

FINANCIAL CONDITION REPORT

Armour Re Ltd.

December 31, 2019

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

TABLE OF CONTENTS

DESCRIPTION	PAGE
DECLARATION ON FINANCIAL CONDITION REPORT	3
A. BUSINESS AND PERFORMANCE	4
a) Company Information	4
b) Ownership Details	5
c) Group Structure	6
d) Insurance Business Written	6
e) Performance of investments	7
f) Material Income & Expenses for the Reporting Period	8
g) Any other material information	9
B. GOVERNANCE STRUCTURE	9
a) Board and Senior Executive	9
b) Fitness and Propriety Requirements	11
c) Risk Management and Solvency Self-Assessment	15
d) Internal Controls and Compliance	16
e) Internal Audit	17
f) Actuarial Function	18
g) Outsourcing	18
h) Any Other Material Information	18
C. RISK PROFILE	20
a) Material Risks and Risk Mitigation	20
b) Material Risk Concentrations	21
c) Assets Invested in Accordance with the Prudent Person Principles of the Code of Conduct	21
d) Stress Testing and Sensitivity Analysis to Assess Material Risks	21
e) Any Other Material Information	22
D. SOLVENCY VALUATION	23
a) Valuation Bases, Assumptions and Methods to Derive the Value of Each Asset Class	23
b) Valuation Basis, Assumptions and Methods to Derive the Value of Technical Provisions	24
c) Valuation Bases, Assumptions and Methods to Derive the Value of Other Liabilities	26
d) Description of Recoverables from Reinsurance Contracts	26
e) Any Other Material Information	26
E. CAPITAL MANAGEMENT	27
a) Eligible Capital	27
b) Regulatory Capital Requirements	28
c) Approved Internal Capital Model used to derive the ECR	28
F. SUBSEQUENT EVENTS	29

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, 2019.



Chief Financial Officer

Armour Re Ltd.



Chief Risk Officer

Armour Group 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. (“Armour Group”).

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 organizations) 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.

Mailing Address:

P.O. Box HM 66
Hamilton HM AX
Bermuda

Physical Address:

19 Par-la-Ville Road
3rd Floor
Hamilton HM 11
Bermuda

Supervisory Authority:

Bermuda Monetary Authority
BMA House
43 Victoria Street
Hamilton
Bermuda

Contact telephone number: +1 441 295 5278

Lead Supervisor: Kofi Takyi

Email: ktakyi@bma.bm

Approved Auditor:

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

Contact telephone number: +1 441 295 2000

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" or "PC Re 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").

The Co-investment Ratios are fixed since December 31, 2018 for the PCV Vehicle and Fund II and are 32.65% and 67.35%, respectively.

For the PCV Vehicle and Fund II, the Co-Investments are primarily undertaken through their Bermuda registered Class 3B insurers being Armour Re and PC Re II, respectively.

b) Ownership Details

The Company is a wholly owned subsidiary of Armour Group. Armour Group is owned by the following entities as at December 31, 2019:

Entity	% Ownership
Trebuchet Group Holdings Limited	15.57%
Aquiline Armour Co-Invest II L.P.	11.88%
Aquiline Armour Co-Invest L.P.	53.94%
Aquiline Financial Services Fund III L.P.	18.61%

