bond investments.

**Exhibit 6** shows the class of business breakdown for Lloyd's performance based on the aggregate accounts. The three ratios shown for each class are the accident-year loss ratio, the calendar-year loss ratio, which is the accident-year loss ratio adjusted for prior-year reserve movements, and the expense ratio. Note that the expense ratio uses net written premiums as the denominator. The expense ratio is added to each of the loss ratios to give the accident-year combined ratio and the calendar-year combined ratio. The chart shows that prior-year reserve development reduced the combined ratio for each business class.

Exhibit 6
**Combined Ratios by Business Class (2015)**




Source: Lloyd's

Lloyd's reinsurance class comprises property (with property catastrophe excess of loss the largest segment), casualty (primarily non-marine excess of loss and U.S. workers compensation) and specialty reinsurance (marine, energy and aviation reinsurance). The class overall reported another strong result in 2015, with an accident-year combined ratio of 96% and a calendar-year combined ratio of 86%. The positive result was driven by the largest segment – property reinsurance – where benign catastrophe experience ensured another strong underwriting profit. Casualty and specialty reinsurance both reported accident-year combined ratios above 100%.

The property sector, like the reinsurance sector, benefited from the low level of catastrophe events in 2015, although results were affected by losses from the explosion at Tianjin Port in China, and weather events in the U.S. Prior years' reserves continued to develop favourably, lowering the ratio by 4.0 percentage points on a calendar-year basis.

Surplus capacity was again evident in most casualty lines in 2015, keeping rates under pressure and profitability marginal. The accident-year combined ratio remained above 100% in 2015, but prior year releases improved the ratio to below 100% on a calendar-year basis.

The marine segment once again reported an accident-year combined ratio above 100%, but was profitable on a calendar-year basis, due to a good level of reserve releases. The class continues to be highly competitive, resulting in pressure on both pricing and terms and conditions.

Competition remained intense in the energy market in 2015 as the over-supply of capacity was exacerbated by a further drop in demand due to low commodity prices. A lack of catastrophe losses and another year without a major Gulf of Mexico hurricane supported the result. Reserve releases reduced the calendar-year combined ratio by a substantial 21.3%.

For the second year running, Lloyd's aviation business reported underwriting losses on an accident-year basis, but profits on a calendar-year basis due to reserve releases. The accident-year combined ratio for 2015 was affected by several large loss events, including the Germanwings loss in March 2015. In 2014, losses included the disappearance of Malaysia Airlines flight MH370 and crashes involving Air Algerie, AirAsia and TransAsia, while the aviation war account was affected by the loss of Malaysia Airlines flight MH17 over Ukraine and multiple aircraft damaged or destroyed by fighting at Tripoli airport, Libya. Space losses also occurred in both 2015 (the Proton launch failure in May) and 2014 (including an Antares 130 rocket, the ABS-2 and Amazonas 4A satellites, and the Express AM4R spacecraft). Positive reserve movements made a strong contribution to earnings in both years and ensured a calendar-year underwriting profit in 2015. In spite of the substantial losses in 2014 and 2015, previous good results in this volatile class of business have led to capacity in the sector remaining high and resulting pressure on premium rates.

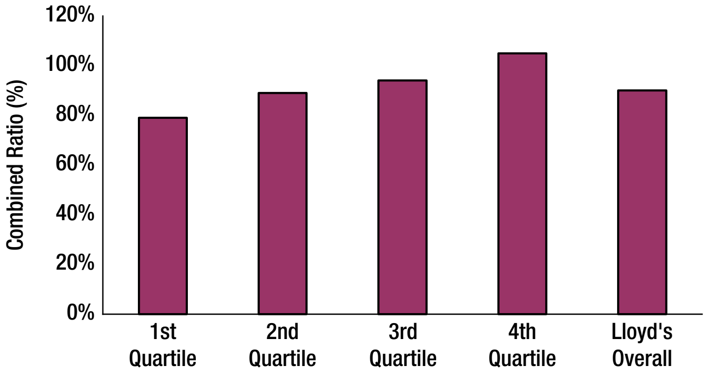
For the seventh year in succession, the motor class of business reported a loss in 2015, on both an accident and calendar-year basis. On a calendar-year basis, however, the underwriting loss was relatively small, with prior year releases improving the ratio by 7.5 percentage points, compared to just 0.5 percentage points in 2014.

The overall performance of the Lloyd's market represents the aggregate performance of its separate trading businesses. It therefore includes outstanding performance from Lloyd's better businesses, offset by weaker results at the other end of the scale. To this extent, Lloyd's performance is not directly comparable to that of other insurers, because it has not been actively managed centrally as the performance of an insurance company. The Performance Management Directorate has a definite role in agreeing business plans and monitoring performance through a variety of monthly, quarterly and annual reports and returns, but Lloyd's continues to be a market of competing businesses, each with its own separate decision-making processes. **Exhibit 7** shows the quartile split of the Lloyd's combined ratio based upon cumulative net earned premium. In 2015, the strongest performing quartile produced an average combined ratio of 79%, as compared with 105% produced by the weakest performing quartile. This spread in syndicates' performance reflects factors such as relative exposure to U.S. or non-U.S. risks, reinsurance protection available and differing levels of prior-year reserve releases.

### *Open Year Performance*

Under Lloyd's three-year accounting policy, the 2013 year of account closed at the end of 2015 with a strong profit of GBP 2,285 million (2012: GBP 2,860 million). The year of account

## Exhibit 7
**Combined Ratios by Quartile (2015)**




Note: Combined ratios are stated prior to elimination of transactions between syndicates and the Society.
Source: Lloyd's

benefited from a generally benign year for catastrophes, with the most significant insured event being flooding in Alberta, Canada. The 2013 year of account result was supported by favourable development of the reserves for the years 2012 and prior of GBP 1,038 million. Lloyd's estimate for the 2014 year of account, based on the amalgamation of individual syndicate forecasts from managing agents, is a profit of GBP 1,580 million. At the 15-month stage, the forecast for the 2015 year of account was a profit of GBP 1,113 million. Both these forecasts are in respect of years with some significant losses but no major catastrophe events and are likely to be boosted by reserve releases from prior years.

**Exhibit 8** shows the development in Lloyd's loss ratios (including paid and outstanding claims net of brokerage) for recent years of account until their closure under Lloyd's three- year accounting policy.

## Exhibit 8
**Global Net Incurred Loss Ratios (2006-2015)**

| Quarter | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 0.8% | 1.1% | 0.0% | 0.8% | 0.7% | 1.1% | 0.5% | 0.6% | 0.4% | 0.4% |
| 2 | 2.5% | 3.4% | 2.2% | 3.2% | 3.8% | 4.8% | 2.2% | 2.2% | 2.5% | 2.2% |
| 3 | 6.3% | 8.1% | 8.1% | 7.8% | 9.7% | 11.8% | 6.3% | 7.8% | 6.6% | 6.8% |
| 4 | 12.6% | 15.4% | 21.9% | 15.6% | 18.5% | 23.3% | 15.1% | 15.5% | 14.5% | 13.1% |
| 5 | 19.4% | 24.0% | 32.3% | 23.8% | 29.0% | 34.3% | 24.3% | 23.2% | 21.5% | |
| 6 | 26.3% | 32.4% | 40.7% | 34.5% | 43.9% | 43.4% | 31.9% | 30.5% | 29.6% | |
| 7 | 32.6% | 39.3% | 48.1% | 41.2% | 54.5% | 49.5% | 39.2% | 38.0% | 36.2% | |
| 8 | 37.5% | 47.8% | 53.8% | 45.9% | 61.4% | 54.9% | 43.9% | 42.6% | 41.3% | |
| 9 | 40.4% | 51.7% | 58.0% | 48.6% | 65.2% | 58.4% | 46.9% | 45.9% | | |
| 10 | 42.8% | 54.0% | 61.0% | 50.8% | 67.4% | 60.6% | 49.4% | 48.6% | | |
| 11 | 44.3% | 56.4% | 63.3% | 52.2% | 69.3% | 62.2% | 51.4% | 50.4% | | |
| 12 | 45.8% | 58.3% | 66.0% | 53.1% | 70.5% | 62.7% | 52.3% | 52.0% | | |

