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Best's Credit Rating and Report Updates for CITADEL REINSURANCE COMPANY LIMITED

Best's Rating of A- (Excellent)
Financial Size Category of V ($10 Million to $25 Million)

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

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

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

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

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

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

Report Revision Date - 09/16/2014 *

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

Rating and Commentary [1]	Financial [2]	General Information [3]
Best's Credit Rating: 09/11/2014	Time Period: Annual - 2013	Corporate Structure: N/A
Rating Rationale: 09/11/2014	Last Updated: 06/18/2014	States Licensed: N/A
Report Commentary: 09/11/2014	Status: Quality Cross Checked	Officers and Directors: 09/16/2014

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

AMB Credit Report for
CITADEL REINSURANCE COMPANY LIMITED

Operating Company Non-Life

Ultimate Parent: Sirius International Limited

Continental Building, 25 Church Street, Hamilton HM CX, Bermuda
Web: www.citadelrisk.com

Tel: 441-292-1174 **Fax:** 441-295-1070
AMB#: 083735 **AIIN#:** AA-3190148
Ultimate Parent#: 033263

Report Revision Date: 09/16/2014

BEST'S CREDIT RATINGS

Best's Financial Strength Rating: A- **Outlook**: Stable
Best's Issuer Credit Rating: a- **Outlook**: Stable

Best's Financial Size Category: V

RECENT DEVELOPMENTS

In the final quarter of 2011 Citadel Reinsurance Company Limited acquired 100% of the share capital of American Millennium Insurance Company, which writes commercial automobile business principally in the state of New Jersey.

RATING RATIONALE

Rating Rationale: According to Best's Credit Rating Methodology (BCRM) and Best's criteria for ART companies, the ratings of Citadel Reinsurance Company Limited ("Citadel Re") (Hamilton, Bermuda) reflect its strong risk-adjusted capitalization, strong operating performance, excellent liquidity position, expanded risk management strategy and practices, conservative investment strategy, niche and specialized markets and its management team's extended experience in the industry. In addition to its traditional reinsurance book of business, Citadel Re's unique business plan includes exit strategies that provide both capital relief and liquidity easing for reinsurers and captive companies by transferring liabilities to Citadel Re allowing for the release of assets and collateral that have been required by a fronting reinsurer. Partially offsetting these positive rating factors is the implementation risk associated with the innovative business proposition, which in A.M. Best's view remains the main risk factor as the company seeks to achieve the targets set in its projections. The company's origins go back to 1978.

Best views the company's management and corporate strategy as a strength to the ratings, given the conservative risk limits on its underwriting, operational goals and transparency. Best views the company's risk management practices as strong given their impact on conservative risk culture, defined risk controls, and optimizing its capital and surplus. Other factors considered in the ratings process include, but are not limited to, the diversification in the line of business and geography, as well as in its investments.

Best expects future operating performance to be stable, but strong, and the stable earnings profile should further support the company to control its growth and business writing consistent with its capital and surplus position.

The company's ratings and outlooks are not expected to be upgraded within the next 12-24 months as the company's operating performance and capital position have already been considered in the ratings process. Best could lower the ratings and/or outlooks, if its Best's Capital Adequacy Ratio (BCAR) score declines, operating performance and risk profile deteriorate, insured losses deplete capital, or significant changes and turnover occur in the management team and/or risk management controls and tolerances.

FIVE YEAR RATING HISTORY

	BEST'S	
Date	FSR	ICR
09/11/14	A-	a-
09/04/13	A-	a-
09/13/12	A-	a-
08/05/11	A-	a-
06/22/11	NR	NR

BUSINESS PROFILE

Citadel Reinsurance Company Limited (the "Company"), which underwrites insurance and reinsurance, was incorporated under the laws of Bermuda on January 4, 1984 and is registered as a Class 3A insurer under The Insurance Act 1978, amendments thereto and related regulations ("The Act"). The Company is managed and has its principal place of business in Bermuda. The Company's ultimate parent company is Sirius International Limited, a company incorporated in Bermuda.

The Company has typically written LPTs and assumption and novation programs for companies wishing to enter runoff. As this market has become increasingly competitive, the Company has begun writing more prospective and fronting programs, principally in commercial auto and workers compensation in the United States. It has also written a program of Italian commercial trucking third party business (now in run-off), as well as small participations in London market programs, including terrorism, marine and Israeli property and travel.

