

LLOYD'S FINANCIAL RATING AND STRUCTURE RATINGS

Financial Strength Ratings describe the financial security characteristics of the rated entity and its ability to meet financial commitments.

The ratings stated below are independent opinions of Lloyd's financial strength and ability to meet its ongoing insurance policy and contract obligations. Lloyd's currently enjoys an A rating from A.M. Best, A+ from Standard & Poor's and AA- from Fitch.



Why is Lloyd's rated as a market?

All Lloyd's syndicates benefit from Lloyd's central resources, including the Lloyd's brand, its network of global licenses and the Central Fund. The Central Fund is available at the discretion of the Council of Lloyd's to meet any valid claim that cannot be met by the resources of any member. As all Lloyd's policies are ultimately backed by this common security, a single market rating can be applied to all syndicates post-1992.

CAPITAL STRUCTURE

Lloyd's unique capital structure provides excellent financial security to policyholders and capital efficiency for members.

There are three links in the chain of security:

- Syndicate level assets
- Members' funds at Lloyd's
- Central assets

The funds in the first and second links are held in trust, primarily for the benefit of policyholders whose contracts are underwritten by the relevant member. Members underwrite for their own account and are not liable for other members' losses.

The third link contains mutual assets held by the Corporation which are available, subject to Council approval, to meet any member's insurance liabilities. The Corporation is responsible for setting both member and central capital levels to achieve a level of capitalization that is robust yet allows members the potential to earn superior returns.

Several assets	First Link	Syndicate level assets £45,139m	
	Second Link	Members' funds at Lloyd's £15,704m	
Mutual assets	Third Link	Central Fund £1,590m	Callable layer £779m
		Corporation £103m	
		Subordinated debt/ securities £885m	

As at 31 December 2014

First link - Syndicate level assets

All premiums received by a syndicate are held in its premium trust funds and are the first resource for paying policyholder claims from that syndicate. Funds are generally held in liquid assets to ensure that liabilities can be met as they fall due. Profits are not released until full provision has been made for future liabilities. The reserves for future liabilities of each syndicate are subject to annual independent audit and actuarial review.

Second link - Members' funds at Lloyd's

Each member, whether corporate or individual must provide capital to support its underwriting at Lloyd's. In accordance with the FSA regime, each managing agent produces an Individual Capital Assessment (ICA) stating how much capital it requires to cover its underlying business risks at a 99.5% confidence level.

The Corporation reviews each syndicate's ICA to assess the adequacy of the proposed capital level. When agreed, each ICA is then 'uplifted' by 35% to ensure capital is in place to support Lloyd's ratings and financial strength. This uplifted ICA, known as the syndicate's Economic Capital Assessment, is used to determine the level of capital required by the syndicate's members to support their underwriting. The capital is held in trust as readily realizable assets and can be used to meet any Lloyd's insurance liabilities of that member but not the liabilities of other members.

Third link - Central assets

The Corporation's central assets are the third level of security. The Central Fund is available at the discretion of the Council of Lloyd's to meet any valid claim that cannot be met by the resources of any member. It is funded by members' annual contributions and subordinated debt issued by the Corporation in 2004 and 2007. Lloyd's repurchased £180m in aggregate of its outstanding debt securities in May 2013.

Central assets may also be supplemented by a 'callable layer' of up to 3% of members' overall premium limits. The Corporation regularly undertakes detailed analysis to determine the optimum level of central assets, seeking to balance the need for robust financial security against members' desire for cost-effective mutuality of capital. In particular, the Corporation's sophisticated modeling tests each member's underwriting portfolio against a number of scenarios and a range of forecasts of market conditions.

The Corporation's current target for unencumbered central assets is that they should be at least 250% of the Society's ICA on a business as usual basis. Members' contributions to the Central Fund remain at 0.5% of gross written premiums for 2013. The Council of Lloyd's regularly reviews the central assets target and the level of contributions in light of the current financial position and forecast needs, and will adjust the contribution levels as required.

Website: <http://www.lloyds.com/>