SOMERSET
REINSURANCE

Financial Condition Report

For the twelve-month (12) period ending

31 December 2018

Content

1. EXECUTIVE SUMMARY

This document is the Financial Condition Report of Somerset Reinsurance Ltd. (the “Company” or “Somerset Re”) for the year ending 31 December 2018. This report was produced in accordance with the requirements set out in the Insurance (Public Disclosure) Rules 2015 and in the Insurance (Group Supervision) Rules 2011 (collectively “the Rules”). Set out below is a summary of the key information provided in this report:

- **Business -** the Company was incorporated in Bermuda on 18th September 2014 and licensed as a Class E insurer by the Bermuda Monetary Authority (“BMA”) on 12th December 2014 to write Long-Term (life) Reinsurance. The Company is an Irish tax resident company and provides reinsurance and capital solutions to life insurers with a specific focus on in-force blocks of life, annuity and other non-property and casualty risks.
- **Performance –** the Company has achieved strong growth in reinsurance assumed in 2018, growing its total Long Term Insurance Reserves to $1,171K as of 31st December 2018. The Company also employs a differentiated investment strategy designed to limit exposure to interest rate risk and credit risk to generate low volatility risk-adjusted returns. The Company’s diversified multi-strategy investment delivered above 8% returns in 2018, with the fixed income portfolio also outperforming its selected benchmarks.
- **Governance structure –** The Board is committed to establishing and maintaining a sound corporate governance and risk management framework having regard to principles of corporate discipline, accountability, responsibility, compliance and oversight. Throughout the course of 2018 the Company has continued to enhance its governance and enterprise risk management frameworks to ensure these remain appropriate given the Company’s size and complexity.
- **Risk profile –** the Company is faced by a range of risks typical to life insurers/reinsurers, including strategic, insurance, market, credit and operational risk. To this end, the Board has formalized a risk appetite framework and risk reporting mechanisms to clearly articulate the Company’s desire or willingness to take, retain or avoid risk, using quantitative and qualitative factors which align to the strategic objectives set out in the business plan.
- **Solvency –** The Company assesses its regulatory capital in line with the BMA’s Economic Balance Sheet regime, hence, the results shown in this report are in line with that basis. The Company remains well capitalized.
- **Capital Management –** the Company’s Bermuda Solvency Capital Requirement (“BSCR”) ratio for the year ending 2018 is 1224% (1526% in 2017). The entirety of the Company’s capital base is classed as Tier 1 capital.
- **Significant events** – there are no significant events either in the reporting period, or that have occurred between the end of the reporting period and the date of signing the return.

2. BUSINESS PERFORMANCE

a. Name of Insurer

Somerset Reinsurance Ltd.

b. Supervisors

Insurance Supervisor	*Group Supervisor*
Bermuda Monetary Authority BMA House 43 Victoria Street, Hamilton Bermuda	Bermuda Monetary Authority BMA House 43 Victoria Street, Hamilton Bermuda

c. Approved Auditor

Statutory Reporting	GAAP Reporting
KPMG 4 Par-la-Ville Road Hamilton HM08 Bermuda	KPMG 4 Par-la-Ville Road Hamilton HM08 Bermuda

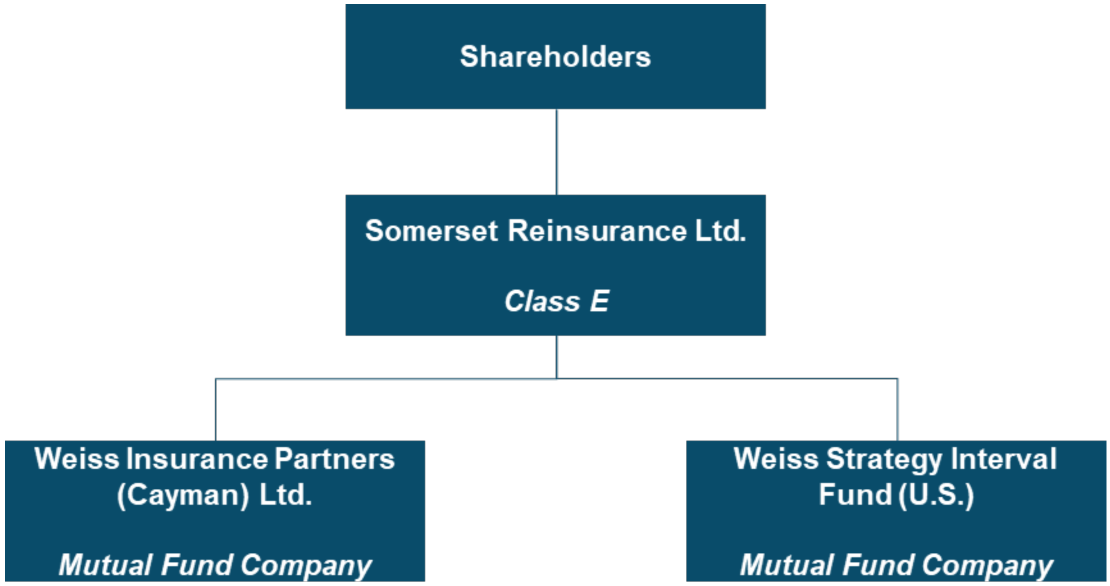
d. Ownership Details

The company is privately owned by institutional and individual high net worth investors.

e. Group Structure

The Company is a reinsurance company incorporated under the laws of Bermuda on 18 September 2014 and is licensed and regulated by the Bermuda Monetary Authority.

The following provides details of the Company in the Group Structure



The Company focuses on writing reinsurance business only, integrating actuarial and capital markets expertise to deliver reinsurance and capital management solutions for companies that look to improve capital efficiency. Somerset Re blends strong capital markets, investments and insurance skills with a disciplined risk management process.

The Company currently holds a Financial Strength Rating of B++ with a positive outlook with AM Best and BBB with Standard & Poor's ("S&P").

f. Insurance Business Gross Premiums by Business Segment and by Geographical Region

The Company primarily offers treaty reinsurance coverage in the United States for Long-Term (life) business. This includes both life and annuity business. Gross Premiums (in thousands) with respect to the Life business written were $174K in 2018 and $56K in 2017.

