



M E M O R A N D U M

TO: CLLAS Advisory Board
Copy: Patrick Mahoney
FROM: Joe Tontini
RE: CLLAS Expansion – Challenges and Opportunities
DATE: December 8, 2014

You will recall discussions at recent Board meetings relating to whether CLLAS should attract new members and how that might be accomplished. A small meeting was held at the end of August 2014 with Nick Leblovic, Bob Wilson, Joe Tontini, Ryan Durrell and Patrick Mahoney to discuss the current state of the insurance/reinsurance markets and how CLLAS might attract new members. The requirement that a new firm contribute to CLLAS' surplus base, in addition to normal premium requirements, was identified as a critical threshold issue given current insurance/reinsurance marketplace conditions. Nick advised that he proposed to establish a small working group to review this and related issues.

Don Milner and Gord Goodman agreed to participate in the working group. In November 2014, the working group met by telephone and then in person. The purpose of this memo is to summarize the discussions of the working group. Further elaboration on these discussions will be provided at the upcoming Board meeting.

Background

CLLAS' membership has reduced from a high of 14 firms to 11 as a result of the dissolution of Goodman and Carr, the merger of McMillan and Lang Michener, and the withdrawal of Blakes. Dentons' announcement of its intention to withdraw in 2017 will reduce this number to 10. Even after accounting for the withdrawal of Dentons, CLLAS' lawyer count will remain significant at 3,800, and CLLAS will still maintain considerable market clout. CLLAS is undoubtedly an attractive option to new law firms when the insurance market is hard and when limited capacity and higher prices prevail. Given the extended duration of the current soft insurance market, the Board has determined that CLLAS should take steps to proactively expand its membership. The working group has reviewed both the challenges and opportunities facing CLLAS as it looks to expand.

CLLAS Expansion Alternatives

The working group discussed the following alternatives:

1. Traditional expansion of CLLAS based on existing rules;

2. Changing the traditional approach by attracting smaller firms and/or firms that are outside of Ontario; and
3. Creating a dedicated underwriting facility whose participants are not part of the reciprocal but are associated with CLLAS.

1. Traditional Expansion

Regarding traditional expansion, the working group concluded that CLLAS is a very attractive option in a hard market given its ability to retain risk and therefore maintain higher limits and lower rates than the commercial markets. However, in prolonged soft market conditions, even if CLLAS rates remain competitive (which we believe they do), the need to make a contribution to CLLAS' surplus is likely to pose a barrier to entry for new firms.

Axxima considered alternatives to the expected requirement that new firms make deliberate surplus contributions (e.g. allowing new firms to essentially "rent" existing surplus while they accumulate surplus over time). These types of approaches are not recommended given that CLLAS' current surplus level, while more than adequate, is expected to be strained in the future as a result of the withdrawal of Blakes' and Dentons' surplus, regulatory requirements and the current approach of retaining little risk. Although CLLAS retains little risk, the regulator still requires CLLAS to maintain sufficient surplus to offset unearned premiums, reinsurance credit risk and expected losses from retained risk. These surplus requirements do increase as more lawyers are added to CLLAS.

The working group concluded that given the overall benefits of the CLLAS approach, we should not entirely abandon the idea of the traditional expansion of CLLAS in the current market conditions. In fact, the group agreed that one or two prospective firms should be approached to gauge interest. However, the group did conclude that the surplus contribution issue was a genuine concern and this approach should not be CLLAS' sole initiative.

2. Smaller or Non-Ontario Firms

The working group considered the possibility of expanding the target list to include smaller firms (say as small as 25 lawyers) or firms based in other jurisdictions in which CLLAS is licenced. The barrier to entry is similar, although perhaps smaller in scale.

3. Dedicated Underwriting Facility

The working group also considered the establishment of a dedicated underwriting facility which would operate in tandem with CLLAS, but would have no ability to retain risk. This would be structured as a Lloyd's Binding Authority and branded as "CLLAS". Law firms which met the CLLAS criteria (to be established) would be invited to participate in the facility. The rates and policy terms would be based on the CLLAS model, subject to loading for administration.

Firms would not be a part of the reciprocal (yet) and would have no board representation. Firms would have the option, subject to review and acceptance by CLLAS, to join the reciprocal at some point in the future (likely during a hard market).

The dedicated underwriting facility was seen as creating the following benefits for the CLLAS member firms:

- It would create an immediate pool of potential CLLAS subscribers who may want to join CLLAS at some point in the future;
- Underwriting and claims information on each firm would be readily available and the CLLAS review and acceptance process would be extremely efficient;
- CLLAS would have even greater clout in the market;
- The overall CLLAS loss experience, which would include those firms in the new facility, would likely improve over time; and
- CLLAS costs, including the cost to operate the underwriting facility, would be spread out over a greater number of lawyers.

The working group did see the long-term benefits of creating a group of associated members that would have easier access to CLLAS when market conditions changed. The working group also recognized that there would have to be some incentive to existing CLLAS members to continue to tie up its surplus in CLLAS to ensure the long-term stability of the organization.

Attached is the first draft of a term sheet that would be discussed with reinsurers to establish the dedicated underwriting facility.

Other Discussions

The working group also discussed opportunities with respect to non-Canadian risks and group buying opportunities and we will touch on these as well during the December 10, 2014 meeting.

ATTACHMENT "A"

TERM SHEET FOR AN ASSOCIATE MEMBER OF THE CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY (CLLAS)

Type:	Canadian Lawyers Professional Liability Insurance
Eligibility:	Canadian law firms with 25 or more lawyers
Term:	Up to 18 months on risks attaching July 1, 2015 to July 1, 2016
Limits:	Up to \$50,000,000 inclusive of underlying law society coverage or mandatory underlying professional liability policy or \$25,000 Self-Insured Retention
Self-Insured Retention:	\$25,000 each and every claim covered by CLLAS but not covered by any underlying law society coverage or other mandatory underlying professional liability policy
Premium:	Premium as determined by CLLAS and based on rates being charged to CLLAS members
Expense Allowance:	The difference between the amount being charged by CLLAS and the amount being charged by CLLAS reinsurers less 5% for premium taxes and related costs
Wording:	CLLAS policy wording
Associate Member Services:	Associate member is entitled to: <ul style="list-style-type: none">• CLLAS claims management services• CLLAS risk management services• CLLAS continuing education services• Access to CLLAS limits excess of \$50,000,000• Access to CLLAS International Insurance
Option:	Associate Member has the option to join CLLAS every July 1 subject to a minimum underwriting period commitment and capital/surplus contribution as determined and approved by CLLAS

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
("CLLAS")**

Minutes of a Meeting of the Advisory Board

8:30 a.m.
Davies Ward Phillips & Vineberg LLP
40th Floor, RBC Centre
155 Wellington Street West
Toronto, Ontario

Wednesday, September 10, 2014

Present:

Nicholas Leblovic (Chair)
Barry Bresner
Gordon Goodman
Donald Milner
Ken Crofoot
Bill Scott
Dan McDonald
Julia Holland

Davies Ward Phillips & Vineberg LLP
Borden Ladner Gervais LLP
Cassels Brock & Blackwell LLP
Fasken Martineau DuMoulin LLP
Goodmans LLP
McCarthy Tétrault LLP
McMillan LLP
Torys LLP

Patrick Mahoney
Norma Ibbetson
Ryan Durrell
Joe Tontini

Office of the General Manager, CLLAS
Office of the General Manager, CLLAS
Axxima
Axxima

Absent:

John Esvelt
David Morritt
Mike Swartz

Dentons LLP
Osler, Hoskin & Harcourt LLP
WeirFoulds LLP

1. Constitution of Meeting

The Chair brought the meeting to order.

2. Appointment of Secretary

Norma Ibbetson acted as Secretary.

3. Approval of Minutes of the June 25, 2014 Meeting of the Advisory Board

It was moved by Gordon Goodman and seconded by Donald Milner that the minutes of the June 25, 2014 meeting of the Advisory Board be approved. The motion was carried unanimously.

4. **Comments of the Chair**

The only item arising out of the minutes that will not be addressed through the meeting agenda is a meeting of Subscribers for an education session on the methodology used in the preparation of the Subscriber Accounts. An invitation to each CLLAS firm will go out shortly for meeting in the Fall to take place over the lunch hour. Each firm will be invited to attend with someone from their office.

The Chair also reported that Julia Holland has indicated on a preliminary basis that she will be available to attend the reinsurance meetings in London in the Spring of next year.

5. **Strategic Direction**

A small meeting was held at the end of August 2014 with the Chair, Bob Wilson, Patrick Mahoney, Ryan Durrell and Joe Tontini to discuss the current state of the insurance/reinsurance markets and how CLLAS might attract new members. The requirement that a new firm contribute to CLLAS' surplus base, in addition to normal premium requirements, was identified as a critical threshold issue given current insurance/reinsurance marketplace conditions. The Chair advised that he proposed to establish a small working group to review this and related issues. He asked Board members to advise him if they are interested in joining the ad-hoc committee.

6. **Presentation by Matthew Davies of Chubb re Cyber Coverage**

Mr. Matthew Davies joined the meeting to give a presentation on cyber insurance. Mr. Davies is an underwriter from Chubb, which participates on the commercial excess program through Pro Form.

(Also in attendance by teleconference for this portion of the meeting were: Melanie Koszegi and Jacques Fournier of Davies, Richard Nice of Torys, Marc Ducharme of Faskens, Byron Sonberg and Andrea Engels of Goodmans and Michael Krygier of McCarthys.)

Several years ago, LawPRO moved to restrict cyber coverage. Other law society programs have long standing exclusions for claims arising from data breaches (hacking) viruses, etc. CLLAS and the commercial excess layers responded by clarifying that coverage is available for third party (negligence) claims, and this coverage applies on a drop-down basis to fill the gaps in the underlying coverage.

At its June meeting, the Board asked to be provided with information on cyber insurance, as well as individual quotes based on a group purchase. Axxima worked with Chubb, and individual quotes were provided to each of the firms prior to the September meeting. One of the CLLAS firms had already purchased the coverage prior to the discussions in June 2014.

A presentation from Chubb was included in the Board materials. Mr. Davies discussed cyber insurance generally and the Chubb policy specifically. He advised that Chubb would structure the policy to supplement the CLLAS coverage in the following areas:

- Security and privacy
- Regulatory proceedings
- Privacy breach costs
- Business interruption
- Cyber extortion

The Chubb policy would be positioned to be the first responder or sit on top of CLLAS policy on a differences in conditions (DIC) basis.

A good discussion took place on the practical approach of how firms would respond to a crisis and how this policy would fit.

Mr. Davies left the meeting.

The Board's feedback was that the policy as currently formulated would probably be a hard sell to management as it generally provides access to resources to management a crisis situation and the firms already have this kind of access. Reputational damages is the key concern of firm management and the policy does not seem to help in this area.

Mr. Tontini will follow up with the firms individually.

7. Report of the General Manager's Office

Management Report at June 30, 2014

Patrick Mahoney reviewed the June 30, 2014 Financial Management Report with the Board. He indicated that the surplus of \$13 million is a solid surplus given CLLAS' current risk profile. The Statement of Comprehensive Income shows a very small gain year to date. The budget variance analysis shows that CLLAS is under its expense budget for the year to date. Mr. Mahoney drew the board's attention to Exhibits V and VI. Exhibit V shows the year to date budget including revenue lines in addition to expenses. Exhibit VI shows the outcome of the regulatory reserve and guarantee fund test as at June 30, 2014. These exhibits give rise to no concerns.

Reinsurance Placement - Final

Ryan Durrell reviewed the final placement of the July 1, 2014 reinsurance renewal. Catlin Canada was added on the excess placement and Argo's participation was slightly reduced. The premium per member at July 1, 2014 was \$3,045, a decrease of almost 10% from the prior year.

Risk Appetite Discussion

Mr. Mahoney reviewed the Board memo of June 16, 2014. He advised that CLLAS' risk appetite should be linked to the organization's strategic vision and goals. The General Manager's Office will develop a draft Enterprise Risk Management (ERM) policy and a draft plan for the implementation of the Own Risk and Solvency Assessment (ORSA) for the December meeting. The former needs to be adopted in 2015 and the latter must be filed with the regulator by the end of 2014. The Board discussed the various risks outlined in the document and asked Mr. Mahoney to reflect the feedback in a draft ERM policy for review by the Board.

Draft Strategic Plan – multi-year horizon

Mr. Mahoney referred to the Board to the draft strategic plan included in the Board materials. He said that this was for information only at this point as a more refined plan would be developed over the next year or so as work is done both on CLLAS' expansion strategy and on ERM, ORSA, etc. The Strategic Plan includes:

- Overview of CLLAS' operations
- CLLAS structure
- Current and anticipating operating environment

- Strengths, weaknesses, opportunities, and threats
- Strategic direction; priorities and initiatives

8. Report of the Claims Committee

Mr. Barry Bresner reported to the Board. There are a number being actively monitored including some reserve changes that will take place at June 30, 2014 for both indemnity and defence costs.

9. Report of the Risk Management Committee

Ms. Julia Holland reported to the Board.

Future Guidelines: Current activity includes the gathering of information with respect to how member firms handle tax opinions and the signing of indemnification agreements. The Committee is currently working on guidelines in both areas which will be circulated within the member firms once finalized.

Re-audit: John Walker has started the second round of audits. The questionnaire approach is working well.

10. Report of the Policy Committee

Mr. Donald Milner reported that the Policy Committee had not met since the last Board meeting.

11. Report of the Audit Committee

Mr. Gordon Goodman reported to the Board. He advised that a meeting of the Audit Committee will take place at the end of September 2014 and will include a review of the reinsurance security report, a review of Colchester Reinsurance Limited's financials, and consideration of the regulatory requirement that CLLAS conduct an independent peer review of its 2014 actuarial valuation. As well, an audit planning meeting with the Auditor will be held in mid-November 2014.

12. Report of the Investment Manager at June 30, 2014

Information item only.

13. Other Business

The annual dinner of the Board will be held on April 24, 2015.

14. Next Meeting

The next regularly scheduled meeting of the Board will be on December 10, 2014.

There being no further business, the meeting was terminated.

Chairman

Secretary



MEMORANDUM

DATE: November 28, 2014
TO: CLLAS Advisory Board
FROM: Patrick Mahoney
COPY:
RE: September 30, 2014 Financial Management Report

CLLAS's financial management report for the nine months ended September 30, 2014 is attached. Included are the following five exhibits:

Exhibit I:	Statement of Financial Position
Exhibit II:	Statement of Comprehensive Income
Exhibit III:	Statement of Changes in Equity
Exhibit IV:	Budget Variance Analysis
Exhibit V:	Financial Analysis of Comprehensive Income
Exhibit VI:	Alberta Maintenance of Reserve and Guarantee Fund

As shown on Exhibit II, CLLAS' relatively uneventful year continued in the third quarter, with net underwriting income (i.e. premiums minus claims and expenses, but before taking into account investment income) for the quarter of about \$134,000. Given CLLAS' current reinsurance structure, claims costs after taking into account reinsurance tend to be limited to drop down claims (i.e. claims within the Law Society programs' layer that are not covered by those programs) and actuarial margins required on the reinsured liabilities. Operating expenses continue to track under the budget for the year; please refer to Exhibit IV for details.

CLLAS has surplus of \$13.5 million at September 30, 2014. The key regulatory solvency test that CLLAS is required to comply with is known as the Alberta Maintenance of Reserve and Guarantee Fund ("AMRGF"). CLLAS must maintain "cash and approved securities" in excess of the reserve fund plus the guarantee fund required by the Alberta regulator. Exhibit VI of the financial management report shows that the AMRGF required for CLLAS at September 30, 2014 was \$14.0 million. CLLAS' cash and approved securities totaled \$19.5 million, i.e. well in excess of the minimum requirement

The other solvency test which CLLAS monitors is the Minimum Capital Test ("MCT"). At December 31, 2013, CLLAS' MCT ratio was 328%. This result is well above the "supervisory target" of 150% which has been established by OSFI (the federal regulator) for incorporated insurers. OSFI (the federal regulator) has implemented changes to the way that MCT is determined starting in 2015. The changes will, generally, have an adverse effect on most reciprocals. The Alberta regulator has announced that it is adopting OSFI's new methodology.



As mentioned previously, the Alberta regulator has announced that it intends to hold reciprocals to a higher standard than OSFI, i.e. an MCT ratio of 210%. It is not clear from discussions with the regulator whether this is to be a target or a supervisory minimum. Unlike the AMRGF test, which is in the Alberta *Insurance Act* (meaning that the regulator has no discretion with respect to its application), applying MCT to reciprocals is a policy decision. The regulator has advised that the implementation of Own Risk and Solvency Assessment (“ORSA”) by CLLAS will be instrumental in determining its appropriate internal surplus target. ORSA will be implemented by CLLAS over the course of the next two years.

Given the evolving standards, we propose that CLLAS begin to monitor its MCT on a quarterly basis. The year-end MCT is calculated via the P&C1 regulatory filing, i.e. the inputs required to complete the filing result in the calculation of the MCT. CLLAS is not required to complete interim P&C1 filings. For efficiency, we suggest that the interim calculations be done on a simplified basis unless the result suggests that a more refined calculation is warranted. Specifically, most of the inputs used to do a simplified calculation would be actual numbers, but some inputs (specifically the duration of assets, premium liabilities and claim liabilities used to determine the interest rate risk capital requirement) would be based on information from the prior year-end. This will have a slight impact on the MCT ratio.

Please contact me if you have any questions with respect to the management financial statements or the solvency tests.

Sincerely,

Patrick Mahoney
General Manager

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

QUARTERLY FINANCIAL MANAGEMENT REPORT

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

QUARTERLY FINANCIAL MANAGEMENT REPORT

September 30, 2014

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Exhibit I	Statement of Financial Position
Exhibit II	Statement of Comprehensive Income
Exhibit III	Statement of Changes in Equity
Exhibit IV	Financial Analysis of Comprehensive Income
Exhibit V	Operating Budget Variance Analysis
Exhibit VI	Alberta Maintenance of Reserve and Guarantee Funds

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF FINANCIAL POSITION
September 30, 2014

	As at September 30, 2014	As at September 30, 2013
ASSETS		
Cash	6,535,185	6,782,290
Short term investments	9,175,063	12,328,554
Bonds	3,792,733	-
Interest income due and accrued	17,071	0
Premium receivable	6,470,949	6,879,144
Other receivable	-	-
Prepaid expenses	211,500	209,250
Deferred policy acquisition costs	269,900	289,755
Unearned reinsurance premium ceded	7,826,856	7,553,825
Reinsurance recoverable	995,279	579,877
Provision for unpaid claims and adjustment expenses recoverable from reinsurers	68,797,000	75,959,000
	<u>104,091,538</u>	<u>110,581,694</u>
LIABILITIES		
Accounts payable & accrued charges	397,771	443,236
Premium taxes payable	113,590	147,663
Unearned premium	9,664,551	10,307,859
Due to reinsurers	5,240,489	5,324,487
Provision for unpaid claims and adjustment expenses	75,171,000	82,879,000
Premium deficiency liability	-	-
	<u>90,587,401</u>	<u>99,102,246</u>
SUBSCRIBERS' EQUITY		
Surplus	13,469,644	11,480,659
Accumulated Other Comprehensive Income (Loss)	34,494	(1,210)
	<u>13,504,137</u>	<u>11,479,449</u>
	<u>104,091,538</u>	<u>110,581,694</u>

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF COMPREHENSIVE INCOME
For the Period Ending September 30, 2014

	Current Year		Prior Year	
	Quarter September 30, 2014	Year to Date September 30, 2014	Quarter September 30, 2013	Year to Date September 30, 2013
Written Premium	12,921,469	13,105,940	13,769,929	13,769,929
Gross Written Premiums	12,921,469	13,105,940	13,769,929	13,769,929
Less: Reinsurance Ceded	10,464,478	10,603,410	10,660,620	10,660,620
Net Written Premiums	2,456,991	2,502,530	3,109,309	3,109,309
Change in Unearned Premiums	(1,837,695)	(295,818)	(2,754,034)	(1,096,652)
Earned Premiums	619,296	2,206,712	355,274	2,012,657
Claims Paid	(30,384)	(30,384)	-	-
Change in IBNR	2,000	385,000	228,000	739,000
Change in Case Reserve	-	-	-	-
Premium Deficiency Expense	-	-	-	-
Incurred Claims	(28,384)	354,616	228,000	739,000
Management and operating expenses	353,033	1,229,491	288,479	1,247,848
Reinsurance fees	70,500	210,000	69,750	212,250
Premium taxes	89,967	287,349	96,182	243,941
Total Operating Expenses	513,500	1,726,841	454,411	1,704,039
Underwriting Gain (Loss)	134,181	125,255	(327,137)	(430,382)
Investment Income	43,516	132,704	35,043	101,295
Income on Claim Related Matters	-	-	-	-
Interest Income on Premium Tax	-	-	-	-
NET GAIN/(LOSS)	<u>177,697</u>	<u>257,959</u>	<u>(292,093)</u>	<u>(329,088)</u>
Other comprehensive income (loss)				
Unrealized gains (losses) on available for sale financial assets arising during the year	540	60,720	11,804	8,802
Recognition of realized (gain) loss included in income	-	-	-	-
Other comprehensive income (loss) for the year	540	60,720	11,804	8,802
Total comprehensive income (loss)	<u>178,237</u>	<u>318,679</u>	<u>(280,290)</u>	<u>(320,286)</u>

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF CHANGES IN EQUITY
September 30, 2014

	Minimum Surplus	Additional Surplus	Unrealized gains and losses on AFS financial assets	Total Equity
Balance, beginning of year	50,000	13,161,685	(26,227)	13,185,458
Prior year adjustment		-		-
Comprehensive income (loss) for the year				
Net gain (loss) for the year		257,959		257,959
Other comprehensive income (loss)				
Change in unrealized gain on available-for-sale assets			60,720	60,720
Recognition of realized (gain) loss on available-for-sale assets			-	-
Total comprehensive income (loss) for the year		257,959	60,720	318,679
Balance at September 30, 2014	50,000	13,419,644	34,494	13,504,137

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF OPERATIONS AND SURPLUS - VARIANCE ANALYSIS
FOR THE PERIOD ENDED September 30, 2014

	Annual Budget	Year to Date Budget % Accrued to Date	Year to Date Budget \$	Year to Date Actual \$	Fav/(Unfav) Variance \$
MANAGEMENT SERVICES	624,000	75%	468,000	487,421	(19,421)
PROFESSIONAL SERVICES					
Actuarial Services	100,000	85%	85,000	49,082	35,918
Reinsurance Matters	350,000	85%	297,500	214,185	83,315
Strategic Matters	120,000	85%	102,000	95,456	6,544
Sub-Total Professional Services	570,000		484,500	358,724	125,776
GST/HST on Consulting Fees	155,220		123,825	109,999	13,826
Total Management & Professional Services * (See Note 1)	1,349,220		1,076,325	956,143	120,182
OTHER EXPENSES					
Audit Expenses	95,000	75%	71,250	66,769	4,481
Annual Dinner	7,000	100%	7,000	6,443	557
Premium Taxes	363,000	75%	272,250	287,349	(15,099)
Chairman's Expenses	2,000	75%	1,500	854	646
Chairman's Honourium	75,000	100%	75,000	75,000	-
Reinsurance Expense	11,000	75%	8,250	10,540	(2,290)
D&O Insurance	13,500	100%	13,500	13,851	(351)
Office Expenses	27,500	75%	20,625	25,006	(4,381)
Office Expenses - Website management software license	3,000	75%	2,250	2,307	(57)
Claims: Borderaux (LSUC)	16,000	92%	14,667	14,100	567
Special Services	50,000	75%	37,500	-	37,500
Miller Insurance Fees (Reins. Comm.) (See Note 2)	282,000	75%	211,500	210,000	1,500
I.B.C Statistical Plan Fees	10,000	75%	7,500	3,160	4,340
FSCO Assessment Fees	5,000	75%	3,750	2,000	1,750
Investment counsel fees	34,000	75%	25,500	15,927	9,573
Investment - Custodial	18,000	75%	13,500	12,956	544
Risk Management/Loss Prevention	50,000	75%	37,500	20,654	16,846
License Fee	5,000	70%	3,500	3,782	(282)
Insurance: Sundry	-		-	-	-
Sub-total	1,067,000		826,542	770,697	55,844
TOTAL	2,416,220		1,902,867	1,726,841	176,026

*** NOTE 1: PROFESSIONAL SERVICES - SEASONALLY WEIGHTED BUDGET**

This is based upon an analysis of the current budget and previous years' experience, the anticipated pattern of seasonal workflow is as follows:

First Quarter, ending March 31st	25%
Second Quarter, ending June 30th	46%
Third Quarter, ending September 30th	14%
Fourth Quarter, ending December 31st	15%
	<u>100%</u>

*** NOTE 2: MILLER INSURANCE FEES (Reins. Comm.)**

The annual budget is based upon the annual fee estimated for the policy period 2013/2014.

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
FINANCIAL ANALYSIS OF COMPREHENSIVE INCOME
For the Period Ending September 30, 2014

Exhibit V

	Year to Date September 30, 2014			Annual 2014
	Actual	Budget	Variance	Budget
Written Premium	13,105,940	14,660,000	1,554,060	14,660,000
Gross Written Premiums	13,105,940	14,660,000	1,554,060	14,660,000
Less: Reinsurance Ceded	10,603,410	11,350,000	746,590	11,350,000
Net Written Premiums	2,502,530	3,310,000	807,470	3,310,000
Change in Unearned Premiums	(295,818)	(928,000)	(632,182)	(108,000)
Earned Premiums	2,206,712	2,382,000	175,288	3,202,000
Claims Paid	(30,384)	52,500	82,884	70,000
Change in IBNR	385,000	518,250	133,250	691,000
Change in Case Reserve	-	-	-	-
Premium Deficiency Expense	-	-	-	-
Incurred Claims	354,616	570,750	216,134	761,000
Management and operating expenses	1,229,491	1,419,117	189,625	1,771,220
Reinsurance fees	210,000	211,500	1,500	282,000
Premium taxes	287,349	272,250	(15,099)	363,000
Total Operating Expenses	1,726,841	1,902,867	176,026	2,416,220
Underwriting Gain (Loss)	125,255	(91,617)	(216,872)	24,780
Investment Income	132,704	410,250	277,546	547,000
Income on Claim Related Matters	-	-	-	-
Interest Income on Premium Tax	-	-	-	-
NET GAIN/(LOSS)	<u>257,959</u>	<u>318,633</u>	<u>60,675</u>	<u>571,780</u>
Other comprehensive income (loss)				
Unrealized gains (losses) on available for sale financial assets arising during the year	60,720	-	-	-
Recognition of realized (gain) loss included in income	-	-	-	-
Other comprehensive income (loss) for the year	<u>60,720</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total comprehensive income (loss)	<u>318,679</u>	<u>318,633</u>	<u>60,675</u>	<u>571,780</u>

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
For the Period Ending September 30, 2014

ALBERTA MAINTENANCE OF RESERVE AND GUARANTEE FUNDS

(Section 99 and 100)

	Current Year to Date 9/30/2013 (in \$000's)	Prior Year End 12/31/2013 (in \$000's)
<u>Reserve Fund</u>		
Premiums collected or credited having one year or less to run	(1) 13106	13,770
Less: Amount paid to licensed reinsurers	(2) 10491	10,548
Premiums collected with more than one year to run, less expired portion	(3) 0	0
Less: Amount paid to reinsurers on premiums on line 3, less expired portion.	(4) 0	0
Subtotal (lines 1, minus line 2, plus line 3, minus line 4)	(5) 2615	3,222
Reserve Fund Required (50% of Line 5)	(6) 1308	1,611
<u>Guarantee Fund</u>		
Total Liabilities	(7) 90,587	81,852
Less: Unearned Premiums	(8) 9,665	6,834
Less: Recoverable from licensed reinsurers	(9) 68,233	66,613
Plus: Statutory Margin	(10) 50	50
Guarantee Fund Required (Line 7 minus Lines 8 and 9 plus line 10)	(11) 12,739	8,455
TOTAL RESERVE & GUARANTEE FUND REQUIRED (Line 6+11)	(12) 14,047	10,066
Cash & Approved Securities	(13) 19,503	17,663
Excess of Cash & Securities over Reserve & Guarantee Fund (line 13 minus line 12)	(14) 5,457	7,597



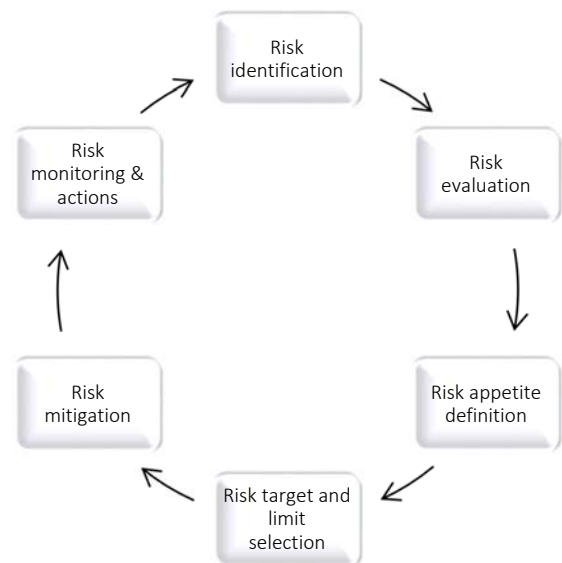
M E M O R A N D U M

TO: CLLAS Board
FROM: Patrick Mahoney
RE: Own Risk and Solvency Assessment
DATE: November 28, 2014

As a result of the Alberta regulator adopting OSFI guidelines for federally-regulated insurers, CLLAS will need to develop an Own Risk and Solvency Assessment ("ORSA"), which is a qualitative and quantitative assessment of material risks and capital required to support those risks under normal and stressed conditions. One important element of ORSA is developing an internal capital target based on CLLAS' own risk appetite and risk profile, instead of through standard formulas such as the Minimum Capital Test ("MCT") or the Alberta Maintenance of Reserve and Guarantee Fund ("AMRGF").

We expect that adopting the ORSA framework will require Board involvement and discussions relating to enterprise risk management ("ERM") and risk appetite. We view ORSA as a risk management process, where risks are identified and measured, where internal targets and risk limits are set, and where capital and risks are regularly monitored and compared to the internal targets and limits. The figure to the right summarizes the annual ERM cycle that would be carried out as a part of the ORSA.

The ORSA process would culminate in an annual report describing the material risks and the capital required to support those risks (i.e. internal target). Although the regulator does not approve the ORSA, a copy of the ORSA report must be filed annually with their office.



The timeline suggested below has CLLAS adopting the ORSA framework over a period of 24 months. It is possible that, given the nature of CLLAS' operations and the Advisory Board discussions on risk appetite and enterprise risk management that have already taken place, the process will move more quickly than this. Having said that, the timeline is structured to enable the Board, given its annual cycle of Board meetings, to provide meaningful input into each stage.



The approach we propose is as follows:

- By June 30, 2015*: Implementation of enterprise risk management policy
- By December 31, 2015: Development of risk management reporting and benchmarking
Development of base and stress scenarios
Discussion of internal target based on risk evaluation and risk appetite
Discussion of draft ORSA report with Board
- By October 31, 2016: Adoption of internal target
Submission of final ORSA report to regulator

* It is possible, given the July 1st renewal date for CLLAS, that implementation of ERM may be deferred to September 30, 2015. This should not affect the ultimate timing for ORSA.

Thereafter, the ERM cycle will be completed at least once a year and an annual ORSA report will be filed with the regulator by December 31 of every year.

The Alberta Superintendent of Insurance (“ASOI”) requires CLLAS to file an “action plan for ORSA” by December 31, 2014. Attached is a draft letter to the ASOI. This letter can be finalized after the discussion at the up-coming Board meeting.

December 12, 2014

DRAFT

By email: laurie.balfour@gov.ab.ca

Laurie Balfour, MBA, CMA
Senior Manager, Financial Compliance
Alberta Treasury Board and Finance
Financial Sector Regulation and Policy
Superintendent of Insurance
Room 402, Terrace Building
9515 – 107 Street
Edmonton, Alberta T5K 2C3

Dear Ms. Balfour:

RE: CLLAS – Action Plan for Adoption of Guideline E-19: Own Risk and Solvency Assessment (ORSA)

Further to your annual review letter dated April 23, 2014, we are pleased to provide you with CLLAS' proposed action plan for the adoption of Guideline E-19 relating to the ORSA.

We expect that adopting the ORSA framework will require significant Board involvement and discussions relating to enterprise risk management and risk appetite. We view ORSA as a risk management process, where risks are identified and measured, where internal targets and risk limits are set and where capital and risks are regularly monitored and compared to the internal targets and limits. The ORSA process would culminate in an annual report describing the material risks and the capital required to support those risks under normal and stressed conditions.

As part of its enterprise risk management ("ERM") initiative, the CLLAS Board has begun the process of identifying and evaluating material risks and plans to implement its ERM policy in 2015. We propose to adopt the ORSA framework over a period of 24 months, and we expect the first ORSA report to be available around October 31, 2016. Our proposed approach is as follows:

- By December 31, 2014: Ongoing Board discussions on enterprise risk management and ORSA
- By June 30, 2015*: Implementation of enterprise risk management policy
- By December 31, 2015: Development of risk management reporting and benchmarking
Development of base and stress scenarios
Discussion of internal target based on risk evaluation and risk appetite
Discussion of draft ORSA report with Board
- By October 31, 2016: Adoption of internal target
Submission of final ORSA report to regulator

- * Is it possible, given the July 1st renewal date for CLLAS, that implement of ERM may be deferred to September 30, 2015. This should not affect the ultimate timing for ORSA.

Thereafter, the cycle of risk identification, evaluation and monitoring will be completed at least once a year and an annual ORSA report will be filed with the regulator by December 31 of every year.

We would be pleased to discuss the above approach with you at your convenience.

Yours truly,

Patrick Mahoney
General Manager



MEMORANDUM

DATE: December 3, 2014
TO: CLLAS Advisory Board
FROM: Patrick Mahoney
COPY:
RE: Draft Enterprise Risk Management ("ERM") Policy

Further to the discussions at recent Board meetings on CLLAS' "risk appetite", attached is a draft ERM policy. In addition to attempting to quantify (where possible) CLLAS' risk tolerance, the policy sets out strategies for monitoring and mitigating these risks. This document is for discussion only at the December 2014 meeting. We will continue to incorporate feedback and refine the policy with a target adoption date of June 30, 2015.



CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

Enterprise Risk Management Policy

Last Updated
December 15, 2014

DRAFT

ENTERPRISE RISK MANAGEMENT POLICY

Effective date: July 1, 2015

1.1. Purpose and Scope

Enterprise Risk Management (“ERM”) is the process through which CLLAS proactively manages risk by identifying, assessing, monitoring and mitigating risks from all sources that may impact short- and long-term financial sustainability. ERM is intended to enhance decision-making by integrating strategic planning with a focused evaluation of the risk exposures stemming from CLLAS’ operations and the environment in which it operates. The purpose of this policy is to document the practices and responsibilities with respect to ERM.

The ERM policy, together with CLLAS’ risk appetite assessment, constitutes the foundation for CLLAS’ Own Risk and Solvency Assessment (“ORSA”) and most governance policies, including the surplus target and surplus policy, the investment policy, the reinsurance security policy and the outsourcing policy.

1.2. Objectives

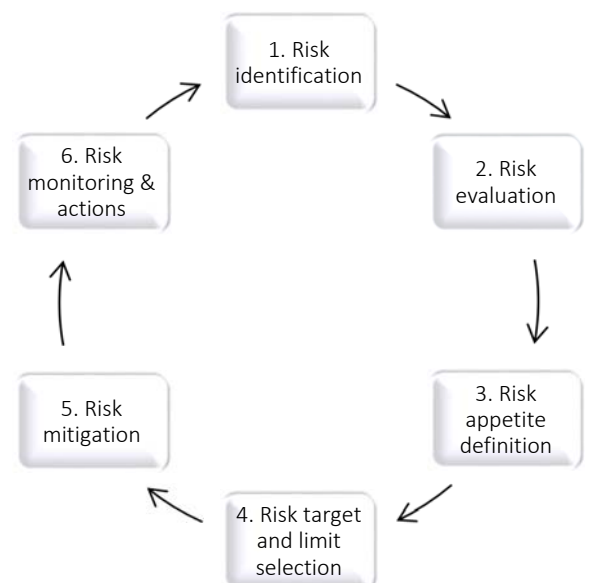
ERM has multiple objectives, including the following:

- Avoid or mitigate risks that could materially impair the financial position or condition of CLLAS;
- Accept risks that contribute to CLLAS’ strategy;
- Manage risks in accordance with best practices and enhance strategic decision-making; and
- Promote a better understanding of the interrelationships between CLLAS’ risk profile and capital needs.

1.3. ERM Cycle

ERM is a cycle where risks are periodically identified and measured, where risk targets and limits are set, and where CLLAS’ financial condition and material risks are regularly monitored and compared to its risk targets and limits. Risk appetite is fluid and reflects any improvement or deterioration in risk tolerance, changes in the business strategy and changes in economic conditions.

The diagram on the right illustrates the steps of the ERM cycle. CLLAS’ approach to the various steps is outlined in the next sections.





1.4. Identification and Evaluation of Material Risks

The Office of the General Manager identifies, defines and assesses the materiality of known, reasonably foreseeable or emerging risks that may have an impact on CLLAS' ability to continue operations, under both normal and stressed conditions. The materiality of the risks CLLAS is exposed to will change over time as the risks are, in part, dependent on CLLAS' business strategy (e.g. amount of net retention, subscriber base, reinsurers selected for reinsurance placement) and on its business environment (e.g. stage of the insurance/reinsurance cycle, outlook for investment market).

The risks which are considered to be material are reviewed in more detail and their potential impact on CLLAS' financial position and continued ability to meet minimum regulatory requirements is quantified.

1.5. Risk Appetite

Risk appetite is the high-level direction for the amounts and types of risks CLLAS wants to pursue based on its risk profile, vision and overall strategy. CLLAS currently considers the following risk appetite statements to be appropriate:

- CLLAS has an overall low to medium risk appetite;
- CLLAS wants to balance the likelihood of retroassessment against the efficiency of operating with as little capital as is prudent and appropriate;
- CLLAS does not want to engage in risk-taking activities that could be detrimental to its reputation or the reputation of its subscribers;
- CLLAS wants protection against extreme events that could compromise its solvency;
- CLLAS strives to maintain excellent long-term relationships with its reinsurance partners in order to continue accessing reinsurance markets at a reasonable cost;
- CLLAS strives to protect itself from strategic risk by having knowledgeable and stable Advisory Board and senior management;
- CLLAS reduces its operational risk by outsourcing operational functions to experts (accounting, claims management, actuarial, investments, etc.).

1.6. Risk Targets and Limits

Risk targets and limits are determined in the context of applying risk appetite statements to specific risk categories or business units. Risk targets and limits should be mindful of regulatory requirements or constraints, such as the following:

- AMRGF and MCT requirements;
- Limits on investments, e.g. 5% or \$500,000 limit on individual investments (except federal or provincial bonds);
- Limitation on ownership of an unincorporated entity: 10% ownership;
- Substantial investment definition: 10% of voting rights or 25% of equity.



The following table shows the risk categories that can be monitored quantitatively. As these risks may challenge the ability to meet strategic objectives, risk targets and limits have been determined, above which management action could be considered:

Risk Category	Risk Metric	Risk Target	Risk Limit
Insurance	Prior year development ¹	0%	Gross: 20% Net: 5%
	3-year net combined ratio before surplus adjustments ²	100%	125%
	Maximum allocation to a single jurisdiction ³		67%
Interest Rate	Interest rate risk per MCT formula at 1.25% ⁴	\$250,000	\$600,000
Liquidity	Cash and short-term investments to gross liabilities ⁵	15%	10%
Asset Default	Credit rating ⁶	AA to AAA	A
	Maximum allocation to a single security ⁷		5%
Strategic	Annual Advisory Board turnover	2 members	4 members
Equity ⁸	Proportion of equities in investment portfolio	0%	0%
Foreign Exchange ⁹	Proportion of investments in foreign currency	0%	0%

¹ This is a measure of the redundancy or deficiency of reserves. It is calculated as the year-over-year development in ultimate losses expressed as a ratio of the prior year's unpaid claims (excluding ULAE).

² This is a measure of underwriting profitability during a given fiscal year. It is calculated as follows:

$$\text{Net Combined Ratio} = \frac{\text{Fiscal Year Net Incurred Claims} + \text{Fiscal Year Operating Expenses}}{\text{Fiscal Year Net Earned Premiums}}$$

The three-year net combined ratio is monitored as there could be significant volatility in annual net combined ratios, especially in years when CLLAS has a higher claim retention. Further, the net earned premiums exclude the effect of surplus adjustments order to provide a more meaningful comparison of expected losses and operating expenses (i.e. premiums) to actual losses and operating expenses.

³ The maximum allocation to a single jurisdiction is monitored to assess concentration risk. It is expressed as a percentage of insured lawyers or premiums collected.

⁴ This is an expected measure of net loss due to the timing mismatch of the expected payment steams from fixed income assets and those from claim liabilities, assuming a movement of 1.25% in interest rates.

⁵ CLLAS' liquidity risk mainly arises from the possibility of realizing a loss on the sale of invested assets if insufficient liquid assets are available to pay for claims.

⁶ The credit rating is based on DBRS (or similar).

⁷ The maximum allocation to a single security is monitored to assess concentration risk. It is expressed as a percentage of invested assets.

⁸ CLLAS is not exposed to this risk category as the Investment Policy does not allow investments in equities.

⁹ CLLAS is not exposed to this risk category as the Investment Policy does not allow foreign investments.



