

## QUARTERLY LLOYD'S MONITOR

# Lloyd's Monitor October 2014

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London, 10th October – Set out below are extracts from our latest quarterly research on Lloyd's Aggregate position and individual syndicate analysis, covering the following areas:

- » Lloyd's Research Report: < title >
- » Recent Developments
  - Lloyd's
  - Syndicates
- » Syndicate Continuity Opinion Changes.
- » Lloyd's Aggregate Results:
  - 3-year results and forecasts' trends.
- » Syndicate Results / Forecasts:
  - 3-year forecasts for 2012 & 2013.
- » Trend data.

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## Lloyd's of London – Lloyd's Research report < title >

- » Syndicate Research Limited considers that the minimum financial security of the syndicates currently trading at Lloyd's remains good, with Lloyd's aggregate historic results and profile good / excellent under industry benchmarks<sup>1</sup>.
- » The Lloyd's market continues to remain an attractive trading platform, with the market currently in a strong position, underlined by the new businesses that have transferred into Lloyd's and the acquisitions that have been made of existing Lloyd's entities by international operations during the past few years (some XX% of market capacity having been subject to acquisitions since 2010), and the fact that all of the major rating agencies that have assigned ratings to the market currently have either Aa3-equivalent or A1-equivalent ratings on positive outlook.
- » Total capital relative to Gross Premium Written (GPW) has increased back to 81% of GPW (2012 79% GPW, 2011 81%, 2010 85%) with central capital for solvency purposes<sup>2</sup> remaining at historically high levels, with its ongoing exposures currently restricted to XX syndicates, the exposures xxx in the context of the market as a whole.
- » The limited nature of Central Fund's ongoing exposures is considered reflective of the success to-date of the Performance Management Directorate in curbing some of the excesses seen in the market historically, as well as being a bi-product to an extent of the success of the market, with weaker businesses being bought up, rather than being placed into run-off and materially adversely impacting the Central Fund.
- » With Lloyd's now using a SII-based capital approach within the market, Syndicate Research Limited considers that xxx<sup>3</sup> when Solvency II is ultimately brought in. Capital levels xxx under the new capital regime, with aggregate capital levels relative to premium income xxx under the previous approach. Implementation of risk management and reporting & disclosure in line with SII requirements prior to SII being due to start in January 2016, remains xxx.
- » At a senior management level there has been change with a new CEO, previously CEO at a Lloyd's managing agency, Inga Beale, having been appointed and with the current FD leaving. Under the new CEO, Lloyd's has xxx. The challenge will be in xxx.
- » Profitability currently remains good, the market recording an overall profit of 16% of average capital for 2013, with Lloyd's 5-year average return on capital to 2013 12%, although there remain material differences in profitability at the individual syndicate level.
- » With accident / current year combined ratios excluding major losses XX% and Lloyd's 10-year average major losses of XX% of NPE, current year underwriting profitability xxx, with overall bottom line profitability reliant on x, y and z, albeit currently giving xxx, underlying<sup>4</sup> return of some X% - XX% of NPE and equity.
- » With excess capital remaining in the global insurance market, and new capacity entering the market, Syndicate Research Limited believes that xxx.

<sup>1</sup> Main benchmark used Moody's Investors Service (MIS) scorecard for Reinsurers for firms active in both Reinsurance and Excess and Surplus Lines as at December 2011. The views expressed are solely those of Syndicate Research Limited.

<sup>2</sup> Including the callable levy and net of solvency shortfalls.

<sup>3</sup> With Solvency II (SII) not having been brought in, Lloyd's current internal model cannot be approved as such. However, the model has been reviewed by the UK regulatory authorities, who will eventually be responsible for approving the model as SII compliant, and feedback given to Lloyd's.

<sup>4</sup> Based on average catastrophe loss experience.