RISK MANAGEMENT

The primary goals of the Company's risk management are to ensure that the outcomes of activities involving elements of risk are consistent with the Company's objectives and risk tolerance, while maintaining an appropriate risk/reward balance and protecting the Company's balance sheet from events that have the potential to materially impair its financial strength. Balancing risk and reward is achieved through identifying risk appropriately, aligning risk tolerances with business strategy, diversifying risk, pricing appropriately for risk, mitigating risk through preventive controls and transferring risk to third parties. The Company is exposed to risk of potential loss arising from its insurance and reinsurance operations and also its investment activities. These risks primarily relate to underwriting risk, credit risk, liquidity risk and various market risks, including interest rate risk, equity market fluctuation risk and foreign currency risk.

Underwriting risk is the risk that the total cost of claims, claims adjustment expenses and premium acquisition expenses will exceed premiums received and can arise as a result of numerous factors including pricing risk, reserving risk and catastrophe risk. Pricing risk arises because actual claims experience may differ adversely from the assumptions included in pricing calculations. The market cycle is affected by the frequency and severity of losses, levels of capacity and demand, general economic conditions and competition on rates and terms of coverage. The Company focuses on profitable underwriting using statistical and historic analysis as well as actuarial expertise. Reserving risk arises because actual claims experience may differ adversely from the assumptions included in setting reserves, in large part due to the length of time between the occurrences of a loss, the reporting of the loss to the insurer and the ultimate resolution of the claim. Claims provisions are expectations of the ultimate cost of resolution and administration of claims based on an assessment of facts and circumstances then known, a review of historical settlement patterns, estimates of trends in claims severity and frequency, legal theories of liability and other factors. Variables in the reserve estimation process can be affected by both internal and external events, such as changes in claims handling procedures, economic inflation, legal trends, legislative changes, inclusion of exposures not contemplated at the time of policy inception and significant changes in severity or frequency of claims relative to historical trends. Due to the amount of time between the occurrence of a loss, the actual reporting of the loss and the ultimate payment, provisions may ultimately develop differently from the actuarial assumptions made when initially estimating the provision for claims. The Company's provision for claims is reviewed by an externally appointed actuary. The directors of the Company believe that the nature and amount of current risk transferring business being underwritten, using a combination of low per occurrence and aggregate limits, results in no significant exposure to catastrophic risk.

Investment Risk Management: The Company's objectives in managing investments and capital are firstly to protect its policyholders and then to maximize return to shareholders. Effective capital management includes measures designed to maintain capital above levels set by the Bermuda Monetary Authority, and above internally determined and calculated risk management levels. The Company expects to continue to receive investment income on its holdings of cash.

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and thereby causes financial loss to another party. The Company's exposure to credit risk is currently confined primarily to the credit risk on investments and reinsurance recoverable. The Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet cash flow commitments associated with financial instruments. The purpose of liquidity management is to ensure that there will be sufficient cash to meet all financial commitments and obligations as they become due. To manage cash flow requirements, the Company maintains a portion of invested assets in liquid securities. The company believes that its cash position provides adequate liquidity to meet all of the Company's obligations at December 31, 2013.

OPERATING PERFORMANCE

Operating Results: A.M. Best expects the Company to continue to be profitable as the consolidated entities continue to be reliant on fees generated by service companies and premiums by risk-bearing entities. The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The Company owns the following subsidiaries: American Millennium Insurance Company, Citadel International Reinsurance Company Limited ("CIRCL"), Citadel Risk Services UK Limited, Citadel Group Representatives, Inc, Citadel Risk Management, Inc., ("CRMI") and Green Park (US) Incorporated. CIRCL is a segregated account company, incorporated in Bermuda. There are five segregated cells within CIRCL, one of which has been consolidated into the Company's financial statements on the basis that the Company owns 65% of the preferred shares of the cell. The remaining 35% of the cell's income is recognized as a minority interest. To the extent the cell has a deficiency in excess of its share capital the full amount of the deficiency is consolidated into the Company's financial statements. To the extent that the cell's retained earnings exceed its share capital the non-controlling 35% interest is accrued on the balance sheet. The Company acquired 100% of the preferred shares of two further cells in CIRCL during 2012 and 2013, and the operations of the cell have been consolidated into the Company's financial statements.

On January 1, 2009, CRMI purchased from Arthur J. Gallagher the entire share capital of Gallagher Risk Services, a company incorporated in Delaware, U.S.A., for a nominal amount of $1. Under the terms of the agreement, Gallagher Risk Services was renamed Citadel Risk Services, Inc. ("CRS"). The operations of CRS have been consolidated in the Company's financial statements.