The majority of Somerset Re's existing business written consists of deferred annuity business accounting for over 95% of the Company's total insurance provisions which is accounted for under the deposit accounting rules. The Company assumed new annuity liabilities of $775M in 2018.

The remainder of the Company's insurance provisions relate to a Universal and Traditional Life policies.

g. Performance of Investments & Material Income & Expenses for the Reporting Period

Performance of Investments for the Reporting Period

i. Overview

The Company invests in a combination of high quality diversified fixed income securities (fixed income bonds, mortgage-backed securities and asset-backed securities) and diversified multi-strategy investment portfolios. Multi-strategy investments are held through the Company's mutual fund subsidiaries.

The Company's diversified multi-strategy investment is a low volatility market neutral strategy that is expected to be uncorrelated with the fixed income market. The investment thesis for the combined approach seeks to reduce overall systemic market risk.

ii. <u>Performance</u>

While the overall fixed income portfolio posted a negative total-return of approximately 4%, the fund continued to performed well in 2018 despite a negative performance experienced in the last quarter of the year. 2018 Somerset Re investment highlights are as follows:

($,000)	**YE2018**	**YE2017**
Fixed Income (total)	**161,749**	**106,881**
Non US Government and Supranationals	6,568	3,231
Corporate Bond Securities	102,731	53,433
Municipal Securities	8,556	5,090
US Agency Mortgage Backed Securities	16,136	21,069
Commercial Mortgage Backed Securities	15,023	6,623
Asset Backed Securities	12,735	17,435
Funds Held Assets	**974,602**	**259,413**
Multi-Strategy	**390,393**	**393,255**

Book yields/returns	2018 Return	2017 Return
Fixed Income	4.28%	3.73%
Funds Held Assets	4.90%	3.98%
Multi-Strategy	9.69%	8.55%

Material Income & Expenses for the Reporting Period

The Company's main revenue source is investment income on fixed income assets and returns on the diversified multi-strategy investment. The Company's major expenses arise from interest credited to policyholders on fixed annuity and universal life policies and home office expenses. As the reinsurance portfolio grows over time, these items will be supplemented by increasing premium revenues and cost of insurance charges and increasing benefit related expenses.

(Reported in thousand units)

<u>**Home Office Expense Type**</u>	<u>**2018**</u>	<u>**2017**</u>
Employee-related	12,863	15,084

Other	8,022	6,918
Total Home Office Expenses	**$20,885**	**$22,002**

h. Other Material Information

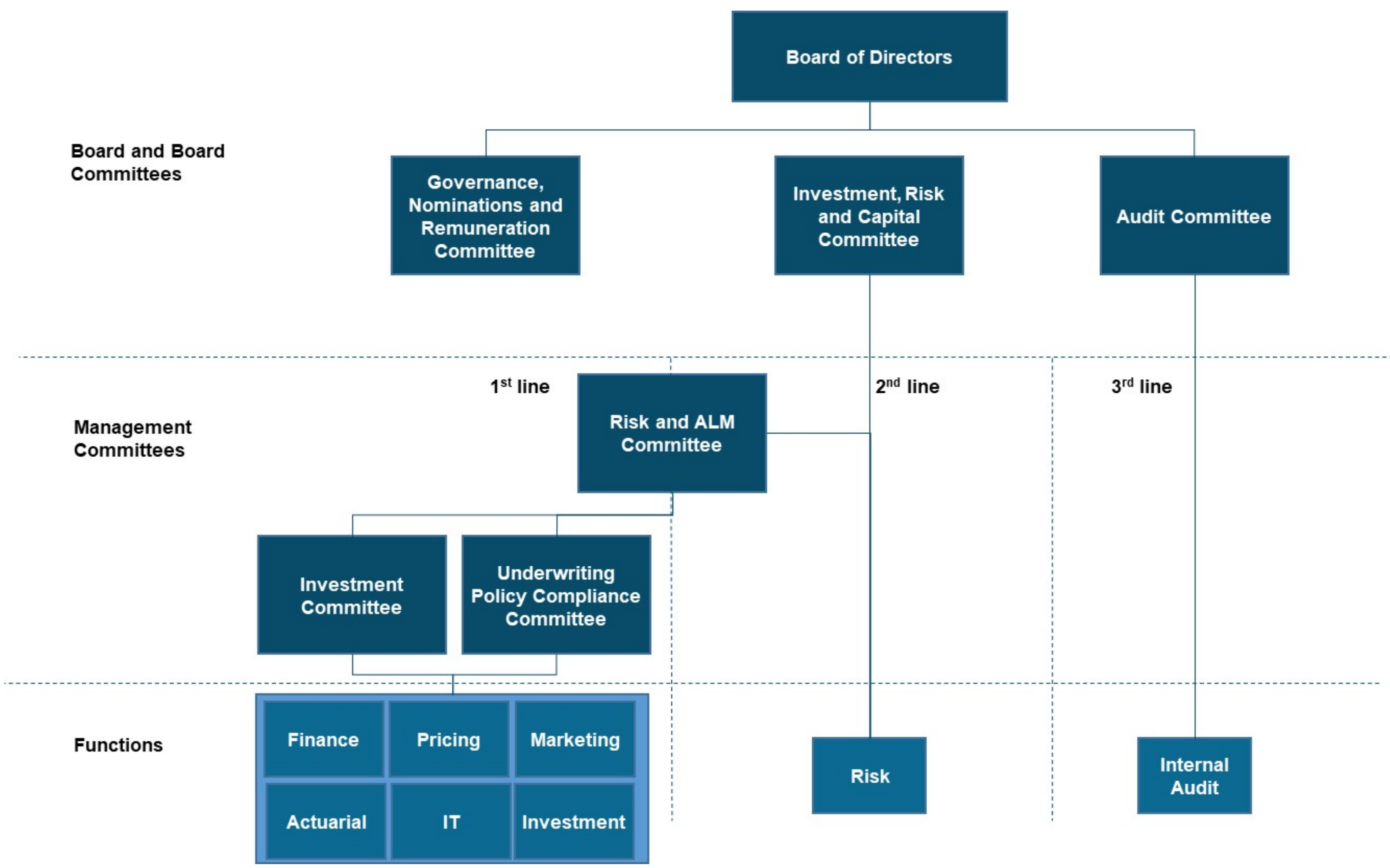
In February 2018, A.M. Best revised the outlooks to positive from stable and affirmed the Financial Strength Rating of B++ (Good) and the Long-Term Issuer Credit Rating of “bbb+” . The revised outlook reflect Somerset Re’s very strong level of risk-based capitalization measured in absolute terms and by Best’s Capital Adequacy Ratio (BCAR).