Reinsurance is a critical element of CLLAS' risk management framework. Reinsurer credit risk is managed by means of CLLAS' reinsurance security policy, pursuant to which CLLAS monitors its reinsurers' financial strength ratings and assesses its reinsurance concentration risk according to various metrics such as the actual claim liabilities by reinsurer and claim liability limit by reinsurer.

Risk categories such as strategic, operational, regulatory compliance, social inflation and reputation risks, are difficult to monitor quantitatively. The Office of the General Manager will qualitatively monitor any trends or risk sources for these risk categories and report on them to the Board along with the above risk metrics.

1.7. Risk Mitigation

Risk mitigation measures are implemented by the Advisory Board and the Office of the General Manager in order to mitigate the frequency or severity of risks. CLLAS would consider risk mitigation strategies for all material risk categories, such as the following:

Risk Category	Risk Mitigation Measures
Insurance	Periodic review of policy limits and other terms of coverage Purchase of reinsurance Annual review of premiums per rate setting policy Periodic review of claims and actuarial liabilities
Reinsurance Default	Periodic review of reinsurance limits and other terms of coverage Periodic reinsurance security review Maintenance of Reinsurance Security Agreement Diversification of reinsurers
Strategic	Managed Board turnover Board orientation for new members Selective criteria for Board member nomination Purchase of D&O insurance Succession planning
Operational	Outsourcing of critical functions Business continuity plan
Inflation	Periodic monitoring of CPI and other general inflation indices Periodic monitoring of legal changes and judgments
Interest Rate	Periodic review of Investment Policy
Liquidity	Prescribed minimum amount of short-term assets
Asset Default	Investment policy which restricts credit ratings
Reputation	
Regulatory Compliance	Regular communication with regulator Multi-disciplinary team responsible for regulatory compliance



These risks are defined in Appendix A, attached.

1.8. Risk Monitoring and Actions

Risks are monitored and compared against targets and limits on a quarterly basis by the Office of the General Manager. Results are presented to the Advisory Board along with management financial statements, which also include aggregate solvency measures such as the AMRGF, MCT and other financial performance ratios.

The Advisory Board and Office of the General Manager would consider implementing appropriate actions when a risk exceeds the established limit. Corrective actions would be discussed with the Advisory Board or a committee thereof before being implemented by the Office of the General Manager.

1.9. Stress Testing

CLLAS will perform stress testing in accordance with OSFI Guidelines E-18 and E-19 in the context of its 2015 ORSA. This section will be developed in due course.

1.10. Responsibility for ERM

The Advisory Board is ultimately responsible for overseeing ERM and risk-taking activities. The Advisory Board is responsible for the following:

- Annual review/approval of risk appetite statements;
- Annual review/approval of risk targets and limits;
- Annual review/approval of the ERM policy; and
- Annual review/approval of the internal capital target and the ORSA.

The Principal Attorney is responsible for the following:

- Reporting to the Advisory Board on the effectiveness of and compliance with the ERM policy.

The Office of the General Manager is responsible for the implementation of the Board-approved strategy and overall business performance, specifically:

- Ensuring compliance with the ERM policy;
- Identifying, assessing and monitoring risks;
- Assessing the effectiveness of operations against risk appetite statements and risk limits;
- Recommending appropriate risk mitigation strategies;
- Developing appropriate action plans and ensuring timely communication with the Advisory Board or a committee thereof when risk limits are exceeded;
- Reporting to the Principal Attorney and Board on the risk profile and capital needs, including ORSA;
- Recommending improvements in policies, processes and procedures;



- Developing and reporting on internal controls with respect to risk-taking activities;
- Filing appropriate documentation and communication with the regulator with respect to the ERM policy and ORSA.

1.11. Authority

The Advisory Board has the authority to make revisions to this policy.

1.12. History of Modifications

This policy was first approved by the Advisory Board on XXXX, 2015.



APPENDIX A – MATERIAL RISKS

Pursuant to its ERM policy, CLLAS periodically identifies, assesses and monitors material risks. The following are CLLAS' exposure to material risks:

- 1. Insurance risk:** CLLAS provides Canadian law firms with \$139,975,000 of professional liability insurance coverage per occurrence. Coverage is provided on a claims-made basis. Coverage is provided excess of \$1,000,000 (or \$25,000 in the case of drop-down coverage) and so CLLAS is exposed to low frequency, high severity losses. There is significant uncertainty around the timing, frequency and severity of these insurance losses.

Further, CLLAS is a monoline insurer, with no line of business diversification to mitigate insurance risk. However, CLLAS has a geographical diversification benefit as it insures lawyers in multiple Canadian provinces.

- 2. Reinsurance default risk (credit risk):** Given the loss portfolio transfer at June 30, 2012 and the low net claim retention since July 1, 2012, CLLAS retains only a small proportion of its insurance exposure and cedes the remaining exposure to reinsurers. A reinsurer default or dispute on claims presents a material risk as CLLAS has the ultimate responsibility for the payment of claims.

CLLAS places reinsurance with multiple reinsurers, the largest placement being with Colchester Reinsurance Limited. due to the loss portfolio transfer. Colchester also has an important participation on the proportional treaty since July 1, 2012.

Deposits held in Canada for unregistered reinsurance amounts recoverable from Colchester Reinsurance Limited do not present a material off-balance sheet risk exposure for CLLAS given that amounts are secured in a trust and are held in cash or government bonds in Canadian denomination.

- 3. Strategic risk:** Strategic risk arises from the potential inability to implement appropriate business plans and strategies, make decisions, allocate resources, or adapt to changes in the business environment¹.

CLLAS operates on the basis of five year underwriting periods, and can expect significant competitive pressure from insurance brokers during the lead up to a new underwriting period. In order for CLLAS' premium rates to remain competitive, there must be a sufficiently large subscriber base to share the

¹ OSFI Own Risk and Solvency Assessment Guideline, January 2014.



administrative costs necessary to maintain the self-insurance structure. If the subscriber base decreased significantly, the viability of the reciprocal may be compromised.

- 4. Operational risk:** Operational risk arises from inadequate or failed internal processes, people and systems, or from external events. It includes selling practices, claims processes, physical security, people, product, project, internal fraud, external fraud, model, legal, privacy and information security, technology and infrastructure, business continuity, third party, financial reporting, and money laundering / terrorist financing risks².
- 5. Inflation Risk:** General inflation risk: Sudden and sustained increases in the inflation rate would most likely lead to higher-than-anticipated claim payments and general expenses as well as disruptions in fixed income and capital markets.
- Social inflation risk: This is the risk of unfavorable changes in claim behavior driven by new legal precedents as well as changes in social attitudes and expectations. Social inflation could be exacerbated by the fact that information is readily available through global news, social media and the internet.
- 6. Interest rate risk (market risk):** CLLAS' fixed income investments are classified as available-for-sale and are therefore reported at fair market value in the financial statements. Claim liabilities are also reported on a fair value basis (i.e. liabilities are discounted using market rates).
- Interest rate risk exists when there is a mismatch between expected payments from assets and expected payments from liabilities. For example, when interest rates increase, both fixed income assets and claim liabilities would decrease. If they were perfectly matched, the impact on surplus would be nil. If not, one would decrease more than the other, creating a non-zero impact on surplus. The converse would also be true when interest rates decrease.
- 7. Liquidity risk:** Liquidity risk is the potential for losses due to holding insufficient funds in liquid assets such as cash. An example of a situation leading to liquidity risk is needing to realize a loss on the sale of invested assets when insufficient liquid assets are available to pay for losses.

² OSFI Own Risk and Solvency Assessment Draft Guideline, January 2014.



- 8. Asset default risk (credit risk):** Fixed income default risk: CLLAS is exposed to asset default risk as it has investments in fixed income instruments. CLLAS' investment policy allows for long-term investments in federal and provincial government bonds as well as corporate bonds rated A or better.
- The riskiest class of fixed income in CLLAS' portfolio is corporate bonds. Although provincial and federal government bonds present some default risk, it is not considered material at this moment.
- Other asset default risk: CLLAS has minimal exposure to default risk on other assets, for example receivables or cash held in bank accounts.
- 9. Reputation risk:** Reputation risk arises when the confidence of insured members, creditors, reinsurers and other business partners leads to a negative impact on earnings, liquidity or capital position.
- 10. Regulatory compliance risk:** Regulatory compliance risk arises from losses due to failure to comply with regulatory requirements. Examples include costs associated with the need to restate financial statements if they are not in compliance with professional standards, or fines and penalties if legislative requirements are not fulfilled.
- 11. Equity risk (market risk):** Investments in equities are subject to significant volatility in fair value. In addition, there is typically uncertainty around dividend payments and investments in equities can present significant exposure to default risk. This risk category is not material for CLLAS at this time as the investment policy does not allow for investments in equities.
- 12. Foreign exchange risk (market risk):** Investments in denominations other than Canadian dollars can present foreign exchange risk, as ultimately these investments would have to be converted to Canadian dollars in order to pay for losses. This risk category is not material for CLLAS at this time as the investment policy does not allow for foreign investments.

Concentration risk arises from failure to diversify risk. It is a risk category that is closely tied with other risk categories, most notably with risks involving insurance, reinsurance and invested assets.

It is also important to keep in mind that risk mitigation measures – such as the use of reinsurance to reduce the net insurance exposure or the use of collateral or letters of credit to secure reinsurance recoverables – may not be functioning as usual under stressed market conditions. For example, if there were a property catastrophe and multiple insurers were seeking recoveries from reinsurers, CLLAS' communications and recoveries on professional liability losses with these same reinsurers may be delayed or compromised.

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

Report on Reinsurance Security
September 23, 2014



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H	Audited Financial Statements – Colchester Reinsurance Limited
I	A.M. Best Credit Report – Lloyd's
J	A.M. Best Credit Report – Swiss Reinsurance Company
K	A.M. Best Credit Report – Transatlantic Reinsurance Company
L	A.M. Best Credit Report – Argo Group International Holdings, Ltd.

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.

There have been no material changes since last year's report.

1.2 Reinsurance Security

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

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

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

1.3 Level I Monitoring

Level I monitoring of CLLAS reinsurance consists of the following:

- Current A.M. Best and S&P ratings compared to the previous year – 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 current policy year– see Appendix E;
- 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.

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;
- 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 current 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;
- Use of a reinsurer that is unregistered in Canada;
- Any other events deemed material by the Audit Committee or its advisors.

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 current CLLAS reinsurers. The following identifies the reinsurers subject to Level II monitoring and which Level II monitoring criteria was triggered:

	AWAC	Colchester	CRC	Lloyd's	Swiss Re	Transatlantic	AMA 1200 (Argo)	PPI 9969 (Pioneer)	AGD 2526 (A.G. Doré)
Current claims liability exposure (all years) exceeds 10%		✓		✓			✓		
Current claims liability exposure (current year) exceeds 10%		✓		✓			✓	✓	✓
Claim limit exposure (current year) exceeds 10%		✓		✓	✓		✓		
Unregistered in Canada	✓	✓	✓						
Difficulty collecting reinsurance proceeds after claim settlement						✓			
Rating downgrade/"watch" list									

2.2 Reinsurers Removed from Level II Monitoring

RSA Group was removed from Level II because its outlook was upgraded to a stable outlook.

2.3 Allied World Assurance Company Limited ("AWAC")

General

Allied World Assurance Company Limited is a global specialty insurance and reinsurance company with offices in Bermuda, Europe and the United States.

Launched in 2001, AWAC originally consisted of four employees located in a small office in Bermuda. Today, AWAC has offices in Atlanta, Bermuda, Boston, Chicago, Dublin, Farmington (CT), London, New York, San Francisco and Zug.

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

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

Stock Performance

The following is the 3-year stock performance from September 30, 2011 to August 29, 2014 of AWAC (ticker: AWH, New York Stock Exchange) with the S&P 500 for comparison. AWAC's share price was \$112.65 on November 29, 2013 and was \$36.83 on August 29, 2014.



Highlights of A.M. Best Report

The complete A.M. Best report is set forth in Appendix H. Note, A.M. Best has not issued an updated report for 2014, therefore the information provided is based on 2013 report.

- Current rating is A (Excellent) Stable from A.M. Best;
- Overall financial performance has been strong since inception in 2001, with the exception of 2008;
- Underwrites a diversified portfolio of property and casualty insurance and reinsurance lines of business;
- The Reinsurance segment includes the company's operations in the United States, Bermuda, Europe and Singapore;

- Capitalization:
 - ❖ Based on Best's Capital Adequacy Ratio (BCAR), AWAC maintains excellent capitalization for its current rating level;
 - ❖ \$500 million of common shares were repurchased from 2010 through 2012;
 - ❖ May 2012, a new, two-year \$500 million share repurchase program was implemented. As of March 31, 2013, \$374 million of authorization remains under this program;
- Gross premiums written: \$2,262,612,000 in 2012 and \$1,872,612,000 in 2011;
- Net income: \$574,359,000 in 2012 and \$252,621,000 in 2011;
- Liquidity: AWAC has provided solid operating cash flows since inception due to both its casualty orientation and its strong underwriting performance:
 - ❖ Conservative investment strategy specifically focused on preserving the value of invested assets and providing sufficient liquidity to pay claims promptly;
 - ❖ The investment portfolio is comprised of high quality corporate and government bonds, along with mortgage backed securities.

2.4 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

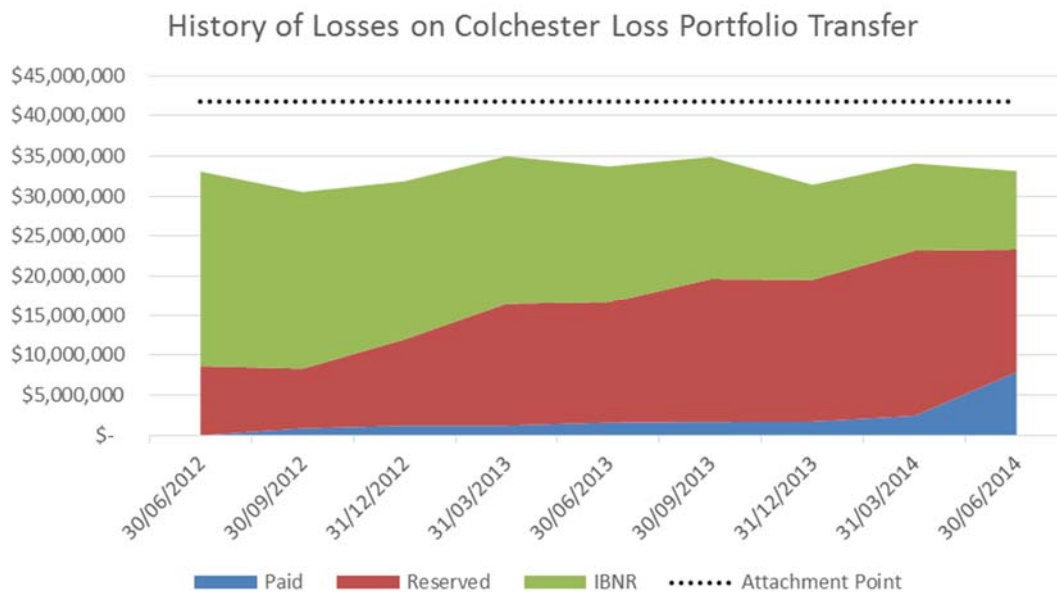
Colchester is not rated by any rating agencies.

Financial Highlights

Please see Appendix I for a copy of the most recent financial statements (as of June 30, 2014). The following are some of the highlights from these financials:

- Cash and cash equivalents decreased from \$1,681,768 in 2013 to \$347,004 in 2014;
- Retained earnings increased from \$31,018,310 in 2013 to \$33,155,017 in 2014;

- Income for the year, after taxation, decreased from \$2,407,898 in 2013 to \$2,136,707 in 2014:
 - ❖ Reinsurance premiums written and earned decreased from \$3,390,790 in 2013 to \$2,878,831 in 2014, while retrocession premiums ceded increased from \$2,002,541 in 2013 to \$2,180,413 in 2014;
 - ❖ Net investment income decreased from \$1,850,005 in 2013 to \$1,681,063 in 2014;
- 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 effected 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 adverse development retrocession protection on the Loss Portfolio Transfer losses which attaches at \$41.7 million, also shown below as a dotted line for reference.



2.5 CRC Reinsurance Limited ("CRC")

General

CRC is a direct, wholly owned subsidiary of Fairfax Financial Holdings Limited. The majority of CRC's premium writings are assumed reinsurance from the four operating subsidiaries of Northbridge Financial Corporation (Northbridge) which is also wholly owned subsidiary of Fairfax Financial Holdings Limited. The four Northbridge companies are domiciled in Canada.

CRC no longer participates on the CLLAS Program.

Stock Performance

CRC is not publicly traded, so we have included the stock performance of their ultimate parent company, Fairfax Financial. The following is the 3-year stock performance from September 30, 2011 to August 29, 2014 of Fairfax Financial Holdings (ticker: FFH, Toronto Stock Exchange) with the S&P TSX for comparison. Fairfax Financials share price on November 29, 2013 was \$412.81 and was \$503.51 on August 29, 2014.



A.M. Best Report

CRC is no longer rated by A.M. Best. The latest rating from A.M. Best was on March 28, 2013, with a rating of A- (Excellent)/Stable.

2.6 Lloyd's

General

Lloyd's is the world's leading insurance market, housed in Lime Street in the City of London.

The Corporation of Lloyd's oversees the market, establishing standards and providing services to support its activities. It also manages Lloyd's worldwide licenses. The Corporation's Executive Team exercises the day-to-day powers and functions of the Council and the Franchise Board. As well as providing cost-effective services to aid the smooth running of the market, the Corporation strives to raise the standards and improve the performance. The Corporation's work is split into two main areas:

1. Overall risk and performance management of the market;
2. Maintaining and developing the attractiveness of the market's capital providers, distributors and clients while preserving Lloyd's diversity and London based business model.

Lloyd's is regulated by the UK Financial Services Authority (FSA) under the Financial Services and Markets Act 2000. The FSA also regulates Lloyd's managing agents, members' agents and Lloyd's brokers.

The FSA and Lloyd's have common objectives in ensuring that Lloyd's market is appropriately regulated and, to minimize duplication, the FSA has made arrangements with Lloyd's for the co-operation on supervision and enforcement.

The Lloyd's market has been participating on the CLLAS Program since its inception in 1987 and continues to have the largest participation.

Stock Performance

Not applicable.

Highlights of A.M. Best Report

The complete A.M. Best report is set forth in Appendix J. Current rating is A (Excellent)/Stable from A.M. Best.

- A.M. Best's rating of Lloyd's reflects its strong capitalization, good financial flexibility, excellent operating performance and an excellent global business profile;
- Financial flexibility due to the diversity of capital providers (corporate and non-corporate);
- Lloyd's reported an excellent profit in 2012 of £2.771 billion, in spite of losses arising from the Costa Concordia grounding, Hurricane Isaac, and super-storm Sandy while 2013 only improved on this outcome with £3.205 billion in profits for the year;
- Capitalization: A.M. Best believes Lloyd's will maintain a solid capital base:
 - ❖ Lloyd's robust risk-based solvency requirements help to ensure it maintains a solid capital base;
 - ❖ Central assets for solvency purposes dropped 2% in 2013 to £3.157 billion as a result of the buy-back of subordinated debt, and are expected to remain stable in 2014;
- Liquidity:
 - ❖ In A.M. Best's opinion, Lloyd's is likely to maintain good overall liquidity in 2014;
 - ❖ Managing agents are responsible for the investment of syndicate premium trust funds which were £41.990 billion in 2013;

- ❖ 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 monitors liquidity levels at individual syndicates as part of its capital adequacy review;
- ❖ Lloyd's also monitors projected liquidity for its central assets, which are tailored to meet the disbursement requirements of the Central Fund and the Corporation of Lloyd's (including its debt obligations).

2.7 Swiss Reinsurance Company/Westport Insurance Corporation ("Swiss Re")

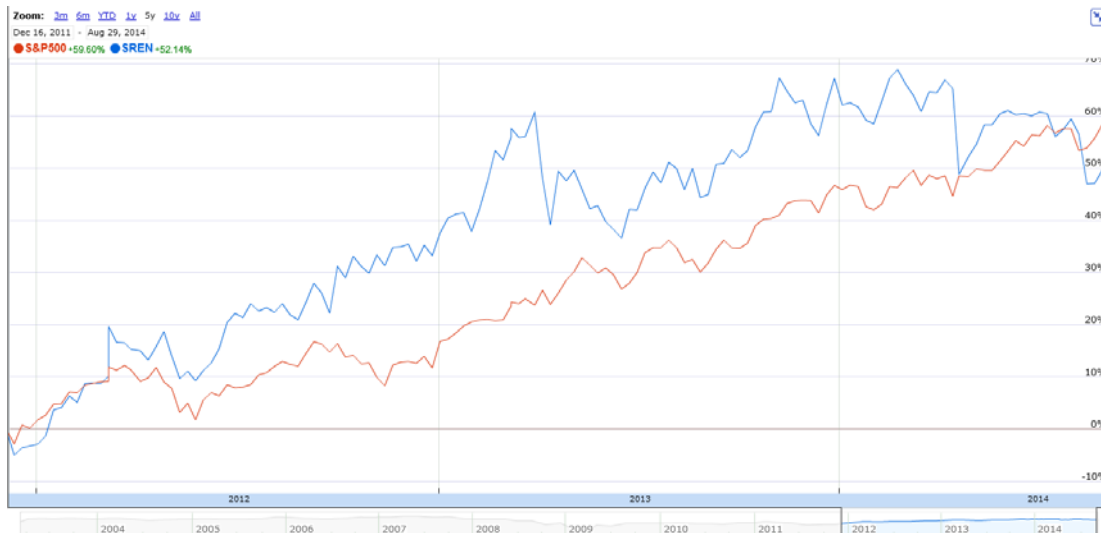
General

Founded in Zurich, Switzerland, in 1863, Swiss Re operates in more than 25 countries and provides its expertise and services to clients throughout the world. Swiss Re's traditional reinsurance products and related services for property and casualty as well as for life and health business are complemented by insurance-based corporate finance solutions and supplementary services for comprehensive risk management. The Canadian operation of Swiss Reinsurance Company is a branch of Swiss Reinsurance Company Ltd.

Swiss Re (UK) joined the CLLAS Program in 1992 and Swiss Re (Canada) joined the Program in 1995. Swiss Re (Canada), now Westport Insurance Corporation, has taken over all of the CLLAS business and Swiss Re (UK) no longer participates. Swiss Re currently participates on the Optional Excess and Umbrella layers.

Stock Performance

The following is the 3-year stock performance from September 30, 2011 to August 29, 2014 for Swiss Re (ticker: SREN, SIX Swiss Exchange) with the S&P 500 for comparison. Swiss Re's share price at November 29, 2013 was 80.65 CHF and was 75.90 CHF on August 29, 2014.



Highlights of A.M. Best Report

The complete A.M. Best report is set forth in Appendix K. Current rating is A+ (Superior)/Stable from A.M. Best.

- Swiss Re's risk-adjusted capitalization benefits from good diversification and is upgraded by hybrid debt;
- Net premiums written CHF 11,028,000,000 in 2013 and CHF 12,387,752,000 in 2012;
- Net income: CHF 2,091,000,000 in 2013 and CHF -\$1,076,000,000 in 2012;
- Gross premiums were CHF 18.223 billion in 2013 and CHF 15.865 billion in 2012.

2.8 Transatlantic Reinsurance Company

General

Transatlantic Holdings, Inc. (TRH) is an international reinsurance organization headquartered in New York, with operations worldwide. TRH's subsidiaries, Transatlantic Reinsurance Company, Trans Re, Zurich and Putnam Reinsurance Company, offer reinsurance capacity on both a treaty and facultative basis – structuring programs for a full range of property and casualty products, with an emphasis on specialty risks.

While TRH has maintained an A rating with A.M. Best, and an A+ rating with S&P, its new parent, Alleghany Corporation, has a sub-A rating from both agencies.

TRH and Alleghany Corporation completed a successful merger in 2012, which has allowed Trans Re to increase its focus on underwriting operations and enhance its already excellent market profile. As a result of the merger, we have included the stock performance of Alleghany Corporation.

Stock Performance

The following is the 3-year stock performance from September 30, 2011 to August 29, 2014 of Alleghany Corporation (ticker: Y, New York Stock Exchange) with the S&P 500 for comparison. Alleghany's share price at November 29, 2013 was \$393.39 and was \$426.58 on August 29, 2014.



Highlights of A.M. Best Report

The complete A.M. Best report is set forth in Appendix L. Current rating is A (Excellent)/Stable from A.M. Best.

- Although operating results included some catastrophic results, TRH's 5-year average operating performance is in line with its peer group;
- Net premiums written \$2,976,971,000 in 2013 and \$3,074,457,000 in 2012;
- Net income: \$770,419,000 in 2013 and \$345,455,000 in 2012;
- Liquidity: Transatlantic's conservative investment strategy provides for laddered maturities to respond to both its short and long-term obligations. Based on Transatlantic's historically solid operating experience and modest catastrophe exposure, A.M. Best expects that the group's overall liquidity profile is more than adequate to support its current operations.

2.9 Argo Group International Holdings, Ltd.

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 and organizes their reporting into four segments:

Excess & Surplus Lines serves clients who cannot be insured in the standard markets because of the nature of their businesses, their particular risk exposures or their loss histories.

Commercial Specialty provides standard-market property and casualty insurance to highly specialized commercial markets and public entities.

Reinsurance writes reinsurance business worldwide through the broker market, with offerings that include specialty property catastrophe reinsurance and excess casualty and professional insurance.

International Specialty operates through Lloyd's syndicates offering property and liability coverage.

Argo Group is the combined international holding company resulting from the August 7, 2007 merger of Argonaut Group, Inc. and PXRE Group, Ltd. In connection with the merger, Argo Group's common shares were approved for listing on the NASDAQ Global Select Market and trade under the symbol "AGII". The company was founded in 1986 and is headquartered in Pembroke, Bermuda.

The segment's business platform, Argo International Holdings Ltd. (Argo International) based in London, is comprised of four principal components: Argo Managing Agency, which underwrites insurance risks on behalf of the syndicate for the providers of capital; Syndicate 1200, which bears the insurance risk; Argo Underwriting Agency, which participates with other capital providers on the syndicate via its subsidiary corporate member companies; and Argo Direct Limited, a wholly owned service company, which enters into insurance contracts on behalf of Syndicate 1200 from both the U.K. and a branch based in Paris (Argo Assurances, Argo International's worldwide property division concentrates mainly on underwriting short-tail risks with an emphasis on commercial property which are also exposed to catastrophes and other man-made or natural disasters). Argo International's liability division underwrites non-U.S. professional indemnity, international general liability and directors and officers insurance. In 2011, Argo's International Specialty added two more divisions: Aerospace and Energy, which are supported by experienced underwriting teams. In addition, a small portion of the syndicate premium is written on a range of U.S. general liability risks.

Stock Performance

The following is a 3-year stock performance from September 30, 2011 to August 29, 2014 for Argo Group International Holdings (ticker: AGII) with the S&P 500 for comparison. Argo Group's share price at November 29, 2013 was \$47.29 and was \$52.25 on August 29, 2014.



Highlights of A.M. Best Report

The complete A.M. Best report is set forth in Appendix M. Argo Group's insurance subsidiaries are A.M. Best-rated A (Excellent)/Stable with a stable outlook, and S&P-rated A- (Strong) with a stable outlook.

The following are some of the financial highlights from the A.M. Best report. Please note that the following financial figures are stated in USD:

- Declining net premiums written over the past five years with an uptick in 2013: \$1,421,400,000 in 2009, \$1,095,700,000 in 2010, \$1,071,800,000 in 2011, \$624,988,000 in 2012 and \$697,642,000 in 2013;
- Net income has been positive for 4 out of 5 years: \$117,500,000 in 2009, \$82,600,000 in 2010, (\$81,900,000) in 2011, \$52,300,000 in 2012 and \$124,167,000 in 2013;
- Argo Group has shown underwriting stability since 2009, with loss ratios less than 80% in each of the last 5 years except 2011: 57.0% in 2009, 65.4% in 2010, 93.7% in 2011, 63.6% in 2012 and 54.4% in 2013;
- Combined ratios have strayed above 100% over the past four of five years, but solid investment income has offset these losses.

2.10 PPI 9969 (Pioneer)

General

Pioneer Underwriters is a Lloyd's Syndicate and benefits from the Financial Strength rating of Lloyd's. It is an underwriting group within Minova Insurance Holdings Ltd (not rated), launched in April 2011 and trades as both a risk carrier and MGA/MGU. Pioneer underwrites on behalf of a panel of 25 Lloyd's and non-Lloyd's carriers as well as Lloyd's Incidental Syndicate Number 1980 managed in conjunction with Liberty Managing Agency Limited, with capital support from the Pioneer Underwriting Guernsey Limited (not rated), Qatar Reinsurance Company LLC [Best rated A (Excellent)] and Liberty Specialty Markets. Pioneer Underwriters manage in excess of £150m of program, direct and reinsurance premium via ten underwriting teams across Property, Marine and Casualty classes.

Stock Performance

N/A

Highlights of A.M. Best Report

N/A

Financial Highlights

N/A

2.11 AGD 2526 (A.G. Doré)

General

Following seven successful years under the management of Alterra at Lloyd's Ltd. (and its predecessor companies), the Syndicate has transferred under a novation agreement to Asta Managing Agency Limited (predecessor Whittington Capital Management Limited, not rated) from 1st January 2011. As part of such novation, Doré Underwriting Services Ltd. has been established as the new, independently owned services company providing the underwriting resource to the Syndicate, which under a turnkey agreement with Asta Managing Agency Limited should ultimately become its own managing agency.

The Syndicate first began writing specialist Professional Indemnity and Medical Malpractice insurance at Lloyd's for the 2004 year of account. Since its inception, the Syndicate has grown in terms of capacity and personnel, and in 2011 the Syndicate implemented its expansion plans and diversified into Directors & Officers Liability and Financial Institutions insurance with an increased stamp capacity of £50m. Continued controlled growth over the coming years is planned as part of the longer term aim to become a stand-alone managing agency.



The Syndicate has successfully developed strong relationships with Lloyd's, the London Market and select UK regional and international brokers, and through this network provides bespoke solutions to its policyholders. The business is predominantly underwritten by experienced decision-makers at Syndicate level in London and some business is delegated to intermediaries under controlled binding authorities. Business is underwritten both via the Box on Gallery One and the Box on Gallery Two at Lloyd's and from the City office in No.2 Minster Court via the Syndicate's Service Company, Doré Underwriting.

As a Lloyd's Syndicate, A.G. Doré & Others benefits from Lloyd's worldwide licenses and has business plan approval from the Franchise Board to write risks domiciled in the UK, Europe, Australia, Canada, the Caribbean, South America and other selected territories worldwide.

Stock Performance

N/A

Highlights of A.M. Best Report

N/A

Financial Highlights

N/A



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



Dawson House
5 Jewry Street
London EC3N 2PJ
Tel: +44 (0)20 7488 2345
Fax: +44 (0)20 7410 2757
www.miller-insurance.com

Nicholas J. Leblovic
Chairman
Canadian Lawyers Liability Assurance Society
Suite 2900
250 Yonge Street
Toronto
Ontario M5B 2L7
Canada

5th June 2009

Dear Nick

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

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

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

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

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

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

Yours sincerely

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

Mark Popple
Director – Professional Risks

Encl.

APPENDIX C
CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
REINSURERS' SECURITY RATING

Reinsurer	Registered Status	A.M. Best			S&P		
		July 2014 Rating		December 2013 Rating	July 2014 Rating		December 2013 Rating
		Rating	Change from Last Rating	Rating	Rating	Change from Last Rating	Rating
Lloyd's	Reigstered	A (Excellent)/Positive	Unchanged	A (Excellent)/Positive	A+ (Strong)/Positive	Outlook Upgraded	A+ (Strong)/Stable
Aspen Re	Registered	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	A (Strong)/Stable	Unchanged	A (Strong)/Stable
Hannover Rueck	Registered	A+ (Superior)/Stable	Unchanged	A+ (Superior)/Stable	AA- (Very Strong)/Stable	Unchanged	AA- (Very Strong)/Stable
Transatlantic Reinsurance Company (UK)	Registered	A (Excellent)/Positive	Outlook Upgraded	A (Excellent)/Stable	A+ (Strong)/Stable	Unchanged	A+ (Strong)/Stable
Arch Insurance Company (Canada Branch)	Registered	A+ (Superior)/Stable	Unchanged	A+ (Superior)/Stable	A+ (Strong)/Stable	Unchanged	A+ (Strong)/Stable
Allied World Assurance Company Ltd.	Unregistered	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	A (Strong)/Stable	Unchanged	A (Strong)/Stable
CRC (Bermuda) Reinsurance Ltd.	Unregistered						
RSA Insurance Group (formerly GCAN Insurance Company)	Registered				A (Strong)/Stable	Outlook Upgraded	A (Strong)/Negative
SCOR Canada Reinsurance Company	Registered	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	A+ (Strong)/Positive	Outlook Upgraded	A+ (Strong)/Stable
Swiss Reinsurance Company Ltd. (Canada Branch)	Registered	A+ (Superior)/Stable	Unchanged	A+ (Superior)/Stable	AA- (Very Strong)/Stable	Unchanged	AA- (Very Strong)/Stable
Toa Reinsurance Company of America	Registered	A+ (Superior)/Stable	Unchanged	A+ (Superior)/Stable	A+ (Strong)/Stable	Unchanged	A+ (Strong)/Negative
Alleghany Corporation (formerly Transatlantic Reinsurance Company) (Parent)	Registered	bbb+	Unchanged	bbb+	BBB/Stable	Unchanged	BBB/Stable
Transatlantic Reinsurance Company (Canada)	Registered	A (Excellent)/Positive	Outlook Upgraded	A (Excellent)/Stable	A+ (Strong)/Stable	Unchanged	A+ (Strong)/Stable
Colchester Reinsurance Ltd.	Unregistered						
Munich Re	Registered	A+ (Superior)/Stable	Unchanged	A+ (Superior)/Stable	AA-(Very Strong)/Stable	Unchanged	AA-(Very Strong) Stable
Argo Group Operating Subsidiaries (AMA 1200 Parent)	Registered	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	A- (Strong)/Stable	Outlook Upgraded	A- (Strong)/Negative
Axis Reinsurance Company	Registered	A+ (Superior)/Stable	Unchanged	A+ (Superior)/Stable	A+ (Strong)/Stable	Unchanged	A+ (Strong)/Stable
Continental Casualty Company (CNA)	Registered	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	A (Strong)/Positive	Unchanged	A (Strong)/Positive
Allianz Global Risks	Registered	A+ (Superior)/Stable	Unchanged	A+ (Superior)/Stable	AA (Very Strong)/Stable	Outlook Upgraded	AA (Very Strong)/Stable

Shaded areas indicate ratings were not available

CLLAS Reinsurance

Appendix D

Top 25 Reinsurers by % of Current Liability

ALL YEARS

			LAYERS									TOTAL	All-time Percent of Total	Prev. Year Percent of Total	Move- ment?
Watch	Name	Jurisdiction	Reg'd?	\$.975MM	\$4/\$49MM	\$7.5MM	\$12.5MM	\$10MM	\$30/60MM	\$20MM	\$10-60MM				
				XS \$.025MM	XS \$1MM	XS \$5MM	XS \$12.5MM	XS \$25MM	XS \$65MM	XS \$140MM	XS \$160MM				
➡	Underwriters at Lloyd's	London	Yes	0	18,276,611	2,770,102	1,096,484	612,759	102,215	7,326	72,691	22,938,188	31.5%	25.3%	Up
➡	Colchester	Barbados	No	0	10,445,565	0	0	0	0	0	0	10,445,565	14.4%	9.1%	Up
➡	AMA 1200	Lloyd's	Yes	0	9,696,874	0	0	0	1,092	0	0	9,697,967	13.3%	8.2%	Up
➡	AGD 2526	Lloyd's	Yes	0	2,926,457	106,823	0	0	1,162	0	5,933	3,040,376	4.2%	2.0%	Up
	AML 2001	Lloyd's	Yes	0	2,587,409	0	124,556	61,033	0	358	0	2,773,356	3.8%	2.4%	Up
	AFB 623/2623	Lloyd's	Yes	0	0	2,238,897	0	0	6,206	0	0	2,245,103	3.1%	2.9%	Up
	Allianz Global Risks	London	Yes	0	1,663,280	0	0	0	0	0	0	1,663,280	2.3%	0.7%	Up
	Transatlantic Reinsurance Company (Combined)	Combined	Yes	0	453,998	663,224	516,932	5,156	0	0	0	1,639,310	2.3%	3.6%	Down
	AUL 1274	Lloyd's	Yes	0	1,421,945	0	0	0	0	0	0	1,421,945	2.0%	1.3%	Up
	Aspen Re	London	Yes	0	0	799,736	373,738	114,948	0	0	0	1,288,423	1.8%	2.3%	Down
	Transatlantic Reinsurance Company (Canada)	Canada	Yes	0	453,998	452,491	361,767	0	0	0	0	1,268,256	1.7%	2.4%	Down
	Scor Re.	Canada	Yes	0	0	505,397	543,857	179,536	15,455	420	0	1,244,665	1.7%	2.0%	Down
	PEM 4000	Lloyd's	Yes	0	780,206	0	227,379	0	957	462	6,639	1,015,643	1.4%	1.6%	Down
	Arch	Canada	Yes	0	0	936,364	0	0	0	0	17,748	954,112	1.3%	1.1%	Up
	AXIS Re	Canada	Yes	0	937,635	0	0	0	0	0	9,580	947,215	1.3%	0.8%	Up
➡	PPI 9969	Lloyd's	Yes	0	825,402	0	0	0	0	0	0	825,402	1.1%	0.0%	Up
	Hannover Ruck	London	Yes	0	0	0	780,510	0	0	0	0	780,510	1.1%	1.7%	Down
➡	Swiss Re (Combined)	Combined	Mix	0	0	0	5,398	376,745	65,455	14,423	61,841	523,863	0.7%	1.4%	Down
	MKL 3000	Lloyd's	Yes	0	0	0	258,791	229,513	6,318	0	20,202	514,824	0.7%	1.3%	Down
	MKM 2468	Lloyd's	Yes	0	0	0	260,680	225,950	0	0	2,681	489,312	0.7%	1.4%	Down
	TOA Re.	Canada	Yes	0	0	347,140	141,068	0	0	0	0	488,208	0.7%	0.7%	Down
➡	CRC (Bermuda) Reinsurance Ltd.	Bermuda	No	0	0	327,816	144,685	0	0	0	0	472,501	0.6%	0.8%	Down
➡	Swiss Re (Canada)	Canada	Yes	0	0	0	5,398	337,621	32,661	10,533	10,111	396,324	0.5%	1.2%	Down
	Transatlantic Reinsurance Company (UK)	London	Yes	0	0	210,733	155,164	5,156	0	0	0	371,054	0.5%	1.1%	Down
	SAM 727	Lloyd's	Yes	0	0	278,186	0	0	0	0	0	278,186	0.4%	0.4%	Up

Total Current Liabilities				2,345,095	51,471,038	11,908,545	4,970,261	1,546,036	191,548	58,829	229,524	72,720,876			
Proportional Reinsurance:															
London				0	19,943,223	3,783,910	2,408,857	771,988	110,537	11,216	72,691	27,102,423	37.3%	28.7%	Up
Canada				0	1,674,444	2,283,751	1,075,704	525,535	76,434	11,600	119,232	5,766,700	7.9%	9.0%	Down
Bermuda				0	0	327,816	144,685	0	4,577	36,012	37,602	550,692	0.8%	1.0%	Down
Barbados				0	10,445,565	0	0	0	0	0	0	10,445,565	14.4%	9.1%	Up
Total				0	32,063,231	6,395,477	3,629,246	1,297,523	191,548	58,829	229,524	43,865,379	60.3%	47.8%	Up
CLLAS Proportional Retention				2,345,095	19,407,807	5,513,068	1,341,015	248,513	0	0	0	28,855,497	39.7%	52.2%	Down
➡	Colchester Loss Portfolio Transfer & Stop Loss			1,537,154	19,407,807	5,513,068	1,341,015	248,513	0	0	0	28,047,556	38.6%	51.8%	Down
CLLAS Net Retention												807,941	1.1%	53.4%	Down

CLLAS Reinsurance

Appendix E

Reinsurers by % of Current Liability

CURRENT YEAR (2014/2015)

