GreyCastle Life Reinsurance (SAC) Ltd.

Financial Condition Report

For the year ending 31 December 2018

Issued: 11 April 2019

Contents

EXECUTIVE SUMMARY

This document is the Financial Condition Report for GreyCastle Life Reinsurance (SAC) Ltd. ("the Company") for the year ending 31 December 2018. A summary of the key information provided in this report is detailed below:

- Business – the Company writes life reinsurance business originating from the UK and Ireland, focusing on annuity business (including longevity swaps). It also writes several smaller product lines including term assurance business (mortality and critical illness). The business is ceded from several entities that are all part of the XL Group (now a division of Axa).

- Performance – premiums were lower in 2018, when compared to 2017, reflecting the natural run-off of the business, although this was partially offset by movements in exchange rates. Claims were higher in 2018 predominantly due to exchange rate movements. Investment returns constitute a key driver of the Company's performance. The Company invests in a combination of government bonds and corporate bonds, choosing assets to closely duration and currency match its liabilities, and meet its investment guidelines.

- Governance – the Board of Directors is responsible for ensuring that corporate governance policies are developed and applied in a prudent manner. The Board has delegated its authority to various committees to assist it in meeting these responsibilities.

- Risk Profile – the Company's most significant insurance risk is longevity risk on its annuity business, but it is also exposed to other insurance risk on its smaller product lines (e.g. mortality, morbidity and persistency risk). The risks are managed in a number of ways including regular account monitoring and experience analysis. The other significant risks that the company is exposed to are market and credit risks on its investments, and these are managed through asset liability management and analysis of credit exposures.

- Risk Management – the Company has developed a Risk Management Framework ("RMF") to support and sustain risk management activity throughout the Company. A "Solvency Self-Assessment" model has been developed and is embedded in the Company's risk management processes, with results being prepared on a quarterly basis.

- Solvency – the Company assesses its regulatory capital using the Bermuda Monetary Authority's Economic Balance Sheet regime and hence results in this report reflect that basis.

- Capital Management – the Company's coverage ratio of its Enhanced Capital Requirement is 283% for the year ending 2018 (338% for the year ending 2017). The main driver of the reduction in the solvency ratio is an increase in the reserves for future expenses. The Company's entire capital base is classed as Tier 1. Stress testing indicates that the Company would remain solvent even if extreme stresses were to occur (e.g. it could withstand a 1 in 250 year longevity stress).

- Significant events – there are no significant events either in the reporting period, or that have occurred between the end of the reporting period and the date of signing the return.

INTRODUCTION

On 30 May 2014, GreyCastle Holdings Ltd. purchased XL Life Reinsurance (SAC) Ltd. from the XL Group. XL Life Reinsurance (SAC) Ltd. was a Bermuda based company that wrote life retrocession business ceded from several XL entities. On 4 June 2014, XL Life Reinsurance (SAC) Ltd. was renamed GreyCastle Life Reinsurance (SAC) Ltd ("The Company"). The Company is licensed as a Class C insurer and was registered under the Segregated Accounts Act 2000.

On 30 April 2014, GreyCastle Holdings Ltd. established a wholly owned subsidiary in the United Kingdom, GreyCastle Services Limited ("GSL"). GSL has entered into arrangements with the Company and various XL entities to provide accounting, administration, actuarial and claims services.

This document is the Financial Condition Report for the Company for the year ending 31 December 2018. The previous Financial Condition Report was produced for the year ending 31 December 2017.

The financial results are taken from the Economic Balance Sheet schedules that are reported as part of the Capital and Solvency Return for the year ending 31 December 2018. The Company receives regular premiums on existing treaties within the retroceded business, but no new treaties have been written since the purchase of the Company.

i) BUSINESS AND PERFORMANCE

a) Name of Insurer
GreyCastle Life Reinsurance (SAC) Ltd.

b) Supervisors
Insurance Supervisor

Name	Patience Maina
Jurisdiction	Bermuda
Email	pmaina@bma.bm
Phone	001 441 278 0363

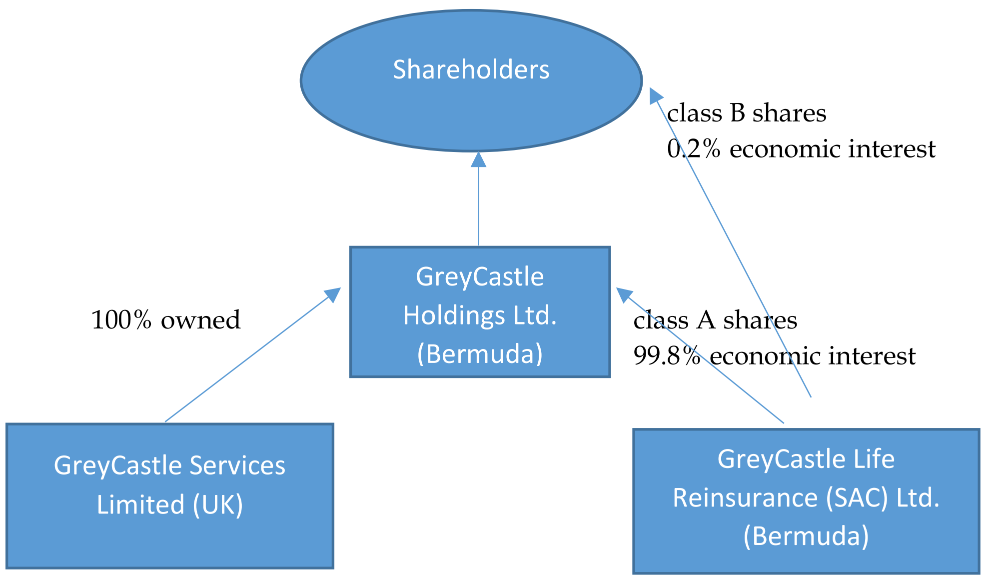
Group Supervisor
Not applicable

c) Approved Auditor

Organisation	Pricewaterhouse Coopers
Name	Stewart Ritchie
Jurisdiction	Bermuda
Email	stewart.ritchie@bm.pwc.com
Phone	001 441 299 7262

d) Ownership Details
GreyCastle Holdings Ltd. owns 99.8% of the economic interest in the Company and GreyCastle Holdings Ltd.'s shareholders own a 0.2% economic interest in the Company.

