
FINANCIAL CONDITION REPORT
December 31, 2018

ARMOUR RE LTD.

Prepared in accordance with the reporting requirements
of the Bermuda Monetary Authority

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ARMOUR RE

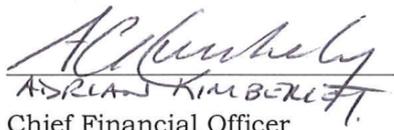
DECLARATION ON FINANCIAL CONDITION REPORT

To the best of our knowledge and belief, the Financial Condition Report fairly represents the financial condition of Armour Re Ltd. in all material aspects as at December 31, 2018.



BRAD HUNTINGTON
Chief Executive Officer

Armour Re Ltd.



ADRIAN KIMBRELL
Chief Financial Officer

Armour Re Ltd.

A. BUSINESS AND PERFORMANCE

a) Company Information

Armour Re Ltd. (“the Company” or “Armour Re”) is a Bermuda exempted company registered as a Class 3B insurer under the Bermuda Insurance Act 1978. The company was incorporated on November 20, 2017 and is a wholly owned subsidiary of Armour Group Ltd.

The primary purpose of the Company is to assume, through reinsurance or investment, discontinued property and casualty business in the non-life sector of the insurance industry from insurers, reinsurers and/or other entities (including, without limitation, self-insured organisations) and to manage the payment of future claims and the assets supporting such liabilities. In furtherance of, and to the extent consistent with, the foregoing, the Company plans to (i) assume, either directly or synthetically, economic exposure to expired policies in run-off entities or blocks of discontinued property and casualty business through reinsurance, business transfer, acquisition of securities or otherwise; and (ii) acquire majority or otherwise controlling interests in property and casualty insurance, reinsurance and/or other entities in run-off, including insurance or reinsurance holding companies and/or corporate or other entities with property and casualty insurance or reinsurance liabilities.

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Approved Auditor:

PricewaterhouseCoopers Ltd (Bermuda)
Washington Mall, 4th Floor
16 Church Street
Hamilton
Bermuda

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(a)(i) Co-Investment Framework Agreement

On December 29, 2017, the Company, together with its affiliates, parallel vehicles, co-investment vehicles, alternative vehicles, subsidiaries and other related investment vehicles (collectively the "PCV Vehicle"), and ILS Property & Casualty Fund II, L.P. ("Fund II") entered into a Co-Investment Framework Agreement, which was amended and restated on December 5, 2018, whereby the PCV Vehicle agreed that a pro rata portion, based on Fund II's total capital commitments and the PCV Vehicle's aggregate equity capital, determined as of the time of the proposed investment (the "Co-Investment Ratio") will be offered to Fund II and Fund II shall be entitled to invest in such opportunity in any amount up to the applicable Co-Investment Ratio or to decline such investment.

Both parties also agreed that subsequent changes to the Co-Investment Ratio, due to the subsequent closing of the commitment period of Fund II or a change in the equity capital of the PCV run-off pool, to re-allocate their respective interest in the Co-Investment based on the Revised Co-Investment Ratio (the "Re-Allocation").

Initial Co-Investments were made based on the Co-Investment Ratio at the time of the Co-Investment with subsequent capital Re-Allocations occurring four times in 2018. On November 30, 2018, the commitment period of Fund II closed resulting in the Co-Investment Ratio being permanently set on that date.

For those Co-Investments that were Re-Allocated between the PCV Vehicle and Fund II, the percentage share of the Co-Investments transferred was made at cost plus interest at a rate equal to 8% per annum from the date such Co-Investment was made to the date of such transfer.

The Co-investment Ratios as at December 31, 2018 and 2017 were as follows:

| Co-Investment Ratio as at: | PCV Vehicle | Fund II |
|-----------------------------------|--------------------|----------------|
| December 31, 2017 | 44.15% | 55.85% |
| December 31, 2018 | 32.65% | 67.35% |
| Change in the year | -11.50% | 11.50% |

b) Ownership Details

The Company is a wholly owned subsidiary of Armour Group Ltd. ("Armour Group"). Armour Group is owned by the following entities:

| Entity | % Ownership |
|---|--------------------|
| Trebuchet Group Holdings Limited | 19.37% |
| Aquiline Armour Co-Invest II L.P. | 11.46% |
| Aquiline Armour Co-Invest L.P. | 44.19% |
| Aquiline Financial Services Fund III L.P. | 24.98% |

ARMOUR RE

Trebuchet Group Holdings Limited (“Trebuchet”) is a privately-held company incorporated in Bermuda in 2007. The company’s activities and investments are centred in two main areas, namely (1) operating licensed insurance and reinsurance companies and (2) asset management. Trebuchet outsources its claims servicing operations to Armour Risk Management Limited and Armour Risk Management Inc., wholly-owned subsidiaries of Armour Group.

At the end of 2017 Aquiline Holdings LLC (together with its affiliates and co-investors, “Aquiline”), acquired a majority of the voting and economic interests in Armour Group Ltd. Aquiline is a New York-based private equity firm investing in companies in the financial services (particularly insurance) and investment management industries. Aquiline seeks to add value to its portfolio companies through strategic, operational and financial guidance. Through the Aquiline Financial Services Funds, Aquiline has invested over \$2.1 billion since 2005 in 34 middle-market financial services businesses in North America and Europe. Its portfolio of companies spans the banking and credit, financial technology and services, insurance, and investment management and markets industries and includes start-ups, growth equity and buyouts, corporate carve-outs, consolidations and turnarounds.

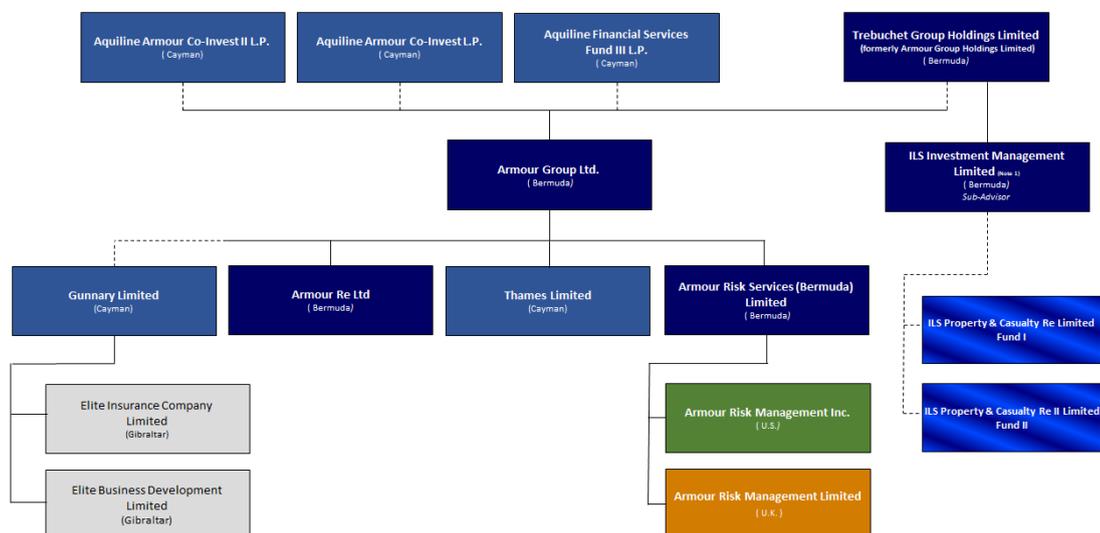
The general partner of Aquiline Financial Services Fund III L.P. is Aquiline Capital Partners III GP (Offshore) Ltd. (the “GP”). The general partner of the GP is Aquiline Holdings (Offshore) II L.P. (“Holdings”).

