

RatingsDirect®

Lloyd's

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SACP* Assessments				SACP*		Support		Ratings		
Anchor	a+	+	Modifiers	0	=	a+	+	0	=	Financial Strength Rating
Business Risk			ERM and Management	0		Liquidity	0	Group Support	0	A+/Stable/--
Very Strong			Holistic Analysis	0		Sovereign Risk	0	Gov't Support	0	
Financial Risk										
Moderately Strong										

*Stand-alone credit profile.
See Ratings Detail for a complete list of rated entities and ratings covered by this report.

Rationale

Business Risk Profile

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

Financial Risk Profile

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

Other Factors

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

Outlook

The outlook on the London-based Lloyd's insurance market is stable. We expect that the market will produce a combined ratio of 94%-95% in 2016-2017, assuming normalized catastrophe losses. Such performance would imply annual profits of £1.9 billion. We anticipate that premiums written in the market will increase more slowly than

hitherto as the corporation's management looks to scale back exposures during a period of weak rates.

Upside scenario

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

Downside scenario

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

Base-Case Scenario

Macroeconomic Assumptions

- Government yields to increase over the next two-to-three years, but to remain below long-term historical norms.
- Economic growth in developed markets to improve, but remain sluggish, lagging growth in developing markets.
- Rising competition and declining pricing continuing to make the pursuit of profits more difficult for reinsurers.

Company-Specific Assumptions

- Pricing in Lloyd's main lines of business to decline by an average of 0%-10% over the next two years, assuming no major loss event.
- Capital adequacy to remain above the 'AAA' benchmark through 2016.
- The combined ratio to remain strong at between 94%-96% in 2016-2017, including an average catastrophe load of 10 points.
- Reserve releases to continue.
- Catastrophe risk exposure to remain manageable, and within stated risk tolerance.

Key Metrics

	2017f	2016f	2015	2014	2013
Gross written premiums (mil. £)	27,250	26,950	26,690	25,283	26,106
Combined ratio (non-life) (%)	95.0	95.0	90.1	88.1	85.7
Net income (mil. £)	1897	1,852	2,122	3,161	3,205
Net investment yield (%)	1.5	1.5	1.3	1.7	2.1
Return on revenue (%)	6.9	8.8	11.7	15.0	16.9

f--Forecast.

Company Description: Diversified Global Multiline Insurer

The London-based Lloyd's insurance market is a major participant in specialty commercial insurance and reinsurance worldwide. Lloyd's wrote gross premiums in 2015 of £26.7 billion (2014: £25.3 billion) across a diverse range of classes, predominantly via broker distribution.

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

majority of income continues to be sourced from North America and the U.K. About one quarter of the net premium written relates to property catastrophe business. Lloyd's currently operates in over 25 countries and has established offices in Singapore, Japan, China, Canada, and Brazil.

Choice Of Anchor

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

Business Risk Profile

Insurance industry and country risk: Intermediate, owing to high product risk and globally diverse operations in major stable economies

We assess Lloyd's industry and country risk as intermediate, reflecting its exposure to moderate risk in non-life reinsurance and low country risk. Our view of Lloyd's low country risk reflects its globally diversified risk exposures, mainly in major global developed markets.

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

Reinsurance pricing continues to soften. Our analysis of the Jan. 1, 2016 renewals and underlying operating results shows that the strong year reported by the global reinsurance industry in 2015 was largely based on low catastrophe losses and high reserve releases. Stripping out these two factors, the adjusted results support our view that business conditions for the sector remain weak. That said, going into 2016, the industry continues to benefit from strong capital adequacy, strong enterprise risk management, and near-record levels of capital.

Competitive position: Unique brand as the world's leading subscription market, and diverse capital base and products

Lloyd's has a unique brand, attraction as the world's largest subscription market, and large geographic footprint from which it distributes its wide product offering.

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

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

Lloyd's remains relatively dependent on brokers for its distribution, and many broker panels are consolidating and

seeking single-capacity providers. The top six global brokers provide 50% of Lloyd's business.

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

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

In our opinion, Lloyd's geographic scope and presence in the global reinsurance market add to its strong diversification. However, Lloyd's underwriting portfolio and primary distribution channels lead to it being more credit-sensitive than some of its larger reinsurance peers. A significant majority of Lloyd's income (65%) is sourced from the U.S., Canada, and the U.K., which are particularly credit-sensitive markets compared with those in Continental Europe. While 14% of Lloyd's 2015 premiums were in respect of continental European risks, we do not expect a potential Brexit to materially impact Lloyd's franchise.