Note: Denominator is estimated 12th quarter net premium (net of brokerage).
Net incurred loss ratios exclude IBNR provisions.
Source: Lloyd's

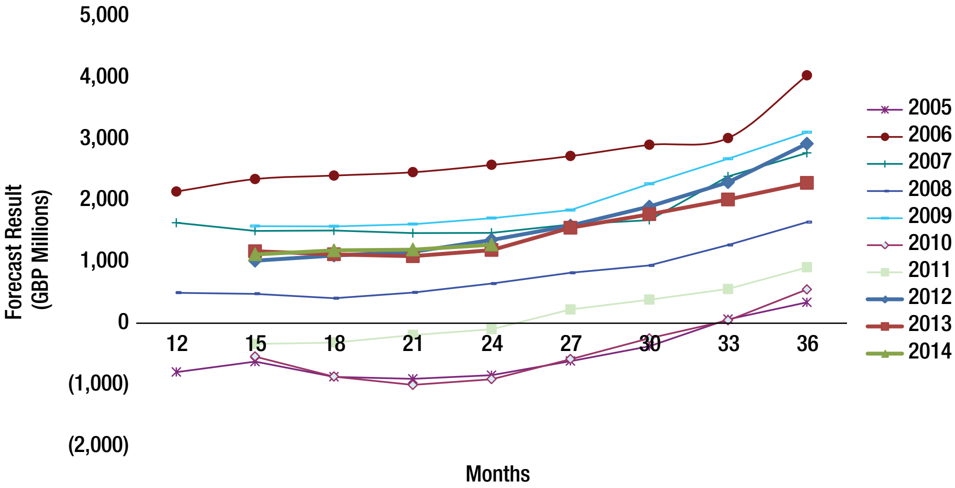
### *Lloyd's Forecasts*

**Exhibit 9** shows the progression in Lloyd's forecasts on a three-year basis, together with the ultimate result achieved after 36 months (for all years up to 2013). With effect from the 2009 year of account, Lloyd's no longer publishes syndicate forecasts at the 12-month stage, so the 12-month position for the 2009 to 2014 years of account is not shown. The chart shows that for closed years, managing agents underestimated the profit finally achieved, generally as a result of favourable reserve development on earlier years.

## Society of Lloyd's

The Society of Lloyd's produces consolidated accounts in respect of Lloyd's activities aside from the underwriting market's activities covered by the aggregate accounts. The purpose of the Society is to facilitate the underwriting of insurance business by Lloyd's members, to protect members' interests in this context and to maintain Lloyd's Central Fund.

Exhibit 9
**Global forecasts (2005-2014)**




Note: Forecasts are in respect of pure year performance except for certain syndicates that have included prior year forecasts in the Syndicate Quarterly Returns.
Source: Lloyd's

Although the Society is a non-profit organisation, it produced a surplus after tax in 2015 of GBP 74 million (2014: GBP 91 million), the tenth successive surplus to be reported. The decrease in surplus from 2014 was attributable to a deterioration in financial performance, with higher finance costs, which are primarily related to interest payments on the Society's subordinated notes and subordinated perpetual capital securities, and lower investment income. This deterioration was partly offset by an improvement in operating surplus. Operating income rose to GBP 91 million from GBP 59 million in 2014, due in part to the absence of central fund repayments to members in 2015 in respect of the contribution for the 2013 year of account. In contrast, GBP 49 million was repaid to members in 2014, amounting to half the Central Fund contributions made in respect of the 2012 year of account.

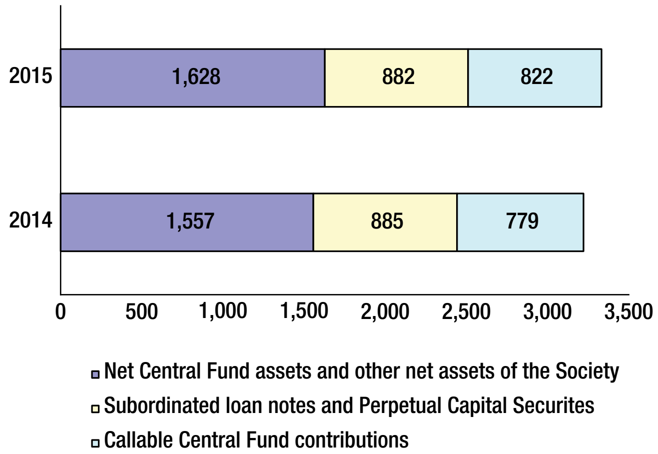
## Capitalisation

A.M. Best believes that Lloyd's maintains a strong level of risk-adjusted capitalisation and that there is sufficient tolerance for the market to withstand a significant stress scenario without threatening its solvency. This strong level of capitalisation is likely to be maintained in 2016 and into 2017. This assessment takes into account capital resources available at member level and centrally, the fungibility constraints on member-level capital, and the likelihood and potential impact of future drawdowns on central assets by Lloyd's members.

In 2015, central assets for solvency purposes rose by 3% to GBP 3,332 million (from GBP 3,221 million in 2014) (see **Exhibit 10**) due to an increase in the size of the callable layer combined with a smaller negative offset for other solvency adjustments.

Over the same 12-month period, members' funds at Lloyd's (FAL) increased to GBP 17,840 million from GBP 15,704 million. FAL will continue to move in line with syndicates' underlying business risk, driven by Lloyd's overall capital requirements. Lloyd's has a robust risk-based process in place for determining its capital needs both at member level and centrally. Member-level capital is determined using syndicates' Solvency Capital Requirements (SCRs) calibrated to correspond to a 99.5% value at risk (VaR) confidence level, provided on a one-year-to-ultimate basis.

Exhibit 10
**Central Assets for Solvency (2014 and 2015)**
(GBP Millions)




Source: Lloyd's Annual Report 2015

Managing agents are required to calculate syndicate SCRs using an internal capital model. The market's overall economic capital is determined using Lloyd's stochastic internal capital model (LIM). The model captures Lloyd's unique capital structure, recognising that parts of the capital structure, including funds at Lloyd's, are not fungible between members. It is widely used within Lloyd's and has, in A.M. Best's opinion, enhanced the Corporation's understanding of the likelihood and potential magnitude of claims being made upon central assets following the erosion of individual members' FAL at all return periods or by existing insolvent members.

The LIM was initially calibrated using the Solvency Capital Requirements (SCRs) of individual syndicates. However, to improve transparency, it was decided in 2015 that the model should no longer be calibrated with reference to syndicate SCRs. This change led to a sharp increase in required capital, but future year on year movements should be more closely aligned with changes in risk profile and central assumptions.

Lloyd's will report its Solvency II solvency ratio annually from 31 December 2016.

Lloyd's good financial flexibility is enhanced by the diversity of capital providers, which include corporate and individual investors. Traditional Lloyd's businesses remain committed to the market. In addition, Lloyd's continues to attract new investors, drawn by its capital efficient structure and global licences.