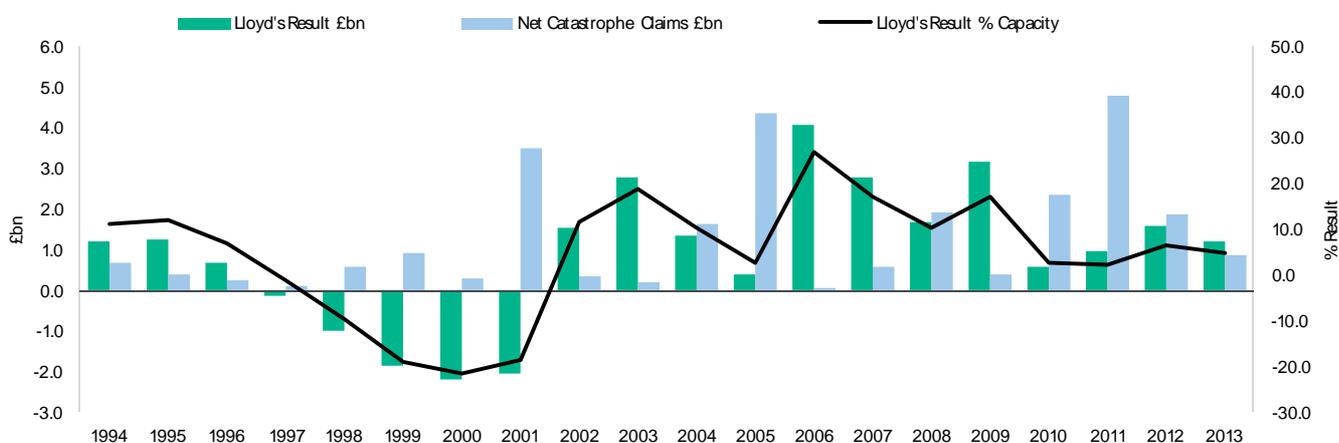
EXHIBIT 1

Lloyd's Aggregate / Proforma Financial Position

Key Indicators	2013	2012	2011	2010	2009
Total Assets (£ Mil.)	76,579	78,091	76,548	70,160	67,290
Equity (£ Mil.)	20,386	19,300	18,216	18,191	18,163
Net Income (£ Mil.) <sup>5</sup>	3,205	2,771	-516	2,195	3,868
Gross Premiums Written (£ Mil.)	26,106	25,500	23,477	22,592	21,973
Net Premiums Written (£ Mil.)	20,231	19,435	18,472	17,656	17,218
Unencumbered Central Resources as % GPW	12%	12%	13%	13%	13%
Gross Underwriting Leverage <sup>6</sup>	3.2x	3.5x	3.6x	3.3x	3.2x
Return on Average Capital (1 yr.)	16%	14%	-3%	11%	22%
Return on Average Capital (5 yr.)	12%	12%	14%	21%	18%
High Risk Assets % Equity <sup>7</sup>	30%	28%	23%	18%	18%
RI Recoverables (incl. UPR)% Equity	56%	64%	67%	56%	55%
Goodwill (incl. DAC) % Equity	14%	14%	14%	13%	12%
(Adv)/Fav Dev. % Beg. Reserves (1 yr.)	5%	4%	4%	4%	3%
(Adv)/Fav Dev. % Beg. Reserves (7 yr.)	4%	4%	3%	2%	1%

EXHIBIT 2

Aggregation of Lloyd's Syndicates Three Year Results



Source: Lloyd's & Syndicate Research Limited Analysis. Latest years net Catastrophe claims indexed to 2013; source Lloyd's Annual Report.

<sup>5</sup> Net income stated pre-tax; tax charged at an individual member level.

<sup>6</sup> Gross Underwriting Leverage: gross premium written and gross loss reserves relative to shareholders' funds (Aggregate Net Resources excluding Lloyd's sub-debt / capital securities for Lloyd's).

<sup>7</sup> Includes Equities, Alternate Assets and Corporate bonds below 'A' (disclosure not made of corporate bonds below Baa).

