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TO MEMBERS AND ASSURED

Dear Sirs

Standard & Poor's (S&P) Rating

This Circular is to advise of the following developments in respect of the Association's S&P rating:

- On 1 July 2019 S&P published a new Insurance Rating Methodology (IRM) in light of which it advised that there would be a review of the rating of the Association. This had previously been determined, in December 2018, as BBB with a stable outlook; a rating and outlook that S&P subsequently affirmed on 4 June 2019 following a review of the operating result for the 2018/19 financial year. S&P has now re-affirmed the BBB rating under the new IRM but on this occasion with a negative outlook. It appears that the revised rating criteria introduced by the IRM has had a particular impact on the outlook against the backdrop of the Association's 2018/19 result.
- The Association's management has engaged extensively with S&P since the launch of the IRM and the rating review. This process has provided clarification of aspects of the new methodology and its effect on the rating; however, there remain a number of questions over its application and elements of the process around the review. The managers will continue to engage with S&P on these matters as part of the work to achieve a reinstatement of the Association's longstanding stable outlook.
- The Association's 2019 Annual Report highlighted the unusual claims drivers behind the challenging 2018/19 financial year result, which formed a backdrop to the rating review. However, the Annual Report also underlined that despite such pressures the Association's capital position remains strong - with a year-end free reserve of US\$168.8m and a robust balance sheet on an absolute and historical basis, as well as relative to other IG Clubs. Additionally, in terms of regulatory capital requirements, the 2019 Solvency Financial Condition Report confirms that

the Association's overall regulatory capital stands at US\$170.6m, providing a margin in excess of 50% over the solvency capital requirement of US\$113.3m. Further, the Association has seen positive progress in terms of revenue and tonnage growth over the last 12 months and during the current policy year, particularly in relation to its mutual entry but also the fixed premium lines of business. The extent to which such features and developments are reflected by the new IRM remains open to question and is something else on which there will be further engagement with S&P.

- The 2018/19 financial year was a tough one for the Association. However, its balance sheet strength was more than able to withstand the headwinds and it remains securely placed to deliver first-class, dedicated P&I support and service to Members and Assureds. Further information and an update on developments in the current policy year will be provided in the Association's regular Position & Performance Review in due course.

Yours faithfully
A BILBROUGH & CO LTD
(MANAGERS)