The market's long-term plan aims to support economic growth trends in emerging markets by providing re/insurance protection and attracting globally diverse business, capital, and expertise to London. However, we believe that this initiative will not be material for some time, especially given the challenge of retaining fresh business on the Lloyd's platform. The proportion of business sourced from North America rose to 47% in 2015 from 44% in 2014 (due in part to foreign exchange movements) while the proportion from Asia fell to 10% from 13%.

The growing amount of alternative capital in the wider re/insurance market poses a similar threat to Lloyd's competitive position via competition and pricing. However, Lloyd's has been active in attracting new forms of capital to the market, notably through special-purpose syndicates. Many syndicates can also benefit from the use of alternative capital in their own reinsurance protection programs.

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

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

We expect negative pricing trends in Lloyd's major lines of business over the next 12 months, and risk-adjusted rate adequacy continues to deteriorate. Consequently, the corporation has announced a portfolio review of the lines of business that have been worst hit by the ongoing fall in rates, including aviation, marine cargo, terrorism, energy exploration and production, and international casualty, as well as property catastrophe risk. The bottom quartile of performers in these lines will be asked to reduce their underwriting from July 2016 onwards. All syndicates will have to give Lloyd's a written explanation of their reasons for continuing to write their current level of business from 2017. It is unlikely that any syndicates will be given dispensation to write more catastrophe business in 2017.

The cost of doing business at Lloyd's has constrained our assessment of the market's competitive position. Lloyd's expense ratio has been significantly higher than peers in recent years, in part due to higher acquisition costs. Lloyd's management has sought to reduce the cost of doing business at Lloyd's in recent years, notably through simplifying claims handling. Nevertheless, rising regulatory costs have kept the market's expense ratio relatively high (40% in 2015--the highest of the last five years). We view managing the market's expense ratio as a key component of retaining business on the Lloyd's platform.

In 2015, the Lloyd's market produced a combined ratio of 90%, giving a £2.1 billion profit. The combined ratio benefited from 8% of reserve releases, which totalled £1.6 billion, and only 3.4% of catastrophe losses, against our normalized expectation of 10%-12%.

In our base-case scenario, we expect Lloyd's to continue to exhibit strong earnings to sustain its extremely strong capital adequacy. We forecast a combined (loss and expense) ratio for the market of 94%-96% in 2016-2017, assuming average catastrophe (cat) loss levels. Historically, cat losses have been around 10 points of the combined ratio. In our view, the market should generate a return on capacity of 12% over 2015 and a return on revenue of 10%-15%. We base these projected returns on strong net income of £1.5 billion-£2 billion. We anticipate that premiums written in the market will increase more slowly than hitherto as corporation management looks to scale back exposures during a period of weak rates.

Table 1

Lloyd's Competition Position					
	--Year ended Dec. 31--				
(Mil. £)	2015	2014	2013	2012	2011
Gross premiums written	26,690	25,283	26,106	25,500	23,477
Change in gross premiums written (%)	5.57	(3.15)	2.38	8.62	3.92
Net premiums written	21,023	20,024	20,231	19,435	18,472
Change in net premiums written (%)	4.99	(1.02)	4.10	5.21	4.62
Net premiums earned	20,565	19,575	19,725	18,685	18,100
P/C: reinsurance utilization - premiums written (%)	21.23	20.80	22.50	23.78	21.32

P/C--Property casualty.

Financial Risk Profile

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

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

The Lloyd's market has robust capital and has enjoyed strong earnings over 2012-2015 in the absence of significant catastrophic losses. This view is partially offset by the market's reliance on letters of credit (LOCs), which weakens our view of the quality of capital. However, we take comfort from the efficacy of the capital-setting processes.

Reserve releases took a consistent 8 percentage points off the combined ratio in 2013, 2014, and 2015. Last year, £1.6

billion of the £2.1 billion net profit was accounted for by reserve releases. Recent reserve releases have been chiefly from casualty lines.

At December 2015, the reserve surplus across the market was estimated at 9% of total reserves or £2.6 billion, although the balance of the surplus was shifting towards property lines from casualty. Given that market participants appear to be reserving prudently, we have assumed that reserve releases will continue to bolster operating performance in 2016-2018.

Our capital model indicates extremely strong capital adequacy at year-end 2015. However, as the model is an aggregate of all the syndicates within the market, it cannot differentiate between the varying capital positions of the individual managing agencies and syndicates. We view the financial strength of some of the smaller capital providers as weak.

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

Lloyd's central assets for solvency purposes were £2.8 billion as of December 2015. Lloyd's is required to hold central assets in excess of any solvency deficits at individual syndicates--although calls on the Central Fund have been limited to £11 million over the last five years. Additionally, "open years" of account, with the potential to draw on central resources, are now greatly reduced.