The general partner of both Aquiline Armour Co-Invest L.P. and Aquiline Armour Co-Invest II L.P. is Aquiline Co-Invest III GP Ltd. Its general partner is Holdings.

The general partner of Holdings is Aquiline Holdings GP (Offshore) Ltd., an entity controlled by Jeffrey W. Greenberg, the former chairman of Marsh & McLennan Companies, Inc.

c) Group Structure

The following chart provides details of the Company in the overall Group Structure as at December 31, 2018



Note 1 - ILS Investment Management is to be transferred to Armour Group Ltd subject to obtaining regulatory approvals and other consents.

d) Insurance Business Written

Both the Portfolio #2 and #1 transactions relate to discontinued business acquired.

Portfolio #2

On March 5, 2018, the Company entered into a quota share retrocession agreement with ILS Property & Casualty Re II Limited (“PC Re II”) in relation to the loss portfolio transfer agreement (“LPTA”) it entered into to reinsure a portfolio of U.K. commercial motor, public and employers’ liability lines of business along with property/premises related to U.K. commercial motor. Pursuant to the agreement, the Company will indemnify PC Re II under the LPTA. The Company has provided capital of approximately \$9.2 million to fund its quota share percentage of the aggregate limit under the terms of the LPTA and assumed \$14.2 million of reserves for losses and LAE.

Portfolio #1

On December 29, 2017, the Company entered into a QS Agreement with PC Re II in relation to the LPTA PC RE II entered to reinsure a portfolio of legacy business which primarily includes Commercial Automobile, Non-Standard Personal Automobile, General Liability, Commercial and Personal Property, Mono-line Liquor Liability, Real Estate E&O, Workers’ Compensation and other smaller lines of business. As of December 31, 2018 the Company had contributed \$89.6 million to PC Re II representing its proportionate share of the required collateral to fully fund the trade up to its aggregate limit; assumed \$155.2 million of reserves for losses and LAE; and was credited with \$143.2 million of premiums due under the LPTA to funds withheld.

e) Performance of Investments

Performance of Investments for the Reporting Period

There were no invested assets at December 31, 2018 and 2017. However, the Company has reported investments which are reflected as part of its funds withheld in the financial statements with a total market value of \$193.0 million as at December 31, 2018. In addition, the company had cash on hand of \$36.3 million at year end. There were no invested assets held at the prior year end, December 31, 2017.

The Company's investment strategy emphasizes the preservation of its assets, credit quality and diversification. The primary investment goals are as follows:

- to design and adhere to an investment strategy that emphasizes the security and growth of the invested assets, while also meeting the Company's credit quality and diversifications objectives;
- to meet Solvency II requirements;
- to match assets and liabilities to ensure proper liquidity;
- to meet stakeholder risk appetite and return objectives;
- to allocate appropriate levels of capital to higher risk/reward opportunities; and
- to effectively monitor portfolio developments.

The investments held by the Company at December 31, 2018 within its funds withheld balance, on a look through basis, were comprised of U.S. government and agency investments, highly rated sovereign and supranational investments and high-grade corporate investments.

f) Material Income & Expenses for the Reporting Period

The Company reported net earnings (loss) of \$4.4 million and \$(0.2) million for the year ended December 31, 2018 and 2017, respectively. The 2017 year result represent operations of one month only compared to a full year in 2018.

The primary drivers of the results for the year ended December 31, 2018 were as follows:

Net Underwriting Loss

Total net underwriting loss for was \$0.8 million for the year ended December 31, 2018 and \$nil during 2017. The net underwriting loss was impacted by the cumulative impact of changes in:

(1) Net Incurred Losses and Loss Adjustment Expenses ("LAE")

The Company reported net incurred losses and LAE for the year ended December 31, 2018 of \$4.9 million (2017: \$Nil). The primary driver of the net increase in liability for net incurred losses and LAE is related to the increase in reserves associated with the earning of the prior year unearned premium balance primarily associated with Portfolio #1.

(2) Commissions and Expense

The Company reported commissions and expenses of \$5.1million for the year ended December 31, 2018. The primary driver is related to profit commission expenses incurred during the year primarily associated with Portfolio #2.

(3) Net Premiums Earned

For the year ended December 31, 2018 and 2017, the Company reported net earned premium of \$9.2 million and \$nil, respectively The Company assumes discontinued business and consequently does not write new business and, therefore, has no significant premiums written. The net earned premiums reflected in its statement of earnings relates primarily to the earning during the year of unearned premiums that were assumed by the Company on the date of completion of the Portfolio #1 retrocession quota share agreement..

Net Investment Income

Total net investment income for the year ended December 31, 2018 was \$4.1 million (2017: \$Nil). The Company has no invested assets, however, the Company receives investment income on its Funds withheld balances.

Other income

During the year ended December 31, 2018, the Company received approximately \$3.0 million (2017: \$Nil) of net interest income from Fund II related to the Re-Allocation of Co-Investments that occurred during the year as described in “*Section A - Business and Performance – Co-investment Framework Agreement*”.

General and Administrative Expenses

The Company reported total general and administrative expenses for the year ended December 31, 2018 of \$1.0 million (2017: \$0.2 million). The increase in general and administrative expenses is due primarily to the company operating for a full year in 2018 as compared to only two months for 2017.

g) Any Other Material Information

No other material information has been identified which requires disclosure.

B. GOVERNANCE STRUCTURE

The Company has established and maintains a sound corporate governance framework with ultimate oversight being the responsibility of its Board of Directors (“Board”). The Board is responsible for establishing a clear strategy that is consistent with the Company’s business plan, establishing a culture that supports sound and prudent management, ensuring appropriate financial resources have been established, ensuring adequate internal controls are in place and ensuring that the Company fulfils its legal and regulatory obligations. Effective risk oversight is an important priority for the Board and the Company places a strong emphasis on establishing a robust risk management framework to identify, monitor, measure, manage and report risks that affect the achievement of its strategic, operational and financial objectives.

a) Board and Senior Executive

i. Structure of the Board, Roles, Responsibilities and Segregation of these Responsibilities

The table below shows the composition of the Board (“the Board“):

| BOARD MEMBER | BOARD POSITION |
|--------------------|--------------------------------------|
| Brad Huntington | Director and Chief Executive Officer |
| John Williams | Director and President |
| Jason Rotman | Shareholder Non-Executive Director |
| Christopher Watson | Shareholder Non-Executive Director |
| Roger Gillett | Independent Non-Executive Director |
| Timothy Price | Independent Non-Executive Director |
| Jaryd Solomon | Alternate Director to Jason Rotman |

The roles, scope, general and specific responsibilities of the Board are detailed in the Board Terms of Reference and in the Company's Bye-Laws.

The primary responsibility of the Board is to oversee the management of the Company's affairs to further the best interests of the Company and its shareholders.

