

Press Release - JULY 13, 2009

A.M. Best Affirms Ratings of Lloyd's of London and Society of Lloyd's

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CONTACTS:

Analyst(s)	Public Relations
Colin Towell	Jim Peavy
+(44) 20 7626 6264	+(1) 908 439 2200, ext. 5644
colin.towell@ambest.com	james.peavy@ambest.com

Catherine Thomas	Rachelle Morrow
+(44) 20 7626 6264	+(1) 908 439 2200, ext. 5378
catherine.thomas@ambest.com	rachelle.morrow@ambest.com

FOR IMMEDIATE RELEASE

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A.M. Best Co. has affirmed the financial strength rating (FSR) of A (Excellent) and issuer credit rating (ICR) of "a+" of **Lloyd's of London** (Lloyd's) (United Kingdom) and **Lloyd's Reinsurance Company (China) Limited** (LRCCL) (China). At the same time, A.M. Best has affirmed the ICR of "a" of the **Society of Lloyd's** (the Society) (United Kingdom) and the debt ratings of "a-" on the subordinated loan notes issued in two tranches in November 2004 (6.875% subordinated notes of GBP 300 million maturing 17 November 2025 and 5.625% subordinated notes of EUR 300 million maturing 17 November 2024), and "a-" on the 7.421% GBP 500 million junior perpetual subordinated loan notes issued in June 2007 by the Society. The outlook for all ratings remains stable.

A.M. Best believes Lloyd's will maintain a solid and flexible capital base through 2009 and into 2010. Central solvency capital is expected to remain strong at over GBP 2,500 million (2008: GBP 2,608 million), after allowing for the buy-back of GBP 102 million of subordinated debt. The potential impact of future drawdowns on the Central Fund is expected to diminish, owing to a further decline in run-off liabilities and the reduced likelihood of future insolvencies as a result of increased oversight of syndicates by Lloyd's. Additionally, 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 Limited has further reduced Lloyd's already remote exposure to liabilities related to this business.

Financial flexibility is good, and Lloyd's continues to attract international investment, particularly from other insurers drawn by its capital-efficient structure and global licences. In 2008 and the first half of 2009, a number of non-Lloyd's insurance groups entered the market by either acquiring a managing agent or establishing a new syndicate. Some existing syndicates were also able to raise additional capital to support underwriting, despite capital market constraints.

A.M. Best expects Lloyd's financial performance to remain good in 2009, although some deterioration is anticipated, partly due to the absence of the previous year's foreign exchange gains. Prior year reserve releases are likely to have a positive, albeit reduced, impact on underwriting earnings. An anticipated rise in attritional claims is likely to offset modest overall rate increases, and the market's overall combined ratio is expected to increase to approximately 95% from 91% in 2008 (subject to full year catastrophe experience). In A.M. Best's opinion, 2008's pre-tax profit of GBP 1,899 million represents a good result for Lloyd's, given the magnitude of the year's catastrophe events and the challenging investment environment. However, results were enhanced by a GBP 853 million gain on foreign exchange, largely as a result of the weakening of sterling against the U.S. dollar.

Lloyd's has an excellent business profile, particularly in the U.S. and London market, and continues to expand its global reach through extension of its licence network and local trading platforms. The collective size of the market and its unique capital structure enable syndicates to compete effectively with

major international insurance groups under the Lloyd's brand. At the same time, its broker subscription business model, which allows large risks to be shared among market participants, is likely to be particularly attractive to insurance buyers seeking to diversify their counterparty risk in the current weak economic environment.

For Best's Credit Ratings, an overview of the rating process and rating methodologies, please visit [Best's Ratings & Analysis](#).

The principal methodologies used in determining these ratings, including any additional methodologies and factors that may have been considered, can be found at [Best's Credit Rating Methodology](#).

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