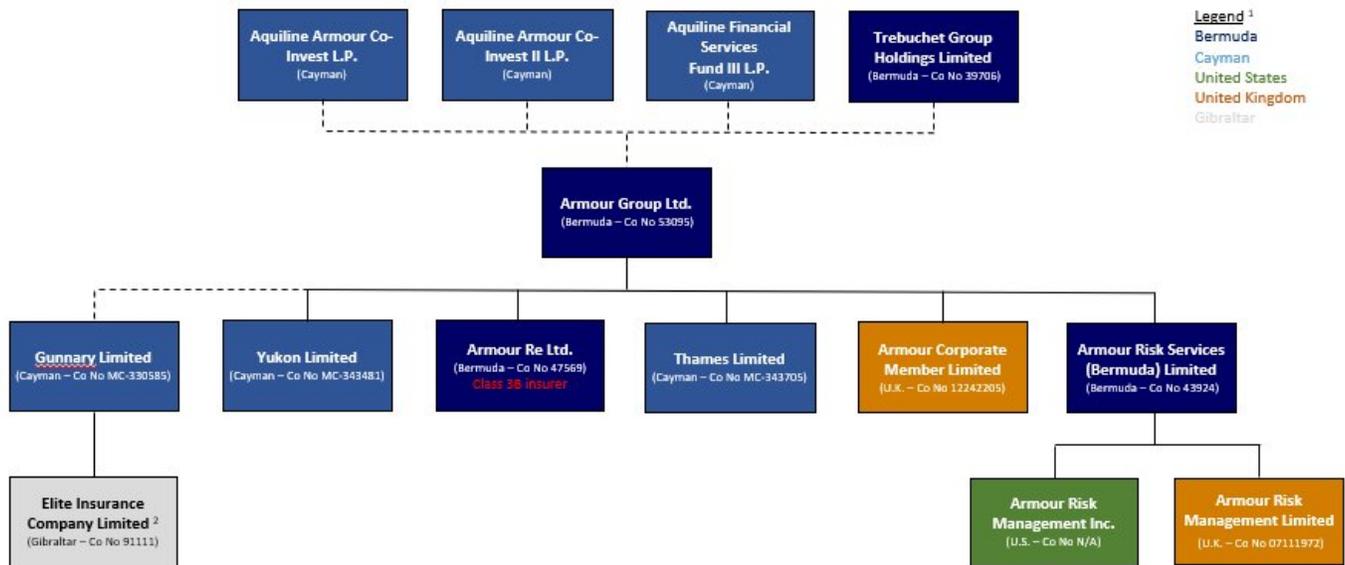
At the end of 2017 Aquiline Holdings LLC (together with its affiliates and co-investors, "Aquiline"), acquired a majority of the voting and economic interests in Armour Group Ltd. Aquiline is a New York-based private equity firm investing in companies in the financial services (particularly insurance) 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 structure of the Armour Group of companies ("Group") as at December 31, 2019:



¹ Solid lines represent 100% ownership. Dotted lines represent less than 100% ownership.

² Elite Insurance Company Limited is currently in administration.

d) Insurance Business Written

Portfolio 1

On December 29, 2017, Armour Re entered into a quota share retrocession agreement ("QS Agreement") with PC Re II in relation to the loss portfolio transfer agreement ("LPTA") it 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. Taking into account the impact of the change in the Co-Investment Ratio, the Company 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.

On January 2, 2019 the Portfolio 1 QS was amended and restated in relation to the excess of loss agreement ("XOL Contract") PC Re II entered into with White Rock Insurance (SAC) Ltd., acting solely in respect of its segregated account "T56", ("White Rock"), a consolidated VIE. The terms of the amended and restated QS agreement provide coverage to the Company for its quota share percentage of the aggregate limit in excess of its retention on the underlying QS related to Portfolio 1. As collateral is released from the underlying Portfolio 1 collateral trust accounts, it will be paid to White Rock, in accordance with the contractually agreed payment waterfall, and will be applied to reduce the aggregate limit under the XOL Contract.

Portfolio 2

On March 5, 2018, Armour Re entered into a QS Agreement with PC Re II in relation to the LPTA it entered 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 has indemnified PC Re II for its quota share percentage of the ultimate net loss and other liabilities incurred by PC Re II under the LPTA. The Company has provided capital of \$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 3

On January 31, 2019, the Company entered into an LPTA to reinsure a portfolio of US general liability, commercial package including and excluding US wind cover and miscellaneous professional and liquor liability. Concurrently, the Company entered into a QS Agreement with PC RE II in relation to the LPTA whereby PC Re II funded \$82.9 million, and the Company 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.

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, Armour Re 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 Armour Re 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.

e) Performance of Investments

There were \$264.5 million of invested assets at December 31, 2019 (2018: \$Nil). The Company has reported investments which are reflected as part of its funds withheld in the financial statements with a total market value of \$143.3 million as at December 31, 2019 (2018: \$193.0 million). In addition, the company had cash on hand of \$13.9 million at year end (2018: \$36.3 million).