Lloyd's' allowance of LOCs for members' provision of their funds at Lloyd's (FAL) requirements weakens the quality of the market's capital base, in our opinion. In 2015, LOCs accounted for 49% of the total £17.9 billion FAL. LOCs are suited to Lloyd's unique operating structure whereby syndicates are annual ventures, and thus the funds are committed at the start of each year of account. However, we view LOCs as a short-term capital solution and therefore of less permanence and quality than other forms of capital, concentrated with a small number of banks, and relied on by some capital providers that might not be able to substitute with alternative capital.

Table 2

Lloyd's Capitalization Statistics					
	--Year ended Dec. 31--				
(Mil. £)	2015	2014	2013	2012	2011
Common shareholders' equity	24,216	22,586	20,386	19,300	18,216
Change in common shareholders' equity (%)	7.22	10.79	5.63	5.95	0.14
Total reported capital	25,098	23,471	21,107	20,193	19,114
Change in total capital (reported) (%)	7	11	5	6	(0)

Table 3

Lloyd's Earnings Statistics					
	--Year ended Dec. 31--				
(Mil. £)	2015	2014	2013	2012	2011
Total revenue	21,349	20,539	20,881	19,747	19,086

Table 3

Lloyd's Earnings Statistics (cont.)					
	--Year ended Dec. 31--				
(Mil. £)	2015	2014	2013	2012	2011
EBIT adjusted	2,502	3,073	3,537	2,536	(488)
Net income (attributable to all shareholders)	2,122	3,161	3,205	2,771	(516)
Return on revenue (%)	11.72	14.96	16.94	12.84	(2.56)
Return on shareholders' equity (reported) (%)	9.07	14.71	16.15	14.77	(2.84)
P/C: net expense ratio (%)	40.15	39.14	37.10	36.62	35.56
P/C: net loss ratio (%)	49.90	48.99	48.57	54.04	71.27
P/C: net combined ratio (%)	90.05	88.13	85.67	90.67	106.83

P/C--Property/casualty.

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

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

We consider Lloyd's reserves to be strong, on a market level, because its market reserving team centrally estimates and monitors held reserves, the results of which continue to indicate robust confidence levels. Reserve releases have materially bolstered the market's technical result in recent years.

Lloyd's investment portfolio supports the rating, in our opinion, as it is well-diversified across asset classes and obligors, with a manageable exposure to high-risk assets across the entire invested asset portfolio. Only 12% of the market's investments as of December 2015 were in equities or alternative asset classes, with the remainder in highly rated bonds or cash.

The Central Fund's investment policy has always been somewhat more aggressive. Given the intended long-term nature of the Central Fund, this approach is understandable. As of December 2015, 35% of investments were held in riskier assets: equities, hedge funds, and high-yield debt.

Table 4

Lloyd's Risk Position					
	--Year ended Dec. 31--				
(Mil. £)	2015	2014	2013	2012	2011
Total invested assets	56,900	54,860	51,494	51,767	51,416
Net investment income	728	899	1,094	1,001	906
Net investment yield (%)	1.30	1.69	2.12	1.94	1.81
Net investment yield including realized capital gains/(losses) (%)	1.40	1.81	2.06	2.11	1.93
Portfolio composition (% of general account invested assets)					
Cash and short term investments	27.43	26.89	28.32	29.76	30.16

Table 4

Lloyd's Risk Position (cont.)					
(Mil. £)	--Year ended Dec. 31--				
	2015	2014	2013	2012	2011
Bonds	58.13	58.24	56.75	58.86	59.91
Equity investments	14.25	14.71	14.73	11.31	9.89
Other investments	0.19	0.16	0.19	0.07	0.04

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

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

Financial leverage and fixed-charge coverage support the rating on Lloyd's. Lloyd's financial leverage ratio was 4% as of December 2014. We expect this ratio to remain stable over the rating horizon. Fixed-charge coverage was in excess of 40x in 2015, and our baseline forecast expects this to continue in excess of 35x through 2017.

Other Assessments

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

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

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

The forthcoming peer review will be a good test of the Performance Management Directorate's ability to manage the market's underwriting and exposure.

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

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

We also hold a positive view of Lloyd's robust strategic planning process, which has been established and improved by

its performance management and finance directorates in recent years. The initiatives implemented include a stringent business planning process and benchmarking exercises, and have fueled significant improvements in performance standards and measurement.

We have not identified any governance deficiencies in our assessment.

Liquidity: Strong, thanks to ample sources

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

Related Criteria And Research

- Group Rating Methodology, Nov. 19, 2013
- Enterprise Risk Management, May 7, 2013
- Insurers: Rating Methodology, May 7, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Ratings Detail (As Of July 28, 2016)

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

Ratings Detail (As Of July 28, 2016) (cont.)

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

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