



CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

Report on Reinsurance Security

Date: November 2021



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1. REINSURANCE SECURITY CONSIDERATIONS

1.1 Status Update

The purpose of this report is to provide the CLLAS Audit Committee with a status review of the current CLLAS reinsurance security consistent with CLLAS' Reinsurance Security Policy.

1.2 Reinsurance Security

One of the responsibilities of the Audit Committee is to monitor CLLAS' reinsurers and to recommend changes to the Board based on any number of factors including, but not limited to:

- Downgrading of the security rating;
- A rating agency placing a reinsurer on a "watch" list;
- Exposure to any one reinsurer exceeding an agreed percentage;
- Difficulties collecting reinsurance proceeds after a claim is settled;
- Use of unregistered (in Canada) security; and
- Any other matters that may threaten the security of a reinsurer.

The Committee acknowledges that reinsurance intermediaries cannot guarantee the solvency of any reinsurer and that they rely on the rating agencies to evaluate reinsurers' financial strength. The Audit Committee is not meant to substitute the expert advice provided by CLLAS' intermediaries. Its purpose is to use this advice to assist the Advisory Board in its due diligence process. Included in Appendices A and B are letters from Axxima (including Alternative Risk Services) and Miller Insurance Services LLP, respectively, which provide information on the reinsurance security practices of these firms.

1.3 Level I Monitoring

Level I monitoring of CLLAS reinsurance consists of the following:

- Current A.M. Best and S&P 5-year rating chart comparison – see Appendix C;
- Current claims liability exposure (i.e. case reserves and IBNR) to each reinsurer from all policy years combined – see Appendix D;
- Current claims liability exposure to each reinsurer for the prior policy year– see Appendix E; and
- Single claim limit exposure to each reinsurer for the current year – see Appendix F.

CLLAS reinsurers should be rated A- or better by A.M. Best and S&P, except for special circumstances agreed to by the Board.

For the committee's convenience we have also included the A.M. Best and S&P ratings for insurers participating on the commercial excess program placed by Pro-Form for CLLAS' subscribers, including the ratings for the "CLLAS International" program, as provided by Pro-Form, under Appendix C-PF. For completeness, the commercial excess and CLLAS International insurers have also been included in the analysis of claim limit exposure to each reinsurer for the current year, which is found under Appendix F-PF.

1.4 Level II Monitoring Triggers

Should any of the following events occur, a Level II monitoring would take place:

- Downgrading of the financial strength rating;
- A rating agency placing a reinsurer on a "watch" list;
- Difficulties collecting reinsurance proceeds after a claim is settled;
- Use of a reinsurer that is unregistered in Canada; and
- Any other events deemed material by the Audit Committee or its advisors.

Additionally, for a particular reinsurer, Level II monitoring will be triggered in the event the following takes place and the reinsurer's exposure to CLLAS is significant relative to the its total assets and/or capital and surplus:

- Current claims liability exposure (i.e. case reserves and IBNR) for all policy years combined exceeds 10% of the total;
- Current claims liability exposure for the prior policy year exceeds 10% of the total; and
- Claim limit exposure to each reinsurer for the current year exceeds 10% of the total limits provided by CLLAS.

CLLAS' exposure is considered significant to the reinsurer if its share of CLLAS' total current liabilities or claim limit exposure exceeds 0.1% of the reinsurer's assets or 0.5% of the reinsurer's capital and surplus.

1.5 Level II Monitoring

The following Level II monitoring should take place for any reinsurer that requires it due to events identified above:

- Additional information should be reviewed by the Audit Committee, including a review of:
 - Stock performance relative to the remainder of the market;
 - Early warning signals/ratios (as provided by A.M. Best or equivalent agency);

- Balance sheet and income statement highlights (as provided by A.M. Best or equivalent agency);
- Meetings or direct correspondence with such reinsurers as necessary to discuss the financial health of the reinsurer.

The Audit Committee should make recommendations to the Board based on such reviews.

2. LEVEL II MONITORING

2.1 Reinsurers Requiring Level II Monitoring

As the first step in our reinsurance security monitoring process, Level I tests were performed on all CLLAS reinsurers. The following identifies the reinsurers subject to Level II monitoring and which Level II monitoring criteria was triggered:

Level II Monitoring Triggers

	AWAC	Colchester	Lloyd's	AMA 1200 (Argo)	Swiss Re	AML 2001 (MS Amlin)	Aspen Re*
Unregistered in Canada	✓	✓					
Difficulty collecting reinsurance proceeds after claim settlement							
Rating downgrade / "watch" list				✓			✓
Current claims liability exposure (all years) exceeds 10%		✓	✓	✓		✓	
Current claims liability exposure (prior year) exceeds 10%		✓	✓	✓		✓	
Claim limit exposure (current year) exceeds 10%		✓	✓		✓		

* CLLAS has no ongoing exposure to Aspen Re, and the claim liability exposure is immaterial to CLLAS.

Level II Monitoring Required?

	AWAC	Colchester	Lloyd's	AMA 1200 (Argo)	Swiss Re	AML 2001 (MS Amlin)	Aspen Re
CLLAS exposure exceeds 0.1% of total assets	n/a	n/a		✓			
CLLAS exposure exceeds 0.5% of total capital & surplus	n/a	n/a		✓			
Level II Monitoring Required	✓	✓		✓			

Although exposure to Lloyd's does not exceed the Level II Monitoring requirement thresholds as a percent of assets and capital, we are including the AM Best Rating Report under Appendix J as an information item due to the size of the liabilities placed with Lloyd's.

Note: MS Amlin's ultimate parent company is MS&AD Insurance Group Holdings, Inc.

2.2 Allied World Assurance Company Limited (“AWAC”)

General

Allied World Assurance Company Limited is a global specialty insurance and reinsurance company with offices in Bermuda, Europe and the United States. Launched in 2001, AWAC originally consisted of four employees located in a small office in Bermuda. Today, AWAC has offices in Atlanta, Bermuda, Boston, Chicago, Dublin, Farmington (CT), London, New York, San Francisco and Zug.

AWAC has been a participant in the CLLAS Program since 2002. Currently, AWAC participates in the highest levels of the CLLAS Program – the Optional Excess and Umbrella layers.

The CLLAS/AWAC reinsurance agreement includes a provision for outstanding claims advances by AWAC in favour of CLLAS.

On July 5, 2017 AWAC was acquired by Fairfax Financial Holdings. Stock information is no longer available for AWAC, so we have included the stock performance of their ultimate parent company, Fairfax Financial Holdings Ltd., which is outlined below.

Stock Performance

The following is the 5-year stock performance as of October 07, 2021 for Fairfax Financial Holdings (ticker: FFH, Toronto Stock Exchange) with the S&P 500 Index for comparison.





AM Best Report Highlights

The complete A.M. Best report is set forth in Appendix G.

- Current financial strength rating is A (Excellent) Stable from A.M. Best.

The balance sheet performance for AWAC is categorized as “strongest” which means that Allied World Assurance Company Holdings Limited (Allied World) has a strong balance sheet strength which is mainly due to a diversified investment portfolio, favorable reserve development and controlled growth

AWAC is backed by a Fairfax Financial Holdings (Fairfax) which has a financially stable balance sheet. AWAC can benefit from Fairfax's supportive financial leverage and favorable liquidity, with cash and short-term investments readily available to support its insurance operations.

Financial Highlights

- Retained earnings increased from (\$324,800,000) in 2019 to (\$45,000,000) in 2020.
- Income for the year, after taxation, decreased from \$363,500,000 in 2019 to \$275,100,000 in 2020.
- The Company actively manages its reinsurance exposures by generally selecting reinsurers having a credit rating of “A-” or higher and monitoring the overall credit quality of its reinsurers to ensure that recoverables will be collected.
- Approximately 94.3% and 94.0% ceded reserves were recoverable from reinsurers who had an A.M. Best rating of “A” or higher as of December 31, 2020 and December 31, 2019, respectively.

Outlook

The stable rating outlooks reflect AM Best's expectation that the group's strongest level of balance sheet strength will continue to be supported by adequate operating performance; diverse business profile, both geographically and by line of business; and well defined enterprise risk management guidelines and controls.

- Combined ratios remained ranged from 85% to 126.4% in the past 5 years. With 2018 combined ratio at 98.2%.
- A.M. Best report was updated on March 26, 2021.

2.3 Colchester Reinsurance Limited (“Colchester”)

General

Colchester is a captive reinsurer for CLLAS and is wholly owned by the current and past subscriber firms of CLLAS, or their affiliates. Colchester is domiciled in Barbados.

Stock Performance

Colchester is not publicly traded.

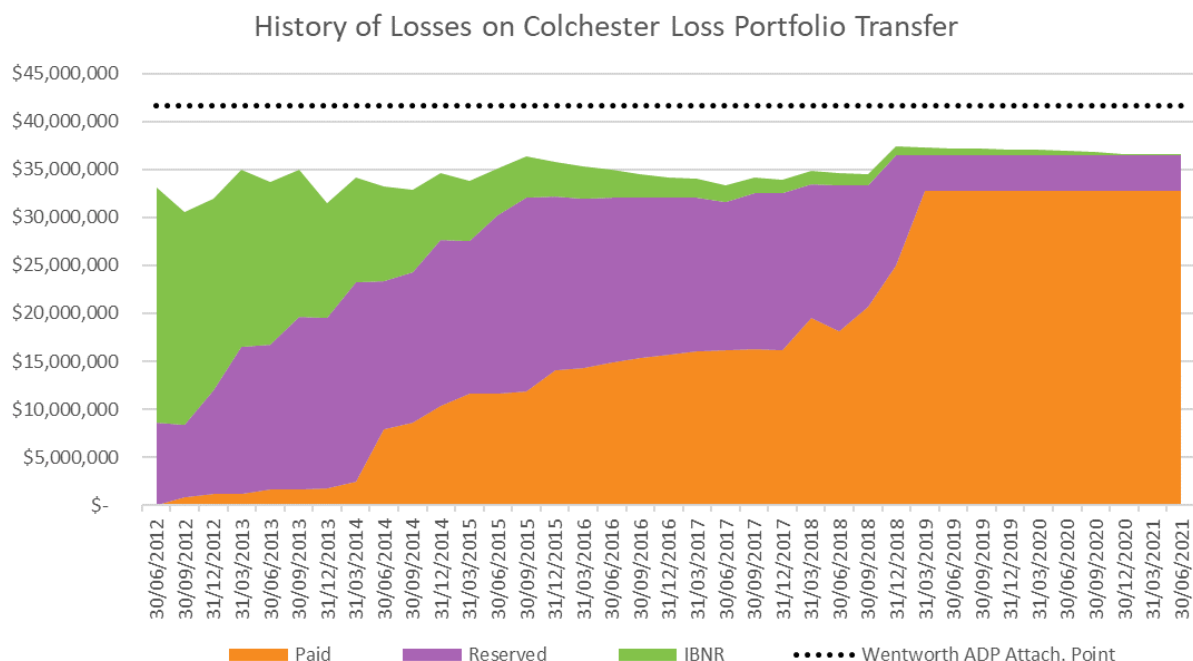
Highlights of A.M. Best Report

Colchester is not rated by any ratings agencies.

Financial Highlights

Please see Appendix H for a copy of the most recent financial draft statements (as of June 30, 2020). The following are some of the highlights from these financials:

- Total Equity decreased from \$25,597,365 in 2020 to \$24,869,126 in 2021
- Income for the year, after taxation, increased from (\$1,287,566) in 2020 to \$121,171 in 2021
 - Reinsurance premiums written and earned increased from \$1,330,072 in 2020 to 1,713,252 in 2021
 - Retrocession premiums increased from \$1,261,726 in 2020 to \$1,539,731 in 2021
- Colchester has been deliberately distributing surplus via premium reductions (as seen above in the level of premiums written relative to the retrocession premiums), and losses are expected to emerge over time as a result
- All the assets supporting the claims liabilities of Colchester are held in trust in a custodial account in favour of CLLAS, subject to a reinsurance security agreement as outlined by the Office of the Superintendent of Financial Institutions (Canadian federal regulator) and approved by the Alberta Superintendent of Insurance (the regulator in CLLAS’ home jurisdiction)
- On June 30, 2012 Colchester and CLLAS affected a Loss Portfolio Transfer, which transferred approximately \$33.1 million of CLLAS’ liabilities to Colchester for all prior years of account. Since that time, those liabilities have remained relatively stable, as can be seen in the chart below. Colchester also purchased 10% quota share adverse development retrocession protection on the Loss Portfolio, which attaches at \$41.7 million, also shown below as a dotted line for reference.



2.4 Argo Group International Holdings Ltd. (“Argo Group”)

General

Argo Group’s operating companies provide primary and excess insurance, reinsurance products and tailored risk solutions for the managing general agency market. Argo Group underwrites on an international platform.

The segment’s business platform, Argo International Holdings Ltd. (Argo International) based in London, is comprised of four principal components:

- Argo Managing Agency, which underwrites insurance risks on behalf of the syndicate for the providers of capital;
- Syndicate 1200, which bears the insurance risk;
- Argo Underwriting Agency, which participates with other capital providers on the syndicate via its subsidiary corporate member companies; and,
- Argo Direct Limited, a wholly owned service company, which enters into insurance contracts on behalf of Syndicate 1200 from both the U.K. and a branch based in Paris (Argo Assurances, Argo International’s worldwide property division).

Stock Performance

The following is a 5-year stock performance as of November 3, 2021 for Argo Group International Holdings (ticker: AGII) with the S&P 500 Index for comparison.



Highlights of A.M. Best Report

The complete A.M. Best report is set forth in Appendix I.

- Current financial strength rating is A- (Excellent) Stable from A.M. Best
- Historical average combined ratio is in line with the commercial casualty composite. In 2019, however, Argo incurred \$157 million in net underwriting losses (at a 109.1% combined ratio) driven by adverse prior year loss development and higher current year loss picks in the fourth quarter. Argo's 2020 underwriting results improved to \$109.6 million of underwriting losses (at a 106.2% combined ratio) driven by much improved ex-CAT current accident year losses (three points on the loss ratio), no significant prior year adverse reserve development (eight points of improvement), partially offset by higher losses due to COVID-19 and higher non-COVID natural catastrophe losses.
- Being a large U.S. wholesale insurer and an active participant in the Lloyd's market, Argo's expense ratio is high compared to its peers. The new executive management team is taking steps to lower its expense ratio by simplifying organizational structure, shrinking non-core business and eliminating wasteful spending that does not support strategic goals.

- Historically favorable prior year reserve development. While the group posted material adverse prior year reserve development in the third and fourth quarter of 2019, there was no significant loss reserve development in 2020.

A.M. Best report was updated on March 12, 2021

Financial Highlights

- Retained earnings decreased from \$793,700,000 in 2019 to \$684,100,000 in 2020.
- Net Income for the year, after taxation, decreased from (\$14,100,000) in 2019 to (\$54,100,000) in 2020.
- Total Capital and Surplus increased from \$1,763,700,000 in 2019 to \$1,857,800,000 in 2020.
- ROEs over the most recent five-year period were lower than its historical average due to higher-than-average catastrophe losses, stock market volatility and, more recently, prior year reserve development in 2019.

September 23, 2014

Mr. Nick Leblovic
Chairman, CLLAS
c/o Davies Ward Phillips & Vineberg LLP
40th Floor, 155 Wellington Street West
Toronto, Ontario M5V 3J7

Dear Nick,

This is in response to a previous request to provide a letter regarding the reinsurance that is placed on behalf of CLLAS. We are reissuing this letter under Axxima cover to confirm that the previous letter, dated June 9, 2009 under Dion, Durrell + Associates Inc. cover, remains accurate under Axxima's management.

As you know, we work closely with Miller Insurance Services Ltd. (Miller) on all CLLAS reinsurance matters, with Miller being responsible for the London placement (including Lloyd's and certain European companies) and the Colchester retrocession placement. Axxima, via its subsidiary, Alternative Risk Services, a division of 3303128 Canada Inc. ("AR Services"), prepares the reinsurance submission that goes out to all markets and specifically places the domestic and Bermuda reinsurance as well as the aggregate stop-loss reinsurance placed through Colchester.

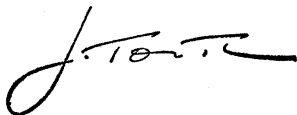
In the past, a minimum reinsurance security rating standard of no less than A-, as determined by A.M. Best and Standard & Poor's, had been established with CLLAS. Any deviation from such standard is to be referred to the CLLAS Advisory Board. Thoughtful and deliberate monitoring preserves the important relationships that CLLAS has developed over the years with its reinsurers.

Please be advised that neither Axxima, nor AR Services, carries out its own assessment of the solvency of any insurer or reinsurer and do not guarantee the solvency or continuing solvency of any insurer or reinsurer. You should note that the financial solvency of any insurer or reinsurer could change after the reinsurance protection has been placed. We are committed to providing CLLAS with up-to-date information on any material changes in the financial status or the security ratings of CLLAS reinsurers. To this end, we carry out CLLAS' adopted reinsurance security process.

In general, we are prepared to provide CLLAS with updates from A.M. Best and S&P based on our monitoring of the security ratings of each of the participating reinsurers. We will advise CLLAS on any adverse developments which may require CLLAS to replace a certain reinsurer mid-term or to decide to monitor and continue to use a certain reinsurer for a prescribed period of time.

We hope that the foregoing is satisfactory, however, should you have any questions, please do not hesitate to contact the undersigned.

Yours sincerely,



Joseph D. Tontini
Consultant



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Nicholas J. Leblovic
Chairman
Canadian Lawyers Liability Assurance Society
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250 Yonge Street
Toronto
Ontario M5B 2L7
Canada

5th June 2009

Dear Nick

**CLLAS Reinsurance Programme
Renewal effective 1st July 2009**

In accordance with your request and in conjunction with Dion, Durrell + Associates, Inc., we have compiled various material relating to the reinsurers we use who participate on the CLLAS reinsurance programme. We have collated this information with the underwriters' responses given during our meetings to the set of questions posed during your recent visit to London. A copy of the matrix with reinsurers' feedback is enclosed.

You have asked us to comment on the appropriateness of the reinsurers who are involved as well as give our views on possible new markets. Miller does not assess or guarantee the solvency of any (re)insurer, however we check the financial strength ratings provided by specialist agencies (such as Standard & Poor's and A.M. Best) for each participating market and each must be authorised internally at Miller for us to use. Any markets which do not meet a minimum criteria may still be used but only with specific client approval. In practice the current specialist agency financial strength ratings of all the reinsurers used by us on your programme are in excess of our minimum criteria for authorisation.

On an ongoing basis we monitor these ratings as well as developments in the market and will advise you in the event there are circumstances which lead a market to fall out of our authorised classification. Taking into consideration reinsurers' feedback from our meetings, the Miller authorisations of each of the markets we use on the CLLAS programme are unaffected.

For 2009 we will be approaching the current participants for their support and many of these have had long term relationships with CLLAS. As outlined in London, we and Dion, Durrell work closely together to strategically manage the size and layering of participations offered by each reinsurer to ensure that the most optimal result is achieved for CLLAS, in line with its objectives for renewal. At present there are no new reinsurance companies which we wish to approach with your programme this year, but there are several new Lloyd's syndicates which may be interested in supporting your account and we will be approaching them for their views in due course. The current Lloyd's rating by Standard & Poor's is A+ (strong) with a stable outlook.

Please don't hesitate to let me know if you have any questions or comments.

Yours sincerely

A handwritten signature in black ink, appearing to read "Mark Popple".

Mark Popple
Director – Professional Risks

Encl.