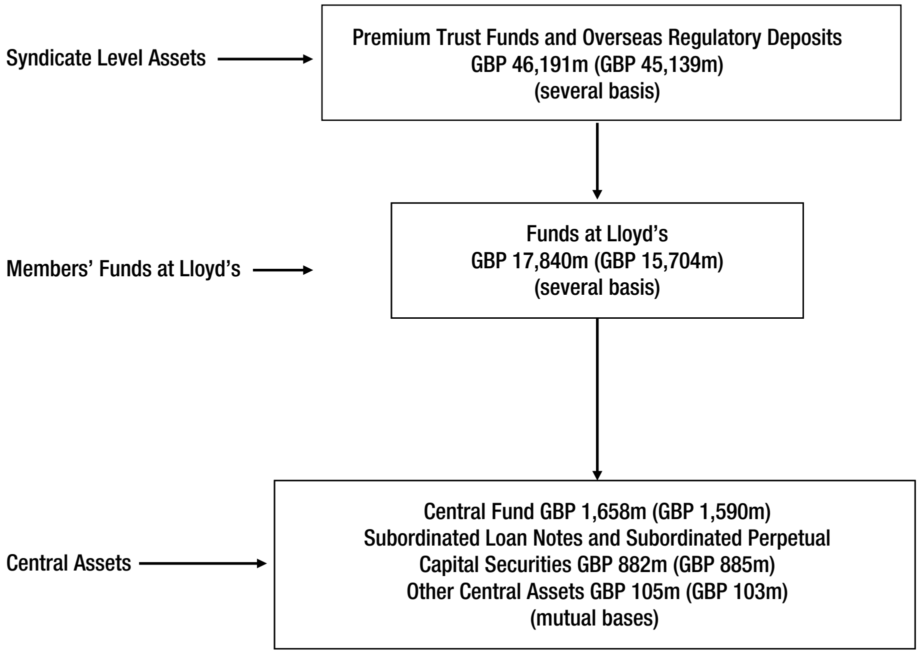
Most members underwrite with limited liability; however, if substantial underwriting losses are made, those members that wish to continue to underwrite new business at Lloyd's will have to provide additional funds to support any outstanding underwriting obligations. This requirement in effect provides the market with access to funds beyond those reflected in its capital structure.

### *Overall Capitalisation*

Any assessment of Lloyd's capital strength is complicated by the compartmentalisation of capital at member level (see **Exhibit 11**). The first two links in the "Chain of Security" (the Premium Trust Funds and Funds at Lloyd's) are on a several rather than joint basis, meaning that any member need meet only its share of claims. However, the third and final link in the chain, Lloyd's central assets, is available, at the discretion of the Council of Lloyd's, to meet liabilities to policyholders that any member is unable to meet in full. This third link comprises the Central Fund and the net assets of the Corporation of Lloyd's, strengthened by subordinated debt and other subordinated perpetual securities. These central assets can be supplemented by funds called from members of up to 3% of their overall premium limits. It is the existence of this partially mutualising third link, and the liquid Central Fund in particular, that is the basis for a market-level rating.

In 2015, there was a small increase in the level of central assets available to meet members' unpaid cash calls to GBP 2,645 million (excluding the subordinated debt liability and the callable layer) from GBP 2,578 million. Growth in central fund net assets accounted for the increase, with subordinated debt and capital securities stable.

## Exhibit 11
### Chain of Security




Note: Figures are shown as at 31 December 2015 (31 December 2014).
Source: Lloyd's Annual Report 2015

Member contributions to the Central Fund were GBP 107 million (2014: GBP 102 million). The contribution rate is currently 0.5% of gross written premiums. With aggregate premiums likely to remain in excess of GBP 20,000 million, the current rate of annual contributions will ensure an increase in central assets of approximately GBP 100 million a year from this source. However, at the discretion of the Council of Lloyd's, a part repayment of the annual contribution can be made when a year of account is closed, after consideration of the strength of the Central Fund as part of the continuous review of capital planning and capital efficiency by the Franchise Board and Council. Accordingly, at year-end 2014, a repayment of GBP 49 million was made in respect of the 2012 year of account. No repayment was made at year-end 2015 in respect of the 2013 year of account.

The potential impact of future drawdowns on the Central Fund from existing insolvent members continues to diminish as run-off liabilities decline. As at year-end 2015, the aggregate gross reserves on run-off years of account was GBP 0.3 billion, up from GBP 0.2 billion at year-end 2014 but down from GBP 7.0 billion as at year-end 2005, when 102 years of account were open beyond 36 months. As at year-end 2015, four years of account were open beyond 36 months, unchanged from 2014. Two of the four years of account in run-off at year-end 2014 closed in 2015, and two syndicates were not able to close their 2013 year of account, leaving the total unchanged.

Members' aggregate solvency shortfalls remained low during 2015 at GBP 20 million (2014: GBP 19 million). As at year-end 2015, solvency deficits were covered 167 times by central assets (2014: 171 times).

A.M. Best believes increased oversight of syndicates by Lloyd's, supported by the Performance Management Directorate (PMD), has reduced the likelihood of future insolvencies. The PMD monitors performance across the market and ensures adherence to minimum standards. In addition, the Directorate challenges and approves the syndicate business plans upon which member capital requirements are based.

In addition to the Central Fund and net assets of the Corporation, mutualised resources also exist in the form of the subordinated debt issued by The Society of Lloyd's in November 2004, June 2007 and October 2014. Lloyd's issued GBP 500 million subordinated notes in 2014, which mature on 30 October 2024 and bear an interest rate of 4.75% per annum, and bought back around GBP 149 million of its subordinated notes issued in 2004. As a result, total subordinated debt of GBP 500 million was outstanding as at year-end 2015. Also outstanding are GBP 392 million of subordinated perpetual capital securities, redeemable in 2017 at the option of the Society.

The central assets which form part of net resources can be supplemented by funds called from members of up to 3% of their overall premium limits. As at year-end 2015, this callable layer of capital amounted to GBP 822 million, based on 2015 approved premium limits.

The Corporation of Lloyd's is also responsible for setting capital at member level, using a risk-based process. In 2015, members' funds at Lloyd's (FAL) increased to GBP 17,840 million from GBP 15,704 million. Required member-level capital is determined using syndicates' SCRs.

For Solvency II purposes, SCRs are calibrated to correspond to a 99.5% value at risk (VaR) confidence level over a one-year period. However, Lloyd's requires managing agents to produce a one-year-to-ultimate number for syndicates at the same 99.5% VaR confidence level. Lloyd's refers to this number, which is used for the purpose of calculating required member-level capital, as an "ultimate SCR".

Historically, Lloyd's applied a 35% economic uplift to each member's Individual Capital Assessment (ICA), based on its own assessment of its capital needs, taking into account other business objectives, including maintenance of its brand, commercial position and financial strength rating. For 2015, the uplift percentage was 35% of the ultimate SCR, as that was determined to be the closest proxy to the previous uplift methodology applied to ICAs. The uplift has remained at 35% for 2016 and 2017.

## Exhibit 12
**Total Net Aggregate Resources**
(GBP Millions)

| | 2014 | 2015 |
|---|---|---|
| Members' Funds at Lloyd's | 15,704 | 17,840 |
| Members' Balances | 5,131 | 4,613 |
| Net Central Fund Assets | 1,590 | 1,660 |
| Subordinated Debt | 497 | 494 |
| Subordinated Perpetual Capital Securities | 388 | 388 |
| Net Assets of the Corporation | 103 | 103 |
| Total Net Resources | 23,413 | 25,098 |

Source: Lloyd's Annual Report 2015

Lloyd's net resources (see **Exhibit 12**) as at year-end 2015 represented 119% of net written premium income, up from 117% in 2014. Without members' balances the ratio is 97% (2014: 91%). Members' balances represent the net profit or loss to be distributed to or collected from members on behalf of the syndicates they support. Balances which are in excess of the members' capital requirements are paid out during the second quarter of the year.

### *Lloyd's Internal Capital Model*
The Lloyd's Internal Model (LIM) was developed as part of the Corporation's preparation for the introduction of the Solvency II regulatory regime. An internal model has been in use since 2012, although the currently used model has undergone radical changes since then in preparation for full model approval by the PRA, which was granted in December 2015. In A.M. Best's opinion, Lloyd's ability to assess both available capital and its own capital needs has been

strongly improved by the modelling work undertaken for Solvency II. A.M. Best expects Lloyd's to continue to develop the model with major model changes regularly requiring PRA approval.

The LIM captures Lloyd's unique capital structure and takes into account the fact that funds at Lloyd's and members' balances are member specific, whereas central assets, subject to Lloyd's approval, are available to meet any member's insurance liabilities. If a severe market loss led to the exhaustion of the FAL of some members, central assets would be exposed to any further losses faced by these members. The model captures this mutualised exposure, so that, at different return periods, consumption of both member level capital and central capital is demonstrated.

In 2012, Lloyd's agreed with the U.K. regulator that Lloyd's SCR would be calculated for Solvency II purposes as the total capital consumed at a 99.5% VaR confidence level over a one-year period for the Lloyd's market as a whole (including consumption of both member level and central assets). Lloyd's also calculates a one-year-to-ultimate SCR at the same 99.5% VaR confidence level and both numbers are used internally to assess the market's overall capital strength.