EXHIBIT 3

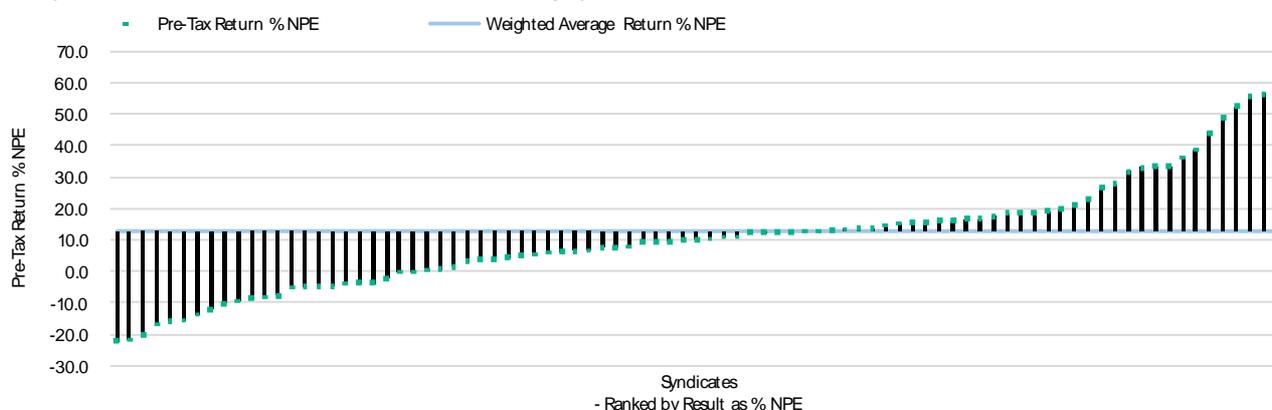
Three-Year Accounting Aggregate Lloyd's Results

	2013 Account at 31.03.14 Est	2012 Account at 31.03.14 Est	2011 Account at 31.12.13	2010 Account at 31.12.12	2009 Account at 31.12.11	2008 Account at 31.12.10	2007 Account at 31.12.09	2006 Account at 31.12.08	2005 Account at 31.12.07
Capacity £m	24,998	24,184	23,297	23,022	18,136	16,106	16,458	15,005	13,821
Result as % of Capacity	4.7%	6.6%	4.0%	2.5%	17.2%	10.3%	17.0%	27.0%	2.6%
Best Syndicate Result	33.7%	45.0%	25.3%	38.0%	64.7%	72.2%	66.5%	73.3%	42.8%
Worst Syndicate Result	-9.0%	-16.0%	-109.4%	-41.1%	-38.1%	-80.2%	-74.4%	-29.8%	-74.4%

Results excluding calendar year movement on run-offs. Agents' forecasts. Best & worst results for those reporting a three year result / releasing forecasts.  
Source: Lloyd's Global Results & Syndicate Research Limited Analysis

EXHIBIT 4

2013 Syndicate Annual Return as % NPE – 2013 Trading Syndicates



Source: Lloyd's & Syndicate Research Limited Analysis.  
Results exclude mid-year start-up syndicates.

Please refer to Syndicate Research Limited Special Report ' < title > ', July 20XX, for the full document, of which this is an extract.

## Recent Developments

### Lloyd's

- » Lloyd's issued its new strategy for 2014-2016 setting out how it will work towards achieving its 2025 goals in an evolving capital and distribution environment. As noted above, this included a commitment to developing Lloyd's franchise in the emerging economies, including an increased emphasis on insurance, as well as reinsurance, and a local presence<sup>8</sup>.
- » Lloyd's announced that it now also has surplus lines eligibility (as well as its existing admitted status) in Kentucky and that it is now licensed for cross-border MAT business in Colombia, as well as obtaining authorisation to write term life business in various European countries, in April 2014.
- » It was announced in May 2014 that Lloyd's Director of Finance and Operations, Luke Savage had resigned. Shirine Khoury-Haq (ex Catlin) is joining as Director of Operations. John Parry, currently Head of Finance at Lloyd's, has become interim Director of Finance until a permanent appointment is made.
- » Fitch upgraded Lloyd's Financial Strength rating to AA- (Aa3-equivalent) in June 2014, with a stable outlook. The other rating agency Lloyd's financial strength ratings remain on positive outlook.

<sup>8</sup> Local presence to be sought where there is a commercial or regulatory requirement to do so.

