



CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

Report on Reinsurance Security

Date: October 2022



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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
- 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
- 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
- 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 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
- 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

Market	Unregistered in Canada	Collection Difficulties	Downgrade \ Watch List	Current Liabilities (All Years) exceeds 10%	Current Liabilities (Most Recent Year) exceeds 10%	Claim Limit Exposure (Most Recent Year) exceeds 10%
AWAC	✓					
Colchester	✓			✓	✓	✓
Lloyd's				✓	✓	✓
AMA 1200 (Argo Syndicate)				✓	✓	
Swiss Re						✓
AML 2001 (MS Amlin Syndicate)					✓	
Argenta 2021 (Argenta Syndicate)					✓	

Level II Monitoring Requirement

Market	Exposure Exceeds 0.1% of Insurer Total Assets	CLLAS Exposure Exceeds 0.5% of Insurer Total Capital & Surplus	Level II Monitoring Required?
AWAC	No	No	Yes
Colchester	Yes	Yes	Yes

Market	Exposure Exceeds 0.1% of Insurer Total Assets	CLLAS Exposure Exceeds 0.5% of Insurer Total Capital & Surplus	Level II Monitoring Required?
Lloyd's	No	No	No
AMA 1200 (Argo Syndicate)	No	Yes	Yes
Swiss Re	No	No	No
AML 2001 (MS Amlin Syndicate)	No	No	No
Argenta 2021 (Argenta Syndicate)	Relies on Lloyd's		

Note: Relied upon MS Amlin's parent company financials, MS Amlin AG.

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.

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.

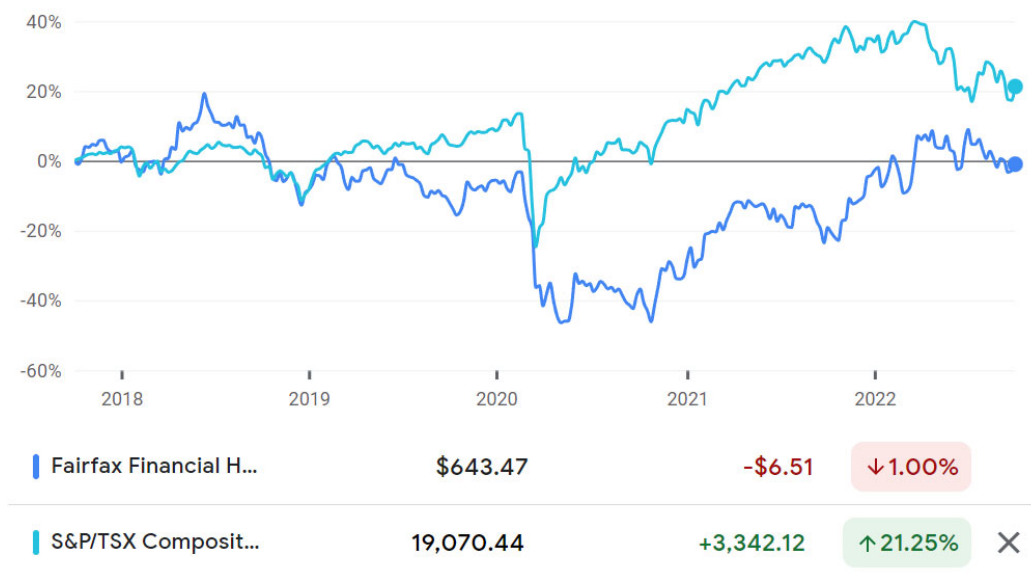
AWAC has been a participant in the CLLAS Program since 2002. Currently, AWAC participates in the high layers of the CLLAS Program – the Optional Excess and Umbrella layers.

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 6, 2022, for Fairfax Financial Holdings (ticker: FFH, Toronto Stock Exchange) with the S&P/TSX Composite 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

- Net Premium Written increased from USD 3,017,600 in 2020 to USD 3,907,800 in 2021.

- Income for the year, after taxation, increased from USD 279,800,000, in 2020 to USD 548,300,000 in 2021.
- Overall, the company's combined ratio improved from 95.7% to 93.6%.

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.

A.M. Best report was updated on May 25, 2022.

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

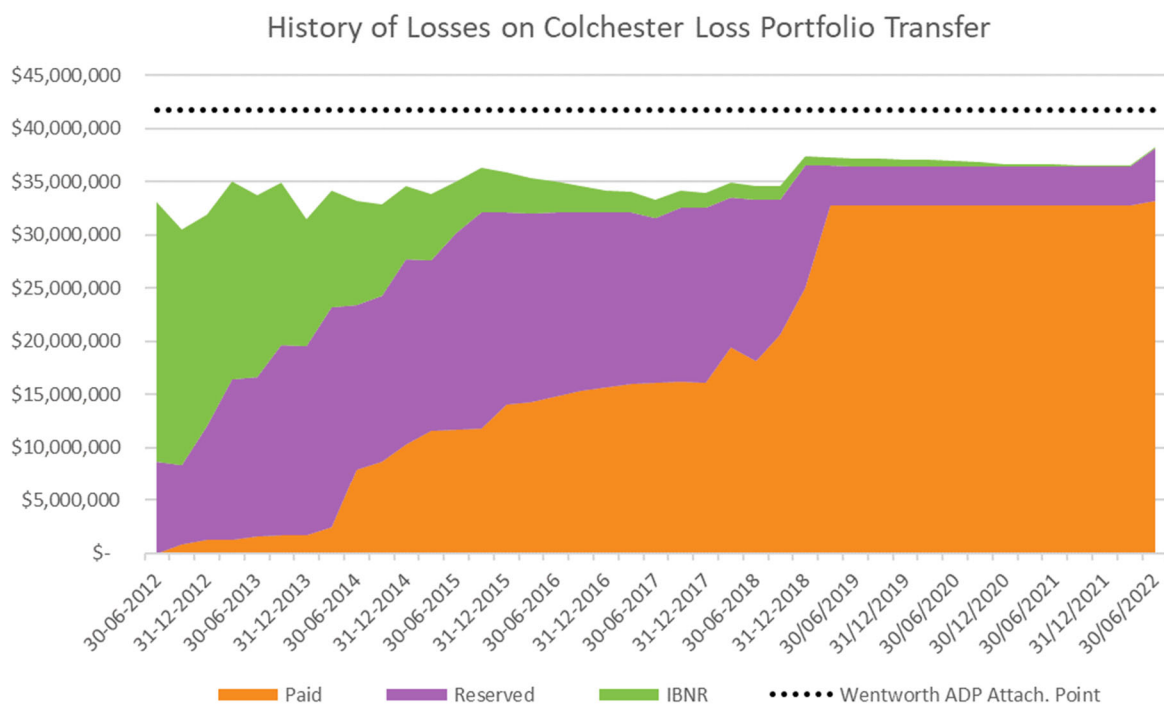
Colchester is not rated by any ratings agencies.

Financial Highlights

Please see Appendix H for a copy of the most recent draft financial statements (as of June 30, 2022). The following are some of the highlights from these financials:

- Total Equity decreased from \$24,869,126 in 2021 to \$22,618,823 in 2022
- Income for the year, after taxation, decreased from \$121,171 in 2021 to (\$1,616,431) in 2022
 - Reinsurance premiums written and earned increased from \$1,713,252 in 2021 to \$3,231,090 in 2022
 - Retrocession premiums increased from \$1,539,731 in 2021 to \$2,434,609 in 2022
- Colchester has been deliberately distributing surplus via premium reductions 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

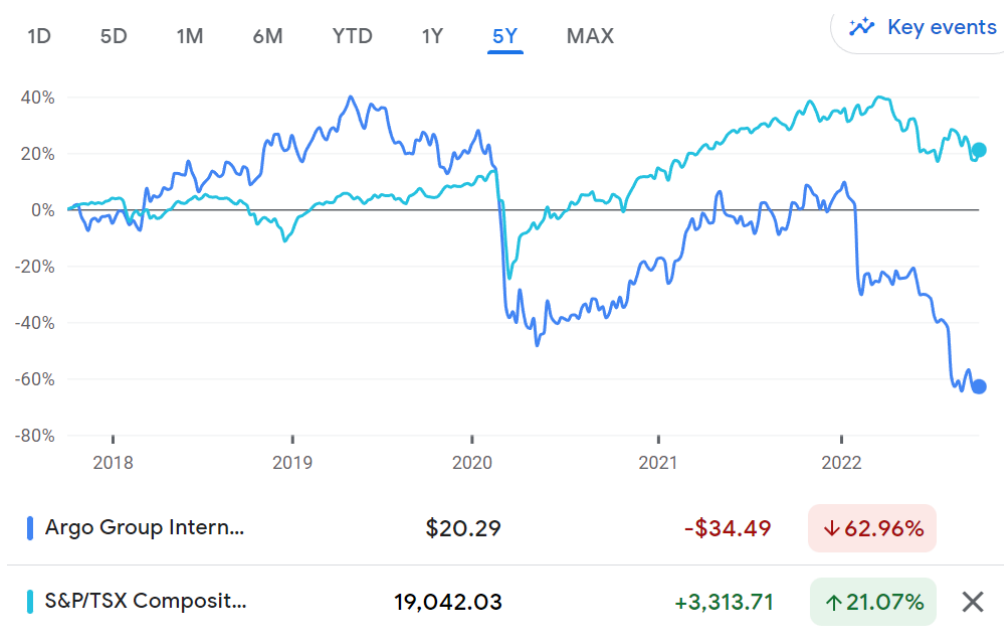
Argo Group's operating companies provide primary and excess insurance, reinsurance products and tailored risk solutions for the managing general agency market. Argo Group underwrites on an international platform.

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
- 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 October 6, 2021, for Argo Group International Holdings (ticker: AGII) with the S&P/TSX Composite 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
- The group's 5-year average combined ratio slightly under-performs the commercial casualty composite reflecting organization changes the company experienced in recent years. For 2021, the combined ratio was 105.6%, compared with 105.4% for 2020, and 109.1% for 2019. Net underwriting losses of \$106.8 millions in 2021 was caused by adverse loss

development of \$138.3 million, mostly in the construction sector. Recent underwriting losses have been driven higher by COVID related losses and higher natural catastrophe losses (i.e., hurricanes)

- 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. The group posted material adverse prior year reserve development in the third and fourth quarter of 2019, none in 2020, and again in the fourth quarter of 2021.

A.M. Best report was updated on April 13, 2022.

Note: Argo Syndicate benefits from dedicated capital, as well as funds held by Lloyd's on its behalf, which further strengthen the syndicates position relative to the parent's.

Financial Highlights

- Retained earnings decreased from USD 684,100,000 in 2020 to USD 636,400,000 in 2021.
- Net Income for the year, after taxation, increased from USD (54,100,000) in 2020 to USD 6,700,000 in 2021.
- Total Capital and Surplus decreased from \$1,857,800,000 in 2020 to \$1,735,200,000 in 2021.



Actuaries and Insurance Management Advisors

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,

A handwritten signature in black ink, appearing to read "J. Tontini".

Joseph D. Tontini
Consultant

To Follow

CLLAS Reinsurance

A.M Best Ratings over a 5 year period

October 2022

Appendix C

Reinsurers	Registered Status	AMB#		2018	2019	2020	2021	2022
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	Stable	Stable	Stable	Stable
Allied World Assurance Company Ltd.	Unregistered	84808	Rating	A	A	A	A	A
			Outlook	Stable	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 (Intact Financial Corporation is the Parent company)	Registered		Rating	N/A	N/A	N/A	N/A	A
			Outlook	N/A	N/A	N/A	N/A	Stable
SCOR Canada Reinsurance Company	Registered	85445	Rating	A+	A+	A+	A+	A+
			Outlook	Stable	Stable	Stable	Stable	Negative
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	58309	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	Negative	Negative	Stable	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

CLLAS Reinsurance

S&P Ratings over a 5 year period

October 2022

Appendix C

Reinsurers		2018	2019	2020	2021	2022
Lloyd's	Rating	A+	A+	A+	A+	A+
	Outlook	Negative	Negative	Stable	Stable	Stable
Aspen Re	Rating	A	A	A	BBB	BBB
	Outlook	Negative	Negative	Negative	Stable	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	Stable	Stable	Negative	Negative	Stable
Allied World Assurance Company Ltd.	Rating	A-	A-	A-	A-	A
	Outlook	Positive	Positive	Stable	Positive	Stable
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 (Intact Financial Corporation is the Parent company)	Rating	A	A	A	N/A	N/A
	Outlook	Stable	Stable	Stable	N/A	N/A
SCOR Canada Reinsurance Company	Rating	AA-	AA-	AA-	AA-	AA-
	Outlook	Stable	Stable	Stable	Stable	Negative
Swiss Reinsurance Company Ltd. (Canada Branch)	Rating	AA-	AA-	AA-	AA-	AA-
	Outlook	Stable	Stable	Negative	Negative	Negative
Toa Reinsurance Company of America	Rating	A+	A+	A+	A+	A+
	Outlook	Stable	Stable	Stable	Stable	Negative
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	Negative	Negative
Axis Reinsurance Company	Rating	A+	A+	A+	A+	A+
	Outlook	Negative	Stable	Negative	Negative	Stable
Continental Casualty Company (CNA)	Rating	A	A	A+	A+	A+
	Outlook	Stable	Positive	Stable	Stable	Stable
Allianz Global Risks	Rating	AA	AA	AA	AA	AA
	Outlook	Stable	Stable	Negative	Negative	Stable
CNA Canada	Rating	A	A	A+	A+	A+
	Outlook	Stable	Positive	Stable	Stable	Stable