CURRENT YEAR (2014/2015)				LAYERS				Prev. Year			
				\$.975MM	\$49MM	\$30/60MM	\$10-60MM	Percent of Total	Percent of Total	Move-ment?	
Watch	Name	Jurisdiction	Reg'd?	XS \$.025MM	XS \$1MM	XS \$65MM	XS \$160MM				TOTAL
➡	Underwriters at Lloyd's	London	Yes	0	8,694,580	8,620	16,234	8,719,434	66.5%	58.3%	Up
➡	AMA 1200	Lloyd's	Yes	0	3,655,504	0	0	3,655,504	27.9%	28.8%	Down
➡	Colchester	Barbados	No	0	2,520,168	0	0	2,520,168	19.2%	28.8%	Down
➡	PPI 9969	Lloyd's	Yes	0	1,641,890	0	0	1,641,890	12.5%	6.1%	Up
➡	AGD 2526	Lloyd's	Yes	0	1,411,294	0	763	1,412,057	10.8%	9.8%	Up
	AML 2001	Lloyd's	Yes	0	1,165,578	0	0	1,165,578	8.9%	8.2%	Up
	Allianz Global Risks	London	Yes	0	882,059	0	0	882,059	6.7%	6.3%	Up
	AUL 1274	Lloyd's	Yes	0	820,315	0	0	820,315	6.3%	4.1%	Up
	AXIS Re	Canada	Yes	0	504,034	0	2,706	506,739	3.9%	2.9%	Up
➡	Swiss Re (Combined)	Combined	Mix	0	0	6,857	16,234	23,091	0.2%	0.3%	Down
➡	Westport Insurance Corp. (Swiss Re)	Canada	Yes	0	0	6,857	16,234	23,091	0.2%	0.3%	Down
	BRT 2987	Lloyd's	Yes	0	0	4,506	5,465	9,971	0.1%	0.1%	Down
	Gerling Global Re	Canada	Yes	0	0	784	5,411	6,195	0.0%	0.1%	Down
➡	AWAC	Bermuda	No	0	0	2,351	3,788	6,139	0.0%	0.1%	Down
	MKL 3000	Lloyd's	Yes	0	0	1,142	3,620	4,762	0.0%	0.1%	Down
	RSA (Combined)	Combined	Yes	0	0	0	4,329	4,329	0.0%	0.0%	Up
	Royal & Sun Alliance Co. of Canada	Canada	Yes	0	0	0	4,329	4,329	0.0%	0.0%	Down
	Catlin (Combined)	Combined	Yes	0	0	1,428	2,706	4,134	0.0%	0.0%	Up
	SAL 1206	Lloyd's	Yes	0	0	886	2,841	3,726	0.0%	0.1%	Down
	Catlin Canada	Canada	Yes	0	0	980	2,706	3,685	0.0%	0.0%	Up
	Arch	Canada	Yes	0	0	0	2,706	2,706	0.0%	0.0%	Down
	PEM 4000	Lloyd's	Yes	0	0	443	1,640	2,082	0.0%	1.0%	Down
	FDY 435	Lloyd's	Yes	0	0	590	952	1,542	0.0%	0.0%	Down
	Barbican 1955	Lloyd's	Yes	0	0	263	952	1,215	0.0%	0.0%	Down
	SJC 2003	Lloyd's	Yes	0	0	449	0	449	0.0%	0.0%	Down
	AFB 623/2623	Lloyd's	Yes	0	0	343	0	343	0.0%	0.0%	Down

Total Current Liabilities	427,902	12,600,841	19,591	54,113	13,102,447				
Proportional Reinsurance:									
London	0	9,576,639	8,620	16,234	9,601,493	73.3%	59.8%	Up	
Canada	0	504,034	8,620	34,091	546,745	4.2%	3.4%	Up	
Bermuda	0	0	2,351	3,788	6,139	0.0%	0.2%	Down	
Barbados	0	2,520,168	0	0	2,520,168	19.2%	33.5%	Down	
Total	0	12,600,841	19,591	54,113	12,674,545	96.7%	97.0%	Down	
CLLAS Proportional Retention	427,902	0	0	0	427,902	3.3%	3.0%	Up	
➡ Colchester Aggregate					0	0.0%	0.0%	Zero	
CLLAS Net Retention					427,902	3.3%	3.0%	Up	

CLLAS Reinsurance


Appendix F

Reinsurers by % of Single Claim Exposure

CURRENT YEAR (2014/2015)

Watch	Name	Jurisdiction	Reg'd?	LAYERS				TOTAL	Percent of Total	Prev. Year	
				\$.975MM	\$.49MM	\$.30/60MM	\$.10-60MM			Percent of Total	Move-ment?
				XS \$.025MM	XS \$1MM	XS \$65MM	XS \$160MM				
➔	Underwriters at Lloyd's	London	Yes	0	33,810,000	13,200,000	18,000,000	65,010,000	46.4%	45.8%	Up
➔	Swiss Re (Combined)	Combined	Mix	0	0	10,500,000	18,000,000	28,500,000	20.4%	19.1%	Up
➔	Westport Insurance Corp. (Swiss Re)	Canada	Yes	0	0	10,500,000	18,000,000	28,500,000	20.4%	19.1%	Up
➔	AMA 1200	Lloyd's	Yes	0	14,214,900	0	0	14,214,900	10.2%	10.7%	Down
	BRT 2987	Lloyd's	Yes	0	0	6,900,000	6,060,000	12,960,000	9.3%	8.1%	Up
➔	Colchester	Barbados	No	0	9,800,000	0	0	9,800,000	7.0%	10.5%	Down
➔	AWAC	Bermuda	No	0	0	3,600,000	4,200,000	7,800,000	5.6%	5.6%	Unchanged
	Gerling Global Re	Canada	Yes	0	0	1,200,000	6,000,000	7,200,000	5.1%	6.0%	Down
➔	PPI 9969	Lloyd's	Yes	0	6,384,700	0	0	6,384,700	4.6%	2.2%	Up
➔	AGD 2526	Lloyd's	Yes	0	5,488,000	0	846,000	6,334,000	4.5%	4.6%	Down
	MKL 3000	Lloyd's	Yes	0	0	1,749,000	4,014,000	5,763,000	4.1%	5.0%	Down
	Catlin (Combined)	Combined	Yes	0	0	2,187,000	3,000,000	5,187,000	3.7%	0.0%	Up
	AXIS Re	Canada	Yes	0	1,960,000	0	3,000,000	4,960,000	3.5%	3.2%	Up
	RSA (Combined)	Combined	Yes	0	0	0	4,800,000	4,800,000	3.4%	0.0%	Up
	Royal & Sun Alliance Co. of Canada	Canada	Yes	0	0	0	4,800,000	4,800,000	3.4%	3.4%	Unchanged
	AML 2001	Lloyd's	Yes	0	4,532,500	0	0	4,532,500	3.2%	3.0%	Up
	SAL 1206	Lloyd's	Yes	0	0	1,356,000	3,150,000	4,506,000	3.2%	4.3%	Down
	Catlin Canada	Canada	Yes	0	0	1,500,000	3,000,000	4,500,000	3.2%	0.0%	Up
	Allianz Global Risks	London	Yes	0	3,430,000	0	0	3,430,000	2.5%	2.3%	Up
	AUL 1274	Lloyd's	Yes	0	3,189,900	0	0	3,189,900	2.3%	1.5%	Up
	Arch	Canada	Yes	0	0	0	3,000,000	3,000,000	2.1%	3.4%	Down
	PEM 4000	Lloyd's	Yes	0	0	678,000	1,818,000	2,496,000	1.8%	2.4%	Down
	FDY 435	Lloyd's	Yes	0	0	903,000	1,056,000	1,959,000	1.4%	1.6%	Down
	Barbican 1955	Lloyd's	Yes	0	0	402,000	1,056,000	1,458,000	1.0%	1.2%	Down
	SJC 2003	Lloyd's	Yes	0	0	687,000	0	687,000	0.5%	0.6%	Down
	AFB 623/2623	Lloyd's	Yes	0	0	525,000	0	525,000	0.4%	0.4%	Down

Maximum Exposure Any One Claim	975,000	49,000,000	30,000,000	60,000,000	139,975,000			
Proportional Reinsurance:								
London	0	37,240,000	13,200,000	18,000,000	68,440,000	48.9%	44.2%	Up
Canada	0	1,960,000	13,200,000	37,800,000	52,960,000	37.8%	32.6%	Up
Bermuda	0	0	3,600,000	4,200,000	7,800,000	5.6%	10.3%	Down
Barbados	0	9,800,000	0	0	9,800,000	7.0%	12.3%	Down
Total	0	49,000,000	30,000,000	60,000,000	139,000,000	99.3%	99.3%	Unchanged
CLLAS Proportional Retention	975,000	0	0	0	975,000	0.7%	0.7%	Unchanged
➔ Colchester Aggregate					n/a	n/a	n/a	
CLLAS Net Retention					975,000	0.7%	0.7%	Unchanged

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Best's Credit Rating and Report Updates for ALLIED WORLD ASSURANCE COMPANY, LTD

Best's Rating of A (Excellent)
Financial Size Category of XV (\$2 Billion or greater)

Rating Category (Excellent): Assigned to companies that have, in our opinion, an excellent ability to meet their ongoing insurance obligations. A.M. Best assigns each letter rated (A++ through D) insurance company a **Financial Size Category (FSC)**, which is designed to provide a convenient indicator of the size of a company based on reported policyholders' surplus and conditional or reserve funds.

The objective of **Best's Credit Rating System** is to provide an opinion of an insurer's financial strength and ability to meet ongoing obligations to policyholders. Our opinions are derived from the evaluation of a company's balance sheet strength, operating performance and business profile as compared to Best's quantitative and qualitative standards. View our [Best's Credit Rating Methodology](#) for more information.

While Best's Credit Ratings reflect our **opinion** of a company's financial strength and ability to meet its ongoing obligations to policyholders, they are **not a warranty**, nor are they a recommendation of a specific policy form, contract, rate or claim practice. View our [entire notice](#) for complete details.

The rating symbols "A++", "A+", "A", "A-", "B++", and "B+" are registered certification marks of the A.M. Best Company, Inc.

Note: The above information reflects the most recent Best's Credit Rating for this company, which may have been released subsequent to the creation of the following AMB Credit Report - Insurance Professional.

AMB Credit Report - Insurance Professional provides detailed business overview, extensive financial data and analytical commentary, product and geographic information, company history, as well as the rationale supporting the financial strength rating assigned by A.M. Best. These reports are updated on a regular basis based on input and analysis performed throughout the year.

Report Revision Date - 11/13/2013 *

The **Report Revision Date** * represents the last significant material change made to this report. Other non-material changes may have been made to this report subsequent to this date, but are not reflected in the report revision date. The AMB Credit Report - Insurance Professional below was created based on the following dates.

Rating and Commentary ¹	Financial ²	General Information ³
Best's Credit Rating: 11/13/2013	Time Period: Annual - 2012	Corporate Structure: N/A
Rating Rationale: 11/13/2013	Last Updated: 05/29/2013	States Licensed: N/A
Report Commentary: 12/12/2012	Status: Quality Cross Checked	Officers and Directors: 06/12/2013

***Note:** The **Rating and Commentary** ¹ dates outline the most recent updates to the company's Best's Credit Rating, Rating Rationale, and Report Commentary for key rating and business changes. Report Commentary may include significant changes to the Business Profile, Risk Management, Operating Performance, Balance Sheet Strength, or Reinsurance sections of the report. The **Financial** ² dates reflect the current status of the financial tables and charts found within the AMB Credit Report, including whether the data was loaded "As Received" or had been run through A.M. Best "Quality Cross Checks". The **General Information** ³ dates cover key changes made to Corporate Structure, States Licensed, or Officers and Directors.

**AMB Credit Report - Insurance Professional for
ALLIED WORLD ASSURANCE COMPANY, LTD**

Operating Company Non-Life

Ultimate Parent: Allied World Assurance Co Holdings AG

27 Richmond Road, Pembroke HM 08, Bermuda

Web: www.awac.com

Tel: 441-278-5400

Fax: 441-296-3428

AMB#: 084808

AIIN#: AA-3194128

Ultimate Parent#: 058218

Report Revision Date: 11/13/2013

BEST'S CREDIT RATINGS

Best's Financial Strength Rating: A

Outlook: Stable

Best's Issuer Credit Rating: a+

Outlook: Stable

Best's Financial Size Category: XV

RATING RATIONALE

Rating Rationale: Allied World is a property/casualty insurer/reinsurer with significant geographic reach. The ratings reflect the company's diversified mix of business, excellent risk-adjusted capitalization, experienced management team and comprehensive enterprise risk management framework. The stable outlook on the company's Issuer Credit Rating reflects Allied World's consistently strong operating performance, proven risk management culture and successful track record of expansion in terms of geography, products and distribution. These positive rating attributes have placed Allied World in a very strong position to successfully execute its business plans. The breadth of Allied World's operations has been enhanced while it has delivered strong results over the long term.

Partially offsetting these positive rating factors is Allied World's casualty orientation, as pricing for this class of business is cyclical and presently very competitive. The longer-tail nature of this business lends to greater uncertainty as regards to rate adequacy, which is exacerbated by the current low interest rate environment. Nonetheless, Allied World has chosen a targeted business strategy, while taking steps to refine its cycle management capability. Allied World's continued focus on casualty business also has helped to limit its exposure to the global catastrophes that have taken place over the past few years. Furthermore, Allied World appears to have a prudent reserving philosophy, maintaining a significant cushion of incurred but not reported reserves. This conservative reserving posture has enabled the company to consistently recognize favorable loss reserve development for several years, which has contributed to its strong operating returns through the current soft phase of the casualty market. Accordingly, the outlook is medium term in nature to allow more recent accident years to mature given the current soft pricing dynamics of the casualty market.

Factors that could lead to Allied World's ratings being upgraded would be the continuation of long-term, consistently strong operating profitability and maintaining excellent risk-adjusted capital levels commensurate with its ratings. If Allied World can sustain its historical results going forward, the company will have demonstrated it has built a business model that is well established to withstand varying market conditions and support a higher financial strength rating.

Factors that could lead to the company's ratings being downgraded and/or receiving a negative outlook include unfavorable operating profitability trends, outsized insurance or investment losses, any future shortfall in reserves and a substantial decline in risk-adjusted capital that would not be supportive of the current rating levels.

FIVE YEAR RATING HISTORY

<u>Date</u>	BEST'S	
	<u>FSR</u>	<u>ICR</u>
11/13/13	A	a+
11/15/12	A	a
10/25/11	A	a
08/24/10	A	a
07/15/09	A	a

RATING UNIT MEMBERS

Allied World Assurance Company, Ltd

(AMB# 084808):

<u>AMB#</u>	<u>COMPANY</u>	BEST'S	
		<u>FSR</u>	<u>ICR</u>
083090	Allied World Asr Co (Europe)	A	a+
012525	Allied World Asr Co (US) Inc	A	a+
013865	Allied World Insurance Co	A	a+
012526	Allied World National Assur Co	A	a+
012699	Darwin National Assurance Co	A	a+
011719	Darwin Select Insurance Co	A	a+
011219	Vantapro Specialty Ins Co	A	a+

BUSINESS PROFILE

Allied World Assurance Company, Ltd (Allied World), has established itself as a Bermuda-based specialty insurance and reinsurance company that underwrites a diversified portfolio of property and casualty insurance and reinsurance lines of business. The company writes direct property and casualty insurance as well as reinsurance through operations in Bermuda, Europe, Hong Kong, Lloyd's, Singapore and the United States. The company's ultimate parent, Allied World Assurance Company Holdings, AG is domiciled in Switzerland.

Management monitors the performance of its direct underwriting operations based on the geographic location of the company's offices, the markets and customers served and the type of

accounts written. The company's three operating segments are U.S. Insurance, International Insurance and Reinsurance.

The U.S. Insurance segment includes the company's direct specialty insurance operations in the United States. This segment provides both direct property and specialty casualty insurance to small to middle-market, non-Fortune 1000 North American-domiciled accounts. The segment operates in the excess and surplus lines and admitted segments of the U.S. market with particular emphasis on healthcare and professional liability risks. The company has established regional offices in Atlanta, Boston, Chicago, Costa Mesa (CA), Dallas, Farmington (CT), Los Angeles, New York City, Philadelphia and San Francisco.

The International Insurance segment includes the company's direct insurance operations in Bermuda, Europe and Asia. This segment provides both direct property and casualty insurance primarily to Fortune 1000 North American-domiciled accounts and mid-sized to large European and multi-national companies domiciled outside of North America. This segment is also diversifying into smaller and middle-market accounts. In June 2010, the company announced the formation of Syndicate 2232 at Lloyd's of London. The syndicate is managed by Capita Managing Agency Limited, a subsidiary of The Capita Group Plc, which is authorized by the Prudential Regulation Authority in the United Kingdom. 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 company'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 professional liability, specialty casualty, property, accident and accident and health. The company's U.S. operations operate out of New York City and focus on general casualty, professional liability and property coverages. The company's Bermuda operation focuses on property catastrophe, property treaty and specialty casualty coverages. During 2008, the company opened an office in Zug, Switzerland, that offers property, general casualty and professional liability products throughout Europe. Syndicate 2232 also offers international treaty reinsurance. During 2009, the company expanded its reinsurance operations in Asia with its Singapore office which serves as the company's hub for all classes of treaty reinsurance for the region. In 2012, the company opened a Miami office in order to further expand its reinsurance operations in Latin America.

Responsibility and accountability for the results of underwriting operations are assigned by major line of business within each of the operating segments.

The company 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. The distribution network for healthcare and professional liability products grew significantly with the acquisition of Darwin in 2008 and a number of those brokers also produce policies through the company's proprietary i-bind® platform for quoting and binding via the Internet. Reinsurance is mostly placed through a small group of nationally known reinsurance brokers although the company continues to build relationships with smaller distribution partners.

RISK MANAGEMENT

Allied World is viewed as a relatively conservative organization and a comprehensive risk management framework is in place. Allied World's enterprise risk management ("ERM") consists of numerous processes and controls that have been designed by senior management, with oversight by the Board of Directors, including through its Enterprise Risk Committee, 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 internal audit department.

Regulatory and Accounting Environment: Insurance companies in Bermuda are regulated by the Insurance Division of the Bermuda Monetary Authority. In Bermuda, there are no taxes on profits, income, dividends or capital gains. There is only a licensing fee which is dependent upon the level of authorized capital. Exempted companies are able to enter an agreement with the government whereby any such taxes imposed in the future would not be applicable until March 31, 2035. Allied World has entered into such an agreement with the Bermudian government.

The Insurance Act provides that the statutory assets of an insurer must exceed its statutory liabilities by an amount greater than the prescribed minimum solvency margin, which for a Class 4 insurer such as Allied World is the greatest of \$100 million, 50% of net premiums written or 15% of net losses and loss expense reserves.

OPERATING PERFORMANCE

Operating Results: Overall financial performance has been consistently strong since the company's inception in 2001. The company has generated industry leading operating returns over the recent five-year period while operating leverage measures have generally been conservative. Underwriting and investment results have been strong despite the competitive landscape, financial turbulence and the catastrophe activity. Catastrophe losses have been in line with the company's risk appetite and reflect its casualty orientation. In 2008, the company did sustain significant realized investment losses as a result of the turmoil in the financial markets, but on a relative basis Allied World was one of just a few companies in its peer group to generate a positive total investment return for that year.

Overall, A.M. Best continues to be encouraged by the company's operating trends, market acceptance and successful recruitment. In recent years, Allied World has expanded the breadth of its operations while delivering strong operating performance.

Underwriting Results: Performance in recent years has been strong, attributed to the company's catastrophe losses being at the low end of its peer group as well as strong underwriting results that have been aided by significant favorable loss reserve development. Over the recent five-year period (2008 - 2012) the company's reported combined ratio has been amongst the best of its peer group. Going forward though, A.M. Best anticipates that the company will not experience the

same level of favorable loss reserve development. As the casualty market continues to soften and reserve releases begin to diminish, the company's operating results could be dampened.

The company's expense ratio has decreased in recent years as the company builds scale and compare favorably with its peers.

BALANCE SHEET STRENGTH

Capitalization: Based on Best's Capital Adequacy Ratio (BCAR) analysis, Allied World maintains excellent capitalization for its current rating level.

In May 2010, the company announced that its board of directors had authorized the company to repurchase up to \$500 million in the company's common shares through a share repurchase program. This repurchase program was fully exhausted by 2012. Additionally, in May 2012, a new, two-year \$500 million share repurchase program was implemented. As of March 31, 2013, \$374 million authorization remains under this program.

In 2010, the company repurchased \$505 million of shares and warrants from founders, including affiliates of The Goldman Sachs Group, Inc. and the Chubb Corporation, which were founding shareholders of Allied World. All founding shareholders have now been bought out. In 2007, the company purchased \$563.4 million of common shares from American International Group, Inc., also one of the company's founding shareholders.

In November 2010, the company issued \$300 million in ten-year senior notes. In July 2006, the company issued \$500 million in ten-year senior notes.

Liquidity: Allied World has had solid operating cash flows since inception due to both its casualty orientation and its strong underwriting performance. The company maintains a conservative investment strategy specifically focused on preserving the value of invested assets while providing sufficient liquidity to pay claims promptly. The investment portfolio is mostly comprised of high quality corporate and government bonds along with mortgage and asset-backed securities. The average duration of the portfolio is approximately 2 years which is relatively short when compared with the company's casualty insurance focus. This is due to the company's defensive posture regarding a potential rise in interest rates. With a modest commitment for debt service at the holding company level, the company retains adequate levels of cash to meet forecasted requirements.

Allied World holds approximately 6% of its investment portfolio in hedge funds. The funds' objectives are generally to seek attractive long-term returns with lower volatility by investing in a range of diversified investment strategies. Allied World's investment strategy allows the use of derivatives to manage the duration and foreign currency exposures. High standards are imposed for the credit quality of counterparties in all derivative transactions including carrying investment grade ratings and maintaining a recognized standing in the financial markets. Investment advisory and management services are provided to the company through Investment Management Agreements with various investment managers.

Summarized Accounts as of December 31, 2012

Data reflected within all tables of this report has been compiled from the consolidated financial statements of this company (Source: Company Financial Statement).

ASSETS

	12/31/2012 USD(000)	12/31/2012 % of total	12/31/2011 USD(000)
Cash and equivalents	736,468	6.3	555,231
Long term fixed maturity investments	6,453,484	55.2	6,446,289
Equity investments	523,949	4.5	367,483
Other investments	700,002	6.0	540,409
Invested assets	7,677,435	65.7	7,354,181
Receivables	1,257,470	10.8	1,226,980
Reinsurance recoverable	1,126,724	9.6	992,187
Deferred policy acquisition cost	104,821	0.9	97,417
Goodwill & other intangibles	319,740	2.7	322,274
Other assets	462,965	4.0	316,798
Total assets	11,685,623	100.0	10,865,068

LIABILITIES & SURPLUS

	12/31/2012 USD(000)	12/31/2012 % of total	12/31/2011 USD(000)
Property / Casualty reserves	5,564,719	47.6	5,170,184
Unearned premium reserves	1,172,393	10.0	1,044,240
Total policy reserves	6,737,112	57.7	6,214,424
Other liabilities	982,984	8.4	834,621
Total liabilities	7,720,096	66.1	7,049,045
Equity - common stock	1,000	0.0	1,000
Paid-in capital	2,001,133	17.1	1,996,504
Accumulated other comprehensive income	...	...	14,484
Retained earnings	1,963,394	16.8	1,804,035
Total equity	3,965,527	33.9	3,816,023
Total liabilities & equity	11,685,623	100.0	10,865,068

STATEMENT OF INCOME

	12/31/2012 USD(000)	12/31/2011 USD(000)
Direct premiums written	1,526,246	1,333,958
Reins assumed	736,366	538,654
Gross premiums written	2,262,612	1,872,612

Reins ceded	479,738	395,122
Net premiums written	1,782,874	1,477,490
Change in unearned premiums	78,475	57,097
Net premiums earned	1,704,399	1,420,393
Net investment income	165,373	195,282
Net realized gains/(losses)	304,505	9,375
Other revenue	1,044	574
Total revenue	2,175,321	1,625,624
Benefits & reserves	1,115,031	914,124
Operating expenses	467,726	433,883
Non-operating expenses	1,472	1,992
Total benefits & expenses	1,584,229	1,349,999
Earnings before interest & taxes (EBIT)	591,092	275,625
Pre-tax income/(loss) from continuing operations	591,092	275,625
Total taxes	16,733	23,004
Net income/(loss) before minority interest	574,359	252,621
Net income/(loss) from continuing operations	574,359	252,621
Net income/(loss)	574,359	252,621

STATEMENT OF CHANGES IN EQUITY

	12/31/2012 USD(000)	12/31/2011 USD(000)
Common shares, beginning balance	1,000	1,000
Common shares, ending balance	1,000	1,000
Paid-in capital - Beg bal	1,996,504	1,979,941
Paid-in capital - other	4,629	16,563
Paid-in capital - End bal	2,001,133	1,996,504
AOCI - beginning balance	14,484	57,135
AOCI - change in unrealized gains/losses on investments	-14,484	-42,651
AOCI - ending balance	...	14,484
Retained earnings, beginning balance	1,804,035	1,607,398
Retained earnings, net income	574,359	252,621
Retained earnings, common dividends	415,000	55,984
Retained earnings, ending balance	1,963,394	1,804,035
Total shareholder equity	3,965,527	3,816,023

STATEMENT OF CASH FLOWS

	12/31/2012	12/31/2011
	USD(000)	USD(000)
Net cash provided/(used) in operating activities	550,481	503,001
Net cash provided/(used) in investment activities	-55,294	-454,846
Net cash provided/(used) in financing activities	-415,000	-55,890
Effect of exchange rates on cash	372	499
Total increase (decrease) in cash	80,559	-7,236
Cash, beginning balance	472,958	480,194
Cash, ending balance	553,517	472,958

HISTORY

Allied World was incorporated in Bermuda on November 13, 2001, and is a wholly owned subsidiary of Allied World Assurance Company Holdings, AG, which is domiciled in Switzerland. Allied World began operations on November 21, 2001, as a registered Class 4 Bermuda insurance and reinsurance company and is subject to regulation and supervision in Bermuda under the Insurance Act of 1978 of Bermuda and its related regulations.

MANAGEMENT

OFFICERS

President: Frank N. D'Orazio (Bermuda & International Insurance)

EVP and Actuary: Marshall Grossack

EVP and CFO: Thomas A. Bradley

EVP: Thomas McKevitt (Bermuda Reinsurance)

EVP, Secretary and General Counsel: Wesley D. Dupont

DIRECTORS

Thomas A. Bradley
Scott A. Carmilani

Frank N. D'Orazio
Wesley D. Dupont

REINSURANCE

Allied World provides reinsurance agreements to its operating affiliates. Under these agreements, the group's affiliates generally cede between 70% and 85% of their business to Allied World on a quota share basis. The agreements apply to all lines of business written by the affiliates and remain in force until terminated with proper notification.

BALANCE SHEET ITEMS

	USD (000) <u>2012</u>	USD (000) <u>2011</u>	USD (000) <u>2010</u>	USD (000) <u>2009</u>	USD (000) <u>2008</u>
Invested assets	7,677,435	7,354,181	7,183,554	7,156,263	6,328,156
Total assets	11,685,623	10,865,068	10,126,393	9,605,489	8,733,539
Total liabilities	7,720,096	7,049,045	6,480,919	5,924,931	5,846,540
Total equity	3,965,527	3,816,023	3,645,474	3,680,558	2,886,999
Total capital	3,965,527	3,816,023	3,645,474	3,680,558	2,886,999

INCOME STATEMENT ITEMS

	USD (000) <u>2012</u>	USD (000) <u>2011</u>	USD (000) <u>2010</u>	USD (000) <u>2009</u>	USD (000) <u>2008</u>
Gross premiums written	2,262,612	1,872,612	1,740,376	1,696,345	1,445,584
Net premiums written	1,782,874	1,477,490	1,379,918	1,321,125	1,107,228
Net investment income	165,373	195,282	244,106	300,378	307,031
Net realized gains/(losses)	304,505	9,375	289,403	76,775	-272,851
Net income/(loss)	574,359	252,621	735,923	652,987	227,843

LIQUIDITY RATIOS (%)

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Total investments to total reserves	124.9	127.3	133.3	131.5	122.3
Liquid assets to total liabilities	99.9	104.5	114.4	123.2	111.5
Total investments to total liabilities	109.0	112.2	119.7	126.3	115.2
Bonds to total reserves	95.8	103.7	114.5	122.5	110.5

PROFITABILITY RATIOS (%)

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Loss ratio	65.4	64.4	51.8	45.9	57.4
Expense ratio	27.4	30.6	31.3	30.5	26.1
Combined ratio	92.9	94.9	83.0	76.3	83.5
Investment income ratio	9.7	13.8	18.0	22.8	27.5
Return on assets	5.1	2.4	7.5	7.1	2.7
Return on revenues	33.7	17.8	54.3	49.6	20.4
Return on equity	14.8	6.8	20.1	19.9	8.1

LEVERAGE & DEBT RATIOS (%)

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Net premiums written to equity	45.0	38.7	37.9	35.9	38.4
Cash and equivalents to total assets	6.3	5.1	5.7	3.4	4.7

Find out more about our [Market Segment Outlooks](#), indicating the potential future direction of company ratings within a segment over the next 6 to 18 months.

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 Best's 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 Debt/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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AMB Credit Report - Insurance Professional BCR11152013

COLCHESTER REINSURANCE LIMITED

PERIODIC REPORTING PACKAGE

FOR THE TWELVE MONTHS ENDED JUNE 30, 2014

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- 1. BALANCE SHEET**
- 2. STATEMENTS OF INCOME & RETAINED EARNINGS**
- 3. NOTES TO THE FINANCIAL STATEMENTS**

PREPARED BY: AON INSURANCE MANAGERS (BARBADOS) LTI

ACCOUNT EXECUTIVE: WINSTON HAMPDEN

COLCHESTER REINSURANCE LIMITED
UNAUDITED BALANCE SHEET AS AT JUNE 30, 2014
(EXPRESSED IN CANADIAN \$)

		JUNE 30, 2014	JUNE 30, 2013
ASSETS			
Cash at bank - premier accounts		347,004.29	184,140.75
Cash equivalents		0.00	1,497,626.83
Cash & cash equivalents	1	<u>347,004.29</u>	<u>1,681,767.58</u>
Royal Bank of Canada-Investments	2	75,026,271.01	72,015,393.01
Accrued interest receivable	3	410,608.47	427,837.26
Insurance Balances Receivable		0.00	0.00
Provision for Losses Recoverable		6,338,000.00	4,965,000.00
Deferred Reinsurance Premiums	4	0.00	0.00
Prepaid expenses	5	<u>5,579.00</u>	<u>5,060.00</u>
		<u>81,780,458.48</u>	<u>77,413,290.27</u>
TOTAL ASSETS		<u><u>82,127,462.77</u></u>	<u><u>79,095,057.85</u></u>
LIABILITIES			
Insurance balances payable		0.00	(0.00)
Accrued expenses	6	93,199.59	103,529.52
Accounts payable		0.00	0.00
Claims payable		<u>5,637,794.90</u>	<u>373,527.93</u>
		<u>5,730,994.49</u>	<u>477,057.45</u>
RESERVES			
Unearned Premium Reserve	8	0.00	0.00
Outstanding losses	7	16,502,000.00	16,110,000.00
Outstanding losses - I.B.N.R.	7	<u>23,415,000.00</u>	<u>28,960,000.00</u>
		<u>39,917,000.00</u>	<u>45,070,000.00</u>
SHAREHOLDERS EQUITY			
Share capital-common shares		1,100.00	1,100.00
Class A preference shares		3,314,000.00	3,314,000.00
Earned surplus at start of year		31,018,309.84	28,610,411.69
Net profit/(loss) for the period		<u>2,136,707.35</u>	<u>2,407,898.15</u>
		<u>36,470,117.19</u>	<u>34,333,409.84</u>
Accum. Other Comprehensive Income		9,351.09	(785,409.44)
TOTAL SHAREHOLDERS EQUITY		<u><u>36,479,468.28</u></u>	<u><u>33,548,000.40</u></u>
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY			
		<u><u>82,127,462.77</u></u>	<u><u>79,095,057.85</u></u>

COLCHESTER REINSURANCE LIMITED
UNAUDITED STATEMENT OF INCOME
FOR THE PERIOD JULY 1, 2013 TO JUNE 30, 2014
(EXPRESSED IN CANADIAN \$)

	MOVEMENT DURING QTR	12 MONTHS TO JUNE 30 2014	12 MONTHS TO JUNE 30 2013
UNDERWRITING INCOME			
Premiums written	0.00	2,878,831.00	3,390,790.00
Unearned premium transfer	719,707.75	0.00	0.00
GROSS EARNED PREMIUMS	719,707.75	2,878,831.00	3,390,790.00
Reinsurers' ceded premiums	(545,103.30)	(2,180,413.20)	(2,002,541.30)
NET EARNED PREMIUMS	174,604.45	698,417.80	1,388,248.70
TOTAL UNDERWRITING INCOME	174,604.45	698,417.80	1,388,248.70
UNDERWRITING EXPENSES			
Premium Taxes	0.00	0.00	0.00
Net losses paid	5,636,865.59	6,487,865.59	1,601,663.64
Outstanding losses adjustment	(5,297,000.00)	392,000.00	6,424,000.00
Transfer to IBNR	(86,000.00)	(5,545,000.00)	(5,297,000.00)
Transfer to prov. for losses recoverable	(598,000.00)	(1,373,000.00)	(2,421,000.00)
NET INCURRED LOSSES	(344,134.41)	(38,134.41)	307,663.64
OTHER UNDERWRITING EXPENSES			
(see schedule)	18,750.00	75,000.00	75,000.00
TOTAL UNDERWRITING EXPENSES	(325,384.41)	36,865.59	382,663.64
UNDERWRITING PROFIT / (LOSS)	499,988.86	661,552.21	1,005,585.06
GENERAL AND ADMIN EXPENSES			
(see schedule)	53,641.29	195,268.79	437,589.92
	446,347.57	466,283.42	567,995.14
INTEREST INCOME & EXCEPTIONAL ITEMS			
Interest income	564,763.27	2,230,586.45	2,323,450.97
Profit/(loss) on sale of invts	(37,777.00)	(64,728.82)	(37,323.78)
Profit/(loss) on exchange	0.00	0.00	0.00
Amortisation of investments	(44,653.68)	(298,886.04)	(296,563.93)
Investment management fees	(38,456.00)	(152,662.00)	(114,623.00)
Investment Custody Fees	(8,572.99)	(33,246.66)	(24,935.75)
	435,303.60	1,681,062.93	1,850,004.51
NET PROFIT / (LOSS) BEFORE TAX	881,651.17	2,147,346.35	2,417,999.65
INCOME TAX	2,789.50	10,639.00	10,101.50
RETAINED EARNINGS	878,861.67	2,136,707.35	2,407,898.15

COLCHESTER REINSURANCE LIMITED

ANALYSIS OF EXPENSES AS AT JUNE 30, 2014 FOR THE PERIOD JULY 1, 2013 TO JUNE 30, 2014

	MOVEMENT DURING QTR	12 MONTHS TO JUNE 30 2014	12 MONTHS TO JUNE 30 2013
UNDERWRITING EXPENSES			
Brokerage commission	18,750.00	75,000.00	75,000.00
	<u>18,750.00</u>	<u>75,000.00</u>	<u>75,000.00</u>
GENERAL & ADMIN EXPENSES			
Management fees	20,000.00	78,202.50	74,585.00
Directors fees	1,530.00	6,120.00	6,469.71
Audit fees	4,000.00	23,316.97	21,947.20
Actuarial fees	24,121.70	52,897.45	90,924.24
Legal fees	0.00	13,602.55	214,693.22
Insurance Costs - D&O	2,890.62	9,250.00	9,250.00
Secretarial Fees	0.00	5,240.91	2,418.19
Government fees	0.00	0.00	0.00
Bank and L.O.C charges	100.69	976.90	12,678.64
Communication expenses	998.29	3,650.91	2,826.18
Stationary	0.00	0.00	545.83
Travel	0.00	2,011.61	1,251.21
Miscellaneous expenses	(0.01)	(1.01)	0.50
Foreign Exchange	0.00	0.00	0.00
Meeting Expenses	0.00	0.00	0.00
	<u>53,641.29</u>	<u>195,268.79</u>	<u>437,589.92</u>

COLCHESTER REINSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

1. CASH ON DEPOSIT

Royal Bank - Canadian Dollar Call Account	255,786.73
Royal Bank - Premier Canadian Dollar Account	91,217.56
Royal Bank - Time Deposit Account	0.00
	<u>347,004.29</u>

CASH EQUIVALENTS

Cost	0.00
Amortization	0.00
Unrealized gain / (loss)	0.00
	<u>0.00</u>

2. INVESTMENTS

Royal Bank	
Investment at cost	75,335,129.69
Amortization	(318,209.77)
	<u>75,016,919.92</u>
Portfolio at amortized cost	
	<u>75,016,919.92</u>
Unrealized gain / (loss)	9,351.09
Portfolio at market value	<u>75,026,271.01</u>

3. ACCRUED INTEREST RECEIVABLE

Investments - RBC	410,608.47
Royal Bank Time Deposit	0.00
	<u>410,608.47</u>

COLCHESTER REINSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

4. PROVISION FOR LOSS RECOVERABLES (DISCOUNTED)

Canadian Lawyers Liability Assurance Society

U/W Year	CASE RESERVES	IBNR	TOTAL
1999/2000		0.00	0.00
2000/2001		1,000.00	1,000.00
2001/2002	0.00	0.00	0.00
2002/2003	0.00	0.00	0.00
2003/2004	0.00	4,000.00	4,000.00
2004/2005	0.00	3,000.00	3,000.00
2005/2006	0.00	4,000.00	4,000.00
2006/2007	0.00	10,000.00	10,000.00
2007/2008	0.00	9,000.00	9,000.00
2008/2009	0.00	16,000.00	16,000.00
2009/2010	0.00	39,000.00	39,000.00
2010/2011	0.00	69,000.00	69,000.00
2011/2012	0.00	1,501,000.00	1,501,000.00
2012/2013		2,346,000.00	2,346,000.00
2013/2014		2,336,000.00	2,336,000.00
	0.00	6,338,000.00	6,338,000.00

5. DEFERRED REINSURANCE PREMIUMS

Reinsurers' Premium Ceded	(\$2,180,413.21 *6/12)	0.00
		0.00

6. PREPAID EXPENSES

Annual Government Tax	US\$10,000 p.a.	5,579.00
Brokerage Fees	CAD75,000 p.a.	0.00
Secretarial Fees		0.00
D&O Insurance Premiums	CAD9,250 p.a	0.00
		5,579.00

7. ACCOUNTS PAYABLE/ACCRUED EXPENSES

Due to shareholder	0.00
Audit fees - 2013/14	16,000.00
Audit fees - 2012/13	0.00
Management Fees	0.00
Investment Fees	25,642.00
Investment Custody Fees	5,711.64
Brokerage Commission	18,750.00
Actuarial Fees	20,975.95
Director's Fees	6,120.00
Legal Fees	0.00
Annual Government fee	0.00
	93,199.59

COLCHESTER REINSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

8. OUTSTANDING LOSSES (DISCOUNTED)

Canadian Lawyers Liability Assurance Society

U/W Year	CASE RESERVES	IBNR	TOTAL
1996/1997		0.00	0.00
1997/1998		0.00	0.00
1998/1999		0.00	0.00
1999/2000		0.00	0.00
2000/2001		22,000.00	22,000.00
2001/2002	0.00	74,000.00	74,000.00
2002/2003	3,072,000.00	387,000.00	3,459,000.00
2003/2004	0.00	215,000.00	215,000.00
2004/2005	812,000.00	289,000.00	1,101,000.00
2005/2006	50,000.00	347,000.00	397,000.00
2006/2007	0.00	506,000.00	506,000.00
2007/2008	2,097,000.00	597,000.00	2,694,000.00
2008/2009	600,000.00	880,000.00	1,480,000.00
2009/2010	2,837,000.00	2,381,000.00	5,218,000.00
2010/2011	7,034,000.00	4,354,000.00	11,388,000.00
2011/2012	0.00	5,012,000.00	5,012,000.00
2012/2013		4,414,000.00	4,414,000.00
2013/2014		3,937,000.00	3,937,000.00
	16,502,000.00	23,415,000.00	39,917,000.00

9. UNEARNED PREMIUM RESERVE

Premiums	(\$2,781,619.00 * 6/12)	0.00
	(\$97,212 * 6/12)	
		0.00

10. LOSS/EQUITY RATIO

Loss Reserves	39,917,000.00
Shareholder Equity	36,470,117.19
Ratio	109%

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

COLCHESTER REINSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

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 at June 30, 2013		1,388,248.70
Minimum Solvency Margin re (3) above		277,649.74
Total Assets	82,127,462.77	
Less: Non-admitted Assets		
Long Term Investments	0.00	
Prepayments	5,579.00	
Total Admitted Assets	82,121,883.77	
Total Liabilities	45,647,994.49	
Solvency Margin (Excess of Assets over Liabilities)		36,473,889.28
Excess over Minimum Solvency Margin		36,196,239.54
Exchange Rate at Jun 30, 2013		1.052

COLCHESTER REINSURANCE LIMITED
UNDERWRITING ANALYSIS AS AT JUNE 30, 2014
FOR THE PERIOD APRIL 1, 2014 TO JUNE 30, 2014

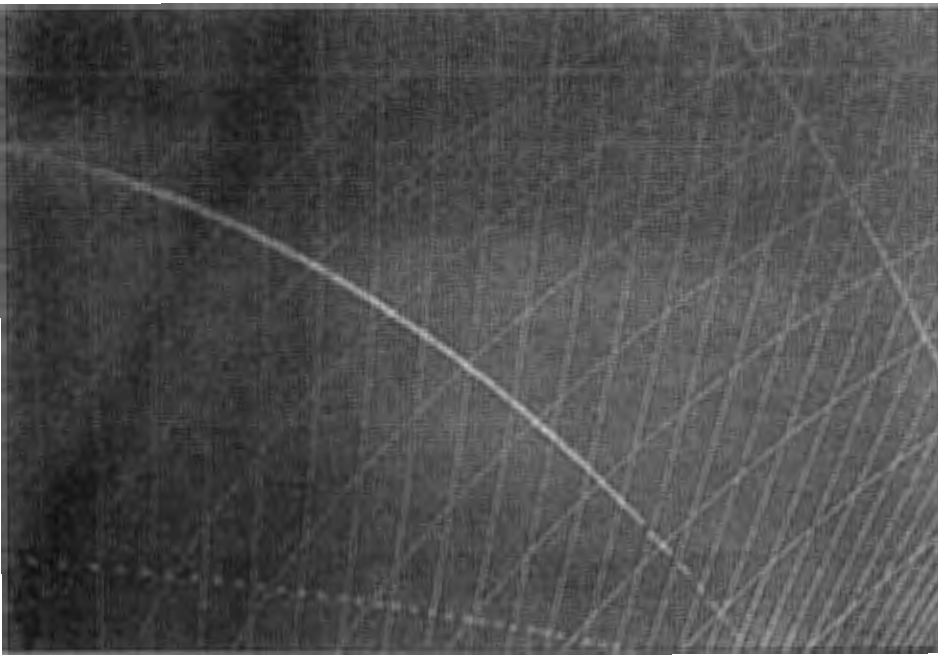
Limits Policy No.	Inward Reinsurance of CLLAS EOL 49Mx1M-30% CLLAS00111	Inward Reinsurance of CLLAS Agg. Stop Loss 10MMx5MM-100% 1-Jul-13 to 30-Jun-14	Outward Retro. of Colchester EOL 5Mx5M-20% PCOL02513	Outward Retro. of Colchester EOL 10Mx10M-10% PCOL02613	Outward Retro. of Colchester EOL 30Mx20M-10% PCOL02713	Outward Retro. of Colchester EOL 40Mx10M-20% PCOL02813	Outward Retro. of Colchester Agg. Stop Loss 15Mx4.75M-100% PCOL01313	Total
Policy Period			1-Jul-13 to 30-Jun-14	1-Jul-13 to 30-Jun-14	1-Jul-13 to 30-Jun-14	1-Jul-13 to 30-Jun-14	1-Jul-13 to Jun-14	
Premiums Written	-	-						-
Trfd from Unearned Prem. Reserve	695,404.75	24,303.00						719,707.75
Premiums Earned	695,404.75	24,303.00						719,707.75
Reinsurance Premiums Ceded								-
Trfd from Deferred Reins. Prem.	-	(118,114.85)	(55,997.81)	(80,705.86)	(215,284.78)	(75,000.00)		(545,103.30)
Reinsurance Premiums Earned	-	(118,114.85)	(55,997.81)	(80,705.86)	(215,284.78)	(75,000.00)		(545,103.30)
Net Premiums Earned								174,604.45

App. 1a

COLCHESTER REINSURANCE LIMITED
UNDERWRITING ANALYSIS AS AT JUNE 30, 2014
FOR THE PERIOD JULY 1, 2013 TO JUNE 30, 2014

Limits Policy No.	Inward Reinsurance of CLLAS EOL 49Mx1M-30% CLLAS00111 1-Jul-13 to 30-Jun-14	Inward Reinsurance of CLLAS Agg. Stop Loss 10MMx5MM-100% PCOL02513 1-Jul-13 to 30-Jun-14	Outward Retro. of Colchester EOL 5Mx5M-20% PCOL02513 1-Jul-13 to 30-Jun-14	Outward Retro. of Colchester EOL 10Mx10M-10% PCOL02613 1-Jul-13 to 30-Jun-14	Outward Retro. of Colchester EOL 30Mx20M-10% PCOL02713 1-Jul-13 to 30-Jun-14	Outward Retro. of Colchester EOL 40Mx10M-20% PCOL02813 1-Jul-13 to 30-Jun-14	Outward Retro. of Colchester Agg. Stop Loss 15Mx4.75M-100% PCOL01313 1-Jul-13 to 30-Jun-14	Total
Premiums Written	2,781,619.00	97,212.00	-	-	-	-	-	2,878,831.00
Trfd from Unearned Prem. Reserve	-	-	-	-	-	-	-	-
Premiums Earned	<u>2,781,619.00</u>	<u>97,212.00</u>						<u>2,878,831.00</u>
Reinsurance Premiums Ceded			(472,459.40)	(223,991.25)	(322,823.45)	(861,139.10)	(300,000.00)	(2,180,413.20)
Trfd from Deferred Reins. Prem.		-	-	-	-	-	-	-
Reinsurance Premiums Earned		<u>-</u>	<u>(472,459.40)</u>	<u>(223,991.25)</u>	<u>(322,823.45)</u>	<u>(861,139.10)</u>	<u>(300,000.00)</u>	<u>(2,180,413.20)</u>
Net Premiums Earned								<u>698,417.80</u>

App. 1b



Best's Rating of Lloyd's 2014





Lloyd's
September 2014

One Lime Street
London EC3M 7HA
United Kingdom

Web: www.lloyds.com
AMB#: 85202
AIIIN#: AA-1122000

Best's Financial Strength Rating

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

Rating Rationale

A.M. Best's ratings of Lloyd's reflect its strong capitalisation and good financial flexibility, as well as its excellent operating performance and business profile.