CLLAS Reinsurance

S&P Ratings over a 5 year period
October 2021

Appendix C

Reinsurers		2017	2018	2019	2020	2021
Lloyd's	Rating	A+	A+	A+	A+	A+
	Outlook	Stable	Negative	Negative	Stable	Stable
Aspen Re	Rating	A	A	A	A	BBB
	Outlook	Stable	Negative	Negative	Negative	Stable
Hannover Rueck	Rating	AA-	AA-	AA-	AA-	AA-
	Outlook	Stable	Stable	Stable	Stable	Stable
Transatlantic Reinsurance Company (UK)	Rating	A+	A+	A+	A+	A+
	Outlook	Stable	Stable	Stable	Stable	Stable
Arch Insurance Company (Canada Branch)	Rating	A+	A+	A+	A+	A+
	Outlook	Negative	Stable	Stable	Negative	Negative
Allied World Assurance Company Ltd.	Rating	A-	A-	A-	A-	A-
	Outlook	Stable	Positive	Positive	Stable	Positive
CRC (Bermuda) Reinsurance Ltd.	Rating	N/A	N/A	N/A	N/A	N/A
	Outlook	N/A	N/A	N/A	N/A	N/A
RSA Insurance Group(formerly GCAN Insurance Company)	Rating	A	A	A	A	N/A
	Outlook	Stable	Stable	Stable	Stable	N/A
SCOR Canada Reinsurance Company	Rating	AA-	AA-	AA-	AA-	AA-
	Outlook	Stable	Stable	Stable	Stable	Stable
Swiss Reinsurance Company Ltd. (Canada Branch)	Rating	AA-	AA-	AA-	AA-	AA-
	Outlook	Stable	Stable	Stable	Negative	Negative
Toa Reinsurance Company of America	Rating	A+	A+	A+	A+	A+
	Outlook	Stable	Stable	Stable	Stable	Stable
Alleghany Corporation (formerly Transatlantic Reinsurance Company) (Parent)	Rating	BBB+	BBB+	BBB+	BBB+	BBB+
	Outlook	Stable	Stable	Stable	Stable	Stable
Transatlantic Reinsurance Company (Canada)	Rating	A+	A+	A+	A+	A+
	Outlook	Stable	Stable	Stable	Stable	Stable
Colchester Reinsurance Ltd.	Rating	N/A	N/A	N/A	N/A	N/A
	Outlook	N/A	N/A	N/A	N/A	N/A
Munich Re	Rating	AA-	AA-	AA-	AA-	AA-
	Outlook	Stable	Stable	Stable	Stable	Stable
Argo Group Operating Subsidiaries (AMA 1200 Parent)	Rating	A-	A-	A-	A-	A-
	Outlook	Stable	Stable	Stable	Stable	Negative
Axis Reinsurance Company	Rating	A+	A+	A+	A+	A+
	Outlook	Negative	Negative	Stable	Negative	Negative
Continental Casualty Company (CNA)	Rating	A	A	A	A+	A+
	Outlook	Stable	Stable	Positive	Stable	Stable
Allianz Global Risks	Rating	AA	AA	AA	AA	AA
	Outlook	Stable	Stable	Stable	Negative	Negative
CNA Canada	Rating	A	A	A	A+	A+
	Outlook	Stable	Stable	Positive	Stable	Stable

CLLAS Reinsurance

A.M Best Ratings over a 5 year period
October 2021

Appendix C

Reinsurers	Registered Status	AMB#		2017	2018	2019	2020	2021
Lloyd's	Registered	85202	Rating	A	A	A	A	A
			Outlook	Stable	Stable	Stable	Stable	Stable
Aspen Re	Registered	14149	Rating	A	A	A	A	A
			Outlook	Stable	Stable	Stable	Stable	Stable
Hannover Rueck	Registered	85070	Rating	A+	A+	A+	A+	A+
			Outlook	Stable	Stable	Stable	Stable	Stable
Transatlantic Reinsurance Company (UK)	Registered	03126	Rating	A+	A+	A+	A+	A+
			Outlook	Stable	Stable	Stable	Stable	Stable
Arch Insurance Company (Canada Branch)	Registered	66513	Rating	A+	A+	A+	A+	A+
			Outlook	Negative	Negative	Stable	Stable	Stable
Allied World Assurance Company Ltd.	Unregistered	84808	Rating	A	A	A	A	A
			Outlook	Negative	Stable	Stable	Stable	Stable
CRC (Bermuda) Reinsurance Ltd.	Unregistered		Rating	N/A	N/A	N/A	N/A	N/A
			Outlook	N/A	N/A	N/A	N/A	N/A
RSA Insurance Group(formerly GCAN Insurance Company)	Registered		Rating	N/A	N/A	N/A	N/A	N/A
			Outlook	N/A	N/A	N/A	N/A	N/A
SCOR Canada Reinsurance Company	Registered	55362	Rating	A+	A+	A+	A+	A+
			Outlook	Positive	Stable	Stable	Stable	Stable
Swiss Reinsurance Company Ltd. (Canada Branch)	Registered	91982	Rating	A+	A+	A+	A+	A+
			Outlook	Stable	Stable	Stable	Stable	Stable
Toa Reinsurance Company of America	Registered	85179	Rating	A	A	A	A	A
			Outlook	Stable	Stable	Stable	Stable	Stable
Alleghany Corporation (formerly Transatlantic Reinsurance Company) (Parent)	Registered		Rating	N/A	N/A	N/A	N/A	N/A
			Outlook	Stable	Stable	Stable	Stable	Stable
Transatlantic Reinsurance Company (Canada)	Registered	03126	Rating	A+	A+	A+	A+	A+
			Outlook	Stable	Stable	Stable	Stable	Stable
Colchester Reinsurance Ltd.	Unregistered		Rating	N/A	N/A	N/A	N/A	N/A
			Outlook	N/A	N/A	N/A	N/A	N/A
Munich Re	Registered	85011	Rating	A+	A+	A+	A+	A+
			Outlook	Stable	Stable	Stable	Stable	Stable
Argo Group Operating Subsidiaries (AMA 1200 Parent)	Registered	91791	Rating	A	A	A	A	A-
			Outlook	Stable	Stable	Stable	Stable	Stable
Axis Reinsurance Company	Registered	12557	Rating	A+	A+	A+	A	A
			Outlook	Stable	Negative	Negative	Stable	Stable
Continental Casualty Company (CNA)	Registered	02128	Rating	A	A	A	A	A
			Outlook	Stable	Stable	Stable	Stable	Stable
Allianz Global Risks	Registered	00407	Rating	A+	A+	A+	A+	A+
			Outlook	Stable	Stable	Stable	Stable	Stable
CNA Canada	Registered	86301	Rating	N/A	N/A	N/A	N/A	N/A
			Outlook	N/A	N/A	N/A	N/A	N/A

* As of March 31, 2012

Renewal Quotations

CLLAS Canadian Excess Program

	Liberty Lead	Encon Lead
	\$50x50 (\$474)	\$60x\$100 (\$411)
Liberty International Canada	20%	9.5%
Victor Insurance (formally Encon)	10%	25%
Travelers Insurance Company of Canada	10%	16.5%
Royal & Sun Alliance Insurance Company of Canada	20%	9.5%
AXA XL	10%	
Axis Reinsurance Company	10%	
Northbridge Insurance Company	5% (10% on Associate)	10%
The Sovereign General Insurance Company		16.5%
QBE Services Inc.	10%	8%
CLLAS	5% (0% on Associate)	5%
Total	100%	100%

1. One CLLAS member purchases \$30,000,000 xs \$50,000,000. The new rate per lawyer is \$328 per lawyer and the new \$50,000,000 xs \$50,000,000 Insurer group will provide this layer.
2. We do have one Associate Member of CLLAS and they will purchase \$45,000,000 xs \$50,000,000 and the renewal rate is \$601 per lawyer.

Note: The new rate on the layer of \$110,000,000 excess of \$50,000,000 is \$885 per lawyer vs. the expiring rate of \$805 per lawyer, which is an overall increase of 10%

Renewal Quotations

CLLAS International

Insurer	Layer	Proposed Renewal
		2021 - 2022
CNA (25%)	US\$30,000,000 each claim and aggregate	15% Rate increase or increased retention options with a lesser rate increase
AXA XL (16.50%)		
Berkshire (25%)		
Aspen Re (16.5%)		
Lloyds (17.00%)		

Note: Each Participating firm will receive a renewal notice confirming their renewal terms.

CLLAS Reinsurance

Appendix D

Top 25 Reinsurers by % of Current Liability

ALL YEARS

ALL YEARS				LAYERS									TOTAL	All-time Percent of Total	Prev. Year Percent of Total	Move- ment?
Watch	Name	Jurisdiction	Reg'd?	\$.975MM	\$4/\$49MM	\$7.5MM	\$12.5MM	\$10MM	\$30/60MM	\$20MM	\$10-60MM	\$15-110MM				
				XS \$.025MM	XS \$1MM	XS \$5MM	XS \$12.5MM	XS \$25MM	XS \$65MM	XS \$140MM	XS \$160MM	XS \$50MM				
➔	Underwriters at Lloyd's	London	Yes	0	35,260,907	35,977	28,139	22,033	69,837	154	149,787	0	35,566,834	51.7%	52.4%	Down
	Colchester	Barbados	No	0	13,551,324	0	0	0	0	0	27,707	7,864	13,586,894	19.7%	18.7%	Up
	AMA 1200	Lloyd's	Yes	0	13,078,554	0	0	0	38	0	0	0	13,078,592	19.0%	19.3%	Down
	AML 2001	Lloyd's	Yes	0	6,574,285	0	3,470	2,332	0	11	0	0	6,580,098	9.6%	9.1%	Up
	Allianz Global Risks	London	Yes	0	5,217,963	0	0	0	0	0	0	0	5,217,963	7.6%	7.4%	Up
	Vibe 5678	Lloyd's	Yes	0	5,087,625	0	0	0	0	0	0	0	5,087,625	7.4%	5.9%	Up
	AUL 1274	Lloyd's	Yes	0	4,852,014	0	0	0	0	0	0	0	4,852,014	7.1%	6.6%	Up
	PPI 9969	Lloyd's	Yes	0	3,477,262	0	0	0	0	0	3,021	0	3,480,284	5.1%	7.1%	Down
	AXIS Re	Canada	Yes	0	3,331,956	0	0	0	0	0	16,253	0	3,348,209	4.9%	4.5%	Up
	CNA (Combined)	Combined	Mixed	0	1,076,687	0	0	0	0	0	0	0	1,076,687	1.6%	2.3%	Down
	CNA Canada	Canada	Yes	0	1,045,343	0	0	0	0	0	0	0	1,045,343	1.5%	0.0%	Up
	AGD 2526	Lloyd's	Yes	0	827,556	1,101	0	0	62	0	247	0	828,966	1.2%	1.3%	Down
	Hamilton (Combined)	Combined	Yes	0	594,642	0	7,324	0	6,257	22	16,955	0	625,200	0.9%	1.3%	Down
	Hannover (Combined)	Combined	Yes	0	533,513	0	20,630	0	0	0	0	0	554,143	0.8%	0.9%	Down
	Argenta 2121	Lloyd's	Yes	0	533,513	0	0	0	0	0	0	0	533,513	0.8%	0.8%	Down
	Hamilton 3334	Lloyd's	Yes	0	500,331	0	0	0	826	0	2,142	0	503,300	0.7%	1.1%	Down
	Swiss Re (Combined)	Combined	Mixed	0	0	0	0	13,847	45,186	350	49,599	280,740	389,722	0.6%	0.6%	Down
	Westport Insurance Corp. (Swiss Re)	Canada	Yes	0	0	0	0	0	44,240	0	49,191	280,740	374,171	0.5%	0.6%	Down
	Acappella 2014	Lloyd's	Yes	0	102,241	0	0	0	2,747	0	21,361	0	126,350	0.2%	0.2%	Down
	PEM 4000	Lloyd's	Yes	0	94,311	0	7,324	0	5,430	22	14,812	0	121,901	0.2%	0.2%	Down
	Barbican 1955	Lloyd's	Yes	0	94,960	0	0	0	42	0	100	0	95,102	0.1%	0.2%	Down
	Transatlantic Reinsurance Company (Combined)	Combined	Yes	0	52,241	9,409	9,990	0	0	0	0	0	71,640	0.1%	0.2%	Down
	Transatlantic Reinsurance Company	Canada	Yes	0	52,241	8,467	9,656	0	0	0	0	0	70,364	0.1%	0.0%	Up
	AmTrust 1206	Lloyd's	Yes	0	38,255	0	0	0	6,097	0	18,338	0	62,689	0.1%	0.1%	Down
	MKL 3000	Lloyd's	Yes	0	0	0	7,387	8,191	9,597	0	36,219	0	61,394	0.1%	0.1%	Down
	Total Current Liabilities			2,653,390	65,055,829	164,175	128,097	56,720	129,103	1,399	326,589	288,603	68,803,905			
	Proportional Reinsurance:															
	London			0	40,478,870	48,429	58,760	26,467	69,837	154	149,787	0	40,832,304	59.3%	60.0%	Down
	Canada			0	4,460,884	33,471	28,189	20,173	50,875	350	125,509	280,740	5,000,191	7.3%	7.8%	Down
	Bermuda			0	0	4,656	4,060	0	8,391	895	23,586	0	41,587	0.1%	0.1%	Down
	Barbados			0	13,551,324	0	0	0	0	0	27,707	7,864	13,586,894	19.7%	18.7%	Up
	Total			0	58,491,077	86,556	91,009	46,640	129,103	1,399	326,589	288,603	59,460,976	86.4%	86.6%	Down
	CLLAS Proportional Retention			2,653,390	6,564,751	77,620	37,088	10,080	0	0	0	0	9,342,929	13.6%	13.4%	Up
➔	Colchester Loss Portfolio Transfer & Stop Loss			33,276	6,564,751	77,620	37,088	10,080	0	0	0	0	6,722,815	9.8%	11.1%	Down
	CLLAS Net Retention												2,620,114	3.8%	2.3%	Up

CLLAS Reinsurance

Reinsurers by % of Current Liability

CURRENT YEAR (2021/2022)

Appendix E

Watch	Name	Jurisdiction	Reg'd?	LAYERS					TOTAL	Percent of Total	Prev. Year Percent of Total	Move-ment?
				\$.975MM XS	\$49MM XS	\$30/60MM XS	\$10-60MM XS	\$15-110MM XS				
				\$.025MM	\$1MM	\$65MM	\$160MM	\$50MM				
	Underwriters at Lloyd's	London	Yes	0	2,134,052	4,309	7,624	0	2,145,985	58.1%	55.3%	Up
➔	Colchester	Barbados	No	0	1,173,728	0	1,485	7,864	1,183,077	32.0%	22.3%	Up
	AMA 1200	Lloyd's	Yes	0	764,702	0	0	0	764,702	20.7%	19.1%	Up
	Hannover (Combined)	Combined	Yes	0	533,513	0	0	0	533,513	14.4%	14.3%	Up
	Argenta 2121	Lloyd's	Yes	0	533,513	0	0	0	533,513	14.4%	14.3%	Up
	AML 2001	Lloyd's	Yes	0	480,162	0	0	0	480,162	13.0%	11.9%	Up
	AUL 1274	Lloyd's	Yes	0	355,675	0	0	0	355,675	9.6%	9.5%	Up
	AXIS Re	Canada	Yes	0	248,973	0	742	0	249,715	6.8%	6.7%	Up
	Swiss Re (Combined)	Combined	Mixed	0	0	2,742	1,360	9,436	13,539	0.4%	0.5%	Down
	Westport Insurance Corp. (Swiss Re)	Canada	Yes	0	0	2,742	1,360	9,436	13,539	0.4%	0.5%	Down
	MKL 3000	Lloyd's	Yes	0	0	779	2,043	0	2,822	0.1%	0.1%	Down
	BRT 2987	Lloyd's	Yes	0	0	1,802	891	0	2,693	0.1%	0.1%	Down
	Canopus 4444	Lloyd's	Yes	0	0	635	1,363	0	1,999	0.1%	0.0%	Up
	Gerling Global Re	Canada	Yes	0	0	313	1,485	0	1,798	0.0%	0.1%	Down
	AWAC	Bermuda	No	0	0	470	1,039	0	1,510	0.0%	0.1%	Down
	Hamilton (Combined)	Combined	Yes	0	0	388	824	0	1,212	0.0%	0.1%	Down
	PEM 4000	Lloyd's	Yes	0	0	388	824	0	1,212	0.0%	0.1%	Down
	Sampo (Fronted by Trisura)	Canada	Yes	0	0	0	1,114	0	1,114	0.0%	0.0%	Up
	FDY 435	Lloyd's	Yes	0	0	353	679	0	1,032	0.0%	0.0%	Down
	Mosaic	Lloyd's	Yes	0	0	0	933	0	933	0.0%	0.0%	Up
	Probitas 1492	Lloyd's	Yes	0	0	0	891	0	891	0.0%	0.0%	Down
	AFB 623/2623	Lloyd's	Yes	0	0	352	0	0	352	0.0%	0.0%	Down
	Catlin (Combined)	Combined	Yes	0	0	0	0	0	0	0.0%	0.1%	Zero
	CNA (Combined)	Combined	Mixed	0	0	0	0	0	0	0.0%	0.0%	Zero
	RSA (Combined)	Combined	Yes	0	0	0	0	0	0	0.0%	0.1%	Zero

Total Current Liabilities

112,755 3,519,819 9,394 24,954 26,813 3,693,735

Proportional Reinsurance:

London	0	2,134,052	4,309	7,624	0	2,145,985	58.1%	67.2%	Down
Canada	0	248,973	3,056	4,701	9,436	266,166	7.2%	7.4%	Down
Bermuda	0	0	470	1,039	0	1,510	0.0%	0.1%	Down
Barbados	0	1,173,728	0	1,485	7,864	1,183,077	32.0%	22.3%	Up
Total	0	3,556,753	7,835	14,850	17,300	3,596,737	97.4%	96.9%	Up
CLLAS Proportional Retention	112,755	-36,934	1,559	10,105	9,513	96,997	2.6%	3.1%	Down
➔ Colchester Aggregate						0	0.0%	0.0%	Zero
CLLAS Net Retention						96,997	2.6%	3.1%	Down

CLLAS Reinsurance

Appendix F

Reinsurers by % of Single Claim Exposure

CURRENT YEAR (2021/2022)

