Best's Rating of Lloyd's 2017

September 2017

www.ambest.com

Lloyd's
September 2017

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AMB#: 85202
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Best's Financial Strength Rating

Based on A.M. Best's opinion of the financial strength of Lloyd's, the Lloyd's market is assigned a Best's Financial Strength Rating of A (Excellent) and an issuer credit rating of a+. Each rating has a stable outlook. The market is assigned the Financial Size Category of Class XV.

Rating Rationale

A.M. Best's ratings of Lloyd's reflect its stable and strong risk-adjusted capitalisation and good financial flexibility, together with its excellent business profile and recent strong underwriting performance.

Lloyd's benefits from strong and stable risk-adjusted capitalisation, supported by a robust risk-based approach to setting member level capital. The exposure of central resources to insolvent members has fallen significantly over the past 10 years and is now at a very low level. When setting the member level capital requirement, Lloyd's applies a 35% economic capital uplift to each syndicate's solvency capital requirement. This level of uplift has been retained for 2017, but should it change, A.M. Best will review the implications for risk-adjusted capitalisation and react accordingly.

Lloyd's financial flexibility remains good, enhanced by the diversity of its capital providers, which include corporate and non-corporate investors.

Lloyd's operating performance has been good in recent years, supported by strong technical performance as demonstrated by an average five-year combined ratio of 90% (2012-2016). The combined ratio deteriorated in 2016 to 97% (2015: 89%), primarily due to a higher major loss burden and a reduction in reserve releases. Major losses accounted for approximately 9% of net earned premiums in 2016, which is in line with the market's 10-year average. Assuming average catastrophe experience, technical performance in 2017 is expected to be in line with 2016.

Lloyd's benefits from an excellent position in the global insurance and reinsurance markets. The collective size of the Lloyd's market and its unique capital structure enable syndicates to compete effectively with large international insurance groups under the well-recognised Lloyd's brand. However, an increasingly difficult operating environment poses challenges to Lloyd's competitive position. In particular, the growth of regional (re)insurance hubs, combined with the comparatively high cost of placing business at Lloyd's, is reducing the flow of business into the London market. There has been a proactive response by Lloyd's to these threats. Improved access to international business is being supported by the Vision 2025 strategy and the establishment of regional platforms, and Lloyd's continues to implement initiatives to improve efficiency and reduce operating costs. A.M. Best will continue to closely monitor Lloyd's ability to defend its strong competitive position against the prevailing market headwinds.

Upward rating movements are considered unlikely in the short term. Longer term, positive rating pressure could arise if Lloyd's business profile and operating performance remain strong in spite of challenging market conditions.

An increase in risk-adjusted capitalisation from the current strong level could lead to positive rating pressure, if A.M. Best expected risk-adjusted capitalisation to be maintained at this higher level long term.

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Unexpectedly weak operating performance would put downward pressure on the ratings.

An erosion of risk-adjusted capitalisation, for instance as a result of a substantial loss to the Central Fund or due to lower capital requirements set by Lloyd's, would put downward pressure on the ratings.

Business Review

Lloyd's occupies an excellent position in the global general insurance and reinsurance markets as a specialist writer of property and casualty risks. The competitive strength of Lloyd's derives from its reputation for innovative and flexible underwriting, supported by the pool of underwriting expertise in London.

Although Lloyd's syndicates operate as individual businesses, the collective size of the market allows them to compete effectively with major international groups under the well-recognised Lloyd's brand and with the support of the Central Fund. Since 2001 especially, the Lloyd's market has withstood strong competition from Bermuda and other international markets and enhanced its business profile by the resilience of its operating performance and capitalisation in difficult economic conditions. It has proved attractive to international investors in recent years, as demonstrated by numerous acquisitions of Lloyd's managing agents. Furthermore, while a number of traditional Lloyd's businesses have established alternative underwriting platforms, they have remained committed to the Lloyd's market.

Excluding reinsurance to close syndicates, but including special-purpose arrangements (SPA), there were 96 syndicates at 1 January 2017, down from 98 at 1 January 2016. Four new syndicates and one SPA entered the market while two syndicates merged into other syndicates and two syndicates and three SPAs ceased at the end of 2016.

The competitive position of Lloyd's and the London market is increasingly under threat from the growth of local and regional (re)insurance hubs and a preference by clients to place business locally. In response to this threat, Lloyd's launched its Vision 2025 in May 2012, aiming to be "the global centre for specialist insurance and reinsurance". Described as a new strategic direction, Vision 2025 has at its heart profitable, sustainable growth, particularly from emerging and developing economies. This vision is reviewed annually in the context of global economic developments and the state of the insurance industry. Progress towards the vision, together with the further steps that the Lloyd's market must take to achieve it, is set out in Lloyd's latest three-year plan, Lloyd's Strategy 2017-2019, published at the end of March 2017.

A more urgent threat to the competitive position of Lloyd's is the United Kingdom's decision, taken in a referendum held in June 2016, to leave the European Union (EU). In late March 2017, the U.K. government gave formal notice, under Article 50 of the EU's Lisbon Treaty, of the country's intention to withdraw from the EU. Under these guidelines, this gave the EU two years in which to negotiate and conclude an agreement with the U.K., setting out the arrangements for its withdrawal, taking account of the framework for its future relationship with the EU.

Membership of the EU gives businesses in any member state the right to trade throughout the EU. Depending on the outcome of the exit (so-called "Brexit") negotiations, leaving the EU could restrict the access of Lloyd's to European insurance business. Since the referendum, Lloyd's has devoted significant resources to assessing the options for it to continue to access EU markets. Within days of Article 50 being invoked, Lloyd's announced that it would establish a European insurance company in Brussels that would be ready to write business from 1 January 2019, subject to regulatory approval. A.M. Best will monitor closely Lloyd's on-going ability to access EU insurance business.

Lloyd's is a significant writer of catastrophe and reinsurance business and is also a leading player in its core marine, energy, aviation and specialty markets. Direct business continues to form the larger proportion of Lloyd's overall underwriting portfolio, with insurance representing 68.5% of gross premium in 2016 (2015: 67.8%) and reinsurance accounting for the balance.

Exhibit 1 shows Lloyd's calendar-year premium in 2015 and 2016, split by the principal lines of business. The market's overall gross written premium (GWP) increased by nearly 12% in 2016 to GBP 29,862 million from GBP 26,690 million in 2015. A significant driver of this increase was movements in average rates of exchange, particularly for the U.S. dollar against sterling following the result of the U.K. referendum to leave the EU.

Exhibit 1
Calendar Year Gross Written Premium by Main Business Class (2015-2016)

(GBP Millions)

	2015	2016	% change
Reinsurance	8,593	9,408	9.5%
Property	6,893	7,988	15.9%
Casualty	5,764	7,131	23.7%
Marine	2,245	2,470	10.0%
Energy	1,414	1,110	-21.5%
Motor	1,120	1,047	-6.5%
Aviation	587	627	6.8%
Life	74	81	9.5%
Total calendar year premium income	**26,690**	**29,862**	**11.9%**

Note: Figures include brokerage and commission.
Source: Lloyd's Annual Report 2016

At constant exchange rates there was modest growth in GWP in 2016. As in previous years premium volumes were lower than syndicates originally planned, as premium rates again weakened across most lines as the year progressed. Growth in GWP in the reinsurance segment as a whole and the direct classes of property, casualty, marine and aviation business was partly offset by reduced premium volume for energy and motor direct business. The risk-adjusted premium rate for renewal business fell 3% overall.

For the reinsurance segment, GWP increased by 9.5% overall, with some variation across the classes within the segment. Property reinsurance, which accounts for over half the reinsurance segment, reported an 8.5% increase in GWP, largely attributable to exchange rate movements. Although the rate of decline has slowed in some key markets, in the absence of major natural catastrophe events premium rates continue to soften and terms and conditions continue to widen. There were several large loss events during 2016, including Hurricane Matthew, which affected the Bahamas, Florida and South Carolina, and the Fort McMurray wildfire in Canada. In addition there were flood losses in the United States, the largest being in Louisiana, and earthquakes in Japan, New Zealand and Ecuador. As in recent years, however, none of these losses, either alone or in aggregate, had a lasting positive effect on premium rates, particularly with capital in the reinsurance market continuing to be plentiful.

It was a similar scenario of surplus capacity and softening rates in the casualty market, yet the casualty reinsurance sector achieved 16.6% growth in GWP during 2016, assisted by the decline in sterling compared to the U.S. dollar. The sector includes motor excess of loss business, which, together with some other liability business, is affected by the change in the Ogden tables used to calculate the discount rate for lump sum bodily injury compensation in the U.K. announced in February 2017. The lower discount rate is likely to lead to a re-evaluation of current pricing levels for affected lines within casualty reinsurance.

The remainder of the reinsurance segment, specialty reinsurance, which comprises marine, energy and aviation, saw 5.9% growth in GWP, with increases of 7.2% in marine and 10.8%

in energy offsetting a decrease of 3.6% in the aviation sector. All sectors were hit by large losses during 2016, with marine excess of loss reinsurers experiencing some large cargo and energy related claims and the aviation sector affected by significant aircraft claims, such as the EgyptAir Flight 804 and Emirates Flight 521 crashes. Yet again, however, these losses failed to halt the general decline in both marine and aviation reinsurance premium rates given the surplus capacity in these markets.

The surplus capacity in the reinsurance market has, on the other hand, continued to make more retrocessional cover available to syndicates than previously.

The direct property sector achieved premium growth of 15.9% in 2016, in spite of the familiar scenario of plentiful capacity and softening rates in the absence of major catastrophe events, coupled with competition from domestic markets. The main areas of growth were in international open market business and U.S. surplus and excess lines and binding authority business.

The direct casualty market in 2016 was similar to that of the previous few years, with excess capacity continuing to put rates under pressure, regardless of widely accepted claims inflation assumptions. The sector increased its GWP by 23.7%, in spite of profitability remaining marginal. The weakness of sterling contributed to this increase, but new products, such as cyber liability in particular, also contributed to the growth. In addition, there was some organic premium growth from liability business dependent on turnover and payroll figures, for example, which are increasing in the improving U.S. economic environment. Certain segments of the casualty sector are exposed to U.K. bodily injury settlements and so affected by the change in the Ogden discount rate announced in February 2017. This could drive rate improvements in 2017.

As with the casualty market, abundant capacity was again an aspect of both the marine and energy markets in 2016. In the marine sector premiums increased by 10%, due principally to the impact of exchange rate movements on U.S. dollar denominated business as premium rates continued to be depressed, particularly in the hull and cargo business, with increased limits of cover and broader terms and conditions. Although the marine sector was not affected by any major catastrophe losses, the cargo market suffered a significant loss from the pre-launch destruction of the AMOS-6 satellite and the potential impact of the insolvency of Hanjin Shipping remains unclear.

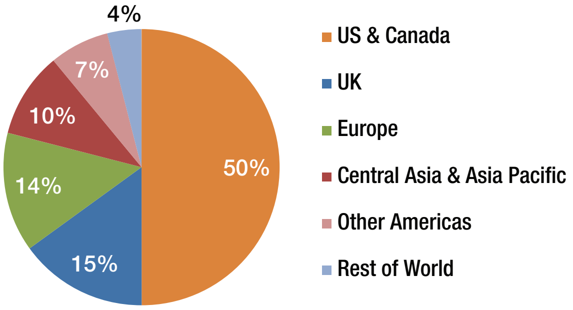
The energy sector saw a reduction in premiums of 21.5%, in spite of a significant positive impact from exchange rate movements. The continuing low price of oil has led to a reduction in both exploration and investment in new oilfields, resulting in a lower premium base. Additionally, offshore energy business, particularly in the Gulf of Mexico, reported softer rates from increased competition on the back of another year without a major windstorm.