The parent company is Armour Group and representatives from the parent company are present on the Board to ensure alignment with corporate objectives and to provide access to Group resources where necessary. All non-executive directors maintain regular dialogue with the management team. The Board hold at least four meetings annually.

The Board has established the following committees, each of which has a charter which details the scope and key areas of responsibility for each committee:

| COMMITTEE | RESPONSIBILITIES |
|------------------------|---|
| Audit Committee | <p>Assists the Board in monitoring:</p> <ul style="list-style-type: none"> (i) the integrity of the financial statements of the Company; (ii) the independent auditor's qualifications and independence; (iii) the performance of the Company's internal audit function and independent auditors; and (iv) compliance by the Company with legal and regulatory requirements. <p>The Committee members include Timothy Price, Roger Gillett and Jason Rotman.</p> |
| Underwriting Committee | <p>Responsible for overseeing the Board's responsibilities relating to the Company's insurance and reinsurance underwriting strategy, including the underwriting activities of the Company and accumulations and aggregations of exposures in the Company's insurance and reinsurance businesses. The Committee reviews and make recommendations to the Board regarding underwriting matters.</p> <p>The Committee members include Brad Huntington, John Williams, Christopher Watson and Jason Rotman.</p> |
| Compensation Committee | <p>Overall responsibility for approving, evaluating and making recommendations to the Board regarding, officer and director compensation plans, policies and programs of the Company, incentive compensation plans and equity compensation plans.</p> <p>The Committee members include Christopher Watson and Jason Rotman.</p> |
| Investment Committee | <p>Responsible for overseeing the Board's responsibilities relating to the investing affairs of the Company and recommending to the Board financial policies, strategic investments and overall investment policy, including review of manager selection, benchmarks, risk components and investment performance. In addition, the Committee reviews and makes recommendations to the Board regarding investment matters.</p> <p>The Committee members include Brad Huntington, John Williams, Christopher Watson and Jason Rotman.</p> |

ARMOUR RE

The Management Team consists of experienced senior run-off professionals, led by Brad Huntington and John Williams as Chief Executive Officer and President, respectively. They report to the Board.

The table below shows the composition of the Management Team and their roles:

| OFFICER | MANAGEMENT POSITION |
|-----------------------|---|
| Brad Huntington | Chief Executive Officer |
| John Williams | President |
| Pauline Richards | Chief Operating Officer, ILS Investment Management Limited, Assistant Secretary, Armour Re Ltd. |
| Erica Robinson McLeod | General Counsel |
| Adrian Kimberley | Chief Financial Officer, ILS Investment Management Limited, Assistant Secretary, Armour Re Ltd. |
| Lynda Leader | Senior Vice-President, ILS Investment Management Limited, Assistant Secretary Armour Re Ltd. |
| Babak Shirazi | Vice-President and Actuary, ILS Investment Management Limited and Armour Re |

ii. Remuneration Policy

The Company does not have any employees but receives certain services from ILS Investment Management Limited (“ILSIM”), a group company.

Independent non-executive directors are remunerated with a fixed quarterly cash fee.

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

None related to Armour Re

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

From time to time, the Company may participate in transactions in which one or more of the Company’s directors, executive officers or shareholders have an interest. These transactions, called related-party transactions, require the approval of the Audit Committee (comprised entirely of independent directors), which reviews each transaction for fairness, business purpose and reasonableness. Other than the transaction with Armour Group, there were no other material related party transactions as at December 31, 2018.

b) Fitness & Propriety Requirements

i. Fit and Proper Process

The Company recognizes the value of fit and proper requirements in that a company run in a fit and proper manner, by fit and proper directors and employees, will benefit from the knowledge and experience brought to the company and is more likely to be successful. In addition, the risks associated with a poorly run business (largely regulatory, financial or reputational risks) will be diminished.

The ultimate responsibility for sound and prudent governance and oversight of the Company rests with its Board.

In accordance with the Company's fit-and-proper-person assessment, the Company's Board and Executive Officers, together with the Management Team, are assessed against specific criteria in order to be deemed to have the necessary qualities, competencies and experience to perform their duties and carry out the responsibilities required of their position in an effective manner. These criteria require persons to:

- possess the necessary competencies, skills, experience, knowledge, expertise, diligence and soundness of judgement to undertake and fulfil the particular duties and responsibilities of the role;
- demonstrate the appropriate character, competence, honesty and integrity in fulfilling occupational, managerial or professional responsibilities previously and/or in the conduct of their current duties;
- demonstrate sufficient knowledge of and a willingness to comply with legal obligations, regulatory requirements, professional standards and fiduciary obligations;
- be aware of and be able to effectively ensure implementation and compliance with the underlying principles of laws, regulatory requirements and license obligations applying to the relevant entity; and
- be able to identify and appropriately manage any conflicts of interest.

ii. Board and Senior Executives - Qualifications, Skills and Expertise

Detailed below are the qualifications, skills and expertise of the Board and Senior Executives:

Brad Huntington, Chief Executive Officer and Director

Mr. Huntington has been the Chief Executive Officer of the Company since its formation. He has substantial experience in underwriting and asset management operations, mergers and acquisitions of insurance and reinsurance companies and the integration of operations following their acquisition. Mr. Huntington co-founded Trebuchet Group Holdings Limited (formerly Brevan Howard P&C Partners Limited), in 2007 and is the Chairman and CEO. Prior to that, Mr. Huntington co-founded and was President and CEO of the Imagine Group, a Bermuda-based international insurance and reinsurance operation. From 2000 to 2005, Imagine Group's assets

grew from an initial position of \$200 million of start-up capital and total assets to approximately \$1.9 billion in total assets and in excess of \$500 million of shareholders' equity. Prior to founding Imagine, Mr. Huntington was a consultant to Zurich Insurance Group. Prior thereto, he was a senior executive in the Centre Re group of companies, a major operating subsidiary of the Zurich Insurance Group. During his time at Centre Re he was the co-founder of their European offices and also held senior underwriting positions in their Bermuda and Zurich offices. He initially joined Centre Re in Bermuda as international general counsel. Mr. Huntington has also held roles as a corporate lawyer in several law firms prior to leaving private practice and was qualified as a lawyer in numerous jurisdictions including several provinces in Canada, Bermuda, England and Wales. Mr. Huntington has an MBA from INSEAD in France and BA and LLB degrees from the University of Alberta in Canada.

John Williams, President and Director

Mr. Williams has been President of the Company since its formation. He has over thirty years of worldwide insurance and reinsurance industry experience. Mr. Williams co-founded Trebuchet Group Holdings Limited (formerly Brevan Howard P&C Partners Limited), in 2007 and is the President. Prior to that, he worked as a senior underwriter at the Imagine Group from 2003 until December 2006 where he had responsibility for sourcing and structuring complex insurance transactions. He was co-founder and President of Castlewood Limited, a leading provider of run-off products for the insurance industry which he started in 1993. From 1992 until 1993 he served as a consultant on insurance and reinsurance matters to large corporations including Grumman Corp and Citigroup. Mr. Williams started his insurance career in the London market moving to Bermuda in 1981. From 1983 until 1991, Mr. Williams was the Underwriter and Vice- President of a leading reinsurer in Bermuda which was a wholly-owned subsidiary of Grumman Corp. Concurrently he held the positions of Vice-President (1983 -1988) and then Executive Vice-President and Chief Operating Officer (1988 -1991) of the reinsurer's two underwriting managers and acted as President of the affiliated consulting company. Mr. Williams currently serves on the Insurance Advisory Committee appointed by the Minister of Finance and previously served as the Chairman of the Bermuda Independent Underwriters Association and was a member of the Insurance Admissions Committee which is appointed by the Bermuda Minister of Finance.