Insurer Financial Ratings

CLLAS Canadian Excess Program

INSURANCE COMPANY		COUNTRY	BEST'S RATING	S&P RATING
LIBERTY INTERNATIONAL UNDERWRITERS CANADA, A DIVISION OF LIBERTY MUTUAL INSURANCE COMPANY		U.S.A.	A	A
TRAVELERS COMMERCIAL INSURANCE COMPANY OF CANADA		Canada	A++	AA
SOVEREIGN GENERAL INSURANCE COMPANY		Canada	A	
NORTHBRIDGE COMMERCIAL INSURANCE CORP.		Canada	A	A
INTACT INSURANCE COMPANY		Canada	A+	
QBE INSURANCE (INTERNATIONAL) LTD.		U.S.A.	A	A+
AXIS Reinsurance Company		Canada	A	A+
XL Specialty Insurance Company		U.S.A.	A+	AA-
TOKIO MARINE CANADA LTD.		Canada	A-	n/a
ENCON GROUP INC. - Participants				
1	Continental Casualty Company	U.S.A.	A	A+
2.	XL/Catlin Reinsurance America Inc.	U.S.A.	A+	AA-
3.	Temple Insurance Company	Canada	A+	A+
4.	Aviva Insurance Company of Canada	Canada	A	AA-

Ratings reflect the most recent issue, update or change communicated by the rating agency. Effective dates on S&P interactive ratings above do not reflect affirmations. Ratings do not necessarily correspond to a specific data year. "Secure" scales are described below. Refer to A.M. Best's (Best's) and Standard and Poor's (S&P) definitions for details. Conversions to U.S. Dollars are subject to exchange rate differences. Sources of financial data (company accounts or regulatory returns) for non-US companies are indicated on the individual company reports

<u>Best's Ratings</u>		<u>S&P Ratings</u>	
A++, A+ Superior	Best's rating modifiers may be assigned based on group affiliation: (r=Reinsured, p=Pooled, or g=Group) FPR ratings range from 1-9, where 1=Poor and 9=Very Strong	AAA Extremely Strong	S & P Financial Strength ratings may be modified by the use of a "+" or "-" sign to show relative standing within a category. The "pi" indicates a "public information" rating. A "pos", "neg", or "dev" indicates a positive, negative, or developing CreditWatch implication
A, A- Excellent		AA Very Strong	
B++, B+ Very Good		A Strong	
U Under review		BBB Good	

Insurer Financial Ratings

CLLAS International Program

INSURANCE COMPANY	COUNTRY	BEST'S RATING	S&P RATING
CONTINENTAL CASUALTY COMPANY	U.S.A.	A	A+
AXA XL	U.S.A.	A+	AA-
BERKSHIRE	U.S.A.	A++	AA+
ASPEN RE	U.S.A.	A	A-
LLOYDS	UNITED KINGDOM	A	A+

CLLAS Reinsurance

Top 25 Reinsurers by % of Current Liability

ALL YEARS

Appendix D

Lev. II	Name	Jurisdiction	Reg'd?	LAYERS										TOTAL	All-time Percent of Total	Prev. Year Percent of Total	Move- ment?
				\$.975MM XS	\$4/\$49MM XS	\$7.5MM XS	\$12.5MM XS	\$10MM XS	\$30/60MM XS	\$20MM XS	\$10-60MM XS	\$15-110MM XS	\$30/60MM XS				
				\$.025MM	\$1MM	\$5MM	\$12.5MM	\$25MM	\$65MM	\$140MM	\$160MM	\$50MM	\$250MM				
➔	Underwriters at Lloyd's	London	Yes	0	37,040,961	1,039,190	15,314	11,856	70,248	95	147,834	0	0	38,325,497	50.7%	51.7%	Down
➔	Colchester	Barbados	No	0	15,489,418	0	0	0	0	0	27,621	32,535	0	15,549,575	20.6%	19.7%	Up
➔	AMA 1200	Lloyd's	Yes	0	13,690,179	0	0	0	33	0	0	0	0	13,690,212	18.1%	19.0%	Down
	AML 2001	Lloyd's	Yes	0	7,180,449	0	1,895	1,251	0	7	0	0	0	7,183,602	9.5%	9.6%	Down
	AUL 1274	Lloyd's	Yes	0	5,305,869	0	0	0	0	0	0	0	0	5,305,869	7.0%	7.1%	Down
	Allianz Global Risks	London	Yes	0	4,485,438	0	0	0	0	0	0	0	0	4,485,438	5.9%	7.6%	Down
	Vibe 5678	Lloyd's	Yes	0	4,363,692	0	0	0	0	0	0	0	0	4,363,692	5.8%	7.4%	Down
	AXIS Re	Canada	Yes	0	3,648,576	0	0	0	0	0	15,485	0	0	3,664,061	4.8%	4.9%	Down
	PPI 9969	Lloyd's	Yes	0	2,812,554	0	0	0	0	0	2,064	0	0	2,814,618	3.7%	5.1%	Down
	Hannover (Combined)	Combined	Yes	0	2,207,377	0	11,292	0	0	0	0	0	0	2,218,669	2.9%	0.8%	Up
	Argenta 2121	Lloyd's	Yes	0	2,207,377	0	0	0	0	0	0	0	0	2,207,377	2.9%	0.8%	Up
	AFB 623/2623	Lloyd's	Yes	0	0	916,386	0	0	5,091	0	0	0	0	921,478	1.2%	0.1%	Up
	AGD 2526	Lloyd's	Yes	0	840,847	776	0	0	44	0	218	0	0	841,884	1.1%	1.2%	Down
	CNA (Combined)	Combined	Mixed	0	756,141	0	0	0	0	0	0	0	0	756,141	1.0%	1.6%	Down
	CNA Canada	Canada	Yes	0	727,938	0	0	0	0	0	0	0	0	727,938	1.0%	1.5%	Down
	Transatlantic Reinsurance Company (Combined)	Combined	Yes	0	47,006	504,436	4,786	0	0	0	0	0	0	556,228	0.7%	0.1%	Up
	Arch	Canada	Yes	0	0	507,135	0	0	0	0	661	0	0	507,796	0.7%	0.0%	Up
	Transatlantic Reinsurance Company	London	Yes	0	0	500,000	0	0	0	0	0	0	0	500,000	0.7%	0.1%	Up
	Hamilton (Combined)	Combined	Yes	0	468,963	0	4,035	0	6,300	14	16,444	0	0	495,757	0.7%	0.9%	Down
	Aspen Re	London	Yes	0	0	485,879	5,178	2,367	0	0	0	0	0	493,425	0.7%	0.0%	Up
	Hamilton 3334	Lloyd's	Yes	0	379,310	0	0	0	593	0	1,537	0	0	381,441	0.5%	0.7%	Down
	Swiss Re (Combined)	Combined	Mixed	0	0	0	0	7,479	45,167	215	41,207	262,437	0	356,505	0.5%	0.6%	Down
	Westport Insurance Corp. (Swiss Re)	Canada	Yes	0	0	0	0	0	44,589	0	40,882	262,437	0	347,908	0.5%	0.5%	Down
	CRC (Bermuda) Reinsurance Ltd.	Bermuda	No	0	0	202,338	2,008	0	0	0	0	0	0	204,346	0.3%	0.0%	Up
	SAM 727	Lloyd's	Yes	0	0	122,027	0	0	0	0	0	0	0	122,027	0.2%	0.0%	Up
Total Current Liabilities				2,651,296	68,036,351	4,089,186	70,258	30,853	129,049	860	310,910	294,972	0	75,613,734			
Proportional Reinsurance:																	
	London			0	41,526,399	2,025,069	31,784	14,223	70,248	95	147,834	0	0	43,815,651	57.9%	59.3%	Down
	Canada			0	4,451,723	618,271	15,724	10,829	50,706	215	113,038	262,437	0	5,522,944	7.3%	7.3%	Up
	Bermuda			0	0	202,338	2,008	0	8,095	550	22,416	0	0	235,407	0.3%	0.1%	Up
	Barbados			0	15,489,418	0	0	0	0	0	27,621	32,535	0	15,549,575	20.6%	19.7%	Up
	Total			0	61,467,540	2,845,678	49,516	25,053	129,049	860	310,910	294,972	0	65,123,578	86.1%	86.4%	Down
CLLAS Proportional Retention				2,651,296	6,568,810	1,243,508	20,742	5,801	0	0	0	0	0	10,490,157	13.9%	13.6%	Up
➔	Colchester Loss Portfolio Transfer & Stop Loss			22,823	6,568,810	1,243,508	20,742	5,801	0	0	0	0	0	7,861,684	10.4%	9.8%	Up
CLLAS Net Retention														2,628,472	3.5%	3.8%	Down

CLLAS Reinsurance

Appendix E

Reinsurers by % of Current Liability

PRIOR YEAR (2021/2022)

Lev. II	Name	Jurisdiction	Reg'd?	LAYERS					TOTAL	Percent of Total	Prev. Year Percent of Total	Move-ment?
				\$.975MM	\$49MM	\$30/60MM	\$10-60MM	\$15-110MM				
				XS \$.025MM	XS \$1MM	XS \$65MM	XS \$160MM	XS \$50MM				
➡	Underwriters at Lloyd's	London	Yes	0	8,829,509	17,829	31,543	0	8,878,881	57.8%	58.1%	Down
➡	Colchester	Barbados	No	0	4,856,230	0	6,144	32,535	4,894,909	31.8%	32.0%	Down
➡	AMA 1200	Lloyd's	Yes	0	3,163,907	0	0	0	3,163,907	20.6%	20.7%	Down
	Hannover (Combined)	Combined	Yes	0	2,207,377	0	0	0	2,207,377	14.4%	14.4%	Down
	Argenta 2121	Lloyd's	Yes	0	2,207,377	0	0	0	2,207,377	14.4%	14.4%	Down
	AML 2001	Lloyd's	Yes	0	1,986,640	0	0	0	1,986,640	12.9%	13.0%	Down
	AUL 1274	Lloyd's	Yes	0	1,471,585	0	0	0	1,471,585	9.6%	9.6%	Down
	AXIS Re	Canada	Yes	0	1,030,109	0	3,072	0	1,033,181	6.7%	6.8%	Down
	Swiss Re (Combined)	Combined	Mixed	0	0	11,346	5,628	39,042	56,016	0.4%	0.4%	Down
	Westport Insurance Corp. (Swiss Re)	Canada	Yes	0	0	11,346	5,628	39,042	56,016	0.4%	0.4%	Down
	MKL 3000	Lloyd's	Yes	0	0	3,222	8,454	0	11,676	0.1%	0.1%	Down
	BRT 2987	Lloyd's	Yes	0	0	7,456	3,686	0	11,142	0.1%	0.1%	Down
	Canopus 4444	Lloyd's	Yes	0	0	2,629	5,640	0	8,269	0.1%	0.1%	Down
	Gerling Global Re	Canada	Yes	0	0	1,297	6,144	0	7,441	0.0%	0.0%	Down
➡	AWAC	Bermuda	No	0	0	1,945	4,301	0	6,246	0.0%	0.0%	Down
	Hamilton (Combined)	Combined	Yes	0	0	1,605	3,410	0	5,014	0.0%	0.0%	Down
	PEM 4000	Lloyd's	Yes	0	0	1,605	3,410	0	5,014	0.0%	0.0%	Down
	Sampo (Fronted by Trisura)	Canada	Yes	0	0	0	4,608	0	4,608	0.0%	0.0%	Down
	FDY 435	Lloyd's	Yes	0	0	1,462	2,808	0	4,270	0.0%	0.0%	Down
	Mosaic	Lloyd's	Yes	0	0	0	3,858	0	3,858	0.0%	0.0%	Down
	Probitas 1492	Lloyd's	Yes	0	0	0	3,686	0	3,686	0.0%	0.0%	Down
	AFB 623/2623	Lloyd's	Yes	0	0	1,456	0	0	1,456	0.0%	0.0%	Down

Total Current Liabilities	492,571	14,715,848	32,417	61,439	71,577	15,373,852
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Proportional Reinsurance:

London	0	8,829,509	17,829	31,543	0	8,878,881	57.8%	67.2%	Down
Canada	0	1,030,109	12,643	19,452	39,042	1,101,245	7.2%	7.4%	Down
Bermuda	0	0	1,945	4,301	0	6,246	0.0%	0.1%	Down
Barbados	0	4,856,230	0	6,144	32,535	4,894,909	31.8%	22.3%	Up
Total	0	14,715,848	32,417	61,439	71,577	14,881,281	96.8%	96.9%	Down

CLLAS Proportional Retention

492,571	0	0	0	0	492,571	3.2%	3.1%	Up
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➡ Colchester Aggregate

n/a	n/a	n/a
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CLLAS Net Retention

492,571	3.2%	3.1%	Up
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CLLAS Reinsurance

Reinsurers by % of Single Claim Exposure

CURRENT YEAR (2022/2023)