Lloyd's motor business comprises mainly U.K. private car, particularly niche risks, commercial and fleet business, although international business, especially in North America, is also written. Conditions in the U.K. motor market remain challenging but premium rates for private vehicles continued to rise, partly reflecting the growth in U.K. inflation in the latter half of 2016. For commercial business premium rate increases above inflation were achieved throughout the year. Total GWP for the motor sector, however, reduced by nearly 6.5%, with the increase in premium rates not being enough to keep pace with the increase in claims costs. The fall in the oil price has led to more miles being driven, with a commensurate increase in claims frequency and severity. Concerns over whiplash claims, which continue to rise in spite of legal reforms, remain and fraudulent claims activity is still an issue.

Lloyd's is a leading player in the global aviation market, writing across all the main business classes, including airline, aerospace, general aviation and space, with airline hull and liability being the largest line. There continues to be significant over-capacity in the market, with the result that a soft rating environment persists, despite a series of major airline disasters and spacecraft and satellite losses in the last few years, particularly 2014 and 2015. Total GWP grew by 6.8% in 2016, assisted by a significant positive impact from exchange rate movements, as premium rates continued to decline. Although 2016 was a benign year for aviation losses overall, there were some high profile losses, including the LaMia flight which crashed in Colombia with a Brazilian football team on board, the loss of Pakistan International Airlines 661, the Flydubai flight which crashed in Russia, and the EgyptAir crash into the Mediterranean Sea.

The territorial scope of business written at Lloyd's and the market's worldwide access to business remain positive rating factors. Through its global infrastructure and network of licences, Lloyd's provides syndicates with access to a wide international client base. Although the existing geographical bias toward North America and the United Kingdom is likely to be maintained, Lloyd's is committed to expanding its global reach. In 2016, these mature markets accounted for 50% and 15% respectively of Lloyd's GWP, as compared to 47% and 18% in 2015. The proportion of GWP relating to European business remained steady at 14%, as did the aggregate business written in Central Asia and Asia Pacific, Central and South America and the rest of the world at 21% (see **Exhibit 2**). One of the areas of focus within the Three-Year Plan is international growth and diversification and Lloyd's has identified India, where approval for a reinsurance branch was obtained in 2016, and Morocco as priority target markets for 2017, along with defending access to EU markets following Brexit.

Exhibit 2
2016 Gross written premium by territory



Source: Lloyd's Annual Report 2016

In recent years Lloyd's has made good progress in geographical diversification, building on earlier developments, such as becoming the first admitted reinsurer in Brazil and opening a representative office in Rio de Janeiro in 2009. In China, where Lloyd's has licences to write both reinsurance and direct business in Shanghai, a licence to open a branch in Beijing was granted in September 2014. In November 2014, Lloyd's received approval to open a representative office in Mexico City and is now working to develop the office opened in 2015. Similarly, in Colombia, Lloyd's appointed a local representative during 2015 and received approval to begin underwriting reinsurance business within its new office, which opened in June 2016. Elsewhere, ten managing agents are participating in the Dubai platform, which opened in March 2015, and the first reinsurance policy was written in India in April 2017.

Lloyd's U.S.-domiciled business consists primarily of reinsurance and surplus lines (see **Exhibit 3**). In July 2014, Lloyd's was granted surplus lines eligibility in Kentucky, at last enabling such business to be written in all 50 states. Lloyd's participation in admitted U.S. business (i.e. direct business excluding surplus lines) is relatively modest. Lloyd's has admitted licences in Illinois, Kentucky and the U.S. Virgin Islands and also writes direct, non-surplus lines business in lines exempt from surplus lines laws (principally marine, aviation and transport risks). Lloyd's single-state licences were initially secured for historical reasons and are not widely exploited

Exhibit 3
U.S. Profile of Lloyd's (2012-2016)
(USD Millions)

	2012	2013	2014	2015	2016	Compound Annual Growth Rate
Lloyd's Surplus Lines Premium	6,270	7,099	8,157	8,645	9,607	11%
Total U.S. Surplus Lines Premiums	34,808	37,813	39,946	41,259	42,342*	5%
Lloyd's Share of U.S. Surplus Lines Premium	18%	19%	20%	21%	23%	
Lloyd's U.S. Direct Business (Excluding Surplus Lines)	1,275	1,418	1,235	1,198	1,250	0%
Lloyd's U.S. Reinsurance	4,869	5,170	5,299	5,222	5,441	3%
Lloyd's Total U.S. Situs Business	12,414	13,688	14,691	15,065	16,299	7%

Source: Lloyd's, A.M. Best Co. and National Association of Insurance Commissioners
Note: *estimate.

by syndicates. Almost half of surplus lines business written by Lloyd's syndicates is via coverholders. This distribution channel is also important in Canada, where Lloyd's writes primarily direct business, with reinsurance accounting for a much smaller share. In order to comply with local regulations, all Canadian business is written in Canada.

Lloyd's plans to counter uncertainty associated with Brexit by establishing an insurance subsidiary in Brussels to ensure continued access to EU insurance business. Europe is a region where Lloyd's has identified opportunities for syndicates to increase their share of niche business, particularly small, specialist risks. It remains the market's third-largest segment at 14% of premiums, but the fact that this proportion has fallen by two percentage points over the last five years reflects the competitiveness of the European market, which is already well served by established companies. Lloyd's main focus is on France and Germany in northern Europe and Italy and Spain in southern Europe, although options for direct licences in Turkey continue to be discussed with the Turkish regulator. In order to compete in Europe, Lloyd's syndicates need to focus on niche lines where they can add value compared with the local market.

The distribution of Lloyd's business is dominated by insurance brokers. They play an active part in the placement of risks and in providing access to regional markets, which is especially important as regional insurance centres continue to grow, threatening the flow of business into London. During 2016, 24 new Lloyd's brokers were approved, of whom 8 were from outside the U.K., bringing the total Lloyd's registered brokers at the end of 2016 to 263. However, the largest source of Lloyd's business continues to be the three largest global brokers.

A related area, where Lloyd's has an on-going strategy to facilitate access to the market, is that of coverholders, who write business on behalf of syndicates under the terms of a binding authority. They are important in bringing regional business to Lloyd's and providing the market with access to small and medium-sized risks. In order to facilitate expansion through this distribution channel, audit procedures have been streamlined and reporting standards for premiums and claims have been introduced. Lloyd's has also established minimum standards to address conduct risk, the risk that a managing agent or its agents (including coverholders) will fail to pay due regard to the interests of Lloyd's customers or will fail to treat them fairly at all times. These standards came into effect at the beginning of 2015 and a further standard on the provision of management information came into effect at the beginning of 2016.

In 2016, 352 coverholder applications were approved, with a further 64 approved in the first quarter of 2017. Northern Europe and the United Kingdom continue to be priority markets for regional development through the coverholder model.

Business Environment

General Market Conditions

The underwriting years since the exceptional series of natural catastrophes in 2010 and 2011 are considered relatively benign in terms of catastrophe losses, although there have been substantial losses from headline events such as the grounding of the Costa Concordia, Superstorm Sandy, Malaysia Airlines flights MH370 and MH17 and other significant marine, aviation and weather-related losses, including the two extremes of flooding and devastating wild fires. Yet none of these events has had a material impact on insurers' capital or a lasting positive effect on premium rates. The reinsurance market, in particular, has seen a continual influx of new and alternative capital, such as that provided by pension funds. The increased availability of capital, combined with the overall low level of loss activity, has led to softening rates in many lines of business over the last several years, including in the first half of 2017. As in 2016, there have been no major catastrophes in the first half of 2017 but there have been large loss events, in particular Cyclone Debbie in Australia, together with hailstorms and other severe weather in the United States and windstorms in northern Europe. The absence of large losses in the first half of 2017 is likely to push out further the prospect of rate hardening.

Casualty rates generally continued to be under pressure in 2016 and are likely to remain so throughout 2017. In recent years, insurers have been able to make significant releases from reserves, particularly in relation to the 2002-2006 years, when pricing and terms and conditions were good. At the end of 2016, however, with more recent years requiring some reserve strengthening, the level of releases was not enough to offset the accident year deficit. A.M. Best notes that casualty reserves remain a particular focus for oversight by the Corporation of Lloyd's in 2017, following concerns over the strength of reserves in recent years for certain segments of the class. A.M. Best continues to monitor developments in this area, both generally and especially within lines which are exposed to U.K. bodily injury settlements and therefore affected by the change in the discount rate used to calculate lump sum payments announced in February 2017.

Although opportunities for growth in casualty business have been provided by the general improvement in the U.S. economy and by new developments, such as cyber liability, with surplus capacity remaining and comparatively little support from investment income, continued underwriting discipline is required in 2017 if even marginal profitability in this class of business is to be achieved.

Operational Change at Lloyd's

Lloyd's continues to make good progress in reforming key operational processes. A number of reform projects have been successfully completed but, in line with its Vision 2025 focus on being the global centre for specialist insurance and reinsurance, Lloyd's recognises that much work has still to be done. Following the launch in 2015 of a comprehensive modernisation programme for the London market, the London Market Target Operating Model (TOM), priority projects for 2017 include additional functionality in respect of electronic back office and claim office transactions within the Central Services Refresh Programme, further implementation of e-trading via Placing Platform Limited (PPL) and on-going improvement to Delegated Authority processes.

The Central Services Refresh Programme (CSRP) is a joint market initiative to improve the central services operations, processes and systems as delivered to the broad London market. The aim of CSRP is to remove a large proportion of broker administration specific to the London market. During 2015 and 2016 the project made progress on its post-bind submission model, allowing brokers to adopt global standard processes to remove fifteen London-specific processes and so reduce the cost of processing business through the Lloyd's and London market. In 2017 additional functionality is planned to process claims, facility business, cancellation and replacement of policies and legacy claims, together with a new portal for dealing with queries and corrections.

Placing Platform Limited (PPL) was set up by the International Underwriting Association, the London and International Insurance Brokers' Association and the Lloyd's Market Association to identify possible suppliers of electronic placing platform services. A preferred supplier was appointed during 2015 and services were launched in late 2016, with terrorism as the first line of business to be delivered. In 2017 the plan is to roll out additional classes of business, including property, and to deliver at least three platform enhancement releases.

During 2015 a successful pilot for a one-touch process for transferring binding authority data demonstrated substantial time saving over existing processes. This initiative continued in 2016, along with centralised compliance and trialling straight-through processing of coverholder business. In 2017 there is to be further development of the coverholder audit tool, enabling end to end functionality, and the creation of approved data standards for premiums, claims and risk by class of business to be used consistently across the market.

Regulatory and Accounting Environment

Regulatory oversight of the Society of Lloyd's and its managing agents is currently the responsibility of two separate bodies. The Bank of England, acting through the Prudential Regulation Authority (PRA), oversees the solvency position of all U.K. banks and insurers while the Financial Conduct Authority (FCA) is responsible for consumer protection.

In a paper entitled "The Prudential Regulation Authority's approach to insurance supervision", the PRA has explained that as the prudential supervisor of the Society of Lloyd's and the managing agents that operate within the Lloyd's market, the PRA has regard to two principles: first, that the Lloyd's market should be supervised to the same standards as the insurance market outside of Lloyd's, and second, that supervision of the various entities that make up the Lloyd's market should take place primarily at the level in the market where risk is managed. To achieve this, the PRA applies supervision at two levels – to the Society of Lloyd's itself and to each of the managing agents.