The positive outlooks reflect Lloyd's strong operating performance in recent years, in spite of the exceptional record of natural catastrophes in 2010 and 2011, together with A.M. Best's assessment of the robust oversight of the market by Lloyd's and its demonstrable success in reducing earnings volatility. The outlooks also recognise the steady improvement in the market's risk-adjusted capitalisation.

Offsetting these positive rating factors are the increasingly challenging conditions in Lloyd's core markets, particularly for reinsurance business. A.M. Best will continue to monitor closely the impact of deteriorating rates, together with changes in terms and conditions, on Lloyd's underwriting performance.

The stability of Lloyd's central capital base supports A.M. Best's view that capitalisation will remain strong in 2014 and into 2015. Central assets for solvency fell by 2% in 2013 to GBP 3,157 million, reflecting a buy-back of approximately GBP 180 million of subordinated debt in May 2013, but are likely to remain close to this level throughout 2014. Lloyd's intentions regarding the potential buy-back of approximately GBP 178 million of euro-denominated debt at its call date in November 2014 have not been finalised at this stage.

The exposure of central resources to insolvent members continues to diminish as run-off liabilities decline. In addition, Lloyd's robust risk-based approach to setting member level capital, as well as its close monitoring of syndicates' performance and catastrophe exposure, reduces the risk of material drawdowns on the central fund. A.M. Best believes that Lloyd's internal capital model, which is already being used to determine its solvency capital ratio under transitional arrangements pending the implementation of Solvency II, enhances Lloyd's understanding of the likelihood and potential magnitude of claims being made upon central assets from future member insolvencies.

When setting the member level capital requirement, Lloyd's applies a 35% economic capital uplift to each syndicate's solvency capital requirement. This level of uplift has been retained for 2015, but should it change in the near future, A.M. Best will review the implications for risk-adjusted capitalisation and react accordingly.

Lloyd's reported an excellent profit in 2013 of GBP 3,205 million, reflecting a generally benign year for natural catastrophes. The result was supported by prior-year reserve releases of GBP 1,575 million, but the low interest rate environment continued, depressing investment returns.

Assuming a normal year for catastrophe events, performance in 2014 is expected to be marginally weaker than in 2013. There have been some significant losses in the first half of

Analytical Contacts

David Drummond, London
+44 20 7397 0327
David.Drummond@ambest.com

Mathilde Jakobsen, London
+44 20 7397 0266
Mathilde.Jakobsen@ambest.com

Catherine Thomas, London
+44 20 7397 0281
Catherine.Thomas@ambest.com

John Andre, Oldwick
+1 (908) 439-2200 Ext. 5619
John.Andre@ambest.com



2014, but a combined ratio between 90% and 95% is anticipated (2013: 85%). Underwriting results are again likely to be supported by prior-year reserve releases, albeit at a more modest level than in recent years.

Lloyd's benefits from an excellent position in the global insurance and reinsurance markets. The collective size of the market and its unique capital structure enable syndicates to compete effectively with large international insurance groups under the well-recognised Lloyd's brand. Good financial flexibility is enhanced by the diversity of capital providers, which include corporate and non-corporate investors.

Lloyd's continued strong operating performance and capitalisation could lead to positive rating actions, but an unexpectedly weak performance or a lower level of capital would put downward pressure on all ratings.

Business Review

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

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

Excluding reinsurance to close syndicates, but including special-purpose syndicates, there were 90 syndicates at 1 January 2013 and 93 at 1 January 2014. Six new syndicates entered the market while one syndicate merged and two ceased at the end of 2013.

Exhibit 1
Calendar Year Gross Written Premium by
Main Business Class (2012-2013)
(GBP Millions)

	2012	2013	% Change
Reinsurance	9,763	9,468	-3.0%
Property	5,476	6,103	11.4%
Casualty	4,543	4,850	6.8%
Marine	2,090	2,195	5.0%
Energy	1,727	1,668	-3.4%
Motor	1,155	1,184	2.5%
Aviation	669	562	-16.0%
Life	77	76	-1.3%
Total from syndicate operations	25,500	26,106	2.4%
Other*	0	0	
Total calendar year premium income	25,500	26,106	2.4%

Note: Figures include brokerage and commission.

* Transactions between syndicates and the Society and insurance operations of the Society.

Source: Lloyd's Annual Report 2013

In May 2012, Lloyd's launched its Vision 2025, aiming to be "the global centre for specialist insurance and reinsurance". Described as a new strategic direction, Vision 2025 has at its heart profitable, sustainable growth, particularly from emerging and developing economies. The steps that the Lloyd's market must take in the early years to achieve this vision are set out in Lloyd's latest Three-Year Plan, published in April 2014.

In its core marine, energy, aviation and specialty markets, Lloyd's is a leading player and a significant writer of catastrophe and reinsurance business. Direct business continues to form the larger proportion of Lloyd's overall underwriting portfolio, with insurance representing 64% of gross premium in 2013 (2012: 62%) and reinsurance accounting for the balance.

Exhibit 1 shows Lloyd's calendar-year premium in 2012 and 2013, split by the principal lines of business. The market's overall gross written premium (GWP) increased by over 2% in 2013 to GBP 26,106 million. As in 2012, movements in average rates of exchange were not a significant part of the year-on-year increase.

The modest growth in GWP in 2013 was less than originally planned by the syndicates, since premium rates weakened across most lines as the year progressed. The growth achieved was driven by the direct classes of business, property, casualty, marine and motor, and offset by reduced premium volume for treaty reinsurance, energy and aviation. Reinsurance premiums fell 3%, as satisfactory premium rates early in the year, particularly following losses from Superstorm Sandy in late 2012 and the escalating cost of removing the Costa Concordia wreck, fell away in the absence of major catastrophe events. With capital in the reinsurance market increasingly plentiful, rates continue to be driven by recent loss events. Although there were large losses in 2013, including flooding in Canada and Europe, the sinking of the MOL Comfort containership, the Intelsat satellite launch failure in the Pacific, and the Asiana Airlines Boeing 777 crash, none of these was substantial enough to have a lasting effect on premium rates. The surplus capacity in the reinsurance market has, however, made more retrocessional cover available to syndicates than previously.

The property sector achieved premium growth of over 11% in 2013, as syndicates expanded into new markets and increased their share of existing developed markets, particularly in the United States. Premium rates were at a good level early in the year, especially for areas affected by Superstorm Sandy and the year's other weather events, and the U.S. market continued to show growth and rate stability for much of the year.

Surplus capacity continued to be a feature of many lines of business in the casualty market in 2013, putting rates under pressure except in some underperforming classes. Nevertheless, the sector increased its GWP by nearly 7%, much the same as in 2012, in spite of profitability remaining marginal. With the financial services sector in particular overshadowed by soft market conditions and a challenging economic environment, casualty lines are a cause for concern as it is likely to be some time before the full effects of the economic downturn on litigation and claims are known.

As with the casualty market, surplus capacity was again an aspect of both the marine and energy markets in 2013 but the marine sector achieved good premium growth of 5%, mainly from the political risk class and rate increases in marine liability following the substantial wreck removal costs of the Rena and Costa Concordia. The energy sector saw a reduction in premiums of over 3%, as offshore energy business, particularly in the Gulf of Mexico, reported significant rate reductions on the back of another year without a major windstorm.

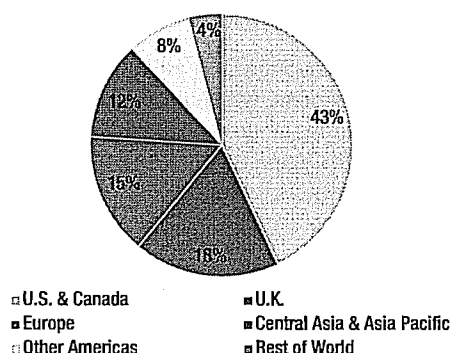
After a period of increases above general inflation, rates in the U.K. motor market, particularly personal motor, peaked towards the end of 2011. There was a general softening of personal motor rates during 2012 and further reductions in 2013, reflecting the introduction of new legal reforms designed to cut claims costs. Premium rates for commercial business were more stable and overall motor GWP increased by over 2%. Claims inflation, however, remains above the long-term average, although there was some improvement in underlying trends including fraudulent claims activity.

Lloyd's is a leading player in the global aviation market, writing across all the main business classes, including airline, aerospace, general aviation and space, with airline hull and liability being the largest line. There continues to be significant over-capacity in the market, with the result that a soft rating environment persists. Rate reductions are increasingly evident, with premium volumes across the industry broadly static, in spite of increases in airline fleet values and passenger numbers.

The territorial scope of business written at Lloyd's and the market's worldwide access to business remain positive rating factors. Through its global infrastructure and network of licences, Lloyd's provides syndicates with access to a wide international client base. Although the existing geographical bias toward North America and the United Kingdom is likely to be maintained, Lloyd's is committed to expanding its global reach. In 2013, these mature markets accounted for 43% and 18% respectively of Lloyd's GWP. The proportion of GWP relating to European business remained

the same at 15%, while business written in Central Asia and Asia Pacific, Central and South America and the rest of the world together decreased by two percentage points to 24% of GWP (see **Exhibit 2**). One of the areas of focus within the Three-Year Plan is international growth and diversification and Lloyd's has identified China, India, Brazil, Mexico and Turkey as priority markets. The fact that in the course of 2013 growth was in the developed markets of the United States and Canada indicates that achieving sustainable growth in more diverse markets is likely to be challenging.

Exhibit 2
Gross Premium by Territory (2013)



Source: Lloyd's Annual Report 2013

In two of these markets, however, Lloyd's has already established a presence. In April 2008, following legislative changes, Lloyd's became the first admitted reinsurer in Brazil and opened

a representative office in Rio de Janeiro a year later. In May 2010, Lloyd's was granted a licence to write direct business in China, alongside the reinsurance business for which it already had a licence. After more than a year's work on making the new direct licence operational, the first direct policy in China was written in September 2011.

Lloyd's U.S.-domiciled business consists primarily of reinsurance and surplus lines (see **Exhibit 3**). Lloyd's participation in admitted U.S. business (i.e., direct business excluding surplus lines) is relatively modest. Lloyd's has admitted licences in Illinois, Kentucky and the U.S. Virgin Islands and also writes direct, non-surplus lines business in lines exempt from surplus lines laws (principally marine, aviation and transport risks). Lloyd's single-state licences were initially secured for historical reasons and are not widely exploited by syndicates. Almost half of surplus lines business written by Lloyd's syndicates is via coverholders. This distribution channel is also important in Canada, where Lloyd's writes primarily direct business, with

Exhibit 3
U.S. Profile of Lloyd's (2009-2013)
(USD Millions)

	2009	2010	2011	2012	2013	Compound Annual Growth Rate
Lloyd's Surplus Lines Premium	6,090	5,789	5,790	6,270	7,099	4%
Total U.S. Surplus Lines Premiums	32,952	31,716	31,140	34,808	37,719	3%
Lloyd's Share of U.S. Surplus Lines Premium	18%	18%	19%	18%	19%	
Lloyd's U.S. Direct Business (Excluding Surplus Lines)	1,247	1,207	1,227	1,275	1,418	3%
Lloyd's U.S. Reinsurance	5,508	5,055	5,048	4,869	5,170	-2%
Lloyd's Total U.S. Situs Business	12,845	12,052	12,065	12,414	13,688	2%

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

reinsurance accounting for a much smaller share. In order to comply with local regulations, all Canadian business is written in Canada.

Europe is a region where Lloyd's has identified opportunities for syndicates to increase their share of niche business, particularly small, specialist risks. It is the market's third-largest segment at 15% of premiums, but the fact that this proportion has been relatively constant for several years reflects the competitiveness of the European market, which is already well served by established companies. Lloyd's main focus is on France and Germany in northern Europe and Italy and Spain in southern Europe, although options for direct licences in Turkey are being explored with the Turkish regulator. In order to compete in Europe, Lloyd's syndicates need to focus on niche lines where they can add value compared with the local market.

The distribution of Lloyd's business is dominated by insurance brokers. They play an active part in the placement of risks and in providing access to regional markets, which is especially important as regional insurance centres continue to grow, threatening the flow of business into London. During 2013, 10 new Lloyd's brokers were approved, bringing the total Lloyd's registered brokers to 202. However, the largest source of Lloyd's business continues to be the three largest global brokers.

A related area, where Lloyd's has an on-going strategy to facilitate access to the market, is that of coverholders, who write business on behalf of syndicates under the terms of a binding authority. They are important in bringing regional business to Lloyd's and providing the market with access to small and medium-sized risks. In order to facilitate expansion through this distribution channel, audit procedures have been streamlined and reporting standards for premiums and claims have been introduced. Northern Europe and the United Kingdom are priority markets in 2014 for regional development through the coverholder model.

Business Environment

General Market Conditions

In spite of the substantial losses from the grounding of the Costa Concordia, various U.S. weather events, including Hurricane Isaac and severe drought, and finally Superstorm Sandy, which became the most costly U.S. catastrophe since Hurricane Katrina in 2005, 2012 was regarded as a fairly average year overall in terms of catastrophe events. As for 2013, although there were large weather-related losses and substantial marine and aviation losses, with few catastrophe events the year was seen as relatively benign. Like the losses in 2012, the various events in 2013 did not have a material impact on insurers' capital and the reinsurance market, in particular, saw an influx of new and alternative capital, such as that provided by pension funds. The increased availability of capital, combined with the low level of loss activity, led to softening rates throughout 2013.

General market conditions at the beginning of 2014 were similar to those prevailing at the start of 2013, with excess capacity and a generally difficult rating environment overall, albeit with some improvement in loss-affected areas of business. For the reinsurance sector, the soft conditions at the end of 2013 became more challenging, with rates falling further and looser terms and conditions being demanded. Reinsurers are being forced to adapt by developing new products and sometimes by making use of the new types of capital available.

As in 2013, there have been no major catastrophe events in the first half of 2014, although there have been large losses, including severe winter weather across the United States, storms and flooding in the United Kingdom, the loss of the Malaysian Airlines Boeing 777 and two huge U.S. property fires in March. The weather and fire losses are likely to maintain the hardening of U.S. property rates that was achieved in 2012 and 2013 following severe

storm and tornado losses. However, the trend of rate increases being driven principally by loss activity, with flat or lower rates in unaffected areas, is likely to continue. Thus the recent aviation war losses in Tripoli (Libya) and Ukraine are expected to lead to substantially higher rates for that line of business.

Casualty rates generally remained under pressure in 2013, although there was some hardening of rates in a few underperforming classes. The 2002-2006 years, when pricing and terms and conditions were good, are running off well, allowing insurers to make releases from reserves. However, the level of releases is diminishing as more recent years require reserve strengthening, with the financial crisis beginning to have an impact on loss experience. With surplus capacity remaining and comparatively little support from investment income, continued underwriting discipline is required in 2014 if even the marginal profitability of this class of business is to be maintained.

Operational Change at Lloyd's

Lloyd's continues to make good progress in reforming key operational processes. A number of reform projects have been successfully completed but, in line with its Vision 2025 focus on being the global centre for specialist insurance and reinsurance, Lloyd's recognises that much work has still to be done. Operational reform is therefore expected to remain an important focus of the Corporation, with priority projects for 2014 being further development in relation to Central Services Refresh, The Exchange and the Claims Transformation Programme.

Central Services Refresh is a joint market initiative to improve the central services operations, processes and systems as delivered to the broad London market. The project is overseen by a steering group representing the London Market Group, the LMA, the International Underwriting Association (IUA), the London & International Insurance Brokers' Association and Xchanging Insurance Services. During 2013, the project identified and defined the future central services to be provided that should help insurance brokers and other sources of business access the London market more easily and at a lower cost than at present. In 2014 the focus is on a target operating model for market submission together with planning the projects that will support the model.

The Exchange is a messaging hub service that allows users to transfer risk information using ACORD standard electronic messages. The initial pilot started in May 2009 and The Exchange is now established as a market utility. Lloyd's plan for 2014 is to increase connections, targeting brokers and London market companies, and to increase message volumes.

The Claims Transformation Programme is another on-going project to enhance claims processing across the market. Having implemented new processes for both standard and complex claims, in 2014 Lloyd's will focus on further development of the volume claims service and on transitioning legacy claims on to the claims agreement framework.

Regulatory and Accounting Environment

Following the abolition of the U.K. Financial Services Authority (FSA) with effect from 1 April 2013, the Bank of England now has regulatory oversight of the solvency position of banks and insurers through the Prudential Regulation Authority (PRA), while the consumer protection work formerly carried out by the FSA has been taken over by a new agency, the Financial Conduct Authority (FCA). Regulatory oversight of the Society of Lloyd's and its managing agents is accordingly the responsibility of these two bodies as successors to the FSA.

On assuming its regulatory responsibility in April 2013, the PRA published a paper, an expanded version of one originally issued by the Bank of England and the FSA in June 2011, entitled

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

There is a Memorandum of Understanding between the FCA and the PRA which sets out how they co-ordinate in respect of the supervision of the Lloyd’s market. In general the FCA and the PRA will consult with the other before using a power of direction over members and, in particular, will obtain consent from the other when exercising powers to require members of Lloyd’s to become authorised. The PRA will, where appropriate, enter into new arrangements with the Society of Lloyd’s that reflect the PRA’s objectives and focus as the market’s prudential supervisor.

Aside from the replacement of the FSA by the PRA and FCA, the principal regulatory challenge facing Lloyd’s, as with other insurers in the European Union (EU), is the implementation of Solvency II. The long-awaited regulatory and capital regime is now due to come into force on 1 January 2016, bringing a harmonised, principles-based approach to insurance regulation within the EU. It will apply to the “association of underwriters known as Lloyd’s” as a collective entity. Neither Solvency II nor existing insurance directives make provision for the authorisation as insurers of Lloyd’s members or syndicates on their own behalf.

In view of its position at the centre of the association of underwriters, the Corporation of Lloyd’s has been active in seeking to ensure that all syndicates meet the Solvency II requirements. This work has consumed a significant amount of resources both at the Corporation and at individual managing agents. To reduce the risk that costs would continue to rise when implementation was delayed, Lloyd’s strove to adhere to the previous implementation date of 1 January 2013. Consequently, the Lloyd’s market’s preparations for the implementation of Solvency II on 1 January 2016 are very well advanced and, in particular, Lloyd’s own internal capital model (LIM), of which the individual syndicate models form an integral part, is now regarded by the Corporation and managing agents as “business as usual”.

The LIM was a key element in Lloyd’s preparations for Solvency II. The building phase of the model started in the first quarter of 2010 and development was completed on schedule in April 2012. The LIM was immediately put to use to produce management information for Lloyd’s Risk Committee and has been refined to give enhanced input to the PMD and its strategy. The LIM was submitted to the FSA for approval as planned at the end of July 2012 and capital setting is now based on Solvency II principles. This is acceptable to the U.K. regulator under the transitional “ICAS+” arrangements.

Method of Accounting

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

The pro forma financial statements (PFFS) include the aggregate accounts, based on syndicate accounts compiled in accordance with U.K. generally accepted accounting principles (GAAP),

members' funds at Lloyd's (FAL) and the statements for the Society of Lloyd's. In order to ensure that the accounts are presented on the same basis as other insurers, certain adjustments are made to Lloyd's capital and investment return (there is a notional investment return on FAL included in the non-technical account). The sum of the individual audited syndicate accounts is presented in the aggregate statements, the replacement for Lloyd's traditional three-year accounts. The Society statements present the central resources of Lloyd's (e.g., the Central Fund). While the PFFS includes Lloyd's central resources, the presentation is in U.K. GAAP as opposed to IFRS, which is used for the Society statements.

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

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

Financial Performance

Assuming a normal year for catastrophe events, performance in 2014 is expected to be similar to that in 2013. As in 2013, there have been no major catastrophe events in the first seven months of 2014, although there have been some significant losses, including severe winter weather across the United States, storms and flooding in the United Kingdom, two huge U.S. property fires in March and a number of large airline losses. Full year underwriting results are likely to be supported by prior year reserve releases albeit at a more modest level than in recent years and a combined ratio between 90% and 95% is anticipated (2013: 85%). Given the nature of the business written by Lloyd's, the final result for 2014 will depend on the frequency and severity of catastrophe losses in the remainder of the year, particularly with regard to the U.S. hurricane season.

While the catastrophe events of 2011 led to significant rate rises for property business in the directly affected areas of the Asia-Pacific region and U.S. property rates hardened in the wake of the losses from Superstorm Sandy and other U.S. weather events, the improvement in pricing did not spread to other territories or business lines nor did it last beyond a few months into 2014. A strong, broad-based hard market is unlikely to materialise unless there is a significant reduction in capacity. This continues to be unlikely in the short term, as current economic conditions and a lack of alternative investment opportunities mean that capital continues to be attracted to the insurance industry.

In the casualty sector, surplus capacity continues to put downward pressure on pricing and profit margins, although certain underperforming classes are showing some hardening in

rates. Moreover, with relatively weak, albeit improving, economic conditions and the potential for inflation, the likelihood remains that casualty claims costs will exceed insurers' initial expectations. A significant proportion of claims activity relates to the U.S. subprime banking crisis and global economic downturn that followed, but the extent of Lloyd's exposure to such claims, principally through professional indemnity and directors' and officers' insurance, remains unclear.

Prior-year reserve movements are likely to make a positive contribution to the market's earnings in 2014 and beyond. The scope for large releases was expected to have diminished in recent years but substantial releases continue to be made without any obvious reduction in the strength of reserves. A.M. Best believes reserve adequacy for the years 2002 to 2006 remains good, but future redundancies are unlikely to be as high as in the recent past as these years reach maturity. On the other hand, whilst market conditions have deteriorated since 2007, particularly for casualty business, in recent years there has still been scope for reserving at a margin above actuarial best estimate, potentially leading to redundancies from these years in the future.

Investment income is likely to be modest for the market overall in 2014, reflecting the prevailing low interest rate environment. Earnings from syndicates' premium trust funds, which make the largest contribution to Lloyd's overall investment income, are likely to be similar to or lower than in 2013. However, the potential for substantial investment losses is moderated by the conservative investment strategy pursued by the majority of syndicates. Central Fund assets are invested mainly in high-quality, fixed-interest securities, but riskier assets are held that are likely to contribute a more volatile element to the investment return.

Performance in 2013

The Lloyd's market recorded a pre-tax profit of GBP 3,205 million in 2013 (2012: GBP 2,771 million), reflecting a benign year for catastrophes, after the average year for large losses of 2012, which saw the Costa Concordia grounding and various U.S. weather events, including Hurricane Isaac, severe drought and Superstorm Sandy, one of the largest ever catastrophe claims events for Lloyd's. In 2013, the largest loss to Lloyd's was the flooding in Alberta and other major losses included floods in Europe, the sinking of the MOL Comfort containership, the Intelsat satellite launch failure in the Pacific, and the Asiana Airlines Boeing 777 crash. At the same time, the low interest rate environment continued, depressing investment returns (see **Exhibit 4**).

Measured by combined ratio, Lloyd's outperformed the U.S. property and casualty industry, a peer group of U.S. and Bermudian reinsurers and comparable European reinsurers (see **Exhibit 5**).

Prior to 2010, given the nature of the business written by Lloyd's and a geographical bias toward the United States, a low level of hurricane losses meant that the Lloyd's market produced very strong results, as happened in 2007 and 2009. However, both 2010 and

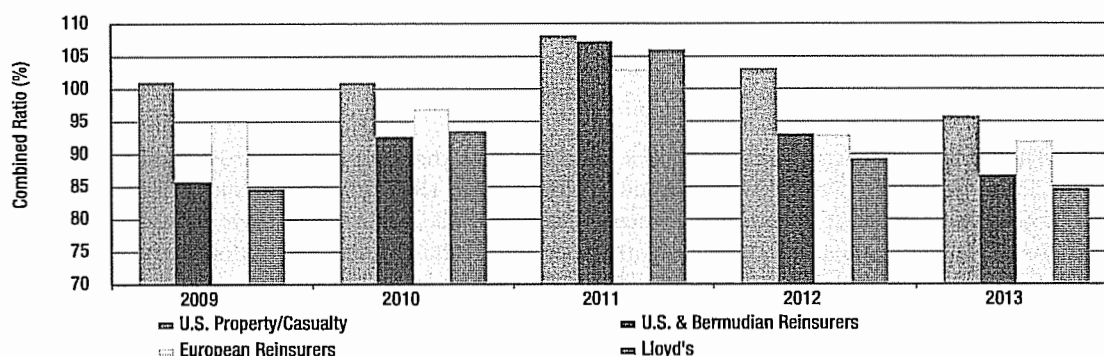
Exhibit 4
Summary of Results (2009-2013)
From pro forma financial statements
(GBP Millions)

	2009	2010	2011	2012	2013
Gross Written Premium	21,973	22,592	23,477	25,500	26,106
Net Written Premium	17,218	17,656	18,472	19,435	20,231
Net Earned Premium	16,725	17,111	18,100	18,685	19,725
Net Incurred Claims	8,624	10,029	12,900	10,098	9,581
Net Operating Expenses	5,712	6,167	6,418	6,843	7,317
Underwriting Result	2,389	915	-1,218	1,744	2,827
Other Income/(Expenses)	-290	22	-253	-284	-461
Investment Return	1,769	1,258	955	1,311	839
Profit on Ordinary Activities	3,868	2,195	-516	2,771	3,205
Loss Ratio	52%	59%	71%	54%	49%
Expense Ratio	33%	35%	35%	35%	36%
A.M. Best Combined Ratio	85%	94%	106%	89%	85%
Investment Income Ratio	11%	7%	5%	7%	4%
Operating Ratio	74%	86%	101%	82%	80%

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

Exhibit 5

Combined Ratios by Market (2009-2013)



Sources:

U.S. Property/Casualty: Regulatory filing records for all companies in the U.S. property/casualty market.

U.S. & Bermudian Reinsurers: 21 publicly traded companies.

European Reinsurers: The five largest reinsurance companies in the European market, based on reinsurance premiums written.

Lloyd's: Lloyd's Annual Report

2011 highlighted the market's exposure to catastrophes of a different nature, and results were materially affected in 2011 by losses from floods in Australia, earthquakes in Japan and New Zealand, tornadoes and Hurricane Irene in the United States, and flooding in Thailand. In 2012, major losses were again dominated by U.S. events, including Hurricane Isaac and Superstorm Sandy, the most costly U.S. catastrophe since Hurricane Katrina in 2005. Yet the market achieved an excellent underwriting result, with these catastrophes and other large losses adding 10 percentage points to the market's 2012 combined ratio, compared with 26 percentage points in 2011. In 2013, North America again contributed substantial weather-related losses, with flooding in Canada and storms and tornadoes in the Midwestern United States, but these and other large losses added only 4 percentage points to the market's combined ratio. For comparison, in 2009, a year regarded as having an especially benign catastrophe experience, large losses added just 2 percentage points to the combined ratio.

For the ninth successive year, the underwriting result in 2013 benefited from an overall release from prior-year reserves. The release of GBP 1,575 million (2012: GBP 1,351 million), which included an exchange loss of GBP 150 million (2012: loss of GBP 55 million), reduced the year's combined ratio by 8.0 percentage points. All classes developed favourably in 2013 with the exception of motor reserves.

Lloyd's operating expense ratio (expressed as a percentage of net written premiums) in 2013 was 36%, a small increase on 2012. The most significant part of operating expenses is acquisition costs, which increased by 6.1% to GBP 5,448 million, compared with a 2.4% increase in gross written premiums. The other main element is administrative or management expenses, which increased to GBP 1,869 million from GBP 1,706 million in 2012 as managing agents invested in additional staff and technology resources. Included in administrative or management expenses is managing agent profit commission of GBP 198 million, up from GBP 151 million in 2012, reflecting the greater accruals in respect of the stronger performing 2012 year of account.

An overall investment return of 1.6% (2012: 2.6%) was achieved, equivalent to investment income of GBP 839 million (2012: GBP 1,311 million). This represents a solid return in the continuing low interest rate environment.

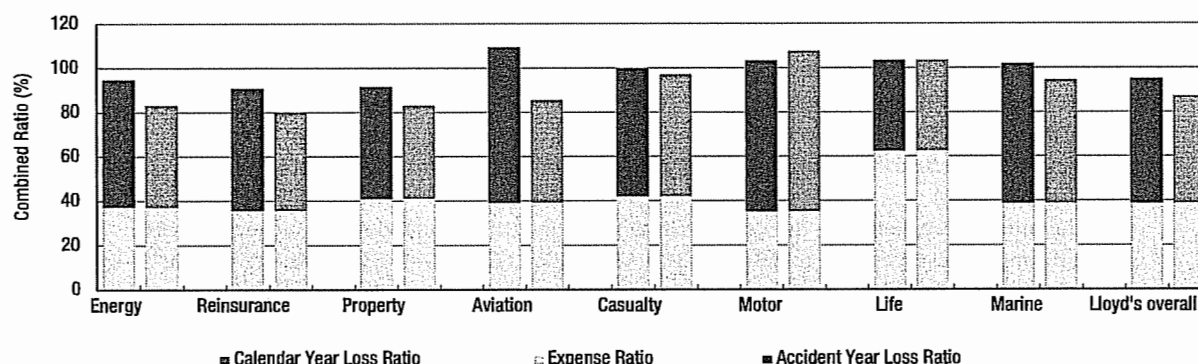
Investment income from syndicates' premium trust funds, which form the largest part of invested assets, decreased to GBP 379 million in 2013 (2012: GBP 997 million), equating to an investment return of 1.1%. The investment income was depressed by a substantial amount of unrealised losses. Although some syndicates invest a proportion of their premium trust funds in higher risk assets such as equities and hedge funds, most syndicate portfolios comprise short-dated, high-quality, fixed-income securities.

The return on central assets in 2013 was higher than that on premium trust funds at 2.3% (2012: 4.5%). Central assets are actively managed by Lloyd's, which pursues a higher risk investment strategy than that generally taken by syndicates investing their premium trust funds, reflecting the longer investment time horizon for these assets. The notional return on members' FAL rose to 2.5% from 1.3% in 2012, reflecting the low interest rates available to the high proportion of cash and cash equivalents held within members' capital, but improved by the effect of rising equity markets on the value of equities held.

Exhibit 6 shows the class of business breakdown for Lloyd's performance based on the aggregate accounts. The three ratios shown for each class are the accident-year loss ratio, the calendar-year loss ratio, which is the accident-year loss ratio adjusted for prior-year reserve movements, and the expense ratio. The expense ratio is added to each of the loss ratios to give the accident-year combined ratio and the calendar-year combined ratio. The chart shows that prior-year reserve development reduced the combined ratio for each business class except motor, where the ratio increased following strengthening of the reserves.

Exhibit 6

Combined Ratios by Business Class (2013)



Source: Lloyd's

For the fifth year in succession, the motor class of business reported a loss in 2013, on both an accident and calendar-year basis. After legal reforms early in the year, which were designed to reduce claims costs, personal lines premium rates decreased throughout 2013, although commercial business premium rates were more stable. On the claims side, above average claims inflation persisted, although there was some improvement in underlying trends, including fraudulent claims activity. The apparent stability in reserves seen in 2011 and 2012, however, was replaced by the need for reserve strengthening to take into account not only the level of claims inflation but also the uncertainty around the discount rate used to determine large awards in bodily injury claims. This strengthening increased the combined ratio in 2013 by 4.2 percentage points (2012: reduction of 0.9 of a percentage point).

In spite of Superstorm Sandy and of the escalating cost of the Costa Concordia grounding, 2012 was a relatively benign year for catastrophes and 2013 followed in similar fashion. The

reinsurance sector was affected by some large weather-related losses across the globe and substantial marine and aviation losses, but the accident-year combined ratio improved to 91.7% from 97.9% in 2012. On a calendar-year basis, favourable development of prior years' reserves reduced the combined ratio by 11.2 percentage points to 80.5%.

The property sector, like the reinsurance sector, benefited from the low level of catastrophe events in 2013, although there were large property losses, including a computer plant in China, a mining landslide in the United States, and energy losses in both the U.S. and Argentina. The sector reported an improved accident-year combined ratio of 93.4% (2012: 102.6%). Moreover, prior years' reserves continued to develop favourably, lowering the ratio by 8.4 percentage points to 85.0% on a calendar-year basis.

After a fifth consecutive year without a major Gulf of Mexico hurricane, together with lower than expected attritional losses, the offshore energy sector performed well in 2013. However, onshore energy was affected by a number of large risk losses, notably the La Plata oil refinery in Argentina. An accident-year combined ratio of 94.3% was reported, but reserve releases reduced the combined ratio by 11.3 percentage points, maintaining the trend of positive reserve movements in recent years.

In 2013, aviation business experienced overall loss activity below the long-term norm, but both the aviation and space markets were affected by two large losses. These included the Sea Launch Intelsat 27 launch failure in February, and July's Asiana Airlines Boeing 777 crash landing at San Francisco. The accident-year combined ratio increased by nearly 20 percentage points to 105.1% from 86.2% in 2012. However, positive reserve movements once again made a strong contribution to earnings, producing an excellent calendar-year combined ratio of 81.4%. In spite of the particular losses in 2013, the recent good results of this potentially volatile class of business have led to capacity in the sector remaining high and premium rates are weak as a result.

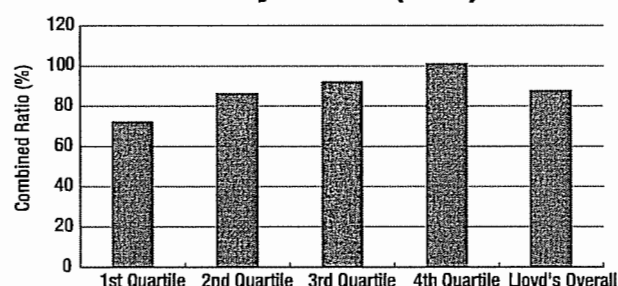
For marine business, 2013 was a generally satisfactory year, although the marine hull sector continued to be disappointing and the general specie market was affected by several large claims. The sector reported a combined ratio of 102.8% on an accident-year basis, reduced to 95.4% after prior-year movements. Reserve strengthening for the wreck removal costs of the Costa Concordia was mitigated by reinsurance and offset by good experience in other classes of marine business.

Surplus capacity was again evident in many casualty lines in 2013, putting rates under pressure except in some underperforming classes. Nevertheless, the sector increased its GWP by 7%, as it did in 2012. With a significant proportion of claims activity coming from financial institutions business in relation to the U.S. subprime banking crisis and global economic downturn, an accident-year combined ratio of 101.2% was reported. The ratio improved to 98.8% for the calendar year after a positive prior-year reserve movement, although releases from older years continue to be partially offset by strengthening on more recent years.

The overall performance of the Lloyd's market represents the aggregate performance of its separate trading businesses. It therefore includes outstanding performance from Lloyd's better businesses, offset by weaker results at the other end of the scale. To this extent, Lloyd's performance is not directly comparable to that of other insurers, because it has not been actively managed centrally as the performance of an insurance company. The Performance Management Directorate has a definite role in agreeing business plans and monitoring performance through a variety of monthly, quarterly and annual reports and returns, but Lloyd's continues to be a market of competing businesses, each with its own separate

decision-making processes. **Exhibit 7** shows the quartile split of the Lloyd's combined ratio based upon cumulative net earned premium. In 2013, the strongest performing quartile produced an average combined ratio of 73%, as compared with 102% produced by the weakest performing quartile. This spread in syndicates' performance reflects factors such as relative exposure to U.S. or non-U.S. risks, reinsurance protection available, and differing levels of prior-year reserve releases.

Exhibit 7
Combined Ratios by Quartile (2013)



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

Open Year Performance

Under Lloyd's three-year accounting policy, the 2011 year of account closed at the end of 2013 with a good profit of GBP 911 million (2010: GBP 551 million). The year of account was hit hard by catastrophe losses throughout 2011, including floods in Australia, earthquakes in Japan and New Zealand and flooding in Thailand, but the overall underwriting result benefited from favourable development of the reserves for 2010 and prior of GBP 911 million. Lloyd's estimate for the 2012 year of account, which is based on the amalgamation of individual syndicate forecasts from managing agents, is a profit of GBP 1,591 million, reflecting the generally benign year for catastrophe losses until Superstorm Sandy struck. At the 15-month stage, the forecast for the 2013 year of account, which was a year with some significant losses but no major catastrophe event, was a profit of GBP 1,172 million.

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

Exhibit 8
Global Net Incurred Loss Ratios (2004-2013)

Quarter	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
1	1.1%	2.1%	0.8%	1.1%	0.0%	0.8%	0.7%	1.1%	0.5%	0.6%
2	3.0%	4.3%	2.5%	3.4%	2.2%	3.2%	3.8%	4.8%	2.2%	2.2%
3	9.8%	14.0%	6.3%	8.1%	8.1%	7.8%	9.7%	11.8%	6.3%	7.8%
4	21.6%	36.9%	12.6%	15.4%	21.9%	15.6%	18.5%	23.3%	15.1%	15.5%
5	30.9%	47.2%	19.4%	24.0%	32.3%	23.8%	29.0%	34.3%	24.3%	
6	39.3%	57.3%	26.3%	32.4%	40.7%	34.5%	43.9%	43.4%	31.9%	
7	46.1%	65.7%	32.6%	39.3%	48.1%	41.2%	54.5%	49.5%	39.2%	
8	55.4%	70.6%	37.5%	47.8%	53.8%	45.9%	61.4%	54.9%	43.9%	
9	59.0%	72.5%	40.4%	51.7%	58.0%	48.6%	65.2%	58.4%		
10	61.4%	74.8%	42.8%	54.0%	61.0%	50.8%	67.4%	60.6%		
11	62.7%	76.9%	44.3%	56.4%	63.3%	52.2%	69.3%	62.2%		
12	63.5%	78.5%	45.8%	58.3%	66.0%	53.1%	70.5%	62.7%		

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

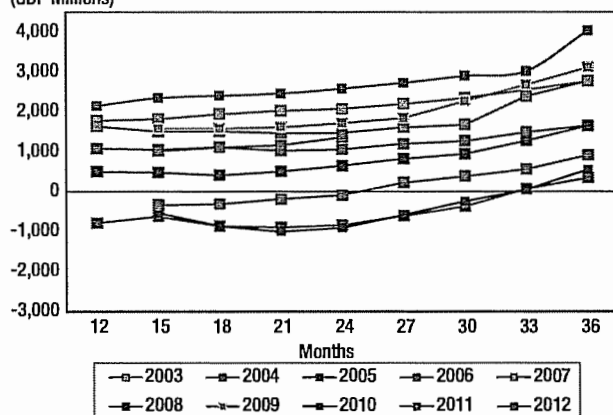
Lloyd's Forecasts

Exhibit 9 shows the progression in Lloyd's forecasts on a three-year basis, together with the ultimate result achieved after 36 months (for all years up to 2011). With effect from the 2009 year of account, Lloyd's no longer publishes syndicate forecasts at the 12-month stage, so the

Exhibit 9

Global Forecasts (2003-2012)

(GBP Millions)



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

Source: Lloyd's

12-month position for the 2009 to 2012 years of account is not shown.