Jason Rotman, Shareholder Non-Executive Director

Mr. Rotman has been a Director of the Company since its formation. He also serves as a senior principal of Aquiline Capital Partners LLC ("Aquiline"), which he joined in 2008. He is a member of the investment committee of Aquiline Technology Growth. Prior to joining Aquiline, he was with Swiss Re, where he held a variety of roles within private equity, corporate development and the insurance-linked securities businesses. He ultimately became head of alternative investments for the United States. He began his career as an analyst in the financial institutions group at Smith Barney. Mr. Rotman received a B.A. in Economics from Duke University.

Christopher Watson, Shareholder Non-Executive Director

Mr. Watson has been a Director of the Company since its formation. He also serves as a senior principal of Aquiline Capital Partners LLC ("Aquiline"), which he joined in 2006. Mr. Watson has more than 36 years of experience in the financial services industry. From 1987 to 2004, Mr.

Watson served in a variety of executive roles within the property & casualty insurance businesses of Citigroup and its predecessor entities. From 1990 to 2004, Mr. Watson was president and chief executive officer of Gulf Insurance Group, one of the largest surplus lines insurance companies in the world. Mr. Watson served as a senior executive of AIG from 1974 to 1987. Mr. Watson is also a director of Group Ark Insurance Holdings Ltd., a Bermuda-based underwriter of insurance and reinsurance risks in the Lloyd's market, and Beach UK Holding Co., a reinsurance broker in the UK, US, and Canada. In addition, Mr. Watson serves on the Board of Worley Claim Service, LLC., a claim adjusting firm focused on catastrophe events

Roger Gillett, Independent Non-Executive Director

Mr. Gillett has been a director of the Company since its formation. He has over 30 years of experience in the insurance industry at a senior level. He retired from ACE Limited in July of 2007 having joined them in November 1997 as Senior Vice-President in the Business Development department. Prior to retirement Mr. Gillett was President of ACE Risk Management International, assisting major non-U.S. corporations with their risk financing needs, including captive fronting, rent-a-captive and other sophisticated techniques. Prior to joining ACE, Mr. Gillett spent 20 years with Johnson & Higgins, most recently as a Senior Vice-President and Principal responsible for creating and developing their global captive management operations. He has served as a director of Armour Group Holdings Limited since its formation in 2007. Mr. Gillett is a frequent speaker at conferences and author of numerous published articles on Alternative Risk Financing. Mr. Gillett is a member of the Bermuda Insurance Advisory Committee and Deputy Chairman of the Insurance Development Council, a sub-committee of the Bermuda Insurance Advisory Committee. He is a past President of the Bermuda Insurance Institute and the Bermuda Insurance Managers Association. Mr. Gillett is a Fellow of the Chartered Insurance Institute and an Associate in Risk Management.

Timothy Price, Independent Non-Executive Director

Mr. Price has been a director of the Company since its formation. He is a Director and Senior Vice-President of Raymond James Limited, the wholly-owned Canadian subsidiary of Raymond James Financial Inc., a NYSE-listed company. He was the Chairman of MacDougall, MacDougall & MacTier Inc. until its sale to Raymond James in 2016. Mr. Price worked at MacDougall since 1984 in a variety of roles, starting with management positions in finance and administration. From 1990 he has been a Portfolio Manager, and became a Director in 1992. Mr. Price assumed the position of President and Chief Executive Officer in June 2002, and served in this role until May 2009. He was named Chairman in February 2009. Prior to joining MacDougall, Mr. Price was with Coopers & Lybrand in Toronto (1980-82) and Bermuda (1982-84), and with Rowe & Pitman in London (1979-80). He has served as a Director of Armour Group Holdings Limited since its formation in 2007. He is a Chartered Accountant (1983), a Fellow of the Canadian Securities Institute (1988) and a Chartered Financial Analyst (1992). He graduated from Queen's University (Kingston, Ont.) with a Bachelor of Commerce (Honours) degree in 1979. He has served as Chair of the Investment Industry Association of Canada, the national organisation representing the Canadian Securities Industry.

Jaryd Solomon, Alternate Director to Jason Rotman

Mr. Solomon joined Aquiline in 2017 and is a member of the insurance team. Prior to joining

Aquiline, he was vice president and head of corporate development at Palomar Specialty Insurance, a start-up catastrophe insurance company. Prior to that, Mr. Solomon was an investment professional at Genstar Capital, a San Francisco-based private equity firm, where he identified, evaluated, and executed acquisition and investment opportunities in insurance and other sectors. He began his career as an investment banker at Sagent Advisors.

Executive Officers of the Company (excluding those officers who are members of the Company's Board) but including Officers of ILSIM, the Company's service provider

Pauline Richards, Chief Operating Officer, ILSIM, Assistant Secretary, Armour Re

Mrs. Richards CPA, CMA, has served as Assistant Secretary of the Company since its formation. Mrs. Richards was affiliated with Aon Bermuda, a subsidiary of a major brokerage house in the United States from 1978 to 1999. Mrs. Richards held the position of Chief Financial Officer. Between 2001 and 2003 Mrs. Richards also held the position of Chief Financial Officer at Lombard Odier Darier Hentsch in Bermuda, the subsidiary of a well-known private Swiss banking group. From 2003 to 2008 Mrs. Richards was Director of Development at Saltus Grammar School and has been an employee of Armour Group Holdings Limited since 2008.

Mrs. Richards has served on the board of public companies in the United States and Bermuda and is presently on the board of Wyndham Worldwide Corp, Apollo Global Management LLP and Hamilton Insurance Group.

Erica Robinson-McLeod, General Counsel

Mrs. Robinson-McLeod is an experienced Bermuda corporate and commercial lawyer with over 15 years (re)insurance expertise. Before serving as General Counsel Mrs. Robinson-McLeod was ILSIM's Chief Legal Counsel. Prior to joining the Company, she was Senior Vice President/Associate General Counsel for Validus Holdings Limited, a NYSE listed holding company and its regulated and non-regulated subsidiaries including acting as Counsel for Validus' ILS Asset Manager and Registered Investment Advisor AlphaCat Managers Ltd. Prior to Mrs. Robinson-McLeod's in-house roles, she worked in private practice at Appleby (Bermuda) Limited for many years where she advised on all aspects of corporate and commercial law for (re)insurance clients. Mrs. Robinson-McLeod holds a BA (Hons) in Law and Accounting and a Postgraduate Diploma in Legal Practice (PGDLP) (Commendation) and is a practicing member of the Bermuda Bar Association.