There is a Memorandum of Understanding between the FCA and the PRA which sets out how they co-ordinate in respect of the supervision of the Lloyd's market. In general the FCA and the PRA will consult with the other before using a power of direction over members and, in particular, will obtain consent from the other when exercising powers to require members of Lloyd's to become authorised.

The principal regulatory challenge that Lloyd's, along with other insurers in the EU, has had to face in recent years is the implementation of Solvency II. This new regulatory and capital regime, which, after several delays, came into force on 1 January 2016, is designed to bring a harmonised, principles-based approach to insurance regulation within the EU. It applies to the "association of underwriters known as Lloyd's" as a collective entity. Neither Solvency II nor existing European insurance directives make provision for the authorisation as insurers of Lloyd's members or syndicates on their own behalf.

In view of its position at the centre of the association of underwriters, the Corporation of Lloyd's actively sought to ensure that all syndicates met the Solvency II requirements. This work consumed a significant amount of resources both at the Corporation and at individual managing agents. To reduce the risk that costs would continue to rise when implementation was delayed, Lloyd's strove to adhere to the previous implementation date of 1 January

2013. Consequently, the Lloyd's market was fully prepared for the actual implementation of Solvency II on 1 January 2016. Although Brexit has introduced uncertainty in respect of future regulation of the market, it is likely that the Solvency II form of regulatory and capital regime will continue after the U.K.'s exit from the EU.

Lloyd's own internal capital model (the LIM) was a key element in Lloyd's preparations for Solvency II. The building phase of the model started in the first quarter of 2010 and development was completed on schedule in April 2012. The LIM was immediately put to use to produce management information for Lloyd's Risk Committee and was refined to give enhanced input to the PMD and its strategy. The LIM was submitted to the U.K. regulator for approval as planned in 2012, enabling capital setting to be based on Solvency II principles under the transitional "ICAS+" arrangements.

Following the regulator's review of the LIM, Lloyd's was required to refine the model to meet various issues raised by the PRA. These issues were addressed in 2014 and early 2015 and, after close engagement with the PRA throughout, the model and supporting documentation were ready for a further submission to the PRA in mid-2015. In December 2015, Lloyd's received the PRA's approval of the internal model, although a number of minor refinements to the model were required to be made by November 2016.

Method of Accounting

Although financial information comparable to standard insurance companies has been presented since 2005, when annual accounting was introduced, Lloyd's method of accounting remains complex. The annual report includes pro forma financial statements (the financial results of Lloyd's and its members taken together) and the financial statements of the Society of Lloyd's (the Society). The traditional Lloyd's underwriting year of account information is no longer presented.

The pro forma financial statements (PFFS) include the aggregate accounts, based on the accounts of each Lloyd's syndicate (with the exception of SPAs), members' funds at Lloyd's (FAL) and the Society's financial statements. In order to ensure that the PFFS are presented on the same basis as other insurers, certain adjustments are made to Lloyd's capital and investment return (there is a notional investment return on FAL included in the non-technical account). The sum of the individual audited syndicate accounts is presented in the aggregate statements, the replacement for Lloyd's traditional three-year accounts. The PFFS are compiled, as far as is practicable, in accordance with current U.K. generally accepted accounting principles (U.K. GAAP), which now incorporate Financial Reporting Standards 102 and 103. The Society statements present the central resources of Lloyd's (e.g. the Central Fund). While the PFFS includes Lloyd's central resources, the presentation is in U.K. GAAP as opposed to International Financial Reporting Standards (IFRS), which the Society has adopted for its statements.

With certain exceptions, managing agents are required to prepare underwriting year accounts on a three-year funded basis as well as annual accounts for each syndicate in accordance with U.K. GAAP. The syndicate underwriting year accounts largely resemble Lloyd's traditional three-year accounts, which were used for Lloyd's accounts until 2005. This method of accounting is appropriate for the annual venture structure under which third-party capital providers can join and leave syndicates each year. If all the members agree or if there is no underwriting year being closed, then these accounts are not required. However, as underwriting year accounts are required for members' tax purposes, this is only likely to occur in practice on single-member corporate syndicates.

To bring the tax treatment of Lloyd's corporate members' reserves into line with the treatment for general insurers, a form of claims equalisation reserve (CER) was introduced in 2009. This tax adjustment for Lloyd's members had no impact on reserving for accounting purposes or for capital setting. However, the regulatory requirement that general insurers have to maintain CERs has been removed as a result of the implementation of the Solvency II Directive. With effect from 1 January 2016, the date that the Solvency II capital requirements came into force, built-up CERs held by both general insurers and Lloyd's corporate members are basically being taxed over a six-year period.

Financial Performance

The assessment of Lloyd's operating performance involves analysis of the overall consolidated performance of the market, taking into account the stability, diversity, and sustainability of the market's sources of earnings. The assessment also incorporates analysis of the performance of individual syndicates—including the spread of performance between the strongest and worst performers—with a particular focus on the potential exposure of central capital resources to losses from individual members.

In A.M. Best's view Lloyd's recent operating performance has been good, supported by strong technical performance as demonstrated by an average five-year combined ratio of 90% (2012-2016).

Overall performance in 2017 is expected to be in line with 2016, assuming major loss experience in line with the 10-year historical average, and a continued strong, albeit diminishing, contribution from reserve releases. There were no major catastrophes in the first half of 2017 but there have been large loss events, in particular Cyclone Debbie in Australia, together with hailstorms and other severe weather in the United States and windstorms in northern Europe. A calendar year combined ratio around 98%-100% is forecast (2016: 97%), based on the above assumptions. However, given the nature of the business written by Lloyd's, the final result for 2017 will depend on the frequency and severity of catastrophe losses in the remainder of the year, particularly with regard to the U.S. hurricane season.

Premium rates in most of the lines written by Lloyd's, and for property catastrophe business in particular, have been weak since 2013, due to over-capacity in the market. Despite the weak rating environment, global insurers and reinsurers have generally continued to report strong results, benefiting from benign catastrophe experience.

Prior to 2013, significant rate rises for property business were achieved in the areas of the Asia-Pacific region directly affected by the catastrophe events of 2011 and U.S. property rates hardened in the wake of the losses in 2012 from Superstorm Sandy and other U.S. weather events. But a strong, broad-based hard market is unlikely to materialise unless there is a significant reduction in capacity. This is not expected in the short term, as current economic conditions and a lack of alternative investment opportunities mean that capital continues to be attracted to the insurance industry.

Surplus capacity continues to put downward pressure on pricing and profit margins in the casualty sector as well. At the same time, relatively weak economic conditions and the potential for increases in inflation could lead to higher casualty claims costs.

Prior-year reserve movements are likely to continue to make a positive contribution to the market's earnings in 2017 and beyond. However, while releases may continue to be substantial for a few more years, releases at the level seen in the recent past are not considered sustainable in the long term. Recent years' material reserve releases have reflected both the release of reserve margins and better than expected experience due in part to lower than anticipated claims inflation. A.M. Best believes that many syndicates have continued to build in margin in their accident-year reserving for the more recent years, which should support future releases. However, the run of years with better than expected experience is less likely to continue. As a result, long term sustainable redundancies are expected at a much lower level than in the recent past.

Investment income is likely to be modest for the market overall in 2017, reflecting the prevailing low interest rate environment. Earnings from syndicates' premium trust funds, which make the largest contribution to Lloyd's overall investment income, are likely to be similar to recent years. However, the potential for substantial investment losses is moderated by the conservative investment strategy pursued by the majority of syndicates. Central Fund assets are invested mainly in high-quality, fixed-interest securities, but riskier assets are held that are likely to contribute a more volatile element to the investment return.

Performance in 2016

The Lloyd's market recorded a pre-tax profit of GBP 2,107 million in 2016 (2015: GBP 2,122 million). The result was in line with the previous year's overall result, however, the composition of profits was very different in each of the two years. In 2016, a deterioration in the underwriting was offset by an improvement in the investment return and foreign exchange gains (see **Exhibit 4**).

Technical performance deteriorated in 2016 primarily due to an increase in major losses. Major losses amounted to GBP 2,052 million net of reinsurance and inwards and outwards reinstatement premiums. Major losses as a percentage of net earned premiums (NEP) was 9%, which was in line with the 10-year average for the market. Contributing to this total were losses from Hurricane Matthew, wildfires in Fort McMurray, Canada, the Kaikoura earthquake in New Zealand, damage to the Kwame Nkrumah facility in the Jubilee oil fields off Ghana and the explosion of SpaceX's Falcon 9 rocket.

Exhibit 4
Summary of Results (2012-2016)
From pro forma financial statements
(GBP Millions)

	2012	2013	2014	2015	2016
Gross Written Premium	25,173	25,615	25,259	26,690	29,862
Net Written Premium	19,435	20,231	20,006	21,023	23,066
Net Earned Premium	18,685	19,725	19,499	20,565	22,660
Net Incurred Claims	10,098	9,581	9,590	10,262	12,987
Net Operating Expenses	6,843	7,317	7,656	8,256	9,205
Underwriting Result	**1,744**	**2,827**	**2,253**	**2,047**	**468**
Other Income/(Expenses)	-284	-461	-275	-327	294
Investment Return	1,311	839	1,038	402	1,345
Profit on Ordinary Activities	**2,771**	**3,205**	**3,016**	**2,122**	**2,107**
Loss Ratio	54%	49%	49%	50%	57%
Expense Ratio	35%	36%	38%	39%	40%
A.M. Best Combined Ratio	89%	85%	87%	89%	97%
Investment Income Ratio	7%	4%	5%	2%	6%
Operating Ratio	82%	80%	82%	87%	91%

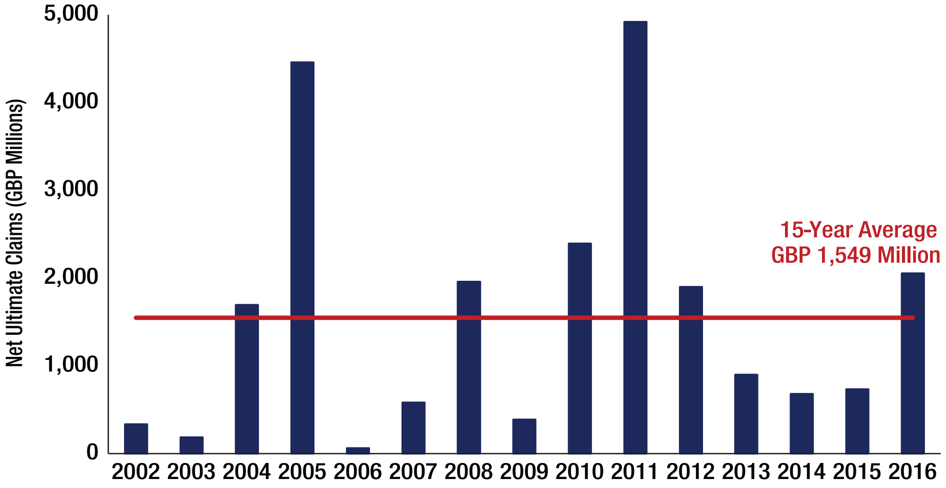
Source: Lloyd's Annual Report, A.M. Best Co.

By contrast, major losses in 2015 amounted to only GBP 724 million, equivalent to 3.5% of NEP. Large losses for the year were primarily man-made risk losses and included claims from the explosion at China's Tianjin Port and at Pemex's Abkatun A-Permanente oil platform in the Gulf of Mexico, as well as several large aviation losses, including the Germanwings loss.

