



## CLLAS AUDIT COMMITTEE MEETING

Gordon Goodman

Carol Lyons

Michael Swartz

Audit Committee members not attending in person may dial in:

Toronto: 416-933-8665

North America: 1-888-402-9166

Access Code: 2675844#

Wednesday, November 7, 2018 @ 9:00 a.m.

Axxima

Suite 510, 36 Toronto Street

Toronto ON M5C 2C5

### AGENDA

	<u>Responsibility</u>	<u>Tab</u>
1. Constitution of Meeting	Gordon Goodman	
2. Appointment of Secretary		
3. Minutes of February 15, 2018 Meeting <b>Proposed Motion: To approve the minutes.</b>	Gordon Goodman	A
4. Audit Plan for December 31, 2018 Year End and Engagement Letter	Deloitte	B
5. Alberta Regulator	Patrick Mahoney	
a. 2017 Annual Review Letter and Responses		C
b. Reciprocal Roundtable Report		D
<b><i>(Auditors Leave Meeting)</i></b>		
6. Colchester Management Financials at June 30, 2018	Patrick Mahoney	E
7. Reinsurance Security Report (Updated to reflect July 1, 2018 participants. Note: Select appendices attached, full report on CLLAS website.)	Ryan Durrell	F



8. Review of Reinsurance Risk Management Policy Patrick Mahoney G
9. Other Business – Proposed Dates of Next Meetings
  - a. **Monday, November 19, 2018 at 3:00 p.m.** – IFRS 17 discussion with Audit Committee
  - b. **Thursday, February 7, 2019 at 1:00 pm** – teleconference to review December 31, 2018 Management Financial Statements (Committee and General Manager’s office only)
  - c. **Thursday, February 14, 2019 at 8.30 am** – in-person Audit Committee meeting

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY  
(CLLAS)

Minutes of the Meeting of the Audit Committee

Offices of Cassels Brock & Blackwell LLP  
Scotia Plaza  
40 King Street West, 21st Floor  
Toronto, ON

February 15, 2018  
8:30 a.m.

**Present:**

Gordon Goodman  
Carol Lyons (by phone)  
Michael Swartz (by phone)  
Ken Crofoot  
Nicholas Leblovic (by phone)

Cassels Brock & Blackwell LLP  
McMillan LLP  
WeirFoulds LLP  
Goodmans LLP  
Davies Ward Phillips & Vineberg LLP

**Also Present:**

Elaine Hultzer  
Laurie Markus  
Julie-Linda Laforce  
Patrick Mahoney  
Cecilia Jeganathan

Deloitte  
Deloitte  
Axxima  
Office of the General Manager  
Office of the General Manager

**1. Constitution of Meeting**

The Chair, Gordon Goodman, called the meeting to order.

**2. Secretary of the Meeting**

Cecilia Jeganathan acted as Secretary.

**3. Approval of the Minutes of the Audit Committee**

It was moved by Carol Lyons and seconded by Gordon Goodman that the minutes of the November 8, 2017 meeting of the Audit Committee be approved. The motion was carried unanimously.

#### **4. Report of the Actuary**

Julie-Linda Laforce presented the Report on the Valuation of Policy Liabilities as at December 31, 2017.

The revision of expected loss costs for 2017/2018 to reflect emerging expectations of expected losses in each layer was highlighted. The arrangement between CLLAS and Colchester for 2017/2018 and the Loss Portfolio Transfer (LPT) to Colchester on June 30, 2012 were discussed. It was noted a 2.60% assumption was selected to determine the ULAE provision as of December 31, 2017 - an increase from 1.95% as of December 31, 2016 due to lengthening of ULAE period from 7 to 10 years. The provision for ULAE at December 31, 2017 is \$2,650,000 and is entirely retained by CLLAS. Other changes in assumptions, including the increase in the discount rate from 1.75% to 2.15%, which was selected based on the market yield of CLLAS' fixed income portfolio classified as available for sale per IFRS 9 at December 31, 2017, were identified. There was no change in methodology in the valuation at December 31, 2017. The impact of the change in loss development factors, ULAE load, discount rate and reinsurance PFAD led to an increase of \$533,000 in the net discounted claim liabilities. The premium deficiency is \$0 at December 31, 2017 and the deferred policy acquisition expense asset is set at \$103,000.

Actuarial Valuation Peer Review Report submitted by PricewaterhouseCoopers LLP as at December 31, 2017 was discussed. It was noted that all recommendations suggested were incorporated in the Report on the Valuation of Policy Liabilities at December 31, 2017.

#### **5. Report of the General Manager**

Patrick Mahoney discussed the financial results of CLLAS and highlighted the key items in the balance sheet, income statement and the notes to the financials. He also pointed out that there were no changes to the management financials reviewed in mid-February. The surplus management and adequacy note in the audited financials relating to minimum capital test (MCT) and total reserve and guarantee funds required in accordance with sections 99 & 100 of the Alberta Insurance Act were discussed. He also highlighted some of the key pages of the P&C-1.

(Ken Crofoot left the meeting)

#### **6. Audit Findings Report**

Elaine Hultzer, the audit partner, reported on the audit and advised that an unqualified opinion would be issued.

She advised that Deloitte's actuary had reviewed and tested the work of the appointed actuary and this review concluded that assumptions were reasonable and estimates of claims and premium liabilities were within the range of accepted actuarial practice.



It was also noted that during the audit no misstatements were identified.

**On the motion of Carol Lyons, seconded by Michael Swartz, it was unanimously resolved to recommend to the Board that the Financial Statements at December 31, 2017 be approved.**

At this point, management left the meeting and Deloitte met in-camera with the Audit Committee members.

**7. Termination of Meeting**

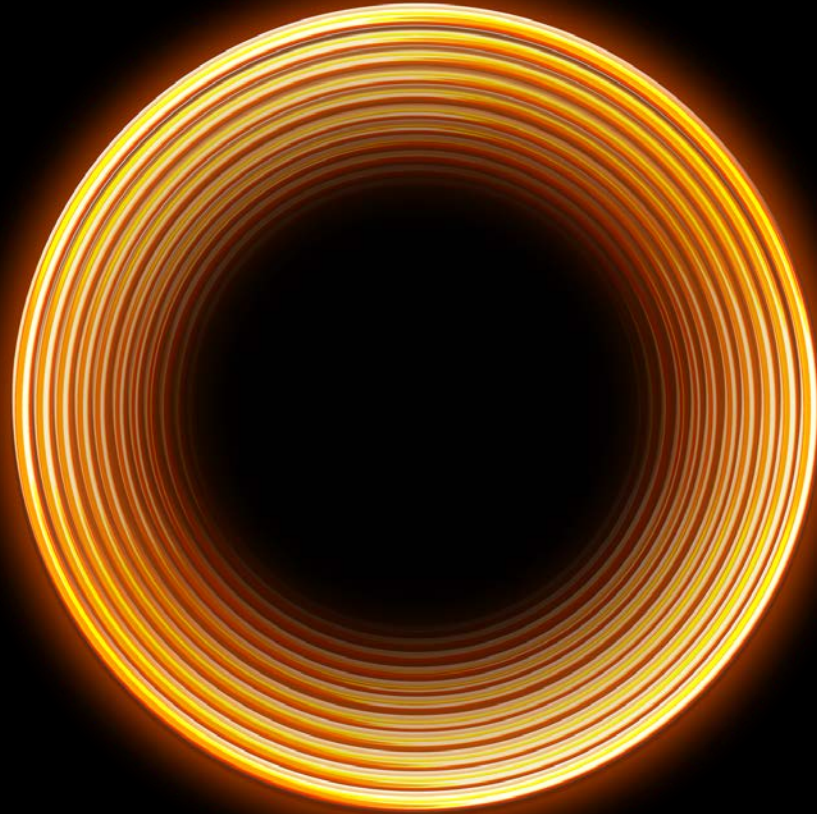
There being no other business, the meeting was terminated.

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Chair

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Secretary



## **Canadian Lawyers Liability Assurance Society**

Audit service plan for the year ending December 31, 2018

November 7, 2018



**Neil Harrison**

Lead Client Service Partner  
Tel: 416-601-6307  
Email: nharrison@deloitte.ca

To the Chair and Members of the Audit Committee of Canadian Lawyers Liability Assurance Society (the "Audit Committee")

**Dear Audit Committee Members:**

We are pleased to provide you with our audit service plan for Canadian Lawyers Liability Assurance Society ("CLLAS" or the "Society") for the year ending December 31, 2018.

We understand our responsibility to you, and we have developed a tailored audit plan that summarizes the key aspects of our audit scope and approach, our planned communications with you, our team and an estimate of our fees.

Our audit service plan leverages a strategy that covers specific actions we will take to address and respond to the feedback the Audit Committee and management have given us throughout the year and through our service quality assessment process. We understand your expectations for high-quality client service and attention, and our team is committed to delivering on those expectations.

Our audit plan reflects our commitment to providing you with high-quality, proactive service that is delivered with integrity, objectivity, and independence. Our audit addresses financial statement risks through targeted procedures that are responsive to the nature of the risks, including changes to the Society, the business environment, and the regulatory landscape. We also describe the protocols for communication with the Audit Committee and management and other permissible services we perform for the Society.

In our judgment, the scope and approach for the 2018 engagement are well designed and comply with all applicable professional standards, including the communications required by the Canadian Generally Accepted Auditing Standards (Canadian GAAS).

We appreciate the opportunity to serve the Society. We hope the accompanying information will be useful to you, and we look forward to answering your questions about our plan.

This report has been provided to the Audit Committee on a confidential basis. It is intended solely for the use of the Audit Committee and the Directors to assist you in discharging your responsibilities with respect to the financial statements for the year ending December 31, 2018 (the "Financial Statements") and is not intended for any other purpose.

We look forward to meeting with you to discuss this report and answer any questions that you may have.

Yours truly,

Chartered Professional Accountants  
Licensed Public Accountants

# Executive summary



# Executive summary

This is your roadmap to our 2018 audit service plan.

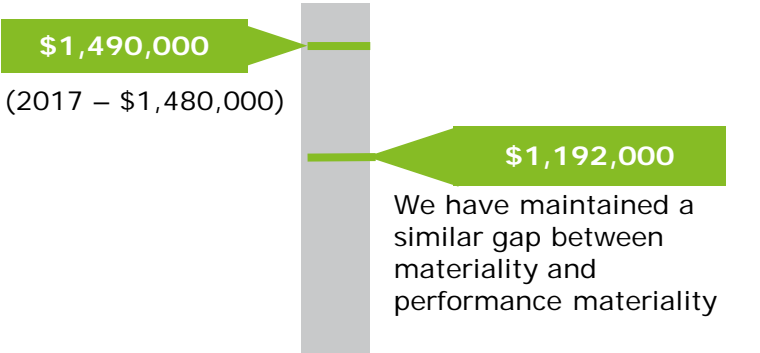
## Contents

01	The CLLAS audit plan
02	New & revised auditor reporting standards
03	Delivering audit quality
04	Fees
05	IFRS 17 Insurance Contracts
06	Appendices

## Significant Risks

- 1 Provision for unpaid claims and adjustment expense, gross and net of amount recoverable from reinsurers (valuation)
- 2 Revenue Recognition
- 3 Risk of Management Override of Controls

## Materiality



Determined on the basis of unpaid claims and adjustment expenses, adjusted for unusually large claims, consistent with prior year. We will report to you any misstatements over our reporting threshold of 5% of materiality.

## Accounting and assurance update

- 1 New auditor reporting standards
  - 2 IFRS 15 *Revenue from Contracts with Customers*
  - 3 IFRS 16 *Leases*
  - 4 IFRS 9 *Financial Instruments*
  - 5 IFRS 17 *Insurance Contracts*
- No significant impact See slide 8 Effective in 2021, see slide 16

## Other matters of interest

### Involvement of specialists

We will use our actuarial experts to assist in assessing the adequacy of the valuation of provision for unpaid and unreported claims liabilities.

### Controls in the key business cycles

We will understand and test the design and implementation of relevant controls in the various business cycles.

### Use of service of organizations











The Society employs RBC Investor & Treasury Services for investments custody and recordkeeping. We will obtain the service provider's controls report and review the results to place reliance on relevant controls, where appropriate.

# The CLLAS Audit Plan




# The CLLAS Audit Plan


## Significant risks

Significant risk	Risk Description	Fraud risk	Control testing planned	Level of management judgement	Specialist involvement	Audit response
<b>Provision for unpaid claims and adjustment expenses, gross and net of amount recoverable from reinsurers</b>	Risk of measurement uncertainty due to a significant amount of judgement required by the Appoint Actuary and Management with respect to the assumptions and methodologies underlying the reserves.					<ul style="list-style-type: none"> <li>Engage our actuarial experts in the planning and execution of our audit procedures related to this balance</li> <li>Assess the reasonableness of key assumptions and methodologies</li> <li>Assess the discount rate used as well as the application of discounting</li> <li>Independent recomputations of the actuarial reserves</li> <li>Test the consistency of reserve margins over time</li> <li>Test underlying data used in the valuation including claims reserves, claims paid and premium data</li> <li>Perform tests of details selecting a sample of claims to ensure the reserved amounts are properly supported and payments are appropriately authorized and accurately recorded</li> </ul>
<b>Revenue Recognition</b>	Assurance standards include the presumption of a fraud risk involving improper revenue recognition. Revenue streams are contractually driven, although the level of manual intervention increases the risk.					<ul style="list-style-type: none"> <li>Perform tests of details which will include, on a sample basis, agreeing the insurance premiums to supporting documentation</li> <li>Obtain direct confirmation from the Society's members and test reconciling items, if any</li> </ul>
<b>Management Override of Controls</b>	Management is in a unique position to override internal controls resulting in a manipulation of the accounting records which could result in Financial Statements that are materially misstated					<ul style="list-style-type: none"> <li>Engage in periodic fraud discussions with certain members of senior management and others, including the Audit Committee</li> <li>Consider the potential for bias in judgments and estimates</li> <li>Test the appropriateness of large or unusual journal entries recorded in the general ledger and other adjustments using data analytical tools to identify journal entries of audit interest.</li> </ul>

### Legend

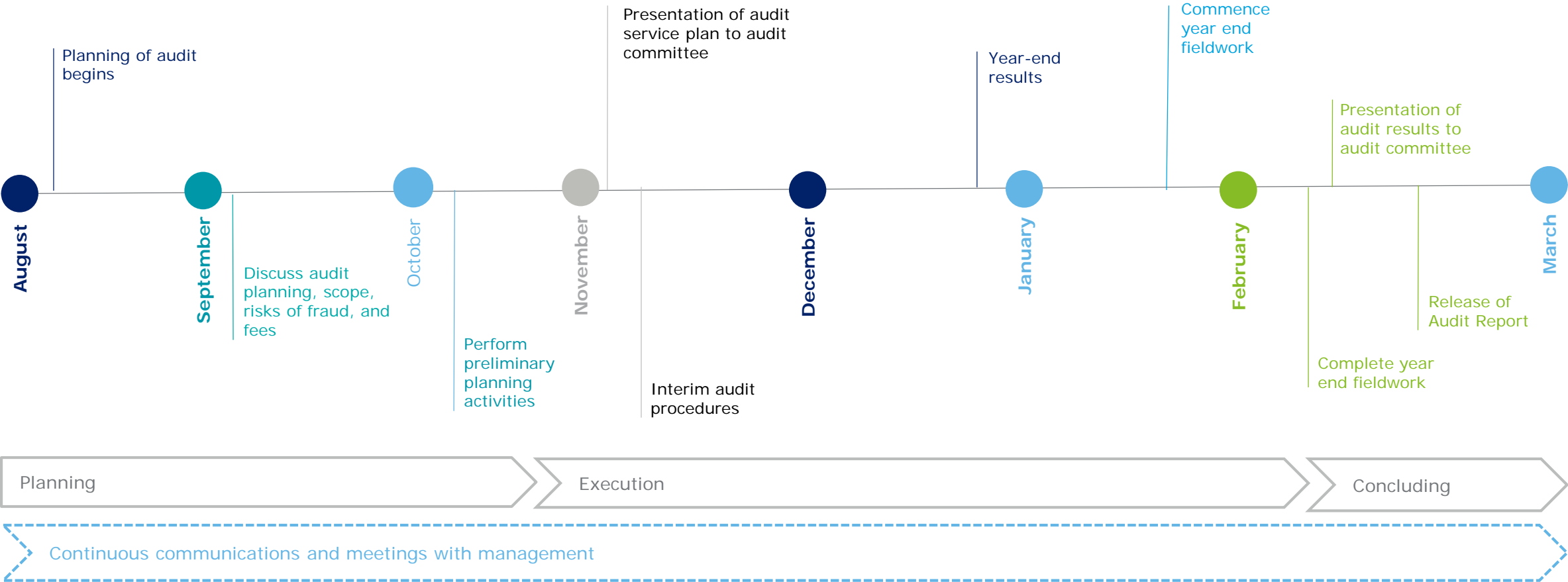
 Significant level of management judgment involved

 **D&I:** Planned testing of the design and implementation of key controls  
We do not plan to test the operational effectiveness of controls

 Management judgment required

 Minimal/No management judgment involved

# Audit timeline












# New and revised auditor reporting standards – Canadian Auditing Standards (CAS)



# New and revised auditor reporting standards

## Key changes to the CAS auditor's report

The new and revised auditor reporting standards are effective for audits of financial statements for periods ending on or after December 15, 201X.

 <b>Opinion first</b>	Opinion section required to be presented first, followed by the Basis for Opinion section
 <b>Going concern (if applicable)</b>	Separate section under the heading "Material Uncertainty Relating to Going Concern" when a disclosed material uncertainty exists Description of the responsibilities of management and auditor for going concern Need to challenge adequacy of disclosures for "close calls"
 <b>Independence</b>	An explicit statement of the auditor's independence in accordance with relevant ethical responsibilities and the auditor's fulfillment of other ethical responsibilities
 <b>Roles and responsibilities</b>	Enhanced description of the responsibilities of the auditor and key features of an audit Identification of management/those charged with governance and their responsibility for the oversight of the financial reporting process
 <b>Other information</b>	Explains management's responsibility for the other information Identifies the other information obtained (all entities) or expected to be obtained (listed entities only) Explains the auditor's responsibilities and work effort in relation to other information Either that there is nothing to report or a statement describing any uncorrected material misstatements
 <b>Key audit matters</b>	New section to communicate key audit matters which are communicated in the auditor's report only when required by law or regulation or the auditor decides to do so. The AcSB is still considering whether it applies to mutual funds.
 <b>Name of partner (listed entities only)</b>	Disclosure of the name of the engagement partner

# New and revised auditor reporting standards

## Draft Auditor's Report on CLLAS Financial Statements

### Independent Auditor's Report

To the Advisory Board of Canadian Lawyers Liability Assurance Society

#### Opinion

We have audited the financial statements of Canadian Lawyers Liability Assurance Society (the "Society"), which comprise the statement of financial position as at December 31, 2018, and the statements of comprehensive income (loss), changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Society as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

#### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

In preparing the financial statements, management is responsible for assessing the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Society or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Society's financial reporting process.

#### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Society's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Society's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Society to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

(To be signed Deloitte LLP)

Chartered Professional Accountants

Licensed Public Accountants

Toronto, Ontario

February [ ], 2019

# New and revised auditor reporting standards

## Draft Auditor's Report on CLLAS Minimum Capital Return

### Independent Auditor's Report

To the Office of the Superintendent of Financial Institutions, and  
the Provincial Superintendents of Financial Institutions/Insurance

### Opinion

We have audited the Minimum Capital Test Return on page 30.61 of the P&C Annual Return (the "MCT Return") of Canadian Lawyers Liability Assurance Society (the "Society") as at December 31, 2018. The MCT Return has been prepared by management based on the provisions of the Office of the Superintendent of Financial Institutions Guideline – Minimum Capital Test for Federally Regulated Property and Casualty Insurance Companies (the "Guideline") Public Disclosure Requirements (the "Guideline").

In our opinion, the MCT Return of the Society as at December 31, 2018 is prepared, in all material respects, in accordance with the provisions of the Guideline.

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the MCT Return section of our report. We are independent of the Society in accordance with the ethical requirements that are relevant to our audit of the MCT Return in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Emphasis of Matter – Basis of Accounting and Restriction on Use

Without modifying our opinion, we draw attention to the fact that the MCT Return has been prepared in accordance with the Guideline. The MCT Return is prepared to assist the Society to comply with the requirements of the Office of the Superintendent of Financial Institutions and the Provincial Superintendents of Financial Institutions/Insurance. As a result, the MCT Return may not be suitable for another purpose. Our report is intended solely for the use of the Society, the Office of the Superintendent of Financial Institutions and the Provincial Superintendents of Financial Institutions/Insurance and should not be used by parties other than the Society, the Office of the Superintendent of Financial Institutions and the Provincial Superintendents of Financial Institutions/Insurance.

### Responsibilities of Management and Those Charged with Governance for the MCT Return

Management is responsible for the preparation of the MCT Return in accordance with the provisions of the Guideline, and for such internal control as management determines is necessary to enable the preparation of the MCT Return that is free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Society's financial reporting process.

### Auditor's Responsibilities for the Audit of the MCT Return

Our objectives are to obtain reasonable assurance about whether the MCT return is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this MCT Return.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the MCT Return, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Society's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, and related disclosures made by management.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

(To be signed Deloitte LLP)

Chartered Professional Accountants  
Licensed Public Accountants

Toronto, Ontario

February [ ], 2019

# Delivering audit quality



# Delivering audit quality

## Our commitment to you

Our commitment to audit quality means more than just “meeting the standard”.



# Fees



# Audit fees

Description	2017 (actual)	2018	2019	2020
Audit of financial statements	\$79,355	\$81,736	\$84,188	\$86,714
Audit of MCT	9,548	9,834	10,129	10,433
<b>Total fees</b>	<b>\$88,903</b>	<b>\$91,570</b>	<b>\$94,317</b>	<b>\$97,147</b>

In line with our prior three year fee arrangement for the years 2015 to 2017, we propose retaining our base audit fee, with an annual 3% inflationary adjustment.

The fees above exclude the following:

- Harmonized Sales Tax (HST), and
- Administrative charge at 7%

Please note that the above base fees exclude any scope changes (change in the business, accounting or auditing standards, unusual transactions, etc.). If the scope changes have a recurring impact on future years then the base fee will be adjusted with mutual consent and approval.



# IFRS 17 Insurance contracts



# Insights to upcoming new IFRS standards

## IFRS 17 Insurance Contracts

The IASB published IFRS 17 *Insurance Contracts* in May 2017 to achieve consistent, principle-based accounting for insurance contracts globally. IFRS 17 is effective for the 2021 fiscal year, with restated comparatives for 2020.

IFRS 17 will result in fundamental changes in the accounting for insurance contracts in Canada and around the world. With the deferral option available to insurers, IFRS 9 *Financial Instruments* will be implemented at the same time as IFRS 17.

The impact of IFRS 17 will be pervasive to the business and will require finance, actuarial and IT groups to work together.

We will coordinate with management to be involved at the right times during the Society's project timeline for IFRS 17/9.

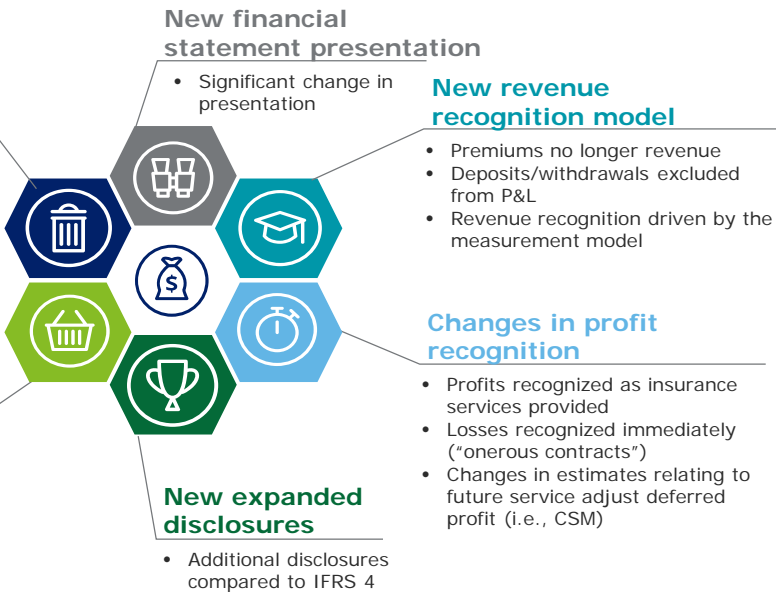
### Financial Statement Impacts

#### Significant changes in the measurement model

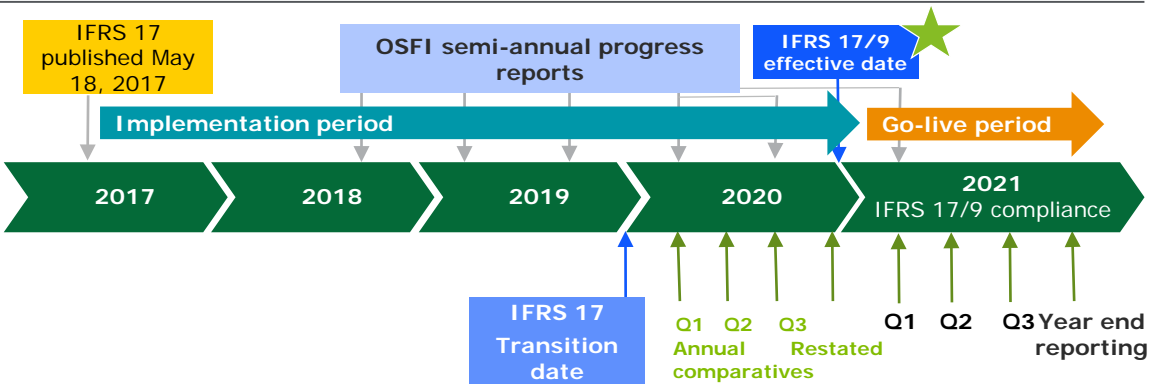
- Contractual service margin is new
- Level of aggregation
- Contract boundary requirements
- Discount rate and risk adjustment approaches
- OCI option
- Variations of the measurement model
- Reinsurance ceded measurement
- Many others

#### Transition requirements

- Retrospective application at transition date
- Optional fair value or modified retrospective where full retro impracticable
- IFRS 9 implementation / reclassifications



### IFRS 17/9 Timeline



### Business impact – broad impacts across the operating model



# Insights to upcoming new IFRS standards

## IFRS 17 Insurance Contracts

### Deloitte Global IFRS 17 Survey 2018: Insurers prepare for IFRS 17 implementation

Deloitte's latest Global IFRS Insurance Survey, [2021 countdown underway: Insurers prepare for IFRS 17 implementation](#), aims to provide a comprehensive view of insurers' reactions to the new rules, as well as their perceptions on the scale and complexity of this major regulatory change, and the timelines surrounding system implementation necessary to achieve compliance.

Key findings from this latest global and independent analysis of insurers' preparations for IFRS 17 which has been undertaken by the Economist Intelligence Unit (EIU) on Deloitte's behalf, include:



#### Just enough time to get ready

Global insurers are cautiously confident that they will meet the implementation date with 90 percent responding that they believe they will be compliant by 1 January 2021. Of this total, 45 percent indicated strong confidence to finish on time, with health insurers being the more confident sub-group at 60 percent, and life insurers, with only 37 percent, being the more cautious sub-group. From a regional perspective, Europe is more confident than other regions.



#### Upgrading technology is necessary

87 percent of insurers believe their systems technology will require upgrades to capture the new data and perform the calculations required for compliance. Capturing data inputs was also cited as the largest technology challenge.



#### Significant implementation costs have been budgeted

The majority of insurers have now set some expectations around budget, with results showing the expected spend to be significantly greater than expectations captured in 2013. 35 percent of insurers expect to spend more than EUR 50m to meet compliance, compared with only 7 percent five years ago.



#### Insurers are seeing more benefits vs. cost

93 percent of global insurers feel that the benefits of adopting IFRS 17 will outweigh the cost of compliance. This is compared to only 21 percent in 2013. Overall, the top three expected benefits insurers believe they will see are:

1. Financial statements that better reflect business performance
2. Easier access to capital markets
3. Improved information to support product design



#### Actuarial, accounting and collaboration skills will be in high demand

Insurers cited collaboration skills as being equally as important as actuarial skills. Many of them said they would try to drive tighter integration between finance, actuarial, and other departments. They also report having the greatest difficulty in finding actuarial and accounting expertise.



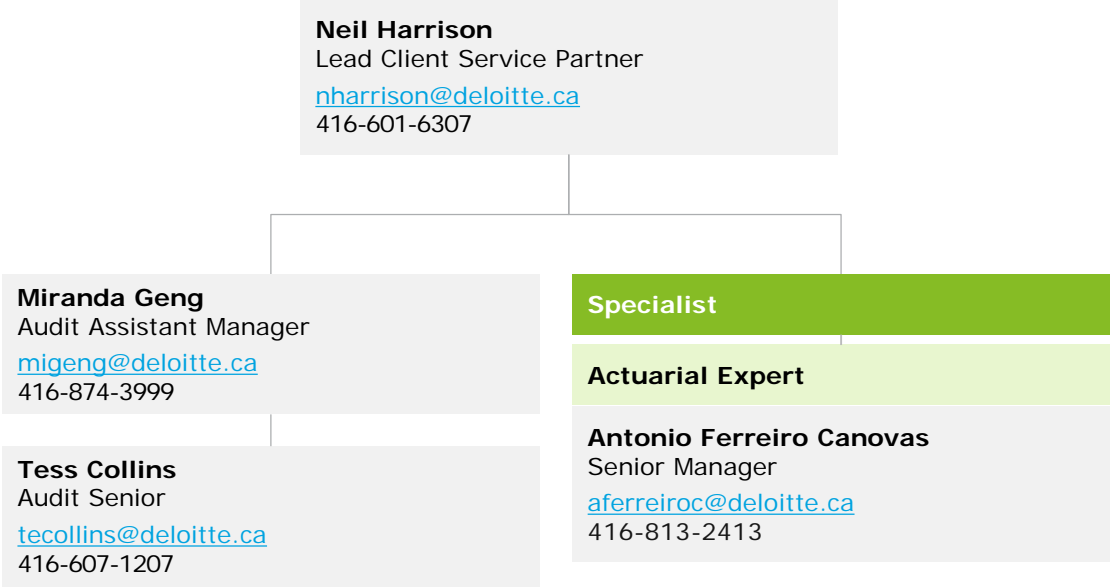
#### [Download the survey report](#)

<https://www2.deloitte.com/global/en/pages/financial-services/articles/global-ifs-insurance-survey.html?id=gx:2em:3int:4gblifrssurvey:5awa:6fsi:20180718>

# Appendices



# Appendix 1 – Engagement team



## Appendix 2 – Required communications with Those Charged with Governance

Canadian GAAS require that we communicate to Those Charged with Governance (“TCWG”) on the following matters:

Required communication	Reference/comments
How TCWG exercise oversight over management’s process for identifying and responding to the risk of fraud and the internal control that management has established to mitigate these risks.	Required inquiry of the Audit Committee
Whether TCWG have any knowledge of any actual, suspected or alleged fraud affecting the entity, and whether they are aware of any violations or possible violations of laws or regulations and whether they have any information that is important to our identification and assessment of risks of material misstatement.	Required inquiry of the Audit Committee
Enquire with TCWG about their understanding of the Society’s relationships and transactions with related parties that are significant to the Society and whether they have any concerns regarding relationships or transactions with related parties and, if so, the substance of those concerns.	Required inquiry of the Audit Committee
<ul style="list-style-type: none"> <li>Objectives of the audit engagement and our responsibilities under the audit, as well as management’s responsibilities.</li> <li>Form, timing and expected general content of communications, including a reference to the expected form and content of the auditor’s report.</li> <li>The identity and role of the engagement partner.</li> </ul>	Engagement Letter
<p>An overview of the overall audit strategy, addressing:</p> <ol style="list-style-type: none"> <li>Scope and timing of the audit</li> <li>Significant risks, including fraud risks</li> <li>Nature and extent of specialized skill or knowledge needed to perform the planned audit procedures or evaluate the audit results related to significant risks (includes the use of experts/specialists)</li> <li>Extent to which we plan to use the work of the Society’s internal auditors, Society personnel (in addition to internal auditors), and third parties working under the direction of management or the audit committee when performing the financial statement audit</li> <li>Extent to which we plan to use the work of others when performing the financial statement audit</li> <li>Names, locations, and planned responsibilities of other independent public accounting firms or others that perform audit procedures in the audit (including firms that perform audit procedures in the current-period audit, regardless of whether they otherwise have any relationship with us or other persons, who are not employed by us, that perform audit procedures in the current-period audit)</li> </ol>	Within this communication

## Appendix 3 – Engagement Letter

Engagement letter and proposed fees letter for 2018, 2019 and 2020 will be provided under separate cover





November 7, 2018

**Private and confidential**

Mr. Gordon Goodman  
Chair of the Audit Committee  
Canadian Lawyers Liability Assurance Society

and

Mr. Patrick Mahoney  
General Manager  
Canadian Lawyers Liability Assurance Society  
C/o Axxima  
36 Toronto Street, Suite 510  
Toronto ON M5C 2C5

Dear Sirs:

You have requested that Deloitte LLP ("Deloitte" or "we" or "us") audit the financial statements (the "Financial Statements") of Canadian Lawyers Liability Assurance Society (the "Society") as at and for the year ended December 31, 2018.

We understand that the service to be performed under this engagement letter has been pre-approved by the Chief Agent in accordance with its established pre-approval policies and procedures.

We are pleased to confirm our acceptance and our understanding of this engagement by means of this letter.

Deloitte and the Society agree that the executed engagement letter dated November 5, 2014 as well as its accompanying appendices (collectively, the "Prior Engagement Letter") apply to the services under this engagement for the year ended December 31, 2018 and that the provisions of the Prior Engagement Letter, except for the General business terms attached thereto, are hereby incorporated by reference into this letter. Appendix A, accompanying this letter, sets forth the General business terms governing this engagement for the year ended December 31, 2018.