Appendix F

Lev. II	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	\$30/60MM XS				
				\$.025MM	\$1MM	\$65MM	\$160MM	\$50MM	\$250MM				
➡	Underwriters at Lloyd's	London	Yes	0	29,400,000	16,500,000	30,804,000	0	19,017,000	95,721,000	54.5%	44.5%	Up
➡	Colchester	Barbados	No	0	16,170,000	0	6,000,000	2,500,000	7,500,000	32,170,000	18.3%	9.8%	Up
	Swiss Re (Combined)	Combined	Mixed	0	0	10,500,000	5,496,000	3,000,000	1,500,000	20,496,000	11.7%	23.4%	Down
	Westport Insurance Corp. (Swiss Re)	Canada	Yes	0	0	10,500,000	5,496,000	3,000,000	1,500,000	20,496,000	11.7%	23.4%	Down
	MKL 3000	Lloyd's	Yes	0	0	2,982,000	8,256,000	0	0	11,238,000	6.4%	4.0%	Up
➡	AMA 1200	Lloyd's	Yes	0	10,535,000	0	0	0	0	10,535,000	6.0%	6.7%	Down
	BRT 2987	Lloyd's	Yes	0	0	6,900,000	3,600,000	0	0	10,500,000	6.0%	5.4%	Up
	Canopus 4444	Lloyd's	Yes	0	0	2,433,000	5,508,000	0	2,481,000	10,422,000	5.9%	0.0%	Up
	Probitas 1492	Lloyd's	Yes	0	0	0	3,600,000	0	4,134,000	7,734,000	4.4%	0.0%	Up
	Hannover (Combined)	Combined	Yes	0	7,350,000	0	0	0	0	7,350,000	4.2%	0.0%	Up
	Argenta 2121	Lloyd's	Yes	0	7,350,000	0	0	0	0	7,350,000	4.2%	0.0%	Up
	Gerling Global Re	Canada	Yes	0	0	1,200,000	6,000,000	0	0	7,200,000	4.1%	4.9%	Down
	Hamilton (Combined)	Combined	Yes	0	0	1,485,000	3,330,000	0	2,067,000	6,882,000	3.9%	0.0%	Up
	PEM 4000	Lloyd's	Yes	0	0	1,485,000	3,330,000	0	2,067,000	6,882,000	3.9%	2.0%	Up
	AML 2001	Lloyd's	Yes	0	6,615,000	0	0	0	0	6,615,000	3.8%	3.3%	Up
	Sampo (Fronted by Trisura)	Canada	Yes	0	0	0	4,500,000	0	1,983,000	6,483,000	3.7%	0.0%	Up
	AXIS Re	Canada	Yes	0	3,430,000	0	3,000,000	0	0	6,430,000	3.7%	3.7%	Down
➡	AWAC	Bermuda	No	0	0	1,800,000	4,200,000	0	0	6,000,000	3.4%	4.1%	Down
	Mosaic	Lloyd's	Yes	0	0	0	3,768,000	0	1,239,000	5,007,000	2.9%	0.0%	Up
	AUL 1274	Lloyd's	Yes	0	4,900,000	0	0	0	0	4,900,000	2.8%	2.2%	Up
	W/R/B	Lloyd's	Yes	0	0	0	0	0	4,134,000	4,134,000	2.4%	0.0%	Up
	FDY 435	Lloyd's	Yes	0	0	1,353,000	2,742,000	0	0	4,095,000	2.3%	2.0%	Up
	AFB 623/2623	Lloyd's	Yes	0	0	1,347,000	0	0	2,481,000	3,828,000	2.2%	0.8%	Up
	Starr	Lloyd's	Yes	0	0	0	0	0	2,481,000	2,481,000	1.4%	0.0%	Up

Maximum Exposure Any One Claim

975,000 49,000,000 30,000,000 60,000,000 5,500,000 30,000,000 175,475,000

Proportional Reinsurance:

London	0	29,400,000	16,500,000	30,804,000	0	19,017,000	95,721,000	54.5%	51.8%	Up
Canada	0	3,430,000	11,700,000	18,996,000	3,000,000	3,483,000	40,609,000	23.1%	34.9%	Down
Bermuda	0	0	1,800,000	4,200,000	0	0	6,000,000	3.4%	5.6%	Down
Barbados	0	16,170,000	0	6,000,000	2,500,000	7,500,000	32,170,000	18.3%	7.0%	Up
Total	0	49,000,000	30,000,000	60,000,000	5,500,000	30,000,000	174,500,000	99.4%	99.3%	Up
CLLAS Proportional Retention	975,000	0	0	0	0	0	975,000	0.6%	0.7%	Down
Colchester Aggregate							n/a	n/a	n/a	
CLLAS Net Retention							975,000	0.6%	0.0%	Up

CLLAS Reinsurance

Reinsurers by % of Single Claim Exposure

CURRENT YEAR (2022/2023)

Appendix F-PF

Lev. II	Name	Jurisdiction	Reg'd?	LAYERS							US\$30MM* (\$39MM)	TOTAL	Percent of Total
				\$,975MM	\$49MM	\$30/60MM	\$10-60MM	\$15-50MM	\$60MM	\$30/60MM			
				XS \$.025MM	XS \$1MM	XS \$65MM	XS \$160MM	XS \$50MM	XS \$100MM	XS \$250MM			
	Underwriters at Lloyd's	London	Yes	0	29,400,000	16,500,000	30,804,000	0	0	19,017,000	6,630,000	102,351,000	32.1%
	Colchester	Barbados	No	0	16,170,000	0	6,000,000	0	0	7,500,000	0	29,670,000	9.3%
	Westport Insurance Corp. (Swiss Re)	Canada	Yes	0	0	10,500,000	5,496,000	0	0	1,500,000	0	17,496,000	5.5%
	Swiss Re (Combined)	Combined	Mixed	0	0	10,500,000	5,496,000	0	0	1,500,000	0	17,496,000	5.5%
	Victor Insurance (PF)	Canada	Yes	0	0	0	0	5,000,000	12,000,000	0	0	17,000,000	5.3%
	Liberty International Canada (PF)	Canada	Yes	0	0	0	0	10,000,000	5,700,000	0	0	15,700,000	4.9%
	Royal & Sun Alliance Co. of Canada (PF)	Canada	Yes	0	0	0	0	10,000,000	5,700,000	0	0	15,700,000	4.9%
	Travelers Insurance Company of Canada (PF)	Canada	Yes	0	0	0	0	5,000,000	9,900,000	0	0	14,900,000	4.7%
	AXA XL (PF)	Canada	Yes	0	0	0	0	5,000,000	0	0	6,435,000	11,435,000	3.6%
	MKL 3000	Lloyd's	Yes	0	0	2,982,000	8,256,000	0	0	0	0	11,238,000	3.5%
	AMA 1200	Lloyd's	Yes	0	10,535,000	0	0	0	0	0	0	10,535,000	3.3%
	BRT 2987	Lloyd's	Yes	0	0	6,900,000	3,600,000	0	0	0	0	10,500,000	3.3%
	Canopius 4444	Lloyd's	Yes	0	0	2,433,000	5,508,000	0	0	2,481,000	0	10,422,000	3.3%
	The Sovereign General Insurance Company (PF)	Canada	Yes	0	0	0	0	0	9,900,000	0	0	9,900,000	3.1%
	QBE Insurance Group (PF)	Canada	Yes	0	0	0	0	5,000,000	4,800,000	0	0	9,800,000	3.1%
	CNA (US)	US	Yes	0	0	0	0	0	0	0	9,750,000	9,750,000	3.1%
	Berkshire (PF)	US	Yes	0	0	0	0	0	0	0	9,750,000	9,750,000	3.1%
	Northbridge Insurance Company (PF)	Canada	Yes	0	0	0	0	2,500,000	6,000,000	0	0	8,500,000	2.7%
	Probitas 1492	Lloyd's	Yes	0	0	0	3,600,000	0	0	4,134,000	0	7,734,000	2.4%
	Hannover (Combined)	Combined	Yes	0	7,350,000	0	0	0	0	0	0	7,350,000	2.3%
	Argenta 2121	Lloyd's	Yes	0	7,350,000	0	0	0	0	0	0	7,350,000	2.3%
	Gerling Global Re	Canada	Yes	0	0	1,200,000	6,000,000	0	0	0	0	7,200,000	2.3%
	Hamilton (Combined)	Combined	Yes	0	0	1,485,000	3,330,000	0	0	2,067,000	0	6,882,000	2.2%
	PEM 4000	Lloyd's	Yes	0	0	1,485,000	3,330,000	0	0	2,067,000	0	6,882,000	2.2%
	AML 2001	Lloyd's	Yes	0	6,615,000	0	0	0	0	0	0	6,615,000	2.1%
	Sampo (Fronted by Trisura)	Canada	Yes	0	0	0	4,500,000	0	0	1,983,000	0	6,483,000	2.0%
	Aspen Re (PF)	Canada	Yes	0	0	0	0	0	0	0	6,435,000	6,435,000	2.0%
	AXIS Re	Canada	Yes	0	3,430,000	0	3,000,000	0	0	0	0	6,430,000	2.0%
	AWAC	Bermuda	No	0	0	1,800,000	4,200,000	0	0	0	0	6,000,000	1.9%
	CLLAS	Canada	Yes	0	0	0	0	2,500,000	3,000,000	0	0	5,500,000	1.7%
	Mosaic	Lloyd's	Yes	0	0	0	3,768,000	0	0	1,239,000	0	5,007,000	1.6%
	Axis Reinsurance Company (PF)	Canada	Yes	0	0	0	0	5,000,000	0	0	0	5,000,000	1.6%
	AUL 1274	Lloyd's	Yes	0	4,900,000	0	0	0	0	0	0	4,900,000	1.5%
	W/R/B	Lloyd's	Yes	0	0	0	0	0	0	4,134,000	0	4,134,000	1.3%
	FDY 435	Lloyd's	Yes	0	0	1,353,000	2,742,000	0	0	0	0	4,095,000	1.3%
	AFB 623/2623	Lloyd's	Yes	0	0	1,347,000	0	0	0	2,481,000	0	3,828,000	1.2%
	Tokio Marine Canada (PF)	Canada	Yes	0	0	0	0	0	3,000,000	0	0	3,000,000	0.9%
	Starr	Lloyd's	Yes	0	0	0	0	0	0	2,481,000	0	2,481,000	0.8%

Maximum Exposure Any One Claim

975,000 49,000,000 30,000,000 60,000,000 50,000,000 60,000,000 30,000,000 39,000,000 318,975,000 32.1%

Proportional Reinsurance:

London	0	29,400,000	16,500,000	30,804,000	0	0	19,017,000	6,630,000	102,351,000	1.9%
Canada	0	3,430,000	11,700,000	18,996,000	50,000,000	60,000,000	3,483,000	12,870,000	160,479,000	9.3%
US	0	0	0	0	0	0	0	19,500,000	19,500,000	99.7%
Bermuda	0	0	1,800,000	4,200,000	0	0	0	0	6,000,000	
Barbados	0	16,170,000	0	6,000,000	0	0	7,500,000	0	29,670,000	0.3%
Total	0	49,000,000	30,000,000	60,000,000	50,000,000	60,000,000	30,000,000	39,000,000	318,000,000	

n/a

CLLAS Proportional Retention

975,000 0 0 0 0 0 0 0 0 975,000 0.3%

Colchester Aggregate

n/a

CLLAS Net Retention

975,000



BEST'S CREDIT REPORT

Best's Credit Rating Effective Date

May 25, 2022

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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 long-term favorable reserve development, diversified investment profile and controlled growth. Gross premium growth has been fueled by significant rate increases.
- Liquidity measures are sound and supported by short-term holdings, predominantly high-quality fixed-income securities and cash.
- Natural catastrophe exposure has been reduced, leading to lower probable maximum losses (PMLs). The 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.

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 and 2021 were an active year in terms of frequency of catastrophic events, severity did not significantly impact results.
- Allied World's underwriting results and overall profitability metrics are largely consistent with companies with an adequate operating performance assessment, when measured by average results over the past five years.
- The group generates a low investment yield relative to its industry segment due to the investment strategy, which includes high-quality, 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 organization 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.
- Most of gross premium growth has been due to the hard market environment in (re)insurance; Allied World has increased the share of primary insurance in its total gross premium.

Enterprise Risk Management: **Appropriate**

- Allied World's risk management capabilities are viewed as being appropriate for its risk profile. It has a 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 it has reduced its exposure to climate-related natural catastrophe lines and other lines, with the benefit of reducing its PMLs.
- Allied World monitors and estimates each of its anticipated risks as a percentage of capital. Stress and scenario tests are performed on the significant risks. Additionally, it actively manages its cyber risks and exposures.

- Allied World also participates in risk management at the Fairfax group level under the direction of the group's 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 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, as measured by Best's Capital Adequacy Ratio (BCAR).
- The ratings could be negatively impacted by a material increase in financial leverage of this intermediate holding company or at the ultimate parent 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 [Fairfax Financial Holdings Limited AMB# 058364](#). 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	59.9	41.8	34.2	32.0

Source: Best's Capital Adequacy Ratio Model - Global

Key Financial Indicators	2021 USD (000)	2020 USD (000)	2019 USD (000)	2018 USD (000)	2017 USD (000)
Net Premium Written:					
Non-Life	3,907,800	3,017,600	2,519,000	2,368,800	2,238,800
Composite	3,907,800	3,017,600	2,519,000	2,368,800	2,238,800
Net Income	548,300	279,800	369,100	-86,900	-521,500
Total Assets	19,047,100	16,646,000	15,272,900	14,335,400	13,445,400
Total Capital and Surplus	4,792,300	4,377,400	4,136,100	3,581,800	2,523,600

Source: BestLink® - Best's Financial Suite

Key Financial Ratios (%)	2021 USD (000)	2020 USD (000)	2019 USD (000)	2018 USD (000)	2017 USD (000)	Weighted 5 Year Average
Profitability:						
Net Income Return on Revenue	13.8	9.1	12.8	-3.8	-21.4	4.0
Net Income Return on Capital and Surplus	12.0	6.6	9.6	-2.9	-17.2	3.0
Balance on Non-Life Technical Account	219,500	117,400	54,700	42,500	-585,900	...
Non-Life Combined Ratio	93.6	95.7	97.7	98.1	126.4	101.2
Net Investment Yield	1.5	1.9	2.7	2.0	2.1	2.0
Leverage:						
Net Premium Written to Capital and Surplus	81.5	68.9	60.9	66.1	88.7	...

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. 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.

Catastrophe losses in 2021 led to 8.7 additional percentage points in Allied World's combined ratio, after reinstatement premium. The main events causing losses were Hurricane Ida, Texas Winter Storm, and the European Flood. Natural catastrophe losses can be considered an earnings event, rather than a capital event.

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 2022. The group's balance sheet strength assessment is also the strongest.