Large losses in 2014 included Hurricane Odile in Mexico, weather-related losses in the United States and Japan, and substantial aviation losses following the loss of two Malaysia Airlines aircraft and several aircraft through fighting at Tripoli Airport (Libya).

Prior to 2010, given the nature of the business written by Lloyd's and a geographical bias toward the United States, a low level of hurricane losses meant that the Lloyd's market produced very strong results, as happened in 2007 and 2009. However, both 2010 and 2011 highlighted the market's exposure to catastrophes of a different nature, and results were materially affected by losses from floods in Australia, earthquakes in Japan and New Zealand, tornadoes and Hurricane Irene in the United States and flooding in Thailand. These losses added 26 percentage points to the market's 2011 combined ratio. In 2013-2015, major losses added between 3 and 4 percentage points to the market's combined ratio. **Exhibit 5** shows major losses in 2002-2016 indexed for inflation to 2016.

Exhibit 5
Lloyd's Major Claims (2002-2016)



Source: Lloyd's Annual Report 2016
Note: Indexed for inflation to 2016.
Claims in foreign currency translated at the exchange rates prevailing at the date of loss.

For the 12th successive year, the underwriting result in 2016 benefited from an overall release from prior-year reserves. The release of GBP 1,150 million (2015: GBP 1,621 million) reduced the year's combined ratio by 5.1 percentage points, down from 7.9 percentage points in 2015. All classes apart from motor developed favourably in 2016.

Lloyd's operating expense ratio (expressed as a percentage of net written premiums) in 2016 was 40%. The market's expense ratio was 35% in 2012 and has risen steadily over the last five years. The most significant component of operating expenses is acquisition costs, the compound annual average 5-year growth rate of which is 6.4% compared to 4.5% for net written premiums. The acquisition ratio is affected by business mix, with the reduction in contribution of reinsurance business to total premiums having an adverse effect on the ratio. The other main element is administrative or management expenses, the compound annual average growth rate of which was 10.9% between 2012 and 2016. Costs associated with Solvency II have contributed to this rise.

The market's overall investment return improved to 2.2% (2015: 0.7%), equivalent to GBP 1,345 million. The return of 0.7% in 2015 was the lowest recorded by Lloyd's since annual accounting was introduced in 2001.

Investment income from syndicates' premium trust funds, which form the largest part of invested assets, improved to GBP 810 million in 2016 (2015: GBP 273 million), equating to an investment return of 2.0%. Although some syndicates invest a proportion of their premium trust funds in higher risk assets such as equities and hedge funds, most syndicate portfolios comprise short-dated, high quality, fixed-income securities. Fixed-income securities, equities and alternative assets all contributed to the improved result in 2016.

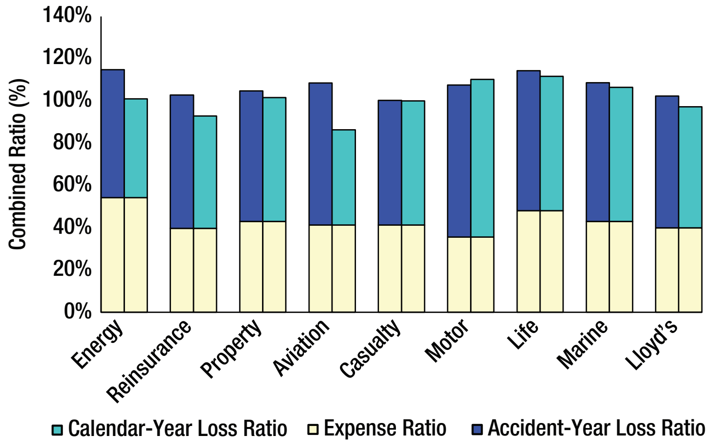
The return on central assets in 2016 was higher than that on premium trust funds at 5.6% (2015: 1.5%). Central assets are actively managed by Lloyd's, which pursues a higher risk investment strategy than that generally taken by syndicates investing their premium trust funds, reflecting the longer investment time horizon for these assets. The notional return on members' FAL improved to 1.8% from 0.5% in 2015. This figure is based on the performance of the types of assets held as FAL.

Exhibit 6 shows the class of business breakdown for Lloyd's performance based on the aggregate accounts. The three ratios shown for each class are the accident-year loss ratio, the calendar-year loss ratio, which is the accident-year loss ratio adjusted for prior-year reserve movements, and the expense ratio. Note that the expense ratio uses net written premiums as the denominator. The expense ratio is added to each of the loss ratios to give the accident-year combined ratio and the calendar-year combined ratio.

As the chart shows all business classes reported accident-year combined ratios above 100% in 2016. Prior-year reserve development reduced the combined ratio for all business classes except for motor. However, only two classes, reinsurance and aviation, reported calendar-year combined ratios below 100% (when the expense ratio is calculated using net written premiums as the denominator). The underwriting profits in these two classes were sufficient to offset the losses in the other classes and drive the overall Lloyd's market to a technical profit.

Exhibit 6

Combined Ratios by Business Class (2016)



Source: Lloyd's

Lloyd's reinsurance class comprises property (with property catastrophe excess of loss the largest segment), casualty (primarily non-marine excess of loss and U.S. workers compensation) and specialty reinsurance (marine, energy and aviation reinsurance). All three segments reported accident-year combined ratios above 100%, but calendar-year combined ratios below 100%. The property reinsurance segment was affected by the year's catastrophe events, in particular Hurricane Matthew and the wildfires in Fort McMurray, Canada, as well as a number of smaller catastrophe and risk losses, which contributed to the accident-year combined ratio above 100%. By contrast, 2015 was a benign catastrophe-loss year.

The property sector, like the reinsurance sector, was affected by the catastrophe events of 2016 which, together with an increase in attritional losses, contributed to an accident-year combined ratio above 100%. Prior years' reserves continued to develop favourably, lowering the ratio by 3.5 percentage points on a calendar-year basis.

Surplus capacity was again evident in most casualty lines in 2016, keeping rates under pressure and profitability marginal. The accident-year combined ratio remained just above 100% in 2016. Prior-year releases had a small positive impact on the combined ratio leading to a calendar-year combined ratio of 100%.

The marine segment once again reported an accident-year combined ratio above 100%, and, unlike in 2015, also reported an underwriting loss on a calendar-year basis, due to a smaller than usual reserve release. The class continues to be highly competitive, resulting in pressure on both pricing and terms and conditions. The loss of the AMOS-6 satellite due to the explosion of SpaceX's Falcon 9 rocket was a sizable loss for the marine class in 2016.

Competition remained intense in the energy market in 2016 as the over-supply of capacity was exacerbated by a further drop in demand due to low commodity prices. Reserve releases reduced the calendar-year combined ratio by 13.8 percentage points, down from 21.3 percentage points in 2015.

For the third year running, Lloyd's aviation business reported underwriting losses on an accident-year basis, but profits on a calendar-year basis due to reserve releases. The year was affected by fewer large loss events than was the case in both 2015 and 2014. Significant airline claims in the year included LaMia Flight 2933 which crashed in Colombia and the loss of Pakistan International Airlines 661, which crashed in December. In 2015, losses included the Germanwings loss in March. In 2014, losses included the disappearance of Malaysia Airlines flight MH370 and crashes involving Air Algerie, AirAsia and TransAsia, while the aviation war account was affected by the loss of Malaysia Airlines flight MH17 over Ukraine and multiple aircraft damaged or destroyed by fighting at Tripoli airport, Libya. Space losses also occurred in both 2015 (the Proton launch failure in May) and 2014 (including an Antares 130 rocket, the ABS-2 and Amazonas 4A satellites, and the Express AM4R spacecraft).

For the eighth year in succession, the motor class of business reported a loss in 2016, on both an accident and calendar-year basis, with prior-year reserve strengthening pushing the calendar-year combined ratio above the accident-year result. In 2015, prior year releases improving the ratio by 7.5 percentage points, compared to just 0.5 percentage points in 2014.

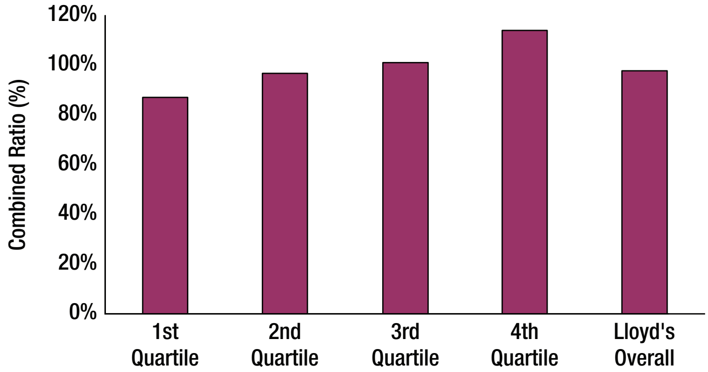
The overall performance of the Lloyd's market represents the aggregate performance of its separate trading businesses. It therefore includes outstanding performance from Lloyd's better businesses, offset by weaker results at the other end of the scale. To this extent, Lloyd's performance is not directly comparable to that of other insurers, because it has not been actively managed centrally as the performance of an insurance company. The Performance Management Directorate has a defined role in agreeing business plans and monitoring performance through a variety of monthly, quarterly and annual reports and returns, but Lloyd's continues to be a market of competing businesses, each with its own separate decision-making processes. **Exhibit 7** shows the quartile split of the Lloyd's combined ratio based upon cumulative net earned premium. In 2016, the strongest performing quartile produced an average combined ratio of 87%, as compared with 114% produced by the weakest performing quartile. This spread in syndicates' performance reflects factors such as relative exposure to U.S. or non-U.S. risks, reinsurance protection available and differing levels of prior-year reserve releases.

Open Year Performance

Under Lloyd's three-year accounting policy, the 2014 year of account closed at the end of 2016 with a strong profit of GBP 2,856 million (2013: GBP 2,285 million). The year of account was affected by large aviation losses, but overall major claims were below the long-term average.

The 2014 year of account result was supported by favourable development of the reserves for the years 2013 and prior of GBP 1,031 million. Lloyd's estimate for the 2015 year of account, based on the amalgamation of individual syndicate forecasts from managing agents, is a profit of GBP 1,100 million. At the 15-month stage, the forecast for the 2016 year of account was a profit of GBP 117 million. Both these forecasts are in respect of years with some significant losses but no major catastrophe events and are likely to be boosted by reserve releases from prior years.

Exhibit 7
Combined Ratios by Quartile (2016)



Source: Lloyd's
Note: Combined ratios are stated prior to elimination of transactions between syndicates and the Society.

Exhibit 8 shows the development in Lloyd's loss ratios (including paid and outstanding claims net of brokerage) for recent years of account until their closure under Lloyd's three- year accounting policy.

