

Syndicate XXXX

Managing Agency XXX

CONTINUITY OPINION:
SCORECARD:

A Very Good
A ^(*)

CONTINUITY OPINION OUTLOOK:

Stable

Large Composite syndicate, 50% backed by XXX Group, which has expanded significantly in line with improving market conditions. The group also has US operations and supports group dedicated syndicate XXYX, with new lines established under s. XXYX. Keith Brown, with the syndicate for several years, appointed underwriter January 2014+. Reserve releases significant in more recent years with more conservative reserving under new management team established in 2008. Volatility of the book shown by 2005 Hurricanes (c.35% 2005 capacity); risk management revised since then. Cross-cycle, indicative annual returns on capital have been in line with the top end of the A- peer group and 5-year average returns in line with the A peer group, s.XXXX also benefiting from its franchise as one of the larger syndicates at Lloyd's, its core position within the group & good support from third party capital. With sound management, a strong franchise & capital backing from XXX Group, s.XXXX core to the group at c40% NPW, and with recent results in line with the A peer group, the syndicate's Continuity Opinion was upgraded to A Very Good in October 2014.

Summary Annual Accounting Data

£M [UK GAAP]	2005	2006	2007	2008	2009	2010	2011	2012	2013
Gross Premiums Written	882	1,029	996	885	1,034	872	786	825	823
Net Premiums Written	660	874	773	604	750	590	545	570	543
Net Premiums Earned	714	822	812	682	708	625	570	537	555
Profit Pre-Tax % NPE	1	16	24	35	31	20	9	31	27
Peer Group Average Result %	0	14	16	10	16	5	-7	5	8
Market Average Result %	-7	19	21	15	17	8	-9	9	11

Summary Three Year Accounting Data (net of acquisition costs) including Agency 2012 - 2014 Estimates

	2004	2005	2006	2007	2008	2009	2010	2011	2012E	2013E	2014E
Capacity £000	846,253	774,116	832,968	874,151	699,608	749,764	999,495	899,365	948,840	949,491	1,000,000
£000	Closed	Closed	Closed	Closed	Closed	Closed	Closed	Closed			
Gross Premium	736,451	733,809	821,162	801,184	670,923	790,550	699,179	616,301	829,776	804,864	857,378
Net Premium	586,198	576,290	617,236	613,344	453,412	533,228	480,510	401,987			
% Forecast at Q6	8.7	-2.5	18.8	11.3	3.8	11.3	-5.0	0.0	5.0	5.0	
% Forecast at Q9	8.7	-2.5	21.3	13.8	6.2	18.8	0.0	2.5	7.5		
% Forecast at Q11	8.7	-2.5	26.2	26.2	11.3	26.3	2.5	2.5			
Syndicate Result % capacity	11.4	2.9	36.8	31.7	15.1	31.6	7.2	7.9	7.5	10.0	
Peer Group Average Result %	9.4	1.2	20.0	13.6	6.9	10.6	-5.6	-0.9	3.7	5.0	
Market Average Result %	10.3	3.8	21.6	7.7	5.2	11.5	-1.0	1.9	10.2	7.1	

Note: Peer Average data based on latest ongoing Peer syndicates' Peer average data.

Recent Developments

- » 2013 annual profit of 27% NPE, combined ratio 75% (incl. forex); prior year release 21% NPE (12% of reserves b/wd). 2011 a/c 7.8% capacity profit; prior +6%.
- » 2014 capacity £1bn (2013 £950m); due to remain £1bn in 2015. Further £72m capacity via QQS of part of Cat RI a/c (direct & retro) to Names backed, SPS s.6104.

Continuity Considerations

Financial Performance – Cross-cycle Returns

Scorecard: A

- » 2005 to 2013 average annual profit (incl. forex) 22% NPE; av invt returns 6% NPE. 2005 Hurricanes \$524m net (c.35% 2005 capacity) affecting 2005 & 2006. 2008 affected by Hurricane Ike \$150m net or c.15% NPE (revised to \$105m 31.12.09) and forex gain 34% NPE. Net o/s claims 164% NPE; cash & invts 219% NPE.
- » Significant annual prior year reserve releases 2008 – 2013 (average 20% NPE) of c.11% b/wd reserves. Material RI spend with premium retention 66% of GPW.

Financial Performance – Recent Profitability

Scorecard: A+

- » Average annual profit of 29% NPE and combined ratio of 75% (incl. forex) for 2012 & 2013, benefiting from material prior year releases.

Diversification

Scorecard: B

- » Main classes 2014: Direct Property 37%, Reinsurance 14%, Marine (incl. Energy 6%) 12%, Accident & Health 11%, Liability 9%, Motor 5%, Political Risks 4%, Aviation 4%, Enterprise Risk 3%, Affinity Schemes 1%. N. America 41%. Binding Authorities 48%.

Franchise Operating Efficiency

Scorecard: B-

- » 2-year average operating expenses (incl. forex) 2012 & 2013 40% NPE.