Society of Lloyd's

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

Although the Society is a non-profit organisation, it produced a surplus after tax in 2013 of GBP 64 million, a decrease from the surplus of GBP 119 million in 2012 but the eighth successive surplus to be reported. The decrease was attributable primarily to a fall in financial income

of GBP 54 million, driven by realised and unrealised returns on investments and forward contracts, and a deficit of GBP 15 million on a repurchase of subordinated debt, offset by a reduction in interest payable of GBP 7 million and a reduced tax charge.

Capitalisation

A.M. Best believes that Lloyd's maintains an excellent level of risk-adjusted capitalisation and that there is sufficient tolerance for the market to withstand a significant stress scenario without threatening its solvency. This excellent level of capitalisation is likely to be maintained in 2014 and into 2015. This assessment takes into account capital resources available at member level and centrally, the fungibility constraints on member-level capital, and the likelihood and potential impact of future drawdowns on central assets by Lloyd's members.

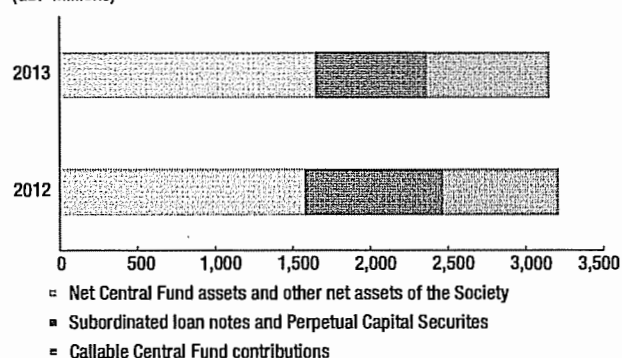
In 2013, central assets for solvency purposes decreased by 2% to GBP 3,157 million (from GBP

3,215 million in 2012) (see **Exhibit 10**) due primarily to the buy-back of subordinated debt in 2013. Over the same 12-month period, members' funds at Lloyd's (FAL) decreased to GBP 15,088 million from GBP 15,660 million. FAL will continue to move in line with syndicates' underlying business risk, driven by Lloyd's overall capital requirements.

Exhibit 10

Central Assets for Solvency (2012-2013)

(GBP Millions)



Source: Lloyd's Annual Report 2013

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

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

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

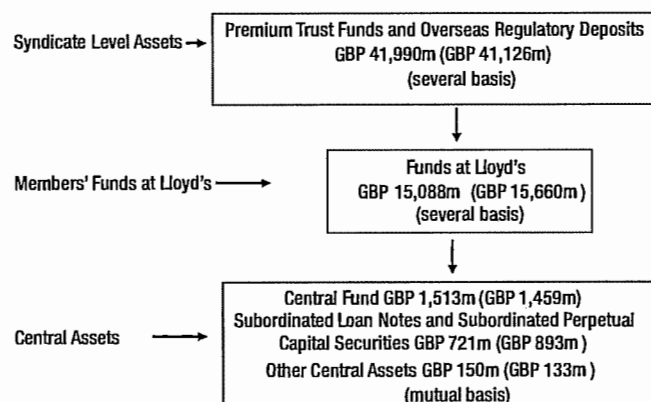
Most members underwrite with limited liability; however, if substantial underwriting losses are made, those members that wish to continue to underwrite new business at Lloyd's will have to provide additional funds to support any outstanding underwriting obligations. This requirement in effect provides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

Overall Capitalisation

Any assessment of Lloyd's capital strength is complicated by the compartmentalisation of capital at member level (see **Exhibit 11**). The first two links in the "Chain of Security" (the Premium Trust Funds and Funds at Lloyd's) are on a several rather than joint basis, meaning that any member need only meet its share of claims. However, the third and final link in the chain, Lloyd's central assets, is available, at the discretion of the Council of Lloyd's, to meet liabilities to policyholders that any member is unable to meet in full. This third link comprises the Central Fund and the net assets of the Corporation of Lloyd's, strengthened by subordinated debt and other subordinated perpetual securities. These central assets can be supplemented by funds called from members of up to 3% of their overall premium limits. It is the existence of this partially mutualising third link, and the liquid Central Fund in particular, that is the basis for a market-level rating.

In 2013, there was a decline of around 4% in the level of central assets available to meet members' unpaid cash calls to GBP 2,384 million (excluding the subordinated debt liability and the callable layer) from GBP 2,485 million. The decline was caused by the buy-back during 2013 of around GBP 180 million of outstanding subordinated debt securities. As of year-end 2013, Lloyd's subordinated loan notes and perpetual capital securities amounted to GBP 721 million compared to GBP 893 million as at year-end 2012.

Exhibit 11 Chain of Security



Note: Figures are shown as at 31 December 2013 (31 December 2012).
Source: Lloyd's Annual Report 2013

Member contributions of GBP 106 million to the Central Fund partly offset the reduction in central assets from the buy-back of subordinated debt. The contribution rate is currently 0.5% of gross written premiums. With aggregate premiums likely to remain in excess of GBP 20,000 million, the current rate of annual contributions will ensure an increase in central assets of approximately GBP 100 million a year.

The potential impact of future drawdowns on the Central Fund from existing insolvent members continues to diminish as run-off liabilities decline. As at year-end 2013, the aggregate gross reserves on run-off years of account was GBP 0.4 billion, down from GBP 7.0 billion as at year-end 2005, when 102 years of account were open beyond 36 months. As at year-end 2013, six years of account were open beyond 36 months, down from eight in 2012. Four of the eight years of account in run-off at year-end 2012 closed in 2013, while two syndicates were not able to close their 2011 year of account.

These two syndicates also have unclosed earlier years of account. One was affected by significant losses from international catastrophes in 2011 and was placed into run-off in the fourth quarter of that year by its capital providers. The other syndicate left the 2011 and 2010 years open following the sale of its capital provider.

Members' aggregate solvency shortfalls remained low during 2013, falling to GBP 34 million from GBP 94 million in 2012. As at year-end 2013, solvency deficits were covered 92.9 times by central assets (2012: 34.2 times).

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

In addition to the Central Fund and net assets of the corporation, mutualised resources also exist in the form of the subordinated debt issued by The Society of Lloyd's in November 2004 and June 2007. In 2013, Lloyd's bought back around GBP 180 million of its outstanding subordinated debt securities. As a result, total subordinated debt declined from GBP 503 million as at year-end 2012 to GBP 330 million as at year-end 2013. Following the purchases, the debt outstanding is EUR 214 million of the subordinated notes due 2024, which are callable in 2014, and GBP 153 million of the subordinated notes due 2025, which are callable in 2015. No purchases of the GBP 392 million of subordinated perpetual capital securities were made.

Lloyd's intentions regarding the potential buy-back of the EUR 214 million of subordinated notes at the call date in November 2014 have not been finalised at this stage.

The central assets which form part of net resources can be supplemented by funds called from members of up to 3% of their overall premium limits. As at year-end 2013, this callable layer of capital amounted to GBP 788 million, based on 2013 approved premium limits.

The Corporation of Lloyd's is also responsible for setting capital at member level, using a risk-based process. In 2013, members' funds at Lloyd's (FAL) decreased to GBP 15,088 million from GBP 15,660 million. Required member-level capital is determined using syndicates' Solvency Capital Requirements (SCRs) instead of their Individual Capital Assessments (ICAs), even though Solvency II has not yet replaced Individual Capital Adequacy Standards (ICAs) as the insurance industry's regulatory regime in the United Kingdom. This approach allows the Lloyd's market to benefit from its preparation for Solvency II, despite the delayed start date.

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

Historically, Lloyd's applied a 35% economic uplift to each member's ICA, based on its own assessment of its capital needs, taking into account other business objectives, including maintenance of its brand, commercial position and financial strength rating. For 2013, each member's economic capital uplift was maintained at the same absolute value as that used for 2012 final mid-year capital setting, rather than an amount based on a percentage of its ultimate SCR. Adjustments were made if there was a material change in the member's risk profile.

For 2014, Lloyd's once again set member capital by applying a flat-rate uplift to regulatory capital. The uplift percentage was 35% of the ultimate SCR, as that was determined to be the closest proxy to the previous uplift methodology applied to ICAs. The uplift will remain 35% for 2015.

Lloyd's net resources (see **Exhibit 12**) as at year-end 2013 represented 104% of net written premium income in line with 2012. Without members' balances the ratio is 86% (2011: 93%). Members' balances represent the net profit or loss to be distributed to or collected from members on behalf of the syndicates they support. Balances which are in excess of the members' capital requirements are paid out during the second quarter of the year.

Lloyd's Internal Capital Model

The Lloyd's Internal Model (LIM) was developed as part of the corporation's preparation for the introduction of the Solvency II regulatory regime. The model has been in use since 2012 and has, in A.M. Best's opinion, improved Lloyd's ability to assess both available capital and capital needs.

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

In 2012, Lloyd's agreed with the then regulator, the FSA, that Lloyd's SCR would be calculated for Solvency II purposes as the total capital consumed at a 99.5% VaR confidence level over a one-year period for the Lloyd's market as a whole (including both consumption of FAL and consumption of central assets). Lloyd's also calculates a one-year-to-ultimate SCR at the same 99.5% VaR confidence level and both numbers are used internally to assess the market's overall capital strength.

In addition, a central SCR is calculated at a 99.5% VaR confidence level over a one-year period. It captures exposure to losses that would not affect the majority of syndicates (and so would

Exhibit 12
Total Net Aggregate Resources (2012-2013)
(GBP Millions)

	2012	2013
Funds at Lloyd's	15,660	15,088
Members' Balances	2,048	3,635
Net Central Fund Assets	1,459	1,513
Subordinated Debt	503	330
Subordinated Perpetual Capital Securities	390	391
Net Assets of the Corporation	133	150
Total Net Resources	20,193	21,107

Source: Lloyd's Annual Report 2013

not erode capital at overall member level) but would have an impact on central assets. Calculating a central SCR addresses the fact that a 1-in-200 year loss to central assets could be bigger than the loss of central assets in a 1 in 200 year market loss event. By calculating both figures, Lloyd's has a better view of the likelihood that central and market level assets are sufficient.

Once Solvency II comes into effect, Lloyd's will also be subject to the Prudential Regulation Authority (PRA)'s use of Early Warning Indicators (EWIs), which are proposed as a tool for monitoring the on-going appropriateness of Solvency II internal models post approval. The EWI should serve as a non-model based check that internal capital models continue to meet the Solvency II calibration requirement (99.5% over a one-year period).

Under the current proposal, the EWI will be the ratio between the SCR and the Solvency II pre-corridor Minimum Capital Requirement (pMCR). The indicator threshold has preliminarily been set to 175% for general insurance business, including London market business.

The LIM is also used to calculate the Lloyd's Society ICA, which forms the basis of its regulatory capital requirement prior to Solvency II coming into effect. The Lloyd's Society ICA calculates the central capital needed at a 99.5% VaR confidence level on a one-year-to-ultimate basis. Lloyd's stated risk appetite is that unencumbered central assets should be at least 250% of this ICA on a business as usual basis. The PRA has, in line with the practice for many other organisations, set an Individual Capital Guidance number for Lloyd's which is higher than its ICA.

Letters of Credit

A significant proportion of FAL, 49% at year-end 2013, is accounted for by letters of credit (LOCs). Lloyd's has a robust control framework in place to monitor the counterparty risk of LOCs, and all issuers are rated A or above. The 10 largest issuers accounted for just under 90% of LOCs at the end of 2013.

Under Solvency II, it is expected that LOCs in the form that they are provided as FAL will be ranked as Tier 2 capital, and that at least 50% of the SCR must be met by Tier 1 capital. In addition to calculating capital consumed at member level and centrally, the LIM also tests whether this condition is met at different return periods.

It should be noted that although LOCs accounted for nearly 50% of FAL at year-end 2013, FAL are and will continue to be set at a level higher than required regulatory capital. Lloyd's internal analysis indicates that Tier 1 capital will be sufficient to cover at least 50% of its capital requirement at the 1:200 return period, assuming that capital tiering will be implemented at Society level, as agreed in principle by the U.K. regulator.

Under more extreme adverse loss scenarios, a shortfall in the market's overall Tier 1 capital could result. Lloyd's has a number of options to address this potential situation, including requiring that members replace LOCs with Tier 1 capital, or by converting LOCs to cash. Although the conversion of LOCs to cash would immediately increase the market's Tier 1 capital, it would leave the affected members with short-term bank debt to refinance.

Catastrophe Exposure

The catastrophe modelling work carried out centrally by Lloyd's continues to enhance its ability to assess the market's exposure to large losses and hence increase confidence in overall risk-based capital strength. In particular, the Lloyd's Catastrophe Model (LCM) allows Lloyd's to better monitor and assess market-level catastrophe risk on a probabilistic basis. The model is continuously refined as required and forms an integral part of the LIM.

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

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

For the 2014 Syndicate Business Forecasts, Lloyd's asked for syndicates' annual 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.

Each syndicate's final net loss (net of reinsurance and reinstatement premiums) for both the U.S. wind RDSs and the 1-in-30 year AEP losses should not exceed 30% of net written premiums or 30% of the syndicate's ECA. The equivalent limit for the gross loss is 80% of net written premium and 80% of the syndicate's ECA. Any exposure above these limits requires special dispensation from the PMD.

Financial Flexibility

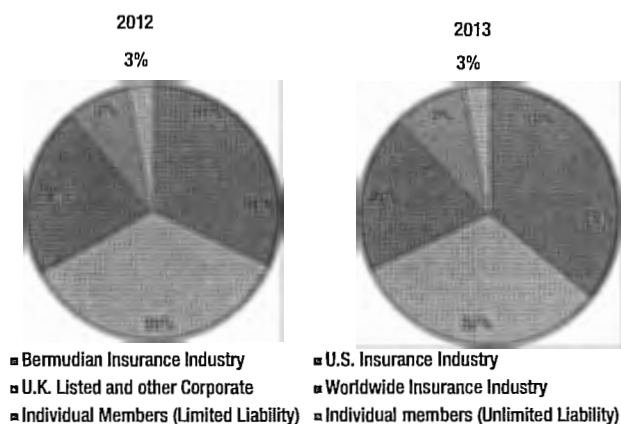
The capital to support underwriting at Lloyd's is supplied by members on an annual basis, and an important factor in A.M. Best's analysis of the market is its ability to retain and attract the capital required for continued trading. The quality of the insurance industry members of Lloyd's remains a source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

The composition of Lloyd's capital in 2012 and 2013 is shown in **Exhibit 13**. For 2013, U.K. listed and other corporate entities remained the largest investor group, representing 32% of the market's overall capacity, followed by the U.S. insurance industry and the worldwide insurance industry (excluding Bermudian and U.S. companies), which represented 21% and 20%, respectively. Bermudian insurance companies represented 15%. Individual members (Names underwriting with either limited or unlimited liability) continued to make a significant contribution at 12% of capacity. A key driver for the composition of the corporately owned capacity is merger and acquisition activity, as the acquisition of a U.K. corporate member by a Bermudian group, for example, would change the designation of the capacity involved.

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

The market continues to attract new capital, although the number of approved new entrants has reduced as market conditions have deteriorated. Lloyd's has a rigorous process in place to assess and monitor new entrants, which in A.M. Best's opinion is likely to protect overall market performance and ultimately central capital. The process is managed by Lloyd's Relationship

Exhibit 13 Composition of Capital (2012-2013)



Note: Capital providers shown as a percentage of overall capacity.
Source: Lloyd's

Management team, in conjunction with a multidisciplinary team including senior management from the PMD. All new entrant applications must be approved by the Franchise Board. Key issues that are taken into account include the applicant's preparedness for Solvency II; ability to execute its business plan in current market conditions; and having a business plan that is complementary to Lloyd's existing business.

New corporate members participating on new syndicates are required to contribute to the Central Fund at a higher rate for their first three years of operations at Lloyd's (2% of gross written premiums rather than 0.5%). The capital requirement for new syndicates is also higher. Initial capital requirements are set using Lloyd's internal capital model, which includes a 20% new syndicate loading.

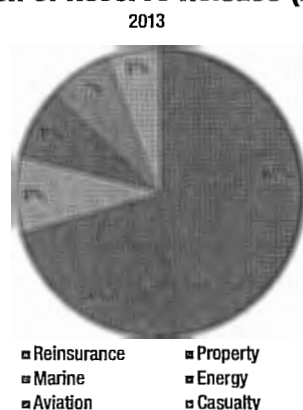
Reserve Quality

Lloyd's underwriting performance was supported by reserve releases for the ninth successive year in 2013, with their contribution to earnings increasing compared to 2012 and 2011. Positive development of prior year claims is expected to contribute to the result again in 2014, driven by the release of margins for catastrophe exposed business in particular.

In recent years the market's overall reserve release has been driven by releases from the reinsurance and property classes. For example, in 2013 these two classes together accounted for 71% of the overall release, as shown in Exhibit 14. In contrast, the contribution of casualty business to the overall release has been small since 2010 and represented only 6% in 2013.

Aviation was a significant contributor in 2013, with its reserve release accounting for significantly more than would be suggested by the size of the class. This class, which is also highly catastrophe exposed, has benefited from an absence of large losses in recent years, allowing insurers to build up large margins in reserves which can then be released in subsequent years.

Exhibit 14 Composition of Reserve Release (2013)



Note: Motor has been excluded.
Source: Lloyd's

Note that motor has been excluded from the analysis in **Exhibit 14**, as reserves for this class were strengthened last year.

In 2013, Lloyd's technical results benefited from a GBP 1,575 million prior-year reserve release, which improved the calendar-year combined ratio by 8 percentage points. This compared with GBP 1,351 million and 7.2 percentage points in 2012.

Positive reserve development reduced combined ratios for all the main classes of business, except for motor, which was subject to reserve

strengthening. Aviation saw the most significant improvement of its combined ratio from prior-year development, at 23.7 percentage points. The large release was supported by incurred development in 2013 that was lower than the class's historical average.

For the energy class, prior year releases improved the combined ratio by 11.3% in 2013. This class has made large reserve releases since 2010. Smaller releases were made in 2009 and 2008.

For reinsurance and property insurance, positive prior year development improved the combined ratio by 11.2 and 8.4 percentage points, respectively. Reserves for most of the 2011 catastrophes and for 2012's Superstorm Sandy remained stable, while net reserves for the 2011 Thai floods developed favourably. In addition, both classes benefited from the release of catastrophe loadings in held reserves.

For the marine class, prior year movements improved the combined ratio by 7.4 percentage points, up from 3.9 percentage points in 2012. Reserves for Costa Concordia deteriorated on a gross basis, but this deterioration was mitigated by reinsurance and by positive reserve developments in other areas. In 2012, the overall release was reduced by strengthening of the 2011 MV Rena loss reserve.

Reserve releases from casualty improved the combined ratio by 2.4 percentage points in 2013, as compared to 4.8 percentage points in 2012. Reserves established for business written between 2002 and 2006 continued to develop favourably, although some strengthening was again required on more recent years of account, in particular for the financial institutions and general liability lines.

Motor reserves deteriorated in 2013, adding 4.2 percentage points to the combined ratio. Reserves were relatively stable in 2011 and 2012, following strengthening in 2009 and 2010 due to claims inflation in relation to the frequency and severity of personal injury awards and increasing credit hire costs. In 2010, prior year movements increased the sector's combined ratio by 36.7 percentage points (2009: 3.9 points), with the largest increases required for the 2009 year of account. Considerable uncertainty remains regarding future claims inflation for this line.

Syndicates in run-off have historically been the principal source of reserve deterioration for Lloyd's. However, Lloyd's exposure to the liabilities of existing insolvent members has significantly reduced, principally due to better management of run-off years. In 2010, an on-going focus on promoting efficiency and finding a means to close syndicates (largely through third-party reinsurance to close) supported a fall in the number of syndicate years of account in run-off to 10 from 22 in the previous year. Further small reductions have been made in recent years. As at year-end 2013, six years of account were open beyond 36 months. Four of the eight years of account in run-off at year-end 2012 closed in 2013, while two syndicates failed to close their 2011 year of account.

Run-off years generated a breakeven underwriting result in 2013, following losses of GBP 31 million in 2012 and GBP 90 million in 2011. Between 2008 and 2010 this business generated underwriting profits. However, the closure of the better performing years of account in run-off in 2010 reversed that trend. The continued closure of run-off years means the scale of the associated reserves is now small.

1992 and Prior Reserving: Equitas

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

reserves was further reduced by the High Court order in June 2009 approving the statutory transfer of 1992 and prior non-life business of members and former members of Lloyd's to Equitas Insurance Ltd., a new company in the Equitas group.

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

Liquidity

In A.M. Best's opinion, Lloyd's is likely to maintain good overall liquidity in 2014. 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. The value of premium trust funds and overseas deposits was GBP 41,990 million in 2013 compared to GBP 41,126 million in 2012.

Lloyd's also monitors projected liquidity for its central assets, which are tailored to meet the disbursement requirements of the Central Fund and the Corporation of Lloyd's (including its debt obligations). In 2013, there was a small decrease in Lloyd's central assets – the Central Fund, corporation assets and subordinated debt – to GBP 2,384 million from GBP 2,485 million in the previous year. In May 2013 Lloyd's bought back approximately GBP 180 million of subordinated debt but this was partly offset by the receipt of member contributions for 2013 (0.5% of gross written premiums).

Members' FAL decreased slightly to GBP 15,088 million at year-end 2013 (2012: GBP 15,660 million). FAL are provided either by letters of credit (LOCs) (2013: 49%) or by other readily realisable assets held in trust. LOCs remain widely available, and members are generally able to renew LOCs where required.

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

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

Management

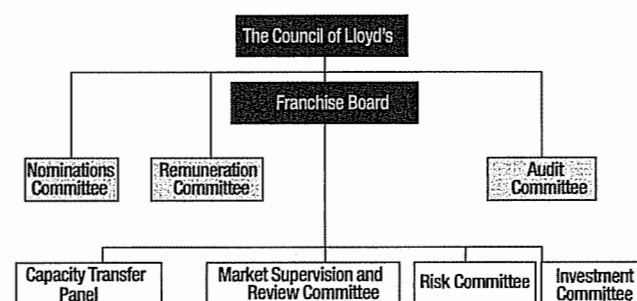
A.M. Best believes that Lloyd's has a strong governance structure in place and a multi-layered approach to enterprise risk management (ERM), which enables it to monitor and control risk within the underwriting market. At the core of Lloyd's governance structure is the Franchise Board, the members of which are appointed by the Council of Lloyd's and are drawn from both

within and outside the Lloyd's market. The main purpose of the Franchise Board is to oversee trading activities within the Lloyd's market from a commercial perspective, although this does not extend to active management of Lloyd's overall business mix.

In A.M. Best's opinion, the franchise concept is a constructive approach by Lloyd's to maintaining good market performance and protecting the Central Fund. Lloyd's monitors its syndicates closely and, through different functional departments within the Corporation, remains abreast of the leading trends that can have an impact on future performance. It undertakes targeted reviews to address potential market issues and continues to enhance the workings of the franchise structure.

The oversight of market participants is supported by the activities of the Performance Management Directorate (PMD), which is responsible for monitoring performance, both against each syndicate's original plan and against actual results for similar types of business written by other syndicates. The directorate continues to improve its data and analysis tools, most recently through the introduction of the Performance Management Data Return.

Exhibit 15
Governance Structure



Source: Lloyd's Annual Report 2013

The PMD also plays a key role in syndicate business plan and capital approvals through the Capital and Planning Group (CPG). The CPG was formed in 2013, following the merger of the Business Plan and Capital Steering Groups (BPSG and CSG). It is a cross directorate and multi-functional decision making group, led by the heads of the PMD and Finance Directorate, and is responsible for the approval of both syndicate business plans and capital requirements on a one year and ultimate basis before economic uplift. In A.M. Best's opinion, the merger of the two steering groups should lead to a more joined up approach to business planning and capital setting, with more consistent use of management information and data across teams.

The franchise structure gives Lloyd's a clear focus on its downside risk. Detailed performance analysis, sophisticated capital modelling, a clear strategy for claims and reinsurance recoveries, coordination of risk management across the franchise, and management of open years and syndicate run-offs are all drawn together to control risk and exposure. This approach allows the Franchise Board to respond quickly to potential issues that may affect the entire market.

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

Enterprise Risk Management

Lloyd's has a comprehensive risk management framework in place, which is designed to manage risks arising from the market and the Corporation itself. Reporting to the Franchise Board is the Risk Committee (RC), responsible for the identification and management of Lloyd's key risks, which include the insurance cycle, the economic climate and regulatory development. In 2014, Lloyd's appointed a Chief Risk Officer with a seat on the Franchise Board. A.M. Best believes this appointment will enhance the appreciation of the risk framework at board level.

The RC has three subcommittees, the Syndicate Risk Committee (SRC), the Financial Risk Committee (FRC) and the Corporation Risk Committee (CRC). While enterprise risk management at syndicate level is the responsibility of individual managing agents, the SRC uses a risk-based approach to assess to what extent the agents themselves need to be monitored by the Corporation. The FRC considers risks from any of the three Lloyd's funds (Central Fund, Premium Trust Funds, Funds at Lloyd's) or affecting the aggregate chain of security, such as counterparty concentrations in the context of LOCs and asset disposition given the trend for syndicates to marginally increase the risk profile of their investment portfolios to improve yield. The CRC considers all non-financial risk within the Corporation, including the operational and reputational risk associated with overseas offices and market modernisation.

As part of its risk management framework, Lloyd's has put in place an enhanced stress/scenario testing process. This process is designed to consider four types of scenario or event – stress testing, scenario analysis, reverse stress testing and operational risk capital setting. All types of risk can be addressed, including emerging risks, and the iterative process, which involves relevant risk committees and teams from each Lloyd's directorate, identifies the actions to be taken and reported to the RC and Franchise Board.

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

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

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

Reinsurance

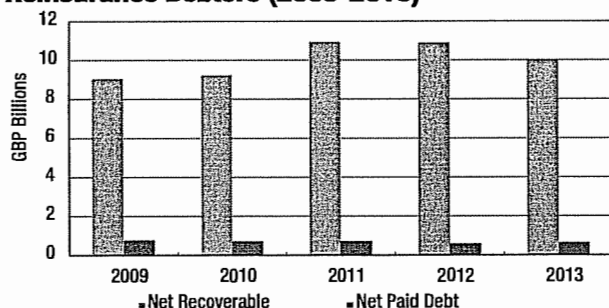
Lloyd's continues to monitor its reinsurance exposure through a range of submitted returns, complemented by monitoring of Realistic Disaster Scenarios (RDS) for individual syndicates. The security required by managing agents for their syndicate reinsurance programmes is reviewed on a regular basis in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

Lloyd's reinsurance ceded was stable at approximately 17% in 2013 (excluding reinsurance placed within Lloyd's). The PMD's on-going focus on syndicate business plans and their reinsurance dependence is expected to support continued stability in this ratio in 2014. The Lloyd's reinsurance panel remains well diversified, with the top 10 external reinsurance groups accounting for 44% of total reinsurance recoverables in 2013 (2012: 42%).

Exhibit 16 shows the development in Lloyd's net recoverables and total net paid debt. Total net reinsurance recoverables were down to GBP 10.0 billion at year-end 2013 from GBP 10.9 billion in 2012, partly reflecting benign catastrophe experience during the year.

Exhibit 16

Reinsurance Debtors (2009-2013)



Source: Lloyd's

Appendix 1

Gross Written Premium by Syndicate (2013)

(GBP Millions)

Syndicate	Managing Agent	Gross Written Premium	Syndicate	Managing Agent	Gross Written Premium
33	Hiscox Syndicates Limited	823	2010	Cathedral Underwriting Limited	273
44	AmTrust at Lloyd's Limited	9	2012	Arch Underwriting at Lloyd's Ltd	158
218	Equity Syndicate Management Limited	406	2015	Asta Managing Agency Limited	124
260	Canopus Managing Agents Limited	67	2088	Catlin Underwriting Agencies Limited	49
308	R. J. Kiln & Co. Limited	31	2121	Argenta Syndicate Management Limited	239
318	Beaufort Underwriting Agency Limited	149	2232	Capita Managing Agency Limited	96
382	Hardy (Underwriting Agencies) Limited	291	2357	Asta Managing Agency Limited	9
386	QBE Underwriting Limited	449	2468	Marketform Managing Agency Limited	186
402	Ark Syndicate Management Limited	359	2488	ACE Underwriting Agencies Limited	371
435	Faraday Underwriting Limited	234	2525	Asta Managing Agency Limited	39
457	Munich Re Underwriting Limited	511	2526	Asta Managing Agency Limited	53
510	R. J. Kiln & Co. Limited	1,169	2623	Beazley Furlonge Limited	1,093
557	R. J. Kiln & Co. Limited	30	2791	Managing Agency Partners Limited	261
609	Atrium Underwriters Limited	380	2987	Brit Syndicates Limited	1,183
623	Beazley Furlonge Limited	240	2999	QBE Underwriting Limited	1,118
727	S.A. Meacock & Company Limited	70	3000	Markel Syndicate Management Limited	369
779	ANV Syndicates Limited	26	3002	Catlin Underwriting Agencies Limited	10
780	Advent Underwriting Limited	135	3010	Cathedral Underwriting Limited	27
958	Canopus Managing Agents Limited	172	3210	Mitsui Sumitomo Insurance Underwriting at Lloyd's Limited	343
1084	Chaucer Syndicates Limited	888	3334	Sportscover Underwriting Limited	88
1110	Argenta Syndicate Management Limited	103	3622	Beazley Furlonge Limited	13
1176	Chaucer Syndicates Limited	27	3623	Beazley Furlonge Limited	134
1183	Talbot Underwriting Limited	698	3624	Hiscox Syndicates Limited	306
1200	Argo Managing Agency Limited	425	4000	Pembroke Managing Agency Limited	273
1206	AmTrust at Lloyd's Limited	183	4141	HCC Underwriting Agency Limited	87
1209	XL London Market Limited	307	4242	Asta Managing Agency Limited	80
1218	Newline Underwriting Management Limited	106	4444	Canopus Managing Agents Limited	704
1221	Navigators Underwriting Agency Limited	235	4472	Liberty Syndicate Management Limited	1,268
1225	AEGIS Managing Agency Limited	367	4711	Aspen Managing Agency Limited	279
1274	Antares Managing Agency Limited	246	5000	Travelers Syndicate Management Limited	331
1301	Torus Underwriting Management Limited	148	5151	Montpellier Underwriting Agencies Limited	150
1400	Markel Syndicate Management Limited	166	5820	ANV Syndicates Limited	129
1414	Ascot Underwriting Limited	625	6103	Managing Agency Partners Limited	21
1458	Renaissance Re Syndicate Management Limited	141	6104	Hiscox Syndicates Limited	43
1861	ANV Syndicate Management Limited	155	6105	Ark Syndicate Management Limited	13
1880	R. J. Kiln & Co. Limited	237	6106	Amlin Underwriting Limited	36
1882	Chubb Managing Agent Limited	81	6107	Beazley Furlonge Limited	19
1897	R&Q Managing Agency Limited	75	6110	Pembroke Managing Agency Limited	41
1910	Asta Managing Agency Limited	204	6111	Catlin Underwriting Agencies Limited	108
1919	Starr Managing Agents Limited	289	6112	Catlin Underwriting Agencies Limited	38
1945	Asta Managing Agency Limited	59	6113	Barbican Managing Agency Limited	23
1955	Barbican Managing Agency Limited	279	6115	Canopus Managing Agents Limited	71
1967	W R Berkley Syndicate Management Limited	136		All other syndicates and inter-syndicate RITC adjustment	(23)
1969	ANV Syndicate Management Limited	121			
1991	R&Q Managing Agency Limited	5			
2001	Amlin Underwriting Limited	1,472			
2003	Catlin Underwriting Agencies Limited	1,911			
2007	Novae Syndicates Limited	608			
2008	Shelbourne Syndicate Services Limited	25			
			Total		26,106

Source: Lloyd's Annual Report 2013

Appendix 2

Managing Agents at 31 December 2013

(GBP Millions)

Managing Agent	Gross Written Premium	Managing Agent	Gross Written Premium
Catlin Underwriting Agencies Limited	2,116	Starr Managing Agents Limited	289
QBE Underwriting Limited	1,567	Managing Agency Partners Limited	282
Amlin Underwriting Limited	1,508	Aspen Managing Agency Limited	279
Beazley Furlonge Limited	1,499	ANV Syndicate Management Limited	276
R. J. Kiln & Co. Limited	1,467	Antares Managing Agency Limited	246
Liberty Syndicate Management Limited	1,268	Navigators Underwriting Agency Limited	235
Brit Syndicates Limited	1,183	Faraday Underwriting Limited	234
Hiscox Syndicates Limited	1,172	AmTrust at Lloyd's Limited	192
Canopus Managing Agents Limited	1,014	Marketform Managing Agency Limited	186
Chaucer Syndicates Limited	915	Arch Underwriting at Lloyd's Ltd	158
Talbot Underwriting Limited	698	ANV Syndicates Limited	155
Ascot Underwriting Limited	625	Montpellier Underwriting Agencies Limited	150
Novae Syndicates Limited	608	Beaufort Underwriting Agency Limited	149
Asta Managing Agency Limited	568	Torus Underwriting Management Limited	148
Markel Syndicate Management Limited	535	Renaissance Re Syndicate Management Limited	141
Munich Re Underwriting Limited	511	W R Berkley Syndicate Management Limited	136
Argo Managing Agency Limited	425	Advent Underwriting Limited	135
Equity Syndicate Management Limited	406	Newline Underwriting Management Limited	106
Atrium Underwriters Limited	380	Capita Managing Agency Limited	96
Ark Syndicate Management Limited	372	Sportscover Underwriting Limited	88
ACE Underwriting Agencies Limited	371	HCC Underwriting Agency Limited	87
AEGIS Managing Agency Limited	367	Chubb Managing Agent Limited	81
Mitsui Sumitomo Insurance Underwriting at Lloyd's Limited	343	R&Q Managing Agency Limited	80
Argenta Syndicate Management Limited	342	S.A. Meacock & Company Limited	70
Travelers Syndicate Management Limited	331	Shelbourne Syndicate Services Limited	25
Pembroke Managing Agency Limited	314	All other syndicates and inter-syndicate RTC adjustment	(23)
XL London Market Limited	307	Total	26,106
Barbican Managing Agency Limited	302	Source: Lloyd's Annual Report 2013	
Cathedral Underwriting Limited	300		
Hardy (Underwriting Agencies) Limited	291		

Appendix 3

Overview of Premium Limits and Membership (1993-2013)

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

Only active members are shown. Members who are not underwriting but remain on the electoral register are not included in the figures.

Source: Statistics Relating to Lloyd's

Appendix 4

Pro Forma Financial Statements (2009-2013)

(GBP Millions)

	2013	2012	2011	2010	2009
Gross premiums written	26,106	25,500	23,477	22,592	21,973
Reinsurance ceded	5,875	6,065	5,005	4,936	4,755
Net premiums written	20,231	19,435	18,472	17,656	17,218
Increase/(decrease) in gross UPR	-653	-994	-473	-517	-807
Reinsurers share in UPR	147	244	101	-28	314
Earned premiums	19,725	18,685	18,100	17,111	16,725
Other technical income					
Total underwriting income	19,725	18,685	18,100	17,111	16,725
Net claims paid	10,082	10,458	9,816	8,814	9,075
Net increase/(decr) in claims provision	-501	-360	3,084	1,215	-451
Net claims incurred	9,581	10,098	12,900	10,029	8,624
Management expenses	1,869	1,706	1,468	1,475	1,304
Acquisition expenses	5,448	5,137	4,950	4,692	4,408
Net operating expenses	7,317	6,843	6,418	6,167	5,712
Other technical expenses	222	83	19	-228	69
Total underwriting expenses	7,539	6,926	6,437	5,939	5,781
Balance on technical account	2,605	1,661	-1,237	1,143	2,320
Net investment income	901	1,372	1,035	1,324	1,833
Other expenses	-301	-262	-314	-272	-285
Profit/(loss) before tax	3,205	2,771	-516	2,195	3,868
Other recognised gains and losses	-123	-52	-46	68	-34
Total recognised gains and losses	3,082	2,719	-562	2,263	3,834

Source: Lloyd's Annual Report 2013

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A.M. BEST COMPANY
WORLD HEADQUARTERS
 Ambest Road, Oldwick, NJ 08858
 Phone: +1 (908) 439-2200

WASHINGTON OFFICE
 830 National Press Building
 529 14th Street N.W., Washington, DC 20045
 Phone: +1 (202) 347-3090

A.M. BEST AMÉRICA LATINA, S.A. de C.V.
 Paseo de la Reforma 412
 Piso 23
 Mexico City, Mexico
 Phone: +52-55-5208-1264

A.M. BEST EUROPE RATING SERVICES LTD.
A.M. BEST EUROPE INFORMATION SERVICES LTD.
 12 Arthur Street, 6th Floor, London, UK EC4R 9AB
 Phone: +44 (0)20 7626-6264

A.M. BEST ASIA-PACIFIC LTD.
 Unit 4004 Central Plaza, 18 Harbour Road, Wanchai, Hong Kong
 Phone: +852 2827-3400

DUBAI OFFICE (MENA, SOUTH & CENTRAL ASIA)
 Office 102, Tower 2
 Currency House, DIFC
 PO Box 506617, Dubai, UAE
 Phone: +971 43 752 780



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**A.M. BEST COMPANY
WORLD HEADQUARTERS**
Ambest Road, Oldwick, NJ 08858
Phone: +1 (908) 439-2200


WASHINGTON OFFICE
830 National Press Building
529 14th Street N.W., Washington, DC 20045
Phone: +1 (202) 347-3090

A.M. BEST AMÉRICA LATINA, S.A. DE C.V.
Paseo de la Reforma 412
Piso 23
Mexico City, Mexico
Phone: +52-55-5208-1264

**A.M. BEST EUROPE RATING SERVICES LTD.
A.M. BEST EUROPE INFORMATION SERVICES LTD.**
12 Arthur Street, 6th Floor, London, UK EC4R 9AB
Phone: +44 (0)20 7626-6264

A.M. BEST ASIA-PACIFIC LTD.
Unit 4004 Central Plaza, 18 Harbour Road, Wanchai, Hong Kong
Phone: +852 2827-3400

A.M. BEST MENA, SOUTH & CENTRAL ASIA
Office 102, Tower 2
Currency House, DIFC
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Phone: +971 43 752 780

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Best's Rating of A+ (Superior)
Financial Size Category of XV (\$2 Billion or greater)

Rating Category (Superior): Assigned to companies that have, in our opinion, a superior ability to meet their ongoing insurance obligations. A.M. Best assigns each letter rated (A++ through D) insurance company a **Financial Size Category (FSC)**, which is designed to provide a convenient indicator of the size of a company based on reported policyholders' surplus and conditional or reserve funds.

The objective of **Best's Credit Rating System** is to provide an opinion of an insurer's financial strength and ability to meet ongoing obligations to policyholders. Our opinions are derived from the evaluation of a company's balance sheet strength, operating performance and business profile as compared to Best's quantitative and qualitative standards. View our [Best's Credit Rating Methodology](#) for more information.

While Best's Credit Ratings reflect our **opinion** of a company's financial strength and ability to meet its ongoing obligations to policyholders, they are **not a warranty**, nor are they a recommendation of a specific policy form, contract, rate or claim practice. View our [entire notice](#) for complete details.

The rating symbols "A++", "A+", "A", "A-", "B++", and "B+" are registered certification marks of the A.M. Best Company, Inc.

Note: The above information reflects the most recent Best's Credit Rating for this company, which may have been released subsequent to the creation of the following AMB Credit Report.

AMB Credit Report provides detailed business overview, extensive financial data and analytical commentary, product and geographic information, company history, as well as the rationale supporting the financial strength rating assigned by A.M. Best. These reports are updated on a regular basis based on input and analysis performed throughout the year.

Report Revision Date - 06/03/2014 *

The **Report Revision Date *** represents the last significant material change made to this report. Other non-material changes may have been made to this report subsequent to this date, but are not reflected in the report revision date. The AMB Credit Report below was created based on the following dates.