The Company's investment strategy emphasizes liquidity, 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 regulatory solvency requirements;
- to match assets and liabilities to ensure proper liquidity;
- to meet stakeholder risk appetite and return objectives;
- to effectively monitor portfolio developments.

The investments held by the Company at December 31, 2019 and investments 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 (loss) of \$(45.3) million for the year ended December 31, 2019 (2018: gain of \$4.4 million). The primary drivers of the results for the year ended December 31, 2019 were as follows:

Net Underwriting Loss

Total net underwriting loss was \$50.5 million for the year ended December 31, 2019 (2018: \$0.8 million). The net underwriting loss was a result of the cumulative impact of changes in:

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

The Company reported net incurred losses and LAE of \$48.7 million for the year ended December 31, 2019 (2018: \$4.9 million). The primary driver of the net increase in liability for net incurred losses and LAE is related to the loss incurred on Portfolio #3 driven by higher costs per claim and higher numbers of new claims advices.

Commissions and Expense

The Company reported commissions and expenses of \$0.1 million for the year ended December 31, 2019 (2018: \$5.1 million). The primary driver in the prior year was profit commission expenses incurred associated with Portfolio #2.

Net Premiums Earned

For the year ended December 31, 2019, the Company reported net earned premium of \$(1.7) million (2018: \$9.2 million). The negative net earned premiums in 2019 are due to retrocessional premiums exceeding the assumed premium during the year. The net earned premiums in 2018 related primarily to the 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 amounted to \$5.1 million for the year ended December 31, 2019 (2018: \$4.1 million). This represents a return of 1.2% on invested assets, a modest positive return reflecting the low interest rate environment and conservative asset allocation.

General and Administrative Expenses

The Company reported total general and administrative expenses of \$1.5 million for the year ended December 31, 2019 (2018: \$1.0 million).

g) Any Other Material Information

No other material information has been identified which requires disclosure other than the subsequent events as disclosed in Section F.

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 (“the 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 and senior executive officers as at 31 December 2019:

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
John Parry	Chief Financial Officer

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: the integrity of the financial statements of the Company; the independent auditor’s qualifications and independence; the performance of the Company’s internal audit function and independent auditors; and compliance by the Company with legal and regulatory requirements.</p> <p>The Committee members include Timothy Price, Roger Gillett and Jason Rotman.</p>
Underwriting Committee	<p>Responsible for overseeing the Board’ 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>

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 as at December 31, 2019:

EXECUTIVE	POSITION
Brad Huntington	Chief Executive Officer and Chairman
John Williams	President
John Parry	Group Chief Financial Officer
Erica Robinson - McLeod	General Counsel
Hannah Fisher	Group Chief Operating Officer
Charles McGill	Chief Investment Officer
Yulia Bruskova	Group Chief Risk Officer

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 the Company.

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 with Armour Group. The company has entered into service level agreements ("SLAs") with Armour Risk Management Services, a fellow subsidiary of Armour Group Limited, in respect of claims handling, settlement, accounting and actuarial services. The SLAs are on arms length commercial terms.

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 Senior Executive 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 judgment to undertake and fulfill 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 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 for 2019:

Brad Huntington, Chief Executive Officer, Chairman 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 (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 (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. He was also 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 Gillet, Independent Non-Executive Director

Roger Gillett has been an independent non-executive Director of the Company since December 7, 2017. 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 Trebuchet 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

Timothy Price has been an independent non-executive Director of the Company since December 7, 2017. 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 Trebuchet 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 organization representing the Canadian Securities Industry.

John Parry, Chief Financial Officer

John Parry is Group Chief Financial Officer. He was Chief Financial Officer for Lloyd’s from 2014 to 2019, responsible for the financial reporting for the Society and the Lloyd’s market, capital setting and capital adequacy. Finance also covered treasury and investment management and the tax affairs of the Corporation and market in the UK and overseas. He is a chartered accountant and joined Lloyd’s in August 2001 and was previously Finance Director of various Lloyd’s managing agents.

Senior Executives and Management Team

Detailed below are the qualifications, skills and expertise of the Senior Executives and Management Team for 2019 (excluding those officers who are members of the Company's Board):

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.