Qualitative Stand-alone Factors

- » Keith Brown (ex Head Marine Hull) appointed underwriter 2014. Richard Swift (s.XXXX uwr 2008 – 2009), Group CUO from October 2012.
- » Group Reinsurance Operation established in Switzerland for January 2014 renewals under CEO James Smythe; London, Bermuda & Paris RI teams merged into one unit.
- » The syndicate benefits from its franchise and position as one of the largest syndicates in the Lloyd's market, writing a broad spread of business.
- » 100% Group XXX backed s.XXYX started 2009; capacity increased £50m - £400m 2009 - 2014. 2011+, its book has included all of the new lines of business written by the group.
- » New additions to syndicate team of David Miles (ex s.YYYY), writing a new Marine RI account in association with ABC MGA.
- » London Market PI book reduced by 1/3 in 2011 in light of competitive market conditions & limited invt returns. D&O book added 2014.

Group / External Support Adjustments

- » S.XXXX is a core part of XXX Group; XXX's Lloyd's interests (50% share of s.XXXX & 100% share of s.XXYX) c.48% (s.XXXX c.29%) of XXX Group's 2013 NPW. Other platforms XXX Bermuda, XXX Company (Ireland), XXX Guernsey & XXX Insurance Co. Inc (US).
- » XXX holds 50% of the syndicate's capacity, EFG Members' Agency 22% and Hij Members' Agency 18%. Good third party support as indicated by 2013 auction prices.

SYNDICATE XXXXX – Managing Agency XXX

Scorecard

	A+	A	A-	B+	B	B-	<B-	SCORE
Cross-cycle Returns: (70%)								A
9 year average annually accounted return NPE to 2013		22%						
Recent profitability (10%)								A+
- Return on NPE 2 year average		29%						
- 2 year average combined ratio (incl forex)		75%						
Diversification (15%)					X			B
Franchise Operating Efficiency (5%)								B-
- Expenses % NPE 2 year average						40%		
Score prior to Other Considerations								A-
<i>Qualitative stand-alone considerations</i>								Positive
Stand-Alone Score								A
<i>Group/External Support considerations</i>								Positive
Aggregate Score								A (s)
Assigned Continuity Opinion								A

Note: Peer Average data (based on Peer syndicates trading in that year) used in the calculation of cross-cycle returns for years where a syndicate was not trading. Data only included if syndicate has traded for 5 years. Scorecard excludes the first year results of syndicates that have only traded for part of the year in their first year of trading.

Rationale for differences between the Aggregate Score and the Assigned Continuity Opinion
Not applicable.

Underwriter: K Brown Age: n/a Appointed: 2014 Auditors: ABC LLP

Syndicate Capacity					Average Returns			
YEAR	£M	% LLOYD'S	RANK	MKT AVE £M	3 YR AV	5 YR AV	7 YR AV	9 YR AV
2014	1,000	3.8	8	282.0	22%	24%	25%	22%
2013	949	3.8	7	277.5	16%	19%	19%	18%

Top 5 Capital Providers' Capacity Allocations								
2013 CAPITAL PROVIDER			2013 £M	2013 %	2014 CAPITAL PROVIDER		2014 £M	2014 %
XXXX	Aligned		689.1	72.6	XXXX	Aligned	725.3	72.5
XXYZ			121.4	12.8	XXYZ		128.7	12.9
XXYY			85.2	9.0	XXYY		88.5	8.9
XXZY			41.7	4.4	XXZY		44.6	4.5
XXZZ			9.2	1.0	XXZZ		9.7	1.0

Group Dedicated Capital						
AS AT 31.12	2012	2013	2014	ALIGNED DEDICATED CAPITAL PROVIDER'S NAME		
Aligned Dedicated Member Funds at Lloyd's (£m)	404	409		XXX Dedicated Corporate Member Ltd		
Aligned Dedicated Member allocation on syndicate as % of portfolio	73	73	71			
Aligned Dedicated Share of Syndicate Capacity %	73	73	73			

Note: Lloyd's central resources, net of solvency deficits, totalling £3.1bn as at 31 December 2013 (incl. a callable levy), are available, subject to Council's approval, to meet defaulting members' liabilities. Please refer to SRL's Special Report 'How Lloyd's Works' section on 'Sources and Priority for Funding Policyholder Claims' for further explanation of available capital.

Group Statistics					
	2011	2012	2013	2013 Mkt Av	GROUP NAME
Net Assets £m	1,256	1,365	1,409	8,251	XXXX Ltd
Financial Gearing: Debt to capital %	17	15	15	18	
Gross Underwriting Leverage ((GPW + Gross Reserves) / Net Assets)	2.7x	2.6x	2.5x	3.3x	
Combined ratio (incl forex) ((Claims + Expenses) / NPE)	102	90	87	88	
Return on Average Capital %	1	14	15	10	
Lloyd's Business as % Group Total NPW / NPE	48	50	48	26	

Peer Group 2014: Non-Marine Short Tail Orientated										
0033	0318	0510	0958	1225	1945	1967	1969	2001	2003	2015
2088	3334	4141	4444	5820	6111	6112	6115	6119	XXXX	