Watch	Name	Jurisdiction	Reg'd?	LAYERS					TOTAL	Percent of Total	Prev. Year Percent of Total	Move-ment?
				\$.975MM XS	\$49MM XS	\$30/60MM XS	\$10-60MM XS	\$110MM XS				
				\$.025MM	\$1MM	\$65MM	\$160MM	\$50MM				
	Underwriters at Lloyd's	London	Yes	0	29,400,000	16,500,000	30,804,000	0	76,704,000	52.7%	44.5%	Up
➔	Colchester	Barbados	No	0	16,170,000	0	6,000,000	2,500,000	24,670,000	17.0%	9.8%	Up
	Swiss Re (Combined)	Combined	Mixed	0	0	10,500,000	5,496,000	3,000,000	18,996,000	13.1%	23.4%	Down
	Westport Insurance Corp. (Swiss Re)	Canada	Yes	0	0	10,500,000	5,496,000	3,000,000	18,996,000	13.1%	23.4%	Down
	MKL 3000	Lloyd's	Yes	0	0	2,982,000	8,256,000	0	11,238,000	7.7%	4.0%	Up
	AMA 1200	Lloyd's	Yes	0	10,535,000	0	0	0	10,535,000	7.2%	6.7%	Up
	BRT 2987	Lloyd's	Yes	0	0	6,900,000	3,600,000	0	10,500,000	7.2%	5.4%	Up
	Canopus 4444	Lloyd's	Yes	0	0	2,433,000	5,508,000	0	7,941,000	5.5%	0.0%	Up
	Hannover (Combined)	Combined	Yes	0	7,350,000	0	0	0	7,350,000	5.1%	0.0%	Up
	Argenta 2121	Lloyd's	Yes	0	7,350,000	0	0	0	7,350,000	5.1%	0.0%	Up
	Gerling Global Re	Canada	Yes	0	0	1,200,000	6,000,000	0	7,200,000	4.9%	4.9%	Unchanged
	AML 2001	Lloyd's	Yes	0	6,615,000	0	0	0	6,615,000	4.5%	3.3%	Up
	AXIS Re	Canada	Yes	0	3,430,000	0	3,000,000	0	6,430,000	4.4%	3.7%	Up
	AWAC	Bermuda	No	0	0	1,800,000	4,200,000	0	6,000,000	4.1%	4.1%	Unchanged
	AUL 1274	Lloyd's	Yes	0	4,900,000	0	0	0	4,900,000	3.4%	2.2%	Up
	Hamilton (Combined)	Combined	Yes	0	0	1,485,000	3,330,000	0	4,815,000	3.3%	0.0%	Up
	PEM 4000	Lloyd's	Yes	0	0	1,485,000	3,330,000	0	4,815,000	3.3%	2.0%	Up
	Sampo (Fronted by Trisura)	Canada	Yes	0	0	0	4,500,000	0	4,500,000	3.1%	0.0%	Up
	FDY 435	Lloyd's	Yes	0	0	1,353,000	2,742,000	0	4,095,000	2.8%	2.0%	Up
	Mosaic	Lloyd's	Yes	0	0	0	3,768,000	0	3,768,000	2.6%	0.0%	Up
	Probitas 1492	Lloyd's	Yes	0	0	0	3,600,000	0	3,600,000	2.5%	0.0%	Up
	AFB 623/2623	Lloyd's	Yes	0	0	1,347,000	0	0	1,347,000	0.9%	0.8%	Up
	Catlin (Combined)	Combined	Yes	0	0	0	0	0	0	0.0%	0.7%	Zero
	CNA (Combined)	Combined	Mixed	0	0	0	0	0	0	0.0%	3.4%	Zero
	RSA (Combined)	Combined	Yes	0	0	0	0	0	0	0.0%	3.3%	Zero

Maximum Exposure Any One Claim

975,000 49,000,000 30,000,000 60,000,000 5,500,000 145,475,000

Proportional Reinsurance:

London	0	29,400,000	16,500,000	30,804,000	0	76,704,000	52.7%	51.8%	Up
Canada	0	3,430,000	11,700,000	18,996,000	3,000,000	37,126,000	25.5%	34.9%	Down
Bermuda	0	0	1,800,000	4,200,000	0	6,000,000	4.1%	5.6%	Down
Barbados	0	16,170,000	0	6,000,000	2,500,000	24,670,000	17.0%	7.0%	Up
Total	0	49,000,000	30,000,000	60,000,000	5,500,000	144,500,000	99.3%	99.3%	Up

CLLAS Proportional Retention

975,000 0 0 0 0 975,000 0.7% 0.7% Down

Colchester Aggregate

n/a n/a n/a

CLLAS Net Retention

975,000 0.7% 0.7% Down

CLLAS Reinsurance

Appendix F-PF

Reinsurers by % of Single Claim Exposure

CURRENT YEAR (2021/2022)

Watch	Name	Jurisdiction	Reg'd?	LAYERS						US\$30MM* (\$39MM)	TOTAL	Percent of Total
				\$.975MM XS	\$49MM XS	\$30/60MM XS	\$10-60MM XS	\$15-50MM XS	\$60MM XS			
				\$.025MM	\$1MM	\$65MM	\$160MM	\$50MM	\$100MM			
	Underwriters at Lloyd's	London	Yes	0	29,400,000	16,500,000	30,804,000	0	0	6,630,000	83,334,000	28.8%
➔	Colchester	Barbados	No	0	16,170,000	0	6,000,000	0	0	0	22,170,000	7.7%
	Victor Insurance (PF)	Canada	Yes	0	0	0	0	5,000,000	15,000,000	0	20,000,000	6.9%
	Westport Insurance Corp. (Swiss Re)	Canada	Yes		0	10,500,000	5,496,000	0	0	0	15,996,000	5.5%
	Swiss Re (Combined)	Combined	Mixed	0	0	10,500,000	5,496,000	0	0	0	15,996,000	5.5%
	Liberty International Canada (PF)	Canada	Yes	0	0	0	0	10,000,000	5,700,000	0	15,700,000	5.4%
	Royal & Sun Alliance Co. of Canada (PF)	Canada	Yes	0	0	0	0	10,000,000	5,700,000	0	15,700,000	5.4%
	Travelers Insurance Company of Canada (PF)	Canada	Yes	0	0	0	0	5,000,000	9,900,000	0	14,900,000	5.2%
	AXA XL (PF)	Canada	Yes	0	0	0	0	5,000,000	0	6,435,000	11,435,000	4.0%
	MKL 3000	Lloyd's	Yes		0	2,982,000	8,256,000	0	0	0	11,238,000	3.9%
	AMA 1200	Lloyd's	Yes	0	10,535,000	0	0	0	0	0	10,535,000	3.6%
	BRT 2987	Lloyd's	Yes	0	0	6,900,000	3,600,000	0	0	0	10,500,000	3.6%
	The Sovereign General Insurance Company (PF)	Canada	Yes	0	0	0	0	0	9,900,000	0	9,900,000	3.4%
	QBE Insurance Group (PF)	Canada	Yes	0	0	0	0	5,000,000	4,800,000	0	9,800,000	3.4%
	CNA (US)	US	Yes	0	0	0	0	0	0	9,750,000	9,750,000	3.4%
	Bershire (PF)	US	Yes	0	0	0	0	0	0	9,750,000	9,750,000	3.4%
	Northbridge Insurance Company (PF)	Canada	Yes	0	0	0	0	2,500,000	6,000,000	0	8,500,000	2.9%
	Canopus 4444	Lloyd's	Yes	0	0	2,433,000	5,508,000	0	0	0	7,941,000	2.7%
	Hannover (Combined)	Combined	Yes	0	7,350,000	0	0	0	0	0	7,350,000	2.5%
	Argenta 2121	Lloyd's	Yes	0	7,350,000	0	0	0	0	0	7,350,000	2.5%
	Gerling Global Re	Canada	Yes	0	0	1,200,000	6,000,000	0	0	0	7,200,000	2.5%
	AML 2001	Lloyd's	Yes	0	6,615,000	0	0	0	0	0	6,615,000	2.3%
	Aspen Re (PF)	Canada	Yes		0	0	0	0	0	6,435,000	6,435,000	2.2%
	AXIS Re	Canada	Yes	0	3,430,000	0	3,000,000	0	0	0	6,430,000	2.2%
	AWAC	Bermuda	No	0	0	1,800,000	4,200,000	0	0	0	6,000,000	2.1%

Maximum Exposure Any One Claim

975,000 49,000,000 30,000,000 60,000,000 50,000,000 60,000,000 39,000,000 288,975,000 28.8%

Proportional Reinsurance:

London 0 29,400,000 16,500,000 30,804,000 0 0 6,630,000 83,334,000 2.1%
 Canada 0 3,430,000 11,700,000 14,496,000 50,000,000 60,000,000 12,870,000 152,496,000 7.7%
 US 0 0 0 0 0 0 19,500,000 19,500,000 98.1%
 Bermuda 0 0 1,800,000 4,200,000 0 0 0 6,000,000
 Barbados 0 16,170,000 0 6,000,000 0 0 0 22,170,000 1.9%
 Total 0 49,000,000 30,000,000 55,500,000 50,000,000 60,000,000 39,000,000 283,500,000

n/a

CLLAS Proportional Retention

975,000 0 0 4,500,000 0 0 0 5,475,000 1.9%

Colchester Aggregate

n/a

CLLAS Net Retention

5,475,000

Best's Credit Rating Effective Date

March 26, 2021

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Information

[Best's Credit Rating Methodology](#)

[Guide to Best's Credit Ratings](#)

[Market Segment Outlooks](#)

Financial Data Presented

The financial data in this report reflects the most current data available to the Analytical Team at the time of the rating. Updates to the financial exhibits in this report are available here: [Best's Financial Report](#).

Allied World Assurance Company Holdings, Ltd.

AMB #: 058218

Ultimate Parent: AMB # 058364 - Fairfax Financial Holdings Limited

Best's Credit Ratings - for the Rating Unit Members

Financial Strength Rating (FSR)

A
Excellent
Outlook: Stable
Action: Affirmed

Issuer Credit Rating (ICR)

a
Excellent
Outlook: Stable
Action: Affirmed

Assessment Descriptors

Balance Sheet Strength	Strongest
Operating Performance	Adequate
Business Profile	Neutral
Enterprise Risk Management	Appropriate

Rating Unit - Members

Rating Unit: Allied World Asr Co Hldgs Ltd | **AMB #:** 058218

AMB # Rating Unit Members
083090 Allied World Asr (Europe)DAC
012525 Allied World Asr Co (US) Inc
084808 Allied World Assurance Company
013865 Allied World Insurance Co

AMB # Rating Unit Members
012526 Allied World National Assur Co
012699 Allied World Specialty Ins Co
011719 Allied World Surplus Lines Ins
011219 Vantapro Specialty Ins Co

Best's Credit Rating - for the Holding Company

Issuer Credit Rating (ICR)

bbb	Outlook: Stable
Good	Action: Affirmed

Rating Rationale - for the Rating Unit Members

The Issuer Credit Ratings and Financial Strength Ratings of the member operating companies of the rating unit are determined in accordance with Best's building block rating methodology as applied to the consolidated group's financial statements, and the supporting analytics and results are described in the following sections of this report.

Balance Sheet Strength: **Strongest**

- Allied World Assurance Company Holdings, Limited (Allied World), currently maintains the strongest level of balance sheet strength, supported by generally favorable reserve development, diversified investment profile and controlled growth.
- Liquidity measures are sound and supported by short-term holdings, predominantly high quality fixed income securities and cash.
- Reinsurance panel is structured with highly rated companies.
- Allied World guarantees the long-term debt of its subsidiary, Allied World Assurance Company Holdings I, Limited (Bermuda). Financial leverage and coverage measures are favorable.
- The group's ultimate parent is Fairfax Financial Holdings (Fairfax). Allied World benefits from Fairfax's supportive financial leverage and favorable liquidity, with cash and short-term investments readily available to support its insurance operations.

Operating Performance: **Adequate**

- With the exception of 2017, which was a significant catastrophe year, in the past five years the group's underwriting performance has been stable as it focuses on the commercial casualty segment. Nonetheless, investment performance has been variable, with net realized and unrealized gains and losses being a large part of operating results.
- The group's underwriting performance is benefiting from significantly improved market conditions in most of its business segments, and while 2020 was an active year in terms of frequency of catastrophic events, severity did not significantly impact results.
- The group generates a low investment yield relative to its industry segment due to the investment strategy, which includes both lower-risk, liquid, short-term bonds, while equities are managed for long-term accretion to capital and to increase compounding rates of return. Due to this strategy, over time investment yield is expected to remain low but equities have historically produced volatile and generally positive contributions to surplus.
- The investment portfolio is managed by Hamblin Watsa Investment Counsel Limited (Hamblin Watsa), which is the investment management subsidiary of Fairfax, the group's ultimate parent company.

Business Profile: **Neutral**

- Allied World is a specialty (re)insurance company that underwrites a diversified portfolio of property, casualty, and specialty business.
- Growth in the group's insurance business in recent years has benefited from expanded branch networks as well as strong local broker relationships. Allied World has a successful track record of expansion in terms of geography with operations in Bermuda, Canada, Europe, Hong Kong, Lloyd's, Singapore, and the United States.
- About two-thirds of the group's gross premium is generated in the United States.
- The group increased its reinsurance premium in 2020 due to improving market conditions and mostly increased rates.

Enterprise Risk Management: **Appropriate**

- Allied World's risk management capabilities are viewed as being appropriate for its risk profile. Comprehensive enterprise risk management framework with specific risk tolerances and risk appetites discussed and monitored both formally and informally.
- The group maintains a diversified portfolio of insurance products designed to limit volatility of earnings and equity. Despite the focus, the group incurred significant catastrophe losses in 2017 and has since increased its enterprise aggregate protection, and reduced exposure to natural catastrophe lines and other lines, which has reduced its PMLs.
- The group monitors and estimates each of its anticipated risks as a percentage of capital. Stress and scenario tests are performed on the significant risks. Additionally, the group actively manages its cyber risks.
- The group also participates in risk management at the Fairfax group level under the direction of a chief risk officer. Risks are reviewed on a weekly basis with risk managers at the subsidiary level. This practice allows the group to share information, resources and best practices with the other operating entities.

Outlook

- The stable rating outlooks reflect AM Best's expectation that the group's strongest level of balance sheet strength will continue to be supported by adequate operating performance, diverse business profile, both geographically and by line of business, and well-defined enterprise risk management guidelines and controls.

Rating Drivers

- The ratings could be negatively impacted by a material increase in financial leverage of this intermediate holding company or at the ultimate parent level.
- The ratings could be negatively impacted by a deterioration in the group's operating performance to a level short of AM Best's expectation.
- The ratings could be positively affected by a trend of strong underwriting and operating performance that outperforms its peers over time while maintaining risk-adjusted capitalization at the strongest assessment level.

Rating Rationale - for the Holding Company

The rating of the holding company is determined by reference to the Issuer Credit Rating (ICR) of the operating insurance company members of the associated rating unit [Odyssey Group Holdings, Inc. AMB# 050722](#). It reflects consideration of holding company sources and uses of cash, the competing demands placed upon holding company resources and normal subordination of holding company creditors to claims of the policyholders of the operating insurance companies. In general, therefore, the holding company's Issuer Credit Rating is notched from those assigned to the operating companies of the rating unit.

Key Financial Indicators

Best's Capital Adequacy Ratio (BCAR) Scores (%)

Confidence Level	95.0	99.0	99.5	99.6
BCAR Score	61.0	43.4	36.2	34.1

Source: Best's Capital Adequacy Ratio Model - Universal

Key Financial Indicators	2019 USD (000)	2018 USD (000)	2017 USD (000)	2016 USD (000)	2015 USD (000)
Net Premium Written:					
Non-Life	2,519,000	2,368,800	2,238,800	2,255,900	2,448,000
Composite	2,519,000	2,368,800	2,238,800	2,255,800	2,448,000
Net Income	369,100	-86,900	-521,500	255,300	83,900
Total Assets	15,272,900	14,335,400	13,445,400	13,179,000	13,511,900
Total Capital and Surplus	4,136,100	3,581,800	2,523,600	3,551,800	3,532,500

Source: BestLink® - Best's Financial Suite

Key Financial Ratios (%)	2019 USD (000)	2018 USD (000)	2017 USD (000)	2016 USD (000)	2015 USD (000)	Weighted 5 Year Average
Profitability:						
Net Income Return on Revenue	12.8	-3.8	-21.4	9.9	3.3	0.8
Net Income Return on Capital and Surplus	9.6	-2.9	-17.2	7.2	2.3	0.6
Balance on Non-Life Technical Account	54,700	42,500	-585,900	91,000	120,400	...
Non-Life Combined Ratio	97.7	98.1	126.4	96.1	95.2	102.4
Net Investment Yield	2.7	2.0	2.1	2.4	2.1	2.3
Leverage:						
Net Premium Written to Capital and Surplus	60.9	66.1	88.7	63.5	69.3	...

Source: BestLink® - Best's Financial Suite

Credit Analysis

Balance Sheet Strength

Allied World Assurance Company Holdings's risk-adjusted capital is supportive of its premium growth, catastrophe loss exposure and current loss reserve position, which has shown some variability in recent accident years. Additionally the company benefits from its position as a member of the Fairfax Financial Holdings (Fairfax) group of companies given Fairfax's favorable financial flexibility and historical support of its insurance operations. The company also has long term debt with manageable interest coverage.

Loss reserve development has been variable over the past several accident years as a result of development on the group's commercial casualty coverage and property losses. In recent years, the group has increased its enterprise aggregate protection, and reduced exposure to natural catastrophe lines which has reduced its PMLs.

Capitalization

The group maintains the strongest indicated level of capital based on its BCAR strength and is expected to remain in the strongest range in 2021. The group's balance sheet strength assessment is also strongest.

Capital Generation Analysis	2019 USD (000)	2018 USD (000)	2017 USD (000)	2016 USD (000)	2015 USD (000)
Beginning Capital and Surplus	3,581,800	3,701,600	3,551,800	3,532,500	3,778,200
Net Income after Non-Controlling Interests	369,100	-86,900	-521,500	255,300	83,900
Currency Exchange Gains (Losses)	3,000	-5,300	3,000	-2,300	-9,300
Change in Paid-In Capital	187,800	-24,200	3,051,100	-86,600	-33,300
Stockholder Dividends	...	...	438,000	91,500	92,400
Other Changes in Capital and Surplus	-5,600	-3,400	-3,122,800	-55,600	-194,600
Net Change in Capital and Surplus	554,300	-119,800	-1,028,200	19,300	-245,700
Ending Capital and Surplus	4,136,100	3,581,800	2,523,600	3,551,800	3,532,500
Net Change in Capital and Surplus (%)	15.5	-3.2	-29.0	0.6	-6.5

Source: BestLink® - Best's Financial Suite

Liquidity Analysis	2019 USD (000)	2018 USD (000)	2017 USD (000)	2016 USD (000)	2015 USD (000)
Net Operating Cash Flow	261,300	-270,000	63,300	399,300	512,800
Liquid Assets to Total Liabilities (%)	66.6	66.7	70.1	80.8	82.9

Source: BestLink® - Best's Financial Suite

Asset Liability Management - Investments

The company maintains a diversified investment strategy with a long term value oriented approach, which provides adequate liquidity for the prompt payment of claims. The investment portfolio consists primarily of investment-grade, fixed-maturity securities of short-to medium-term duration. The average duration of the portfolio is short when compared with the company's casualty insurance focus. The short-term nature of the majority of the group's portfolio helps moderate the risk associated with its equity investment strategy and significant balance of reinsurer funds held.

Balance Sheet Strength (Continued...)

Composition of Cash and Invested Assets	2019 USD (000)	2018 USD (000)	2017 USD (000)	2016 USD (000)	2015 USD (000)
Total Cash and Invested Assets	8,252,600	7,872,600	8,199,600	8,739,700	9,239,800
Composition Percentages (%):					
Unaffiliated:					
Cash and Short Term Investments	11.5	10.9	14.4	9.1	7.2
Bonds	65.6	69.5	68.6	77.1	77.9
Stocks	12.7	10.7	10.4	2.8	4.4
Other Invested Assets	10.1	9.0	6.6	11.0	10.5
Total Unaffiliated Cash and Invested Assets	100.0	100.0	100.0	100.0	100.0
Total Cash and Invested Assets	100.0	100.0	100.0	100.0	100.0

Source: BestLink® - Best's Financial Suite

Holding Company Assessment

Allied World Assurance Holdings 1 (AMB# 51237) is an intermediate Bermuda holding company, which holds long term debt that is guaranteed by its parent, Allied World Assurance Holdings Ltd (AMB# 58218), which is an intermediate holding company in the Fairfax Financial organization structure.

Fairfax maintains supportive financial leverage as well as favorable liquidity, with cash and short term investments readily available to support its insurance operations.

Financial Leverage Summary - Holding Company AMB# 058364 Fairfax Financial Holdings Limited

Financial Leverage Ratio (%)	10.30
Adjusted Financial Leverage Ratio (%)	10.30
Interest Coverage (x)	7.00

Holding Company Analytics	2019 USD (000)	2018 USD (000)	2017 USD (000)	2016 USD (000)	2015 USD (000)
Debt to Capital and Surplus (%)	13.3	15.4	36.8	23.0	37.3
Liquid Assets to Total Liabilities (%)	66.6	66.7	70.1	80.8	82.9
Interest Expense	31,800	28,200	43,600	63,700	61,400

Source: BestLink® - Best's Financial Suite

Operating Performance

Operating performance has been variable over the past five years, primarily as a result of investment performance which have fluctuated with net realized and unrealized gains and losses being a large part of earnings. Over the past five years the group's underwriting performance has been stable with the exception of 2017, which was a significant catastrophe year.