**Fees**

We estimate that our total fees for this audit will be \$91,570, plus reasonable expenses, a 7% administrative charge and applicable taxes (such as Harmonized Sales Tax). The breakdown of the fees is as follows:

Audit of financial statements	\$ 81,736
Audit of MCT Return	<u>9,834</u>
Total	<u>\$ 91,570</u>

These fees are based upon our understanding of the unchanged engagement scope for 2018 and as outlined in our three-year letter, dated November 7, 2018. All invoices shall be due and payable when rendered.

Please sign and return the attached copy of this letter to indicate your acknowledgement that it is in accordance with your understanding of the arrangements for our audit of the Financial Statements for the year ended December 31, 2018.

Yours truly,

Chartered Professional Accountants  
Licensed Public Accountants

Enclosure

The services and terms set forth in and incorporated into this letter are acknowledged and approved by the Management of Canadian Lawyers Liability Assurance Society:

---

Signature

---

Title

---

Date

The services and terms set forth in and incorporated into this letter are accepted and agreed to by the Audit Committee of the Canadian Lawyers Liability Assurance Society:

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Signature

---

Title

---

Date

# Appendix A

## General business terms

Canadian Lawyers Liability Assurance Society  
December 31, 2018

The following General business terms (the "Terms") apply to the engagement except as otherwise provided in the specific engagement letter agreement (the "Engagement Letter") between Deloitte LLP ("Deloitte") and Canadian Lawyers Liability Assurance Society (the "Society") to which these Terms are attached.

1. **Timely performance** – Deloitte will not be liable for failures or delays in performance that arise from causes beyond Deloitte's control, including the untimely performance by the Society of its obligations as set out in the Engagement Letter.
2. **Right to terminate services** – If the Society terminates the engagement or requests that Deloitte resign from the engagement prior to its completion, the Society will pay for time and expenses incurred by Deloitte up to the termination or resignation date together with reasonable time and expenses incurred to bring the services to a close in a prompt and orderly manner. Deloitte will not be responsible for any loss, cost or expense resulting from such termination or resignation. Should the Society not fulfill its obligations set out herein or in the Engagement Letter, and in the absence of rectification by the Society within thirty (30) days of notification in writing by Deloitte, upon written notification Deloitte may terminate its services immediately and will not be responsible for any loss, cost or expense resulting from such early termination.
3. **Fees and taxes** – Any fee estimates take into account the agreed-upon level of preparation and assistance from Society personnel. Deloitte undertakes to advise management of the Society on a timely basis should this preparation and assistance not be provided or should any other circumstances arise which cause actual time to exceed that estimate. The Society is responsible for the payment of any applicable federal, provincial or other goods and services or sales taxes, or any other taxes or duties, in connection with the services provided by Deloitte.
4. **Expenses** – In addition to professional fees, the Society will reimburse Deloitte for its reasonable out-of-pocket expenses including travel, meals and hotels incurred in connection with this engagement.
5. **Billing** – Invoices will be rendered periodically as agreed in advance. All invoices shall be due and payable when rendered. Interest shall be calculated at a simple daily rate of 0.0493% (equivalent to 18% per annum). Interest shall be charged and payable at this rate on any part of an invoice which remains unpaid from thirty (30) days after the invoice date to the date on which the outstanding invoice is paid. To the extent that as part of the services to be performed by Deloitte as described in the Engagement Letter, Deloitte personnel are required to perform the services in the United States of America ("U.S. Business"), the Society and Deloitte agree to assign performance of the U.S. Business to Deloitte Canada LLP, an affiliate of Deloitte. All services performed by Deloitte Canada LLP shall be performed under the direction of Deloitte which shall remain responsible to the Society for such services. Deloitte Canada LLP shall invoice the Society with respect to the U.S. Business and Deloitte will invoice for services performed in Canada ("Canadian Business"). Payment for U.S. Business and/or Canadian Business can be settled with one payment to Deloitte.

6. **Governing law** – The engagement will be governed by the laws of the Province where Deloitte's principal office performing the engagement is located and all disputes related to the engagement shall be subject to the exclusive jurisdiction of the courts of such Province.
7. **Working papers** – All working papers, files and other internal materials created or produced by Deloitte related to the engagement are the property of Deloitte. In the event that Deloitte is requested by the Society or required by subpoena or other legal or regulatory process to produce its files related to this engagement in proceedings to which Deloitte is not a party, the Society will reimburse Deloitte for its professional time and expenses, including legal fees, incurred in dealing with such matters.
8. **Privacy** – Deloitte and the Society agree that, in connection with the engagement, Deloitte may collect, use, disclose and otherwise process personal information about identifiable individuals ("Personal Information"). Deloitte's services are provided on the basis that the Society has obtained any required consents under applicable privacy legislation for collection, use, disclosure and processing to Deloitte of Personal Information.
9. **Third parties** – Deloitte's engagement is not planned or conducted in contemplation of or for the purpose of reliance by any third party (other than the Society and any party to whom Deloitte's audit report is addressed) or with respect to any specific transaction. Therefore, items of possible interest to a third party will not be addressed and matters may exist that would be assessed differently by a third party, possibly in connection with a specific transaction.
10. **Confidentiality** – To the extent that Deloitte collects or is provided with Personal Information or any proprietary or confidential information of the Society (collectively, "Confidential Information"), Deloitte will not disclose such information to any third party without the Society's consent, except as may be required or permitted by law, regulation, legal authority or professional obligations, or as otherwise permitted by this Engagement Letter. Confidential Information may be disclosed by Deloitte to its affiliates and to member firms of Deloitte Touche Tohmatsu Limited ("DTTL") and their respective subsidiaries and affiliates ("Deloitte Entities"), component auditors, permitted subcontractors and third parties that provide services to Deloitte. Confidential Information collected by or provided to Deloitte in connection with the engagement may be used, processed, disclosed and stored outside Canada by Deloitte, Deloitte Entities, component auditors or third party service providers to Deloitte. Deloitte is responsible to the Society for causing any such Deloitte Entities, component auditors and third party service providers to comply with the obligations of confidentiality set out in this section. Confidential Information may be subject to disclosure in accordance with laws applicable in the jurisdiction in which the information is used, processed or stored. The Society also agrees that Deloitte may aggregate Confidential Information and use and disclose that information as part of research and advice, including, benchmarking services, provided that all such information will be rendered anonymous and not subject to association with the Society.
11. **Electronic communications** – Except as instructed otherwise in writing, each party consents to properly addressed fax, email (including email exchanged via Internet media) and voicemail communication of both sensitive confidential and non-sensitive documents, information and other communications concerning this engagement, as well as other means of communication used or accepted by the other. It is recognized that the Internet may be insecure and each party will be responsible for protecting its own systems and interests and, to the fullest extent permitted by law, will not be responsible to the other on any basis (contract, tort or otherwise) for any loss, damage or omission in any way arising from the use of the Internet or from access by any Society or Deloitte personnel, including personnel of Deloitte Entities and third parties that provide services to Deloitte, to networks, applications, electronic data or other systems of the other party.

12. **Assignment** – Except as provided below in section 13, no party may assign, transfer, or delegate any of its rights or obligations relating to this engagement without the prior written consent of the other parties.
13. **Subcontracting** – Deloitte may use the services of any Deloitte Entities, component auditors or other subcontractors (including those operating outside Canada) to assist Deloitte. Deloitte remains responsible to the Society for services performed by Deloitte Entities and subcontractors. Each Deloitte Entity is a separate and independent legal entity operating under the names “Deloitte”, “Deloitte & Touche”, “Deloitte Touche Tohmatsu” or other related names; and services are provided by member firms or their subsidiaries or affiliates and not by DTTL.
14. **Software tools** – In connection with the engagement, Deloitte may use data analytics technology which may require Deloitte to install and use one or more data extraction tools (“Extractors”) on the Society’s computing systems. The Society hereby consents to such access and the installation and use of such Extractors, and where applicable, Deloitte hereby grants the Society a limited, revocable, non-exclusive, non-assignable, non-sublicensable right to install and use those Extractors solely in connection with Deloitte’s performance of the engagement. Deloitte recommends that the Society perform adequate security and other appropriate testing on the Extractors before installation. All Extractors are protected by copyright and other laws of various countries, and Deloitte and its licensors reserve all rights not expressly granted in these Terms or the Engagement Letter. The Society is not allowed to reverse engineer, disassemble, decompile, or otherwise attempt to derive the Extractors’ source code, nor assist, directly or indirectly, in any efforts to do so, nor adapt, modify or create derivative works based on the Extractors. The license granted above will terminate upon completion or termination of this engagement. When the license terminates, the Society must, where applicable, stop using the Extractors and delete any and all installed Extractors from the Society’s computing systems, unless Deloitte and the Society have entered into a subsequent agreement that allows for the Society’s continued use. Although Deloitte takes commercially reasonable steps to make the Extractors useful and secure, Deloitte does not have any obligation to ensure they are so, or to maintain, update, upgrade or otherwise modify or support the Extractors. The Extractors are provided “as is” and “as available”, without warranty of any kind, and Deloitte expressly disclaims all implied warranties, including that the Extractors will be secure and error-free, or will meet any other criteria of performance or quality.
15. **Survival of terms** – The agreements and undertakings of the Society contained in the Engagement Letter, together with the appendices to the Engagement Letter including these Terms, will survive the completion or termination of this engagement.
16. **Severability** – If a court or regulator with proper jurisdiction determines that a provision of this Engagement Letter is invalid, then that provision will be interpreted in a way that is valid under applicable law or regulation. If any provision is invalid, the rest of the Engagement Letter will remain in effect.
17. **Electronic messaging** – In accordance with Canadian anti-spam legislation, the Society consents to Deloitte contacting the Society and its personnel through electronic messages relating to Deloitte’s services, products and other matters of interest to the Society after the completion of this engagement. The Society may withdraw any such consent by contacting Deloitte at [unsubscribe@deloitte.ca](mailto:unsubscribe@deloitte.ca).

18. **Proportionate liability** – The Society and Deloitte acknowledge where the engagement is conducted pursuant to a statute governing the Society that contains proportionate liability provisions that apply to an auditor, such as the Canada Business Corporations Act, the terms of the statute shall apply to this engagement. In the event that the Society and Deloitte are not subject to such statutory provisions regarding proportionate liability, the Society agrees that in any action, claim, loss or damage arising out of the engagement, Deloitte's liability will be several and not joint and several and the Society may only claim payment from Deloitte of Deloitte's proportionate share of the total liability based on the degree of fault of Deloitte as finally determined by a court of competent jurisdiction.
19. **Client misrepresentation** – Deloitte shall not be liable to the Society, and the Society releases Deloitte, for all liabilities, claims, damages, costs, charges and expenses incurred or suffered by the Society related to or in any way associated with the engagement that arise from or are based on any deliberate misstatement or omission in any material information or representation provided by or approved by any member of management of the Society, officer of the Society or member of the board of directors of the Society.
20. **Qualifications** – Notwithstanding anything herein to the contrary, Deloitte may use the name of the Society, refer to this engagement and the performance of the services in marketing, publicity materials and other material, as an indication of its experience, and in internal data systems.

September 18, 2018 **REVISED**

**Sent Electronically**

Mr. Patrick Mahoney  
Canadian Lawyers Liability Assurance Society  
36 Toronto Street, Suite 510  
Toronto, ON M5C 2C5

Dear Mr. Mahoney:

**Re: 2017 CLLAS Annual Return Review**

The Superintendent of Insurance (Superintendent) completed a review of the Canadian Lawyers Liability Assurance Society's (CLLAS) 2017 Annual Return in accordance with section 756 of the *Insurance Act* (Act).

During the review, the Superintendent determined that CLLAS was in compliance with all license and reporting requirements pursuant to the Act; however, the Superintendent would like to draw your attention to the following:

- During the annual desk review, it appears that John Esvelt has left the Advisory Board; however, the Superintendent has not received any notification of this change in accordance with section 45 of the Act. This is a filing requirement outlined on the Superintendent's [website](#). **Action Required:** Going forward, please provide notification for change in officials.
- Contingent Liability: if available, the Superintendent requests the figure of the expected surplus that will be paid out and/or to become available at the end of five years for the most recent departing subscriber. Further, to enhance transparency, footnotes should be created in the statement of change in equity linking to contingent liability. **Action Required:** If available, provide the figure of the expected surplus to be paid out at the end of five years by September 30, 2018.
- It is important that CLLAS follow the [P&C detailed filing instructions](#), which are provided to assist entities in preparing their annual return. The P&C return is utilized by the Superintendent to ensure legislative compliance and the files are loaded into a data base to enable automated analysis of key sections, there for numeric responses are required to some fields. The following was noted as incomplete and/or inaccurate.
  - Page 70.90 – Reinsurance Interrogatories – Please complete lines 03 to 08 in relation to the current reinsurance structure with a numerical response for future filings.

**Action Required:** CLLAS to be compliant with the annual P&C return filing instructions.

IFRS Reminders:

September 18, 2018

Page 2

- IFRS 17 will be effective on January 1, 2021. The Superintendent expects provincial insurers to begin preparing reporting under IFRS 17 as of January 1, 2020 for comparative information. Further, OSFI has issued an IFRS 17 Advisory on Transition and Progress Report Requirements (Advisory Guide), which Alberta is adopting immediately. The [Advisory Guide](#) will allow the Superintendent to evaluate CLLAS' projected status and assist in understanding the impacts of IFRS 17 on CLLAS. The Superintendent request the first progress report be submitted to the Superintendent on or before October 31, 2018.

Please remember that non-compliance with the requirements can result in administrative penalties being issued in accordance with section 780 of the Act. The Superintendent does not intend to issue administrative penalties at this time; however, please note that the Superintendent may issue penalties if CLLAS is not in compliance with the appropriate legislation, regulations, or guidelines in the future.

In closing, the Superintendent appreciates the level of effort put into the annual filing and looks forward to working with CLLAS in 2018. Should you have any questions or concerns regarding these recommendations, please do not hesitate to contact me.

Sincerely,

A handwritten signature in blue ink, appearing to read "J Keats".

Jennifer Keats, CPA, CA  
Senior Manager, Prudential Supervision





September 24, 2018

Jennifer Keats, CPA, CA  
Senior Manager, Prudential Supervision  
Financial Sector Regulation and Policy  
Treasury Board and Finance  
Government of Alberta  
Room 402, Terrace Building  
9515 – 107 Street  
Edmonton, Alberta T5K 2C3

Dear Jennifer:

**Re: 2017 CLLAS Annual Return Review**

Thank you for reviewing CLLAS 2017 Annual return and for your feedback. Please find below our comments regarding the items outlined on your letter dated September 18, 2018:

- Notification for change in officials: We confirm that John Esvelt who was the board representative for Dentons Canada LLP left the advisory board with the withdrawal of Dentons Canada LLP from CLLAS on June 30, 2017.
- Contingent Liability: CLLAS' contingent liability to departed subscribers is disclosed in Note 14 to the audited statements. It is CLLAS' view, supported by its auditors, that it is not appropriate to disclose a numerical estimate in the financial statements because the amount is dependent on CLLAS' claims experience, CLLAS' investment results, and other factors, and therefore cannot be reasonably estimated at this time. Given the long-tail nature of CLLAS' liabilities, it is anticipated that no further payments to or from departed subscribers will be considered until June 30, 2022. In future years, to the extent a refund of premium surplus is made to a departed subscriber, we will add a reference to the contingent liability note in the Statement of Changes in Equity.
- Page 70.90 – Reinsurance Interrogatories (lines 03 to 08): Noted and we will ensure to enter a numerical response for future filings. Please be advised that on 2017 CLLAS Annual filing the responses for all the lines 03 to 08 on page 70.90 are zero.

Please let me know if you would like to discuss any of the above items further.

Sincerely,



Patrick Mahoney  
General Manager

## MEMORANDUM

DATE: September 20, 2018  
TO: File  
FROM: Patrick Mahoney  
COPY:  
RE: ASOI Reciprocal Roundtable – September 13, 2018

---

I attended the annual Reciprocal Insurance Exchange Information Sharing Session put on by the Alberta Superintendent of Insurance (ASOI) on September 13, 2018. The event is held annually, usually in May, although this year's roundtable was delayed to September due to scheduling difficulties. The session was well-attended, with about 30 participants. The presentation used by the ASOI as a framework for discussion is available on request.

The meeting ran longer than its three-hour timeslot. Below is a summary of the main topics of discussion.

1. **Superintendent's Office Staffing:** Jennifer Keats is the new Senior Manager, Prudential Supervision, replacing Laurie Balfour who was transferred to a different department earlier this year. Jennifer reports to David Sorensen, the Deputy Superintendent of Insurance. This year, he stayed for the entire meeting for the first time. The two other staff members are David Lee (senior analyst) and Davina Grange (who runs the on-line filing portal among other things). Jennifer advised that they are in the process of recruiting one more person, who will serve as the primary contact for regulated entities and will support the audit process. (That prompted a discussion of audits and Jennifer advised that they currently have no reciprocals on their short list for audits as they are focusing on incorporated insurers at the moment.)
2. **IFRS 17:** David Lee led a lengthy discussion on IFRS 17. The big news is that the ASOI is adopting OSFI's May 2018 Advisory on IFRS 17 effective immediately, and that semi-annual progress reports on implementation must be filed, with the first one due on October 31, 2018. This news had started to leak out the day before as it was also included in the 2017 Annual Review Letters which were in the process of being delivered to each regulated entity. Jennifer indicated that her expectations for the initial report are "elementary", i.e. she wants to know that active planning has begun.
3. **210% MCT Requirement:** Jennifer asked for feedback on the 210% supervisory target and received the expected feedback that the target does not take into account the unique nature of reciprocals, in particular reciprocals (e.g. municipalities, professional associations) that have the power to essentially "tax" their subscribers. Laurie had previously indicated that this

requirement would be reviewed once the initial ORSA reports had been filed. David Sorenson advised that the ASOI has “heard the feedback” and will be reviewing the supervisory minimum. He made no promises about the outcome, but he said that we could expect to hear back by the end of the year on the process for the review.

4. **Investment Restrictions:** There was plenty of discussion on the ASOI’s position that it will consider all pooled funds to be equity funds (and therefore subject to the equity limits in the *Insurance Act*) regardless of the underlying investments in the fund, e.g. including fixed income funds and money market funds. This seems to be a new concern for David but, again, he said that the ASOI would look into the issue.
5. **Group Discussion without Regulator:** At the previous roundtable, some attendees had requested the opportunity to have a discussion without the regulator. The agenda provided about 25 minutes for this. The following issues were discussed:
  - a. The tone and content of the Annual Review Letters;
  - b. The investment restrictions (as noted above);
  - c. The 210% MCT requirement (as noted above);
  - d. Whether the Alberta-based reciprocals should create an advocacy group to ensure their collective concerns are formally put to the ASOI.

The in camera session was generally viewed as useful and it was suggested that it be longer next time (or perhaps even held prior to the session).

6. **Superintendent’s Focus for 2018/19:** David summarized the items of focus for the coming year as:
  - a. Onboarding a new Superintendent, as the current superintendent, Nilam Jetha, is moving to a new position;
  - b. Review of 210% MCT requirement (and the investment restrictions);
  - c. Working with reciprocals on the implementation of IFRS 17; and
  - d. Auto, auto, auto – most extra energy is taking up dealing with auto insurance, something not applicable to reciprocals.

Feedback provided at the end of the session continues to be positive, i.e. everyone appreciates the opportunity for an open dialogue with the regulator on an annual basis. Participants were very appreciative that the Deputy superintendent participated in the entire meeting.

Sincerely,



# **COLCHESTER REINSURANCE LIMITED**

**PERIODIC REPORTING PACKAGE**

**FOR THE TWLEVE MONTHS ENDED JUNE 30, 2018**

## **INDEX TO CONTENTS**

**2. STATEMENTS OF INCOME & RETAINED EARNINGS**

**3. NOTES TO THE FINANCIAL STATEMENTS**

**PREPARED BY: AON INSURANCE MANAGERS (BARBADOS) LTI**

**ACCOUNT EXECUTIVE: WINSTON HAMPDEN**

**COLCHESTER REINSURANCE LIMITED**  
**UNAUDITED BALANCE SHEET AS AT JUNE 30, 2018**  
**(EXPRESSED IN CANADIAN \$)**

		JUNE 30, 2018	JUNE 30, 2017
<b>ASSETS</b>			
Cash at bank - premier accounts		9,231,988.63	5,523,121.23
Cash equivalents		0.00	0.00
Cash & cash equivalents	1	<u>9,231,988.63</u>	<u>5,523,121.23</u>
Royal Bank of Canada-Investments	2	50,395,006.04	59,672,116.50
Accrued interest receivable	3	210,181.89	260,700.10
Insurance Balances Receivable		0.00	0.00
Provision for Losses Recoverable	4	6,082,000.00	6,429,000.00
Deferred Reinsurance Premiums	5	0.00	0.00
Prepaid expenses	6	6,171.93	6,561.95
		<u>56,693,359.86</u>	<u>66,368,378.55</u>
<b>TOTAL ASSETS</b>		<u><u>65,925,348.49</u></u>	<u><u>71,891,499.78</u></u>
Insurance balances payable		0.00	28,961.50
Accrued expenses	7	130,612.84	85,574.88
Claims payable		27,094.27	321,460.18
		<u>157,707.11</u>	<u>435,996.56</u>
<b>RESERVES</b>			
Unearned Premium Reserve	9	0.00	0.00
Outstanding losses	8	23,231,000.00	22,751,000.00
Outstanding losses - I.B.N.R.	8	10,889,000.00	12,793,000.00
		<u>34,120,000.00</u>	<u>35,544,000.00</u>
<b>SHAREHOLDERS EQUITY</b>			
Share capital-common shares		1,100.00	1,100.00
Class A preference shares		3,314,000.00	3,314,000.00
Earned surplus at start of year		31,772,862.64	29,342,364.45
Net profit/(loss) for the period		(3,258,377.83)	2,430,497.11
		<u>31,829,584.81</u>	<u>35,087,961.58</u>
Accum. Other Comprehensive Income		(181,943.43)	823,541.64
<b>TOTAL SHAREHOLDERS EQUITY</b>		<u><u>31,647,641.38</u></u>	<u><u>35,911,503.22</u></u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>		<u><u>65,925,348.49</u></u>	<u><u>71,891,499.78</u></u>

**COLCHESTER REINSURANCE LIMITED**  
**UNAUDITED STATEMENT OF INCOME**  
**FOR THE PERIOD JULY 1 2017 TO JUNE 30, 2018**  
**(EXPRESSED IN CANADIAN \$)**

	MOVEMENT DURING QTR	12 MONTHS TO JUNE 30, 2018	12 MONTHS TO JUNE 30 2017
<b>UNDERWRITING INCOME</b>			
Premiums written	0.00	209,797.60	1,594,237.00
Unearned premium transfer	52,449.40	0.00	0.00
<b>GROSS EARNED PREMIUMS</b>	<b>52,449.40</b>	<b>209,797.60</b>	<b>1,594,237.00</b>
Reinsurers' ceded premiums	0.00	(1,039,021.99)	(1,360,075.60)
Deferred ceded premiums	(259,755.50)	0.00	0.00
Reinsurers' ceded premiums earned	(259,755.50)	(1,039,021.99)	(1,360,075.60)
	(207,306.10)	(829,224.39)	234,161.40
<b>TOTAL UNDERWRITING INCOME</b>	<b>(207,306.10)</b>	<b>(829,224.39)</b>	<b>234,161.40</b>
<b>UNDERWRITING EXPENSES</b>			
Net losses paid	229,044.00	2,329,254.00	1,516,203.05
Outstanding losses adjustment	893,000.00	480,000.00	(525,000.00)
Transfer to IBNR	(805,000.00)	(1,904,000.00)	(2,576,000.00)
Transfer to prov. for losses recoverable	100,000.00	347,000.00	236,000.00
<b>NET INCURRED LOSSES</b>	<b>417,044.00</b>	<b>1,252,254.00</b>	<b>(1,348,796.95)</b>
<b>OTHER UNDERWRITING EXPENSES</b> (see schedule)	<b>18,750.00</b>	<b>75,000.00</b>	<b>75,000.00</b>
<b>TOTAL UNDERWRITING EXPENSES</b>	<b>435,794.00</b>	<b>1,327,254.00</b>	<b>(1,273,796.95)</b>
<b>UNDERWRITING PROFIT / (LOSS)</b>	<b>(643,100.10)</b>	<b>(2,156,478.39)</b>	<b>1,507,958.35</b>
<b>GENERAL AND ADMIN EXPENSES</b> (see schedule)	<b>44,964.20</b>	<b>184,579.84</b>	<b>188,132.85</b>
	(688,064.30)	(2,341,058.23)	1,319,825.50
<b>INTEREST INCOME &amp; EXCEPTIONAL ITEMS</b>			
Interest income	377,109.40	1,602,315.03	1,749,675.60
Profit/(loss) on sale of invts	(19,615.00)	(215,775.00)	0.00
Profit/(loss) on exchange	0.00	0.00	0.00
Amortisation of investments	(53,799.50)	(125,268.47)	(455,609.75)
Investment management fees	(34,801.00)	(138,187.92)	(140,291.79)
Investment Custody Fees	(6,476.33)	(27,669.37)	(29,533.09)
	262,417.57	1,095,414.27	1,124,240.97
<b>NET PROFIT/(LOSS) BEFORE TAX</b>	<b>(425,646.73)</b>	<b>(1,245,643.96)</b>	<b>2,444,066.47</b>
<b>INCOME TAX</b>	<b>3,085.96</b>	<b>12,733.87</b>	<b>13,569.36</b>
<b>DIVIDEND PAID</b>	<b>0.00</b>	<b>2,000,000.00</b>	<b>0.00</b>
<b>NET PROFIT/(LOSS) AFTER TAX</b>	<b>(428,732.69)</b>	<b>(3,258,377.83)</b>	<b>2,430,497.11</b>

# COLCHESTER REINSURANCE LIMITED

## ANALYSIS OF EXPENSES AS AT JUNE 30, 2018 FOR THE PERIOD JULY 1 2017 TO JUNE 30, 2018

	MOVEMENT DURING QTR	12 MONTHS TO JUNE 30, 2018	12 MONTHS TO JUNE 30 2017
<b>UNDERWRITING EXPENSES</b>			
Brokerage commission	18,750.00	75,000.00	75,000.00
	<u>18,750.00</u>	<u>75,000.00</u>	<u>75,000.00</u>
<b>GENERAL &amp; ADMIN EXPENSES</b>			
Management fees	21,500.00	86,000.00	83,000.00
Directors fees	3,060.00	7,650.00	9,769.32
Audit fees	10,000.00	33,610.00	26,488.89
Tax consultancy fees	0.00	0.00	1,113.78
Actuarial fees	5,241.00	35,307.00	36,765.91
Legal fees	0.00	1,498.00	6,869.15
Insurance Costs - D&O	1,997.00	7,988.00	8,875.00
Secretarial fees	0.00	6,527.00	6,649.25
Government fees	0.00	0.00	0.00
Bank and L.O.C charges	178.20	751.84	681.71
Communication expenses	0.00	2,260.00	4,871.85
Stationary	0.00	0.00	0.00
Travel	2,988.00	2,988.00	3,048.19
Miscellaneous expenses	0.00	0.00	(0.20)
Foreign Exchange	0.00	0.00	0.00
Meeting Expenses	0.00	0.00	0.00
	<u>44,964.20</u>	<u>184,579.84</u>	<u>188,132.85</u>

**COLCHESTER REINSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**1. CASH ON DEPOSIT**

Royal Bank - Canadian Dollar Call Account	58,910.72
Royal Bank - Premier Canadian Dollar Account	9,173,077.91
Royal Bank - Time Deposit Account	0.00
	<u><b>9,231,988.63</b></u>

**2. INVESTMENTS**

Investment at cost	51,889,063.05
Amortization	(1,312,113.58)
Portfolio at amortized cost	<u><b>50,576,949.47</b></u>
Unrealized gain / (loss)	(181,943.43)
Portfolio at market value	<u><b>50,395,006.04</b></u>

**3. ACCRUED INTEREST RECEIVABLE**

Investments - RBC	210,181.89
	<u><b>210,181.89</b></u>

**4. PROVISION FOR LOSS RECOVERABLES (DISCOUNTED)**

**Canadian Lawyers Liability Assurance Society**

U/W Year	CASE RESERVES	IBNR	TOTAL
2000/2001		0.00	0.00
2001/2002	0.00	0.00	0.00
2002/2003	0.00	0.00	0.00
2003/2004	0.00	0.00	0.00
2004/2005	0.00	5,000.00	5,000.00
2005/2006	0.00	15,000.00	15,000.00
2006/2007	0.00	36,000.00	36,000.00
2007/2008	0.00	31,000.00	31,000.00
2008/2009	0.00	33,000.00	33,000.00
2009/2010	0.00	-1,000.00	-1,000.00
2010/2011	0.00	58,000.00	58,000.00
2011/2012	0.00	158,000.00	158,000.00
2012/2013	0.00	258,000.00	258,000.00
2013/2014	0.00	551,000.00	551,000.00
2014/2015	0.00	747,000.00	747,000.00
2015/2016	0.00	1,012,000.00	1,012,000.00
2016/2017	0.00	1,530,000.00	1,530,000.00
2017/2018	0.00	1,649,000.00	1,649,000.00
	<u><b>0.00</b></u>	<u><b>6,082,000.00</b></u>	<u><b>6,082,000.00</b></u>



**COLCHESTER REINSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**5. DEFERRED REINSURANCE PREMIUMS**

Reinsurers' Premium to be earned	(\$1,039,021.99) *3/12)	0.00
		<b>0.00</b>

**6. PREPAID EXPENSES**

Annual Government Tax	US\$10,000 p.a.	6,171.93
		<b>6,171.93</b>

**7. ACCOUNTS PAYABLE/ACCRUED EXPENSES**

Audit fees - 2017/18	25,000.00
Management Fees	0.00
Investment Fees	69,602.00
Investment Custody Fees	4,369.91
Actuarial Fees	5,240.93
Director's Fees	7,650.00
	<b>130,612.84</b>

**8. OUTSTANDING LOSSES (DISCOUNTED)**

**Canadian Lawyers Liability Assurance Society**

U/W Year	CASE RESERVES	IBNR	TOTAL
1998/1999		0.00	0.00
1999/2000		0.00	0.00
2000/2001		0.00	0.00
2001/2002	0.00	0.00	0.00
2002/2003	0.00	0.00	0.00
2003/2004	0.00	0.00	0.00
2004/2005	0.00	46,000.00	46,000.00
2005/2006	0.00	157,000.00	157,000.00
2006/2007	0.00	255,000.00	255,000.00
2007/2008	3,581,000.00	390,000.00	3,971,000.00
2008/2009	0.00	231,000.00	231,000.00
2009/2010	9,343,000.00	-55,000.00	9,288,000.00
2010/2011	7,292,000.00	639,000.00	7,931,000.00
2011/2012	1,240,000.00	460,000.00	1,700,000.00
2012/2013	350,000.00	491,000.00	841,000.00
2013/2014	1,189,000.00	951,000.00	2,140,000.00
2014/2015	0.00	1,132,000.00	1,132,000.00
2015/2016	0.00	1,546,000.00	1,546,000.00
2016/2017	236,000.00	2,301,000.00	2,537,000.00
2017/2018	0.00	2,345,000.00	2,345,000.00
	<b>23,231,000.00</b>	<b>10,889,000.00</b>	<b>34,120,000.00</b>

**9. UNEARNED PREMIUM RESERVE**

Premiums	(\$172,807.60*0/12)	0.00
	(\$36,990*0/12)	
		<b>0.00</b>

**COLCHESTER REINSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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**10. LOSS/EQUITY RATIO**

Loss Reserves	34,120,000.00
Shareholder Equity	31,829,584.81
Ratio	<b>107%</b>

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

**11. MARGIN OF SOLVENCY**

Assets must exceed liabilities by:

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

Premiums Earned at June 30, 2017	234,161.40
----------------------------------	------------

Minimum Solvency Margin re (2) above	164,162.50
--------------------------------------	------------

Total Assets	65,925,348.49	
Less: Non-admitted Assets		
Long Term Investments	0.00	
Prepayments	6,171.93	
Total Admitted Assets	65,919,176.56	
Total Liabilities	34,277,707.11	
Solvency Margin (Excess of Assets over Liabilities)		31,641,469.45
<b>Excess over Minimum Solvency Margin</b>		<b><u>31,477,306.95</u></b>

**COLCHESTER REINSURANCE LIMITED**  
**UNDERWRITING ANALYSIS AS AT JUNE 30, 2018**  
**FOR THE PERIOD April 1, 2018 TO JUNE 30, 2018**

	Inward Reinsurance of CLLAS EOL 49Mx1M-20%	Inward Reinsurance of CLLAS Agg. Stop Loss 10Mx5M-100%	Inward Reinsurance of CLLAS Excess Layers 40Mx160M-7.5% 60Mx160M-7.5%	Outward Retro. of Colchester EOL 5Mx5M-20%	Outward Retro. of Colchester EOL 40Mx10M-20%	Outward Retro. of Colchester Agg. Stop Loss 15Mx2.5M-100%	Outward Retro. of Colchester Excess Layers 40Mx160M-5% 60Mx160M-5%	Total
Limits								
Policy No.	CLLAS00117	ADD 47 to 89-011	CLLAS00217	PCOLC000116	PCOLC000216	PCOLC000316	PCOLC000816	
Policy Period	1-Jul-17 to 30-Jun-18	1-Jul-17 to 30-Jun-18	1-Jul-17 to 30-Jun-18	1-Jul-17 to 30-Jun-18	1-Jul-17 to 30-Jun-18	1-Jul-17 to 30-Jun-18	1-Jul-17 to 30-Jun-18	
Premiums Written	91,149.60	81,658.00	36,990.00			-		209,797.60
Trfd from Unearned Prem. Reserve	(68,362.20)	(61,243.50)	(27,742.50)					(157,348.20)
Premiums Earned	<u>22,787.40</u>	<u>20,414.50</u>	<u>9,247.50</u>					<u>52,449.40</u>
Reinsurance Premiums Ceded				(797,331.35)	-	(206,550.00)	(35,140.64)	(1,039,021.99)
Trfd from Deferred Reins. Prem.		-		597,998.51		154,912.50	26,355.48	779,266.49
Reinsurance Premiums Earned		<u>-</u>		<u>(199,332.84)</u>	<u>-</u>	<u>(51,637.50)</u>	<u>(8,785.16)</u>	<u>(259,755.50)</u>
Net Premiums Earned								<u>(207,306.10)</u>

App. 1a

**COLCHESTER REINSURANCE LIMITED**  
**UNDERWRITING ANALYSIS AS AT JUNE 30, 2018**  
**FOR THE PERIOD JULY 1, 2017 TO JUNE 30, 2018**

	Inward Reinsurance of CLLAS EOL 49Mx1M-20%	Inward Reinsurance of CLLAS Agg. Stop Loss 10Mx5M-100%	Inward Reinsurance of CLLAS Excess Layers 40Mx160M-5% 60Mx160M-5%	Outward Retro. of Colchester EOL 5Mx5M-20%	Outward Retro. of Colchester EOL 40Mx10M-20%	Outward Retro. of Colchester Agg. Stop Loss 15Mx2.5M-100%	Outward Retro. of Colchester Excess Layers 40Mx160M-5% 60Mx160M-5%	Total
Limits								
Policy No.	CLLAS00116	ADD 46 to 89-011	CLLAS00216	PCOLC000116	PCOLC00021	PCOLC000316	PCOLC000816	
Policy Period	1-Jul-17 to 30-Jun-18	1-Jul-17 to 30-Jun-18	1-Jul-17 to 30-Jun-18	1-Jul-17 to 30-Jun-18	1-Jul-17 to 30-Jun-18	1-Jul-17 to 30-Jun-18	1-Jul-17 to 30-Jun-18	
Premiums Written	91,149.60	81,658.00	36,990.00			-		209,797.60
Trfd from Unearned Prem. Reserve	-	-	-					-
Premiums Earned	<u>91,149.60</u>	<u>81,658.00</u>	<u>36,990.00</u>					<u>209,797.60</u>
Reinsurance Premiums Ceded				(797,331.35)	-	(206,550.00)	(35,140.64)	(1,039,021.99)
Trfd from Deferred Reins. Prem.		-		-	-	-	-	-
Reinsurance Premiums Earned		<u>-</u>		<u>(797,331.35)</u>	<u>-</u>	<u>(206,550.00)</u>	<u>(35,140.64)</u>	<u>(1,039,021.99)</u>
Net Premiums Earned								<u>(829,224.39)</u>

**App. 1b**



## CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

Report on Reinsurance Security

Date: October 31, 2018

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## Appendices

A	Axxima 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 Five Previous Years
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G	A.M. Best Credit Report – Allied World Assurance Company Limited
H	Audited Financial Statements – Colchester Reinsurance Limited
I	A.M. Best Credit Report – Lloyd's of London
J	A.M. Best Credit Report – Swiss Reinsurance Company
K	A.M. Best Credit Report – Argo Group International Holdings, Ltd.
L	A.M. Best Press Release – MS Amlin AG

## 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.

### 1.2 Reinsurance Security

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

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

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

### 1.3 Level I Monitoring

Level I monitoring of CLLAS reinsurance consists of the following:

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

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

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

## **1.4 Level II Monitoring Triggers**

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

- Downgrading of the financial strength rating;
- A rating agency placing a reinsurer on a "watch" list;
- Difficulties collecting reinsurance proceeds after a claim is settled;
- Current claims liability exposure (i.e. case reserves and IBNR) for all policy years combined exceeds 10% of the total;
- Current claims liability exposure for the prior policy year exceeds 10% of the total;
- Claim limit exposure to each reinsurer for the current year exceeds 10% of the total limits provided by CLLAS;
- Use of a reinsurer that is unregistered in Canada; and
- Any other events deemed material by the Audit Committee or its advisors.