Adrian Kimberley, Chief Financial Officer, ILSIM, Assistant Secretary Armour Re

Mr. Kimberley has served as Assistant Secretary for the Company since its formation. Mr. Kimberley is the Chief Financial Officer of ILSIM a position he has held since May 2017. Mr. Kimberley is an experienced (re)insurance professional having worked in the Bermuda (re)insurance market for over 24 years. Prior to joining ILSIM, Mr. Kimberley worked with Enstar Group Limited (the run-off industry's leading stand-alone company) and its affiliates for 21 years from 1995 to 2016, where he held increasingly senior positions and ultimately served as the Company's Chief Accounting Officer for nine years from 2007 to 2016. He is a member in good standing of the Chartered Professional Accountants of Bermuda and Canadian Institute of Chartered Accountants and holds a Bachelor of Commerce in Accounting from the University of British Columbia.

Lynda Leader, Senior Vice-President, ILSIM, Assistant Secretary Armour Re

Mrs. Leader has served as Assistant Secretary for the Company since she joined the Company. Mrs. Leader joined ILSIM in November 2017 in the capacity of Senior Vice-President Corporate Services, with over thirty years of domestic, captive and reinsurance experience. Prior to joining ILSIM, Mrs. Leader spent 10 years at BF&M Limited, a listed Bermuda company where key responsibilities included corporate governance, company secretary, investor relations, all aspects of executive compensation and compliance. Over the 20 years prior to BF&M, Mrs. Leader worked for Coopers & Lybrand (now PricewaterhouseCoopers). Mrs. Leader then spent 13 years in the captive management division at Johnson & Higgins (now Marsh) where she progressed to the position of Senior Vice-President. From 2000 to 2006 she worked as Senior Vice-President and Director of Operations at Overseas Partners Ltd, a reinsurance company and subsidiary of UPS. Mrs. Leader is a member in good standing of the Chartered Professional Accountants of Bermuda and the Institute of Chartered Accountant in England and Wales, with a Bachelor's degree in Accounting and Finance from Middlesex University in London.

Babak Shirazi, Vice-President and Actuary, ILSIM

Mr. Shirazi joined ILSIM in 2014 to head up the Actuarial team. Mr. Shirazi has been working in the property and casualty actuarial field for over fourteen years. He started his actuarial career at EMB Consulting, now part of Willis Towers Watson where he worked in reserving and capital modelling. In his subsequent career he has concentrated on pricing, working for a leading global reinsurance intermediary and, more recently, at XL Insurance where he was head of one of the actuarial pricing teams. Mr. Shirazi is a Fellow of the Institute and Faculty of Actuaries and the Casualty Actuarial Society as well as holding a Chief Actuary practicing certificate in the United Kingdom. He holds an MSc (Hons) in Mathematics from Imperial College London (2004).

c) Risk Management and Solvency Self-Assessment

i. Risk Management Processes and Procedures

The Company operates under conservative risk tolerances and guidelines. The Company's risk tolerances are monitored at various levels (run-off portfolio, investment portfolio and enterprise basis). The Company has participated in two deals to December 31, 2018 and these have been monitored to ensure compliance with claims and investment management guidelines. The Company's risk appetite considers all material risks to which the Company is exposed. The risk appetite is established at the Company level and represents the amount of risk that the Company is willing to accept compared to risk metrics based on its capital resources, potential financial loss and other risk-specific measures. Risk levels are monitored and any deviations from pre-established levels are reported in order to facilitate responsive action.

The Company's risk management framework includes a risk score matrix and a Risk Register. The matrix provides a mixture of qualitative and quantitative measures with the consideration of frequency and severity to assist in the risk identification and ranking process. The Risk Register identifies and assesses key material risks. Each risk includes a detailed description, a risk owner, a listing of contributing factors, mitigating procedures and required actions, if warranted. The register is updated on a quarterly basis and presented to the Board for approval.

ii. Implementation of Risk Management Processes and Procedures and Solvency Self-Assessment Systems

The ultimate responsibility for the implementation of risk management processes and procedures rests with the Board. The Board receives regular risk management information to support risk governance.

The Company conducts its risk assessment process on a quarterly basis. The risk management process is based on the major categories of risk to which the Company is exposed. The risk management process is dynamic, with updates being made as a result of changes in the industry, the Company's business and the economic climate in which it operates.

The Company's risk appetite considers material risks relating to, among other things, strategic risk, market risk, credit or counterparty default risk, reserve risk and operational risk. The Company's risk appetite represents the amount of risk that it is willing to accept compared to risk metrics based on shareholders equity, capital resources, potential financial loss, and other risk-specific measures. Risk levels are monitored and any deviations from pre-established levels are reported in order to facilitate responsive action. This includes updating the Risk Register which is then presented to the Board for approval.

iii. Relationship between Solvency Self-Assessment, Solvency Needs and Risk Management

The Company's Solvency Self-Assessment process is the entirety of the processes and procedures employed to identify, assess, monitor, manage and report the short and long term risks that the Company faces or may face and to determine the capital necessary to ensure that overall solvency needs are met at all times. Consequently, the process is fully integrated into the broader risk management framework.

iv. The Solvency Self-Assessment Approval Process

The Company uses the Bermuda Solvency Capital Requirement (“BSCR”) tool to establish the required capital to support the business. The Company may also consider internally developed capital models, which provide information on key risks and facilitate an understanding of the interaction among the risks and related exposures, mainly as a comprehensive tool for business and capital planning, but not necessarily for formal capital setting purposes.

The capital model underpinning the solvency self-assessment is subject to an annual process of validation. Validation provides evidence that a model works as planned and that it is a robust representation of the risks to which the Company is exposed. The results produced from the capital modelling are presented to the Board for consideration and review. They will, at least annually, confirm that:

- the Company’s risk profile is appropriate relative to the business and that all known material risks within scope of the risk management process have been reviewed and remain within the Company’s risk appetite; and
- the Company is adequately capitalized and sufficient liquidity is available to meet its needs.

The solvency self-assessment is provided to the Audit Committee for review and the Board for approval with emphasis upon the Company’s internal capital modelling, significant changes during the quarter, current and emerging risk exposures, and how the exposures are mitigated in the risk management framework. Via the solvency self-assessment, the Board also reviews how exposures are in compliance with the Company’s risk appetite statement, risk tolerance levels and limits. The process respects the ‘Three Lines of Defence’ in that it is managed by the Second Line (rather than First), and is subject to periodic review by the Third Line (Internal Audit), and occasionally validated by third party consultants.

d) Internal Controls and Compliance

The Company's internal controls framework ensures that the business is being operated in an efficient and effective manner. The framework has the following components:

- the appropriate organisational structure with clear reporting lines, delegation of authority and segregation of duties;
- the Company's Governance Framework Documents, Terms of Reference for the Board and Charters for the various committees that report to the Board ensure that an adequate system of internal controls and reporting is maintained. It further documents the responsibilities for key senior executives;
- the documentation of key policies and procedures required for the effective management of the business and operations and any authorities which are outsourced;
- monitoring the quality of the internal controls framework in order to provide the Board with relevant information for decision-making purposes; and
- ensuring a detailed understanding of risks taken by the Company.

The diversification and expansion of the Company's management team over time will be in accordance with sound corporate governance principles. In particular, the Board will seek to ensure the implementation of processes to ensure that the Company is appropriately independently staffed and that key employees and the Management Team are adequately skilled to execute and discharge their duties to ensure sound risk management and compliance.