The group's results are benefiting from recently improved market conditions in both its primary commercial casualty business segment and its property business, and also across most lines, including reinsurance. The group's five year performance has been dampened by adverse development on prior year casualty lines and significant natural catastrophe losses.

Casualty and property segments have benefited in 2019 and in 2020 from sizable rate increases and tightening of terms and conditions. Adverse loss reserve development on the group's 2019 calendar year results was manageable and mainly attributable to the group's more recent casualty business.

The group generates a low investment yield relative to its peers due to the investment allocation, which includes both lower- risk, lower-yielding short term bonds and equities and other assets that have been managed for long term accretion to capital. While investment income and yield are low as a result of the investment strategy, the equities and other assets have historically produced generally positive, albeit volatile, contributions to surplus.

Operating Performance (Continued...)

The investment portfolio is managed by Hamblin Watsa Investment Counsel Ltd. ("Hamblin Watsa"), which is the investment management subsidiary of Fairfax, the group's ultimate parent.

Financial Performance Summary	2019 USD (000)	2018 USD (000)	2017 USD (000)	2016 USD (000)	2015 USD (000)
Pre-Tax Income	388,800	-104,400	-528,200	246,200	89,700
Net Income (after Non-Controlling Interests)	369,100	-86,900	-521,500	255,300	83,900

Source: BestLink® - Best's Financial Suite

Operating and Performance Ratios (%)	2019	2018	2017	2016	2015
Overall Performance:					
Return on Assets	2.5	-0.6	-3.9	1.9	0.7
Return on Capital and Surplus	9.6	-2.9	-17.2	7.2	2.3
Non-Life Performance:					
Loss and LAE Ratio	70.4	71.8	94.8	64.1	63.8
Expense Ratio	27.3	26.3	31.6	32.1	31.4
Combined Ratio	97.7	98.1	126.4	96.1	95.2

Source: BestLink® - Best's Financial Suite

Business Profile

Allied World has established itself as a specialty insurance and reinsurance group that underwrites a diversified portfolio of property and casualty insurance and reinsurance lines of business. The group writes direct property and casualty insurance as well as reinsurance through operations in Australia, Bermuda, Canada, Europe, Hong Kong, Labuan, Lloyd's, Singapore and the United States. Allied World Assurance Company Holdings Limited is domiciled in Bermuda. Fairfax Financial Holdings is the ultimate parent of the group.

Management monitors the performance of its direct underwriting operations based on the geographic location of the group's offices, the markets, and customers served and the type of accounts written. The group's two operating segments are Insurance and Reinsurance. The Insurance Segment includes the group's North America and Global Markets Operations. The North American Operation includes the group's direct specialty insurance operations in the United States, Bermuda and Canada. The Bermuda office underwrites primarily larger, Fortune 1000 casualty and property risks for accounts domiciled in North America, while the U.S. and Canada operations generally write small- and middle-market, non-Fortune 1000 accounts domiciled in North America, including public entities, private companies, and non-profit organizations. The North America Operation has established offices in Atlanta, Bermuda, Boston, Chicago, Costa Mesa (CA), Dallas, Farmington (CT), Los Angeles, Miami, New York City, Philadelphia, San Francisco, and Toronto. The Global Markets Operation includes the group's direct insurance business outside of North America operating primarily out of Europe, Asia, and Australia. The European offices focus on mid-sized to large European and multi-national companies domiciled outside of North America and continue diversifying into products for small and middle-market accounts. This segment also underwrites a variety of professional liability, general casualty, and healthcare liability products from its offices in Asia. The group's Asian business increased with its April 2015 acquisition of RSA's Hong Kong and Singapore operations. In June 2010, the company formed Syndicate 2232 at Lloyd's of London. The syndicate offers select product lines, which include international property, general casualty, and professional liability lines targeted at key territories such as countries in Latin America and the Asia-Pacific region.

The Reinsurance Segment includes the group's operations in the United States, Bermuda, Europe and Singapore. This segment currently writes reinsurance on both a treaty and a facultative basis, targeting several niche reinsurance markets, including property coverages, general casualty, professional liability, and specialty lines. The group's U.S. operations operate out of New York City and focus on general casualty, professional liability, property coverages, and specialty lines including marine, aerospace, and crop. The group's Bermuda operation focuses on property catastrophe, property treaty, and specialty casualty coverages. The group operates an office in Zug, Switzerland, that offers property, general casualty and professional liability products throughout Europe. Syndicate 2232 also offers international treaty reinsurance. The group operates in Asia with its Singapore office which serves as the company's hub for all classes of treaty reinsurance for the region. The group operates a Miami office to act as a Lloyd's coverholder, underwriting treaty business in Latin America and the Caribbean. Responsibility and accountability for the results of underwriting operations are assigned by major line of business within each of the operating segments.

The group markets its insurance and reinsurance products worldwide through selected third-party intermediaries. Direct insurance policies are written through various intermediaries, including excess and surplus lines wholesalers and regional and national retail

Business Profile (Continued...)

brokerage firms. Reinsurance is mostly placed through a small group of globally known reinsurance brokers although the group continues to build relationships with smaller distribution partners.

The sale of Vault, which closed in the Q1 2021, represents an exit in the high net worth personal insurance in New York and Florida, which was not the focus of the group.

Geographical Breakdown of Gross Premiums Written

	2019 USD (000)	2018 USD (000)	2017 USD (000)	2016 USD (000)	2015 USD (000)
Other Asia	400,400	379,400	370,600	352,200	313,100
Total Asia	400,400	379,400	370,600	352,200	313,100
Other Europe	418,600	371,900	311,900	296,300	326,900
Total Europe	418,600	371,900	311,900	296,300	326,900
Canada	55,000	30,800	24,900	18,500	16,000
United States	2,340,900	2,026,300	1,922,100	1,903,400	1,893,400
Total North America	2,395,900	2,057,100	1,947,000	1,921,900	1,909,400
Bermuda	645,400	560,500	469,000	495,400	543,600
Total Caribbean	645,400	560,500	469,000	495,400	543,600
Total World-Wide	3,860,300	3,368,900	3,098,500	3,065,800	3,093,000

Source: BestLink® - Best's Financial Suite

Enterprise Risk Management

Allied World maintains a comprehensive risk management program, which is viewed as appropriate for the complexity of its operations. Allied World's enterprise risk management ("ERM") consists of numerous formalized processes and controls that have been designed by senior management, with oversight by the Board of Directors, and implemented by employees across the organization. The economic capital model is a key element to the company's risk management. The company's ERM supports the firm-wide decision making process by aiming to provide reliable and timely risk information. The risk governance structure includes committees comprised of senior underwriting, actuarial, finance, legal, investment and operations staff that identify, monitor and help manage each of these risks. The management-based Risk Management Committee, chaired by the Chief Risk Officer, focuses primarily on identifying correlations among the primary categories of risk, developing metrics to assess the overall risk position, performing an annual risk assessment and reviewing continually factors that may impact organizational risk. This risk governance structure is complemented by the company's internal audit department.

Insurance companies in Bermuda are regulated by the Insurance Division of the Bermuda Monetary Authority. In Bermuda, there are no taxes on profits, income, dividends or capital gains. There is only a licensing fee which is dependent upon the level of authorized capital. Exempted companies are able to enter an agreement with the government whereby any such taxes imposed in the future would not be applicable until March 31, 2035. Allied World has entered into such an agreement with the Bermudian government. The Insurance Act provides that the statutory assets of an insurer must exceed its statutory liabilities by an amount greater than the prescribed minimum solvency margin, which for a Class 4 insurer such as Allied World is the greatest of \$100 million, 50% of net premiums written or 15% of net losses and loss expense reserves.

Financial Statements

	12/31/2019		12/31/2018
	USD (000)	%	USD (000)
Balance Sheet			
Cash and Short Term Investments	951,300	6.2	855,000
Bonds	5,415,500	35.5	5,471,900
Equity Securities	1,050,900	6.9	840,500
Other Invested Assets	834,900	5.5	705,200
Total Cash and Invested Assets	8,252,600	54.0	7,872,600
Reinsurers' Share of Reserves	3,428,600	22.4	2,926,400
Debtors / Amounts Receivable	1,187,600	7.8	1,007,600
Other Assets	2,404,100	15.7	2,528,800
Total Assets	15,272,900	100.0	14,335,400
Gross Technical Reserves:			
Unearned Premiums	2,139,200	14.0	1,807,700
Non-Life Reserves	7,672,700	50.2	7,653,500
Total Gross Technical Reserves	9,811,900	64.2	9,461,200
Debt / Borrowings	549,200	3.6	550,700
Other Liabilities	775,700	5.1	741,700
Total Liabilities	11,136,800	72.9	10,753,600
Capital Stock	13,100	0.1	12,100
Paid-in Capital	4,455,400	29.2	4,268,600
Retained Earnings	-324,800	-2.1	-693,900
Other Capital and Surplus	-7,600	...	-5,000
Total Capital and Surplus	4,136,100	27.1	3,581,800
Total Liabilities, Mezzanine Items and Surplus	15,272,900	100.0	14,335,400

Source: BestLink® - Best's Financial Suite

AMB #: 058218 - Allied World Assurance Company Hldgs Ltd

				12/31/2019	12/31/2018
	Non-Life	Life	Other	Total	Total
Income Statement	USD (000)	USD (000)	USD (000)	USD (000)	USD (000)
Gross premiums written	3,860,300	...	...	3,860,300	3,368,900
Net Premiums Earned	2,425,500	...	...	2,425,500	2,286,800
Net Investment Income	...	...	218,000	218,000	160,800
Net realized gains/(losses)	...	...	15,100	15,100	13,400
Net unrealized gains/(losses)	...	...	198,100	198,100	-217,600
Other income	...	...	36,000	36,000	12,300
Total Revenue	2,425,500	...	467,200	2,892,700	2,255,700
Losses and Benefits	1,707,900	...	...	1,707,900	1,642,600
Net Operating Expense	662,900	...	86,500	749,400	685,800
Other Expense	...	...	14,800	14,800	3,500
Total Losses, Benefits, and Expenses	2,370,800	...	101,300	2,472,100	2,331,900
Earnings before interest & taxes (EBIT)	54,700	...	365,900	420,600	-76,200
Interest Expense	...	...	...	31,800	28,200
Income Taxes Incurred	...	...	...	25,300	-14,100
Net income before Non-Controlling interests	...	...	...	363,500	-90,300
Non-Controlling interests	...	...	...	5,600	3,400
Net income/(loss) from continuing operations	...	...	...	369,100	-86,900
Net Income	...	...	...	369,100	-86,900

Source: BestLink® - Best's Financial Suite

	12/31/2019	12/31/2018
Statement of Cash Flows	USD (000)	USD (000)
Net cash provided/(used) in Operating Activities	261,300	-270,000
Net cash provided/(used) in Investing Activities	-26,500	-18,800
Net cash provided/(used) in Financing Activities	-147,400	-38,600
Effect of Exchange Rates/Discontinued Operations on Cash	8,900	-9,200
Total increase (decrease) in cash	96,300	-336,600
Cash, beginning balance	855,000	1,191,600
Cash, ending balance	951,300	855,000

Source: BestLink® - Best's Financial Suite

Related Methodology and Criteria

[Best's Credit Rating Methodology, 11/13/2020](#)

[Catastrophe Analysis in A.M. Best Ratings, 10/13/2017](#)

[Available Capital & Holding Company Analysis, 10/13/2017](#)

[Scoring and Assessing Innovation, 03/05/2020](#)

[Understanding Universal BCAR, 03/11/2021](#)



BEST'S CREDIT REPORT

AMB #: 058218 - Allied World Assurance Company Hldgs Ltd

A Best's Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance obligations. The ratings are not assigned to specific insurance policies or contracts and do not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Financial Strength Rating is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

A Best's Issue/Issuer Credit Rating is an opinion regarding the relative future credit risk of an entity, a credit commitment or a debt or debt-like security.

Credit risk is the risk that an entity may not meet its contractual, financial obligations as they come due. These credit ratings do not address any other risk, including but not limited to liquidity risk, market value risk or price volatility of rated securities. The rating is not a recommendation to buy, sell or hold any securities, insurance policies, contracts or any other financial obligations, nor does it address the suitability of any particular financial obligation for a specific purpose or purchaser.

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COLCHESTER REINSURANCE LIMITED

PERIODIC REPORTING PACKAGE

FOR THE TWELVE MONTHS ENDED JUNE 30, 2021

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2. STATEMENTS OF INCOME & RETAINED EARNINGS

3. NOTES TO THE FINANCIAL STATEMENTS

PREPARED BY: AON INSURANCE MANAGERS (BARBADOS) LTD

ACCOUNT EXECUTIVE: LEANNE KNIGHT

COLCHESTER REINSURANCE LIMITED
UNAUDITED BALANCE SHEET AS AT JUNE 30, 2021
(EXPRESSED IN CANADIAN \$)

		JUNE 30, 2021	JUNE 30, 2020
ASSETS			
Cash at bank - premier accounts		759,059.38	1,583,020.78
Cash & cash equivalents	1	759,059.38	1,583,020.78
Royal Bank of Canada-Investments	2	38,264,870.53	38,327,747.54
Accrued interest receivable	3	204,433.27	220,671.43
Provision for Losses Recoverable	4	7,342,050.00	7,042,000.00
Deferred Reinsurance Premiums	5	0.00	0.00
Prepaid expenses	6	8,003.00	8,204.00
		<u>45,819,356.80</u>	<u>45,598,622.97</u>
TOTAL ASSETS		<u><u>46,578,416.18</u></u>	<u><u>47,181,643.75</u></u>
Accrued expenses	7	106,908.41	174,576.00
Claims payable		48,580.65	48,703.20
		<u>155,489.06</u>	<u>223,279.20</u>
RESERVES			
Unearned Premium Reserve	9	0.00	0.00
Outstanding losses	8	9,015,913.00	8,777,000.00
Outstanding losses - I.B.N.R.	8	12,537,888.00	12,584,000.00
		<u>21,553,801.00</u>	<u>21,361,000.00</u>
SHAREHOLDERS EQUITY			
Share capital-common shares		1,100.00	1,100.00
Class A preference shares		3,314,000.00	3,314,000.00
Earned surplus at start of year		20,798,983.81	22,086,550.12
Net profit/(loss) for the period		121,170.83	(1,287,566.31)
		<u>24,235,254.64</u>	<u>24,114,083.81</u>
Accum. Other Comprehensive Income		633,871.48	1,483,280.74
TOTAL SHAREHOLDERS EQUITY		<u><u>24,869,126.12</u></u>	<u><u>25,597,364.55</u></u>
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY		<u><u>46,578,416.18</u></u>	<u><u>47,181,643.75</u></u>

COLCHESTER REINSURANCE LIMITED
UNAUDITED STATEMENT OF INCOME
FOR THE PERIOD JULY 1 2020 TO JUNE 30, 2021
(EXPRESSED IN CANADIAN \$)

	MOVEMENT DURING QTR	12 MONTHS TO JUNE 30, 2021	12 MONTHS TO JUNE 30, 2020
UNDERWRITING INCOME			
Premiums written	437.74	1,713,252.74	1,330,072.00
Unearned premium transfer	428,203.75	0.00	0.00
GROSS EARNED PREMIUMS	428,641.49	1,713,252.74	1,330,072.00
Reinsurers' ceded premiums	(437.74)	(1,539,730.92)	(1,261,726.16)
Deferred ceded premiums	(384,823.30)	0.00	0.00
Reinsurers' ceded premiums earned	(385,261.04)	(1,539,730.92)	(1,261,726.16)
	43,380.45	173,521.82	68,345.84
TOTAL UNDERWRITING INCOME	43,380.45	173,521.82	68,345.84
UNDERWRITING EXPENSES			
Net losses paid	58,751.89	543,027.63	62,687.65
Outstanding losses adjustment	(59,126.00)	238,913.00	1,210,000.00
Transfer to IBNR	17,684.00	(46,112.00)	1,232,000.00
Transfer to prov. for losses recoverable	(108,582.00)	(300,050.00)	(618,000.00)
NET INCURRED LOSSES	(91,272.11)	435,778.63	1,886,687.65
OTHER UNDERWRITING EXPENSES (see schedule)	19,313.00	77,250.00	77,250.50
TOTAL UNDERWRITING EXPENSES	(71,959.11)	513,028.63	1,963,938.15
UNDERWRITING PROFIT / (LOSS)	115,339.56	(339,506.81)	(1,895,592.31)
GENERAL AND ADMIN EXPENSES (see schedule)	54,519.33	219,412.76	234,413.12
	60,820.23	(558,919.57)	(2,130,005.43)
INTEREST INCOME & EXCEPTIONAL ITEMS			
Interest income	230,627.14	945,507.05	964,146.52
Profit/(loss) on sale of invts	0.00	22,572.24	181,020.53
Amortisation of investments	(54,316.02)	(169,500.01)	(179,808.22)
Investment management fees	(23,772.06)	(95,252.24)	(88,363.68)
Investment Custody Fees	(5,018.20)	(23,236.64)	(17,982.76)
	147,520.86	680,090.40	859,012.39
NET PROFIT/(LOSS) BEFORE TAX	208,341.09	121,170.83	(1,270,993.04)
INCOME TAX	0.00	0.00	16,573.27
DIVIDEND PAID	0.00	0.00	0.00
NET PROFIT/(LOSS) AFTER TAX	208,341.09	121,170.83	(1,287,566.31)

COLCHESTER REINSURANCE LIMITED

ANALYSIS OF EXPENSES AS AT JUNE 30, 2021 FOR THE PERIOD JULY 1 2020 TO JUNE 30, 2021

	MOVEMENT DURING QTR	12 MONTHS TO JUNE 30, 2021	12 MONTHS TO JUNE 30, 2020
UNDERWRITING EXPENSES			
Brokerage commission	19,313.00	77,250.00	77,250.50
	<u>19,313.00</u>	<u>77,250.00</u>	<u>77,250.50</u>
GENERAL & ADMIN EXPENSES			
Management fees	22,250.00	89,000.00	89,000.00
Directors fees	3,600.00	14,517.45	16,291.00
Audit fees	6,675.00	28,253.42	34,803.76
Tax consultancy fees	1,915.00	1,915.00	4,325.66
Actuarial fees	10,770.58	46,121.59	58,294.92
Legal fees	0.00	0.00	3,105.00
Insurance Costs - D&O	2,527.13	10,106.25	7,987.50
Secretarial fees	613.82	7,250.10	6,641.62
Licence fees	4,767.89	16,973.52	0.00
Bank and L.O.C charges	520.92	1,620.96	1,097.71
Communication expenses	878.99	3,654.47	4,585.47
Travel	0.00	0.00	8,280.48
	<u>54,519.33</u>	<u>219,412.76</u>	<u>234,413.12</u>

COLCHESTER REINSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

1. CASH ON DEPOSIT

Royal Bank - Canadian Dollar Call Account	43,052.78
Royal Bank - Premier Canadian Dollar Account	716,006.60
	<u>759,059.38</u>

2. INVESTMENTS

Investment at cost	38,001,383.58
Amortization	(370,384.52)
Portfolio at amortized cost	<u>37,630,999.06</u>
Unrealized gain / (loss)	633,871.47
Portfolio at market value	<u>38,264,870.53</u>