## **1.5 Level II Monitoring**

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

- Additional information should be reviewed by the Audit Committee, including a review of:
  - ❖ Stock performance relative to the remainder of the market;
  - ❖ Early warning signals/ratios (as provided by A.M. Best or equivalent agency);
  - ❖ Balance sheet and income statement highlights (as provided by A.M. Best or equivalent agency);
- Meetings or direct correspondence with such reinsurers as necessary to discuss the financial health of the reinsurer.

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



## 2. LEVEL II MONITORING

### 2.1 Reinsurers Requiring Level II Monitoring

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

	AWAC	Colchester	Lloyd's	Swiss Re (incl. Westport)	AMA 1200 (Argo)	PPI 9969 (Pioneer)	AML 2001 (MS Amlin)
Current claims liability exposure (all years) exceeds 10%		✓	✓		✓		
Current claims liability exposure (prior year) exceeds 10%		✓	✓		✓	✓	✓
Claim limit exposure (current year) exceeds 10%			✓	✓			
Unregistered in Canada	✓	✓					
Difficulty collecting reinsurance proceeds after claim settlement							
Rating downgrade / "watch" list							

Special update on Lloyd's:

We have been advised that Lloyd's is undertaking a comprehensive review of the annual business plans of its syndicates. This process, which happens each year, appears to be more intrusive this year than in the past and has resulted in a number of business plans being sent back for revision. In one case, involving the Standard syndicate, Lloyd's has refused to approve the business plan and as a result the syndicate is exiting Lloyds. We have heard rumours that another four or five syndicates are still working on revising their business plans so that they are acceptable to Lloyd's. We hope to have more information on this matter prior to the November Audit Committee meeting, and in any event, it will obviously factor into our planning for the next reinsurance renewal.

## 2.2 Reinsurers Added to Level II Monitoring

New to the level II monitoring this year is AML 2001 (MS Amlin Syndicate).

Axis was put on negative outlook by A.M. Best, while Lloyd's and Aspen Re were put on negative outlook by S&P, however, all three can withstand a rating downgrade while still meeting CLLAS' rating criteria for reinsurers.

## 2.3 Reinsurers Removed from Level II Monitoring

Arch Insurance Company – A.M. Best has returned their rating outlook to Stable.

## 2.4 Allied World Assurance Company Limited ("AWAC")

### General

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

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

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

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

### Stock Performance

The following is the 5-year stock performance from August 29, 2014 to October 18, 2018 of Fairfax Financial Holdings (ticker: FFH, Toronto Stock Exchange) with the S&P TSX for comparison. Fairfax Financials share price was \$503.51 on August 29, 2014, \$647.05 on August 28, 2015, \$743.21 on August 29, 2016, \$645.00 on October 31, 2017 and \$661.97 on October 18, 2018.



## Highlights of A.M. Best Report

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

- 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;
  - ❖ Combined ratios remained under 95% through 2012 to 2016
- A.M. Best report was updated on December 20, 2017.

## 2.5 Colchester Reinsurance Limited ("Colchester")

### General

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

### Stock Performance

Colchester is not publicly traded.

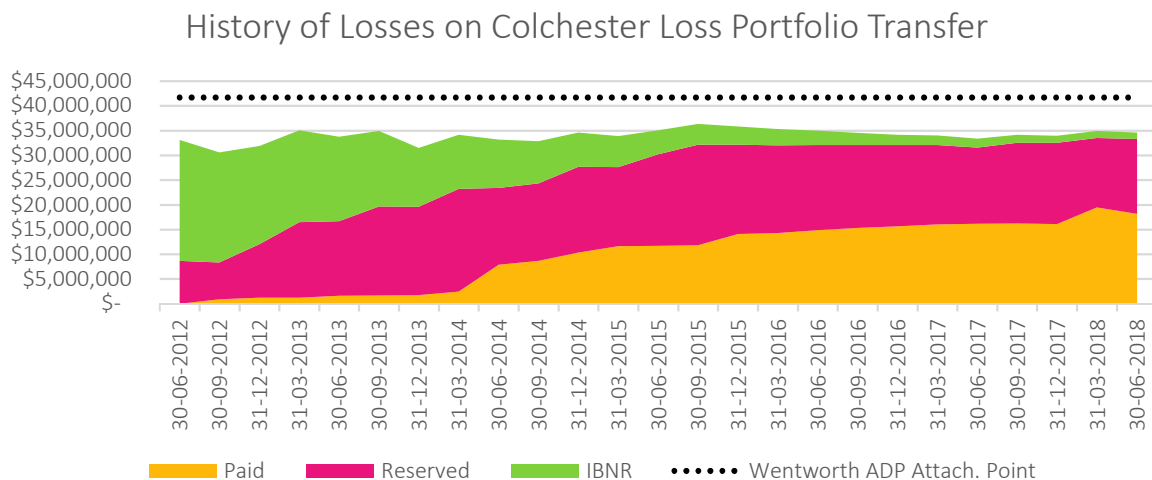
### Highlights of A.M. Best Report

Colchester is not rated by any ratings agencies.

## Financial Highlights

Please see Appendix H for a copy of the most recent financial draft statements (as of June 30, 2017). The following are some of the highlights from these financials:

- Retained earnings decreased from \$35,911,503 in 2017 to \$31,647,641 in 2018;
- Income for the year, after taxation, decreased from \$2,430,497 in 2017 to a loss of \$1,258,378;
  - ❖ Reinsurance premiums written and earned decreased from \$1,594,237 in 2017 to \$209,798;
  - ❖ Retrocession premiums also decreased from \$1,360,075 in 2017 to \$1,039,022;
- Colchester has been deliberately distributing surplus via premium reductions (as seen above in the level of premiums written), and losses are expected to emerge over time as a result;
- All the assets supporting the claims liabilities of Colchester are held in trust in a custodial account in favour of CLLAS, subject to a reinsurance security agreement as outlined by the Office of the Superintendent of Financial Institutions (Canadian federal regulator) and approved by the Alberta Superintendent of Insurance (the regulator in CLLAS' home jurisdiction); and
- On June 30, 2012 Colchester and CLLAS affected a Loss Portfolio Transfer, which transferred approximately \$33.1 million of CLLAS' liabilities to Colchester for all prior years of account. Since that time, those liabilities have remained relatively stable, as can be seen in the chart below. Colchester also purchased adverse development retrocession protection on the Loss Portfolio. Transfer losses, which attaches at \$41.7 million, also shown below as a dotted line for reference.



## 2.6 Lloyd's

### General

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

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

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

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

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

The Lloyd's market has been participating on the CLLAS Program since its inception 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 I. Current rating is A (Excellent)/Stable from A.M. Best.

- A.M. Best's rating of Lloyd's of London reflects its strong capitalization and the financial advantage of Lloyd's' chain of security, while taking into account Lloyds' exposure to cat losses and the fact that some capital is provided via letter.
- Lloyd's reported a material loss in 2017, resulting in a combined ratio of 114.0% and A.M. Best noted that a negative outlook could be issued if losses emerge in 2018.

## 2.7 Swiss Reinsurance Company/Westport Insurance Corporation (“Swiss Re”)

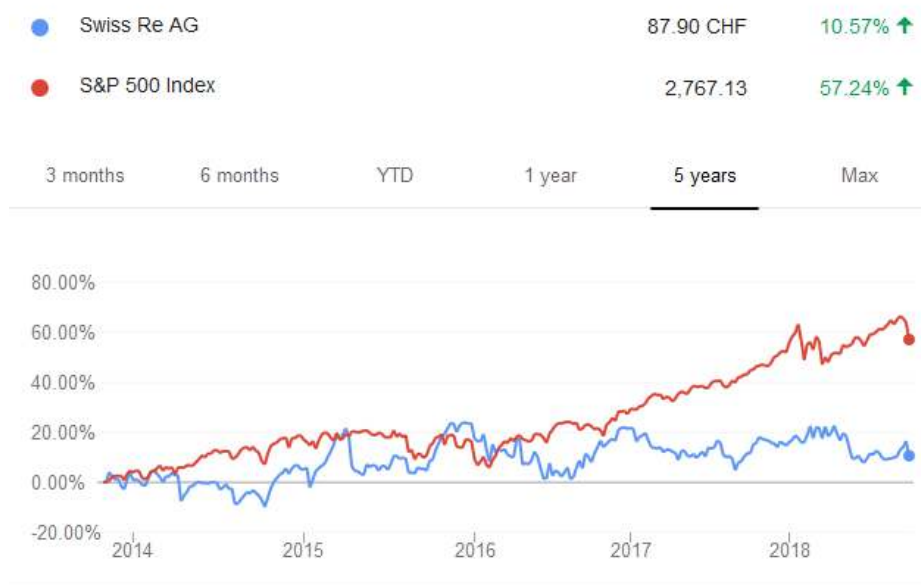
### General

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 5-year stock performance from August 29, 2014 to October 18, 2018 for Swiss Re (ticker: SREN, SIX Swiss Exchange) with the S&P 500 for comparison. Swiss Re’s share price was \$75.90 CHF on August 29, 2014, \$90.15 CHF on August 28, 2015, \$80.90 CHF on August 29, 2016, \$88.15 CHF on October 4, 2017 and \$87.90 CHF on October 18, 2018.



## Highlights of A.M. Best Report

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

- Swiss Re's Total Assets have steadily since 2012, with a total of \$113 billion in 2017.
- Net premiums written: \$18,707 billion in 2017 are marginally down from \$18.769 billion in 2016;
- Net income: \$112 million in 2017 and \$875 million in 2016;

## **2.9 Argo Group International Holdings, Ltd.**

### General

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

**Excess & Surplus Lines** serves clients who cannot be insured in 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 of London 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).

## Stock Performance

The following is a 5-year stock performance from August 29, 2014 to October 18, 2018 for Argo Group International Holdings (ticker: AGII) with the S&P 500 for comparison. Argo Group's share price was \$52.25 on August 29, 2014, \$64.93 on August 28, 2015, \$57.05 on August 29, 2016, \$62.45 on October 4, 2017 and \$51.47 on October 18, 2018.



## Highlights of A.M. Best Report

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

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

- Stable but increasing net premiums written over the past five years;
- Net income has been positive since 2013 after a small loss reported in 2012;



## 2.10 PPI 9969 (Pioneer)

### General

Pioneer Underwriters is a Lloyd's Syndicate and benefits from the Financial Strength rating of Lloyd's.

- Pioneer Underwriters were established in April 2011.
- They trade as both a risk carrier and MGA/MGU with full delegated underwriting authority in over 120 Lloyd's class codes.
- Pioneer Underwriters have secured approval from the Lloyd's Franchise Board to establish a full syndicate, with Asta acting as its third-party managing agent. The two companies are aiming to secure permission for Syndicate 1980 to underwrite business from 1st January 2018.
- Asta Managing Agency Ltd is an approved Lloyd's managing agency and their principal activity is the start-up and management of new syndicates at Lloyd's.
- Pioneer has 21 Underwriting teams across property, marine and casualty classes in ten international locations.
- Pioneer manage £278million in premiums across 120 Lloyd's class codes and have TOBAs with over 150 London and overseas brokers.

### Highlights of A.M. Best Report

n/a

### Financial Highlights

n/a

## 2.10 AML 2001 (MS Amlin)

### General

MS Amlin is a Lloyd's Syndicate and benefits from the Financial Strength rating of Lloyd's.

- MS Amlin is part of the global top 10 insurance Group MS&AD
- They have a 300-year record and more than 2,300 people in 26 locations worldwide.
- MS Amlin is a leading, global specialty (re)insurer in the Lloyd's Market. The syndicate is one of the largest syndicates at Lloyd's, offering clients worldwide Reinsurance, Property & Casualty and Marine & Aviation coverage.

### Highlights of A.M. Best Report

Press release attached. MS Amlin shares Lloyd's' overall rating of A.

## Financial Highlights

- MS Amlin plc, the syndicates' parent company had strong results in 2016 (2017 annual report was not available);
- Net written premiums through 2016 were up over £260 million to £2.654 billion
- Combined ratios in 2015 and 2016 were under 90% and 97%, respectively
- We do know from conversations with underwriters that the MS Amlin syndicate's performance was hit hard in 2017, and as a result they have gone through some significant internal restructuring, however, their financial strength remains strong, and Lloyd's has approved their business plan for 2018



Actuaries and Insurance Management Advisors

September 23, 2014

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

Dear Nick,

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

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

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

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

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

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

Yours sincerely,

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

Joseph D. Tontini  
Consultant



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London EC3N 2PJ  
Tel: +44 (0)20 7488 2345  
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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 1<sup>st</sup> July 2009**

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

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

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

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

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

Yours sincerely

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

Mark Popple  
Director – Professional Risks

Encl.

## CLLAS Reinsurance

A.M Best Ratings over a 5 year period  
October 2018

Appendix C

Reinsurers	Registered Status		2012	2013	2014	2015	2016	2017	2018
Lloyd's	Registered	Rating	A	A	A	A	A	A	A
		Outlook	Stable	Stable	Positive	Stable	Stable	Stable	Stable
Aspen Re	Registered	Rating	A	A	A	A	A	A	A
		Outlook	Stable	Stable	Stable	Stable	Stable	Stable	Stable
Hannover Rueck	Registered	Rating	A	A+	A+	A+	A+	A+	A+
		Outlook	Positive	Stable	Stable	Stable	Stable	Stable	Stable
Transatlantic Reinsurance Company (UK)	Registered	Rating	A	A	A	A	A+	A+	A+
		Outlook	Stable	Stable	Positive	Positive	Positive	Stable	Stable
Arch Insurance Company (Canada Branch)	Registered	Rating	A+	A+	A+	A+	A+	A+	A+
		Outlook	Stable	Stable	Stable	Stable	Stable	Negative	Negative
Allied World Assurance Company Ltd.	Unregistered	Rating	A	A	A	A	A	A	A
		Outlook	Positive	Stable	Stable	Stable	Stable	Negative	Stable
CRC (Bermuda) Reinsurance Ltd.	Unregistered	Rating	A	A-	N/A	N/A	N/A	N/A	N/A
		Outlook	Stable	Stable	N/A	N/A	N/A	N/A	N/A
RSA Insurance Group(formerly GCAN Insurance Company)	Registered	Rating	A	A	N/A	N/A	N/A	N/A	N/A
		Outlook	Stable	Stable	N/A	N/A	N/A	N/A	N/A
SCOR Canada Reinsurance Company	Registered	Rating	A	A	A	A	A	A+	A+
		Outlook	Stable	Stable	Stable	Positive	Positive	Positive	Stable
Swiss Reinsurance Company Ltd. (Canada Branch)	Registered	Rating	A+	A+	A+	A+	A+	A+	A+
		Outlook	Stable	Stable	Stable	Stable	Stable	Stable	Stable
Toa Reinsurance Company of America	Registered	Rating	A+	A+	A+	A+	A+	A	A
		Outlook	Negative	Stable	Stable	Stable	Stable	Stable	Stable
Alleghany Corporation (formerly Transatlantic Reinsurance Company) (Parent)	Registered	Rating	N/A	bbb+	bbb+	bbb+	A-	A-	A-
		Outlook	N/A	N/A	N/A	Positive	Stable	Stable	Stable
Transatlantic Reinsurance Company (Canada)	Registered	Rating	A	A	A	A	A+	A+	A+
		Outlook	Stable	Stable	Positive	Positive	Stable	Stable	Stable
Colchester Reinsurance Ltd.	Unregistered	Rating	N/A	N/A	N/A	N/A	N/A	N/A	N/A
		Outlook	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Munich Re	Registered	Rating	A+	A+	A+	A+	A+	A+	A+
		Outlook	Stable	Stable	Stable	Stable	Stable	Stable	Stable
Argo Group Operating Subsidiaries (AMA 1200 Parent)	Registered	Rating	A	A	A	A	A	A	A
		Outlook	Stable	Stable	Stable	Stable	Stable	Stable	Stable
Axis Reinsurance Company	Registered	Rating	A	A	A+	A+	A+	A+	A+
		Outlook	Positive	Positive	Stable	Stable	Stable	Stable	Negative
Continental Casualty Company (CNA)	Registered	Rating	A	A	A	A	A	A	A
		Outlook	Stable	Stable	Stable	Stable	Stable	Stable	Stable
Allianz Global Risks	Registered	Rating	A+	A+	A+	A+	A+	A+	A+
		Outlook	Stable	Stable	Stable	Stable	Stable	Stable	Stable
CNA Canada	Registered	Rating	N/A	N/A	N/A	A*	A*	A*	A*
		Outlook	N/A	N/A	N/A	Stable*	Stable*	Stable*	Stable*

\* As of March 31, 2012

## CLLAS Reinsurance

S&P Ratings over a 5 year period

October 2018

Appendix C

Reinsurers		2012	2013	2014	2015	2016	2017	2018
Lloyd's	Rating	A+	A+	A+	A+	A+	A+	A+
	Outlook	Stable	Stable	Stable	Stable	Stable	Stable	Negative
Aspen Re	Rating	A	A	A	A	A	A	A
	Outlook	Stable	Stable	Stable	Stable	Stable	Stable	Negative
Hannover Rueck	Rating	AA-	AA-	AA-	AA-	AA-	AA-	AA-
	Outlook	Stable	Stable	Stable	Stable	Stable	Stable	Stable
Transatlantic Reinsurance Company (UK)	Rating	A+	A+	A+	A+	A+	A+	A+
	Outlook	Stable	Stable	Stable	Stable	Stable	Stable	Stable
Arch Insurance Company (Canada Branch)	Rating	A+	A+	A+	A+	A+	A+	A+
	Outlook	Stable	Stable	Stable	Stable	Negative	Negative	Stable
Allied World Assurance Company Ltd.	Rating	A	A	A	A	A	A-	A-
	Outlook	Stable	Stable	Stable	Stable	Stable	Stable	Positive
CRC (Bermuda) Reinsurance Ltd.	Rating	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Outlook	N/A	N/A	N/A	N/A	N/A	N/A	N/A
RSA Insurance Group(formerly GCAN Insurance Company)	Rating	A+	A	A	A	A	A	A
	Outlook	Negative	Negative	Stable	Stable	Stable	Stable	Stable
SCOR Canada Reinsurance Company	Rating	A+	A+	A+	AA-	AA-	AA-	AA-
	Outlook	Stable	Stable	Positive	Stable	Stable	Stable	Stable
Swiss Reinsurance Company Ltd. (Canada Branch)	Rating	AA-	AA-	AA-	AA-	AA-	AA-	AA-
	Outlook	Stable	Stable	Stable	Stable	Stable	Stable	Stable
Toa Reinsurance Company of America	Rating	A+	A+	A+	A+	A+	A+	A+
	Outlook	Stable	Stable	Stable	Stable	Stable	Stable	Stable
Alleghany Corporation (formerly Transatlantic Reinsurance Company) (Parent)	Rating	BBB	BBB	BBB+	BBB+	BBB+	BBB+	BBB+
	Outlook	Stable	Stable	Stable	Stable	Stable	Stable	Stable
Transatlantic Reinsurance Company (Canada)	Rating	A+	A+	A+	A+	A+	A+	A+
	Outlook	Stable	Stable	Stable	Stable	Stable	Stable	Stable
Colchester Reinsurance Ltd.	Rating	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Outlook	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Munich Re	Rating	AA-	AA-	AA-	AA-	AA-	AA-	AA-
	Outlook	Stable	Stable	Stable	Stable	Stable	Stable	Stable
Argo Group Operating Subsidiaries (AMA 1200 Parent)	Rating	A-	A-	A-	A-	A-	A-	A-
	Outlook	Stable	Negative	Stable	Stable	Stable	Stable	Stable
Axis Reinsurance Company	Rating	A+	A+	A+	A+	A+	A+	A+
	Outlook	Stable	Stable	Stable	Stable	Stable	Negative	Negative
Continental Casualty Company (CNA)	Rating	A-	A	A	A	A	A	A
	Outlook	Positive	Positive	Stable	Stable	Stable	Stable	Stable
Allianz Global Risks	Rating	AA	AA	AA	AA	AA	AA	AA
	Outlook	Negative	Stable	Stable	Stable	Stable	Stable	Stable
CNA Canada	Rating	N/A	N/A	N/A	A	A	A	A
	Outlook	N/A	N/A	N/A	Stable	Stable	Stable	Stable

## CLLAS Reinsurance

Appendix D

### Top 25 Reinsurers by % of Current Liability

#### ALL YEARS

Watch	Name	Jurisdiction	Reg'd?	LAYERS										All-time Percent of Total	Prev. Year Percent of Total	Move- ment?
				\$ .975MM XS	\$4/\$49MM XS	\$7.5MM XS	\$12.5MM XS	\$10MM XS	\$30/60MM XS	\$20MM XS	\$10-60MM XS	\$15-110MM XS	TOTAL			
	Underwriters at Lloyd's	London	Yes	0	30,347,174	2,951,502	3,493,461	4,110,882	72,907	1,122	95,819	0	41,072,866	41.6%	39.9%	Up
➔	AMA 1200	Lloyd's	Yes	0	12,573,012	0	0	0	129	0	0	0	12,573,141	12.7%	12.8%	Down
➔	Colchester	Barbados	No	0	10,951,163	0	0	0	0	0	13,898	0	10,965,061	11.1%	10.7%	Up
➔	PPI 9969	Lloyd's	Yes	0	5,617,816	0	0	0	0	0	6,751	0	5,624,567	5.7%	4.8%	Up
	AML 2001	Lloyd's	Yes	0	4,647,086	0	432,730	432,131	0	85	0	0	5,512,033	5.6%	5.1%	Up
	Scor Re.	Canada	Yes	0	0	544,148	1,427,089	1,230,930	2,116	0	0	0	3,204,284	3.2%	3.1%	Up
	Allianz Global Risks	London	Yes	0	3,162,254	0	0	0	0	0	0	0	3,162,254	3.2%	2.9%	Up
	AUL 1274	Lloyd's	Yes	0	3,046,106	0	0	0	0	0	0	0	3,046,106	3.1%	2.7%	Up
	Aspen Re	London	Yes	0	0	927,623	1,190,969	822,660	0	0	0	0	2,941,252	3.0%	3.1%	Down
➔	Swiss Re (Combined)	Combined	Mixed	0	0	0	0	2,567,273	50,079	2,573	86,912	129,552	2,836,389	2.9%	2.7%	Up
➔	Swiss Re (Canada)	Canada	Yes	0	0	0	0	2,566,067	7,137	2,430	1,261	0	2,576,896	2.6%	2.6%	Up
	Hannover Ruck	London	Yes	0	0	0	2,566,213	0	0	0	0	0	2,566,213	2.6%	2.4%	Up
	AFB 623/2623	Lloyd's	Yes	0	0	2,529,302	0	0	4,358	0	0	0	2,533,660	2.6%	3.1%	Down
	Transatlantic Reinsurance Company (Combined)	Combined	Yes	0	110,392	786,217	1,620,030	0	0	0	0	0	2,516,640	2.5%	2.7%	Down
	MKL 3000	Lloyd's	Yes	0	0	0	918,396	1,541,663	7,453	0	20,144	0	2,487,657	2.5%	2.4%	Up
	Transatlantic Reinsurance Company (Canada)	Canada	Yes	0	110,392	726,332	1,575,891	0	0	0	0	0	2,412,615	2.4%	2.5%	Down
	MKM 2468	Lloyd's	Yes	0	0	0	800,475	1,540,522	0	0	552	0	2,341,549	2.4%	2.3%	Up
	CNA (Combined)	Combined	Mixed	0	2,289,754	0	0	0	0	0	0	0	2,289,754	2.3%	1.5%	Up
	CNA (Canada)	Canada	Yes	0	2,223,519	0	0	0	0	0	0	0	2,223,519	2.3%	1.4%	Up
	AXIS Re	Canada	Yes	0	2,113,884	0	0	0	0	0	14,395	0	2,128,279	2.2%	1.9%	Up
	AGD 2526	Lloyd's	Yes	0	1,760,214	88,394	0	0	121	0	1,002	0	1,849,731	1.9%	2.5%	Down
	Vibe 5678	Lloyd's	Yes	0	1,343,065	0	0	0	0	0	0	0	1,343,065	1.4%	0.5%	Up
	Liberty (Combined)	Combined	Yes	0	198,403	0	904,187	0	4,595	567	9,068	0	1,116,821	1.1%	1.1%	Up
	PEM 4000	Lloyd's	Yes	0	198,403	0	904,187	0	3,755	68	8,924	0	1,115,337	1.1%	1.1%	Up
	Arch	Canada	Yes	0	0	1,077,445	0	0	0	0	3,215	0	1,080,660	1.1%	1.3%	Down
➔	CRC (Bermuda) Reinsurance Ltd.	Bermuda	No	0	0	371,969	591,138	0	0	0	0	0	963,108	1.0%	1.0%	Down
	TOA Re.	Canada	Yes	0	0	399,037	472,685	0	0	0	0	0	871,721	0.9%	0.9%	Down
	Hamilton 3334	Lloyd's	Yes	0	717,951	0	0	0	1,327	0	3,564	0	722,842	0.7%	0.4%	Up
	HIS 33	Lloyd's	Yes	0	0	0	0	596,568	1,858	469	0	0	598,895	0.6%	0.6%	Up

Total Current Liabilities	2,108,260	56,630,091	13,376,986	15,815,841	10,271,791	143,079	10,263	292,733	129,552	98,778,596						
Proportional Reinsurance:																
London	0	33,509,428	3,939,011	7,294,782	4,934,747	73,188	1,264	95,819	0	49,848,239	50.5%	48.5%	Up			
Canada	0	4,514,029	2,746,962	3,475,665	3,796,997	58,423	2,430	160,844	129,552	14,884,902	15.1%	13.9%	Up			
Bermuda	0	0	371,969	591,138	0	11,468	6,568	22,173	0	1,003,317	1.0%	1.1%	Down			
Barbados	0	10,951,163	0	0	0	0	0	13,898	0	10,965,061	11.1%	10.7%	Up			
Total	0	48,974,621	7,057,942	11,361,585	8,731,744	143,079	10,263	292,733	129,552	76,701,519	77.6%	74.1%	Up			
CLLAS Proportional Retention	2,108,260	7,655,470	6,319,044	4,454,256	1,540,047	0	0	0	0	22,077,077	22.4%	25.9%	Down			
➔ Colchester Loss Portfolio Transfer & Stop Loss	113,847	7,655,470	6,319,044	4,454,256	1,540,047	0	0	0	0	20,082,664	20.3%	23.9%	Down			
CLLAS Net Retention										1,994,413	2.0%	2.0%	Up			

## CLLAS Reinsurance

Reinsurers by % of Current Liability

CURRENT YEAR (2018/2019)

Appendix E

Watch	Name	Jurisdiction	Reg'd?	LAYERS					TOTAL	Percent of Total	Prev. Year Percent of Total	Move-ment?
				\$ .975MM XS \$ .025MM	\$49MM XS \$1MM	\$30/60MM XS \$65MM	\$10-60MM XS \$160MM	\$15-110MM XS \$50MM				
	Underwriters at Lloyd's	London	Yes	0	2,085,587	4,780	5,939	0	2,096,305	64.3%	58.0%	Up
➔	Colchester	Barbados	No	0	621,173	0	1,370	0	622,543	19.1%	18.5%	Up
➔	AMA 1200	Lloyd's	Yes	0	621,173	0	0	0	621,173	19.1%	24.2%	Down
➔	PPI 9969	Lloyd's	Yes	0	465,569	0	0	0	465,569	14.3%	11.9%	Up
	AML 2001	Lloyd's	Yes	0	336,676	0	0	0	336,676	10.3%	9.0%	Up
	Vibe 5678	Lloyd's	Yes	0	294,746	0	0	0	294,746	9.0%	2.3%	Up
	AUL 1274	Lloyd's	Yes	0	245,053	0	0	0	245,053	7.5%	6.0%	Up
	Allianz Global Risks	London	Yes	0	243,810	0	0	0	243,810	7.5%	6.0%	Up
	AXIS Re	Canada	Yes	0	155,293	0	914	0	156,207	4.8%	4.6%	Up
	Hamilton 3334	Lloyd's	Yes	0	122,371	162	364	0	122,896	3.8%	2.3%	Up
➔	Swiss Re (Combined)	Combined	Mixed	0	0	3,042	5,482	22,562	31,086	1.0%	0.3%	Up
	Westport Insurance Corp. (Swiss Re)	Canada	Yes	0	0	3,042	5,482	22,562	31,086	1.0%	0.3%	Up
	BRT 2987	Lloyd's	Yes	0	0	1,999	305	0	2,304	0.1%	0.1%	Down
	Gerling Global Re	Canada	Yes	0	0	348	1,827	0	2,175	0.1%	0.1%	Down
	Acappella 2014	Lloyd's	Yes	0	0	521	1,292	0	1,812	0.1%	0.9%	Down
➔	AWAC	Bermuda	No	0	0	521	1,279	0	1,801	0.1%	0.1%	Down
	MKL 3000	Lloyd's	Yes	0	0	507	1,222	0	1,729	0.1%	0.1%	Down
	RSA (Combined)	Combined	Yes	0	0	0	1,462	0	1,462	0.0%	0.0%	Down
	Royal & Sun Alliance Co. of Canada	Canada	Yes	0	0	0	1,462	0	1,462	0.0%	0.0%	Down
	FDY 435	Lloyd's	Yes	0	0	349	528	0	877	0.0%	0.0%	Up
	Liberty (Combined)	Combined	Yes	0	0	314	554	0	867	0.0%	0.0%	Down
	PEM 4000	Lloyd's	Yes	0	0	314	554	0	867	0.0%	0.0%	Down
	Probitas 1492	Lloyd's	Yes	0	0	0	735	0	735	0.0%	0.0%	Up
	SAL 1206	Lloyd's	Yes	0	0	292	367	0	659	0.0%	1.1%	Down
	Endurance 5151	Lloyd's	Yes	0	0	0	572	0	572	0.0%	0.0%	Down
	AFB 623/2623	Lloyd's	Yes	0	0	346	0	0	346	0.0%	0.0%	Up
	Catlin (Combined)	Combined	Yes	0	0	292	0	0	292	0.0%	0.0%	Up
	SIC 2003	Lloyd's	Yes	0	0	292	0	0	292	0.0%	0.0%	Up