Hannah Farrer Fisher, Chief Operating Officer

Hannah is Chief Operating Officer of Armour. She is experienced in working with insurers and reinsurers on operational efficiencies as well as execution of legacy M&A transactions. Before serving as the Group Chief Operating Officer Hannah was Armour's UK Chief Operating Officer. Prior to joining Armour she worked at KPMG within Insurance Restructuring and has focused on the insurance sector for the last ten years. She has been involved in advising insurers on the disposal of numerous legacy portfolios, as well as strategic reviews on all aspects of business operations and implementation of capital efficient solutions. Hannah has a BSc (Hons) in Accounting and Finance from the University of East Anglia and is a qualified Chartered Accountant.

Charles McGill, Chief Investment Officer

Charles is Chief Investment Officer of Armour. He has significant experience executing capital markets transactions and investing in the insurance industry. Prior to joining Armour Charles spent most of his career investing in private equity in the insurance industry. He was Head of Direct Private Equity Europe at Swiss Reinsurance Company, where he oversaw a direct private equity portfolio of European financial services investments and was a member of the Alternative Investment Committee. Charles also was a Director at Aon Capital Markets, a Vice President at MMC Capital (currently Stone Point Capital) and an Executive Vice President of Danish Re Syndicates Ltd. Charles holds a BS in Commerce from the University of Virginia, McIntire School of Commerce, and is a CFA Charter holder.

Yulia Brusikova, Group Chief Risk Officer

Yulia is a Group Chief Risk Officer at Armour. She is an experienced reinsurance and risk market executive, and has expertise gained from both the underwriting side and consulting sides of the sector. Prior to joining Armour, she held the position of Group Actuary at Renaissance Re. During her time in that role, Yulia was responsible for oversight of reserving processes and rolling out risk management processes, eg. reserve risk, operational and model risk. Most recently, she served as the Chief Risk Officer for a Bermuda domiciled reinsurer F&G Re, where she led the development of Risk Function for the company's Bermuda start-up operations. Yulia also previously led the Bermuda actuarial practice for Big 4 accountancy Deloitte. Yulia is a Fellow of the Institute and Faculty of Actuaries (UK) and has Master's in Actuarial Science with Distinction from the Heriot-Watt University, UK.

c) Risk Management and Solvency Self- Assessment

i. Risk Management Processes and Procedures

The Company has established the Risk Management Function having hired in November 2019 the Group Chief Risk Officer. The Board supports the Risk Management Function and ensures that Risk Management Function complies with the BMA regulations, namely it:

- Is independent of other operational units and has direct access to the Board of Directors
- Is entrenched in strategic planning, decision making and budgeting process
- Ensures that the risk management procedures and policies are well documented and approved by the Board of Directors
- Ensures the risk management policies and procedures are communicated throughout the organization.
- Documents its risk management recommendations for operational units, ensures that deficiencies have remedial plans and progress on the execution of such plans are reported to the Board of Directors at least annually

The Risk Management Function is establishing the Enterprise Risk Management Framework in line with the BMA Code of Conduct and industry best practice.

The Company Risk strategy is aligned to the Company's current business strategy and the risk appetite is articulated at the Company level and allocated further to the individual material risk classes. The Company's strategy is to run off the existing exposures and meet the policyholder claims as they fall due and remain solvent and within the current risk appetite thresholds.

In line with the current strategy, the Company has low appetite for insurance and investment related risk and has low tolerance of operational risks.

CISSA (Commercial Insurer Solvency Self-Assessment) is a risk management process that is performed at least once a year. It aims to identify and quantify all material risks and provide an internal view of the Company solvency, required capital and available capital. CISSA is presented to the senior management and to the Board.

In addition to CISSA, on a quarterly basis, various risk assessments are performed by the risk management function, with the aim to establish an informed internal view on the Company's solvency and compliance with its strategy and risk appetite. For example, each quarter the Company assesses BSCR ratios and tracks the remaining exposure and required and available capital as viewed internally.

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 subject to appropriate levels of approval.

ii. Risk Governance

The Company Board is responsible for ensuring that an effective framework is established, maintained and implemented across Armour operations and that risks are managed effectively in accordance with the ERM framework.