3. GOVERNANCE STRUCTURE

Roles, responsibilities and accountabilities for decision making are structured in line with the Three Lines of Defense principles, with supervision of these activities by the Board or its delegates or designees, thereby achieving effective segregation of duties. In particular:

- The first line of defense is responsible for the execution of the Board's strategy and for taking business and management decisions. This is primarily the responsibility of the Finance, Pricing and Underwriting, and Investment functions
- The second line of defense has responsibility for oversight and focuses on monitoring, challenging and providing insight to business functions using risk management tools and procedures. The Risk function and the Compliance function reside within the second line of defense and report into the Investments, Risk and Capital Committee of the Board and the Management Risk and ALM Committee ("RALMC").
- The third line of defense resides within the Internal Audit function, who report into the Audit Committee (AC) and have unfettered access to the Board of Directors.

Set out below is a visual representation of the Company's Three Lines of Defense framework described above.



The Board of Directors provides overall oversight and direction to the implementation of the Company's enterprise risk management framework. To assist in exercising its responsibilities, the Board has established an Investment, Risk and Capital Committee, an Audit Committee and a Governance, Nominations and Remuneration Committee. Each committee is comprised entirely of Non-Executive Directors and its chair is responsible for the effective operation of the committee and the fulfilment of its mandate as formally defined in their respective Committee Charters.

Management Committees instead, which include the RALM Committee, the Investment Committee and the Underwriting Policy Compliance Committee are the bodies through which the CEO works with his senior team to implement the Board's strategy. The roles and responsibilities of each Committee are described in their respective Charters, which are regularly reviewed to ensure they remain appropriate. In summary:

- **Investments, Risk and Capital Committee** - The primary purpose of the Investments, Risk and Capital Committee of the Board is to oversee the governance of significant risks, investment strategy security and performance, and capital adequacy throughout the Company and the establishment and ongoing monitoring of the Company's risk profile, risk capacity and risk appetite.
- **Audit Committee** - assists the Board in its oversight of the integrity of the Company's financial statements and financial reporting process, the Company's financial management process, compliance with legal and regulatory requirements, the system of internal controls, the audit process, the performance of the company's internal auditors and the performance, qualification and independence of the Company's independent auditors.
- **Governance, Nominations and Remuneration Committee** - assists the Board in its oversight of the Company's corporate governance processes, and in the process of ensuring the Company has suitable directors and executive management to oversee and implement the business strategy of the Company.
- **Risk and ALM Committee** – this is the executive committee responsible for reviewing the Company's risk assessment results, evaluate compliance with risk limits and preferences, and regularly discuss improvements to the Company's enterprise risk management framework.
- **Investment Committee** – recently established in Q3 2018, the committee is responsible to evaluate the current and prospective investment risk and return profiles, including portfolio liquidity and capital at risk exposures.
- **Underwriting Policy Compliance Committee** - responsible to provide an independent review of compliance with the Company's underwriting guidelines and procedures relating to new reinsurance agreements.

a. Board and Senior Executive

i. Board and Senior Executive Structure, role, responsibilities.

The Board of Director's ("the Board") role is to exercise oversight in relation to the organization. This includes establishing the Company's risk appetite and decision-making relating to certain matters which are considered of strategic importance. All other matters, which include executive decisions and risk oversight, are delegated to the Senior Management of the Company led by the Chief Executive Officer.

As of year-end 2018, the Board consists of eight (8) non-executive directors and the CEO as an executive director.

The Company's Senior Management includes the Chief Executive Officer, the Chief Investment

Officer, the Chief Marketing Officer, the Chief Financial Officer, the Chief Risk Officer (position currently held by the Chief Financial Officer) and the Chief Underwriter and Chief Actuary.

ii. **Remuneration Policy**

The Company's management remuneration policy provides for a fixed base salary along with an annual discretionary and performance-based bonus which varies in accordance with both the Company's and individual's performance. Additionally, Senior Management have received stock options to align executive remuneration with the interests of its common shareholders.

Board members, excluding the executive director, receive fees as remuneration for their work as directors and do not receive bonuses or stock options.

The CEO, working with external independent consultants, conducts periodic industry reviews of compensation policy and levels and reviews results with the Governance, Nomination and Remuneration Committee of the Board to ensure remuneration is appropriate and in line with the desired risk profile and the performance of the Company.

iii. **Pension or Early Retirement Schemes for Members, Board and Senior Employees**

The Company provides all employees with pension benefits. Bermuda employees, excluding U.S taxpayers, participate in a defined contribution plan. U.S taxpayers participate in a 401(k) plan. The Company does not have any early retirement schemes. There is no pension plan for Board members.

iv. **Shareholder Controllers, Persons who Exercise Significant Influence, the Board or Senior Executive Material Transactions**

George Weiss is a significant shareholder and a non-executive director of the Company. He is also the managing member of Weiss Multi-Strategy Advisors (or "WMSA"), the investment management company that manages the Company's diversified multi-strategy investment portfolios. Through its mutual fund affiliates, the Company pays management fees and performance fees to WMSA.

b. Fitness and Proprietary Requirements

i. **Fit and Proper Process in assessing the Board and Senior Executive**

Six (6) of the Company's board members are elected by the shareholders and stand for re-election at each annual general meeting of the Company. Two (2) of the Company's board members are "designated" by major shareholders per the terms of the shareholders' agreement.

Among its responsibilities, the Governance, Nominations and Remuneration Committee is responsible to identify and recommend Director nominees and to ensure the Board and the sub-committees are fit and proper to perform their duties.

Any new Director or member of Senior Management must be appointed only with approval by the Board, in line with the provisions in the Company's Bye-Laws.