3. ACCRUED INTEREST RECEIVABLE

Investments - RBC	204,433.27
	<u>204,433.27</u>

4. PROVISION FOR LOSS RECOVERABLES (DISCOUNTED)

Canadian Lawyers Liability Assurance Society

U/W Year	CASE RESERVES	IBNR	TOTAL
2004/2005	0.00	0.00	0.00
2005/2006	0.00	0.00	0.00
2006/2007	0.00	0.00	0.00
2007/2008	0.00	0.00	0.00
2008/2009	0.00	8,025.00	8,025.00
2009/2010	0.00	0.00	0.00
2010/2011	0.00	0.00	0.00
2011/2012	0.00	84,335.00	84,335.00
2012/2013	0.00	89,325.00	89,325.00
2013/2014	0.00	94,957.00	94,957.00
2014/2015	0.00	81,719.00	81,719.00
2015/2016	0.00	191,549.00	191,549.00
2016/2017	0.00	543,031.00	543,031.00
2017/2018	0.00	834,065.00	834,065.00
2018/2019	0.00	1,134,396.00	1,134,396.00
2019/2020	0.00	1,948,002.00	1,948,002.00
2020/2021	0.00	2,332,646.00	2,332,646.00
	<u>0.00</u>	<u>7,342,050.00</u>	<u>7,342,050.00</u>

COLCHESTER REINSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

5. DEFERRED REINSURANCE PREMIUMS

Reinsurers' Premium to be earned	(\$1,539,293.18*12/0)	0.00
		0.00

6. PREPAID EXPENSES

Annual Government Tax	US\$12,500 p.a.	8,003.00
		8,003.00

7. ACCOUNTS PAYABLE/ACCRUED EXPENSES

Audit fees	29,100.00
Investment Fees	23,447.00
Investment Custody Fees	7,517.00
Brokerage Commission	19,313.00
Actuarial Fees	10,710.41
Director's Fees	14,906.00
Consultancy Fee - Tax	1,915.00
	106,908.41

8. OUTSTANDING LOSSES (DISCOUNTED)

Canadian Lawyers Liability Assurance Society

U/W Year	CASE RESERVES	IBNR	TOTAL
2004/2005	0.00	0.00	0.00
2005/2006	0.00	0.00	0.00
2006/2007	0.00	0.00	0.00
2007/2008	3,500,000.00	374,989.00	3,874,989.00
2008/2009	0.00	44,652.00	44,652.00
2009/2010	2,480,439.00	410,844.00	2,891,283.00
2010/2011	122,587.00	243,557.00	366,144.00
2011/2012	346,829.00	247,615.00	594,444.00
2012/2013	0.00	168,066.00	168,066.00
2013/2014	1,176,491.00	268,767.00	1,445,258.00
2014/2015	0.00	125,027.00	125,027.00
2015/2016	912,937.00	375,405.00	1,288,342.00
2016/2017	131,630.00	833,639.00	965,269.00
2017/2018	0.00	1,195,861.00	1,195,861.00
2018/2019	0.00	1,661,095.00	1,661,095.00
2019/2020	345,000.00	3,038,120.00	3,383,120.00
2020/2021		3,550,251.00	3,550,251.00
	9,015,913.00	12,537,888.00	21,553,801.00

9. UNEARNED PREMIUM RESERVE

Premiums	(\$1,712,815/12*0)	0.00
		0.00

COLCHESTER REINSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

10. LOSS/EQUITY RATIO

Loss Reserves	21,553,801.00
Shareholder Equity	24,235,254.64
Ratio	89%

An actuarial report is required to be submitted to the Supervisor of Insurance when the Loss Reserve/Equity Ratio exceeds 200%.

11. MARGIN OF SOLVENCY

Assets must exceed liabilities by:

- (1) (US\$125,000 in the first year of operation)
- (2) (US\$125,000, if premium Income of the previous year < US\$750,000)
- (3) (20% of premium income of the previous year, if premium income > US\$750,000 but < US\$5,000,000)
- (4) (US\$1,000,000 + 1/10 of premium income of the previous year, if premium income > US\$5,000,000)

Premiums Earned	68,345.84
Minimum Solvency Margin re (2) above	169,700.00
Total Assets	46,578,416.18
Less: Non-admitted Assets	
Long Term Investments	0.00
Prepayments	8,003.00
Total Admitted Assets	46,570,413.18
Total Liabilities	21,709,290.06
Solvency Margin (Excess of Assets over Liabilities)	24,861,123.12
Excess over Minimum Solvency Margin	<u>24,691,423.12</u>

COLCHESTER REINSURANCE LIMITED
UNDERWRITING ANALYSIS AS AT JUNE 30, 2021
FOR THE PERIOD APRIL 1, 2021 TO JUNE 30, 2021

	Inward Reinsurance of CLLAS EOL 49Mx1M-23%	Inward Reinsurance of CLLAS Agg. Stop Loss 50Mx50M-5%	Inward Reinsurance of CLLAS ADD 50 to 89-011 60Mx160M-10%	Inward Reinsurance of CLLAS Excess Layers 60Mx160M-10%	Outward Retro. of Colchester EOL 5Mx5M-23%	Outward Retro. of Colchester EOL 40Mx10M-23%	Outward Retro. of Colchester Agg. Stop Loss 15Mx3M-100%	Outward Retro. of Colchester EOL 40Mx10M-100%	Outward Retro. of Colchester Excess Layers 60Mx160M-100%	Total
Limits										
Policy No.										
Policy Period	CLLAS00120 1-Jul-20 to 30-Jun-21	CLLAS00420 1-Jul-20 to 30-June-21	ADD 50 to 89- 011 1-Jul-20 to 30-June-21	CLLAS00220 1-Jul-20 to 30-June-21	C206010 - CLLAS000120 1-Jul-20 to 30-June-21	C206020 - CLLAS000120 1-Jul-20 to 30-June-21	C206016 1-Jul-20 to 30-June-21	C201016 - CLLAS000420 1-Jul-20 to 30-June-21	C206008 - CLLAS000220 1-Jul-20 to 30-June-21	
Premiums Written	-	437.74	-	-			-			437.74
Trfd from Unearned Prem. Reserve	367,908.00	19,513.75	22,626.75	18,155.25						428,203.75
Premiums Earned	367,908.00	19,951.49	22,626.75	18,155.25						428,641.49
Reinsurance Premiums Ceded					-	-	-	(437.74)	-	(437.74)
Trfd from Deferred Reins. Prem.			-		(70,069.04)	(215,016.02)	(62,977.00)	(19,513.75)	(17,247.49)	(384,823.30)
Reinsurance Premiums Earned			-		(70,069.04)	(215,016.02)	(62,977.00)	(19,951.49)	(17,247.49)	(385,261.04)
Net Premiums Earned										43,380.45

App. 1a

COLCHESTER REINSURANCE LIMITED
UNDERWRITING ANALYSIS AS AT JUNE 30, 2021
FOR THE PERIOD JULY 1, 2020 TO JUNE 30, 2021

	Inward Reinsurance of CLLAS EOL 49Mx1M-23%	Inward Reinsurance of CLLAS Agg. Stop Loss 50Mx50M-5%	Inward Reinsurance of CLLAS ADD 50 to 89-011 60Mx160M-10%	Inward Reinsurance of CLLAS Excess Layers 60Mx160M-10%	Outward Retro. of Colchester EOL 5Mx5M-23%	Outward Retro. of Colchester EOL 40Mx10M-23%	Outward Retro. of Colchester Agg. Stop Loss 15Mx3M-100%	Outward Retro. of Colchester EOL 40Mx10M-100%	Outward Retro. of Colchester Excess Layers 60Mx160M-100%	Total
Limits										
Policy No.										
Policy Period	CLLAS00120 1-Jul-20 to 30-Jun-21	CLLAS00420 1-Jul-20 to 30-Jun-21	ADD 50 to 89-011 1-Jul-20 to 30-Jun-21	CLLAS00220 1-Jul-20 to 30-Jun-21	C206010 - CLLAS000120 1-Jul-20 to 30-Jun-21	C206020 - CLLAS000120 1-Jul-20 to 30-Jun-21	C206016 1-Jul-20 to 30-Jun-21	C201016 - CLLAS000420 1-Jul-20 to 30-Jun-21	C206008 - CLLAS000220 1-Jul-20 to 30-Jun-21	
Premiums Written	1,471,632.00	78,492.74	90,507.00	72,621.00						1,713,252.74
Trfd from Unearned Prem. Reserve	-	-	-	-						-
Premiums Earned	<u>1,471,632.00</u>	<u>78,492.74</u>	<u>90,507.00</u>	<u>72,621.00</u>						<u>1,713,252.74</u>
Reinsurance Premiums Ceded					(280,276.16)	(860,064.07)	(251,908.00)	(78,492.74)	(68,989.95)	(1,539,730.92)
Trfd from Deferred Reins. Prem.					-	-	-	-	-	-
Reinsurance Premiums Earned					<u>(280,276.16)</u>	<u>(860,064.07)</u>	<u>(251,908.00)</u>	<u>(78,492.74)</u>	<u>(68,989.95)</u>	<u>(1,539,730.91)</u>
Net Premiums Earned										<u>173,521.82</u>

App. 1b

Best's Credit Rating Effective Date

July 21, 2021

Analytical Contacts

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Information[Best's Credit Rating Methodology](#)[Guide to Best's Credit Ratings](#)[Market Segment Outlooks](#)**Financial Data Presented**

The financial data in this report reflects the most current data available to the Analytical Team at the time of the rating. Updates to the financial exhibits in this report are available here: [Best's Financial Report](#).

Lloyd's**AMB #:** 085202 | **AIIN#:** AA-1122000**Ultimate Parent:** AMB # 051215 - Society of Lloyd's**Best's Credit Ratings - for the Rating Unit Members****Financial Strength Rating
(FSR)**

A
Excellent
Outlook: Stable
Action: Affirmed

**Issuer Credit Rating
(ICR)**

a+
Excellent
Outlook: Stable
Action: Affirmed

Assessment Descriptors

Balance Sheet Strength	Very Strong
Operating Performance	Strong
Business Profile	Favorable
Enterprise Risk Management	Appropriate

Rating Unit - Members**Rating Unit:** Lloyd's | **AMB #:** 085202

AMB # **Rating Unit Members**
078649 Lloyd's Ins Co (China) Ltd

AMB # **Rating Unit Members**
095926 Lloyd's Insurance Co. S.A.

Rating Rationale

Balance Sheet Strength: **Very Strong**

- The market has the strongest level of risk-adjusted capitalisation, as measured by Best's Capital Adequacy Ratio (BCAR).
- A robust capital-setting regime, which incorporates a risk-based approach to setting member-level capital, helps protect risk-adjusted capitalisation from volatility.
- Member-level capital is subject to fungibility constraints as it is held on a several rather than joint basis.
- Balance sheet strength is underpinned by a strong Central Fund that is available, at the discretion of the Council of Lloyd's, to meet the policyholder obligations of all Lloyd's members.
- An offsetting factor is the market's significant, albeit reducing, exposure to catastrophe risk and its dependence on reinsurance to manage this risk.

Operating Performance: **Strong**

- Lloyd's is expected to report strong operating performance across the underwriting cycle, taking into account potential volatility due to its catastrophe exposure. However, recent underwriting performance has been below AM Best's expectations for a strong assessment, demonstrated by a five-year (2016-2020) combined ratio of 105.9%.
- Improving market conditions as well as the robust performance oversight by the Corporation have started to materialise in measurable improvements in the attritional accident-year performance. Further improvements are expected over the next three years.
- The market's expense ratio is high compared to that of peers. Actions are being taken through the Future at Lloyd's initiative to reduce the cost of placing business at Lloyd's, the benefits of which should start to be realised over the short term.
- The market's consolidated operating performance cannot be viewed as a leading indicator of its future balance sheet strength to the same extent as it is for other insurers. Earnings generated by the market do not directly build or erode Lloyd's capital base, as profits and losses are distributed to the market's capital providers when a year of account is closed. Despite recent underwriting performance, Lloyd's continues to demonstrate that it is able to retain and attract capital to the market.

Business Profile: **Favorable**

- Lloyd's has a strong position in the global general insurance and reinsurance markets as a leading writer of specialty property and casualty risks.
- Although Lloyd's syndicates operate as individual businesses, the collective size of the market allows them to compete with international groups under the Lloyd's brand.
- The markets in which Lloyd's operates are highly competitive. Lloyd's reliance on brokers to underwrite specialty and reinsurance business makes it vulnerable to price-based competition.
- The portfolio is well diversified but with some geographical bias towards North America and product bias towards commercial specialty lines products.
- Product risk is moderate to high. Higher-risk lines include reinsurance, energy, aviation, some marine business and a high proportion of the casualty and property business written. The majority of small commercial and consumer business, as well as some of the business written through coverholders, is lower risk.

Enterprise Risk Management: **Appropriate**

- Lloyd's enterprise risk management framework is well developed and appropriate for the size and complexity of the Lloyd's market.
- Risk management capabilities are aligned with the market's risk profile.
- The Corporation's risk management function works closely across other functional areas of the Corporation to provide the market additional oversight.
- An internal capital model, in place since 2012, is used to calculate the solvency capital requirement under the Solvency II regime as well as to stress test the market's risk-adjusted capitalisation. In AM Best's opinion, the internal capital model strongly supports the Corporation's ability to assess the capital adequacy of the market.

Outlook

- The stable outlooks reflect AM Best's expectation that risk-adjusted capitalisation will remain at the strongest level, supported by Lloyd's capital management strategy and the requirement for members to replenish their funds at Lloyd's following losses. Operating performance is expected to remain supportive of the strong assessment over the cycle underpinned by the market's ability to retain and attract capital. Lloyd's is expected to maintain its favourable business profile, underpinned by the strong Lloyd's brand, its international network of licences, and underwriting expertise.

Rating Drivers

- Negative rating actions could arise following a material deterioration in the market's risk-adjusted capitalisation, for instance, due to a substantial loss to the Central Fund or a reduction in member-level capital requirements set by Lloyd's.
- Negative rating actions could arise if Lloyd's underlying performance does not improve in line with expectations.
- Upward rating movements are considered unlikely in the short term. Longer term, positive rating pressure could arise supported by the successful execution of the Future at Lloyd's strategy and reducing catastrophe exposure.

Key Financial Indicators

AM Best may recategorize company-reported data to reflect broader international reporting standards and increase global comparability.

Best's Capital Adequacy Ratio (BCAR) Scores (%)

Confidence Level	95.0	99.0	99.5	99.6
BCAR Score	73.4	61.1	55.4	53.7

Source: Best's Capital Adequacy Ratio Model - Universal

Key Financial Indicators	2020 GBP (000)	2019 GBP (000)	2018 GBP (000)	2017 GBP (000)	2016 GBP (000,000)
Net Premiums Written:					
Non-Life	25,826,000	25,659,000	25,681,000	24,869,000	23,066
Composite	25,826,000	25,659,000	25,681,000	24,869,000	23,066
Net Income	-887,000	2,532,000	-1,001,000	-2,001,000	2,107
Total Assets	128,304,000	119,878,000	118,008,000	108,396,000	101,602
Total Capital and Surplus	33,146,000	29,844,000	27,428,000	26,767,000	27,714

Source: BestLink® - Best's Financial Suite

Key Financial Indicators & Ratios	2020 GBP (000)	2019 GBP (000)	2018 GBP (000)	2017 GBP (000)	2016 GBP (000,000)	Weighted 5-Year Average
Profitability:						
Balance on Non-Life Technical Account	-2,676,000	-538,000	-1,130,000	-3,421,000	468	...
Net Income Return on Revenue (%)	-3.2	8.9	-3.8	-7.7	8.9	0.6
Net Income Return on Capital and Surplus (%)	-2.8	8.8	-3.7	-7.3	8.1	0.5
Non-Life Combined Ratio (%)	110.3	102.1	104.5	114.0	97.9	105.9
Net Investment Yield (%)	2.2	3.5	1.4	2.1	1.7	2.2
Leverage:						
Net Premiums Written to Capital and Surplus (%)	77.9	86.0	93.6	92.9	83.2	...

Source: BestLink® - Best's Financial Suite

Credit Analysis

Balance Sheet Strength

Lloyd's balance sheet strength assessment of very strong is underpinned by risk-adjusted capitalisation at the strongest level, as measured by Best's Capital Adequacy Ratio (BCAR), as well as its strong financial flexibility. The market has significant exposure to catastrophe losses and is dependent on reinsurance to manage this risk. However, a robust market-wide capital-setting regime, which

Balance Sheet Strength (Continued...)

incorporates a risk-based approach to setting member-level capital and the requirement for members to replenish their Funds at Lloyd's (FAL) after a loss, helps protect risk-adjusted capitalisation against volatility.

Balance sheet strength is supported by a strong Central Fund that is available, at the discretion of the Council of Lloyd's, to meet the policyholder obligations of all Lloyd's members. It is the existence of this partially mutualising link that is the basis for a market-level rating.

The market's member-level capital is held on a several rather than joint basis and is only available to meet the liabilities of that particular member. The resulting fungibility constraints on available capital, as well as the significant proportion of member-level capital provided through letters of credit (LOCs), the market's significant exposure to catastrophe risk and its dependence on reinsurance to manage this risk, are limiting factors for the balance sheet strength assessment.

Capitalisation

The BCAR scores shown in this report are based on the 2020 year-end figures published in the Lloyd's annual report, which contains the financial results of Lloyd's and its members in pro forma financial statements and includes the financial statements of the Society of Lloyd's (referred to in this report as the Society or the Corporation). The pro forma financial statements include the aggregated accounts, which are based on the accounts of each Lloyd's syndicate, members' FAL and the Society's financial statements.

The Society was formed in 1871, when the then existing association of underwriters at Lloyd's was incorporated by the Lloyd's Act. The Society produces consolidated financial statements that cover Lloyd's activities outside the underwriting market and Lloyd's central resources (the Central Fund).

Lloyd's benefits from risk-adjusted capitalisation at the strongest level, as measured by BCAR. This assessment takes into account capital resources available at member level, in the form of Members' FAL, and centrally in the form of the Central Fund and net assets of the Corporation. Capital credit is given in BCAR for subordinated debt issued by the Society, as well as for FAL provided through LOCs as if drawn these LOCs will turn into Tier 1 capital for Lloyd's. Nonetheless, the extensive, albeit reducing, use of LOCs as FAL reduces somewhat the quality of available capital. AM Best does not give explicit credit for contingent capital in the 'callable layer', which is the ability of the Corporation to supplement central assets by calling funds from members of up to 3% of their overall premium limits.

Any assessment of Lloyd's capital strength is complicated by the compartmentalisation of capital at member level. Member-level capital in the form of FAL and members' balances are held on a several rather than joint basis, meaning that any member need meet only its share of claims. However, Lloyd's central assets are available, at the discretion of the Council of Lloyd's, to meet policyholder liabilities that any member is unable to meet in full. This link in the Chain of Security comprises of the Central Fund and other central assets, as well as 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.

During 2021, Lloyd's secured insurance for the Central Fund through a five-year, multi-layered cover, which will reimburse aggregate payments from the Central Fund that are in excess of GBP 600 million and up to GBP 1.25 billion. Cover is provided by international reinsurers of excellent credit quality. Furthermore, the first layer is supported by a newly created cell company, Constellation IC Limited, and financed by a global investment bank.

The Central Fund insurance will provide greater stability and protection to the Central Fund and help to support sustainable and profitable long-term market growth. The structure also provides increased protection for Lloyd's customers and the market against severe tail end events, as well as working to further improve the quality and financial strength of the market's balance sheet.

Lloyd's Internal Model (LIM) captures Lloyd's unique capital structure and takes into account fungibility constraints on member-level capital and the mutual nature of central assets. If a severe market loss led to the exhaustion of some members' FAL, 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, the exposure of both member-level capital and central capital is demonstrated.

Lloyd's is subject to the Solvency II regulatory regime. As agreed with the UK regulator, the Prudential Regulation Authority (PRA), Lloyd's calculates two separate Solvency Capital Requirements (SCRs) and two separate SCR coverage ratios: a market-wide SCR (MWSCR) and a central SCR (CSCR). The MWSCR calculates the total capital consumed at a 99.5% value at risk (VaR) confidence level over a one-year period for the Lloyd's market as a whole (including the exposure of both member-level and central assets).