The Board receives regular risk management information to support risk governance. The CISSA report is provided annually to the Audit Committee for review and the Board for approval with emphasis upon significant changes during the period, current and emerging risk exposures, and how the exposures are mitigated in the risk management framework. Via the CISSA, 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.

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

CISSA (Commercial Insurer Solvency Self-Assessment) is an annual process whereby Armour assesses its solvency position, in line with the BMA requirement. The results of the self-assessment identify if Armour operates within its Risk Appetite and are integrated into the management and strategic decision-making process.

CISSA is Armour's Enterprise Risk Management tool that supports quantitative analysis of risks and capital adequacy of Armour in line with Armour Enterprise Risk Management Policy.

Additional analysis such as exposure analysis, stress and scenario testing and standard regulatory formula analysis allow solvency and capital needs to be assessed on a regular basis in line with Armour ERM framework.

iv. The Solvency Self-Assessment Approval Process

The Risk Management Function prepares and presents to the senior management and the Board CISSA report on an annual basis.

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 organizational 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 Senior Executive 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 Senior Executive Team are adequately skilled to execute and discharge their duties to ensure sound risk management and compliance.

Armour Group has a centralized 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 offense. The Board has responsibility for establishing and communicating the standards of behavior 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 organization. The Charter establishes Internal Audit's position within the organization; 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 the 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 organization's control processes; and
- Significant legislative or regulatory issues impacting the organization are recognized and addressed in a timely manner.

To provide for the independence of the Internal Audit department, the Internal Audit Manager reports administratively to the Chief Risk Officer and functionally 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 Functions

The actuarial function has 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 Armour Risk Management. This function reports directly to the Chief Financial Officer and has access to and frequent communication with the Board. The 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 are 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 regulation and oversight of the Company 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. 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 and IT services are managed by Armour Risk Management Inc (US) and Armour Risk Management Ltd (UK), which are the direct subsidiaries of Armour Risk Services (Bermuda) Ltd; and
- 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 integrated risk management framework is crucial to the success of the business. The Company aims to achieve this goal through promoting a risk management culture and rolling out the Enterprise Risk Management Framework.

The Company's Risk Management function supports the identification, measurement, management, monitoring and reporting of all the 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:

Insurance Risk

Property and Casualty insurance risk consists of reserve risk and underwriting risk. Underwriting risk arises as a result of uncertainty in the timing, frequency and severity of insured events and claims settlements, relative to expectations. Reserve risk arises from adverse reserve development through failing to set sufficient levels of 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. The downside reserve risk is limited as every loss portfolio transaction is written with a contractual limit in place.

The Company has no underwriting risk due to being a run off (discontinued business) reinsurer and no live underwriting risk in the portfolios. The Company has no catastrophe risk, as it is not writing any premium covering losses from catastrophic events.

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.

Liquidity Risk

The liquidity risk is a risk of insufficient liquid assets to meet liabilities as they fall due to policyholders and creditors or only being able to do so at excessive cost. This risk is managed through regular asset liability projections. The risk is mitigated by the short duration of both assets and liability portfolios.

Credit / Counterparty Default Risk

Credit or counterparty default risk is defined as the risk of financial loss where a customer, counterparty, issuer, or insurance obligor fails to meet their financial obligations to the Company in accordance with agreed terms. Failure includes both inability and willingness to do so.

Credit or counterparty default risk can further arise due to 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 manages credit risk with respect to the reinsurance recoverables by ongoing monitoring of counterparty ratings and working to achieve prompt payment of reinsured claims. In the fixed maturity and short-term investment portfolios, the Company attempts to mitigate credit risk through diversification and issuer exposure limitation.

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.

Strategic Risk

Strategic risk is the risk that the Company will be adversely affected by the pursuit of an unsuccessful business strategy.