Exhibit 8
Global Net Incurred Loss Ratios (2007-2016)

Quarter	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
1	1.1%	0.0%	0.8%	0.7%	1.1%	0.5%	0.6%	0.4%	0.4%	0.4%
2	3.4%	2.2%	3.2%	3.8%	4.8%	2.2%	2.2%	2.5%	2.2%	3.0%
3	8.1%	8.1%	7.8%	9.7%	11.8%	6.3%	7.8%	6.6%	6.8%	7.1%
4	15.4%	21.9%	15.6%	18.5%	23.3%	15.1%	15.5%	14.5%	13.1%	14.9%
5	24.0%	32.3%	23.8%	29.0%	34.3%	24.3%	23.2%	21.5%	20.5%	
6	32.4%	40.7%	34.5%	43.9%	43.4%	31.9%	30.5%	29.6%	29.0%	
7	39.3%	48.1%	41.2%	54.5%	49.5%	39.2%	38.0%	36.2%	37.0%	
8	47.8%	53.8%	45.9%	61.4%	54.9%	43.9%	42.6%	41.3%	43.4%	
9	51.7%	58.0%	48.6%	65.2%	58.4%	46.9%	45.9%	44.7%		
10	54.0%	61.0%	50.8%	67.4%	60.6%	49.4%	48.6%	47.9%		
11	56.4%	63.3%	52.2%	69.3%	62.2%	51.4%	50.4%	50.2%		
12	58.3%	66.0%	53.1%	70.5%	62.7%	52.3%	52.0%	52.6%		

Note: Denominator is estimated 12th quarter net premium (net of brokerage).
Net incurred loss ratios exclude IBNR provisions.
Source: Lloyd's

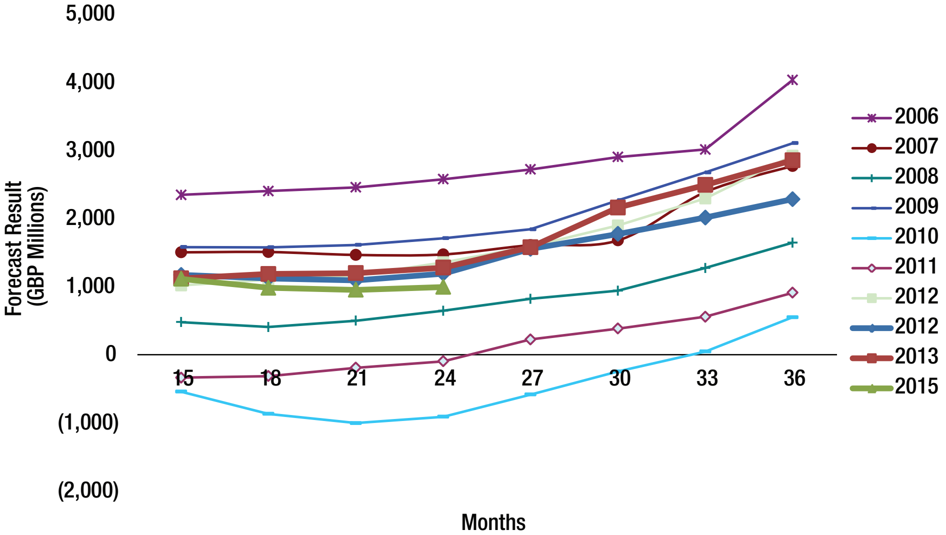
Lloyd's Forecasts

Exhibit 9 shows the progression in Lloyd's forecasts on a three-year basis, together with the ultimate result achieved after 36 months. The chart shows that for closed years, managing agents underestimated the profit finally achieved, generally as a result of favourable reserve development on earlier years.

Society of Lloyd's

The Society of Lloyd's produces consolidated accounts in respect of Lloyd's activities aside from the underwriting market's activities covered by the aggregate accounts. The purpose of the Society is to facilitate the underwriting of insurance business by Lloyd's members, to protect members' interests in this context and to maintain Lloyd's Central Fund.

Exhibit 9
Global forecasts (2006-2015)



Source: Lloyd's
Note: Forecasts are in respect of pure year performance except for certain syndicates that have included prior year forecasts in the Syndicate Quarterly Returns.

Although the Society is a non-profit organisation, it produced a surplus after tax in 2016 of GBP 330 million (2015: GBP 74 million), the eleventh successive surplus to be reported. The improvement in surplus from 2015 was driven by higher finance income from investments boosted by exchange rate movements, which improved to GBP 314 million in 2016 from GBP 43 million in 2015.

The Society's operating surplus also improved to GBP 137 million in 2016 from GBP 91 million in 2015. Contributing to the operating surplus are income and expenses for the Corporation of Lloyd's and for the Lloyd's Central Fund.

The Central Fund income increased to GBP 120 million from GBP 112 million, driven by annual contributions. The Central Fund contribution rate was changed in 2016 from 0.5% of stamp premium (i.e. gross premiums net of acquisition costs) to 0.35% of gross written premiums.

Capitalisation

A.M. Best believes that Lloyd's maintains a strong level of risk-adjusted capitalisation and that there is sufficient tolerance for the market to withstand a significant stress scenario without threatening its solvency. This assessment takes into account capital resources available at member level and centrally, the fungibility constraints on member-level capital, and the likelihood and potential impact of future drawdowns on central assets by Lloyd's members.

Lloyd's has a robust risk-based process in place for determining its capital needs both at member level and centrally. Member-level capital is determined using syndicates' Solvency Capital Requirements (SCRs) calibrated to correspond to a 99.5% value at risk (VaR) confidence level, provided on a one-year-to-ultimate basis.

Managing agents are required to calculate syndicate SCRs using an internal capital model. The market's overall economic capital is determined using Lloyd's stochastic internal capital model (LIM). The model captures Lloyd's unique capital structure, recognising that parts of the capital structure, including funds at Lloyd's, are not fungible between members. It is widely used within Lloyd's and has, in A.M. Best's opinion, enhanced the Corporation's understanding of the likelihood and potential magnitude of claims being made upon central assets following the erosion of individual members' FAL at all return periods or by existing insolvent members.

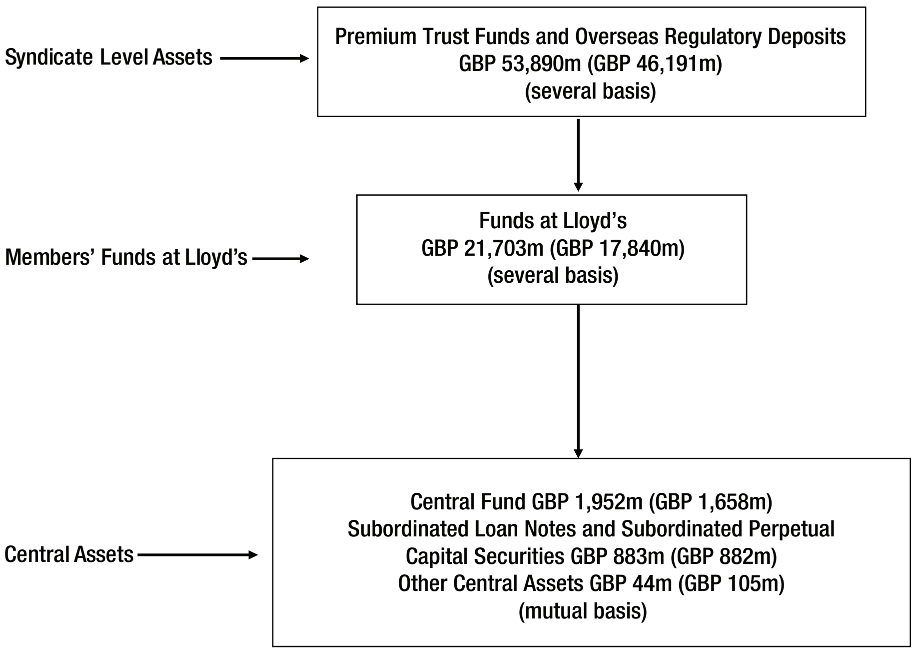
Lloyd's good financial flexibility is enhanced by the diversity of capital providers, which include corporate and individual investors. Traditional Lloyd's businesses remain committed to the market. In addition, Lloyd's continues to attract new investors, drawn by its capital efficient structure and global licences.

Most members underwrite with limited liability; however, if substantial underwriting losses are made, those members that wish to continue to underwrite new business at Lloyd's will have to provide additional funds to support any outstanding underwriting obligations. This requirement in effect provides the market with access to funds beyond those reflected in its capital structure.

Overall Capitalisation

Any assessment of Lloyd's capital strength is complicated by the compartmentalisation of capital at member level (see **Exhibit 10**). The first two links in the "Chain of Security" (the Premium Trust Funds and Funds at Lloyd's) are on a several rather than joint basis, meaning that any member need meet only its share of claims. However, the third and final link in the chain, Lloyd's central assets, is available, at the discretion of the Council of Lloyd's, to meet liabilities to policyholders that any member is unable to meet in full. This third link comprises the Central Fund and other central assets, strengthened by subordinated debt. These central assets can be supplemented by funds called from members of up to 3% of their overall premium limits. It is the existence of this partially mutualising third link, and the liquid Central Fund in particular, that is the basis for a market-level rating.

Exhibit 10
Chain of Security



Source: Lloyd's Annual Report 2016
Note: Figures are shown as at 31 December 2016 (31 December 2015).

In 2016, the level of central assets available to meet members' unpaid cash calls increased to GBP 2,879 million (excluding the subordinated debt liability and the callable layer) from GBP 2,645 million. Growth in Central Fund assets accounted for the increase, slightly offset by a decrease in other central assets. Subordinated debt and capital securities remained stable.

Member contributions to the Central Fund were GBP 120 million (2015: GBP 112 million). The Central Fund contribution rate was changed from 0.5% of stamp premium (i.e. gross premiums net of acquisition costs) to 0.35% of gross written premiums with effect from the 2016 year of account.

The potential impact of future drawdowns on the Central Fund from existing insolvent members continues to diminish as run-off liabilities decline. As at year-end 2016, the aggregate gross reserves on run-off years of account were GBP 0.3 billion, in line with 2015 but down from GBP 7.0 billion as at year-end 2005, when 102 years of account were open beyond 36 months. As at year-end 2016, six years of account were open beyond 36 months, up from four in 2015. One of the four years of account in run-off at year-end 2015 closed in 2016, and three syndicates were not able to close their 2014 year of account.

A.M. Best believes increased oversight of syndicates by Lloyd's, supported by the Performance Management Directorate (PMD), has reduced the likelihood of future insolvencies. The PMD monitors performance across the market and ensures adherence to minimum standards. In addition, the Directorate challenges and approves the syndicate business plans upon which member capital requirements are based.

In addition to the Central Fund and net assets of the Corporation, mutualised resources also exist in the form of the subordinated debt issued by The Society of Lloyd's. At year-end 2016, the Society had outstanding GBP 500 million subordinated notes issued in 2014 and maturing on 30 October 2024 and bearing an interest rate of 4.75% per annum. Also outstanding at year-end 2016 were GBP 392 million of subordinated perpetual capital securities, redeemable in 2017. In January 2017, The Society issued GBP 300 million of subordinated notes. The notes pay a fixed coupon of 4.875% annually in arrears through to their first call date in 2027, and thereafter of three months Libor plus 4.479% payable quarterly in arrears. The notes mature in 2047. The Society subsequently repaid its subordinated perpetual capital securities at their first call date in 2017.

Central assets can be supplemented by funds called from members of up to 3% of their overall premium limits. As at year-end 2016, this callable layer of capital amounted to GBP 903 million, based on 2016 approved premium limits.

The Corporation of Lloyd's is also responsible for setting capital at member level, using a risk-based process. In 2016, members' funds at Lloyd's (FAL) increased to GBP 21,703 million from GBP 17,840 million. Required member-level capital is determined using syndicates' SCRs.

For Solvency II purposes, SCRs are calibrated to correspond to a 99.5% value at risk (VaR) confidence level over a one-year period. However, Lloyd's requires managing agents to produce a one-year-to-ultimate number for syndicates at the same 99.5% VaR confidence level. Lloyd's refers to this number, which is used for the purpose of calculating required member-level capital, as an "ultimate SCR".