Function and business unit heads are authorized to hire middle management and other staff to ensure there is sufficient expertise to achieve their respective objectives and responsibilities.

ii. **Board and Senior Executives Professional Qualifications, Skills and Expertise**

Below are details of the Board and Senior Executives qualifications, skills and expertise:

Board

Richard Booth – Chairman of the Board and Non-Executive Director

Mr. Booth is a veteran of the life and property-casualty insurance industry with more than 45 years of diversified experience. He is currently an advisor to Weiss Multi-Strategy Advisers LLC as well as a number of other financial services organizations. He is a board member of The Hanover Insurance Company and Adamas Pharmaceuticals as well as several private company boards and venture firms. He has previously served on the boards of SunLife, The Travelers Insurance Company, the HSBC Group and Phoenix Mutual. Previous executive leadership positions include president and chief operating officer of The Travelers Insurance Company, Chairman and CEO of the Hartford Steam Boiler Insurance Company, Vice Chairman of AIG and Vice Chairman of Guy Carpenter LLC.

Mr. Booth is a member of the American Institute of Certified Public Accountants, the Society of Financial Service Professionals and the CFA Institute. Mr. Booth holds the CPA, CLU and ChFC designations. He is a graduate of the University of Hartford where he earned both B.S and M.S. degrees in accounting.

Charles Collis – Non-Executive Director

Mr. Collis is a director of Conyers Dill & Pearman Limited. He joined the firm in 1990. He practices in the firm's Insurance Group, specializing in re/insurance, advising on corporate and regulatory matters.

Mr. Collis has advised on the establishment of numerous life and general business re/insurance companies, including advising on their private placement, IPO and M&A transactions. The convergence of the insurance markets and capital markets has led Mr. Collis to also specialize in insurance linked securities.

Mr. Collis graduated from Trinity College, University of Toronto in 1984 with a BA (Hons) degree and received an LLB from University College, London in 1988. He was called to the Bar of England & Wales in 1989 (he does not currently practice in the UK), and was admitted to the Bermuda Bar in 1991.

Patrick Kelleher – Executive Director and CEO

Mr. Kelleher is an accomplished business leader with experience leading insurance and reinsurance businesses on an international scale, engineering changes and redesign to improve profitability and returns. He has strong financial management and risk management experience across a range of life and non-life insurance businesses.

In his most recent roles as President & CEO of US Life Insurance and President & CEO of Insurance and Wealth Management at Genworth, from 2011 to 2013, Mr. Kelleher had overall responsibility for repositioning of the US Life Companies, European Lifestyle Protection and Wealth Management businesses. Prior to that, as Senior Vice-President and Chief Financial Officer from 2007 through 2011, he had overall responsibility for financial management and financial reporting functions.

Prior to Genworth, Mr. Kelleher served as Executive Vice President and Chief Financial Officer at AEGON/Transamerica Reinsurance. Additionally, he led the annuity reinsurance business during the latter part of his tenure.

Mr. Kelleher previously held multiple positions at Manulife Financial, including Vice-President, Reinsurance and Vice-President and Chief Financial Officer for Global Reinsurance, and at Sun Life Assurance Company of Canada. He is a Fellow of the Society of Actuaries, a Fellow of the Canadian Institute of Actuaries, and a member of the Certified Professional Accountants Association of Canada (CPA.CGA.). Pat has a Bachelor's Degree from Franklin & Marshall College.

Tom Barry – Non-Executive Director and Audit Committee Chair

Tom is an actuary and former CEO of Canada Life in Ireland. He is now a non-executive director and has served on the boards of Life insurance, reinsurance and asset management companies. He has a deep understanding and knowledge of all aspects of life insurance, particularly risk management, product pricing and finance.

During his long career with Canada Life he also served at different times as CFO, chief actuary and as Chairman of their German subsidiary. He is currently Chair of Audit with Ireland's second largest insurer and Chair of Risk with the Irish subsidiary of a European insurer. Other roles during his career included Secretary of the Society of Actuaries in Ireland and President of the Irish Insurance Federation.

He studied Mathematics at University College Dublin and University of Texas at Austin. He also completed the General Manager Program at Harvard.

George Weiss – Non-Executive Director

Mr. Weiss is the Chief Executive Officer and Chairman of Weiss Multi-Strategy Advisers LLC, the Sponsor, which is registered as an investment adviser with the U.S. Securities and Exchange Commission and with the U.S. Commodity Futures Trading Commission and National Futures Association as a Commodity Pool Operator.

Mr. Weiss founded the predecessor to the Sponsor, George Weiss Associates, Inc., in 1978. Prior to establishing the Weiss entities, Mr. Weiss specialized in utility stocks and investing on behalf of institutional clients at Bache Halsey Stuart, Inc., in Hartford and briefly at Faulkner, Dawkins and Sullivan, Inc.

He is a graduate of The Wharton School of Finance at the University of Pennsylvania where he is a Trustee Emeritus. Mr. Weiss is the founder of Say Yes to Education, Inc., a charity dedicated to the educational advancement of inner-city students, a trustee of the Orphan Disease Pathway Project Foundation and a board member of the Woodrow Wilson Foundation.

Colin Savage – Non Executive Director

Mr. Savage is a Managing Director at Atlas, having joined in March 2015, and is based in New York. Previously, Mr. Savage worked in the financial institutions investment banking group at Citigroup Global Markets, Inc. from 2010 to 2015. Mr. Savage has had significant financial institutions transaction experience in North America, Europe and Asia. Prior to Citigroup, Mr. Savage worked in the financial institutions investment banking group at UBS AG in New York from 2007 to 2010 and in the mergers & acquisitions group of Rothschild from 2005 to 2007.

Mr. Savage is currently a member of the Board of Directors of Lykes Brothers, Inc.

Mr. Savage earned a Bachelor of Arts degree from Yale University, with a double major in History and Engineering, and an MBA from Columbia Business School, where he was selected for the value investing program and awarded Beta Gamma Sigma Honors. Mr. Savage is a CFA Charterholder.

Michael H. Winkler - Non-Executive Director

Michael Winkler started his professional career as an actuary in Winterthur Life and worked there in product development, ALM and other areas. After having worked in Swiss Re for four years, he re-joined Winterthur and became responsible for the technical part of the group's life units around the globe.