In addition, a central SCR is calculated at a 99.5% VaR confidence level over a one-year period. It captures exposure to losses that would not affect the majority of syndicates (and so would not erode capital at overall member level) but would have an impact on central assets. Calculating a central SCR addresses the fact that a 1-in-200 year loss to central assets could be bigger than the loss of central assets in a 1-in-200 year market loss event. By calculating both figures, Lloyd's has a better view of the likelihood that central and market level assets are sufficient.

*Letters of Credit*

A significant proportion of FAL, stable at around 50% in recent years, is accounted for by letters of credit (LOCs). Lloyd's has a robust control framework in place to monitor the counterparty risk of LOCs, and all issuers are rated A or above. The 10 largest issuers accounted for just over 80% of LOCs at the end of 2015, compared to just under 90% as at the end of 2014.

Under Solvency II, Lloyd's has had approval from the PRA for its use of existing LOCs in the form that they are provided as FAL as Tier 2 capital. However, any new LOCs provided as FAL would have to be separately approved. Under Solvency II at least 50% of the SCR must be met by Tier 1 capital. In addition to calculating capital consumed at member level and centrally, the LIM also tests whether this condition is met at different return periods.

It should be noted that although LOCs have accounted for around 50% of FAL in recent years, FAL are and will continue to be set at a level higher than required regulatory capital. Lloyd's internal analysis indicates that Tier 1 capital will be sufficient to cover at least 50% of its capital requirement at the 1:200 return period.

Under more extreme adverse loss scenarios, a shortfall in the market's overall Tier 1 capital could result. Lloyd's has a number of options to address this potential situation, including requiring that members replace LOCs with Tier 1 capital, or by converting LOCs to cash. Although the conversion of LOCs to cash would immediately increase the market's Tier 1 capital, it would leave the affected members with short-term bank debt to refinance.

*Catastrophe Exposure*

The catastrophe modelling work carried out centrally by Lloyd's continues to enhance its ability to assess the market's exposure to large losses and hence increase confidence in overall risk-based capital strength. In particular, the Lloyd's Catastrophe Model (LCM) allows Lloyd's to better monitor and assess market-level catastrophe risk on a probabilistic basis. The model is continuously refined as required and forms an integral part of the LIM. The inclusion in 2015 of rest of world exposure (in addition to five peak perils) and an uplift for non-modelled risks led to a marked increase in required capital to support catastrophe risk as measured by the LCM.

The LCM provides Lloyd's with a way of assessing catastrophe risk across return periods and, in A.M. Best's opinion, has improved its ability to monitor the market's aggregate catastrophe exposure against a defined risk appetite. The model, which uses syndicate catastrophe model output, is also used to inform the member capital-setting process. Due to the nature of business written, Lloyd's has significant exposure to catastrophe losses, making this aspect of capital management very important.

Lloyd's Realistic Disaster Scenarios (RDSs) continue to play a critical role in exposure management at Lloyd's, both as benchmark stress tests validating LCM output and as a source of data. The scenarios are defined in detail annually by Lloyd's and are used to evaluate aggregate market exposures as well as the exposure of each syndicate to certain major events. Syndicate-level scenarios are prepared by each managing agent, reflecting the particular characteristics of the business each syndicate writes.

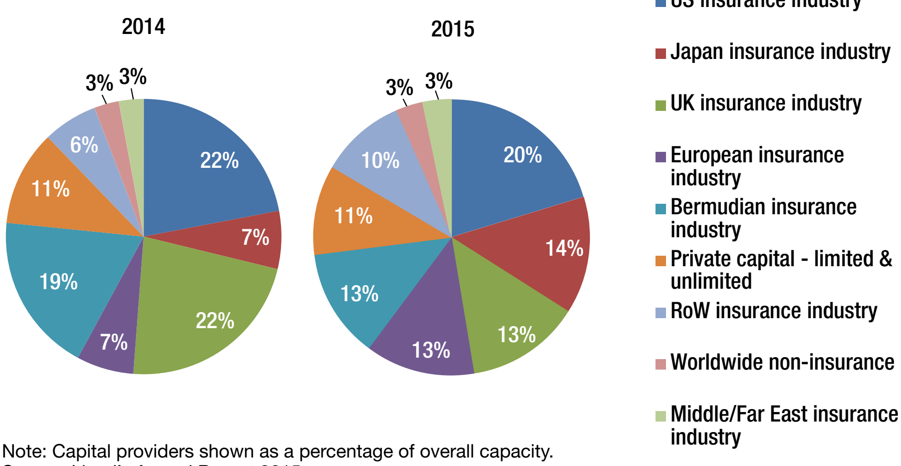
In addition, Lloyd's asks for syndicates' aggregate exceedance probability (AEP) loss at a 30-year return period for various regional perils. As the Lloyd's RDSs represent different return periods for different syndicates, collecting this additional data helps to ensure a uniform treatment of syndicates' exposure to large losses.

### *Financial Flexibility*

The capital to support underwriting at Lloyd's is supplied by members on an annual basis, and an important factor in A.M. Best's analysis of the market is its ability to retain and attract the capital required for continued trading. The quality of the insurance industry members of Lloyd's remains a source of strength for the market. Lloyd's capital-efficient structure and global licences continue to attract international investment, particularly from other insurers, and the diversity of capital providers enhances its financial flexibility.

The composition of Lloyd's capital in 2014 and 2015 is shown in **Exhibit 13**. For 2015, the U.S. insurance industry remained the largest investor group, representing 20% of the market's

## Exhibit 13
**Composition of Capital**




Note: Capital providers shown as a percentage of overall capacity.
Source: Lloyd's Annual Report 2015

overall capacity. The second largest investor group was the Japanese insurance industry at 14%, up from 7% in 2014. The share of the third largest investor group, the U.K. insurance industry, fell to 13% from 22% in 2014. The European insurance industry and the Bermudian insurance industry each accounted for 13% of capacity in 2015, respectively up from 7% and down from 19% in 2014. Individual members (Names underwriting with either limited or unlimited liability) continued to make a significant and stable contribution at 11% of capacity in both years.

A key driver for the composition of the corporately owned capacity is merger and acquisition activity. In 2015, the increase in the share accounted for by the Japanese insurance industry, and the corresponding decrease in that accounted for by the U.K. insurance industry, was due to the acquisition of Amlin plc by Mitsui Sumitomo Insurance Company, Limited.

Most members underwrite with limited liability and are under no obligation to provide additional funds once their FAL are exhausted. However, members that wish to continue to underwrite new business at Lloyd's will only be allowed to do so if they provide additional funds as required to support their outstanding underwriting obligations.

The market continues to attract new capital, although the number of approved new entrants has reduced as market conditions have deteriorated. Lloyd's has a rigorous process in place to assess and monitor new entrants, which in A.M. Best's opinion is likely to protect overall market performance and ultimately central capital. The process is managed by Lloyd's Relationship Management team, in conjunction with a multidisciplinary team including senior management from the PMD. All new entrant applications must be approved by the Franchise Board. Key issues that are taken into account include the applicant's preparedness for Solvency II, its ability to execute its business plan in current market conditions and having a business plan that is complementary to Lloyd's existing business.

New corporate members participating on new syndicates are required to contribute to the Central Fund at a higher rate for their first three years of operations at Lloyd's (2% of gross written premiums rather than 0.5%). The capital requirement for new syndicates is also higher. Initial capital requirements are set using Lloyd's internal capital model, which includes a 20% new syndicate loading.

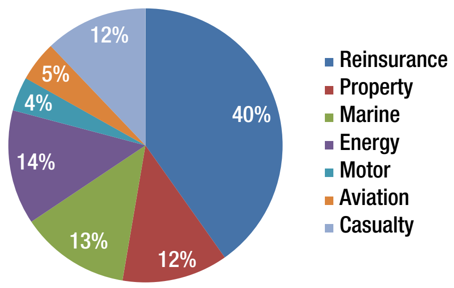
### Reserve Quality

Lloyd's underwriting performance was supported by reserve releases for the eleventh successive year in 2015, with the contribution to earnings similar to that in 2014. Positive development of prior-year claims is expected to contribute to the result again in 2016, with releases increasingly dependent on surpluses from more recent years. In A.M. Best's opinion, reserving in the Lloyd's market tends to be prudent, with a number of market participants incorporating an explicit margin in reserves above actuarial best estimates. Robust oversight of reserves is provided by the Corporation of Lloyd's.

