

**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 11, 2013

Present:

Nicholas Leblovic (Chair)
Robert Love
Gordon Goodman
John Esvelt
Jennifer Halloran
Donald Milner
Ken Crofoot
Bill Scott
Dan McDonald
Julia Holland
Mike Swartz

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

Patrick Mahoney
Norma Ibbetson
Ryan Durrell

Office of the General Manager, CLLAS
Office of the General Manager, CLLAS
Dion Durrell + Associates

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 26, 2013 Meeting of the Advisory Board

It was moved by John Esvelt and seconded by Ken Crofoot that the minutes of the June 26, 2013 meeting of the Advisory Board be approved. The motion was carried unanimously.

4. **Comments of the Chair**

Nick Leblovic spoke briefly to the Board about activities being undertaken by the Risk Management Committee including suggestions for future policy guidelines.

5. **Expanding Membership**

The General Manager's office will now be preparing an information piece for new law firms highlighting the positives of joining CLLAS.

6. **CLLAS Board – D&O Quote**

This item arose from a discussion at the last Board meeting. There was a discussion as to whether it would be appropriate to obtain D&O coverage for the CLLAS Board and the discussion was deferred to this meeting so that a quote could be obtained.

The General Manager's office advised that a quote has been received from Encon. The policy language has not yet been reviewed. The cost would be \$11,000 for a \$5 million limit with a \$10,000 deductible. Double the limits with the same deductible would cost just under \$16,000.

The Board discussed the merits of the coverage. It was noted that the CLLAS Subscribers Agreement provides for the indemnification of Board members. Potential claimants were limited, typically the members and former members of CLLAS. It was noted that former partners of the member firms could conceivably take issue with something done by CLLAS.

Board members who purchase coverage through the CBIA-ODL program include CLLAS on their list of directorships. Not all firms have coverage with that program but most have some form of coverage. After discussion about the benefits of the coverage versus the cost, it was suggested that Ryan Durrell go back to Encon to clarify the extent of the coverage and that a review of the CBIA-ODL policy be undertaken to clarify the coverage afforded to the CLLAS Board under that policy. The matter is to be discussed at the next meeting and if it is to be pursued further the Board would request the Policy Committee to review the Encon policy wording.

7. **Report of the General Manager's Office**

Financial Statements Quarter Ending June 30, 2013

Mr. Mahoney reviewed the June 30, 2013 Financial Statements with the Board. He indicated that CLLAS' surplus position is similar to what it was a year ago, and that the Loss Portfolio Transfer has served to dampen the volatility in CLLAS' financial results.

Reinsurance Placement

Ryan Durrell reviewed the September 4, 2013 memo summarizing the terms of the 2013/14 reinsurance placement with the Board. Indications had been provided at the June meeting and this memo provides the details of the final placement.

The Reinsurance Security Report will be provided at the December meeting and the details will be reviewed with the Audit Committee.

8. Report of the Claims Committee

In the absence of the Chair, Patrick Mahoney reported to the Board. There are a number of claims which have been settled but remain open for the purpose of processing residual fees. There are currently five or six class action suits being managed.

9. Report of the Risk Management Committee

Bill Scott reported on the recent activities of the Committee. The biggest initiative currently underway is the risk management seminar which is scheduled for October 22, 2013 at McCarthy's offices. The invitation will be going out in the next day or so and will be sent out by Nick Leblovic.

The agenda will include:

- Client intake
- Trading Securities
- Directors and other Ancillary activities
- Legal Opinions

There will be a short presentation on each topic, followed by discussion during which firms will ideally share their own approach to dealing with the subject matter.

Board members were asked to circulate the invitation to the appropriate individuals at their firm. Mr. Scott advised that he believed that the firm could accommodate remote access (i.e. participants from offices outside of Toronto) if he is advised in advance.

The possibility of accreditation for Continuing Legal Education (CLE) purposes is being explored with the law society.

Mr. Scott reported that John Walker is currently re-auditing McCarthy Tetrault and that this will create a template for other audits going forward.

10. Report of the Policy Committee

There was no report from this committee.

11. Report of the Investment Manager at June 30, 2013

Information item only. An investment policy review is underway and recommendations will come to the Board for consideration at their December Board meeting.

12. Other Business

There was no other business.

13. Next Meeting

The next regularly scheduled meeting of the Board will be on December 11, 2013.

There being no further business, the meeting was terminated.

Chairman

Secretary

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

FINANCIAL MANAGEMENT REPORT

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

FINANCIAL MANAGEMENT REPORT

September 30, 2013

CONTENTS

Exhibit I	Statement of Financial Position
Exhibit II	Statement of Comprehensive Income
Exhibit III	Statement of Changes in Equity
Exhibit IV	Operating Budget Variance Analysis

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF FINANCIAL POSITION
September 30, 2013

	As at September 30, 2013	As at September 30, 2012
ASSETS		
Cash	6,782,290	4,050,424
Short term investments	12,328,554	14,252,333
Bonds	-	42,978,105
Interest income due and accrued	0	310,085
Premium receivable	6,879,144	7,114,364
Other receivable	-	-
Prepaid expenses	209,250	204,750
Deferred policy acquisition costs	289,755	299,638
Unearned reinsurance premium ceded	7,553,825	8,142,500
Reinsurance recoverable	579,877	1,609,798
Provision for unpaid claims and adjustment expenses recoverable from reinsurers	75,959,000	65,040,000
	<u>110,581,694</u>	<u>144,001,997</u>
LIABILITIES		
Accounts payable & accrued charges	443,236	462,403
Premium taxes payable	147,663	115,594
Unearned premium	10,307,859	10,642,309
Due to reinsurers	5,324,487	49,703,848
Provision for unpaid claims and adjustment expenses	82,879,000	70,390,000
Premium deficiency liability	-	-
	<u>99,102,246</u>	<u>131,314,153</u>
SUBSCRIBERS' EQUITY		
Surplus	11,480,659	10,670,509
Accumulated Other Comprehensive Income (Loss)	(1,210)	2,017,334
	<u>11,479,449</u>	<u>12,687,844</u>
	<u>110,581,694</u>	<u>144,001,997</u>

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF COMPREHENSIVE INCOME
For the Period Ending September 30, 2013

	Current Year		Prior Year	
	Quarter September 30, 2013	Year to Date September 30, 2013	Quarter September 30, 2012	Year to Date September 30, 2012
Written Premium	13,769,929	13,769,929	14,228,728	14,228,728
Gross Written Premiums	13,769,929	13,769,929	14,228,728	14,228,728
Less: Reinsurance Ceded	10,660,620	10,660,620	10,876,493	55,146,493
Net Written Premiums	3,109,309	3,109,309	3,352,235	(40,917,765)
Change in Unearned Premiums	(2,754,034)	(1,096,652)	(2,499,809)	36,758
Earned Premiums	355,274	2,012,657	852,426	(40,881,007)
Claims Paid	-	-	-	6,294,394
Change in IBNR	228,000	739,000	(64,000)	(26,099,000)
Change in Case Reserve	-	-	-	(14,063,000)
Premium Deficiency Expense	-	-	-	(586,000)
Incurred Claims	228,000	739,000	(64,000)	(34,453,606)
Management and operating expenses	288,479	1,247,848	380,867	1,686,730
Reinsurance fees	69,750	212,250	68,250	204,750
Premium taxes	96,182	243,941	99,879	99,879
Total Operating Expenses	454,411	1,704,039	548,997	1,991,359
Underwriting Gain (Loss)	(327,137)	(430,382)	367,430	(8,418,759)
Investment Income	35,043	101,295	388,320	1,183,382
Income on Claim Related Matters	-	-	-	-
Interest Income on Premium Tax	-	-	82,438	82,438
NET GAIN/(LOSS)	<u>(292,093)</u>	<u>(329,088)</u>	<u>838,188</u>	<u>(7,152,940)</u>
Other comprehensive income (loss)				
Unrealized gains (losses) on available for sale financial assets arising during the year	11,804	8,802	(44,398)	(290,982)
Recognition of realized (gain) loss included in income	-	-	(28)	5,884
Other comprehensive income (loss) for the year	11,804	8,802	(44,426)	(285,098)
Total comprehensive income (loss)	<u>(280,290)</u>	<u>(320,286)</u>	<u>793,762</u>	<u>(7,438,038)</u>

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF CHANGES IN EQUITY
September 30, 2013

	Minimum Surplus	Additional Surplus	Unrealized gains and losses on AFS financial assets	Total Equity
Balance, beginning of year	50,000	11,759,747	(10,012)	11,799,734
Prior year adjustment		-		-
Comprehensive income (loss) for the year				
Net gain (loss) for the year		(329,088)		(329,088)
Other comprehensive income (loss)				
Change in unrealized gain on available-for-sale assets			8,802	8,802
Recognition of realized (gain) loss on available-for-sale assets			-	-
Total comprehensive income (loss) for the year		(329,088)	8,802	(320,286)
Balance at September 30, 2013	50,000	11,430,659	(1,210)	11,479,449

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF OPERATIONS AND SURPLUS - VARIANCE ANALYSIS
FOR THE PERIOD ENDED September 30, 2013

	Annual Budget	Year to Date Budget % Accrued to Date	Year to Date Budget \$	Year to Date Actual \$	Fav/(Unfav) Variance \$
MANAGEMENT SERVICES	611,000	75%	458,250	442,085	16,165
PROFESSIONAL SERVICES					
Actuarial Services	102,000	83%	84,660	77,164	7,496
Reinsurance Matters	350,000	83%	290,501	261,036	29,465
Strategic Matters	120,000	83%	99,600	56,293	43,307
Sub-Total Professional Services	572,000		474,761	394,493	80,268
GST/HST on Consulting Fees	153,790		121,291	108,755	12,536
Total Management & Professional Services * (See Note 1)	1,336,790		1,054,302	945,333	108,970
OTHER EXPENSES					
Audit Expenses	115,000	75%	86,250	101,396	(15,146)
Annual Dinner	7,000	100%	7,000	5,268	1,732
Premium Taxes	348,000	75%	261,000	243,941	17,059
Chairman's Expenses	2,000	75%	1,500	434	1,066
Chairman's Honourium	75,000	100%	75,000	75,000	-
Reinsurance Expense	8,000	75%	6,000	10,817	(4,817)
Office Expenses	25,000	75%	18,750	17,457	1,293
Office Expenses - Website management software license	1,100	100%	1,100	6,450	(5,350)
Office Expenses - Translation	-		-	2,383	(2,383)
Claims: Borderaux (LSUC)	16,000	92%	14,667	14,940	(273)
Special Services	100,000	75%	75,000	14,783	60,217
Miller Insurance Fees (Reins. Comm.) (See Note 2)	282,000	75%	211,500	212,250	(750)
I.B.C Statistical Plan Fees	16,000	75%	12,000	3,216	8,784
FSCO Assessment Fees	5,000	75%	3,750	(1,031)	4,781
Investment counsel fees	21,000	75%	15,750	12,651	3,099
Investment - Custodial	18,000	75%	13,500	11,032	2,468
Risk Management/Loss Prevention	100,000	75%	75,000	24,207	50,793
License Fee	5,000	75%	3,750	3,500	250
Insurance: Sundry	-		-	13	(13)
Sub-total	1,144,100		881,517	758,706	122,811
TOTAL	2,480,890		1,935,820	1,704,039	231,780

*** 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	26%
Second Quarter, ending June 30th	41%
Third Quarter, ending September 30th	16%
Fourth Quarter, ending December 31st	17%
	<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

Report on Reinsurance Security
December 3, 2013

TABLE OF CONTENTS

1. Reinsurance Security Considerations	1
1.1 Status Update	1
1.2 Reinsurance Security	1
1.3 Level I Monitoring.....	1
1.4 Level II Monitoring Triggers.....	2
1.5 Level II Monitoring.....	2
1.6 Commercial Layers Limit Exposure	2
2. Level II Monitoring.....	4
2.1 Reinsurers Requiring Level II Monitoring	4
2.2 Reinsurers Removed from Level II Monitoring	4
2.3 Allied World Assurance Company Limited	4
2.4 Colchester Reinsurance Limited.....	6
2.5 CRC Reinsurance Limited.....	7
2.6 Lloyd's of London.....	8
2.7 Swiss Reinsurance Company	10
2.8 Transatlantic Reinsurance Company	11
2.9 Argo Group International Holdings, Ltd.	13
2.10 RSA Insurance Group plc.	15

Appendices

A	Dion, Durrell + Associates Inc. Letter on its Reinsurance Security Practices
B	Miller Services LLP Letter on its Reinsurance Security Practices
C	Current A.M. Best and S&P Ratings Compared to the Previous Year
D	CLLAS Reinsurance – Top 25 Reinsurers by % of Current Liability – All Years
E	CLLAS Reinsurance – Reinsurers by % of Current Liability – Current Year (2013/14)
F	CLLAS Reinsurance – Reinsurers by % of Single Claim Exposure – Current Year – (2013/14)
G	Reinsurers by % of Single Claim Exposure – Current Year – (2013/14) – Consolidated
H	A.M. Best Credit Report – Allied World Assurance Company Limited
I	Audited Financial Statements – Colchester Reinsurance Limited
J	A.M. Best Credit Report – CRC Reinsurance Limited
K	A.M. Best Credit Report – Lloyd's of London
L	A.M. Best Credit Report – Swiss Reinsurance Company
M	A.M. Best Credit Report – Transatlantic Reinsurance Company
N	A.M. Best Credit Report – Argo Group International Holdings, Ltd.
O-1	RSA Insurance Group plc 2012 Annual Report Summary Press Release
O-2	RSA Insurance Group plc Q3 2013 Interim Management Statement

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 Audit 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 Dion, Durrell + Associates Inc. (including Alternative Risk Services) and Miller Insurance Services LLP respectively which provide information on their reinsurance security practices.

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.

1.6 Commercial Layers Limit Exposure

Appendix G combines the CLLAS limit exposure with the exposure from the commercial layers placed with Pro-Form Insurance Services Inc. The inclusion of the commercial layers increases the total limits, and effectively reduces the limit exposure metric shown in Appendix F.



Liabilities associated with the Commercial Layer insurers were not provided and are therefore not included in the current claims liability exhibits. Based on rough estimates of the expected loss costs in these layers, liability is unlikely to reach 10% of the total for any of the Commercial Layer insurers. However, it is worth noting that commercial insurance placements do not benefit from the risk-spreading effect of CLLAS and therefore an insurer default is likely to affect a single firm for a claim's full value in the affected layer. The result is that the financial impact of a default of a commercial insurer would be visited entirely upon a particular firm.

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	Argo	Transatlantic	RSA
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						✓*		✓

* This is a downgrade of the parent company of the Lloyd's syndicate and not necessarily a reflection of decreased financial strength of CLLAS' reinsurance counterparty.

2.2 Reinsurers Removed from Level II Monitoring

There were no reinsurers removed from the Level II monitoring list.

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 2-year stock performance from September 30, 2011 to September 30, 2013 of AWAC (ticker: AWH, New York Stock Exchange) with the S&P 500 for comparison. AWAC's share price at September 30, 2013 was \$99.39 and was \$112.65 on November 29, 2013.



Highlights of A.M. Best Report

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

- 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, 2-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 ratings agencies.

Financial Highlights

Please see Appendix I for a copy of the most recent financial statements (as of June 30, 2013). The following are some of the highlights from these financials:

- Cash and cash equivalents increased from \$1,172,582 in 2012 to \$1,681,768 in 2013;
- Retained earnings increased from \$28,610,412 in 2012 to \$31,018,310 in 2013;
- Income for the year, after taxation, decreased from \$10,212,280 in 2012 to \$2,407,898 in 2013:
 - ❖ Reinsurance premiums written and earned decreased from \$47,986,427 in 2012 to \$3,390,790 in 2013, while retrocession premiums ceded also decreased from \$3,857,575 in 2012 to \$1,388,249 in 2013. In large measure, these decreases are due to a one-time loss portfolio transfer with CLLAS which took place in 2012;
 - ❖ Net investment income increased from \$774,783 in 2012 to \$1,850,005 in 2013 due to an increase in assets and liabilities brought into Colchester by the completion of the loss portfolio transfer with CLLAS in 2012;
 - ❖ The result of the above two factors was an decrease in revenue from \$44,903,635 in 2012 to \$3,238,254 in 2013, which is more in line with expected year-over-year volumes;
- 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)).

2.5 CRC Reinsurance Limited ("CRC")

General

CRC is a direct and wholly owned subsidiary of Fairfax Financial Holdings Limited. The majority of CRC's premium written 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 Holdings. The following is the 2-year stock performance from September 30, 2011 to September 30, 2013 of Fairfax Financial Holdings (ticker: FFH, Toronto Stock Exchange) with the S&P TSX for comparison. Fairfax Financial Holdings' share price at September 30, 2013 was \$416.56 and was \$412.81 on November 29, 2013.



Highlights of A.M. Best Report

The complete A.M. Best report is set forth in Appendix J, however 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.

- The 2012 combined ratio of 105.4 is an improvement relative to the combined ratio of 135.6 produced in 2011;
- Shareholders' equity increased to \$303 million at year-end 2012 from \$182 million at year-end 2011;
- Gross premiums written: \$109,580,000 in 2012 and \$109,436,000 in 2011;
- Net income: \$83,624,000 in 2012, -\$50,051,000 in 2011, and \$25,791,000 in 2010.

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, establishes standards and provides 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 the 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 K. Current rating is A (Excellent)/Stable from A.M. Best.

- A.M. Best's rating of Lloyd's of London 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);
- 2011 was one of the worst years on record for catastrophe losses. However, Lloyd's reported an excellent profit in 2012 of GBP 2.771 billion, in spite of losses arising from the Costa Concordia grounding, Hurricane Isaac and super-storm Sandy;
- Capitalization: A.M. Best believes Lloyd's will maintain a solid capital base through 2013:
 - ❖ Lloyd's capitalization is expected to remain strong into 2013, underpinned by a stable central capital base;
 - ❖ Central assets for solvency purposes rose 4% in 2012 to GBP 3.215 billion, and are expected to remain stable in 2013;

➤ Liquidity:

- ❖ In A.M. Best's opinion, Lloyd's is likely to maintain good overall liquidity in 2013;
- ❖ Managing agents are responsible for the investment of syndicate premium trust funds which were GBP 41.126 billion in 2012 (inclusive of overseas deposits);
- ❖ 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 2-year stock performance from September 30, 2011 to September 30, 2013 for Swiss Re (ticker: SREN, SIX Swiss Exchange) with the SMI (Swiss Market Index) for comparison. Swiss Re's share price at September 30, 2013 was 74.80 CHF and was 80.65 CHF on November 29, 2013.



Highlights of A.M. Best Report

The complete A.M. Best report is set forth in Appendix L. Current rating is A+ (Superior)/Stable from A.M. Best. The financial information below is denominated in CHF:

- 2012, underwriting results have been strong despite exposure to hurricane Sandy;
- Swiss Re's underwriting results have been strong over the past four years:
 - ❖ Loss ratios measured 51.1%, 72.8%, 66.6%, and 65.1% in years 2012, 2011, 2010 and 2009 respectively;
 - ❖ Combined ratios measured 80.5%, 100.0%, 95.1%, and 95.4% in years 2012, 2011, 2010, and 2009 respectively;
- Gross premiums were 15.865 billion CHF in 2012 and 15.211 CHF billion in 2011.

2.8 Transatlantic Reinsurance Company ("Transatlantic")

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.

CLLAS had issues collecting reinsurance proceeds from Transatlantic as a result of a dispute over contract language. The issue was arbitrated and ultimately the funds were collected from Transatlantic.

Transatlantic no longer participates on the CLLAS Program.

While Transatlantic 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.

In March 2012, Alleghany Corporation and Transatlantic Holdings, Inc. completed a merger and Transatlantic became an indirect wholly-owned subsidiary of Alleghany Corporation. As a result, we have included the stock performance of Alleghany Corporation.

Stock Performance

The following is the 2-year stock performance from September 30, 2011 to September 30, 2013 of Alleghany Corporation (ticker: Y, New York Stock Exchange) with the S&P 500 for comparison. Alleghany's share price at September 30, 2013 was \$409.65 and was \$393.39 on November 29, 2013.



Highlights of A.M. Best Report

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

- Although operating results included some catastrophic results, Transatlantic's 5 year average operating performance is in line with its peer group.
- Capitalization: The group maintains adequate risk-adjusted capital based on its BCAR. The BCAR score remains adequate given the overall diversification of its book of business and increasing capital base;
- Net premiums written \$3,074,457,000 in 2012 and \$3,291,536,000 in 2011;
- Net income: \$345,455,000 in 2012 and -\$15,319,000 in 2011;
- 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. ("Argo Group")

General

The 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 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.

S&P reduced the outlook for Argo's core U.S. operating insurance subsidiaries from Stable to Negative to reflect their view that management faces execution risks related to achieving its plans to improve the group's operating performance and maintain risk management capabilities in line with its risk appetite and the growing complexity of its operations. However, it should be noted that Argo's Syndicate benefits from additional financial strength provided by the central funds held by Lloyd's.

Stock Performance

The following is the available stock performance from June 15, 2012 to September 30, 2013 for Argo Group International Holdings (ticker: AGII, NASDAQ) with the NASDAQ composite for comparison. Argo Group's share price at September 30, 2013 was \$42.90 and was \$47.29 on November 29, 2013.



Highlights of A.M. Best Report

The complete A.M. Best report is set forth in Appendix N. Argo Group's insurance subsidiaries are A. M. Best-rated A (Excellent)/Stable with a stable outlook, and S&P's-rated A- (Strong) with a negative outlook. Again, it should be noted that Argo's Syndicate benefits from additional financial strength provided by the central funds held by Lloyd's and ratings pertain only to parent and related operating companies, not the Syndicate itself.

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:

- Stable net premiums written over the past five years: \$1,151,000,000 in 2008, \$1,421,400,000 in 2009, \$1,095,700,000 in 2010, \$1,071,800,000 in 2011 and \$1,271,800,000 in 2012;
- Positive net income from 2006-2010, 2012 and negative net income in 2011 resulting from significant catastrophe losses: \$106,000,000 in 2006, \$143,800,000 in 2007, \$62,900,000 in 2008, \$117,500,000 in 2009, \$82,600,000 in 2010, (\$81,900,000) in 2011 and \$52,300,000 in 2012;
- Argo Group has shown underwriting stability since 2006, with loss ratios less than 80% in each of the last seven years: 58.8% in 2006, 61.3% in 2007, 64.3% in 2008, 60.3% in 2009, 64.2% in 2010, 79.8% in 2011 and 65.5% in 2012 ;
- Combined ratios have strayed above 100% over the past four of five years, but solid investment income has offset these losses.

2.10 RSA Insurance Group plc ("RSA")

General

RSA acquired GCAN on January 10, 2011 and continued GCAN's participation on CLLAS' Optional Excess layer.

RSA is primarily a general lines insurer and as such has increased exposure to extreme weather catastrophe events.

From January 1, 2012, RSA was restructured into 4 regions; Scandinavia, Canada, UK and Western Europe, which includes Ireland and Italy and Emerging Markets, which remains unchanged.

Scandinavia

- RSA is the third largest insurer in Denmark and Sweden through Codan and Trygg-Hansa respectively, with a growing business in Norway.

Canada

- RSA is one of the oldest insurance companies in Canada, with roots dating back to 1845;

- RSA is the 3rd largest general insurer overall in Canada, up from number 10 in 2005.

UK and Western Europe

- RSA has been operating in the UK since 1710;
- Within the UK, RSA is the largest Commercial lines insurer and the 4th largest UK Personal lines insurer overall;
- RSA is the 2nd largest general insurer and the largest Direct insurer through 123 Money in Ireland.

Emerging Markets

- Emerging Markets is RSA's fastest growing region, operating in around 20 developing insurance markets;
- Our main focus is on Specialty, Motor, Small and Medium Enterprises (SME) and Affinity.

RSA's Canadian division has been hit with the worst and the third worst natural catastrophe insurance events on record in Canada, followed by continued adverse weather across the country during the third quarter. More recently, Northern Europe suffered a severe windstorm in late October. RSA has recently issued an interim management statement revising its projected results for 2013 which is the reason for its S&P downgrade and "Negative" watch status.

Stock Performance

The following is the available stock performance from September 30, 2011 to September 30, 2013 for RSA Insurance Group plc (ticker: RSA, London Stock Exchange) with the FTSE 100 for comparison. RSA Insurance Group's share price at September 30, 2013 was £121.90 and was £106.40 on November 29, 2013.



Highlights of A.M. Best Report

RSA is not rated by A.M. Best.

Financial Highlights

Please see Appendix O for a copy of the most recent annual report (as of December 31, 2012) and Q3 2013 Interim Management Statement.

- RSA's performance was strong through 2012;
- Combined ratios were in the 94.5% to 96.4% range from 2008 through 2012;
- Net written premiums rose steadily from £6.462 billion to £8,353 billion from 2008 through 2012, and have continued to see strong growth through Q3 2013;
- Underwriting results have been consistently positive over the past 5 years, but are expected to be lessened in 2013 as a result of catastrophe losses in Canada;
- As of December 31, 2012, RSA held in excess of £1.3 billion in cash and cash equivalents.

June 9, 2009

Mr. Nick Leblovic
Chairman, CLLAS
c/o Davies Ward Phillips & Vineberg LLP
44th Floor, 1 First Canadian Place
Toronto, Ontario M5X 1B1

Dear Nick,

This is in response to your request for Dion Durrell to provide a letter regarding the reinsurance that is placed on behalf of CLLAS. As you know, we work closely with Miller Insurance Services Ltd. on all CLLAS reinsurance matters with Miller being responsible for the London placement (including Lloyd's and certain European companies) and the Colchester (new this year) retrocession placement. Dion Durrell 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. We may use our brokerage subsidiary, Alternative Risk Services Inc., to facilitate the Lloyd's placement due to the Part XIII changes that were recently introduced by OSFI.

In the past, we had established with CLLAS a minimum reinsurance security rating standard of no less than A- as determined by AM Best and Standard & Poor's. Any deviation from such standard was referred to the CLLAS Advisory Board. For example, when Scor Re was downgraded to below A-, we provided CLLAS with detailed information on how Scor Re intended to gain back the confidence of the market and the rating agencies. Since Canadian assets were ring fenced, the CLLAS Board agreed to keep Scor Re on the placement but, as a due diligence process, CLLAS decided to reduce Scor Re's participation. After two years, Scor Re regained its A- rating and in fact was recently upgraded to A "Strong" by S&P. This kind of thoughtful and deliberate monitoring preserves the important relationships that CLLAS has developed over the years with its reinsurers.

Please be advised that neither Dion Durrell nor Alternative Risk Services Inc. carries out its own assessment of the solvency of any insurer or reinsurer and nor do we 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 have proposed that CLLAS adopt a reinsurance security process which we would provide assistance in any way that we can, especially with Level II monitoring which would require a review of more detailed monitoring and information about the specific reinsurer.

In general, we are prepared to provide CLLAS with updates from AM 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 above is satisfactory, however, should you have any questions, please do not hesitate to contact the undersigned.

Yours sincerely,


Joseph D. Tontini
Consultant



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Nicholas J. Leblovic
Chairman
Canadian Lawyers Liability Assurance Society
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		
		December 2013 Rating		February 2013 Rating	December 2013 Rating		February 2013 Rating
		Rating	Change from Last Rating	Rating	Rating	Change from Last Rating	Rating
Lloyd's	Registered	A (Excellent)/Positive	Outlook Upgraded	A (Excellent)/Stable	A+ (Strong)/Stable	Unchanged	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)/Stable	Unchanged	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)/Negative	Rating Downgrade	A+ (Strong)/Stable
SCOR Canada Reinsurance Company	Registered	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	A+ (Strong)/Stable	Unchanged	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)/Stable	Unchanged	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)/Negative	Outlook Downgrade	A- (Strong)/Stable
Axis Reinsurance Company	Registered	A+ (Superior)/Stable	Rating Upgraded	A (Excellent)/Positive	A+ (Strong)/Stable	Unchanged	A+ (Strong)/Stable
Continental Casualty Company (CNA)	Registered	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	A (Strong)/Positive	Rating Upgraded	A- (Strong)/Stable
Allianz Global Risks	Registered	A+ (Superior)/Stable	Unchanged	A+ (Superior)/Stable	AA (Very Strong)/Stable	Outlook Upgraded	AA (Very Strong)/Negative

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	14,584,302	2,011,925	1,193,246	966,411	118,771	8,833	63,699	18,947,188	25.3%	22.7%	Up
➡	Colchester	Barbados	No	0	8,920,079	0	0	0	0	0	0	8,920,079	11.9%	9.1%	Up
➡	AMA 1200	Lloyd's	Yes	0	8,043,217	0	0	0	912	0	0	8,044,129	10.7%	8.2%	Up
	AML 2001	Lloyd's	Yes	0	2,048,071	0	137,915	100,457	0	564	0	2,287,007	3.1%	2.4%	Up
	AGD 2526	Lloyd's	Yes	0	2,228,439	42,563	0	0	1,754	0	5,289	2,278,045	3.0%	2.0%	Up
	Transatlantic Reinsurance Company (Combined)	Combined	Yes	0	620,380	611,679	670,891	3,641	0	0	0	1,906,592	2.5%	3.6%	Down
	AFB 623/2623	Lloyd's	Yes	0	0	1,601,523	0	0	8,287	0	0	1,609,810	2.2%	2.9%	Down
	Transatlantic Reinsurance Company (Canada)	Canada	Yes	0	620,380	297,683	447,390	0	0	0	0	1,365,453	1.8%	2.4%	Down
	Aspen Re	London	Yes	0	0	606,271	432,045	189,273	0	0	0	1,227,588	1.6%	2.3%	Down
	AUL 1274	Lloyd's	Yes	0	1,208,821	0	0	0	0	0	0	1,208,821	1.6%	1.3%	Up
	Allianz Global Risks	London	Yes	0	1,127,216	0	0	0	0	0	0	1,127,216	1.5%	0.7%	Up
	PEM 4000	Lloyd's	Yes	0	851,620	0	237,792	0	237	733	5,180	1,095,562	1.5%	1.6%	Down
	Scor Re.	Canada	Yes	0	0	263,022	519,646	270,301	19,348	124	0	1,072,441	1.4%	2.0%	Down
	Hannover Ruck	London	Yes	0	0	0	857,665	0	0	0	0	857,665	1.1%	1.7%	Down
	AXIS Re	Canada	Yes	0	760,523	0	0	0	0	0	7,280	767,803	1.0%	0.8%	Up
➡	Swiss Re (Combined)	Combined	Mix	0	0	0	0	595,471	75,164	20,907	53,867	745,410	1.0%	1.4%	Down
	MKL 3000	Lloyd's	Yes	0	0	0	282,780	365,569	6,104	0	17,687	672,141	0.9%	1.3%	Down
	MKM 2468	Lloyd's	Yes	0	0	0	306,174	359,287	0	0	4,164	669,625	0.9%	1.4%	Down
	Arch	Canada	Yes	0	0	632,978	0	0	0	0	15,048	648,026	0.9%	1.1%	Down
➡	Swiss Re (Canada)	Canada	Yes	0	0	0	0	554,359	50,305	16,578	14,556	635,798	0.8%	1.2%	Down
	Transatlantic Reinsurance Company (UK)	London	Yes	0	0	313,996	223,502	3,641	0	0	0	541,139	0.7%	1.1%	Down
➡	CRC (Bermuda) Reinsurance Ltd.	Bermuda	No	0	0	259,375	178,241	0	0	0	0	437,617	0.6%	0.8%	Down
	TOA Re.	Canada	Yes	0	0	226,631	153,411	0	0	0	0	380,042	0.5%	0.7%	Down
	CNA	Canada	Yes	0	372,228	0	0	0	0	0	0	372,228	0.5%	0.6%	Down
	AGM 2488	Lloyd's	Yes	0	0	161,628	129,021	0	5,581	0	0	296,230	0.4%	0.6%	Down

Total Current Liabilities			2,521,872	56,036,614	7,950,923	5,419,246	2,413,089	215,042	83,054	200,280	74,840,120				
Proportional Reinsurance:															
	London		0	15,711,518	2,932,192	2,706,458	1,200,437	127,541	13,163	63,699	22,755,008	30.4%	28.7%	Up	
	Canada		0	1,753,130	1,420,315	1,120,447	824,660	86,369	16,808	97,820	5,319,549	7.1%	9.0%	Down	
	Bermuda		0	0	259,375	178,241	0	1,132	53,084	38,761	530,593	0.7%	1.0%	Down	
	Barbados		0	8,920,079	0	0	0	0	0	0	8,920,079	11.9%	9.1%	Up	
	Total		0	26,384,728	4,611,882	4,005,146	2,025,098	215,042	83,054	200,280	37,525,230	50.1%	47.8%	Up	
CLLAS Proportional Retention			2,521,872	29,651,887	3,339,041	1,414,099	387,991	0	0	0	37,314,890	49.9%	52.2%	Down	
➡	Colchester Loss Portfolio Transfer & Stop Loss		1,977,434	29,651,887	3,339,041	1,414,099	387,991	0	0	0	36,770,453	49.1%	51.8%	Down	
CLLAS Net Retention											544,437	0.7%	53.4%	Down	

CLLAS Reinsurance

Appendix E

Reinsurers by % of Current Liability

CURRENT YEAR (2013/2014)

Watch	Name	Jurisdiction	Reg'd?	LAYERS				TOTAL	Percent of Total	Prev. Year	
				\$.975MM	\$49MM	\$30/60MM	\$10-60MM			Percent	Move-
				XS \$.025MM	XS \$1MM	XS \$65MM	XS \$160MM			of Total	ment?
➡	Underwriters at Lloyd's	London	Yes	0	1,926,525	4,621	6,678	1,937,824	58.3%	53.5%	Up
➡	AMA 1200	Lloyd's	Yes	0	956,883	94	0	956,978	28.8%	28.8%	Up
➡	Colchester	Barbados	No	0	956,883	0	0	956,883	28.8%	33.5%	Down
	AGD 2526	Lloyd's	Yes	0	325,340	0	498	325,838	9.8%	9.8%	Up
	AML 2001	Lloyd's	Yes	0	273,350	0	0	273,350	8.2%	8.2%	Up
	Allianz Global Risks	London	Yes	0	210,514	0	0	210,514	6.3%	6.3%	Up
	PPI 9969	Lloyd's	Yes	0	204,135	0	0	204,135	6.1%	0.0%	Up
	AUL 1274	Lloyd's	Yes	0	134,921	0	0	134,921	4.1%	4.1%	Up
	AXIS Re	Canada	Yes	0	95,688	0	1,012	96,700	2.9%	2.9%	Down
	PEM 4000	Lloyd's	Yes	0	31,896	237	730	32,863	1.0%	2.3%	Down
➡	Swiss Re (Combined)	Combined	Mix	0	0	3,301	5,464	8,764	0.3%	0.3%	Down
➡	Westport Insurance Corp. (Swiss Re)	Canada	Yes	0	0	3,301	5,464	8,764	0.3%	0.3%	Down
	BRT 2987	Lloyd's	Yes	0	0	2,264	1,416	3,680	0.1%	0.1%	Up
	Gerling Global Re	Canada	Yes	0	0	377	2,428	2,805	0.1%	0.0%	Up
➡	AWAC	Bermuda	No	0	0	1,132	1,416	2,548	0.1%	0.2%	Down
	MKL 3000	Lloyd's	Yes	0	0	565	1,758	2,323	0.1%	0.1%	Down
	SAL 1206	Lloyd's	Yes	0	0	522	1,463	1,985	0.1%	0.1%	Down
	Arch	Canada	Yes	0	0	0	1,619	1,619	0.0%	0.1%	Down
	Royal & Sun Alliance Co. of Canada	Canada	Yes	0	0	0	1,619	1,619	0.0%	0.1%	Down
	FDY 435	Lloyd's	Yes	0	0	337	407	743	0.0%	0.0%	Down
	Barbican 1955	Lloyd's	Yes	0	0	141	405	546	0.0%	0.0%	Up
	SJC 2003	Lloyd's	Yes	0	0	273	0	273	0.0%	0.0%	Up
	AFB 623/2623	Lloyd's	Yes	0	0	190	0	190	0.0%	0.0%	Down

Total Current Liabilities			103,157	3,189,611	9,431	20,235	3,322,434			
Proportional Reinsurance:										
London	0	2,137,039	4,621	6,678	2,148,338	64.7%	59.8%	Up		
Canada	0	95,688	3,678	12,141	111,508	3.4%	3.4%	Down		
Bermuda	0	0	1,132	1,416	2,548	0.1%	0.2%	Down		
Barbados	0	956,883	0	0	956,883	28.8%	33.5%	Down		
Total	0	3,189,611	9,431	20,235	3,219,278	96.9%	97.0%	Down		
CLLAS Proportional Retention			103,157	0	0	0	103,157	3.1%	3.0%	Up
➡ Colchester Aggregate							0	0.0%	0.0%	Zero
CLLAS Net Retention							103,157	3.1%	3.0%	Up

CLLAS Reinsurance

Appendix F

Reinsurers by % of Single Claim Exposure

CURRENT YEAR (2013/2014)

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	29,596,000	14,700,000	19,800,000	64,096,000	45.8%	41.9%	Up
➔	Swiss Re (Combined)	Combined	Mix	0	0	10,500,000	16,200,000	26,700,000	19.1%	19.1%	Unchanged
➔	Westport Insurance Corp. (Swiss Re)	Canada	Yes	0	0	10,500,000	16,200,000	26,700,000	19.1%	19.1%	Unchanged
➔	AMA 1200	Lloyd's	Yes	0	14,700,000	300,000	0	15,000,000	10.7%	10.9%	Down
➔	Colchester	Barbados	No	0	14,700,000	0	0	14,700,000	10.5%	12.3%	Down
	BRT 2987	Lloyd's	Yes	0	0	7,200,000	4,200,000	11,400,000	8.1%	7.4%	Up
	Gerling Global Re	Canada	Yes	0	0	1,200,000	7,200,000	8,400,000	6.0%	0.0%	Up
➔	AWAC	Bermuda	No	0	0	3,600,000	4,200,000	7,800,000	5.6%	10.3%	Down
	MKL 3000	Lloyd's	Yes	0	0	1,797,000	5,214,000	7,011,000	5.0%	5.0%	Down
	AGD 2526	Lloyd's	Yes	0	4,998,000	0	1,476,000	6,474,000	4.6%	4.6%	Unchanged
	SAL 1206	Lloyd's	Yes	0	0	1,659,000	4,338,000	5,997,000	4.3%	4.6%	Down
	Arch	Canada	Yes	0	0	0	4,800,000	4,800,000	3.4%	3.4%	Unchanged
	Royal & Sun Alliance Co. of Canada	Canada	Yes	0	0	0	4,800,000	4,800,000	3.4%	3.4%	Unchanged
	AXIS Re	Canada	Yes	0	1,470,000	0	3,000,000	4,470,000	3.2%	3.2%	Unchanged
	AML 2001	Lloyd's	Yes	0	4,199,300	0	0	4,199,300	3.0%	3.0%	Unchanged
	PEM 4000	Lloyd's	Yes	0	490,000	753,000	2,166,000	3,409,000	2.4%	2.0%	Up
	Allianz Global Risks	London	Yes	0	3,234,000	0	0	3,234,000	2.3%	2.3%	Unchanged
	PPI 9969	Lloyd's	Yes	0	3,136,000	0	0	3,136,000	2.2%	0.0%	Up
	FDY 435	Lloyd's	Yes	0	0	1,071,000	1,206,000	2,277,000	1.6%	1.7%	Down
	AUL 1274	Lloyd's	Yes	0	2,072,700	0	0	2,072,700	1.5%	1.5%	Unchanged
	Barbican 1955	Lloyd's	Yes	0	0	450,000	1,200,000	1,650,000	1.2%	0.0%	Up
	SJC 2003	Lloyd's	Yes	0	0	867,000	0	867,000	0.6%	0.7%	Down
	AFB 623/2623	Lloyd's	Yes	0	0	603,000	0	603,000	0.4%	0.5%	Down

Maximum Exposure Any One Claim

975,000 49,000,000 30,000,000 60,000,000 139,975,000

Proportional Reinsurance:

London	0	32,830,000	14,700,000	19,800,000	67,330,000	48.1%	44.2%	Up
Canada	0	1,470,000	11,700,000	36,000,000	49,170,000	35.1%	32.6%	Up
Bermuda	0	0	3,600,000	4,200,000	7,800,000	5.6%	10.3%	Down
Barbados	0	14,700,000	0	0	14,700,000	10.5%	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

Financial statements

**COLCHESTER
REINSURANCE LIMITED**

June 30, 2013

Draft 22 November 2013

COLCHESTER REINSURANCE LIMITED

Contents

June 30, 2013

	Page
Independent auditors' report	1 to 2
Statement of financial position	3
Statement of changes in equity	4
Statement of profit or loss and other comprehensive income	5
Statement of cash flows	6
Notes to financial statements	7 to 20

Independent auditors' report

To the shareholders of Colchester Reinsurance Limited

We have audited the accompanying financial statements of Colchester Reinsurance Limited, which comprise the statement of financial position as at June 30, 2013, and the statement of changes in equity, statement of profit or loss and other comprehensive income and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Partners: J.E. (Betty) Brathwaite (Managing Partner), Ikins D. Clarke, Patrick B. Toppin, E. Gordon Walker

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Independent auditors' report (continued)

To the shareholders of Colchester Reinsurance Limited

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Colchester Reinsurance Limited as of June 30, 2013 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

(Date)

Draft 22 November 2013

COLCHESTER REINSURANCE LIMITED

Statement of financial position

As at June 30, 2013

(expressed in Canadian dollars)

	Notes	2013	2012
Assets			
Cash and cash equivalents	4	\$ 1,681,768	\$ 1,172,582
Investments	5	72,015,393	28,957,178
Provision for losses recoverable	7	4,965,000	2,544,000
Accounts receivable and prepayments	6	<u>432,897</u>	<u>44,808,336</u>
		<u>\$ 79,095,058</u>	<u>\$ 77,482,096</u>
Liabilities			
Provisions for losses and loss adjustment expenses	7	\$ 45,070,000	\$ 43,943,000
Claims payable		373,527	-
Accounts payable and accrued expenses	8	<u>103,530</u>	<u>1,086,214</u>
		<u>45,547,057</u>	<u>45,029,214</u>
Shareholders' equity			
Share capital	9	3,315,100	3,315,200
Retained earnings	10	31,018,310	28,610,412
Accumulated other comprehensive (loss) income		<u>(785,409)</u>	<u>527,270</u>
		<u>33,548,001</u>	<u>32,452,882</u>
		<u>\$ 79,095,058</u>	<u>\$ 77,482,096</u>

Approved by the Board on

Paul B Altman Director

Trevor A. Carmichael Director

The accompanying notes form an integral part of these financial statements.

COLCHESTER REINSURANCE LIMITED

Statement of changes in equity

For the year ended June 30, 2013

(expressed in Canadian dollars)

	Share capital \$	Accumulated other comprehensive income \$	Retained earnings \$	Total \$
Balance – 30 June 2011	3,315,200	478,930	18,398,132	22,192,262
Total comprehensive income	-	48,340	10,212,280	10,260,620
Balance – 30 June 2012	3,315,200	527,270	28,610,412	32,452,882
Total comprehensive income	(100)	(1,312,679)	2,407,898	1,095,219
Balance – 30 June 2013	3,315,100	(785,409)	31,018,310	33,548,001

COLCHESTER REINSURANCE LIMITED

Statement of profit or loss and other comprehensive income

For the year ended June 30, 2013

(expressed in Canadian dollars)

	Notes	2013	2012
Revenue			
Reinsurance premiums written and earned		\$ 3,390,790	\$ 47,986,427
Retrocession premiums ceded		<u>(2,002,541)</u>	<u>(3,857,575)</u>
		1,388,249	44,128,852
Net investment income	5	<u>1,850,005</u>	<u>774,783</u>
		<u>3,238,254</u>	<u>44,903,635</u>
Expenses			
Losses and loss adjustment expenses		1,601,664	857,966
Change in provision for losses and loss adjustment expenses		<u>(1,294,000)</u>	<u>33,523,000</u>
Operating expenses	11	<u>512,590</u>	<u>300,269</u>
		<u>820,254</u>	<u>34,681,235</u>
Income for the year before taxation		2,418,000	10,222,400
Taxation		<u>10,102</u>	<u>10,120</u>
Income for the year after taxation		<u>2,407,898</u>	<u>10,212,280</u>
Other comprehensive (loss) income			
Items that may be reclassified subsequently to profit or loss:			
Unrealised gains and losses on available-for-sale investments arising during the year		(1,275,355)	(22,940)
Reclassification adjustments relating to available-for-sale financial assets disposed of in the year	5	<u>(37,324)</u>	<u>71,280</u>
		<u>(1,312,679)</u>	<u>48,340</u>
Total comprehensive income		<u>1,095,219</u>	<u>\$ 10,260,620</u>

The accompanying notes form an integral part of these financial statements.