In 2007, Mr. Winkler joined Munich Re group and built up a life team in New Re in Zurich, focusing on financing transactions and Variable Annuity reinsurance. He built up New Re's reputation as a specialized life reinsurer and is a well-known speaker in conferences.

In 2014, Mr. Winkler established his own advisory firm RefinSol, providing specialized consulting for Financial Solutions.

Joan Collins - Non-Executive Director and Nomination and Remuneration Committee Chair

Ms. Collins is an independent non-executive Director and has extensive life reinsurance experience. She previously held the position of Chief Executive Officer and Executive Director at Achmea Reinsurance Ireland Limited 2011-2013 and prior to that was responsible for business development and underwriting.

She graduated with honours from the University of Limerick with a BA in Insurance and European Studies and has a MBA from Smurfit Business School, University College Dublin. She is an Associate of the Chartered Insurance Institute and holds a Diploma in Company Direction from the Institute of Directors.

Enda Murphy - Non-Executive Director and Investment, Risk and Capital Committee Chair

Enda Murphy is an Insurance Consultant and Non Executive Director. After 35 years in the Industry Enda retired from RGA as Executive Vice President in 2017 where he was Managing Director of its European operations, and COO of its international business. In that role Enda gained an understanding and familiarisation with most forms of Life, Annuity and Asset intensive structured reinsurance contracts on a global basis. As Executive Director of many of the groups global subsidiaries, Enda was approved by several international Regulators and gained a deep understandings of business development strategies. Audit, Risk, and Investment issues.

Prior to joining RGA, Enda was founding Managing Director of De Laga Landen Re (part of the Rabo Bank group) and Canada Life Reinsurance where he developed the business targeting European and North American markets using subsidiaries in Ireland, Bermuda and Barbados. Previously Enda was Financial Controller of Canada Life Ireland where he was a founding Director of Canada life Europe selling life insurance from Ireland into the German market.

By background and training, Enda is a Chartered Accountant and studied Business and Economics at Trinity College Dublin followed by internship at PWC. He is a former Director of DIMA (the Dublin Insurance Managers Association).

<u>Senior Executives</u>

Patrick Kelleher – Chief Executive Officer

See biography in Board section.

Josh Braverman – Chief Investment Officer

Josh was most recently Head of Legacy for AXA's US business, with overall responsibility for AXA US's Legacy life and annuity business lines as well as President and CEO of AXA Corporate Solutions Life Re. Prior to this, Josh was Chief Investment Officer and Treasurer as well as Head of Derivatives and Hedging for AXA US.

Prior to AXA Josh worked at AEGON where he was Global Head of Derivatives with responsibility for developing and managing derivative programs on behalf of AEGON's global businesses.

Before joining AEGON, Josh worked for the U.S. Treasury Department as a Sovereign Debt Advisor, advising foreign governments on overall debt management.

Josh began his career at Goldman Sachs as a fixed income trader and also worked for Deutsche Bank trading government and mortgage backed securities.

Josh holds a B.S. in Economics from The Wharton School at The University of Pennsylvania.

Brian G. Holland – Chief Marketing Officer

Mr. Holland has over 30 years of experience building and leading insurance organizations. Most recently, Mr. Holland was a founding member and served from 2011 to March, 2013 as Senior Vice President of the Life Solutions Group at Willis Re, responsible for building Willis Re's entry into life and annuity reinsurance and was responsible for all deal origination. From 2003 – 2011, Mr. Holland served as Principal at Mann Conroy Eisenberg & Associates, LLC.

From 2000 to 2003, Brian served as Executive Vice President and member of the Board of Directors at Annuity & Life Re America. He was responsible for developing the start-up US Life reinsurance operations for one of the pioneers in the offshore non-U.S. life reinsurance market. As Chief Marketing Officer, he secured 29 new reinsurance clients in the first 24 months of operation and the group grew to $115 billion of life insurance in force.

Prior to joining Annuity & Life Re, Mr. Holland was Vice President, Domestic and International Risk Management and Global Chief Marketing Officer at ING Re, as well as being responsible for developing ING Re's entry into the Bermuda and Japan markets.

Mr. Holland also held senior marketing and underwriting positions at Transamerica Re and General Re. He received his Bachelor of Science degree in Business Management /Marketing from Providence College, Providence, RI.

Steeve Jean – Chief Financial Officer and Acting Chief Risk Officer

Mr. Jean has over 25 years of experience in the insurance industry, working with international insurance groups and Big Four firms. As a Principal with at KPMG, Mr. Jean assisted companies with International Accounting Standards, reinsurance transactions, mergers and acquisitions, actuarial system implementations, stress testing and financial statement conversions.

Prior to KPMG, Mr. Jean was a Vice-President at Transamerica where his responsibilities included financial reporting, capital management, acquisitions and reinsurance with financial oversight over international operations.

At Old Mutual, Mr. Jean led a team responsible for both U.S. and Bermuda financial reporting.

Mr. Jean spent several years at Ernst & Young where he led the delivery of large advisory projects. Steeve began his career with MetLife's Canadian operations with a focus on financial management for both the group and individual life divisions.

Mr. Jean is a Fellow of the Society of Actuaries, a Fellow of the Canadian Institute of Actuaries and a Member of the American Academy of Actuaries. He obtained is Bachelor's degree in Applied Mathematics from the University of Sherbrooke.

Robert J. Reale – Chief Underwriter and Chief Actuary

Mr. Reale has over 35 years of insurance and reinsurance experience. Prior to joining the Company in September, 2013, Mr. Reale served in the Insurance Solutions Group at BNP Paribas for three years originating and structuring capital solutions for life insurers, including an innovative $2 billion contingent capital solution syndicated in 2011. Mr. Reale had a similar role at Deutsche Bank from 2007-2009. Prior to joining Deutsche Bank, Mr. Reale was the life insurance structured financing solutions practice leader at Towers Wyatt, consulting life insurers, reinsurers, and banks on numerous capital management and insurance-related activities.