For a number of years, the release from reserves set up for reinsurance business has made the largest contribution to the overall surplus and in 2015 this line represented 40% of the total (see **Exhibit 14**). The contribution of reinsurance business to the overall release is larger than the line's contribution to total net earned premiums (NEP). In contrast, the contribution of casualty business has been small and significantly below the line's contribution to NEP since 2010.

Exhibit 14

**Composition of Reserve Release**




Note: Excludes life business.
Source: Lloyd's

In 2015, Lloyd's technical results benefited from a GBP 1,621 million prior-year reserve release, which improved the calendar-year combined ratio by 7.9 percentage points. This compared with GBP 1,571 million and 8.1 percentage points in 2014 and represented 5.5% of net claims reserves brought forward at 1 January 2015 (2014: 5.5%). Reserve redundancies reduced the combined ratios for all the main classes of business.

Positive prior-year development lowered the overall reinsurance sector's combined ratio by 9.6 percentage points, with the property, casualty and specialty subsectors all reporting releases. Reserves for large property reinsurance claims either held stable or were reduced in 2015. Likewise for speciality reinsurance, reserves for large claims, including large aviation and marine reinsurance losses, held broadly stable in 2015. Both the property insurance and reinsurance results were helped by the release of catastrophe loadings in held reserves. Prior year reserve releases for casualty reinsurance were also positive. Reserves for this class includes reserves for excess of loss motor insurance, for which reserving is subject to increased uncertainty due to the use of periodic payment orders (PPOs) to settle large bodily injury claims.

In spite of weakening terms and conditions, rising exposures and legal challenges, the aviation sector continues to report large reserve releases. In 2015, positive prior-year development reduced the sector's combined ratio by 17.3 percentage points (2014: 30.5 points). Reserves for the two Malaysian Airline claims and claims for fighting at Tripoli Airport, Libya, have remained broadly stable since 2014 year-end.

For the energy class, prior-year releases improved the sector's combined ratio by 21.3 percentage points (2014: 11.3 percentage points). This class has made large reserve releases since 2010, with smaller releases reported in 2009 and 2008.

Reserve releases from casualty business improved the sector's combined ratio by 4.4 percentage points compared to 1.9 percentage points in 2014 and 2.4 percentage points in 2013. Although reserves developed favourably in aggregate, Lloyd's has expressed concern about reserve strength in the more recent years for casualty and continues to monitor closely this area of reserving.

For the marine class, prior-year movements improved the combined ratio by 11.2 percentage points, up from 8.5 percentage points in 2014. All areas contributed to the positive development in 2015.

In 2015, the motor class reported a good reserve release, which reduced the combined ratio by 7.5 percentage points, following a small release in 2014. Reserve movements for this class have been volatile. In 2013, prior years added 4.2 percentage points to the motor combined ratio, while reserves were relatively stable in 2011 and 2012. In 2010, prior year movements increased the sector's combined ratio by 36.7 percentage points, due to claims inflation in relation to the frequency and severity of personal injury awards and increasing credit hire costs. Considerable uncertainty remains regarding future claims inflation for this line.

Syndicates in run-off have historically been the principal source of reserve deterioration for Lloyd's. However, Lloyd's exposure to the liabilities of existing insolvent members has significantly reduced, principally due to better management of run-off years. In 2010, an ongoing focus on promoting efficiency and finding a means to close syndicates (largely through third-party reinsurance to close) supported a fall in the number of syndicate years of account in run-off to 10 from 22 in the previous year. Further small reductions have been made in recent years. As at year-end 2015, four years of account were open beyond 36 months (2014:

four years of account open). Two of the four years open beyond 36 months at year-end 2014 closed during 2015, however, two additional years failed to close at year-end 2015 leaving the total unchanged at four.

Run-off years generated a GBP 7 million underwriting profit in 2015, down from an underwriting profit of GBP 16 million in 2014. In 2013, run-off years achieved a breakeven result, following losses of GBP 31 million in 2012 and GBP 90 million in 2011. Between 2008 and 2010 this business generated underwriting profits. The continued closure of run-off years means the scale of the associated reserves is now small.

### *1992 and Prior Reserving: Equitas*

Lloyd's exposure to uncertainty arising from adverse development of the 1992 and prior years' reserves was further reduced by the High Court order in June 2009 approving the statutory transfer of 1992 and prior non-life business of members and former members of Lloyd's to Equitas Insurance Ltd., a new company in the Equitas group.

This transfer was the final phase of a two-phase process, and with its completion policyholders benefit from a total of USD 7 billion of reinsurance cover from National Indemnity Co. (NIC), a subsidiary of Berkshire Hathaway Inc., over and above Equitas' 31 March 2006 carried reserves of USD 8.7 billion. The transfer has provided finality in respect of Lloyd's members and former members for their 1992 and prior years' non-life liabilities under English law and the law of every other state within the European Economic Area. However, there continues to be uncertainty as to the recognition of the transfer in overseas jurisdictions, including the United States.

## Liquidity

In A.M. Best's opinion, Lloyd's is likely to maintain good overall liquidity in 2016. Managing agents are responsible for the investment of syndicate premium trust funds, although Lloyd's monitors liquidity levels at individual syndicates as part of its capital adequacy review. Overall, these funds exhibit a high level of liquidity, as most syndicate investment portfolios tend to consist primarily of cash and high-quality, fixed-income securities of relatively short duration. The value of premium trust funds and overseas deposits was GBP 46,191 million as at year-end 2015 compared to GBP 45,139 million in 2014.

Lloyd's also monitors projected liquidity for its central assets, which are tailored to meet the disbursement requirements of the Central Fund and the Corporation of Lloyd's (including its debt obligations). Lloyd's central assets – the Central Fund, corporation assets and subordinated debt – grew by around 3% in 2015 to GBP 2,645 million from GBP 2,578 million in the previous year. During 2014 Lloyd's issued GBP 500 million of subordinated notes, which offset a buyback of around GBP 149 million of outstanding subordinated debt securities.

Members' FAL increased to GBP 17,840 million at year-end 2015 (2014: GBP 15,704 million). FAL are provided either by letters of credit (LOCs) (around 50%) or by other readily realisable assets held in trust. LOCs remain widely available, and members are generally able to renew LOCs where required.

Although unstable conditions in the financial markets raise questions about whether Lloyd's would be able to draw on its LOCs quickly following a large catastrophe, A.M. Best believes Lloyd's exposure to a liquidity issue from this source is low. The Corporation continues to closely monitor LOC providers and its overall exposure to individual issuers. If an issuer were to fall below its minimum standards, members using that bank would be required to obtain an LOC from a different bank or provide other assets instead in order to continue underwriting.

Liquidity is affected by Lloyd's requirement to hold trust funds in certain regions to support its underwriting operations. Lloyd's continues to work with its advisers and U.S. regulators to reduce the gross funding requirements in respect of reinsurance liabilities in the United States.