» Lloyd's published new minimum standards for managing agents in line with good market practice and relevant Solvency II requirements in July 2014.

### Syndicate Developments

NM	Syndicate XXXX	Capacity due to remain £1bn for 2015.
Life	XXXX	Agency CEO Mark Example & s. XXXX uwr left January 2014. XXXX (ex ABC Co. & XYZ Co.), CEO XXXX International, now CEO of agency.
Composite	XXXX	XXXX (Japan) subsid YXXX acquired XXZZ May 2014. XXZZ to operate as group's Specialty int'l insurer with existing management & strategy.
Life	XXXX	Material changes in past 3-6 months affecting each individual syndicate....XXXXX
NM	XXXX	Material changes in past 3-6 months affecting each individual syndicate....XXXXX
NM	XXXX	Material changes in past 3-6 months affecting each individual syndicate....XXXXX
XL	XXXX	Material changes in past 3-6 months affecting each individual syndicate....XXXXX
Composite	XXXX	Material changes in past 3-6 months affecting each individual syndicate....XXXXX
NM	XXXX	Material changes in past 3-6 months affecting each individual syndicate....XXXXX
Life	XXXX	Material changes in past 3-6 months affecting each individual syndicate....XXXXX
XL	XXXX	Material changes in past 3-6 months affecting each individual syndicate....XXXXX
NM	XXXX	Material changes in past 3-6 months affecting each individual syndicate....XXXXX
Composite	XXXX	Material changes in past 3-6 months affecting each individual syndicate....XXXXX
NM	XXXX	Material changes in past 3-6 months affecting each individual syndicate....XXXXX
XL	XXXX	Material changes in past 3-6 months affecting each individual syndicate....XXXXX

Etc.....material syndicate developments for all syndicates.....

Please refer to the individual syndicate profiles for more information.

### Syndicate Continuity Opinion Changes

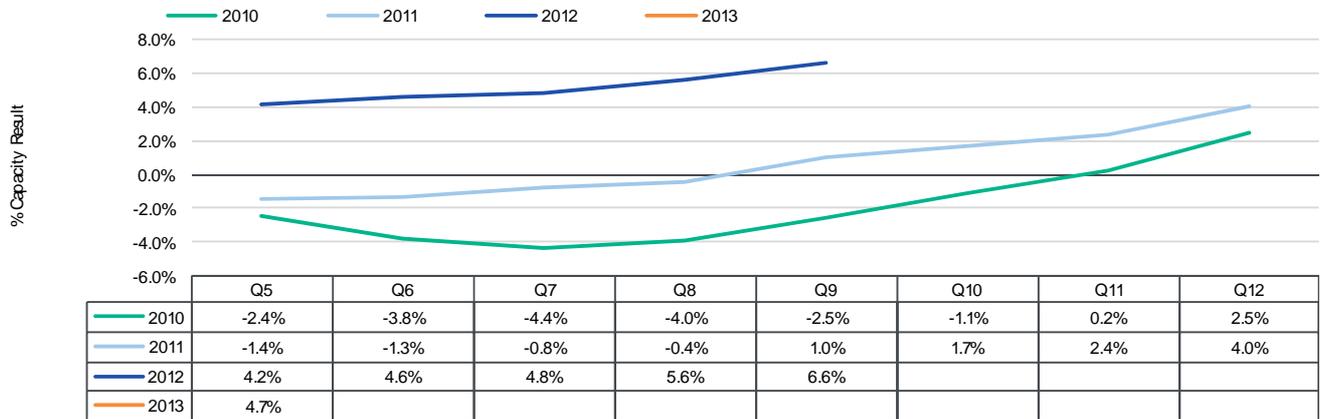
July 2014		
Syndicate	Continuity Opinion July 2014	Continuity Opinion February 2014
XXXX	A Very Good, Stable	A- Good, Positive
XXXX	B Average, Stable	B Average, Negative
XXXX	A Very Good, Negative	A Very Good, Stable
XXXX	B+ Above Average, Stable	B Average, Review Upgrade
XXXX	A- Good, Stable	B+ Above Average, Positive
XXXX	C+ Below Average, Positive	C+ Below Average, Review Direction Uncertain
XXXX	B^ Average, Stable	# Not Assigned, n/a
XXXX	B Average, Stable	# Not Assigned, n/a
XXXX	A- Good, Stable	A- Good, Negative
XXXX	B+ Above Average, Stable	B Average, Review Upgrade