Capital Generation Analysis	2021 USD (000)	2020 USD (000)	2019 USD (000)	2018 USD (000)	2017 USD (000)
Beginning Capital and Surplus	4,377,400	4,136,100	3,581,800	3,701,600	3,551,800
Net Income after Non-Controlling Interests	548,300	279,800	369,100	-86,900	-521,500
Currency Exchange Gains (Losses)	-19,300	28,700	3,000	-5,300	3,000
Change in Paid-In Capital	3,500	-62,500	187,800	-24,200	3,051,100
Stockholder Dividends	126,400	...	...	...	438,000
Other Changes in Capital and Surplus	8,800	-4,700	-5,600	-3,400	-3,122,800
Net Change in Capital and Surplus	414,900	241,300	554,300	-119,800	-1,028,200
Ending Capital and Surplus	4,792,300	4,377,400	4,136,100	3,581,800	2,523,600
Net Change in Capital and Surplus (%)	9.5	5.8	15.5	-3.2	-29.0

Source: BestLink® - Best's Financial Suite

Liquidity Analysis	2021 USD (000)	2020 USD (000)	2019 USD (000)	2018 USD (000)	2017 USD (000)
Net Operating Cash Flow	1,518,400	773,100	261,300	-270,000	63,300
Liquid Assets to Total Liabilities (%)	67.4	66.3	66.6	66.7	70.1

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	2021 USD (000)	2020 USD (000)	2019 USD (000)	2018 USD (000)	2017 USD (000)
Total Cash and Invested Assets	10,802,600	9,144,700	8,252,600	7,872,600	8,199,600
Composition Percentages (%):					
Unaffiliated:					
Cash and Short Term Investments	19.8	8.1	11.5	10.9	14.4
Bonds	54.7	69.6	65.6	69.5	68.6
Stocks	14.5	11.2	12.7	10.7	10.4
Other Invested Assets	11.0	11.0	10.1	9.0	6.6
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

The group's loss reserve balance has been subject to some variability in development over the past five years, with 2019 and 2017 showing adverse development and the remaining years recording favorable development. The development in 2017 and 2019 was 3.1 and 1.9 points on the combined ratio for the related calendar years. Fairfax purchased Allied World in 2017. Fairfax is known for conservative reserving and expects that Allied World's current reserve position is adequate. Additionally, current reserve levels stand above the central estimate of the most recent reserve review from by an independent third-party actuarial review in December 2021. In 2021, adverse reserve development was minor, adding 55 bps (0.55 p.p.) to the combined ratio. In 2020, the company had a negligible amount of favorable reserve development. Since its inception in 2001, Allied World recorded a total of \$2.3 billion in net favorable reserve developments.

Holding Company Assessment

Allied World Assurance Holdings I (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 058218 Allied World Assurance Company Holdings, Ltd.

Financial Leverage Ratio (%)	9.40
Adjusted Financial Leverage Ratio (%)	9.40
Interest Coverage (x)	13.00

Holding Company Analytics	2021 USD (000)	2020 USD (000)	2019 USD (000)	2018 USD (000)	2017 USD (000)
Debt to Capital and Surplus (%)	11.0	12.6	13.3	15.4	36.8
Liquid Assets to Total Liabilities (%)	67.4	66.3	66.6	66.7	70.1
Interest Expense	24,800	28,500	31,800	28,200	43,600

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.

Operating Performance (Continued...)

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, 2020, 2021, and 2022 from sizable rate increases and tightening of terms and conditions. Adverse loss reserve development on the group's 2019 and 2021 calendar year results were manageable.

The group generates a low investment yield relative to its peers due to the investment allocation, which includes both high-quality, 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.

At the Q4 2021, the investment portfolio was allocated in the following way: 47% government bonds, 11% corporate bonds, 15% equities, 6% limited partnerships, 14% cash, deposits and money market funds, 4% loans, 2% equity method investments, and <1% others.

In terms of credit ratings of the fixed income portfolio, 96% is allocated to investment grade securities, with 81% AA and above, and 76% have maturity of less than a year.

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	2021 USD (000)	2020 USD (000)	2019 USD (000)	2018 USD (000)	2017 USD (000)
Pre-Tax Income	652,100	316,700	388,800	-104,400	-528,200
Net Income (after Non-Controlling Interests)	548,300	279,800	369,100	-86,900	-521,500

Source: BestLink® - Best's Financial Suite

Operating and Performance Ratios (%)	2021	2020	2019	2018	2017
Overall Performance:					
Return on Assets	3.1	1.8	2.5	-0.6	-3.9
Return on Capital and Surplus	12.0	6.6	9.6	-2.9	-17.2
Non-Life Performance:					
Loss and LAE Ratio	71.8	70.8	70.4	71.8	94.8
Expense Ratio	21.9	24.9	27.3	26.3	31.6
Combined Ratio	93.6	95.7	97.7	98.1	126.4

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

Business Profile (Continued...)

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 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	2021 USD (000)	2020 USD (000)	2019 USD (000)	2018 USD (000)	2017 USD (000)
Other Asia	462,000	419,600	400,400	379,400	370,600
Total Asia	462,000	419,600	400,400	379,400	370,600
Other Europe	776,500	578,600	418,600	371,900	311,900
Total Europe	776,500	578,600	418,600	371,900	311,900
Canada	158,900	101,100	55,000	30,800	24,900
United States	3,542,400	2,808,400	2,340,900	2,026,300	1,922,100
Total North America	3,701,300	2,909,500	2,395,900	2,057,100	1,947,000
Bermuda	912,100	773,000	645,400	560,500	469,000
Total Caribbean	912,100	773,000	645,400	560,500	469,000
Total World-Wide	5,851,900	4,680,700	3,860,300	3,368,900	3,098,500

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

Enterprise Risk Management (Continued...)

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.

Reinsurance Summary

Reinsurance recoverables are due from FSR A and above reinsurers, with 62% of the reinsurance recoverables having an AM Best Financial Strength Rating (FSR) of A+.

Environmental, Social & Governance

AM Best views that the main ESG risk to Allied World is climate risk, with rising global temperatures contributing to higher frequency and severity of climate-related natural catastrophe events in the United States and Europe. While risks have been sufficiently absorbed in the past, the losses in previous years led to a deterioration in operating performance and a reduction in capitalization. The company has acknowledged its shortcomings and has reduced its exposure to climate-related events over time. The strengthened governance practices should ensure greater stability in results, and shock losses are in line with Allied World's risk appetite.

In 2021, Allied World supported charities and community service projects with a primary focus on education, healthcare and addressing social challenges such as food insecurity and homelessness. A significant donation was also given in response to devastating U.S. tornadoes. Allied World also continued supporting and partnering with the institutions to promote environmentally sound infrastructure, as well as with a social mobility charity focused on supporting young people who face barriers in education and employment due to their socioeconomic situation.

Financial Statements

	12/31/2021		12/31/2020
	USD (000)	%	USD (000)
Balance Sheet			
Cash and Short Term Investments	2,141,600	11.2	741,000
Bonds	5,906,700	31.0	6,366,600
Equity Securities	1,562,200	8.2	1,028,000
Other Invested Assets	1,192,100	6.3	1,009,100
Total Cash and Invested Assets	10,802,600	56.7	9,144,700
Reinsurers' Share of Reserves	4,637,300	24.4	3,908,400
Debtors / Amounts Receivable	1,345,900	7.1	1,266,200
Other Assets	2,261,300	11.9	2,326,700
Total Assets	19,047,100	100.0	16,646,000
Gross Technical Reserves:			
Unearned Premiums	3,150,000	16.5	2,607,600
Non-Life Reserves	9,548,600	50.1	8,155,300
Total Gross Technical Reserves	12,698,600	66.7	10,762,900
Debt / Borrowings	524,600	2.8	549,200
Other Liabilities	1,031,600	5.4	956,500
Total Liabilities	14,254,800	74.8	12,268,600
Capital Stock	13,400	0.1	13,400
Paid-in Capital	4,396,100	23.1	4,392,600
Retained Earnings	377,300	2.0	-45,000
Other Capital and Surplus	5,500	...	16,400
Total Capital and Surplus	4,792,300	25.2	4,377,400
Total Liabilities, Mezzanine Items and Surplus	19,047,100	100.0	16,646,000

Source: BestLink® - Best's Financial Suite

AMB #: 058218 - Allied World Assurance Company Hldgs Ltd

				12/31/2021	12/31/2020
	Non-Life	Life	Other	Total	Total
Income Statement	USD (000)	USD (000)	USD (000)	USD (000)	USD (000)
Gross premiums written	5,851,900	...	...	5,851,900	4,680,700
Net Premiums Earned	3,451,600	...	...	3,451,600	2,722,700
Net Investment Income	...	...	148,200	148,200	168,700
Net realized gains/(losses)	...	...	172,200	172,200	-25,200
Net unrealized gains/(losses)	...	...	182,700	182,700	174,800
Other income	...	...	4,400	4,400	18,900
Non-operating revenue	...	...	10,200	10,200	...
Total Revenue	3,451,600	...	517,700	3,969,300	3,059,900
Losses and Benefits	2,477,300	...	...	2,477,300	1,927,400
Net Operating Expense	754,800	...	60,300	815,100	776,000
Other Expense	...	...	...	...	11,300
Total Losses, Benefits, and Expenses	3,232,100	...	60,300	3,292,400	2,714,700
Earnings before interest & taxes (EBIT)	219,500	...	457,400	676,900	345,200
Interest Expense	...	...	...	24,800	28,500
Income Taxes Incurred	...	...	...	103,800	41,600
Net income before Non-Controlling interests	...	...	...	548,300	275,100
Non-Controlling interests	...	...	...	...	4,700
Net income/(loss) from continuing operations	...	...	...	548,300	279,800
Net Income	...	...	...	548,300	279,800

Source: BestLink® - Best's Financial Suite

	12/31/2021	12/31/2020
Statement of Cash Flows	USD (000)	USD (000)
Net cash provided/(used) in Operating Activities	1,518,400	773,100
Net cash provided/(used) in Investing Activities	40,900	-921,600
Net cash provided/(used) in Financing Activities	-153,000	-72,400
Effect of Exchange Rates/Discontinued Operations on Cash	-5,700	10,600
Total increase (decrease) in cash	1,400,600	-210,300
Cash, beginning balance	741,000	951,300
Cash, ending balance	2,141,600	741,000

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 Global BCAR, 07/22/2021](#)



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, 2022

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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, 2022
(EXPRESSED IN CANADIAN \$)

		JUNE 30, 2022	JUNE 30, 2021
ASSETS			
Cash at bank - premier accounts		1,480,717.13	759,059.38
Cash & cash equivalents	1	<u>1,480,717.13</u>	<u>759,059.38</u>
Royal Bank of Canada-Investments	2	37,523,865.36	38,264,870.53
Accrued interest receivable	3	205,381.95	204,433.27
Provision for Losses Recoverable	4	8,104,845.00	7,342,050.00
Deferred Reinsurance Premiums	5	0.00	0.00
Prepaid expenses	6	<u>7,894.00</u>	<u>8,003.00</u>
		<u>45,841,986.31</u>	<u>45,819,356.80</u>
TOTAL ASSETS		<u><u>47,322,703.44</u></u>	<u><u>46,578,416.18</u></u>
Insurance balances payable		0.00	0.00
Accrued expenses	7	105,869.00	106,908.41
Accounts payable		0.00	0.00
Claims payable		<u>455,747.14</u>	<u>48,580.65</u>
		<u>561,616.14</u>	<u>155,489.06</u>
RESERVES			
Unearned Premium Reserve	9	0.00	0.00
Outstanding losses	8	10,519,778.00	9,015,913.00
Outstanding losses - I.B.N.R.	8	<u>13,622,486.00</u>	<u>12,537,888.00</u>
		<u>24,142,264.00</u>	<u>21,553,801.00</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		20,920,154.64	20,798,983.81
Net profit/(loss) for the period		<u>(1,616,431.34)</u>	<u>121,170.83</u>
		<u>22,618,823.30</u>	<u>24,235,254.64</u>
Accum. Other Comprehensive Income		0.00	633,871.48
TOTAL SHAREHOLDERS EQUITY		<u><u>22,618,823.30</u></u>	<u><u>24,869,126.12</u></u>
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY		<u><u>47,322,703.44</u></u>	<u><u>46,578,416.18</u></u>

COLCHESTER REINSURANCE LIMITED

UNAUDITED STATEMENT OF INCOME FOR THE PERIOD JULY 1 2021 TO JUNE 30, 2022 (EXPRESSED IN CANADIAN \$)

	MOVEMENT DURING QTR	12 MONTHS TO JUNE 30, 2022	12 MONTHS TO JUNE 30, 2021
UNDERWRITING INCOME			
Premiums written	0.00	3,231,090.00	1,713,252.74
Unearned premium transfer	807,772.50	0.00	0.00
GROSS EARNED PREMIUMS	807,772.50	3,231,090.00	1,713,252.74
Reinsurers' ceded premiums	0.00	(2,434,608.81)	(1,539,730.92)
Deferred ceded premiums	(608,652.21)	0.00	0.00
Reinsurers' ceded premiums earned	(608,652.21)	(2,434,608.81)	(1,539,730.92)
	199,120.29	796,481.19	173,521.82
TOTAL UNDERWRITING INCOME	199,120.29	796,481.19	173,521.82
UNDERWRITING EXPENSES			
Net losses paid	431,175.24	833,984.55	543,027.63
Outstanding losses adjustment	1,378,824.00	1,503,865.00	238,913.00
Transfer to IBNR	(189,230.00)	1,084,598.00	(46,112.00)
Transfer to prov. for losses recoverable	46,549.00	(762,795.00)	(300,050.00)
NET INCURRED LOSSES	1,667,318.24	2,659,652.55	435,778.63
OTHER UNDERWRITING EXPENSES (see schedule)	20,085.00	81,112.00	77,250.00
TOTAL UNDERWRITING EXPENSES	1,687,403.24	2,740,764.55	513,028.63
UNDERWRITING PROFIT / (LOSS)	(1,488,282.95)	(1,944,283.36)	(339,506.81)
GENERAL AND ADMIN EXPENSES (see schedule)	65,957.42	243,486.93	219,412.76
	(1,554,240.37)	(2,187,770.29)	(558,919.57)
INTEREST INCOME & EXCEPTIONAL ITEMS			
Interest income	241,400.71	968,413.25	945,507.05
Profit/(loss) on sale of invts	(43,159.22)	(43,159.22)	22,572.24
Amortisation of investments	(77,020.13)	(239,382.65)	(169,500.01)
Investment management fees	(22,173.92)	(92,789.97)	(95,252.24)
Investment Custody Fees	(5,411.12)	(21,742.46)	(23,236.64)
	93,636.32	571,338.95	680,090.40
NET PROFIT/(LOSS) BEFORE TAX	(1,460,604.05)	(1,616,431.34)	121,170.83
INCOME TAX	0.00	0.00	0.00
DIVIDEND PAID	0.00	0.00	0.00
NET PROFIT/(LOSS) AFTER TAX	(1,460,604.05)	(1,616,431.34)	121,170.83