COLCHESTER REINSURANCE LIMITED

Statement of cash flows

For the year ended June 30, 2013

(expressed in Canadian dollars)

	Notes	2013	2012
Operating activities			
Income for the year before taxation		\$ 2,418,000	\$ 10,222,400
Add items not using cash:			
(Gain) loss on sale of bonds	5	37,324	(71,280)
Amortisation of premium on bonds		<u>297,916</u>	<u>239,188</u>
		2,753,240	10,390,308
Changes in non-cash balances:			
Accounts receivable and prepayments		456,857	(44,578,750)
Provisions for losses and loss adjustment expenses		(1,294,000)	33,523,000
Claims payable		373,527	(17,924)
Accounts payable and accrued expenses		<u>(982,684)</u>	<u>1,031,827</u>
Cash generated from operations		1,306,940	348,461
Taxes paid		<u>(10,102)</u>	<u>(10,120)</u>
<i>Net cash from operating activities</i>		<u>1,296,838</u>	<u>338,341</u>
Investing activities			
Purchase of investments		(26,164,636)	(14,806,485)
Proceeds on sale of investments	5	<u>25,377,084</u>	<u>15,251,926</u>
<i>Net cash (used in) from investing activities</i>		<u>(787,522)</u>	<u>445,441</u>
Financing Activities			
Cash paid on repurchase of common shares		<u>(100)</u>	<u>-</u>
<i>Net cash (used in) financing activities</i>		<u>(100)</u>	<u>-</u>
Change in cash and cash equivalents, for the year		<u>509,186</u>	<u>783,782</u>
Cash and cash equivalents, beginning of year		<u>1,172,582</u>	<u>388,800</u>
Cash and cash equivalents, end of year	4	\$ <u>1,681,768</u>	\$ <u>1,172,582</u>

The accompanying notes form an integral part of these financial statements.

COLCHESTER REINSURANCE LIMITED

Notes to financial statements

For the year ended June 30, 2013

(expressed in Canadian dollars)

1. Operations

Colchester Reinsurance Limited ("the Company") was incorporated under the Companies Act of Barbados on June 22, 1990 and is a licensed insurer under the Exempt Insurance Act, 1983. The registered office of the Company is located at Chancery House, High Street, Bridgetown, Barbados. The principal activity of the Company is the reinsurance of the Canadian Lawyers Liability Assurance Society ("CLLAS"), which in turn provides lawyers' professional liability insurance.

Beginning July 1, 2012, the Company assumed proportional reinsurance of 35% of the layer \$49,000,000 in excess of \$1,000,000 insured by CLLAS. Colchester retrocedes 20% of the layer \$45,000,000 in excess of \$5,000,000 and 10% of the layer \$40,000,000 excess of \$10,000,000. In addition the Company also assumes on an aggregate basis 100% of the first \$25,000,000 of the net proportional losses of CLLAS and Colchester combined. The Company then retrocedes 100% of \$17,500,000 in excess of \$7,500,000 on the combined basis.

For the year beginning July 1, 2011, the Company had assumed proportional reinsurance of 25% of the layer \$49,000,000 in excess of \$1,000,000 insured by CLLAS. Colchester retroceded 100% of its proportional retention in the layer \$45,000,000 in excess of \$5,000,000. In addition the Company also assumed on an aggregate basis 100% of the layer \$22,000,000 xs \$17,500,000 of the net proportional losses of CLLAS and Colchester combined. The Company then retroceded 96.25% of \$20,000,000 in excess of \$17,500,000 on the combined basis.

From July 1, 2006 to June 30, 2011 the Company had provided annual aggregate stop-loss reinsurance protection excess of annual aggregate retentions after reflection of proportional reinsurance as follows:

- a) \$10,000,000 annual aggregate excess of \$15,000,000 annual aggregate and
- b) \$15,000,000 annual aggregate excess of \$25,000,000 annual aggregate (including (a) above).

The Company protected itself through retrocessional arrangements. For the year from July 1, 2009 this coverage was for \$15,000,000 annual aggregate excess of \$25,000,000 annual aggregate. Previously this coverage had been maintained for \$20,000,000 annual aggregate excess of \$20,000,000 annual aggregate from July 1, 2002 to June 30, 2009.

On June 30, 2012 the Company entered a Loss Portfolio Transfer arrangement with CLLAS accepting the outstanding claims obligations written by CLLAS between July 1, 1987 and June 30, 2012. These obligations were estimated at \$32,600,000 at the time of transfer.

2. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of financial statements as issued by the International Accounting Standards Board (IASB).

The policies applied in these financial statements are based on IFRS issued and outstanding as of the date the Board of Directors approved the statements. The directors have a reasonable expectation that the Company has adequate resources to continue operations for the foreseeable future. Therefore, the Company continues to adopt the going concern basis in preparing its financial statements.

The financial statements have been prepared on a historical cost basis, unless stated otherwise in the significant accounting policies. Exceptions to the historical cost basis include certain financial instruments which are measured at fair value.

Use of estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimate relates to the provision of losses and loss adjustment expenses.

COLCHESTER REINSURANCE LIMITED

Notes to financial statements

For the year ended June 30, 2013

(expressed in Canadian dollars)

3. Significant accounting policies

Provisions for losses and loss adjustment expenses

The provisions for losses and loss adjustment expenses include estimated claims outstanding and reported with an amount for future development of claims reported and an amount for losses incurred but not reported at the end of the financial year. The Company reports provisions for losses on a discounted basis.

These amounts are necessarily based on estimates of future trends in claims severity and other factors which could vary as the claims are settled. The ultimate liability may be more or less than the estimated amounts. Although it is not possible to measure the degree of variability inherent in such estimates, management believes that the provisions are adequate. The estimates are periodically reviewed by an actuary and any necessary adjustments to this liability are reflected in current operations.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing at the date of the financial statements. Revenue and expenses denominated in foreign currencies are translated into Canadian dollars using prevailing monthly exchange rates. Realised and unrealised gains and losses on foreign currency positions are included in the statement of income and comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Cash and cash equivalents

Cash and cash equivalents include cash at bank, term deposits and treasury bills with original maturities of three months or less. All such balances are stated at cost which approximates fair value.

Financial instruments

Financial assets

Financial assets are recognised in the financial statements when the Company becomes a party to the contractual provisions of the instruments. The Company's financial assets have been classified as "loans and receivables" and "available for sale".

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables including cash and cash equivalents and accounts receivable are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any impairment. Interest income on loans and receivables is recognized by applying the effective interest rate, and is included in the statement of income.

Available-for-sale financial assets

Available-for-sale instruments are non-derivative financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

The Company's investments which comprise fixed income securities are classified as available-for-sale. These are measured at fair value with the fair value of the investments being determined by reference to published price quotations in active markets. Any changes in fair values are recorded, net of income taxes, in Accumulated Other Comprehensive Income ("AOCI") until the financial asset is disposed of or has become other than temporarily impaired.

COLCHESTER REINSURANCE LIMITED

Notes to financial statements

For the year ended June 30, 2013

(expressed in Canadian dollars)

3. Significant accounting policies (continued)

Financial instruments (continued)

Available-for-sale financial assets (continued)

When the asset is disposed of, or has become impaired, the accumulated fair value adjustments recognized in AOCI are transferred to the statement of income and, accordingly, a corresponding adjustment (net of income taxes) is made to AOCI. Dividends and interest income are recorded in investment income on the accrual basis.

Impairment of financial assets

Financial assets are considered to be impaired and impairment losses recognised when there is objective evidence that one or more events that occurred after the initial recognition of the financial assets has impacted the estimated future cash flows of the financial asset and the impact can be reliably estimated.

Impairment of financial assets classified as loans and receivables

If there is objective evidence that an impairment loss has occurred on a financial asset classified as "loans and receivables", the amount of the loss is measured as the difference between the assets carrying value and the present value of estimated future cash flows discounted at the financial asset's effective interest rate. The amount of the loss is recognised in the statement of comprehensive income. If in a subsequent period, the amount of the losses decreases and the decrease can be related objectively to an event occurring after the impairment was recognised; the amount of the reversal is recognised in profit or loss. The reversal will not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment never been recognised.

Impairment of financial assets classified as available-for-sale

The Company regularly reviews its portfolio of securities for impairment. In order to determine whether negative revaluations on investment securities correctly represent impairment, all investment securities for which the market value has been significantly below cost price or below cost price for a considerable period of time, are individually reviewed. A distinction is made between negative revaluations due to general market fluctuations and those due to issuer specific developments.

The impairment review focuses on issuer specific developments regarding financial condition and future prospects of the issuer, taking into account the intent and ability to hold the securities under the Company's long-term investment strategy.

A provision for impairment for debt securities is established when there is objective evidence that the investment is impaired and the impairment is other than temporary. When this occurs, gains or losses previously recognized in accumulated other comprehensive income are reclassified to profit or loss in the period. Once an impairment loss is recorded to income, the loss can only be reversed for fixed income securities to the extent a subsequent increase in fair value can be objectively correlated to an event occurring after the loss was recognized. Following impairment loss recognition, these assets will continue to be recorded at fair value with changes in fair value recorded to AOCI and tested for further impairment quarterly. Interest is no longer accrued and previous interest accruals are reversed.

Financial liabilities

The Company's financial liabilities consist of accounts payable and accrued expenses and are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

COLCHESTER REINSURANCE LIMITED

Notes to financial statements

For the year ended June 30, 2013

(expressed in Canadian dollars)

3. Significant accounting policies (continued)

Financial instruments (continued)

Transaction costs

Transaction costs are netted against the carrying value of the asset and are then recognised over the expected life of the instrument using the effective interest method. The Company uses the effective interest method to recognise interest income or expense which includes transaction cost, premiums or discounts earned or incurred for financial instruments.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or liability on initial recognition. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Taxation

The Company follows the liability method of accounting for income taxes. Under this method, future income tax liabilities and future income tax assets are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantively enacted rates and laws that will be in effect when the differences are expected to reverse. Future income tax assets are recorded in the financial statements if realisation is considered more likely than not.

Under the Exempt Insurance Act of Barbados, the Company's taxable income is subject to Barbados tax at 0% during the first fifteen years of operation and thereafter at 8% on the first BDS\$250,000 of taxable income, and at 0% in respect of all amounts in excess of BDS\$250,000.

Related parties

Transactions between the Company and other entities are considered related party transactions if one of the entities has the ability, directly or indirectly, to control the other or to exercise significant influence over the other in making financial and operating decisions. Companies are also considered to be related if they are subject to common control or common significant influence. Related party transactions have been measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Reinsurance

Reinsurance does not discharge the primary liability of the Company. The Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk of the reinsurers to minimise its exposure to significant losses from their insolvency. The Company believes that it has made appropriate provision for any such losses, and therefore, no material credit risk exists. The provision for losses and loss adjustment expenses and change in the provision are recorded gross and a provision for recoveries from the retrocession included as an asset.

Recognition of premium income and expense

Premiums written/ceded are earned/expensed evenly over the terms of the related agreements.

COLCHESTER REINSURANCE LIMITED

Notes to financial statements

For the year ended June 30, 2013

(expressed in Canadian dollars)

3. Significant accounting policies (continued)

New and amended standards adopted by the Company

The Company has applied the amendments to IAS 1 relating to the presentation of items of other comprehensive income for the first time in the current year. The amendments introduces new terminology such that the 'statement of comprehensive income' is renamed the 'statement of profit and loss and other comprehensive income'. Additionally, the Company has identified items of other comprehensive income as those which will not be reclassified subsequently to profit or loss and those that may be reclassified subsequently to profit or loss when specific conditions are met. Other than the above mentioned changes there are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after July 1, 2012 that would be expected to have a material impact on the Company.

New standards, amendments and interpretations issued but not effective for the entity for the financial year beginning July 1, 2012 and not early adopted are as follows:

IFRS 7	Financial Instruments: Disclosures – Amendments relating to the offsetting of assets and liabilities	Effective January 1, 2013
IFRS 9	Financial Instruments	Effective January 1, 2015
IFRS 13	Fair Value Measurement	Effective January 1, 2013
IAS 1	Presentation of Financial Statements – Amendments resulting from annual improvements	Effective January 1, 2013
IAS 32	Financial Instruments: Presentation – Amendments resulting from annual improvements	Effective January 1, 2013
IAS 32	Financial Instruments: Presentation – Amendments relating to the offsetting of assets and liabilities	Effective January 1, 2014
IAS 36	Impairment of assets – Amendments arising from recoverable amount disclosures for non-financial assets	Effective January 1, 2014
IAS 39	Financial instruments: Recognition and Measurement – Amendments for novation of derivatives	Effective January 1, 2014

The Company has not yet fully evaluated the impact of the above on future financial statements.

4. Cash and cash equivalents

Cash and cash equivalents consist of the following:

	2013	2012
Cash at bank	\$ 184,141	\$ 173,692
Treasury bill	<u>1,497,627</u>	<u>998,890</u>
	<u>\$ 1,681,768</u>	<u>\$ 1,172,582</u>

Cash of \$180,722 (2012 - \$123,889) is held in trust to collateralise the amounts recoverable from the Company related to the business ceded to it. No interest was received on cash at bank during the year. See Note 5.

5. Investments

	2013		2012	
	Amortised cost	Fair value	Amortised cost	Fair value
Fixed income securities				
Bonds	<u>\$ 72,800,597</u>	<u>\$ 72,015,393</u>	<u>\$ 28,429,908</u>	<u>\$ 28,957,178</u>

The fair value of the investments held is based on the quoted market value of the available-for-sale investments as of that date.

COLCHESTER REINSURANCE LIMITED

Notes to financial statements

For the year ended June 30, 2013

(expressed in Canadian dollars)

5. Investments (continued)

Fixed income securities – interest rate

Fixed income securities have yield-to-maturity rates ranging from 0.478% to 3.181% (2012 – 0.478% to 3.936%).

Fixed income securities – maturities

The amortised cost and fair value of marketable securities held are shown by contractual maturity.

	2013		2012	
	Amortised cost	Fair value	Amortised cost	Fair value
Within one year	\$ 5,250,565	\$ 5,185,485	\$ 7,013,467	\$ 7,087,270
Two to five years	53,015,223	52,819,838	21,416,441	21,869,908
Over 5 years	<u>14,534,809</u>	<u>14,010,070</u>	-	-
	<u>\$ 72,800,597</u>	<u>\$ 72,015,393</u>	<u>\$ 28,429,908</u>	<u>\$ 28,957,178</u>

All investments in fixed income securities have a minimum credit rating of 'A1' or 'A' (2012 - 'Aa1' or 'AA-'), are denominated in Canadian dollars and have a maximum term to maturity of nine years.

Proceeds from sales of investments in bonds during the year amounted to \$25,377,084 (2012 - \$15,251,926). Losses of \$37,324 (2012 – gains of \$71,280) were realized on those sales.

Major categories of net investment income are summarised below:

	2013	2012
Interest on cash equivalents and bonds	\$ 2,323,451	\$ 1,004,769
Gain (loss) on sale of bonds	(37,324)	71,280
Amortisation of bonds	(296,564)	(239,188)
Investment manager's fees	(114,623)	(62,078)
Investment Custody Fees	<u>(24,935)</u>	-
	<u>\$ 1,850,005</u>	<u>\$ 774,783</u>

Pledged assets

The bonds and some of the cash balances are part of a custodial account maintained in accordance with the provisions of the reinsurance agreement whereby the Company is required to maintain certain deposits and/or investments for the benefit of the insured in respect of provisions for losses and loss adjustment expenses.

6. Accounts receivable and prepayments

Accounts receivable and prepayments consist of the following:

	2013	2012
Insurance balances	\$ -	\$ 44,628,431
Interest	427,837	174,863
Prepaid expense	<u>5,060</u>	<u>5,042</u>
	<u>\$ 432,897</u>	<u>\$ 44,808,336</u>

Accounts receivable are not impaired and not past due and are deemed collectible.

7. Provisions for losses and loss adjustment expenses

a) Nature of the provision for losses and loss adjustment expenses

The establishment of the provision for losses and loss adjustment expenses is based on known facts and interpretation of circumstances and is therefore a complex and dynamic process influenced by a large variety of factors. These factors include the Company's experience with similar cases and historical trends involving claim payment patterns, loss payments, pending levels of unpaid claims, claims severity and claim frequency patterns.

COLCHESTER REINSURANCE LIMITED

Notes to financial statements

For the year ended June 30, 2013

(expressed in Canadian dollars)

7. Provisions for losses and loss adjustment expenses (continued)

Other factors include the continually evolving and changing regulatory and legal environment, actuarial studies, professional experience and expertise of the Company's consultants retained to handle individual claims, the quality of the data used for projection purposes, existing claims management practices including claims handling and settlement practices, the effect of inflationary trends on future claims settlement costs, court decisions, economic conditions and public attitudes. In addition, time can be a critical part of the provision determination. The longer the span between the incidence of a loss and the payment or settlement of the claims, the more variable the ultimate settlement amount can be.

Consequently, the establishment of the provision for losses and loss adjustment expenses process relies on the judgment and opinions of a large number of individuals, on historical precedent and trends, on prevailing legal, economic, social and regulatory trends and on expectations as to future developments. The process of determining the provisions necessarily involves risks that the actual results will deviate, perhaps materially, from the best estimates made.

b) Activity in the provision for losses and loss adjustment expenses is summarized as follows:

	2013	2012
Provision for losses and loss adjustment expenses, beginning of the year		
Gross	\$ 43,943,000	\$ 7,876,000
Reinsurance ceded	2,544,000	-
Net provisions, beginning of year	41,399,000	7,876,000
Net incurred losses and loss adjustment expenses		
Provision for current year claims made	2,378,000	8,066,000
Increase (decrease) in provision for prior year claims made	(2,260,000)	25,457,000
Increase (decrease) in provision due to discount rate change	(1,412,000)	-
Total net change in provision	(1,294,000)	33,523,000
Net payable attributable to		
Current year claims made	-	-
Prior years' claims made	1,601,664	857,967
Total net payments	1,601,664	857,967
Gross provision of losses and loss adjustment expenses, end of year	45,070,000	43,943,000
Reinsurance ceded, end of year	4,965,000	2,544,000
Net provision of losses and loss adjustment expenses, end of year	\$ 40,105,000	\$ 41,399,000

c) Provision for losses and loss adjustment expenses

The fair value of losses and loss adjustment expenses, gross and recoverable from reinsurers, is not practicable to determine with sufficient reliability. Under accepted actuarial practice in Canada, the appropriate value of the claims liabilities is the discounted value of such liabilities plus the provision for adverse deviation ("PFAD").

COLCHESTER REINSURANCE LIMITED

Notes to financial statements

For the year ended June 30, 2013

(expressed in Canadian dollars)

7. Provisions for losses and loss adjustment expenses (continued)

c) Provision for losses and loss adjustment expenses (continued)

June 30, 2013

	Undiscounted	Discounted at 2.1%	Provisions for adverse deviation	Value per Accepted actuarial Practice
	\$	\$	\$	\$
Provision for losses and loss adjustment expenses				
Gross	44,374,000	40,592,000	4,478,000	45,070,000
Recoverable from reinsurers	5,200,000	4,671,000	294,000	4,965,000
Net	39,174,000	35,921,000	4,184,000	40,105,000

June 30, 2012

	Undiscounted	Discounted at 1.25%	Provisions for adverse deviation	Value per Accepted actuarial Practice
	\$	\$	\$	\$
Provision for losses and loss adjustment expenses				
Gross	41,788,000	39,557,000	4,386,000	43,943,000
Recoverable from reinsurers	2,558,000	2,390,000	154,000	2,544,000
Net	39,230,000	37,167,000	4,232,000	41,399,000

Claims development tables

The provision for unpaid claims and adjustment expenses is an estimate subject to variability and the variability could be material in the near term. The variability arises because all events affecting the ultimate settlement of claims have not taken place and may not take place for some time. Variability can be caused by receipt of additional claim information, changes in judicial interpretation of contracts, significant changes in the severity or frequency of claims from historical trends, the timing of claim payments and future rates of investment return.

The estimation of claim development involves assessing the future behaviour of claims taking into consideration the consistency of the Company's claim handling procedures, the amount of information available, and the characteristics of the line of business from which the claim arises. In general, the longer the term required for the settlement of a group of claims the more variable the estimates will be. Methods of estimation have been used which the Company believes produce reasonable results given current information.

The following table shows the development of claims over a period of time. The table shows how the estimates of total claims for each accident year develop over time as more information becomes known regarding individual claims. Each column tracks the claims relating to a particular "accident year" which is the year in which such claims were reported. The rows reflect the estimates in subsequent years for each accident year's claims.

COLCHESTER REINSURANCE LIMITED

Notes to financial statements

For the year ended June 30, 2013

(expressed in Canadian dollars)

7. Provisions for losses and loss adjustment expenses (continued)

Analysis of claims development – net and gross

Five years	2008/ 2009	2009/ 2010	2010/ 2011	2011/ 2012	2012/ 2013	Total
	\$	\$	\$	\$	\$	\$
Estimate of ultimates:						
End of year	916,009	1,552,295	1,776,540	5,373,515	2,263,125	-
One year later	781,900	1,306,528	8,725,088	4,941,952	-	-
Two years later	548,413	9,442,890	11,068,348	-	-	-
Three years later	4,093,747	9,520,187	-	-	-	-
Four years later	3,259,808	-	-	-	-	-
Current estimate of ultimates	3,259,808	9,520,187	11,068,348	4,941,952	2,263,125	31,053,420
Cumulative payments	350,000	502,908	86,798	-	-	939,706
Net liability	2,909,808	9,017,279	10,981,550	4,941,952	2,263,125	30,113,714
Total all years						
Five year net liability						30,113,714
Liability in respect of prior years						9,060,070
Effect of discounting and PFAD						931,216
Unallocated loss adjustment expenses						-
Liability recoverable from reinsurers						4,965,000
Gross liability in statement of financial position						45,070,000

Claims accepted by way of the portfolio transfer arrangement dated June 30, 2012 have been classified according to the accident year as reported by the original insurer.

8. Accounts payable and accrued expenses

Accounts payable and accrued expenses consist of the following:

	2013	2012
Insurance balances	\$ -	\$ 1,000,000
Accrued expenses	<u>103,530</u>	<u>86,214</u>
	\$ <u>103,530</u>	\$ <u>1,086,214</u>

9. Share capital

Authorised

Common shares – no par value Unlimited

Class A preference shares – no par value Unlimited

The transfer of such shares is subject to certain restrictions.

	2013	2012
Issued and outstanding		
Common – 1,100 shares (2012 – 1,200 shares)	\$ 1,100	\$ 1,200
Class A preference – 16,570 shares (2012 – 16,570 shares)	<u>3,314,000</u>	<u>3,314,000</u>
	\$ <u>3,315,100</u>	\$ <u>3,315,200</u>

COLCHESTER REINSURANCE LIMITED

Notes to financial statements

For the year ended June 30, 2013

(expressed in Canadian dollars)

9. Share capital (continued)

The holders of the common shares are entitled to one vote per common share held at all shareholder meetings except where there is a meeting of holders of a class of shares other than common shares. Common shareholders are entitled to receive dividends in respect of their common shareholding and receive the remaining property of the Company upon dissolution.

Class A preference shares may be issued only to a common shareholder, may be issued in one or more series and shall rank in priority to the common shares with respect to dividends and return of capital. Each series shall rank on parity with the Class A preference shares of every other series.

Entitlement to dividends shall be as declared by the directors from distributable retained earnings. The holders of any series of Class A preference shares are not entitled to vote at meetings of the shareholders. The Class A preference shares shall be redeemable by the Company at a price per share equal to \$1.

During the year ended June 30, 2013 the number of common shares repurchased were 100 (2012 - \$Nil) for \$100 (2012 - \$Nil). There were no redemptions of preference shares during the year ended June 30, 2013 (2012 - redemption consideration was \$Nil). No preference or common shares were issued during the year ended June 30, 2013 (2012 - \$Nil).

10. Retained earnings

Accumulated retained earnings attributable to each underwriting period are appropriated into distributable and undistributable retained earnings. These allocations are based upon continuing actuarial reviews and take into account anticipated future claim fluctuations. The first underwriting period terminated on June 30, 1992 with each underwriting period thereafter consisting of each successive period of five consecutive fiscal years of the Company. At the close of the accounts of each underwriting period, which may be five years later or as determined by the directors, any undistributable retained earnings remaining for that period will be transferred to distributable retained earnings.

11. Operating expenses

Operating expenses are comprised of the following:

	2013	2012
Legal Fees	\$ 214,693	\$ -
Brokerage fees	75,000	81,250
Actuarial fees	90,924	75,224
Management fees	74,585	72,765
Bank and L.O.C charges	12,679	25,040
Audit fees	21,947	21,040
Secretarial Fees	2,418	7,730
Directors and officers insurance expense	9,250	7,708
Directors fees	6,470	6,120
Communication expenses	2,826	1,592
Travel	1,251	1,184
Stationary	547	539
Meeting expenses	-	77
	<u>\$ 512,590</u>	<u>\$ 300,269</u>

The directors fees of \$6,470 (2012 - \$6,120) represent related party transactions.

COLCHESTER REINSURANCE LIMITED

Notes to financial statements

For the year ended June 30, 2013

(expressed in Canadian dollars)

12. Margin of solvency

Section 24 of the Exempt Insurance Act of Barbados ("the Act") requires the Company to maintain levels of solvency determined in accordance with certain stipulated criteria. For the year ended June 30, 2013, these requirements have been met. At June 30, 2013 the amounts qualifying for the purposes of the solvency calculation amounted to \$33,542,940 (2012 - \$32,447,841).

At July 1, 2013 the minimum required margin of solvency, computed in accordance with the Act, is \$277,650 (July 1, 2012 - \$1,024,810).

13. Financial instruments

The financial instruments of the Company are cash and cash equivalents, investments, accounts receivable and accounts payable and accrued expenses.

Fair value

Fair value is the amount for which an asset would be exchanged or a liability settled between knowledgeable willing parties in an arms-length transaction. A market price where an active market (such as a recognised stock exchange) exists, is the best evidence of the fair value of a financial instrument.

Classification of financial instruments

The Company categorizes its fair value measurements according to a three-level hierarchy. The hierarchy prioritizes the inputs used by the Company's valuation techniques. A level is assigned to each fair value measurement based on the lowest level input significant to the fair value measurement in its entirety.

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date. Quoted price for these investments are not adjusted even in situations where a large position and a sale could reasonably impact the quoted price.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

COLCHESTER REINSURANCE LIMITED

Notes to financial statements

For the year ended June 30, 2013

(expressed in Canadian dollars)

13. Financial instruments (continued)

The following table summarizes information relating to the Company's financial instruments as at June 30, 2013 and June 30, 2012:

Class of financial instruments	Location on statement of financial position	Accounting designation	Related income or expense account on statement of income	Carrying amount and fair value of asset (liability) as at:		Fair value measurement hierarchy
				June 30, 2013	June 30, 2012	
Investments	Investments	AFS	Gains and losses on foreign exchange are included in foreign exchange loss (gain). Mark-to-market adjustments are recognized as other comprehensive income (loss). Other gains or losses are recognized as net investment income.	\$ 72,015,393	\$ 28,957,178	Level 1

During the year, there were no transfers among the levels.

Accounting designations used in the above table:

AFS – Designated by the Company as “Available for sale” upon initial recognition. Financial assets and liabilities designated as “Available for sale” are carried at fair value on the Statement of financial position with gains and losses associated with fair value adjustments recognized in other comprehensive income.

Determination of fair values

The carrying values of cash and cash equivalents, receivables and payables approximate their fair values due to their short maturities. The carrying value of investments is determined by reference to published price quotations in active markets.

14. Management of insurance and financial risk

The Company is exposed to insurance and financial risk, as follows:

Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount and timing of the resulting claim payment. By the very nature of an insurance contract, this risk is random and therefore unpredictable. The principal risk that the Company faces under its insurance contracts is that the actual claims payments exceed the carrying amount of the insurance liabilities and are settled sooner than anticipated.

This could occur because the frequency or severity of the claims is greater than estimated. Since insurance events are random, the actual number and amount of claims will vary from year to year from the estimate.

COLCHESTER REINSURANCE LIMITED

Notes to financial statements

For the year ended June 30, 2013

(expressed in Canadian dollars)

14. Management of insurance and financial risk (continued)

Concentrations of risk

The Company underwrites professional liability risks for a limited number of Canadian law firms. As a result there is concentration of risk by geographic location and type of risk. The Company structures its insurance and reinsurance arrangements to mitigate the risk of higher frequency and severity of claims.

Financial risk

The Company is exposed to financial risk through its financial assets and liabilities. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from the insurance contracts. The most important components of this financial risk are credit risk, market risk (foreign exchange risk and interest rate risk) and liquidity risk. The following describes these risks and how the Company manages each of the risks.

Credit risk

The Company's exposure to credit risk arises from the possibility that counterparties may default on their obligations to the Company. The amount of the Company's maximum exposure to credit risk is indicated by the carrying value of its financial assets. The Company places its cash deposits and investment portfolio with international financial institutions with high credit ratings. In addition, the Company's investment guidelines are to hold investments in different industry and geographical groups, each with a minimum of AA- (Standard & Poors, or "S&P") for fixed income securities and A-1 (S&P) for short term investments.

The total assets bearing credit risk are as follows:

	2013	2012
Cash and cash equivalents (Note 4)	\$ 1,681,768	\$ 1,172,582
Investments – fixed income (Note 5)	72,015,393	28,957,178
Accounts receivable and prepayments (Note 6)	<u>432,897</u>	<u>44,808,335</u>
	<u>\$ 74,130,058</u>	<u>\$ 74,938,095</u>

The investment portfolio is managed following prudent standards and there are issuer, industry group and country limitations. Canada, United States and Supranational Credits are exempted from the country limitation. At the reporting date 100% (2012 - 96.65%) of the securities held were Canadian issues and hence the portfolio is particularly susceptible to occurrences specific to Canada.

Foreign exchange risk

The majority of the Company's significant transactions are denominated in Canadian dollars and therefore the Company is not exposed to any significant foreign exchange risk.

Interest rate risk

The Company's exposure to interest rate risk is as disclosed in Note 5. Management believes that this risk is managed through effective matching of portfolio investments with liability attributes. The Company monitors the sensitivity of interest rate movements by analyzing investment returns on a regular basis and discussing market trends with the investment managers.

As of June 30, 2013 a % change in interest rates would have had the effect of decreasing the fair value of investments by \$ (2012 - \$547,614).

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. An insufficient secondary market for the sale of investments may prevent the liquidation or limit the funds that can be generated from the sales of these investments.

COLCHESTER REINSURANCE LIMITED

Notes to financial statements

For the year ended June 30, 2013

(expressed in Canadian dollars)

14. Management of insurance and financial risk (continued)

This risk is mitigated by investing in high quality securities, as disclosed in Note 5 to the financial statements. The Company does not anticipate any significant liquidity concerns in funding liabilities when due.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

	June 30, 2013		
	Within one year \$	Two years to five years \$	Over five years \$
Provision for loss and loss adjustment expenses	6,691,000	23,103,000	15,276,000
Accounts payable and accrued expenses	477,057	-	-
	7,168,057	23,103,000	15,276,000

	June 30, 2012		
	Within one year \$	One year to five years \$	Over five years \$
Provision for loss and loss adjustment expenses	5,152,000	20,781,000	18,010,000
Accounts payable and accrued expenses	1,086,214	-	-
	6,238,214	20,781,000	18,010,000

15. Capital management

The Company's capital comprises share capital and retained earnings. The Board's policy is to maintain a strong capital base by routinely monitoring its capital adequacy from the perspective of the Barbados solvency requirement and other insurance standards for capital adequacy. In addition, the investment guidelines serve to properly minimize investment risk with a goal of maintaining the capital base.


The reasons for maintaining a strong capital base are to enable the Company to absorb losses due to under-pricing of the insurance product; to absorb an unexpected decline in the value of the Company's assets; to provide a buffer for the potential undervaluation of the Company's unpaid claim liabilities and to provide a mechanism for financing the growth of the Company.

The Company is incorporated under the Barbados Companies Act and operates under the provisions of the Exempt Insurance Act of Barbados, 1983. Under these Acts the Company is required to comply with certain minimum capital and solvency criteria. The Company was in compliance with all external regulatory requirements during the current and previous financial years.

The Company's overall strategy remains unchanged from 2012.

16. Significant non-cash transactions

A portion of the insurance balances receivable of \$44,628,431 at June 30, 2012 was settled on November 15, 2012 by the transfer of a portfolio of bonds valued at \$43,993,582 from the Canadian Lawyers Liability Assurance Society.

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Best's Credit Rating and Report Updates for CRC REINSURANCE LIMITED

NR (Not Rated) This designation is assigned to companies that are not rated by A.M. Best.

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 - 03/28/2013 *

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: N/A	Time Period: Annual - 2012	Corporate Structure: N/A
Rating Rationale: N/A	Last Updated: 05/02/2013	States Licensed: N/A
Report Commentary: 07/11/2012	Status: Quality Cross Checked	Officers and Directors: 09/16/2011

***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 - Insurance Professional for CRC REINSURANCE LIMITED

Operating Company Non-Life

Ultimate Parent: Fairfax Financial Holdings Limited

**Caribbean Corporate Services Limited, Worthing Corporate Centre, Worthing, Christ
Church BB 150008, Barbados**

Tel: 441-299-4981

Fax: 441-292-4720

AMB#: 086437

Ultimate Parent#: 058364

Report Revision Date: 03/28/2013

BEST'S CREDIT RATINGS

Best's Financial Strength Rating: NR

Best's Issuer Credit Rating: NR

FIVE YEAR RATING HISTORY

BEST'S		
<u>Date</u>	<u>FSR</u>	<u>ICR</u>
03/28/13	NR	NR
03/28/13	A-	a-
05/03/12	A-	a-
02/09/11	A	a
10/15/09	A	a
04/29/09	A	a

Summarized Accounts as of December 31, 2012

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

US \$ per Local Currency Unit 1.00339 = 1 Canadian Dollar (CAD)

ASSETS

	12/31/2012 CAD(000)	12/31/2012 % of total	12/31/2012 USD(000)
Cash and equivalents	114,557	14.4	114,945
Long term fixed maturity investments	21,056	2.7	21,127
Equity investments	363,912	45.9	365,146
Short term investments	205,283	25.9	205,979
Other investments	27,309	3.4	27,402
Invested assets	617,560	77.8	619,654
Receivables	20,791	2.6	20,861
Reinsurance recoverable	116	0.0	116
Deferred policy acquisition cost	12,311	1.6	12,353
Equity in unconsolidated subsidiary	28,264	3.6	28,360
Total assets	793,599	100.0	796,289

LIABILITIES & SURPLUS

	12/31/2012 CAD(000)	12/31/2012 % of total	12/31/2012 USD(000)
Property / Casualty reserves	437,106	55.1	438,588
Unearned premium reserves	46,543	5.9	46,701
Total policy reserves	483,649	60.9	485,289

Other liabilities	7,372	0.9	7,397
Total liabilities	491,021	61.9	492,686
Equity - common stock	169	0.0	170
Paid-in capital	183,939	23.2	184,563
Retained earnings	118,470	14.9	118,872
Total equity	302,578	38.1	303,604
Total liabilities & equity	793,599	100.0	796,289

STATEMENT OF INCOME

	12/31/2012 CAD(000)	12/31/2012 USD(000)
Reins assumed	109,580	109,951
Gross premiums written	109,580	109,951
Reins ceded	3,800	3,813
Net premiums written	105,780	106,139
Change in unearned premiums	-7,964	-7,991
Net premiums earned	113,744	114,130
Net investment income	7,083	7,107
Net realized gains/(losses)	30,253	30,356
Net unrealized gains/(losses)	52,448	52,626
Total revenue	203,528	204,218
Benefits & reserves	90,333	90,639
Operating expenses	29,571	29,671
Total benefits & expenses	119,904	120,310
Earnings before interest & taxes (EBIT)	83,624	83,907
Pre-tax income/(loss) from continuing operations	83,624	83,907
Net income/(loss) before minority interest	83,624	83,907
Net income/(loss) from continuing operations	83,624	83,907
Net income/(loss)	83,624	83,907

STATEMENT OF CHANGES IN EQUITY

	12/31/2012 CAD(000)	12/31/2012 USD(000)
Common shares, beginning balance	169	170
Common shares, ending balance	169	170
Paid-in capital - Beg bal	69,817	70,054

Paid-in capital - other	114,122	114,509
Paid-in capital - End bal	183,939	184,563
Retained earnings, beginning balance	111,946	112,326
Retained earnings, net income	83,624	83,907
Retained earnings, common dividends	77,100	77,361
Retained earnings, ending balance	118,470	118,872
Total shareholder equity	302,578	303,604

STATEMENT OF CASH FLOWS

	12/31/2012 CAD(000)	12/31/2012 USD(000)
Net cash provided/(used) in operating activities	-8,720	-8,750
Net cash provided/(used) in investment activities	6,367	6,389
Net cash provided/(used) in financing activities	37,022	37,148
Total increase (decrease) in cash	34,669	34,787
Cash, beginning balance	79,888	80,159
Cash, ending balance	114,557	114,945

HISTORY

The company was incorporated under the laws of Bermuda on December 29, 1994, and was registered as an insurer under the Insurance Act 1978 (Bermuda).

MANAGEMENT

The company is a wholly owned subsidiary of Fairfax Financial Holdings Limited. Fairfax is a Canadian-based financial services holding company that is publicly traded on the Toronto Stock Exchange and is engaged in property and casualty insurance and reinsurance and investment management. Its insurance business is written through 12 subsidiaries. These insurers underwrite a wide range of property and casualty insurance and reinsurance worldwide.

BALANCE SHEET ITEMS

	CAD (000) <u>2012</u>	CAD (000) <u>2011</u>	CAD (000) <u>2010</u>	CAD (000) <u>2009</u>	CAD (000) <u>2008</u>
Invested assets	617,560	561,853	678,179	588,331	502,190
Total assets	793,599	724,328	802,951	781,550	762,039
Total liabilities	491,021	542,396	570,968	575,358	528,640
Total equity	302,578	181,932	231,983	206,192	233,399
Total capital	302,578	181,932	231,983	206,192	233,399

INCOME STATEMENT ITEMS

	CAD (000) <u>2012</u>	CAD (000) <u>2011</u>	CAD (000) <u>2010</u>	CAD (000) <u>2009</u>	CAD (000) <u>2008</u>
Gross premiums written	109,580	109,436	192,212	232,851	168,324
Net premiums written	105,780	105,636	192,212	232,851	168,416
Net investment income	7,083	17,011	19,994	18,533	23,317
Net realized gains/(losses)	30,253	35,350	17,416	-16,460	30,288
Net income/(loss)	83,624	-50,051	25,791	-37,319	34,563

LIQUIDITY RATIOS (%)

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Total investments to total reserves	151.4	118.5	127.8	122.4	132.7
Liquid assets to total liabilities	143.5	111.8	121.9	116.4	126.8
Total investments to total liabilities	149.1	118.3	127.8	122.3	132.6
Bonds to total reserves	4.4	43.1	84.8	79.7	66.2

PROFITABILITY RATIOS (%)

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Loss ratio	79.4	112.3	82.7	89.2	81.3
Expense ratio	26.0	23.4	26.9	26.5	31.6
Combined ratio	105.4	135.6	109.6	115.7	112.9
Investment income ratio	6.2	11.7	10.0	8.1	13.7
Return on assets	11.0	-6.6	3.3	-4.8	4.6
Return on revenues	73.5	-34.4	12.9	-16.3	20.4
Return on equity	34.5	-24.2	11.8	-17.0	15.1

LEVERAGE & DEBT RATIOS (%)

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Net premiums written to equity	35.0	58.1	82.9	112.9	72.2
Cash and equivalents to total assets	40.3	24.1	17.3	17.7	34.1

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.

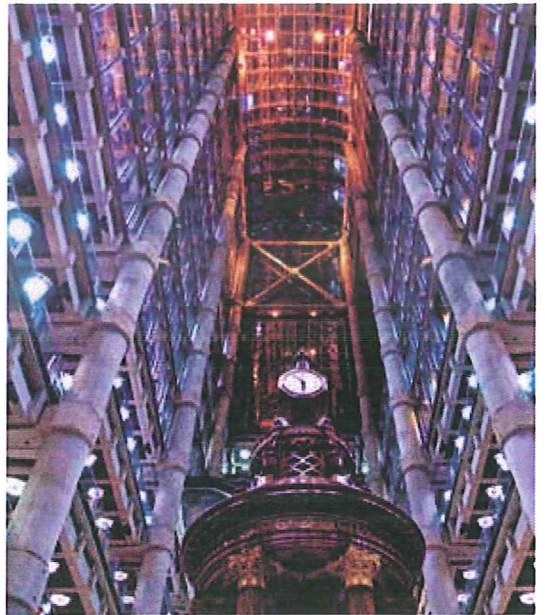
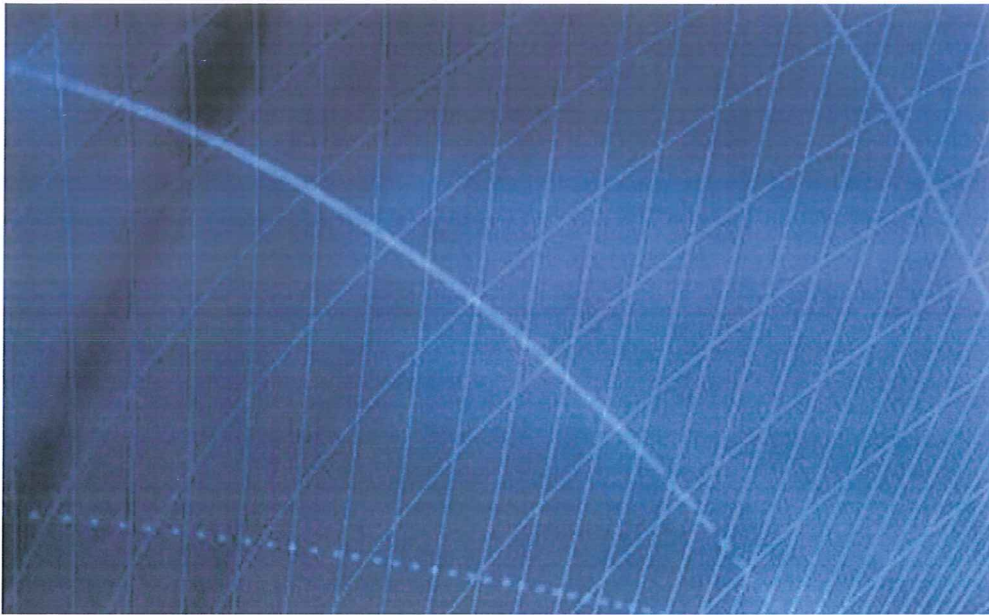
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AMB Credit Report - Insurance Professional BCR08162013



Best's Rating of Lloyd's 2013

September 2013



Lloyd's
September 2013

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Web: www.lloyds.com
AMB#: 85202
AIIN#: 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). The market is assigned the Financial Size Category of Class XV.

Rating Rationale

A.M. Best's rating of Lloyd's reflects continuing strong capitalisation, good financial flexibility, excellent operating performance and an excellent global business profile.

Lloyd's capitalisation is expected to remain strong into 2014, underpinned by a stable central capital base. Central assets for solvency purposes rose by nearly 4% in 2012 to GBP 3,215 million and are likely to remain close to this level throughout 2013, in spite of a buy-back of approximately GBP 180 million of subordinated debt in May 2013. 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, should reduce the risk of material drawdowns on the Central Fund. Moreover, 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.

Financial flexibility is enhanced by the diversity of capital providers, which include corporate and non-corporate investors. Although a number of traditional Lloyd's businesses have established other underwriting platforms in locations such as Bermuda, the United States and Switzerland, their commitment to the market remains strong. In addition, Lloyd's continues to attract international businesses, drawn by its capital-efficient structure and global licences.