ILSIM has a centralised Code of Conduct Policy which applies to its employees and directors, as well as third parties who act for the Group or on its behalf. Failure to adhere to the Policy could lead to disciplinary action, which may include termination of employment and, in some instances, could constitute the committing of a criminal offence. The Board has responsibility for establishing and communicating the standards of behaviour which all associated persons must adhere to. The Board is further responsible for ensuring that the required systems, procedures, manuals, guidelines and adequate controls are in place to ensure adherence to relevant laws and regulations and to ensure that the management of risk, and the controls in place, are monitored and regularly examined.

The Code of Conduct Policy shall be reviewed by the Compliance function at least on an annual basis. The Company is committed to allocating adequate resources to the Compliance function in order to ensure controls are effective and monitored in a manner that is appropriate and proportionate.

The Compliance function needs efficient and effective monitoring capabilities embedded in its framework; this comprises of three key elements:

- Business Operations - the measures that are incorporated into systems and processes to control day-to-day activities. There are adequate controls implemented to ensure compliance and to highlight any significant breakdown in controls or inadequacy of process. The responsibility to monitor regulatory compliance and compliance with jurisdictional laws is shared across various Group functions.

- Oversight Functions – namely the Company’s Committees and functions which oversee internal controls, including drafting and implementing policies and procedures, and monitoring compliance with them. This includes the Compliance and Risk Management functions.
- Independent Assurance Providers - The Internal Audit function and oversight of the Audit Committee. The appointment of PricewaterhouseCoopers as external auditors also provides independent assurance.

e) Internal Audit

The Company has an Internal Audit function, governed by the Internal Audit Charter (“the Charter”). The Charter outlines the Internal Audit framework including authority and responsibility within the organisation. The Charter establishes Internal Audit’s position within the organisation; authorizes access to records, personnel and physical properties relevant to the performance of engagements, and defines the scope of Internal Audit activities. The Charter ensures that the Internal Audit function performs its activities in a manner that is consistent with International Internal Audit Standards.

The scope of the Internal Audit department’s work covers all aspects of the Company’s activities. This includes assessing processes, controls, systems and risk management to ensure to following:

- Risks are appropriately identified and managed;
- Interaction with the various governance groups occurs as needed;
- Significant financial, managerial and operating information is accurate, reliable and timely;
- Employees’ actions are in compliance with policies, standards, procedures and applicable laws and regulations;
- Resources are acquired economically, used efficiently and adequately protected;
- Programs, plans and objectives are achieved;
- Quality and continuous improvement are fostered in the organisation’s control processes; and
- Significant legislative or regulatory issues impacting the organisation are recognized and addressed in a timely manner.

To provide for the independence of the Internal Audit department, the Internal Audit Manager reports to the Audit Committee. The department adheres to the Institute of Internal Auditors mandatory guidance including Definition of Internal Auditing, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing.

f) Actuarial Function

The actuarial function has the responsibility for reviewing and assessing the adequacy of the Company's reserves and managing input from third-party actuarial consultants. In addition, the actuarial function is involved in the acquisition process - reviewing the adequacy of reserves and the pricing of deals.

The Company's actuarial function includes qualified actuaries. The Company may utilize external expert actuarial advisers on a transaction-by-transaction basis.

The Company outsources its Actuarial function to ILSIM. This function reports directly to the Chief Financial Officer and has access to and frequent communication with the Board. The ILSIM head actuary is a Fellow of the Institute of Actuaries (FIA), Fellow of the Casualty Actuarial Society (FCAS) and holds a Chief Actuary (non-Life without Lloyds) Practicing certificate.

The key responsibilities of the actuarial support is to assist the Company by:

- Evaluating reserving policies and practices of the Company
- Review of overall reserve adequacy
- Evaluating pricing models utilized at the Company.

g) Outsourcing

i. Outsourcing Policy and Key Functions that have been outsourced

The Company ensures that the duties, responsibilities and authorities of any third-party service provider are clearly set out in service agreements, which include terms detailing compliance with applicable laws, cooperation with the Bermuda Monetary Authority and access to data and records in a timely manner. The Management Team is responsible for ensuring that there is a business owner for outsourced functions. The Board ensures that outsourcing arrangements do not diminish its ability to fulfil its obligations. Fundamental responsibilities such as the setting of strategies and policies and the oversight of the operation of the Company's processes are not outsourced to external third parties.

Certain investment management duties have, or will be, delegated to third party investment managers.

ii. Material Intra-group Outsourcing

The Company, as a member of Armour Group, makes use of its parent's regional service companies to perform all necessary operational functions required. Key outsourced functions include the following:

- The claims management function is managed from the U.K. and U.S. by Armour Risk Management; and
- ILSIM undertakes finance, treasury, corporate governance, risk management, compliance internal audit and actuarial services pursuant to a management services agreement. The

Company maintains all of its books of account and related records at its principal office in Bermuda, which includes maintaining all of the statutory records prescribed by the Insurance Act.

h) Any Other Material Information

No other material information requiring disclosure has been identified.

C. RISK PROFILE

a) Material Risks and Risk Mitigation

The Company believes that a strong, effective and embedded risk management framework is crucial to the success of the business. The Company aims to achieve this goal through a culture of strong risk management principles.

The Company's Risk Management function supports the identification, measurement, management, monitoring and reporting of the all major risks to which the Company is exposed. The Company's Risk Profile is a point-in-time measurement of the risks that the Company is exposed to.

The Company has identified the material risks to which the Company is exposed, and how these risks are mitigated. These are discussed below:

Strategic Risk

Strategic risk is the risk that the Company will be adversely affected by the pursuit of an unsuccessful business plan. The Company's annual business plan is reviewed and overseen by the executive management and Board, and actual performance, trends, and uncertainties are monitored and compared to the plan throughout the year. Potential acquisition opportunities are thoroughly evaluated, taking into account, among other things, the risk of the transaction and potential returns, the portfolio's risk exposures, claims management practices, reserve requirements and outstanding claims, as well as risks specifically related to the Company's ability to integrate the acquired business. The governance process, led by the Board, reviews newly proposed transaction opportunities, capital- raising matters, and other significant business initiatives. Management considers that strong governance procedures, including a robust system of processes and internal controls are appropriate to manage risks related to its reputation. The Company seeks to preserve its reputation through high professional and ethical standards and manages the impact of identified risks through the adoption and implementation of a sound and prudent risk management framework.

Market Risk

Market risk is the risk that the Company is adversely affected by movements in the fair value of its financial assets arising from market movements, such as credit spreads, interest rates and foreign exchange rates or other price risks. The Company manages market risk in a number of ways, including by following a conservative investment strategy designed to emphasize the preservation of the invested assets and provide sufficient liquidity for the prompt payment of claims and contract liabilities, as well as for settlement of commutation payments, the use of investment guidelines, regular reviews of investment opportunities; market conditions; portfolio

duration; oversight of the selection and performance of external asset manager(s); and, where possible, foreign currency asset/liability matching. Invested assets are primarily managed by the Company's centralized group investment function, which is overseen by the Investment Committee.

Credit / Counterparty Default Risk

Credit or counterparty default risk is defined as the change in the value of assets and liabilities caused by unexpected default or deterioration in the credit standing of independent counterparties or debtors. Credit risk may also result from a widening of credit spreads. The Company would, in relation to any fixed maturity and short-term investment portfolios it would acquire, mitigate credit risk through diversification and issuer exposure limitation.