Historically, Lloyd's applied a 35% economic uplift to each member's Individual Capital Assessment (ICA), based on its own assessment of its capital needs, taking into account other business objectives, including maintenance of its brand, commercial position and financial strength rating. For 2015, the uplift percentage was 35% of the ultimate SCR, as that was determined to be the closest proxy to the previous uplift methodology applied to ICAs. The uplift has remained at 35% since.

Lloyd's Internal Capital Model

The Lloyd's Internal Model (LIM) was developed as part of the Corporation's preparation for the introduction of the Solvency II regulatory regime. An internal model has been in use since 2012, although the currently used model has undergone radical changes since. In A.M. Best's opinion, Lloyd's ability to assess its capital adequacy has been strongly improved by the modelling work undertaken for Solvency II. A.M. Best expects Lloyd's to continue to develop the model with major model changes regularly requiring PRA approval.

The LIM captures Lloyd's unique capital structure and takes into account the fact that funds at Lloyd's and members' balances are member specific, whereas central assets, subject to Lloyd's approval, are available to meet any member's insurance liabilities. If a severe market loss led to the exhaustion of the FAL of some members, central assets would be exposed to any further losses faced by these members. The model captures this mutualised exposure, so that, at different return periods, consumption of both member level capital and central capital is demonstrated.

As agreed with the U.K. regulator, Lloyd's calculates two separate SCRs and two separate SCR coverage ratios: a market wide SCR and a central SCR. The market wide SCR calculates the total capital consumed at a 99.5% VaR confidence level over a one-year period for the Lloyd's market as a whole (including consumption of both member level and central assets).

In addition, a central SCR is calculated at a 99.5% VaR confidence level over a one-year period in respect of risks facing the Society and its Central Fund. It captures exposure to losses that would not affect the majority of syndicates (and so would not erode capital at overall member level) but would have an impact on central assets. Calculating a central SCR addresses the fact that a 1-in-200 year loss to central assets could be bigger than the loss of central assets in a 1-in-200 year market loss event. By calculating both figures, Lloyd's has a better view of the likelihood that central and market level assets are sufficient.

The two SCRs and coverage ratios were published for the first time in 2017, showing the positions at year-end 2016 as per **Exhibit 11**. The market wide SCR (MWSCR) coverage ratio stood at 144% at year-end 2016, while the central SCR (CSCR) coverage ratio was 215%. Lloyd's risk appetite for MWSCR coverage is a minimum of 125% and the CSCR coverage is a minimum of 200%.

Exhibit 11
Lloyd's SII Ratios (2015-2016)
(GBP Millions)

	Dec 2015	Dec 2016
Market wide solvency		
Lloyd's MWSCR	14,150	17,200
Eligible capital	20,662	24,764
Market wide solvency ratio	146%	144%
Central solvency		
Central SCR	1,450	1,600
Eligible capital	3,162	3,433
Central Solvency ratio	218%	215%

Source: Lloyd's Solvency and Financial Condition Report 2016

Letters of Credit

A significant proportion of FAL, which had been stable at around 50% in recent years but fell to 44% in 2016, is accounted for by letters of credit (LOCs). Lloyd's has a robust control framework in place to monitor the counterparty risk of LOCs, and all issuers are rated A or above. The 10 largest issuers accounted for just below 90% of LOCs at the end of 2016.

Under Solvency II, Lloyd's has approval from the PRA for its use of existing LOCs in the form that they are provided as FAL as Tier 2 capital. However, any new LOCs provided as FAL would have to be separately approved. Under Solvency II at least 50% of the SCR must be met by Tier 1 capital. In addition to calculating capital consumed at member level and centrally, the LIM also tests whether this condition is met at different return periods.

Lloyd's can at all times call on the provided LOC and so turn Tier 2 capital into Tier 1 capital. Although the conversion of LOCs to cash would immediately increase the market's Tier 1 capital, it would leave the affected members with short-term bank debt to refinance. In case of stress, Lloyd's is likely to ration the use of LOCs, so that members that provide a significant part of their FAL through LOCs will first be asked to reduce their LOCs and put up Tier 1 capital instead.

Catastrophe Exposure

The catastrophe modelling work carried out centrally by Lloyd's continues to enhance its ability to assess the market's exposure to large losses and hence increase confidence in overall risk-based capital strength. In particular, the Lloyd's Catastrophe Model (LCM) allows Lloyd's to better monitor and assess market-level catastrophe risk on a probabilistic basis. The model is continuously refined as required and forms an integral part of the LIM. The inclusion in 2015 of rest of world exposure (in addition to five peak perils) and an uplift for non-modelled risks led to a marked increase in required capital to support catastrophe risk as measured by the LCM.

The LCM provides Lloyd's with a way of assessing catastrophe risk across return periods and, in A.M. Best's opinion, has improved its ability to monitor the market's aggregate catastrophe exposure against a defined risk appetite. The model, which uses syndicate catastrophe model output, is also used to inform the member capital-setting process. Due to the nature of business written, Lloyd's has significant exposure to catastrophe losses, making this aspect of capital management very important.

Lloyd's Realistic Disaster Scenarios (RDSs) continue to play a critical role in exposure management at Lloyd's, both as benchmark stress tests validating LCM output and as a source of data. The scenarios are defined in detail annually by Lloyd's and are used to evaluate aggregate market exposures as well as the exposure of each syndicate to certain major events. Syndicate-level scenarios are prepared by each managing agent, reflecting the particular characteristics of the business each syndicate writes.

In addition, Lloyd's asks for syndicates' aggregate exceedance probability (AEP) loss at a 30-year return period for various regional perils. As the Lloyd's RDSs represent different return periods for different syndicates, collecting this additional data helps to ensure a uniform treatment of syndicates' exposure to large losses.

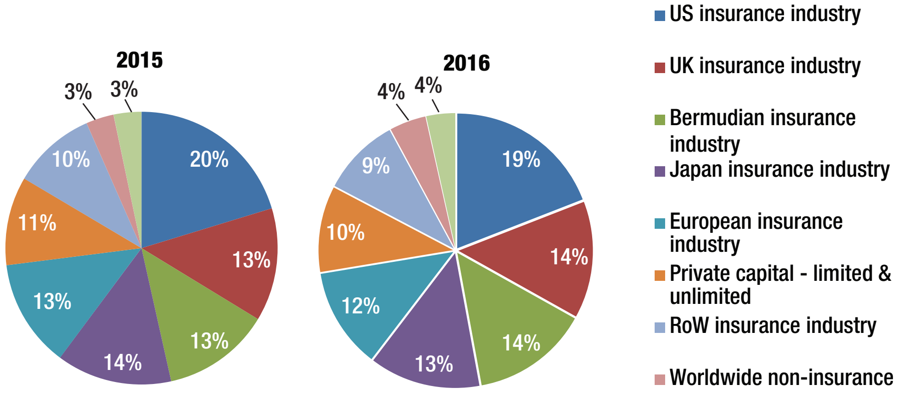
Financial Flexibility

The capital to support underwriting at Lloyd's is supplied by members on an annual basis, and an important factor in A.M. Best's analysis of the market is its ability to retain and attract the capital required for continued trading. The quality of the insurance industry members of Lloyd's remains a source of strength for the market. Lloyd's capital-efficient structure and global licences continue to attract international investment, particularly from other insurers, and the diversity of capital providers enhances its financial flexibility.

The composition of Lloyd's capital in 2015 and 2016 is shown in **Exhibit 12**. For 2016, the U.S. insurance industry remained the largest investor group, representing 19% of the market's overall capital. Joint second in 2016 was the U.K. insurance industry and the Bermudian insurance industry at 14% each. The Japanese insurance industry accounted for 13% and the European insurance industry for 12%. Individual members (Names underwriting with either limited or unlimited liability) continued to make a significant contribution at 10% of capital. Only small movements between the different capital providers were observed between 2015 and 2016. A key driver for historical changes in the composition of capital providers is merger and acquisition activity.

Most members underwrite with limited liability and are under no obligation to provide additional funds once their FAL are exhausted. However, members that wish to continue to underwrite new business at Lloyd's will only be allowed to do so if they provide additional funds as required to support their outstanding underwriting obligations.

Exhibit 12
Composition of Capital



Source: Lloyd's Annual Report 2015 and 2016
Note: Capital providers shown as a percentage of overall capacity.

The market continues to attract new capital, although the number of approved new entrants has reduced as market conditions have deteriorated. Lloyd's has a rigorous process in place to assess and monitor new entrants, which in A.M. Best's opinion is likely to protect overall market performance and ultimately central capital. All new entrant applications must be approved by the Franchise Board. Key issues that are taken into account include the applicant's preparedness for Solvency II, its ability to execute its business plan in current market conditions and having a business plan that is complementary to Lloyd's existing business.

New corporate members participating on new syndicates are required to contribute to the Central Fund at a higher rate for their first three years of operations at Lloyd's (1.4% of gross written premiums rather than 0.35%). The capital requirement for new syndicates is also higher. Initial capital requirements are set using Lloyd's internal capital model, which includes a 20% new syndicate loading.

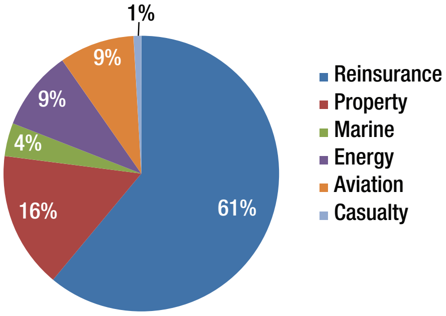
Reserve Quality

Lloyd's underwriting performance was supported by reserve releases for the twelfth successive year in 2016, although to a lesser extent than has been the case in the recent past. Positive development of prior-year claims is expected to contribute to the result again in 2017, with releases increasingly dependent on surpluses from more recent years. In A.M. Best's opinion, reserving in the Lloyd's market tends to be prudent, with a number of market participants incorporating an explicit margin in reserves above actuarial best estimates. Robust oversight of reserves is provided by the Corporation of Lloyd's.

For a number of years, the release from reserves set up for reinsurance business has made the largest contribution to the overall surplus and in 2016 this line represented over 60% of the total (see **Exhibit 13**). The contribution of reinsurance business to the overall release is much larger than the line's contribution to total net earned premiums (NEP). In contrast, the contribution of casualty business has been small and significantly below the line's contribution to NEP since 2010.

In 2016, Lloyd's technical results benefited from a GBP 1,150 million prior-year reserve release, which improved the calendar-year combined ratio by 5.1 percentage points. This compared with GBP 1,621 million and 7.9 percentage points in 2015 and represented 3.9% of net claims

Exhibit 13
Composition of Reverse Release



Source: Lloyd's
Note: Excludes life business. Motor has also been excluded as reserves were strengthened in 2016.

reserves brought forward at 1 January 2016 (2015: 5.5%). Reserve redundancies reduced the combined ratios for all the main classes of business, apart from motor.

Positive prior-year development lowered the overall reinsurance sector's combined ratio by 10 percentage points, with the property, casualty and specialty subsectors all reporting releases. Reserves for large property reinsurance claims held stable in 2016, and catastrophe reserve loads were released. Likewise major claims reserve loadings were released in 2016. Prior year reserve releases for casualty reinsurance were also positive, despite including reserves that would have been affected by the Ogden discount rate change announced early in 2017.

In spite of weakening terms and conditions, rising exposures and legal challenges, the aviation sector continues to report large reserve releases. In 2016, positive prior-year development reduced the sector's combined ratio by 22.2 percentage points (2015: 17.3 points).

For the energy class, prior-year releases improved the sector's combined ratio by 13.8 percentage points (2015: 21.3 percentage points). This class has made large reserve releases since 2010, with smaller releases reported in 2009 and 2008.