Lloyd's preparations for Solvency II are well advanced, with considerable progress having been made by both the Corporation and managing agents aimed at the previous implementation date for Solvency II. Now that the implementation of Solvency II has been deferred to January 2016 or later, the preparations, in particular Lloyd's own internal capital model (LIM), of which the individual syndicate models form an integral part, are regarded as "business as usual." The LIM has been put to use to produce management information for Lloyd's Risk Committee and is being refined to give enhanced input to the Performance Management Directorate (PMD) and its strategy.

After a pre-tax loss of GBP 516 million in 2011, one of the worst years on record for catastrophe losses, Lloyd's reported an excellent profit in 2012 of GBP 2,771 million, in spite of losses arising from the Costa Concordia grounding, Hurricane Isaac and Superstorm Sandy. This result was supported by prior-year reserve releases of GBP 1,351 million but the low interest rate environment continued, depressing investment returns.

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Assuming another normal year for catastrophe events, performance in 2013 is expected to be similar to that in 2012, although there have been some significant losses in the first half of 2013. A combined ratio below 95% is anticipated (2012: 91%). 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.

Continued strong operating performance and capitalisation could lead to positive rating actions, while an unexpectedly weak performance or significant erosion of capital would put downward pressure on the rating.

Published by A.M. Best Company

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SR-2013-200

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. Additionally, the subscription market, which is a key feature of Lloyd's, has proved attractive to insurance buyers as it has the advantage of spreading risk across different counterparties.

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. Over the past 12 years 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, there were 87 syndicates at 1 January 2012 and 89 at 1 January 2013. One new syndicate entered the market and two special-purpose syndicates were launched on 1 January 2013, while one syndicate ceased at the end of 2012.

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 at the end of 2012.

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 62% of gross premium in both 2012 and 2011 and reinsurance accounting for the balance. **Exhibit 1** shows Lloyd's calendar-year premium in 2011 and 2012, split by the principal classes of business. The market's overall gross written premium (GWP) increased by almost 9% in 2012 to GBP 25,500 million. As in 2011, movements in average rates of exchange were not a significant part of the year-on-year increase.

The growth in GWP in 2012 was drawn from all classes of business except motor and aviation. Reinsurance premiums rose nearly 11%, supported by rate increases in areas exposed to the natural catastrophes of 2011. Whilst these losses led to a broader hardening of reinsurance premium rates than the catastrophe losses of 2010, with capital in the reinsurance market remaining at or near its peak level, increases in rates continue

Exhibit 1
Calendar Year Gross Written Premium by Main Business Class (2011-2012)
(GBP Millions)

	2011	2012	% Change
Reinsurance	8,813	9,763	10.8%
Property	4,965	5,476	10.3%
Casualty	4,245	4,543	7.0%
Marine	1,968	2,090	6.2%
Energy	1,523	1,727	13.4%
Motor	1,187	1,155	-2.7%
Aviation	708	669	-5.5%
Life	67	77	14.9%
Total From Syndicate Operations	23,476	25,500	8.6%
Other*	1	0	
Total Calendar Year Premium Income	23,477	25,500	8.6%

Note: Figures include brokerage and commission.

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

Source: Lloyd's Annual Report 2012

to be driven by recent loss events. The surplus capacity in the reinsurance market has, however, made more retrocessional cover available to syndicates than previously.

Like the reinsurance sector, the property sector saw premiums for catastrophe exposed lines increase in 2012 in line with rate improvements. Similarly, the underwriting result was significantly affected by losses from Superstorm Sandy and the year's other weather events, although the impact was reduced by the availability of catastrophe loadings within syndicates' business plans.

Surplus capacity continued to be a feature of many lines of business in the casualty market in 2012, putting rates under pressure except in some underperforming classes. Nevertheless, the sector increased its GWP by 7%. 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.

Whilst surplus capacity continued to be an aspect of both the marine and energy markets in 2012, good premium growth, of 6% and 13% respectively, was achieved in these sectors. The marine market is highly competitive across all lines and has suffered one of the worst years for losses on record, beginning with the Costa Concordia grounding in January 2012 and culminating in substantial yacht, cargo and specie claims from Superstorm Sandy at the end of October. By contrast, the energy market had a catastrophe-free year in 2012 and modest rate increases.

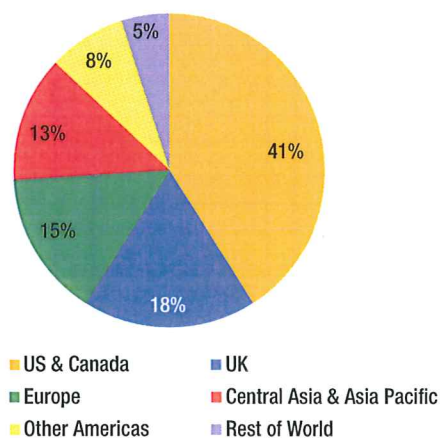
After a period of increases above general inflation, rates in the U.K. motor market, particularly personal motor, appear to have peaked towards the end of 2011. Although some commercial business lines saw further increases, there was a general softening of rates during 2012 and overall GWP decreased by nearly 3%. Claims inflation, however, remains at a high level, driven by the significant increase in the frequency and severity of bodily injury claims. In addition, periodic payment orders (PPOs) are adding to the cost of claims and administration, as well as lengthening the tail of the liability business.

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

Exhibit 2
Gross Premium by Territory (2012)



Source: Lloyd's Annual Report 2012

the United Kingdom is likely to be maintained, Lloyd's is committed to expanding its global reach. In 2012, these mature markets accounted for 41% and 18% respectively of Lloyd's GWP. The proportion of GWP relating to European business decreased by one percentage point to 15%, as business written in Central Asia and Asia Pacific, Central and South America and the rest of the world together increased by the same amount to 26% 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.

In two of these countries, Lloyd's already has 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 reinsurance accounting for a much smaller share. In order to comply with local regulations, all Canadian business is written in Canada.

Exhibit 3

U.S. Profile of Lloyd's (2008-2012)

(USD Millions)

	2008	2009	2010	2011	2012	Compound Annual Growth Rate
Lloyd's Surplus Lines Premium	6,062	6,090	5,789	5,790	6,270	1%
Total U.S. Surplus Lines Premiums	34,365	32,952	31,716	31,140	34,598	0%
Lloyd's Share of U.S. Surplus Lines Premium	18%	18%	18%	19%	18%	
Lloyd's U.S. Direct Business (Excluding Surplus Lines)	1,232	1,247	1,207	1,227	1,275	1%
Lloyd's U.S. Reinsurance	5,019	5,508	5,055	5,048	4,869	-1%
Lloyd's Total U.S. Situs Business	12,313	12,845	12,052	12,065	12,414	0%

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

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 2012, 13 new Lloyd's brokers were approved, bringing the total Lloyd's registered brokers to 192. However, the largest source of Lloyd's business continues to be the three largest global brokers.

A related area, where Lloyd's has an ongoing 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 U.K. are priority markets in 2013 for regional development through the coverholder model.

Business Environment

General Market Conditions

After the series of natural disasters in 2011, from flooding in Australia, through earthquakes in New Zealand and Japan to tornadoes in the United States and finally floods in Thailand, the first 10 months of 2012, whilst not uneventful, provided welcome respite. Substantial losses arose from the grounding of the Costa Concordia and various U.S. weather events, including Hurricane Isaac and severe drought, but an exceptional underwriting profit for the year was expected until Superstorm Sandy struck New Jersey and New York in particular, to become the most costly U.S. catastrophe since Hurricane Katrina in 2005. Yet, as with the losses in 2011, the losses from all these events did not have a material impact on insurers' capital. General market conditions at the beginning of 2013 were similar to those prevailing at the start of 2012, with excess capacity and a generally difficult rating environment overall, albeit with a strong improvement in catastrophe-affected areas of business. At the same time, there are again few signs of recovery in the global economy, and weak conditions persist in the more developed economies, reducing the demand for some lines of insurance and continuing the prospect of increased recession-related claims.

As in 2012, there have been no major catastrophe events in the first half of 2013, although there have been large losses, including tornadoes in Oklahoma, flooding in Europe and Canada and destructive wildfires in Colorado and Arizona. The wildfire and storm losses across the United States are likely to maintain the hardening of U.S. property rates that was achieved in 2011 and 2012 following severe weather losses. However, the trend of rate increases being driven by loss activity, with flat or lower rates in non-catastrophe affected areas, is likely to continue.

Casualty rates generally remained under pressure in 2012, although in some classes the decline in rates slowed, and in a few underperforming classes there was some hardening of rates. 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 2013 if this class of business is to remain profitable.

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 Lloyd's recognises that work must continue to ensure that it maintains and builds on its competitive position in the international insurance market. Operational reform is therefore expected to remain an important focus of the Corporation, with priority projects for 2013 being 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. In 2013 the focus is on design and consensus building, to validate the approach to delivering new central services and processes.

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 2013 is to work with managing agents and brokers to increase adoption of The Exchange with particular focus on electronic endorsements and placing support messages.

The Claims Transformation Programme is another ongoing project to enhance claims processing across the market. Having implemented new processes for both standard and complex claims, in 2013 Lloyd's will focus on further improvement of the effectiveness and efficiency of the market's claims handling and on determining the most appropriate solution for legacy claims.

Regulatory and Accounting Environment

The plans announced by the United Kingdom's government in June 2010 to abolish the U.K. Financial Services Authority (FSA) were implemented 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 proposed regulatory and capital regime is officially due to come into force on 1 January 2014 but is expected to be delayed until 1 January 2016, if not later. It is an attempt to bring a harmonised, principles-based approach to insurance legislation 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, and there is a risk that costs will continue to rise if implementation is further delayed. Lloyd's has accordingly striven to adhere to the previous implementation date of 1 January 2013. Whilst implementation is likely to be deferred to January 2016 or even later, the Lloyd's market's preparations for Solvency II, in particular Lloyd's own internal capital model (LIM), of which the individual syndicate models form an integral part, are now regarded as "business as usual."

To help managing agents achieve readiness for Solvency II, Lloyd's conducted a dry run exercise for agents, which started in early 2010. At the end of 2011, each agent was required to submit a Final Application Pack (FAP) as a formal application to use its internal model for the calculation of regulatory and member-level capital requirements. The FAP also confirmed the agent's status of compliance with all relevant Solvency II requirements.

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 FSA, now the PRA, 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 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 another normal year for catastrophe events, performance in 2013 is expected to be similar to that in 2012, although there have been some significant losses in the first half of 2013. Underwriting results are likely to be supported by prior year reserve releases albeit at a more modest level than in recent years. A combined ratio below 95% is anticipated (2012: 91%).

As in 2012, there have been no major catastrophe events in the first half of 2013, although there have been large losses, including tornadoes in Oklahoma, flooding in Europe and Canada and destructive wildfires in Colorado and Arizona. Given the nature of the business written by Lloyd's, the final result for 2013 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.

The catastrophe events of 2011 led to significant rate rises for property business in the directly affected areas of the Asia-Pacific region. There is also evidence that a hardening of U.S. property rates, achieved in 2011 following severe weather losses, is being maintained in the wake of the losses from Hurricane Isaac, Superstorm Sandy and other U.S. weather events. However, the material improvement in pricing has not spread to other territories or business lines (although rate deterioration appears to have slowed), and 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 stability or even hardening in rates. Moreover, the ongoing weak economic conditions and the potential for inflation increase the likelihood 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. This uncertainty is likely to be prolonged by the current European debt crisis, which has the potential to become another banking crisis with further negative repercussions for the global economy.

Prior-year reserve movements are likely to make a positive contribution to the market's earnings in 2013 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 significant redundancies from these years in the future.

Investment income is likely to be modest for the market overall in 2013, 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 lower than in 2012. 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.

The general outlook for 2013 continues to be affected by the uncertain impact of weak economic conditions, and ongoing concerns over the ability of some countries to finance their debt have only added to that uncertainty. Overall, the Lloyd's market has little exposure to the sovereign debt of peripheral European countries. Although exposure to corporate bonds issued in these countries, or to bonds issued by European banks with material exposure to this sovereign debt, has not been monitored centrally by Lloyd's, exposure to all Euro-denominated securities amounted to less than 6% of total invested assets at year-end 2012.

Performance in 2012

The Lloyd's market recorded a pre-tax profit of GBP 2,771 million in 2012 (2011: loss of GBP 516 million), reflecting a generally more normal year for catastrophes after the exceptional number and magnitude of catastrophe events in 2011. In 2012, the main losses arose from the Costa Concordia grounding, Hurricane Isaac and Superstorm Sandy, which was one of the largest ever catastrophe claims events for Lloyd's. At the same time, the low interest rate environment continued, depressing investment returns (see **Exhibit 4**).

Exhibit 4

Summary of Results (2008-2012)

From pro forma financial statements.

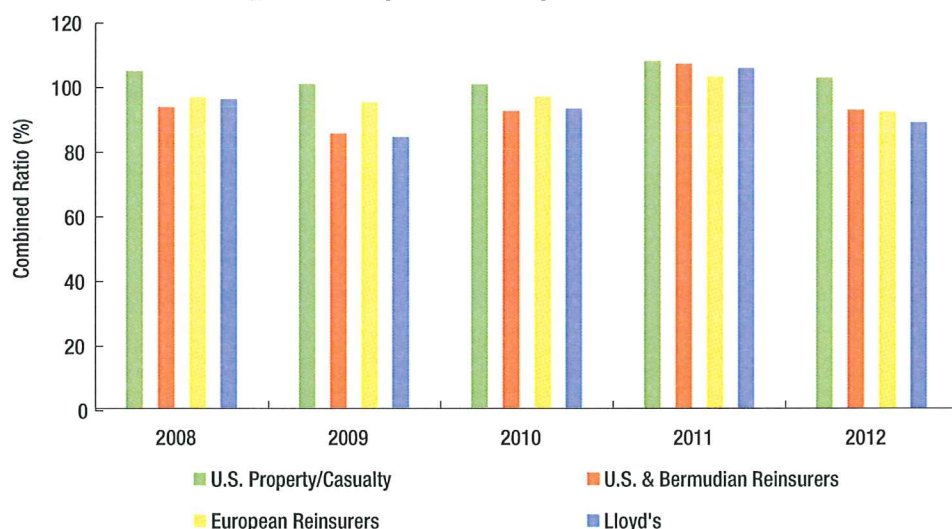
(GBP Millions)

	2008	2009	2010	2011	2012
Gross Written Premium	17,985	21,973	22,592	23,477	25,500
Net Written Premium	14,217	17,218	17,656	18,472	19,435
Net Earned Premium	13,796	16,725	17,111	18,100	18,685
Net Incurred Claims	8,464	8,624	10,029	12,900	10,098
Net Operating Expenses	4,987	5,712	6,167	6,418	6,843
Underwriting Result	345	2,389	915	-1,218	1,744
Other Income/(Expenses)	597	-290	22	-253	-284
Investment Return	957	1,769	1,258	955	1,311
Profit on Ordinary Activities	1,899	3,868	2,195	-516	2,771
Loss Ratio	61%	52%	59%	71%	54%
Expense Ratio	35%	33%	35%	35%	35%
A.M. Best Combined Ratio	96%	85%	94%	106%	89%
Investment Income Ratio	7%	11%	7%	5%	7%
Operating Ratio	89%	74%	86%	101%	82%

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

Measured by combined ratio, Lloyd's underwriting performance for the year was comparable to that of a peer group of Bermudian reinsurers. Lloyd's outperformed the U.S. property and casualty industry, U.S. reinsurers and comparable European reinsurers (see Exhibit 5).

Exhibit 5

Combined Ratios by Market (2008-2012)

Sources:

U.S. Property/Casualty: Regulatory filing records for all companies in the U.S. property/casualty market that are interactively rated by A.M. Best Co.

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

Prior to 2010, given the nature of the business written by Lloyd's and a geographical bias toward the United States, a low level of hurricane losses meant that the Lloyd's market produced very strong results, as happened in 2007 and 2009. However, both 2010 and 2011 highlighted the market's exposure to catastrophes of a different nature, and results were materially affected 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. For comparison, in 2009, a year regarded as having an especially benign catastrophe experience, large losses added only 2 percentage points to the combined ratio.

For the eighth successive year, the underwriting result in 2012 benefited from an overall release from prior-year reserves. The release of GBP 1,351 million (2011: GBP 1,173 million), which included an exchange loss of GBP 55 million (2011: loss of GBP 10 million), reduced the year's combined ratio by 7.2 percentage points. In both 2012 and 2011, all classes developed favourably, although within classes there was some strengthening of reserves, most notably in 2012 for Italian medical malpractice, U.K. motor and periodical payment orders (PPOs). As Lloyd's analysis shows that most of the margin within the market's claims reserves is in casualty lines, there was a good contribution to the release from casualty business, reducing the sector's combined ratio by 4.8 percentage points, compared with 1.8 percentage points in 2011.

Lloyd's operating expense ratio (expressed as a percentage of net written premiums) in 2012 was 35%, in line with 2011. The most significant part of operating expenses is acquisition costs, which increased by 3.8% to GBP 5.1 billion, compared with an 8.6% increase in gross written premiums. The other main element is administrative or management expenses, which jumped to GBP 1.7 billion from GBP 1.5 billion in 2011 as managing agents invested in additional staff and technology resources. Included in administrative or management expenses is managing agent profit commission of GBP 151 million, down from GBP 167 million in 2011, reflecting the lower accruals in respect of the weaker performing 2011 year of account.

An overall investment return of 2.6% (2011: 1.9%) was achieved, equivalent to investment income of GBP 1,311 million (2011: GBP 955 million). This represents a good return in the continuing low interest rate environment, as most of the market's investments are placed in low-risk assets, with a high proportion in cash and highly rated, fixed-income securities.

Investment income from syndicates' premium trust funds, which form the largest part of invested assets, increased to GBP 997 million in 2012 (2011: GBP 791 million), equating to an investment return of 3.0%. The investment income included a substantial amount of unrealised gains. 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.

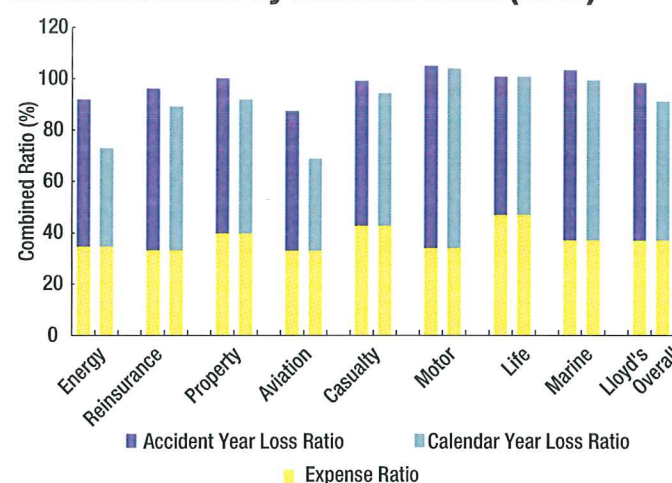
The return on central assets in 2012 was significantly higher than that on premium trust funds at 4.5% (2011: 3.9%). Central assets are actively managed by Lloyd's, which pursues a higher risk investment strategy than that generally taken by syndicates investing their premium trust funds, reflecting the longer investment time horizon for these

assets. The notional return on members' FAL rose to 1.3% from 0.5% in 2011, reflecting the low interest rates available to the high proportion of cash and cash equivalents held within members' capital, offset 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 releases reduced the combined ratio for each business class except life, where there was no impact.

Exhibit 6

Combined Ratios by Business Class (2012)



Source: Lloyd's

For the fourth year in succession, the motor class of business reported a loss in 2012, on both an accident and calendar-year basis. After personal lines premium rates peaked in late 2011, risk-adjusted rate decreases were in evidence, although commercial business premium rates held up better. On the claims side, above average claims inflation persisted and PPOs are becoming more prevalent, giving rise to higher costs of claims and administration. As in 2011, reserves appear to have stabilised and a small release reduced the combined ratio in 2012 by 0.9 of a percentage point (2011: 1.7 percentage points).

In contrast to 2011 with its series of natural catastrophes in the Asia-Pacific region, 2012 had few major catastrophe events, apart from the grounding of the Costa Concordia, an earthquake in Northern Italy and Hurricane Isaac, until Superstorm Sandy struck the eastern seaboard of the United States and became the most costly U.S. catastrophe since Hurricane Katrina in 2005. Losses from these events were the main drivers of an accident-year combined ratio of 97.9% for the reinsurance sector. On a calendar-year basis, the combined ratio was reduced by 6.9 percentage points to 91.0% by favourable development of prior years' reserves.

The property sector, like the reinsurance sector, was significantly affected by losses from Superstorm Sandy and the year's other natural catastrophes, which pushed the accident-year combined ratio to 102.6%. Prior years' reserves, however, continued to develop favourably, lowering the ratio by 8.2 percentage points to 94.4% on a calendar-year basis.

After a fourth consecutive year without a major Gulf of Mexico hurricane, together with lower than expected attritional losses, the offshore energy sector performed well in 2012. The onshore energy sector, however, suffered various attritional losses, including energy and power generation losses from Superstorm Sandy. An accident-year combined ratio of 95.1% was reported, but reserve releases reduced the combined ratio by

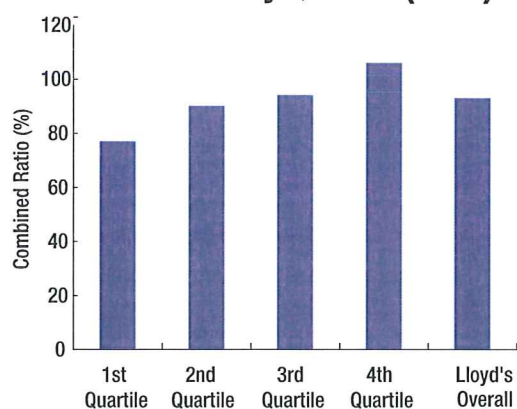
19.1 percentage points, maintaining the trend of positive reserve movements in recent years.

In 2012, aviation business performed even better on an accident-year basis than in 2011, which itself was the best for many years, reflecting significantly lower airline claims as safety continued to improve. The accident-year combined ratio reduced by 5.2 percentage points to 86.2%. Positive reserve movements once again made a strong contribution to earnings, producing an excellent calendar-year combined ratio of 67.7%. Given the recent good results of this potentially volatile class of business, capacity in the sector has remained high and rates are weak as a result. It remains to be seen what effect the July 2013 loss of the Asiana Airlines Boeing 777 in San Francisco will have on capacity or rates.

For marine business, 2012 was a difficult year. It started with the grounding of the Costa Concordia, of which the removal of wreck costs are escalating, and ended with substantial claims from Superstorm Sandy, principally in the specie, yacht and cargo books of business. The sector reported a combined ratio of 103.8% on an accident-year basis reduced to 99.9% after prior-year movements.

Surplus capacity was evident in many casualty lines in 2012, putting rates under pressure except in some underperforming classes. Nevertheless, the sector increased its GWP by 7%. 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 100.4% was reported. The ratio improved to 95.6% for the calendar year after a positive prior-year reserve movement, although releases from older years are being offset by strengthening on more recent years.

Exhibit 7
Combined Ratios by Quartile (2012)



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

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 in the way that the performance of an insurance company is. The PMD 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 2012 the strongest performing quartile produced an average combined ratio of 77%, as compared with 106% produced by the weakest

performing quartile. This spread in syndicates' performance reflects factors such as relative exposure to U.S. or non-U.S. risks, reinsurance protection available and differing levels of prior-year reserve releases.

Open Year Performance

Under Lloyd's three-year accounting policy, the 2010 year of account closed at the

end of 2012 with a solid profit of GBP 551 million (2009: GBP 3,107 million). The year of account was hit hard by catastrophe losses in both 2010 and early 2011, including the earthquakes in Chile, Japan and New Zealand and floods in Australia, but the pure year underwriting loss was offset by favourable development of the reserves for 2009 and prior of GBP 992 million. Lloyd's estimate for the 2011 year of account, which is based on the amalgamation of individual syndicate forecasts

Exhibit 8

Global Net Incurred Loss Ratios (2003-2011)

Quarter	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
1	0.7%	1.1%	2.1%	0.8%	1.1%	0.0%	0.8%	0.7%	1.1%	0.5%
2	2.6%	3.0%	4.3%	2.5%	3.4%	2.2%	3.2%	3.8%	4.6%	2.1%
3	6.1%	9.8%	14.0%	6.3%	8.1%	8.1%	7.8%	9.7%	11.4%	6.0%
4	12.1%	21.6%	36.9%	12.6%	15.4%	21.9%	15.6%	18.5%	22.6%	14.3%
5	19.1%	30.9%	47.2%	19.4%	24.0%	32.3%	23.8%	29.0%	33.2%	23.0%
6	24.6%	39.3%	57.3%	26.3%	32.4%	40.7%	34.5%	43.9%	42.0%	
7	30.1%	46.1%	65.7%	32.6%	39.3%	48.1%	41.2%	54.5%	47.9%	
8	34.4%	55.4%	70.6%	37.5%	47.8%	53.8%	45.9%	61.4%	53.1%	
9	36.8%	59.0%	72.5%	40.4%	51.7%	58.0%	48.6%	65.2%	56.5%	
10	38.9%	61.4%	74.8%	42.8%	54.0%	61.0%	50.8%	67.4%		
11	40.3%	62.7%	76.9%	44.3%	56.4%	63.3%	52.2%	69.3%		
12	40.2%	63.5%	78.5%	45.8%	58.3%	66.0%	53.1%	70.5%		

Note: Denominator is estimated 12th quarter net premium (net of brokerage).

Net incurred loss ratios exclude IBNR provisions.

Source: Lloyd's

from managing agents, is a profit of GBP 224 million, in spite of substantial catastrophe losses from the third New Zealand earthquake and flooding in Thailand. At the 15-month stage, the forecast for the 2012 year of account, which was generally a benign year for catastrophe losses until Superstorm Sandy struck, was a profit of GBP 1,017 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.

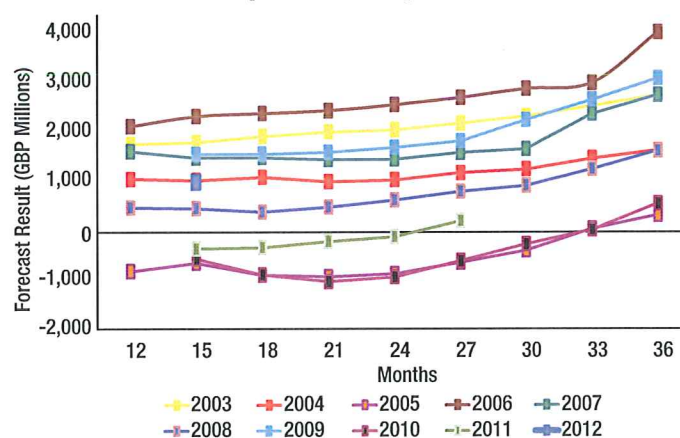
Lloyd's Forecasts

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 2010). With effect from the 2009 year of account, Lloyd's no longer publishes syndicate forecasts at the 12-month stage, so the 12-month position for the 2009 to 2012 years of account is not shown.

Exhibit 9

Global Forecasts (2003-2012)



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

The chart shows that for most closed years managing agents underestimated the profit finally achieved, generally as a result of favourable reserve development on earlier years. The estimate for the 2010 year of account has worsened and then improved over time, reflecting the difficulties encountered in producing reliable assessments of the losses from the series of catastrophe events affecting this year of account. The forecasts for 2011, on the other hand, have been improving, in spite of the number and complexity of the natural catastrophes that fall into this year of account, particularly the New Zealand earthquakes and Thai floods.

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.

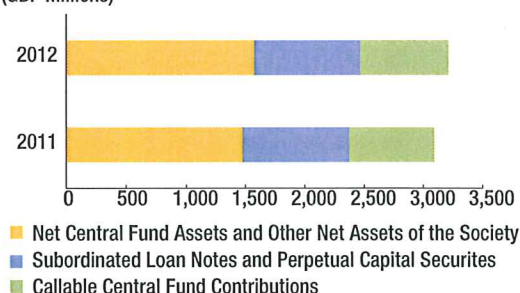
Although the Society is a non-profit organisation, it produced a surplus after tax in 2012 of GBP 123 million, an increase on the surplus of GBP 89 million in 2011 and the seventh successive surplus to be reported. The increase was attributable primarily to an improvement in financial income of GBP 24 million, driven by realised and unrealised returns on investments and forward contracts, and an additional contribution to the Lloyd's Pension Fund of GBP 20 million made in 2011 and not repeated in 2012.

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 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.

Exhibit 10
Central Assets for Solvency
(2011-2012)

(GBP Millions)



Source: Lloyd's Annual Report 2012

The Lloyd's market is expected to maintain this excellent level of capitalisation in 2013 and into 2014. Central assets for solvency purposes rose by 4% in 2012 to GBP 3,215 million and are expected to remain stable in 2013 (see **Exhibit 10**). Over the same 12-month period, members' funds at Lloyd's (FAL) increased to GBP 15,660 million from GBP 15,171 million. FAL will continue to move in line with syndicates' underlying business risk, driven by Lloyd's overall capital requirements.

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. Syndicates' SCRs are calculated using internal capital models, which all syndicates are required to have. Lloyd's also uses an internal model to determine its overall capital strength. Lloyd's stochastic internal capital model (LIM) cap-

tures 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 benefits from good financial flexibility through its ability to retain and attract the capital required for continued trading. Lloyd's capital is provided primarily by U.K. and overseas insurance industry members, with a smaller proportion accounted for by private individuals. The diversity of capital providers enhances the market's financial flexibility. In addition, Lloyd's continues to attract international investment. 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 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

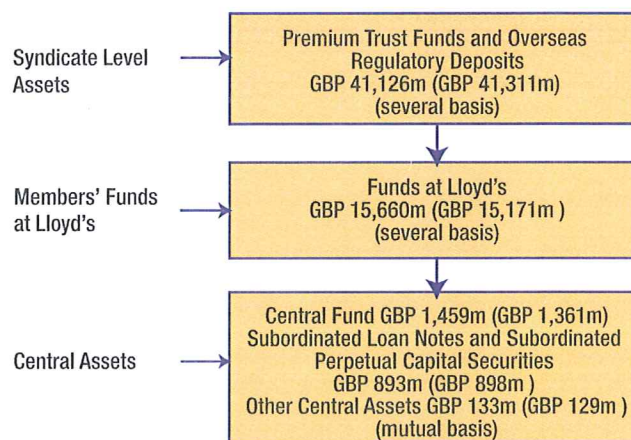
Any assessment of Lloyd's capital strength is complicated by the compartmentalisation of capital at member level (see **Exhibit 11**).

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.

The protection provided for Lloyd's policyholders by central assets is likely to remain excellent. In 2012, there was again a small upward movement in the level of central assets available to meet members' unpaid cash calls to GBP 2,485 million (excluding the subordinated debt liability and the callable layer) from GBP 2,388 million. Member contributions of GBP 105 million drove the increase in the Central Fund. The contribution rate is currently 0.5% of gross written premiums. With aggregate premiums likely to remain in excess of GBP 20,000 million, at the current rate annual contributions to central assets of approximately GBP 100 million should support the stability of the Central Fund for the foreseeable future.

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 2012, the

Exhibit 11 **Chain of Security**



Note: Figures are shown as at 31 December 2012 (31 December 2011).
Source: Lloyd's Annual Report 2012

aggregate gross reserves on run-off years of account was GBP 0.7 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 2012, eight years of account were open beyond 36 months, up from seven in 2011. Two of the seven years of account in run-off at year-end 2011 closed in 2012, while three syndicates failed to close their 2010 years of account.

Of these three syndicates, one was affected by significant losses from international catastrophes in 2011 and was placed into run-off in the fourth quarter of the year by its capital providers. The 2009 year of account for this syndicate also remains open. The two other years of account were left open following the sale of their capital provider.

Members' aggregate solvency shortfalls remained low during 2012, falling to GBP 94 million from GBP 115 million in 2011, with no impact from Superstorm Sandy. As at year-end 2012, solvency deficits were covered 34.2 times by central assets (2011: 26.9 times).

A.M. Best believes increased oversight of syndicates by Lloyd's, supported by the 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 May 2013, Lloyd's announced that it would buy back GBP 180 million of its outstanding subordinated debt securities, having offered to buy back up to GBP 200 million. As a result, the subordinated debt amount has declined from GBP 503 million as at year-end 2012 to GBP 323 million. 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.

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 2012, this callable layer of capital amounted to GBP 745 million, based on 2012 approved premium limits.

The Corporation of Lloyd's is also responsible for setting capital at member level, using a risk-based process. In 2012, members' funds at Lloyd's (FAL) increased to GBP 15,660 million from GBP 15,171 million. For the 2013 year of account member-level capital was determined using syndicates' Solvency Capital Requirements (SCRs), instead of their Individual Capital Assessments (ICAs). This will also be the case for the 2014 year of account, even though Solvency II has not 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, and this number is used for the purpose of calculating member-level capital.

For 2012 capital-setting purposes, Lloyd's applied a 35% economic uplift to each member's ICA. This uplift was based on Lloyd's 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, the 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 the member's SCR. Adjustments were made in case of a material change in the member's risk profile.

For 2014 and beyond, Lloyd's will once again set member capital by applying a flat-rate uplift to regulatory capital. As the level of aggregate member capital was unaffected by the change from an ICA based calculation to an SCR based calculation, the uplift is to remain at 35% for the 2014 capital setting process.

Lloyd's net resources (see **Exhibit 12**) as at year-end 2012 represented 104% of net written premium income in line with 2011. Without members' balances the ratio is 93% (2011:95%). 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 on a risk-adjusted basis.

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. As a result the model calculates consumption of FAL capital and central capital separately. In a severe market event where some syndicates exhaust their FAL, central assets will be exposed to any additional losses faced by these syndicates. The model captures this mutualised exposure, so that, at different return periods, consumption of both member level capital and central capital is demonstrated. In addition, events which do not affect the majority of syndicates (and so are not capital events at overall member level) but have an effect on central assets are also captured.

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 Lloyd's as a whole, with separate figures calculated for consumption of FAL and consumption of central assets. Lloyd's continues to use this measure to assess its overall capital strength for internal purposes, although members' capital requirements are set using a one-year-to-ultimate number at the same 99.5% VaR confidence level for the member, and subject to an economic uplift as described above.

Exhibit 12 **Total Net Aggregate Resources** **(2011-2012)** (GBP Millions)

	2011	2012
Funds at Lloyd's	15,171	15,660
Members' Balances	1,555	2,048
Net Central Fund Assets	1,361	1,459
Subordinated Debt	509	503
Subordinated Perpetual Capital Securities	389	390
Net Assets of the Corporation	129	133
Total Net Resources	19,114	20,193

Source: Lloyd's Annual Report 2012

Letters of Credit

A significant proportion of FAL, 50% at year-end 2012, is accounted for by letters of credit (LOCs). Lloyd's has a robust control framework in place to monitor the counter-party risk of LOCs, and all issuers are rated A or above. The 10 largest issuers accounted for approximately 90% of LOCs at the end of 2012.

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 50% of FAL at year-end 2012, 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 FSA.

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 complete view of 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.

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.

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 2011 and 2012 is shown in **Exhibit 13**. For 2012, the U.K. insurance industry remained the largest investor group, representing 25% of the market's overall capacity, followed by the overseas insurance industry (excluding Bermudian and U.S. companies), which represented 22%. Bermudian insurance companies and U.S. insurance companies had similar shares at 16%. Private individuals (Names underwriting with either limited or unlimited liability) continued to make a significant contribution at 11% 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.

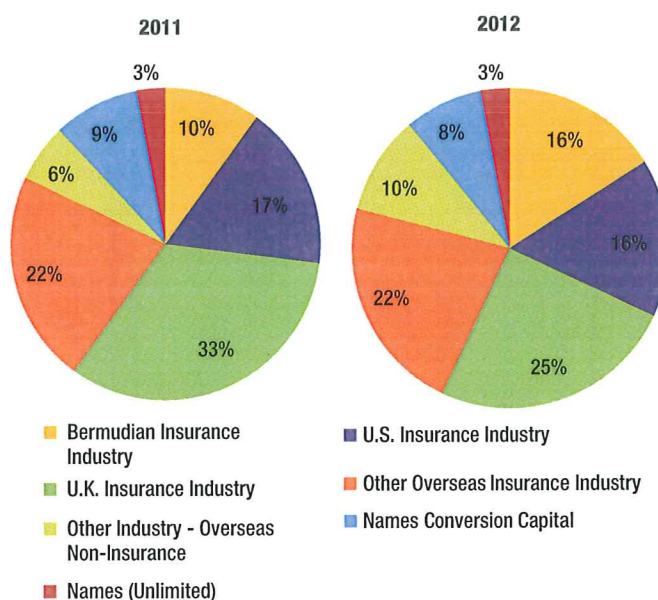
The market continues to attract new capital, although the number of approved new entrants has reduced as market conditions have deteriorated. Lloyd's has a rigorous process in place to assess and monitor new entrants, which in A.M. Best's opinion is likely to protect overall market performance and ultimately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

Corporate members underwriting 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 (the rate for 2012 is 2% of gross written premiums). 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 an eighth successive year in 2012, with their contribution to earnings increasing compared to 2011. Positive development of prior year claims is expected to continue to contribute to the result for the next few years; however the size of releases is considered unlikely to be as substantial. The scope for further positive development on the 2002 to 2006 years is diminishing as outstanding claims reduce, while surpluses for business written in more

Exhibit 13
Composition of Capital (2011-2012)



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

recent accident years, when market conditions were less favourable for casualty business, are likely to be modest. Nevertheless, in other lines of business there has still been scope for reserving at a margin above actuarial best estimate, potentially leading to significant redundancies from these years in the future.

Furthermore, the potential effect of the economic downturn on claims frequency and claims inflation increases the uncertainty as to reserve adequacy for many lines of business. Although the market's exposure to large, U.S.-based financial institutions has declined since 2000, uncertainty as to the magnitude of losses directly related to the subprime crisis and the broader financial crisis persists. The complex nature of products in banks' loan portfolios has increased the reporting tail for these losses. The development of these claims continues to be regularly monitored by Lloyd's Market Reserving and Capital department in conjunction with the PMD, which ensures that each syndicate's reserving methodology is realistic.

Despite this continued uncertainty, material adverse development is not anticipated. A.M. Best believes that lessons have been learnt from the deterioration experienced in respect of U.S. casualty business written in soft market conditions between 1997 and 2001, and that Lloyd's has since improved its reserving procedures and methodologies. Additionally, all syndicates' reserves are subject to independent actuarial sign-off, and this process is monitored by the Lloyd's Actuary.

In 2012, Lloyd's technical results benefited from a GBP 1,351 million prior-year reserve release, which improved the calendar-year combined ratio by 7.2 percentage points, compared with GBP 1,173 million and 6.5 percentage points in 2011. The large release was attributed to better actual experience on claims from prior years compared to expectations.

Positive reserve development reduced combined ratios for all the main classes of business. Energy saw the most significant improvement of its combined ratio from prior-year development in 2012, at 19.1 percentage points. This class has achieved large reserve releases since 2010 with smaller positive development also achieved in 2009 and 2008.

The aviation class also continued to benefit from significant reserve releases, improving the combined ratio by 18.5 percentage points in 2012, down from 26.5 percentage points in 2011. The 2012 release benefitted from favourable developments on a number of large claims.

For property and reinsurance, prior year releases improved the combined ratio by 8.2 and 6.9 percentage points respectively. Reserves for the 2011 catastrophes remained stable overall in 2012.

Reserve releases from casualty improved in 2012, with a positive effect of 4.8 percentage points on the combined ratio compared to 1.8 percentage points in 2011. 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 line.

For the marine class, prior year movements improved the combined ratio by 3.9 percentage points, down from 7.8 percentage points in 2011. The release was reduced by strengthening being required on the 2011 MV Rena loss.

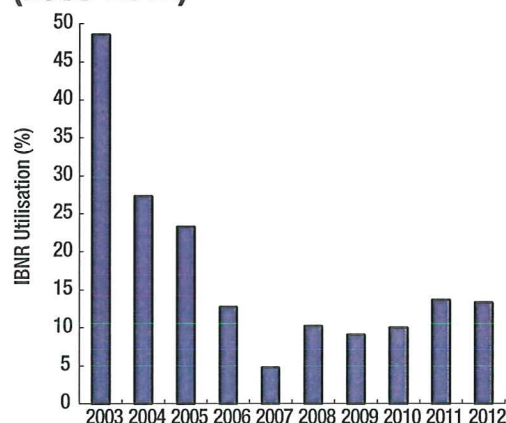
Motor reserves were stable in 2011 and 2012, with both years benefitting from small reserve releases. This follows reserve strengthening in 2009 and 2010 due to claims inflation in relation to the frequency and severity of personal injury awards and increasing credit hire costs. In 2010, prior year movements 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. In spite of the stability seen in 2011 and 2012, considerable uncertainty remains regarding future claims inflation for this line.

Syndicates in run-off have historically been the principal source of reserve deterioration for Lloyd's. However, Lloyd's exposure to the liabilities of existing insolvent members has significantly reduced, principally due to better management of run-off years. In 2010, an ongoing focus on promoting efficiency and finding a means to close syndicates (largely through third-party reinsurance to close) supported a fall in the number of syndicate years of account in run-off to 10 from 22 in the previous year. A further reduction of three years was achieved in 2011. At year-end 2012 eight years were open beyond 36 months. Two of the seven years of account in run-off at year-end 2011 closed in 2012, while three syndicates failed to close their 2010 years of account.

Run-off years generated an underwriting loss of GBP 31 million in 2012, which represents an improvement on the GBP 90 million loss of 2011, as less strengthening of reserves was needed. This is in contrast to the run-off pure years of account that had closed naturally, which generated significant reserve surpluses during 2012. 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 close of run-off years means the scale of the associated reserves is now minimal.

Exhibit 14 shows the trend in the utilisation of net incurred but not reported (IBNR) reserves as a percentage of the overall IBNR amount in the period 2003-2012. The graph showed a favourable trend in IBNR utilisation between 2003 and 2007, after which the level has stabilised. Although the levels observed in 2011 and 2012 are slightly higher than in the preceding years, they are still significantly lower than the levels seen in the early 2000s.

Exhibit 14
Net Year-End IBNR Utilisation
(2003-2012)



Source: Lloyd's

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, although some uncertainty exists as to the recognition of the transfer in overseas jurisdictions.

Liquidity

In A.M. Best's opinion, Lloyd's is likely to maintain good overall liquidity in 2013. 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 remained stable in 2012 at GBP 41,126 million (2011: GBP 41,311 million).

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). Lloyd's central assets – the Central Fund, corporation assets and subordinated debt – increased to GBP 2,485 million in 2012 (2011: GBP 2,388 million). Growth of the Central Fund was attributable to member contributions (0.5% of gross written premiums). In May 2013, Lloyd's bought back approximately GBP 180 million of subordinated debt but the receipt of the member contributions for 2013 will have maintained central assets at a similar level to that at year-end 2012.

Members' FAL increased to GBP 15,660 million at year-end 2012 (2011: GBP 15,171 million). FAL are provided either by letters of credit (LOCs) (2012: 50%) 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 issuers and its overall exposure to individual issuers. If an issuer were to fall below its minimum standards, members using that issuer would be required to obtain an LOC from a different issuer 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

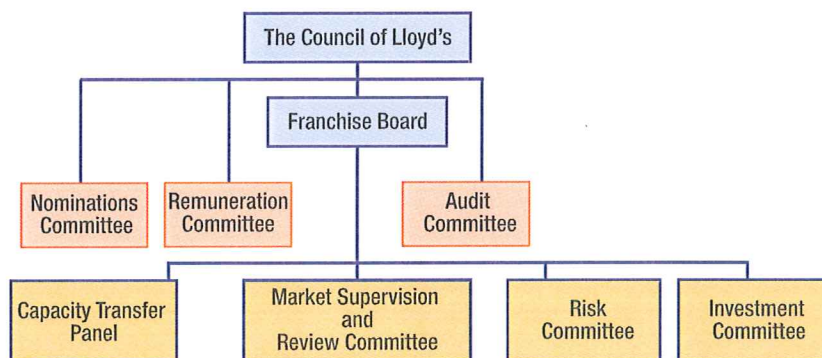
purpose of the Franchise Board is to oversee trading activities within the Lloyd's market from a commercial perspective, although this does not extend to active management of Lloyd's overall business mix.