Balance Sheet Strength (Continued...)

The CSCR 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 CSCR addresses the fact that a 1-in-200 year loss to central assets could be bigger than the loss to 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.

Lloyd's has approval from the PRA to use existing LOCs, in the form that they are provided as FAL, as Tier 2 capital for Solvency II purposes. However, any new LOCs provided as FAL need to be individually approved. Under Solvency II, at least 50% of the solvency capital requirement must be met by Tier 1 capital.

Since 2018 Lloyd's has been implementing a phased reduction in the proportion of FAL that can be provided via LOCs, and, from 1 December 2020 members' Tier 2 capital should not exceed 50% of their economic capital assessment (ECA) in order to minimise assets ineligible for regulatory capital credit. Consequently, as at 31 December 2020, LOCs accounted for 21% of total FAL and all Lloyd's Tier 2 assets were eligible to meet the MWSCR.

The MWSCR coverage ratio stood at 147% at year-end 2020 (2019: 156%) and the CSCR coverage ratio at 209% (2019: 238%). Lloyd's risk appetite for MWSCR coverage is a minimum of 125% and the CSCR coverage is a minimum of 200%. The MWSCR target range is low relative to peers, but this should be seen in light of Lloyd's good financial flexibility and capital-setting process. The stability in the market's regulatory solvency levels, as a result of the capital-setting process, is considered to be a strength for the balance sheet strength assessment.

Lloyd's employs strict capital-setting criteria both at member level and centrally. Member-level capital is determined using syndicates' SCRs calibrated to correspond to a 99.5% VaR confidence level, provided on a one-year and -to-ultimate basis and calculated using syndicates' internal capital models. A 35% uplift is applied to the ultimate SCR to arrive at the FAL requirement.

Lloyd's members are required to replenish their FAL to meet their current underwriting liabilities as part of the "coming into line" process in June and November. However, Lloyd's can require a member to recapitalise in between these dates if deemed necessary. Most members underwrite with limited liability. However, if FAL are eroded due to underwriting losses, affected members will have to provide additional funds to support any outstanding underwriting obligations to continue to underwrite at Lloyd's. This requirement in effect provides the market with access to funds beyond those reflected in its capital structure.

Member contributions to the Central Fund reduced in 2016 to 0.35% of gross written premiums (from 0.50% of capacity) per annum, and remained at this level in 2020. The contribution rate can be increased to strengthen the Central Fund at any time.

Lloyd's good financial flexibility is enhanced by the diversity of its 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. As the capital to support underwriting at Lloyd's is supplied by members on an annual basis, an important factor in AM Best's analysis of the market is its ability to retain and attract the capital required for continued trading.

Liquidity Analysis (%)	2020	2019	2018	2017	2016
Liquid Assets to Total Liabilities	70.7	69.9	67.5	72.0	80.7
Total Investments to Total Liabilities	84.0	81.3	78.6	83.2	91.6

Source: BestLink® - Best's Financial Suite

Asset Liability Management - Investments

The majority of Lloyd's investments are managed independently by the individual syndicates' managing agents, while the assets in the Lloyd's Central Fund are managed centrally by the Corporation. Although syndicates are able to define their own investment strategy, asset risk is generally low, with more than three quarters of the market's total investments held in bonds and cash/deposits or represented by LOCs.

Assets held by individual members are generally liquid, with the majority held in cash (which includes LOCs) and bonds. Equity and risk asset exposure accounted for circa 14% of invested assets in 2020. Lloyd's capital (FAL and the Central Fund) is largely matched in terms of currency to exposure.

Balance Sheet Strength (Continued...)

In AM 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 (including its debt obligations).

Composition of Cash and Invested Assets	2020 GBP (000)	2019 GBP (000)	2018 GBP (000)	2017 GBP (000)	2016 GBP (000,000)
Total Cash and Invested Assets	79,951,000	73,193,000	71,240,000	67,902,000	67,646
Cash (%)	13.1	13.2	15.3	17.9	18.2
Bonds (%)	59.7	60.4	58.5	54.8	56.5
Equity Securities (%)	11.3	12.4	12.0	14.0	13.5
Real Estate, Mortgages and Loans (%)	12.1	10.4	10.9	10.1	8.9
Other Invested Assets (%)	3.8	3.6	3.3	3.3	2.9
Total Cash and Unaffiliated Invested Assets (%)	100.0	100.0	100.0	100.0	100.0
Total Cash and Invested Assets (%)	100.0	100.0	100.0	100.0	100.0

Source: BestLink® - Best's Financial Suite

Reserve Adequacy

Robust oversight of reserves is provided by the Corporation. In AM Best's opinion, reserving in the Lloyd's market tends to be prudent, with the majority of market participants incorporating an explicit margin in reserves above actuarial best estimates. Reserve surpluses, which are not fungible across the market, vary significantly between syndicates. However, signing actuaries note that at year-end 2020, 94% of syndicates held UK GAAP reserves above the Statement of Actuarial Opinion best estimate.

Aggregate reserves have developed positively overall in every year since 2003. In 2020, the market reported reserve redundancies across all lines of business, with the exception of casualty. Total reserve releases during 2020 were higher relative to prior year, albeit lower than the five-year average. Casualty reserves were strengthened in 2020 at a market-level in response to the market's prudence in relation to social inflation as well as Lloyd's increased oversight. The strengthening of casualty reserves was in line with Lloyd's expectation for this class. Property releases were lower than in prior years.

Syndicates in run-off have historically been the principal source of reserve deterioration for Lloyd's. However, Lloyd's exposure to open run-off years has significantly reduced, principally due to better management of these years. In 2010, a 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. At the beginning of 2020, there were three syndicates whose 2017 underwriting years remained open. These run-off years reported an aggregate loss of GBP 2 million, including investment return, in 2020. There were six syndicates whose 2018 underwriting years remained open post year-end 2020 taking the total number of open underwriting years at 1 January 2021 to nine.

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., a subsidiary of Berkshire Hathaway Inc., over and above Equitas' 31 March 2006 carried reserves of USD 8.7 billion. The transfer 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 state within the European Economic Area. However, there continues to be some uncertainty as to the recognition of the transfer in overseas jurisdictions, including the United States.

Operating Performance

Lloyd's is expected to report strong operating performance across the underwriting cycle, taking into account potential volatility due to its catastrophe exposure.

Recent underwriting performance has been below AM Best's expectations for a strong assessment, demonstrated by a five-year (2016-2020) combined ratio of 105.9%. However, the market's consolidated operating performance cannot be viewed as a leading indicator of its future balance sheet strength to the same extent as it is for other insurers. Earnings generated by the market do not directly build or erode Lloyd's capital base. The capital to support underwriting at Lloyd's is instead supplied by capital providers. Therefore, we need to consider the impact of the market's results on its ability to retain and attract the capital required for continued trading.

Despite the market's recently weaker operating performance, it continues to attract new capital, with several new syndicates launching during 2020. Furthermore, a number of syndicate closures since 2018 has been noted. This coincides with the initiation of the Decile 10 review and the winnowing out of weaker performing syndicates from the market at the hand of the Corporation's Performance Management Directorate (PMD) strategy. Improving market conditions as well as the robust performance oversight by the Corporation have started to materialise in measurable improvements in attritional accident-year performance. Further improvements are expected over the next three years.

The market's operating performance assessment is based on analysis of the overall consolidated performance of Lloyd's, 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 between the strongest and worst performers, with a particular focus on the potential exposure of central capital resources to losses from individual members.

Performance is subject to volatility, as illustrated by a standard deviation of 8.4% and 9.4% on the ten-year (2011-2020) ROE ratio and on the ten-year combined ratio. The market's performance in 2020 was impacted by major claims that contributed 23.0% to the combined ratio (2019: 7.0%), with COVID-19-related claims accounting for a significant portion, at 13.3%. The impact of COVID-19 overshadows the improvement in underlying performance. The attritional loss ratio improved by 5.4 percentage points to 51.9% in 2020. The improvement is the result of sustained risk-adjusted rate increases on renewal business and market's actions to drive sustainable profitable performance. An improvement in the market's expense ratio, which reduced to 37.2% from 38.7%, was also noted.

The market has generated strong investment income of GBP 2.3 billion (2019: GBP 3.5 billion), representing a return of 2.9% on invested assets, which partially offset the underwriting loss of GBP 2.7 billion (2019: GBP 538.0 million).

AM Best expects underlying performance to continue to improve gradually over the next several years, supported by the hardening market conditions as well as the continued performance oversight by the PMD.

Underwriting Performance:

Underwriting performance is subject to volatility due to the market's exposure to catastrophe and other major losses. Major claims for the market were GBP 6.0 billion (net) in 2020, with COVID-19 losses accounting for nearly 60% (GBP 3.4 billion). The 2020 year saw an increase in the frequency of catastrophe loss activity with the Lloyd's market suffering insured losses from more than 40 events. The largest losses related to Hurricanes Laura, Sally, Zeta, Delta, and Isaias; Iowa derecho; the tornadoes in Tennessee; the explosion in Beirut; and the world wide protests against racial injustice. Unsurprisingly, major losses were severe and added 23.0pts (2019: 7.0pts) to the calendar-year combined ratio, compared to the five-year and ten-year averages of 10.1pts and 10.5pts, respectively.

The market's combined ratio once again benefited from favourable prior year reserve movements of 1.8 percentage points (pp) in 2020; although at a significantly reduced level compared to the recent past. Prior year reserve movements improved the combined ratio by 0.9pp in 2019 compared to 5pp in 2016 and circa 8pp each year in the period 2013-2015.

The market's attritional accident-year combined ratio (excluding major claims) improved significantly from 96.0% in 2019 to 89.1% in 2020. This is benchmarking well compared to the 2016 position of 93.9%, supported by the remedial actions of the PMD team and the favourable rate environment.

The market's operating expense ratio is high compared to peers at circa 40pp. The ratio has been relatively stable over the last 5 years, ranging between 38.7%-40.6%. Pre-2014 expense ratios were slightly lower, ranging between 34.2%-37.1%, albeit still high relative to peers. An increase in acquisition costs due to a change in business mix with more business written through coverholders, as well as costs associated with SII implementation, partly explain the step change in the expense ratio. Actions are being taken through the

Operating Performance (Continued...)

Future at Lloyd's initiative to reduce the cost of placing business at Lloyd's, the benefits of which should start to be realised over the short term.

Underwriting Performance by Line of Business:

Despite COVID-19, the accident-year combined ratios saw some improvement versus the prior year, particularly for certain insurance lines. Calendar year loss ratios for some lines benefitted from stronger favourable reserve development; albeit casualty (direct) saw another year of reserve strengthening. Overall, the combined ratio deteriorated in 2020 to 110.3% (2019: 102.1%), although when excluding the impact of COVID-19 an improvement to 97.0% was noted.

Reinsurance - The reinsurance book consists of property, casualty and specialty reinsurance. The performance of the property book was affected by a high frequency of catastrophic events during 2020 and favourable prior year reserve releases (although there was strengthening on a number of historical catastrophe events). Despite 2020 being a year of relatively benign claims experience, emerging trends such as social inflation are driving increased uncertainty on this line. The specialty book also generated an underwriting loss despite general hardening of the marine market, with rate increase being more modest for marine reinsurance. Overall, the reinsurance book has returned an underwriting loss of GBP 2.3 billion over the 2016-2020 period, stemming from significant losses in the property book.

Property - The property book is diversified globally, and made up of predominately excess and surplus lines business with a weighting in favour of the industrial and commercial sectors. Business is written through the broker network with a significant proportion through coverholders. The year-end 2020 results have been impacted by business interruption losses related to the COVID-19 pandemic. In addition, 2020 saw an abnormally high frequency of natural catastrophe events (both primary and secondary perils). Finally, social unrest in the US during 2020 has impacted some syndicates' results. Unsurprisingly, property was the main driver of the market's poor performance in 2020, generating a material loss of GBP 2.1 billion. Overall, this class has returned a material underwriting loss of GBP 4.8 billion over the 2016-2020 period.

Casualty - The casualty book is dominated by general liability and professional liability and also includes accident and health and cyber. As anticipated, due to the impact of COVID-19, contingency business suffered unprecedented losses because of subsequent event cancellations. Unrelated reserve strengthening of 5.1% was noted during the period. Syndicates appear to have shifted their views around the prevalence of social inflation and strengthened casualty reserves accordingly. Furthermore, cyber has also seen a rise in claims in recent years, particularly stemming from the emergence of ransomware claims. Overall, this class has returned an underwriting loss of GBP 1.6 billion over the 2016-2020 period.

Marine, Aviation, & Transport - The marine book is well diversified and includes cargo, hull, marine liability, specie and fine art. In aviation, Lloyd's writes across all main business sectors including airline, aerospace, general aviation, space, and war. Marine continues to undergo extensive remediation efforts. Consequently, these remediation measures as well as contraction in capacity, have led to significant pricing improvement in 2020, which supported profitability. Attritional claims in hull have reduced. This was coupled by less loss activity on the aviation book. The COVID-19 pandemic drove the grounding of fleets for extended periods of time, which meant significantly less loss activity in 2020. Overall, these classes returned a combined underwriting loss of GBP 0.9 billion over the 2016-2020 period.

Energy - The energy book consists of onshore and offshore property and liability business. This incorporates the oil and gas industry and the growing renewable energy sector. The results have benefitted from a somewhat benign large and catastrophic loss activity in upstream lines, which is the largest part of the overall energy account, in terms of risk count, written premium, and exposure. Strong prior year reserve releases of 8.2% and positive pricing momentum on across all energy lines, albeit mostly downstream energy, also supported the positive underwriting result. Overall, this class has returned an underwriting profit of GBP 383 million over the 2016-2020 period.

Motor - Lloyd's motor market primarily covers international motor with a large proportion written in North America and with an increasing focus on property damage over liability risks. International motor has continued to see positive pricing trends. During 2020 the impact of COVID-19 has resulted in a significant shift in exposure, particularly for standard comprehensive motor policies, where the number of vehicles on the road has decreased during the various lockdowns globally. Overall, this class has returned an underwriting loss of GBP 220 million over the 2016-2020 period.

Investment Performance:

Operating Performance (Continued...)

Investment returns (including gains/losses) for the market were on average 2.6% in the period 2016-2020, ranging from 0.7% to 4.9%. The market's investment portfolio is considered low risk, which is commensurate with the relatively modest investment returns. Although 2020 was initially a very turbulent year for financial markets due to the COVID-19 pandemic, the markets rallied and at year-end Lloyd's reported an investment return (including gains/losses) of 3.0%. Most equity markets generated a strong level of return for the calendar year, with large gains coming over the last three quarters of the year. In fixed interest markets, the aggressive easing of monetary policy drove a reduction in risk-free yields resulting capital gains for government bonds. Corporate bonds, along with risk markets, suffered large losses early in the year but ended 2020 with above average returns.

Performance on a Year of Account Basis:

The 2018 YOA closed at the end of 2020 with an overall loss of GBP 1.9 billion (2017: GBP 2.4 billion loss). The 2018 pure underwriting year suffered losses from a number of catastrophic events, including Hurricanes Florence and Michael; California wildfires and Typhoon Jebi. The 2018 underwriting loss was partially offset by releases (GBP 311 million) from 2017 and prior years, which were reinsured to close at the end of 2019.

Financial Performance Summary	2020 GBP (000)	2019 GBP (000)	2018 GBP (000)	2017 GBP (000)	2016 GBP (000,000)
Pre-Tax Income	-887,000	2,532,000	-1,001,000	-2,001,000	2,107
Net Income after Non-Controlling Interests	-887,000	2,532,000	-1,001,000	-2,001,000	2,107

Source: BestLink® - Best's Financial Suite

Operating and Performance Ratios (%)	2020	2019	2018	2017	2016
Overall Performance:					
Return on Assets	-0.7	2.1	-0.9	-1.9	2.3
Return on Capital and Surplus	-2.8	8.8	-3.7	-7.3	8.1
Non-Life Performance:					
Loss and LAE Ratio	73.2	63.4	65.3	74.5	57.3
Expense Ratio	37.2	38.7	39.2	39.5	40.6
Non-Life Combined Ratio	110.3	102.1	104.5	114.0	97.9

Source: BestLink® - Best's Financial Suite

Business Profile

Lloyd's favourable business profile reflects its strong position in the global general insurance and reinsurance markets as a leading writer of specialty property and casualty risks. Its network of global licences is a key competitive strength. The portfolio is well diversified but with some geographical bias towards North America and product bias towards commercial specialty lines products. Product risk is moderate to high. High product risk lines include reinsurance, energy, aviation, some marine business and a high proportion of the casualty and property business written. The majority of small commercial and consumer business, as well as some of the business written through coverholders is lower risk. The markets in which Lloyd's operates are highly competitive. A reliance on brokers makes Lloyd's particularly vulnerable to price-based competition.

Market Position:

Lloyd's occupies an excellent position in the global general insurance and reinsurance markets as a leading writer of specialty property and casualty risks. The market's position is particularly strong in non-life reinsurance, where Lloyd's was ranked as the 4th largest global non-life reinsurer based on 2019 gross written premiums (GWP). Lloyd's is also a market leader in marine insurance, and has a strong position in aviation, energy, and specialty property and casualty insurance.

Although Lloyd's syndicates operate as individual businesses, the collective size of the market allows them to compete with major international groups under the Lloyd's brand. The market's competitive strength stems from its strong brand, licences, and reputation for innovative and flexible underwriting, supported by the pool of underwriting expertise in London.

While Lloyd's position remains excellent in its core markets, it should be noted that the level of competition in these markets is very high.

Business Profile (Continued...)**Product Diversification and Product Risk:**

Lloyd's is a significant writer of catastrophe and reinsurance business and is also a leading player in its core marine, aviation, energy and specialty property and casualty markets. Insurance business accounted for 65% of GWP in 2020 (2019: 68%), with reinsurance accounting for the balance. This split has been relatively stable in recent years.

Overall GWP decreased by 1.2% in 2020 to GBP 35.5 billion (2019: GBP 35.9 billion), a lower level of growth than the 5.8% increase experienced in 2018.

The market is well diversified by line of business, although very little life business is written (<0.1% of GWP in 2020) and there is a bias towards commercial lines business over personal lines. Product risk is moderate to high, as the business that comes to Lloyd's is predominantly specialty business that requires expert underwriting.

Reinsurance is the market's largest segment and accounted for 35% of GWP in 2020. Reinsurance business comprises property, casualty and specialty reinsurance (primarily marine, aviation and energy reinsurance). Lloyd's is a leading player in the global reinsurance space, ranking as the 6th largest by reinsurance GWP based on 2019 premiums and the 4th largest when life premiums are excluded.

Property insurance business is Lloyd's second largest segment, which accounted for 26% of GWP in 2020. The property book is a global book but with some bias towards US excess and surplus lines business. There is also a bias towards commercial risks with residential business written being mainly non-standard risks. The book also includes terrorism, power generation, engineering and nuclear risks.

Casualty business accounted for 25% of GWP in 2020. The book has a focus towards the US, but the UK, Canada, and Australia are also significant markets. The main products written are general liability and professional indemnity. Accident and health business is also accounted for within this segment.

The remaining lines of marine, aviation, and transport (8%), energy (4%), motor (3%), and life (<0.1%) together accounted for approximately 15% of GWP in 2020. Lloyd's is a leader within the global marine market, writing a diversified marine book, including cargo, hull, marine liability, specie and fine art. The energy book consists of onshore and offshore property and liability risks. The motor book is focused on international motor with a large proportion written in North America and with an increasing focus on property damage over liability risks. Aviation business includes airlines, general aviation, space and war.