COLCHESTER REINSURANCE LIMITED

ANALYSIS OF EXPENSES AS AT JUNE 30, 2022
FOR THE PERIOD JULY 1 2021 TO JUNE 30, 2022

	MOVEMENT DURING QTR	12 MONTHS TO JUNE 30, 2022	12 MONTHS TO JUNE 30, 2021
UNDERWRITING EXPENSES			
Brokerage commission	20,085.00	81,112.00	77,250.00
	<u>20,085.00</u>	<u>81,112.00</u>	<u>77,250.00</u>
GENERAL & ADMIN EXPENSES			
Management fees	22,845.33	87,460.55	89,000.00
Directors fees	4,212.00	15,445.88	14,517.45
Audit fees	7,275.00	29,394.15	28,253.42
Tax consultancy fees	1,545.00	1,595.86	1,915.00
Actuarial fees	10,188.08	45,756.32	46,121.59
Insurance Costs - D&O	6,375.00	25,500.00	10,106.25
Secretarial fees	7,937.46	14,968.35	7,250.10
Licence fees	3,947.00	15,897.56	16,973.52
Bank and L.O.C charges	965.05	4,016.73	1,620.96
Communication expenses	667.50	3,451.53	3,654.47
	<u>65,957.42</u>	<u>243,486.93</u>	<u>219,412.76</u>

COLCHESTER REINSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

1. CASH ON DEPOSIT

Royal Bank - Canadian Dollar Call Account	61,321.49
Royal Bank - Premier Canadian Dollar Account	1,419,395.64
	<u>1,480,717.13</u>

2. INVESTMENTS

Investment at cost	38,133,632.53
Amortization	(609,767.17)
Portfolio at amortized cost	<u>37,523,865.36</u>

3. ACCRUED INTEREST RECEIVABLE

Investments - RBC	205,381.95
	<u>205,381.95</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	0.00	0.00
2009/2010	0.00	0.00	0.00
2010/2011	0.00	0.00	0.00
2011/2012	0.00	53,496.00	53,496.00
2012/2013	0.00	69,715.00	69,715.00
2013/2014	0.00	82,006.00	82,006.00
2014/2015	0.00	72,123.00	72,123.00
2015/2016	0.00	225,740.00	225,740.00
2016/2017	0.00	193,279.00	193,279.00
2017/2018	0.00	488,322.00	488,322.00
2018/2019	0.00	836,798.00	836,798.00
2019/2020	0.00	1,331,198.00	1,331,198.00
2020/2021	0.00	1,950,186.00	1,950,186.00
2021/2022	0.00	2,801,982.00	2,801,982.00
	<u>0.00</u>	<u>8,104,845.00</u>	<u>8,104,845.00</u>

COLCHESTER REINSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

5. DEFERRED REINSURANCE PREMIUMS

Reinsurers' Premium to be earned	(\$2,434,608.81*12/0)	0.00
		<u><u>0.00</u></u>

6. PREPAID EXPENSES

Annual Government Tax	US\$12,500 p.a.	7,894.00
D&O Insurance Premiums	CAD 25,500 p.a.	0.00
		<u><u>7,894.00</u></u>

7. ACCOUNTS PAYABLE/ACCRUED EXPENSES

Audit fees	29,100.00
Investment Fees	22,258.00
Investment Custody Fees	7,247.00
Brokerage Commission	20,085.00
Actuarial Fees	10,188.00
Director's Fees	15,446.00
Consultancy Fee - Tax	1,545.00
	<u><u>105,869.00</u></u>

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	4,868,673	422,117.00	5,290,790.00
2008/2009	-	0.00	0.00
2009/2010	2,428,122	222,036.00	2,650,158.00
2010/2011	122,587	165,782.00	288,369.00
2011/2012	306,438	202,135.00	508,573.00
2012/2013	-	131,073.00	131,073.00
2013/2014	1,207,323	183,871.00	1,391,194.00
2014/2015	110,000	114,703.00	224,703.00
2015/2016	1,050,006	151,284.00	1,201,290.00
2016/2017	31,629	293,294.00	324,923.00
2017/2018	-	699,341.00	699,341.00
2018/2019	50,000	1,215,298.00	1,265,298.00
2019/2020	345,000	2,056,344.00	2,401,344.00
2020/2021		2,965,738.00	2,965,738.00
2021/2022		4,799,470.00	4,799,470.00
	<u><u>10,519,778.00</u></u>	<u><u>13,622,486.00</u></u>	<u><u>24,142,264.00</u></u>

9. UNEARNED PREMIUM RESERVE

Premiums	(\$3,231,090/12*0)	0.00
		<u><u>0.00</u></u>

COLCHESTER REINSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

10. LOSS/EQUITY RATIO

Loss Reserves	24,142,264.00
Shareholder Equity	22,618,823.30
Ratio	107%

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	173,521.82
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Minimum Solvency Margin re (2) above	155,050.00
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Total Assets	47,322,703.44
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Less: Non-admitted Assets

Long Term Investments	0.00
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Prepayments	7,894.00
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Total Admitted Assets	47,314,809.44
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Total Liabilities	24,703,880.14
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Solvency Margin (Excess of Assets over Liabilities)	22,610,929.30
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Excess over Minimum Solvency Margin	<u>22,455,879.30</u>
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COLCHESTER REINSURANCE LIMITED
UNDERWRITING ANALYSIS AS AT JUNE 30, 2022
FOR THE PERIOD APRIL 1, 2022 TO JUNE 30, 2022

	Inward Reinsurance of CLLAS EOL 49Mx1M-33%	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 5Mx4M-33%	Outward Retro. of Colchester EOL 40Mx10M-23%	Outward Retro. of Colchester Agg. Stop Loss 15Mx3M-100%	Outward Retro. of Colchester EOL 30Mx20M-10%	Outward Retro. of Colchester EOL 50Mx50M-5%	Outward Retro. of Colchester Excess Layers 60Mx160M-100%	Total
Limits											
Policy No.											
Policy Period	CLLAS00121 1-Jul-21 to 30-Jun-22	CLLAS00421 1-Jul-21 to 30-Jun-22	ADD 50 to 89-011 1-Jul-21 to 30-Jun-22	CLLAS00221 1-Jul-21 to 30-Jun-22	C216010 - CLLAS000120 1-Jul-21 to 30-Jun-22	C216020 - CLLAS000120 1-Jul-21 to 30-Jun-22	C216016 1-Jul-21 to 30-Jun-22	C211059 1-Jul-21 to 30-Jun-22	C211016 1-Jul-21 to 30-Jun-22	C216008 1-Jul-21 to 30-Jun-22	
Premiums Written	-	-	-	-			-				-
Trfd from Unearned Prem. Reserv.	738,588.00	22,806.25	23,653.75	22,724.50							807,772.50
Premiums Earned	<u>738,588.00</u>	<u>22,806.25</u>	<u>23,653.75</u>	<u>22,724.50</u>							<u>807,772.50</u>
Reinsurance Premiums Ceded					-	-	-	-	-	-	-
Trfd from Deferred Reins. Prem.			-		(123,245.69)	(247,201.82)	(106,250.00)	(87,560.15)	(22,806.24)	(21,588.32)	(608,652.21)
Reinsurance Premiums Earned			<u>-</u>		<u>(123,245.69)</u>	<u>(247,201.82)</u>	<u>(106,250.00)</u>	<u>(87,560.15)</u>	<u>(22,806.24)</u>	<u>(21,588.32)</u>	<u>(608,652.21)</u>
Net Premiums Earned											<u>199,120.29</u>

App. 1a

COLCHESTER REINSURANCE LIMITED
UNDERWRITING ANALYSIS AS AT JUNE 30, 2022
FOR THE PERIOD JULY 1, 2021 TO JUNE 30, 2022

	Inward Reinsurance of CLLAS EOL 49Mx1M-33%	Inward Reinsurance of CLLAS Agg. Stop Loss 50Mx50M-5%	Inward Reinsurance of CLLAS ADD 50 to 89-011 30- Jun-22	Inward Reinsurance of CLLAS Excess Layers 60Mx160M-10%	Outward Retro. of Colchester EOL 5Mx4M-33%	Outward Retro. of Colchester EOL 40Mx10M-23%	Outward Retro. of Colchester Agg. Stop Loss 15Mx3M-100%	Outward Retro. of Colchester EOL 30Mx20M-10%	Outward Retro. of Colchester EOL 50Mx50M-5%	Outward Retro. of Colchester Excess Layers 60Mx160M-100%	Total
Limits Policy No.	CLLAS00121 1-Jul-21 to 30-Jun-22	CLLAS00421 1-Jul-21 to 30-Jun-22	ADD 50 to 89-011 30- Jun-22	CLLAS00221 1-Jul-21 to 30-Jun-22	C216010 1-Jul-21 to 30-Jun-22	C216020 1-Jul-21 to 30-Jun-22	C216016 1-Jul-21 to 30-Jun-22	C211059 1-Jul-21 to 30-Jun-22	C211016 1-Jul-21 to 30-Jun-22	C216008 1-Jul-21 to 30-Jun-22	
Premiums Written	2,954,352.00	91,225.00	94,615.00	90,898.00							3,231,090.00
Trfd from Unearned Prem. Reserve	-	-	-	-							-
Premiums Earned	2,954,352.00	91,225.00	94,615.00	90,898.00							3,231,090.00
Reinsurance Premiums Ceded					(492,982.71)	(988,807.26)	(425,000.00)	(350,240.60)	(91,224.95)	(86,353.29)	(2,434,608.81)
Trfd from Deferred Reins. Prem.					-	-	-	-	-	-	-
Reinsurance Premiums Earned					(492,982.71)	(988,807.25)	(425,000.00)	(350,240.60)	(91,224.95)	(86,353.29)	(2,434,608.81)
Net Premiums Earned											796,481.19

App. 1b



BEST'S CREDIT REPORT

Best's Credit Rating Effective Date

April 13, 2022

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](#).

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	Very Strong
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: **Very Strong**

- 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 considered by its ready access to the global capital markets, if necessary.
- Although the group's level of risk-adjusted capitalization came in much lower at year-end 2021 as compared to 2020, Argo maintains a very strong level of risk-adjusted capitalization for the consolidated group, which includes both U.S. and non-U.S. operations, based on Best's Capital Adequacy Ratio (BCAR) at the 99.6% VaR confidence level.
- The group posted material adverse prior year reserve development in the third and fourth quarter of 2019, and again in the fourth quarter of 2021. The most recent adverse development was largely tied to loss emergence in the group's general liability business, specifically related to U.S. construction defect claims. Some concerns regarding future adverse loss reserve development for general liability (contractors) remain.
- 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 the period of 2019-2021 driven by the underwriting losses at Argo's insurance subsidiaries.
- Actions continue to be taken by management to reduce balance sheet volatility and preserve capital, including actions to significantly reduce the group's exposure to property catastrophes.

Operating Performance: **Adequate**

- Argo's five-year average combined ratio and return metrics slightly underperform the commercial casualty composite, reflecting higher-than-expected catastrophe losses, adverse loss reserve development and organizational changes brought on by leadership in early 2020 to the present.
- In 2021, Argo reported weaker-than-expected underwriting and operating results, as profits in the year were negated by material adverse prior year loss reserve development, mainly from its construction defect exposures. Losses in the year were tempered by much lower catastrophe losses and continued improvement in Argo's core specialty business in the more recent accident years.
- Being a large U.S. wholesale insurer and an active participant in the Lloyd's market, Argo's expense ratio is high compared to the industry. Since early 2020, Argo's leadership has taken steps to lower its expense ratio by simplifying the organizational structure and introducing technology where appropriate. During the same time, a realignment of Argo's core business strategy was adopted by focusing on the group's core specialty niche businesses, while shrinking non-core businesses and eliminating wasteful spending that does not support strategic goals.

Business Profile: **Neutral**

- Argo is a Bermuda-based insurer of specialty insurance products with a distinction of U.S.-focused specialty insurers operating in certain key markets. U.S. business accounts for approximately 90% of Argo's total gross premium.
- Argo's U.S. business is largely written on an excess and surplus (E&S) lines basis through its Colony affiliate 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 Construction, Argo Pro, Argo Surety and Argo Casualty.
- International business is written mainly through Lloyd's Syndicate 1200 and on the Argo Re platform based in Bermuda. Argo sold, exited, or placed into runoff a number of other international platforms/operations in 2020 and 2021 including the following: Argo Seguros in Brazil, ArgoGlobal Assicurazioni in Italy, ArgoGlobal SE in Malta and Ariel Re.
- Argo Re is a Bermuda-domiciled reinsurer that assumes risks such as casualty, professional liability and property lines that are not placed in the U.S. markets. Lloyd's Syndicate 1200 focuses on U.S. non-admitted and global specialty risks.
- Investments in technology and initiatives to innovate and optimize efficiency are underway.