SYNDICATE XXXXX – Managing Agency XXX

Annual Accounting Data [UK GAAP]

SYNDICATE BALANCE SHEET £M	2008	2009	2010	2011	2012	2013
Cash and Invested Assets	1,688	1,643	1,438	1,322	1,189	1,217
Reinsurers' Share of Claims Outstanding	415	338	396	405	444	337
Members' Balances / Reserves (including FIS, as applicable)	172	289	119	49	60	136
Funds at Lloyd's held in Syndicate (FIS)	0	0	0	0	0	0
SYNDICATE PROFIT AND LOSS £M	2008	2009	2010	2011	2012	2013
Gross Premiums Written	885	1,034	872	786	825	823
Net Premiums Written	604	750	590	545	570	543
Net Premiums Earned	682	708	625	570	537	555
Profit Pre-tax	238	222	123	54	168	148
Profit Pre-Tax % NPE	35	31	20	9	31	27
Peer Group Average Result %	10	16	5	-7	5	8
Market Average Result %	15	17	8	-9	9	11

Syndicate Annual Accounting Ratios

	2009 %	Peer	2010 %	Peer	2011 %	Peer	2012 %	Peer	2013 %	Peer
Premium Retention (NPW / GPW)	73	82	68	81	69	82	69	83	66	80
Combined ratio (incl forex) (Claims / NPE + Expenses / NPE)	85	90	89	99	92	110	76	98	75	94
Prior Year Adjustment % NPE	20	3	22	5	25	2	17	3	21	5
Prior Year Adj % bfwd reserves	10	-8	12	1	12	-2	8	4	12	4
Net Operating Expenses % NPE (including Forex)	46	41	40	41	37	41	39	43	41	43
Forex Gain/(Loss) % NPE	-7	-1	1	1	1	0	-2	-1	-3	-1
Investment Return % NPE (including Non-Technical returns)	17	6	9	4	2	2	7	3	2	1
Non-Tech Investment Return % NPE (including FIS)	0	0	0	0	0	0	0	0	0	0
Gross Claims Outstanding % NPE	215	126	250	133	276	151	269	141	225	128
Reinsurers' Share Loss Reserves % NPE	48	26	63	27	71	35	83	32	61	26
Net Claims Outstanding % NPE	167	100	186	106	205	116	186	109	164	102
Cash and Investments % NPE	232	128	230	128	232	124	221	114	219	96
Equities & var yield secs as % NPE	0	17	0	21	0	16	0	14	0	17
Calendar Year Investment Yield	7	4	4	3	1	2	3	3	1	1
Liquidity: Cash and Bonds % Net TR	106	57	96	53	89	48	88	45	99	39

Estimated Split of Account %

CATEGORY	2010	2011	2012	2013	2014	CATEGORY	2010	2011	2012	2013	2014
Accident & Health	5	6				N-M Property Loss or Damage	33	32			
Aviation Legal Liability	0	0				Non-Marine General Liability	9	5			
Aviation Physical Loss/Damage	2	2				Pecuniary Loss	2	2			
Energy	9	13				Ships & Other Marine Liability	3	3			
Goods in Transit	0	0				Ships Physical Loss or Damage	3	3			
Long Term Business						Specific Inwards XL	8	7			
Miscellaneous/3rd Party RITC						Whole Account XL	26	26			
Motor	0	0									

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£000	CLOSED										
Gross Premium	736,451	733,809	821,162	801,184	670,923	790,550	699,179	616,301	829,776	804,864	857,378
Net Premium	586,198	576,290	617,236	613,344	453,412	533,228	480,510	401,987			
Result After Personal Expenses	96,219	22,372	306,116	277,456	105,501	236,775	71,564	70,600			
Syndicate Result %	11.4	2.9	36.8	31.7	15.1	31.6	7.2	7.9	7.5	5.0	
Peer Group Average Result %	9.4	1.2	20.0	13.6	6.9	10.6	-5.6	-0.9	3.7	5.0	
Market Average Result %	10.3	3.8	21.6	7.7	5.2	11.5	-1.0	1.9	10.2	7.1	

Syndicate Three Year Accounting Ratios

	2007 %	PEER	2008 %	PEER	2009 %	PEER	2010 %	PEER	2011 %	PEER
Gross Premiums % Allocated Capacity	92	76	96	94	105	100	70	77	69	74
Reinsurance % Gross Premiums	23	24	32	26	33	26	31	24	35	24
Pure Year Underwriting Result % NPI	36	17	19	5	47	26	11	1	21	10
Prior Year Underwriting Result % Capacity	7	3	1	0	12	1	8	-2	6	1
Prior Year Underwriting Result % RITC bfwd	8	6	1	-9	12	-8	12	-12	8	0
RITC bfwd as % NPI	118	74	161	80	137	77	138	71	157	79
Investment Return % Capacity	9	4	9	4	5	3	3	2	2	1
Operating Expenses % Capacity	9	6	7	5	18	10	9	11	9	10
Forex Gain/Loss % Capacity	5	3	6	6	0	2	-1	-1	-1	-1