Rating and Commentary ¹	Financial ²	General Information ³
Best's Credit Rating: 01/31/2014	Time Period: Annual - 2013	Corporate Structure: N/A
Rating Rationale: 01/31/2014	Last Updated: 06/04/2014	States Licensed: N/A
Report Commentary: 06/03/2014	Status: Quality Cross Checked	Officers and Directors: 07/01/2013

***Note:** The **Rating and Commentary**¹ dates outline the most recent updates to the company's Best's Credit Rating, Rating Rationale, and Report Commentary for key rating and business changes. Report Commentary may include significant changes to the Business Profile, Risk Management, Operating Performance, Balance Sheet Strength, or Reinsurance sections of the report. The **Financial**² dates reflect the current status of the financial tables and charts found within the AMB Credit Report, including whether the data was loaded "As Received" or had been run through A.M. Best "Quality Cross Checks". The **General Information**³ dates cover key changes made to Corporate Structure, States Licensed, or Officers and Directors.

**AMB Credit Report for
SWISS REINSURANCE COMPANY LIMITED**

Operating Company Composite

Ultimate Parent: Swiss Re Ltd

Mythenquai 50/60, 8022 Zurich, Switzerland

Web: www.swissre.com

Tel: 41-43-285-2121

Fax: 41-43-285-2999

AMB#: 085009

AIIN#: AA-1460146

Ultimate Parent#: 058838

**Publicly Traded Corporation: Swiss Reinsurance Company
Ltd.**

SIX: RUKN

Report Revision Date: 06/03/2014

BEST'S CREDIT RATINGS

Best's Financial Strength Rating: A+

Outlook: Stable

Best's Issuer Credit Rating: aa-

Outlook: Stable

Best's Financial Size Category: XV

RATING RATIONALE

The following text is derived from A.M. Best's consolidated Credit Report on Swiss Reinsurance Company Limited (AMB# 085010).

Rating Rationale: The ratings reflect the Swiss Re group's excellent consolidated risk-adjusted capitalisation, strong operating performance and superior business profile as a leading global reinsurer. These positive rating factors are partially offset by the Swiss Re group's significant exposure to natural and man-made catastrophes, as well as the continued impact of soft market conditions on growth opportunities and technical profitability in the global property/casualty reinsurance market. The outlooks are stable.

The group is expected to continue to benefit from excellent consolidated risk-adjusted capitalisation, despite a decline in 2013 reflecting regular and special dividend payments, a decrease in unrealised gains reserve due to rising interest rates and an increase in the group's underwriting risk due to the expiry of its property/casualty whole account quota share with a subsidiary of Berkshire Hathaway, Inc. The group's risk-adjusted capitalisation benefits from good diversification and is enhanced by hybrid debt, including several contingent capital instruments issued in the last few years which improve financial flexibility. In addition, the Swiss Re group has negligible exposure to peripheral European sovereign debt.

The group's performance record in recent years has been strong, and the group reported very good results for 2013, with the three business segments -- Reinsurance, Corporate Solutions and Admin Re -- contributing positively to the result. The Property & Casualty Reinsurance segment in particular reported a strong profit before tax of USD 3.6 billion, benefitting from the relatively benign catastrophe experience of the year. The Life & Health Reinsurance segment reported a profit before tax of USD 434 million, despite the earnings drag from some underperforming U.S. portfolios and reserve strengthening for Australian group disability business.

The ratings benefit from the Swiss Re group's position as a leading global reinsurer, underpinned by a wide product offering and a worldwide distribution system. The Reinsurance segment is well diversified by line of business and geography. Moreover, the group's product offering is further enhanced by the commercial insurance business underwritten by Corporate Solutions and Admin Re's capabilities within the closed block life business segment.

Positive rating actions could occur if over the next several years Swiss Re group's operating performance and consolidated risk-adjusted capitalisation consistently exceed that of peer reinsurers.

Negative rating actions could occur if operating performance or consolidated risk-adjusted capitalisation were to fall below A.M. Best's expectations for the current rating level.

FIVE YEAR RATING HISTORY

<u>Date</u>	BEST'S	
	<u>FSR</u>	<u>ICR</u>
01/31/14	A+	aa-
01/23/13	A+	aa-
12/20/11	A+	aa-
12/15/10	A	a+
12/14/09	A	a+
02/27/09	A	a+
02/05/09	A+ u	aa- u

BUSINESS PROFILE

The following text is derived from A.M. Best's consolidated Credit Report on Swiss Reinsurance Company Limited (AMB# 085010).

Swiss Reinsurance Company Ltd is the main operating entity of the Swiss Re group, which is a leading and highly diversified global reinsurance group, operating through more than 60 offices in over 20 countries. The group provides reinsurance, commercial insurance and financial services throughout the world through three business segments. The business segments are Reinsurance, Corporate Solutions and Admin Re. Corporate Solutions is the name of Swiss Re's commercial insurance business while Admin Re focuses on closed books of in-force life and health insurance business either through acquisitions or reinsurance.

Swiss Re is a leader in the insurance-linked securitizations (ILS) market, which continues to see strong activity.

The group's Reinsurance segment comprises both property/casualty and life/health reinsurance. The group is a global leader in this segment with a particularly strong profile in property/casualty reinsurance as well as mortality life reinsurance. It has a reputation for innovative reinsurance and risk management solutions.

Swiss Reinsurance Company Ltd is the group's main operating entity within this segment. European Reinsurance Co Zurich, Swiss Re Europe S.A., Swiss Re Life & Health America and Swiss Reinsurance America Corp all also primarily write business within the Reinsurance segment.

The Swiss Re group's largest book of business remains property/casualty reinsurance, accounting for approximately 50% of net earned premium (NEP) at year-end 2013. Traditional property and traditional casualty reinsurance business comprised 48% and 37% of NEP for this segment respectively, with specialty reinsurance business accounting for the remaining 15% of property/casualty NEP in 2013.

In January 2008, Swiss Re entered into a significant quota share arrangement by ceding a 20% share in new and renewed property/casualty business to Berkshire Hathaway. The agreement expired at year-end 2012 and was not renewed by Swiss Re. As a result, net written premiums (NWP), and to a lesser extent net earned premiums, for the property/casualty reinsurance and corporate solutions business segments grew significantly in 2013. NWP for property/casualty reinsurance increased by 30% in 2013. Gross written premiums (GWP) by contrast grew by only 6.5%.

Life & Health Reinsurance is the group's second largest segment, accounting for 35 % of NEP at year-end 2013, with life business accounting for 67% and health business for the remaining 33%. The group has a particularly strong profile in the mortality life insurance market.

The group also offers solutions and services for closed blocks of business or run-off portfolios through its Admin Re unit, which accounted for 3% of NEP in 2013.

The Corporate Solutions segment offers commercial insurance products and risk management solutions to large multi-national corporations in particular. The segment accounts for approximately 10% of the group's NEP (as at year-end 2013).

Swiss Re Corporate Solutions Ltd is the operating holding company for the entities writing business within the Corporate Solutions business segment. In addition, Swiss Re International SE, Westport Insurance Corp., North American Elite Insurance, First Speciality Insurance Corp., North America Capacity Insurance, North American Speciality Insurance, and Washington International Insurance Company primarily write business within this segment.

NWP for the Corporate Solutions segment increased by 28 % in 2013, as a result of the non-renewal of the whole account quota share, which covered all of the group's property/casualty business and therefore also Corporate Solutions. GWP grew by 4.5% in the same period.

The Americas became Swiss Re's largest geographical area in 2013, accounting for 40% of NEP and fees income, with Europe, the Middle East and Africa accounting for nearly as much at 39%

of NEP and fees income, and Asia-Pacific generating 21%. Swiss Re sees significant growth potential in Asia and Latin America and in 2013 made investments in several insurance operations in these areas.

OPERATING PERFORMANCE

The following text is derived from A.M. Best's consolidated Credit Report on Swiss Reinsurance Company Limited (AMB# 085010).

Operating Results: The Swiss Re group has achieved profitable results since 2008, when a post-tax loss of CHF 864 million was reported, reflecting unprecedented investment losses and further write-downs in its structured credit default swap portfolio.

The group reported a strong result for 2013, with a post-tax profit of USD 4.4 billion. The result is roughly in line with 2012, when a post-tax profit of USD 4.2 billion was achieved. The group's main divisions of Property & Casualty Reinsurance, Life & Health Reinsurance, Corporate Solutions and Admin Re all contributed positively to the results in both 2013 and 2012.

The group's Property & Casualty Reinsurance division produced very strong results in both 2013 and 2012. The division benefitted from below average catastrophe experience in 2013, while 2012 saw losses from Hurricane Sandy, earthquakes in Northern Italy and the grounding of Costa Concordia. In 2011, by contrast a small underwriting loss was reported due to exposure to the year's multiple catastrophe events. All three years benefitted from reserve releases.

The group's Life & Health Reinsurance division also reported positive net income in 2013 although the result deteriorated compared to 2012. Both years were affected by the continued earnings drag from underperforming portfolios in the U.S. and the low interest rate environment. In addition, the result for 2013 was affected by reserve strengthening for Australian group disability business.

The post-tax profit of the Corporate Solutions division improved in 2013, following strong growth in net earned premiums. The division's combined ratio improved slightly benefitting from below average catastrophe experience, partly offset by an increase in expenses.

Admin Re's result improved in 2013 compared to 2012, which was affected by a loss of USD 399 million related to the sale of Admin Re's US business which closed in September 2012. The division achieved strong gross cash generation in both years.

Underwriting Results: The Swiss Re group's property/casualty underwriting results have been solid over the past five years, with a strong result achieved in 2013, benefitting from below average catastrophe experience. Prior year reserve developments also contribute to a result.

In 2012, underwriting results were also very strong with a combined ratio of just over 80% for the Property & Casualty Reinsurance segment. The result benefitted from favourable prior year reserve development and natural catastrophe loss events were below the group's catastrophe budget, despite Hurricane Sandy. Corporate Solutions also produced a good underwriting profit, despite exposure to catastrophe losses exceeding the group's budget for this division.

Swiss Re's property/casualty underwriting made a small loss in 2011. This result included the multiple worldwide catastrophes during the year including the Japan earthquake and tsunami, New Zealand quake and Thailand floods.

Investment Results: The Swiss Re group has reported positive investment returns, including realised and unrealised gains, every year since 2008, when investment activities made a loss. In 2009, the group undertook to de-risk its investment portfolio and consequently, both short-term investments and cash increased as a percentage of the overall portfolio.

The group emphasises a high quality and well diversified investment portfolio with significant holdings in cash, short-term deposits, government bonds or government-backed instruments. In 2013, the group moderately rebalanced its investment portfolio by increasing its exposure to corporate bonds and listed equities.

BALANCE SHEET STRENGTH

The following text is derived from A.M. Best's consolidated Credit Report on Swiss Reinsurance Company Limited (AMB# 085010).

Capitalization: The Swiss Re group benefits from excellent consolidated risk-adjusted capitalisation. Capitalisation is enhanced by subordinated debt and benefits from the group's diversified portfolio. In addition, the Swiss Re group has negligible exposure to peripheral European sovereign debt.

The group's underwriting risk increased in 2013, as a result of the expiration of its 20% property/casualty quota share with a subsidiary of Berkshire Hathaway Inc., leading to an increase in net written premiums and net catastrophe risk. Despite this increase, consolidated risk-adjusted capitalisation remained excellent.

The Swiss Re group's current excellent level of capitalisation represents a strong recovery from year-end 2008 when shareholders' equity dropped to CHF 20.5 billion.

Swiss Re's financial flexibility remains very strong and it has open access to liquidity sources, if necessary. In 2012 and 2013 the group has issued a number of contingent capital subordinated securities, which enhance its financial flexibility.

Loss Reserves: The Swiss Re group has benefitted from overall positive reserve developments in recent years for property/casualty reserves. Expected claims on accident years 2003 to 2010 had all developed positively overall on a net basis to year-end 2012. Expected claims on pre-2003 accident years, by contrast, showed overall adverse development over the years (to year-end 2012). Property and casualty reserves are set on a best-estimate basis as required by US GAAP.

Summarized Accounts as of December 31, 2013

Data reflected within all tables of this report has been compiled from the financial statements of this company (Source: Company Financial Statement).

An independent audit of the company's affairs through December 31, 2013, was conducted by PricewaterhouseCoopers AG.

US \$ per Local Currency Unit 1.1233 = 1 Swiss Franc (CHF)

STATEMENT OF INCOME

	12/31/2013 CHF(000)	12/31/2013 USD(000)
Combined technical account:		
Gross premiums written	16,223,000	18,223,296
Reinsurance ceded	5,195,000	5,835,544
Net premiums written	11,028,000	12,387,752
Increase/(decrease) in gross unearned premiums	756,000	849,215
Increase/(decrease) in reinsurers share unearned premiums	221,000	248,249
Net premiums earned	10,493,000	11,786,787
Other technical income	1,141,000	1,281,685
Total revenue	11,634,000	13,068,472
Net claims paid	7,612,000	8,550,560
Net increase/(decrease) in claims provision	-1,310,000	-1,471,523
Net claims incurred	6,302,000	7,079,037
Net increase/(decrease) in long term business provision	2,578,000	2,895,867
Management expenses	919,000	1,032,313
Acquisition expenses	1,604,000	1,801,773
Net operating expenses	2,523,000	2,834,086
Total underwriting expenses	11,403,000	12,808,990
Balance on combined technical account	231,000	259,482
Non-technical account:		
Net investment income	3,904,000	4,385,363
Realised capital gains/(losses)	921,000	1,034,559
Unrealised capital gains/(losses)	-2,202,000	-2,473,507
Other income/(expense)	-204,000	-229,153
Profit/(loss) before tax	2,650,000	2,976,745
Taxation	159,000	178,605
Profit/(loss) after tax	2,491,000	2,798,140
Increase/(decrease) in the equalisation provision	400,000	449,320
Retained Profit/(loss) for the financial year	2,091,000	2,348,820
Retained Profit/(loss) carried forward	2,091,000	2,348,820

MOVEMENT IN CAPITAL & SURPLUS

	12/31/2013 CHF(000)	12/31/2013 USD(000)
Capital & surplus brought forward	12,342,000	13,863,769
Profit or loss for the year	2,091,000	2,348,820
Dividend to shareholders	-2,636,000	-2,961,019
Total change in capital & surplus	-545,000	-612,199

Capital & surplus carried forward	11,797,000	13,251,570
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ASSETS

	12/31/2013 CHF(000)	12/31/2013 % of total	12/31/2013 USD(000)
Cash & deposits with credit institutions	8,573,000	10.1	9,630,051
Bonds & other fixed interest securities	16,317,000	19.3	18,328,886
Shares & other variable interest instruments	1,524,000	1.8	1,711,909
Liquid assets	26,414,000	31.2	29,670,846
Mortgages & loans	792,000	0.9	889,654
Inter-company investments	15,336,000	18.1	17,226,929
Other investments	5,442,000	6.4	6,112,999
Total investments	47,984,000	56.7	53,900,427
Reinsurers' share of technical reserves - unearned premiums	2,529,000	3.0	2,840,826
Reinsurers' share of technical reserves - claims	5,101,000	6.0	5,729,953
Reinsurers' share of technical reserves - life	1,133,000	1.3	1,272,699
Total reinsurers share of technical reserves	8,763,000	10.3	9,843,478
Deposits with ceding companies	12,407,000	14.7	13,936,783
Insurance/reinsurance debtors	5,241,000	6.2	5,887,215
Inter-company debtors	6,874,000	8.1	7,721,564
Other debtors	442,000	0.5	496,499
Total debtors	12,557,000	14.8	14,105,278
Fixed assets	63,000	0.1	70,768
Prepayments & accrued income	984,000	1.2	1,105,327
Other assets	1,924,000	2.3	2,161,229
Total assets	84,682,000	100.0	95,123,291

LIABILITIES

	12/31/2013 CHF(000)	12/31/2013 % of total	12/31/2013 USD(000)
Capital	34,000	0.0	38,192
Paid-up capital	34,000	0.0	38,192
Non-distributable reserves	8,707,000	10.3	9,780,573
Claims equalisation reserve	800,000	0.9	898,640
Other reserves	928,000	1.1	1,042,422
Retained earnings	37,000	0.0	41,562
Current year net income	2,091,000	2.5	2,348,820
Capital & surplus	12,597,000	14.9	14,150,210
Gross provision for unearned premiums	4,988,000	5.9	5,603,020
Gross provision for outstanding claims	29,524,000	34.9	33,164,309
Gross provision for long term business - life	13,268,000	15.7	14,903,944

Total gross technical reserves	47,780,000	56.4	53,671,274
Long term borrowings	9,518,000	11.2	10,691,569
External borrowings	9,518,000	11.2	10,691,569
Deposits received from reinsurers	4,460,000	5.3	5,009,918
Insurance/reinsurance creditors	2,901,000	3.4	3,258,693
Total creditors	2,901,000	3.4	3,258,693
Accruals & deferred income	229,000	0.3	257,236
Other liabilities	7,197,000	8.5	8,084,390
Total liabilities & surplus	84,682,000	100.0	95,123,291

HISTORY

As a leading and highly diversified global reinsurer, Swiss Re offers financial services products that enable risk-taking essential to enterprise and progress.

Swiss Re was founded in Zurich, Switzerland in 1863. The group operates through offices in more than 20 countries and provides its expertise and services to clients throughout the world. Swiss Re's traditional reinsurance products and related services for property and casualty, as well as the life and health business are complemented by insurance-based corporate finance solutions and supplementary services for comprehensive risk management.

Swiss Re has a long-standing commitment to corporate responsibility. Swiss Re believes that these areas of the company's business are particularly important to fulfill this commitment: corporate governance regime, efforts to implement sustainability considerations in its business and the company's activities as a good corporate citizen. These three areas form the pillars of Swiss Re's corporate responsibility framework.

MANAGEMENT

Swiss Re's Board of Directors has delegated the conduct of business operations to the Executive Committee and the Executive Board. The Executive Committee comprises the CEO and the Heads of Global Functions. It is responsible for managing and coordinating the group's operations. The Executive Board comprises the members of the Executive Committee and further senior executives. It supports the Executive Committee as a sounding forum and reviews the group's strategy and business policies as well as the group plan.

Members of the Executive Committee and the Executive Board are appointed by the Board of Directors upon recommendation of the CEO and after consultation with the Compensation Committee.

Michel Liés, CEO has overall responsibility over the Executive Committee. Mr. Liés joined the Life department of Swiss Re in Zurich in 1978. In 1994 he transferred to the non-life sector and was appointed Head of Southern Europe / Latin America in 1997. Mr. Liés became a member of the Executive Board in 1998 and was appointed CEO on 1 February 2012.

OFFICERS

CEO: Michel M. Lies
COO: Thomas Wellauer
CFO: George Quinn

Chief Investment Officer: Gudio Furer
Chief Underwriting Officer: Matthias Weber
Chief Risk Officer: David Cole

DIRECTORS

Jakob Baer
 Rajna Gibson Brandon
 Raymund Breu
 Mathis Cabiallavetta (Vice Chairman)
 Raymond K. F. Ch'ien
 John R. Coomber
 Renato Fassbind

C. Robert Henrikson
 Walter B. Kielholz (Chairman)
 Malcolm D. Knight
 Hans Ulrich Maerki
 Carlos E. Represas
 Jean-Pierre Roth

BALANCE SHEET ITEMS

	CHF (000) <u>2013</u>	CHF (000) <u>2012</u>	CHF (000) <u>2011</u>	CHF (000) <u>2010</u>	CHF (000) <u>2009</u>
Liquid assets	26,414,000	28,831,000	26,140,000	31,655,000	30,769,000
Total investments	47,984,000	55,359,000	53,145,000	57,334,000	55,493,000
Total assets	84,682,000	91,515,000	94,895,000	103,652,000	105,253,000
Total gross technical reserves	47,780,000	49,542,000	48,906,000	51,510,000	53,050,000
Net technical reserves	39,017,000	38,769,000	37,932,000	43,045,000	45,905,000
Total liabilities	72,085,000	78,773,000	77,144,000	84,345,000	85,983,000
Capital & surplus	12,597,000	12,742,000	17,751,000	19,307,000	19,270,000

INCOME STATEMENT ITEMS

	CHF (000) <u>2013</u>	CHF (000) <u>2012</u>	CHF (000) <u>2011</u>	CHF (000) <u>2010</u>	CHF (000) <u>2009</u>
Gross premiums written	16,223,000	16,348,000	13,850,000	15,541,000	13,776,000
Net premiums written	11,028,000	10,668,000	9,154,000	12,055,000	10,162,000
Balance on technical account(s)	231,000	1,302,000	1,883,000	447,000	1,483,000
Profit/(loss) before tax	2,650,000	4,286,000	-442,000	569,000	1,327,000
Profit/(loss) after tax	2,491,000	4,000,000	-613,000	380,000	1,070,000

LIQUIDITY RATIOS (%)

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Total debtors to total assets	14.8	9.7	14.2	12.4	21.1
Liquid assets to net technical reserves	67.7	74.4	68.9	73.5	67.0
Liquid assets to total liabilities	36.6	36.6	33.9	37.5	35.8
Total investments to total liabilities	66.6	70.3	68.9	68.0	64.5

LEVERAGE RATIOS (%)

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Net premiums written to capital & surplus	87.5	83.7	51.6	62.4	52.7
Net technical reserves to capital & surplus	309.7	304.3	213.7	223.0	238.2
Gross premiums written to capital & surplus	128.8	128.3	78.0	80.5	71.5
Gross technical reserves to capital & surplus	379.3	388.8	275.5	266.8	275.3
Total debtors to capital & surplus	99.7	69.4	76.0	66.7	115.5
Total liabilities to capital & surplus	572.2	618.2	434.6	436.9	446.2

PROFITABILITY RATIOS (%)

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Return on net premiums written	22.6	37.5	-6.7	3.2	10.5
Return on total assets	2.8	4.3	-0.6	0.4	1.0
Return on capital & surplus	19.7	26.2	-3.3	2.0	5.8

Find out more about our [Market Segment Outlooks](#), indicating the potential future direction of company ratings within a segment over the next 6 to 18 months.

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 Best's 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 Debt/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.

In arriving at a rating decision, A.M. Best relies on third-party audited financial data and/or other information provided to it. While this information is believed to be reliable, A.M. Best does not independently verify the accuracy or reliability of the information. Any and all ratings, opinions and information contained herein are provided "as is," without any express or implied warranty.

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AMB Credit Report BCR08282014

003126 - Transatlantic Reinsurance Company

Report Revision Date: 04/11/2014

Rating and Commentary ¹	Financial ²	General Information ³
Best's Credit Rating: 04/02/2014 Rating Rationale: 04/02/2014 Report Commentary: 04/02/2014	Time Period: 2nd Quarter - 2014 Last Updated: 08/25/2014 Status: Quality Cross Checked	Corporate Structure: N/A States Licensed: 05/28/2013 Officers and Directors: 04/11/2014
 Best's Credit Rating Methodology	Disclaimer	 Best's Rating Guide

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¹ The **Rating and Commentary** dates outline the most recent updates to the company's Best's Credit Rating, Rating Rationale, and Report Commentary for key rating and business changes. Report Commentary may include significant changes to the Business Profile, Risk Management, Operating Performance, Balance Sheet Strength, or Reinsurance sections of the report.

² The **Financial** dates reflect the current status of the financial tables and charts found within the AMB Credit Report, including whether the data was loaded "As Received" or had been run through A.M. Best "Quality Cross Checks".

³ The **General Information** dates cover key changes made to Corporate Structure, States Licensed, or Officers and Directors.

Ultimate Parent: [Alleghany Corporation](#)

Transatlantic Reinsurance Company

One Liberty Plaza, 165 Broadway, New York, New York, United States 10006-1436

Tel.: 212-365-2200

Web: www.transre.com

Fax: 212-365-2360

AMB #: 003126

Ultimate Parent: [058309](#)

NAIC #: 19453

FEIN#: 13-5616275

Best's Credit Ratings

Best's Financial Strength Rating: A

Outlook: Positive

Best's Issuer Credit Rating: a+

Outlook: Positive

Rating Effective Date: 04/02/2014

Financial Size Category: XV

Report Revision Date: 04/11/2014

Rating Rationale

Rating Rationale: The ratings reflect Transatlantic Reinsurance Company's (TransRe) excellent business profile as a leading international reinsurance organization, with a book of business that is highly diversified by product line and geography. TransRe predominately writes casualty-oriented business and has a history of solid operating results, which have generated very strong operating cash flows. Partially offsetting these positive attributes are A.M. Best's concerns regarding conditions in the reinsurance market and the effect of additional reinsurance capacity on traditional reinsurers.

The positive outlooks also reflect TransRe's successful integration with Alleghany Corporation after its 2012 acquisition and synergies derived from Alleghany Corporation, which have allowed TransRe to increase its focus on underwriting operations and enhancing its already excellent market profile.

Operating results in 2013 were in line with TransRe's peers as the reinsurance industry posted strong underwriting results due in large part to relatively benign catastrophic activity throughout the year. TransRe's five-year average operating performance is also in line with its peer group and the company's solid operating results have produced strong cash flows over that same period.

TransRe maintains a strong, formalized risk management framework that recognizes risk categories and allocates ownership of each category. Furthermore, the company maintains an economic capital model that is used to analyze various risk scenarios and as a guide for developing business mix.

Partially offsetting these positive attributes are A.M. Best's growing concerns regarding the conditions in the reinsurance market as a whole.

Rating factors that could lead to further positive rating actions include continued consistent long-term profitability resulting in the maintenance of strong risk-adjusted capital levels. Factors that could lead to a negative rating action include outsized catastrophe or investment losses relative to its peer group, operating performance consistently below the market for several years, significant erosion in risk-adjusted capitalization or material unfavorable prior year reserve development.

Five Year Rating History

Date	BEST'S	
	FSR	ICR
04/02/2014	A	a+
02/28/2013	A	a+
02/27/2012	A	a
12/21/2010	A	a
11/10/2009	A	a
05/11/2009	A	a

Rating Unit Members

Transatlantic Reinsurance Company (AMB# 003126)

AMB#	Company	BEST'S	
		FSR	ICR
093227	TransRe London Limited	A	a+
086500	TransRe Zurich Ltd.	A	a+
003727	Fair American Ins & Rein Co	A	a+
022013	Fair American Select Ins Co	A	a+

Key Financial Indicators

Period Ending	Statutory Data (\$000)					
	Premiums Written		Pre-tax Operating Income	Net Income	Total Admitted Assets	Policyholders' Surplus
	Direct	Net				
2013	...	2,976,971	776,124	770,419	15,013,003	4,718,934
2012	...	3,074,457	386,905	345,455	14,661,505	4,179,140
2011	...	3,291,536	-80,473	-15,319	13,307,829	3,843,832
2010	...	3,247,119	435,247	355,848	13,123,865	4,325,438
2009	...	3,410,014	657,531	415,534	12,420,640	4,016,064
06/2014	...	1,563,256	325,767	295,031	14,874,432	4,756,170
06/2013	...	1,536,783	406,111	363,167	14,834,251	4,425,374

Key Financial Indicators (Continued ...)

Period Ending	Profitability			Leverage			Liquidity	
	Combined Ratio	Investment Yield (%)	Pre-Tax ROR (%)	Non-Affiliated Investment Leverage	NPW to PHS	Net Leverage	Overall Liquidity (%)	Operating Cash-flow (%)
2013	89.5	3.3	26.0	33.0	0.6	2.8	146.3	123.4
2012	103.5	3.5	12.5	21.2	0.7	3.2	140.2	138.5
2011	115.1	3.5	-2.5	19.2	0.9	3.3	141.3	120.4
2010	98.5	3.6	13.5	17.1	0.8	2.8	150.1	129.4
2009	92.8	3.9	19.1	17.0	0.8	2.9	148.6	140.3
5-Yr Avg	99.9	3.5	13.6	...	...	...	...	...
06/2014	90.3	3.1	22.2	41.3	0.6	2.7	147.4	101.5
06/2013	89.6	3.8	26.6	27.4	0.7	3.0	142.9	116.5

(*) Within several financial tables of this report, this company is compared against the Reinsurance Composite.

(*) Data reflected within all tables of this report has been compiled from the company-filed statutory statement.

Business Profile

TransRe offers capacity for treaty and facultative business, both directly and through reinsurance intermediaries. The company ranks as one of the leading global professional reinsurers based on net premiums written. The group's business emphasis focuses on the reinsurance of more complex risks, requiring a high degree of underwriting, actuarial and claims expertise. Business risks include general liability which includes specialty risks, auto liability, medical malpractice, homeowners, fire, allied lines, inland marine, ocean marine, aviation, accident and health, surety and credit. A substantial portion of the business that TransRe writes requires a high level of expertise to properly evaluate these complex risks.

Business is derived from both domestic and foreign sources. TransRe's home office is in New York City and the company is licensed or can serve as a reinsurer in all 50 states and the District of Columbia in the United States and in Puerto Rico and Guam. In addition, the company has numerous licenses and is registered or authorized to operate in various international jurisdictions throughout the world.

TransRe writes approximately half of its total net premiums outside of the United States with business substantially written on a treaty basis. Treaty business is split between pro-rata and excess of loss placements and more heavily weighted towards pro-rata. For the group as a whole, the split between casualty and property is approximately 70% and 30%, respectively.

TransRe's customer base is comprised of large national accounts, smaller regional insurers and highly focused specialized underwriters. International business has approximated half of the group's net premiums written in recent years. Over time, international growth has been spurred by the expansion of its global facilities in new and existing markets.

TransRe continues to benefit from the development of several new products as well as a strong international segment. TransRe is also recognized as a leading catastrophe excess-of-loss writer.

Scope of Operations

Total Premium Composition & Growth Analysis

Period Ending	Direct Premiums Written		Reinsurance Premiums Assumed		Reinsurance Premiums Ceded		Net Premiums Written		Net Premiums Earned	
	(\$000)	(%Chg)	(\$000)	(%Chg)	(\$000)	(%Chg)	(\$000)	(%Chg)	(\$000)	(%Chg)
2013	3,170,647	-3.4	193,676	-6.1	2,976,971	-3.2	2,988,658	-3.5
2012	3,280,711	-10.2	206,254	-42.7	3,074,457	-6.6	3,096,861	-4.5
2011	3,651,805	-0.6	360,270	-15.9	3,291,536	1.4	3,242,691	0.4
2010	3,675,627	-3.6	428,508	6.0	3,247,119	-4.8	3,230,236	-6.0
2009	3,814,364	-4.3	404,350	-18.8	3,410,014	-2.3	3,437,356	-2.4
5-Yr CAGR	XX	...	XX	-4.5	XX	-17.2	XX	-3.1	XX	-3.2
06/2014	1,682,451	2.5	119,196	13.3	1,563,256	1.7	1,468,736	-3.9
06/2013	1,641,986	-1.9	105,203	-26.1	1,536,783	0.3	1,527,661	-0.4

Territory

The company is licensed in the District of Columbia, Guam, Puerto Rico, AK, AZ, AR, CA, CO, CT, DE, FL, GA, ID, IL, IN, IA, KS, KY, LA, MA, MI, MN, MS, NE, NV, NJ, NM, NY, OH, OK, PA, SC, SD, TX, UT, WA, WV and WI. Credit is allowed for reinsurance in Maine and New Hampshire, as it is accredited or licensed in other states. Credit is allowed for reinsurance as a licensed reinsurer in AL, HI, MD, MO, MT, NC, ND, OR, RI, TN, VT, VA and WY. It is also licensed in Canada, Japan, the United Kingdom, the Dominican Republic, Hong Kong Special Administrative Region of The People's Republic of China, Bermuda, Germany, Australia and Singapore. In addition, the company is registered or authorized as a foreign reinsurer in India, Argentina (where it maintains a representative office in Buenos Aires, Transatlantic Re (Argentina) S.A.), Brazil (where it maintains a representative office in Rio de Janeiro, Transatlantic Reinsurance Company Escritorio de Representacao no Brasil Ltda.), the Republic of Panama, Bolivia, Chile, Colombia, Ecuador, El Salvador, France, Guatemala, Honduras, Mexico, Nicaragua, Paraguay, Peru, Uruguay, and Venezuela, and is authorized to maintain a representative office in Shanghai, People's Republic of China. Transatlantic Polska Sp. z o.o., a subsidiary of TRC, maintains a registered representative office in

Territory (Continued ...)

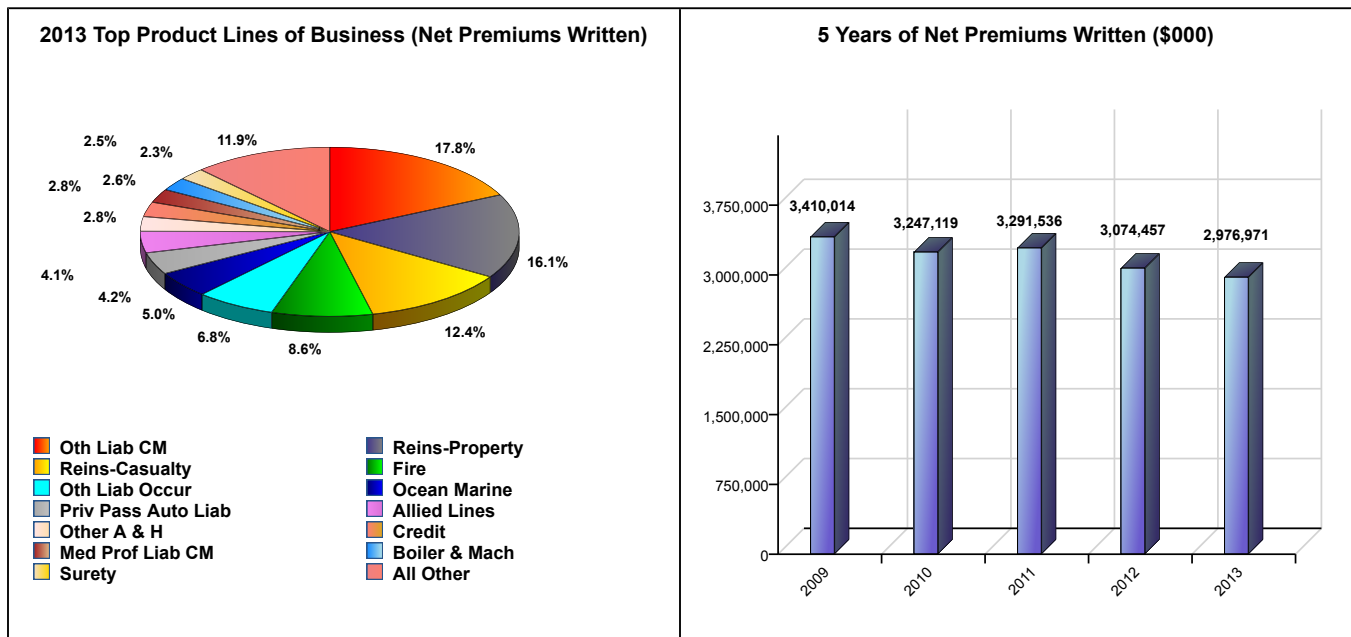
Warsaw, Poland. TransRe Zurich Ltd., a subsidiary of TRC, is licensed as a reinsurer in Switzerland and registered in Guatemala, Honduras, the Dominican Republic and Colombia.

Business Trends

2013 By-Line Business (\$000)

Product Line	Direct Premiums Written		Reinsurance Premiums Assumed		Reinsurance Premiums Ceded		Net Premiums Written		Business Retention (%)
	(\$000)	(%)	(\$000)	(%)	(\$000)	(%)	(\$000)	(%)	
Oth Liab CM	533,709	16.8	2,811	1.5	530,898	17.8	99.5
Reins-Property	565,197	17.8	86,419	44.6	478,778	16.1	88.0
Reins-Casualty	378,125	11.9	7,940	4.1	370,185	12.4	97.9
Fire	311,652	9.8	54,960	28.4	256,691	8.6	82.4
Oth Liab Occur	206,011	6.5	2,912	1.5	203,099	6.8	98.6
Ocean Marine	159,447	5.0	11,992	6.2	147,455	5.0	92.5
Priv Pass Auto Liab	125,110	3.9	...	...	125,110	4.2	100.0
Allied Lines	126,579	4.0	4,717	2.4	121,862	4.1	96.3
Other A & H	84,841	2.7	7	...	84,834	2.8	100.0
Credit	88,599	2.8	4,487	2.3	84,112	2.8	94.9
Med Prof Liab CM	77,355	2.4	-90	...	77,446	2.6	100.1
Boiler & Mach	77,661	2.4	4,410	2.3	73,252	2.5	94.3
Surety	69,458	2.2	281	0.1	69,177	2.3	99.6
All Other	366,902	11.6	12,830	6.6	354,072	11.9	96.6
Total	3,170,647	100.0	193,676	100.0	2,976,971	100.0	94.6

Business Trends (Continued ...)



By-Line Reserve (\$000)

Product Line	2013	2012	2011	2010	2009
Oth Liab CM	1,645,502	1,519,208	1,315,074	1,194,715	1,025,100
Reins-Property	651,998	782,543	651,244	412,636	370,685
Reins-Casualty	2,471,091	2,611,976	2,525,859	2,511,706	2,445,590
Fire	353,595	458,495	445,592	289,481	301,876
Oth Liab Occur	1,102,480	1,055,119	923,083	845,578	746,664
Ocean Marine	185,181	207,469	189,506	173,480	211,929
Priv Pass Auto Liab	238,915	238,011	177,976	137,999	158,207
Allied Lines	77,080	89,188	92,695	52,081	31,915
Other A & H	43,277	45,141	36,101	22,758	18,405
Credit	83,567	85,186	83,631	81,903	131,007
Med Prof Liab CM	568,014	596,502	583,378	560,462	512,360
Boiler & Mach	248,469	247,158	222,730	202,757	196,438
Surety	115,329	102,469	79,541	65,770	71,479
All Other	789,095	842,301	823,655	826,657	867,580
Total	8,573,591	8,880,765	8,150,064	7,377,982	7,089,234

Risk Management

TransRe maintains a formal enterprise risk management framework to identify, assess, quantify and mitigate risks. This framework is integrated into day to day operations as well as part of the risk appetite planning process. As part of this process, the underwriting risk profile is determined and delegated to underwriters according to class of business, risk limits, program limits and premium limits. The monitoring of underwriting and claims performance takes various forms including regular qualitative reviews of underwriting files and internal audit reviews.

Aggregate exposures are analyzed through the company's economic capital model which is also used to assess specific scenarios for potential loss events that focus on cross class aggregations and correlations. The model is also used to analyze natural catastrophe scenarios.

TransRe is continually engaged in reviewing and enhancing its enterprise risk management framework and economic capital model to assess inherent risks, risk appetite and optimal risk adjusted profile.

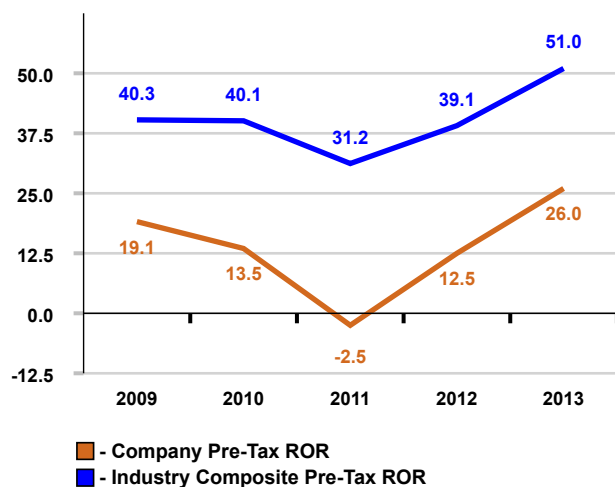
Operating Performance

Operating Results: TransRe has generated positive operating results over the recent 5-year period, reflecting solid underwriting capability and net investment income growth. Earnings have been relatively stable and overall positive earnings have allowed organic surplus growth. Given its predominant casualty focus, conservative exposure management and diversified specialty risk book of business, earnings are generally subject to less volatility. Best believes that TransRe is in a position to generate strong and consistent operating earnings due to its globally diversified book of business and specialty casualty focus.

Profitability Analysis

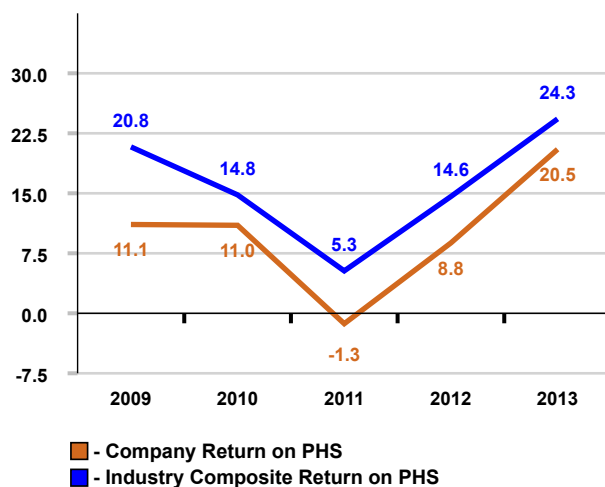
Period Ending	Company							Industry Composite		
	Pre-tax Operating Income	After-tax Operating Income	Net Income	Total Return	Pre-Tax ROR	Return on PHS	Operating Ratio	Pre-Tax ROR	Return on PHS	Operating Ratio
2013	776,124	714,195	770,419	910,205	26.0	20.5	74.5	51.0	24.3	45.7
2012	386,905	303,128	345,455	351,845	12.5	8.8	89.4	39.1	14.6	58.1
2011	-80,473	-66,181	-15,319	-53,795	-2.5	-1.3	102.4	31.2	5.3	69.4
2010	435,247	319,211	355,848	457,523	13.5	11.0	85.7	40.1	14.8	59.6
2009	657,531	510,323	415,534	418,225	19.1	11.1	80.8	40.3	20.8	58.7
5-Yr Avg/Tot	2,175,335	1,780,677	1,871,936	2,084,004	13.6	10.2	86.6	40.5	16.0	58.1
06/2014	325,767	248,729	295,031	286,633	22.2	16.3	75.7	XX	XX	XX
06/2013	406,111	345,312	363,167	450,810	26.6	14.5	73.5	XX	XX	XX

Pre-Tax ROR Comparison with Industry Composite



* Industry Composite - Reinsurance Composite

Return on PHS Comparison with Industry Composite



* Industry Composite - Reinsurance Composite

Underwriting Results

Underwriting Results: TransRe underwriting results have been historically stable due to company's diversification on both a line of business and geographic basis. However, TransRe's underwriting performance was adversely effected by the elevated

Underwriting Results (Continued ...)

levels of global catastrophic activity in 2011 and Super Storm Sandy in 2012. TransRe's expense ratio has trended up over the current five-year period which has largely been driven by a decline in net premiums earned as the company has written less business due to less favorable underwriting conditions across several major lines of business.