Enterprise Risk Management: **Marginal**

- Argo made great strides in improving various aspects of its enterprise risk management (ERM) program since late 2019 when the prior CEO resigned due to internal findings related to the non-disclosure of certain compensation-related perquisites involving its departed CEO.
- To improve board independence and oversight, Argo amended its board refreshment process including 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 nine 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.
- A material weakness in internal control over financial reporting was reported in Argo's 2020 10-K as a result of certain design and operating effectiveness deficiencies in its internal controls. The deficiencies were identified in the following areas: intercompany transactions, the allocation of certain corporate-level expenses to subsidiary companies and the accounting for federal and state income tax implications of certain intercompany transactions. Argo took actions to remediate these deficiencies, and it was determined that the aforementioned material weakness no longer exists as of December 31, 2021, based on disclosure in Argo's 2021 10-K.
- Overall, AM Best views Argo's ERM program as comprehensive and well developed, and on balance, it has been appropriate in identifying, assessing, and setting strategies to manage and mitigate these risks.
- Unfavorable prior year reserve development in 2019 and 2021 raised some concerns pertaining to emerging risk, risk identification and reserve risk management.

Outlook

- The stable outlooks reflect AM Best's expectation that Argo will restore its risk-adjusted capitalization to the strongest level as measured by BCAR and recognize the underwriting and operating benefits from actions taken by management in recent years, while continuing to build on the group's much improved risk management and risk mitigation practices.

Rating Drivers

- Negative rating actions could occur if loss experience and reserve deficiency trends worsen.
- Negative rating actions could occur if risk-adjusted capitalization is not maintained at the strongest level in the near term.
- Positive rating actions could occur if the group 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	53.2	31.1	22.1	19.1

Source: Best's Capital Adequacy Ratio Model - Global

Key Financial Indicators	2021 USD (000)	2020 USD (000)	2019 USD (000)	2018 USD (000)	2017 USD (000)
Net Premium Written:					
Non-Life	1,977,300	1,810,100	1,754,600	1,765,500	1,653,500
Composite	1,977,300	1,810,100	1,754,600	1,765,500	1,653,500
Net Income	6,700	-54,100	-14,100	63,600	50,300
Total Assets	10,317,800	10,465,800	10,508,800	9,558,200	8,764,000
Total Capital and Surplus	1,735,200	1,857,800	1,763,700	1,746,700	1,819,700

Source: BestLink® - Best's Financial Suite

Key Financial Ratios (%)	2021 USD (000)	2020 USD (000)	2019 USD (000)	2018 USD (000)	2017 USD (000)	Weighted 5 Year Average
Profitability:						
Net Income Return on Revenue	0.3	-2.9	-0.7	3.5	2.9	0.6
Net Income Return on Capital and Surplus	0.4	-3.0	-0.8	3.6	2.8	0.6
Balance on Non-Life Technical Account	-104,800	-92,100	-153,700	38,100	-105,400	...
Non-Life Combined Ratio	105.6	105.4	109.1	97.9	107.2	105.0
Net Investment Yield	3.5	2.1	3.0	2.7	3.0	2.8
Leverage:						
Net Premium Written to Capital and Surplus	114.0	97.4	99.5	101.1	90.9	...

Source: BestLink® - Best's Financial Suite

Credit Analysis

Balance Sheet Strength

Argo Group's balance sheet strength is assessed as very strong at year-end 2021 reflecting its risk-adjusted capitalization being at the very strong level, as measured by Best's Capital Adequacy Ratio (BCAR) at 99.6 VaR. This assessment also takes into consideration the financial flexibility affordable to it 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 180% of surplus at YE 2021. Actions continue to be taken by management to reduce balance volatility, preserve capital and to stay within specific risk adjusted capital ratios. These efforts also include significantly reducing the group's exposure to property catastrophes.

Capital Generation Analysis	2021 USD (000)	2020 USD (000)	2019 USD (000)	2018 USD (000)	2017 USD (000)
Beginning Capital and Surplus	1,857,800	1,763,700	1,735,000	1,819,700	1,792,700
Net Income after Non-Controlling Interests	6,700	-54,100	-14,100	63,600	50,300
Unrealized Capital Gains (Losses)	-88,100	65,400	81,100	-74,500	50,300
Currency Exchange Gains (Losses)	2,600	-15,300	-200	-3,400	-1,400
Change in Paid-In Capital	6,400	147,900	5,000	216,100	-39,000
Stockholder Dividends	54,400	47,600	43,100	274,800	33,200
Other Changes in Capital and Surplus	4,200	-2,200	...	...	...
Net Change in Capital and Surplus	-122,600	94,100	28,700	-73,000	27,000
Ending Capital and Surplus	1,735,200	1,857,800	1,763,700	1,746,700	1,819,700
Net Change in Capital and Surplus (%)	-6.6	5.3	1.7	-4.0	1.5

Source: BestLink® - Best's Financial Suite

Balance Sheet Strength (Continued...)

Liquidity Analysis	2021 USD (000)	2020 USD (000)	2019 USD (000)	2018 USD (000)	2017 USD (000)
Net Operating Cash Flow	99,700	71,900	182,800	301,300	165,000
Liquid Assets to Total Liabilities (%)	59.2	57.8	54.3	56.8	63.0

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. Over the past couple of years, the group has significantly reduced its exposure to common equities. At YE 2021, approximately 80% of Argo's investment portfolio is held in fixed income securities.

Composition of Cash and Invested Assets	2021 USD (000)	2020 USD (000)	2019 USD (000)	2018 USD (000)	2017 USD (000)
Total Cash and Invested Assets	5,468,700	5,404,600	5,235,300	4,926,200	4,919,500
Composition Percentages (%):					
Unaffiliated:					
Cash and Short Term Investments	14.7	12.8	18.8	12.6	11.1
Bonds	77.2	76.0	69.3	70.2	68.0
Stocks	1.0	3.3	2.6	7.2	9.9
Other Invested Assets	7.1	8.0	9.3	9.9	11.0
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

The group posted material adverse prior year reserve development in the third and fourth quarter of 2019, and again in the fourth quarter of 2021. The adverse development reported in 2021 was largely tied to loss emergence in the group's general liability business, specifically related to U.S. construction defect claims. Some concerns regarding future adverse loss reserve development for general liability (contractors) remain. Argo's reserve base also includes reserves from its international business and discontinued lines, which include exposure to claims for asbestos and environmental (A&E) policies and workers compensation policies, written in past years.

Holding Company Assessment

Argo Group International Holdings Ltd is publicly traded on NYSE under the symbol ARGO. Year-end 2021 results showed unadjusted leverage stood at 27.4% and adjusted leverage at 16.2%. The group's \$455.4 million debt includes \$172.7 million in trust preferreds, which matures in 2033 and 2034, \$85.4 million subordinated debt acquired from the Ariel Re acquisition that matures in 2037 and \$140.3 million senior debt. The group also has \$144.0 million preferred stock on its balance sheet. From a coverage perspective, its 2021 interest coverage ratio was estimated to be at -0.2X.

Financial Leverage Summary - Holding Company 058448 Argo Group International Holdings, Ltd.

Financial Leverage Ratio (%)	27.40
Adjusted Financial Leverage Ratio (%)	16.20
Interest Coverage (x)	-0.20

Balance Sheet Strength (Continued...)

Holding Company Analytics	2021 USD (000)	2020 USD (000)	2019 USD (000)	2018 USD (000)	2017 USD (000)
Debt to Capital and Surplus (%)	26.3	24.7	32.8	33.2	31.9
Liquid Assets to Total Liabilities (%)	59.2	57.8	54.3	56.8	63.0
Interest Expense	21,600	26,900	34,100	31,600	27,700

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 meet the 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 a Lloyd's Syndicate, Syndicate 1200 (under ArgoGlobal brand, focused on multi-class insurance). Both European platforms, ArgoGlobal SE in Malta and ArgoGlobal Assicurazioni in Italy, focusing on continental Europe, have been put in run-off. Argo Seguros Brazil S.A. operating in Brazil was sold in early 2022. The remaining international specialty business consists of a strong Bermuda trading platform using Argo Re to write excess Casualty and Professional Lines.

Operating Performance

The group's five-year average combined ratio slightly under-performs the commercial casualty composite reflecting organizational changes the company experienced in recent years. For full year 2021, the group's combined ratio was 105.6%, compared with 105.4% for 2020 and 109.1% for 2019. Net underwriting losses of \$106.8 million in 2021 was driven by adverse loss development of \$138.3 million, mostly in the construction defect segment. The 2020 underwriting losses were driven by higher COVID related losses (event cancellation) and higher non-COVID natural catastrophe losses, including Hurricanes Laura, Sally, Delta and Zeta and California wildfires. ROEs over the most recent five-year period were also lower than its historical average.

Argo's earnings have been historically impacted by weather related events, as was demonstrated in 2020. Going forward we expect Argo's property catastrophe exposure to significantly decrease as the group reduced a material portion of its catastrophe exposed business over the past 2 years. Argo's loss ratio points attributed to catastrophe events was 5 points lower in 2021 than in 2020.

Argo's expense ratio has been consistently higher than its peers at a five-year average of 38.1%. 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. Expense ratio for 2021 was 36.8%, compared with 37.5% in 2020, and 38.5% for 2019. Some of the expenses reported in 2021 include costs associated with the reduction in the group's real estate footprint. It is on track to achieve its goal of 20% workforce reduction (nearly 300 headcount decrease), 35% reduction in outside services expenses (\$30 million savings) and 40% real estate expense reductions (\$8 million savings).

Financial Performance Summary	2021 USD (000)	2020 USD (000)	2019 USD (000)	2018 USD (000)	2017 USD (000)
Pre-Tax Income	5,300	-46,400	...	67,700	39,900
Net Income (after Non-Controlling Interests)	6,700	-54,100	-14,100	63,600	50,300

Source: BestLink® - Best's Financial Suite

Operating Performance (Continued...)

Operating and Performance Ratios (%)	2021	2020	2019	2018	2017
Overall Performance:					
Return on Assets	0.1	-0.5	-0.1	0.7	0.6
Return on Capital and Surplus	0.4	-3.0	-0.8	3.6	2.8
Non-Life Performance:					
Loss and LAE Ratio	68.8	67.9	70.6	60.1	66.8
Expense Ratio	36.8	37.5	38.5	37.8	40.4
Combined Ratio	105.6	105.4	109.1	97.9	107.2

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, currently and going forward mainly in the US and Syndicate 1200 from Lloyds.

Argo is currently organized and 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 Syndicate 1200 and Bermuda.

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. This business is underwritten through the following business units: Argo Construction, Argo Contract, Argo Casualty, Argo Property, Argo Environmental, Argo Transportation and Inland Marine.

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 (Argo's mid-market professional lines platform), US Specialty Programs (providing commercial insurance programs and fronting solutions), Argo Surety and Rockwood (a specialty underwriter of workers compensation for the mining industry).

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 SE in Malta, 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. The European platforms, ArgoGlobal SE and ArgoGlobal Assicurazioni are in run-off.. 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 was sold in early 2022.

Enterprise Risk Management

On November 5, 2019, Argo announced internal findings related to the non-disclosure of certain compensation-related perquisites involving Argo and its departed CEO. This issue stemmed from concerns raised by an activist shareholder 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 one of its shareholders, Voce Capital in January, 2020. The two parties agreed on a Board refreshment process and 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 9

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 its top shareholders. All of these changes were aimed at enhancing 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.

Disclosures in Argo's 2020 10K, "Management's Report on Internal Control Over Financial Reporting", indicated that the company's internal control over financial reporting was viewed to be ineffective as of December 31, 2020 as a result of certain design and operating effectiveness deficiencies in the company's internal control procedures, that culminated in a material weakness in internal control. Deficiencies identified included: intercompany transactions, such as foreign currency exchange gains and losses associated with a specific reinsurance contract, the allocation of certain corporate-level expenses to subsidiary companies and the accounting for federal and state income tax implications of certain intercompany transactions.

To remedy internal control deficiencies the company has developed protocols around timeliness and communication that will minimize the risk of late changes and drive accountability. The company has created a SOX Steering Committee with executive and senior management membership which would review deficiency and remediation action tracking dashboards created by risk owners. The key steps taken include a holistic evaluation of Argo's control environment, creating a roadmap that will identify controls that can be automated, centralized or eliminated and reducing the complexity associated with multiple systems, processes and locations. With respect to the specific issues that triggered the "material weakness" assessment, Argo has identified two issues with inter-company accounts (1) internal reinsurance impacting on intra-company reconciliation and (2). recharging of expenses impacting on tax. The two main remediation actions are: (1) adopting Oracle Financial Consolidation & Close System - new system and processes provide enhanced reconciliation and stronger controls. (2) adopting new framework over intra-company service level agreements and monitoring recharges to ensure appropriate transfer pricing. As a result of these remediation actions, and based on the results of the operating effectiveness testing that Argo's auditor E&Y performed for the new and modified controls, management concluded that the above mentioned material weakness no longer exists as of December 31, 2021, as disclosed in Argo's 2021 10K.

While Argo continues to make significant inroads on internal controls, governance and risk culture, recent claims emergence and adverse prior year reserve development in one of its leading business segments poses questions around management's risk identification and reporting processes, and future loss reserve development itself. Issues have arisen as it relates to reserving. Management believes underwriting actions in 2019 have ring fenced potential loss emergence from construction defects.

AM Best continues to view Argo's ERM program as mature, dynamic and comprehensive. However, changes in prior year reserves, as it relates to legacy and construction defect claims, is an area in which AM Best is concerned with. Argo's ability to stem these losses and stabilize reserve development in future periods will be crucial.

Environmental, Social & Governance

AM Best considers Argo's exposures to material environmental, social and corporate governance risks (ESG) to be moderate. While the group faces potential impacts from all ESG factors, social inflation and governance are viewed as having the greatest impact on financial strength over the near-term, while climate risk has been addressed by management in recent years. Argo maintains a material construction book and is encountering higher than expected loss emergence related to construction defect claims in the state of California. This recent emergence resulted from an Appellate California court ruling in 2017 which broadened the definition of coverage to its contractors under its general liability policies, hence adverse reserve development reported in 2021. AM Best considers these risks a part of the social risks that insurers like Argo encounter in today's highly litigious environment and how well insurers manage a supercharged plaintiff bar, changes in social behavior, higher settlement demands, adverse court decisions, and higher than expected

Enterprise Risk Management (Continued...)

jury awards. Another element of social risk is Argo's ownership in Rockwood Casualty, a leading workers compensation underwriter specializing in coal mining, mining-related businesses, and oil and gas.