## Management

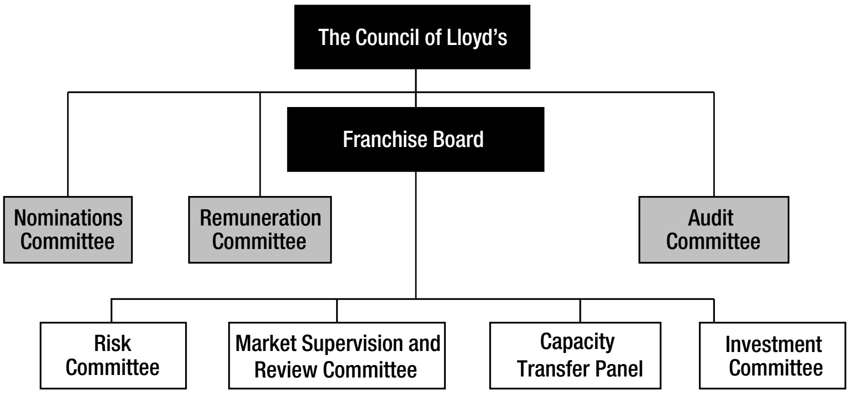
A.M. Best believes that Lloyd's has a strong governance structure in place and a multi-layered approach to enterprise risk management (ERM), which enables it to monitor and control risk within the underwriting market. At the core of Lloyd's governance structure is the Franchise Board, the members of which are appointed by the Council of Lloyd's and are drawn from both within and outside the Lloyd's market. The main purpose of the Franchise Board is to oversee trading activities within the Lloyd's market from a commercial perspective, although this does not extend to active management of Lloyd's overall business mix.

In A.M. Best's opinion, the franchise concept is a constructive approach by Lloyd's to maintaining good market performance and protecting the Central Fund. Lloyd's monitors its syndicates closely and, through different functional departments within the Corporation, remains abreast of the leading trends that can have an impact on future performance. It undertakes targeted reviews to address potential market issues and continues to enhance the workings of the franchise structure.

The oversight of market participants is supported by the activities of the Performance Management Directorate (PMD), which is responsible for monitoring performance, both against each syndicate's original plan and against actual results for similar types of business written by other syndicates. The directorate continues to improve its data and analysis tools, particularly through use of the Performance Management Data Return.

The PMD also plays a key role in syndicate business plan and capital approvals through the Capital and Planning Group (CPG). The CPG was formed in 2013, following the merger of the Business Plan and Capital Steering Groups. It is a cross directorate and multifunctional decision

### Exhibit 15
**Governance Structure**




Source: Lloyd's Annual Report 2015

making group, led by the heads of the PMD and Finance Directorate, and is responsible for the approval of both syndicate business plans and capital requirements on a one year and ultimate basis before economic uplift. In A.M. Best's opinion, the merger of the two steering groups has led to a more joined up approach to business planning and capital setting, with more consistent use of management information and data across teams.

The franchise structure gives Lloyd's a clear focus on its downside risk. Detailed performance analysis, sophisticated capital modelling, a clear strategy for claims and reinsurance recoveries, coordination of risk management across the franchise, and management of open years and syndicate run-offs are all drawn together to control risk and exposure. This approach allows the Franchise Board to respond quickly to potential issues that may affect the entire market.

The resilience of Lloyd's financial performance in years of above-average catastrophe activity, particularly 2010 and 2011, provides some evidence of the effectiveness of the Franchise Board's activities. The effectiveness of this governance structure will continue to be tested as highly competitive market conditions persist. In A.M. Best's opinion, Lloyd's is right to see maintaining market discipline as a top priority. However, it is recognised that the Franchise Board objective of managing market performance across the cycle is made more difficult by the fact that Lloyd's is a market of competing businesses, each with its own independent management structure, many of which report to large, external industry parent companies with their own commercial objectives.

## Enterprise Risk Management

Lloyd's has a comprehensive risk management framework in place, which is designed to manage risks arising from the market and the Corporation itself. The Risk Committee (RC), reporting to the Franchise Board, is responsible for the identification and management of Lloyd's key risks, which include the insurance cycle, the economic climate and regulatory development. In 2014, Lloyd's appointed a Chief Risk Officer with a seat on the Franchise Board. A.M. Best believes this appointment will enhance the appreciation of the risk framework at board level.

The RC has three subcommittees, the Syndicate Risk Committee (SRC), the Financial Risk Committee (FRC) and the Corporation Risk Committee (CRC). While enterprise risk management at syndicate level is the responsibility of individual managing agents, the SRC uses a risk-based approach to assess to what extent the agents themselves need to be monitored by the Corporation. The FRC considers risks from any of the three Lloyd's funds (Central Fund, Premium Trust Funds, Funds at Lloyd's) or affecting the aggregate chain of security, such as counterparty concentrations in the context of LOCs and asset disposition given the trend for syndicates to marginally increase the risk profile of their investment portfolios to improve yield. The CRC considers all non-financial risk within the Corporation, including the operational and reputational risk associated with overseas offices and market modernisation.

As part of its risk management framework, Lloyd's has put in place an enhanced stress/scenario testing process. This process is designed to consider four types of scenario or event – stress testing, scenario analysis, reverse stress testing and operational risk capital setting. All types of risk can be addressed, including emerging risks, and the iterative process, which involves relevant risk committees and teams from each Lloyd's directorate, identifies the actions to be taken and reported to the RC and Franchise Board.

Within the risk management framework is a risk appetite framework, with two series of risk appetite statements and metrics in place, one for the Corporation and one for the market. Each statement is a clear articulation of acceptable risk levels in respect of a particular risk area and the metrics are quantitative measures that allow Lloyd's to assess adherence to the statements. In each case, the relevant risk committee and Corporation director are identified. Output from Lloyd's internal capital model is increasingly used in setting the risk appetite metrics.

Lloyd's recognises that one of the greatest risks to the Central Fund is the market's exposure to catastrophes. During 2010, the Lloyd's Catastrophe Model (LCM) was introduced, allowing

Lloyd's to monitor and assess market-level catastrophe risk on a probabilistic basis. In 2011, Lloyd's developed a formula to define its catastrophe risk appetite for the first time, in terms of a willingness to lose a percentage of available funds at the 1 in 250 return period for the most material peril. Exposure to Lloyd's five key perils, U.S. windstorm, U.S. and Canadian earthquake, European windstorm, Japanese earthquake and Japanese windstorm, continues to be closely monitored. In addition, analysis of rest of world and non-modelled exposures has been enhanced.

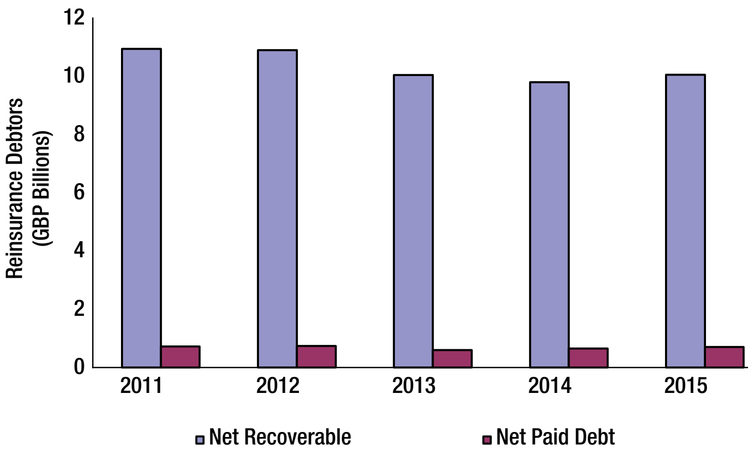
In A.M. Best's opinion, Lloyd's risk management framework is likely to provide an effective mechanism to meet the challenge of Lloyd's unique structure. Lloyd's recognises that the structure of the market makes it difficult to enforce risk management throughout the different businesses involved. However, the performance of all agents and syndicates is kept under review, from approval of business plans to monitoring compliance with Lloyd's minimum standards in relation to underwriting, claims and risk management.

### Reinsurance

Lloyd's continues to monitor its reinsurance exposure through a range of submitted returns, complemented by monitoring of Realistic Disaster Scenarios (RDS) for individual syndicates. The security required by managing agents for their syndicate reinsurance programmes is reviewed on a regular basis in order to address any issues which have the potential to affect the financial strength of the overall market. In particular, total outstanding reinsurance recoverables, counterparty concentration risk and the purchasing trends of individual syndicates are all closely monitored.

Lloyd's reinsurance ceded was stable at approximately 18% in 2015 (excluding reinsurance placed within Lloyd's). The PMD's on-going focus on syndicate business plans and their reinsurance dependence is expected to support continued stability in this ratio in 2016. The Lloyd's reinsurance panel remains well diversified, with the top 10 external reinsurance groups accounting for 45% of total reinsurance recoverables in 2015 (2014: 44%).