Please refer to our report '[Summary of Opinions and Rationales](#)' for an executive summary of all Syndicate Continuity Opinions, Scorecard Indicators and related Rationales and Summary Key Features or refer directly to the individual syndicate profiles.

### Lloyd's Aggregate Three Year Account Results / Forecasts Q1 2014:

EXHIBIT 5

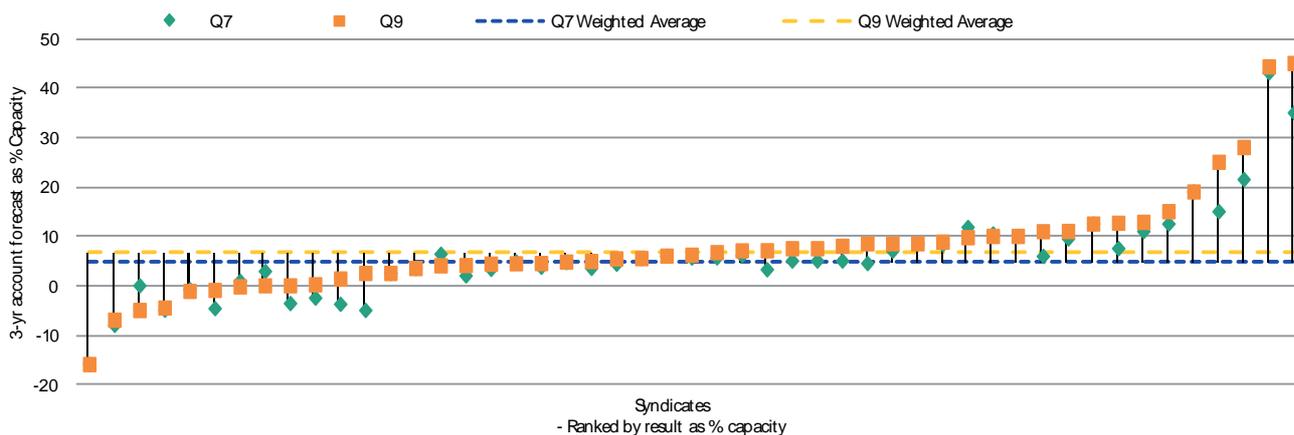
Trend of Three-Year Account Managing Agent Forecasts for the Lloyd's Market



## Syndicate Results / Forecasts Q1 2014

### Latest Three-Year Account Managing Agent Forecasts by individual syndicate

EXHIBIT 6  
2012 Underwriting Year  
3-Year Account Managing Agent Forecasts – Q1 2014



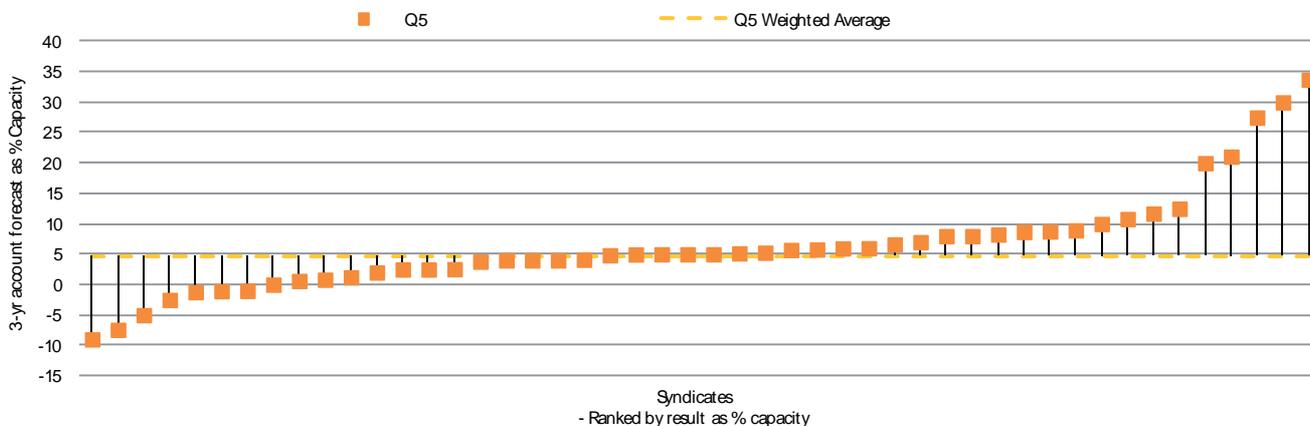
Source: *Managing Agency Forecasts; Syndicate Research Limited analysis.*