Total Current Liabilities	104,387	3,105,863	8,691	18,272	22,562	3,259,775				
Proportional Reinsurance:										
London	0	2,329,397	4,780	5,939	0	2,340,116	71.8%	64.0%	Up	
Canada	0	155,293	3,389	9,684	22,562	190,929	5.9%	10.6%	Down	
Bermuda	0	0	521	1,279	0	1,801	0.1%	0.1%	Down	
Barbados	0	621,173	0	1,370	0	622,543	19.1%	18.5%	Up	
Total	0	3,105,863	8,691	18,272	22,562	3,155,388	96.8%	93.1%	Up	
CLLAS Proportional Retention	104,387	0	0	0	0	104,387	3.2%	6.9%	Down	
➔ Colchester Aggregate						0	0.0%	0.0%	Zero	
CLLAS Net Retention						104,387	3.2%	6.9%	Down	



## CLLAS Reinsurance

Appendix F

### Reinsurers by % of Single Claim Exposure

#### CURRENT YEAR (2018/2019)

CURRENT YEAR (2018/2019)				LAYERS					TOTAL	Percent of Total	Prev. Year	
Watch	Name	Jurisdiction	Reg'd?	\$ .975MM	\$49MM	\$30/60MM	\$10-60MM	\$110MM			Percent of Total	Move-ment?
				XS	XS	XS	XS	XS				
				\$ .025MM	\$1MM	\$65MM	\$160MM	\$50MM				
	Underwriters at Lloyd's	London	Yes	0	32,903,500	16,500,000	19,500,000	0	68,903,500	47.4%	44.5%	Up
➔	Swiss Re (Combined)	Combined	Mixed	0	0	10,500,000	18,000,000	5,500,000	34,000,000	23.4%	23.4%	Unchanged
	Westport Insurance Corp. (Swiss Re)	Canada	Yes	0	0	10,500,000	18,000,000	5,500,000	34,000,000	23.4%	23.4%	Unchanged
➔	Colchester	Barbados	No	0	9,800,000	0	4,500,000	0	14,300,000	9.8%	9.8%	Unchanged
➔	AMA 1200	Lloyd's	Yes	0	9,800,000	0	0	0	9,800,000	6.7%	6.7%	Unchanged
	BRT 2987	Lloyd's	Yes	0	0	6,900,000	1,002,000	0	7,902,000	5.4%	5.4%	Unchanged
➔	PPI 9969	Lloyd's	Yes	0	7,345,100	0	0	0	7,345,100	5.0%	6.9%	Down
	Gerling Global Re	Canada	Yes	0	0	1,200,000	6,000,000	0	7,200,000	4.9%	4.9%	Unchanged
	Acappella 2014	Lloyd's	Yes	0	0	1,797,000	4,242,000	0	6,039,000	4.2%	4.3%	Down
➔	AWAC	Bermuda	No	0	0	1,800,000	4,200,000	0	6,000,000	4.1%	4.1%	Unchanged
	MKL 3000	Lloyd's	Yes	0	0	1,749,000	4,014,000	0	5,763,000	4.0%	4.0%	Unchanged
	AXIS Re	Canada	Yes	0	2,450,000	0	3,000,000	0	5,450,000	3.7%	3.7%	Unchanged
	AML 2001	Lloyd's	Yes	0	5,311,600	0	0	0	5,311,600	3.7%	3.3%	Up
	RSA (Combined)	Combined	Yes	0	0	0	4,800,000	0	4,800,000	3.3%	3.3%	Unchanged
	Royal & Sun Alliance Co. of Canada	Canada	Yes	0	0	0	4,800,000	0	4,800,000	3.3%	3.3%	Unchanged
	Vibe 5678	Lloyd's	Yes	0	4,650,100	0	0	0	4,650,100	3.2%	2.0%	Up
	AUL 1274	Lloyd's	Yes	0	3,866,100	0	0	0	3,866,100	2.7%	2.2%	Up
	Allianz Global Risks	London	Yes	0	3,846,500	0	0	0	3,846,500	2.6%	2.2%	Up
	Hamilton 3334	Lloyd's	Yes	0	1,930,600	558,000	1,194,000	0	3,682,600	2.5%	2.1%	Up
	FDY 435	Lloyd's	Yes	0	0	1,203,000	1,734,000	0	2,937,000	2.0%	2.0%	Unchanged
	Liberty (Combined)	Combined	Yes	0	0	1,083,000	1,818,000	0	2,901,000	2.0%	2.0%	Unchanged
	PEM 4000	Lloyd's	Yes	0	0	1,083,000	1,818,000	0	2,901,000	2.0%	2.0%	Unchanged
	Probitas 1492	Lloyd's	Yes	0	0	0	2,412,000	0	2,412,000	1.7%	0.0%	Up
	SAL 1206	Lloyd's	Yes	0	0	1,008,000	1,206,000	0	2,214,000	1.5%	0.7%	Up
	Endurance 5151	Lloyd's	Yes	0	0	0	1,878,000	0	1,878,000	1.3%	1.3%	Unchanged
	AFB 623/2623	Lloyd's	Yes	0	0	1,194,000	0	0	1,194,000	0.8%	0.8%	Unchanged
	Catlin (Combined)	Combined	Yes	0	0	1,008,000	0	0	1,008,000	0.7%	0.7%	Unchanged
	SJC 2003	Lloyd's	Yes	0	0	1,008,000	0	0	1,008,000	0.7%	0.7%	Unchanged

#### Maximum Exposure Any One Claim

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

#### Proportional Reinsurance:

London	0	36,750,000	16,500,000	19,500,000	0	72,750,000	50.0%	51.8%	Down
Canada	0	2,450,000	11,700,000	31,800,000	5,500,000	51,450,000	35.4%	34.9%	Up
Bermuda	0	0	1,800,000	4,200,000	0	6,000,000	4.1%	5.6%	Down
Barbados	0	9,800,000	0	4,500,000	0	14,300,000	9.8%	7.0%	Up
Total	0	49,000,000	30,000,000	60,000,000	5,500,000	144,500,000	99.3%	99.3%	Up

#### CLLAS Proportional Retention

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

#### ➔ Colchester Aggregate

n/a n/a n/a

#### CLLAS Net Retention

975,000 0.7% 0.7% Down

**Reinsurers by % of Single Claim Exposure**  
**CURRENT YEAR (2018/2019)**

**CURRENT YEAR (2018/2019)**

CURRENT YEAR (2018/2019)				LAYERS							US\$30MM* (\$39MM)	TOTAL	Percent of Total
				\$975MM XS \$0.025MM	\$49MM XS \$1MM	\$30/60MM XS \$65MM	\$10-60MM XS \$160MM	\$15-50MM XS \$50MM	\$60MM XS \$100MM				
Watch	Name	Jurisdiction	Reg'd?										
	Underwriters at Lloyd's	London	Yes	0	32,903,500	16,500,000	19,500,000	0	0	5,850,000	74,753,500	25.9%	
➔	Swiss Re (Combined)	Combined	Mixed	0	0	10,500,000	18,000,000	2,500,000	3,000,000	0	34,000,000	11.8%	
	Westport Insurance Corp. (Swiss Re)	Canada	Yes	0	0	10,500,000	18,000,000	2,500,000	3,000,000	0	34,000,000	11.8%	
	RSA (Combined)	Combined	Yes	0	0	0	4,800,000	10,000,000	5,700,000	0	20,500,000	7.1%	
	Encon Group Inc. (PF)	Canada	Yes	0	0	0	0	5,000,000	15,000,000	0	20,000,000	6.9%	
	Royal & Sun Alliance Co. of Canada (PF)	Canada	Yes	0	0	0	0	10,000,000	5,700,000	0	15,700,000	5.4%	
	Travelers Insurance Company of Canada (PF)	Canada	Yes	0	0	0	0	5,000,000	9,900,000	0	14,900,000	5.2%	
➔	Colchester	Barbados	No	0	9,800,000	0	4,500,000	0	0	0	14,300,000	4.9%	
	Liberty (Combined)	Combined	Yes	0	0	1,083,000	1,818,000	10,000,000	0	0	12,901,000	4.5%	
	Catlin (Combined)	Combined	Yes	0	0	1,008,000	0	5,000,000	0	6,435,000	12,443,000	4.3%	
	Axis Reinsurance Company (PF)	Canada	Yes	0	0	0	0	5,000,000	0	7,215,000	12,215,000	4.2%	
	XL Catlin (PF)	Canada	Yes	0	0	0	0	5,000,000	0	6,435,000	11,435,000	4.0%	
	Liberty International Canada (PF)	Canada	Yes	0	0	0	0	10,000,000	0	0	10,000,000	3.5%	
	Chubb Insurance Company (PF)	Canada	Yes	0	0	0	0	0	9,900,000	0	9,900,000	3.4%	
	QBE Insurance Group (PF)	Canada	Yes	0	0	0	0	5,000,000	4,800,000	0	9,800,000	3.4%	
➔	AMA 1200	Lloyd's	Yes	0	9,800,000	0	0	0	0	0	9,800,000	3.4%	
	CNA (US) (PF)**	US	Yes	0	0	0	0	0	0	9,750,000	9,750,000	3.4%	
	Berkley (PF)**	US	Yes	0	0	0	0	0	0	9,750,000	9,750,000	3.4%	
	CNA (Combined)	Combined	Mixed	0	0	0	0	0	0	9,750,000	9,750,000	3.4%	
	Northbridge Insurance Company (PF)	Canada	Yes	0	0	0	0	2,500,000	6,000,000	0	8,500,000	2.9%	
	BRT 2987	Lloyd's	Yes	0	0	6,900,000	1,002,000	0	0	0	7,902,000	2.7%	
➔	PPI 9969	Lloyd's	Yes	0	7,345,100	0	0	0	0	0	7,345,100	2.5%	
	Gerling Global Re	Canada	Yes	0	0	1,200,000	6,000,000	0	0	0	7,200,000	2.5%	
	Acappella 2014	Lloyd's	Yes	0	0	1,797,000	4,242,000	0	0	0	6,039,000	2.1%	
➔	AWAC	Bermuda	No	0	0	1,800,000	4,200,000	0	0	0	6,000,000	2.1%	
	MKL 3000	Lloyd's	Yes	0	0	1,749,000	4,014,000	0	0	0	5,763,000	2.0%	
	Trisura (PF)	Canada	Yes	0	0	0	0	0	5,700,000	0	5,700,000	2.0%	
	AXIS Re	Canada	Yes	0	2,450,000	0	3,000,000	0	0	0	5,450,000	1.9%	
	AML 2001	Lloyd's	Yes	0	5,311,600	0	0	0	0	0	5,311,600	1.8%	
	Royal & Sun Alliance Co. of Canada	Canada	Yes	0	0	0	4,800,000	0	0	0	4,800,000	1.7%	
	Vibe 5678	Lloyd's	Yes	0	4,650,100	0	0	0	0	0	4,650,100	1.6%	
	AUL 1274	Lloyd's	Yes	0	3,866,100	0	0	0	0	0	3,866,100	1.3%	
	Allianz Global Risks	London	Yes	0	3,846,500	0	0	0	0	0	3,846,500	1.3%	
	Hamilton 3334	Lloyd's	Yes	0	1,930,600	558,000	1,194,000	0	0	0	3,682,600	1.3%	
	FDY 435	Lloyd's	Yes	0	0	1,203,000	1,734,000	0	0	0	2,937,000	1.0%	
	PEM 4000	Lloyd's	Yes	0	0	1,083,000	1,818,000	0	0	0	2,901,000	1.0%	
	Probitas 1492	Lloyd's	Yes	0	0	0	2,412,000	0	0	0	2,412,000	0.8%	
	SAL 1206	Lloyd's	Yes	0	0	1,008,000	1,206,000	0	0	0	2,214,000	0.8%	
	Endurance 5151	Lloyd's	Yes	0	0	0	1,878,000	0	0	0	1,878,000	0.6%	
	AFB 623/2623	Lloyd's	Yes	0	0	1,194,000	0	0	0	0	1,194,000	0.4%	
	SJC 2003	Lloyd's	Yes	0	0	1,008,000	0	0	0	0	1,008,000	0.3%	
	Maximum Exposure Any One Claim			975,000	49,000,000	30,000,000	60,000,000	50,000,000	60,000,000	39,000,000	288,975,000		
	Proportional Reinsurance:												
	London			0	36,750,000	16,500,000	19,500,000	0	0	5,850,000	78,600,000	27.2%	
	Canada			0	2,450,000	11,700,000	31,800,000	50,000,000	60,000,000	13,650,000	169,600,000	58.7%	
	US			0	0	0	0	0	0	19,500,000	19,500,000	6.7%	
	Bermuda			0	0	1,800,000	4,200,000	0	0	0	6,000,000	2.1%	
	Barbados			0	9,800,000	0	4,500,000	0	0	0	14,300,000	4.9%	
	Total			0	49,000,000	30,000,000	60,000,000	50,000,000	60,000,000	39,000,000	288,000,000	99.7%	
	CLLAS Proportional Retention			975,000	0	0	0	0	0	0	975,000	0.3%	
➔	Colchester Aggregate										n/a	n/a	
	CLLAS Net Retention										975,000	0.3%	

# Allied World Assurance Company, Ltd

27 Richmond Road, Pembroke HM 08, Bermuda

**AMB #:** 084808

**NAIC #:** N/A

**AIIN#:** AA-3194128

**Phone:** 441-278-5400

**Fax:** 441-296-3428

**Website:** [www.awac.com](http://www.awac.com)

[Best's Credit Rating Methodology](#) | [Disclaimer](#) | [Best's Credit Rating Guide](#)

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# Allied World Assurance Company, Ltd

## Credit Report

**Report Release Date:**

December 20, 2017

**Rating Effective Date:**

December 20, 2017

**Disclosure Information:** View A.M. Best's [Rating Disclosure Form](#)

## Analytical Contacts

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**Ultimate Parent:** [058364 - Fairfax Financial Holdings Limited](#)
**A.M. Best Rating Unit:** [058218 - Allied World Assurance Co Hldgs GmbH](#)

## Best's Credit Ratings:

Rating Effective Date: December 20, 2017

<b>Best's Financial Strength Rating:</b>	A	<b>Outlook:</b>	Stable	<b>Action:</b>	Affirmed
<b>Best's Issuer Credit Rating:</b>	a+	<b>Outlook:</b>	Stable	<b>Action:</b>	Affirmed

## Five Year Credit Rating History:

Date	Best's Financial Strength Ratings			Best's Issuer Credit Ratings		
	Rating	Outlook	Action	Rating	Outlook	Action
12/20/2017	A	Stable	Affirmed	a+	Stable	Affirmed
12/20/2016	A u	Negative	Under Review	a+ u	Negative	Under Review
02/11/2016	A	Stable	Affirmed	a+	Stable	Affirmed
12/16/2014	A	Stable	Affirmed	a+	Stable	Affirmed
11/13/2013	A	Stable	Affirmed	a+	Stable	Upgraded

## Rating Rationale:

Allied World Assurance acts as the main operating company of the group providing reinsurance support and management services to its affiliated group members.

For more detail regarding the Rating Rationale and Best's Credit Report for the Rating Unit, view [Allied World Assurance Company Holdings, GmbH \(AMB# 058218\)](#).

## Financial Data Notes:

**Time Period:** Annual - 2016

**Status:** A.M. Best Quality Cross Checked

## Key Financial Indicators:

### Key Financial Indicators (000)

	Year End				
	2016	2015	2014	2013	2012
Premiums Written					
Direct Premiums Written	2,190,926	2,121,747	1,869,045	1,719,608	1,526,246
Gross Premiums Written	2,813,952	2,797,046	2,783,475	2,608,564	2,262,612
Net Premiums Written	2,057,378	2,199,826	2,208,756	2,024,474	1,782,874
Net Income	319,381	192,927	555,637	513,141	574,359
Total Assets	12,412,149	12,856,417	11,894,141	11,541,688	11,685,623
Total Equity	4,035,060	4,433,789	4,219,020	4,029,283	3,965,527

Source: Bestlink - Best's Statement File - Global  
Local Currency: US Dollar

### Key Financial Indicators - A.M. Best Ratios (%)

	Year End				
	2016	2015	2014	2013	2012
Combined Ratio (Total)	94.6	93.6	84.1	83.6	92.9
Net Premiums Written to Equity	51.0	49.6	52.4	50.2	45.0
Liquidity					
Liquid assets to total liabilities	86.3	92.3	92.8	94.6	99.9
Total investments to total liabilities	97.7	103.0	104.2	105.4	109.0

Source: Bestlink - Best's Statement File - Global

## Credit Analysis:

### Balance Sheet Strength

## Capitalization:

### Capital Generation Analysis (000)

	Year End				
	2016	2015	2014	2013	2012
Common shares, ending balance	1,000	1,000	1,000	1,000	1,000
Paid-in capital - End bal	2,292,137	2,528,987	2,021,848	2,006,748	2,001,133
AOCI - ending balance	-11,557	-9,297	...	...	...
Retained earnings, beginning balance	1,913,099	2,196,172	2,021,535	1,963,394	1,804,035
Retained earnings, net income	319,381	192,927	555,637	513,141	574,359
Retained earnings, common dividends	479,000	476,000	381,000	455,000	415,000
Retained earnings, ending balance	1,753,480	1,913,099	2,196,172	2,021,535	1,963,394
Total shareholder equity	4,035,060	4,433,789	4,219,020	4,029,283	3,965,527

Source: Bestlink - Best's Statement File - Global  
Local Currency: US Dollar

## Operating Performance

### Financial Performance Summary (000)

	Year End				
	2016	2015	2014	2013	2012
Pre-Tax Income	307,462	195,288	584,656	521,876	591,092
Net Income	319,381	192,927	555,637	513,141	574,359

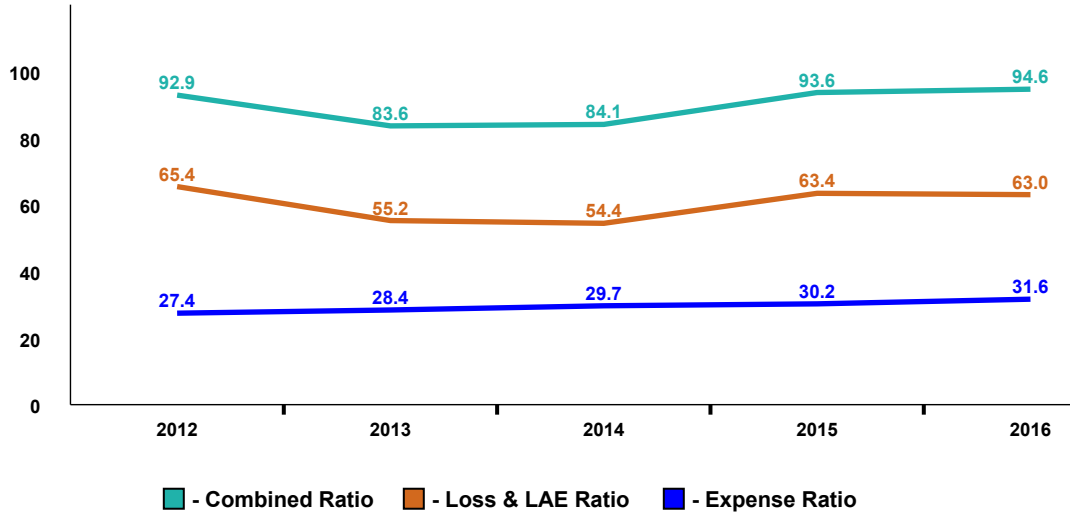
Source: Bestlink - Best's Statement File - Global  
Local Currency: US Dollar

### A.M. Best Ratios (%)

	Year End				
	2016	2015	2014	2013	2012
Overall Performance:					
Return on Assets	2.5	1.6	4.7	4.4	5.1
Return on Equity	7.5	4.5	13.5	12.8	14.8
Loss & LAE Ratio	63.0	63.4	54.4	55.2	65.4
Expense Ratio	31.6	30.2	29.7	28.4	27.4
Combined Ratio	94.6	93.6	84.1	83.6	92.9
Combined less Investment Ratio	85.2	86.0	76.2	76.3	83.2

Source: Bestlink - Best's Statement File - Global

## Combined Ratio (%)



## Business Profile

Additional credit report commentary for this section is pending and will be released in the near term.

## Financial Statements:

### Balance Sheet:

### Balance Sheet:

<b>Assets</b>	<b>12/31/2016 USD(000)</b>	<b>12/31/2016 % of total</b>	<b>12/31/2015 USD(000)</b>
Cash And Equivalents	702,100	5.7	552,180
Long Term Fixed Maturity Investments	6,303,604	50.8	6,815,664
Equity Investments	219,231	1.8	403,022
Other Investments	958,310	7.7	903,292
Invested Assets	7,481,145	60.3	8,121,978
Receivables	915,137	7.4	889,986
Reinsurance Recoverable	1,550,459	12.5	1,428,811
Deferred Policy Acquisition Cost	109,489	0.9	145,232
Goodwill & Other Intangibles	494,438	4.0	504,750
Other Assets	1,159,381	9.3	1,213,480
Total Assets	12,412,149	100.0	12,856,417
<b>Liabilities &amp; Surplus</b>	<b>12/31/2016 USD(000)</b>	<b>12/31/2016 % of total</b>	<b>12/31/2015 USD(000)</b>
Property / Casualty Reserves	6,255,627	50.4	6,184,156
Unearned Premium Reserves	1,549,440	12.5	1,530,057
Total Policy Reserves	7,805,067	62.9	7,714,213
Other Liabilities	572,022	4.6	708,415
Total Liabilities	8,377,089	67.5	8,422,628
Equity - Common Stock	1,000	...	1,000
Paid-In Capital	2,292,137	18.5	2,528,987
Accumulated Other Comprehensive Income	-11,557	-0.1	-9,297
Retained Earnings	1,753,480	14.1	1,913,099
Total Equity	4,035,060	32.5	4,433,789
Total Liabilities & Equity	12,412,149	100.0	12,856,417

Source: Bestlink - Best's Statement File - Global  
Local Currency: US Dollar



## Summary of Operations:

### Statement of Income (000)

#### Statement of Income

	12/31/2016	12/31/2015
	USD(000)	USD(000)
Direct Premiums Written	2,190,926	2,121,747
Reins Assumed	623,026	675,299
Gross Premiums Written	2,813,952	2,797,046
Reins Ceded	756,574	597,220
Net Premiums Written	2,057,378	2,199,826
Change In Unearned Premiums	-69,156	-101,906
Net Premiums Earned	2,126,534	2,301,732
Net Investment Income	201,062	175,293
Net Realized Gains/(Losses)	-19,571	-121,328
Other Revenue	14,385	5,991
Non-Operating Revenue	4,501	...
Total Revenue	2,326,911	2,361,688
Benefits & Reserves	1,339,812	1,459,402
Operating Expenses	679,637	702,224
Non-Operating Expenses	...	4,774
Total Benefits & Expenses	2,019,449	2,166,400
Earnings before interest & taxes (EBIT)	307,462	195,288
Pre-Tax Income/(Loss) From Continuing Operations	307,462	195,288
Total Taxes	-11,919	2,361
Net Income/(Loss) Before Minority Interest	319,381	192,927
Net Income/(Loss) From Continuing Operations	319,381	192,927
Net Income	319,381	192,927

Source: Bestlink - Best's Statement File - Global  
Local Currency: US Dollar

## Allied World Assurance Company, Ltd

**Report Revision Date:**  
October 17, 2018

### Company Attributes:

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<b>Industry:</b>	Insurance
<b>Business Type:</b>	Property/Casualty
<b>Entity Type:</b>	Operating Company
<b>Organization Type:</b>	Stock
<b>Business Status:</b>	In Business - Actively Underwriting
<b>Marketing Type:</b>	Not Available
<b>Financial Size:</b>	XV (\$2 Billion or greater)

### Company History:

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**Date Incorporated:** 11/13/2001

**Date Commenced:** N/A

**Domicile:** Bermuda

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.

### Company Management:

---

Last significant update on 07/12/2016

### Officers

**Chairman, President and CEO:** Scott A. Carmilani

**CEO:** John R. Bender (Global Reinsurance)

**President:** Richard Jodoin (U.S. Operations)

**Chief Underwriting Officer:** Michael Hoffmann

**Chief Risk Officer:** Barry Zurbuchen

**EVP:** G. William Davis, Jr.

**EVP:** John L. Murphy

**SVP and Chief Marketing Officer:** Eugene R. Raitt

**SVP:** Michael McCrimmon (Property Department)

**SVP:** Susan Morgan (Ceded Reinsurance)

### Directors

Scott A. Carmilani (Chairman, Chief Executive Officer and President)

Michael Morrison (Vice Chairman)

## Regulatory:

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**Auditor:** Deloitte & Touche LLP

An independent audit of the company's affairs through December 31, 2017, was conducted by PricewaterhouseCoopers LLP.

## Additional Resources:

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[Rating Activity and Announcements](#)

[Company Overview](#)

[Archived Best's Credit Report](#)

[Corporate Changes & Retirements](#)

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# **COLCHESTER REINSURANCE LIMITED**

**PERIODIC REPORTING PACKAGE**

**FOR THE TWLEVE MONTHS ENDED JUNE 30, 2018**

## **INDEX TO CONTENTS**

**2. STATEMENTS OF INCOME & RETAINED EARNINGS**

**3. NOTES TO THE FINANCIAL STATEMENTS**

**PREPARED BY: AON INSURANCE MANAGERS (BARBADOS) LTI**

**ACCOUNT EXECUTIVE: WINSTON HAMPDEN**

**COLCHESTER REINSURANCE LIMITED**  
**UNAUDITED BALANCE SHEET AS AT JUNE 30, 2018**  
**(EXPRESSED IN CANADIAN \$)**

		JUNE 30, 2018	JUNE 30, 2017
<b>ASSETS</b>			
Cash at bank - premier accounts		9,231,988.63	5,523,121.23
Cash equivalents		0.00	0.00
Cash & cash equivalents	1	<u>9,231,988.63</u>	<u>5,523,121.23</u>
Royal Bank of Canada-Investments	2	50,395,006.04	59,672,116.50
Accrued interest receivable	3	210,181.89	260,700.10
Insurance Balances Receivable		0.00	0.00
Provision for Losses Recoverable	4	6,082,000.00	6,429,000.00
Deferred Reinsurance Premiums	5	0.00	0.00
Prepaid expenses	6	6,171.93	6,561.95
		<u>56,693,359.86</u>	<u>66,368,378.55</u>
<b>TOTAL ASSETS</b>		<u><u>65,925,348.49</u></u>	<u><u>71,891,499.78</u></u>
Insurance balances payable		0.00	28,961.50
Accrued expenses	7	130,612.84	85,574.88
Claims payable		27,094.27	321,460.18
		<u>157,707.11</u>	<u>435,996.56</u>
<b>RESERVES</b>			
Unearned Premium Reserve	9	0.00	0.00
Outstanding losses	8	23,231,000.00	22,751,000.00
Outstanding losses - I.B.N.R.	8	10,889,000.00	12,793,000.00
		<u>34,120,000.00</u>	<u>35,544,000.00</u>
<b>SHAREHOLDERS EQUITY</b>			
Share capital-common shares		1,100.00	1,100.00
Class A preference shares		3,314,000.00	3,314,000.00
Earned surplus at start of year		31,772,862.64	29,342,364.45
Net profit/(loss) for the period		(3,258,377.83)	2,430,497.11
		<u>31,829,584.81</u>	<u>35,087,961.58</u>
Accum. Other Comprehensive Income		(181,943.43)	823,541.64
<b>TOTAL SHAREHOLDERS EQUITY</b>		<u><u>31,647,641.38</u></u>	<u><u>35,911,503.22</u></u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>		<u><u>65,925,348.49</u></u>	<u><u>71,891,499.78</u></u>

**COLCHESTER REINSURANCE LIMITED**  
**UNAUDITED STATEMENT OF INCOME**  
**FOR THE PERIOD JULY 1 2017 TO JUNE 30, 2018**  
**(EXPRESSED IN CANADIAN \$)**

	MOVEMENT DURING QTR	12 MONTHS TO JUNE 30, 2018	12 MONTHS TO JUNE 30 2017
<b>UNDERWRITING INCOME</b>			
Premiums written	0.00	209,797.60	1,594,237.00
Unearned premium transfer	52,449.40	0.00	0.00
<b>GROSS EARNED PREMIUMS</b>	<b>52,449.40</b>	<b>209,797.60</b>	<b>1,594,237.00</b>
Reinsurers' ceded premiums	0.00	(1,039,021.99)	(1,360,075.60)
Deferred ceded premiums	(259,755.50)	0.00	0.00
Reinsurers' ceded premiums earned	(259,755.50)	(1,039,021.99)	(1,360,075.60)
	(207,306.10)	(829,224.39)	234,161.40
<b>TOTAL UNDERWRITING INCOME</b>	<b>(207,306.10)</b>	<b>(829,224.39)</b>	<b>234,161.40</b>
<b>UNDERWRITING EXPENSES</b>			
Net losses paid	229,044.00	2,329,254.00	1,516,203.05
Outstanding losses adjustment	893,000.00	480,000.00	(525,000.00)
Transfer to IBNR	(805,000.00)	(1,904,000.00)	(2,576,000.00)
Transfer to prov. for losses recoverable	100,000.00	347,000.00	236,000.00
<b>NET INCURRED LOSSES</b>	<b>417,044.00</b>	<b>1,252,254.00</b>	<b>(1,348,796.95)</b>
<b>OTHER UNDERWRITING EXPENSES</b> (see schedule)	<b>18,750.00</b>	<b>75,000.00</b>	<b>75,000.00</b>
<b>TOTAL UNDERWRITING EXPENSES</b>	<b>435,794.00</b>	<b>1,327,254.00</b>	<b>(1,273,796.95)</b>
<b>UNDERWRITING PROFIT / (LOSS)</b>	<b>(643,100.10)</b>	<b>(2,156,478.39)</b>	<b>1,507,958.35</b>
<b>GENERAL AND ADMIN EXPENSES</b> (see schedule)	<b>44,964.20</b>	<b>184,579.84</b>	<b>188,132.85</b>
	<b>(688,064.30)</b>	<b>(2,341,058.23)</b>	<b>1,319,825.50</b>
<b>INTEREST INCOME &amp; EXCEPTIONAL ITEMS</b>			
Interest income	377,109.40	1,602,315.03	1,749,675.60
Profit/(loss) on sale of invts	(19,615.00)	(215,775.00)	0.00
Profit/(loss) on exchange	0.00	0.00	0.00
Amortisation of investments	(53,799.50)	(125,268.47)	(455,609.75)
Investment management fees	(34,801.00)	(138,187.92)	(140,291.79)
Investment Custody Fees	(6,476.33)	(27,669.37)	(29,533.09)
	262,417.57	1,095,414.27	1,124,240.97
<b>NET PROFIT/(LOSS) BEFORE TAX</b>	<b>(425,646.73)</b>	<b>(1,245,643.96)</b>	<b>2,444,066.47</b>
<b>INCOME TAX</b>	<b>3,085.96</b>	<b>12,733.87</b>	<b>13,569.36</b>
<b>DIVIDEND PAID</b>	<b>0.00</b>	<b>2,000,000.00</b>	<b>0.00</b>
<b>NET PROFIT/(LOSS) AFTER TAX</b>	<b>(428,732.69)</b>	<b>(3,258,377.83)</b>	<b>2,430,497.11</b>

# COLCHESTER REINSURANCE LIMITED

## ANALYSIS OF EXPENSES AS AT JUNE 30, 2018 FOR THE PERIOD JULY 1 2017 TO JUNE 30, 2018

	MOVEMENT DURING QTR	12 MONTHS TO JUNE 30, 2018	12 MONTHS TO JUNE 30 2017
<b>UNDERWRITING EXPENSES</b>			
Brokerage commission	18,750.00	75,000.00	75,000.00
	<u>18,750.00</u>	<u>75,000.00</u>	<u>75,000.00</u>
<b>GENERAL &amp; ADMIN EXPENSES</b>			
Management fees	21,500.00	86,000.00	83,000.00
Directors fees	3,060.00	7,650.00	9,769.32
Audit fees	10,000.00	33,610.00	26,488.89
Tax consultancy fees	0.00	0.00	1,113.78
Actuarial fees	5,241.00	35,307.00	36,765.91
Legal fees	0.00	1,498.00	6,869.15
Insurance Costs - D&O	1,997.00	7,988.00	8,875.00
Secretarial fees	0.00	6,527.00	6,649.25
Government fees	0.00	0.00	0.00
Bank and L.O.C charges	178.20	751.84	681.71
Communication expenses	0.00	2,260.00	4,871.85
Stationary	0.00	0.00	0.00
Travel	2,988.00	2,988.00	3,048.19
Miscellaneous expenses	0.00	0.00	(0.20)
Foreign Exchange	0.00	0.00	0.00
Meeting Expenses	0.00	0.00	0.00
	<u>44,964.20</u>	<u>184,579.84</u>	<u>188,132.85</u>

**COLCHESTER REINSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**1. CASH ON DEPOSIT**

Royal Bank - Canadian Dollar Call Account	58,910.72
Royal Bank - Premier Canadian Dollar Account	9,173,077.91
Royal Bank - Time Deposit Account	0.00
	<u><b>9,231,988.63</b></u>

**2. INVESTMENTS**

Investment at cost	51,889,063.05
Amortization	(1,312,113.58)
Portfolio at amortized cost	<u><b>50,576,949.47</b></u>
Unrealized gain / (loss)	(181,943.43)
Portfolio at market value	<u><b>50,395,006.04</b></u>