As for governance, Argo has made a number of key advancements since late 2019 / early 2020 in response to concerns raised by an activist shareholder and the subsequent subpoena issued by the Securities and Exchange Commission (SEC) related to the non-disclosure of certain compensation-related perquisites involving Argo and its departed CEO. Since then the group has instituted a number of new internal policies to remedy all of the SEC's governance issues and has addressed the concerns raised by its activist shareholder including the introduction of a Board refreshment process, the declassification of the board and a reduction in the size of the board. Other governance changes include frequent shareholder outreach and engagement with its top shareholders, enhancing overall accountability at all levels of the enterprise, and creating a framework that is extremely transparent.

Disclosures in Argo's 2020 10K, "Management's Report on Internal Control Over Financial Reporting", indicated that the company's internal control over financial reporting was viewed to be ineffective as of December 31, 2020 as a result of certain design and operating effectiveness deficiencies in the company's internal control procedures. This weakness has since been resolved.

Environmental risks are managed through a comprehensive reinsurance program, catastrophe modeling, and continuing weather mitigation strategies. Strong corporate governance practices are maintained including parameters on risk tolerance surrounding key risks, operations and capital levels. Deterministic modeling is utilized to ensure the reinsurance structure is able to absorb shock losses in accordance the established risk appetite statement. In addition, stress tests are performed as part of the internal capital modeling process. The group's extensive innovation efforts also incorporate ESG awareness. Argo is also susceptible to environmental risk through its Rockwood franchise. While most of Rockwood's business is providing workers compensation insurance to coal miners, occurrence based general liability policies are also issued.

Argo is a signatory to the United Nations - Principles of Responsible Investment (UN PRI). - a leading international network of institutional investors committed to environmental, social and governance factors in their investment decision making and ownership practices.

Financial Statements

	12/31/2021		12/31/2020
	USD (000)	%	USD (000)
Balance Sheet			
Cash and Short Term Investments	801,900	7.8	691,400
Bonds	4,223,300	40.9	4,107,100
Equity Securities	56,300	0.6	176,700
Other Invested Assets	387,200	3.8	429,400
Total Cash and Invested Assets	5,468,700	53.0	5,404,600
Reinsurers' Share of Reserves	2,978,500	28.9	3,075,000
Debtors / Amounts Receivable	1,150,500	11.2	1,191,900
Other Assets	720,100	7.0	794,300
Total Assets	10,317,800	100.0	10,465,800
Gross Technical Reserves:			
Unearned Premiums	1,466,800	14.2	1,464,800
Non-Life Reserves	5,595,000	54.2	5,406,000
Total Gross Technical Reserves	7,061,800	68.4	6,870,800
Debt / Borrowings	455,500	4.4	458,700
Other Liabilities	1,065,300	10.3	1,278,500
Total Liabilities	8,582,600	83.2	8,608,000
Capital Stock	190,200	1.8	190,000
Paid-in Capital	1,386,400	13.4	1,380,200
Retained Earnings	636,400	6.2	684,100
Treasury Stock	-455,100	-4.4	-455,100
Other Capital and Surplus	-22,700	-0.2	58,600
Total Capital and Surplus	1,735,200	16.8	1,857,800
Total Liabilities, Mezzanine Items and Surplus	10,317,800	100.0	10,465,800

Source: BestLink® - Best's Financial Suite

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

				12/31/2021	12/31/2020
	Non-Life	Life	Other	Total	Total
Income Statement	USD (000)	USD (000)	USD (000)	USD (000)	USD (000)
Gross premiums written	3,181,200	...	...	3,181,200	3,233,300
Net Premiums Earned	1,910,100	...	...	1,910,100	1,780,500
Net Investment Income	...	...	187,600	187,600	112,700
Net realized gains/(losses)	...	...	73,000	73,000	-13,900
Net unrealized gains/(losses)	...	...	-40,400	-40,400	10,300
Other income	2,000	...	...	2,000	3,900
Total Revenue	1,912,100	...	220,200	2,132,300	1,893,500
Losses and Benefits	1,314,600	...	...	1,314,600	1,208,800
Net Operating Expense	702,300	...	43,200	745,500	667,700
Other Expense	...	...	45,300	45,300	36,500
Total Losses, Benefits, and Expenses	2,016,900	...	88,500	2,105,400	1,913,000
Earnings before interest & taxes (EBIT)	-104,800	...	131,700	26,900	-19,500
Interest Expense	...	...	...	21,600	26,900
Income Taxes Incurred	...	...	...	-1,400	7,700
Net income before Non-Controlling interests	...	...	...	6,700	-54,100
Net income/(loss) from continuing operations	...	...	...	6,700	-54,100
Net Income	...	...	...	6,700	-54,100

Source: BestLink® - Best's Financial Suite

	12/31/2021	12/31/2020
Statement of Cash Flows	USD (000)	USD (000)
Net cash provided/(used) in Operating Activities	99,700	71,900
Net cash provided/(used) in Investing Activities	-55,900	-24,300
Net cash provided/(used) in Financing Activities	-52,900	-26,800
Effect of Exchange Rates/Discontinued Operations on Cash	6,400	-9,800
Total increase (decrease) in cash	-2,700	11,000
Cash, beginning balance	148,800	137,800
Cash, ending balance	146,100	148,800

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 Global BCAR, 07/22/2021](#)

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. \(AMB#058448\)](#)



BEST'S CREDIT REPORT

AMB #: 058448 - Argo Group International Holdings, 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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BEST'S CREDIT REPORT

Best's Credit Rating Effective Date

July 15, 2022

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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 (2017-2021) combined ratio of 104.9%.
- Improving market conditions as well as the robust performance oversight by the Corporation have started to materialise in measurable improvements in underwriting performance, as evidenced by the year-end 2021 combined ratio of 93.5%.
- 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 underwriting cycle given remedial actions taken to address performance as well as 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 should Lloyd's fail to maintain underlying performance in line with expectations.
- 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.
- Positive rating pressure could arise following the successful execution of Lloyd's strategy, which leads to improvements in the resilience of the market's balance sheet and enhances its competitiveness against peers.

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	75.9	63.2	57.1	55.4

Source: Best's Capital Adequacy Ratio Model - Global

Key Financial Indicators	2021 GBP (000)	2020 GBP (000)	2019 GBP (000)	2018 GBP (000)	2017 GBP (000)
Net Premiums Written:					
Non-Life	28,439,000	25,826,000	25,659,000	25,681,000	24,869,000
Composite	28,439,000	25,826,000	25,659,000	25,681,000	24,869,000
Net Income	2,277,000	-887,000	2,532,000	-1,001,000	-2,001,000
Total Assets	138,155,000	128,304,000	119,878,000	118,008,000	108,396,000
Total Capital and Surplus	35,757,000	33,146,000	29,844,000	27,428,000	26,767,000

Source: BestLink® - Best's Financial Suite

Key Financial Indicators & Ratios	2021 GBP (000)	2020 GBP (000)	2019 GBP (000)	2018 GBP (000)	2017 GBP (000)	Weighted 5-Year Average
Profitability:						
Balance on Non-Life Technical Account	1,741,000	-2,676,000	-538,000	-1,130,000	-3,421,000	...
Net Income Return on Revenue (%)	8.1	-3.2	8.9	-3.8	-7.7	0.7
Net Income Return on Capital and Surplus (%)	6.6	-2.8	8.8	-3.7	-7.3	0.6
Non-Life Combined Ratio (%)	93.5	110.3	102.1	104.5	114.0	104.7
Net Investment Yield (%)	1.8	2.2	3.5	1.4	2.1	2.2
Leverage:						
Net Premiums Written to Capital and Surplus (%)	79.5	77.9	86.0	93.6	92.9	...

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 capital, the market's elevated exposure to catastrophe risk, and continued dependence on reinsurance to manage this risk, are considered to be the primary offsetting factors for the balance sheet strength assessment.

Capitalisation

The BCAR scores shown in this report are based on the 2021 year-end figures published in the Lloyd's annual report, which contains the audited financial results of Lloyd's and its members in proforma 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 proforma 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 5% (previously 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 5% 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 protection to the Central Fund and help to support sustainable and profitable long-term market growth. The structure 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 2021, LOCs accounted for 20% of total FAL and all Lloyd's Tier 2 assets were eligible to meet the MWSCR.

The MWSCR coverage ratio stood at 177% at year-end 2021 (2020: 147%) and the CSCR coverage ratio at 388% (2020: 209%). 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 Lloyd's CSCR has improved materially reflecting the reductions in the SCR primarily driven by the modelled benefits of the Central Fund insurance. 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 each year. However, Lloyd's can require a member to recapitalise outside of this process 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 2021. 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 (%)	2021	2020	2019	2018	2017
Liquid Assets to Total Liabilities	69.9	70.7	69.9	67.5	72.0
Total Investments to Total Liabilities	82.0	84.0	81.3	78.6	83.2

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 2021. 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).

During 2021 and into 2022 the Corporation has worked on launching an investment platform to pool assets across the market. Lloyd's announced the appointment of Schroders Solutions as the platform investment advisor and Waystone as the platform operator. The initial platform funds will launch in the second half of 2022. Should participation in the investment platform be in line with the Corporation's expectations this could lead to some meaningful enhancements in non-technical returns for members, particularly smaller managing agents. Through co-investment in private assets this is also a vehicle to support Lloyd's in achieving its Net-Zero commitments.

Composition of Cash and Invested Assets	2021 GBP (000)	2020 GBP (000)	2019 GBP (000)	2018 GBP (000)	2017 GBP (000)
Total Cash and Invested Assets	83,934,000	79,951,000	73,193,000	71,240,000	67,902,000
Cash (%)	13.1	13.1	13.2	15.3	17.9
Bonds (%)	60.7	59.7	60.4	58.5	54.8
Equity Securities (%)	11.6	11.3	12.4	12.0	14.0
Real Estate, Mortgages and Loans (%)	11.0	12.1	10.4	10.9	10.1
Other Invested Assets (%)	3.6	3.8	3.6	3.3	3.3
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 2021, 88% of syndicates held UK GAAP reserves above the Statement of Actuarial Opinion best estimate.

Total reserve releases over 2022 were higher relative to prior year at 2.1% (2020: 1.8%). This was driven by a GBP 600 million prior year release on property reserves, which was partially offset by a GBP 300 million strengthening on casualty business. Market messaging, particularly regarding concerns over social inflation, and Lloyd's increased oversight were the main drivers for this increase.

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, an ongoing focus on promoting efficiency and finding a means to close syndicates (largely through third-party reinsurance to close) supported a fall in the number of syndicate years of account in run-off. Further reductions have been made in recent years. At the beginning of 2021, there were nine syndicates whose 2017 and 2018 underwriting years remained open. These run-off years reported an aggregate loss of GBP 100 million, including investment return, in 2021. There were five syndicates whose 2017/2018 underwriting years remained open post 31 December 2021, in addition to four syndicates whose 2019 underwriting year has remained open. The total number of open underwriting years at 1 January 2022 remains as nine.

1992 and Prior Reserving: Equitas

Lloyd's exposure to uncertainty arising from adverse development of the 1992 and prior years' reserves was 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

Balance Sheet Strength (Continued...)

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 (2017-2021) combined ratio of 104.9%. However, improving market conditions, as well as the robust performance oversight by the Corporation, has started to materialise in measurable improvements in underwriting performance, as evidenced by the year-end 2021 combined ratio of 93.5%.

Moreover, 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 2021. Furthermore, a number of syndicate closures since 2018 has been noted. This coincides with the initiation of Lloyd's 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 coming 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 7.9% and 9.2% on the ten-year (2012-2021) weighted average ROE ratio and combined ratio. The market's performance in 2021 was impacted by major claims that contributed 11.2% to the combined ratio (2020: 23.0%). Major losses for 2021 have arisen from three major catastrophe events, Hurricane Ida, US Winter Storm Uri, and the European Floods, with losses concentrated in property (Direct & Facultative) and property treaty lines. COVID-19 loss estimates have remained stable and have had very little impact in the current year.

The attritional loss ratio improved by 3.0 percentage points (pp) to 48.9% in 2021. The improvement is partly the result of the market's actions to drive sustainable profitable performance and sustained risk-adjusted rate increases across a number of lines. An improvement in the market's expense ratio, which reduced to 35.5% from 37.2%, was driven primarily by improvements in the acquisition ratio.

In 2021, the market reported investment income of GBP 948 million (2020: GBP 2.3 billion), representing a return of 1.2% on invested assets, which supplemented the underwriting profit of GBP 1.7 billion (2020: GBP 2.7 billion loss).

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 3.0 billion (net) in 2021. Despite the decrease in the frequency of catastrophe loss activity during 2021, major losses still added 11.2pp (2020: 23.0pp) to the calendar-year combined ratio, compared to the five-year (2017-2021) and ten-year (2012-2021) averages of 11.2pp and 10.2pp, respectively.

The market's combined ratio benefited from favourable prior year reserve movements of 2.0pp in 2021; although at a significantly reduced level compared to the recent past. Prior year reserve movements improved the combined ratio by 1.8pp in 2020 compared to 5pp in 2016 and circa 8pp each year in the period 2013-2015.

Operating Performance (Continued...)

The market's attritional accident-year combined ratio (excluding major claims) improved significantly from 89.1% in 2020 to 84.3% in 2021. This compares well to the 2016 position of 93.9%, and has been 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, often in the mid-to-high 30% ranges. The ratio has been steadily decreasing over the last 5 years, from 39.5% in 2017 to 35.5% in 2021. 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 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:

The accident-year combined ratios saw notable improvements across all lines of business (excluding motor) versus the prior year. Calendar year loss ratios for some lines benefitted from stronger favourable reserve development; albeit casualty (reinsurance and direct) saw another year of reserve strengthening. Overall, the combined ratio improved materially in 2021 to 93.5% (2020: 110.3%).