Geographical Diversification:

Lloyd's writes a global portfolio, albeit with some bias to North America, which accounted for 53% of GWP in 2020. The remainder was split 15% rest of Europe, 12% UK, 10% Central Asia and Asia Pacific, 6% Other Americas and 4% rest of the world. The market's network of licences provides syndicates with access to a wide international client base, which is of benefit in particular to the syndicates that are not part of global insurance groups.

Lloyd's US domiciled business consists primarily of reinsurance and surplus lines insurance, which can be written in all 50 states. Lloyd's participation in admitted US business (i.e. insurance business excluding surplus lines) is relatively modest. Lloyd's has admitted licences in Illinois, Kentucky and the US Virgin Islands and also writes non-surplus insurance business in lines exempt from surplus lines laws (principally marine, aviation and transport risks).

In Canada, Lloyd's writes primarily insurance business, with reinsurance business accounting for a smaller share. In order to comply with local regulations, all Canadian business is written in Canada.

Over the past 20 years, Lloyd's has built out its licence network considerably, to be able to write insurance and/or reinsurance business in Brazil, Mexico, Colombia, Dubai, China, Singapore, and India, as well as a number of smaller markets. This work was undertaken in response to the growth of local and regional (re)insurance hubs and the preference of clients to place business locally. Under the new management team, growth has been less of an area of focus as the Corporation prioritises the remediation of performance and market modernisation.

In order to continue to access insurance business in the EU and wider European Economic Area (EEA) after a UK exit from the EU and its single market (referred to as "Brexit"), Lloyd's has established an insurance company domiciled in Belgium. Lloyd's Insurance Company S.A. (Lloyd's Brussels) is a wholly owned subsidiary of The Society of Lloyd's. The entity is incorporated, capitalised and has received regulatory approval. It started writing business on 1 January 2019. On 25 November 2020, Lloyd's received final approval to

Business Profile (Continued...)

transfer EEA non-life business written by Lloyd's between 1993 to 2020 to Lloyd's Brussels. For the year-ended 31 December 2020, Lloyd's Brussels wrote EUR 2.5 billion (business as usual) and EUR 4.3 billion (Part VII transfer) of premiums.

In October 2020, the Belgian regulators voiced concern at the possibility that some of the services performed by Managing Agents could be held to constitute insurance distribution, as defined under the Insurance Distribution Directive. A preliminary assessment of four different potential solution that will address the regulators concerns were made and presented. Formal feedback was received that confirmed "no objection" in principle to the four possible solutions.

The unique Lloyd's structure subjects the market to regulatory event risk, as the risk of it losing its licence in a jurisdiction following regulatory changes are higher than for an insurance company. The licencing of Lloyd's often relies on unique solutions and agreements that reflect its structure. A mitigating factor is the significant expertise and experience of Lloyd's in dealing with regulatory and licence issues.

Distribution Channels:

The distribution of Lloyd's business is dominated by insurance brokers, and in particular by the top three (soon to be two) largest global brokers. Lloyd's brokers play an active part in the placement of risks and in providing access to regional market.

In addition, a significant part of Lloyd's business is distributed via coverholders (accounting for circa 30% of GWP), which write business on behalf of syndicates under the terms of a binding authority. Coverholders are important in bringing regional business to Lloyd's and providing the market with access to small and medium-sized risks. The growth in coverholder business in recent years has contributed to the higher expense ratio.

The Lloyd's distribution model is expensive, with business often passing through several distribution links before arriving at Lloyd's. Lloyd's reliance on brokers also makes the market vulnerable to price-based competition. Although Lloyd's is important to the large global brokers (as well as to the specialised London market brokers), the importance of individual syndicates is less. Overall, the Lloyd's distribution model is considered to place the market at a competitive disadvantage compared to the large global reinsurance groups, which have stronger individual positions with the brokers as well as being able to distribute some of their business directly to cedants.

Modernisation Programme:

A comprehensive modernisation programme for the London market, the London Market Target Operating Model (TOM), was launched in 2015, the aim of which is to make operating in the London market, including at Lloyd's, more efficient and less expensive. Joint market initiatives underway include additional and improved 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 improvements to the Delegated Authority processes.

Off the back of the TOM project, on 1 May 2019 Lloyd's executive team unveiled a modernisation plan called the Future at Lloyd's. The proposed reforms include plans to radically reduce the cost of doing business and creating new digital platforms for placing insurance risk and streaming claims services. If the plan is successfully implemented, meaningful cost reductions will support profitability. However, the plan is subject to a high degree of execution risk because it will likely require substantial investment and cultural change.

In some ways, COVID-19 has highlighted the importance of modernising the market and softened the resistance to change. The "underwriting room" was closed in March 2020 in response to the pandemic; the first closure of physical trading in the commercial market's 330-year history. Furthermore, PPL use has increased significantly. The Corporation has established a "virtual room" and is testing a number of digital platforms to allow brokers and underwriters to connect.

The latest areas of focus highlighted in Lloyd's Blueprint 2, a follow up to the Future at Lloyd's prospectus, include:

- i) Approved and clear data standards that will support the next generation of placement platforms and solutions at Lloyd's;
- ii) A new Lloyd's marketplace gateway and super-fast processing capability that will allow insurance cover to be evidence and issued in minutes, whilst simultaneously creating technical accounting records; and
- iii) Automated claims recognition, routing, and orchestration that will facilitate faster claims payments.

The Corporation expects that these solutions will create more opportunities for the market to innovate to improve customer outcomes and operate more efficiently, at a lower cost base, which is estimated to collectively reduce costs by over GBP 800 million. As well as

Business Profile (Continued...)

direct cost savings, these efficiencies should enable the market to give more focus on value added activities such as innovation, product development, and risk mitigation which meet customers' needs.

Should Lloyd's be unsuccessful in its modernisation project and peers are able to widen the gap in both efficiency and ease of doing business, the consequences could be considerable for its business profile.

Corporate Overview:

Lloyd's is the London-based market where approximately 100 individual syndicates underwrite all types of insurance and reinsurance business apart from long term life insurance. Each syndicate is formed by one or more members of Lloyd's, who join together to provide capital and accept insurance risks. Lloyd's members are mainly corporate members although a small proportion of Lloyd's underwriting capacity continues to be provided by private individuals.

In 1871, the then existing association of underwriters at Lloyd's was incorporated by the Lloyd's Act as the Society and Corporation of Lloyd's (referred to in this report as the Society or the Corporation), making the Society the legal entity which oversees the Lloyd's market. Its purpose 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. The Society is also the holding company for Lloyd's Insurance Company S.A. and Lloyd's Insurance Company (China) Limited.

Enterprise Risk Management

The enterprise risk management (ERM) of Lloyd's is assessed as appropriate. The market's enterprise risk framework is considered to be developed and risk management capabilities are aligned to the risk profile.

Lloyd's ERM is designed to manage risks arising from the market and the Society. It provides an extra layer of oversight over the market's risks which are also managed through the risk functions of individual managing agents. There are limitations on the ability of the Corporation to actively manage the market's risks, as it is supervising individual and competing syndicates each with their own risk appetites and commercial strategies.

Under the Lloyd's Act 1982, the Council of Lloyd's (the Council) is responsible for the management and supervision of the market as the governing body of the Society. The key committees of the Council are the Audit Committee, the Market Supervision and Review Committee and the Risk Committee. The risk committee is responsible for the identification and management of Lloyd's key risks. From 1 January 2017, the risk committee became a non-executive committee, with members drawn from the Lloyd's Council. Lloyd's Chief Risk Officer, a position established in 2014, attends Council meetings.

The Corporation manages risks by monitoring a risk appetite framework, which is established by the Council. The risk appetites are reviewed on a regular basis and may be updated as required i.e. behaviour/harassment is now included as separate risk. The framework includes 14 key risks and a number of underlying monitoring metrics. The risk appetites are structured under the three risk objective pillars of sustainability, solvency, and operational.

Over the past several years, there has been a much tougher tone and more active approach taken by the Corporation's oversight functions to managing under-performing syndicates as well as the under-performing lines of generally well performing syndicates. The enhanced oversight has led to some syndicates being put into run-off as well as others exiting certain loss-making lines of business. Whether the Corporation's oversight functions are able to turn around the market's performance will be a key test of the effectiveness of the Council's activities.

The Society of Lloyd's and its managing agents are regulated by The Bank of England, acting through the PRA, as well as by the Financial Conduct Authority (FCA). Lloyd's remains subject to the Solvency II regulatory and capital regime, which came into force on 1 January 2016. It applies to the "association of underwriters known as Lloyd's" as a collective entity. Although the UK's referendum vote to leave the EU has introduced uncertainty in respect of future regulation of the market, it is likely that the Solvency II form of regulation and capital regime will continue following the UK's exit from the EU in the near term.

Lloyd's uses an internal capital model to calculate its SCR and SCR coverage ratio, with approval from the PRA. An internal model has been in use since 2012, although the current model has undergone radical change since then. In AM Best's opinion, the Corporation's ability to assess the capital adequacy of the market has been strongly improved by the modelling work undertaken for Solvency II.

Enterprise Risk Management (Continued...)

Lloyd's recognises that one of the greatest risks to the Central Fund is the market's exposure to catastrophes. The catastrophe model component of Lloyd's internal capital model allows the Corporation to assess catastrophe risk across return periods and, in AM Best's opinion, has improved its ability to monitor the market's aggregate catastrophe exposure against a defined risk appetite. An enhancement noted in 2020 was the introduction of the Catastrophe Risk Oversight Framework, which limits the ability of syndicates with poor performance track records to grow their catastrophe exposure. Due to the nature of business written, Lloyd's has significant exposure to catastrophe losses, making this aspect of risk management particularly important.

Lloyd's Realistic Disaster Scenarios (RDSs) play a critical role in exposure management at Lloyd's, both as benchmark stress tests validating the internal model 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.

Reinsurance Summary

Lloyd's use of reinsurance is relatively high when compared to other large specialty insurers and reinsurers. This is due to the nature of the market, which consists of small-to-medium sized business that independently purchase reinsurance. The market as a whole ceded 27.2% of its GWP in 2020. This amount includes reinsurance from syndicates to their related groups as well as reinsurance between individual Lloyd's syndicates.

Lloyd's oversight function monitors individual syndicates' reinsurance placements to ensure the appropriateness and credit quality of the market's overall use of reinsurance.

Financial Statements

	12/31/2020		12/31/2020
Balance Sheet	GBP (000)	%	USD (000)
Cash and Short Term Investments	10,473,000	8.2	14,221,496
Bonds	47,764,000	37.2	64,859,691
Equity Securities	8,998,000	7.0	12,218,564
Other Invested Assets	12,716,000	9.9	17,267,311
Total Cash and Invested Assets	79,951,000	62.3	108,567,062
Reinsurers' Share of Reserves	25,073,000	19.5	34,047,128
Debtors / Amounts Receivable	18,688,000	14.6	25,376,809
Other Assets	4,592,000	3.6	6,235,569
Total Assets	128,304,000	100.0	174,226,568
Unearned Premiums	16,743,000	13.0	22,735,655
Non-Life - Outstanding Claims	64,364,000	50.2	87,401,163
Total Gross Technical Reserves	81,107,000	63.2	110,136,817
Debt / Borrowings	1,094,000	0.9	1,485,564
Other Liabilities	12,957,000	10.1	17,594,569
Total Liabilities	95,158,000	74.2	129,216,951
Retained Earnings	-887,000	-0.7	-1,204,475
Other Capital and Surplus	34,033,000	26.5	46,214,091
Total Capital and Surplus	33,146,000	25.8	45,009,616
Total Liabilities and Surplus	128,304,000	100.0	174,226,568

Source: BestLink® - Best's Financial Suite
US \$ per Local Currency Unit 1.35792 = 1 British Pound (GBP)

				12/31/2020	12/31/2020
Income Statement	Non-Life	Life	Other	Total	Total
	GBP (000)	GBP (000)	GBP (000)	GBP (000)	USD (000)
Gross Premiums Written	35,466,000	...	...	35,466,000	48,159,991
Net Premiums Earned	25,876,000	...	...	25,876,000	35,137,538
Net Investment Income	...	...	1,686,000	1,686,000	2,289,453
Realized capital gains / (losses)	...	...	188,000	188,000	255,289
Unrealized capital gains / (losses)	...	...	394,000	394,000	535,020
Total Revenue	25,876,000	...	2,268,000	28,144,000	38,217,300
Benefits and Claims	18,929,000	...	...	18,929,000	25,704,068
Net Operating and Other Expense	9,623,000	...	479,000	10,102,000	13,717,708
Total Benefits, Claims and Expenses	28,552,000	...	479,000	29,031,000	39,421,776
Pre-Tax Income	-2,676,000	...	1,789,000	-887,000	-1,204,475
Net Income before Non-Controlling Interests	...	...	...	-887,000	-1,204,475
Net Income/(loss)	...	...	...	-887,000	-1,204,475

Source: BestLink® - Best's Financial Suite
US \$ per Local Currency Unit 1.35792 = 1 British Pound (GBP)

Related Methodology and Criteria

[Best's Credit Rating Methodology, 11/13/2020](#)

[Catastrophe Analysis in A.M. Best Ratings, 10/13/2017](#)

[Available Capital & Holding Company Analysis, 10/13/2017](#)



BEST'S CREDIT REPORT

AMB #: 085202 - Lloyd's

[Rating Lloyd's Operations, 10/13/2017](#)

[Scoring and Assessing Innovation, 03/05/2020](#)

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Best's Credit Rating Effective Date

March 12, 2021

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Information

[Best's Credit Rating Methodology](#)

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[Market Segment Outlooks](#)

Financial Data Presented

The financial data in this report reflects the most current data available to the Analytical Team at the time of the rating. Updates to the financial exhibits in this report are available here: [Best's Financial Report](#).

Argo Group International Holdings, Ltd.

AMB #: 058448 | **FEIN#:** 98-0214719

Ultimate Parent: AMB # 058448 - Argo Group International Holdings, Ltd.

Best's Credit Ratings - for the Rating Unit Members

Financial Strength Rating (FSR)

A-
Excellent
Outlook: Stable
Action: Affirmed

Issuer Credit Rating (ICR)

a-
Excellent
Outlook: Stable
Action: Affirmed

Assessment Descriptors

Balance Sheet Strength	Strongest
Operating Performance	Adequate
Business Profile	Neutral
Enterprise Risk Management	Marginal

Rating Unit - Members

Rating Unit: Argo Group Intern Hldgs, Ltd. | **AMB #:** 058448

AMB #	Rating Unit Members
014152	ARIS Title Insurance Corp
013313	Argo Re Ltd.
091791	ArgoGlobal SE
002219	Argonaut Great Central Ins Co
002056	Argonaut Insurance Company
003078	Argonaut-Midwest Insurance Co

AMB #	Rating Unit Members
003283	Colony Insurance Company
002619	Colony Specialty Insurance Co
011035	Peleus Insurance Company
002723	Rockwood Casualty Insurance Co
012126	Somerset Casualty Insurance

Best's Credit Rating - for the Holding Company

Issuer Credit Rating (ICR)

bbb-
Good
Outlook: Stable
Action: Affirmed

Rating Rationale - for the Rating Unit Members

The Issuer Credit Ratings and Financial Strength Ratings of the member operating companies of the rating unit are determined in accordance with Best's building block rating methodology as applied to the consolidated group's financial statements, and the supporting analytics and results are described in the following sections of this report.

Balance Sheet Strength: **Strongest**

- Argo Group International Holdings, Limited, is a publicly traded company listed on the New York Stock Exchange (NYSE) under the ticker symbol ARGO. Financial flexibility of the group is enhanced by its ready access to the global capital markets, if necessary.
- Strongest level of risk-adjusted capitalization for the consolidated group, including both U.S. and non-U.S. operations, based on Best's Capital Adequacy Ratio (BCAR) at the 99.6% VaR confidence level.
- While the group posted material adverse prior year reserve development in the third and fourth quarter of 2019, there was no significant loss reserve development in 2020.
- Recent Reinsurance-to-Close Transaction with run-off specialist River Stone removed reserves for 2017 and prior years for Syndicate 1200 from Argo's balance sheet and helped to reduce the volatility of reserves.
- Financial leverage and coverage ratios are in accordance with Best's guidelines. However, earnings before interest and taxes (EBIT) coverage were negative in 2019 and 2020 driven by the underwriting losses.

Operating Performance: **Adequate**

- Historical average combined ratio is in line with the commercial casualty composite. In 2019, however, Argo incurred \$157 million in net underwriting losses (at a 109.1% combined ratio) driven by adverse prior year loss development and higher current year loss picks in the fourth quarter. Argo's 2020 underwriting results improved to \$109.6 million of underwriting losses (at a 106.2% combined ratio) driven by much improved ex-CAT current accident year losses (three points on the loss ratio), no significant prior year adverse reserve development (eight points of improvement), partially offset by higher losses due to COVID-19 (four points on the loss ratio) and higher non-COVID natural catastrophe losses (four points on the loss ratio).
- Returns on equity over the most recent five-year period were lower than its historical average due to higher-than-average catastrophe losses, stock market volatility and, more recently, prior year reserve development in 2019.
- Being a large U.S. wholesale insurer and an active participant in the Lloyd's market, Argo's expense ratio is high compared to its peers. The new executive management team is taking steps to lower its expense ratio by simplifying organizational structure, shrinking non-core business and eliminating wasteful spending that does not support strategic goals.
- Historically favorable prior year reserve development. While the group posted material adverse prior year reserve development in the third and fourth quarter of 2019, there was no significant loss reserve development in 2020.

Business Profile: **Neutral**

- Argo Group is based in Bermuda and is an underwriter of specialty insurance products in the property and casualty market.
- Argo's US business is written on an excess and surplus (E&S) lines basis through its Colony platform as well as on an admitted basis where Argo operates as a commercial specialty insurer serving narrowly focused niche markets under a variety of distinct insurance platforms and private labels including Argo Pro, Argo Surety, Rockwood, and Commercial Programs. The Argo Insurance grocery and retail business was placed into run-off in October 2020.
- International business is written mainly through Lloyd's syndicate 1200 and on the Argo Re platform based in Bermuda. Global operations also include Argo Seguros in Brazil, and ArgoGlobal Assicurazioni in Italy. In late 2020, Argo announced the sale of its Reinsurance business and its Italian business, ArgoGlobal Assicurazioni, as well as placing its Maltese business, ArgoGlobal SE, into run-off.
- Investments in technology and initiatives to innovate and optimize efficiency are underway.

Enterprise Risk Management: **Marginal**

- Following the resignation of the prior chief executive officer due to internal findings related to the non-disclosure of certain compensation-related perquisites involving its departed CEO, Argo implemented numerous changes to improve corporate governance throughout 2019 and 2020.

- Among the changes to the board refreshment process are the introduction of three new independent directors, the retirement of five independent directors, the declassification of the board and the reduction of the board size to 11 members. Argo's board also entered into a cooperation agreement with VOCE, an activist shareholder that raised governance issues in early 2019. Other governance changes include frequent shareholder outreach and engagement with top shareholders (including VOCE). All these changes aim to provide accountability at all levels of the enterprise, within a framework that is transparent and one that keeps its stakeholders apprised.
- Aside from governance issues relating to board independence and oversight, AM Best continues to view other parts of Argo's Enterprise Risk Management (ERM) program as mature and well developed, and, on balance, has been appropriate in identifying, assessing, and setting strategies to manage and mitigate these risks.
- While unfavorable prior year loss reserve development in 2019 raised some questions around reserve risk management, there was no significant loss reserve development in 2020.

Outlook

- The stable outlooks reflect AM Best's expectation that Argo will maintain its strongest level of balance sheet strength, adequate operating performance, neutral business profile and continue to implement sound ERM practices.