Top 5 syndicate forecasts			
Syndicate	Forecast Q9	Forecast Q7	Difference
XXXX	45	35	10
XXXX	44	43	1
XXXX	28	22	7
XXXX	25	15	10
XXXX	19	19	0

Bottom 5 syndicate forecasts			
Syndicate	Forecast Q9	Forecast Q7	Difference
XXXX	-16	-16	0
XXXX	-7	-8	1
XXXX	-5	0	-5
XXXX	-5	-5	0
XXXX	-1	-1	0

Note: Results / forecasts only include those syndicates releasing 3-year account data.

EXHIBIT 7  
2013 Underwriting Year  
3-Year Account Managing Agent Forecasts – Q1 2014



Source: *Managing Agency Forecasts; SRL analysis.*

Top 5 syndicate forecasts

Syndicate	Forecast Q5
XXXX	34
XXXX	30
XXXX	28
XXXX	21
XXXX	20

Bottom 5 syndicate forecasts

Syndicate	Forecast Q5
XXXX	-9
XXXX	-7
XXXX	-5
XXXX	-3
XXXX	-1

Note: Results / forecasts only include those syndicates releasing 3-year account data.

Trend Data

2013 / 2014 Major losses

EXHIBIT 8

Major Loss

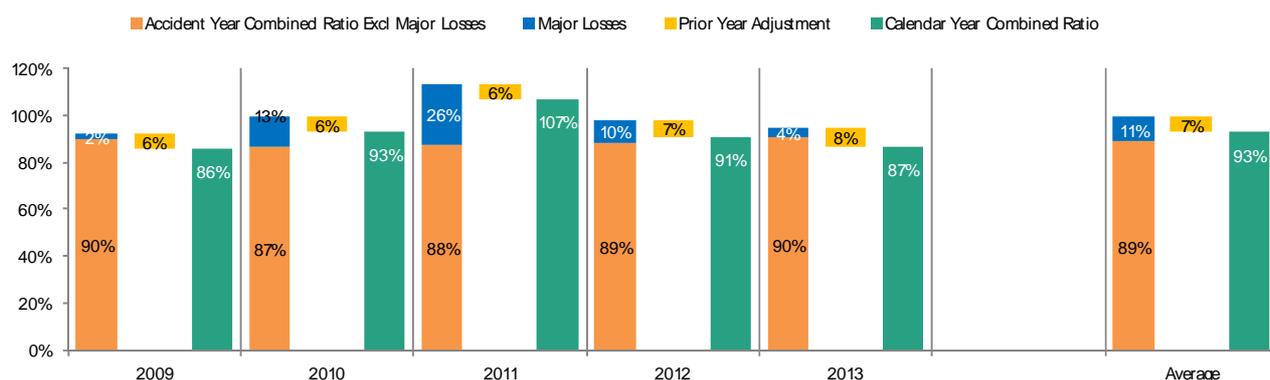
	Industry Insured Loss US \$M *	Latest Lloyd's Aggregate Loss Estimate £M**	Loss As % Lloyd's Aggregate 2012 /13 NPE	Year of Account Affected^		
				2011	2012	2013
Hurricane Sandy – 12J	~35,000	£XXXm	Z%	XX%	XX%	X%
Flooding following heavy rain in Alberta – 13F	1,900	£XXXm	Y%	X%	XX%	XX%

\* Source :Sigma Catastrophes Report February 2013 and March 2014 Losses exclude liability and Life insurance losses.