Insurance Risk

Property and casualty insurance risk consists of reserve risk, premium risk and catastrophe risk.

Reserve risk arises from adverse reserve development through failing to set sufficient case reserves or through failing to adopt a robust reserve strategy. It represents the difference between the actual versus expected variability in the timing and amount of loss costs including indemnity, legal and loss adjustment expenses. The Company manages reserve risks through its acquisition evaluation process and reserving practices, as well as through its claims management practices.

Premium risk arises from adverse development of claims in the current year resulting in inadequate premiums charged to cover those liabilities. Given The Company's business model, premium risk is very small compared to reserve risk. The current BSCR model uses net written premium in the relevant year as exposure measure. However, given the Company's business model this is not an ideal approximation for the net premium to be earned by the Company during the next 12 month accounting period. If the latter was used, it would likely reduce premium risk to nil or close to nil given the Company's business model.

The Company has no catastrophe risk, as it is not writing any premium covering losses from catastrophic events.

Operational Risk

Operational risk is the risk of a loss arising from inadequate or failed internal processes, or from external events, personnel, systems or third parties. The Company seeks to mitigate operational risks through the application of its policies and procedures and internal control and compliance processes, including stringent business continuity planning, information security procedures, change management processes and financial reporting. The performance of third parties are also monitored and evaluated against service agreements.

b) Material Risk Concentrations

The Company has undertaken an assessment of the full impact of its risk exposures for the year ended 31 December 2018. All business deals that the Company enters into require the approval of its Underwriting Committee. The Committee has responsibility for managing the accumulations and aggregation of exposures in the Company's business and ensuring that there

is no exposure to unreasonable concentrations.

The Company has an investment policy governing risk concentrations in relation to counterparties, credit quality, sectors and geographical locations. As a general practice, the investment holdings maintain a sufficient amount of diversification to mitigate the impact of concentration risk, with limits in place depending on the asset class and credit quality. Risk concentration and counterparty exposure is aggregated by the investment management team and reported to the Investment Committee on a regular basis.

c) Assets Invested in Accordance with the Prudent Person Principles of the Code of Conduct

The Company had no investments on its balance sheet as at 31 December 2018 and 2017. The Company has adopted a look through of its funds withheld balances to the underlying investments supporting the amount. However, the Company's investment policy guidelines have been established with consideration for the Prudent Person Principles of the Code of Conduct.

The guidelines establish as its objectives:

- maintaining sufficient liquidity to settle claims and pay debts as they fall due; and
- providing a prudent return on any investment portfolio within prescribed risk parameters.

The guidelines outline permitted asset classes, ratings limits, single-issuer limits, duration guidance and other constraints that impact the asset allocation. These guidelines are reviewed on an annual or ad-hoc basis if any significant deviations have occurred that affect financial markets.

d) Stress Testing and Sensitivity Analysis to Assess Material Risks

The Company's portfolio is in run-off and as such, unless reserve deterioration is identified it can be reasonably assumed that solvency requirements will diminish year on year in proportion to the ongoing settlement of liabilities. However, on a quarterly basis various standard stress tests are required to be performed.

Market risk testing is designed to simulate interest rate shocks, market down turns and inflationary/deflationary pressures. Results of testing are reported to the Investment Committee. These standard investment stress tests are also used to evaluate potential changes in strategic direction with respect to the underlying investment allocation.

Based on this ongoing analysis, the Board and Management Team consider the Company to be appropriately capitalized with adequate liquidity to meet its liabilities and that risks to which the company are exposed continue to be appropriately managed.

e) Any Other Material Information

No other material information requiring disclosure has been identified.

D. SOLVENCY VALUATION

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

The Company measures fair value in accordance with Accounting Standards Codification (“ASC”) 820, *Fair Value Measurements*. The guidance dictates a framework for measuring fair value and a fair value hierarchy based on the quality of inputs used to measure fair value. The hierarchy classifies investments into one of three tiers based on the characteristics of inputs available in the market place. The three levels of the fair value hierarchy are described below:

- Level 1: Quoted prices for identical instruments in active markets.
- Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3: Alternative valuation methods, including model-derived valuations in which one or more significant inputs or significant value drivers are unobservable.

When the inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. Thus, a Level 3 fair value measurement may include inputs that are observable (Level 1 and 2) and unobservable (Level 3).

Fixed Maturity and Short-Term Investments

Fixed maturity and short-term investments which are funds withheld in the financial statements of the Company, are subject to fluctuations in fair value due to changes in interest rates, changes in issuer-specific circumstances such as credit rating and changes in industry-specific circumstances such as movements in credit spreads based on the market’s perception of industry risks. As a result of these potential fluctuations, it is possible to have significant unrealized gains or losses on a security.

The fair values for all securities in the investment portfolio are independently provided by the Company’s investment manager(s) and investment custodians, each of which utilizes internationally-recognized independent pricing services.

The independent pricing services used by the investment manager(s) and investment custodians obtain actual transaction prices for securities that have quoted prices in active markets.

Short-term investments comprise investments with a maturity greater than three months up to one year from the date of purchase. Fixed maturities comprise investments with a maturity of greater than one year from the date of purchase.

Short-term and fixed maturity investments are classified as trading and carried at fair value, with realized and unrealized holding gains and losses included in net income and reported as net realized and unrealized gains and losses.

Investment purchases and sales are recorded on a trade-date basis. Realized gains and losses on the sale of investments are based upon specific identification of the cost of investments.

Cash and Cash Equivalents

Cash equivalents include all highly liquid debt instruments purchased with an original maturity of three months or less. The carrying values of cash and cash equivalents approximated their fair values at December 31, 2018, due to their respective short maturities.

Premiums Receivable

Premiums receivable represent amounts currently due and amounts not yet due on insurance and reinsurance policies. Premiums for reinsurance policies are generally due at inception. Premiums for reinsurance policies generally become due over the period of coverage based on the policy terms. The Company monitors the credit risk associated with premiums receivable, taking into consideration the impact of the contractual right to offset loss obligations or unearned premiums against premiums receivable. Amounts deemed uncollectible are charged to net earnings in the period they are determined. Changes in the estimates of premiums written will result in an adjustment to premiums receivable in the period they are determined.

Funds Withheld

Under funds withheld arrangements, the reinsured company has retained funds that would otherwise have been remitted to the Company. The funds balance is credited with investment income and losses payable are deducted. The investment returns of funds held are recognized in net investment income and net realized and unrealized gains (losses).

Retroactive Reinsurance and Deferred Charges

Retroactive reinsurance policies provide indemnification of losses and loss adjustment expenses with respect to past loss events. The Company uses the balance sheet accounting approach for assumed loss portfolio transfers, whereby at the inception of the contract there are no premiums or losses recorded in earnings. At the inception of a contract, a deferred charge asset is recorded for the excess, if any, of the estimated ultimate losses payable over the premiums received. Deferred charges are amortized over the estimated claim payment period of the related contract with the periodic amortization reflected in earnings as a component of losses and LAE. Deferred charges amortization is adjusted at each reporting period to reflect new estimates of the amount and timing of remaining loss payments. Changes in the estimated amount and the timing of payments of unpaid losses may have an effect on the unamortized deferred charges and the amount of periodic amortization. Deferred charges are assessed at each reporting period for impairment. If the asset is determined to be impaired, it is written down in the period in which the determination is made.

b) Valuation Basis, Assumptions and Methods to Derive the Value of Technical Provisions

All reserves are initially established in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The Company establishes reserves for individual claims incurred and reported, as well as for incurred but not reported ("IBNR") claims. Considerable judgment is applied in estimating losses for reported claims on an individual claim basis based upon knowledge of the circumstances surrounding the claim, the severity of the injury or damage, the jurisdiction of the occurrence, the potential for ultimate exposure, the type of loss, and the Company's experience with the line of business and policy provisions relating to

the particular type of claim. Considerable judgment is also applied to establish reserves for IBNR claims using a variety of generally accepted actuarial methodologies and procedures to estimate the ultimate cost of settling claims.