Reinsurance - The reinsurance book consists of property, casualty and specialty reinsurance. The performance of the property book was affected by high severity catastrophic events in the US and Europe during 2021 and favourable prior year reserve releases. The performance of the casualty book saw improvements from prior year, in part due to the tightening policy coverage and price strengthening across most lines of business. Emerging trends such as social inflation are driving increased uncertainty on this line and some carriers have strengthened their reserves as a result. The specialty book generated an underwriting profit supported by increasing pricing levels and remediated terms, which partially offset a notable increase in claims inflation in the US. Overall, the reinsurance book has returned an underwriting loss of GBP 2.4 billion over the 2017-2021 period, driven primarily from significant losses in the property book (2021: GBP 489 million profit).

Property - The property book is diversified and global, 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. 2021 was impacted by catastrophic losses, with Winter Storm Uri and Hurricane Ida having materially affected many syndicates writing business in the US. Moreover, material events occurred across parts of central Europe, South Africa, Australia and Canada. As a result, while the market reported a lower attritional loss ratio, the catastrophe component remains under pressure. Overall, this class has returned a material underwriting loss of GBP 4.2 billion over the 2017-2021 period (2021: GBP 336 million profit).

Casualty - The casualty book is dominated by general liability and professional liability and also includes shorter tails lines such as accident and health and cyber. Losses in the contingency lines of business have slowed dramatically with almost all policies now excluding coverage. There has been a pronounced shift away from certain lines, exposures, and occupations. In particular, cyber lines saw significant repricing, with capacity also becoming more restricted for certain segments. Reserve deterioration was reported on a number of casualty lines, most notably on financial lines such as D&O and professional indemnity insurance. Overall, this class has returned an underwriting loss of GBP 1.5 billion over the 2017-2021 period (2021: GBP 17 million loss).

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. Following several years of remediation efforts in the marine portfolio, including consecutive years of compound rate increase as well as tightening of wordings and conditions, results are significantly improved. The strengthening of terms and conditions was coupled with lowering loss activity on the aviation book, with many carriers reporting benign attritional claims experience as a result of reduced exposures due to the pandemic. Overall, these classes have returned a combined underwriting loss of GBP 444 million over the 2017-2021 period (2021: GBP 388 million profit).

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. Downstream lines continued to report double digit price increases in comparison with lower single digit for upstream property and exploration and production exposures. Despite an active Atlantic windstorm season, the Gulf of Mexico remained relatively unscathed and energy lines have once again benefitted from a benign year in regard to natural catastrophe losses, with the exception of Winter Storm Uri. Overall, this class has returned an underwriting profit of GBP 395 million over the 2017-2021 period (2021: GBP 71 million profit).

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, as well as a

Operating Performance (Continued...)

focus on increased deductibles and tightening of terms and conditions. The market reported strong reserve releases driven by favourable claims experience against expectation for both UK and overseas motor, possibly driven by reduced economic activity due to COVID-19. Overall, this class has returned an underwriting loss of GBP 82 million over the 2017-2021 period (2021: GBP 35 million profit).

Investment Performance:

Investment returns (including gains/losses) for the market were on average 2.4% in the period 2017-2021, ranging from 0.7% to 4.9%. Financial markets over 2021 were again dominated by the COVID-19 pandemic, as new variants caused further lockdowns resulting in market volatility. Equity markets managed a positive return for the year as a whole while fixed income markets (the largest asset class for Lloyd's) fared worse due to rises in inflation expectations and higher bond yields. Hence, the market reported a modest investment return of 1.2%.

Performance on a Year of Account Basis:

The 2019 YOA closed at the end of 2021 with an overall loss of GBP 953 million (2018: GBP 1.9 billion loss). The 2019 pure underwriting YOA reported an underwriting loss that was partially offset by releases from 2018 and prior years, which were reinsured to close at the end of 2020. These releases amounted to GBP 497 million.

Ukraine Conflict:

Losses stemming from the current conflict in Ukraine are expected to be major albeit financially manageable for the market. Exposure data returns for Aviation, Political & Credit Risk, and Political Violence lines of business were issued to the market during Q1 2022 to gain an early indication of key exposures. The current view of the loss estimate is within the market's annual catastrophe budget. How well current loss estimates hold up over time will depend on how the situation in Ukraine develops compared to expectations.

Financial Performance Summary	2021 GBP (000)	2020 GBP (000)	2019 GBP (000)	2018 GBP (000)	2017 GBP (000)
Pre-Tax Income	2,277,000	-887,000	2,532,000	-1,001,000	-2,001,000
Net Income after Non-Controlling Interests	2,277,000	-887,000	2,532,000	-1,001,000	-2,001,000

Source: BestLink® - Best's Financial Suite

Operating and Performance Ratios (%)	2021	2020	2019	2018	2017
Overall Performance:					
Return on Assets	1.7	-0.7	2.1	-0.9	-1.9
Return on Capital and Surplus	6.6	-2.8	8.8	-3.7	-7.3
Non-Life Performance:					
Loss and LAE Ratio	57.9	73.2	63.4	65.3	74.5
Expense Ratio	35.5	37.2	38.7	39.2	39.5
Non-Life Combined Ratio	93.5	110.3	102.1	104.5	114.0

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. Product risk is moderate to high. 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 5th largest

Business Profile (Continued...)

global non-life reinsurer based on 2020 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.

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 63% of premium revenue in 2021 (2020: 65%), and reinsurance accounted for the balance. This split has been relatively stable in recent years.

Overall GWP grew by 10.6% in 2021 to GBP 39.2 billion (2020: GBP 35.5 billion) supported by continued favourable rate increases as well as exposure growth from the better performing syndicates.

The market is well diversified by line of business, although very little life business is written (<0.1% of GWP in 2021) 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. High product risk lines include reinsurance, energy, aviation, most marine business, and a high proportion of the casualty and property business written (although some of the property and casualty business written through coverholders is lower risk).

Reinsurance is the market's largest segment and accounted for 37% of GWP in 2021. Reinsurance business comprises of 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 7th largest by reinsurance GWP based on 2020 premiums and the 5th largest when life premiums are excluded.

Casualty business is Lloyd's second largest segment in 2021, having previously been somewhat smaller than the direct property book. In 2021, casualty business accounted for 27% of GWP. 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.

Property insurance business is now Lloyd's third largest segment, accounting for 24% of GWP in 2021. The property book is a global book but with some concentration towards US excess and surplus lines business. There is also a bias towards commercial risks with residential risks, written being mainly on a non-standard basis. The book also includes terrorism, power generation, engineering and nuclear risks.

The remaining lines of marine, aviation, and transport (7%), energy (3%), motor (2%), and life (<0.1%) together accounted for approximately 12% of GWP in 2021. Lloyd's is a leader within the 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 the UK covering commercial and personal motor business (with a focus on niche personal risks). An international book is also written, with a focus on North America. 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 55% of GWP in 2021. The remainder was split 11% rest of Europe, 12% UK, 11% Central Asia and Asia Pacific, 7% 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).

Business Profile (Continued...)

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, geographical 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 the UK's 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 at 1 January 2019. On 25 November 2020, Lloyd's received final approval to transfer EEA non-life business written by Lloyd's between 1993 to 2020 to Lloyd's Brussels. For the year-ended 31 December 2021, Lloyd's Brussels wrote EUR 3.1 billion (business as usual) 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 solutions that will address the regulators concerns were presented, and some were implemented. Over 200 underwriters are now seconded to Lloyd's Europe from managing agents and 6 service companies were created.

After the initial confusion and additional administrative burden, the European platform is now fully dedicated to serve customers in Europe.

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 related issues.

Distribution Channels:

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

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 overall 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 Lloyd's market at a competitive disadvantage compared to the large global reinsurance groups, which have stronger individual positions with brokers as well as being able to distribute some of their business direct 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 prospectus called the Future at Lloyd's. The proposed reforms included 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

Business Profile (Continued...)

profitability. However, the plan is subject to a high degree of execution risk because it will likely require substantial investment and cultural change.

The latest areas of focus highlighted in Blueprint Two (published in November 2020) include:

- i) Data, promoting a single data standard and strengthening quality;
- ii) Digital processing, including the reconstituted contract with important third parties;
- iii) Delegated authority solutions, improving efficiency and driving cost benefit for customers; and
- iv) Next generation placing platform and improved connectivity for the market.

While the Blueprint Two initiatives were expected to be completed during 2021, delays and setbacks were experienced. A second interactive guide for Blueprint Two was published in January 2022, which sets specific delivery dates and provides granular details on the implementation of placement and claims platforms. This public disclosure is expected to keep the Corporation accountable to deliver on these much-needed modernisation initiatives, which will support the market to become better-equipped to meet evolving customer needs and realise future cost savings.

Failure to deliver on these initiatives successfully could reduce the confidence and support of the market in the Corporation's wider Future at Lloyd's ambitions. Over the longer-term, it may reduce the attractiveness of Lloyd's as capital providers choose more cost effective insurance hubs to operate in.

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 that are also managed through the risk functions of individual managing agents. Nonetheless, 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 Board manages risks by setting and monitoring a risk appetite framework. The risk appetites are reviewed on a regular basis and may be updated as required. 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.

Enterprise Risk Management (Continued...)

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. This additional scrutiny has led to meaningful improvements in underlying performance over the last several years.

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 will continue.

Lloyd's uses an internal capital model to calculate its SCR and SCR coverage ratios, 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.

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 will limit the exposure growth of syndicates with poor performance track records. 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) continue to 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 27.5% of its GWP in 2021. 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.

Environmental, Social & Governance

As a writer of global commercial property policies, Lloyd's is exposed to the impacts of changing climate trends, namely the increased severity and frequency of natural catastrophe losses. The market uses reinsurance to manage climate risk and increased oversight by the Corporation has led to a reduction in those syndicates approved to write catastrophe-exposed business (based on their past performance). Catastrophe modelling and accumulations are managed to ensure that the market's exposure to natural catastrophes is maintained within its risk appetite.

Furthermore, to actively support the transition to a low-carbon economy, the Corporation published best practice directional guidance to the market on how to embed ESG frameworks and strategies across their operations, underwriting, and investments. As part of the 2023 business planning exercise, ESG plans of all syndicates will be reviewed by the Corporation. No mandated exclusions from certain industries have been required.

Enterprise Risk Management (Continued...)

Lloyd's has a large book of US casualty business which is susceptible to adverse social inflation trends. AM Best defines social inflation as the rise in cost of current and future claims caused by higher court awards and legislated rises in claims payments driven by changing social behaviour. This has contributed to reserve strengthening of casualty provisions over the last several years and has been an area of focus by the Corporation's actuarial team who performed a thematic review of reserving practices across the market and shared their findings including recommendations on best practice. This has led to increased prudence, through the selection of higher loss picks, being noted across the market.

During 2021, Lloyd's strengthened its position in the sector in terms of ESG leadership, joining the Net Zero Insurance Alliance and becoming the leader of the SMI Insurance Task Force. The market also established the Lloyd's ESG Committee of the Council, which is responsible for driving action and providing robust challenge across their environmental and social priorities and commitments. Despite this, Lloyd's has been the target of various climate activist campaigns, which could potentially damage the market's reputation over the short- and medium-term.

Financial Statements

	12/31/2021		12/31/2021
	GBP (000)	%	USD (000)
Balance Sheet			
Cash and Short Term Investments	10,957,000	7.9	14,782,637
Bonds	50,929,000	36.9	68,710,860
Equity Securities	9,721,000	7.0	13,115,087
Other Invested Assets	12,327,000	8.9	16,630,972
Total Cash and Invested Assets	83,934,000	60.8	113,239,556
Reinsurers' Share of Reserves	28,284,000	20.5	38,159,359
Debtors / Amounts Receivable	20,315,000	14.7	27,407,982
Other Assets	5,622,000	4.1	7,584,921
Total Assets	138,155,000	100.0	186,391,818
Unearned Premiums	19,074,000	13.8	25,733,687
Non-Life - Outstanding Claims	67,800,000	49.1	91,472,370
Total Gross Technical Reserves	86,874,000	62.9	117,206,057
Debt / Borrowings	1,095,000	0.8	1,477,319
Other Liabilities	14,429,000	10.4	19,466,885
Total Liabilities	102,398,000	74.1	138,150,262
Retained Earnings	2,277,000	1.6	3,072,015
Other Capital and Surplus	33,480,000	24.2	45,169,542
Total Capital and Surplus	35,757,000	25.9	48,241,557
Total Liabilities and Surplus	138,155,000	100.0	186,391,818

Source: BestLink® - Best's Financial Suite
US \$ per Local Currency Unit 1.34915 = 1 British Pound (GBP)

	12/31/2021			12/31/2021
	Non-Life GBP (000)	Life GBP (000)	Other GBP (000)	Total USD (000)
Income Statement				
Gross Premiums Written	39,216,000	...	...	52,908,266
Net Premiums Earned	26,657,000	...	...	35,964,292
Net Investment Income	...	...	1,461,000	1,971,108
Realized capital gains / (losses)	...	...	-102,000	-137,613
Unrealized capital gains / (losses)	...	...	-411,000	-554,501
Total Revenue	26,657,000	...	948,000	37,243,286
Benefits and Claims	15,440,000	...	...	20,830,876
Net Operating and Other Expense	9,476,000	...	412,000	13,340,395
Total Benefits, Claims and Expenses	24,916,000	...	412,000	34,171,271
Pre-Tax Income	1,741,000	...	536,000	3,072,015
Net Income before Non-Controlling Interests	...	...	...	3,072,015
Net Income/(loss)	...	...	...	3,072,015

Source: BestLink® - Best's Financial Suite
US \$ per Local Currency Unit 1.34915 = 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](#)



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

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

[Understanding Global BCAR, 06/30/2022](#)

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