**3. ACCRUED INTEREST RECEIVABLE**

Investments - RBC	210,181.89
	<u><b>210,181.89</b></u>

**4. PROVISION FOR LOSS RECOVERABLES (DISCOUNTED)**

**Canadian Lawyers Liability Assurance Society**

U/W Year	CASE RESERVES	IBNR	TOTAL
2000/2001		0.00	0.00
2001/2002	0.00	0.00	0.00
2002/2003	0.00	0.00	0.00
2003/2004	0.00	0.00	0.00
2004/2005	0.00	5,000.00	5,000.00
2005/2006	0.00	15,000.00	15,000.00
2006/2007	0.00	36,000.00	36,000.00
2007/2008	0.00	31,000.00	31,000.00
2008/2009	0.00	33,000.00	33,000.00
2009/2010	0.00	-1,000.00	-1,000.00
2010/2011	0.00	58,000.00	58,000.00
2011/2012	0.00	158,000.00	158,000.00
2012/2013	0.00	258,000.00	258,000.00
2013/2014	0.00	551,000.00	551,000.00
2014/2015	0.00	747,000.00	747,000.00
2015/2016	0.00	1,012,000.00	1,012,000.00
2016/2017	0.00	1,530,000.00	1,530,000.00
2017/2018	0.00	1,649,000.00	1,649,000.00
	<u><b>0.00</b></u>	<u><b>6,082,000.00</b></u>	<u><b>6,082,000.00</b></u>



**COLCHESTER REINSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**5. DEFERRED REINSURANCE PREMIUMS**

Reinsurers' Premium to be earned	(\$1,039,021.99) *3/12)	0.00
		<b>0.00</b>

**6. PREPAID EXPENSES**

Annual Government Tax	US\$10,000 p.a.	6,171.93
		<b>6,171.93</b>

**7. ACCOUNTS PAYABLE/ACCRUED EXPENSES**

Audit fees - 2017/18	25,000.00
Management Fees	0.00
Investment Fees	69,602.00
Investment Custody Fees	4,369.91
Actuarial Fees	5,240.93
Director's Fees	7,650.00
	<b>130,612.84</b>

**8. OUTSTANDING LOSSES (DISCOUNTED)**

**Canadian Lawyers Liability Assurance Society**

U/W Year	CASE RESERVES	IBNR	TOTAL
1998/1999		0.00	0.00
1999/2000		0.00	0.00
2000/2001		0.00	0.00
2001/2002	0.00	0.00	0.00
2002/2003	0.00	0.00	0.00
2003/2004	0.00	0.00	0.00
2004/2005	0.00	46,000.00	46,000.00
2005/2006	0.00	157,000.00	157,000.00
2006/2007	0.00	255,000.00	255,000.00
2007/2008	3,581,000.00	390,000.00	3,971,000.00
2008/2009	0.00	231,000.00	231,000.00
2009/2010	9,343,000.00	-55,000.00	9,288,000.00
2010/2011	7,292,000.00	639,000.00	7,931,000.00
2011/2012	1,240,000.00	460,000.00	1,700,000.00
2012/2013	350,000.00	491,000.00	841,000.00
2013/2014	1,189,000.00	951,000.00	2,140,000.00
2014/2015	0.00	1,132,000.00	1,132,000.00
2015/2016	0.00	1,546,000.00	1,546,000.00
2016/2017	236,000.00	2,301,000.00	2,537,000.00
2017/2018	0.00	2,345,000.00	2,345,000.00
	<b>23,231,000.00</b>	<b>10,889,000.00</b>	<b>34,120,000.00</b>

**9. UNEARNED PREMIUM RESERVE**

Premiums	(\$172,807.60*0/12)	0.00
	(\$36,990*0/12)	
		<b>0.00</b>

**COLCHESTER REINSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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**10. LOSS/EQUITY RATIO**

Loss Reserves	34,120,000.00
Shareholder Equity	31,829,584.81
Ratio	<b>107%</b>

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

**11. MARGIN OF SOLVENCY**

Assets must exceed liabilities by:

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

Premiums Earned at June 30, 2017	234,161.40
----------------------------------	------------

Minimum Solvency Margin re (2) above	164,162.50
--------------------------------------	------------

Total Assets	65,925,348.49	
Less: Non-admitted Assets		
Long Term Investments	0.00	
Prepayments	6,171.93	
Total Admitted Assets	65,919,176.56	
Total Liabilities	34,277,707.11	
Solvency Margin (Excess of Assets over Liabilities)		31,641,469.45
<b>Excess over Minimum Solvency Margin</b>		<b><u>31,477,306.95</u></b>

**COLCHESTER REINSURANCE LIMITED**  
**UNDERWRITING ANALYSIS AS AT JUNE 30, 2018**  
**FOR THE PERIOD April 1, 2018 TO JUNE 30, 2018**

	Inward Reinsurance of CLLAS EOL 49Mx1M-20%	Inward Reinsurance of CLLAS Agg. Stop Loss 10Mx5M-100%	Inward Reinsurance of CLLAS Excess Layers 40Mx160M-7.5% 60Mx160M-7.5%	Outward Retro. of Colchester EOL 5Mx5M-20%	Outward Retro. of Colchester EOL 40Mx10M-20%	Outward Retro. of Colchester Agg. Stop Loss 15Mx2.5M-100%	Outward Retro. of Colchester Excess Layers 40Mx160M-5% 60Mx160M-5%	Total
Limits								
Policy No.	CLLAS00117	ADD 47 to 89-011	CLLAS00217	PCOLC000116	PCOLC000216	PCOLC000316	PCOLC000816	
Policy Period	1-Jul-17 to 30-Jun-18	1-Jul-17 to 30-Jun-18	1-Jul-17 to 30-Jun-18	1-Jul-17 to 30-Jun-18	1-Jul-17 to 30-Jun-18	1-Jul-17 to 30-Jun-18	1-Jul-17 to 30-Jun-18	
Premiums Written	91,149.60	81,658.00	36,990.00			-		209,797.60
Trfd from Unearned Prem. Reserve	(68,362.20)	(61,243.50)	(27,742.50)					(157,348.20)
Premiums Earned	<u>22,787.40</u>	<u>20,414.50</u>	<u>9,247.50</u>					<u>52,449.40</u>
Reinsurance Premiums Ceded				(797,331.35)	-	(206,550.00)	(35,140.64)	(1,039,021.99)
Trfd from Deferred Reins. Prem.		-		597,998.51		154,912.50	26,355.48	779,266.49
Reinsurance Premiums Earned		<u>-</u>		<u>(199,332.84)</u>	<u>-</u>	<u>(51,637.50)</u>	<u>(8,785.16)</u>	<u>(259,755.50)</u>
Net Premiums Earned								<u>(207,306.10)</u>

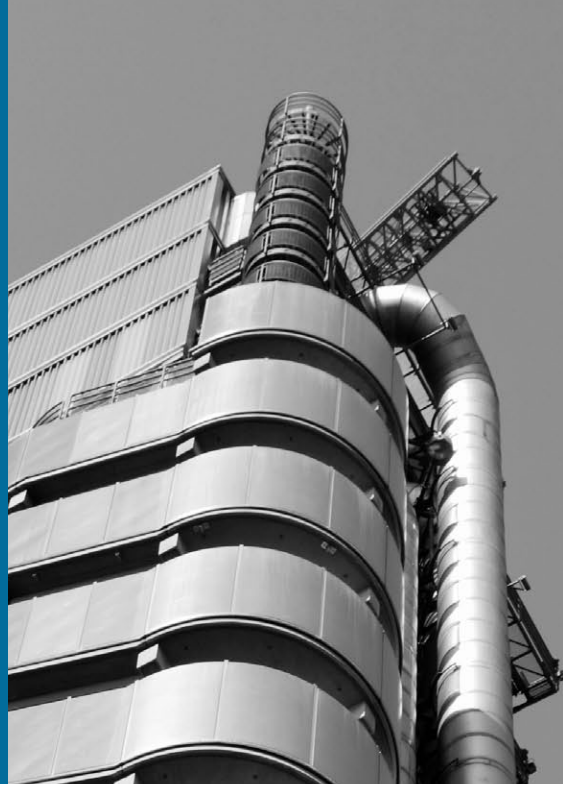
App. 1a

**COLCHESTER REINSURANCE LIMITED**  
**UNDERWRITING ANALYSIS AS AT JUNE 30, 2018**  
**FOR THE PERIOD JULY 1, 2017 TO JUNE 30, 2018**

	Inward Reinsurance of CLLAS EOL 49Mx1M-20%	Inward Reinsurance of CLLAS Agg. Stop Loss 10Mx5M-100%	Inward Reinsurance of CLLAS Excess Layers 40Mx160M-5% 60Mx160M-5%	Outward Retro. of Colchester EOL 5Mx5M-20%	Outward Retro. of Colchester EOL 40Mx10M-20%	Outward Retro. of Colchester Agg. Stop Loss 15Mx2.5M-100%	Outward Retro. of Colchester Excess Layers 40Mx160M-5% 60Mx160M-5%	Total
Limits								
Policy No.	CLLAS00116	ADD 46 to 89-011	CLLAS00216	PCOLC000116	PCOLC00021	PCOLC000316	PCOLC000816	
Policy Period	1-Jul-17 to 30-Jun-18	1-Jul-17 to 30-Jun-18	1-Jul-17 to 30-Jun-18	1-Jul-17 to 30-Jun-18	1-Jul-17 to 30-Jun-18	1-Jul-17 to 30-Jun-18	1-Jul-17 to 30-Jun-18	
Premiums Written	91,149.60	81,658.00	36,990.00			-		209,797.60
Trfd from Unearned Prem. Reserve	-	-	-					-
Premiums Earned	<u>91,149.60</u>	<u>81,658.00</u>	<u>36,990.00</u>					<u>209,797.60</u>
Reinsurance Premiums Ceded				(797,331.35)	-	(206,550.00)	(35,140.64)	(1,039,021.99)
Trfd from Deferred Reins. Prem.		-		-	-	-	-	-
Reinsurance Premiums Earned		<u>-</u>		<u>(797,331.35)</u>	<u>-</u>	<u>(206,550.00)</u>	<u>(35,140.64)</u>	<u>(1,039,021.99)</u>
Net Premiums Earned								<u>(829,224.39)</u>

**App. 1b**

A.M. Best  
October 2018  
Lloyd's



## Best's Rating of Lloyd's 2018





Lloyd's

October 2018

# Best's Credit Report: Lloyd's

One Lime Street  
London EC3M 7HA  
United Kingdom

Web: [www.lloyds.com](http://www.lloyds.com)  
AMB#: 85202  
AllIN#: AA-1122000

## Best's Credit Ratings:

Rating Effective Date: July 12, 2018

<b>Best's Financial Strength Rating:</b>	A	<b>Outlook:</b>	Stable	<b>Action:</b>	Affirmed
<b>Best's Issuer Credit Rating:</b>	a+	<b>Outlook:</b>	Stable	<b>Action:</b>	Affirmed

## Best's Credit Ratings for Group Members:

Rating Effective Date: July 12, 2018

AMB#	Company		Best's Financial Strength Ratings			Best's Issuer Credit Ratings		
			Rating	Outlook	Action	Rating	Outlook	Action
85202	Lloyd's	Rating Unit	A	Stable	Affirmed	a+	Stable	Affirmed
78649	Lloyd's Ins Co (China) Ltd		A	Stable	Affirmed	a+	Stable	Affirmed
95926	Lloyd's Insurance Co. S.A.		A	Stable	Assigned	a+	Stable	Assigned

## Five Year Credit Rating History:

Date	Best's Financial Strength Ratings			Best's Issuer Credit Ratings		
	Rating	Outlook	Action	Rating	Outlook	Action
12/7/2018	A	Stable	Affirmed	a+	Stable	Affirmed
07/20/2017	A	Stable	Affirmed	a+	Stable	Affirmed
07/21/2016	A	Stable	Affirmed	a+	Stable	Affirmed
07/22/2015	A	Positive	Affirmed	a+	Positive	Affirmed
07/24/2014	A	Positive	Affirmed	a+	Positive	Affirmed
07/19/2013	A	Positive	Affirmed	a+	Positive	Affirmed

## Rating Rationale

### Balance Sheet Strength: Very Strong

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

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### Operating Performance: Strong

- Lloyd's historical operating performance is strong, demonstrated by five-year and ten-year average combined ratios of 96% and return on equity ratios of 7% and 9%, respectively.
- The market's technical performance is subject to volatility due to the nature of business underwritten. Major losses added 18.5% to the combined ratio in 2017, which was in line with A.M. Best's expectations given the size of catastrophe events during the year.
- A deterioration in the attritional loss ratio also affected the underwriting result for 2017. Adjusted for average catastrophe experience Lloyd's calendar-year combined ratio was above 100%, which is outside A.M. Best's expectations for the strong assessment.
- Prospective technical performance, assuming average catastrophe experience, is expected to improve supported by the remedial actions being taken by the Corporation and individual managing agents.
- The contribution of investment income to the market's return on equity metric is constrained by the low interest rate environment and a conservative asset allocation.

### Business Profile: Favourable

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

### Enterprise Risk Management: Appropriate

- Lloyd's enterprise risk management framework is well developed and adequate for the size and complexity of the Lloyd's market.
- Risk management capabilities are aligned with the market's risk profile.
- The Corporation's risk management function is in addition to the risk management functions of the managing agents of the individual and competing syndicates, which have their own risk appetites and strategies. This places limitations on the central ERM function's ability to actively manage the market's risks.
- An internal capital model, in place since 2012, is used to calculate the solvency capital requirement under Solvency II as well as to stress test the market's risk-adjusted capitalisation. A.M. Best believes that the Corporation's ability to assess the capital adequacy of the market has been strongly improved by the modelling work undertaken for Solvency II.

### Outlook

The stable outlooks reflect A.M. Best's expectation that risk-adjusted capitalisation will remain at the strongest level, supported by Lloyd's capital management strategy and the requirement for members to replenish their funds at Lloyd's following losses. Long-term operating performance is expected to remain supportive of the strong assessment, albeit subject to volatility from catastrophe losses. Lloyd's is expected to maintain its favourable business profile, underpinned by the strong Lloyd's brand and underwriting expertise. The business

profile assessment takes into account the competitive conditions in Lloyd's core markets and pressure from changing market dynamics, including the regionalisation of insurance business.

### Rating Drivers

Upward rating movements are considered unlikely in the short term. Longer term, positive rating pressure could arise if Lloyd's business profile or operating performance strengthens.

Negative rating actions could follow if Lloyd's attritional loss experience remains at the elevated level seen in 2017 or deteriorates further over the next few years.

A deterioration in risk-adjusted capitalisation, for instance due to a substantial loss to the Central Fund or a reduction in member-level capital requirements set by Lloyd's, would put downward pressure on the ratings.


### Key Financial Indicators

#### Key Financial Indicators (000)

	2017	2016	2015	2014	2013
Premiums					
Direct premiums - non life	23,031,000	20,454,000	18,097,000	16,771,000	16,638,000
Gross premiums written - non life	33,591,000	29,862,000	26,690,000	25,259,000	25,615,000
Net premiums written - non life	24,869,000	23,066,000	21,023,000	20,006,000	20,231,000
Capital & surplus	26,767,000	27,714,000	24,216,000	22,528,000	20,386,000
Total assets	108,396,000	101,602,000	83,629,000	79,713,000	75,412,000

Local Currency: British Pound

US \$ per Local Currency Unit 1.34939 = 1 British Pound (GBP)

Source:  – Best's Statement File – Global

#### Key Financial Indicators (%)

	2017	2016	2015	2014	2013
Combined Ratio	114.0%	97.9%	90.0%	88.4%	85.7%
Net Premiums Written to Equity	92.9%	83.2%	86.8%	88.8%	99.2%
Liquidity					
Liquid assets to total liabilities	72.0%	80.7%	85.9%	85.0%	80.2%
Total investments to total liabilities	83.2%	91.6%	95.8%	96.0%	93.6%

Source:  – Best's Statement File – Global

#### Best's Capital Adequacy Ratio Summary – AMB Rating Unit (%)

	2017	2016	2015	2014
Confidence Level	95.0	99.0	99.5	99.6
BCAR Score	69.6%	52.8%	44.9%	41.8%

Source: Best's Capital Adequacy Ratio Model - Universal

## Credit Analysis

### Balance Sheet Strength: Very Strong

Lloyd's balance sheet strength assessment of very strong reflects risk-adjusted capitalisation at the strongest level, as measured by Best's Capital Adequacy Ratio (BCAR), as well as the market's good financial flexibility. The market has significant exposure to catastrophe losses and is dependent on reinsurance to manage this risk. However, a robust market-wide capital-setting regime, which incorporates a risk-based approach to setting member-level capital and the requirement for members to replenish their funds at Lloyd's after a loss, helps protect risk-adjusted capitalisation against volatility.



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

The market's member-level capital is held on a several rather than joint basis and is only available to meet the liabilities of that particular member. The resulting fungibility constraints on available capital, as well as the fact that a significant proportion of member-level capital is provided through letters of credit, which reduces the quality of capital, are limiting factors for the balance sheet strength assessment.

### Capitalisation

The BCAR scores shown in this report are based on the 2017 figures published in the Lloyd's annual report which contains the financial results of Lloyd's and its members in pro forma financial statements and includes the financial statements of the Society and Corporation of Lloyd's (referred to in this report as the Society or the Corporation which are used interchangeably in common usage). The pro forma financial statements include the aggregated accounts, which are based on the accounts of each Lloyd's syndicate, members' funds at Lloyd's (FAL) and the Society's financial statements.

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

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

Any assessment of Lloyd's capital strength is complicated by the compartmentalisation of capital at member level. Member-level capital in the form of FAL and members' balances are held on a several rather than joint basis, meaning that any member need meet only its share of claims. However, Lloyd's central assets are available, at the discretion of the Council of Lloyd's, to meet policyholder liabilities that any member is unable to meet in full. This link in the chain of security comprises the Central Fund and other central assets, as well as subordinated debt. These central assets can be supplemented by funds called from members of up to 3% of their overall premium limits. It is the existence of this partially mutualising third link, and the liquid Central Fund in particular, that is the basis for a market-level rating.

Lloyd's Internal Model (LIM) captures Lloyd's unique capital structure and takes into account fungibility constraints on member-level capital and the mutual nature of central assets. If a severe market loss led to the exhaustion of some members' FAL, central assets would be exposed to any further losses faced by these members. The model captures this mutualised exposure, so that, at different return periods, the exposure of both member-level capital and central capital is demonstrated.

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

The central SCR is calculated at a 99.5% VaR confidence level over a one-year period in respect of risks facing the Society and its Central Fund. It captures exposure to losses that would not affect the majority of syndicates (and so would not erode capital at overall member level) but would have an impact on central assets. Calculating a central SCR addresses the fact that a 1-in-200 year loss to central assets could be bigger than the loss to central assets in a 1-in-200 year market loss event. By calculating both figures, Lloyd's has a better view of the likelihood that central and market level assets are sufficient.

Lloyd's has approval from the PRA to use existing LOCs, in the form that they are provided as FAL, as Tier 2 capital for Solvency II purposes. However, any new LOCs provided as FAL need to be individually approved. Under Solvency II at least 50% of the solvency capital requirement must be met by Tier 1 capital. Consequently, nearly GBP 2 billion of Lloyd's Tier 2 assets were not eligible to meet the 2017 SCR.

Lloyd's has introduced a phased reduction in the proportion of FAL that can be provided as LOCs from 100% in December 2017 to 90% in December 2018, 70% in December 2019 and 50% in December 2020. This will reduce the amount of assets which are not eligible to meet the SCR and improve the quality of capital.

The market-wide SCR (MWSCR) coverage ratio stood at 144% at year-end 2017 (2016: 144%) and the central SCR (CSCR) coverage ratio at 215% (2016: 215%). Lloyd's risk appetite for MWSCR coverage is a minimum of 125% and the CSCR coverage is a minimum of 200%. The market wide SCR risk appetite is low relative to peers, but this should be seen in light of Lloyd's good financial flexibility and capital-setting process. The stability in the market's regulatory solvency levels, as a result of the capital-setting process, is considered to be a strength for the balance sheet strength assessment.

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

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

In 2017, the MWSCR and central SCR were stable, despite the major losses affecting the market during the year, with favourable changes in foreign exchange rates offsetting higher capital requirements associated with a catastrophe loss related increase in reserves and reinsurance

recoverables. The SCR coverage ratios were also stable, despite the market reporting an overall loss for the year. Lloyd's available capital was not directly affected by the year's operating loss, as member-level capital was replenished in line with expectations and no members subsequently became reliant on the Central Fund.

Member contributions to the Central Fund reduced in 2016 to 0.35% of gross written premiums (from 0.5% of gross written premiums, net of acquisition costs) per annum, and remained at this level in 2017. The contribution rate can be increased to strengthen the Central Fund at any time.

Lloyd's good financial flexibility is enhanced by the diversity of its capital providers, which include corporate and individual investors. Traditional Lloyd's businesses remain committed to the market. In addition, Lloyd's continues to attract new investors, drawn by its capital efficient structure and global licences. As the capital to support underwriting at Lloyd's is supplied by members on an annual basis, an important factor in A.M. Best's analysis of the market is its ability to retain and attract the capital required for continued trading.

#### Asset Liability Management – Investments

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

Assets held by individual members are general liquid, with the majority held in cash (which includes LOCs) and bonds. Equity investments accounted for 14% of invested assets in 2017. Lloyd's capital (FAL and the Central Fund) is largely matched in terms of currency to exposure.

In A.M. Best's opinion, Lloyd's maintains good overall liquidity. Managing agents are responsible for the investment of syndicate premium trust funds, although Lloyd's monitors liquidity levels at individual syndicates as part of its capital adequacy review. Overall, these funds exhibit a high level of liquidity, as most syndicate investment portfolios tend to consist primarily of cash and high-quality, fixed-income securities of relatively short duration. Lloyd's also monitors projected liquidity for its central assets, which are tailored to meet the disbursement requirements of the Central Fund and the Corporation of Lloyd's (including its debt obligations).

#### Reserve Adequacy

In A.M. Best's opinion, reserving in the Lloyd's market tends to be prudent, with a number of market participants incorporating an explicit margin in reserves above actuarial best estimates. Robust oversight of reserves is provided by the Corporation. However, reserve surpluses, which are not fungible across the market, vary significantly between syndicates.

Aggregate reserves have developed positively overall in every year since 2003. In 2017, the market reported reserve redundancies, albeit at a lower level than in the recent past. Reinsurance, property, casualty and energy lines of business reported reserve releases. In contrast, reserves for marine, motor, aviation and life business required strengthening. In 2016, only motor business reported reserve strengthening. The short-tail classes of property and property reinsurance made a material contribution to the overall reserve release in 2017, while casualty and casualty reinsurance contributed significantly less. The reduction in reserve release seen in 2017 was anticipated by A.M. Best, as the level of releases seen in the period 2013-2015 was considered unsustainable. Prospectively, the explicit margin built into reserves by many syndicates should ensure a modest level of redundancies in reserves for most classes of business, as seen in 2017.

Syndicates in run-off have historically been the principal source of reserve deterioration for Lloyd's. However, Lloyd's exposure to open run-off years has significantly reduced, principally due to better management of these years. In 2010, an ongoing focus on promoting efficiency and finding a means to close syndicates (largely through third-party reinsurance to close) supported a fall in the number of syndicate years of account in run-off to 10 from 22 in the previous year. Further small reductions have been made in recent years. In 2017, the number of open years was five, down from six years of account open beyond 36 months in 2016. As at year-end 2017, the aggregate gross reserves on run-off years of account were GBP 0.2 billion, down from GBP 7.0 billion as at year-end 2005, when 102 years of account were open beyond 36 months.

#### 1992 and Prior Reserving: Equitas

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

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

#### Operating Performance: Strong

Lloyd's cross-cycle operating performance is supportive of a strong assessment. This assessment is based on analysis of the overall consolidated performance of Lloyd's, taking into account the stability, diversity, and sustainability of the market's sources of earnings. The assessment also incorporates analysis of the performance of individual syndicates, including the spread of performance between the strongest and worst performers with a particular focus on the potential exposure of central capital resources to losses from individual members.

Lloyd's five-year and ten-year average combined ratios, which include the elevated combined ratio of 114% in 2017, are both 96%. The market's five-year and ten-year average return on equity (ROE) ratios are 7% and 9% respectively. The low investment returns achieved in this period (reflecting the low interest rate environment and the market's conservative asset allocation) have constrained this measure.

Performance is subject to volatility, as illustrated by a standard deviation of 9% on the ten-year ROE ratio and on the ten-year combined ratio. The main source of volatility is the market's exposure to major losses including natural catastrophe losses. In 2017, major losses added 18.5 percentage points to the combined ratio, which was in line with A.M. Best's expectations given the size of catastrophe events during the year. However, deterioration in the attritional loss ratio also affected the underwriting result and, adjusted for average catastrophe experience, Lloyd's calendar-year combined ratio was above 100%. This is outside A.M. Best's expectations for the strong assessment. Prospective technical performance, assuming average catastrophe experience, is expected to improve, supported by the remedial actions being taken by the Corporation and individual management agents. The long term performance of the Lloyd's market is therefore expected to remain supportive of the strong assessment.

### Underwriting Performance

Lloyd's long-term technical performance is strong as demonstrated by a five-year and ten-year average combined ratio of 96%. Underwriting performance is subject to volatility due to the market's exposure to catastrophe and other major losses. In 2017, major losses added 18.5 points to the calendar-year combined ratio, compared to a five-year average of 8 points and a ten-year average of 10 points. For comparison, major losses added 9 points to the combined ratio in 2016, while 2013-2015 were benign catastrophe years with major losses adding just 3-4 points to the combined ratios for those years.

The market's net ultimate claims from major losses, including losses from Hurricanes Harvey, Irma and Maria, wildfires in California, earthquakes in Mexico and Cyclone Debbie, were GBP 4.5 billion in 2017. Lloyd's net share of industry-wide insured catastrophe losses in 2017 was around 4%. The level of major losses is in line with A.M. Best's expectations for Lloyd's given the catastrophe events of the year and the nature of business written by Lloyd's.

The market's combined ratio once again benefited from favourable prior year reserve movements, albeit at a reduced level compared to 2016. Prior-year reserve movements improved the combined ratio by 3 percentage points in 2017 compared to 5 points in 2016 and around 8 points each year in the period 2013-2015. In A.M. Best's opinion, a 3 point reduction to the combined ratio in each year from reserve releases is sustainable. In 2017, the reduction in the overall reserve release reflected some syndicates continuing to release reserves at their usual levels offset by other syndicates strengthening reserves or releasing less.

The market's operating expense ratio is high compared to peers at around 40%. The ratio has been largely stable over the past four years, but is notably higher in this period than was the case previously (2011: 36%). An increase in acquisition costs due to a change in business mix, as well as costs associated with Solvency II implementation, partly explain the step change in the expense ratio.

Lloyd's technical performance in 2017 was also negatively impacted by a deterioration in the attritional accident-year loss ratio (excluding major claims). Accident-year combined ratios for all lines of business were above 100% in 2017, and only energy business achieved a calendar-year combined ratio below 100%. In A.M. Best's view, this deterioration reflects the impact on performance of recent years' soft market conditions, with its corresponding weakening in pricing and terms and conditions. In addition, specific problems at some syndicates also impacted the overall result for Lloyd's.

In response to weaker underlying performance, the Corporation's central oversight functions are taking remedial actions. The Corporation applies a risk-based approach to its oversight work, with a number of syndicates deemed to require additional oversight for various reasons. All syndicates over a certain size are included in this group due to their materiality to the market's performance overall.

In addition, the Corporation has required all syndicates that have lost money for the past three years to agree with the oversight team a credible plan to return to profitability. The Corporation has announced that it will close down persistently unprofitable syndicates if remedial actions are not successful. A similar approach is being taken to underperforming portfolios, even within profitable syndicates, with the worst performing portfolios identified and remediation plans put in place.

A.M. Best expects Lloyd's to report a combined ratio of 100%-102% for 2018, assuming a major loss burden of around 9 points on the combined ratio (in line with the ten-year average of 10 points and the five-year average of 8 points) and a positive impact on the combined ratio from reserve releases of 2-3 points. Attritional loss experience is expected to improve, as a result



of the actions taken by the Corporations through its market oversight framework as well as by individual syndicate management teams to improve performance. Overall underwriting performance will depend largely on the level of catastrophe experience.

#### Underwriting Performance by Line of Business

As 2017 was affected by elevated catastrophe experience, underwriting results by line of business for the five-year period from 2013 to 2017 provide a better indication of the recent profitability of each business line than 2017 alone. The profitability of all lines of business over this period has been negatively affected by soft market conditions, with pressure on rates and terms and conditions.

The reinsurance book consists of property, casualty and specialty (marine, aviation and energy mainly) reinsurance. The performance of the overall book was affected by catastrophe losses in the property and marine segments in 2017, including losses from Hurricanes Harvey, Irma and Maria, wildfires in California, earthquakes in Mexico and Cyclone Debbie. The result for 2016 was also affected by catastrophe losses, including Hurricane Matthew and the wildfires in Fort McMurray, Canada. However, 2013-2015 were benign catastrophe years and over the past five years, the reinsurance book has achieved strong overall underwriting profits.

The property book is a diversified worldwide book, albeit with some concentration to US excess and surplus lines business and to commercial risks. Performance was affected by catastrophe losses in 2017 as well as by an increase in attritional loss experience and the segment suffered a substantial loss for the year. Catastrophe events and heightened attritional losses also affected the 2016 result, pushing it to an underwriting loss, though to a lesser extent than in 2017. Overall for the 2013-2017 period the class returned a small underwriting loss, illustrating the pressure on margins in this class of business.

The casualty book is dominated by general liability and professional liability and also includes accident and health, cyber and warranty business. The calendar-year combined ratio for this class has been marginally above 100% since 2015 and overall for the past five years, the class has made an underwriting loss. Surplus capacity continues to be a feature of the casualty market, keeping rates under pressure. Moreover, cyber and warranty business are low loss ratio lines, suggesting that the performance of traditional casualty lines is weaker than indicated by the headline numbers.

The marine book is well diversified and includes cargo, hull, marine liability, specie and fine art. Profits were reported in 2013-2015 but losses in 2016 and 2017 have led to an overall underwriting loss for the five-year period. Large losses contributed to the underwriting losses of 2016 and 2017. In 2017, Hurricanes Harvey, Irma and Maria affected the cargo and yacht lines in particular and in 2016, the loss of the AMOS-6 satellite due to the explosion of SpaceX's Falcon 9 rocket was a sizable loss for the marine class.

The energy book consists of onshore and offshore property and liability business. The book has made good profits over the past five years, including in 2017 on a calendar-year basis. The accident-year combined ratio was above 100% in 2017 due to some large risk and catastrophe losses on onshore property. However, good experience on offshore property together with prior-year releases enabled a good result overall.

Motor business is focused on UK personal and commercial motor, although some international motor is also written with a focus on North America. Motor has made underwriting losses every year in the period 2013-2017. The loss in 2017 was exacerbated by reserve strengthening, which was largely due to the change in the discount rate used to calculate lump-sum compensation for bodily injuries (the so-called Ogden rate).

The aviation segment includes airline, general aviation, space and war business. The segment has reported profits in three of the past five years and in the loss-making years (2014 and 2017) the combined ratios have been only just above 100%. The segment has benefited from improvements in aviation safety over this period, although there have been high profile losses, including the Germanwings loss in March 2015 and the disappearance of Malaysia Airlines flight MH370 and the loss of Malaysia Airlines flight MH17 over Ukraine in 2014.

#### Investment Performance

Lloyd's investment returns averaged 1.8% in the period 2013-2017, ranging from 0.7% to a high of 2.7% in 2017. The low interest rate environment, combined with the market's relatively conservative asset allocation, has constrained this metric in this period. Investment performance in 2017 was driven by good returns on corporate bonds and equities and other risk assets (compared to 2016).

#### Performance on a Year of Account Basis

On a traditional three-year accounting basis, the 2015 year of account closed at the end of 2017 with an overall profit of GBP 1,620 million (2014: GBP 2,856 million). The overall profit reflects a pure year profit for the 2015 year of GBP 701 million and a release of GBP 919 million from the 2014 and prior reinsurance to close. Major losses for the year were below the long-term average.

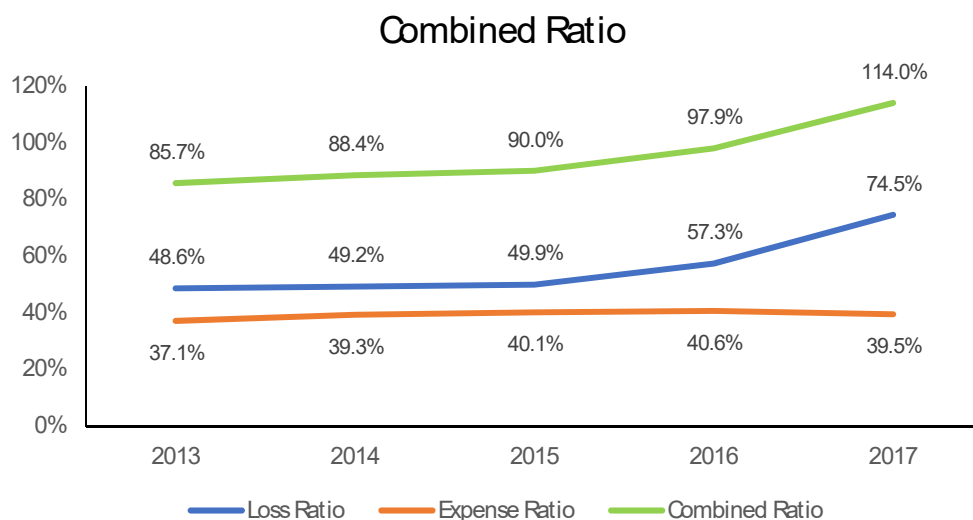
The 2016 and 2017 years of account are both forecast to return overall losses, reflecting the major loss experience affecting both years.