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 PMD, which is responsible for approving syndicates' business plans and 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.

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.

Exhibit 15 Governance Structure



Source: Lloyd's Annual Report 2012

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, particularly for non-catastrophe exposed lines of business. 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

In 2011, Lloyd's completed the implementation of its new risk management framework, 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 risk issues, which include such issues as the insurance cycle, the economic climate and regulatory development. 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 "search for yield" climate. 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. Lloyd's first Own Risk and Solvency Assessment (ORSA) in April 2012 reflected the increased level of catastrophe risk in the market, enabling increased oversight of the risk. The 2013 ORSA, which was signed off by the Franchise Board in May 2013, also focused on catastrophe exposure as one of the five main risk areas.

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, although the degree of oversight is set by a risk-based approach, 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.

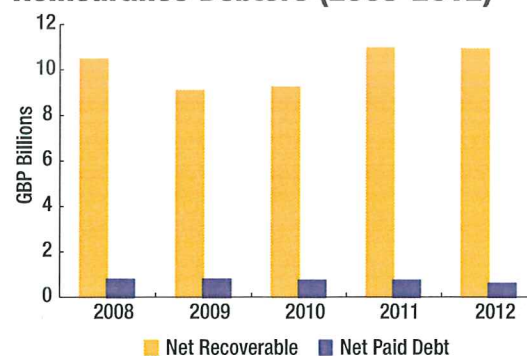
Reinsurance

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 2012 (excluding reinsurance placed within Lloyd's). The PMD's ongoing focus on syndicate business plans and their reinsurance dependence is expected to support continued stability in this ratio in 2013. The Lloyd's reinsurance panel remains well diversified, with the top 10 reinsurance groups accounting for 40% of total reinsurance recoverables in 2012 (2011: 44%).

Exhibit 16 shows the development in Lloyd's net recoverables and total net paid debt. Total net reinsurance recoverables of GBP 10.9 billion at year-end 2012 were at a similar level to the GBP 11.0 billion in 2011, most likely a reflection of the fact that Super-

Exhibit 16
Reinsurance Debtors (2008-2012)



Source: Lloyd's

Appendix 1

Gross Written Premium by Syndicate (2012)

(GBP Millions)

Syndicate	Managing Agent	Gross Written Premium	Syndicate	Managing Agent	Gross Written Premium
33	Hiscox Syndicates Ltd	825	2012	Arch Underwriting at Lloyd's Ltd	169
44	Sagicor at Lloyd's Ltd	7	2015	Asta Managing Agency Ltd	82
218	Equity Syndicate Management Ltd	449	2088	Catlin Underwriting Agencies Ltd	48
260	Canopus Managing Agents Ltd	47	2121	Argenta Syndicate Management Ltd	255
308	R. J. Kiln & Co. Ltd	30	2232	Capita Managing Agency Ltd	69
318	Beaufort Underwriting Agency Ltd	163	2243	Starr Managing Agents Ltd	81
382	Hardy (Underwriting Agencies) Ltd	290	2468	Marketform Managing Agency Ltd	179
386	QBE Underwriting Ltd	444	2488	ACE Underwriting Agencies Ltd	352
435	Faraday Underwriting Ltd	277	2525	Asta Managing Agency Ltd	35
457	Munich Re Underwriting Ltd	494	2526	Asta Managing Agency Ltd	43
510	R. J. Kiln & Co. Ltd	1,153	2623	Beazley Furlonge Ltd	1,045
557	R. J. Kiln & Co. Ltd	34	2791	Managing Agency Partners Ltd	307
609	Atrium Underwriters Ltd	353	2987	Brit Syndicates Ltd	1,089
623	Beazley Furlonge Ltd	231	2999	QBE Underwriting Ltd	1,155
727	S.A. Meacock & Company Ltd	93	3000	Markel Syndicate Management Ltd	386
779	Jubilee Managing Agency Ltd	26	3002	Catlin Underwriting Agencies Ltd	10
780	Advent Underwriting Ltd	158	3010	Cathedral Underwriting Ltd	29
958	Canopus Managing Agents Ltd	231	3210	Mitsui Sumitomo Insurance Underwriting at Lloyd's Ltd	302
1084	Chaucer Syndicates Ltd	906	3330	R&Q Managing Agency Ltd	–
1110	Argenta Syndicate Management Ltd	67	3334	Sportscover Underwriting Ltd	87
1176	Chaucer Syndicates Ltd	28	3500	Riverstone Managing Agency Ltd	39
1183	Talbot Underwriting Ltd	681	3622	Beazley Furlonge Ltd	13
1200	Argo Managing Agency Ltd	375	3623	Beazley Furlonge Ltd	113
1206	Sagicor at Lloyd's Ltd	194	3624	Hiscox Syndicates Ltd	245
1209	XL London Market Ltd	321	4000	Pembroke Managing Agency Ltd	226
1218	Newline Underwriting Management Ltd	116	4020	Ark Syndicate Management Ltd	341
1221	Navigators Underwriting Agency Ltd	231	4141	HCC Underwriting Agency Ltd	91
1225	AEGIS Managing Agency Ltd	371	4242	Asta Managing Agency Ltd	75
1274	Antares Managing Agency Ltd	197	4444	Canopus Managing Agents Ltd	648
1301	Chaucer Syndicates Ltd	82	4472	Liberty Syndicate Management Ltd	1,107
1400	Alterra at Lloyd's Ltd	198	4711	Aspen Managing Agency Ltd	267
1414	Ascot Underwriting Ltd	654	5000	Travelers Syndicate Management Ltd	320
1458	Renaissance Re Syndicate Management Ltd	98	5151	Montpelier Underwriting Agencies Ltd	155
1861	ANV Syndicate Management Ltd	142	5678	RITC Syndicate Management Ltd	1
1880	R. J. Kiln & Co. Ltd	240	5820	Jubilee Managing Agency Ltd	129
1882	Chubb Managing Agent Ltd	79	6103	Managing Agency Partners Ltd	27
1897	R&Q Managing Agency Ltd	51	6104	Hiscox Syndicates Ltd	44
1910	Asta Managing Agency Ltd	262	6105	Ark Syndicate Management Ltd	8
1919	Starr Managing Agents Ltd	255	6106	Amlin Underwriting Ltd	36
1945	Asta Managing Agency Ltd	44	6107	Beazley Furlonge Ltd	9
1955	Barbican Managing Agency Ltd	220	6110	Pembroke Managing Agency Ltd	19
1967	W R Berkley Syndicate Management Ltd	116	6111	Catlin Underwriting Agencies Ltd	71
1969	ANV Syndicate Management Ltd	104	6112	Catlin Underwriting Agencies Ltd	32
2001	Amlin Underwriting Ltd	1,470	All other syndicates and inter-syndicate RITC adjustment		27
2003	Catlin Underwriting Agencies Ltd	1,836	Total		25,500
2007	Novae Syndicates Ltd	612	Source: Lloyd's Annual Report 2012		
2008	Shelbourne Syndicate Services Ltd	194			
2010	Cathedral Underwriting Ltd	285			

Appendix 2

Managing Agents at 31 December (2012)

(GBP Millions)

Managing Agent	Gross Written Premium	Managing Agent	Gross Written Premium
Catlin Underwriting Agencies Ltd	1,997	Faraday Underwriting Ltd	277
QBE Underwriting Ltd	1,599	Aspen Managing Agency Ltd	267
Amlin Underwriting Ltd	1,506	ANV Syndicate Management Ltd	246
R. J. Kiln & Co. Ltd	1,457	Pembroke Managing Agency Ltd	245
Beazley Furlonge Ltd	1,411	Navigators Underwriting Agency Ltd	231
Hiscox Syndicates Ltd	1,114	Barbican Managing Agency Ltd	220
Liberty Syndicate Management Ltd	1,107	Sagicor at Lloyd's Ltd	201
Brit Syndicates Ltd	1,089	Alterra at Lloyd's Ltd	198
Chaucer Syndicates Ltd	1,016	Antares Managing Agency Ltd	197
Canopus Managing Agents Ltd	926	Shelbourne Syndicate Services Ltd	194
Talbot Underwriting Ltd	681	Marketform Managing Agency Ltd	179
Ascot Underwriting Ltd	654	Arch Underwriting at Lloyd's Ltd	169
Novae Syndicates Ltd	612	Beaufort Underwriting Agency Ltd	163
Asta Managing Agency Ltd	541	Advent Underwriting Ltd	158
Munich Re Underwriting Ltd	494	Jubilee Managing Agency Ltd	155
Equity Syndicate Management Ltd	449	Montpelier Underwriting Agencies Ltd	155
Markel Syndicate Management Ltd	386	Newline Underwriting Management Ltd	116
Argo Managing Agency Ltd	375	W R Berkley Syndicate Management Ltd	116
AEGIS Managing Agency Ltd	371	Renaissance Re Syndicate Management Ltd	98
Atrium Underwriters Ltd	353	S.A. Meacock & Company Ltd	93
ACE Underwriting Agencies Ltd	352	HCC Underwriting Agency Ltd	91
Ark Syndicate Management Ltd	349	Sportscover Underwriting Ltd	87
Starr Managing Agents Ltd	336	Chubb Managing Agent Ltd	79
Managing Agency Partners Ltd	334	Capita Managing Agency Ltd	69
Argenta Syndicate Management Ltd	322	R&Q Managing Agency Ltd	51
XL London Market Ltd	321	Riverstone Managing Agency Ltd	39
Travelers Syndicate Management Ltd	320	RITC Syndicate Management Ltd	1
Cathedral Underwriting Ltd	314	All other syndicates and inter-syndicate RITC adjustment	27
Mitsui Sumitomo Insurance Underwriting at Lloyd's Ltd	302	Total	25,500
Hardy (Underwriting Agencies) Ltd	290	Source: Lloyd's Annual Report 2012	

Appendix 3

Overview of Premium Limits and Membership (1993-2012)

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

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

Source: Statistics Relating to Lloyd's

Appendix 4

Pro Forma Financial Statements (2008-2012)

(GBP Millions)

	2012	2011	2010	2009	2008
Gross Premiums Written	25,500	23,477	22,592	21,973	17,985
Reinsurance Ceded	6,065	5,005	4,936	4,755	3,768
Net Premiums Written	19,435	18,472	17,656	17,218	14,217
Increase/(Decrease) in Gross UPR	-994	-473	-517	-807	-558
Reinsurers Share in UPR	244	101	-28	314	137
Earned Premiums	18,685	18,100	17,111	16,725	13,796
Other Technical Income					
Total Underwriting Income	18,685	18,100	17,111	16,725	13,796
Net Claims Paid	10,458	9,816	8,814	9,075	7,578
Net Increase/(Decr) in Claims Provision	-360	3,084	1,215	-451	886
Net Claims Incurred	10,098	12,900	10,029	8,624	8,464
Management Expenses	1,706	1,468	1,475	1,304	1,267
Acquisition Expenses	5,137	4,950	4,692	4,408	3,720
Net Operating Expenses	6,843	6,418	6,167	5,712	4,987
Other Technical Expenses	83	19	-228	69	-853
Total Underwriting Expenses	6,926	6,437	5,939	5,781	4,134
Balance on Technical Account	1,661	-1,237	1,143	2,320	1,198
Net Investment Income	1,372	1,035	1,324	1,833	1,032
Other Expenses	-262	-314	-272	-285	-331
Profit/(Loss) Before Tax	2,771	-516	2,195	3,868	1,899
Other Recognised Gains and Losses	-52	-46	68	-34	619
Total Recognised Gains and Losses	2,719	-562	2,263	3,834	2,518

Source: Lloyd's Annual Report 2012



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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 - 07/12/2013 *

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:	Time Period: Annual - 2012	Corporate Structure: N/A
Rating Rationale: N/A	Last Updated: 08/02/2013	States Licensed: N/A
Report Commentary: 07/12/2013	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 - Insurance Professional for SWISS REINSURANCE COMPANY LIMITED

Operating Company Composite

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AMB#: 085010

AIIN#: AA-1460146

Associated Ultimate Parent#: 058595

Report Revision Date: 07/12/2013

RATING RATIONALE

Rating Rationale: The ratings reflect Swiss Reinsurance Company Ltd.'s (Swiss Re) sustained, consistently robust risk-adjusted capitalization; strong core operating results; superior business profile as a globally diversified provider of reinsurance products and effective risk management systems. Somewhat offsetting these positive rating attributes is the continued impact of the soft market conditions on opportunities in the property/casualty global reinsurance market. The outlooks are stable.

Swiss Re continues to maintain a dominant position in its chosen markets and benefits from a global franchise with a large selection of products along with a dominant worldwide distribution system. The company has established sound client relationships with some of the largest companies in the world while offering larger lines and capacity. The company's market presence is fully supported by its superior risk-based capitalization and risk management capabilities.

Operating results through the first nine months of 2012 for the Property & Casualty reinsurance business segment reflected the low level of catastrophes with a combined ratio of 78.1%, while primary insurance segment, Corporate Solutions, performed better than breakeven with a combined ratio of 94.0%. The Life & Health reinsurance segment performed well with a benefit ratio of 75.8%. During the fourth quarter of 2012, Swiss Re reported a Hurricane Sandy net loss estimate of \$900 million. Despite this loss, the group reported a strong profit for the year ending December 31, 2012.

Over the past several years, Swiss Re has consistently maintained superior levels of risk-based capitalization benefitting from its diverse books of business and efficient capital management program. Additionally, Swiss Re maintains minimal levels of exposure to sovereign risk emanating from Europe's more troubled economies along with minimal exposure to European banks.

A.M. Best considers Swiss Re's risk management program to be very effective. The company dedicates a significant level of personnel on a worldwide basis to monitor risk in all operating segments as part of its formal risk management program. Swiss Re also makes extensive use of its proprietary capital model to analyze various stress scenarios on its entire operation as well as on individual business segments.

Positive rating actions could occur if over the next several years, Swiss Re's operating performance and risk-adjusted capitalization significantly and consistently exceed its peer group of global reinsurers.

Negative rating actions could occur if Swiss Re's operating performance and risk-adjusted capitalization consistently fall below A.M. Best's expectations for its current rating level by a significant margin for a prolonged period.

RATING UNIT MEMBERS

Swiss Reinsurance Company Limited

(AMB# 085010):

<u>AMB#</u>	<u>COMPANY</u>	<u>FSR</u>	<u>BEST'S</u> <u>ICR</u>
085009	Swiss Reinsurance Company Ltd	A+	aa-
085830	European Reinsurance Co Zurich	A+	aa-

010783	First Specialty Ins Corp	A+	aa-
011135	North American Capacity Ins Co	A+	aa-
010617	North American Elite Ins Co	A+	aa-
001866	North American Specialty Ins	A+	aa-
091982	Swiss Re Corporate Solutions	A+	aa-
086847	Swiss Re Europe S.A.	A+	aa-
087600	Swiss Re International SE	A+	aa-
007283	Swiss Re Life & Health America	A+	aa-
003263	Swiss Reinsurance America Corp	A+	aa-
002695	Washington International Ins	A+	aa-
000347	Westport Insurance Corp	A+	aa-

BUSINESS PROFILE

Swiss Re 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, 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 insurance related 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 continued to see strong activity in 2012.

Europe, the Middle East and Africa remains the Swiss Re group's largest geographical area accounting for approximately 42% of net earned premiums and fee income in 2012, while the Americas accounted for approximately 38%. Asia generated approximately 20% of net earned premiums and fee income in 2012. However, Swiss Re sees significant growth potential in this area which could compensate for a decline of premiums due to clients' growing appetite for a higher net retention and pressure on prices in the U.S. and Europe.

PROPERTY & CASUALTY:

The Swiss Re group's largest book of business remains Property & Casualty. At 31 December 2012, traditional property and traditional casualty comprised approximately 47% and 38% of net Property & Casualty earned premiums, respectively. Specialty business, which includes primary insurance and accident insurance, accounted for approximately 15% of net Property & Casualty earned premiums.

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 provided for a ceding commission, covering on-going acquisition costs and a further fixed 14%. Overall, the agreement provided Swiss Re with both downside protection and upside flexibility, enabling the company to further advance its capital management. The agreement expired at year-end 2012 and was not renewed by Swiss Re.

LIFE & HEALTH:

Swiss Re offers a comprehensive portfolio of products and services in the Life & Health segment globally. In Europe, where the group maintains a strong market position, Swiss Re's specific areas of growth are focused on life protection products linked to loans and mortgages, products sold through banks and other financial institutions, and leading the market towards enhancing the segmentation of insured lives. The group also offers solutions and services for closed blocks of business or run-off portfolios through its Admin Re unit. In the U.S., Swiss Re continued to reclaim market share while life reinsurance cession rates generally decreased.

In emerging markets, in particular Indonesia, Brazil, Mexico, China and India, Swiss Re anticipates a large potential for life business and medical insurance and expects increasing life reinsurance demand over the medium term. Swiss Re's superior expertise in developing life reinsurance solutions provides a competitive advantage in these markets. Rapid growth in new lines of business, such as longevity and variable annuity solutions, will offer further opportunities for attractive capital returns. The Admin Re segment is expected to continue to develop strongly, as primary insurers seek capital-and-cost-efficient solutions for managing closed blocks of business.

RISK MANAGEMENT

Swiss Re has established a formal risk management program with a CRO that oversees all aspects of the company's individual risks. Dedicated staff members include reserving actuaries; modellers; and auditors. Swiss Re's risk appetite is determined by the board and reviewed throughout the year with a formal self-assessment program. The company is particularly sensitive to reputational risk and its image in the market. Swiss Re also makes extensive use of its proprietary capital and catastrophe models. The company regularly publishes white papers on various insurance and reinsurance subjects.

OPERATING PERFORMANCE

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. In 2012, a post-tax profit of above USD 4 billion was achieved. The group's main divisions of Property & Casualty reinsurance, Life & Health reinsurance, Corporate Solutions and Admin Re all contributed positively to this result.

The group's Property & Casualty reinsurance division produced a strong result in 2012, despite exposure to Hurricane Sandy, earthquakes in Northern Italy and the grounding of Costa Concordia. The result was a strong improvement over 2011, when a small underwriting loss was reported due to exposure to the year's multiple catastrophe events. Both years benefitted from reserve releases.

Life & Health reinsurance made a profit in 2012, albeit smaller than in 2011 primarily due to lower investment returns. Performance in this segment was negatively affected by unfavourable experience in pre-2004 US life business.

Performance in the Corporate Solutions division improved in 2012, reflecting growth in premium income combined with fewer large catastrophe events than in 2011.

Admin Re generated a smaller profit in 2012 than in 2011, due to a loss of USD 399 million related to the sale of Admin Re's US business which closed in September 2012. The sale led to the release of capital at Admin Re, which will be utilised elsewhere in the group.

Underwriting Results: The Swiss Re group's underwriting results have been solid over the past four years, and a strong result was achieved in 2012, with a combined ratio of just over 80% for the Property & Casualty reinsurance segment. The result benefitted from favourable prior year reserve developments and exposure to natural catastrophe 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 segment made a small underwriting 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. In 2010, Swiss Re's Property & Casualty underwriting remained profitable despite losses from the Chilean earthquake, Trans Ocean oil leak and New Zealand quake.

Swiss Re's 2009 underwriting results benefited from a reduction of natural catastrophe losses and overall favourable loss cost trends in most property/casualty business lines. Swiss Re's Property & Casualty underwriting remained profitable in 2008 despite higher hurricane-related and man-made losses and deterioration of its credit insurance portfolio.

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.

In 2012, the group emphasized a high quality and well diversified investment portfolio with over 60% in cash, short-term deposits, government bonds or government-backed instruments. In addition, the group moderately rebalanced its asset portfolio by purchasing additional government bonds and listed equities.

BALANCE SHEET STRENGTH

Capitalization: As of December 31, 2012 Swiss Re's risk-adjusted capitalization remains strong for its rating level, although its total capitalization includes a significant component of subordinated debt. Swiss Re has focused its attention on the quality of its balance sheet. The company and its affiliates have significantly reduced exposure to equity investments, increased hedging on corporate credit investments starting in July 2008, and purchased CDS protection as a proxy hedge for its structured product investment portfolio. These strategic actions resulted in reduction in required capital for investment risk. In February of 2009, Swiss Re's capital position was bolstered by a CHF 3.0 investment from Berkshire Hathaway Inc. in the form of convertible perpetual capital investment (CPCI). On November 3, 2010 Swiss Re announced the early repurchase of the CPCI.

Between December 31, 2007 and December 31, 2008, Swiss Re's shareholders' equity dropped by 36% to CHF 20.5 billion. This was mainly due to credit spread widening resulting in net unrealized losses of CHF 5.5 billion; foreign currency movements of CHF -2.3 billion; share buy

backs of CHF 2 billion; dividends of CHF 1.3 billion paid to shareholders during the year; and net loss during the year which includes CHF 4.7 billion net unrealized capital loss. As part of the CHF 4.7 billion net realized capital loss, Swiss Re incurred an additional loss of CHF 1.5 billion in mark-to-market adjustment for its exposure to two structured CDS transactions. The decrease in shareholders' equity was partially offset by the conversion of a mandatory convertible bond in December 2008 improving shareholders' equity by CHF 1.0 billion. As of September 30, 2010, the group's capitalization had rebounded to \$30 billion resulting from recovery of unrealized losses and strong operating earnings.

Swiss Re's financial flexibility remains superior and it has open access to liquidity sources, if necessary.

Loss Reserves: Swiss Re's reserving position is now more stable than in the past, although the company is still reporting some prior year adverse developments, in particular for workers compensation in the U.S. Nevertheless, Swiss Re's overall claims development on prior years was broadly neutral for the past few years. Adverse developments related to 2001 and prior underwriting years were balanced by the underwriting years 2002 to 2006, which continue to develop very favourably.

Liquidity: In light of the significant turbulence in the capital markets experienced in 2008 and the early portion of 2009, the Swiss Re group has focused on ensuring the resilience of its balance sheet. As of December 31, 2012 a high quality and well diversified investment portfolio is maintained. More than 80% of investments (excluding unit-linked investments) are held in cash, short-term deposits, and fixed income securities. Furthermore, Swiss Re maintains minimal investment exposure to European countries experiencing economic difficulties. A.M. Best has stressed test Swiss Re under several distressed European investment scenarios which the company has comfortably passed.

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).

STATEMENT OF INCOME

	12/31/2012 USD(000)	12/31/2011 USD(000)
General technical account:		
Reinsurance premiums assumed	15,865,000	15,211,000
Gross premiums written	15,865,000	15,211,000
Reinsurance ceded	3,458,000	3,570,000
Net premiums written	12,407,000	11,641,000
Increase/(decrease) in gross unearned premiums	78,000	1,506,000
Net premiums earned	12,329,000	10,135,000
Other technical income	95,000	72,000
Total underwriting income	12,424,000	10,207,000
Net claims paid	8,752,000	8,954,000
Net increase/(decrease) in claims provision	-2,446,000	-1,573,000
Net claims incurred	6,306,000	7,381,000

Management expenses	1,325,000	1,318,000
Acquisition expenses	2,316,000	1,848,000
Net operating expenses	3,641,000	3,166,000
Total underwriting expenses	9,947,000	10,547,000
Balance on general technical account	2,477,000	-340,000

Life technical account:

Direct premiums	387,000	27,000
Reinsurance premiums assumed	10,715,000	10,245,000
Gross premiums written	11,102,000	10,272,000
Reinsurance ceded	1,871,000	1,882,000
Net premiums written	9,231,000	8,390,000
Increase/(decrease) in gross unearned premiums	181,000	73,000
Net premiums earned	9,050,000	8,317,000
Net investment income	1,587,000	1,519,000
Realised capital gains/(losses)	562,000	1,180,000
Other technical income	73,000	87,000
Total revenue	11,272,000	11,103,000

Net claims paid	6,261,000	6,277,000
Net increase/(decrease) in claims provision	526,000	3,000
Net claims incurred	6,787,000	6,280,000
Dividends to policyholders	271,000	34,000

Management expenses	833,000	716,000
Acquisition expenses	1,787,000	1,745,000
Net operating expenses	2,620,000	2,461,000
Total expenses	9,678,000	8,775,000
Balance on long-term technical account	1,594,000	2,328,000

Combined technical account:

Direct premiums	387,000	27,000
Reinsurance premiums assumed	26,580,000	25,456,000
Gross premiums written	26,967,000	25,483,000
Reinsurance ceded	5,329,000	5,452,000
Net premiums written	21,638,000	20,031,000
Increase/(decrease) in gross unearned premiums	259,000	1,579,000
Net premiums earned	21,379,000	18,452,000
Net investment income	1,587,000	1,519,000
Realised capital gains/(losses)	562,000	1,180,000
Other technical income	168,000	159,000
Total revenue	23,696,000	21,310,000

Net claims paid	15,013,000	15,231,000
Net increase/(decrease) in claims provision	-1,920,000	-1,570,000
Net claims incurred	13,093,000	13,661,000
Dividends to policyholders	271,000	34,000

Management expenses	2,158,000	2,034,000
Acquisition expenses	4,103,000	3,593,000
Net operating expenses	6,261,000	5,627,000
Total underwriting expenses	19,625,000	19,322,000
Balance on combined technical account	4,071,000	1,988,000

Non-technical account:		
Net investment income	1,451,000	1,307,000
Realised capital gains/(losses)	259,000	512,000
Other income/(expense)	-976,000	-974,000
Profit/(loss) before tax	4,805,000	2,833,000
Taxation	1,122,000	83,000
Profit/(loss) after tax	3,683,000	2,750,000
Exceptional income/(expense)	-56,000	...
Minority interests	136,000	172,000
Retained Profit/(loss) for the financial year	3,491,000	2,578,000
Retained Profit/(loss) carried forward	3,491,000	2,578,000

MOVEMENT IN CAPITAL & SURPLUS

	12/31/2012 USD(000)	12/31/2011 USD(000)
Capital & surplus brought forward	31,191,000	26,906,000
Change in share capital	-3,000	...
Change in non-distributable reserves	2,009,000	-188,000
Change in other reserves	-9,011,000	...
Currency exchange gains	744,000	-182,000
Profit or loss for the year	3,547,000	2,578,000
Capital gains or (losses)	-1,164,000	3,181,000
Dividend to shareholders	-2,636,000	-1,035,000
Other changes	-1,735,000	-69,000
Total change in capital & surplus	-8,249,000	4,285,000
Capital & surplus carried forward	22,942,000	31,191,000

ASSETS

	12/31/2012 USD(000)	12/31/2012 % of total	12/31/2011 USD(000)
Cash & deposits with credit institutions	24,765,000	15.2	24,958,000
Bonds & other fixed interest securities	68,622,000	42.1	97,223,000
Shares & other variable interest instruments	3,209,000	2.0	2,531,000
Assets held to cover linked liabilities	841,000	0.5	22,349,000
Liquid assets	97,437,000	59.8	147,061,000
Policy loans	270,000	0.2	3,664,000
Mortgages & loans	3,443,000	2.1	4,661,000
Real Estate	772,000	0.5	645,000
Other investments	12,383,000	7.6	19,821,000
Total investments	114,305,000	70.1	175,852,000
Reinsurers' share of technical provisions - other	8,175,000	5.0	11,837,000
Total reinsurers share of technical reserves	8,175,000	5.0	11,837,000

Deposits with ceding companies	14,427,000	8.8	9,064,000
Insurance/reinsurance debtors	10,157,000	6.2	11,441,000
Other debtors	417,000	0.3	703,000
Total debtors	10,574,000	6.5	12,144,000
Prepayments & accrued income	743,000	0.5	1,226,000
Other assets	10,768,000	6.6	13,946,000
Goodwill	4,075,000	2.5	4,051,000
Total assets	163,067,000	100.0	228,120,000

LIABILITIES

	12/31/2012 USD(000)	12/31/2012 % of total	12/31/2011 USD(000)
Capital	-112,000	-0.1	-1,099,000
Paid-up capital	-112,000	-0.1	-1,099,000
Non-distributable reserves	9,977,000	6.1	8,958,000
Retained earnings	14,129,000	8.7	22,229,000
Current year net income	-1,076,000	-0.7	-594,000
Capital & surplus	22,918,000	14.1	29,494,000
Minority interests	24,000	0.0	1,697,000
Gross provision for unearned premiums	7,535,000	4.6	8,299,000
Gross provision for outstanding claims	49,399,000	30.3	53,827,000
Gross provision for outstanding claims - life	9,505,000	5.8	11,051,000
Gross provision for long term business - life	20,270,000	12.4	39,044,000
Gross provision for linked liabilities - life	6,512,000	4.0	34,162,000
Total gross technical reserves	93,221,000	57.2	146,383,000
Short term borrowings	6,551,000	4.0	4,101,000
Long term borrowings	6,852,000	4.2	7,830,000
Other borrowings	9,630,000	5.9	8,711,000
External borrowings	23,033,000	14.1	20,642,000
Deposits received from reinsurers	3,275,000	2.0	2,436,000
Insurance/reinsurance creditors	3,666,000	2.2	3,962,000
Other creditors	498,000	0.3	440,000
Total creditors	4,164,000	2.6	4,402,000
Other liabilities	16,432,000	10.1	23,066,000
Total liabilities & surplus	163,067,000	100.0	228,120,000

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: Guido Furer
Chief Underwriting Officer: Brian Gray
Chief Risk Officer: David Cole

DIRECTORS

Jakob Baer	C. Robert Henrikson
Rajna Gibson	Walter B. Kielholz
Brandon	(Chairman)
Raymund Breu	Malcolm D. Knight

Mathis	Hans Ulrich Maerki
Cabiallavetta (Vice Chairman)	
Raymond K. F. Ch'ien	Carlos E. Represas
John R. Coomber	Jean-Pierre Roth
Renato Fassbind	

BALANCE SHEET ITEMS

	USD (000) <u>2012</u>	USD (000) <u>2011</u>	USD (000) <u>2010</u>	USD (000) <u>2009</u>	CHF (000) <u>2008</u>
Liquid assets	97,437,000	147,061,000	149,505,000	148,390,000	156,657,000
Total investments	114,305,000	175,852,000	173,875,000	179,151,000	181,233,000
Total assets	163,067,000	228,120,000	228,403,000	232,748,000	239,877,000
Total gross technical reserves	93,221,000	146,383,000	147,024,000	151,576,000	157,741,000
Net technical reserves	85,046,000	134,546,000	134,387,000	140,325,000	145,807,000
Total liabilities	140,149,000	198,626,000	203,061,000	207,404,000	219,424,000
Capital & surplus	22,918,000	29,494,000	25,342,000	25,344,000	20,453,000

INCOME STATEMENT ITEMS

	USD (000) <u>2012</u>	USD (000) <u>2011</u>	USD (000) <u>2010</u>	USD (000) <u>2009</u>	CHF (000) <u>2008</u>
Gross premiums written	26,967,000	25,483,000	24,756,000	26,258,000	30,851,000
Net premiums written	21,638,000	20,031,000	19,433,000	21,757,000	25,659,000
Balance on technical account(s)	4,071,000	1,988,000	1,412,000	1,593,000	853,000
Profit/(loss) before tax	4,805,000	2,833,000	2,675,000	920,000	-1,350,000
Profit/(loss) after tax	3,683,000	2,750,000	2,134,000	699,000	-864,000

LIQUIDITY RATIOS (%)

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Total debtors to total assets	6.5	5.3	5.0	5.3	5.5
Liquid assets to net technical reserves	114.6	109.3	111.2	105.7	107.4
Liquid assets to total liabilities	69.5	74.0	73.6	71.5	71.4
Total investments to total liabilities	81.6	88.5	85.6	86.4	82.6

LEVERAGE RATIOS (%)

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Net premiums written to capital & surplus	94.4	67.9	76.7	85.8	125.5
Net technical reserves to capital & surplus	371.1	456.2	530.3	553.7	712.9
Gross premiums written to capital & surplus	117.7	86.4	97.7	103.6	150.8
Gross technical reserves to capital & surplus	406.8	496.3	580.2	598.1	771.2
Total debtors to capital & surplus	46.1	41.2	45.5	48.8	64.6
Total liabilities to capital & surplus	611.5	673.4	801.3	818.4	999.9

PROFITABILITY RATIOS (%)

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Loss ratio	51.1	72.8	66.6	65.1	69.4
Operating expense ratio	29.3	27.2	28.5	30.3	29.5
Combined ratio	80.5	100.0	95.1	95.4	98.9
Other technical expense or (income) ratio	-0.8	-0.6	...	-0.3	-0.4
Net investment income ratio	11.8	12.9	16.0	17.6	18.1
Operating ratio	68.0	86.5	79.1	77.5	80.4
Benefits paid to net premiums written (Life)	76.5	75.3	132.4	134.0	56.4
Expense ratio (Life)	28.4	29.3	30.2	31.1	32.4
Return on net premiums written	17.0	13.7	11.0	3.2	-3.4
Return on total assets	2.0	1.3	0.4	0.2	-0.3
Return on capital & surplus	13.8	10.0	4.0	2.2	-3.3

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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

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AMB Credit Report - Insurance Professional BCR10172013

003126 - Transatlantic Reinsurance Company

Report Revision Date: 05/28/2013

Rating and Commentary ¹	Financial ²	General Information ³
Best's Credit Rating: 02/28/2013	Time Period: 3rd Quarter - 2013	Corporate Structure: N/A
Rating Rationale: 02/28/2013	Last Updated: 09/09/2013	States Licensed: 05/28/2013
Report Commentary: 05/28/2013	Status: Quality Cross Checked	Officers and Directors: 05/28/2013
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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

80 Pine Street, 9th Floor, New York, New York, United States 10005

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: Stable

Best's Issuer Credit Rating: a+

Outlook: Stable

Rating Effective Date: 02/28/2013

Financial Size Category: XV

Report Revision Date: 05/28/2013

Rating Rationale

Rating Rationale: The ratings reflect Transatlantic Reinsurance Company's (Transatlantic or TRC) excellent business profile as a leading international reinsurance organization, with a book of business that is diversified by product line and geography. Transatlantic predominately writes casualty-oriented business and has a history of generally stable and consistent operating results, which have generated very strong operating cash flows. Partially offsetting these positive attributes are A.M. Best's concerns regarding the current soft pricing conditions in the casualty market from which Transatlantic derives a substantial portion of its premiums as well as the reserve adequacy of pre-2001 casualty-oriented business.

The ratings reflect Transatlantic's strong capitalization and excellent business profile. The company's five-year average operating performance is still in line with its peer group. As a casualty writer, Transatlantic has a history of consistent operating results complemented by strong investment income. The completed merger with Alleghany Corporation allows Transatlantic to focus on its underwriting strategies and to further enhance its excellent market profile.

Although 2012 operating results included some catastrophic losses, Transatlantic's five-year average operating performance is in line with its peer group. Consistently strong operating results have enabled the company to generate strong cash flows over the past several years.

Transatlantic maintains a 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 concerns regarding the current soft pricing conditions in the casualty market.

Rating factors that could lead to a positive rating action include 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 or if capital erosion due to operating performance exceeds A.M. Best's expectations.

Five Year Rating History

Date	BEST'S	
	FSR	ICR
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
11/10/2008	A	a
09/15/2008	A u	a u
05/28/2008	A+	aa-

Rating Unit Members

Transatlantic Reinsurance Company (AMB# 003126)

AMB#	Company	BEST'S	
		FSR	ICR
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				
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
2008	...	3,488,869	448,777	103,448	11,451,445	3,534,148
09/2013	...	2,263,796	570,607	492,967	14,818,811	4,425,109
09/2012	...	2,258,260	416,108	345,465	13,906,474	4,145,144

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 (%)
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
2008	99.5	4.4	12.7	18.9	1.0	3.2	145.7	121.4
5-Yr Avg	101.7	3.7	11.2	...	...	...	...	...
09/2013	89.9	3.4	25.3	44.6	0.7	3.0	142.9	118.3
09/2012	98.8	3.5	18.2	20.0	0.7	3.1	143.2	121.1

(*) 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

Transatlantic 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 TRC writes requires a high level of expertise to properly evaluate these complex risks.

Business is derived from both domestic and foreign sources. Transatlantic'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.

Transatlantic 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 60% and 40%, respectively.

Transatlantic'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.

Transatlantic continues to benefit from the development of several new products as well as a strong international segment. Transatlantic 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	
	(\$000)	(%Chg)	(\$000)	(%Chg)	(\$000)	(%Chg)	(\$000)	(%Chg)
2012	3,280,711	-10.2	206,254	-42.7	3,074,457	-6.6
2011	3,651,805	-0.6	360,270	-15.9	3,291,536	1.4
2010	3,675,627	-3.6	428,508	6.0	3,247,119	-4.8
2009	3,814,364	-4.3	404,350	-18.8	3,410,014	-2.3
2008	3,986,685	1.1	497,816	-3.3	3,488,869	1.7
5-Yr CAGR	-3.6	...	-16.7	...	-2.2
09/2013	2,427,421	-2.6	163,625	-30.0	2,263,796	0.2
09/2012	2,492,124	-15.3	233,864	-39.2	2,258,260	-11.7

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 and Australia. 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

Territory (Continued ...)

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

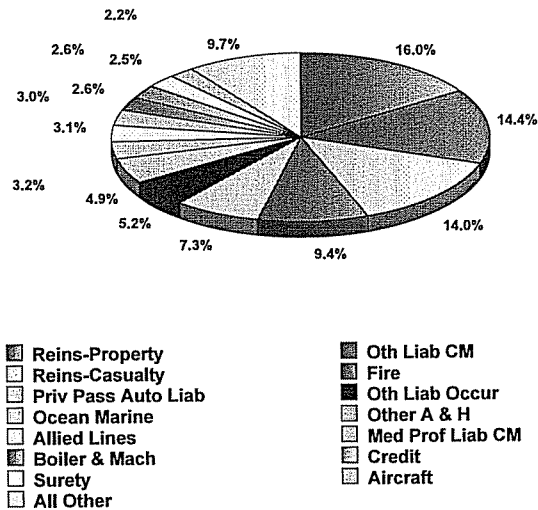
Business Trends

2012 By-Line Business (\$000)

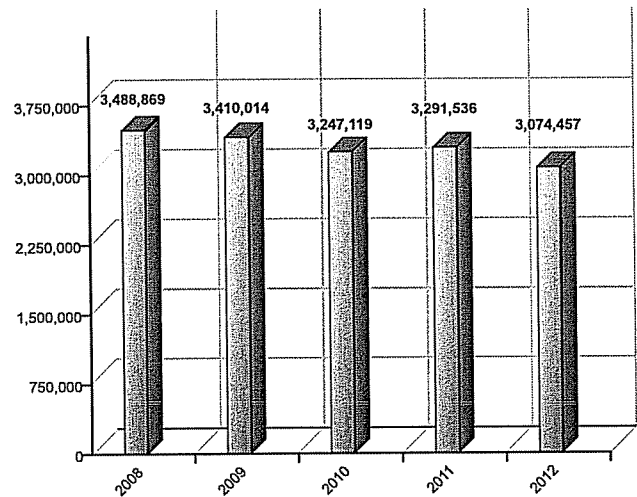
Product Line	Direct Premiums Written		Reinsurance Premiums Assumed		Reinsurance Premiums Ceded		Net Premiums Written		Business Retention %
	(\$000)	(%)	(\$000)	(%)	(\$000)	(%)	(\$000)	(%)	
Reins-Property	574,666	17.5	82,636	40.1	492,030	16.0	89.4
Oth Liab CM	450,991	13.7	9,723	4.7	441,268	14.4	100.0
Reins-Casualty	444,192	13.5	14,246	6.9	429,946	14.0	96.8
Fire	332,326	10.1	42,125	20.4	290,202	9.4	89.0
Priv Pass Auto Liab	230,057	7.0	4,889	2.4	225,168	7.3	100.0
Oth Liab Occur	162,505	5.0	3,579	1.7	158,926	5.2	99.9
Ocean Marine	156,341	4.8	7,159	3.5	149,182	4.9	97.4
Other A & H	102,303	3.1	2,437	1.2	99,866	3.2	98.0
Allied Lines	100,382	3.1	5,865	2.8	94,516	3.1	96.1
Med Prof Liab CM	94,764	2.9	2,031	1.0	92,733	3.0	97.9
Boiler & Mach	82,408	2.5	3,281	1.6	79,127	2.6	96.0
Credit	88,886	2.7	10,254	5.0	78,632	2.6	88.5
Surety	78,741	2.4	1,992	1.0	76,749	2.5	97.5
Aircraft	72,187	2.2	5,190	2.5	66,997	2.2	94.7
All Other	309,964	9.4	10,847	5.3	299,116	9.7	98.4
Total	3,280,711	100.0	206,254	100.0	3,074,457	100.0	96.2

Business Trends (Continued ...)

2012 Top Product Lines of Business (Net Premiums Written)



5 Years of Net Premiums Written (\$000)



By-Line Reserve (\$000)

Product Line	2012	2011	2010	2009	2008
Reins-Property	782,543	651,244	412,636	370,685	415,909
Oth Liab CM	1,519,208	1,315,074	1,194,715	1,025,100	834,527
Reins-Casualty	2,611,976	2,525,859	2,511,706	2,445,590	2,321,531
Fire	458,495	445,592	289,481	301,876	327,753
Priv Pass Auto Liab	238,011	177,976	137,999	158,207	145,998
Oth Liab Occur	1,055,119	923,083	845,578	746,664	678,775
Ocean Marine	207,469	189,506	173,480	211,929	220,794
Other A & H	45,141	36,101	22,758	18,405	8,141
Allied Lines	89,188	92,695	52,081	31,915	24,823
Med Prof Liab CM	596,502	583,378	560,462	512,360	466,506
Boiler & Mach	247,158	222,730	202,757	196,438	172,208
Credit	85,186	83,631	81,903	131,007	91,763
Surety	102,469	79,541	65,770	71,479	81,569
Aircraft	103,684	103,772	96,698	99,650	102,798
All Other	738,617	719,883	729,960	767,930	733,471
Total	8,880,765	8,150,064	7,377,982	7,089,234	6,626,565

Risk Management

Transatlantic 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.

Transatlantic 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.

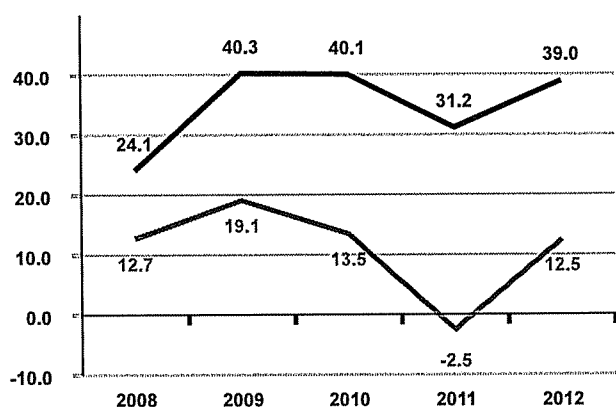
Operating Performance

Operating Results: Transatlantic 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 Transatlantic 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
2012	386,905	303,128	345,455	351,845	12.5	8.8	89.4	39.0	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	59.5
2009	657,531	510,323	415,534	418,225	19.1	11.1	80.8	40.3	20.8	58.6
2008	448,777	295,271	103,448	186,448	12.7	5.4	87.2	24.1	-14.3	71.7
5-Yr Avg/Tot	1,847,987	1,361,753	1,204,965	1,360,246	11.2	7.0	89.0	35.1	9.0	63.3
09/2013	570,607	464,026	492,967	621,229	25.3	14.1	74.9	XX	XX	XX
09/2012	416,108	312,655	345,465	368,391	18.2	8.5	84.4	XX	XX	XX

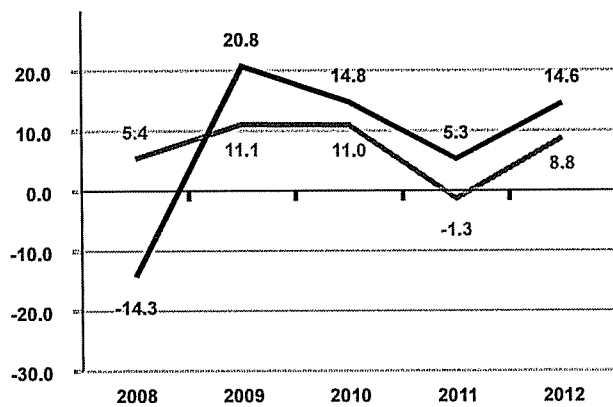
Pre-Tax ROR Comparison with Industry Composite



■ - Company Pre-Tax ROR
■ - Industry Composite Pre-Tax ROR

* Industry Composite - Reinsurance Composite

Return on PHS Comparison with Industry Composite



■ - Company Return on PHS
■ - Industry Composite Return on PHS

* Industry Composite - Reinsurance Composite

Underwriting Results

Underwriting Results (Continued ...)