Reserve releases from casualty business improved the sector's combined ratio by just 0.2 percentage points, compared to 4.4 percentage points in 2015, 1.9 percentage points in 2014 and 2.4 percentage points in 2013. Lloyd's has expressed concern about reserve strength in the more recent years for casualty and has commented that the reduction in release is considered appropriate given the need to ensure that reserving reflects the current challenging market conditions. A.M. Best will continue to closely monitor the development of reserving in this area.

For the marine class, the positive impact of prior-year movements on the combined ratio also reduced to 2.2 percentage points from 11.2 percentage points in 2015, reflecting less favourable claims experience than in the prior year.

The motor class saw a return to negative reserve movements in 2016, with reserve strengthening increasing the combined ratio by 2.6 percentage points. The strengthening followed the change in the Ogden discount rate in February 2017, which will increase the expected value of bodily injury motor claims. This follows a good reserve release in 2015, which reduced the combined ratio by 7.5 percentage points, and a small release in 2014. Reserve movements for this class have been volatile. In 2013, prior years added 4.2 percentage points to the motor combined ratio, while reserves were relatively stable in 2011 and 2012. In 2010, prior year movements increased the sector's combined ratio by 36.7 percentage points, due to claims inflation in relation to the frequency and severity of personal injury awards and increasing credit hire costs. Considerable uncertainty remains regarding future claims inflation for this line.

Syndicates in run-off have historically been the principal source of reserve deterioration for Lloyd's. However, Lloyd's exposure to the liabilities of existing insolvent members has significantly reduced, principally due to better management of run-off years. In 2010, an ongoing focus on promoting efficiency and finding a means to close syndicates (largely through third-party reinsurance to close) supported a fall in the number of syndicate years of account in run-off to 10 from 22 in the previous year. Further small reductions have been made in recent years. In 2016, the number of open years increased to six years of account open beyond 36 months (2015: four years of account open). One of the four years open beyond 36 months at year-end 2015 closed during 2016, however, three additional years failed to close at year-end 2016, leading to a total of six open years.

Run-off years generated a GBP 36 million underwriting loss in 2016, compared to underwriting profits of GBP 7 million and GBP 16 million in 2015 and 2014 respectively. In 2013, run-off years achieved a breakeven result, following losses of GBP 31 million in 2012 and GBP 90 million in 2011. Between 2008 and 2010 this business generated underwriting profits. The continued closure of run-off years means the scale of the associated reserves is now small.

1992 and Prior Reserving: Equitas

Lloyd's exposure to uncertainty arising from adverse development of the 1992 and prior years' reserves was further reduced by 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 Ltd., a new company in the Equitas group.

This transfer was the final phase of a two-phase process, and with its completion policyholders benefit from a total of USD 7 billion of reinsurance cover from National Indemnity Co. (NIC), a subsidiary of Berkshire Hathaway Inc., over and above Equitas' 31 March 2006 carried reserves of USD 8.7 billion. The transfer has provided finality in respect of Lloyd's members and former members for their 1992 and prior years' non-life liabilities under English law and the law of every other state within the European Economic Area. However, there continues to be uncertainty as to the recognition of the transfer in overseas jurisdictions, including the United States.

Liquidity

In A.M. Best's opinion, Lloyd's maintains good overall liquidity. Managing agents are responsible for the investment of syndicate premium trust funds, although Lloyd's monitors liquidity levels at individual syndicates as part of its capital adequacy review. Overall, these funds exhibit a high level of liquidity, as most syndicate investment portfolios tend to consist primarily of cash and high-quality, fixed-income securities of relatively short duration.

Lloyd's also monitors projected liquidity for its central assets, which are tailored to meet the disbursement requirements of the Central Fund and the Corporation of Lloyd's (including its debt obligations).

Members' FAL are provided either by letters of credit (LOCs) (44% in 2016) or readily realisable assets held in trust. LOCs remain widely available, and members are generally able to renew LOCs where required.

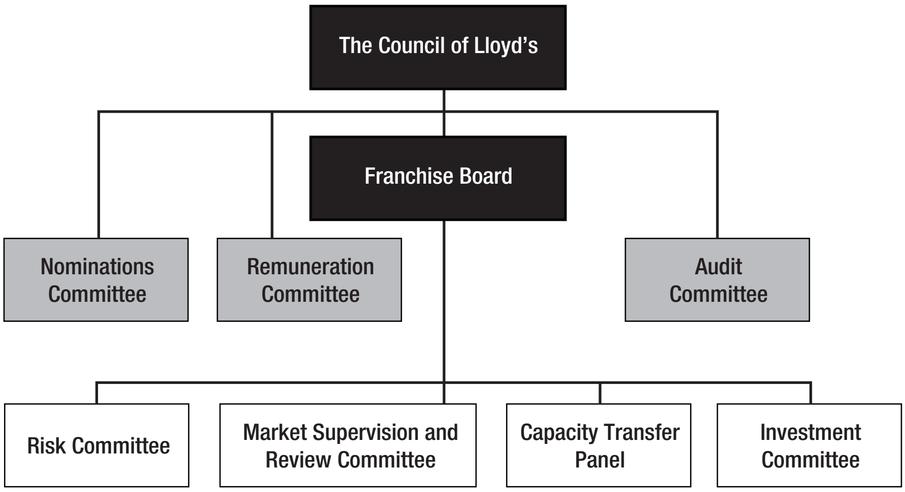
Although unstable conditions in the financial markets raise questions about whether Lloyd's would be able to draw on its LOCs quickly following a large catastrophe, A.M. Best believes Lloyd's exposure to a liquidity issue from this source is low. The Corporation continues to closely monitor LOC providers and its overall exposure to individual issuers. If an issuer were to fall below its minimum standards, members using that bank would be required to obtain an LOC from a different bank or provide other assets instead in order to continue underwriting.

Liquidity is affected by Lloyd's requirement to hold trust funds in certain regions to support its underwriting operations. Lloyd's continues to work with its advisers and U.S. regulators to reduce the gross funding requirements in respect of reinsurance liabilities in the United States.

Enterprise Risk Management

A.M. Best believes that Lloyd's has a strong governance structure in place and a multi-layered approach to enterprise risk management (ERM), which enables it to monitor and control risk within the underwriting market.

Exhibit 14
Governance Structure



Source: Lloyd's Annual Report 2016

Under the Lloyd's Act 1982, the Council of Lloyd's undertakes the management and superintendence of the affairs of the Society and the power to regulate and direct the business of insurance at Lloyd's. At the core of Lloyd's governance structure is the Franchise Board, the members of which are appointed by the Council of Lloyd's and are drawn from both within and outside the Lloyd's market. The main purpose of the Franchise Board is to oversee trading activities within the Lloyd's market from a commercial perspective, although this does not extend to active management of Lloyd's overall business mix.

The Risk Committee (RC), reporting to the Franchise Board, is responsible for the identification and management of Lloyd's key risks, which include the insurance cycle, the economic climate and regulatory development. From 1 January 2017, the risk committee became a non-executive committee, with members drawn from the Franchise Board and the Council. Lloyd's Chief Risk Officer, a position established in 2014, has a seat on the Franchise Board.

Within the risk management framework is a risk appetite framework, with two series of risk appetite statements and metrics in place, one for the Corporation and one for the market. Each statement is a clear articulation of acceptable risk levels in respect of a particular risk area and the metrics are quantitative measures that allow Lloyd's to assess adherence to the statements. In each case, the relevant risk owners are identified. Output from Lloyd's internal capital model is increasingly used in setting the risk appetite metrics.

Lloyd's recognises that one of the greatest risks to the Central Fund is the market's exposure to catastrophes. During 2010, the Lloyd's Catastrophe Model (LCM) was introduced, allowing Lloyd's to monitor and assess market-level catastrophe risk on a probabilistic basis. In 2011, Lloyd's developed a formula to define its catastrophe risk appetite for the first time, in terms of a willingness to lose a percentage of available funds at the 1 in 250 return period for the most material peril. Exposure to Lloyd's five key perils, U.S. windstorm, U.S. and Canadian earthquake, European windstorm, Japanese earthquake and Japanese windstorm, continues to be closely monitored. In addition, analysis of rest of world and non-modelled exposures has been enhanced.

In A.M. Best's opinion, Lloyd's risk management framework is likely to provide an effective mechanism to meet the challenge of Lloyd's unique structure. Lloyd's recognises that the structure of the market makes it difficult to enforce risk management throughout the different businesses involved. However, the performance of all agents and syndicates is kept under review, from approval of business plans to monitoring compliance with Lloyd's minimum standards in relation to underwriting, claims and risk management.

The resilience of Lloyd's financial performance in years of above-average catastrophe activity, particularly 2010 and 2011, provides some evidence of the effectiveness of the Franchise Board's activities. The effectiveness of this governance structure will continue to be tested as highly competitive market conditions persist. In A.M. Best's opinion, Lloyd's is right to see maintaining market discipline as a top priority. However, it is recognised that the Franchise Board objective of managing market performance across the cycle is made more difficult by the fact that Lloyd's is a market of competing businesses, each with its own independent management structure, many of which report to large, external industry parent companies with their own commercial objectives.

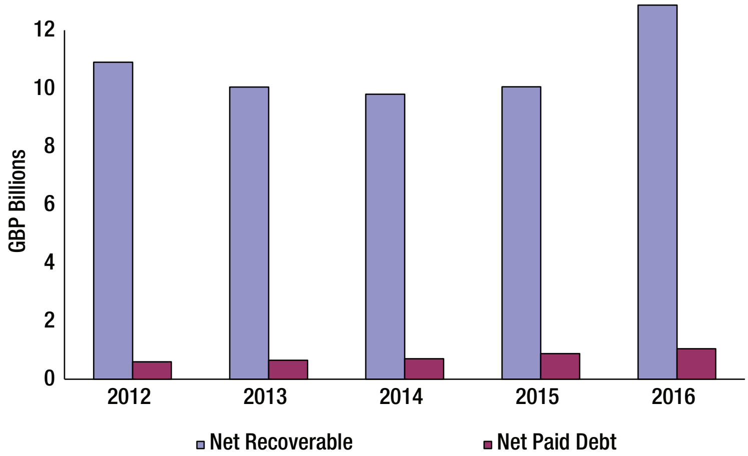
Reinsurance

Lloyd's continues to monitor its reinsurance exposure through a range of submitted returns, complemented by monitoring of catastrophe exposure, including Realistic Disaster Scenarios (RDS), for individual syndicates. The security required by managing agents for their syndicate reinsurance programmes is reviewed on a regular basis in order to address any issues which have the potential to affect the financial strength of the overall market. In particular, total outstanding reinsurance recoverables, counterparty concentration risk and the purchasing trends of individual syndicates are all closely monitored.

Reinsurance ceded increased slightly to 23% in 2016 (including reinsurance placed within Lloyd's). The PMD's on-going focus on syndicate business plans and their reinsurance dependence is expected to support continued stability in this ratio in 2017. The Lloyd's reinsurance panel remains well diversified, with the 10 largest external reinsurance groups accounting for 43% of total reinsurance recoverables in 2016 (2015: 45%).

Exhibit 15 shows the development in Lloyd's net recoverables and total net paid debt. Total net reinsurance recoverables increased to GBP 12.9 billion at year-end 2016 from GBP 10.0 billion in 2015.