## Exhibit 16
**Reinsurance Debtors (2011-2015)**




Source: Lloyd's

**Exhibit 16** shows the development in Lloyd's net recoverables and total net paid debt. Total net reinsurance recoverables were up to GBP 10.0 billion at year-end 2015 from GBP 9.8 billion in 2014. Net reinsurance recoverables have varied between GBP 9 billion and GBP 11 billion since 2008.

# Appendix 1
## Gross Written Premium by Syndicate (2015)
(GBP Millions)

| Syndicate | Managing Agent | Gross Written Premium |
|---|---|---|
| 33 | Hiscox Syndicates Limited | 847 |
| 44 | AmTrust at Lloyd's Limited | 17 |
| 218 | ERS Syndicate Management Limited | 394 |
| 308 | Tokio Marine Kiln Syndicates Limited | 28 |
| 318 | Beaufort Underwriting Agency Limited | 137 |
| 382 | Hardy (Underwriting Agencies) Limited | 268 |
| 386 | QBE Underwriting Limited | 335 |
| 435 | Faraday Underwriting Limited | 227 |
| 457 | Munich Re Underwriting Limited | 436 |
| 510 | Tokio Marine Kiln Syndicates Limited | 1,163 |
| 557 | Tokio Marine Kiln Syndicates Limited | 17 |
| 609 | Atrium Underwriters Limited | 383 |
| 623 | Beazley Furlonge Limited | 248 |
| 727 | S.A. Meacock & Company Limited | 68 |
| 779 | ANV Syndicates Limited | 14 |
| 780 | Advent Underwriting Limited | 157 |
| 958 | Canopius Managing Agents Limited | 205 |
| 1084 | Chaucer Syndicates Limited | 839 |
| 1110 | ProSight Specialty Managing Agency Limited | 212 |
| 1176 | Chaucer Syndicates Limited | 27 |
| 1183 | Talbot Underwriting Limited | 667 |
| 1200 | Argo Managing Agency Limited | 421 |
| 1206 | AmTrust at Lloyd's Limited | 154 |
| 1209 | Catlin Underwriting Agencies Limited | 318 |
| 1218 | Newline Underwriting Management Limited | 96 |
| 1221 | Navigators Underwriting Agency Limited | 272 |
| 1225 | AEGIS Managing Agency Limited | 333 |
| 1274 | Antares Managing Agency Limited | 261 |
| 1301 | StarStone Underwriting Management Limited | 170 |
| 1414 | Ascot Underwriting Limited | 567 |
| 1458 | RenaissanceRe Syndicate Management Limited | 244 |
| 1492 | Capita Managing Agency Limited | 3 |
| 1686 | Asta Managing Agency Limited | 118 |
| 1729 | Asta Managing Agency Limited | 66 |
| 1861 | ANV Syndicates Limited | 222 |
| 1880 | Tokio Marine Kiln Syndicates Limited | 184 |
| 1882 | Chubb Managing Agent Limited | 99 |
| 1884 | Charles Taylor Managing Agency Limited | 33 |
| 1897 | Asta Managing Agency Limited | 97 |
| 1910 | Asta Managing Agency Limited | 275 |
| 1919 | Starr Managing Agents Limited | 264 |
| 1945 | Sirius International Managing Agency Limited | 83 |
| 1955 | Barbican Managing Agency Limited | 328 |
| 1967 | W R Berkley Syndicate Management Limited | 142 |
| 1969 | Apollo Syndicate Management Limited | 188 |
| 1991 | R&Q Managing Agency Limited | 59 |
| 2001 | Amlin Underwriting Limited | 1,654 |
| 2003 | Catlin Underwriting Agencies Limited | 1,919 |
| 2007 | Novae Syndicates Limited | 789 |
| 2008 | StarStone Underwriting Management Limited | 68 |
| 2010 | Cathedral Underwriting Limited | 197 |
| 2012 | Arch Underwriting at Lloyd's Limited | 154 |

| Syndicate | Managing Agent | Gross Written Premium |
|---|---|---|
| 2014 | Pembroke Managing Agency Limited | 92 |
| 2015 | The Channel Managing Agency Limited | 194 |
| 2088 | Catlin Underwriting Agencies Limited | 79 |
| 2121 | Argenta Syndicate Management Limited | 227 |
| 2232 | Allied World Managing Agency Limited | 144 |
| 2357 | Asta Managing Agency Limited | 47 |
| 2468 | Marketform Managing Agency Limited | 210 |
| 2488 | ACE Underwriting Agencies Limited | 378 |
| 2525 | Asta Managing Agency Limited | 44 |
| 2526 | AmTrust at Lloyd's Limited | 29 |
| 2623 | Beazley Furlonge Limited | 1,131 |
| 2791 | Managing Agency Partners Limited | 149 |
| 2987 | Brit Syndicates Limited | 1,308 |
| 2999 | QBE Underwriting Limited | 991 |
| 3000 | Markel Syndicate Management Limited | 429 |
| 3002 | Catlin Underwriting Agencies Limited | 27 |
| 3010 | Cathedral Underwriting Limited | 47 |
| 3210 | Mitsui Sumitomo Insurance Underwriting at Lloyd's Limited | 370 |
| 3334 | Hamilton Underwriting Limited | 23 |
| 3622 | Beazley Furlonge Limited | 14 |
| 3623 | Beazley Furlonge Limited | 172 |
| 3624 | Hiscox Syndicates Limited | 400 |
| 4000 | Pembroke Managing Agency Limited | 242 |
| 4020 | Ark Syndicate Management Limited | 337 |
| 4141 | HCC Underwriting Agency Limited | 98 |
| 4242 | Asta Managing Agency Limited | 111 |
| 4444 | Canopius Managing Agents Limited | 827 |
| 4472 | Liberty Syndicate Management Limited | 1,151 |
| 4711 | Aspen Managing Agency Limited | 331 |
| 5000 | Travelers Syndicate Management Limited | 287 |
| 5151 | Endurance at Lloyd's Limited | 175 |
| 5678 | Vibe Syndicate Management Limited | 17 |
| 5820 | ANV Syndicates Limited | 228 |
| 6050 | Beazley Furlonge Limited | 12 |
| 6103 | Managing Agency Partners Limited | 5 |
| 6104 | Hiscox Syndicates Limited | 33 |
| 6105 | Ark Syndicate Management Limited | 44 |
| 6107 | Beazley Furlonge Limited | 31 |
| 6111 | Catlin Underwriting Agencies Limited | 131 |
| 6112 | Catlin Underwriting Agencies Limited | 37 |
| 6115 | Canopius Managing Agents Limited | 6 |
| 6117 | Asta Managing Agency Limited | 24 |
| 6118 | Barbican Managing Agency Limited | 48 |
| 6119 | Catlin Underwriting Agencies Limited | 17 |
| 6120 | Barbican Managing Agency Limited | 40 |
| 6121 | Catlin Underwriting Agencies Limited | 22 |
| 6123 | Asta Managing Agency Limited | 4 |
| 6124 | Chaucer Syndicates Limited | 317 |
| **All other syndicates and inter-syndicate RITC adjustment** | | **(857)** |
| **Total** | | **26,690** |