Most of Mr. Reale's experience is in life reinsurance. Mr. Reale joined Annuity and Life Re in Bermuda as Chief Underwriter and Chief Operating Officer in 1998 and was instrumental in their successful $350 million public launch in April 1998, securing an A- rating from AM Best and S&P at inception. By 2001, Mr. Reale's Bermuda-based team had assumed over $100 billion of life insurance and $1.6 billion of annuity insurance from US and Canadian life insurers, with results prompting an upgrade to an A rating from S & P. Also in 2001, Mr. Reale created and completed the first multi-year financing facility to efficiently fund over $300 million of excess life reserves. Prior to that, Mr. Reale was at Swiss Re for eight years as head of actuarial marketing for US life operations and 10 years at a large life insurer pricing insurance products. Mr. Reale has also served on the Board of Directors for RGA-Swiss Financial, a joint-venture company organized to assume a significant amount of financial reinsurance.

Mr. Reale graduated from Fordham University in 1978 with a BA in Mathematics. He is a Fellow of the Society of Actuaries, a member of the American Academy of Actuaries, and an Approved Actuary for South Carolina.

c. Risk Management and Solvency Self-Assessment

i. <u>Risk Management Process & Procedures to Identify, Measure, Manage and Report on Risk Exposures</u>

The Risk Management Framework at the Company is grounded on four process steps:

- Risk identification;
- Risk measurement and management;
- Risk monitoring;
- Risk reporting.

- **Risk identification** – Everyone in the Company has a responsibility to identify risks in their area, engage to ensure they are appropriately assessed and controls are put in place to manage the risks within our risk appetite. The risks identified are documented, and a log is maintained known as the Risk Register.
- **Risk measurement and management** – the Company adopts quantitative methods to measure its exposure to market, insurance, credit, liquidity and pricing risk with use of stress and scenario testing to determine the potential impact that an increase in risk exposure may have on its capital, earnings and liquidity position. However, for those risks where additional capital or liquidity is not considered effective mitigation, the Company manages its exposure through the implementation of risk management processes and procedures to ensure appropriate controls and tailored management activities
- **Risk monitoring** – Existing risks that have progressed beyond the approved risk appetite level are managed in line with their risk assessment and escalated to the appropriate governance forum. This ensures visibility on key mitigating actions being implemented to bring the risk exposure within appetite is provided at the right levels.
- **Risk reporting** – a mix of monthly, quarterly and annual reporting is developed to monitor the Company's risk profile proportionately to the materiality of the risks being faced.

ii. <u>Risk Management and Solvency Self-Assessment Systems Implementation</u>

The Company's risk management framework is implemented and integrated into its operations through the systems, processes, procedures, and controls developed and documented by management.

Management information arising from the risk management process is used to complete Solvency Self-Assessments of the quantity and quality of capital required to support the Company's business goals given the amount of risk the Company has taken on (or plans to take on) and environmental factors.

The Solvency Self-Assessment is reviewed at least annually and when major transactions are considered to ensure that the Company's capital adequacy and liquidity resources are sufficient based on the risks to the Company that arise from its operations. The Company uses a combination of proprietary and third-party (vendor) models to determine the adequacy of capital.

iii. <u>Relationship Between Solvency Self-Assessment, Solvency Needs & Capital, and Risk Management</u>

The Solvency Self-Assessment process is a fundamental part of the Company's risk management framework, providing the overall framework for the identification, measurement, monitoring and reporting of risks. The process starts with the setting of the Company's risk appetite statements and tolerances, which are reviewed and updated at least annually as part of the business planning process. Risks are then identified and prioritized in line with the Company's risk appetite and their relative materiality to the business plan.

As the Company implements the business plan, the Risk function works collaboratively with other functional areas to perform quantitative and qualitative analysis of the most material risks to plan, reporting risk exposures against appetite at least quarterly to the Risk and ALM Committee and the Investments, Risk and Capital Committee of the Board.

The Company's Solvency Self-Assessment report (the "CISSA report") is the final output of the CISSA process, which provides a comprehensive description of the risk management activities occurred throughout the year and key expected developments going forward. Given the CISSA process is an ongoing process, the CISSA report is then used as an input to the risk appetite setting and business planning processes.

iv. <u>Solvency Self-Assessment Approval Process</u>

The development of the CISSA Report is led by the Risk Function in consultation with the relevant business units, and reviewed by the Chief Executive Officer. After review, and a consideration of completeness by Senior Management and the Risk and ALM Committee, the CISSA Report is provided to the Investments, Risk and Capital Committee for review, discussion and approval.

d. Internal Controls

i. <u>Internal Control System</u>

The Company has systems, processes and procedures to ensure that data and reporting is reliable, organizational policies are adhered to, and adequate security measures are implemented. If any deficiencies or material weaknesses are found, they are documented and presented to the Board.

The Board monitors the progress on remediation plans.

ii. <u>Compliance Function</u>

The Head of Compliance has the responsibility to monitor regulatory changes in the relevant jurisdictions and compliance with applicable existing laws, including regulatory reporting and public disclosure requirements. The Head of Compliance monitors compliance with organizational policies and procedures and adherence to the Company's Code of Ethics.

e. Internal Audit

The Company set up an Internal Audit function in 2017, which completes its "Three Lines of Defense" model. The Head of Internal Audit has the responsibility to develop and execute the Company's annual risk-based audit plan. The Company currently utilizes a third-party service provider to access subject matter experts and additional auditor resources on an as-needed basis.

f. Actuarial Function

The Company's Chief Actuary is responsible for setting, monitoring and adjusting actuarial reserves, including technical provisions which comprise both the best estimate liabilities (or reserves) and a risk margin, and these technical provisions are subject to a further independent review by the Company's external Appointed Actuary.

The actuarial reserves are also reviewed by the Chief Executive Officer and Chief Financial Officer, who are both qualified actuaries, as part of the quarterly management reviews of the financial statements and the annual regulatory filings.

g. Outsourcing

<u>Outsourcing Policy and Key Functions that have been Outsourced</u>

Outsourcing risk has three major components; selection risk, contracting risk and delivery risk. Selection risk addresses the choice of the best fit provider.

To manage selection risks, the firm is obligated to evaluate several alternative vendors, reviewing their capabilities, fit to our business, reputation in the market place and all-in costs.