#### Financial Performance Summary (Annually Accounted Basis)

##### A.M. Best Ratios (%)

	2017	2016	2015	2014	2013
Return on adjusted assets	-1.9%	2.3%	2.6%	3.9%	4.2%
Return on capital & surplus	-7.3%	8.1%	9.1%	14.1%	16.2%
Loss Ratio	74.5%	57.3%	49.9%	49.2%	48.6%
Expense Ratio	39.5%	40.6%	40.1%	39.3%	37.1%
Combined Ratio	114.0%	97.9%	90.0%	88.4%	85.7%
Operating Ratio	108.0%	93.2%	86.5%	84.0%	80.1%

Source:  – Best's Statement File – Global



### Business Profile: Favourable

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

### Market Position

Lloyd's occupies a strong position in the global general insurance and reinsurance markets as a leading writer of specialty property and casualty risks. The market's position is particularly strong in non-life reinsurance, where Lloyd's was ranked as the 3rd largest global non-life reinsurer based on 2016 GWP. In addition, Lloyd's is the largest player within the US surplus lines market by some margin, accounting for 23% of direct premiums written in 2016 with the second largest player accounting for less than 10%. Lloyd's is also a market leader in marine insurance, and has a strong position in aviation, energy, and specialty property and casualty insurance. Although Lloyd's syndicates operate as individual businesses, the collective size of

the market allows them to compete with major international groups under the Lloyd's brand. The competitive strength of Lloyd's comes from its strong brand and reputation for innovative and flexible underwriting, supported by the pool of underwriting expertise in London.

### Product Diversification and Product Risk

Lloyd's is a significant writer of catastrophe and reinsurance business and is also a leading player in its core marine, aviation, energy and specialty property and casualty markets. Insurance business accounted for 69% in 2017, with reinsurance accounting for the balance. This split has been relatively stable in recent years.

Overall GWP increased by 12% in both 2017 and 2016. A significant driver of this growth in both years was movements in average rates of exchange, particularly for the US dollar against sterling. In 2017, foreign exchange movements accounted for 6% growth in premiums. Growth in business from existing syndicates contributed 5% and new syndicates 3%. This was partly offset by a negative effect from pricing of 2%. Reinstatement premiums and growth in cyber, warranty and better performing lines contributed to the growth in existing syndicates' premium income. In 2016, there was only modest growth in premiums at constant exchange rates.

The market is well diversified by line of business, although very little life business is written (0.3% of GWP in 2017) and there is a bias towards commercial lines business over personal lines. Product risk is moderate to high, as the business that comes to Lloyd's is predominantly specialty business that requires strong underwriting expertise. High product risk lines include reinsurance, energy, aviation, some marine business and a high proportion of the casualty and property business written (although the majority of small commercial and consumer business, as well as some of the business written through coverholders is lower risk).

Reinsurance is the market's largest segment and accounted for 31% of GWP in 2017. Reinsurance business comprises property, casualty and specialty reinsurance (primarily



marine, aviation and energy reinsurance). Lloyd's is a leading player in the global reinsurance market, ranking as the 6th largest risk carrier by reinsurance GWP based on 2016 premiums and the 3rd largest when life premiums are excluded.

Property insurance business is Lloyd's second largest segment, which accounted for 27% of GWP in 2017. The property book is a global book but with some concentration towards US excess and surplus lines business. There is also a bias towards commercial risks with residential risks written being mainly non-standard risks. The book also includes terrorism, power generation, engineering and nuclear risks.

Casualty business accounted for 25% of GWP in 2017. The book has a focus towards the US, but the UK, Canada and Australia are also significant markets. The main products written are general liability and professional indemnity. Accident and health business is also accounted for within this segment.

The remaining lines of marine (7%), energy (4%), motor (3%), aviation (2%) and life (0.3%) together accounted for 17% of GWP in 2017. Lloyd's is a leader in the marine market, writing a diversified marine book, including cargo, hull, marine liability, specie and fine art. The energy book consists of onshore and offshore property and liability risks. The motor book is focused on the UK covering commercial and personal motor business (with a focus on niche personal risks). An international book is also written, with a focus on North America. Aviation business includes airlines, general aviation, space and war.

#### Geographical Diversification

Lloyd's writes a global portfolio, albeit with some bias towards North America, which accounted for 50% of GWP in 2017. The remainder was split 15% UK, 14% rest of Europe, 10% Central Asia and Asia Pacific, 6% other Americas and 5% rest of the world. The market's network of licences provides syndicates with access to a wide international client base, which is of benefit in particular to the syndicates that are not part of global insurance groups.

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

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

Over the past 20 years, Lloyd's has built out its licence network considerably, to be able to write insurance and/or reinsurance business in Brazil, Mexico, Colombia, Dubai, China, Singapore, and India, as well as a number of smaller markets. This work has been undertaken in response to the growth of local and regional (re)insurance hubs and the preference of clients to place business locally.

In 2012, Lloyd's launched its Vision 2025, at the heart of which was an ambition to achieve profitable, sustainable growth particularly from emerging and developing economies. This followed the recognition that Lloyd's growth rate in high growth markets was lagging behind market growth, indicating a loss of market share. This trend has, however, continued in the period following 2012. Lloyd's limited market share and weak growth outside of the established territories of North America, Europe and Australia are long-term threats to the competitive position of Lloyd's.

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

Membership of the single market allows UK-based insurance companies to conduct insurance business in all member states.

The establishment of an EU based insurance company will enable the market to continue to write business in single market member states after Brexit.

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

#### Distribution

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

In addition, a significant part of Lloyd's business is distributed via coverholders (accounting for around 30% of premiums), which write business on behalf of syndicates under the terms of a binding authority. Coverholders are important in bringing regional business to Lloyd's and providing the market with access to small and medium-sized risks.

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

#### Modernisation Programme

A comprehensive modernisation programme for the London market, the London Market Target Operating Model (TOM), was launched in 2015, with the aim to make operating in the London market, including at Lloyd's, more efficient and less expensive. Joint market initiatives underway include additional and improved functionality in respect of electronic back office and claim office transactions within the Central Services Refresh Programme, further implementation of e-trading via Placing Platform Limited (PPL) and on-going improvements to the Delegated Authority processes.

In 2018, the Corporation moved to mandate the use of e-trading via PPL. By the second quarter of 2018, Lloyd's syndicates are required to write no less than 10% of their risks on PPL, rising to 30% by the end of the fourth quarter. In addition, league tables of PPL usage are published to encourage use. Syndicates that meet their target will receive a rebate on their annual subscription, while those that do not will be charged additional fees.

In A.M. Best's view, the TOM programme is making important progress towards modernising the market's operations. However, progress is still slow and the market is considered to be behind other global insurers in its adoption of technology. The fact that the Corporation has had to mandate use of the PPL is a sign of the market's resistance to change as well as dissatisfaction with the system among some of the underwriters and brokers that are asked to use it. Should Lloyd's be unsuccessful in its modernisation project and peers be able to widen the gap in both efficiency and pricing, the consequences could be considerable for the market's business profile.

### Corporate Overview

Lloyd's is the London-based market where approximately 90 individual syndicates underwrite all types of insurance and reinsurance business apart from long term life insurance. Each syndicate is formed by one or more members of Lloyd's, who join together to provide capital and accept insurance risks. Lloyd's members are mainly corporate members although a small proportion of Lloyd's underwriting capacity continues to be provided by private individuals.

In 1871, the then existing association of underwriters at Lloyd's was incorporated by the Lloyd's Act as the Society and Corporation of Lloyd's (referred to in this report as the Society or the Corporation which are used interchangeably in common usage), making the Society the legal entity which oversees the Lloyd's market. Its purpose is to facilitate the underwriting of insurance business by Lloyd's members, to protect members' interests in this context and to maintain Lloyd's Central Fund. The Society is also the holding company for Lloyd's Insurance Company S.A. and Lloyd's Insurance Company (China) Limited.

### Enterprise Risk Management: Appropriate

The ERM of Lloyd's is considered supportive of an appropriate assessment. The market's enterprise risk framework is considered to be developed and risk management capabilities are aligned to the risk profile.

Lloyd's ERM is designed to manage risks arising from the market and the Corporation/ Society. It provides an extra layer of oversight over the market's risks which are also managed through the risk functions of individual managing agents. There are limitations on the ability of the Corporation to actively manage the market's risks, as it is managing individual and competing syndicates each with their own risk appetites and commercial strategies. This limitation is reflected in A.M. Best's assessment of Lloyd's risk framework, which is viewed as developed rather than embedded.

Under the Lloyd's Act 1982, the Council of Lloyd's is responsible for the management and supervision of the market as the governing body of the Society. The Council delegates many of its functions to the board, the members of which are appointed by the Council and are drawn from both within and outside the Lloyd's market. The key committees of the board are the Audit Committee, the Market Supervision and Review Committee and the Risk Committee. The risk committee is responsible for the identification and management of Lloyd's key risks. From 1 January 2017, the risk committee became a non-executive committee, with members drawn from the Lloyd's board and the Council. Lloyd's Chief Risk Officer, a position established in 2014, has a seat on the board.

The risk function has identified a number of key risk themes that are of particular concern for Lloyd's. Key risks include market conditions, catastrophe risk, Brexit, cyber risk, a failure to deliver on its major operational change programmes and failure to comply with relevant laws and regulations. Mitigating actions required to reduce or eliminate the risk have also been identified.

The board manages risks by setting and monitoring a risk appetite framework. A project to review and redefine all risk appetites (both market and central risk appetites) was completed

at the end of 2017. The new framework includes a number of key tier 1 risk appetites as well as underlying monitoring metrics. The risk appetites are structured under the three risk objective pillars of sustainability, solvency and operational.

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

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

Lloyd's recognises that one of the greatest risks to the Central Fund is the market's exposure to catastrophes. The catastrophe model component of Lloyd's internal capital model allows the Corporation to assess catastrophe risk across return periods and, in A.M. Best's opinion, has improved its ability to monitor the market's aggregate catastrophe exposure against a defined risk appetite. Due to the nature of business written, Lloyd's has significant exposure to catastrophe losses, making this aspect of risk management particularly important.

Lloyd's Realistic Disaster Scenarios (RDSs) continue to play a critical role in exposure management at Lloyd's, both as benchmark stress tests validating the internal model output and as a source of data. The scenarios are defined in detail annually by Lloyd's and are used to evaluate aggregate market exposures as well as the exposure of each syndicate to certain major events. Syndicate-level scenarios are prepared by each managing agent, reflecting the particular characteristics of the business each syndicate writes. In addition, Lloyd's asks for syndicates' aggregate exceedance probability (AEP) loss at a 30-year return period for various regional perils. As the Lloyd's RDSs represent different return periods for different syndicates, collecting this additional data helps to ensure a uniform treatment of syndicates' exposure to large losses.

Lloyd's key tier 1 risk appetite for catastrophe risk is currently rated amber, but was rated red during 2017. Lloyd's is taking action to reduce catastrophe exposure. However, the persistence of catastrophe exposure outside of the green zone demonstrates the challenges the Corporation's risk management function faces in actively managing the market's risks.

### Reinsurance Summary

Lloyd's use of reinsurance is relatively high when compared to large specialty insurers and reinsurers. This is due to the nature of the market, which consists of small-to-medium sized business that independently purchase reinsurance. The market as a whole ceded 26% of its GWP in 2017. This amount includes reinsurance from syndicates to their related groups as well as reinsurance between individual Lloyd's syndicates.

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

## Financial Statements


## Balance Sheet

GBP (000)

Assets	2017	2016	2015	2014	2013
Cash & deposits with credit institutions	12,137,000	12,292,000	11,026,000	9,938,000	9,242,000
Bonds & other fixed interest securities	37,197,000	38,216,000	33,077,000	32,057,000	29,225,000
Shares & other variable interest instruments	9,474,000	9,133,000	6,908,000	6,635,000	5,679,000
<b>Liquid assets</b>	<b>58,808,000</b>	<b>59,641,000</b>	<b>51,011,000</b>	<b>48,630,000</b>	<b>44,146,000</b>
Mortgages & loans	6,841,000	6,019,000	4,580,000	4,724,000	5,343,000
Other investments	2,253,000	1,986,000	1,309,000	1,535,000	2,005,000
<b>Total investments</b>	<b>67,902,000</b>	<b>67,646,000</b>	<b>56,900,000</b>	<b>54,889,000</b>	<b>51,494,000</b>
Reinsurers' share of tech provisions - UPR	3,372,000	3,110,000	2,368,000	1,976,000	1,727,000
Reinsurers' sh of tech provisions - claims	16,811,000	11,310,000	8,610,000	8,785,000	9,195,000
<b>Total reinsurers' share of tech provisions</b>	<b>20,183,000</b>	<b>14,420,000</b>	<b>10,978,000</b>	<b>10,761,000</b>	<b>10,922,000</b>
Deposits with ceding companies	18,000	20,000	3,000	3,000	4,000
Insurance/reinsurance debtors	14,803,000	13,924,000	11,089,000	9,796,000	9,141,000
Other debtors	734,000	926,000	763,000	745,000	735,000
<b>Total debtors</b>	<b>15,537,000</b>	<b>14,850,000</b>	<b>11,852,000</b>	<b>10,541,000</b>	<b>9,876,000</b>
Fixed assets	31,000	31,000	32,000	24,000	40,000
Prepayments & accrued income	4,653,000	4,554,000	3,822,000	3,486,000	3,055,000
Other assets	72,000	81,000	42,000	9,000	21,000
<b>Total assets</b>	<b>108,396,000</b>	<b>101,602,000</b>	<b>83,629,000</b>	<b>79,713,000</b>	<b>75,412,000</b>
<b>Liabilities</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Distributable reserves	26,767,000	27,714,000	24,216,000	22,528,000	20,386,000
Capital & surplus	26,767,000	27,714,000	24,216,000	22,528,000	20,386,000
Gross provisions for unearned premiums	16,377,000	16,548,000	13,723,000	12,652,000	11,656,000
Gross provisions for o/s claims	54,893,000	47,747,000	38,833,000	38,134,000	37,621,000
<b>Total gross provisions</b>	<b>71,270,000</b>	<b>64,295,000</b>	<b>52,556,000</b>	<b>50,786,000</b>	<b>49,277,000</b>
Other borrowings	793,000	883,000	882,000	885,000	721,000
<b>External borrowings</b>	<b>793,000</b>	<b>883,000</b>	<b>882,000</b>	<b>885,000</b>	<b>721,000</b>
Deposits received from reinsurers	111,000	109,000	57,000	86,000	46,000
Insurance/reinsurance creditors	6,884,000	5,442,000	3,926,000	3,432,000	3,209,000
Other creditors	1,781,000	2,415,000	1,451,000	1,476,000	1,334,000
<b>Total creditors</b>	<b>8,665,000</b>	<b>7,857,000</b>	<b>5,377,000</b>	<b>4,908,000</b>	<b>4,543,000</b>
Accruals & deferred income	790,000	744,000	541,000	520,000	439,000
<b>Total liabilities</b>	<b>108,396,000</b>	<b>101,602,000</b>	<b>83,629,000</b>	<b>79,713,000</b>	<b>75,412,000</b>

Local Currency: British Pound

US \$ per Local Currency Unit 1.34939 = 1 British Pound (GBP)

Source:  – Best's Statement File – Global


## Statement of Income

## GBP (000)

Non-Life Technical Account	2017	2016	2015	2014	2013
Direct premiums	23,031,000	20,454,000	18,097,000	16,771,000	16,638,000
Reinsurance premiums assumed	10,560,000	9,408,000	8,593,000	8,488,000	8,977,000
<b>Gross premiums written</b>	<b>33,591,000</b>	<b>29,862,000</b>	<b>26,690,000</b>	<b>25,259,000</b>	<b>25,615,000</b>
Reinsurance ceded	8,722,000	6,796,000	5,667,000	5,253,000	5,384,000
<b>Net premiums written</b>	<b>24,869,000</b>	<b>23,066,000</b>	<b>21,023,000</b>	<b>20,006,000</b>	<b>20,231,000</b>
Increase/(decrease) in gross UPR	847,000	723,000	803,000	692,000	582,000
Reinsurers share in UPR	476,000	317,000	345,000	185,000	76,000
<b>Earned premiums</b>	<b>24,498,000</b>	<b>22,660,000</b>	<b>20,565,000</b>	<b>19,499,000</b>	<b>19,725,000</b>
<b>Total underwriting income</b>	<b>24,498,000</b>	<b>22,660,000</b>	<b>20,565,000</b>	<b>19,499,000</b>	<b>19,725,000</b>
Net claims paid	14,658,000	11,482,000	9,631,000	9,288,000	10,082,000
Net increase/(decr) in claims provision	3,592,000	1,505,000	631,000	302,000	-501,000
<b>Net claims incurred</b>	<b>18,250,000</b>	<b>12,987,000</b>	<b>10,262,000</b>	<b>9,590,000</b>	<b>9,581,000</b>
Management expenses	2,307,000	2,464,000	2,343,000	2,171,000	1,869,000
Acquisition expenses	7,362,000	6,741,000	5,913,000	5,485,000	5,448,000
<b>Net operating expenses</b>	<b>9,669,000</b>	<b>9,205,000</b>	<b>8,256,000</b>	<b>7,656,000</b>	<b>7,317,000</b>
<b>Total underwriting expenses</b>	<b>27,919,000</b>	<b>22,192,000</b>	<b>18,518,000</b>	<b>17,246,000</b>	<b>16,898,000</b>
<b>Balance on general technical account</b>	<b>-3,421,000</b>	<b>468,000</b>	<b>2,047,000</b>	<b>2,253,000</b>	<b>2,827,000</b>

Local Currency: British Pound

US \$ per Local Currency Unit 1.34939 = 1 British Pound (GBP)


Source:  – Best's Statement File – Global

## GBP (000)

Non-Technical Account	2017	2016	2015	2014	2013
Net investment income	1,450,000	1,073,000	728,000	866,000	1,094,000
Realised capital gains/(losses)	261,000	7,000	56,000	30,000	-32,000
Unrealised capital gains/(losses)	89,000	265,000	-382,000	142,000	-223,000
Exchange gains/(losses)	-62,000	578,000	-70,000	-62,000	-222,000
Other income/(expense)	-318,000	-284,000	-257,000	-213,000	-239,000
<b>Profit/(loss) before tax</b>	<b>-2,001,000</b>	<b>2,107,000</b>	<b>2,122,000</b>	<b>3,016,000</b>	<b>3,205,000</b>
<b>Profit/(loss) after tax</b>	<b>-2,001,000</b>	<b>2,107,000</b>	<b>2,122,000</b>	<b>3,016,000</b>	<b>3,205,000</b>
<b>Ret profit/(loss) for the financial year</b>	<b>-2,001,000</b>	<b>2,107,000</b>	<b>2,122,000</b>	<b>3,016,000</b>	<b>3,205,000</b>
<b>Retained profit/(loss) carried forward</b>	<b>-2,001,000</b>	<b>2,107,000</b>	<b>2,122,000</b>	<b>3,016,000</b>	<b>3,205,000</b>

Local Currency: British Pound

US \$ per Local Currency Unit 1.34939 = 1 British Pound (GBP)

Source:  – Best's Statement File – Global





# Best's Credit Report: Society Of Lloyd's

## Best's Credit Ratings:

Rating Effective Date: July 12, 2018

<b>Best's Issuer Credit Rating:</b>	a	<b>Outlook:</b>	Stable	<b>Action:</b>	Affirmed
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## Five Year Credit Rating History:

Date	Best's Issuer Credit Ratings		
	Rating	Outlook	Action
07/12/2018	a	Stable	Affirmed
07/20/2017	a	Stable	Affirmed
07/21/2016	a	Stable	Affirmed
07/22/2015	a	Positive	Affirmed
07/24/2014	a	Positive	Affirmed
07/19/2013	a	Positive	Affirmed

## Rating Rationale

The rating of the Society is notched from the rating of the Lloyd's market, reflecting the unique relationship between the Society and the Lloyd's market, which means that the ability of the Society to meet its obligations is inextricably linked to the ability of Lloyd's to meet its obligations.

## Rated Issues

### Best's Issue Credit Ratings:

Date Issued	Amount	Coupon	Issue	Type	Rating	Effective Date	Outlook / Implication
07/02/2017	300,000,000 GBP	0.04875	Subordinated		a-	12/7/2018	Stable
10/30/2014	500,000,000 GBP	0.0475	Subordinated	Fixed Rate	a-	12/7/2018	Stable

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## Financial Statements


### Balance Sheet

GBP (000)

Assets	2017	2016	2015	2014	2013
Cash & deposits with credit institutions	971,000	874,402	609,798	513,785	416,191
Bonds & other fixed interest securities	1,889,000	1,772,134	1,657,618	1,829,198	1,885,045
Shares & other variable interest instruments	392,000	551,076	495,577	499,403	405,420
<b>Liquid assets</b>	<b>3,252,000</b>	<b>3,197,612</b>	<b>2,762,993</b>	<b>2,842,386</b>	<b>2,706,656</b>
Unquoted investments	538,000	552,971	515,981	391,592	237,616
Mortgages & loans	40,000	43,410	44,577	46,439	43,499
<b>Other investments</b>	<b>18,000</b>	<b>6,596</b>	<b>8,502</b>	<b>7,958</b>	<b>7,897</b>
Total investments	3,848,000	3,800,589	3,332,053	3,288,375	2,995,668
Reinsurers' share of tech provisions - UPR	109,000	88,289	30,821	13,365	7,223
<b>Reinsurers' share of tech provisions – claims</b>	<b>233,000</b>	<b>165,707</b>	<b>78,727</b>	<b>30,579</b>	<b>31,070</b>
Total reinsurers' share of tech provisions	342,000	253,996	109,548	43,944	38,293
Insurance/reinsurance debtors	199,000	125,959	31,559	15,903	12,759
Other debtors	66,000	79,182	49,431	36,975	26,936
<b>Total debtors</b>	<b>265,000</b>	<b>205,141</b>	<b>80,990</b>	<b>52,878</b>	<b>39,695</b>
Fixed assets	31,000	31,423	31,558	24,243	26,599
Prepayments & accrued income	48,000	56,670	40,006	44,996	38,253
Other assets	16,000	16,820	9,202	18,072	48,444
<b>Total assets</b>	<b>4,550,000</b>	<b>4,364,639</b>	<b>3,603,357</b>	<b>3,472,508</b>	<b>3,186,952</b>
<b>Non-distributable reserves</b>	<b>13,000</b>	<b>13,314</b>	<b>13,314</b>	<b>12,506</b>	<b>12,506</b>
Other reserves	2,175,000	1,982,751	1,749,492	1,680,811	1,622,657
<b>Capital &amp; surplus</b>	<b>2,188,000</b>	<b>1,996,065</b>	<b>1,762,806</b>	<b>1,693,317</b>	<b>1,635,163</b>
Gross provisions for unearned premiums	109,000	88,289	30,821	13,365	7,223
Gross provisions for o/s claims	233,000	165,728	78,754	30,606	31,617
<b>Total gross provisions</b>	<b>342,000</b>	<b>254,017</b>	<b>109,575</b>	<b>43,971</b>	<b>38,840</b>
Other borrowings	1,276,000	1,376,527	1,318,608	1,357,619	1,238,609
<b>External borrowings</b>	<b>1,276,000</b>	<b>1,376,527</b>	<b>1,318,608</b>	<b>1,357,619</b>	<b>1,238,609</b>
Insurance/reinsurance creditors	320,000	204,432	85,721	45,891	33,147
Other creditors	168,000	206,690	133,427	147,781	105,590
Total creditors	488,000	411,122	219,148	193,672	138,737
<b>Accruals &amp; deferred income</b>	<b>67,000</b>	<b>62,833</b>	<b>59,131</b>	<b>42,393</b>	<b>39,290</b>
Other liabilities	189,000	264,075	134,089	141,536	96,313
<b>Total liabilities</b>	<b>4,550,000</b>	<b>4,364,639</b>	<b>3,603,357</b>	<b>3,472,508</b>	<b>3,186,952</b>

Local Currency: British Pound

US \$ per Local Currency Unit 1.34939 = 1 British Pound (GBP)

Source:  – Best's Statement File – Global




## Statement of Income

## GBP (000)

Non-Life Technical Account	2017	2016	2015	2014	2013
Gross premiums written	253,000	237,916	104,413	53,040	0
Reinsurance ceded	253,000	237,916	104,409	53,036	0
Other technical income	125,000	119,955	111,507	101,971	105,953
<b>Total underwriting income</b>	<b>125,000</b>	<b>119,955</b>	<b>111,511</b>	<b>101,975</b>	<b>105,960</b>
Net claims paid	0	0	0	48,996	110
Net increase/(decr) in claims provision	0	8,294	14	292	17,589
<b>Net claims incurred</b>	<b>0</b>	<b>8,294</b>	<b>14</b>	<b>49,288</b>	<b>17,699</b>
Management expenses	12,000	10,697	11,833	9,175	7,428
<b>Net operating expenses</b>	<b>12,000</b>	<b>10,697</b>	<b>11,833</b>	<b>9,175</b>	<b>7,428</b>
<b>Total underwriting expenses</b>	<b>12,000</b>	<b>18,991</b>	<b>11,847</b>	<b>58,463</b>	<b>25,127</b>
<b>Balance on general technical account</b>	<b>113,000</b>	<b>100,964</b>	<b>99,664</b>	<b>43,512</b>	<b>80,833</b>

Local Currency: British Pound

US \$ per Local Currency Unit 1.34939 = 1 British Pound (GBP)


Source:  – Best's Statement File – Global

## GBP (000)

Non-Technical Account	2017	2016	2015	2014	2013
Net investment income	1,000	332,025	-16,595	43,537	-56,403
Realised capital gains/(losses)	2,000	-77,103	7,403	-6,499	29,782
Unrealised capital gains/(losses)	-5,000	6,092	-6,664	4,728	29,806
Exchange gains/(losses)	0	0	0	6,864	-6,126
Other income/(expense)	76,000	43,171	3,379	16,896	1,388
<b>Profit/(loss) before tax</b>	<b>187,000</b>	<b>405,149</b>	<b>87,187</b>	<b>109,038</b>	<b>79,280</b>
Taxation	31,000	75,193	12,835	17,543	13,884
<b>Profit/(loss) after tax</b>	<b>156,000</b>	<b>329,956</b>	<b>74,352</b>	<b>91,495</b>	<b>65,396</b>
<b>Ret profit/(loss) for the financial year</b>	<b>156,000</b>	<b>329,956</b>	<b>74,352</b>	<b>91,495</b>	<b>65,396</b>
<b>Retained profit/(loss) carried forward</b>	<b>156,000</b>	<b>329,956</b>	<b>74,352</b>	<b>91,495</b>	<b>65,396</b>

Local Currency: British Pound

US \$ per Local Currency Unit 1.34939 = 1 British Pound (GBP)

Source:  – Best's Statement File – Global

October 13, 2017

# Rating Lloyd's Operations

## Outline

- A. Market Overview
- B. Balance Sheet Strength
- C. Operating Performance
- D. Business Profile
- E. Enterprise Risk Management (ERM)
- F. Lift for Syndicates
- G. Rating the Society of Lloyd's
- H. Insurance Groups with Lloyd's Operations

The following criteria procedure should be read in conjunction with Best's Credit Rating Methodology (BCRM) and all other related BCRM-associated criteria procedures. The BCRM provides a comprehensive explanation of A.M. Best's Rating Services' rating process.

## A. Market Overview

This criteria procedure focuses on A.M. Best's rating process for all of Lloyd's operations: the Society of Lloyd's, the Lloyd's market, and Lloyd's syndicates, including insurance groups with corporate members that contribute capital to Lloyd's syndicates.

### The Society of Lloyd's and the Lloyd's Market

Lloyd's is the London-based market where approximately 90 individual syndicates underwrite all types of insurance and reinsurance other than long-term life insurance. Each syndicate consists of members of Lloyd's. These members are mainly corporate entities, although private individuals still provide a small proportion of Lloyd's underwriting capacity. The syndicates operate as individual businesses, but the collective size of the market allows them to compete effectively with major international groups, under the Lloyd's brand and with the support of Lloyd's Central Fund.

The Society of Lloyd's (the Society) is the legal entity that oversees the Lloyd's market. The Society's purpose is to facilitate the underwriting of insurance business by Lloyd's members, to protect members' Lloyd's-related interests, and to maintain the Central Fund.

### Method of Accounting

Lloyd's annual report contains the financial results of Lloyd's and its members in pro forma financial statements (PFFS), and includes the financial statements of the Society. The PFFS include the aggregate accounts, which are based on the accounts of each Lloyd's syndicate, members' funds at Lloyd's (FAL) and the Society's financial statements.

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The Society produces a consolidated accounts statement that covers Lloyd's activities outside the underwriting market and Lloyd's central resources (the Central Fund).

To ensure that the PFFS are reported on the same accounting basis as other insurers, Lloyd's makes adjustments (such as a notional investment return on the FAL in the non-technical account) to its capital and investment returns. The PFFS (which incorporate Lloyd's central resources) are in accordance with U.K. GAAP, rather than the International Financial Reporting Standards (IFRS), which the Society has adopted for its statements.

Lloyd's "Chain of Security"

A.M. Best's assessment of Lloyd's balance sheet strength is based on the company's unusual capital structure, which Lloyd's calls the "chain of security." This "chain of security" encompasses the Premium Trust Funds, FAL, the Central Fund, the Society's net assets, and other assets, as Exhibit A.1 shows, and is a critical element in A.M. Best's rating analysis of the Lloyd's market.

Any assessment of Lloyd's capital strength is complicated by the compartmentalisation of capital at the member level. 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 a member needs to meet only its share of claims. In contrast, the third link (Lloyd's central assets) is available—at the discretion of the Council of Lloyd's—to meet the policyholder liabilities that any member is unable to meet in full. This third link comprises not just the Central Fund but also the net assets of the Corporation of Lloyd's and any issued hybrid securities that qualify for capital credit, and can be supplemented by a call on members' funds up to a specified percentage of their overall premium limits. This partially mutualising third link, and the liquid Central Fund in particular, is the basis for a market-level rating.

The Lloyd's market rating is the "floor of security" for all policies written at Lloyd's. It reflects the chain of security and, in particular, the role of the Central Fund, which partially mutualises capital at the market level, ensuring that each syndicate is backed by capital consistent with an Issuer Credit Rating (ICR) of at least that of the Lloyd's market. A policyholder exposed to a syndicate weaker than the market would still have market-level security, given the Central Fund's role as a guarantee fund.

The Rating Process

A.M. Best's rating process for Lloyd's is based on the same building blocks as the process for conventional insurers (Exhibit A.2). For syndicate-specific ratings, an "s" modifier—e.g., "A+s"—differentiates ratings on individual syndicates from other ratings.

Exhibit A.1: Lloyd's Chain of Security

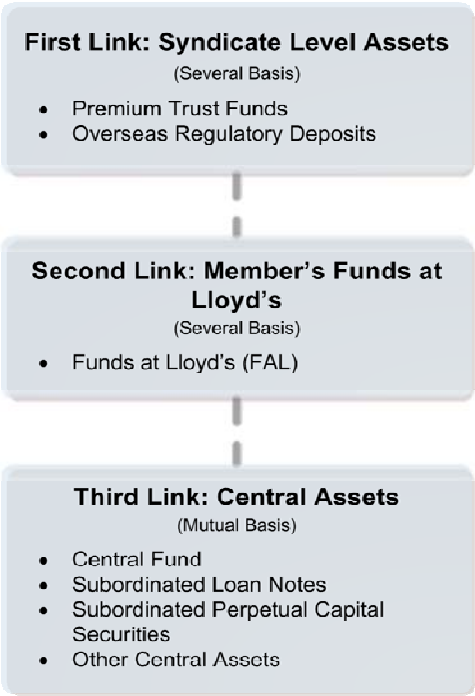
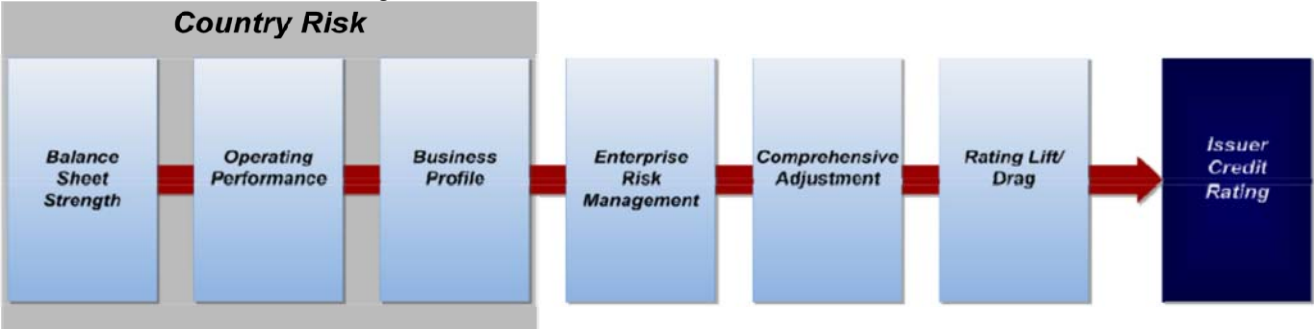


Exhibit A.2: A.M. Best's Rating Process



Assessing Syndicates

To understand the link between the Lloyd's market's rating and the ratings on individual Lloyd's syndicates, the following considerations should be taken into account:

- Syndicates cannot exist or be analysed in isolation from their participation in Lloyd's market. When assigning ratings to individual syndicates, this dependence must be taken into account.
- All syndicates benefit from the financial strength of Lloyd's; therefore, the rating on a syndicate will be at least equal to the rating on Lloyd's.
- A syndicate could have a higher rating than the Lloyd's market usually for two reasons: 1) its operating performance or 2) lift from a financially stronger group.

## B. Balance Sheet Strength

### Lloyd's Market

#### Capital Management Strategy

The Universal Best's Capital Adequacy Ratio (BCAR) is run for the Lloyd's market based on the PFFS. Lloyd's balance sheet strength assessment takes into account capital resources available at the 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.

Because Lloyd's capital structure consists of both mutual capital, which can be used to meet the obligations of all syndicates, and member-level capital, which is available to meet that member's obligations only, it has specific fungibility considerations. The BCAR cannot capture the lack of fungibility in some parts of the capital structure. However, given that Lloyd's stochastic internal capital model (LIM) fully reflects these unusual features of Lloyd's capital structure, the market's Solvency Capital Ratio (SCR)—as approved by the regulator—is taken into account as an additional indicator of capital adequacy.