The reserves for unpaid reported losses and loss adjustment expenses are established by management based on reports from brokers, ceding companies and insureds and represent the estimated ultimate cost of events or conditions that have been reported to, or specifically identified by us. IBNR reserves are established by management based on actuarially determined estimates of ultimate losses and loss expenses. Inherent in the estimate of ultimate losses and LAE are expected trends in claim severity and frequency and other factors which may vary significantly as claims are settled. These estimates are reviewed regularly and, as experience develops and new information becomes known, the reserves are adjusted as necessary.

Once U.S. GAAP provisions have been determined, insurance technical provisions for the Economic Balance Sheet (“EBS”) are calculated in accordance with the methodology prescribed by the Bermuda Monetary Authority (“BMA”) as further described below.

Insurance technical provisions are valued based on best estimate cash flows, adjusted to reflect the time value of money using a risk-free discount rate with an appropriate illiquidity adjustment. In addition, there is a risk margin to reflect the uncertainty inherent in the underlying cash flows. The risk margin is estimated based on projections of BSCR capital at future evaluation dates and a 6.0% cost of capital as prescribed by the BMA. The risk-free discount rates are prescribed by the BMA for each reporting period.

The best estimate for the loss and loss expense provision is calculated by using U.S. GAAP reserves as the starting point and then performing a series of adjustments:

- Discounting of cash flows – applying the discount rates as advised by the BMA;
- Removal of prudence margins – the Company does not hold any explicit or implicit margins for prudence under U.S. GAAP
- Incorporation of expected reinsurance counterparty defaults – the Company does not purchase external reinsurance, and as such there is no risk of counterparty default;
- Incorporation of Events not in Data (“ENIDs”) – a benchmark rate of 0.5% for ENIDs has been applied; and
- Other adjustments related to consideration for expenses, etc. – expense provision for run-off has been used based on an internal projection of expenses.

The best estimate for the premium provision is calculated by using the unearned premium reserve on a U.S. GAAP basis, adjusting for bound but not incepted (“BBNI”) business and applying expected future loss ratios, expense ratios and appropriate claims pay-out patterns to derive cash flows which are then discounted. Given The Company’s business model, premium provisions are insignificant and generally arise only from Unearned Premium Reserve.

As at December 31, 2018, the total Technical Provisions were comprised of the following:

| | GROSS PROVISION In \$'000 | NET PROVISION In \$'000 |
|-------------------------------------|------------------------------|----------------------------|
| Best Estimate Loss and Loss Expense | 99,434 | 99,434 |
| Best Estimate Premium Provision | 46 | 46 |
| Risk Margin | | 5,252 |
| | | 104,732 |

c) Description of Recoverables from Reinsurance Contracts

As at December 31, 2018 the Company does not use any retrocessional agreements to reduce its exposure to risk of loss on insurance assumed.

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

Other liabilities comprise trade payables and are carried at cost. Trade payables solely comprise amounts which fall due within 12 months and are considered to be held at fair value.

e) Any Other Material Information

No other material information has been identified.

E. CAPITAL MANAGEMENT

a) Eligible Capital

i. Capital Management Policy and Process to Determine Capital Needs

Eligible Capital represents the Company's assessment of the quality of its capital resources eligible to satisfy its regulatory requirements. The Company strives to maintain sufficient and appropriate levels of capital to meet its financial obligations and to achieve its strategic goals. The Company aims to achieve this by generating cash flows from its reinsurance operations and investments and preserve sufficient capital for future acquisitions.

ii. Description of the eligible capital categorized by tiers, in accordance with the Eligible Capital Rule, used to meet the Enhanced Capital Requirement ("ECR") and the Minimum Margin of Solvency ("MSM") defined in accordance with section (1) of the Act

Eligible capital, categorized by tiers in accordance with the Eligible Capital Rules used to meet ECR and MSM requirements of the Insurance Act, include only Tier 1 basic own funds for the Company. This includes share capital (\$0.12 million) and additional paid-in capital (\$126.1 million). The Company has no other own funds.

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 ECR

None.

v. Identification of Ancillary Capital Instruments Approved by the Authority

None.

vi. Identification of Differences between Shareholders' Equity as Stated in the Financial Statements versus the Available Capital and Surplus

Other than the impact of statutory based technical provision valuation techniques, significant differences between GAAP shareholders' equity and available statutory capital and surplus only include a reduction in available statutory capital for deferred charges.

b) Regulatory Capital Requirements

i. Enhanced Capital Requirement ("ECR") and Minimum Margin of Solvency ("MSM")

The ECR is the amount of funds that the Company is required to hold in line with the requirements defined in accordance with section (1) of the Act as prescribed by the BMA. The ECR calculation is a formula-based figure calibrated to ensure that all quantifiable risks are taken into account.

| | |
|---|---------------|
| Enhanced Capital Requirement | In \$'000 |
| Enhanced Capital Requirement (ECR) | 36,101 |

| | |
|------------------------------------|---------------|
| Available Capital and Surplus | 126,135 |
| ECR Ratio | 349% |
| Target Capital | 43,322 |
| Excess above Target Capital | 82,813 |
| MSM | 15,849 |

The Company's ECR Ratio is 349%. This translates into an excess above Target Capital of \$82.8 million.

The Company uses the standard formula model as provided by the BMA to calculate its MSM. The amount of the MSM for the reporting period is \$15.8 million, which is 15% of the net loss and loss expense provisions as reported in 1SFS.

The Company is in compliance with the ECR and MSM.

c) Approved Internal Capital Model to Derive the ECR

The Company has not made use of an internal or partial internal model to derive the ECR.

F. SUBSEQUENT EVENTS

Portfolio 4

On February 18, 2019, the Company entered into a LPTA to reinsure a portfolio of Italian medical malpractice liability lines of business. Concurrently, we entered into a quota share retrocession agreement ("QS Agreement") with PC RE II in relation to the LPTA whereby PC Re II funded \$16.3 million, and we funded \$7.9 million, representing the capital required to fund the reinsurance up to the aggregate limit under the terms of the LPTA along with funding of deal related expenses.

Portfolio 3

On January 31, 2019, the Company entered into a LPTA to reinsure a portfolio of US general liability, commercial package including and excluding US wind cover and miscellaneous professional and liquor liability. Concurrently, we entered into a QS Agreement with PC RE II in relation to the LPTA whereby PC Re II funded \$82.9 million, and we funded \$40.2 million, representing the total capital required to fund the reinsurance up to the aggregate limit under the terms of the LPTA along with funding of deal related expenses.