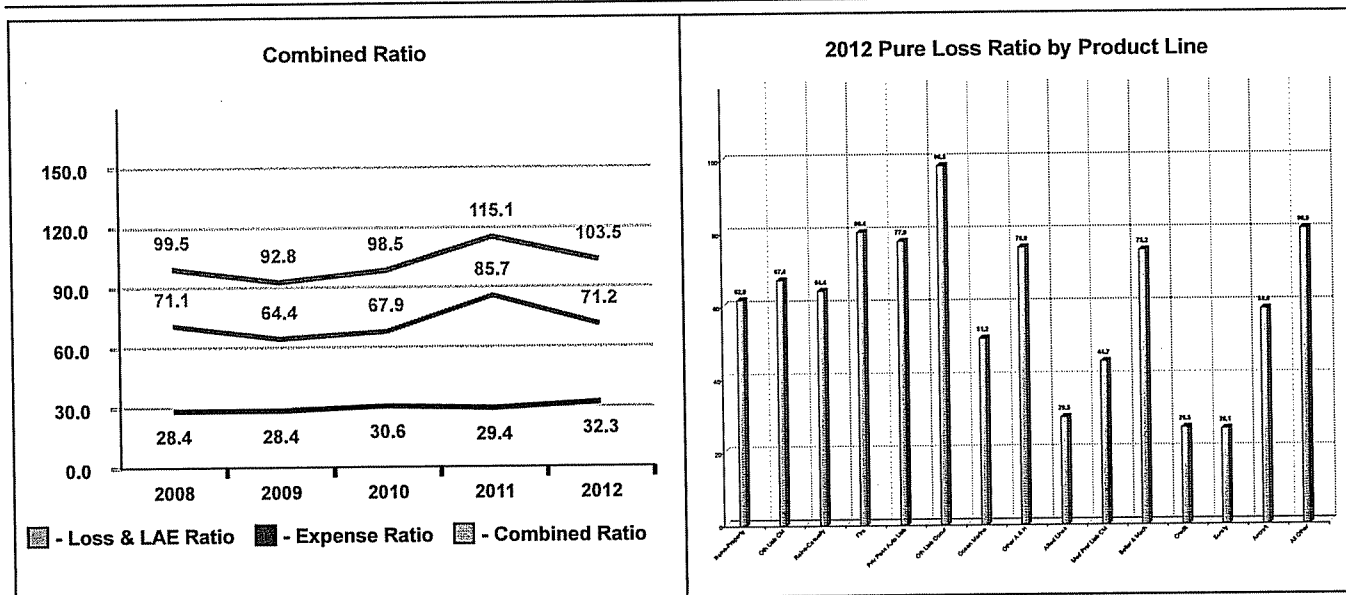
Underwriting Experience

Year	Net Undrw Income (\$000)	Loss Ratios			Expense Ratios			Div. Pol.	Comb. Ratio
		Pure Loss	LAE	Loss & LAE	Net Comm	Other Exp.	Total Exp.		
2012	-102,486	66.5	4.7	71.2	24.3	8.0	32.3	...	103.5
2011	-505,180	81.3	4.4	85.7	24.8	4.6	29.4	...	115.1
2010	44,053	63.2	4.7	67.9	25.6	5.0	30.6	...	98.5
2009	256,321	60.1	4.2	64.4	24.2	4.2	28.4	...	92.8
2008	27,174	67.7	3.3	71.1	25.1	3.4	28.4	...	99.5
5-Yr Avg	-280,118	67.7	4.3	72.0	24.8	5.0	29.8	...	101.7
09/2013	224,707	51.9	4.0	55.9	XX	XX	34.0	...	89.9
09/2012	35,731	60.9	4.3	65.2	XX	XX	33.6	...	98.8

Loss Ratio By Line

Product Line	2012	2011	2010	2009	2008	5-Yr. Avg.
Reins-Property	62.0	112.2	35.6	21.5	45.5	57.2
Oth Liab CM	67.4	63.5	68.7	65.3	62.0	65.6
Reins-Casualty	64.4	66.0	65.9	70.8	77.5	69.6
Fire	80.4	111.6	68.2	44.7	74.5	75.5
Priv Pass Auto Liab	77.9	78.9	72.8	85.8	66.2	76.4
Oth Liab Occur	98.5	116.2	114.3	89.3	88.2	100.8
Ocean Marine	51.2	64.7	44.5	60.4	85.5	61.6
Other A & H	76.0	81.4	82.6	82.0	67.2	79.5
Allied Lines	29.5	62.5	39.4	35.0	23.6	39.2
Med Prof Liab CM	44.7	77.9	84.2	56.0	63.8	65.7
Boiler & Mach	75.2	77.1	68.2	57.8	74.9	70.5
Credit	26.5	36.5	36.6	112.6	62.0	59.4
Surety	26.1	32.9	8.5	-15.7	74.2	23.0
Aircraft	59.0	71.5	65.7	56.4	63.4	63.1
All Other	80.9	73.7	68.8	69.0	69.3	71.4
Total	66.5	81.3	63.2	60.1	67.7	67.7

Underwriting Results (Continued ...)

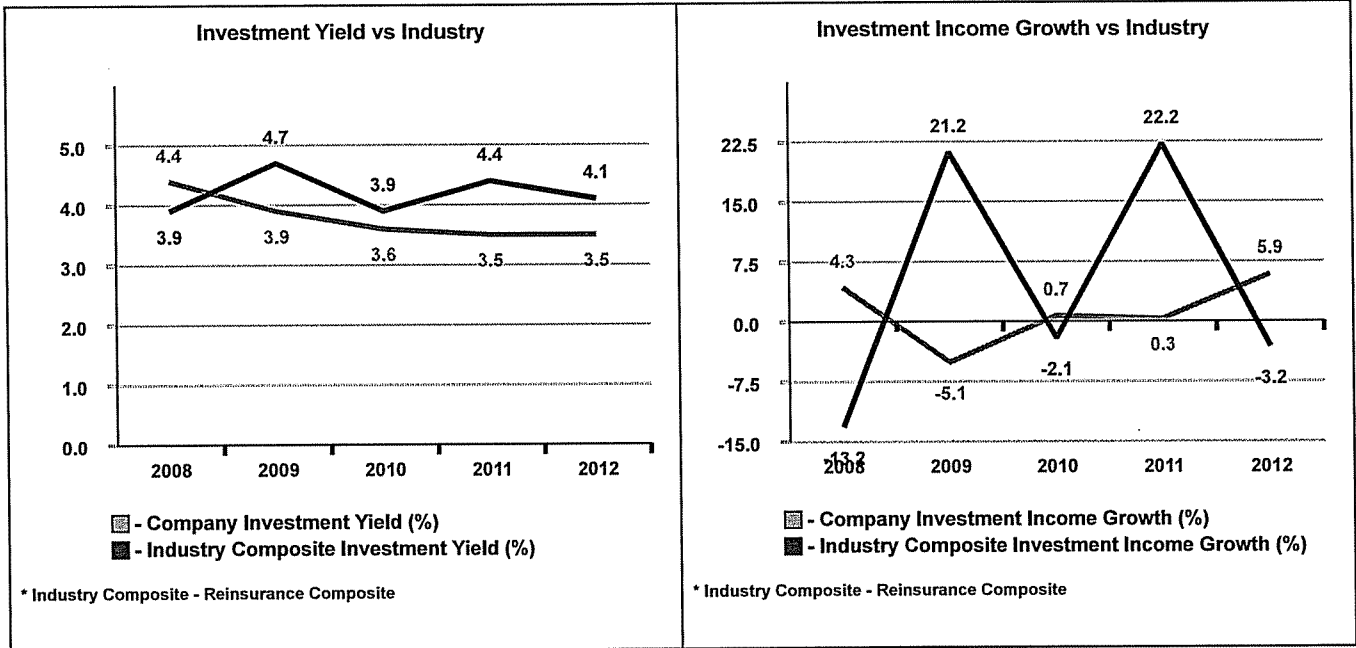


Investment Results

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 (%)
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
2008	432,202	-191,823	83,000	4.3	4.4	2.4	3.2	-13.2	3.9
5-Yr Avg/Tot	2,108,089	-156,788	155,281	1.2	3.7	3.4	3.7	4.2	4.2
09/2013	336,251	28,941	128,262	2.0	3.4	3.7	4.6	XX	XX
09/2012	329,569	32,811	22,926	4.9	3.5	3.8	4.4	XX	XX

Investment Results (Continued ...)



Balance Sheet Strength

Capitalization

Capitalization: Transatlantic 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. Transatlantic has historically operated from a leaner base of capital.

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	
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
2008	448,777	-191,823	153,505	83,000	-78,408	57,308	165,347	4.9
5-Yr Total	1,847,987	-156,788	486,234	155,281	-955,940	406,032	810,339	4.4
09/2013	570,607	28,941	106,582	128,262	-240,940	-134,320	245,969	5.9
09/2012	416,108	32,811	103,453	22,926	-144,316	77,236	301,312	7.8

Quality of Surplus (\$000)

Year	Surplus Notes	Other Debt	Contributed Capital	Unassigned Surplus	Year End Policyholders Surplus	Conditional Reserves	Adjusted Policyholders Surplus
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
2008	1,201,201	2,332,948	3,534,148	55,694	3,589,842
09/2013	1,229,729	3,195,380	4,425,109	25,642	4,450,751
09/2012	1,229,729	2,915,415	4,145,144	48,219	4,193,363

Underwriting Leverage

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

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

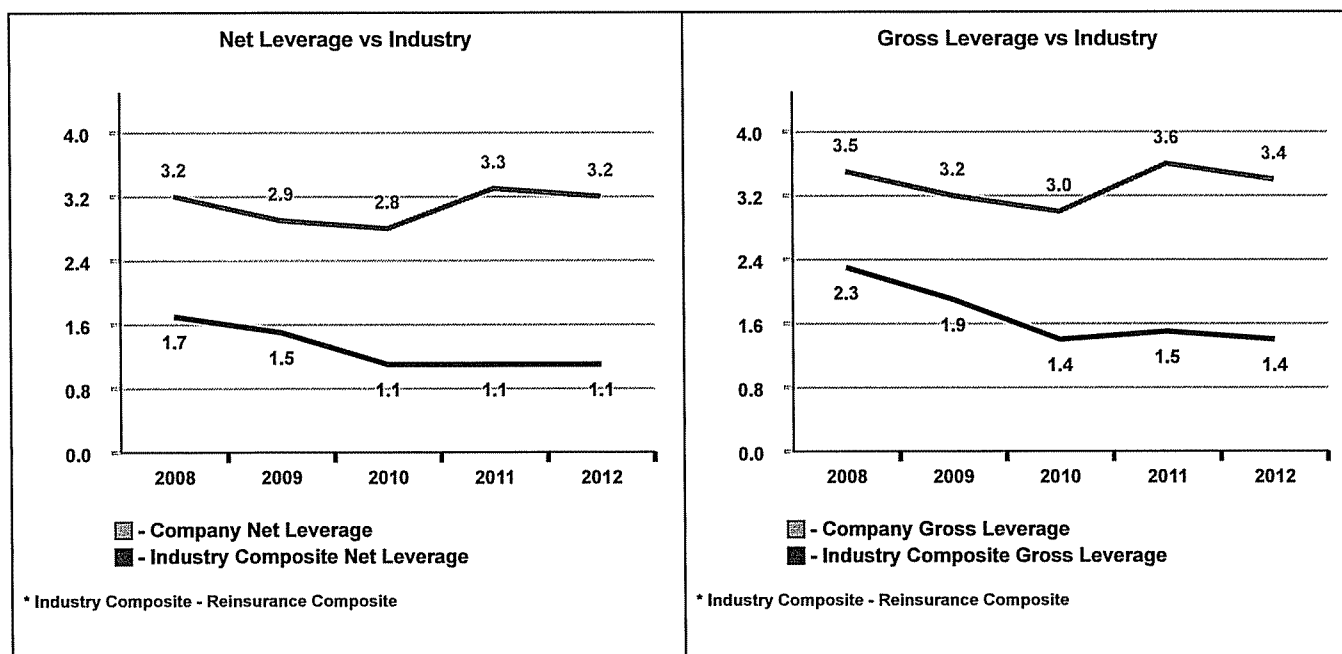
Underwriting Leverage (Continued ...)

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
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	1.1	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
2008	1.0	1.9	3.2	3.5	0.3	0.8	1.7	2.3
09/2013	0.7	1.9	3.0	XX	XX	XX	XX	XX
09/2012	0.7	2.0	3.1	XX	XX	XX	XX	XX

Current BCAR: 212.9



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 (%)
2012	637,114	96.2	11.9	15.2	87.1	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	83.6	35.4	47.2
2008	910,634	96.6	18.8	25.8	87.4	45.4	60.2

2012 Reinsurance Recoverables (\$000)

	Paid & Unpaid Losses	Incurred But Not Reported (IBNR) Losses	Unearned Premiums	Other Recoverables *	Total Reinsurance Recoverables
US Affiliates	...	...	...	...	...
Foreign Affiliates	185,514	51,509	...	-174,921	62,102
US Insurers	137,442	93,291	840	-6,862	224,711
Pools/Associations	...	...	...	...	...
Other Non-Us	153,550	65,353	9,827	-17,926	210,804
Total(ex Us Affils)	476,506	210,153	10,667	-199,709	497,617
Grand Total	476,506	210,153	10,667	-199,709	497,617

* Includes Commissions less Funds Withheld

Loss Reserves

Loss Reserves: 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. Transatlantic's total net pre-1986 A&E reserves constitute less than 3% of its overall loss reserve base. Transatlantic'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 Transatlantic's exposure to ongoing emergence of 1985 and prior A&E claims is manageable with only modest earnings drag expected.

Loss Reserves (Continued ...)

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

Calendar Year	Original Loss Reserves	Developed Reserves Thru 2012	Development to Original (%)	Development to PHS (%)	Development to NPE (%)	Unpaid Reserves @ 12/2012	Unpaid Reserves to Development (%)
2012	8,811,904	8,811,904	...	...	284.5	8,811,904	100.0
2011	8,086,924	8,064,034	-0.3	-0.6	248.7	6,877,262	85.3
2010	7,313,318	7,192,516	-1.7	-2.8	222.7	5,113,137	71.1
2009	7,040,065	6,984,099	-0.8	-1.4	203.2	3,984,095	57.0
2008	6,581,937	6,642,180	0.9	1.7	188.7	3,113,995	46.9
2007	6,142,724	6,297,876	2.5	4.6	187.1	2,335,671	37.1

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

Accident Year	Original Loss Reserves	Developed Reserves Thru 2012	Development to Original (%)	Unpaid Reserves @ 12/2012	Accident Year Loss Ratio	Accident Year Comb. Ratio
2012	1,934,642	1,934,642	...	1,934,642	72.0	104.3
2011	2,256,603	2,249,292	-0.3	1,764,125	88.8	118.2
2010	1,807,824	1,688,886	-6.6	1,129,042	65.8	96.4
2009	1,840,521	1,686,104	-8.4	870,100	60.9	89.4
2008	2,024,801	1,929,523	-4.7	778,324	68.4	96.8
2007	1,802,264	1,675,860	-7.0	586,181	60.4	88.7

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)
2012	261,551	68.9	61.1	16.5	1.7	2.9	9.1	0.6	0.6
2011	215,460	65.4	59.7	14.7	5.4	2.4	9.1	0.5	0.6
2010	67,715	47.1	50.4	11.9	1.6	0.6	7.2	0.7	0.5
2009	28,029	28.1	47.6	XX	0.1	XX	XX	0.6	XX
2008	26,450	27.5	44.6	XX	0.1	XX	XX	0.3	XX

Liquidity

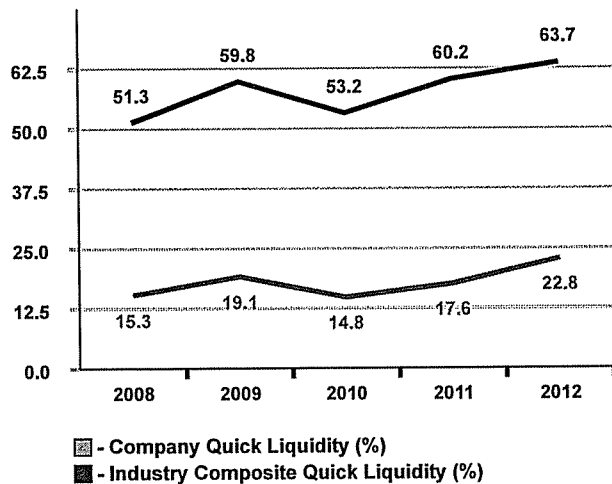
Liquidity: Liquidity measures are reflective of Transatlantic's conservative investment strategy which provides for laddered maturities to respond to both its short and long-term obligations. The group's continued solid operating cash flows provide an additional funding source to meet these obligations. Based on Transatlantic'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

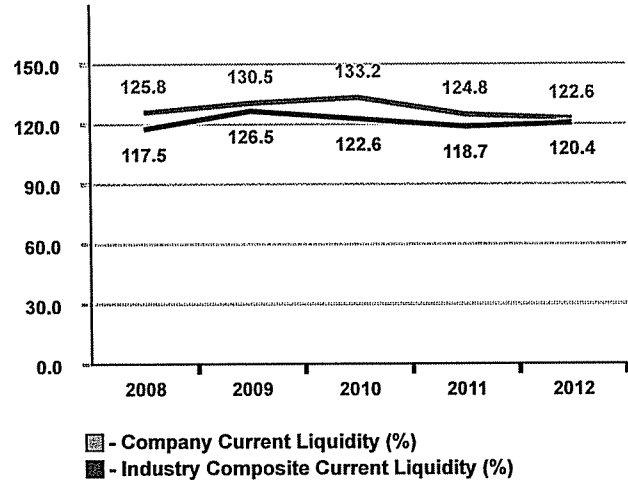
Year	Company				Industry Composite			
	Quick Liquidity (%)	Current Liquidity (%)	Overall Liquidity (%)	Gross Agents Balances to PHS(%)	Quick Liquidity (%)	Current Liquidity (%)	Overall Liquidity (%)	Gross Agents Balances to PHS (%)
2012	22.8	122.6	140.2	10.9	63.7	120.4	210.1	4.0
2011	17.6	124.8	141.3	10.8	60.2	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
2008	15.3	125.8	145.7	12.1	51.3	117.5	171.1	5.2
09/2013	XX	131.3	142.9	13.6	XX	XX	XX	XX
09/2012	XX	125.0	143.2	12.7	XX	XX	XX	XX

Quick Liquidity vs Industry



* Industry Composite - Reinsurance Composite

Current Liquidity vs Industry



* Industry Composite - Reinsurance Composite

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 (%)
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
2008	347,230	700,476	154,187	111.0	121.4	105.7	122.3
5-Yr Total	2,410,682	4,278,469	264,687	...	...	...	...
09/2013	-36,709	409,961	200,317	98.3	118.3	XX	XX
09/2012	115,669	454,694	123,088	105.6	121.1	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
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
2008	1.1	...	5.2	12.5	18.9	14.4	3.1	48.4

Investments - Bond Portfolio

2012 Distribution By Maturity

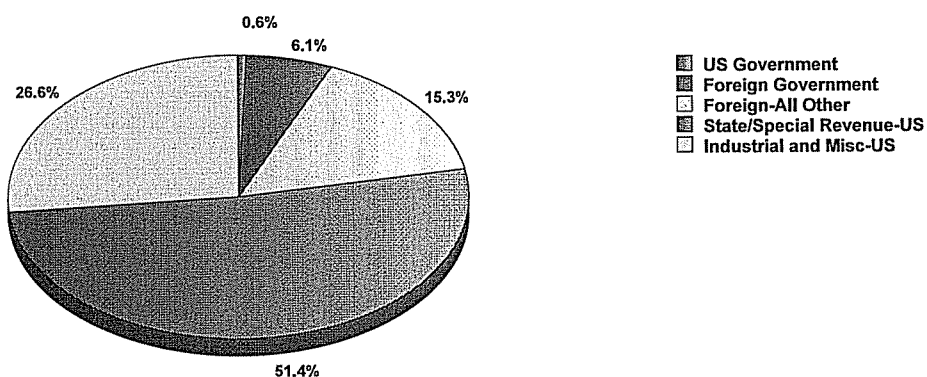
	Years					Years Average Maturity
	0-1	1-5	5-10	10-20	20+	
Government	0.8	3.0	2.6	0.3	0.1	5.2
Government Agencies & Muni.	6.6	27.1	8.4	7.3	2.0	6.0
Industrial & Misc.	4.6	26.2	9.9	0.9	0.4	4.2
Total	12.0	56.3	20.8	8.5	2.5	5.2

Investments - Bond Portfolio (Continued ...)

Bond Distribution By Issuer Type

	2012	2011	2010	2009	2008
Bonds (\$000)	11,163,857	10,463,611	10,500,250	9,380,146	8,512,392
US Government	0.6	0.5	0.5	0.2	0.4
Foreign Government	6.1	6.3	6.7	5.2	2.4
Foreign-All Other	15.3	16.0	14.6	15.6	19.7
State/Special Revenue-US	51.4	56.0	59.0	71.5	71.1
Industrial and Misc-US	26.6	21.1	19.1	7.6	6.4

2012 Bond Distribution By Issuer Type



Bond Percent Private vs Public

	2012	2011	2010	2009	2008
Private Issues	6.2	3.9	4.5	3.5	1.3
Public Issues	93.8	96.1	95.5	96.5	98.7

Bond Quality Percent

	2012	2011	2010	2009	2008
Class 1	92.6	94.9	95.6	95.0	98.0
Class 2	7.3	5.0	4.2	5.0	1.5
Class 3	...	...	...	...	0.2
Class 4	...	...	...	...	0.1
Class 5	...	...	...	...	0.1
Class 6	0.1	...	...	...	...

Investments - Equity Portfolio

	2012	2011	2010	2009	2008
Total Stocks (\$000)	1,321,000	1,160,027	1,079,928	973,317	1,069,136
Unaffiliated Common	47.2	47.1	48.7	50.2	41.4
Affiliated Common	47.2	47.9	50.9	47.3	47.6
Unaffiliated Preferred	5.7	4.9	0.5	2.6	11.0

Investments - Other Invested Assets

	2012	2011	2010	2009	2008
Total Other Invested Assets (\$000)	806,760	510,773	437,741	836,216	629,206
Cash	64.5	51.4	38.1	17.1	40.2
Short-Term	4.3	13.4	15.1	60.0	30.5
Schedule BA Assets	30.9	35.2	45.6	22.9	29.4
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 and CEO: Michael C. Sapnar

EVP and CFO: Steven S. Skalicky

EVP and Chief Information Officer: George J. DiMartino

EVP and Chief Risk Officer: Julian H. Spence

EVP and Chief Claim Officer: Beth A. Levene

EVP and Chief Actuary: Kenneth Apfel

EVP and General Counsel: Gary A. Schwartz

EVP: Paul A. Bonny (International Operations)

EVP: Kenneth W. Brandt (North America)

EVP: Thomas V. Chohnoky

EVP: Javier E. Vijil (Latin American & Caribbean Division)

SVP and Chief Underwriting Officer: Paul F. McKeon
(North America)

SVP and General Counsel: Edward J. Kelley

SVP and Controller: Matthew D. Mahoney

SVP: Robert M. Baldrey

SVP: George C. Barone

SVP: Donna N. Bryon

SVP: Peter J. Clements

SVP: Eugene L. Fisher

SVP: Andrew K. Gaudencio

SVP: Kin Chung (Peter) Ho

SVP: Suzanne B. Holohan

SVP: Craig W. Hupper

SVP: Robert Johnston

SVP: Bertrand Levy

SVP: Richard Loffler

SVP: Cameron MacDonald

SVP: Lisa P. Moser

SVP: Douglas Murray

SVP: Geoffrey N. Peach

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: Edward T. Sheehan, III

SVP: Robert Snow

SVP: Suzanne A. Spantidos

SVP: Andrew Taylor

SVP: Lee J. Taylor

SVP: Victor M. Torres

SVP: Nicholas Tzaneteas

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 2012 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	12/31/2012	12/31/2011	2012 %	2011 %
Bonds	11,163,857	10,463,611	76.1	78.6
Preferred Stock	75,000	57,000	0.5	0.4
Common Stock	622,914	546,896	4.2	4.1
Cash & Short-Term Invest	554,902	330,711	3.8	2.5
Real estate, investment	...	...	...	...
Derivatives	...	...	...	...
Other Non-Affil Inv Asset	251,858	180,061	1.7	1.4
Investments in Affiliates	623,086	556,131	4.2	4.2
Real Estate, Offices	...	...	...	...
Total Invested Assets	13,291,617	12,134,410	90.7	91.2
Premium Balances	488,864	464,195	3.3	3.5
Accrued Interest	125,489	126,105	0.9	0.9
Life department	...	...	...	...
All Other Assets	755,535	583,118	5.2	4.4
Total Assets	14,661,505	13,307,829	100.0	100.0

Liabilities & Surplus	12/31/2012	12/31/2011	2012 %	2011 %
Loss & LAE Reserves	8,880,765	8,150,064	60.6	61.2
Unearned Premiums	993,973	1,016,377	6.8	7.6
Conditional Reserve Funds	25,642	48,219	0.2	0.4
Derivatives	...	...	...	...
Life department	...	...	...	...
All Other Liabilities	581,984	249,336	4.0	1.9
Total Liabilities	10,482,364	9,463,996	71.5	71.1
Surplus notes	...	...	...	...
Capital & Assigned Surplus	1,270,669	1,274,044	8.7	9.6
Unassigned Surplus	2,908,471	2,569,788	19.8	19.3
Total Policyholders' Surplus	4,179,140	3,843,832	28.5	28.9
Total Liabilities & Surplus	14,661,505	13,307,829	100.0	100.0

Interim Balance Sheet (\$000)

Admitted Assets	03/31/2013	06/30/2013	09/30/2013
Bonds	10,527,085	10,742,854	10,848,256
Preferred Stock	75,000	70,205	56,314
Common Stock	1,625,652	1,563,494	1,638,354
Cash & Short-Term Invest	800,957	681,691	755,219
Other Investments	230,645	227,838	206,255
Total Invested Assets	13,259,339	13,286,083	13,504,398
Premium Balances	541,303	651,546	633,450
Accrued Interest	111,426	121,815	108,798
Reinsurance Funds	268,709	251,824	237,045
All Other Assets	390,568	522,983	335,120
Total Assets	14,571,346	14,834,251	14,818,811
Liabilities & Surplus	03/31/2013	06/30/2013	09/30/2013
Loss & LAE Reserves	8,740,459	8,687,358	8,626,189
Unearned Premiums	983,650	1,003,096	1,004,373
Conditional Reserve Funds	25,642	25,642	25,642
All Other Liabilities	569,882	692,781	737,498
Total Liabilities	10,319,634	10,408,877	10,393,702
Capital & Assigned Surp	1,270,669	1,270,669	1,229,729
Unassigned Surplus	2,981,043	3,154,705	3,195,380
Total Policyholders' Surplus	4,251,712	4,425,374	4,425,109
Total Liabilities & Surplus	14,571,346	14,834,251	14,818,811

Summary Of 2012 Operations (\$000)

Statement of Income	12/31/2012	Funds Provided from Operations	12/31/2012
Premiums earned	3,096,861	Premiums collected	3,010,719
Losses incurred	2,060,100	Benefit & loss-related pmts	1,263,835
LAE incurred	145,826		
Undwr expenses incurred	993,421	LAE & undwr expenses paid	1,109,328
Other expenses incurred	...	Other income / expense	...
Dividends to policyholders	...	Dividends to policyholders	...
Net underwriting income	-102,486	Underwriting cash flow	637,556
		Net transfer	...
Net investment income	438,762	Investment income	496,517
Other income/expense	50,629	Other income/expense	-93,461
Pre-tax operating income	386,905	Pre-tax cash operations	1,040,613
Realized capital gains	42,326		
Income taxes incurred	83,777	Income taxes pd (recov)	65,163
Net income	345,455	Net oper cash flow	975,449

Interim Income Statement (\$000)

	Period Ended 09/30/2013	Period Ended 09/30/2012	Increase / Decrease
Premiums earned	2,253,396	2,284,806	-31,410
Losses incurred	1,170,036	1,391,681	-221,645
LAE incurred	89,126	98,645	-9,519
Undwr expenses incurred	769,527	758,749	10,778
Other expenses incurred	...	...	...
Dividends to policyholders	...	...	...
Net underwriting income	224,707	35,731	188,976
Net investment income	336,251	329,569	6,682
Other income/expense	9,650	50,808	-41,158
Pre-tax operating income	570,607	416,108	154,499
Realized capital gains	28,941	32,811	-3,870
Income taxes incurred	106,582	103,453	3,128
Net income	492,967	345,465	147,501

Interim Cash Flow (\$000)

	Period Ended 09/30/2013	Period Ended 09/30/2012	Increase / Decrease
Premiums collected	2,150,924	2,181,826	-30,901
Benefit & loss-related pmts	1,405,095	1,211,177	193,919
LAE & undwr expenses paid	782,538	854,980	-72,443
Dividends to policyholders	...	...	...
Underwriting cash flow	-36,709	115,669	-152,378
Net transfer	...	...	...
Investment income	410,408	383,936	26,471
Other income/expense	86,424	45,630	40,794
Pre-tax cash operations	460,123	545,235	-85,112
Income taxes pd (recov)	50,162	90,541	-40,379
Net oper cash flow	409,961	454,694	-44,733

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.

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Best's Credit Rating and Report Updates for ARGO GROUP INTERNATIONAL HOLDINGS, LTD

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 - 07/16/2013 *

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:	Time Period: Annual - 2012	Corporate Structure: 05/03/2013
Rating Rationale: N/A	Last Updated: 03/20/2013	States Licensed: N/A
Report Commentary: 07/16/2013	Status: Quality Cross Checked	Officers and Directors: 07/17/2012

***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 ARGO GROUP INTERNATIONAL HOLDINGS, LTD

Holding Company

Ultimate Parent: Argo Group International Holdings, Ltd

99 Front St., Hamilton HM 11, Bermuda
110 Pitts Bay Road, Pembroke HM 08, Bermuda
Web: www.argolimited.com

Tel: 441-296-5858

Fax: 441-296-6162

AMB#: 058448

FEIN#: 98-0214719

Ultimate Parent#: 058448

**Publicly Traded Corporation: Argo Group International
Holdings, Ltd**
NASDAQ: AGII

Report Revision Date: 07/16/2013

CORPORATE OVERVIEW

Argo Group International Holdings, Ltd. (Argo Group), through its subsidiaries, is an international underwriter of specialty insurance and reinsurance products in the property and casualty market. Argo Group offers a full line of products and services designed to meet the unique coverage and claims handling needs of businesses in four primary segments: Excess and Surplus Lines, Commercial Specialty, International Specialty (formerly Reinsurance) and Syndicate 1200 (formerly International Specialty). 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 Excess and Surplus Lines (E&S) segment focuses on underwriting risks that the standard (admitted) market is unwilling or unable to entertain due to risk characteristics such as the perils involved, the nature of the business, and/or the insured's loss experience. The E&S segment's approach to these risks is generally to offer more restrictive policy terms and unregulated premium rates on a non-admitted basis. However, it also retains the ability to write some segments of their business that still meet its underwriting and pricing guidelines, such as Transportation (commercial automobile) coverage, on an admitted basis. The E&S segment consists of two operating platforms: Colony Specialty and Argo Pro. Colony Specialty underwrites coverage for hard-to-place risks that typically fall outside of the standard market's risk appetite. It operates through six divisions: Allied Medical, Casualty, Contract, Environmental, Property and Transportation. Colony Specialty provides coverage to a broad group of commercial enterprises including contractors, manufacturers, distributors, environmental consultants and contractors, day care centers, apartment complexes, condominium associations, medical facilities, social services, miscellaneous healthcare and assisted living facilities. Premium volume in 2011 for Colony Specialty was comprised of 36% casualty, 22% transportation, 9% property, 29% contract and 4% environmental. Argo Pro is comprised of three divisions: Management Liability, Errors & Omissions (E&O) and Insight. Management Liability provides D&O insurance for small to medium-sized clients. E&O targets insurance agents, lawyers, miscellaneous professions, employment practices and real estate-related accounts. Insight offers coverage for architects and engineers, accountants and insurance agents. All Argo Pro divisions focus on small to medium-sized accounts on both an admitted and non-admitted basis.

The Commercial Specialty segment provides property, casualty and surety coverages designed to meet the specialized insurance needs of businesses within certain well-defined markets. It targets business classes and industries with distinct risk profiles that can benefit from specially designed insurance programs, tailored loss control and expert claims handling. This segment serves its targeted niche markets with a narrowly focused underwriting profile and a unique understanding of the businesses it serves. In 2011, the Commercial Specialty segment consisted of the following operations: Argo Insurance, Commercial Programs, Rockwood Casualty Insurance Company (Rockwood), Argo Surety, and Alteris. The core operations of Argo Insurance consist of Grocery, Restaurants, and Specialty Retail (including dry cleaners or Fabricare, convenience stores, and retail furniture stores). Approximately 49% of Argo Insurance's 2011 gross written premium was from the Grocery segment, followed by 22% in Restaurants, 18% from Fabricare, 10% from Retail Specialty, and 1% from discontinued lines. Argo Insurance provides property, liability, workers'

compensation, auto, and umbrella coverages throughout the United States. Rockwood is a leading specialty underwriter of workers' compensation for the mining industry. Rockwood also underwrites coverage for small commercial businesses including office, retail operations, light manufacturing, services, and restaurants. Rockwood's strategy includes a strong commitment to its insureds, a highly experienced staff, and a dedication to the individual underwriting of risks. Approximately 53% of its premiums are written in Pennsylvania where it is the largest workers' compensation insurer of independent coal mines. Rockwood underwrites policies on both a large deductible basis and on a guaranteed cost basis for smaller commercial accounts. In addition, Rockwood provides supporting general liability, pollution liability, umbrella liability, property, commercial automobile and surety coverage, for certain of its mining accounts. These supporting lines of business accounted for approximately 15% of Rockwood's gross written premiums in 2011.

Argo Surety is an underwriting unit offering surety products to a diverse range of U.S. businesses operating in numerous industries. The focus of Argo Surety is to deliver high-quality surety credit solutions to businesses that must satisfy various eligibility conditions in order to conduct commerce, such as licensure requirements promulgated by government statute or regulation, counterparty conditions found in private or public construction projects or satisfactory performance of contracted services. Argo Surety targets the construction (general, trade and service contractors), energy (coal, oil & gas and waste), manufacturing, and transportation industries.

Commercial Programs partners with insurance program administrators to develop specialized commercial programs in target segments of the industry. They seek to partner with program administrators which provide an expertise in a particular field, have a proven record of managing profitable programs, have an established distribution network and are equipped to handle responsibilities such as marketing, underwriting, rating and policy issuance subject to Argo's oversight. Target markets for this division include retail and service industries, such as landscaping operations, pest control and industries related to pet care. Specialty programs are also provided for building management/maintenance companies, community and condominium associations.

Alteris focuses on specialty programs and alternative risk solutions for selected niche markets, operating through the following divisions: Trident, Alteris Public Risk Solutions (APRS), Alteris Alternative Risk Solutions (AARS), Strategic Markets and ARIS Title Insurance Corp. (ARIS). Trident functions as both an underwriter and a managing general agency and is a nationally recognized program manager providing insurance products for small to intermediate-sized accounts in targeted industries. Trident manages programs serving public entities, public schools, special districts and private education (K-12). Trident offers a full range of solutions including program management, administration, professional claims and loss control services on a fee basis for pools as well as fully insured solutions for individual accounts in the sectors it serves. Its product lines include general liability, automobile liability, automobile physical damage, property, inland marine, crime, public official's liability, educator's legal liability, employment practices, law enforcement liability, environmental liability, lawyers professional liability, student accident, workers' compensation, inmate medical and tax interruption. APRS serves large individual government entities and self-insured government pools. Using both traditional and creative approaches, APRS aligns interests with its clients by targeting sophisticated accounts that participate in their own risk bearing. APRS's product lines include general liability, automobile liability, automobile physical damage, property, inland marine, crime, public officials' liability, educators' legal liability, law enforcement professional liability, employment practices liability and

excess liability. AARS provides unbundled alternative risk structures supporting both carriers and program managers through a broad spectrum of products and services. These include program placement, underwriting, administration, acquisition of capital and credit capacity, strategic alliances, policy systems solutions, claim services, risk and safety consultation, and reinsurance for property, landlords (lease guarantee program), casualty, workers' compensation and other commercial lines of insurance coverage. Strategic Markets manages programs serving home heating dealers, propane dealers, student transportation, septic contractors, wineries and lawyers. ARIS was acquired in November 2010. ARIS, a statutory insurance company licensed by the New York Department of Insurance, provides personal property title insurance that serves the needs of the art marketplace and related fiduciary banking, legal, museum and non-profit communities.

The International Specialty segment is comprised of Argo Group's business outside the U.S., excluding Syndicate 1200, the company's Lloyd's syndicate. This includes Argo Re, Argo Insurance - Casualty and Professional Lines, Argo Seguros (Brazil), and ArgoGlobal SE. Argo Re is primarily a property catastrophe-focused business writing short-tail reinsurance lines. Argo Re primarily focuses on underwriting property catastrophe excess of loss and proportional reinsurance for a relatively small number of cedants whose accounts are known by Argo Re underwriters. Argo Re also underwrites property on a per risk basis and excess casualty and professional liability as well as several other lines of business on an insurance and facultative basis. The business written by Argo Re covers underlying exposures that are located throughout the world including the United States. Argo Re also maintains offices through its subsidiary, Argo Solutions, S.A., in Belgium. In September 2011, a new subsidiary, Argo Re (DIFC), was launched in Dubai, U.A.E., to serve the Middle East and North African insurance community. Headquartered in the Dubai International Financial Center, Argo Re (DIFC) provides specialized coverage in casualty, professional indemnity and financial lines. Argo Insurance - Casualty and Professional Lines, based in Bermuda, provided excess layers of coverage for general and product liability sectors and officers liability, errors and omissions liability, and employment practices liability for global clients. Argo Seguros, based in Sao Paulo, Brazil, was launched in 2011 to serve the needs of the commercial insurance market and will provide a broad range of commercial, property, casualty, and specialty coverages in three business areas: marine and cargo, financial lines, and property & engineering. ArgoGlobal SE, established in 2011, serves as a platform initially providing primary insurance, including professional lines and liability products, throughout Europe. ArgoGlobal SE includes a Malta-domiciled licensed insurance company that was granted a license to operate by the Malta Financial Services Authority in December 2011.

The Syndicate 1200 (formerly International Specialty) segment is focused on underwriting worldwide property, specialty and non-U.S. liability insurance on behalf of one underwriting syndicate, under the Lloyd's of London global franchise. The segment's business platform, Argo International Holdings Ltd. (Argo International) is based in London and 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's participation in the syndicate has gradually increased from 62% on year of account 2010 to 69% on year of account 2011 and 86% on year of account 2012. Argo International's worldwide property division concentrates mainly on underwriting short-tail risks, with an emphasis on commercial properties 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 addition, approximately 1.5% of the syndicate premium income is written on a range of U.S. general liability risks. Argo International's specialty division underwrites cargo, energy and yachts and hull insurance, while the aerospace division underwrites space and aviation risks. Argo Assurances was launched in 2011 to provide underwriting solutions for commercial satellites, aerospace and some aviation as well as financial lines, including professional indemnity, casualty and directors and officer liability coverage.