Exhibit 15
Reinsurance Debtors (2012-2016)



Source: Lloyd's

Appendix 1
Gross Written Premium by Syndicate (2016)
(GBP Millions)

Syndicate	Managing Agent	Gross Written Premium
33	Hiscox Syndicates Limited	1,057
44	AmTrust at Lloyd's Limited	14
218	ERS Syndicate Management Limited	406
308	Tokio Marine Kiln Syndicates Limited	32
318	Beaufort Underwriting Agency Limited	137
382	Hardy (Underwriting Agencies) Limited	286
386	QBE Underwriting Limited	328
435	Faraday Underwriting Limited	275
457	Munich Re Underwriting Limited	356
510	Tokio Marine Kiln Syndicates Limited	1,297
557	Tokio Marine Kiln Syndicates Limited	17
609	Atrium Underwriters Limited	413
623	Beazley Furlonge Limited	293
727	S.A. Meacock & Company Limited	60
779	AmTrust Syndicates Limited	20
780	Advent Underwriting Limited	190
1084	Chaucer Syndicates Limited	781
1110	ProSight Specialty Managing Agency Limited	245
1176	Chaucer Syndicates Limited	28
1183	Talbot Underwriting Limited	719
1200	Argo Managing Agency Limited	514
1206	AmTrust at Lloyd's Limited	238
1218	Newline Underwriting Management Limited	100
1221	Navigators Underwriting Agency Limited	340
1225	AEGIS Managing Agency Limited	377
1274	Antares Managing Agency Limited	338
1301	StarStone Underwriting Management Limited	209
1414	Ascot Underwriting Limited	573
1458	Renaissance Re Syndicate Management Limited	335
1492	Capita Managing Agency Limited	43
1686	Asta Managing Agency Limited	216
1729	Asta Managing Agency Limited	87
1856	Barbican Managing Agency Limited	85
1861	AmTrust Syndicates Limited	259
1880	Tokio Marine Kiln Syndicates Limited	230
1882	ACE Underwriting Agencies Limited	62
1884	Charles Taylor Managing Agency Limited	76
1897	Asta Managing Agency Limited	113
1910	Asta Managing Agency Limited	200
1919	Starr Managing Agents Limited	276
1945	Sirius International Managing Agency Ltd	115
1955	Barbican Managing Agency Limited	313
1967	W R Berkley Syndicate Management Limited	169
1969	Apollo Syndicate Management Limited	215
1991	R&Q Managing Agency Limited	103
2001	MS Amlin Underwriting Limited	1,831
2003	Catlin Underwriting Agencies Limited	2,070
2007	Novae Syndicates Limited	901
2008	StarStone Underwriting Management Limited	130
2010	Cathedral Underwriting Limited	191
2012	Arch Underwriting at Lloyd's Ltd	179
2014	Pembroke Managing Agency Limited	145
2015	The Channel Managing Agency Limited	241
2088	Catlin Underwriting Agencies Limited	99
2121	Argenta Syndicate Management Limited	281
2232	Allied World Managing Agency Ltd	164
2357	Asta Managing Agency Limited	128
2468	Neon Underwriting Limited	160
2488	ACE Underwriting Agencies Limited	408
2525	Asta Managing Agency Limited	50
2526	AmTrust at Lloyd's Limited	30
2623	Beazley Furlonge Limited	1,333
2786	Asta Managing Agency Limited	59
2791	Managing Agency Partners Limited	171
2987	Brit Syndicates Limited	1,412
2999	QBE Underwriting Limited	1,073
3000	Markel Syndicate Management Limited	486
3002	Catlin Underwriting Agencies Limited	19
3010	Cathedral Underwriting Limited	41
3210	MS Amlin Underwriting Limited	378
3334	Hamilton Underwriting Limited	62
3622	Beazley Furlonge Limited	17
3623	Beazley Furlonge Limited	195
3624	Hiscox Syndicates Limited	533
4000	Pembroke Managing Agency Limited	365
4020	Ark Syndicate Management Limited	312
4141	HCC Underwriting Agency Ltd	118
4242	Asta Managing Agency Limited	137
4444	Canopius Managing Agents Limited	1,064
4472	Liberty Syndicate Management Limited	1,364
4711	Aspen Managing Agency Limited	404
5000	Travelers Syndicate Management Limited	300
5151	Endurance at Lloyd's Limited	236
5678	Vibe Syndicate Management Limited	54
5820	AmTrust Syndicates Limited	251
6050	Beazley Furlonge Limited	15
6103	Managing Agency Partners Limited	5
6104	Hiscox Syndicates Limited	30
6107	Beazley Furlonge Limited	36
6111	Catlin Underwriting Agencies Limited	142
6112	Catlin Underwriting Agencies Limited	40
6117	Argo Managing Agency Limited	46
6118	Barbican Managing Agency Limited	78
6119	Catlin Underwriting Agencies Limited	18
6121	Catlin Underwriting Agencies Limited	26
6123	Asta Managing Agency Limited	14
6125	Pembroke Managing Agency Limited	12
6126	Asta Managing Agency Limited	28
6129	Novae Syndicates Limited	40
6130	Chaucer Syndicates Limited	7
	All other syndicates and inter-syndicate RITC adjustment	**(607)**
Total		**29,862**

Source: Lloyd's Annual Report 2016

Appendix 2

Managing Agency Groups at 31 December 2016

(GBP Millions)

Managing Agent	Gross Written Premium
Catlin Underwriting Agencies Limited	2,414
MS Amlin Underwriting Limited	2,209
Beazley Furlonge Limited	1,889
Hiscox Syndicates Limited	1,620
Tokio Marine Kiln Syndicates Limited	1,576
Brit Syndicates Limited	1,412
QBE Underwriting Limited	1,401
Liberty Syndicate Management Limited	1,364
Canopius Managing Agents Limited	1,064
Asta Managing Agency Limited	1,032
Novae Syndicates Limited	941
Chaucer Syndicates Limited	816
Talbot Underwriting Limited	719
Ascot Underwriting Limited	573
Argo Managing Agency Limited	560
AmTrust Syndicates Limited	530
Pembroke Managing Agency Limited	522
Markel Syndicate Management Limited	486
Barbican Managing Agency Limited	476
ACE Underwriting Agencies Limited	470
Atrium Underwriters Limited	413
ERS Syndicate Management Limited	406
Aspen Managing Agency Limited	404
AEGIS Managing Agency Limited	377
Munich Re Underwriting Limited	356
Navigators Underwriting Agency Limited	340
StarStone Underwriting Management Limited	339
Antares Managing Agency Limited	338
Renaissance Re Syndicate Management Limited	335
Ark Syndicate Management Limited	312

Managing Agent	Gross Written Premium
Travelers Syndicate Management Limited	300
Hardy (Underwriting Agencies) Limited	286
AmTrust at Lloyd's Limited	282
Argenta Syndicate Management Limited	281
Starr Managing Agents Limited	276
Faraday Underwriting Limited	275
ProSight Specialty Managing Agency Limited	245
The Channel Managing Agency Limited	241
Endurance at Lloyd's Limited	236
Cathedral Underwriting Limited	232
Apollo Syndicate Management Limited	215
Advent Underwriting Limited	190
Arch Underwriting at Lloyd's Ltd	179
Managing Agency Partners Limited	176
W R Berkley Syndicate Management Limited	169
Allied World Managing Agency Ltd	164
Neon Underwriting Limited	160
Beaufort Underwriting Agency Limited	137
HCC Underwriting Agency Ltd	118
Sirius International Managing Agency Ltd	115
R&Q Managing Agency Limited	103
Newline Underwriting Management Limited	100
Charles Taylor Managing Agency Limited	76
Hamilton Underwriting Limited	62
S.A. Meacock & Company Limited	60
Vibe Syndicate Management Limited	54
Capita Managing Agency Limited	43
All other syndicates and inter-syndicate RITC adjustment	**(607)**
Total	**29,862**

Source: Lloyd's Annual Report 2016

Appendix 3
Overview of Premium Limits and Membership (1993-2016)

Year of Account	Individual Gross Premium Limit (GBP Millions)	Individual % of Total	Corporate Gross Premium Limit (GBP Millions)	Corporate % of Total	Total Gross Premium Limit (GBP Millions)	Number of Active Members		
						Individual	Corporate	Total
1993	8,729	100%			8,729	19,377		19,377
1994	9,282	85%	1,595	15%	10,877	17,370	95	17,465
1995	7,808	77%	2,359	23%	10,167	14,573	140	14,713
1996	6,941	70%	3,044	30%	9,985	12,683	162	12,845
1997	5,806	56%	4,530	44%	10,336	9,872	202	10,074
1998	4,035	40%	6,128	60%	10,163	6,765	436	7,201
1999	2,682	27%	7,190	73%	9,872	4,458	667	5,125
2000	1,994	20%	8,123	80%	10,117	3,270	854	4,124
2001	1,794	16%	9,462	84%	11,256	2,823	896	3,719
2002	1,760	13%	11,473	87%	13,233	2,445	838	3,283
2003	1,837	12%	13,022	88%	14,859	2,177	768	2,945
2004	1,855	12%	13,224	88%	15,079	2,029	754	2,783
2005	1,433	10%	12,383	90%	13,816	1,604	708	2,312
2006	1,425	9%	13,580	91%	15,005	1,478	717	2,195
2007	1,083	7%	15,350	93%	16,433	1,106	1,020	2,126
2008	915	6%	15,191	94%	16,106	897	1,162	2,059
2009	822	5%	17,314	95%	18,136	765	1,241	2,006
2010	848	4%	22,174	96%	23,022	691	1,445	2,136
2011	757	3%	22,540	97%	23,297	631	1,530	2,161
2012	693	3%	23,490	97%	24,184	575	1,576	2,151
2013	651	3%	24,347	97%	24,998	520	1,626	2,146
2014	592	2%	25,935	98%	26,527	444	1,688	2,132
2015	431	2%	25,835	98%	26,266	321	1,771	2,092
2016	407	1%	27,105	99%	27,512	289	1,760	2,049

Note: Only active members are shown. Members who are not underwriting but remain on the electoral register are not included in the figures.
Source: Statistics Relating to Lloyd's

Appendix 4

Pro Forma Financial Statements (2012-2016)

(GBP Millions)

	2016	2015	2014	2013	2012
Gross premiums written	29,862	26,690	25,259	25,615	25,173
Reinsurance ceded	6,796	5,667	5,253	5,384	5,738
Net premiums written	23,066	21,023	20,006	20,231	19,435
Increase/(decrease) in gross UPR	-723	-803	-692	-582	-994
Reinsurers share in UPR	317	345	185	76	244
Earned premiums	22,660	20,565	19,499	19,725	18,685
Other technical income					
Total underwriting income	22,660	20,565	19,499	19,725	18,685
Net claims paid	11,482	9,631	9,288	10,082	10,458
Net increase/(decr) in claims provision	1,505	631	302	-501	-360
Net claims incurred	12,987	10,262	9,590	9,581	10,098
Management expenses	2,464	2,343	2,171	1,869	1,706
Acquisition expenses	6,741	5,913	5,490	5,448	5,137
Net operating expenses	9,205	8,256	7,661	7,317	6,843
Other technical expenses/(income)	0	0	0	222	83
Total underwriting expenses	9,205	8,256	7,656	7,539	6,926
Balance on technical account	468	2,047	2,253	2,605	1,661
Net investment income	1,345	402	1,038	901	1,372
Other expenses	294	-327	-275	-301	-262
Profit/(loss) before tax	2,107	2,122	3,016	3,205	2,771
Other recognised gains and losses	278	62	115	-123	-52
Total recognised gains and losses	2,385	2,184	3,131	3,082	2,719

Source: Lloyd's Annual Report 2016

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