Rating Drivers

- Negative rating actions could occur if the group experiences materially weaker loss experience and reserve deficiency trends.
- Negative rating actions could occur if the group experiences significant reductions in risk-adjusted capitalization.
- Positive rating action could occur if the company further enhances its enterprise risk management capabilities while improving underwriting and operating results.

Rating Rationale - for the Holding Company

The rating of the holding company is determined by reference to the Issuer Credit Rating (ICR) of the operating insurance company members. It reflects consideration of holding company sources and uses of cash, the competing demands placed upon holding company resources and normal subordination of holding company creditors to claims of the policyholders of the operating insurance companies. In general, therefore, the holding company's Issuer Credit Rating is notched from those assigned to the operating companies of the rating unit.

Key Financial Indicators

Best's Capital Adequacy Ratio (BCAR) Scores (%)

Confidence Level	95.0	99.0	99.5	99.6
BCAR Score	61.2	43.6	35.8	33.2

Source: Best's Capital Adequacy Ratio Model - Universal

Key Financial Indicators	2020 USD (000)	2019 USD (000)	2018 USD (000)	2017 USD (000)	2016 USD (000)
Net Premium Written:					
Non-Life	1,810,100	1,754,600	1,765,500	1,653,500	1,440,200
Composite	1,810,100	1,754,600	1,765,500	1,653,500	1,440,200
Net Income	-54,100	-14,100	63,600	50,300	146,700
Total Assets	10,465,800	10,508,800	9,558,200	8,764,000	7,205,000
Total Capital and Surplus	1,857,800	1,763,700	1,746,700	1,819,700	1,792,700

Source: BestLink® - Best's Financial Suite

AMB #: 058448 - Argo Group International Holdings, Ltd.

Key Financial Ratios (%)	2020 USD (000)	2019 USD (000)	2018 USD (000)	2017 USD (000)	2016 USD (000)	Weighted 5 Year Average
Profitability:						
Net Income Return on Revenue	-2.9	-0.7	3.5	2.9	9.4	2.1
Net Income Return on Capital and Surplus	-3.0	-0.8	3.6	2.8	8.5	2.1
Balance on Non-Life Technical Account	-103,800	-153,700	38,100	-105,400	55,800	...
Non-Life Combined Ratio	106.1	109.1	97.9	107.2	96.2	103.5
Net Investment Yield	2.1	3.0	2.7	3.0	2.7	2.6
Leverage:						
Net Premium Written to Capital and Surplus	97.4	99.5	101.1	90.9	80.3	...

Source: BestLink® - Best's Financial Suite

Credit Analysis

Balance Sheet Strength

Argo Group's balance sheet strength is assessed as strongest at year-end 2020 reflecting its risk-adjusted capitalization being at the strongest level, as measured by Best's Capital Adequacy Ratio (BCAR) at 99.6 VaR. It also takes into consideration the enhanced financial flexibility as a publicly traded company listed on the New York Stock Exchange with ready access to global capital markets.

Capitalization

The current level of risk-adjusted capitalization supports the group's underwriting, investment and credit risks based on Best's Capital Adequacy Ratio (BCAR) analysis. Underwriting leverage is manageable, with net premiums written representing approximately 106% of total surplus. Loss reserve leverage is higher yet still manageable at less than 170% of surplus at YE 2020.

Capital Generation Analysis	2020 USD (000)	2019 USD (000)	2018 USD (000)	2017 USD (000)	2016 USD (000)
Beginning Capital and Surplus	1,763,700	1,735,000	1,819,700	1,792,700	1,668,100
Net Income after Non-Controlling Interests	-54,100	-14,100	63,600	50,300	146,700
Unrealized Capital Gains (Losses)	65,400	81,100	-74,500	50,300	32,200
Currency Exchange Gains (Losses)	-15,300	-200	-3,400	-1,400	4,000
Change in Paid-In Capital	147,900	5,000	216,100	-39,000	114,200
Stockholder Dividends	47,600	43,100	274,800	33,200	172,500
Other Changes in Capital and Surplus	-2,200	...	...	...	...
Net Change in Capital and Surplus	94,100	28,700	-73,000	27,000	124,600
Ending Capital and Surplus	1,857,800	1,763,700	1,746,700	1,819,700	1,792,700
Net Change in Capital and Surplus (%)	5.3	1.7	-4.0	1.5	7.5

Source: BestLink® - Best's Financial Suite

Liquidity Analysis	2020 USD (000)	2019 USD (000)	2018 USD (000)	2017 USD (000)	2016 USD (000)
Net Operating Cash Flow	71,900	182,800	301,300	165,000	182,000
Liquid Assets to Total Liabilities (%)	57.8	54.3	56.8	63.0	71.5

Source: BestLink® - Best's Financial Suite

Asset Liability Management - Investments

Management maintains a conservative investment strategy. The principal objective is the preservation of capital and to maximize after-tax investment income while generating competitive after-tax total rates of return. During 2019, the group had moderately reduced its exposure to risk assets, mostly notably common stocks.

Balance Sheet Strength (Continued...)

Composition of Cash and Invested Assets	2020 USD (000)	2019 USD (000)	2018 USD (000)	2017 USD (000)	2016 USD (000)
Total Cash and Invested Assets	5,404,600	5,235,300	4,926,200	4,919,500	4,406,300
Composition Percentages (%):					
Unaffiliated:					
Cash and Short Term Investments	12.8	18.8	12.6	11.1	11.2
Bonds	76.0	69.3	70.2	68.0	66.6
Stocks	3.3	2.6	7.2	9.9	10.2
Other Invested Assets	8.0	9.3	9.9	11.0	12.1
Total Unaffiliated Cash and Invested Assets	100.0	100.0	100.0	100.0	100.0
Total Cash and Invested Assets	100.0	100.0	100.0	100.0	100.0

Source: BestLink® - Best's Financial Suite

Reserve Adequacy

While Argo's prior year reserve development had been mostly favorable in the past, the group posted material adverse prior year reserve development in the third and fourth quarter of 2019, mostly in the international segment. There was no significant loss reserve development in 2020. Argo's reserve base also includes reserves from discontinued lines, which include exposure to claims for asbestos and environmental (A&E) policies and workers compensation policies, written in past years. At year-end 2020, net reserves in the run-off lines represented 6% of the total net reserve base.

Holding Company Assessment

Argo Group International Holdings Ltd is publicly traded on NYSE under the symbol ARGO. Preliminary year-end 2020 results showed unadjusted leverage stood at 26.0% and adjusted leverage at 15.2%. The group's \$456.9 million debt includes \$172.7 million in trust preferreds, which matures in 2033 and 2034, \$85.0 million subordinated debt acquired from the Ariel Re acquisition that matures in 2037 and \$140.1 million senior debt. The group also has \$144.0 million preferred stock on its balance sheet. From a coverage perspective, its 2020 interest coverage ratio was estimated to be at -0.7X.

Financial Leverage Summary - Holding Company

Financial Leverage Ratio (%)	26.00
Adjusted Financial Leverage Ratio (%)	15.40
Interest Coverage (x)	-0.70

Holding Company Analytics	2020 USD (000)	2019 USD (000)	2018 USD (000)	2017 USD (000)	2016 USD (000)
Debt to Capital and Surplus (%)	24.7	32.8	33.2	31.9	20.5
Liquid Assets to Total Liabilities (%)	57.8	54.3	56.8	63.0	71.5
Interest Expense	26,900	34,100	31,600	27,700	19,600

Source: BestLink® - Best's Financial Suite

Corporate Overview

Argo Group International Holdings, Ltd. (Argo Group), through its subsidiaries, is an international underwriter of specialty insurance and reinsurance products in the property and casualty market. Argo Group offers a full line of products and services designed to meet the unique coverage and claims handling needs of its customers. Argo Group's common shares are listed on the New York Stock Exchange and trade under the symbol "ARGO". The company was originally founded in 1948 and is headquartered in Pembroke, Bermuda.

Argo Group's US operations is leader in the Excess and Surplus Lines (E&S) focusing on US based risks that the standard (admitted) market is unwilling or unable to underwrite. The E&S business is sold through one operating platform: Colony Specialty. The US operations also underwrite admitted business including professional, property, casualty and surety coverages designed to the meet the

Balance Sheet Strength (Continued...)

specialized insurance needs of US based businesses within certain well-defined markets, in the following risk-bearing business units: Argo Pro, US Specialty Programs, Argo Surety, Argo Surety and Rockwood.

Argo Group's international operations specializes in insurance risks worldwide through the broker market, focusing on specialty property insurance, property catastrophe reinsurance, primary/excess casualty and professional liability insurance. This segment includes two Lloyd's Syndicates, Syndicate 1200 (under ArgoGlobal brand, focused on multi-class insurance), Syndicate 1910 (trading under the Ariel Re brand and focused on Reinsurance). In November 2020, the Ariel Re business was sold to a group of investors. The ArgoGlobal SE platform, focusing on continental Europe, has been put in run-off as of December 31, 2020. Argo's other platform in continental Europe, ArgoGlobal Assicurazioni, was also sold as of December 31, 2020. The remaining international specialty business consists of a strong Bermuda trading platform using Argo Re to write excess Casualty and Professional Lines, as well as Argo Seguros Brazil S.A. operating in Brazil.

Operating Performance

The group's five-year average combined ratio is in line with the commercial casualty composite. In 2019, however, Argo incurred approximately \$157 million in net underwriting losses driven by adverse prior year loss development and higher current year loss picks in the fourth quarter. In 2020, there was no significant adverse loss reserve development.

ROEs over the most recent five-year period were lower than its historical average due to higher than average catastrophe losses, stock market volatility and, more recently, prior year reserve development in 2019. As a global (re)insurer, Argo Re's earnings are susceptible to a greater degree of variability due to weather related events, as was demonstrated in 2011 and 2017. Its 2017 results were affected by Hurricanes Harvey, Irma and Maria, the California wildfires and other storms. Its 2018 results were affected by Hurricanes Florence and Michael, the California wildfires and other storms, although the impact from catastrophe events was much smaller in 2018 than in 2017. Its 2020 results were affected by COVID-19 (events cancellation), Hurricanes Laura, Sally, Delta and Zeta and California wildfires.

Argo's expense ratio has been consistently higher than its peers, partially reflecting the cost of doing business and maintaining regulatory compliance in the Lloyd's market, and partially due to fixed costs required to maintain or grow in various markets including investing in digital platforms. The new executive management team is taking steps to lower its expense ratio by simplifying organizational structure, shrinking non-core business and eliminate wasteful spending that does not support strategic goals.

Financial Performance Summary	2020 USD (000)	2019 USD (000)	2018 USD (000)	2017 USD (000)	2016 USD (000)
Pre-Tax Income	-46,400	...	67,700	39,900	181,900
Net Income (after Non-Controlling Interests)	-54,100	-14,100	63,600	50,300	146,700

Source: BestLink® - Best's Financial Suite

Operating and Performance Ratios (%)	2020	2019	2018	2017	2016
Overall Performance:					
Return on Assets	-0.5	-0.1	0.7	0.6	2.1
Return on Capital and Surplus	-3.0	-0.8	3.6	2.8	8.5
Non-Life Performance:					
Loss and LAE Ratio	67.9	70.6	60.1	66.8	57.4
Expense Ratio	38.2	38.5	37.8	40.4	38.8
Combined Ratio	106.1	109.1	97.9	107.2	96.2

Source: BestLink® - Best's Financial Suite

Business Profile

Argo Group International Holdings, Ltd. (NYSE: ARGO) is an international underwriter of specialty insurance products in the property and casualty market. Argo Re, the primary direct subsidiary, is based in Bermuda and underwrites excess casualty, property and professional lines insurance. It writes excess casualty, professional liability and property insurance for Fortune 1000 accounts. In addition to its primary location of Bermuda, Argo Re originates business through affiliates worldwide: Argo Re (DIFC) in Dubai, U.A.E. to serve the Middle East and North African insurance community; Argo Seguros, in Brazil.

Business Profile (Continued...)

In addition to its underwriting operations, Argo Re also owns a number of subsidiaries, including all of the group's insurance operations. In May 2017, Argo consolidated its reporting into two segments: U.S. Operations and International Operations. The U.S. Operations include the Excess & Surplus Lines and commercial specialty business units. The International Operations include Argo's business in the London market (including Syndicate 1200), Europe, Middle East and Brazil.

The Excess and Surplus Lines (E&S) businesses focus on risks typically not written by the standard market due to risk characteristics such as the perils involved, the nature of the business, and/or the insured's loss experience. The E&S businesses are often able to underwrite risks using more flexible policy terms and rating structures. The E&S lines operate primarily through the Colony Specialty platform. While focused primarily on non-admitted business, each of these operations may also underwrite certain classes of business on an admitted basis for risks that otherwise meet Argo Group's underwriting standards.

The commercial specialty business units provide property, casualty and surety coverages designed to meet the specialized insurance needs of businesses within certain well-defined markets. It targets business classes and industries with distinct risk profiles that can benefit from specially designed insurance programs, tailored loss control, and expert claims handling. These businesses serve its targeted niche markets with a narrowly focused underwriting profile and an understanding of the businesses it serves. The Commercial Specialty segment consists of the following risk-bearing business units: Argo Pro, US Specialty Programs, Argo Surety and Rockwood.

Syndicate 1200 is focused on underwriting worldwide property, non-US liability, marine and energy and specialty insurance. The property division of Syndicate 1200 concentrates mainly on North American commercial properties. A portion of the business is underwritten through the use of binding authorities whereby Argo delegates underwriting authority to another party, usually a broker or underwriting agent. The liability division underwrites professional indemnity, general liability, directors and officers and cyber insurance with emphasis on Canada, Australia and the UK. The marine and energy division underwrites cargo and energy, and marine liability insurance. The specialty division underwrites personal accident, credit and political risks, livestock and contingency insurance.

The additional international businesses include Argo Insurance Bermuda, ArgoGlobal Assicurazioni in Italy and Argo Seguros business in Brazil. Argo Insurance Bermuda serves the needs of global clients by providing coverage in property, general and products liability, D&O, E&O liability and employment practice liability, with particular focus on a seasoned book of mid/large account professional lines and excess casualty business. ArgoGlobal Assicurazioni is a specialty underwriter of property, marine, accident & health and liability insurance in the European market with a focus on Italy and southern Europe. This business was sold in late 2020. Argo Seguros is based in Brazil and provides a broad range of commercial property, casualty and specialty coverages to the country's domestic commercial insurance market. A growing portion of the Brazil business is being distributed via digital channels through the in-house Protector platform.

Enterprise Risk Management

On November 5, 2019, Argo announced the sudden resignation of its chief executive officer due to internal findings related to the non-disclosure of certain compensation-related perquisites involving Argo and its departed CEO. This issue stems from concerns raised by an activist shareholder in early 2019 and the subsequent subpoena issued by the Securities and Exchange Commission (SEC).

Since then the group has instituted new internal policies to remedy governance issues uncovered and Argo reached a settlement agreement with Voce Capital on January 2nd, 2020. The two companies agreed on a board refreshment process. Among the changes to the board refreshment process are the introduction of 3 new independent directors, the retirement of 5 independent directors, the declassification of the board and the reduction of the board size to 11 members.

Argo has also implemented numerous changes to improve corporate governance throughout 2019 and 2020. Other governance changes include frequent shareholder outreach and engagement with top shareholders (including VOCE). All these changes aim to provide accountability at all levels of the enterprise, within a framework that is transparent and one that keeps its stakeholders apprised. The SEC inquiry was subsequently resolved in June 2020.

Aside from governance issues relating to board independence and oversight, we continue to view other parts of Argo's ERM program as mature and well developed, and, on balance, has been appropriate in identifying, assessing, and setting strategies to manage and mitigate these risks.

While unfavorable prior year loss reserve development in 2019 raised some questions around reserve risk management, there was no significant loss reserve development in 2020.

Financial Statements

	12/31/2020		12/31/2019
	USD (000)	%	USD (000)
Balance Sheet			
Cash and Short Term Investments	691,400	6.6	982,800
Bonds	4,107,100	39.2	3,629,900
Equity Securities	176,700	1.7	136,000
Other Invested Assets	429,400	4.1	486,600
Total Cash and Invested Assets	5,404,600	51.6	5,235,300
Reinsurers' Share of Reserves	3,075,000	29.4	2,979,900
Debtors / Amounts Receivable	1,191,900	11.4	1,348,800
Other Assets	794,300	7.6	944,800
Total Assets	10,465,800	100.0	10,508,800
Gross Technical Reserves:			
Unearned Premiums	1,464,800	14.0	1,410,900
Non-Life Reserves	5,406,000	51.6	5,157,600
Total Gross Technical Reserves	6,870,800	65.6	6,568,500
Debt / Borrowings	458,700	4.4	578,700
Other Liabilities	1,278,500	12.2	1,597,900
Total Liabilities	8,608,000	82.2	8,745,100
Capital Stock	190,000	1.8	45,700
Paid-in Capital	1,380,200	13.2	1,376,600
Retained Earnings	684,100	6.5	793,700
Treasury Stock	-455,100	-4.4	-455,100
Other Capital and Surplus	58,600	0.6	2,800
Total Capital and Surplus	1,857,800	17.8	1,763,700
Total Liabilities, Mezzanine Items and Surplus	10,465,800	100.0	10,508,800

Source: BestLink® - Best's Financial Suite

AMB #: 058448 - Argo Group International Holdings, Ltd.

				12/31/2020	12/31/2019
	Non-Life	Life	Other	Total	Total
Income Statement	USD (000)	USD (000)	USD (000)	USD (000)	USD (000)
Gross premiums written	3,233,300	...	...	3,233,300	3,130,100
Net Premiums Earned	1,780,500	...	...	1,780,500	1,729,700
Net Investment Income	...	...	112,700	112,700	151,100
Net realized gains/(losses)	...	...	-17,500	-17,500	120,900
Net unrealized gains/(losses)	...	...	10,300	10,300	-40,800
Other income	3,900	...	...	3,900	3,300
Non-operating revenue	...	...	...	...	9,800
Total Revenue	1,784,400	...	105,500	1,889,900	1,974,000
Losses and Benefits	1,208,800	...	...	1,208,800	1,220,700
Net Operating Expense	679,400	...	5,800	685,200	719,200
Other Expense	...	...	15,400	15,400	...
Total Losses, Benefits, and Expenses	1,888,200	...	21,200	1,909,400	1,939,900
Earnings before interest & taxes (EBIT)	-103,800	...	84,300	-19,500	34,100
Interest Expense	...	...	...	26,900	34,100
Income Taxes Incurred	...	...	...	7,700	14,100
Net income before Non-Controlling interests	...	...	...	-54,100	-14,100
Net income/(loss) from continuing operations	...	...	...	-54,100	-14,100
Net Income	...	...	...	-54,100	-14,100

Source: BestLink® - Best's Financial Suite

	12/31/2020	12/31/2019
Statement of Cash Flows	USD (000)	USD (000)
Net cash provided/(used) in Operating Activities	71,900	182,800
Net cash provided/(used) in Investing Activities	-24,300	-142,800
Net cash provided/(used) in Financing Activities	-26,800	-41,800
Effect of Exchange Rates/Discontinued Operations on Cash	-9,800	-100
Total increase (decrease) in cash	11,000	-1,900
Cash, beginning balance	137,800	139,700
Cash, ending balance	148,800	137,800

Source: BestLink® - Best's Financial Suite

Related Methodology and Criteria

[Best's Credit Rating Methodology, 11/13/2020](#)

[Catastrophe Analysis in A.M. Best Ratings, 10/13/2017](#)

[Available Capital & Holding Company Analysis, 10/13/2017](#)

[Scoring and Assessing Innovation, 03/05/2020](#)

[Understanding Universal BCAR, 03/11/2021](#)

Additional Rating Types

AM Best assigns Best's Issue Credit Ratings. Refer to the profile page to view current Issue Ratings for [Argo Group Intern Hldgs, Ltd. \(AMB#058448\)](#)

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