The Corporation of Lloyd's is responsible for annually setting capital at member level, using the syndicates' SCRs. A.M. Best's assessment of the market's balance sheet strength incorporates a view of the appropriateness of Lloyd's approach to setting member's-level capital. A critical component of the Lloyd's market balance sheet strength assessment involves not only the adequacy of the capital requirements, but also the market's ability to fulfil those requirements.

#### Financial Flexibility

A.M. Best's assessment of Lloyd's financial flexibility takes into account its ability to access a broad range of capital providers, which include corporate and individual investors, as well as the option to make additional capital calls when required. Although equity credit may be given for qualifying hybrid instruments issued by the Society of Lloyd's, no explicit credit is typically given in the BCAR for the "callable layer" from members to supplement central assets.

#### Letters of Credit

Historically, a significant and stable proportion of FAL is accounted for by letters of credit (LOCs). In its calculation of available capital, A.M. Best will consider including FAL provided as LOCs, given that such LOCs can be drawn at the discretion of Lloyd's, and that, if drawn, will become Tier 1 capital for the Lloyd's market.

#### Assessing Syndicates

A syndicate's balance sheet strength assessment will be the same as that of Lloyd's, given that fundamentally all of the syndicates are protected by the central resources of the Lloyd's market. A syndicate's assessment does not include a separate holding company assessment. The balance sheet assessment assigned will be that of the Lloyd's market, which already incorporates a holding company assessment.

## C. Operating Performance

### Lloyd's Market

#### Market Performance

The assessment of Lloyd's operating performance involves the analysis of the market's overall consolidated performance, taking into account the stability, diversity, and sustainability of the market's sources of earnings. The assessment also incorporates the performance analysis of the individual syndicates—including the existing gaps between the strongest and worst performers—with a particular focus on the potential exposure of central capital resources to losses from individual members.

Lloyd's performance is not directly comparable to that of other insurers, because it is not actively managed centrally. The Corporation's Performance Management Directorate has a definite role in agreeing to business plans and monitoring performance, but Lloyd's is ultimately a market of competing businesses, each of which has its own decision-making process.

In addition, the market's consolidated operating performance cannot be viewed as a leading indicator of its future balance sheet strength to the same extent as it is for other insurers. Earnings generated by the market do not directly build or erode Lloyd's capital base, as profits and losses are distributed to the market's capital providers when a year of account is closed (usually at the end of 36 months). The capital to support underwriting at Lloyd's is instead supplied by capital providers (members) annually. Therefore, greater weight may be given to the impact of the market's results on its ability to retain and attract the capital required for continued trading.

Any assessment of Lloyd's operating performance must also take into account the potential erosion of central capital resources owing to losses incurred by individual members. Most members of Lloyd's write with limited liability. In the event of substantial underwriting losses, if those members are unwilling or unable to provide additional funds to support any outstanding underwriting obligations, there may be a drawdown on central capital resources.

#### Assessing Syndicates

In A.M. Best's opinion, a syndicate could have a higher rating than the Lloyd's market because of a more favourable operating performance assessment, principally because an individual syndicate's profits are not made available to meet the obligations of other members. Therefore, the assessment of Lloyd's market's operating performance may not fully reflect the positive impact that an individual syndicate's standalone earnings can have on its ability to meet its own obligations to policyholders.

A.M. Best's assessment of an individual syndicate's operating performance is the same as that for conventional insurers in that it centres on the stability, diversity, and sustainability of its earnings sources. Expenses will include costs associated with operating at Lloyd's, such as contributions to central resources.

## D. Business Profile

### Lloyd's Market

The business profile assessment of the Lloyd's market follows the process outlined in the BCRM.

#### Assessing Syndicates

The business profiles of all of the syndicates are inextricably linked to that of Lloyd's. As a result, the assessment of Lloyd's business profile acts as a floor for the assessment of any syndicate's business profile. Likewise, any weakening of Lloyd's business position will act as a drag on an individual syndicate's rating.

## E. Enterprise Risk Management (ERM)

### Lloyd's Market

A.M. Best's ERM assessment of the Lloyd's market takes into account both the overall framework and the frameworks in place for each individual syndicate. Failure at one syndicate could lead to pressures on the market's ERM assessment even if, in general, the overall risk management framework is considered appropriate.

### Assessing Syndicates

A.M. Best acknowledges that all syndicates benefit from the ERM framework and risk monitoring at Lloyd's level. As a result, the assessment of Lloyd's ERM acts as a floor for the assessment of any syndicate's ERM. Likewise, any weakening of Lloyd's ERM will act as a drag on an individual syndicate's rating.

## F. Lift for Syndicates

Although A.M. Best considers the market's rating a "floor" for all of the syndicates' ratings, certain syndicates could merit higher ratings. One reason is simply because of the steps described in the previous sections—such as the case of a syndicate with a more favourable operating performance assessment. Also, syndicates that are non-lead rating units and that belong to wider (re)insurance groups may be eligible for a higher rating owing to rating lift.

Rating lift may apply if the syndicate is backed by a capital provider (the lead rating unit) that, in A.M. Best's opinion, has a higher rating than the market. The lead rating unit is also expected to be fully committed to supporting the syndicate beyond its corporate member's limited liability obligations and before recourse to Lloyd's Central Fund. A.M. Best undertakes a detailed analysis of the capital provider's commitment and would have to be satisfied that the capital provider would not cease underwriting at Lloyd's under adverse circumstances not related to its own syndicate's performance (e.g., an additional Central Fund levy). Eligibility for rating lift owing to capital backing may be affected if the corporate member participates in other syndicates, since capital held at the member level is fungible across all of the syndicates in which the member participates.

## G. Rating the Society of Lloyd's

The rating on the Society is derived by notching from the rating on Lloyd's and reflects A.M. Best's opinion that the ability of the Society to meet its obligations is inextricably linked to that of Lloyd's. The rating on Lloyd's also takes into account the assets and liabilities of the Society (as the analysis is done on consolidated financials), as well as the financial flexibility of the Society, including its ability to raise debt.

The central assets of the Society of Lloyd's, including the Central Fund, are available to meet the Society's senior obligations. The Society of Lloyd's can increase the contributions to the Central Fund from members of the Lloyd's market. The Society's senior obligations include, but are not limited, to Central Fund "undertakings," whereby the Central Fund meets the insurance liability of insolvent members of Lloyd's on a discretionary basis. Under normal circumstances, Lloyd's Council executes an undertaking for a 12-month period to meet these liabilities (which can be renewed). Central Fund undertakings constitute unsecured obligations of the Society that rank *pari passu* with the Society's other unsecured senior obligations.

Accordingly, there can be no distinction between the ability of the Lloyd's market and the Society to meet their senior obligations: The Society's ability to meet its senior obligations is therefore the same as Lloyd's. However, in practice, Lloyd's policyholders are likely to be paid ahead of senior debtholders. Therefore, in the absence of any other relevant information, the rating on the Society is placed one notch below the rating on Lloyd's.



## H. Insurance Groups with Lloyd's Operations

### Market Knowledge

An insurance group writing business at Lloyd's will typically own a corporate member that participates in the Lloyd's market by providing capacity to one or more syndicates. It accepts insurance business through syndicates on a several basis for its own profit and loss and holds the capital supporting its share of business written in the form of FAL. For these insurance groups, both the performance of and the capital supporting business written at Lloyd's are captured in the consolidated analysis via the corporate member.

The rating process for groups with a Lloyd's platform is substantially the same as it is for all insurance groups. However, the unique capital structure and practices of the Lloyd's market introduce distinct issues, particularly with respect to the analytical treatment of group capital used to support underwriting at Lloyd's.

### Balance Sheet Strength

As part of the analysis of a group's consolidated balance sheet strength, A.M. Best uses the BCAR to calculate the net required capital to support the group's financial risks (including those of the corporate member) and compares it with the group's available capital (including capital lodged as FAL), to estimate excess or shortfall.

The level of FAL determines the amount of insurance business a member can underwrite at Lloyd's. Consequently, a member unable or unwilling to replenish its FAL will have to reduce the amount of Lloyd's business it writes. Thus, if its FAL are exhausted and not replenished, the corporate member will no longer be able to underwrite at Lloyd's.

Notably, if a member's FAL are inadequate to meet its syndicate's losses, a managing agent may ask Lloyd's to meet the cash call out of its central assets. However, in the group's consolidated BCAR analysis, A.M. Best gives no capital credit for the access a member's insurance creditors have to Lloyd's central assets, primarily because only the obligations of the corporate member—not those of the wider group—can be met by Lloyd's central assets.

A.M. Best's analysis of a group's Lloyd's business focuses on an assessment of the risks generated directly by the syndicates in which the corporate member participates.

### Segregation of Capital for Lloyd's Business

FAL are defined as capital lodged and held in trust at Lloyd's as security for policyholders and to support a member's overall underwriting business. The funds lodged can be investments and cash but are often letters of credit (LOCs) drawn on one or more banks.

When investments and cash are provided by a group company, or when an LOC is backed by collateral from a group company, the assets are clearly encumbered. To reflect the limitations on the transfer of this capital across the group, A.M. Best applies a nominal 1% capital charge to the group assets that support FAL in the group's consolidated BCAR. This is in line with A.M. Best's baseline treatment of balances associated with non-controlled assets.

The analyst may increase the asset risk factor beyond the nominal 1% following an evaluation of the likelihood that FAL will be used to pay syndicate losses. The evaluation would take into account the historical and expected performance of the group's Lloyd's business, as well as the potential exposure of this business to large, market-wide losses.

### Letters of Credit Supporting FAL for Insurance Groups with Lloyd's Operations

Insurance groups commonly use LOCs—either collateralized or uncollateralized—to meet their FAL requirements. In the case of a collateralized LOC, assets backing the LOC are included in A.M. Best's assessment of a group's available capital, although a capital charge may be applied to the assets.

An undrawn, uncollateralized LOC supporting FAL receives no capital credit in a group's consolidated BCAR. The rationale for this treatment is that, if the LOC were to be drawn down, it would become short-term bank debt on the group's balance sheet; A.M. Best does not afford capital credit to short-term bank debt.

However, A.M. Best does recognize that, under a stress scenario, an uncollateralized LOC could be converted readily to cash to meet the group's Lloyd's obligations. For this reason, A.M. Best would take into account an uncollateralized LOC in its assessment of the group's financial flexibility and liquidity.

### Internal Reinsurance and Lloyd's Business

In an insurance group, earnings from the group's corporate member are often transferred to another group entity, typically to realize tax efficiencies—and frequently through quota-share reinsurance, with the group reinsurer providing a share of the corporate member's FAL matching the proportion of risk assumed. For example, if there is a 50% whole-account quota share in place, the corporate member and reinsurer each may provide 50% of the FAL.

When determining the appropriate treatment in the reinsurer's BCAR of the Lloyd's business assumed and the FAL lodged to support this business, A.M. Best will first conduct a detailed review of the reinsurance contract and the treatment of the risk assumed in the reinsurer's accounts.

If the Lloyd's-related risk is reflected accurately on the reinsurer's balance sheet and income statement—for example, if there is a standard quota share agreement in place—A.M. Best will include the risk associated with this business and the capital supporting this risk (a share of FAL) in its analysis of risk-adjusted capitalization in the BCAR. A.M. Best will also conduct a BCAR analysis excluding the risk and capital relating to the Lloyd's business.

When the proportion of FAL provided by the reinsurer exceeds the proportion of the Lloyd's business it assumes, A.M. Best will deduct an amount equal to the excess from capital in its analysis of the reinsurer, to avoid giving credit for capital that supports risks not captured in the reinsurer's accounts and BCAR.

Occasionally, the transfer of premium and reserve risk to the reinsurer is not reflected in the reinsurer's accounts in a manner that allows A.M. Best to capture the assumed risk accurately in the BCAR—for example, when the reinsurance transaction is a quota share of the corporate member's profit/loss. In this case, in the absence of additional information, A.M. Best will deduct from available capital an amount equivalent to the reinsurer's share of FAL. Additional adjustments may be made to ensure that neither the Lloyd's-related risk assumed by the reinsurer nor the capital supporting this risk (FAL) is reflected in BCAR.

Because participation in Lloyd's is on a limited liability basis, the group reinsurer is not usually legally obliged to pay out more than its share of FAL to support its Lloyd's losses. By deducting FAL from available capital, A.M. Best reflects the maximum loss that the reinsurer would incur from the assumed Lloyd's business. Any business or reputational issues that may arise if the group is unable or unwilling to replenish its FAL are captured by A.M. Best in the consolidated analysis of the insurance group.



### Determination of the IHC's Rating Through Notching

A.M. Best's rating on an insurance holding company (IHC) is based on the Issuer Credit Rating of the operating insurer(s) on which the IHC primarily depends to meet its obligations. The rating reflects the analysis of (1) the credit risk implications of the IHC as a legal entity separate from the operating insurer(s) and (2) the normal subordination of IHC creditors to operating company policyholders.

For an insurance group with a significant Lloyd's operation, the entity on which the holding company most depends to meet its obligations may be a Lloyd's syndicate. In this case, using the syndicate rating in the notching process is seldom appropriate.

Lloyd's chain of security—in particular, the role of the Central Fund, which partly mutualises capital at the market level—ensures that each Lloyd's syndicate is backed by capital consistent with the ICR of at least that of the Lloyd's market. Consequently, a syndicate rating cannot fall below the Lloyd's market rating.

Lloyd's central assets are available to meet only the insurance liabilities of the corporate member. When determining the holding company ICR of a group with a significant Lloyd's operation, A.M. Best conducts an enterprise-level analysis of the consolidated organization (excluding Lloyd's). This forms the basis for an overall operating company ICR, which is then used in the notching process.

# Appendices

## Appendix 1

### Gross Premiums Written by Syndicate (2017)

(GBP Millions)

Syndicate	Managing Agent	Gross Premiums Written	Syndicate	Managing Agent	Gross Premiums Written
33	Hiscox Syndicates Limited	1,156	2088	Catlin Underwriting Agencies Limited	155
44	AmTrust at Lloyd's Limited	18	2121	Argenta Syndicate Management Limited	346
218	ERS Syndicate Management Limited	376	2232	Allied World Managing Agency Ltd	204
308	Tokio Marine Kiln Syndicates Limited	39	2357	Asta Managing Agency Limited	266
318	Beaufort Underwriting Agency Limited	157	2468	Neon Underwriting Limited	226
382	Hardy (Underwriting Agencies) Limited	320	2488	Chubb Underwriting Agencies Limited	460
386	QBE Underwriting Limited	357	2525	Asta Managing Agency Limited	55
435	Faraday Underwriting Limited	378	2623	Beazley Furlonge Limited	1,538
457	Munich Re Underwriting Limited	423	2689	Asta Managing Agency Limited	60
510	Tokio Marine Kiln Syndicates Limited	1,417	2786	Asta Managing Agency Limited	114
557	Tokio Marine Kiln Syndicates Limited	18	2791	Managing Agency Partners Limited	179
609	Atrium Underwriters Limited	467	2987	Brit Syndicates Limited	1,596
623	Beazley Furlonge Limited	338	2988	Brit Syndicates Limited	60
727	S.A. Meacock & Company Limited	63	2999	QBE Underwriting Limited	1,169
780	Advent Underwriting Limited	210	3000	Markel Syndicate Management Limited	565
1084	Chaucer Syndicates Limited	950	3002	Catlin Underwriting Agencies Limited	34
1110	Coverys Managing Agency Limited	23	3010	Cathedral Underwriting Limited	42
1176	Chaucer Syndicates Limited	31	3334	Hamilton Underwriting Limited	109
1183	Talbot Underwriting Ltd	715	3622	Beazley Furlonge Limited	18
1200	Argo Managing Agency Limited	553	3623	Beazley Furlonge Limited	219
1206	AmTrust at Lloyd's Limited	212	3624	Hiscox Syndicates Limited	409
1218	Newline Underwriting Management Limited	136	3902	Ark Syndicate Management Limited	76
1221	Navigators Underwriting Agency Limited	367	4000	Pembroke Managing Agency Limited	414
1225	AEGIS Managing Agency Limited	462	4020	Ark Syndicate Management Limited	278
1274	Antares Managing Agency Limited	418	4141	HCC Underwriting Agency Ltd	140
1301	StarStone Underwriting Limited	236	4242	Asta Managing Agency Limited	157
1414	Ascot Underwriting Limited	681	4444	Canopus Managing Agents Limited	1,138
1458	Renaissance Re Syndicate Management Limited	495	4472	Liberty Syndicate Management Limited	1,657
1492	Capita Managing Agency Limited	88	4711	Aspen Managing Agency Limited	397
1686	AXIS Managing Agency Limited	308	5000	Travelers Syndicate Management Limited	362
1729	Asta Managing Agency Limited	98	5151	Endurance at Lloyd's Limited	319
1856	Barbican Managing Agency Limited	91	5678	Vibe Syndicate Management Limited	127
1861	AmTrust Syndicates Limited	284	5820	AmTrust Syndicates Limited	231
1880	Tokio Marine Kiln Syndicates Limited	246	5886	Asta Managing Agency Limited	100
1884	Charles Taylor Managing Agency Limited	89	6050	Beazley Furlonge Limited	16
1897	Asta Managing Agency Limited	138	6103	Managing Agency Partners Limited	5
1910	Argo Managing Agency Limited	341	6104	Hiscox Syndicates Limited	42
1919	Starr Managing Agents Limited	284	6107	Beazley Furlonge Limited	47
1945	Sirius International Managing Agency Ltd	111	6111	Catlin Underwriting Agencies Limited	54
1955	Barbican Managing Agency Limited	444	6117	Argo Managing Agency Limited	101
1967	W R Berkley Syndicate Management Limited	173	6118	Barbican Managing Agency Limited	133
1969	Apollo Syndicate Management Limited	234	6123	Asta Managing Agency Limited	14
1991	Coverys Managing Agency Limited	125	6125	Pembroke Managing Agency Limited	17
2001	MS Amlin Underwriting Limited	2,082	6126	Asta Managing Agency Limited	42
2003	Catlin Underwriting Agencies Limited	2,365	6129	AXIS Managing Agency Limited	63
2007	AXIS Managing Agency Limited	989	6130	Chaucer Syndicates Limited	20
2010	Cathedral Underwriting Limited	211			
2012	Arch Underwriting at Lloyd's Ltd	200			
2014	Pembroke Managing Agency Limited	186			
2015	The Channel Managing Agency Ltd	262			
			<b>All other syndicates and inter-syndicate</b>		<b>-548</b>
			<b>RITC adjustment</b>		
			<b>Total</b>		<b>33,591</b>

Source: Lloyd's Annual Report 2017

## Appendix 2

**Gross Premiums Written by Managing Agency Group (2017)**

(GBP Millions)

<b>Managing Agent</b>	<b>Gross Premiums Written</b>	<b>Managing Agent</b>	<b>Gross Premiums Written</b>
Catlin Underwriting Agencies Limited	2,608	Ark Syndicate Management Limited	354
Beazley Furlonge Limited	2,176	Argenta Syndicate Management Limited	346
MS Amlin Underwriting Limited	2,082	Hardy (Underwriting Agencies) Limited	320
Tokio Marine Kiln Syndicates Limited	1,720	Endurance at Lloyd's Limited	319
Liberty Syndicate Management Limited	1,657	Starr Managing Agents Limited	284
Brit Syndicates Limited	1,656	The Channel Managing Agency Ltd	262
Hiscox Syndicates Limited	1,607	Cathedral Underwriting Limited	253
QBE Underwriting Limited	1,526	StarStone Underwriting Limited	236
AXIS Managing Agency Limited	1,360	Apollo Syndicate Management Limited	234
Canopus Managing Agents Limited	1,138	AmTrust at Lloyd's Limited	230
Asta Managing Agency Limited	1,044	Neon Underwriting Limited	226
Chaucer Syndicates Limited	1,001	Advent Underwriting Limited	210
Argo Managing Agency Limited	995	Allied World Managing Agency Ltd	204
Talbot Underwriting Ltd	715	Arch Underwriting at Lloyd's Ltd	200
Ascot Underwriting Limited	681	Managing Agency Partners Limited	184
Barbican Managing Agency Limited	668	W R Berkley Syndicate Management Limited	173
Pembroke Managing Agency Limited	617	Beaufort Underwriting Agency Limited	157
Markel Syndicate Management Limited	565	Coverys Managing Agency Limited	148
AmTrust Syndicates Limited	515	HCC Underwriting Agency Ltd	140
Renaissance Re Syndicate Management Limited	495	Newline Underwriting Management Limited	136
Atrium Underwriters Limited	467	Vibe Syndicate Management Limited	127
AEGIS Managing Agency Limited	462	Sirius International Managing Agency Ltd	111
Chubb Underwriting Agencies Limited	460	Hamilton Underwriting Limited	109
Munich Re Underwriting Limited	423	Charles Taylor Managing Agency Limited	89
Antares Managing Agency Limited	418	Capita Managing Agency Limited	88
Aspen Managing Agency Limited	397	S.A. Meacock & Company Limited	63
Faraday Underwriting Limited	378	<b>All other syndicates and inter-syndicate RITC adjustment</b>	<b>-548</b>
ERS Syndicate Management Limited	376	<b>Total</b>	<b>33,591</b>
Navigators Underwriting Agency Limited	367		
Travelers Syndicate Management Limited	362		

Source: Lloyd's Annual Report 2017

### Appendix 3

#### Overview of Premium Limits and Membership (1993-2017)

##### Number of Active Members

Year of Account	Individual Gross		Corporate Gross		Total Gross		Number of Active Members		
	Premium Limit (GBP Millions)	Individual % of Total	Premium Limit (GBP Millions)	Corporate % of Total	Premium Limit (GBP Millions)		Individual	Corporate	Total
1993	8,729	100%			8,729		19,377		19,377
1994	9,282	85%	1,595	15%	10,877		17,370	95	17,465
1995	7,808	77%	2,359	23%	10,167		14,573	140	14,713
1996	6,941	70%	3,044	30%	9,985		12,683	162	12,845
1997	5,806	56%	4,530	44%	10,336		9,872	202	10,074
1998	4,035	40%	6,128	60%	10,163		6,765	436	7,201
1999	2,682	27%	7,190	73%	9,872		4,458	667	5,125
2000	1,994	20%	8,123	80%	10,117		3,270	854	4,124
2001	1,794	16%	9,462	84%	11,256		2,823	896	3,719
2002	1,760	13%	11,473	87%	13,233		2,445	838	3,283
2003	1,837	12%	13,022	88%	14,859		2,177	768	2,945
2004	1,855	12%	13,224	88%	15,079		2,029	754	2,783
2005	1,433	10%	12,383	90%	13,816		1,604	708	2,312
2006	1,425	9%	13,580	91%	15,005		1,478	717	2,195
2007	1,083	7%	15,350	93%	16,433		1,106	1,020	2,126
2008	915	6%	15,191	94%	16,106		897	1,162	2,059
2009	822	5%	17,314	95%	18,136		765	1,241	2,006
2010	848	4%	22,174	96%	23,022		691	1,445	2,136
2011	757	3%	22,540	97%	23,297		631	1,530	2,161
2012	693	3%	23,490	97%	24,184		575	1,576	2,151
2013	651	3%	24,347	97%	24,998		520	1,626	2,146
2014	592	2%	25,935	98%	26,527		444	1,688	2,132
2015	431	2%	25,835	98%	26,266		321	1,771	2,092
2016	407	1%	27,105	99%	27,512		289	1,760	2,049
2017	372	1%	29,923	99%	30,296		258	1,764	2,022

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

#### Calendar Year Gross Premiums Written by Main Business Class (2016-2017)

(GBP Millions)

	2016	2017	% change
Reinsurance	9,408	10,560	12.2%
Property	7,988	8,965	12.2%
Casualty	7,131	8,464	18.7%
Marine	2,470	2,506	1.5%
Energy	1,110	1,253	12.9%
Motor	1,047	1,057	1.0%
Aviation	627	687	9.6%
Life	81	99	22.2%
<b>Total from syndicate operations</b>	<b>29,862</b>	<b>33,591</b>	<b>12.5%</b>
<b>Transactions between syndicates and the Society and insurance operations of the Society</b>	<b>0</b>	<b>0</b>	
<b>Total calendar year premium income</b>	<b>29,862</b>	<b>33,591</b>	<b>12.5%</b>

Note: Figures include brokerage and commission.

Source: Lloyd's Annual Report 2017

## Appendix 5 Gross Premiums Written by Territory (2017)

Territory	2017
US & Canada	50%
UK	15%
Rest of Europe	14%
Central Asia & Asia Pacific	10%
Other Americas	6%
Rest of the World	5%
<b>Total</b>	<b>100%</b>

Source: Lloyd's Annual Report 2017

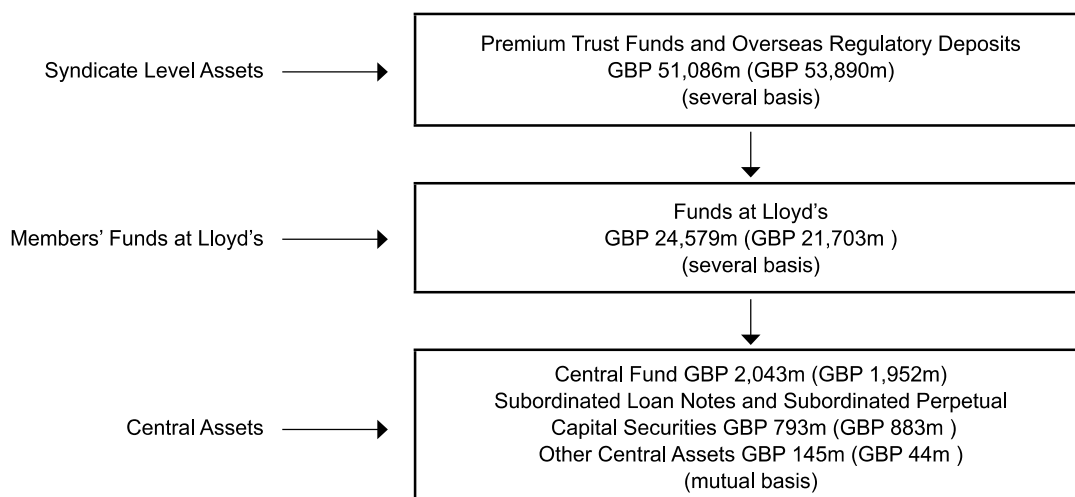
## Appendix 6 Composition of Capital (2016-2017)

Composition of Capital	2016	2017
US insurance industry	19%	19%
Bermudian insurance industry	14%	16%
Japan insurance industry	13%	14%
UK insurance industry	14%	13%
European insurance industry	12%	12%
Private capital - limited & unlimited	10%	10%
Rest of the World insurance industry	9%	10%
Worldwide non-insurance	4%	4%
Middle/Far East insurance industry	4%	3%
<b>Total</b>	<b>100%</b>	<b>100%</b>

Note: Capital providers shown as a percentage of overall capacity.

Source: Lloyd's Annual Report 2016 and 2017

## Appendix 7 Chain of Security



Note: Figures are shown as at 31 December 2017 (31 December 2016).

Source: Lloyd's Annual Report 2017

Published by A.M. Best  
**CREDIT REPORT**

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 SENIOR VICE PRESIDENTS Alessandra L. Czarnecki, Thomas J. Plummer

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**Best's Financial Strength Rating (FSR):** an independent opinion of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations. An FSR is not assigned to specific insurance policies or contracts.

**Best's Issuer Credit Rating (ICR):** an independent opinion of an entity's ability to meet its ongoing financial obligations and can be issued on either a long- or short-term basis.

**Best's Issue Credit Rating (IR):** an independent opinion of credit quality assigned to issues that gauges the ability to meet the terms of the obligation and can be issued on a long- or short-term basis (obligations with original maturities generally less than one year).

**Rating Disclosure: Use and Limitations**

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# Swiss Reinsurance Company Ltd

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**NAIC #:** N/A

**AIIN#:** AA-1460146

**Phone:** 41-43-285-2121

**Fax:** 41-43-285-2999

**Website:** [www.swissre.com](http://www.swissre.com)

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## Swiss Reinsurance Company Ltd

### Credit Report

**Report Release Date:**

January 8, 2018

**Rating Effective Date:**

December 7, 2017

**Disclosure Information:** View A.M. Best's [Rating Disclosure Form](#)

### Analytical Contacts

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**Ultimate Parent:** [058838 - Swiss Re Ltd](#)
**A.M. Best Rating Unit:** [058595 - Swiss Re Ltd](#)

### Best's Credit Ratings:

Rating Effective Date: December 7, 2017

<b>Best's Financial Strength Rating:</b>	A+	<b>Outlook:</b>	Stable	<b>Action:</b>	Affirmed
<b>Best's Issuer Credit Rating:</b>	aa	<b>Outlook:</b>	Stable	<b>Action:</b>	Upgraded

### Five Year Credit Rating History:

Date	Best's Financial Strength Ratings			Best's Issuer Credit Ratings		
	Rating	Outlook	Action	Rating	Outlook	Action
12/07/2017	A+	Stable	Affirmed	aa	Stable	Upgraded
10/13/2017	A+ u	Positive	Under Review	aa- u	Positive	Under Review
12/16/2016	A+	Stable	Affirmed	aa-	Stable	Affirmed
12/11/2015	A+	Stable	Affirmed	aa-	Stable	Affirmed
11/06/2014	A+	Stable	Affirmed	aa-	Stable	Affirmed
01/31/2014	A+	Stable	Affirmed	aa-	Stable	Affirmed
01/23/2013	A+	Stable	Affirmed	aa-	Stable	Affirmed

### Rating Rationale:

Swiss Reinsurance Company Ltd is considered part of the Swiss Re group rating unit based on its key role as the lead operating entity in the Swiss Re group's reinsurance operations.

## Financial Data Notes:

**Time Period:** Annual - 2017

**Status:** A.M. Best Quality Cross Checked

## Key Financial Indicators:

### Key Financial Indicators (000)

	Year End				
	2017	2016	2015	2014	2013
Premiums					
Gross premiums written - combined	22,529,000	22,976,000	17,448,000	15,608,000	16,223,000
Net premiums written - combined	18,707,000	18,769,000	13,045,000	10,933,000	11,028,000
Capital & Surplus	11,042,000	13,746,000	15,804,000	11,907,000	12,597,000
Total Assets	113,052,000	101,291,000	90,263,000	87,848,000	84,682,000

Source: Bestlink - Best's Statement File - Global

Local Currency: Swiss Franc

US \$ per Local Currency Unit 1.02454 = 1 Swiss Franc (CHF)

### Key Financial Indicators - A.M. Best Ratios (%)

	Year End				
	2017	2016	2015	2014	2013
Net Premiums Written to Equity	169.4	136.5	82.5	91.8	87.5
Liquidity					
Liquid Assets to Total Liabilities	20.1	27.5	29.8	32.3	36.6
Total Investments to Total Liabilities	47.1	55.8	56.3	61.1	66.6

Source: Bestlink - Best's Statement File - Global

## Credit Analysis:

### Balance Sheet Strength

## Capitalization:

### Capital Generation Analysis (000)

	Year End				
	2017	2016	2015	2014	2013
Capital & surplus brought forward	12,202,000	14,260,000	10,707,000	11,797,000	12,342,000
Profit or loss for the year	1,209,000	875,000	6,432,000	1,666,000	2,091,000
Dividend to shareholders	-2,590,000	-2,933,000	-2,879,000	-2,756,000	-2,636,000
Total change in capital & surplus	-1,381,000	-2,058,000	3,553,000	-1,090,000	-545,000
Capital & surplus carried forward	10,821,000	12,202,000	14,260,000	10,707,000	11,797,000

Source: Bestlink - Best's Statement File - Global

Local Currency: Swiss Franc

US \$ per Local Currency Unit 1.02454 = 1 Swiss Franc (CHF)

## Operating Performance

### Financial Performance Summary (000)

	Year End				
	2017	2016	2015	2014	2013
Pre-Tax Income	304,000	1,101,000	6,859,000	2,470,000	2,650,000
Net income (after noncontrolling interests)	112,000	875,000	6,776,000	2,066,000	2,491,000

Source: Bestlink - Best's Statement File - Global

Local Currency: Swiss Franc

US \$ per Local Currency Unit 1.02454 = 1 Swiss Franc (CHF)

### A.M. Best Ratios (%)

	Year End				
	2017	2016	2015	2014	2013
Overall Performance:					
Return on Assets	0.1	0.9	7.6	2.4	2.8
Return on Equity	0.9	5.9	48.9	16.9	19.7

Source: Bestlink - Best's Statement File - Global

## Business Profile

The following text is derived from Best's Credit Report on Swiss Re Ltd (AMB# 058595):

Swiss Re's business profile assessment is supportive of a very favourable assessment.

Swiss Re is a leading and highly diversified global reinsurer and insurer, operating through more than 80 offices in over 30 countries. The group operates through three main business units: Reinsurance (P&C and L&H), Corporate Solutions (commercial insurance) and Life Capital (closed and open primary life and health insurance).

The group's clear leadership position within the global reinsurance market is demonstrated and defensible, and supported by strong brand recognition.

A wide product offering and a worldwide distribution system ensures excellent access to business even during periods of intensely competitive market conditions. In addition, strong relationships with clients allow the group to write private deals and contracts on differentiated terms, which offer protection against price based competition.

The group has a wide product offering within both life and non-life reinsurance and the portfolio is geographically diversified. Business written ranges from relatively low risk products, such as protection life products, to high risk products, such as catastrophe exposed reinsurance and worker's compensation. Swiss Re's profile is enhanced by its offering in direct non-life corporate insurance through Corporate Solutions and by its capabilities within direct life insurance, led by closed-book specialist ReAssure (formerly Admin Re®). The quality of the management team, as well as the group's pricing sophistication, is considered to be excellent.