Source: Lloyd's Annual Report 2015

## Appendix 2

# Managing Agency Groups at 31 December 2015

(GBP Millions)

| Managing Agent | Gross Premiums Written |
|---|---|
| Catlin Underwriting Agencies Limited | 2,550 |
| Amlin Underwriting Limited | 1,654 |
| Beazley Furlonge Limited | 1,608 |
| Tokio Marine Kiln Syndicates Limited | 1,392 |
| QBE Underwriting Limited | 1,326 |
| Brit Syndicates Limited | 1,308 |
| Hiscox Syndicates Limited | 1,280 |
| Chaucer Syndicates Limited | 1,183 |
| Liberty Syndicate Management Limited | 1,151 |
| Canopius Managing Agents Limited | 1,038 |
| Novae Syndicates Limited | 789 |
| Asta Managing Agency Limited | 786 |
| Talbot Underwriting Limited | 667 |
| Ascot Underwriting Limited | 567 |
| ANV Syndicates Limited | 464 |
| Munich Re Underwriting Limited | 436 |
| Markel Syndicate Management Limited | 429 |
| Argo Managing Agency Limited | 421 |
| Barbican Managing Agency Limited | 416 |
| ERS Syndicate Management Limited | 394 |
| Atrium Underwriters Limited | 383 |
| Ark Syndicate Management Limited | 381 |
| ACE Underwriting Agencies Limited | 378 |
| Mitsui Sumitomo Insurance Underwriting at Lloyd’s Limited | 370 |
| Pembroke Managing Agency Limited | 334 |
| AEGIS Managing Agency Limited | 333 |
| Aspen Managing Agency Limited | 331 |
| Travelers Syndicate Management Limited | 287 |
| Navigators Underwriting Agency Limited | 272 |
| Hardy (Underwriting Agencies) Limited | 268 |
| Starr Managing Agents Limited | 264 |

| Managing Agent | Gross Premiums Written |
|---|---|
| Antares Managing Agency Limited | 261 |
| Cathedral Underwriting Limited | 244 |
| RenaissanceRe Syndicate Management Limited | 244 |
| StarStone Underwriting Management Limited | 238 |
| Argenta Syndicate Management Limited | 227 |
| Faraday Underwriting Limited | 227 |
| ProSight Specialty Managing Agency Limited | 212 |
| Marketform Managing Agency Limited | 210 |
| AmTrust at Lloyd’s Limited | 200 |
| The Channel Managing Agency Limited | 194 |
| Apollo Syndicate Management Limited | 188 |
| Endurance at Lloyd’s Limited | 175 |
| Advent Underwriting Limited | 157 |
| Arch Underwriting at Lloyd’s Limited | 154 |
| Managing Agency Partners Limited | 154 |
| Allied World Managing Agency Limited | 144 |
| W R Berkley Syndicate Management Limited | 142 |
| Beaufort Underwriting Agency Limited | 137 |
| Chubb Managing Agent Limited | 99 |
| HCC Underwriting Agency Limited | 98 |
| Newline Underwriting Management Limited | 96 |
| Sirius International Managing Agency Limited | 83 |
| S.A. Meacock & Company Limited | 68 |
| R&Q Managing Agency Limited | 59 |
| Charles Taylor Managing Agency Limited | 33 |
| Hamilton Underwriting Limited | 23 |
| Vibe Syndicate Management Limited | 17 |
| Capita Managing Agency Limited | 3 |
| **All other syndicates and inter-syndicate RITC adjustment** | **(857)** |
| **Total** | **26,690** |

Source: Lloyd’s Annual Report 2015

## Appendix 3

# Overview of Premium Limits and Membership (1993-2015)

| Year of Account | Individual Gross Premium Limit (GBP Millions) | Individual % of Total | Corporate Gross Premium Limit (GBP Millions) | Corporate % of Total | Total Gross Premium Limit (GBP Millions) | Number of Active Members | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | Individual | Corporate | Total |
| 1993 | 8,729 | 100% | | | 8,729 | 19,377 | | 19,377 |
| 1994 | 9,282 | 85% | 1,595 | 15% | 10,877 | 17,370 | 95 | 17,465 |
| 1995 | 7,808 | 77% | 2,359 | 23% | 10,167 | 14,573 | 140 | 14,713 |
| 1996 | 6,941 | 70% | 3,044 | 30% | 9,985 | 12,683 | 162 | 12,845 |
| 1997 | 5,806 | 56% | 4,530 | 44% | 10,336 | 9,872 | 202 | 10,074 |
| 1998 | 4,035 | 40% | 6,128 | 60% | 10,163 | 6,765 | 436 | 7,201 |
| 1999 | 2,682 | 27% | 7,190 | 73% | 9,872 | 4,458 | 667 | 5,125 |
| 2000 | 1,994 | 20% | 8,123 | 80% | 10,117 | 3,270 | 854 | 4,124 |
| 2001 | 1,794 | 16% | 9,462 | 84% | 11,256 | 2,823 | 896 | 3,719 |
| 2002 | 1,760 | 13% | 11,473 | 87% | 13,233 | 2,445 | 838 | 3,283 |
| 2003 | 1,837 | 12% | 13,022 | 88% | 14,859 | 2,177 | 768 | 2,945 |
| 2004 | 1,855 | 12% | 13,224 | 88% | 15,079 | 2,029 | 754 | 2,783 |
| 2005 | 1,433 | 10% | 12,383 | 90% | 13,816 | 1,604 | 708 | 2,312 |
| 2006 | 1,425 | 9% | 13,580 | 91% | 15,005 | 1,478 | 717 | 2,195 |
| 2007 | 1,083 | 7% | 15,350 | 93% | 16,433 | 1,106 | 1,020 | 2,126 |
| 2008 | 915 | 6% | 15,191 | 94% | 16,106 | 897 | 1,162 | 2,059 |
| 2009 | 822 | 5% | 17,314 | 95% | 18,136 | 765 | 1,241 | 2,006 |
| 2010 | 848 | 4% | 22,174 | 96% | 23,022 | 691 | 1,445 | 2,136 |
| 2011 | 757 | 3% | 22,540 | 97% | 23,297 | 631 | 1,530 | 2,161 |
| 2012 | 693 | 3% | 23,490 | 97% | 24,184 | 575 | 1,576 | 2,151 |
| 2013 | 651 | 3% | 24,347 | 97% | 24,998 | 520 | 1,626 | 2,146 |
| 2014 | 592 | 2% | 25,935 | 98% | 26,527 | 444 | 1,688 | 2,132 |
| 2015 | 431 | 2% | 25,835 | 98% | 26,266 | 321 | 1,771 | 2,092 |

Only active members are shown. Members who are not underwriting but remain on the electoral register are not included in the figures.
Source: Statistics Relating to Lloyd's

## Appendix 4

# Pro Forma Financial Statements (2011-2015)

(GBP Millions)

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| Gross premiums written | 26,690 | 25,259 | 25,615 | 25,173 | 23,337 |
| Reinsurance ceded | 5,667 | 5,253 | 5,384 | 5,738 | 4,865 |
| Net premiums written | 21,023 | 20,006 | 20,231 | 19,435 | 18,472 |
| Increase/(decrease) in gross UPR | -803 | -692 | -582 | -994 | -473 |
| Reinsurers share in UPR | 345 | 185 | 76 | 244 | 101 |
| Earned premiums | 20,565 | 19,499 | 19,725 | 18,685 | 18,100 |
| | | | | | |
| Total underwriting income | 20,565 | 19,499 | 19,725 | 18,685 | 18,100 |
| Net claims paid | 9,631 | 9,288 | 10,082 | 10,458 | 9,816 |
| Net increase/(decr) in claims provision | 631 | 302 | -501 | -360 | 3,084 |
| Net claims incurred | 10,262 | 9,590 | 9,581 | 10,098 | 12,900 |
| | | | | | |
| Management expenses | 2,343 | 2,171 | 1,869 | 1,706 | 1,468 |
| Acquisition expenses | 5,913 | 5,490 | 5,448 | 5,137 | 4,950 |
| Net operating expenses | 8,256 | 7,661 | 7,317 | 6,843 | 6,418 |
| Other technical expenses/(income) | 0 | 0 | 222 | 83 | 19 |
| Total underwriting expenses | 8,256 | 7,656 | 7,539 | 6,926 | 6,437 |
| Balance on technical account | 2,047 | 2,253 | 2,605 | 1,661 | -1,237 |
| | | | | | |
| Net investment income | 402 | 1,038 | 901 | 1,372 | 1,035 |
| Other expenses | -327 | -275 | -301 | -262 | -314 |
| Profit/(loss) before tax | 2,122 | 3,016 | 3,205 | 2,771 | -516 |
| Other recognised gains and losses | 62 | 115 | -123 | -52 | -46 |
| **Total recognised gains and losses** | **2,184** | **3,131** | **3,082** | **2,719** | **-562** |

Source: Lloyd's Annual Report 2015

Published by A.M. Best Company

Credit Report

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