\*\* Aggregate Lloyd's estimates as at March 2014. ^ As indicated by syndicate loss data received by SRL.

EXHIBIT 9

Lloyd's Annual Accounts Combined Ratios and Major Losses 2009 - 2013

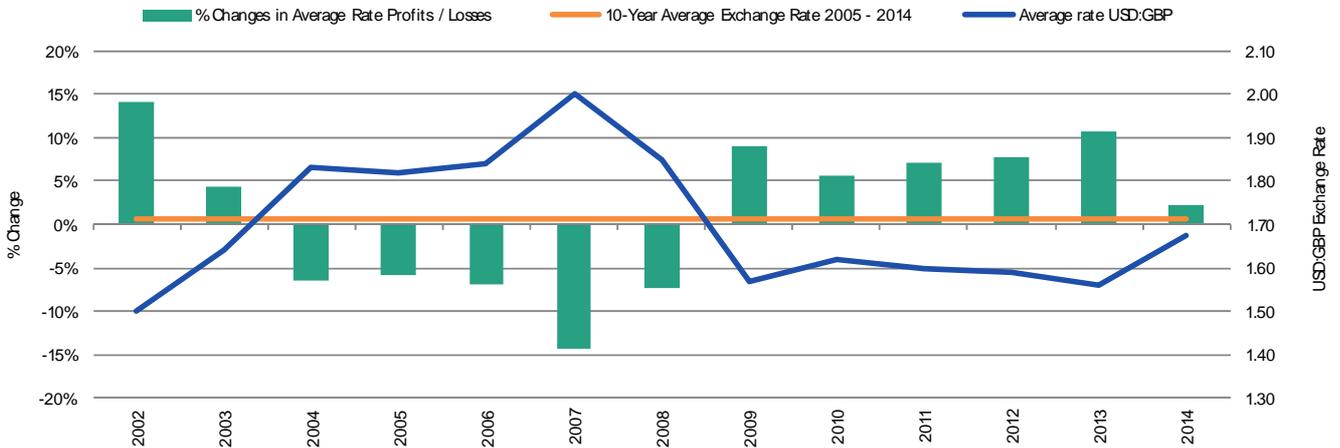


Year	2009	2010	2011	2012	2013
Major Loss £m	371	2,290	4,703	1,816	873

Source: Lloyd's Annual Report; SRL analysis

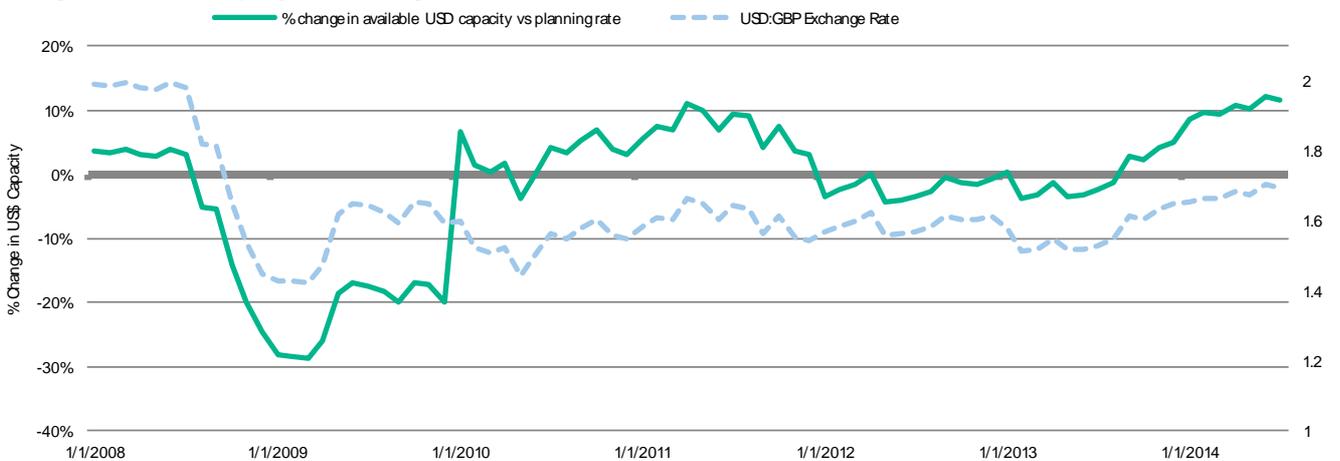
Foreign Exchange

EXHIBIT 10  
 USD:GBP Forex Changes - Indicative Impact on USD Profits / Losses  
 Calendar year Average Exchange Rate compared to 10-year Average Exchange Rate



Source: SRL Analysis

EXHIBIT 11  
 USD:GBP Forex Changes - Indicative Impact on USD Capacity  
 % Change in available US\$ Capacity versus Planning Rate



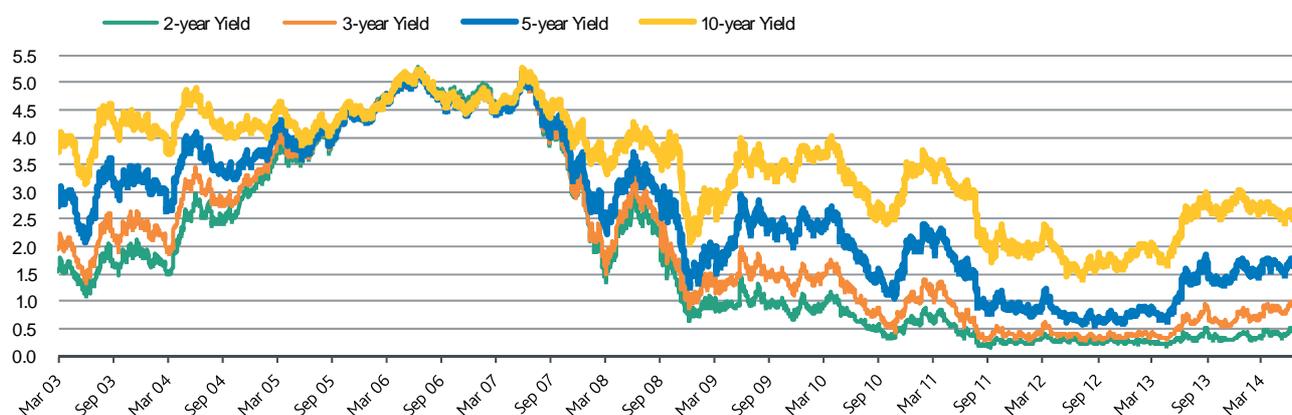
Source: SRL Analysis

Note: The chart indicates the % change in available US\$ capacity based on the change in the actual US\$ R.O.E. relative to the planning US\$ R.O.E., to the extent that members have not hedged this exposure (eg US\$ FAL); an indicative average ECA ratio for the relevant year is used. The % change in available US\$ capacity is therefore affected by differences between the Lloyd's planning rate (prescribed by Lloyd's in the approval of syndicate plans) and actual rates, as well as the influence of changes in average ECA ratios between years.

### Investment Yields and Median Credit Spreads

EXHIBIT 12

#### 2-Year and 3-Year US Treasury Note Yields



Source: US Department of the Treasury

#### Average Duration of syndicate fixed income securities

	2013 %	2012 %	2011 %
Less than one year	X%	X%	X%
Between one and two years	XX%	XX%	XX%
Between two and three years	XX%	XX%	XX%
Over three years	XX%	XX%	XX%
	100%	100%	100%
<b>Lloyd's Aggregate Investment Profile 31.12.13:</b>			
Cash & equivalents		XX%	
Government Bonds		XX%	
Corporate Bonds >= A		XX%	
Corporate Bonds < A		X%	
Equities & Alternate Assets		X%	

Source: Lloyd's Annual Results presentation

Note: Government bonds predominantly in the US, UK and Canada.

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