CORPORATE STRUCTURE

<u>AMB#</u>	<u>COMPANY NAME</u>	<u>DOMICILE</u>	<u>%OWN</u>
058448	<i>Argo Group Intern Hldgs, Ltd</i>	Bermuda	
013313	Argo Re Ltd.	Bermuda	100.00
058668	<i>Argo International Hldgs Ltd</i>	United Kingdom	100.00
055950	<i>Argo Underwriting Agency Ltd</i>	United Kingdom	100.00
052405	<i>Argo Irish Holdings I Ltd.</i>	Bermuda	100.00
052407	<i>Argo Financial Hldg (Ireland)</i>	Ireland	99.90
058324	<i>Argo Group US, Inc.</i>	DE	100.00
055536	<i>Argonaut Grp Statutory Trust</i>	CT	100.00
055537	<i>Argonaut Grp Stat Trust III</i>	DE	100.00
055538	<i>Argonaut Grp Stat Trust IV</i>	DE	100.00
055539	<i>Argonaut Grp Stat Trust V</i>	DE	100.00
055540	<i>Argonaut Grp Stat Trust VI</i>	CT	100.00
055541	<i>Argonaut Grp Stat Trust VII</i>	DE	100.00
055542	<i>Argonaut Grp Stat Trust VIII</i>	DE	100.00
055543	<i>Argonaut Grp Stat Trust IX</i>	DE	100.00
055544	<i>Argonaut Grp Stat Trust X</i>	DE	100.00
002056	Argonaut Insurance Company	IL	100.00
002219	Argonaut Great Central Ins Co	IL	100.00
003540	Argonaut Limited Risk Ins Co	IL	100.00
003078	Argonaut-Midwest Ins Co	IL	100.00
002058	Argonaut-Southwest Ins Co	IL	100.00
002057	Select Markets Insurance Co	IL	100.00
014152	ARIS Title Insurance Corp	NY	100.00
003283	Colony Insurance Company	VA	100.00
011035	Colony National Insurance Co	VA	100.00
002619	Colony Specialty Insurance Co	OH	100.00
002723	Rockwood Casualty Insurance Co	PA	100.00
012126	Somerset Casualty Insurance	PA	100.00
058667	<i>Argo Financial Hldgs (BR) Ltd</i>	Ireland	100.00
092222	Argo Seguros Brasil, S.A.	Brazil	100.00
052406	<i>Argo Irish Holdings II</i>	Bermuda	100.00
058551	<i>ArgoGlobal Hldgs (Malta) Ltd</i>	Malta	99.99
091791	ArgoGlobal SE	Malta	99.90
075204	PXRE Reinsurance (BB) Ltd	Barbados	100.00
051960	<i>PXRE Capital Stat Trst II</i>	CT	100.00
051958	<i>PXRE Capital Stat Trust V</i>	CT	100.00
051957	<i>PXRE Capital Stat Trust VI</i>	DE	100.00

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	95,800	1.4	102,700
Long term fixed maturity investments	3,154,000	47.2	3,215,500
Equity investments	531,400	7.9	403,600
Short term investments	234,300	3.5	294,600
Other investments	281,000	4.2	232,000
Invested assets	4,200,700	62.8	4,145,700
Receivables	404,200	6.0	352,500
Reinsurance recoverable	1,320,900	19.8	1,144,100
Deferred policy acquisition cost	99,400	1.5	101,500
Goodwill & other intangibles	245,300	3.7	246,800
Other assets	322,600	4.8	285,000
Total assets	6,688,900	100.0	6,378,300

LIABILITIES & SURPLUS

	12/31/2012 USD(000)	12/31/2012 % of total	12/31/2011 USD(000)
Property / Casualty reserves	3,223,500	48.2	3,291,100
Unearned premium reserves	730,200	10.9	658,200
Total policy reserves	3,953,700	59.1	3,949,300
Debt & notes payable	400,900	6.0	377,000
Other liabilities	820,200	12.3	589,000
Total liabilities	5,174,800	77.4	4,915,300
Equity - common stock	31,400	0.5	31,300
Paid-in capital	722,700	10.8	716,800
Accumulated other comprehensive income	189,500	2.8	139,800
Retained earnings	776,000	11.6	736,000
Common stock in treasury	-205,500	-3.1	-160,900
Total equity	1,514,100	22.6	1,463,000
Total liabilities & equity	6,688,900	100.0	6,378,300

STATEMENT OF INCOME

12/31/2012 USD(000)	12/31/2011 USD(000)
------------------------	------------------------

Direct premiums written	1,428,600	1,261,300
Reins assumed	317,100	283,500
Gross premiums written	1,745,700	1,544,800
Reins ceded	473,900	473,000
Net premiums written	1,271,800	1,071,800
Change in unearned premiums	112,600	-10,200
Net premiums earned	1,159,200	1,082,000
Total fee income	5,300	1,400
Net investment income	118,800	125,800
Net realized gains/(losses)	25,700	49,200
Total revenue	1,309,000	1,258,400
Benefits & reserves	747,600	863,100
Operating expenses	464,500	431,600
Non-operating expenses	6,500	3,500
Total benefits & expenses	1,218,600	1,298,200
Earnings before interest & taxes (EBIT)	90,400	-39,800
Interest expense	23,700	22,100
Pre-tax income/(loss) from continuing operations	66,700	-61,900
Total taxes	14,400	20,000
Net income/(loss) before minority interest	52,300	-81,900
Net income/(loss) from continuing operations	52,300	-81,900
Net income/(loss)	52,300	-81,900

STATEMENT OF CHANGES IN EQUITY

	12/31/2012 USD(000)	12/31/2011 USD(000)
Common shares, beginning balance	-129,600	-80,400
Common shares, repurchased	44,600	49,300
Common shares, other	100	100
Common shares, ending balance	-174,100	-129,600
Paid-in capital - Beg bal	716,800	711,400
Paid-in capital - Shares repurchased	400	400
Paid-in capital - other	6,300	5,800
Paid-in capital - End bal	722,700	716,800
AOCI - beginning balance	139,800	147,600
AOCI - change in unrealized gains/losses on investments	29,600	-1,400
AOCI - change in unrealized gains/losses - other	20,100	-6,400
AOCI - ending balance	189,500	139,800
Retained earnings, beginning balance	736,000	831,000
Retained earnings, net income	52,300	-81,900

Retained earnings, common dividends	12,300	13,100
Retained earnings, ending balance	776,000	736,000
Total shareholder equity	1,514,100	1,463,000

STATEMENT OF CASH FLOWS

	12/31/2012 USD(000)	12/31/2011 USD(000)
Net cash provided/(used) in operating activities	30,500	-17,700
Net cash provided/(used) in investment activities	-3,700	102,100
Net cash provided/(used) in financing activities	-33,800	-61,600
Effect of exchange rates on cash	100	-3,600
Total increase (decrease) in cash	-6,900	19,200
Cash, beginning balance	102,700	83,500
Cash, ending balance	95,800	102,700

MANAGEMENT OFFICERS

President and CEO: Mark E. Watson III	SVP and Chief Information Officer: Farid Nagji
Chief Underwriting Officer: Andrew Carrier (Group)	SVP and Actuary: Michael Fusco
EVP and CFO: Jay S. Bullock	SVP: Karen Meriweather (Enterprise Risk Management)
EVP: Barbara C. Bufkin (Business Development)	Second Vice President and Treasurer: George Luecke

DIRECTORS

F. Sedgwick Browne	Kathleen Nealon
H. Berry Cash	John R. Power, Jr.
Hector DeLeon	John H. Tonelli
Nabil N. El-Hage	Mark E. Watson III (Chief Executive Officer)
Mural R. Josephson	Gary V. Woods (Chairman)

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	4,200,700	4,145,700	4,215,400	4,334,300	3,995,400
Total assets	6,688,900	6,378,300	6,488,500	6,896,800	6,381,500
Debt & notes payable	400,900	377,000	376,500	380,600	428,700
Total liabilities	5,174,800	4,915,300	4,862,400	5,281,900	5,028,600
Total equity	1,514,100	1,463,000	1,626,100	1,614,900	1,352,900
Total capital	1,915,000	1,840,000	2,002,600	1,995,500	1,781,600

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	1,745,700	1,544,800	1,527,100	1,988,900	1,601,500
Net premiums written	1,271,800	1,071,800	1,095,700	1,421,400	1,151,000
Net investment income	118,800	125,800	133,600	145,500	150,200
Net realized gains/(losses)	25,700	49,200	36,800	-16,700	-35,100
Net income/(loss)	52,300	-81,900	82,600	117,500	62,900

LIQUIDITY RATIOS (%)

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Total investments to total reserves	108.7	107.6	112.9	108.6	105.2
Liquid assets to total liabilities	77.6	81.7	85.2	80.6	78.4
Total investments to total liabilities	83.0	86.4	88.4	82.4	79.6
Bonds to total reserves	79.8	81.4	88.3	88.2	82.9

PROFITABILITY RATIOS (%)

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Loss ratio	64.5	79.8	64.2	60.3	64.3
Expense ratio	40.1	39.9	39.0	37.0	36.1
Combined ratio	104.6	119.7	103.2	97.3	100.4
Investment income ratio	10.3	11.6	11.0	10.3	13.3
Return on assets	0.8	-1.3	1.2	1.8	1.1
Return on revenues	4.5	-7.6	6.8	8.3	5.6
Return on equity	3.5	-5.3	5.1	7.9	4.6

LEVERAGE & DEBT RATIOS (%)

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Net premiums written to equity	84.0	73.3	67.4	88.0	85.1
Cash flow coverage (x)	1.3	-0.8	-0.1	11.7	3.8
Interest coverage (x)	2.7	-4.0	4.4	7.2	4.9
Debt to equity	26.5	25.8	23.2	23.6	31.7
Debt to total capital	20.9	20.5	18.8	19.1	24.1
Cash and equivalents to total assets	4.9	6.2	7.1	6.6	8.1

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 BCR08282013

20 February 2013

RSA DELIVERS 5% GROWTH IN PREMIUMS, £684M OPERATING PROFIT AND COMBINED RATIO OF 95.4%

Solid performance, 5% growth¹ in net written premiums

- Net written premiums up 5% on constant exchange rate basis to £8,353m
- Underwriting result flat at £375m (2011: £375m) including negative impact from UK adverse weather and Italian earthquakes in first half; combined operating ratio of 95.4% (2011: 94.9%)
- Investment income of £515m (2011: £579m), ahead of 2012 guidance
- Emerging Markets now represents 10% of insurance result
- Acquisitions in Canada and Argentina completed
- Operating profit of £684m (2011: £727m); Return on equity of 9.1% (2011: 11.5%)

Balance Sheet remains strong with healthy capital surplus

- IGD surplus of £1.2bn; covering capital requirement 1.9 times
- Economic capital surplus of £1.2bn at 99.5% calibration
- Net asset value per share excluding pension deficit of 107p (2011: 108p)

Strategy is delivering – expecting to achieve 10-12% ROE in 2013

- Continued growth in premiums as business expands in Emerging Markets, Canada and Global Specialty Lines
- Further improvements to combined ratio anticipated as reshaping in UK, remediation in Italy and operating leverage in Emerging Markets deliver
- Expect to deliver strong premium growth, a COR of better than 95%, around £470m of investment income and return on equity of between 10 and 12% in 2013
- Confident in prospects for further improvements to ROE and COR in medium term

Recommendation to rebase dividend. Final dividend of 3.90p per share

- Reflects prospects of prolonged low bond yield environment
- Creates sustainable dividend and progressive dividend policy for the future consistent with the anticipated underlying growth in earnings
- Final dividend of 3.90p per share (2011: 5.82p). Board anticipates similar percentage reduction in 2013 interim dividend

Simon Lee, Group Chief Executive of RSA, commented:

“These are a solid set of results demonstrating strong progress in challenging market conditions. We've seen good growth in premiums up 5% to £8.4bn. Operating profits of £684m have been impacted by the Italian earthquakes, extreme wet weather in the UK in the first half of the year and falling bond yields.

“We are continuing to execute our strategy of global growth while maintaining profitability and underwriting quality. In 2012 over 65% of our premiums were from outside the UK and as we move more of the business towards higher growth and higher margin markets, we are optimistic about our future growth prospects.

“We are confident that we can deliver sustainable and ongoing improvements in the combined ratio and return on equity through management actions and we are not dependent on economic or market recovery to deliver these plans.

“We have leading market positions in Scandinavia, Canada, Latin America, Ireland and the UK. These are attractive general insurance markets where we are either already delivering or will deliver strong returns on capital. Where we do not see a route to achieve target returns on capital we will take decisive action.

“The Board's decision to rebase the dividend is a prudent move that will enable us to invest in the opportunities we see for growth and is in the best interests of our shareholders. It is absolutely the right thing to do for the business given the prospect of prolonged low bond yields. The new dividend is appropriate for the business today, sustainable into the future and will allow a progressive dividend policy going forward.”

FINANCIAL HIGHLIGHTS

	12 Months 2012	12 Months 2011
Net written premiums	£8,353m	£8,138m
Combined operating ratio	95.4%	94.9%
Operating result	£684m	£727m
Earnings per share	9.5p	11.9p
Final dividend for the year per ordinary share	3.90p	5.82p
Dividend for the year per ordinary share	7.31p	9.16p
ROE	9.1%	11.5%

¹ at constant exchange

KEY FINANCIAL PERFORMANCE DATA

	2012 £m			2012 £m	2011 £m
	Personal	Commercial	Global Specialty Lines	Total	Total
Net written premiums					
Scandinavia	973	589	229	1,791	1,824
Canada	1,090	280	244	1,614	1,483
Emerging Markets	530	514	193	1,237	1,103
UK & Western Europe	1,684	1,290	715	3,689	3,701
Group Re	-	22	-	22	27
Total net written premiums	4,277	2,695	1,381	8,353	8,138
	Combined Operating Ratio (%)			2012 £m	2011 £m
	2012	2011			
Underwriting performance					
Scandinavia	86.6	85.4		237	264
Canada	93.7	91.6		98	116
Emerging Markets	96.9	98.7		33	3
UK & Western Europe	99.5	99.6		12	1
Group Re	-	-		(5)	(9)
Total underwriting performance	95.4	94.9		375	375
Investment result					
Investment income				515	579
Unwind of discount				(84)	(94)
Total investment result				431	485
Insurance result				806	860
Other activities				(122)	(133)
Operating result				684	727
Profit before tax				479	613
Profit after tax				351	427
Operating earnings per share – diluted (pence)				10.5	11.2
Operating earnings per share – basic (pence)				10.7	11.3
Earnings per share – diluted (pence)				9.4	11.8
Earnings per share – basic (pence)				9.5	11.9
Dividend per share (pence)				7.31	9.16
Net asset value per share – incl IAS19 pension deficit (pence)				101	104
Net asset value per share – excl IAS19 pension deficit (pence)				107	108
Tangible Net asset value per share – incl IAS19 pension deficit (pence)				60	66
Tangible Net asset value per share – excl IAS19 pension deficit (pence)				65	70
Return on equity (%)				9.1	11.5
Return on tangible equity (%)				14.5	17.1
IGD Surplus (£bn)				1.2	1.3
IGD Coverage ratio (%)				1.9	2.0
ECA Surplus (1 in 200 year calibration) (£bn)				1.2	1.2
ECA Surplus (1 in 1,250 year calibration) (£bn)				0.7	0.8

MANAGEMENT REPORT - 2012 REVIEW

12 months ended 31 December 2012

	Scandi- navia	Canada	Emerg- ing Markets	UK & Western Europe	Central Functions	Group 2012	Group 2011
	£m	£m	£m	£m	£m	£m	£m
Net written premiums	1,791	1,614	1,237	3,689	22	8,353	8,138
Underwriting result	237	98	33	12	(5)	375	375
Investment result	94	61	45	233	(2)	431	485
Insurance result	331	159	78	245	(7)	806	860
Other activities	(9)	(7)	(32)	(1)	(73)	(122)	(133)
Operating result (management basis)	322	152	46	244	(80)	684	727
Interest costs						(115)	(117)
Realised gains/(losses)						79	201
Unrealised (losses)/gains, impairments and foreign exchange						(51)	(44)
Amortisation and impairment of intangible assets						(42)	(114)
Solvency II costs						(32)	(30)
Acquisitions and disposals						(20)	(10)
Reorganisation costs						(24)	-
Profit before tax (per condensed consolidated income statement)						479	613
Combined operating ratio (%)	86.6	93.7	96.9	99.5	-	95.4	94.9

In 2012, net written premiums were up 5% at constant exchange rates (3% as reported) to £8,353m (2011: £8,138m as reported; £7,979m at constant exchange). Premium growth comprised 4% from rate increases on renewed business, 1% from inorganic activity offset by a 2% reduction from foreign exchange. On a reported basis, strong growth of 12% and 9% in Emerging Markets and Canada respectively was offset by a 2% reduction in Scandinavia (due exclusively to FX effects). Premiums were flat in UK and Western Europe, where underlying growth in the UK and Ireland was offset by targeted premium reductions in both UK personal motor and Italy. Our focus on Global Specialty Lines (GSL) in all regions continues with premiums up 8% to £1,381m and a combined ratio of 94.3% (2011: 94.7%).

Underwriting result is flat at £375m (2011: £375m) with a current year profit up 26% to £184m (2011: £146m) and a prior year result of £191m (2011: £229m). The Group combined operating ratio (COR) is 95.4% (2011: 94.9%) and includes adverse UK weather in the first half and earthquakes in Italy in May. The material adverse UK weather in the first half of 2012 was partly offset by benign weather experience in the rest of the Group during 2012. Taken together, weather and subsidence affected the COR by 2.2% (2011: 2.4%), including adverse UK weather which affected the COR by 0.8% (2011: nil). Whilst long term weather averages are largely unchanged, we have increased our planning assumptions for weather effects to 2.2% to reflect the relatively severe weather impact in more recent years. Large losses affected the COR by 7.0% (2011: 7.0%), which is in line with long term averages, even including the effect of the Italian earthquakes. Prior year profits benefited the COR by 2.2% (2011: 2.8%). We have maintained our prudent reserving policy and anticipate positive prior year development to continue to be a significant contributor to profit in the future.

The investment result is down 11% to £431m (2011: £485m) due to the continued effect of falling bond yields on investment income. Investment income of £515m (2011: £579m), is ahead of previous guidance.

The insurance result of £806m (2011: £860m) includes a significant 44% increase in the contribution from Emerging Markets to £78m (2011: £54m) which now represents 10% of the insurance result. The contribution from UK & Western Europe was flat at £245m (2011: 246m) and represented 30% of the insurance result. The contributions from Canada and Scandinavia were £159m and £331m (2011: £187m and £387m) which represented 19% and 41% of the insurance result respectively.

The operating result is £684m (2011: £727m). Profit before tax is £479m (2011: £613m), with 2011 reflecting high levels of realised gains on the sale of equity investments. Profit after tax is £351m (2011: £427m). The return on equity is 9.1% (2011: 11.5%)

The Group's capital position remains healthy with an IGD surplus of £1.2bn (2011: £1.3bn) covering the capital requirement 1.9 times (2011: 2.0 times) and economic capital of £1.2bn (2011: £1.2bn) (on a 1 in 200 year calibration).

Strategy

Our strategy is unchanged and we continue to deliver against it. We are a pure play general insurer and aim to outperform in each of our chosen markets through leveraging our strengths in our people, underwriting, distribution and claims management. The delivery of our strategy is based around some fundamental principles.

We manage the business with a firm operational grip. RSA is a diverse business with operations in 32 countries and sells insurance across multiple product lines in over 140 countries. Over many years we have created processes and systems which ensure that local, regional and central management have excellent visibility of and accountability for performance. This structure ensures that issues arising are dealt with quickly and decisively. At the centre we deploy rigorous performance management with each business subject to a detailed quarterly performance review and annual strategy review.

This approach to operational management is supplemented by our commitment to prudent financial management. We consistently reserve our business to create prudence in our insurance liabilities which has led to a consistent track record of positive prior year development. We apply a high quality, low risk investment strategy. We make prudent use of reinsurance, which protects the business from extreme natural catastrophes, such that combined ratios have been very stable over many years.

Our strategy is to maximise returns on capital in mature markets and to have the flexibility to increase capital allocation to growth markets. Our unique geographic footprint gives us exposure to some of the most attractive general insurance markets in the world. In many of these territories, we have achieved a leading market position which creates economies of scale and distribution strength. In other markets, we have opportunities to grow both organically and through selective bolt-on acquisitions. Furthermore, all of our businesses benefit from being part of a leading global insurer, which provides them with competitive advantage over local operators.

Outlook and Financial Targets

We are excited by the prospects for the business. We expect to continue to grow net written premiums across the business and anticipate strong premium growth in 2013. In Emerging Markets we continue to see opportunities to grow our franchises in Latin America, Asia, the Middle East and Central and Eastern Europe both organically and inorganically. Through organic growth, we expect to increase the size of our Emerging Markets business, including our associates, to £2.2bn of net written premiums by 2015, creating operational leverage and an improving expense ratio with a consequent improvement in combined ratio. Where we cannot see a route to outperformance we will take action to exit markets, as we have done in 2012 in the Czech Republic and Dutch Caribbean.

In Canada, we expect to see further market consolidation which will allow us to continue to grow market share and consolidate our position as one of the top three general insurers. We aim to grow the business both organically and through selective bolt on acquisitions. We expect the Scandinavian markets to grow in line with local economic growth and our businesses to grow in line with the market. We expect Canadian and Scandinavian combined ratios to continue at around current levels over the medium term.

In the UK, we are reshaping the portfolio in a challenging environment and expect underlying growth in our chosen segments to be broadly offset by reductions in less profitable business lines. We expect this will lead to a trend of improving combined ratios in the UK over the next three years. Italy is on track to be trading on a break even basis during 2013 and Ireland is expected to continue to grow both premiums and profit.

We will, however, continue to see the effect of falling investment yields on investment income and expect to deliver around £470m of investment income in 2013. Assuming the current yield environment persists beyond 2013, we expect the fall in investment income to continue, but to be less severe over the next three years.

Overall, we expect to achieve a combined ratio of better than 95% in 2013 and deliver return on equity of between 10 and 12% with further improvements in both of these metrics in the medium term.

Dividend

Earnings in recent years have been reduced by the material fall in bond yields which has led to a situation where our dividend payout ratio was becoming unsustainable, and creating a constraint on our ability to invest in future growth opportunities.

After taking into consideration the expectation of a prolonged low bond yield environment, the need for a more sustainable dividend going forward and more opportunities to continue to develop and grow our businesses outside the UK in the coming years, the Board is recommending a final dividend for 2012 which will be 33% lower than that of the prior year. The Board expects to recommend a similar change in the interim dividend for 2013 versus 2012. Thereafter, the Group intends to pursue a progressive dividend policy in line with the anticipated underlying growth in earnings. We intend to continue to offer the option of a scrip dividend.

Simon Lee
Group Chief Executive

BUSINESS REVIEW - SCANDINAVIA

	Net written premiums		Underwriting result		Change ¹	
	2012 £m	2011 £m	2012 £m	2011 £m	NWP %	U/W Result %
Personal						
Household	298	309	(10)	(35)	1	70
Motor	391	398	124	147	2	(13)
Personal Accident and Other	284	275	80	136	7	(39)
Total Scandinavia Personal	973	982	194	248	3	(20)
Commercial						
Property	306	328	(5)	(20)	(2)	74
Liability	126	128	44	17	4	175
Motor	218	227	(4)	(3)	-	(33)
Marine and Other	168	159	8	22	11	(62)
Total Scandinavia Commercial	818	842	43	16	2	187
Total Scandinavia	1,791	1,824	237	264	3	(7)

Investment result	2012 £m	2011 £m	Change %
Investment income	133	166	(20)
Unwind of discount	(39)	(43)	9
Scandinavia investment result	94	123	(24)

Scandinavia insurance result	331	387	(14)
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Operating Ratios (%)	Claims		Expenses		Combined	
	2012	2011	2012	2011	2012	2011
Personal						
Household					103.6	111.3
Motor					68.3	64.2
Personal Accident and Other					71.4	49.8
Total Scandinavia Personal	64.2	59.7	15.9	15.3	80.1	75.0
Commercial						
Property					102.0	105.7
Liability					64.3	86.7
Motor					102.1	101.8
Marine and Other					94.1	87.3
Total Scandinavia Commercial	71.9	77.2	22.7	20.8	94.6	98.0
Total Scandinavia	67.7	67.6	18.9	17.8	86.6	85.4

Rate Increases (%) Scandinavia	Personal		Commercial		Property
	Motor	Household	Motor	Liability	
Dec 12 vs Dec 11	3	12	5	4	1
Sept 12 vs Sept 11	2	12	4	-	6
Jun 12 vs Jun 11	2	7	4	4	1
Mar 12 vs Mar 11	2	6	5	5	4
Dec 11 vs Dec 10	2	8	7	7	1

¹ at constant exchange rate

SCANDINAVIA – CONTINUING TO DELIVER EXCELLENT RETURNS – COR OF 86.6%

RSA is the third largest P&C insurer in Sweden and Denmark, with a growing presence in Norway. In all three countries we offer a range of products across Personal and Commercial lines, with particular strengths in Swedish Personal Accident, Swedish Personal Motor, Danish Renewable Energy and Care.

Net written premiums in Scandinavia were up 3% on a constant exchange rate basis to £1,791m (2011: £1,824m as reported; £1,744m at constant exchange) with solid growth across most major product lines. New business volumes more than offset lapses which together with solid rate increases across all products led to the growth in premiums. Strong growth in Norway (premiums up 23% at constant exchange) and good growth in Sweden (up 3% at constant exchange) was partly offset by a decline in premiums in Denmark (down 2% at constant exchange) where we have been focused on improving profitability. Swedish underwriting profit was down but remained strong at £157m with a COR of 83.5%. We saw good improvements in Denmark with an underwriting result of £75m and a COR of 88.9%, whilst in Norway the underwriting result improved to £5m with a COR of 96.4%.

Scandinavian underwriting profit was £237m (2011: 264m). A strong current year underwriting result together with continued positive prior year development led to a combined operating ratio of 86.6% (2011: 85.4%). The claims ratio was stable at 67.7% (2011: 67.6%) whilst the expense ratio increased, primarily reflecting the investments we are making in new systems in Denmark. After including investment returns of £94m (2011: £123m), the insurance result was £331m (2011: £387m).

Personal net written premiums of £973m were up 3% on a constant exchange rate basis (2011: £982m as reported; £942 at constant exchange). Household premiums were up 1% with strong rate increases throughout the year, leading to an improved combined ratio of 103.6% (2011: 111.3%). Personal Motor premiums were up 2% to £391m (2011: £398m as reported; £382 at constant exchange) including 31% growth in Norway as we benefit from our distribution deal with the Norwegian Automobile Federation. The Personal Motor COR was 68.3% (2011: 64.2%) with continued strong performances in both current year and prior year in Sweden leading to a Scandinavian Personal Motor underwriting result of £124m (2011: £147m). In Personal Accident we have a leading position in Sweden. Premiums were up 7% but underwriting profits were down 39% to £80m (2011: £136m) due to lower positive prior year development.

Commercial net written premiums of £818m were up 2% on a constant exchange rate basis (2011: £842m as reported; £802 at constant exchange). Commercial Property premiums were down 2% whilst the underwriting result improved to a £5m underwriting loss (2011: £20m underwriting loss) due to fewer weather events and lower large losses in 2012. Commercial Liability premiums were flat at constant exchange but the underwriting result improved to £44m (2011: £17m) with improved contributions across all three markets. Commercial Motor premiums were flat at constant exchange and the combined ratio was stable at 102.1% (2011: 101.8%) as claims inflation was offset by rate increases. Marine performance was in line with 2011 whilst Care profitability was down mainly due to the exceptionally low COR in Danish Care in 2011.

Scandinavia – Outlook

We expect the Scandinavian markets to continue to grow in line with local GDP growth. We expect to grow in line with the market in Sweden and Denmark whilst continuing to build market share in Norway. We expect continued strong levels of profitability as we benefit from our established market positions across Personal, Commercial and Specialty.

BUSINESS REVIEW - CANADA

	Net written premiums		Underwriting result		Change ¹	
	2012 £m	2011 £m	2012 £m	2011 £m	NWP %	U/W Result %
Personal						
Household	396	349	26	(1)	13	n/a
Motor	694	663	17	75	4	(77)
Total Canada Personal	1,090	1,012	43	74	7	(42)
Commercial						
Property	233	208	-	1	11	(100)
Liability	139	127	38	29	9	27
Motor	95	85	11	8	10	38
Marine and other	57	51	6	4	12	50
Total Canada Commercial	524	471	55	42	11	28
Total Canada	1,614	1,483	98	116	8	(16)

Investment result	2012	2011	Change
	£m	£m	
Investment income	63	72	(13)
Unwind of discount	(2)	(1)	(100)
Canada investment result	61	71	(14)

Canada insurance result	159	187	(15)
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Operating Ratios (%)	Claims		Expenses		Combined	
	2012	2011	2012	2011	2012	2011
Personal						
Household					92.6	99.5
Motor					97.9	88.5
Total Canada Personal	72.0	67.9	24.1	24.4	96.1	92.3
Commercial						
Property					99.1	98.6
Liability					71.3	76.1
Motor					87.1	89.3
Marine and other					88.5	91.8
Total Canada Commercial	53.8	54.9	34.4	34.9	88.2	89.8
Total Canada	66.2	63.8	27.5	27.8	93.7	91.6

Rate Increases (%) Canada	Personal		Commercial		Property
	Motor	Household	Motor	Liability	
Dec 12 vs Dec 11	3	11	2	2	4
Sept 12 vs Sept 11	2	12	-	1	3
Jun 12 vs Jun 11	3	11	1	1	3
Mar 12 vs Mar 11	5	12	1	1	3
Dec 11 vs Dec 10	4	13	3	1	3

¹ at constant exchange rate

CANADA – STRONG PREMIUM GROWTH AND COR OF 93.7%

RSA is the third largest general insurer in Canada with a market share of around 7%. RSA Canada comprises a leading Personal and Commercial broker business, our direct business, Johnson, and our commercial brokerage, Noraxis.

Net written premiums in Canada were up 8% on a constant exchange rate basis to £1,614m (2011: £1,483m as reported; £1,493m at constant exchange) driven predominantly by strong organic growth across Personal and Commercial broker product lines, supplemented by three months benefit from the acquisition of L'Union Canadienne in Quebec which contributed 2% of the growth. Underwriting profit was £98m (2011: £116m) including a specific strengthening of prior year reserves in Personal Motor. Consequently, combined ratios worsened to 93.7% (2011: 91.6%). After including investment returns of £61m (2011: £71m), the insurance result was £159m (2011: £187m).

Personal premiums were up 7% on constant exchange to £1,090m (2011: £1,012m as reported; £1,019m at constant exchange). In Personal Motor, premiums grew by 4% but underwriting profit was down to £17m (2011: £75m) due to the identification and resolution of adverse development in the bodily injury and accident benefits reserves in the pre-reform Johnson Ontario motor book. As a consequence the Personal Motor combined ratio was 97.9% (2011: 88.5%). A thorough review of motor reserves in Canada has been completed which has given comfort over the adequacy of current reserves.

Personal Household premiums were up 13% to £396m (2011: £349m as reported; £351 at constant exchange) with good growth in both Johnson and Personal Broker business driven by strong rating action across all provinces and continued good retention rates. The combined ratio improved to 92.6% (2011: 99.5%) generating an underwriting profit of £26m (2011: £(1)m underwriting loss).

In Commercial lines, premiums were up 11% at constant exchange to £524m (2011: £471m as reported; £474m at constant exchange) with strong growth across all product lines and significant new business wins amongst large commercial brokers. Our Commercial proposition continues to benefit from the acquisition of GCAN in 2011. Underwriting profits were up 28% to £55m (2011: £42m) with particular strength in Liability.

The acquisition of L'Union Canadienne (UC) was completed on 1 October 2012. Integration is underway and progressing in line with our business case assumptions. This acquisition, which is around 70% Personal lines and 30% Commercial lines, will increase RSA's penetration in the attractive Quebec market (the second largest provincial market in Canada) and makes RSA the fifth largest insurer in Quebec. During the fourth quarter UC contributed £38m of net written premium.

Canada – Outlook

The Canadian P&C market will remain a highly attractive market for RSA. We expect continued single digit market growth led by a strong and stable economy and an established insurance market, characterised by underwriting discipline. We expect to outperform the market in terms of growth and profitability as we continue to drive organic growth from our unique distribution model, realise the benefits from the recent acquisitions we have made and look for further opportunities to participate in market consolidation.

BUSINESS REVIEW – EMERGING MARKETS

	Net written premiums		Underwriting result		Change ¹	
	2012 £m	2011 £m	2012 £m	2011 £m	NWP %	U/W Result %
Latin America	766	670	21	19	20	24
CEE	224	219	(2)	(5)	9	60
Middle East	127	115	9	6	10	50
Asia	120	99	5	(17)	19	
Total Emerging Markets	1,237	1,103	33	3	17	
Asian Associates	303	292			11	
Asia (incl Associates)	423	391			13	
Emerging Markets (incl Associates)	1,540	1,395			16	

	2012 £m	2011 £m	Change %
Investment result			
Investment income	49	52	(6)
Unwind of discount	(4)	(1)	
Emerging Markets investment result	45	51	(12)

Emerging Markets insurance result	78	54	44
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Operating Ratios (%)	Claims		Expenses		Combined	
	2012	2011	2012	2011	2012	2011
Latin America					96.0	95.7
CEE					100.6	101.4
Middle East					93.1	94.4
Asia					99.0	118.2
Total Emerging Markets	55.8	56.6	41.1	42.1	96.9	98.7

¹ at constant exchange rate

EMERGING MARKETS – CONTINUED STRONG PREMIUM GROWTH, DELIVERING OPERATING LEVERAGE

Our Emerging Markets business operates in twenty countries across Latin America, Asia, the Middle East and Central and Eastern Europe. During the year we have materially strengthened our position in Argentina with the acquisitions of El Comercio and ACG and have taken steps to release capital by exiting the Czech Republic and selling our operation in the Dutch Caribbean.

Emerging Markets delivered strong premium growth of 17% at constant exchange to £1,237m (2011: £1,103m as reported; £1,061m at constant exchange). Including non-consolidated associates in India and Thailand, premiums were up 16% at constant exchange to £1,540m (2011: £1,395m as reported; £1,333m at constant exchange). As we build scale in Emerging Markets, we are starting to benefit from operating leverage on expenses. Underwriting expenses were up 6% leading to an improved expense ratio (excluding commissions) of 21.6% (2011: 22.8%) and improved combined ratio of 96.9% (2011: 98.7%) and a significantly better underwriting result of £33m (2011: £3m). The business delivered an investment result of £45m (2011: £51m) leading to an insurance result up 44% to £78m. Start-up costs of £19m in 2012 will fall to zero by 2014. Emerging Markets is already delivering attractive returns on capital given the low capital intensity of the products sold.

In Latin America, we have attractive and developing market positions which give us access to approximately 80% of the general insurance markets in the region. We are the number one general insurer in Chile, number one private general insurer in Uruguay and a leading insurer in Argentina. Latin American premiums were up 20% at constant exchange to £766m (2011: £670m as reported; £640m at constant exchange), including £43m from the acquisitions in Argentina which completed on 31 July 2012. Premiums were up in all territories including 7% growth in Chile and 79% growth in Argentina (36% growth excluding 2012 acquisitions). Underwriting profits were £21m (2011: £19m) with strong contributions from Argentina, Chile, Mexico and our leading Marine business in Brazil.

In Central and Eastern Europe (CEE) we are the leading insurer across the Baltic States and we have leading direct businesses in Poland and Russia. Premiums were up 9% at constant exchange to £224m with strong growth in Estonia (up 67%), Russia (up 25%) and Poland (up 11%). The underwriting result was a £2m loss (2011: £5m underwriting loss) with a combined ratio of 100.6% (2011: 101.4%). Economic conditions are improving and we expect the business to deliver a profit in 2013.

In Asia and the Middle East, RSA has a strong Specialty business with exposure across the region. In addition we have retail businesses in China, Singapore and Hong Kong and minority stakes in businesses in India and Thailand. We are one of the leading insurers in the Middle East with a number one position in Oman and have businesses in UAE, Bahrain and the Kingdom of Saudi Arabia. Asian premiums were up 19% at constant exchange to £120m (2011: £99m as reported, £101m at constant exchange) with strong growth in Specialty lines and up 13% to £423m including non-consolidated associates in India and Thailand. Underwriting profit in Asia improved to £5m (2011: £17m underwriting loss). In the Middle East we delivered 10% growth in premiums to £127m (2011: £115m as reported and at constant exchange) and an increase in the underwriting profit to £9m (2011: £6m).

Emerging Markets Outlook

We expect to continue to deliver strong growth from our Emerging Markets franchises and are on track to meet our target of £2.2bn of premiums (including our associates) in 2015. We anticipate achieving this target without further M&A activity, although we continue to seek opportunities to grow the business through selective bolt-on acquisitions. As we grow the scale of our Emerging Markets business, we expect further operating leverage to emerge in the expense line, leading to improved combined ratios, growth in underwriting profit and further improvement in return on capital.

BUSINESS REVIEW – UK & WESTERN EUROPE

	Net written premiums		Underwriting result		Change ¹	
	2012	2011	2012	2011	NWP	U/W Result
	£m	£m	£m	£m	%	%
UK Personal						
Household	670	653	54	57	3	(5)
Motor	416	514	10	-	(19)	-
Pet	233	197	6	3	18	100
Total UK Personal	1,319	1,364	70	60	(3)	17
UK Commercial						
Property	491	453	22	12	8	83
Liability	280	276	(21)	4	1	(625)
Motor	598	572	(44)	(37)	5	(19)
Marine	319	293	12	23	9	(48)
Total UK Commercial	1,688	1,594	(31)	2	6	(1,650)
Total UK	3,007	2,958	39	62	2	(37)
Western Europe						
Ireland	348	353	25	24	5	14
Italy	200	261	(51)	(63)	(18)	14
European Specialty Lines	134	129	(1)	(22)	11	95
Total UK & Western Europe	3,689	3,701	12	1	1	140

	2012	2011	Change
	£m	£m	%
Investment result			
Investment income	262	276	(5)
Unwind of discount	(29)	(31)	6
UK & WE investment result	233	245	(5)
UK & WE insurance result	245	246	-

Operating Ratios (%)	Claims		Expenses		Combined	
	2012	2011	2012	2011	2012	2011
Personal						
Household					91.5	90.4
Motor					99.9	100.7
Pet					97.4	96.1
Total UK Personal	60.1	63.9	35.5	31.8	95.6	95.7
Commercial						
Property					94.6	99.1
Liability					107.1	99.7
Motor					106.8	105.9
Marine					96.2	91.1
Total UK Commercial	70.4	68.8	30.0	29.9	100.4	98.7
Total UK	65.7	66.5	32.5	30.8	98.2	97.3
Western Europe						
Ireland					94.2	92.6
Italy					125.1	123.6
European Specialty Lines					100.4	118.3
Total UK & Western Europe	67.8	69.0	31.7	30.6	99.5	99.6

Rate Increases (%)	Personal		Commercial		
UK	Motor	Household	Motor	Liability	Property
Dec 12 vs Dec 11	(2)	3	10	6	4
Sept 12 vs Sept 11	1	4	9	4	4
Jun 12 vs Jun 11	4	5	9	6	3
Mar 12 vs Mar 11	8	7	9	2	3
Dec 11 vs Dec 10	17	6	7	5	4

¹ at constant exchange rate

UK – ON TRACK TOWARDS IMPROVED PROFITABILITY AND RETURNS

UK & Western Europe delivered a 1% increase in net written premiums to £3,689m (2011: £3,701m as reported; £3,654 at constant exchange) and underwriting profit of £12m (2011: £1m). With investment result of £233m (2011: £245m), the insurance result was £245m (2011: £246m).

In the UK we are a leading Commercial insurer and a top five Personal lines insurer through direct and affinity channels. In Commercial we offer a full suite of products across Property, Liability, Motor and Marine and distribute predominantly through insurance brokers. In Personal we provide Household, Motor and Pet insurance through insurance brokers and affinity partners as well as MORE TH>N and eChoice, our direct businesses.

UK premiums were up 2% to £3,007m (2011: £2,958m) as targeted reductions in Personal Motor (down 19%) were offset by growth in Household (up 3%), Pet (up 18%) and Commercial lines (up 6%). UK underwriting profits were £39m (2011: £62m) primarily driven by the impact of adverse weather in the first half and weaker performance in Marine and Commercial Liability leading to a combined ratio of 98.2% (2011: 97.3%).

UK Personal premiums were down 3% to £1,319m (2011: £1,364m), whilst underwriting profit improved by 17% to £70m (2011: £60m). Following poor weather in the first half, Personal Household underwriting profit was down 5% to £54m (2011: £57m). The focus on profit over volume in Personal Motor delivered £10m of underwriting profit (2011: break even) although softening prices throughout the year continue to make this a challenging market. Pet insurance delivered a stronger underwriting profit of £6m (2011: £3m).

We are actively dealing with the challenges in the UK Commercial Market. We remain selective regarding the brokers we want to work with and have driven rate increases across the business. Premiums were up 6% to £1,688m (2011: £1,594m). Commercial Property performed well with premiums up 8% and underwriting profits of £22m (2011: £12m) benefitting from sustained rating activity. Liability premiums were up 1% to £280m (2011: £276m) but an underwriting loss of £21m (2011: £4m underwriting profit) reflected a number of large losses and an increase in the frequency of “slip and trip” claims. We are addressing this trend through underwriting and rating action. Included in the Commercial Motor result is a large Commercial Motor contract which represents the majority of Commercial Motor premiums and the underwriting loss. We are working on the details of new arrangements for this contract, to be effective from October 2013, however, Commercial Motor will continue to be negatively affected by the contract’s old tranches for the next few years. We are confident that we are making progress in the Commercial Motor market. Excluding the large contract, Commercial Motor premiums were down 12%. During the year we have exited a number of Commercial Motor markets including Risk Managed Motor and Motor Trade which represented the balance of the Commercial Motor underwriting loss. Marine premiums grew by 9% to £319m (2011: £293m) but the underwriting result suffered from large losses including the Costa Concordia and Superstorm Sandy leading to a profit of £12m (2011: £23m).

WESTERN EUROPE – IRELAND CONTINUES TO DELIVER, ITALY REMEDIATION ON TRACK

Premiums in Ireland of £348m (2011: £353m as reported; £331m at constant exchange) were up 5% in a market that was expected to contract by 6% in 2012. Underwriting profits were up 14% driven by continued impressive performance from 123.ie, our direct insurer acquired in 2010, leading to a combined ratio of 94.2% (2011: 92.6%). In Italy, remediation is on track with premiums down 18% to £200m (2011: £261m as reported; £244m at constant exchange). Including the impact of the Italian earthquakes and some adverse weather in the first half, the underwriting loss was £51m (2011: £63m). Importantly, the Italian underwriting loss in the second half has reduced to £10m. European Specialty delivered 11% growth in premiums and an underwriting loss of £1m (2011: £22m underwriting loss).

Outlook – UK and Western Europe

Our focus will continue to be on underwriting profit over volume. We will continue with our intensive approach to portfolio management and expect only modest growth in premiums. Italy is on track to be trading on a break even basis during 2013. We expect year on year improvements in combined ratios as we deliver the strategy in UK and Western Europe.

BUSINESS REVIEW – INVESTMENT RESULT

Investment Result	12 Months 2012 £m	12 Months 2011 £m	Change %
Bonds	403	446	(10)
Equities	57	63	(10)
Cash and cash equivalents	15	15	-
Land and buildings	28	37	(24)
Other	12	18	(33)
Investment income	515	579	(11)
Unwind of discount including ADC	(84)	(94)	11
Investment result	431	485	(11)

Attributed to			
Scandinavia	94	123	(24)
Canada	61	71	(14)
Emerging Markets	45	51	(12)
UK & Western Europe	233	245	(5)

Realised and Unrealised Gains			
Realised gains	79	201	(61)
Unrealised (losses)/gains, impairments and foreign exchange	(51)	(44)	(16)
Total gains	28	157	

Balance sheet unrealised gains at 31 December			
Bonds	638	507	26
Equities	86	93	(8)
Other	6	3	100
Total	730	603	21

Portfolio Composition	Value 31/12/2011 £m	Foreign Exchange £m	Mark to Market £m	Other Movements £m	Value 31/12/2012 £m
Government bonds	4,707	(52)	(3)	(445)	4,207
Non government bonds	6,967	(90)	99	541	7,517
Cash	1,258	(29)	-	100	1,329
Equities	771	(3)	64	(279)	553
Property	362	(1)	(24)	3	340
Prefs & CIVs	289	(6)	(3)	6	286
Other	104	(2)	(14)	9	97
Total	14,458	(183)	119	(65)	14,329

INVESTMENT RESULT – CONTINUED PRESSURE FROM LOW BOND YIELDS

The Group continued to execute a low risk investment strategy which delivered £515m of investment income in 2012 (2011: £579m). After accounting for the unwind of discount, the investment result was down 11% to £431m (2011: £485m).

The 11% fall in investment income primarily reflects the impact of falling sovereign and corporate bond yields partly offset by a number of factors. Income from equities in 2012 was enhanced by both the weighting of our holdings to higher yielding stocks and the receipt of a number of one-off equity dividends which we do not expect to be repeated in 2013. Investment income in 2011 was enhanced by around £25m following the settlement of a rental dispute in Denmark.

The average underlying yield on the portfolio was 3.6% (2011: 3.9%). Reinvestment rates in the Group's main bond portfolios at 31 December 2012 were around 150bps lower than the underlying portfolio yield.

Total gains of £28m (2011: £157m) reflected realised gains from the sale of equities and bonds during the year partly offset by a decline in the value of investment properties.

Balance sheet unrealised gains of £730m (2011: £603m) primarily relate to unrealised gains on the bond portfolio which we expect to reduce over time as our bond holdings reach maturity. Balance sheet unrealised equity gains amounted to £86m (2011: £93m).

The portfolio decreased marginally in value over the year due to negative FX and cash flow used to fund corporate activity.

The portfolio is invested in widely diversified fixed income securities, with 4% in equities, 9% in cash and 2% in property. During 2012 we increased investments in longer duration assets with average duration increasing to 3.8 years (2011: 3.4 years). In addition, we reduced our sovereign debt holdings and purchased increased levels of non-government bonds which now make up 64% of the bond portfolio (2011: 60%). The quality of the bond portfolio remains very high with 98% investment grade and 69% rated AA or above. We are well diversified by sector and geography. Peripheral European sovereign debt amounts to less than 1% of the portfolio and is primarily backing the liabilities of our insurance operations in Ireland and Italy.

During the year we reduced our equity exposure by £279m which now represent 4% of the portfolio (2011: 5%). Around 65% of the equity portfolio is hedged providing protection down to a FTSE100 level of 4,400.

Investment Income: Outlook

In 2013, we will continue to follow our high quality, low risk strategy. Given current portfolio disposition and market levels further increases in bond duration and non-government bond holdings are likely to be modest. We will however continue to seek opportunities to enhance yield within our low risk framework and would anticipate income of around £470m in 2013. Assuming the current yield environment persists beyond 2013, we expect the fall in investment income to continue but to be less severe over the following three years.

OTHER INFORMATION - MANAGEMENT BASIS

Movement in net assets

	Shareholders' funds	Non controlling interests	Loan capital	Net assets
	£m	£m	£m	£m
Balance at 1 January 2012	3,801	114	1,313	5,228
Profit after tax	344	7	-	351
Exchange losses net of tax	(66)	(4)	-	(70)
Fair value gains net of tax	115	1	-	116
Pension fund actuarial losses net of tax	(161)	-	-	(161)
Amortisation and repayment of loan capital	-	-	(2)	(2)
Share issue	58	4	-	62
Changes in shareholders' interests in subsidiaries	(11)	10	-	(1)
Share based payments	6	-	-	6
Prior year final dividend	(206)	(3)	-	(209)
Current year interim dividend	(121)	-	-	(121)
Preference dividend	(9)	-	-	(9)
Balance at 31 December 2012	3,750	129	1,311	5,190

Pension fund position

The table below provides a reconciliation of the Group's pension fund position (net of tax) from 1 January 2012 to 31 December 2012.

	UK £m	Other £m	Group £m
Pension fund at 1 January 2012	(65)	(75)	(140)
Actuarial losses	(124)	(37)	(161)
Deficit funding	54	-	54
Other movements	24	16	40
Pension fund at 31 December 2012	(111)	(96)	(207)

The UK pension fund position has deteriorated by £46m since 31 December 2011 to a deficit of £111m. This is driven by a decrease in the discount rate partly offset by greater than expected returns on assets and a reduction in the pension inflation rate.

Within actuarial assumptions, the discount rate decreased to 4.3% (31 December 2011: 4.9%) reflecting the yield on duration adjusted AA corporate bonds, whilst the pension inflation rate decreased to 2.6% (31 December 2011: 2.8%). Consequently the yield gap has decreased from 2.1% to 1.7%.