## Financial Statements:

### Balance Sheet:

### Balance Sheet:

Assets	12/31/2017 CHF(000)	12/31/2017 % of total	12/31/2017 USD(000)
Cash & deposits with credit institutions	2,238,000	2.0	2,292,921
Bonds & other fixed interest securities	17,345,000	15.3	17,770,646
Shares & other variable interest instruments	906,000	0.8	928,233
Liquid assets	20,489,000	18.1	20,991,800
Mortgages & loans	877,000	0.8	898,522
Inter-company investments	13,175,000	11.7	13,498,315
Other investments	13,550,000	12.0	13,882,517
Total investments	48,091,000	42.5	49,271,153
Reinsurers' share of technical reserves - unearned premiums	1,863,000	1.6	1,908,718
Reinsurers' share of technical reserves - claims	5,925,000	5.2	6,070,400
Reinsurers' share of technical reserves - life	5,592,000	4.9	5,729,228
Total reinsurers share of technical reserves	13,380,000	11.8	13,708,345
Deposits with ceding companies	20,913,000	18.5	21,426,205
Insurance/reinsurance debtors	5,817,000	5.1	5,959,749
Inter-company debtors	14,844,000	13.1	15,208,272
Other debtors	137,000	0.1	140,362
Total debtors	20,798,000	18.4	21,308,383
Fixed assets	14,000	...	14,344
Prepayments & accrued income	3,478,000	3.1	3,563,350
Other assets	6,378,000	5.6	6,534,516
Total assets	113,052,000	100.0	115,826,296

## Balance Sheet: (Continued...)

### Balance Sheet: (Continued...)

Liabilities	12/31/2017 CHF(000)	12/31/2017 % of total	12/31/2017 USD(000)
Capital	34,000	...	34,834
Paid-up capital	34,000	...	34,834
Non-distributable reserves	7,428,000	6.6	7,610,283
Claims equalisation reserve	221,000	0.2	226,423
Other reserves	2,099,000	1.9	2,150,509
Retained earnings	51,000	...	52,252
Current year net income	1,209,000	1.1	1,238,669
Capital & surplus	11,042,000	9.8	11,312,971
Gross provision for unearned premiums	8,027,000	7.1	8,223,983
Gross provision for outstanding claims	46,678,000	41.3	47,823,478
Gross provision for long term business - life	15,872,000	14.0	16,261,499
Total gross technical reserves	70,577,000	62.4	72,308,960
Long term borrowings	8,887,000	7.9	9,105,087
External borrowings	8,887,000	7.9	9,105,087
Deposits received from reinsurers	8,050,000	7.1	8,247,547
Insurance/reinsurance creditors	1,043,000	0.9	1,068,595
Inter-company creditors	5,335,000	4.7	5,465,921
Total creditors	6,378,000	5.6	6,534,516
Accruals & deferred income	202,000	0.2	206,957
Other liabilities	7,916,000	7.0	8,110,259
Total liabilities & surplus	113,052,000	100.0	115,826,296

Source: Bestlink - Best's Statement File - Global

Local Currency: Swiss Franc

US \$ per Local Currency Unit 1.02454 = 1 Swiss Franc (CHF)

## Summary of Operations:

### Statement of Income (000)

#### Combined technical account:

	12/31/2017 CHF(000)	12/31/2017 USD(000)
Gross premiums written	22,529,000	23,081,862
Reinsurance ceded	3,822,000	3,915,792
Net premiums written	18,707,000	19,166,070
Increase/(decrease) in gross unearned premiums	918,000	940,528
Increase/(decrease) in reinsurers share unearned premiums	-368,000	-377,031
Net premiums earned	17,421,000	17,848,511
Other technical income	1,439,000	1,474,313
Total revenue	18,860,000	19,322,824
Net claims paid	12,736,000	13,048,541
Net increase/(decrease) in claims provision	5,177,000	5,304,044
Net claims incurred	17,913,000	18,352,585
Net increase/(decrease) in long term business provision	-3,492,000	-3,577,694
Management expenses	707,000	724,350
Acquisition expenses	4,333,000	4,439,332
Net operating expenses	5,040,000	5,163,682
Other technical expenses	878,000	899,546
Total underwriting expenses	20,339,000	20,838,119
Balance on combined technical account	-1,479,000	-1,515,295

Source: Bestlink - Best's Statement File - Global

Local Currency: Swiss Franc

US \$ per Local Currency Unit 1.02454 = 1 Swiss Franc (CHF)

#### Non-technical account:

	12/31/2017 CHF(000)	12/31/2017 USD(000)
Net investment income	2,310,000	2,366,687
Realised capital gains/(losses)	346,000	354,491
Unrealised capital gains/(losses)	273,000	279,699
Other income/(expense)	-1,146,000	-1,174,123
Profit/(loss) before tax	304,000	311,460
Taxation	192,000	196,712
Profit/(loss) after tax	112,000	114,748
Transfer to reserves	850,000	870,859
Increase/(decrease) in the equalisation provision	-1,323,000	-1,355,466
Exceptional income/(expense)	-226,000	-231,546
Retained Profit/(loss) for the financial year	359,000	367,810

---

**Summary of Operations: (Continued...)**

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**Statement of Income (000) (Continued...)****Non-technical account:**

	12/31/2017	12/31/2017
	CHF(000)	USD(000)
Retained Profit/(loss) brought forward	901,000	923,111
Retained Profit/(loss) carried forward	1,260,000	1,290,920

Source: Bestlink - Best's Statement File - Global

Local Currency: Swiss Franc

US \$ per Local Currency Unit 1.02454 = 1 Swiss Franc (CHF)



## Swiss Reinsurance Company Ltd

**Report Revision Date:**

August 28, 2018

**Company Attributes:**

<b>Industry:</b>	Insurance
<b>Business Type:</b>	Composite
<b>Entity Type:</b>	Operating Company
<b>Organization Type:</b>	Stock
<b>Business Status:</b>	In Business - Actively Underwriting
<b>Marketing Type:</b>	Not Available
<b>Financial Size:</b>	XV (\$2 Billion or greater)

**Company History:****Date Incorporated:** 1863**Date Commenced:** N/A**Domicile:** Switzerland

Information on the history of Swiss Re Group can be found on [swissre.com](http://swissre.com). Swiss Reinsurance Company Ltd was the Group's parent company from its foundation in 1863 until 2011 when Swiss Re Ltd was established as the Group's holding company.

**Company Management:**

Last significant update on 05/08/2018

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:** Jean-Jacques Henchoz (EMEA)**CEO:** Moses Ojeisekhoba**CEO:** Jayne Plunkett (Asia)**CEO:** J. Eric Smith (Americas)**CFO:** Gerhard Lohmann**Manager:** Russell Higginbotham (Head Life & Health Products)**Manager:** Jonathan Isherwood (Head Globals)**Manager:** Mike Mitchell (Head Property & Specialty Underwriting)**Manager:** Nicola Parton (Head Property & Casualty Business Management)

## **Company Management: (Continued...)**

---

### **Officers (Continued...)**

**Manager:** Jason Richards (Head Casualty Underwriting)

**Manager:** James Shepherd (Head Life & Health Business Management)

### **Directors**

Rajna Gibson Brandon  
Raymond K. F. Ch'ien  
Jacques de Vaucleroy  
Renato Fassbind (Vice Chairman)  
Mary Francis  
C. Robert Henrikson  
Hans Joerg Reinhardt  
Walter B. Kielholz (Chairman)  
Trevor Manuel  
Jay Stuart Ralph  
Philip K. Ryan  
Paul Tucker  
Susan L. Wagner

## **Regulatory:**

---

**Auditor:** PricewaterhouseCoopers Ltd

An independent audit of the company's affairs through December 31, 2017, was conducted by PricewaterhouseCoopers Ltd.

## **Additional Resources:**

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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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## Argo Re Ltd.

### Credit Report

**Report Release Date:**

October 17, 2018

**Rating Effective Date:**

October 17, 2018

**Disclosure Information:** View A.M. Best's [Rating Disclosure Form](#)

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**Ultimate Parent:** [058448 - Argo Group International Holdings, Ltd](#)

**A.M. Best Rating Unit:** [058448 - Argo Group International Holdings, Ltd](#)

### Best's Credit Ratings:

Rating Effective Date: October 17, 2018

<b>Best's Financial Strength Rating:</b>	A	<b>Outlook:</b>	Stable	<b>Action:</b>	Affirmed
<b>Best's Issuer Credit Rating:</b>	a	<b>Outlook:</b>	Stable	<b>Action:</b>	Affirmed

### Five Year Credit Rating History:

Date	Best's Financial Strength Ratings			Best's Issuer Credit Ratings		
	Rating	Outlook	Action	Rating	Outlook	Action
10/17/2018	A	Stable	Affirmed	a	Stable	Affirmed
09/20/2017	A	Stable	Affirmed	a	Stable	Affirmed
11/16/2016	A	Stable	Affirmed	a	Stable	Affirmed
10/22/2015	A	Stable	Affirmed	a	Stable	Affirmed
10/02/2014	A	Stable	Affirmed	a	Stable	Affirmed

### Rating Rationale:

For more detail regarding the Rating Rationale and Best's Credit Report for the Rating Unit, view [Argo Group International Holdings, Ltd \(AMB# 058448\)](#).

## Financial Data Notes:

**Time Period:** Annual - 2016

**Status:** N/A

## Key Financial Indicators:

### Key Financial Indicators (000)

	Year End				
	2016	2015	2014	2013	2012
Premiums Written					
Direct Premiums Written	92,438	84,113	84,831	76,408	71,688
Gross Premiums Written	836,745	804,707	786,751	826,599	731,757
Net Premiums Written	724,268	691,896	664,289	697,642	624,988
Net Income	158,204	182,171	128,189	124,167	-4,221
Total Assets	3,012,774	2,682,759	2,539,148	2,450,462	2,279,745
Total Equity	1,480,146	1,243,186	1,261,079	1,218,174	1,180,456

Source: Bestlink - Best's Statement File - Global  
Local Currency: US Dollar

### Key Financial Indicators - A.M. Best Ratios (%)

	Year End				
	2016	2015	2014	2013	2012
Net Premiums Written to Equity	48.9	55.7	52.7	57.3	52.9
Liquidity					
Liquid assets to total liabilities	56.0	49.0	44.5	43.6	46.7
Total investments to total liabilities	56.0	49.0	44.5	43.6	46.7

Source: Bestlink - Best's Statement File - Global

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

## Credit Analysis:

### Balance Sheet Strength

## Capitalization:

### Capital Generation Analysis (000)

	Year End				
	2016	2015	2014	2013	2012
Common shares, ending balance	1,120	1,120	1,120	1,120	1,120
Paid-in capital - ending balance	1,177,884	1,177,884	1,177,884	1,177,884	1,177,884
AOCI - ending balance	-168,778	-288,534	-129,470	-85,108	-83,159
Retained earnings, beginning balance	352,716	211,545	124,278	84,611	88,832
Retained earnings, net income	158,204	182,171	128,189	124,167	-4,221
Retained earnings, common dividends	41,000	41,000	40,922	84,500	...
Retained earnings, ending balance	469,920	352,716	211,545	124,278	84,611
Total shareholder equity	1,480,146	1,243,186	1,261,079	1,218,174	1,180,456

Source: Bestlink - Best's Statement File - Global  
Local Currency: US Dollar

## Operating Performance

### Financial Performance Summary (000)

	Year End				
	2016	2015	2014	2013	2012
Pre-Tax Income	158,204	182,171	128,189	124,187	-4,221
Net Income	158,204	182,171	128,189	124,167	-4,221

Source: Bestlink - Best's Statement File - Global  
Local Currency: US Dollar

### A.M. Best Ratios (%)

	Year End				
	2016	2015	2014	2013	2012
Overall Performance:					
Return on Assets	5.6	7.0	5.1	5.3	-0.2
Return on Equity	11.6	14.6	10.3	10.4	-0.4
Combined less Investment Ratio	79.1	72.8	82.6	87.3	94.3

Source: Bestlink - Best's Statement File - Global

## Business Profile

Additional credit report commentary for this section is pending and will be released in the near term.

**By-Line Business (000)**

	Year End				
	2016	2015	2014	2013	2012
GPW-Accident & health	27,998	31,358	31,221	37,450	25,967
GPW-Automobile	4,195	5,153	4,241	10,604	3,260
GPW-Aviation	4,545	10,813	9,498	9,835	10,103
GPW-Casualty	454,092	453,001	417,938	386,067	339,882
GPW-Catastrophe / earthquake	127,024	129,930	136,396	185,556	183,902
GPW-Credit	21,892	807	425	342	329
GPW-Liability	24,725	20,929	22,453	19,306	19,966
GPW-Marine	26,755	64,099	60,393	55,905	48,062
GPW-Other classes	2,511	3,307	3,352	4,831	3,106
GPW-Property	143,008	85,310	100,834	116,703	97,180
GPW-Total non-life	836,745	804,707	786,751	826,599	731,757
GPW-Total business	836,745	804,707	786,751	826,599	731,757

Source: Bestlink - Best's Statement File - Global  
Local Currency: US Dollar



## Financial Statements:

### Balance Sheet:

### Balance Sheet:

<b>Assets</b>	<b>12/31/2016 USD(000)</b>	<b>12/31/2016 % of total</b>	<b>12/31/2015 USD(000)</b>
Cash And Equivalents	129,181	4.3	60,773
Long Term Fixed Maturity Investments	551,947	18.3	517,326
Equity Investments	176,580	5.9	126,739
Invested Assets	728,527	24.2	644,065
Receivables	73,358	2.4	83,636
Reinsurance Recoverable	199,943	6.6	168,577
Deferred Policy Acquisition Cost	39,801	1.3	...
Equity In Unconsolidated Subsidiary	801,024	26.6	737,069
Other Assets	1,040,940	34.6	988,639
<b>Total Assets</b>	<b>3,012,774</b>	<b>100.0</b>	<b>2,682,759</b>
<b>Liabilities &amp; Surplus</b>	<b>12/31/2016 USD(000)</b>	<b>12/31/2016 % of total</b>	<b>12/31/2015 USD(000)</b>
Property / Casualty Reserves	1,193,566	39.6	1,106,224
Unearned Premium Reserves	227,629	7.6	231,106
Total Policy Reserves	1,421,195	47.2	1,337,330
Other Liabilities	111,433	3.7	102,243
Total Liabilities	1,532,628	50.9	1,439,573
Equity - Common Stock	1,120	...	1,120
Paid-In Capital	1,177,884	39.1	1,177,884
Accumulated Other Comprehensive Income	-168,778	-5.6	-288,534
Retained Earnings	469,920	15.6	352,716
Total Equity	1,480,146	49.1	1,243,186
Total Liabilities & Equity	3,012,774	100.0	2,682,759

Source: Bestlink - Best's Statement File - Global  
Local Currency: US Dollar

## Summary of Operations:

### Statement of Income (000)

#### Statement of Income

	12/31/2016 USD(000)	12/31/2015 USD(000)
Direct Premiums Written	92,438	84,113
Reins Assumed	744,307	720,594
Gross Premiums Written	836,745	804,707
Reins Ceded	112,477	112,811
Net Premiums Written	724,268	691,896
Change In Unearned Premiums	-6,421	10,740
Net Premiums Earned	730,689	681,156
Net Investment Income	67,771	85,831
Net Realized Gains/(Losses)	5,265	-3,464
Total Revenue	803,725	763,523
Benefits & Reserves	414,719	352,545
Operating Expenses	230,802	228,807
Total Benefits & Expenses	645,521	581,352
Earnings before interest & taxes (EBIT)	158,204	182,171
Pre-Tax Income/(Loss) From Continuing Operations	158,204	182,171
Net Income/(Loss) Before Minority Interest	158,204	182,171
Net Income/(Loss) From Continuing Operations	158,204	182,171
Net Income	158,204	182,171

Source: Bestlink - Best's Statement File - Global  
Local Currency: US Dollar

## Argo Re Ltd.

**Report Revision Date:**

October 17, 2018

**Company Attributes:**

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<b>Industry:</b>	Insurance
<b>Business Type:</b>	Property/Casualty
<b>Entity Type:</b>	Operating Company
<b>Organization Type:</b>	Stock
<b>Business Status:</b>	In Business - Actively Underwriting
<b>Marketing Type:</b>	Broker
<b>Financial Size:</b>	XIV (\$1.5 Billion to \$2 Billion)

**Company History:**

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**Date Incorporated:** N/A**Date Commenced:** N/A**Domicile:** Bermuda

Effective December 31, 2007, Argo Group amalgamated its two Bermuda reinsurers, Peleus Reinsurance Ltd. ("Peleus Re") and PXRE Reinsurance Ltd. (PXRE), with Peleus Re as the continuing company. Peleus Re, prior to the amalgamation, was a Class 3 general business insurer, and PXRE was a Class 4 general business insurer. As a result of the amalgamation, Peleus Re was granted a Class 4 license under the Insurance Act. Effective April 7, 2008, the name of Peleus Re was changed to Argo Re Ltd.

Capital stock consists of total authorized share capital of \$1,120,000 consisting of 112,000 common shares authorized and issued at \$10 per share. All of the common shares of Argo Re Ltd. are held by Argo Group International Holdings, Ltd., a publicly-traded Bermuda insurance holding company listed on the NASDAQ under the symbol AGII. The affairs of Argo Re are handled by the officers listed below.

**Company Management:**

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Last significant update on 10/04/2017

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

**Officers****Chief Executive:** Ryan Mather (Reinsurance)**President:** Nigel Mortimer (Excess Casualty, Emerging Markets)**President:** Matthew Wilken (Reinsurance)**Appointed Actuary:** Ronald Swanstrom**CFO:** Darren Argyle**Chief Risk Officer:** Alex Hindson**Vice President:** Rudy Bogaerts (Underwriting & Marketing)**Vice President:** Craig Roberts (Underwriting & Marketing)**Assistant Vice President:** Martin Russell (Principal Representative)

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## Company Management: (Continued...)

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### Directors

Darren Argyle  
Jose A. Hernandez  
Ryan Mather  
Nigel Mortimer  
Mark E. Watson III (Chairman)  
Matthew Wilken

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### Regulatory:

**Auditor:** Ernst & Young Ltd.

An independent audit of the company's affairs through December 31, 2016, was conducted by Ernst & Young Ltd.

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### Additional Resources:

[Related News](#)

[Rating Activity and Announcements](#)

[Company Overview](#)

[Archived Best's Credit Report](#)

[Corporate Changes & Retirements](#)

[BestAlert Service](#)

[Best's Credit Ratings Mobile Application](#)

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

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

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

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

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### **A.M. Best Affirms Credit Ratings of MS Amlin AG**

**LONDON, 10 May 2018**—A.M. Best has affirmed the Financial Strength Rating of A (Excellent) and the Long-Term Issuer Credit Rating of “a+” of **MS Amlin AG** (Switzerland). The outlook of these Credit Ratings (ratings) remains stable.

The ratings reflect the company’s balance sheet strength, which A.M. Best categorises as very strong, as well as its adequate operating performance, neutral business profile and appropriate enterprise risk management. An additional factor is the rating enhancement based on the support of its ultimate parent, **MS&AD Insurance Group Holdings, Inc.** (MS&AD).

Concurrently, A.M. Best has commented that the ratings of **Lloyd’s Syndicate 2001** (United Kingdom) remain unchanged. The syndicate is managed by MS Amlin Underwriting Limited and its ratings reflect the financial strength of the **Lloyd’s** market, which underpins the security of all syndicates.

MS Amlin AG is a wholly-owned subsidiary of **MS Amlin plc** (MS Amlin), the ultimate parent company of which is MS&AD. MS Amlin AG writes third-party reinsurance business through its operations in Bermuda and Zurich, and acts as an internal reinsurer for the MS Amlin group. MS&AD’s Bermuda reinsurance entity, MS Frontier Reinsurance Limited, was merged into MS Amlin AG effective 31 December 2016. MS Amlin AG’s ratings consider the company’s strategic importance to the MS&AD group as its principal international reinsurer.

—MORE—



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The company's balance sheet strength assessment is underpinned by the strongest level risk-adjusted capitalisation, based on Best's Capital Adequacy Ratio as at year-end 2017. A.M. Best expects risk-adjusted capitalisation to be maintained at the strongest level over the medium term.

MS Amlin AG's operating performance is subject to volatility due to its exposure to natural catastrophe events. In 2017, the company recorded a combined ratio of 130% (2016: 96%), driven by above average catastrophe losses, higher-than-expected level of attritional losses and adverse loss reserve development. Despite weak 2017 results, historical performance is viewed as adequate, demonstrated by a weighted average combined ratio of 95% and return on capital of 5.8% over the period 2013-2017. Following recent underperformance, the reinsurer has undertaken a number of remedial actions to improve its technical profitability and to strengthen its underwriting and reserving practices. A.M. Best expects core underwriting performance to improve as a result of these actions over the medium term.

**This press release relates to Credit Ratings that have been published on A.M. Best's website. For all rating information relating to the release and pertinent disclosures, including details of the office responsible for issuing each of the individual ratings referenced in this release, please see A.M. Best's [Recent Rating Activity](#) web page. For additional information regarding the use and limitations of Credit Rating opinions, please view [Understanding Best's Credit Ratings](#). For information on the proper media use of Best's Credit Ratings and A.M. Best press releases, please view [Guide for Media - Proper Use of Best's Credit Ratings and A.M. Best Rating Action Press Releases](#).**

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# MEMORANDUM

DATE: October 29, 2018  
TO: CLLAS Audit Committee  
FROM: Patrick Mahoney  
COPY:  
RE: CLLAS Reinsurance Risk Management Policy

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## Background

Starting about 10 years ago, the CLLAS Board requested an annual “Report on Reinsurance Security” to be reviewed by the Audit Committee at its Fall planning meeting, with feedback from the review to be incorporated into the planning for the next reinsurance renewal. The Board formalized its approach in this area by adopting the attached Reinsurance Risk Management Policy in June 2016. The Board passed the following motion at its February 2018 meeting:

*It was moved by Carol Lyons and seconded by Ken Crofoot that the Reinsurance Risk Management Policy be referred to the Audit Committee for review with recommendations, if any, reported to the Board for the December 2018 meeting.*

We have reviewed both the Report and the Policy itself. This memo summarizes our feedback on recommended modifications to both.

## The Report on Reinsurance Security

We will review the 2018 Report at the November 7, 2018 Audit Committee meeting, so I will not summarize the form and content of the Report in this memo. We have discussed the Report internally, and we believe that the current “Level I/Level II” approach would benefit from refinement. Level I review applies to all reinsurers and includes the monitoring of AM Best/S&P ratings, claims payment difficulties and “concentration risk” CLLAS’ exposure to each reinsurer. If a reinsurer exceeds certain thresholds, then a Level II review, which includes monitoring stock performance, financial statement review, etc. is undertaken.

After ten years, we question the utility of the Level II review in cases where CLLAS’ claim liability exposure, while perhaps significant to CLLAS, is not significant to the reinsurer. For example, Swiss Re triggers Level II reporting because its percentage of a full limits loss exceeds 10% of the total limits provided by CLLAS. (In 2017/18, Swiss Re assumed \$34 million, or 23% of CLLAS’ \$145.5 million limits, all in the Umbrella or upper excess layers). However, AM Best puts Swiss Re in its highest Financial Size Category, XV, which means that Swiss Re has policyholder surplus in excess of \$2 billion.



While CLLAS should continue to monitor the concentration risk, ratings, etc. of Swiss Re, it is not clear to us that reviewing the reinsurer's stock performance and financial statements adds any value to the process. If the Audit Committee agrees with this conclusion, we will change the format of the Report going forward. (Note that the Reinsurance Risk Management Policy addresses the content of the Report in general terms, at Sections 3.3 and 4.1, and does not need to be amended to reflect the change.)

### Reinsurance Risk Management Policy

We have reviewed the attached Policy and believe, with one exception, that it remains appropriate. Section 3.8 of the Policy is reproduced below, with recommended changes.

3.8 *In the event that a full reinsurance contract cannot be executed prior to the effective date, the reinsurance coverage will be set out in a summary document (e.g. cover note, binding letter of intent or confirmation email). ~~The summary document will be signed prior to the effective date and be contractually binding.~~ The summary document will set out the following, at a minimum:*

- *The premium paid by CLLAS;*
- *The percentage of the risk being assumed by each reinsurer;*
- *The risks and limits reinsured;*
- *The effective and termination dates of the coverage;*
- ~~*Any applicable exclusions to the terms of coverage;*~~
- ~~*Any standard clauses that are to be relied on in the administration of the contract;*~~ and
- *Any material issues most likely to arise.*

*Upon finalization, the reinsurance contract will replace the summary document. The reinsurance contract will be signed by the authorized signing officers of CLLAS and the reinsurers as soon as practicable and within 90 days of execution.*

The first change is to ensure that the Policy conforms to current business practices, and the second change is suggested due to the vagueness of the reference to standard clauses. Again, if there is agreement with these changes, the revised Policy can be presented for review and approval by the Board at the December 2018 meeting.

I look forward to discussing this matter at the up-coming Audit Committee meeting.

Sincerely,

Patrick Mahoney  
General Manager





## CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

### Reinsurance Policy

Last Updated  
June 22, 2016



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## REINSURANCE POLICY

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Effective date: June 22, 2016

### 1. Purpose and Scope

- 1.1. The purpose of this policy is to provide guidance to the Advisory Board, Audit Committee, Principal Attorney, General Manager, and Broker on the implementation and monitoring of reinsurance arrangements for CLLAS. This policy complies with the Insurance Act of Alberta and OSFI Guideline B-3, *Sound Reinsurance Practices and Procedures*.
- 1.2. This policy outlines guiding principles with regards to the following:
  - Objectives in seeking reinsurance coverage;
  - Policies and procedures used to manage reinsurance risk;
  - Monitoring and oversight of reinsurance risk; and
  - Roles and responsibilities in managing reinsurance risk.
- 1.3. This policy applies to all existing and potential reinsurance transactions.

### 2. Objectives

CLLAS' objectives in purchasing reinsurance are the following:

- 2.1. Capacity – The purchase of reinsurance gives CLLAS flexibility to offer high coverage limits to its Subscribers while ceding insurance layers beyond its risk appetite.
- 2.2. Cost effectiveness – CLLAS has the flexibility to use its reciprocal structure to purchase more reinsurance and reduce its self-insured retention, or conversely retain more risk and reduce reinsurance, in order to optimize short and long term costs.
- 2.3. Surplus preservation – The purchase of reinsurance reduces the volatility in CLLAS' earnings and surplus position as it provides protection against large losses in exchange for a fixed premium at the inception of the policy year.
- 2.4. Surplus relief – The level of surplus required by regulatory authorities varies directly with the amount of net, i.e. retained, policy liabilities. The purchase of reinsurance allows CLLAS to operate with less surplus due to the lower amount of net policy liabilities.



### 3. Policies and Procedures to Manage Reinsurance Risk – New Transactions

- 3.1. The reinsurance structure will be reviewed and approved by the Advisory Board annually prior to the inception of the policy year with consideration to CLLAS' risk appetite, surplus position, exposure to large losses, short and long term strategic goals as well as then-prevailing reinsurance market conditions.
- 3.2. CLLAS will purchase reinsurance from either:
- Insurance companies duly licensed to operate in Canada; or
  - Insurance companies not licensed to operate in Canada, provided that CLLAS implements such security arrangements as:
    - it deems appropriate to protect its financial interests; and
    - are in a form acceptable to the regulator (e.g. a Reinsurance Security Agreement) to the extent it wishes to obtain a surplus/asset credit for such reinsurance.
- 3.3. The selection of reinsurers will be subject to due diligence, which will be commensurate with CLLAS' exposure to a reinsurer, and may include a review of the following:
- Cost of coverage;
  - Availability of coverage;
  - Financial strength, credit rating and outlook as determined by A.M. Best, Standard and Poor's or other similar credit rating agency;
  - Level of claims liability exposure ceded;
  - Claims payment record;
  - Funding sources;
  - Retrocession arrangements;
  - Reputation;
  - Management and governance practices;
  - Supervisory regime and legal/insolvency framework in the reinsurer's home jurisdiction;
  - Any other matters that may threaten the service or security of a reinsurer.
- 3.4. For reinsurers with significant reliance on retrocession, CLLAS' due diligence will extend to a review of the reinsurer's retrocession partners.
- 3.5. In order to minimize its reinsurance default risk, CLLAS' reinsurers should, at time of reinsurance placement, be rated A- or better by A.M. Best and/or S&P unless otherwise expressly authorized by the Advisory Board.
- 3.6. In order to minimize its reinsurance concentration risk, on an annual basis, CLLAS will assess its exposure to individual reinsurers as set out in Section 4.1 below. The results of this annual



assessment will be reviewed by the Audit Committee, which will report any recommendations to the Board.

- 3.7. All reinsurance contracts will be in written form, binding, signed by signing officers of CLLAS and the reinsurers and, subject to Section 3.8 below, will be executed prior to the effective date of reinsurance coverage. Reinsurance contracts will clearly and comprehensively document all material terms and conditions mutually agreed to by CLLAS and its reinsurers.
- 3.8. In the event that a full reinsurance contract cannot be executed prior to the effective date, the reinsurance coverage will be set out in a summary document (e.g. cover note, binding letter of intent). The summary document will be signed prior to the effective date and be contractually binding. The summary document will set out the following, at a minimum:
- The premium paid by CLLAS;
  - The percentage of the risk being assumed by each reinsurer;
  - The risks and limits reinsured;
  - The effective and termination dates of the coverage;
  - Any applicable exclusions to the terms of coverage;
  - Any standard clauses that are to be relied on in the administration of the contract; and
  - Any material issues most likely to arise.

Upon finalization, the reinsurance contract will replace the summary document. The reinsurance contract will be signed by the authorized signing officers of CLLAS and the reinsurers as soon as practicable and within 90 days of execution.

- 3.9. The reinsurance contracts will contain an insolvency clause clarifying that the reinsurers must continue to make full payments to CLLAS in the unlikely event of CLLAS' insolvency. Reinsurance contracts will not contain terms or conditions that may limit CLLAS' ability to enforce the contractual obligations of its reinsurers.
- 3.10. The reinsurance contracts will be subject to the laws of the province of CLLAS' head office.

#### **4. Policies and Procedures to Manage Reinsurance Risk – Existing Transactions**

- 4.1. The Broker will monitor the security of the reinsurance arrangements between CLLAS and its reinsurers and, subject to Section 3.4 above, the security of the retrocession arrangements between CLLAS' reinsurers and their retrocession partners. The monitoring will include the following, at a minimum:
- Financial health and credit rating measured against criteria recommended by the Broker and reviewed by the Audit Committee;



- Concentration by reinsurer measured against criteria recommended by the Broker and reviewed by the Audit Committee;
- Collectability issues;
- Licensing status in Canada (registered vs. unregistered).

The Broker will provide other relevant reinsurance updates as necessary. The Broker will advise CLLAS of any rating downgrade as soon as practicable.

- 4.2. The Broker will report to the Audit Committee on an annual basis. The Audit Committee will report any recommendations to the Board.
- 4.3. The General Manager will ensure the following:
  - The reinsurance risk management practices and procedures comply with this reinsurance policy;
  - The reinsurance arrangements effect a transfer of risk; and
  - The reinsurance arrangements are accounted for in the appropriate manner.
- 4.4. The General Manager, with the assistance of the Broker, will maintain a complete description of all reinsurance arrangements, including reinsurance contracts and records of due diligence performed on reinsurance counterparties.

## **5. Roles and Responsibilities**

- 5.1. The Board is responsible for the following:
  - Annually reviewing and approving the reinsurance strategy and structure;
  - Annually reviewing and approving policies and procedures to manage and control reinsurance risks; and
  - Annually reviewing and approving this reinsurance policy on the recommendation of the Audit Committee.
- 5.2. The Audit Committee is responsible for the following:
  - Annually reviewing the report on reinsurance security prepared by the Broker, including the criteria used measure financial health and concentration risk; and
  - Annually reviewing this reinsurance policy and recommending appropriate changes in reinsurance structure to the Advisory Board for the upcoming renewal.
- 5.3. The Principal Attorney is responsible for the following:
  - Annually participating in the negotiation of reinsurance rates and coverage; and
  - Annually signing and executing reinsurance agreements on behalf of the Subscribers.



5.4. The General Manager is responsible for the following:

- Annually participating in the negotiation of reinsurance rates and coverage;
- Annually reporting to the Board on the effectiveness and compliance with this reinsurance policy;
- Identifying, assessing and monitoring reinsurance risks;
- Recommending appropriate changes in reinsurance strategies, policies and procedures;
- Immediately informing the Advisory Board and regulator of any reinsurance issues that could materially impact CLLAS' financial condition;
- Developing appropriate action plans and ensuring timely communication with the Board when reinsurance risk limits are exceeded; and
- Maintaining all reinsurance contracts.

5.5. The Broker is responsible for the following:

- Conducting a reinsurance renewal strategy meeting with the General Manager to discuss objectives and recommend a cost-effective reinsurance structure in accordance with CLLAS' risk appetite;
- Adhering to the reinsurance policy guidelines regarding reinsurer selection;
- Negotiating on CLLAS' behalf with reinsurers and keeping CLLAS informed of significant developments in the negotiations;
- Ensuring that all reinsurance contracts meet the requirements laid out in this policy;
- Monitoring the security of reinsurance arrangements and reporting to the Audit Committee based on the requirements of this policy;
- Providing such additional information as may be necessary to assess the creditworthiness of reinsurers (e.g. credit agency reports, annual reports, stock price information); and
- Providing relevant timely market updates regarding the reinsurance marketplace in general, and any developments respecting CLLAS reinsurers specifically (e.g. mergers, acquisitions, regulatory proceedings, etc.).

## 6. Authority

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

The Principal Attorney has the authority to sign and execute reinsurance agreements.

The Broker has the authority to negotiate reinsurance arrangements on behalf of CLLAS.

## 7. History of Modifications

The reinsurance policy was first approved by CLLAS on June 22, 2016.

The reinsurance policy will be reviewed by CLLAS by June 23, 2017.