b) Material Risk Concentrations

The Company has undertaken an assessment of the full impact of its risk exposures for the year ended December 31, 2019. 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 investment guidelines 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'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 the 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 annually, 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 downturns and inflationary/deflationary pressures. Results of testing are reported to the Board. 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 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 investments 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, 2019, 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 insurance 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 us. The funds withheld 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 the risk-free discount rates with an appropriate illiquidity adjustment as provided by the BMA. 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 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 provided 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 has assumed no allowance for uncollectible reinsurance recoverable. For Portfolio 1 and 2, the Company reinsures 100% of the cedants' liabilities, net of other reinsurance, and any default by the underlying cedants' reinsurance providers would not be ceded to the Company. In addition, the QS reinsurance provided to the Company by Armour Re Ltd. ("Armour Re") is on a funds with held and also collateralized basis. Portfolio 3 and 4 are fronted by Armour Re, and the Company assumes their QS percentage only with no further reinsurance;
- Incorporation of Events not in Data ("ENIDs") - a rate of 3.0% for ENIDs has been applied, which is in line with relevant benchmarks; 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, 2019, the total Technical Provisions were comprised of the following:

	2019	2018
	In \$'000	In \$'000
Best Estimate Loss and Loss Expense		
Gross	350,823	99,434
Net	152,558	99,434
Best Estimate Premium Provision		
Gross	13	46
Net	13	46
Risk Margin	5,113	5,252
	157,684	104,732

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

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

d) Description of Recoverables from Reinsurance Contracts

The Company uses retrocessional agreements to reduce its exposure to risk of loss on reinsurance assumed. These agreements provide for recovery from retrocessionaires of a portion of losses and loss expenses. The Company remains liable to its cedants to the extent that the retrocessionaires do not meet their obligations under these agreements, and therefore the Company evaluates the financial condition of its reinsurers and monitors concentration of credit risk on an ongoing basis.

e) Any Other Material Information

No other material information requiring disclosure 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 of \$127.8 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

Below is a summary of differences between Shareholder's Equity and Available Capital and Surplus:

	2019 In \$'000	2018 In \$'000
GAAP Shareholder's Equity	86,749	136,967
Deferred Charges	(7,595)	(11,805)
Prepaid expenses	(4)	—
Available Statutory Capital and Surplus	79,150	125,162
Technical provision adjustments	(5,180)	973
Available EBS Capital and Surplus	73,970	126,135

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.

The key figures from the BSCR are as follows, using transitional measures for 2019:

Enhanced Capital Requirement

	2019	2018
	In \$'000	In \$'000
Enhanced Capital Requirement (ECR)	32,093	36,101
Available Capital and Surplus	73,970	126,135
ECR Ratio	230%	349%
Target Capital	38,511	43,322
Excess above Target Capital	35,459	82,813
MSM	22,874	15,849

The Company is in compliance with the ECR and MSM.

c) Company Specific Parameters or 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.

In the 2019 submission, the BMA approved a revision to the standard capital calculation in respect of Portfolio 3 to recognize that there is no downside reserve risk on this trade.

F. SUBSEQUENT EVENTS

The Group underwent a restructuring subsequent to 31 December 2019 whereby:

1. Brad Huntington and John Williams are no longer directors, officers, committee members, or employees of any Group entity.
2. The shareholding percentages in Armour Group are as follows as at May 18th, 2020:

Trebuchet Group Holdings Limited	5.19%
Aquiline Armour Co-Invest II L.P.	13.34%
Aquiline Armour Co-Invest L.P.	60.57%
Aquiline Financial Services Fund III L.P.	20.90%

3. The directors and senior executive officers of Armour Re are as follows as at May 18th, 2020:

John Parry	Director, Interim Chief Executive Officer and Chief Financial Officer
Jason Rotman	Shareholder Non-Executive Director
Christopher Watson	Shareholder Non-Executive Director
Roger Gillett	Independent Non-Executive Director
Timothy Price	Independent Non-Executive Director

4. The composition of the Armour Re committees are as follows as at May 18th, 2020:

Audit Committee	The Committee members include Timothy Price, Roger Gillett and Jason Rotman.
Underwriting Committee	The Committee members include Christopher Watson and Jason Rotman.
Compensation Committee	The Committee members include Christopher Watson and Jason Rotman.
Investment Committee	The Committee members include Christopher Watson and Jason Rotman.

5. The Management Team of Armour Re is as follows as at May 18th, 2020:

John Parry	Chief Executive Officer and Chief Financial Officer
Charles McGill	Chief Investment Officer
Erica Robinson - McLeod	General Counsel
Yulia Bruskova	Chief Risk Officer
Hannah Fisher	Chief Operating Officer