During 2010, the Company and CRS jointly acquired 64.44% of Great Falls Holding Company ("GFH"), a company incorporated in Delaware, U.S.A. The Company increased its holding in GFH to 70.73% in 2012. GFH has a wholly-owned subsidiary, Great Falls Insurance Company ("GFI"), which is engaged in the business of writing workers' compensation insurance in the state of Maine, U.S.A.. The operations of GFH and GFI have been consolidated in the Company's financial statements on the basis that the Company owns 70.73% of the issued capital. The remaining 29.27% is recognized as a non-controlling interest.

In the final quarter of 2011, the Company acquired 100% of the share capital of American Millennium Insurance Company ("AMIC"), which writes commercial automobile business, principally in the state of New Jersey.

Underwriting Results: During the past several years, due to low premium volumes, various acquisitions and general expenses, the Company's loss and LAE ratios and underwriting expenses have been high. A.M. Best anticipates that the Company is likely to achieve satisfactory combined ratios in coming years due to its focus on stabilization and consolidation of operations and performance, as well as adequate premium volumes to cover fixed overheads.

BALANCE SHEET STRENGTH

Capitalization: The Company maintains an excellent capital position as measured by Best's Capital Adequacy Ratio. Its solid capitalization is also reflected in its conservative underwriting leverage and loss reserve position. During the last 23 years, the Company has paid out dividends in the amount of $40 million. Current (2013) surplus is in excess of $24 million and is expected to grow slowly to approximately $26.6 million by year end 2016.

Underwriting Leverage: The Company has been focusing on new business; as a result, while the premium written has been relatively flat during the past several years, projections are pointing towards higher premiums. Focus is now shifting towards monitoring and maintaining current programs rather than premium growth. Leverage measures are expected to remain low due to the conservative growth potential associated with the Company's operations along with the strong capital position.

A.M. Best expects Citadel Re to continue to be profitable as the consolidated entities continue to be reliant on fees generated by service companies and premiums by risk-bearing entities. The consolidated financial statements are prepared in accordance with accounting principles generally accepted in Bermuda and Canada. The Company owns the following subsidiaries: American Millennium Insurance Company, Citadel International Reinsurance Company Limited ("CIRCL"), Citadel Risk Services UK Limited, Citadel Group Representatives, Inc, Citadel Risk Management, Inc., ("CRMI") and Green Park (US) Incorporated. CIRCL is a segregated account company, incorporated in Bermuda. There are five segregated cells within CIRCL, one of which has been consolidated into the Company's financial statements on the basis that the Company owns 65% of the preferred shares of the cell. The remaining 35% of the cell's income is recognized as a minority interest. To the extent the cell has a deficiency in excess of its share capital the full amount of the deficiency is consolidated into the Company's financial statements. To the extent that the cell's retained earnings exceed its share capital the non-controlling 35% interest is accrued on the balance sheet. This cell now has no remaining outstanding claims, although an estimate for IBNR remains. The Company acquired 100% of the preferred shares of a further cell in CIRCL during 2012 and the operations of the cell have been consolidated into the Company's financial statements.

Investments: The total carrying value of held-for-trading securities and held-to-maturity securities as at December 31, 2013 was $20.6 million and the Company did not impair its investment in the held-to-maturity portfolio in 2013. All of the Company's hedge fund investments were redeemed as of June 30, 2012. With regard to corporate bonds, the Company expects that economic risks are increasing and spreads widening. The Company will be looking to reduce its corporate bond exposure especially in the sectors where it has higher exposures. As to Treasuries, safety from default and liquidity remain the only reasons to own this asset class.

Summarized Accounts as of December 31, 2013

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

An independent audit of the company's affairs through December 31, 2013, was conducted by KPMG Audit Limited.

ASSETS

	12/31/2013 USD(000)	12/31/2013 % of total	12/31/2012 USD(000)
Cash and equivalents	29,715	23.7	21,523
Long term fixed maturity investments	15,763	12.6	13,050
Equity investments	6,544	5.2	6,635
Other investments	842	0.7	786
Invested assets	23,149	18.5	20,471
Receivables	10,141	8.1	8,308
Deferred policy acquisition cost	3,241	2.6	775
Goodwill & other intangibles	1,644	1.3	1,644
Other assets	220	0.2	216
Segregated account assets	57,253	45.7	55,145
Total assets	125,363	100.0	108,082