Contracting risk is mitigated by evaluating the terms of the agreements, the specified services to be delivered, the performance levels to be delivered, the ownership of records and processes, remedies for underperformance, exit strategies and length of the contracts, and security and backups.

Delivery risk will be controlled by the ongoing monitoring of the services, including timeliness, provided by senior management of the areas being serviced, independent reconciliation of results with other sources where possible, periodic on-site visits and internal and external audit reviews.

Outsourced services are also reviewed periodically by Management and the Board to determine whether they are appropriate or should be brought in-house.

h. Other Material Information

No other material information to report.

4. COMPANY RISK PROFILE

a. Material Risks the Insurer is Exposed to During the Reporting Period

Key to proper risk management is the identification of all possible detriments to regulatory and rating agency risk-based capital (herein referred to as "capital", "capital adequacy" or "capital at risk"), as well as negative impacts to financial strength and shareholder returns.

In particular, the key risks impacting the Company's ability to meet its strategic objectives are categorized below:

Risk Type	Risk description
Strategic Risk	The risk of loss arising from the adverse effect of management decisions on both business strategies and their execution, as well as from unexpected changes in environmental trends that damage the economics of the business.
Insurance Risk	The risk of loss arising from adverse change in the value of insurance liabilities due to adverse bio-metric results, adverse policyholder behavior and adverse changes in policy guaranteed elements.
Credit Risk	The risk of loss or of adverse change in the financial situation, resulting from fluctuations in the credit standing of securities, counterparties and any debtors.
Alpha Risk	Alpha Risk is the performance risk of the market neutral multi-strategy fund.
Liquidity Risk	Risk that not enough cash resources may be available to pay obligations when due and / or not enough cash resources may be available to post-collateral on existing reinsurance transactions.
Operational Risk	The risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events which could impact business operations.
Pricing Risk	Failure to adhere to the Company's Underwriting Guidelines or to use incorrect investment or actuarial assumptions.
Regulatory and Legal Risk	Risk of financial loss or increased regulatory scrutiny as a result of non-compliance with existing laws and upcoming regulations.
Reputational Risk	Risk of a potential decrease in our ability to deliver against our strategic objectives due to a negative perception of the Company's image among its stakeholders.

Risk Type	Risk description
Cyber Risk	Risk of loss or harm arising from a malicious attack that impacts the confidentiality or integrity of electronic data or the availability of systems.
Model Risk	Risk of adverse consequences from decisions based on incorrect or misused model outputs and reports.

b. Risk Mitigation in the Organization

The Company controls risk through a variety of ways, but ultimately risks are reported and monitored centrally by the Chief Risk Officer and the Risk and ALM Committee. The Risk Function also verifies that risks are either kept within agreed limits or temporary breaches for unique situations are appropriately escalated to the Risk and ALM Committee and either approved or cured. Further, the Risk and ALM Committee reviews the enterprise risk management framework and ensures the controls in place for managing the risk exposures are operating as intended. If a new risk is identified, the Risk Management Committee establishes controls to manage the risk.

The Audit Committee and the Investments, Risk & Capital Committee of the Board share the oversight of the Enterprise Risk Management framework.

Additionally, the Company maintains a strong solvency capital position relative to its risk profile.

c. Material Risk Concentrations

The Company has policies governing risk concentrations in relation to counterparties, credit quality and sectors. These risks are addressed in the Company's Investment Management Policies and are monitored by both the Investment Committee and the Risk and ALM Committee.

Apart from highly rated sovereigns and associated sponsored agencies, the Company has a policy that prohibits exposure exceeding $75 million or 2%, whichever is lower, to any one corporation or in the securities of a related group in its fixed income portfolio. The Company manages credit risk exposure by limiting below investment grade assets to 7.5% of the entire fixed income portfolio. The fixed income portfolio in aggregate targets a A3 rating and must maintain a minimum average credit rating of Baa1 at all times in a linear scale. The Company also has asset class and industry sector limits.

The Company manages the risk exposure to the diversified multi-strategy investment through a single issuer limit of 3%.

The company has policies governing underwriting risk which addressed in the Company's Underwriting Policy and are monitored by the Underwriting Policy Compliance Committee and the Risk and ALM Committee.

From an operational perspective, the Company aims at maintaining a diversified product and client mix as it continues to deliver against the business plan presented to the Board.

d. Investment in Assets in Accordance with the Prudent Person Principles of the Code of Conduct

The Company's fixed income investment portfolio is managed by the investment team in accordance with the Company's Investment Policy Guidelines and Investment Management Framework. These guidelines require that highly liquid and low volatility fixed income securities support technical provisions to ensure that claims can be paid on a timely basis.

The Company's multi-strategy investment is highly diversified, highly liquid and with low-volatility. Management oversees this limit by monitoring the rolling 90-day implied volatility, annualized standard deviations of gross returns.

These guidelines are reviewed on an annual or ad hoc basis if any significant deviations have occurred that affect the financial markets or if the risk appetite and tolerances of the Company change.

e. Stress Testing and Sensitivity Analysis to Assess Material Risks

The Company periodically performs various stress tests to determine the adequacy of capital/liquidity and ensure rating agency and regulatory requirements can be met. The tests performed relate to the quantifiable risk identified in section 4.a.

Based on these results, management of the Company believes that it has sufficient capital and liquidity to comply with the contractual obligations of the organization and regulatory requirements in the event the Company experiences.