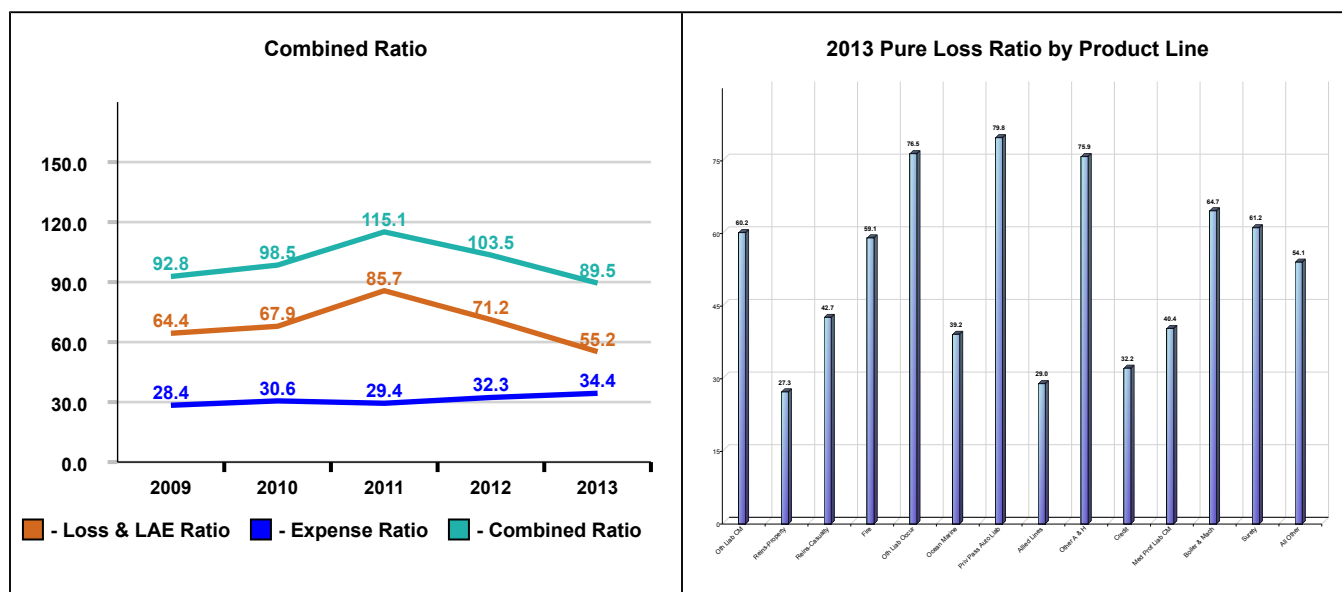
Underwriting Experience

Year	Company								Industry Composite	
	Net Undrw Income (\$000)	Loss Ratios			Expense Ratios			Div. Pol.	Comb. Ratio	Comb. Ratio
		Pure Loss	LAE	Loss & LAE	Net Comm	Other Exp.	Total Exp.			
2013	317,078	51.1	4.1	55.2	26.4	7.9	34.4	...	89.5	83.9
2012	-102,486	66.5	4.7	71.2	24.3	8.0	32.3	...	103.5	94.0
2011	-505,180	81.3	4.4	85.7	24.8	4.6	29.4	...	115.1	109.2
2010	44,053	63.2	4.7	67.9	25.6	5.0	30.6	...	98.5	94.1
2009	256,321	60.1	4.2	64.4	24.2	4.2	28.4	...	92.8	92.8
5-Yr Avg	9,786	64.6	4.4	69.0	25.1	5.9	30.9	...	99.9	94.6
06/2014	110,437	52.5	3.5	56.0	XX	XX	34.3	...	90.3	XX
06/2013	156,271	51.3	4.4	55.8	XX	XX	33.8	...	89.6	XX

Loss Ratio By Line

Product Line	2013	2012	2011	2010	2009	5-Yr. Avg.
Oth Liab CM	60.2	67.4	63.5	68.7	65.3	64.9
Reins-Property	27.3	62.0	112.2	35.6	21.5	53.3
Reins-Casualty	42.7	64.4	66.0	65.9	70.8	63.4
Fire	59.1	80.4	111.6	68.2	44.7	72.8
Oth Liab Occur	76.5	98.5	116.2	114.3	89.3	98.6
Ocean Marine	39.2	51.2	64.7	44.5	60.4	52.2
Priv Pass Auto Liab	79.8	77.9	78.9	72.8	85.8	79.1
Allied Lines	29.0	29.5	62.5	39.4	35.0	39.8
Other A & H	75.9	76.0	81.4	82.6	82.0	79.3
Credit	32.2	26.5	36.5	36.6	112.6	53.6
Med Prof Liab CM	40.4	44.7	77.9	84.2	56.0	62.8
Boiler & Mach	64.7	75.2	77.1	68.2	57.8	68.4
Surety	61.2	26.1	32.9	8.5	-15.7	23.8
All Other	54.1	77.0	73.3	68.3	67.5	68.0
Total	51.1	66.5	81.3	63.2	60.1	64.6

Underwriting Results (Continued ...)



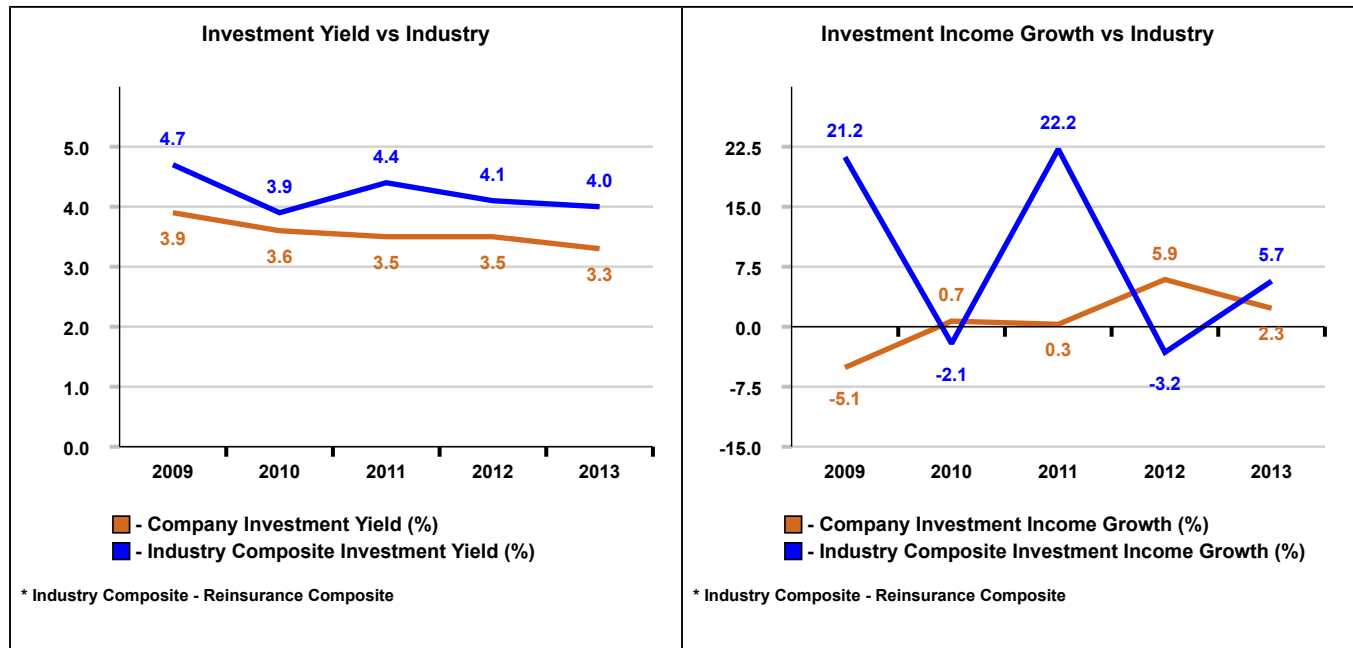
Investment Results

Investment Results: TransRe maintains significant investment portfolio with a large portion invested in highly rated fixed income securities. Net investment income has trended up each year over the current five-year period despite investment yields trended down over that same time period.

Investment Gains (\$000)

Year	Company							Industry Composite	
	Net Investment Income (\$000)	Realized Capital Gains (\$000)	Unrealized Capital Gains (\$000)	Investment Income Growth (%)	Investment Yield (%)	Return on Invested Assets (%)	Total Return (%)	Investment Income Growth (%)	Investment Yield (%)
2013	448,670	56,224	139,786	2.3	3.3	3.8	4.8	5.7	4.0
2012	438,762	42,326	6,390	5.9	3.5	3.8	3.9	-3.2	4.1
2011	414,266	50,862	-38,476	0.3	3.5	3.9	3.6	22.2	4.4
2010	412,871	36,637	101,675	0.7	3.6	3.9	4.8	-2.1	3.9
2009	409,988	-94,790	2,692	-5.1	3.9	3.0	3.0	21.2	4.7
5-Yr Avg/Tot	2,124,557	91,259	212,067	0.8	3.5	3.7	4.0	7.7	4.2
06/2014	213,493	46,302	-8,398	-13.0	3.1	3.8	4.1	XX	XX
06/2013	245,264	17,855	87,643	25.3	3.8	4.1	4.7	XX	XX

Investment Results (Continued ...)



Balance Sheet Strength

Capitalization

Capitalization: TransRe maintains solid risk-adjusted capitalization based on Best's Capital Adequacy Ratio (BCAR). The BCAR score remains fully supportive of the overall diversification of its book of business and increasing capital base. TransRe has historically operated from a leaner base of capital when compared to reinsurance peers with greater catastrophic exposure.

Capital Generation Analysis (\$000)

Year	Source of Surplus Growth							% Change in PHS
	Pre-tax Operating Income	Realized Capital Gains	Income Taxes	Unrealized Capital Gains	Net Contributed Capital	Other Changes	Change in PHS	
2013	776,124	56,224	61,929	139,786	-218,140	-152,271	539,793	12.9
2012	386,905	42,326	83,777	6,390	-103,375	86,838	335,308	8.7
2011	-80,473	50,862	-14,291	-38,476	-374,561	-53,250	-481,606	-11.1
2010	435,247	36,637	116,035	101,675	-268,180	120,030	309,374	7.7
2009	657,531	-94,790	147,208	2,692	-131,416	195,106	481,916	13.6
5-Yr Total	2,175,335	91,259	394,658	212,067	-1,095,672	196,453	1,184,785	6.0
06/2014	325,767	46,302	77,038	-8,398	-200,000	-49,397	37,237	0.8
06/2013	406,111	17,855	60,799	87,643	-77,200	-104,576	246,234	5.9

Quality of Surplus (\$000)

Year	Surplus Notes	Other Debt	Contributed Capital	Unassigned Surplus	Year End Policyholders Surplus	Conditional Reserves	Adjusted Policyholders Surplus
2013	1,229,729	3,489,205	4,718,934	30,273	4,749,206
2012	1,270,669	2,908,471	4,179,140	25,642	4,204,783
2011	1,274,044	2,569,788	3,843,832	48,219	3,892,051
2010	1,248,605	3,076,833	4,325,438	57,221	4,382,659
2009	1,216,785	2,799,279	4,016,064	46,346	4,062,410
06/2014	1,229,729	3,526,441	4,756,170	30,273	4,786,443
06/2013	1,270,669	3,154,705	4,425,374	25,642	4,451,016

Underwriting Leverage

Underwriting Leverage: The company's underwriting leverage measures have trended downward with the industry composite, however TransRe's leverage measures remain elevated compared to the composite. A.M. Best takes comfort in TransRe's long-term results which have demonstrably been very stable compared to many of its peers.

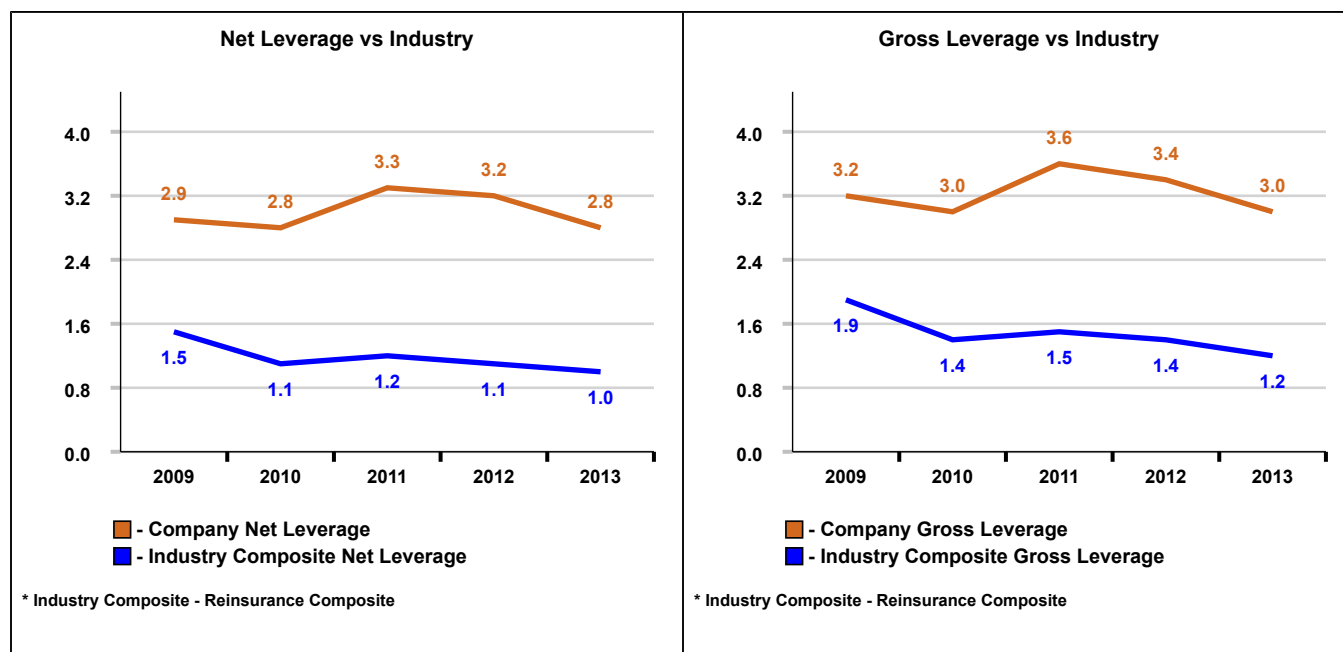
Underwriting Leverage (Continued ...)

International operations have provided the group with expansion opportunities globally. This provides the group with geographical diversification and balance in its product line. The group's specialty casualty focus and established international network provide Transatlantic with competitive advantages that continue to promote future growth and enhance its global stature.

Leverage Analysis

Year	Company				Industry Composite			
	NPW to PHS	Reserves to PHS	Net Leverage	Gross Leverage	NPW to PHS	Reserves to PHS	Net Leverage	Gross Leverage
2013	0.6	1.8	2.8	3.0	0.2	0.4	1.0	1.2
2012	0.7	2.1	3.2	3.4	0.2	0.5	1.1	1.4
2011	0.9	2.1	3.3	3.6	0.2	0.5	1.2	1.5
2010	0.8	1.7	2.8	3.0	0.2	0.5	1.1	1.4
2009	0.8	1.8	2.9	3.2	0.3	0.7	1.5	1.9
06/2014	0.6	1.8	2.7	XX	XX	XX	XX	XX
06/2013	0.7	2.0	3.0	XX	XX	XX	XX	XX

Current BCAR: 214.2



Underwriting Leverage (Continued ...)

Ceded Reinsurance Analysis (\$000)

Year	Company				Industry Composite		
	Ceded Reinsurance Total	Business Retention (%)	Reinsurance Recoverables to PHS (%)	Ceded Reinsurance to PHS (%)	Business Retention (%)	Reinsurance Recoverables to PHS (%)	Ceded Reinsurance to PHS (%)
2013	694,177	94.6	10.6	14.7	85.8	16.7	23.1
2012	637,114	96.2	11.9	15.2	87.2	22.8	30.8
2011	1,085,993	91.2	23.4	28.3	87.1	25.9	34.3
2010	1,170,536	88.5	21.1	27.1	84.8	25.5	33.7
2009	1,010,666	89.6	19.7	25.2	83.7	35.4	47.2

2013 Reinsurance Recoverables (\$000)

	Paid & Unpaid Losses	Incurred But Not Reported (IBNR) Losses	Unearned Premiums	Other Recoverables *	Total Reinsurance Recoverables
Foreign Affiliates	81,530	35,431	...	-87,654	29,307
US Insurers	214,013	117,493	4,942	-6,550	329,898
Other Non-Us	75,392	60,575	22,220	-16,891	141,296
Total(ex Us Affils)	370,935	213,499	27,162	-111,095	500,501
Grand Total	370,935	213,499	27,162	-111,095	500,501

* Includes Commissions less Funds Withheld

Loss Reserves

Loss Reserves: TransRe has experienced favorable development on both an accident and calendar year basis in each of past four years. Historically, adverse development related to accident years 1997-2002 has acted as a drag on earnings over the years although the reserving issues associated with those years appear to be largely behind the company. TransRe's total net pre-1986 A&E reserves constitute less than 3% of its overall loss reserve base. TransRe's late entry into the casualty market in the late 1970's and its heavier property orientation at that time, minimized the potential exposure to these problematic liabilities. Ultimately, Best believes that TransRe's exposure to ongoing emergence of 1985 and prior A&E claims is manageable with only modest earnings drag expected.

Loss and ALAE Reserve Development: Calendar Year (\$000)

Calendar Year	Original Loss Reserves	Developed Reserves Thru 2013	Development to Original (%)	Development to PHS (%)	Development to NPE (%)	Unpaid Reserves @ 12/2013	Unpaid Reserves to Development (%)
2013	8,495,709	8,495,709	...	...	284.3	8,495,709	100.0
2012	8,811,904	8,560,084	-2.9	-6.0	276.4	6,930,034	81.0
2011	8,086,924	7,922,415	-2.0	-4.3	244.3	5,502,216	69.5
2010	7,313,318	7,154,482	-2.2	-3.7	221.5	4,271,519	59.7
2009	7,040,065	6,963,187	-1.1	-1.9	202.6	3,353,704	48.2
2008	6,581,937	6,624,798	0.7	1.2	188.2	2,642,799	39.9

Loss Reserves (Continued ...)

Loss and ALAE Reserve Development: Accident Year (\$000)

Accident Year	Original Loss Reserves	Developed Reserves Thru 2013	Development to Original (%)	Unpaid Reserves @ 12/2013	Accident Year Loss Ratio	Accident Year Comb. Ratio
2013	1,565,675	1,565,675	...	1,565,675	63.6	98.0
2012	1,934,642	1,824,441	-5.7	1,427,818	68.5	100.8
2011	2,256,603	2,145,707	-4.9	1,230,697	85.7	115.1
2010	1,807,824	1,671,764	-7.5	917,815	65.2	95.8
2009	1,840,521	1,682,574	-8.6	710,905	60.8	89.2
2008	2,024,801	1,936,695	-4.4	625,923	68.6	97.0

Asbestos And Environmental Reserves Analysis

Year	Company						Industry Composite		
	Net A&E Reserves (\$000)	Reserve Retention (%)	Net Incurred But Not Reported (IBNR) Mix (%)	Survival Ratio (3 Yr)	Comb. Ratio Impact (1 Yr)	Comb. Ratio Impact (3 Yr)	Survival Ratio (3 Yr)	Comb. Ratio Impact (1 Yr)	Comb. Ratio Impact (3 Yr)
2013	288,000	65.5	59.0	17.0	1.4	2.9	27.8	0.4	0.7
2012	261,551	68.9	61.1	16.5	1.7	2.9	32.2	1.0	0.8
2011	215,460	65.4	59.7	14.7	5.4	2.4	11.2	0.8	0.8
2010	67,715	47.1	50.4	XX	1.6	XX	XX	0.7	XX
2009	28,029	28.1	47.6	XX	0.1	XX	XX	0.8	XX

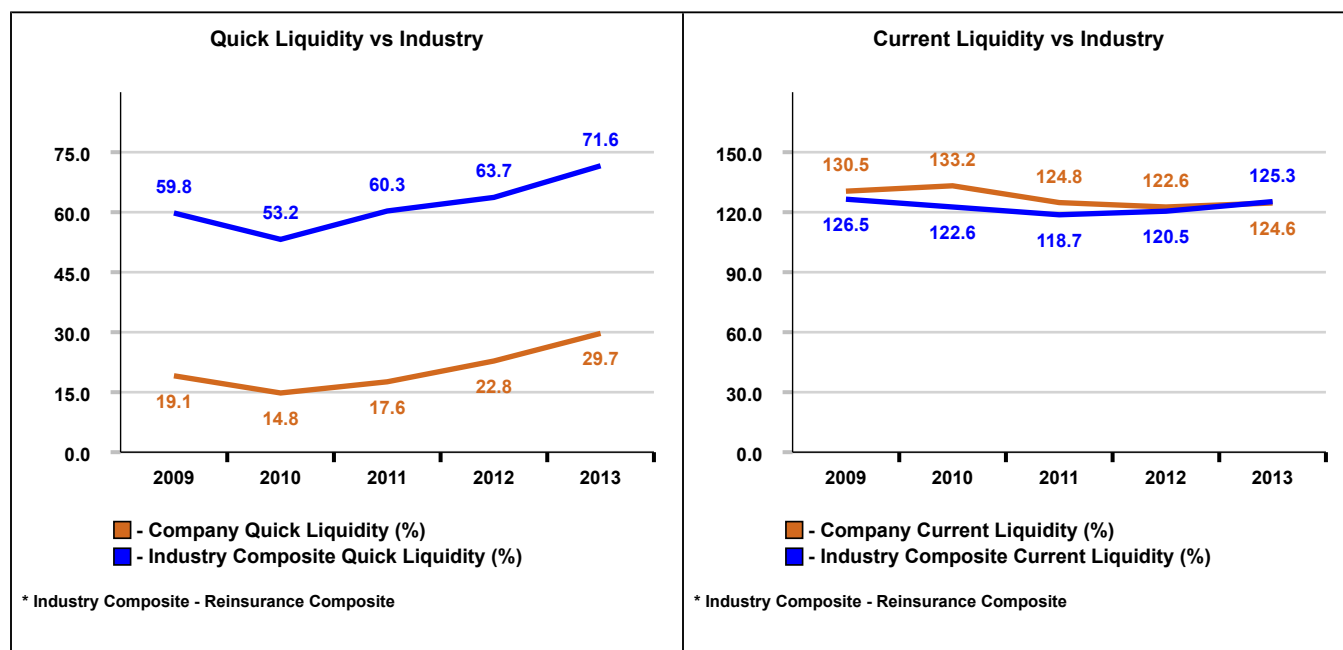
Liquidity

Liquidity: Liquidity measures are reflective of TransRe's conservative investment strategy which provides for laddered maturities to respond to both its short and long-term obligations. The group's continued solid operating cash flows provide an additional funding source to meet these obligations. Based on TransRe's historically solid operating experience, Best expects that the group's overall liquidity profile is more than adequate to support its current operations.

Liquidity (Continued ...)

Liquidity Analysis

Year	Company				Industry Composite			
	Quick Liquidity (%)	Current Liquidity (%)	Overall Liquidity (%)	Gross Agents Balances to PHS (%)	Quick Liquidity (%)	Current Liquidity (%)	Overall Liquidity (%)	Gross Agents Balances to PHS (%)
2013	29.7	124.6	146.3	12.2	71.6	125.3	224.2	2.9
2012	22.8	122.6	140.2	10.9	63.7	120.5	210.1	4.0
2011	17.6	124.8	141.3	10.8	60.3	118.7	205.5	3.6
2010	14.8	133.2	150.1	9.5	53.2	122.6	208.0	2.9
2009	19.1	130.5	148.6	10.7	59.8	126.5	182.7	4.1
06/2014	XX	123.6	147.4	14.3	XX	XX	XX	XX
06/2013	XX	123.5	142.9	14.0	XX	XX	XX	XX



Liquidity (Continued ...)

Cash Flow Analysis (\$000)

Year	Company					Industry Composite	
	Underwriting Cash Flow	Operating Cash Flow	Net Cash Flow	Underwriting Cash Flow (%)	Operating Cash Flow (%)	Underwriting Cash Flow (%)	Operating Cash Flow (%)
2013	88,445	675,905	352,069	103.1	123.4	108.9	141.6
2012	637,556	975,449	224,191	126.9	138.5	115.5	135.9
2011	155,421	631,286	97,834	105.0	120.4	109.0	143.0
2010	438,513	864,378	-411,704	115.1	129.4	104.9	133.7
2009	831,961	1,106,878	200,179	131.9	140.3	112.0	135.8
5-Yr Total	2,151,896	4,253,898	462,569	...	...	...	...
06/2014	-113,981	26,339	-487,166	92.8	101.5	XX	XX
06/2013	-81,085	248,510	126,789	94.5	116.5	XX	XX

Investments

Investment Leverage Analysis (% of PHS)

Year	Company						Industry Composite	
	Class 3-6 Bonds	Real Estate / Mortgages	Other Invested Assets	Common Stock	Non - Affiliated Investment Leverage	Affiliated Investments	Class 3-6 Bonds	Common Stock
2013	3.4	...	4.6	24.9	33.0	23.2	1.2	50.3
2012	0.4	...	6.0	14.9	21.2	14.9	2.0	46.6
2011	0.3	...	4.7	14.2	19.2	14.5	2.0	45.9
2010	0.3	...	4.6	12.2	17.1	12.7	2.0	35.4
2009	...	...	4.8	12.2	17.0	11.5	2.3	51.2

Investments - Bond Portfolio

2013 Distribution By Maturity

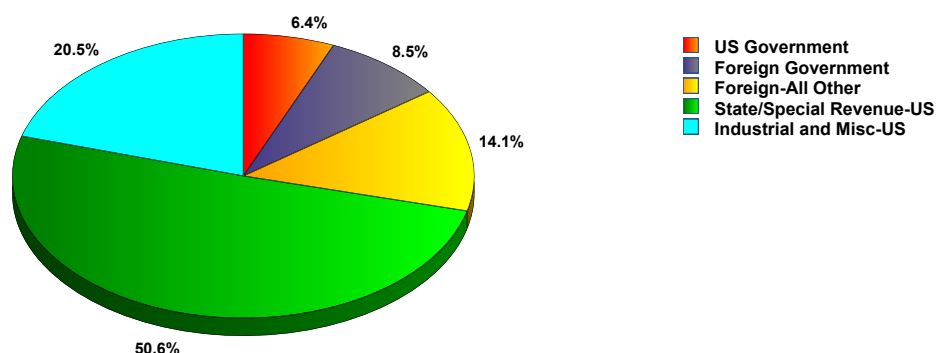
	Years					Years Average Maturity
	0-1	1-5	5-10	10-20	20+	
Government	0.8	4.4	5.6	1.4	1.8	8.7
Government Agencies & Muni.	6.6	22.1	8.3	6.3	4.4	7.1
Industrial & Misc.	8.8	16.9	10.6	1.5	0.4	4.4
Hybrid Securities	...	...	...	...	...	14.5
Total	16.2	43.4	24.6	9.1	6.7	6.3

Investments - Bond Portfolio (Continued ...)

Bond Distribution By Issuer Type

	2013	2012	2011	2010	2009
Bonds (\$000)	10,355,562	11,163,857	10,463,611	10,500,250	9,380,146
US Government	6.4	0.6	0.5	0.5	0.2
Foreign Government	8.5	6.1	6.3	6.7	5.2
Foreign-All Other	14.1	15.3	16.0	14.6	15.6
State/Special Revenue-US	50.6	51.4	56.0	59.0	71.5
Industrial and Misc-US	20.5	26.6	21.1	19.1	7.6

2013 Bond Distribution By Issuer Type



Bond Percent Private vs Public

	2013	2012	2011	2010	2009
Private Issues	4.8	6.2	3.9	4.5	3.5
Public Issues	95.2	93.8	96.1	95.5	96.5

Bond Quality Percent

	2013	2012	2011	2010	2009
Class 1	91.4	92.6	94.9	95.6	95.0
Class 2	7.2	7.3	5.0	4.2	5.0
Class 3	0.4	...	...	...	...
Class 4	0.8	...	...	...	...
Class 5	0.2	...	...	...	...
Class 6	0.1	0.1	...	...	...

Investments - Equity Portfolio

	2013	2012	2011	2010	2009
Total Stocks (\$000)	2,272,012	1,321,000	1,160,027	1,079,928	973,317
Unaffiliated Common	51.8	47.2	47.1	48.7	50.2
Affiliated Common	45.0	47.2	47.9	50.9	47.3
Unaffiliated Preferred	...	5.7	4.9	0.5	2.6
Affiliated Preferred	3.2	...	...	...	...

Investments - Mortgage Loans And Real Estate

	2013	2012	2011	2010	2009
Total Mortgage Loans and Real Estate (\$000)	1,789	...	...	...	...
Property Held for Income	100.0	...	...	...	...

Investments - Other Invested Assets

	2013	2012	2011	2010	2009
Total Other Invested Assets (\$000)	1,124,307	806,760	510,773	437,741	836,216
Cash	23.6	64.5	51.4	38.1	17.1
Short-Term	57.0	4.3	13.4	15.1	60.0
Schedule BA Assets	19.3	30.9	35.2	45.6	22.9
All Other	...	0.3	0.1	1.2	...

History

Date Incorporated: 10/29/1952

Date Commenced: 1953

Domicile: NY

This company was incorporated on October 29, 1952 under the laws of New York and began business on January 1, 1953. All capital stock was purchased by the Excess Reinsurance Company of America, Philadelphia, Pennsylvania, which on December 31, 1952 was merged with and into the Transatlantic Reinsurance Company (TRC).

The company was reorganized and recapitalized as of December 15, 1977. A majority portion of the then outstanding shares held by American International Group, Inc. (AIG), were exchanged for new shares (a 47.2% interest) in the reorganized carrier which were then transferred, via surplus contributions, to American Home Assurance Company. The remaining shares were sold to seven non-related insurers or their wholly-owned subsidiaries: Metropolitan Life Insurance Company (29%), Swiss Reinsurance Company (23%), Walton Insurance Company of Bermuda (19%), Compagnie Financiere et de Reassurance du Groupe, A.G. of Belgium (9%), United States Fidelity and Guaranty Company (USF&G) (9%), Daido Mutual Life Insurance Company of Japan (5%) and The Nichido Fire and Marine Insurance Company, Ltd. of Japan (5%). In April 1984, the shares formerly owned by Walton Insurance Company of Bermuda were sold to General Reinsurance Corporation. In May 1984, USF&G sold half of their shares to Daido Mutual Life Insurance Company and half to The Nichido Fire and Marine Insurance Company.

As of early April 1990, the ownership interests in the company were comprised of: American Home Assurance Company (49.99%) and six non-related shareholders with financial control (50.01%) including: Metropolitan Life Insurance Company (16.09%), General Reinsurance Company (10.35%), Swiss Reinsurance Company (10.12%), The Nichido Fire and Marine Insurance Company, Ltd. of Japan (5.17%), Compagnie Financiere et de Reassurance du Groupe, A.G. of Belgium (4.14%) and Daido Mutual Life Insurance Company of Japan (4.14%). In mid-April 1990, shareholders of TRC received common stock of PREINCO Holdings, Inc. in exchange for all their shares. Following the exchange, the name of PREINCO Holdings, Inc., was changed to Transatlantic Holdings, Inc. (TRH), and TRC became a wholly-owned subsidiary. Previously, in June 1986, AIG had contributed all of the outstanding shares of Putnam Reinsurance Company (Putnam), along with additional consideration, to the holding company in exchange for a 20% interest therein. In December 1995, TRH contributed all the common stock of Putnam to TRC. At December 31, 2008, AIG was the majority stockholder of TRH, with an ownership of approximately 59%. In June 2009 AIG reduced its ownership in TRH, through a secondary offering, to approximately 13.9% of the company's outstanding common shares. In March 2010, AIG reduced its beneficial ownership through another secondary public offering. Immediately following the March 2010 secondary public offering, AIG beneficially owned approximately 1.1% (excluding shares held by certain mutual funds that are advised or managed by subsidiaries of AIG).

In March 2012, Alleghany Corporation and Transatlantic Holdings, Inc. completed a merger and Transatlantic became an indirect wholly-owned subsidiary of Alleghany Corporation.

Paid-up capital of \$6,041,655 consists of 1,208,331 common shares at \$5 par value each. All authorized shares are outstanding.

Management

The official staff is headed by President and Chief Executive Officer, Michael C. Sapnar, who prior to assuming his present post served as an officer of Transatlantic since 1995, first as an Underwriter and Assistant Vice President until December 1996, as an Underwriter and Vice President until October 1999, as Chief Underwriting Officer (North America) and Senior Vice President until May 2006, as Chief Underwriting Officer (North America) and Executive Vice President until May 2011, as Chief Operating Officer until September 2011, when he became President in September 2011 and CEO on January 1, 2012. Mr. Sapnar also serves as a Director of the company, as well as Director, President and CEO of Transatlantic Holdings, Inc., and Fair American Insurance and Reinsurance Company (formerly known as Putnam Reinsurance Company).

Officers And Directors

Officers

President: Michael C. Sapnar

EVP and CFO: Steven S. Skalicky

EVP and Chief Risk Officer: Gregory J. Richardson

EVP and Chief Actuary: Kenneth Apfil

EVP and General Counsel: Gary A. Schwartz

EVP: Robert M. Baldrey

EVP: Paul A. Bonny (International Operations)

EVP: Kenneth W. Brandt (North America)

EVP: Thomas V. Cholnok
EVP: Paul F. McKeon
EVP: Geoffrey N. Peach
EVP: Julian H. Spence
EVP: Nicholas Tzaneteas
EVP: Javier E. Vijil (Latin American & Caribbean Division)
SVP and Controller: Matthew D. Mahoney
SVP and General Counsel: Edward J. Kelley
SVP: George C. Barone
SVP: Donna N. Bryon
SVP: Peter J. Clements
SVP: Paul D. Dempsey
SVP: Brian Finlay
SVP: Eugene L. Fisher
SVP: Andrew K. Gaudencio
SVP: Kin Chung (Peter) Ho
SVP: Suzanne B. Holohan
SVP: David Howkins
SVP: Craig W. Hupper
SVP: Robert Johnston
SVP: Bertrand Levy
SVP: Richard Loffler
SVP: Camerson MacDonald
SVP: Lisa P. Moser
SVP: Douglas A. M. Murray

SVP: Yutaka Nakamae
SVP: Christopher A. O'Brien
SVP: Martin Pagano
SVP: Paulo C. Pereira
SVP: George N. Phillips
SVP: Socrates Pichardo
SVP: David C. Radford
SVP: Kyle T. Rhodes
SVP: Juan C. Roa
SVP: Louise A. Rose
SVP: Robert Saville
SVP: David Scott
SVP: Edward T. Sheehan, III
SVP: David Sinclair
SVP: Rüdiger Skaletz
SVP: Robert Snow
SVP: Suzanne A. Spantidos
SVP: Gareth Stanley
SVP: Andrew Taylor
SVP: Eva Taylor
SVP: Lee J. Taylor
SVP: Victor M. Torres
SVP: Lynda A. Wood
SVP: Ari L. Zalkowitz
Secretary: Amy M. Cinquegrana (Corporate)

Directors

Kenneth Apfel
Paul A. Bonny
Kenneth W. Brandt
Christopher K. Dalrymple
Michael C. Sapnar

Gary A. Schwartz
Steven S. Skalicky
Julian H. Spence
Javier E. Vijil

Regulatory

An examination of the financial condition was made as of December 31, 2009, by the insurance department of New York. The 2013 annual independent audit of the company was conducted by Ernst & Young LLP. The annual statement of actuarial opinion is provided by Kenneth Apfel, FCAS, MAAA, Executive Vice President & Chief Actuary.

Reinsurance

Transatlantic is principally a seller of reinsurance. Reinsurance arrangements are maintained to protect a company from abnormal loss. Transatlantic has a significant presence in the reinsurance market place and has the ability to provide a substantial amount of capacity. The amount of capacity that Transatlantic offers differs by line of business.

Transatlantic also purchases property catastrophe loss reinsurance protection. Average gross lines and net retention on risks assumed historically have been smaller than the maximums permissible under the company's underwriting guidelines. In addition, these guidelines may be changed and limited exceptions are made from time to time.

Balance Sheet (\$000)

Admitted Assets	12/31/2013	12/31/2012	2013 %	2012 %
Bonds	10,355,562	11,163,857	69.0	76.1
Preferred Stock	...	75,000	...	0.5
Common Stock	1,177,096	622,914	7.8	4.2
Cash & Short-Term Invest	906,972	554,902	6.0	3.8
Real estate, investment	1,789	...	...	...
Derivatives	...	...	...	...
Other Non-Affil Inv Asset	217,336	251,858	1.4	1.7
Investments in Affiliates	1,094,916	623,086	7.3	4.2
Real Estate, Offices	...	...	...	...
Total Invested Assets	13,753,670	13,291,617	91.6	90.7
Premium Balances	601,932	488,864	4.0	3.3
Accrued Interest	110,874	125,489	0.7	0.9
All Other Assets	546,527	755,535	3.6	5.2
Total Assets	15,013,003	14,661,505	100.0	100.0

Liabilities & Surplus	12/31/2013	12/31/2012	2013 %	2012 %
Loss & LAE Reserves	8,573,591	8,880,765	57.1	60.6
Unearned Premiums	982,286	993,973	6.5	6.8
Derivatives	...	...	...	...
Conditional Reserve Funds	30,273	25,642	0.2	0.2
All Other Liabilities	707,920	581,984	4.7	4.0
Total Liabilities	10,294,069	10,482,364	68.6	71.5
Surplus notes	...	...	...	...
Capital & Assigned Surplus	1,229,729	1,270,669	8.2	8.7
Unassigned Surplus	3,489,205	2,908,471	23.2	19.8
Total Policyholders' Surplus	4,718,934	4,179,140	31.4	28.5
Total Liabilities & Surplus	15,013,003	14,661,505	100.0	100.0

Interim Balance Sheet (\$000)

Admitted Assets	03/31/2014	06/30/2014
Bonds	10,191,571	10,291,857
Preferred Stock	124,942	125,217
Common Stock	2,260,844	2,422,264
Cash & Short-Term Invest	740,017	419,805
Other Investments	213,997	232,677
Total Invested Assets	13,531,370	13,491,820
Premium Balances	708,172	718,450
Accrued Interest	104,129	111,273
Reinsurance Funds	195,727	197,195
All Other Assets	318,347	355,693
Total Assets	14,857,746	14,874,432

Liabilities & Surplus	03/31/2014	06/30/2014
Loss & LAE Reserves	8,466,090	8,430,954
Unearned Premiums	1,039,676	1,076,806
Conditional Reserve Funds	30,273	30,273
All Other Liabilities	617,302	580,230
Total Liabilities	10,153,341	10,118,262
Capital & Assigned Surp	1,229,729	1,229,729
Unassigned Surplus	3,474,676	3,526,441
Total Policyholders' Surplus	4,704,405	4,756,170
Total Liabilities & Surplus	14,857,746	14,874,432

Summary Of 2013 Operations (\$000)

Statement of Income	12/31/2013	Funds Provided from Operations	12/31/2013
Premiums earned	2,988,658	Premiums collected	2,900,026
Losses incurred	1,527,514	Benefit & loss-related pmts	1,792,737
LAE incurred	121,347		
Undwr expenses incurred	1,022,720	LAE & undwr expenses paid	1,018,844
Other expenses incurred	...	Other income / expense	...
Dividends to policyholders	...	Dividends to policyholders	...
Net underwriting income	317,078	Underwriting cash flow	88,445
		Net transfer	...
Net investment income	448,670	Investment income	536,448
Other income/expense	10,377	Other income/expense	121,868
Pre-tax operating income	776,124	Pre-tax cash operations	746,761
Realized capital gains	56,224		
Income taxes incurred	61,929	Income taxes pd (recov)	70,855
Net income	770,419	Net oper cash flow	675,905

Interim Income Statement (\$000)

	Period Ended 06/30/2014	Period Ended 06/30/2013	Increase / Decrease
Premiums earned	1,468,736	1,527,661	-58,925
Losses incurred	771,092	784,350	-13,258
LAE incurred	51,407	67,974	-16,568
Undwr expenses incurred	535,800	519,065	16,735
Other expenses incurred	...	...	...
Dividends to policyholders	...	...	...
Net underwriting income	110,437	156,271	-45,834
Net investment income	213,493	245,264	-31,770
Other income/expense	1,837	4,576	-2,739
Pre-tax operating income	325,767	406,111	-80,344
Realized capital gains	46,302	17,855	28,447
Income taxes incurred	77,038	60,799	16,239
Net income	295,031	363,167	-68,136

Interim Cash Flow (\$000)

	Period Ended 06/30/2014	Period Ended 06/30/2013	Increase / Decrease
Premiums collected	1,472,910	1,405,107	67,803
Benefit & loss-related pmts	917,471	961,083	-43,612
LAE & undwr expenses paid	669,420	525,109	144,311
Dividends to policyholders	...	...	...
Underwriting cash flow	-113,981	-81,085	-32,896
Net transfer	...	...	...
Investment income	240,118	286,815	-46,696
Other income/expense	16,139	66,819	-50,680
Pre-tax cash operations	142,276	272,548	-130,272
Income taxes pd (recov)	115,937	24,038	91,899
Net oper cash flow	26,339	248,510	-222,171

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 Debt/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.