LIABILITIES & SURPLUS

	12/31/2013 USD(000)	12/31/2013 % of total	12/31/2012 USD(000)
Property / Casualty reserves	17,820	14.2	12,851
Unearned premium reserves	13,071	10.4	7,886
Total policy reserves	30,891	24.6	20,737
Other liabilities	12,097	9.7	9,314
Segregated account liabilities	58,144	46.4	55,046
Total liabilities	101,132	80.7	85,097
Equity - common stock	20,000	16.0	20,000
Retained earnings	4,983	4.0	3,599
Other equity	-752	-0.6	-614
Total equity	24,231	19.3	22,985
Total liabilities & equity	125,363	100.0	108,082

STATEMENT OF INCOME

	12/31/2013 USD(000)	12/31/2012 USD(000)
Gross premiums written	36,353	21,760
Reins ceded	11,631	681
Net premiums written	24,722	21,079
Change in unearned premiums	5,153	4,910
Net premiums earned	19,569	16,169
Net investment income	569	891
Net realized gains/(losses)	-208	1,279
Other revenue	3,234	2,852
Non-operating revenue	…	88
Total revenue	23,164	21,279
Benefits & reserves	10,796	8,416
Operating expenses	10,572	10,411
Non-operating expenses	194	…
Total benefits & expenses	21,562	18,827
Earnings before interest & taxes (EBIT)	1,602	2,452
Pre-tax income/(loss) from continuing operations	1,602	2,452
Total taxes	356	89
Net income/(loss) before minority interest	1,246	2,363

Minority interest	138	245
Net income/(loss) from continuing operations	1,384	2,608
Net income/(loss)	1,384	2,608

STATEMENT OF CHANGES IN EQUITY

	12/31/2013 USD(000)	12/31/2012 USD(000)
Common shares, beginning balance	20,000	20,000
Common shares, ending balance	20,000	20,000
Other equity, beg. bal.	-614	-368
Other equity, misc.	-138	-246
Other equity, end. bal.	-752	-614
Retained earnings, beginning balance	3,599	991
Retained earnings, net income	1,384	2,608
Retained earnings, ending balance	4,983	3,599
Total shareholder equity	24,231	22,985

STATEMENT OF CASH FLOWS

	12/31/2013 USD(000)	12/31/2012 USD(000)
Net cash provided/(used) in operating activities	11,537	1,142
Net cash provided/(used) in investment activities	-2,995	8,125
Total increase (decrease) in cash	8,542	9,267
Cash, beginning balance	21,090	11,823
Cash, ending balance	29,632	21,090

HISTORY

The Citadel Group was established in 1978 as a joint venture between HSBC and Sir Arthur Weller. In 1984, the Citadel Group established Citadel Reinsurance Company Limited in Bermuda, to take advantage of a more stable political and administrative climate. By 1990, Citadel Re had become the primary insurance and reinsurance vehicle for the Group, and Citadel Hong Kong was subsequently liquidated.

Although the Citadel Group was one of the bank's most successful insurance investments, in accordance with HSBC's general policy of retaining only controlling stakes, in 1992 HSBC sold its minority shareholding in the Citadel Group to the majority shareholder. In 1995, the Citadel Group acquired a Lloyd's corporate capital vehicle, Citadel Underwriting Limited. In 2005, Citadel Risk Management, Inc., was incorporated as a wholly owned subsidiary of Citadel Re. CRMI specializes in accounting and reconciliations, audits and inspections, run-off management, commutations, and premium and receivables collections.

In 2007, Citadel International Reinsurance Company Limited was established in Bermuda as a segregated accounts company wholly owned by Citadel Re. It offers captive managers and insurance companies the facility to set up a reinsurance cell within Bermuda's sophisticated market. On January 1, 2009, CRMI purchased the share capital of Gallagher Risk Services, a reinsurance intermediary in run-off from Arthur J. Gallagher for a nominal amount. This company has been consolidated in Citadel Re's financial statements since its acquisition. Gallagher Risk Services has been renamed Citadel Risk Services ("CRS"). It is incorporated in the state of Delaware.

During 2010, the Company and CRS jointly acquired 64.44% of Great Falls Holding Company ("GFH"), a company incorporated in Delaware, U.S.A.. The Company increased its holding in GFH to 70.73% in 2012. GFH has a wholly-owned subsidiary, Great Falls Insurance Company ("GFI"), which is engaged in the business of writing workers' compensation insurance in the state of Maine, U.S.A.. The operations of GFH and GFI have been consolidated in the Company's financial statements on the basis that the Company owns 70.73% of the issued capital. The remaining 29.27% is recognized as a non-controlling interest.