5. SOLVENCY VALUATION

a. Valuation Bases, Assumptions and Methods to Derive the Value of Each Asset Class

The Company uses valuation principles outlined by the Bermuda Monetary Authority (the "BMA") in "Guidance Note for Statutory Reporting Regime". The economic valuation principles outlined in this document are to measure assets and liabilities on a fair value basis (which is the value that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between open market participants at the measurement date). The fair value principles used for the assets are as follows:

- Cash and Cash Equivalents – includes cash time deposits and investments maturing within three months. The fair value of these holdings is determined by using mark to market valuation, or quoted market prices in active markets for similar assets with adjustments to reflect differences if mark to market valuation is not possible, or mark to model valuation otherwise.
- Fixed Income Securities – are valued in accordance with mark to market principles where possible or quoted market prices in active markets for similar assets with adjustments to reflect differences if mark to market valuation is not possible. For fixed income securities that are not actively traded and for which similar assets are also not actively traded, the Company uses pricing services to prepare inputs to assist the Company with mark to model valuations.
- Diversified Multi-Strategy Investment - includes primarily marketable fixed income and common stock and are valued using the quoted market prices.
- Accounts Receivable and Premium Receivable – are recorded at a fair value and balances due in more than one year have been discounted at the relevant risk-free rate.
- Derivative instruments- are valued at quoted market prices. In the absence of an active market,

prices are based on observable market inputs.

b. Valuation Bases, Assumptions and Methods to Derive the Value of Technical Provisions

Insurance technical provisions comprise the sum of a best estimate liability, or reserve, and a risk margin. The best estimate reserve is determined as the highest asset requirement needed under the scenario-based approach to fund cash flows developed for each scenario. Technical provisions include a risk margin, in addition to the best estimate reserve, to reflect the uncertainty contained inherent in the underlying cash flows. The risk margin is calculated using the cost of capital approach and a risk-free discount rate term structure. The discount rate term structures are prescribed by the BMA for each reporting period. There is limited level of uncertainty regarding the liability cash flows, due to the nature of the underlying business. There is some degree of uncertainty regarding the determination of assets needed to support the liability cash flows. The assets required are based on credit risks, reinvestments and realized capital gains as modeled, compared to the actions of management at that time based on the then current market conditions.

The best estimate insurance reserves also include provisions for incurred but unreported claims

At 31st December 2018, the total Technical Provisions amounted to $1,151.5 million comprising the following (reported in thousand units):

Best Estimate Reserve for Unreported Claims	$466
Best Estimate Reserves - Life	$35,126
Best Estimate Reserves – Annuity	$1,112,659
Risk Margin	$3,286

c. Description of Recoverables from Reinsurance Contracts

Recoverables from reinsurance contracts are based on principles similar to the gross best estimate and include reinstatement premiums required to be paid to the reinsurer, and expenses in relation to the management and administration of reinsurance claims.

d. Valuation Bases, Assumptions and Methods to Derive the Value of Other Liabilities

The Company’s liabilities also follow the valuations principles outlined by BMA’s “Guidance Note for Statutory Reporting Regime” which values liabilities at a fair value basis. All other liabilities are valued on an IFRS basis and settlements not expected to be settled within a year, are discounted using the prescribed discount rates provided by the BMA as at 31st December 2018. Loans and Notes Payable are valued on an IFRS basis and Derivative Instruments are valued at quoted market prices. In the absence of an active market, prices are based on observable market inputs.

e. Any Other Material Information

No additional material information to report.

6. CAPITAL MANAGEMENT

a. Eligible capital

i. Capital Management Policy and Process for Capital Needs, How Capital is Managed and Material Changes During the Reporting Period

The Company seeks to maintain a strong capital base to support the development of its reinsurance business and to meet regulatory requirements and target rating agency capital requirements at all times.

Required capital is calculated as the larger of the BSCR or all rating agency capital requirements. These requirements help the Board to determine an annual risk budget, which defines the overall risk appetite for the Company and ensures that risk taking is reasonable in relationship to the Company's capitalization.

ii. Eligible Capital Categorized by Tiers in Accordance to the Eligible Capital Rules Used to Meet ECR and MSM Requirements of the Insurance Act

At the end of the reporting period, the Company's Eligible Capital for its Minimum Margin of Solvency (MSM) and Enhanced Capital Requirement (ECR) was categorized as follows:

	(Reported in thousand units)	
	2018	2017
Tier 1	$392,171	$422,397
Tier 2	787	7
Tier 3	0	0
Total	**$392,958**	**$422,404**

iii. Confirmation of Eligible Capital That is Subject to Transitional Arrangements

None.

iv. Identification of Any Factors Affecting Encumbrances on the Availability and Transferability of Capital to Meet the ECR

The Company has entered contracts with cedants that require the Company to fully collateralize estimates of its obligations calculated by the cedant. Assets are held in trust or custody accounts for the benefit for the cedants. These assets are released to the Company upon the payment of the obligations. Interest income arising from these assets accrues to the Company.

v. Identification of Ancillary Capital Instruments Approved by the BMA

None.

vi. Identification of Differences in Shareholder's Equity as Stated in the Financial Statements Versus the Available Capital and Surplus

Other than the impact of employing statutory-based technical provision valuation techniques, significant differences between IFRS shareholder equity and available statutory capital and surplus include the reduction in available statutory capital for goodwill and other intangible assets.

b. Regulatory capital requirements

i. ECR and MSM Requirements at the End of the Reporting Period

At the end of the reporting period, the Company's regulatory capital requirements were assessed as follows:

(Reported in thousand units)

Requirement	2018	2017
Statutory Capital (EBS)	$392,958	$422,404
Minimum Margin of Solvency	$26,588	$14,233
Enhanced Capital Requirement	$32,109	$27,689
MMS ratio	1478%	2968%
ECR ratio	1224%	1526%

ii. Identification of Any Non-Compliance with the MSM and the ECR

The Company was compliant with the MSM and ECR requirement at the end of the reporting period.

iii. A Description of the Amount and Circumstances Surrounding the Non- Compliance, the Remedial Measures and Their Effectiveness

Not applicable.

iv. Where the Non-Compliance is not Resolved, a Description of the Amount of the Non-Compliance

Not applicable.

c. Approved Internal Capital Model

i. Description of the Purpose and Scope of the Business and Risk Areas Where the Internal Model is Used

Not applicable - the Company has not applied to have its internal capital model approved to determine regulatory capital requirements.

ii. Where a Partial Internal Model is Used, Description of the Integration with the BSCR Model

Not applicable.

iii. Description of Methods Used in the Internal Model to Calculate the ECR

Not applicable.

iv. Description of Aggregation Methodologies and Diversification Effects

Not applicable.

v. Description of the Main Differences in the Methods and Assumptions Used for the Risk Areas in the Internal Model Versus the BSCR Model

Not applicable.

vi. Description of the Nature & Suitability of the Data Used in the Internal Model

Not applicable.

vii. Any Other Material Information

Not applicable.

7. SUBSEQUENT EVENTS

Not applicable