In arriving at a rating decision, A.M. Best relies on third-party audited financial data and/or other information provided to it. While this information is believed to be reliable, A.M. Best does not independently verify the accuracy or reliability of the information. Any and all ratings, opinions and information contained herein are provided "as is," without any express or implied warranty.

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Best's Credit Rating and Report Updates for ARGO RE LTD.

Best's Rating of A (Excellent)
Financial Size Category of XII (\$1 Billion to \$1.25 Billion)

Rating Category (Excellent): Assigned to companies that have, in our opinion, an excellent ability to meet their ongoing insurance obligations. A.M. Best assigns each letter rated (A++ through D) insurance company a **Financial Size Category (FSC)**, which is designed to provide a convenient indicator of the size of a company based on reported policyholders' surplus and conditional or reserve funds.

The objective of **Best's Credit Rating System** is to provide an opinion of an insurer's financial strength and ability to meet ongoing obligations to policyholders. Our opinions are derived from the evaluation of a company's balance sheet strength, operating performance and business profile as compared to Best's quantitative and qualitative standards. View our [Best's Credit Rating Methodology](#) for more information.

While Best's Credit Ratings reflect our **opinion** of a company's financial strength and ability to meet its ongoing obligations to policyholders, they are **not a warranty**, nor are they a recommendation of a specific policy form, contract, rate or claim practice. View our [entire notice](#) for complete details.

The rating symbols "A++", "A+", "A", "A-", "B++", and "B+" are registered certification marks of the A.M. Best Company, Inc.

Note: The above information reflects the most recent Best's Credit Rating for this company, which may have been released subsequent to the creation of the following AMB Credit Report.

AMB Credit Report provides detailed business overview, extensive financial data and analytical commentary, product and geographic information, company history, as well as the rationale supporting the financial strength rating assigned by A.M. Best. These reports are updated on a regular basis based on input and analysis performed throughout the year.

Report Revision Date - 07/14/2014 *

The **Report Revision Date** * represents the last significant material change made to this report. Other non-material changes may have been made to this report subsequent to this date, but are not reflected in the report revision date. The AMB Credit Report below was created based on the following dates.

Rating and Commentary ¹	Financial ²	General Information ³
Best's Credit Rating: 08/26/2013	Time Period: Annual - 2013	Corporate Structure: N/A
Rating Rationale: 08/26/2013	Last Updated: 08/21/2014	States Licensed: N/A
Report Commentary: 07/14/2014	Status: Quality Cross Checked	Officers and Directors: 07/18/2011

***Note:** The **Rating and Commentary** ¹ dates outline the most recent updates to the company's Best's Credit Rating, Rating Rationale, and Report Commentary for key rating and business changes. Report Commentary may include significant changes to the Business Profile, Risk Management, Operating Performance, Balance Sheet Strength, or Reinsurance sections of the report. The **Financial** ² dates reflect the current status of the financial tables and charts found within the AMB Credit Report, including whether the data was loaded "As Received" or had been run through A.M. Best "Quality Cross Checks". The **General Information** ³ dates cover key changes made to Corporate Structure, States Licensed, or Officers and Directors.

AMB Credit Report for ARGO RE LTD.

Operating Company Non-Life

Ultimate Parent: Argo Group International Holdings, Ltd

110 Pitts Bay Road, Pembroke HM 08, Bermuda
Mailing Address: P.O. Box HM 1282, Hamilton HM FX, Bermuda
Web: www.argolimited.com

Tel: 441-296-5858

Fax: 441-296-6162

AMB#: 013313

AIIN#: AA-3190932

Ultimate Parent#: 058448

Report Revision Date: 07/14/2014

BEST'S CREDIT RATINGS

Best's Financial Strength Rating: A

Outlook: Stable

Best's Issuer Credit Rating: a

Outlook: Stable

Best's Financial Size Category: XII

RATING RATIONALE

Rating Rationale: The ratings are based on the consolidated operating results of Argo Re Ltd. (Argo Re) and its subsidiaries. The ratings reflect Argo Re's solid capitalization, management's product expertise in niche focus areas, historically strong operating performance and favorable loss reserve development. The specialty U.S. operations, which represent the lion's share of Argo Group International Holdings, Ltd.'s (Argo Group) premium writings, are managed holistically with respect to capital, investment strategy and market presence. The ratings also reflect the diversified insurance and reinsurance platforms within the Argo group of companies and the financial flexibility afforded by its publicly traded parent, Argo Group. Over the near term, A.M. Best expects that Argo Re's results should continue to be positively influenced by actions management has undertaken to reduce its worldwide property exposure and improve overall operational efficiencies. These positive rating factors are partially offset by the execution risk associated with the Argo Group's expansion into new territories. A.M. Best recognizes that management has been addressing this risk and that the integration of acquisitions and re-engineering of related businesses is complete. Additional offsetting factors include competitive pressures, low new money investment yields, the effects from weak economic conditions, and Argo Group's elevated expense structure. The outlooks reflect the expectation that operating performance and capitalization will continue to support the ratings.

A.M. Best believes that Argo Re and its subsidiaries are well positioned at their current rating levels. Key drivers that could lead to downward rating movement include material deterioration in the organization's underwriting and/or operating performance, material adverse loss reserve development and/or a material decline in risk-adjusted capital.

FIVE YEAR RATING HISTORY

<u>Date</u>	<u>BEST'S</u>	
	<u>FSR</u>	<u>ICR</u>
08/26/13	A	a
06/18/12	A	a
06/20/11	A	a
06/21/10	A	a
06/24/09	A	a

RATING UNIT MEMBERS

Argo Re Ltd.

(AMB# 013313):

<u>AMB#</u>	<u>COMPANY</u>	<u>BEST'S</u>		<u>POOL%</u>
		<u>FSR</u>	<u>ICR</u>	
002723	Rockwood Casualty Insurance Co	A	a	85.00
012126	Somerset Casualty Insurance	A	a	15.00
002219	Argonaut Great Central Ins Co	A	a	
002056	Argonaut Insurance Company	A	a	
003540	Argonaut Limited Risk Ins Co	A	a	
003078	Argonaut-Midwest Ins Co	A	a	
002058	Argonaut-Southwest Ins Co	A	a	
003283	Colony Insurance Company	A	a	
011035	Colony National Insurance Co	A	a	
002619	Colony Specialty Insurance Co	A	a	
002057	Select Markets Insurance Co	A	a	
091791	ArgoGlobal SE	A	a	

BUSINESS PROFILE

Argo Re is a Bermuda based specialty reinsurer that underwrites short-tail reinsurance lines exposed to property catastrophe risks. Argo Re focuses on underwriting property catastrophe excess of loss reinsurance for a relatively small number of cedents whose accounts are well known to Argo Re underwriters. Argo Re will also underwrite property per risk and pro rata reinsurance on a select basis. Reinsurance underwritten by Argo Re covers underlying exposures that are located throughout the world, including the United States. Argo Re has obtained substantially all of its insurance and reinsurance business through brokers and third party intermediaries who represent clients in negotiations for the purchase of reinsurance. None of the intermediaries are authorized to bind business on Argo Re's behalf.

In addition to its primary location of Bermuda, Argo Re originates business through affiliates worldwide: Argo Solutions, S.A., in Belgium; Argo Re (DIFC) in Dubai, U.A.E. to serve the Middle East and North African insurance community; Argo Seguros, in Brazil; and ArgoGlobal SE, in Malta to serve markets in Continental Europe. Argo Re provides quota share reinsurance to its U.S., U.K. and Maltese subsidiaries.

Argo Re's parent is Argo Group International Holdings, Ltd. (NASDAQ: AGII), an international underwriter of specialty insurance and reinsurance products in the property and casualty markets.

Effective December 31, 2007, Argo Re merged with PXRE Reinsurance Ltd. (PXRE), which had been effectively in run-off since the fourth quarter 2006 following substantial losses in 2005 from Hurricanes Katrina, Rita and Wilma. The merger provided Argo Re with an existing infrastructure via PXRE's offices, and underwriting platforms in Bermuda and Europe. In addition, Argo Re is managing the run-off of PXRE's reserves, which amount to less than \$15 million.

RISK MANAGEMENT

Argo Group has a well developed Enterprise Risk Management (ERM) framework that is focused on three major objectives: 1) Ensure that all reasonably foreseeable material risks, including financial and non-financial, on and off-balance sheet, and current and contingent exposures are identified; 2) Ensure that the potential impact of such material risks, including material risks affecting capital requirements and capital management, short-term and long-term liquidity requirements, policyholder obligations, and operational strategies and objectives are assessed; 3) Ensure policies and strategies are developed and maintained to manage, mitigate, and report material risks effectively.

Argo Group's risk management framework, which consists of three levels of defense, begins at the departmental level. Each business department is charged with the task of identifying, assessing, measuring, monitoring, reporting, and mitigating risks associated with the department's respective functions and responsibilities. The Head of ERM, who reports on issues of risk management directly to the Risk Committee of Argo Group's Board and serves as the second line of defense, plays a key role in risk management by coordinating, facilitating, and overseeing the effectiveness and integrity of Argo's risk management activities. This function is also charged with establishing, maintaining, and enhancing the methodology and tools used to identify and evaluate risks and, where risks are outside Argo Group's risk appetite or tolerance, ensuring that there is an appropriate response applied by the respective risk owner. Argo Group's Internal Audit department provides another line of defense by assessing the effectiveness of Argo Group's risk management processes and practices including the risks associated with the group's compensation plans and by providing timely feedback and assurances to the Board on the effectiveness of Argo Group's risk management framework. The Head of Internal Audit reports on issues of risk management, including the internal control framework, directly to the Audit Committee of the Board.

Argo Group's "Risk Strategy" encompasses risk appetite, risk tolerance levels and strategy for addressing and managing risk and is determined by a risk appetite defined by a series of risk limits on Argo Group as well as on operational segment level. The risk appetite is based on the available capital and liquidity as well as on the Board approved earnings target within certain volatility tolerances, and provides a term of reference for the operational segments of Argo Group. Risk limits encompassed in the group's risk strategy include: 1) Primary company-wide portfolio limits, which are based on Argo Group's overall portfolio and designed to protect the capital and liquidity position and limit the likelihood of an economic loss for the year; 2) Secondary, supplementary limits, which serve to limit losses that can arise out of individual risk types or accumulations, such as natural catastrophes and terrorism, and to limit market and credit risks that could materially impact Argo Group's survival were they to materialize; 3) Other limits, which are designed to protect and preserve the Argo Group's reputation and strategic agility and thus protect Argo

Group's future business potential. These limits include parameters for individual risks that could cause permanent damage to how customers, clients, shareholders, and staff perceive Argo Group.

Catastrophe Exposure and Management: Catastrophe exposures are managed on a probable maximum loss (PML) basis. As such, Argo Re has systems and software tools to monitor and manage the accumulation of its exposure to losses in certain geographical areas prone to specific types of catastrophes. Retrocessional covers are purchased to protect Argo Re from its exposure to significant property catastrophe events. In addition, Argo Re entered into two reinsurance contracts with a special purpose reinsurance company, which provides the company protection against severe catastrophe events and the occurrence of multiple significant catastrophe events during the same year. The special purpose reinsurance company provides the reinsurance through two catastrophe bond transactions, which are supported by two collateralized facilities.

OPERATING PERFORMANCE

Operating Results: Argo Re produced varying levels of net income in its first years of operations through 2010 reflective of generally profitable underwriting operations and solid net investment income levels. The company's combined ratio did increase somewhat in 2010 due to a soft rate environment that impacted the assumed affiliated business, in addition to a higher level of catastrophes. In 2011, results deteriorated significantly due to a series of natural events, including the Japan and New Zealand earthquakes, the Thailand and Australia floods as well as storms in the United States, that impacted the company's operations. Results improved in 2012 however, a small net loss was generated primarily as a result of catastrophe losses from storm activity, including Hurricane Sandy and Hurricane Isaac in the United States. Profitability was restored in 2013 as catastrophe losses were reduced.

BALANCE SHEET STRENGTH

Capitalization: Argo Re maintains an excellent level of capitalization as measured by Best's Capital Adequacy Ratio (BCAR). An analysis of current and pro-forma cash flows indicates that sufficient capital exists to support existing financial obligations. A.M. Best expects management to keep its risk exposures within planned tolerances. Moreover, A.M. Best will continue to evaluate capitalization to ensure capital and surplus are commensurate with the current rating.

In December of 2013 and 2011, Argo Re paid cash dividends of \$84.5 million and \$100.0 million, respectively, to Argo Group which were used to repay an intercompany note. No dividends were paid by Argo Re to Argo Group in 2012.

Summarized Accounts as of December 31, 2013

Data reflected within all tables of this report has been compiled from the financial statements of this company (Source: Company Financial Statement).

ASSETS

	12/31/2013	12/31/2013	12/31/2012
	USD(000)	% of total	USD(000)
Cash and equivalents	77,154	3.2	29,391

Long term fixed maturity investments	356,270	14.5	408,172
Equity investments	103,780	4.2	76,007
Other investments	907,430	37.0	903,892
Invested assets	1,367,480	55.8	1,388,071
Receivables	81,869	3.3	110,631
Reinsurance recoverable	128,672	5.3	94,363
Other assets	795,287	32.5	657,289
Total assets	2,450,462	100.0	2,279,745

LIABILITIES & SURPLUS

	12/31/2013 USD(000)	12/31/2013 % of total	12/31/2012 USD(000)
Property / Casualty reserves	969,035	39.5	876,238
Unearned premium reserves	164,017	6.7	126,614
Total policy reserves	1,133,052	46.2	1,002,852
Other liabilities	99,236	4.1	96,437
Total liabilities	1,232,288	50.3	1,099,289
Equity - common stock	1,120	0.1	1,120
Paid-in capital	1,177,884	48.1	1,177,884
Accumulated other comprehensive income	-85,108	-3.5	-83,159
Retained earnings	124,278	5.1	84,611
Total equity	1,218,174	49.7	1,180,456
Total liabilities & equity	2,450,462	100.0	2,279,745

STATEMENT OF INCOME

	12/31/2013 USD(000)	12/31/2012 USD(000)
Direct premiums written	76,408	71,688
Reins assumed	750,191	660,069
Gross premiums written	826,599	731,757
Reins ceded	128,957	106,769
Net premiums written	697,642	624,988
Change in unearned premiums	37,403	79,901
Net premiums earned	660,239	545,087
Net investment income	18,048	18,382
Net realized gains/(losses)	7,717	3,640
Other revenue	32,480	...
Total revenue	718,484	567,109
Benefits & reserves	359,296	346,820

Operating expenses	235,001	224,510
Total benefits & expenses	594,297	571,330
Earnings before interest & taxes (EBIT)	124,187	-4,221
Pre-tax income/(loss) from continuing operations	124,187	-4,221
Total taxes	20	...
Net income/(loss) before minority interest	124,167	-4,221
Net income/(loss) from continuing operations	124,167	-4,221
Net income/(loss)	124,167	-4,221

STATEMENT OF CHANGES IN EQUITY

	12/31/2013 USD(000)	12/31/2012 USD(000)
Common shares, beginning balance	1,120	1,120
Common shares, ending balance	1,120	1,120
Paid-in capital - Beg bal	1,177,884	1,177,884
Paid-in capital - End bal	1,177,884	1,177,884
AOCI - beginning balance	-83,159	-114,947
AOCI - change in unrealized gains/losses on investments	1,083	-394
AOCI - change in unrealized gains/losses - other	-6,430	32
AOCI - other	3,398	32,150
AOCI - ending balance	-85,108	-83,159
Retained earnings, beginning balance	84,611	88,832
Retained earnings, net income	124,167	-4,221
Retained earnings, common dividends	84,500	...
Retained earnings, ending balance	124,278	84,611
Total shareholder equity	1,218,174	1,180,456

PREMIUMS BY LINE OF BUSINESS

	12/31/2013 USD(000)	12/31/2013 % of total	12/31/2012 USD(000)
GPW-Accident & health	37,450	4.5	25,967
GPW-Automobile	10,604	1.3	3,260
GPW-Aviation	9,835	1.2	10,103
GPW-Catastrophe / earthquake	386,067	46.7	339,882
GPW-Credit	342	0.0	329
GPW-Other classes	80,042	9.7	71,134
GPW-Property	302,259	36.6	281,082
GPW-Total non-life	826,599	100.0	731,757
GPW-Total business	826,599	100.0	731,757

HISTORY

Effective December 31, 2007, Argo Group amalgamated its two Bermuda reinsurers, Peleus Re and PXRE Reinsurance Ltd. (PXRE), with Peleus Re as the continuing company. Peleus Re, prior to the amalgamation, was a Class 3 general business insurer, and PXRE was a Class 4 general business insurer. As a result of the amalgamation, Peleus Re was granted a Class 4 license under the Insurance Act. Effective April 7, 2008, the name of Peleus Re was changed to Argo Re. Capital stock consists of total authorized share capital of \$1,120,000 consisting of 112,000 common shares authorized and issued at \$10 per share.

MANAGEMENT

All of the common shares of Argo Re are held by Argo Group, a publicly-traded Bermuda insurance holding company listed on the NASDAQ under the symbol AGII.

OFFICERS

President: Andrew Carrier

Secretary: I.S. Outerbridge

Chief Underwriting Officer: Nigel Mortimer
(Excess Casualty, Emerging Markets)

Treasurer and CFO: Kevin Copeland

Chief Underwriting Officer: Matthew Wilken
(Property Reinsurance)

Actuary: Malkie Mayer

DIRECTORS

Barbara C. Bufkin
Jay S. Bullock
Andrew Carrier

Kevin Copeland
Nigel Mortimer
Mark E. Watson III (Chairman)

REINSURANCE

Argo Re protects itself vertically through the purchase of a multi layered and interlinked programme that affords coverage for various territorial peak exposures including but not limited to the US, UK, Europe, Japan & Australasia. The current attachment for US occurrences is \$30m and cover exhausts at \$100m. For non-US occurrences the attachment is \$20m with cover exhausting at \$90m. In addition to this Argo Re continues to purchase an inuring quota share. Argo Re also purchases significant reinsurance protection for its operation in Brazil and 60% of limits up to \$25 million for its Maltese and Dubai companies. Various other specific reinsurance placements are also purchased to augment the core placements listed above.

Additionally, the company purchases quota share reinsurance for its Professional Liability and Excess Casualty risks. Coverage of 75% of up to \$50 million per policy is provided for the Excess Casualty portfolio. The Professional Liability portfolio is provided with coverage of 75% up to \$25 million per policy.

BALANCE SHEET ITEMS

	USD (000) <u>2013</u>	USD (000) <u>2012</u>	USD (000) <u>2011</u>	USD (000) <u>2010</u>	USD (000) <u>2009</u>
Invested assets	1,367,480	1,388,071	1,394,976	1,355,178	1,242,319
Total assets	2,450,462	2,279,745	2,193,103	2,003,609	1,729,863
Total liabilities	1,232,288	1,099,289	1,040,214	764,778	499,584
Total equity	1,218,174	1,180,456	1,152,889	1,238,831	1,230,279
Total capital	1,218,174	1,180,456	1,152,889	1,238,831	1,230,279

INCOME STATEMENT ITEMS

	USD (000) <u>2013</u>	USD (000) <u>2012</u>	USD (000) <u>2011</u>	USD (000) <u>2010</u>	USD (000) <u>2009</u>
Gross premiums written	826,599	731,757	609,118	607,387	533,651
Net premiums written	697,642	624,988	445,912	537,489	479,807
Net investment income	18,048	18,382	25,501	78,081	145,606
Net realized gains/(losses)	7,717	3,640	2,539	2,563	-2,701
Net income/(loss)	124,167	-4,221	-47,694	40,765	172,088

LIQUIDITY RATIOS (%)

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Total investments to total reserves	127.5	141.3	159.0	200.9	272.8
Liquid assets to total liabilities	43.6	46.7	52.9	84.6	117.1
Total investments to total liabilities	117.2	128.9	136.4	184.2	262.8
Bonds to total reserves	31.4	40.7	51.6	74.8	102.1

PROFITABILITY RATIOS (%)

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Loss ratio	54.4	63.6	93.7	65.4	57.0
Expense ratio	35.6	34.0	33.9	35.7	31.8
Combined ratio	90.0	97.6	127.6	101.1	88.8
Investment income ratio	2.7	3.4	5.3	15.9	31.5
Return on assets	5.3	-0.2	-2.3	2.2	10.8
Return on revenues	18.8	-0.8	-9.9	8.3	37.2
Return on equity	10.4	-0.4	-4.0	3.3	14.7

LEVERAGE & DEBT RATIOS (%)

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Net premiums written to equity	57.3	52.9	38.7	43.4	39.0
Cash and equivalents to total assets	3.2	1.3	1.1	2.7	4.1

Find out more about our [Market Segment Outlooks](#), indicating the potential future direction of company ratings within a segment over the next 6 to 18 months.

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 Best's 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 Debt/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.

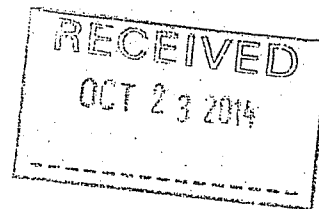
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AMB Credit Report BCR08252014



CLLAS
CANADIAN LAWYERS LIABILITY
ASSURANCE SOCIETY

INVESTMENT REPORT
SEPTEMBER 30, 2014

MARTIN, LUCAS & SEAGRAM LTD.
INDEPENDENT INVESTMENT COUNSEL

Suite 620, 48 Yonge Street
Toronto, Ontario
M5E 1G9

Tel.: 416-363-6216
Fax: 416-363-4538
e-mail: info@mlsinvest.com

CLLAS
CANADIAN LAWYERS LIABILITY
ASSURANCE SOCIETY

COMMENTARY FOR THE QUARTER ENDING SEPTEMBER 30, 2014

Review of Market Yields

Bond yields were rather volatile during the third quarter. Following a gradual downward shift during July and most of August, Canada yields reversed course and pushed quickly higher until late in September, when an equally sharp downward move retraced the earlier increase. At the end of September, yields across all maturities were close to their levels three months earlier. The yield on Treasury Bills edged lower, while the 5-year issue recorded an increase of 10 basis points, and the 10-year bond yield eased back 9 basis points.

As a result of these shifts, the yield curve flattened slightly as the yield advantage of 10-year issues over Treasury Bills decreased to 123 basis points at the end of September from 130 basis points three months earlier.

	Jan. 1/95	Mar. 31/14	Jun. 30/14	Sep. 30/14
3-Month Treasury Bills	6.80%	0.90%	0.94%	0.92%
5-year Canadas	8.99%	1.71%	1.53%	1.63%
10-year Canadas	9.09%	2.46%	2.24%	2.15%

During the quarter, in the Short Term Investment Fund, activity involved the roll-over of money market securities.

There were no transactions in the Long Term Investment Fund.

During the third quarter, the market value of the Long Term Investment Fund holdings edged lower by \$423. However, including income returns, the portfolio recorded a positive total return of .58%.

At September 30, 2014, the average term to maturity of the Long Term Investment Fund stood at 4.4 years.

The table below shows the distribution of the assets held in both the Short and Long Term Investment Funds at September 30.

<i>Distribution at September 30, 2014</i>	<i>Valuation</i>	<i>%</i>
Short Term Investment Fund	\$9,180,269	70.8%
Long Term Investment Fund	3,793,442	29.2%
TOTAL COMBINED VALUATION	\$12,973,712	100.0%

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CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

The following pages set out tables, commentary and schedules on the items listed below:

- Total Returns vs. Benchmarks - Gross and Net of Fees
- Distribution of Securities in the Long Term Investment Fund
by Credit Risk and by Maturity
- Compliance Statement
- Quarterly Performance Report - Gross of Fees: Long Term Investment Fund
- Bond Market Commentary and Future Policy
- Security Holdings in the Short and Long Term Investment Funds
Listed and Valued Separately as at September 30, 2014
- Security Purchases and Sales
- Cash Reconciliations
- External Individual Credit Rating Report

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LONG TERM INVESTMENT FUND

TIME-WEIGHTED RATES OF TOTAL RETURN FOR PERIODS ENDING SEPTEMBER 30, 2014

	Since Inception Dec. 17/13	Last 3 months
<i>Long Term Investment Fund</i> <i>– Gross of Fees</i>	<i>2.51%</i>	<i>0.58%</i>
<i>Long Term Investment Fund</i> <i>– Net of Fees</i>	<i>2.27%</i>	<i>0.51%</i>
Benchmark Portfolio **	3.56%	0.56%

** The Benchmark Portfolio is based on the sum of the following total return indices:
60% Canada Short Bond Index
40% Canada Mid Bond Index

SHORT TERM INVESTMENT FUND

TIME-WEIGHTED RATES OF TOTAL RETURN FOR PERIOD ENDING SEPTEMBER 30, 2014

	Since Inception Oct. 1/08 *	Three Years*	Two Years *	One Year	Last 3 Months
<i>Short Term Investment Fund</i> <i>– Gross of Fees</i>	<i>0.84%</i>	<i>0.91%</i>	<i>0.91%</i>	<i>0.90%</i>	<i>0.23%</i>
<i>Short Term Investment Fund</i> <i>– Net of Fees</i>	<i>0.71%</i>	<i>0.80%</i>	<i>0.80%</i>	<i>0.80%</i>	<i>0.21%</i>
Benchmark Portfolio **	0.79%	0.91%	0.93%	0.91%	0.23%

* Annualized

** The Benchmark Portfolio, adopted from October 1, 2008, is based 100 %
on the total return index of the 30-day Treasury Bill Index

CLLAS**LONG TERM INVESTMENT FUND****DISTRIBUTION OF SECURITIES BY CREDIT RISK**

(Based on Market Values)

	Dec. 17/13	Dec. 31/13	Mar. 31/14	Jun. 30/14	Sep. 30/14
Bonds, Treasury Bills & Cash Less than 1 year term	100.0%	26.5%	19.5%	0.0%	0.0%
Canadas Greater than 1 year term		8.0%	14.5%	21.2%	21.2%
Provincials Greater than 1 year term		39.1%	39.4%	39.9%	39.9%
Corporates Greater than 1 year term		26.4%	26.6%	38.9%	38.9%
TOTAL PORTFOLIO	100.0%	100.0%	100.0%	100.0%	100.0%

LONG TERM INVESTMENT FUND**DISTRIBUTION OF SECURITIES BY MATURITY**

(Based on Market Values)

	Dec. 31/13	Mar. 31/14	Jun. 30/14	Sep. 30/14
Under 1 year	26.5%	19.5%	0.0%	0.0%
1 - 3 years	21.4%	21.2%	21.3%	35.4%
3 - 5 years	28.4%	35.1%	42.0%	33.2%
5 - 7 years	5.3%	5.4%	18.9%	13.6%
7 - 10 years	18.5%	18.8%	17.8%	17.8%
TOTAL	100.0%	100.0%	100.0%	100.0%
Average Maturity (yrs)	3.54	3.65	4.64	4.39
Average Duration	3.24	3.37	4.28	4.05

SHORT TERM INVESTMENT FUND

	Dec. 31/13	Mar. 31/14	Jun. 30/14	Sep. 30/14
Short Term Average Duration	0.08	0.13	0.11	.11

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COMPLIANCE WITH INVESTMENT POLICY STATEMENT

AT SEPTEMBER 30, 2014

	Investment Limits	Investment Funds	Compliance
<i>Short Term Investment Fund</i>			
Maximum Term of Any Issue	1 year	0.2 years	Yes
Minimum Percentage of Total Fund (Short & Long)	40% of Total	70.8%	Yes
Minimum Canada & Provincial Percentage	50%	52.9%	Yes
Minimum Provincial Quality	A	N/A	Yes
Minimum Bank CD & BA Quality	R1	R1	Yes
<i>Long Term Investment Fund</i>			
Maximum Term of Any Issue	10 years	8.3 years	Yes
Maximum Percentage of Total Fund (Short & Long)	60% of Total	29.2%	Yes
Minimum Canada Percentage	20%	21.2%	Yes
Maximum Provincial Percentage	40%	39.9%	Yes
Minimum Canada & Provincial Percentage	60%	61.1%	Yes
Minimum Provincial Quality *	A	AA (low)	Yes
Maximum Corporate Percentage	40%	38.9%	Yes
Minimum Corporate Quality *	A	AA	Yes

** At time of purchase*

This will confirm that during the third quarter the Long Term Investment Fund was managed in compliance with the Investment Policy limits provided on December 3, 2013.

Similarly, during the same period the Short Term Fund remained in compliance with the Investment Policy Statement that became effective on May 5, 2012.

CLLAS

Martin, Lucas & Seagram Ltd.
PERFORMANCE REPORT
GROSS OF FEES
CLLAS - LONG TERM INVESTMENT FUND
From 06-30-14 to 09-30-14

Portfolio Value on 06-30-14	3,793,865
Accrued Interest	15,128
Contributions	2,914
Withdrawals	-19,817
Realized Gains	0
Unrealized Gains	-423
Interest	16,903
Dividends	0
Change in Accrued Interest	5,664
Portfolio Value on 09-30-14	3,793,442
Accrued Interest	20,792
Average Capital	3,803,467
Total Gain before Fees	22,144
IRR for 0.25 Years	0.58%

CLLAS

BOND MARKET COMMENTARY AND FUTURE POLICY

Over the past few months, expectations for global economic growth have been buffeted by a variety of geopolitical developments and diverging trends among the leading economies. On the plus side, following a weather induced slowdown in the U.S. early this year, conditions south of the border have shown a marked improvement over the past six months. Aggregate growth rebounded to a 4.6% annual rate in the second quarter, led by strong gains in consumer spending, exports, inventories and employment. Most indicators suggest the economy continued to make solid upward progress in the third quarter and the consensus forecast expects growth of around 3%. Employment has been a particular bright spot and strong gains in payrolls has reduced the U.S. unemployment rate to a six year low of 5.9%.

The reacceleration of the U.S. economy has benefitted Canada through stronger exports and this, combined with the weaker Canadian dollar, has returned the trade balance to a surplus for five of the past six months. This helped fuel second quarter growth to a better than expected 3.1%. However, due to soft domestic demand, Canada remains on a more modest growth path compared to the U.S. and recent data suggests that third quarter growth is on track to meet the Bank of Canada's forecast of a 2.3% gain.

Outside of North America, growth has surprised to the downside in many leading economies and the IMF has trimmed its global growth projections for this year and next. In China, aggregate growth rebounded in the second quarter to the government's target of 7.5%. However, more recent data confirms that growth decelerated to 7.3% in the third quarter due to some softening in domestic demand and deflationary pressures in the real estate market. While the central bank has introduced some targetted measures to support the economy, the authorities seem tolerant of some moderation in an attempt to keep credit excesses in check, while transitioning the economy to more domestically driven growth.

Meanwhile, economic trends in Europe and Japan are also weighing on the global expansion. Conditions in the Eurozone have deteriorated with the two largest core economies, Germany and France, experiencing a contraction in industrial activity while Italy has moved back into recession. Japan also continues to struggle following the April sales tax hike. The subsequent falloff in consumer spending caused the economy to shrink at a 7.1% annual rate in the second quarter, although the economy has stabilized in the third quarter. In response to anaemic growth and inflation rates that remain far below target, the monetary authorities in Europe and Japan continue to introduce new measures designed to increase credit, liquidity and inflation.

Geopolitical concerns have added to the uncertainty surrounding the international outlook. The conflict in Ukraine continues to simmer and the fallout from the escalation of retaliatory sanctions are being felt in Europe and Russia. Growing hostilities in the Middle East and unrest in the Far East's major banking centre, Hong Kong, along with the Ebola scare have also weighed on investor confidence.

CLLAS

In the wake of these developments, volatility in the financial markets has resurfaced following a lengthy period of relative calm. Part way through the quarter, government bond yields in Canada and the U.S. were pressured on the downside by concerns surrounding the end of the Federal Reserve's asset purchasing program and the possibility that the Fed would start raising rates earlier than expected in the wake of the economies stronger than anticipated performance. However, these concerns have since dissipated in the wake of weaker economic growth offshore and the turmoil in the equity markets, which has fueled the flight to government bonds, the traditional safe haven asset.

As a result, prevailing yields are now well below what would be considered normal given the North American economic backdrop. However, we believe a variety of factors will keep bond yields depressed over the very short term. Domestic yields remain well above European and Japanese levels, which could move even lower as their central banks employ more aggressive monetary measures. Therefore, foreign demand for North American issues is expected to remain supportive. Recent statements from the North American monetary authorities have added to the positive backdrop for bonds. While the U.S. Federal reserve is expected to complete its bond buying program later this month, the authorities have reiterated their concerns surrounding excess slack in the labour market and inflation that remains well below their target rate. This has helped push out the market's expectation for an administered rate hike until much later next year. Meanwhile, the Bank of Canada has suggested that any rise in domestic rates could come well after the Fed's first increase. Against the weakening macro environment overseas and a firm U.S. dollar, commodity prices have been under considerable downward pressure, led by oil which is off close to 20% from the highs reached in June. Growing evidence of global deflationary pressures has led to a drop in inflation expectations, which has also been supportive of bond prices.

Looking further ahead, barring a recession, we don't believe yields can be sustained at current levels. At this juncture, the usual signs of a recession are largely absent and over time we expect the yield curve will shift gradually higher given the likelihood that the global expansion will remain intact, led by the increasingly inclusive U.S. recovery and trends in the currency markets, which will also be supportive of growth offshore. As a result, we believe the Long Term Fund's laddered maturity structure and defensive duration of 4.1% years remains appropriate and we expect there will be more favourable opportunities to expand this portfolio with transfers from the Short Term fund in the period ahead as the safety premium currently reflected in bond prices dissipates.

RWB/mab
October 21, 2014

As stipulated in our Investment Management Agreement, please let ML&S know if there are major changes in your financial circumstances, income needs or risk tolerance in order for us to review the suitability of your investment objectives.

Martin, Lucas & Seagram Ltd.

CLLAS - SHORT TERM INVESTMENT FUND

Portfolio Holdings at September 30, 2014

<u>Quantity</u>	<u>Security</u>	<u>Unit Cost</u>	<u>Price</u>	<u>Market Value</u>	<u>Annual Income</u>
CASH					
	Cash Account			5,435	0
MONEY MARKET ISSUES					
1,740,000	Canada Treasury Bill .829% due October 23, 2014	99.81	99.94	1,739,013	14,397
1,525,000	Bank of Nova Scotia BA 1.05% due October 29, 2014	99.76	99.91	1,523,559	15,973
220,000	CIBC BA 1.029% due November 3, 2014	99.80	99.89	219,766	2,259
1,010,000	Toronto Dominion Bank BA 1.039% due November 3, 2014	99.75	99.89	1,008,927	10,467
1,625,000	Canada Treasury Bill .829% due November 6, 2014	99.81	99.91	1,623,502	13,446
1,500,000	Canada Treasury Bill .81% due November 20, 2014	99.84	99.87	1,498,095	12,116
1,565,000	CIBC BA 1.019% due November 28, 2014	99.82	99.81	1,561,972	15,919
				<u>9,174,835</u>	<u>84,578</u>
TOTAL PORTFOLIO				9,180,269	84,578

Martin, Lucas & Seagram Ltd.
PURCHASE AND SALE
CLLAS - SHORT TERM INVESTMENT FUND
From 07-01-14 To 09-30-14

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
PURCHASES					
07-07-14	07-08-14	1,010,000	Toronto Dominion Bank BA .995% due August 6, 2014	99.92	1,009,202.10
07-16-14	07-17-14	1,500,000	Canada Treasury Bill .81% due September 11, 2014	99.88	1,498,138.50
07-30-14	07-31-14	1,740,000	Canada Treasury Bill .829% due October 23, 2014	99.81	1,736,683.56
08-01-14	08-05-14	1,525,000	Bank of Nova Scotia BA 1.05% due October 29, 2014	99.76	1,521,279.00
08-05-14	08-06-14	1,010,000	Toronto Dominion Bank BA 1.039% due November 3, 2014	99.75	1,007,445.71
08-13-14	08-14-14	1,625,000	Canada Treasury Bill .829% due November 6, 2014	99.81	1,621,902.75
08-22-14	08-25-14	220,000	CIBC BA 1.029% due November 3, 2014	99.80	219,566.38
09-10-14	09-11-14	1,500,000	Canada Treasury Bill .81% due November 20, 2014	99.84	1,497,673.50
09-24-14	09-25-14	1,565,000	CIBC BA 1.019% due November 28, 2014	99.82	1,562,206.48
					11,674,097.98
SALES					
07-08-14	07-08-14	1,010,000	Toronto Dominion Bank BA 1.00% due July 8, 2014	100.00	1,010,000.00
07-17-14	07-17-14	1,500,000	Canada Treasury Bill .82% due July 17, 2014	100.00	1,500,000.00
07-31-14	07-31-14	1,735,000	Canada Treasury Bill .80% due July 31, 2014	100.00	1,735,000.00
08-05-14	08-05-14	1,525,000	FirstBank BA 1.001% due August 5, 2014	100.00	1,525,000.00
08-06-14	08-06-14	1,010,000	Toronto Dominion Bank BA .995% due August 6, 2014	100.00	1,010,000.00
08-14-14	08-14-14	1,615,000	Canada Treasury Bill .80% due August 14, 2014	100.00	1,615,000.00
08-25-14	08-25-14	220,000	CIBC BA 1.027% due August 25, 2014	100.00	220,000.00
09-11-14	09-11-14	1,500,000	Canada Treasury Bill .81% due September 11, 2014	100.00	1,500,000.00
09-25-14	09-25-14	1,545,000	CIBC BA 1.019% due September 25, 2014	100.00	1,545,000.00
					11,660,000.00

Martin, Lucas & Seagram Ltd.
CASH RECONCILIATION
CLLAS - SHORT TERM INVESTMENT FUND
From 07-01-14 to 09-30-14

Cash Balance at July 1, 2014			11,983.99
ADD: Proceeds from Sales	11,660,000.00		
Bond Interest Credited (from Long Term Investment Fund)	19,817.00		
Bank Interest Credited	<u>1.03</u>	<u>11,679,818.03</u>	
			11,691,802.02
LESS: Cost of Purchases	11,674,097.98		
Transfer to Long Term Investment Fund	2,914.44		
Investment Counsel Fees - Short Term Investment Fund	2,585.25		
Investment Counsel Fees - Long Term Investment Fund	2,679.42		
Trust Company Charges	<u>4,090.11</u>	<u>11,686,367.20</u>	
Cash Balance at September 30, 2014			5,434.82

Martin, Lucas & Seagram Ltd.

EXTERNAL INDIVIDUAL CREDIT RATING REPORT - SEPTEMBER 30, 2014

CLLAS - SHORT TERM INVESTMENT FUND

[illegible]

CLLAS - LONG TERM INVESTMENT FUND

Portfolio Holdings at September 30, 2014

Quantity	Security	Unit Cost	Price	Market Value	Annual Income
GOVERNMENT BONDS					
300,000	Canada Housing Trust 1.85% Series 43 due December 15, 2016	101.30	101.22	303,657	5,550
250,000	Canada Housing Trust 1.75% due June 15, 2018	100.11	100.37	250,913	4,375
250,000	Canada Housing Trust 1.95% due June 15, 2019	100.10	100.47	251,163	4,875
				<hr/> 805,732	<hr/> 14,800
PROVINCIAL BONDS					
300,000	Alberta 1.85% due September 1, 2016	101.35	101.20	303,585	5,550
330,000	Ontario 1.90% due September 8, 2017	100.18	100.93	333,056	6,270
350,000	Ontario 2.1% due September 8, 2018	99.57	101.00	353,490	7,350
250,000	British Columbia 3.25% due December 18, 2021	102.30	105.46	263,660	8,125
250,000	Ontario 3.15% due June 2, 2022	99.04	103.18	257,938	7,875
				<hr/> 1,511,728	<hr/> 35,170
CORPORATE BONDS					
200,000	Bank of Nova Scotia Dep. Note 2.1% due November 8, 2016	100.32	100.71	201,412	4,200
200,000	Toronto Dominion Bank Dep. Note 2.433% due August 15, 2017	100.73	101.44	202,872	4,866
200,000	Royal Bank Dep. Note 2.26% due March 12, 2018	99.28	100.60	201,198	4,520
200,000	Wells Fargo Canada 2.944% due July 25, 2019	100.02	102.06	204,120	5,888
300,000	Bank of Montreal 2.84% due June 4, 2020	101.77	101.73	305,202	8,520
200,000	Bank of Montreal 3.4% due April 23, 2021	100.65	104.41	208,828	6,800
150,000	Wells Fargo 3.46% due January 24, 2023	102.36	101.57	152,351	5,190
				<hr/> 1,475,983	<hr/> 39,984
TOTAL PORTFOLIO				<hr/> 3,793,442	<hr/> 89,954

Martin, Lucas & Seagram Ltd.
PURCHASE AND SALE
CLLAS - LONG TERM INVESTMENT FUND
From 07-01-14 To 09-30-14

<u>Trade Date</u>	<u>Settle Date</u>	<u>Quantity</u>	<u>Security</u>	<u>Unit Price</u>	<u>Amount</u>
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No transactions were found!

Martin, Lucas & Seagram Ltd.
CASH RECONCILIATION
CLLAS - LONG TERM INVESTMENT FUND
From 07-01-14 to 09-30-14

Cash Balance at July 1, 2014	0.00
ADD: Transfer from Short Term Investment Fund	<u>2,914.44</u>
	2,914.44
LESS: Accrued Bond Interest on Purchases	<u>2,914.44</u>
Cash Balance at September 30, 2014	0.00