In the final quarter of 2011, the Company acquired 100% of the share capital of American Millennium Insurance Company ("AMIC"), which writes commercial automobile business, principally in the state of New Jersey.

MANAGEMENT

Tony Weller is the Chairman of the Citadel Group.

Michael Frith replaced Gemma Carreiro as a director of Citadel in April 2014.. Mr Frith is a director in the Corporate Department of Conyers Dill & Pearman in Bermuda, specializing in general corporate and commercial matters with a particular emphasis on insurance and reinsurance incorporations (including captives), segregated account structures and IPO and public equity raisings.

Thomas McMahon is president of Cedar Management Limited, which acts as Citadel Re's principal representative and general manager. Michael Larkin is vice president of Cedar Management Limited.

Tony Weller began his professional career with Coopers & Lybrand (now PricewaterhouseCoopers) in 1988, based in Sydney and Perth. He completed his professional year in 1990, qualifying as a chartered accountant with the Institute of Chartered Accountants in Australia. During this time he specialized in insurance audit practice, and his career has since been focused on the insurance and accounting industries.

Art P. Coleman is president of Citadel Risk Management, Inc., with a high profile in the US insurance industry and a particular specialization in run-off and commutation business.

OFFICERS

Chairman and President: Tony Weller
Secretary: Scott Davis
Vice President: Michael Frith

DIRECTORS

Michael Frith
Michael Larkin
Thomas McMahon
Tony Weller

REINSURANCE

Citadel Re cedes little of its risk as a result of the generally low limit business it writes. The exception to this is an aggregate stop loss program on its Italian commercial auto program (now in run off) and excess layers on its small property portfolio, which is now in run off. Great Falls Insurance Company has its excess of loss program insured with a number of Lloyd's syndicates.

BALANCE SHEET ITEMS

	USD (000) 2013	USD (000) 2012	USD (000) 2011	USD (000) 2010	USD (000) 2009
Invested assets	23,149	20,471	26,983	20,072	17,948
Total assets	125,363	108,082	96,719	83,871	85,279
Total liabilities	101,132	85,097	76,096	61,375	64,719
Total equity	24,231	22,985	20,623	22,496	20,560
Total capital	24,231	22,985	20,623	22,496	20,560

INCOME STATEMENT ITEMS

	USD (000) 2013	USD (000) 2012	USD (000) 2011	USD (000) 2010	USD (000) 2009
Gross premiums written	36,353	21,760	9,116	1,422	…
Net premiums written	24,722	21,079	7,583	1,422	…
Net investment income	569	891	-93	1,276	1,002
Net realized gains/(losses)	-208	1,279	-218	44	178
Net income/(loss)	1,384	2,608	-1,562	1,030	1,312

Citadel Re has posted net income in all years since its inception, with only two exceptions. Management's goal is to write to a combined ratio of less than 100%. The combined ratio of 109.2% continues to improve reflecting the positive impact of the Citadel Group's strategies on the AMIC results and GFI premium growth. Calendar year 2013 was characterized by a net income exceeding $1.3 million.

The Company has paid out dividends totaling $40.0 million during the past 20 years and has kept the surplus level at a relative stable level of $20 to $25 million.

The Company has generated relatively substantial net investment income from a balanced investment portfolio. The five-year average net investment income exceeds $725,000 annually.

LIQUIDITY RATIOS (%)

	2013	2012	2011	2010	2009
Total investments to total reserves	171.1	202.5	279.6	903.6	927.6

Liquid assets to total liabilities	121.0	137.1	142.6	226.9	202.6
Total investments to total liabilities	123.0	139.7	154.7	261.3	232.4
Bonds to total reserves	51.0	62.9	125.2	382.2	342.0

PROFITABILITY RATIOS (%)

	2013	2012	2011	2010	2009
Loss ratio	55.2	52.1	88.6	51.8	67.6
Expense ratio	54.0	64.4	99.3	288.5	210.1
Combined ratio	109.2	116.4	187.8	340.3	277.7
Investment income ratio	2.9	5.5	-1.5	84.2	49.1
Return on assets	1.2	2.6	-1.7	1.2	1.6
Return on revenues	7.1	16.1	-25.4	68.0	64.3
Return on equity	5.9	12.0	-7.3	4.8	6.3

LEVERAGE & DEBT RATIOS (%)

	2013	2012	2011	2010	2009
Net premiums written to equity	102.0	91.7	36.8	6.3	…
Cash and equivalents to total assets	23.7	19.9	12.8	14.7	17.2

AMB Credit Report BCR09162014