The overseas pension deficit has deteriorated by £21m since 31 December 2011 to a deficit of £96m principally due to a fall in the discount rate on the Canadian pension scheme from 5.3% to 4.4%, reflecting the AA corporate bond yield in Canada.

CAPITAL POSITION

The capital position of the Group is set out below:

	31 December 2012 Requirement £bn	31 December 2012 Surplus £bn	31 December 2011 Surplus £bn
Insurance Groups Directive	1.3	1.2	1.3
Economic Capital (1in 200 Calibration)		1.2	1.2
Economic Capital (1in 1,250 Calibration)		0.7	0.8

The IGD surplus is unchanged since the end of the third quarter at £1.2bn (31 December 2011: £1.3bn) and coverage over the IGD requirement remains strong at 1.9 times (31 December 2011: 2.0 times). The reduction in the surplus over the year reflects profits offset by dividends and the acquisitions in Argentina and Canada.

When calibrated to a risk tolerance consistent with the expected Solvency II calibration of 1 in 200 per annum, the ECA surplus was £1.2bn (31 December 2011: £1.2bn). When calibrated to Standard & Poor's long term A rated bond default curve, equivalent to a probability of insolvency over one year of 1 in 1,250 the ECA surplus was £0.7bn at 31 December 2012 (31 December 2011: £0.8bn). The decline in risk free yields and the impact of goodwill from acquisitions have been largely offset by capital generated, improved modelling of our assets in run-off, and the impact of the proposed new dividend policy.

The further delay in the implementation date for Solvency II is frustrating. We have rephased our implementation project to minimise costs whilst ensuring that we remain on track for implementation. In 2012 Solvency II costs were £32m (2011: £30m). We expect the costs of Solvency II to fall by around 50% from their 2012 level for the next two years. We still do not anticipate that Solvency II will cause any fundamental change to the way we run the business.

Capital sensitivities	IGD Surplus £bn	ECA Surplus 1 in 200 year £bn	ECA Surplus 1 in 1,250 year £bn
Increase in risk free yields by 100bps	(0.2)	0.3	0.3
Equity markets rise by 10%	0.0	0.1	0.1
FX declines by 10%	(0.1)	0.0	0.0

Our financing and liquidity position remains strong. The next call on any external financing is on the £450m subordinated guaranteed perpetual notes in December 2014 and our committed £500m senior facility has remained and continues to remain undrawn.

The Group is currently rated A+ (negative outlook) by Standard & Poor's and A2 by Moody's.

OTHER ACTIVITIES

	12 Months 2012 £m	12 Months 2011 £m	Change %
Central expenses	(59)	(63)	6
Investment expenses and charges	(33)	(34)	3
Other operating activities	(30)	(36)	17
Other activities	(122)	(133)	8

Other operating activities include the ongoing investment in our associate in India and our direct operations in Central and Eastern Europe, for which the charge in 2012 reduced by £7m to £19m and is expected to fall further in 2013 and to zero in 2014.

TAX

The effective tax rate for the year was 27% (2011: 30%).

RATIOS AND DEFINITIONS

Return on equity

Underlying return on equity is 10.0% (2011: 11.6%) and is calculated as the profit after tax attributable to ordinary shareholders from continuing operations, excluding acquisitions, disposals and reorganisation costs expressed in relation to opening shareholders' funds attributable to ordinary shareholders.

Combined operating ratio

The combined operating ratio represents the sum of expense and commission costs expressed in relation to net written premiums and claim costs expressed in relation to net earned premiums. The calculation of the COR of 95.4% is based on net written premiums of £8,353m and net earned premiums of £8,167m.

Net asset value per share

The net asset value per share at 31 December 2012 excluding IAS 19 was 107p (31 December 2011: 108p) and including the pension deficit was 101p (31 December 2011: 104p).

The net asset value per share at 31 December 2012 was based on total shareholders' funds of £3,750m, adjusted by £125m for preference shares.

Earnings per share

Earnings per share on profit attributable to the ordinary shareholders of the Parent Company:

Basic	9.5p	11.9p
Diluted	9.4p	11.8p

Operating earnings per share on profit attributable to the ordinary shareholders of the Parent Company:

Basic	10.7p	11.3p
Diluted	10.5p	11.2p

The earnings per share is calculated by reference to the result attributable to the ordinary shareholders of the Parent Company and the weighted average number of shares in issue during the period. Operating earnings per share is calculated by reference to the after tax result attributable to the equity shareholders excluding amortisation, reorganisation costs, Solvency II costs and acquisitions and disposals and the weighted average number of shares in issue during the period. On a basic and diluted basis these were 3,534,577,360 and 3,576,531,553 respectively (excluding those held in ESOP and SIP trusts). The number of shares in issue at 31 December 2012 was 3,589,761,696 (excluding those held in ESOP and SIP trusts).

RELATED PARTY TRANSACTIONS

In 2012, there have been no related party transactions that have materially affected the financial position of the Group.

CHANGE OF AUDITORS

At the 2013 Annual General Meeting we intend to recommend to shareholders that they appoint KPMG as auditors for 2013. This follows the impending appointment of our current auditors, Deloitte, to undertake additional consultancy work in Scandinavia which we and they felt could impair the perception of their independence.

LOSS DEVELOPMENT TABLES

The table below presents the general insurance claims provisions net of reinsurance for the accident years 2002 and prior through to 2012. The top half of the table shows the estimate of cumulative claims at the end of the initial accident year and how these have developed over time. The bottom half of the table shows the value of claims paid for each accident year in each subsequent year. The current year provision for each accident year is calculated as the estimate of cumulative claims at the end of the current year less the cumulative claims paid.

We have experienced positive prior year development in all regions and across all years. In terms of accident year, 2011 has shown initial favourable development of £7m, which primarily comprises positive development in Scandinavian Personal Accident, Canada and UK Commercial Property. The earlier years continue to develop positively, with Scandinavian Personal lines, UK Commercial Property and UK Liability showing consistent positive development across most years. 2002 and prior accident years generated £69m of positive prior year development driven in particular by Scandinavian Personal Motor and Workers' Compensation, as well as Canada.

	2002 and prior £m	2003 £m	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	Total £m
Estimate of Cumulative claims												
At end of accident year	8,057	2,443	2,280	2,445	2,471	2,569	2,627	2,518	2,666	2,936	3,078	
1 year later	8,095	2,476	2,147	2,323	2,453	2,567	2,629	2,557	2,691	2,929		
2 years later	8,447	2,389	1,957	2,233	2,356	2,540	2,621	2,528	2,670			
3 years later	8,468	2,279	1,872	2,159	2,271	2,477	2,592	2,503				
4 years later	8,889	2,219	1,805	2,076	2,219	2,433	2,576					
5 years later	8,809	2,159	1,756	2,013	2,197	2,417						
6 years later	8,701	2,136	1,721	1,988	2,167							
7 years later	8,617	2,077	1,677	1,963								
8 years later	8,545	2,065	1,659									
9 years later	8,416	2,048										
10 years later	8,347											
2012 Movement	69	17	18	25	30	16	16	25	21	7		244
Claims paid												
1 year later	2,291	892	720	952	992	1,148	1,307	1,276	1,404	1,375		
2 years later	1,395	298	259	292	350	366	389	402	442			
3 years later	829	212	183	169	190	267	253	258				
4 years later	580	110	141	142	174	165	192					
5 years later	359	92	89	103	118	139						
6 years later	363	64	72	80	88							
7 years later	287	51	26	45								
8 years later	223	26	28									
9 years later	161	16										
10 years later	156											
Cumulative claims paid	6,644	1,761	1,518	1,783	1,912	2,085	2,141	1,936	1,846	1,375		
Current year provision before discounting	1,703	287	141	180	255	332	435	567	824	1,554	3,078	9,356
Exchange adjustment to closing rates												(52)
Discounting closing rate												(591)
Annuities closing rate												639
Present value recognised in the statement of financial position												9,352

Asbestos reserves

The technical provisions include £832m (31 December 2011: £809m) for asbestos in the UK comprising £788m (31 December 2011: £759m) for UK risks and £44m (31 December 2011: £50m) for US risks written in the UK. The increase of £29m in the reserve net of reinsurance for UK risks compared with 2011 reflects a small increase in claimant numbers reported in 2012. The reduction of £6m for US risks written in the UK reflects the settlement of a number of direct and inwards reinsurance relationships during the year, in addition to foreign exchange movements. As in previous years, and as a standard part of our reserving practices, these asbestos provisions have been reviewed by external consultants. These provisions can be analysed by survival ratio. Survival ratio is an industry standard measure of a company's reserves, expressing the number of years that carried reserves will be available if the recent year payment or notification levels continue. The following table outlines the asbestos provisions as at 31 December 2012 analysed by risk and survival ratio:

	Total	UK risks written in the UK	US risks written in the UK
Provisions in £m			
Net of reinsurance	832	788	44
Net of discount	442	408	34
Survival ratios (Gross of discount) - On payment			
One year	33	34	21
Three year average	30	34	13
Survival ratios (Gross of discount) - On notifications			
One year	23	27	6
Three year average	27	29	12

One year average ratios are inherently more volatile and impacted by the size and timing of payments or notifications in the year, with the three year average providing a more stable benchmark. For UK risks written in the UK, the paid survival ratios have remained stable, with the incurred survival ratio impacted by changes in the level of notifications from year to year. We continue to monitor notification levels closely. For US risks written in the UK, the remaining reserves are relatively small in total and will therefore be particularly sensitive to changes in notifications or the size and timing of claims payments and settlements during the year.

SUMMARY CONSOLIDATED INCOME STATEMENT

MANAGEMENT BASIS

	12 Months 2012 £m	12 Months 2011 £m
Net written premiums	8,353	8,138
Underwriting result	375	375
Investment income	515	579
Unwind of discount	(84)	(94)
Investment result	431	485
Insurance result	806	860
Other activities	(122)	(133)
Operating result	684	727
Realised gains	79	201
Unrealised (losses)/gains, impairments and foreign exchange	(51)	(44)
Interest costs	(115)	(117)
Amortisation and impairment of intangible assets	(42)	(114)
Solvency II costs	(32)	(30)
Reorganisation costs	(24)	-
Acquisitions and disposals	(20)	(10)
Profit before tax	479	613
Taxation	(128)	(186)
Profit after tax	351	427

SUMMARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION

MANAGEMENT BASIS

	31 December 2012 £m	31 December 2011 £m
Assets		
Goodwill and other intangible assets	1,489	1,359
Property and equipment	272	275
Associated undertakings	40	29
Investments		
Investment property	340	362
Equity securities	839	1,060
Debt and fixed income securities	11,724	11,674
Other	97	104
Total investments - management basis	13,000	13,200
Reinsurers' share of insurance contract liabilities	1,949	2,073
Insurance and reinsurance debtors	3,592	3,328
Other debtors and other assets	1,114	1,059
Cash and cash equivalents	1,329	1,258
	22,785	22,581
Assets held for sale*	-	17
Total assets	22,785	22,598
Equity and liabilities		
Equity		
Shareholders' funds	3,750	3,801
Non controlling interests	129	114
Total equity	3,879	3,915
Loan capital	1,311	1,313
Total equity and loan capital	5,190	5,228
Liabilities (excluding loan capital)		
Insurance contract liabilities	14,854	14,766
Insurance and reinsurance liabilities	558	602
Borrowings	296	298
Provisions and other liabilities	1,887	1,704
Total liabilities (excluding loan capital)	17,595	17,370
Total equity and liabilities	22,785	22,598

* Assets held for sale relate to property in Canada and Scandinavia.

OTHER INFORMATION

MANAGEMENT BASIS

Cashflow

	12 Months 2012 £m	12 Months 2011 £m
Operating cashflow	552	530
Tax paid	(201)	(227)
Interest paid	(115)	(116)
Pension deficit funding	(73)	(56)
Cash generation	163	131
Group dividends	(286)	(303)
Dividend to non controlling interests	(2)	(18)
Issue of share capital	12	4
Net movement of debt	(1)	1
Corporate activity	(116)	(302)
Cash movement	(230)	(487)
Represented by:		
Movement in cash and cash equivalents	100	(31)
Sales of other investments	(330)	(456)
	(230)	(487)

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FURTHER INFORMATION

The full text of the above is available to the public at 1 Leadenhall Street, London EC3V 1PP. The text is also available online at www.rsagroup.com. A live audiocast of the analyst presentation, including the question and answer session, will be broadcast on the website at 9.30am today and is available via a listen only conference call by dialling UK Freephone 0800 358 5256 or International dial in: + 44 (0) 208 515 2313. Participants should quote conference ID 4593638. An indexed version of the audiocast will be available on the website by the end of the day. Copies of the slides to be presented at the analyst meeting will be available on the site from 9.00am today. Scanning the QR code opposite will download details of the conference call to a smart phone.



An interim management statement will be released on 2 May 2013.

The Annual General Meeting will take place on 15 May 2013.

The 2013 interim results will be released on 1 August 2013.

MANAGEMENT BASIS OF REPORTING

The analysis on pages 16 and 21 to 23 has been prepared on a non statutory basis as management believe that this is the most appropriate method of assessing the financial performance of the Group. The management basis reflects the way management monitor the business. The underwriting result includes insurance premiums, claims and commissions and underwriting expenses. In addition, the management basis also discloses a number of items separately such as investment result, interest costs, reorganisation costs and other activities. Estimation techniques, risks, uncertainties and contingencies are included on pages 25 to 28. Financial information on a statutory basis is included on pages 30 to 38.

IMPORTANT DISCLAIMER

Visit www.rsagroup.com for more information.

This press release (together with the Annual Report and Accounts referred to herein) has been prepared in accordance with the requirements of English company law and the liabilities of the directors in connection with this press release (together with the Annual Report and Accounts referred to herein) shall be subject to the limitations and restrictions provided by such law. This press release may contain 'forward-looking statements' with respect to certain of the Group's plans and its current goals and expectations relating to its future financial condition, performance, results, strategic initiatives and objectives. Generally, words such as "may", "could", "will", "expect", "intend", "estimate", "anticipate", "aim", "outlook", "believe", "plan", "seek", "continue" or similar expressions identify forward-looking statements. These forward-looking statements are not guarantees of future performance. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances which are beyond the Group's control, including amongst other things, UK domestic and global economic business conditions, market-related risks such as fluctuations in interest rates and exchange rates, the policies and actions of regulatory authorities (including changes related to capital and solvency requirements), the impact of competition, inflation, deflation, the timing impact and other uncertainties of future acquisitions or combinations within relevant industries, as well as the impact of tax and other legislation or regulations in the jurisdictions in which the Group and its affiliates operate. As a result, the Group's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set forth in the Group's forward-looking statements. The Group undertakes no obligation to update any forward-looking statements, save in respect of any requirement under applicable law or regulation. Nothing in this press release (together with the Annual Report and Accounts referred to herein) should be construed as a profit forecast.

ESTIMATION TECHNIQUES, RISKS, UNCERTAINTIES AND CONTINGENCIES

Introduction

One of the purposes of insurance is to enable policyholders to protect themselves against uncertain future events. Insurance companies accept the transfer of uncertainty from policyholders and seek to add value through the aggregation and management of these risks.

The uncertainty inherent in insurance is inevitably reflected in the financial statements of insurance companies. The uncertainty in the financial statements principally arises in respect of the insurance contract liabilities of the company.

The insurance contract liabilities of an insurance company include the provision for unearned premiums and unexpired risks and the provision for losses and loss adjustment expenses. Unearned premiums and unexpired risks represent the amount of income set aside by the company to cover the cost of claims that may arise during the unexpired period of risk of insurance policies in force at the end of the reporting period. Outstanding claims represent the company's estimate of the cost of settlement of claims that have occurred by the end of the reporting period but have not yet been finally settled.

In addition to the inherent uncertainty of having to make provision for future events, there is also considerable uncertainty as regards the eventual outcome of the claims that have occurred by the end of the reporting period but remain unsettled. This includes claims that may have occurred but have not yet been notified to the company and those that are not yet apparent to the insured.

As a consequence of this uncertainty, the insurance company needs to apply sophisticated estimation techniques to determine the appropriate provisions.

Estimation techniques

Claims and unexpired risks provisions are determined based upon previous claims experience, knowledge of events and the terms and conditions of the relevant policies and on interpretation of circumstances. Particularly relevant is experience with similar cases and historical claims payment trends. The approach also includes the consideration of the development of loss payment trends, the potential longer term significance of large events, the levels of unpaid claims, legislative changes, judicial decisions and economic, political and regulatory conditions.

Where possible, the Group adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The Group's estimates of losses and loss expenses are reached after a review of several commonly accepted actuarial projection methodologies and a number of different bases to determine these provisions. These include methods based upon the following:

- the development of previously settled claims, where payments to date are extrapolated for each prior year;
- estimates based upon a projection of claims numbers and average cost;
- notified claims development, where notified claims to date for each year are extrapolated based upon observed development of earlier years; and
- expected loss ratios.

In addition, the Group uses other methods such as the Bornhuetter-Ferguson method, which combines features of the above methods. The Group also uses bespoke methods for specialist classes of business. In selecting its best estimate, the Group considers the appropriateness of the methods and bases to the individual circumstances of the provision class and underwriting year. The process is designed to select the most appropriate best estimate.

Large claims impacting each relevant business class are generally assessed separately, being measured either at the face value of the loss adjusters' estimates or projected separately in order to allow for the future development of large claims.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability.

The provisions for losses and loss adjustment expenses are subject to close scrutiny both within the Group's business units and at Group Corporate Centre. In addition, for major classes where the risks and uncertainties inherent in the provisions are greatest, regular and ad hoc detailed reviews are undertaken by advisers who are able to draw upon their specialist expertise and a broader knowledge of current industry trends in claims development. As an example, the Group's exposure to asbestos and environmental pollution is examined on this basis. The results of these reviews are considered when establishing the appropriate levels of provisions for losses and loss adjustment expenses and unexpired periods of risk.

It should be emphasised that the estimation techniques for the determination of insurance contract liabilities involve obtaining corroborative evidence from as wide a range of sources as possible and combining these to form the overall estimate. This technique means that the estimate is inevitably deterministic rather than stochastic.

The pension assets and pension and post retirement liabilities are calculated in accordance with International Accounting Standard 19 (IAS 19). The assets, liabilities and income statement charge, calculated in accordance with IAS 19, are sensitive to the assumptions made from time to time, including inflation, interest rate, investment return and mortality. IAS 19 compares, at a given date, the current market value of a pension fund's assets with its long term liabilities, which are calculated using a discount rate in line with yields on 'AA' rated bonds of suitable duration and currency. As such, the financial position of a pension fund on this basis is highly sensitive to changes in bond rates and will also be impacted by changes in equity markets.

Uncertainties and contingencies

The uncertainty arising under insurance contracts may be characterised under a number of specific headings, such as:

- uncertainty as to whether an event has occurred which would give rise to a policyholder suffering an insured loss;
- uncertainty as to the extent of policy coverage and limits applicable;
- uncertainty as to the amount of insured loss suffered by a policyholder as a result of the event occurring; and
- uncertainty over the timing of a settlement to a policyholder for a loss suffered.

The degree of uncertainty will vary by policy class according to the characteristics of the insured risks and the cost of a claim will be determined by the actual loss suffered by the policyholder.

There may be significant reporting lags between the occurrence of the insured event and the time it is actually reported to the Group. Following the identification and notification of an insured loss, there may still be uncertainty as to the magnitude and timing of the settlement of the claim. There are many factors that will determine the level of uncertainty such as inflation, inconsistent judicial interpretations and court judgments that broaden policy coverage beyond the intent of the original insurance, legislative changes and claims handling procedures.

The establishment of insurance contract liabilities is an inherently uncertain process and, as a consequence of this uncertainty, the eventual cost of settlement of outstanding claims and unexpired risks can vary substantially from the initial estimates, particularly for the Group's long tail lines of business. The Group seeks to provide appropriate levels of provisions for losses and loss adjustment expenses and provision for unexpired risks taking the known facts and experience into account.

The Group has exposures to risks in each class of business within each operating segment that may develop and that could have a material impact upon the Group's financial position. The geographic and insurance risk diversity within the Group's portfolio of issued insurance policies mean it is not possible to predict whether material development will occur and, if it does occur, the location and the timing of such an occurrence. The estimation of insurance contract liabilities involves the use of judgments and assumptions that are specific to the insurance risks within each territory and the particular type of insurance risk covered. The diversity of the insurance risks results in it not being possible to identify individual judgments and assumptions that are more likely than others to have a material impact on the future development of the insurance contract liabilities.

The sections below identify a number of specific risks relating to asbestos and environmental claims. There may be other classes of risk which could develop in the future and that could have a material impact on the Group's financial position.

The Group evaluates the concentration of exposures to individual and cumulative insurance risk and establishes its reinsurance policy to reduce such exposure to levels acceptable to the Group.

Asbestos and environmental claims

The estimation of the provisions for the ultimate cost of claims for asbestos and environmental pollution is subject to a range of uncertainties that is generally greater than those encountered for other classes of insurance business. As a result it is not possible to determine the future development of asbestos and environmental claims with the same degree of reliability as with other types of claims, particularly in periods when theories of law are in flux. Consequently, traditional techniques for estimating provisions for losses and loss adjustment expenses cannot wholly be relied upon and the Group employs specialised techniques to determine provisions using the extensive knowledge of both internal asbestos and environmental pollution experts and external legal and professional advisors.

Factors contributing to this higher degree of uncertainty include:

- the long delay in reporting claims from the date of exposure (for example, cases of mesothelioma can have a latent period of up to 40 years). This makes estimating the ultimate number of claims the Group will receive particularly difficult;
- issues of allocation of responsibility among potentially responsible parties and insurers;
- emerging court decisions and the possibility of retrospective legislative changes increasing or decreasing insurer liability;
- the tendency for social trends and factors to influence court awards;
- developments pertaining to the Group's ability to recover reinsurance for claims of this nature; and
- for US liabilities from the Group's London market business, developments in the tactics of US plaintiff lawyers and court decisions and awards.

Potential change in discount rate for lump sum damages awards

Legislative changes may affect the Group's liability in respect of unsettled claims in the use of predetermined factors used by courts to calculate compensation claims. For example, in the UK, standard formulae are used as an actuarial measure by the courts to assess lump sum damages awards for future losses (typically loss of earnings arising from personal injuries and fatal accidents). The calibration of these standard formulae can be updated by the UK Government and the Lord Chancellor may review the methodology to be applied in determining the discount rate to calculate the appropriate settlements, or the discount rate itself, in due course. A reduction in the prescribed discount rate would increase the value of future claims settlements.

Acquisitions and disposals

The Group makes acquisitions and disposals of businesses as part of its normal operations. All acquisitions are made after due diligence, which will include, amongst other matters, assessment of the adequacy of claims reserves, assessment of the recoverability of reinsurance balances, inquiries with regard to outstanding litigation and inquiries of local regulators and taxation authorities. Consideration is also given to potential costs, risks and issues in relation to the integration of any proposed acquisitions with existing RSA operations. The Group will seek to receive the benefit of appropriate contractual representations and warranties in connection with any acquisition and, where necessary, additional indemnifications in relation to specific risks although there can be no guarantee that these processes and any such protection will be adequate in all circumstances. The Group may also provide relevant representations, warranties and indemnities to counterparties on any disposal. While such representations, warranties and indemnities are essential components of many contractual relationships, they do not represent the underlying purpose for the transaction.

These clauses are customary in such contracts and may from time to time lead to the Group receiving claims from counterparties.

Contracts with third parties

The Group enters into joint ventures, outsourcing contracts and distribution arrangements with third parties in the normal course of its business and is reliant upon those third parties being willing and able to perform their obligations in accordance with the terms and conditions of the contracts.

Litigation, disputes and investigations

The Group, in common with the insurance industry in general, is subject to litigation, mediation and arbitration, and regulatory, governmental and other sectoral inquiries and investigations in the normal course of its business. In addition the Group is exposed to the risk of litigation in connection with its former ownership of the US operation. The directors do not believe that any current mediation, arbitration, regulatory, governmental or sectoral inquiries and investigations and pending or threatened litigation or dispute will have a material adverse effect on the Group's financial position, although there can be no assurance that losses or financial penalties resulting from any current mediation, arbitration, regulatory, governmental or sectoral inquiries and investigations and pending or threatened litigation or dispute will not materially affect the Group's financial position or cashflows for any period.

Reinsurance

The Group is exposed to disputes on, and defects in, contracts with its reinsurers and the possibility of default by its reinsurers. The Group is also exposed to the credit risk assumed in fronting arrangements and to potential reinsurance capacity constraints. In selecting the reinsurers with whom the Group conducts business its strategy is to seek reinsurers with the best combination of financial strength, price and capacity. The Group Corporate Centre publishes internally a list of authorised reinsurers who pass the Group's selection process and which its operations may use for new transactions.

The Group monitors the financial strength of its reinsurers, including those to whom risks are no longer ceded. Allowance is made in the financial position for non recoverability due to reinsurer default by requiring operations to provide, in line with Group standards, having regard to companies on the Group's 'Watch List'. The 'Watch List' is the list of companies whom the directors believe will not be able to pay amounts due to the Group in full.

Investment risk

The Group is exposed to market risk and credit risk on its invested assets. Market risk includes the risk of potential losses from adverse movements in market rates and prices including interest rates, equity prices, property prices and foreign exchange rates. The Group's exposure to market risks is controlled by the setting of investment limits in line with the Group's risk appetite. From time to time the Group also makes use of derivative financial instruments to reduce exposure to adverse fluctuations in foreign exchange rates and equity markets. The Group has strict controls over the use of derivative instruments.

Credit risk includes the non performance of contractual payment obligations on invested assets and adverse changes in the credit worthiness of invested assets including exposures to issuers or counterparties for bonds, equities, deposits and derivatives. Limits are set at both a portfolio and counterparty level based on likelihood of default to manage the Group's overall credit profile and specific concentrations within risk appetite. The Group's insurance investment portfolios are concentrated in listed securities with very low levels of exposure to assets without quoted market prices. The Group uses model based analysis to verify asset values when market values are not readily available.

The current economic crisis adds further uncertainty and volatility to underlying levels of market and credit risk in the Eurozone. The Group has, however, very limited direct exposure via its investment portfolio to the Eurozone and to the peripheral Eurozone countries in particular. As with all other invested assets, limits are set in line with the Group's risk appetite. The Group continues to monitor the situation closely and take action to manage its exposure as required.

Rating environment

The ability of the Group to write certain types of insurance business is dependent on the maintenance of the appropriate credit ratings from the rating agencies. The Group has the objective of maintaining single 'A' ratings. At the present time the ratings are 'A+' (negative outlook) from S&P and 'A2' (stable outlook) from Moody's. A worsening in the ratings could have an adverse impact on the ability of the Group to write certain types of general insurance business.

In assessing credit risk in relation to reinsurance and investments, the Group takes into account a variety of factors, including credit rating. If any such rating changes, or is otherwise reassessed, this has potential implications for the related exposures.

Foreign exchange risk

The Group publishes consolidated financial statements in Pounds Sterling. Therefore, fluctuations in exchange rates used to translate other currencies, particularly other European currencies and the Canadian Dollar, into Pounds Sterling will impact the reported consolidated financial position, results of operations and cashflows from period to period. These fluctuations in exchange rates will also impact the Pound Sterling value of, and the return on, the Group's investments.

Income and expenses for each income statement item are translated at average exchange rates. Assets and liabilities, as reported in the statement of financial position, are translated at closing exchange rates at the end of the reporting period.

Regulatory environment

The legal, regulatory and accounting environment is subject to significant change in many of the jurisdictions in which the Group operates, including developments in response to changes in the economic and political environment and the recent financial crisis. The Group continues to monitor the developments and react accordingly.

The new solvency framework for insurers being developed by the EU, referred to as 'Solvency II', is intended in the medium term to achieve greater harmonisation of approach across EU member states to assessing capital resources and requirements. There remains continued uncertainty as delays in agreeing the rules have caused the planned implementation date of 2014 to be delayed. The Group is actively participating in shaping the outcome through its involvement with European and UK regulators and industry bodies, whilst appropriately progressing its implementation plans and the directors are confident that the Group will continue to meet all future regulatory capital requirements.

Condensed Consolidated Financial Statements

Condensed consolidated income statement	30
Condensed consolidated statement of comprehensive income	31
Condensed consolidated statement of changes in equity	31
Condensed consolidated statement of financial position	32
Condensed consolidated statement of cashflows	33
Explanatory notes to the condensed consolidated financial statements	34

CONDENSED CONSOLIDATED INCOME STATEMENT

STATUTORY BASIS

	12 Months 2012 (audited) £m	12 Months 2011 (audited) £m
Income		
Gross written premiums	9,397	9,131
Less: reinsurance premiums	(1,044)	(993)
Net written premiums	8,353	8,138
Change in the gross provision for unearned premiums	(188)	(273)
Less: change in provision for unearned premiums, reinsurers' share	2	(9)
Change in provision for unearned premiums	(186)	(282)
Net earned premiums	8,167	7,856
Net investment return	534	745
Other operating income	141	134
Total income	8,842	8,735
Expenses		
Gross claims incurred	(5,829)	(5,595)
Less: claims recoveries from reinsurers	448	382
Net claims and benefits	(5,381)	(5,213)
Underwriting and policy acquisition costs	(2,543)	(2,399)
Unwind of discount including ADC	(84)	(94)
Other operating expenses	(234)	(291)
Total expenses	(8,242)	(7,997)
Finance costs	(115)	(117)
Acquisitions and disposals	-	1
Net share of loss after tax of associates	(6)	(9)
Profit before tax	479	613
Income tax expense	(128)	(186)
Profit after tax	351	427
Attributable to:		
Equity holders of the Parent Company	344	426
Non controlling interests	7	1
Profit after tax	351	427
Earnings per share on profit attributable to the ordinary shareholders of the Parent Company:		
Basic	9.5p	11.9p
Diluted	9.4p	11.8p

The attached notes are an integral part of these condensed consolidated financial statements. For dividend information refer to note 8.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

STATUTORY BASIS

	12 Months 2012 (audited) £m	12 Months 2011 (audited) £m
Profit after tax	351	427
Exchange (losses)/gains net of tax	(70)	(70)
Fair value gains/(losses) net of tax	116	26
Pension fund actuarial (losses)/gains net of tax	(161)	(63)
Other comprehensive (expense)/income for the period, net of tax	(115)	(107)
Total comprehensive income/(expense) for the year	236	320
Attributable to:		
Equity holders of the Parent Company	232	318
Non controlling interests	4	2
	236	320

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

STATUTORY BASIS

	Shareholders' funds £m	Non controlling interests £m	Total equity £m
Balance at 1 January 2012	3,801	114	3,915
Total comprehensive income for the year	232	4	236
Share issue	58	4	62
Changes in shareholders' interests in subsidiaries	(11)	10	(1)
Share based payments	6	-	6
Prior year final dividend	(206)	(3)	(209)
Current year interim dividend	(121)	-	(121)
Preference dividend	(9)	-	(9)
Balance at 31 December 2012	3,750	129	3,879
Balance at 1 January 2011	3,766	129	3,895
Total comprehensive income for the year	318	2	320
Share issue	25	-	25
Changes in shareholders' interests in subsidiaries	5	1	6
Share based payments	12	-	12
Prior year final dividend	(198)	(18)	(216)
Current year interim dividend	(118)	-	(118)
Preference dividend	(9)	-	(9)
Balance at 31 December 2011	3,801	114	3,915

The attached notes are an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

STATUTORY BASIS

	31 December 2012 (audited) £m	31 December 2011 (audited) £m
Assets		
Goodwill and other intangible assets	1,489	1,359
Property and equipment	272	275
Investment property	340	362
Investment in associates	40	29
Financial assets	12,660	12,838
Total investments	13,040	13,229
Reinsurers' share of insurance contract liabilities	1,949	2,073
Insurance and reinsurance debtors	3,592	3,328
Current tax assets	76	33
Deferred tax assets	285	249
Other debtors and other assets	753	777
	1,114	1,059
Cash and cash equivalents	1,329	1,258
	22,785	22,581
Assets held for sale*	-	17
Total assets	22,785	22,598
Equity and liabilities		
Equity		
Shareholders' funds	3,750	3,801
Non controlling interests	129	114
Total equity	3,879	3,915
Liabilities		
Loan capital	1,311	1,313
Insurance contract liabilities	14,854	14,766
Insurance and reinsurance liabilities	558	602
Borrowings	296	298
Current tax liabilities	58	104
Deferred tax liabilities	139	102
Provisions	487	389
Other liabilities	1,203	1,109
Provisions and other liabilities	1,887	1,704
Total liabilities	18,906	18,683
Total equity and liabilities	22,785	22,598

These condensed consolidated financial statements have been approved for issue by the Board of Directors on 19 February 2013.

The attached notes are an integral part of these condensed consolidated financial statements.

* Assets held for sale relate to property in Canada and Scandinavia.

CONDENSED CONSOLIDATED STATEMENT OF CASHFLOWS

STATUTORY BASIS

	12 Months 2012 (audited) £m	12 Months 2011 (audited) £m
Cashflows from operations	165	104
Tax paid	(201)	(227)
Investment income	526	597
Interest paid	(115)	(116)
Dividends received from associates	1	1
Pension deficit funding	(73)	(56)
Net cashflows from operating activities	303	303
Proceeds from sales or maturities of:		
Financial assets	4,533	4,432
Investment property	-	11
Property and equipment	22	14
Investments in subsidiaries (net of cash disposed of)	-	6
Purchase of:		
Financial assets	(4,198)	(3,983)
Investment property	(2)	(3)
Property and equipment	(35)	(37)
Intangible assets	(146)	(159)
Investments in subsidiaries (net of cash acquired)	(97)	(299)
Investments in associates	(9)	-
Net cashflows from investing activities	68	(18)
Proceeds from issue of share capital	12	4
Sale of shares to non controlling interests	6	-
Dividends paid to ordinary shareholders	(277)	(294)
Dividends paid to preference shareholders	(9)	(9)
Dividends paid to non controlling interests	(2)	(18)
Net movement in other borrowings	(1)	1
Net cashflows from financing activities	(271)	(316)
Net increase/(decrease) in cash and cash equivalents	100	(31)
Cash and cash equivalents at beginning of the year	1,258	1,314
Effect of exchange rate changes on cash and cash equivalents	(29)	(25)
Cash and cash equivalents at end of the year	1,329	1,258

The attached notes are an integral part of these condensed consolidated financial statements.

EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Changes in significant accounting policies

There have been no significant changes in accounting policy and methods of computation in the 12 months to 31 December 2012. A full list of other accounting policies applied in these condensed financial statements can be found in the 2012 Annual Report and Accounts (see note 10 below).

The Board have reviewed the Group's ongoing financial commitments for the next 12 months and beyond. The Board's review included consideration of the Group's underwriting plans, strong regulatory capital surplus, diverse insurance risk profile, considerable undrawn financing facilities and highly liquid investment portfolio. As a result of this review, the Directors have satisfied themselves that it is appropriate to prepare the financial statements, from which these summary financial statements have been extracted, on a going concern basis.

2. Operating segments

12 months ended 31 December 2012

	Scandinavia	Canada	UK & Western Europe	Emerging Markets	Central Functions	Group
	£m	£m	£m	£m	£m	£m
Net written premiums	1,791	1,614	3,689	1,237	22	8,353
Underwriting result	237	98	12	33	(5)	375
Investment result	94	61	233	45	(2)	431
Insurance result	331	159	245	78	(7)	806
Other activities	(9)	(7)	(1)	(32)	(73)	(122)
Operating result (management basis)	322	152	244	46	(80)	684
Realised gains/(losses)						79
Unrealised (losses)/gains, impairments and foreign exchange						(51)
Interest costs						(115)
Amortisation and impairment of intangible assets						(42)
Solvency II costs						(32)
Reorganisation costs						(24)
Acquisitions and disposals						(20)
Profit before tax (per condensed consolidated income statement)						479
Combined operating ratio (%)	86.6	93.7	99.5	96.9	-	95.4

12 months ended 31 December 2011 (restated)

	Scandinavia	Canada	UK & Western Europe	Emerging Markets	Central Functions	Group
	£m	£m	£m	£m	£m	£m
Net written premiums	1,824	1,483	3,701	1,103	27	8,138
Underwriting result	264	116	1	3	(9)	375
Investment result	123	71	245	51	(5)	485
Insurance result	387	187	246	54	(14)	860
Other activities	(8)	(5)	5	(42)	(83)	(133)
Operating result (management basis)	379	182	251	12	(97)	727
Realised gains						201
Unrealised (losses)/gains, impairments and foreign exchange						(44)
Interest costs						(117)
Amortisation and impairment of intangible assets						(114)
Solvency II costs						(30)
Acquisitions and disposals						(10)
Profit before tax (per condensed consolidated income statement)						613
Combined operating ratio (%)	85.4	91.6	99.6	98.7	-	94.9

The Group's results are not subject to any significant impact arising from the seasonality or cyclicity of operations, although there is some seasonality in the regions within which the Group operates.

With effect from 1 January 2012, we restructured the business into four operating segments, Scandinavia, Canada, UK & Western Europe, which includes Ireland and Italy, and Emerging Markets, which remains unchanged. As previously indicated, from 1 January 2012 the investment result comprises investment income and unwind of discount. The comparative information has been restated accordingly, including operating earnings per share.

3. Earnings per share

The earnings per share is calculated by reference to the result attributable to the ordinary shareholders of the Parent Company and the weighted average number of shares in issue during the period. On a basic and diluted basis these were 3,534,577,360 and 3,576,531,553 respectively (excluding those held in ESOP and SIP trusts). The number of shares in issue at 31 December 2012 was 3,589,761,696 (excluding those held in ESOP and SIP trusts).

4. Changes in estimates of amounts reported in prior financial years

During 2012, changes to claims reserve estimates made in prior years as a result of reserve development is included in the prior year profit of £191m (2011: £229m).

The Group pension fund deficit net of tax as at 31 December 2012 is £207m (31 December 2011: £140m). Further information on the movement in pension fund is included on page 16.

5. Ordinary share and loan issues and repayments during the year

During 2012, 19,335,754 (2011: 18,409,921) ordinary shares were issued on the exercise of employee share options. The Company also issued 45,594,331 (2011: 16,660,432) ordinary shares under the scrip scheme approved by the shareholders at the 2009 Annual General Meeting.

6. Cashflows from operations reconciliation to operating cashflow (management basis)

	12 Months 2012 £m	12 Months 2011 £m
Cash generated from operations	165	104
Investment income	526	597
Net purchase of property and equipment	(13)	(23)
Net purchase of intangibles	(146)	(159)
Dividends received from associates	1	1
Other items	19	10
Operating cashflow (management basis)	552	530

7. Business combinations

Acquisition of subsidiaries

On 31 July 2012, the Group acquired 96.7% of the share capital of El Comercio Compañía de Seguros and 99.9% of the share capital of Aseguradora de Créditos y Garantías, two sister companies in Argentina. The fair values of identifiable assets acquired comprise investments of £2m, intangible assets (excluding goodwill) of £11m, other assets of £68m and cash and cash equivalents of £70m. The fair values of liabilities assumed comprise insurance contract liabilities of £108m and other liabilities of £35m. The total cash consideration paid was £47m and goodwill of £39m arose on this acquisition.

On 1 October 2012, the Group acquired 100% of the share capital of L'Union Canadienne, Compagnie d'assurances. The fair values of identifiable assets acquired comprise investments of £151m, intangible assets (excluding goodwill) of £32m, other assets of £78m and cash and cash equivalents of £4m. The fair values of liabilities assumed comprise insurance contract liabilities of £160m and other liabilities of £22m. The total cash consideration paid was £96m and goodwill of £13m arose on this acquisition.

During the year a number of small acquisitions were completed in Canada. These acquisitions principally comprised of insurance intermediaries and increase the Group's insurance activity in each of the countries. The total cash consideration paid was £28m and goodwill of £15m arose on these acquisitions.

Fair values of identifiable assets acquired and liabilities assumed for all business combinations in the year:

	Total £m
Provisional fair values of identifiable assets acquired and liabilities assumed	
Investments	153
Intangible assets (excluding goodwill)	63
Other assets	152
Cash and cash equivalents	74
Insurance contract liabilities	(269)
Other liabilities	(69)
Net assets acquired	104
Cash consideration	171
Total consideration paid	171
Goodwill on acquisitions	67

The above values are provisional pending the final agreement of completion accounts which will determine the consideration payable.

The fair value of the financial assets acquired, included within other assets, includes premiums and insurance debtors of £146m, with no reduction on their nominal value to take account of balances that are expected to be uncollectable.

During 2012 there were no significant changes in the recognised amounts of contingent consideration, and no changes in the range of outcomes, in respect of business combinations completed in earlier years.

Acquisition related costs for acquisitions concluded during the period (included in other operating expenses in the income statement for the year ended 31 December 2012) amounted to £2m.

As a result of the above acquisitions the Group recognised £2m of non controlling interests. The non controlling interests are measured as the proportionate share of the identifiable acquired net assets.

If the acquisitions had occurred on 1 January 2012, the contribution to the Group's net written premiums and fee income for the year would have been £264m and the contribution to the Group's profit after tax for the year would have been £5m. The total net written premiums and fee income of the acquired businesses since the acquisition dates included in the Group's net written premiums for the year is £85m. The total profit after tax of the acquired businesses since the acquisition dates included in the Group's profit for the year is £1m.

The goodwill recognised on the acquisition of L'Union Canadienne, Compagnie d'assurances arises primarily from the premium paid to significantly expand the Group's presence in the Quebec region and to enhance the Group's Canadian proposition in both Personal and Commercial lines. Goodwill arising on the acquisitions in Argentina and Canada is further derived from the value of the workforces acquired and the significant synergies from reinsurance, capital and expense savings on integration into the Group.

Of the total goodwill recognised, £7m is expected to be deductible for income tax purposes.

Disposal of subsidiaries

No subsidiaries were disposed of during the year. There was a £1m profit on disposal of subsidiaries in 2011.

Changes in the carrying value of goodwill during the period were as follows:

	2012 £m	2011 £m
Gross goodwill		
At 1 January	663	650
Recognised in period	67	112
Impairments	-	(71)
Net foreign exchange rate movement	(10)	(28)
At 31 December	720	663

No goodwill impairment charges have been recognised within other operating expenses during 2012 (2011: £71m).

8. Dividends

	31 December 2012		31 December 2011	
	Per share p	Total £m	Per share p	Total £m
Ordinary dividend				
Final paid in respect of prior year	5.82	206	5.70	198
Interim proposed/paid in respect of current year	3.41	121	3.34	118
	9.23	327	9.04	316
Preference dividend		9		9
		336		325

9. Exchange rates

Local currency/£	12 Months 2012		12 Months 2011	
	Average	Closing	Average	Closing
Canadian Dollar	1.58	1.62	1.59	1.58
Danish Krone	9.18	9.20	8.59	8.90
Swedish Krona	10.73	10.57	10.41	10.65
Euro	1.23	1.23	1.15	1.20

10. Results for 2012

The financial information set out in this preliminary announcement does not constitute the statutory accounts for the year ended 31 December 2012. The financial information is derived from the statutory accounts for that year which will be delivered to the Registrar of Companies following the Annual General Meeting to be held on 15 May 2013. The independent auditors' report on the Group accounts for the year ended 31 December 2012 is unqualified, does not draw attention to any matters by way of emphasis and does not include a statement under section 498(2) or (3) of the Companies Act 2006.

RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- The financial statements within the full Annual Report and Accounts, from which the financial information within this preliminary announcement has been extracted, are prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group,
- The management report within this preliminary announcement includes a fair review of the development and performance of the business and the position of the Group, and
- The estimation techniques, risks, uncertainties and contingencies section within this preliminary announcement includes a description of the principal risks and uncertainties faced by the Group.

Signed on behalf of the Board

Simon Lee
Group Chief Executive

19 February 2013

Richard Houghton
Group Chief Financial Officer

19 February 2013

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IMMEDIATE

5 November 2013

**RSA Insurance Group plc
Interim Management Statement**

Severe weather events in 2013 continue; expect 2013 full year weather losses to be materially above planning assumptions

Year to date premium growth¹ of 7% and net asset value² of 99p per share

Expect 2013 return on equity to be below 10%

- Severe European windstorm and continuing adverse weather in Canada mean that we now expect 2013 return on equity to be below 10%.
- Net written premiums up 7%¹ to £6.7bn:
 - Scandinavia flat¹ at £1,484m;
 - Canada up 14%¹ to £1,340m;
 - Emerging Markets up 17%¹ to £1,033m;
 - UK & Western Europe up 3%¹ at £2,838m.
- Economic capital surplus of £1.3bn at 99.5% calibration, covering the capital requirement 1.6 times. IGD surplus of £0.8bn; covering capital requirement 1.5 times.
- Net asset value (excluding IAS 19 pension deficit) of 99p per share (30 June 2013: 103p).

Simon Lee, Group Chief Executive of RSA, commented:

"Premiums have grown 7% over the first three quarters. This was led by Canada, up 14%, which continued to benefit from the 2012 acquisition of L'Union Canadienne. Emerging Markets grew by 17% driven by the acquisitions in Argentina in 2012 and good performances across Asia, Central and Eastern Europe and the Middle East. Scandinavian premiums were flat while the UK & Western Europe grew 3% as we continue to focus on improving performance in the UK and in Italy.

"2013 is proving to be an exceptionally tough year for weather events for the Group. Over the summer we saw the worst and the third worst natural catastrophe insurance events on record in Canada, followed by continued adverse weather across the country during the third quarter. More recently, Northern Europe suffered a severe windstorm on 27 and 28 October. Our priority has been to provide the support our customers need to get back on track as quickly as possible.

"Assuming no further major weather events in 2013, we now expect the impact of adverse weather across the Group to be around 1.5% points above our planning assumption. We now anticipate 2013 return on equity to be below 10%."

¹ at constant exchange rate

² excluding IAS 19 pension deficit

Net Written Premiums

	Personal	Commercial	Global Specialty Lines	9 Months 2013	9 Months 2012	Change as reported	Change constant fx
	£m	£m	£m	£m	£m	%	%
Scandinavia	802	518	164	1,484	1,403	6	-
Canada	918	227	195	1,340	1,179	14	14
Emerging Markets	478	411	144	1,033	887	16	17
UK & Western Europe	1,275	957	606	2,838	2,728	4	3
Group Re	-	46	-	46	16		
Total Group	3,473	2,159	1,109	6,741	6,213	8	7
Associates				242	218	11	11
Total Group (incl. associates)				6,983	6,431	9	7

The Group has delivered growth of 7% at constant exchange over the first three quarters. There was strong growth in Canada and Emerging Markets with lower growth in the UK & Western Europe reflecting continued active management of the portfolio. Our Global Specialty Lines business has grown by 7% at constant exchange to £1.1bn with solid growth in Risk Managed and Construction & Engineering.

2013 update and outlook

We are confident in continuing to deliver good premium growth on a constant exchange rate basis.

The Group's underwriting profit has been affected by extreme weather events in 2013. As discussed at our interim results in August, our Canadian business was affected by the worst Canadian natural catastrophe on record in June, in Alberta (RSA net loss: £46m), and the third worst on record in July, in Toronto and the surrounding areas (RSA net loss: £37m).

On 27 and 28 October, a severe windstorm affected Northern Europe, including the UK, Scandinavia and the Baltics. The majority of the UK was affected by peak wind speeds of 60mph or less, with the most extreme conditions apparent in relatively unpopulated areas. Less severe rainfall and the short duration of the storm in the UK mean that, to date, there have been relatively limited claims.

Scandinavia, in contrast, experienced very strong winds in several heavily populated areas. The storm increased in strength over the North Sea and over Denmark, with wind speeds hitting more than 110mph, the highest ever measured in Denmark. This was reflected in the level of building damage with an exceptionally high level of roof damage. In addition, the storm tracked directly over the heavily insured areas of Aarhus and Copenhagen in Denmark, and Malmo and Gothenburg in Sweden. The average wind speed was 88mph and the damage was primarily caused by wind damage with minimal impact from rainfall.

Whilst it is still early, our initial estimate of the net loss across RSA's UK, Scandinavian and Baltics businesses is £45m-£65m with the significant majority of this falling in Scandinavia.

We have also suffered from continued adverse weather in Canada during the third quarter. We expect that this, together with the extreme weather events noted above, will result in a full year 2013 weather loss ratio that is around 1.5% points above our planning assumption of 2.2%, assuming no further major weather events.

In line with our understanding of developing trends across the motor market in Ireland, we have seen the emergence of adverse bodily injury trends. As a result of this, we are in the process of reviewing our Irish bodily

injury reserves. This review is continuing and it is too early at this stage to draw any firm conclusions or to reliably estimate the likely financial impact. Nevertheless, it is probable that we will need to strengthen our Irish bodily injury reserves and this will also adversely impact the Group's 2013 performance.

Whilst our medium term guidance is unchanged, we now expect 2013 return on equity to be below 10%. Investment income remains comfortably on track for around £470m.

We are continuing to deliver a series of investor briefings for 2013 and 2014 to provide more detail to the market on the significant opportunities we see across RSA. The next of these briefings will take place on 12 November 2013 and will cover our Scandinavian business.

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Conference Call

A conference call for analysts and investors will be held at 8:30am on Tuesday 5 November to discuss the Q3 Interim Management Statement. Participants should call 0800 358 5256 from the UK or +44 (0)20 8515 2301 from elsewhere quoting reference "RSA Q3 2013 Interim Management Statement". Scanning the QR code opposite will download details of the conference call to a smart phone. A webcast of the call will be available via the company website (www.rsagroup.com).



About RSA

With a heritage of over 300 years, RSA is one of the world's leading multinational quoted insurance groups. RSA has major operations in the UK, Scandinavia, Canada, Ireland, Latin America, Asia and the Middle East and Central and Eastern Europe and has the capability to write business in around 140 countries. Focusing on general insurance, RSA has around 23,000 employees and, in 2012, its net written premiums were £8.4 billion.

Important disclaimer

This press release and the associated conference call may contain 'forward-looking statements' with respect to certain of the Group's plans and its current goals and expectations relating to its future financial condition, performance, results, strategic initiatives and objectives. Generally, words such as "may", "could", "will", "expect", "intend", "estimate", "anticipate", "aim", "outlook", "believe", "plan", "seek", "continue" or similar expressions identify forward-looking statements. These forward-looking statements are not guarantees of future performance. By their nature, all forward-looking statements are inherently predictive and speculative and involve risk and uncertainty because they relate to future events and circumstances which are beyond the Group's control, including amongst other things, UK domestic and global economic business conditions, market-related risks such as fluctuations in interest rates and exchange rates, the policies and actions of regulatory authorities, the impact of competition, inflation, deflation, the timing impact and other uncertainties of future acquisitions or combinations within relevant industries, as well as the impact of tax and other legislation or regulations in the jurisdictions in which the Group and its affiliates operate. As a result, the Group's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set forth in the Group's forward-looking statements. Forward-looking statements in this press release are current only as of the date on which such statements are made. The Group undertakes no obligation to update any forward-looking statements, save in respect of any requirement under applicable law or regulation. Nothing in this press release shall be construed as a profit forecast.

Scandinavia: Further progress in Denmark and robust rate increases across the region

Premiums in Scandinavia of £1.5bn up 6% on a reported basis but flat at constant exchange.

Net Written Premiums	9 Months 2013	9 Months 2012	Movement as reported	Movement at constant exchange	
	£m	£m	%	%	
Personal					
Household	252	228	11	5	
Motor	321	313	3	(3)	
Personal Accident and Other	229	208	10	4	
Total Personal	802	749	7	1	
Commercial					
Property	243	235	3	(2)	
Liability	110	102	8	3	
Motor	184	175	5	(1)	
Marine and other	145	142	2	(3)	
Total Commercial	682	654	4	(1)	
Total Scandinavia	1,484	1,403	6	-	
Sweden	798	734	9	2	
Denmark	541	542	-	(5)	
Norway	145	127	14	11	
Total Scandinavia	1,484	1,403	6	-	
Rate Increases (%)¹	Personal		Commercial		
	Household	Motor	Property	Liability	Motor
Sep 13 vs Sep 12	6	2	4	5	5
Jun 13 vs Jun 12	8	3	3	4	4
Mar 13 vs Mar 12	9	3	3	4	4
Dec 12 vs Dec 11	12	3	1	4	5
Sep 12 vs Sep 11	12	2	6	-	4

Growth in Sweden of 2% has been driven by good new business in Household and PA across all channels, including our relationship with SEB, together with a small increase in Commercial Motor, offset by lower volumes in Marine. We've continued to achieve rate increases across all major lines in Sweden.

In Denmark we continue to make progress in returning the business to stronger profitability. In particular, we have continued to push hard on risk selection and targeted rate increases and, as a result, we've seen volume reductions across most lines, with premiums down 5%.

Norway grew 11% at constant exchange driven by strong volume increases together with further rate rises. Growth has been particularly good in Household, as we benefit from strong volumes coming through our agent distribution network, as well as our relationship with SEB. We've also seen growth of 31% in Care, emanating in part from our strategic partner, Vertikal.

Since the quarter end, the Scandinavian region was affected by a severe windstorm on 28 October, with record wind speeds and high levels of building damage. As a result, there have been a high level of claims notifications and, whilst it is still early, we expect significant claims costs in Scandinavia.

¹Rating increases reflect rate movements achieved for risks renewing in the month versus comparable risks renewing in the same month the previous year

Canada – Premiums up 14%. Underlying growth supported by good rate increases and strong retention

Premiums in Canada were up 14% at constant exchange to £1.3bn. Underlying growth excluding the 2012 acquisition of L'Union Canadienne (UC) was 4% with good rate and strong retention. UC contributed premiums of £114m at Q3 2013, which was in line with our expectations.

Net Written Premiums	9 Months 2013	9 Months 2012	Movement as reported	Movement at constant exchange
	£m	£m	%	%
Personal				
Household	348	282	23	23
Motor	570	520	10	10
Total Personal	918	802	14	14
Commercial				
Property	184	162	14	14
Liability	110	102	8	8
Motor	83	72	15	15
Marine and other	45	41	10	10
Total Commercial	422	377	12	12
Total Canada	1,340	1,179	14	14

Rate Increases (%)¹	Personal		Commercial		
	Household	Motor	Property	Liability	Motor
Sep 13 vs Sep 12	7	-	5	2	2
Jun 13 vs Jun 12	7	-	4	3	3
Mar 13 vs Mar 12	7	1	4	2	2
Dec 12 vs Dec 11	11	3	4	2	2
Sep 12 vs Sep 11	12	2	3	1	-

In Personal, premiums of £918m were up 14% with UC contributing 10 points of growth. Underlying growth of 4% was driven by volume and rate increases. Rate increases were achieved across most major product lines and provinces, whilst volume increases were mainly driven by Household where we saw good levels of new business in the Pacific region.

Commercial premiums of £422m were up 12%, with UC contributing 8 points. Underlying growth of 4% reflects continued robust rate increases. We continue to see strong retention levels across our Commercial business and our focus in Q4 and through into early 2014 will be on further rate increases and underwriting actions in targeted segments.

Our estimate for the net loss to RSA from the flooding in Toronto and the surrounding areas in July stands at £37m. Our estimate for the net loss from the June floods in Alberta is £46m.

¹Rating increases reflect rate movements achieved for risks renewing in the month versus comparable risks renewing in the same month the previous year

Emerging Markets – Continued strong growth across the region

Emerging Markets continues to deliver strong growth with net written premiums of £1.0bn up by 17% at constant exchange. Total premiums, including our non-consolidated associates in India and Thailand, are £1.3bn representing growth of 16% at constant exchange.

Underlying growth, excluding the impact of our 2012 acquisitions in Argentina and our exits of the Czech Republic and Dutch Caribbean, was 12%.

Net Written Premiums	9 Months 2013	9 Months 2012	Movement as reported	Movement at constant exchange
	£m	£m	%	%
Latin America	608	529	15	18
CEE & ME	311	265	17	14
Asia	114	93	23	20
Total Emerging Markets	1,033	887	16	17
Asian Associates	242	218	11	11
Asia (incl. Associates)	356	311	14	14
Total Emerging Markets (incl Associates)	1,275	1,105	15	16

In Latin America, premiums were up by 18% at constant exchange to £608m. Growth has been driven by the acquisitions made in 2012 in Argentina and also by continued strong growth in our affinity channel. During 2013 we have signed 14 new affinity deals across the region.

In Central and Eastern Europe and the Middle East, premiums were up by 14% at constant exchange to £311m. Adjusting for the exit of the Czech Republic in June 2012, underlying growth is 16%. There was strong growth in all countries, in particular Oman, up 23%, Lithuania, up 11% and Poland, up 10%, supported by continued increasing new business volumes across the region.

We have seen further good growth in Asia with premiums of £114m up by 20% at constant exchange driven by strong performances in our retail businesses across the region, particularly in Hong Kong.

Our associates delivered good growth, with premiums of £242m up by 11% at constant exchange.

Consistent with our reporting at the half year, we remain confident that the business will continue to deliver expense ratio improvements from operating leverage during 2013.

UK and Western Europe – Premiums up 3% with further progress from management actions

Net Written Premiums	9 Months	9 Months	Movement	Movement
	2013	2012	as	at constant
	£m	£m	reported	exchange
			%	%
UK	2,278	2,213	3	3
Western Europe	560	515	9	4
Total UK & Western Europe	2,838	2,728	4	3

UK and Western Europe premiums were up 3% at constant exchange as we continue to actively manage the portfolio and refocus the business. We've made further progress in reducing exposure to less attractive segments and growing in areas where we believe we can deliver shareholder value.

UK – Continuing focus on underwriting profit over volume

Net Written Premiums	9 Months	9 Months	Movement	Movement
	2013	2012	as	at constant
	£m	£m	reported	exchange
			%	%
Personal				
Household	515	497	4	4
Motor	307	326	(6)	(6)
Pet	171	179	(4)	(4)
Total Personal	993	1,002	(1)	(1)
Commercial				
Property	358	358	-	-
Liability	199	201	(1)	(1)
Motor	472	416	13	13
Marine	256	236	8	8
Total Commercial	1,285	1,211	6	6
Total UK	2,278	2,213	3	3

Rate Increases (%) ¹	Personal		Commercial		
	Household	Motor	Property	Liability	Motor
Sep 13 vs Sep 12	-	(2)	3	3	4
Jun 13 vs Jun 12	1	(3)	4	5	3
Mar 13 vs Mar 12	2	(4)	4	3	4
Dec 12 vs Dec 11	3	(2)	4	6	10
Sep 12 vs Sep 11	4	1	4	4	9

In UK Personal, premiums were down 1% at £993m. We've seen continued strong growth of 4% in Household driven by new deals in Affinity and Broker. Pet was down 4% due to the pipeline premium adjustment discussed at the half year. Underlying growth in Pet was good and included a strong contribution from our partnership with John Lewis. We have also secured a new relationship with the RSPCA. Motor was down 6% driven by lower volumes as we continue to follow our strategy of prioritising profit over volume.

¹Rating increases reflect rate movements achieved for risks renewing in the month versus comparable risks renewing in the same month the previous year. Commercial Motor rate excludes rate on a large multi-year contract.

We are continuing to work hard to refocus our UK Commercial business and we are making good progress. Premiums grew 6% to £1.3bn. Motor was up 13% driven mainly by rating actions. Excluding Motability, Commercial Motor premiums were down 8% reflecting the targeted reductions we have made. Our new arrangement with Motability was effective on 1 October. Under this new arrangement RSA will underwrite 20% of the overall scheme, and we therefore expect premiums to fall from current levels of around £400m p.a (which represent 100% of the scheme) to around £350m this year, before falling significantly in 2014.

Property was flat with rate increases offset by targeted volume reductions. Liability premiums were down 1% as we maintain discipline and focus on current year profitability in a challenging market. Headline growth of 8% in Marine reflects the change in the timing of the recognition of premiums that we discussed at the half year. Excluding this, underlying Marine premiums were broadly flat.

Since the quarter end, the UK was affected by a severe windstorm on the 27 and 28 October. Due to the short duration of the storm and less severe rainfall, there have been relatively limited claims to date in the UK.

Western Europe – Good growth in European Specialty lines; Italian remediation on track

Net Written Premiums	9 Months 2013	9 Months 2012	Movement as reported	Movement at constant exchange
	£m	£m	%	%
European Specialty lines	129	115	12	8
Ireland	291	265	10	5
Italy	140	135	4	(1)
Total Western Europe	560	515	9	4

In Western Europe, European Specialty delivered growth of 8% to £129m in particular in France and the Netherlands.

In Ireland, premiums were up 5% to £291m with growth in 123 and Commercial. In particular, we have been driving strong rate increases across Motor and have put through increases of 13% year-on-year in the month of September in response to the deteriorating bodily injury trends we have seen within our portfolio. As a result, we are in the process of reviewing our bodily injury reserves in Ireland.

In Italy, premiums of £140m were down 1% reflecting our ongoing discipline around pricing and risk selection as we remain on track in remediating the business. We continue to expect to be trading on a break even basis in Italy by the end of the year.

Investment Portfolio

The investment portfolio totalled £14.2bn at 30 September 2013, representing a fall of 1% on the position at 30 June 2013 caused primarily by adverse foreign exchange movements of £313m and adverse mark-to-market movements of £42m, partly offset by other movements of £280m. There were significant foreign exchange headwinds across our portfolio but most notably within our Danish Krone, Swedish Krona, Canadian Dollar and Euro holdings as these currencies weakened against Sterling during the quarter.

	Value 30 Jun 2013 £m	Foreign Exchange £m	Mark to Market £m	Other Movements £m	Value 30 Sep 2013 £m
Government Bonds	4,162	(87)	(21)	6	4,060
Non Government Bonds	7,455	(155)	(25)	105	7,380
Cash	1,250	(52)	-	181	1,379
Equities	618	(9)	12	(14)	607
Property	340	(1)	3	(4)	338
Prefs & CIVs	311	(7)	(11)	-	293
Other	137	(2)	-	6	141
Total	14,273	(313)	(42)	280	14,198

Split by currency:

Sterling	3,708	3,819
Danish Krone	1,411	1,332
Swedish Krona	2,368	2,297
Canadian Dollar	3,113	3,147
Euro	1,644	1,611
Other	2,029	1,992
Total	14,273	14,198

The portfolio remains invested in widely diversified fixed income securities, with 4% in equities, 10% in cash and 2% in property.

Average duration slightly decreased to 3.8 years (30 June: 3.9 years). The proportion of our bond portfolio held in non-government bonds is 65% (30 June 2013: 64%).

The quality of the bond portfolio remains very high with 97% investment grade and 66% rated AA or above. We are well diversified by sector and geography.

At 30 September 2013, balance sheet unrealised gains, gross of tax, were £459m (30 June 2013: £500m) and primarily relate to unrealised gains on the bond portfolio which we expect to reduce over time as our bond holdings reach maturity. Balance sheet unrealised equity gains amounted to £99m (30 June 2013: £103m).

We will continue to follow our high quality, low risk strategy. We remain comfortably on track to meet full year investment income guidance of around £470m in 2013.

Shareholders' Funds

	Shareholders' funds ex. IAS 19 £m	Pension deficit £m	Shareholders' funds £m	Shareholders' funds ex. IAS 19 per share	Shareholders' funds per share
30 June 2013	3,882	(251)	3,631	103p	96p
30 September 2013	3,732	(257)	3,475	99p	92p

During the third quarter of 2013, shareholders' funds excluding the pension scheme deficit decreased by 4% to £3,732m, reflecting foreign exchange losses and the declaration of the interim dividend which more than offset profits generated in the period.

The deficit on the pension schemes as at 30 September 2013 was £257m compared with £251m at 30 June 2013. The movement reflects an increase in the pension inflation rate to 3.1% (30 June 2013: 3.0%), partly offset by higher than expected returns on pension plan assets.

Shareholders' funds including the pension scheme deficit were £3,475m, a decrease of 4% over the quarter.

Tangible net asset value (TNAV) per share at 30 September 2013 was 51p (30 June 2013: 54p). Excluding IAS 19, TNAV per share was 58p (30 June 2013: 61p).

Capital position

	30 September 2013 Coverage	30 September 2013 Surplus £bn	30 June 2013 Surplus £bn
Insurance Groups Directive	1.5x	0.8	0.9
Economic Capital (1in 200 Calibration)	1.6x	1.3	1.3
Economic Capital (1in 1,250 Calibration)	1.3x	0.8	0.8

The IGD surplus at 30 September 2013 was £0.8bn (30 June 2013: £0.9bn) with coverage over the IGD requirement of 1.5 times. The reduction in surplus mainly reflects the impact of the interim dividend and foreign exchange which has more than offset profits generated.

The ECA surplus, on both a 1 in 200 per annum and a 1 in 1,250 per annum calibration, was unchanged from the position at the half year. This reflected profits generated in the period which were broadly offset by the accrual of the interim dividend.

Foreign Exchange Rates

Foreign exchange rates used to translate the 2013 and 2012 consolidated results included in this statement are as follows:

Local currency/£	Average		30 September 2013	Closing	
	9 Months 2013	9 Months 2012		30 June 2013	31 December 2012
Canadian Dollar	1.58	1.58	1.66	1.60	1.62
Danish Krone	8.76	9.16	8.92	8.70	9.20
Swedish Krona	10.09	10.75	10.40	10.24	10.57
Euro	1.17	1.23	1.20	1.17	1.23

Forthcoming events

12 November 2013	Scandinavia investor and analyst briefing
22 November 2013	Payment of the ordinary interim dividend for 2013
27 February 2014	2013 Preliminary Results announcement



ODL Update for the CLLAS Firms

Presented to the CLLAS Board – December 11, 2013

Overview

- Background
- Scope of Coverage
- ODL Claims
- ML/EPL Claims
- Premium History
- Benefits to CLLAS Firms
- Questions and Comments

Background

- History of the ODL program
- CBIA involvement
- CLLAS involvement
- Axxima management of CBIA ODL Program
- Introduction of Excess Coverage
- Additional limits available
- Introduction of ML/EPL Coverage
- Introduction of Law Society Coverage
- CBIA intends to offer full Board Coverage as well

Axxima: CBIA Programs

The following consultants are responsible for the CBIA Insurance Programs:

- **Strategic Advice**
 - Joe Tontini and Ryan Durrell
- **Underwriting and Policy Analysis**
 - Ryan Durrell and Chris Marley
- **Insurance Brokerage Services**
 - Joe Tontini, Ryan Durrell and Chris Marley
- **Claims Management Services**
 - Patrick Mahoney and Norma Ibbetson
- **Actuarial Services**
 - Julie-Linda Laforce and Ryan Durrell
- **Accounting and Lloyd's Reporting Services**
 - Cecilia Jeganathan and Elena Cealaia

ODL Program Client Profile

- Profile of ODL Book of Business
 - > 5,000 lawyers sitting on > 6,000 boards
 - Options: Individual/Group Select/Group All
 - > 80% of premiums from < 20% of law firms
 - > 90% of directorships are either not-for-profit or private company
 - > 50% have no underlying insurance
- Profile of ML/EPL and Excess ODL Business
 - Fewer policies – larger law firms

Scope of Coverage

- “Side A” Type Coverage
- Group All vs. Group Select
- Vicarious liability coverage applies to the law firm
- ML/EPL Coverage
- CLLAS participation
- CLLAS Firms with ODL/ML/EPL Coverage
- Law Society Coverage and how CLLAS coverage interacts
- Limits purchased by CLLAS firms

ODL Claims

- ODL policy responds when
 - Outside Board coverage has insufficient limits
 - Outside Board coverage is not as broad as the ODL policy
 - Outside Board indemnity protection is not available
- Many ODL claims arise out of bankruptcies and any one of the above scenarios are possible
- Claims are typically launched by shareholders, employees or another interested party like the CRA
- Program loss experience has been relatively good but there has recently been a total loss reserve posted for a non-CLLAS firm which may affect future premiums

Example of Potential ODL Claim



- **Class action commenced against Poseidon Concepts Corp.**
- **Overview:**
- On November 27, 2012, a proposed class action was commenced against Poseidon Concepts Corp. (“Poseidon”) and certain of its officers and directors. Poseidon is a publicly traded Canadian energy equipment and services company that provides a fluid handling system to the oil and natural gas industry in North America.
- The launch of the proposed class action follows Poseidon's disappointing third quarter results released on November 14, 2012, which sparked a 62% drop in share value the following day, eliminating \$667 million of shareholders' equity. The claim alleges, among other things, that the defendants made materially false and misleading statements regarding Poseidon's financial position, financial performance, and cash flows, overstated the company's incomes and reported inflated assets.
- The proposed class action is brought on behalf of all persons (other than certain excluded persons associated with the defendants) who acquired securities of Poseidon on or prior to November 14, 2012, whether through a prospectus or on the secondary market.
- Poseidon released a statement on November 29, 2012 indicating that it intends to “vigorously defend” the lawsuit.
- The action seeks damages of \$200 million.

ML/EPL Claims

- Claims brought by partners not involved in the firm's management -- an internal exposure that law firms should insure just like corporate entities have a need to buy traditional D&O insurance policies
- Claims of mismanagement or negligence in the day-to-day business decisions made by the firm's management committee or executive officers
- Claims arising out of a partnership agreement or compensation disputes including for actual or alleged wrongful termination, discrimination, harassment, retaliation, third-party discrimination, third-party harassment, and other workplace torts
- Coverage for subsidiaries
- There have been a number of ML/EPL claims which have resulted in significant paid or reserved defence costs

Example of Potential ML/EPL Claim



Woman alleges sexual discrimination in lawsuit against Toronto-based firm

Excerpt from:

http://www.thestar.com/news/gta/2011/02/15/woman_alleges_sexual_discrimination_in_lawsuit_against_torontobased_firm.html

According to allegations filed in court, a senior partner at (a major Toronto law firm) made an oral sex joke about a female client, said Harvard University was filled with pretty women “pretending to get a legal education,” and once said he hated working with female lawyers because they get pregnant and leave.

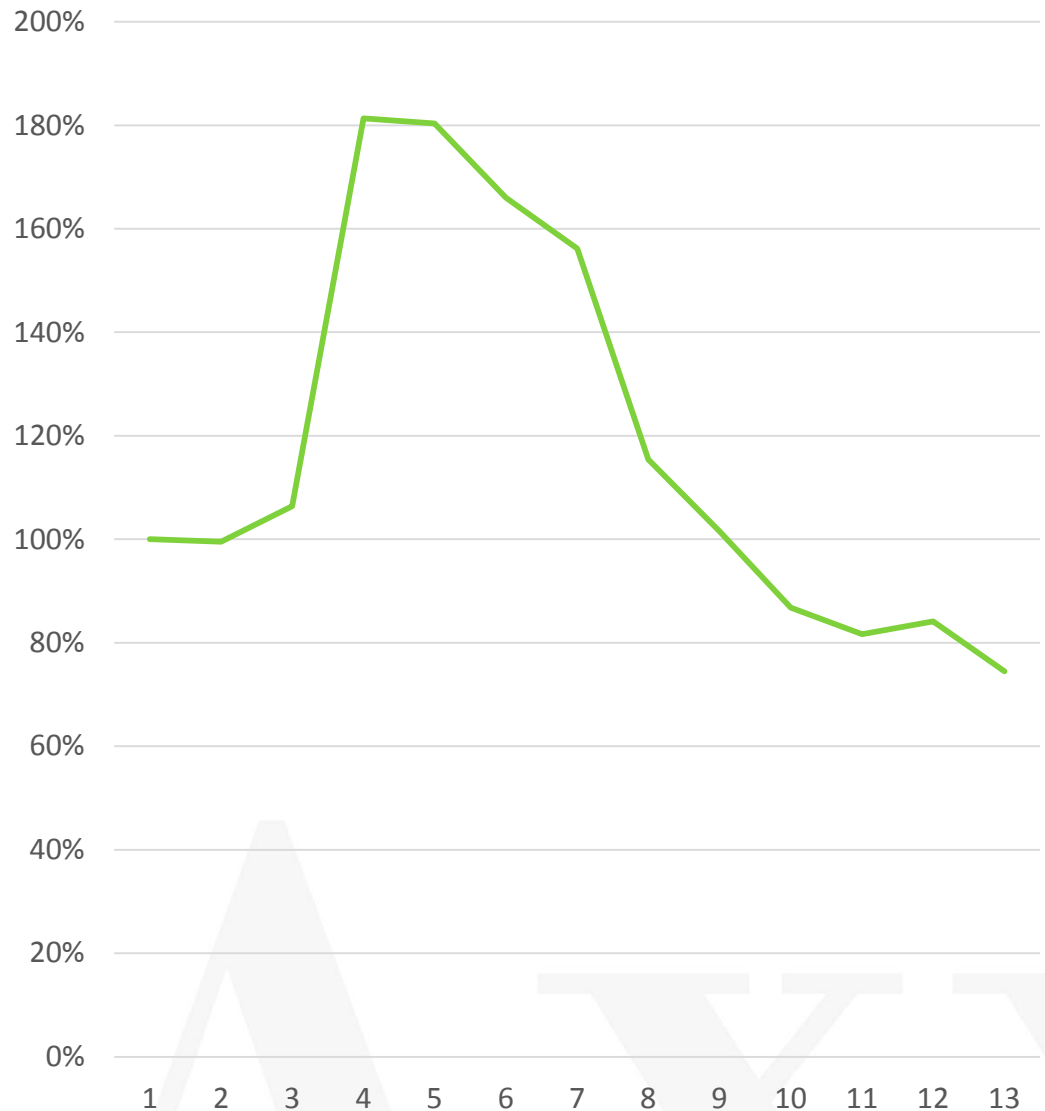
The lawyer also alleges the partner told her she “must be more than a pretty face” and was “not helping herself by coming to work looking well put together.”

*Michele Henry
Staff Reporter*

Premium History

- History of the program since year 2000 – CLLAS history not dissimilar
- Huge spike following September 11, 2001
- Steady reductions in premium since that time
- Overall reductions caused by
 - Premium reductions due to good loss experience
 - Law firms deciding to reduce directorships or reduce coverage
 - CBIA premium credit
- We can expect premiums to level off or increase slightly due to recent large loss in the program

Premium Index

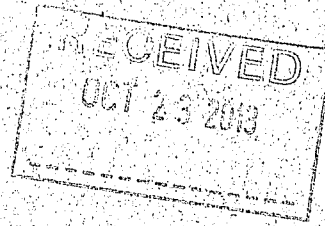


Benefits to CLLAS Firms

- Limits of up to \$30 Million
- CLLAS firms have enjoyed
 - Lloyd's premium discounts
 - CBIA credit due to profit sharing
 - Waiving of surcharge for extended reporting period coverage
 - Special CLLAS discount of 5%
- As the largest buying group CLLAS has significant influence on the CBIA Program, including wordings, etc.
- CBIA/Lloyd's reinsurance as a possible alternative
- CBIA plans to offer separate coverage for the rest of the Board that lawyers sit on as outside directors – this has the added benefit of reducing the firm's ODL premium

Questions / Comments





CLLAS
CANADIAN LAWYERS LIABILITY
ASSURANCE SOCIETY

INVESTMENT REPORT
SEPTEMBER 30, 2013

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CLLAS

CANADIAN LAWYERS LIABILITY **ASSURANCE SOCIETY**

COMMENTARY FOR THE QUARTER ENDING SEPTEMBER 30, 2013

Review of Market Yields

Yields across the entire curve moved gradually higher during the first two months of the third quarter. However, over the balance of the period this upward move was mostly retraced. At the end of September, yields at the short end of the curve were down 3 basis points, while the yields on 5 to 10 year Canadas rose 8 basis points on average.

As a result of these changes, the yield curve became slightly steeper, with the yield advantage of 10-year issues over Treasury Bills climbing to 1.56% from 1.42% at the end of June.

	Jan. 1/95	Mar. 31/13	Jun. 30/13	Sep. 30/13
3-Month Treasury Bills	6.80%	0.98%	1.01%	0.98%
5-year Canadas	8.99%	1.30%	1.80%	1.86%
10-year Canadas	9.09%	1.76%	2.44%	2.54%

At the end of the third quarter, the valuation of the Short Term Fund stood at \$13,325,821.

Activity in the account involved the roll-over of Treasury Bill and Banker's Acceptance maturities. Subsequent to the quarter's end, the closing cash balance was reinvested in a Banker's Acceptance issue.

CLLAS
SHORT TERM INVESTMENT FUND

**TIME-WEIGHTED RATES OF TOTAL RETURN
FOR PERIOD ENDING SEPTEMBER 30, 2013**

	Since Inception Oct. 1/08 *	Three Years*	Two Years *	One Year	Last 3 Months
<i>Short Term Investment Fund – Gross of Fees</i>	<i>0.82%</i>	<i>0.92%</i>	<i>0.91%</i>	<i>0.92%</i>	<i>0.25%</i>
<i>Short Term Investment Fund – Net of Fees</i>	<i>0.69%</i>	<i>0.80%</i>	<i>0.80%</i>	<i>0.80%</i>	<i>0.22%</i>
Benchmark Portfolio **	0.77%	0.92%	0.92%	0.96%	0.26%

* Annualized

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

	Jan. 1/95	Mar. 31/13	Jun. 30/13	Sep. 30/13
Short Term Average Duration	N/A	0.11	0.10	.09

COMPLIANCE WITH INVESTMENT POLICY STATEMENT

<i>September 30, 2013</i>	Investment Limits	Investment Funds	Compliance
<i>Short Term Investment Fund</i>			
Maximum Term of Any Issue	1 year	0.2 years	Yes
Minimum Canada & Provincial Percentage	50%	52.6%	Yes
Minimum Provincial Quality	A	N/A	Yes
Minimum Bank CD & BA Quality	R1	R1	Yes

This will confirm that the Short Term Investment Fund is in compliance with the Investment Policy Statement dated May 5, 2012.

CLLAS

Turning to the global backdrop, economic indicators have been improving in several important regions. In China, better than expected gains in internal and external demand pushed third quarter GDP up 7.8%, indicating the world's second largest economy has started to rebound from its two-quarter slowdown. Recent surveys also show the service and manufacturing sectors are again in expansion mode. While it is still early, this suggests that the authorities are making some progress as they try to transition the economy away from its heavy dependence on capital spending and exports to rely more on domestic demand for growth. Meanwhile, Japan's economy continues to strengthen and deflationary pressures have abated, although a looming tax increase may weigh on their recovery going forward. In Europe, growth in the UK has been accelerating and the euro area has managed a modest turnaround. Easing financial conditions and some lessening in fiscal austerity have helped turn growth in the euro zone positive in the latest period, following six consecutive quarters of contraction.

Despite the above noted improvements, the International Monetary Fund (IMF) has just shaved its world growth forecast to 2.9% for this year. This downgrade was partly due to the recent capital flight experienced by some developing nations, particularly those that rely heavily on foreign financing, such as India. While the dimmed economic prospects for these emerging markets has called into question their ability to help fuel global growth going forward, based on ongoing improvements elsewhere, the IMF expects world growth to accelerate to 3.6% next year.

As for the security markets, the ongoing political battle in Washington has dominated investors' attention and the largely anticipated passage of stopgap measures has cleared a significant near term risk. However, the partial government shutdown has caused some economic damage and most forecasters expect U.S. fourth quarter growth will be reduced by at least .5%. Furthermore, none of the major issues were resolved and there is still no comprehensive budget framework that addresses the longer term U.S. fiscal imbalances. As a result, we expect the markets still face further bouts of budget uncertainty over the near term, as deeply divided legislators attempt to reach a long term budget accord by early next year.

This is a challenging juncture for investors and the likelihood that another round of political discord lies ahead amplifies the usual uncertainties. Looking beyond Washington politics, the expectation that global growth will accelerate modestly next year suggests that the extraordinarily stimulative monetary policies that are keeping yields artificially depressed will become less necessary. As a result, we continue to believe that the longer term secular trend is for yields to normalize by shifting higher. However, recent events have likely delayed the move to higher yields. The Canadian and U.S. authorities have repeatedly indicated that administered rates will be kept at extraordinarily low levels for an extended period, which means short term rates will remain anchored near current levels well into next year or even longer. Furthermore, any tapering in monetary stimulus is likely off the table for the near term, as the central banks assess the economic impact from the government shutdown and the heightened uncertainty it created. As a result, we believe mid and longer term yields will remain range bound for the next several months.

RWB/mab
October 21, 2013

As stipulated in our Investment Management Agreement, please let ML&S know if there are any 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, 2013

<u>Quantity</u>	<u>Security</u>	<u>Unit Cost</u>	<u>Price</u>	<u>Market Value</u>	<u>Annual Income</u>
CASH					
	Cash Account			1,006,817	0
MONEY MARKET ISSUES					
1,000,000	Toronto Dominion Bank BA 1.01% due October 1, 2013	99.75	100.00	999,968	10,065
500,000	CIBC BA 1.02% due October 4, 2013	99.73	99.99	499,940	5,081
2,500,000	Canada Treasury Bill .869% due October 10, 2013	99.87	99.97	2,499,335	21,696
1,500,000	FirstBank BA 1.00% due October 15, 2013	99.84	99.95	1,499,322	14,977
2,010,000	Canada Treasury Bill .869% due October 24, 2013	99.87	99.94	2,008,738	17,444
695,000	CIBC BA 1.02% due November 13, 2013	99.76	99.87	694,080	7,072
1,020,000	Toronto Dominion Bank BA 1.022% due November 21, 2013	99.76	99.84	1,018,391	10,399
2,500,000	Canada Treasury Bill .869% due December 5, 2013	99.80	99.83	2,495,645	21,682
605,000	CIBC BA 1.01% due December 16, 2013	99.75	99.77	603,585	6,095
				<hr/> 12,319,004	<hr/> 114,510
TOTAL PORTFOLIO				13,325,821	114,510

Martin, Lucas & Seagram Ltd.
PURCHASE AND SALE
CLLAS - SHORT TERM INVESTMENT FUND
From 07-01-13 To 09-30-13

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
08-15-13	08-15-13	1,500,000	Canada Treasury Bill .90% due August 15, 2013	100.00	1,500,000.00
08-19-13	08-19-13	1,000,000	CIBC BA .989% due August 19, 2013	100.00	1,000,000.00
08-19-13	08-19-13	1,195,000	Toronto Dominion Bank BA 1.022% due August 19, 2013	100.00	1,195,000.00
08-26-13	08-26-13	1,015,000	Bank of Nova Scotia BA 1.01% due August 26, 2013	100.00	1,015,000.00
08-29-13	08-29-13	2,010,000	Canada Treasury Bill .90% due August 29, 2013	100.00	2,010,000.00
09-12-13	09-12-13	2,500,000	Canada Treasury Bill .89% due September 12, 2013	100.00	2,500,000.00
09-17-13	09-17-13	595,000	CIBC BA .999% due September 17, 2013	100.00	595,000.00
09-30-13	09-30-13	1,000,000	Bank of Nova Scotia BA 1.012% due September 30, 2013	100.00	1,000,000.00
					19,095,000.00

Martin, Lucas & Seagram Ltd.										
EXTERNAL INDIVIDUAL CREDIT RATING REPORT - SEPTEMBER 30, 2013										
CLLAS - SHORT TERM INVESTMENT FUND										
Quantity	Security		Rating	Unit	Total	Price	Market	Pct.		
				Cost	Cost		Value	Assets		
CASH										
	Cash Account				1,006,817		1,006,817	7.6		
MONEY MARKET ISSUES										
1,000,000	Toronto Dominion Bank BA 1.01%	due October 1, 2013	R-1	99.75	997,490	100.00	999,968	7.5		
500,000	CIBC BA 1.02%	due October 4, 2013	R-1	99.73	498,635	99.99	499,940	3.8		
2,500,000	Canada Treasury Bill .869%	due October 10, 2013	R-1	99.87	2,496,668	99.97	2,499,335	18.8		
1,500,000	FirstBank BA 1.00%	due October 15, 2013	R-1	99.84	1,497,660	99.95	1,499,322	11.3		
2,010,000	Canada Treasury Bill .869%	due October 24, 2013	R-1	99.87	2,007,321	99.94	2,008,738	15.1		
695,000	CIBC BA 1.02%	due November 13, 2013	R-1	99.76	693,333	99.87	694,080	5.2		
1,020,000	Toronto Dominion Bank BA 1.022%	due November 21, 2013	R-1	99.76	1,017,521	99.84	1,018,391	7.6		
2,500,000	Canada Treasury Bill .869%	due December 5, 2013	R-1	99.80	2,495,005	99.83	2,495,645	18.7		
605,000	CIBC BA 1.01%	due December 16, 2013	R-1	99.75	603,514	99.77	603,585	4.5		
					12,307,147		12,319,004	92.4		
TOTAL PORTFOLIO										
					13,313,963		13,325,821	100		

MEMORANDUM

DATE: November 20, 2013
TO: Patrick Mahoney
FROM: Julie-Linda Laforce
RE: **Review of Investment Policy**

The Board discussed potential changes to CLLAS' Investment Policy at its February 2013 meeting (see background memo attached) given the implications on CLLAS of the June 30, 2012 Loss Portfolio Transfer (LPT). At that meeting, it was decided to defer consideration of this issue until CLLAS' Surplus Policy had been addressed (as again it needed to change in light of the LPT. As a result, the funds managed by the investment manager were not reinvested in accordance with the current Investment Policy but were maintained in short term investments pending further review. (Note that the long term investments were transferred to Colchester in payment of the LPT premium.)

A revised surplus policy was adopted at the June 2013 Board meeting. During the discussion at the June meeting, it was noted that the Alberta regulator was expected to conduct an audit of CLLAS during 2013 and that it would be helpful to have the results of that audit before finalizing the Investment Policy. The Alberta audit is almost complete but the Superintendent's office has advised that we should not expect to receive the report from the audit until the new year. Rather than waiting for the results of the audit, it would be preferable for CLLAS to implement any changes to its Investment Policy before the end of the calendar year, as the discount rate that is selected by the actuary in estimating CLLAS' liabilities is determined based on the yield of the investment portfolio.

We have therefore reviewed CLLAS's financial position as well as proposed changes to its investment policy. This memo presents our findings.

Background

Section 2.2 of Investment Policy (attached) provides that a minimum of 20% of CLLAS' investment fund be allocated to a Short-Term Investment Fund (basically T-bills, bonds maturing in less than one year, etc.) with the balance allocated to a Long-Term Investment Fund invested in the following mix of bonds, with a maximum term to maturity of ten years:

- Minimum 40% in Canada government bonds;
- Maximum 40% in provincial government bonds; and
- Maximum 20% in corporate bonds rated A or better.

Performance of the Long-Term Investment Fund is measured against a benchmark of 60% Short Term DEX and 40% mid-term DEX. There is no benchmark on the Short Term Fund.

Analysis

As of June 30, 2013, CLLAS has close to \$18 million available for investments comprised of \$4.8 million held in cash and \$13.2 million held in Short Term bonds. As a result of the LPT and the current reinsurance structure pursuant to which CLLAS retains only the “drop-down exposure” below \$1 million, the net liabilities in CLLAS are almost exclusively made up of unallocated loss adjustment expenses (ULAE) and a provision for adverse deviations (PFAD). Therefore, their duration is not particularly relevant to the investment policy as these amounts are not expected to be paid unless CLLAS goes into run-off.

Although CLLAS has reinsured the bulk of its risks, it must still manage cash flow considerations in the event it has to pay a large claim and then seek reimbursement from reinsurers. The Investment Policy should take this into account, balancing the desire for enhanced returns that comes with longer term investments against the desire not to cash in those investments prematurely. Based on our discussion with CLLAS’ management, funds for large settlements can, in the normal course, be obtained relatively quickly. As a result, we would recommend the following:

Asset Category/Allocation	Target	Acceptable Range
Short-Term Fund	40%	20% - 100%
Long-Term Fund	60%	0% - 80%

It is noted that the foregoing maintains the current minimum requirement of 20% for the Short Term Investment Fund, but sets the target for this Fund at 40%. Note that CLLAS’ investment manager has maintained the funds in short term investments pending further advice from CLLAS, so confirming the above would allow movement back into long term investments. As mentioned earlier, to the extent that this can be done before the end of the calendar year, CLLAS will benefit from the enhanced yield and therefore a higher discount rate

Based on our review, we would also recommend that the Board considers the following changes to the investment policy:

- increasing the maximum allowable investment in corporate bonds from 20% to 40%;
- change the minimum for government bonds (Canada and provincial) to 60% for the Long-Term Fund;
- Including a benchmark for the Short-Term Fund component and revising, if needed the Long-Term Fund benchmark.

Based on our discussions with the investment manager, the Long-Term Fund benchmark is still appropriate. For the Short-Term Fund a benchmark of 30 day T-bill would be proposed.