e) Group Structure



f) Insurance Business written by line of business and geographical region

The Company predominantly writes life reinsurance business in the UK and Ireland, focusing on annuity products (including longevity swaps) and term assurance business (mortality and critical illness business). The Company writes several smaller lines of business including Variable Annuity business originating mainly from the US, and covers on insurance products written in Continental Europe.

Premium written by product line for the year ending 2017 and 2018

USD 000's	31 December 2017		31 December 2018	
Line of Business	Gross Premium Written	Net Premium Written	Gross Premium Written	Net Premium Written
Mortality	48,399	48,399	45,572	45,572
Critical Illness	24,974	24,974	19,743	19,743
Longevity	87,960	87,960	89,072	89,072
Variable Annuity	7,024	7,024	6,294	6,294
Total	168,357	168,357	160,681	160,681

Gross Premium written by geographical location for the year ending 2017 and 2018

Geographical Location USD 000's	Gross Premium Written 2017	Gross Premium Written 2018
Central & Western Asia	413	369
Northern Europe	160,190	152,456
Southern Europe	882	1,294
Western Europe	6,017	5,828
Mid-West United States	915	734
Total	168,357	160,681

Premiums for longevity swaps were marginally higher in 2018 than 2017 due to the appreciation of sterling (using period average exchange rates) in 2018. For other lines of business, the FX impacts were offset by the natural run-off of the business.

g) Performance of Investments and Income and Expenses for year ending 2017 and 2018

The assets backing the Company's reserves are held on its cedants' (various XL entities) balance sheets. The Company has appointed investment managers to manage these assets, operating within guidelines agreed with its cedants. The table below shows the market values of these assets and the average gross redemption yields at the end of the reporting period. The reduction in asset values has been driven by the depreciation of sterling and the euro against the US dollar (using year end exchange rates) during 2018, increases in investment yields, the regular funding of annuity payments and releases from the portfolios into the Company's balance sheet following periodic valuations of collateral.

Product Line	MV of Invested Assets (USD 000's) at 31 Dec 2017	Gross Redemption Yield at 31 Dec 2017 (%)	MV of Invested Assets (USD 000's) at 31 Dec 2018	Gross Redemption Yield at 31 Dec 2018 (%)
Single Premium Annuity (GBP)	2,530,177	2.49	2,059,441	2.97
Single Premium Annuity (Euro)	1,282,139	1.81	1,049,565	2.14
Other business	402,622	1.63	378,346	1.99

The Company's other assets (referred to as "Balance Sheet assets") are invested in high quality fixed interest securities. The table below shows the market values of these fixed interest securities split by type of investment at the end of the reporting period. As mentioned above, the increase in the market value of the assets during 2018 has been predominantly driven by releases from the funds withheld on its cedants' balance sheets into the Company's balance sheet. This has been partially offset by distributions made to Shareholders during 2018.

MV of Fixed Interest Securities (USD 000's)	31 Dec 2017	31 Dec 2018
US Government (Federal)	76,161	69,248
Non US Government	46,013	74,248
Corporate (non US Govt backed)	12,823	22,132
Corporate (other)	82,428	96,080
Asset backed	0	1,910
Mortgage backed (Commercial)	9,448	10,361
Total	226,873	273,979

The Company's main source of income was premiums written on longevity swap and term assurance products. The major expenses relate to claim payments written on single premium longevity, longevity swap and term assurance products.

USD 000's	2017	2018
Income		
Premiums – life	80,397	71,609
Premiums – annuity	87,960	89,072
Total income	168,357	160,681
Expenses		
Claims – life	74,925	70,813
Claims - annuity	340,519	352,006
Commission and other	8,636	(5,157)
Operating expenses	14,641	14,533
Total expenses	438,721	432,195

In base currency terms premiums and claims were lower in 2018, when compared to 2017, due to the natural run-off of the business. This was partially offset by the appreciation of sterling and the euro against the US dollar (using period average exchange rates). Operational expenses remained level between 2017 and 2018.

h) Any Other Material Information

There is no other material information.

ii) GOVERNANCE STRUCTURE

a) Board and Senior Executive

i) *Directors and Officers, and responsibilities*

The directors and officers of the Company are detailed in the table below:

Directors	Position
Lord James Blyth	Chairman of Board
Willis T. King	Director (Independent)
Raymond Brooks	Director and Chief Executive Officer
Andrew Cook	Director (Independent)
John Edwards	Director (Independent)
Officers	
Beth Schneider-DeGroat	Human Resources and Administration
Neil Russell	Approved Actuary
John Cordey	Chief Risk Officer
Garth Fleming	Principal Representative

The ultimate responsibility for sound and prudent management of the Company rests with the Board of Directors (the "Board"). The Board is responsible for ensuring that corporate governance policies and practices are developed and applied in an appropriate manner. The Board has delegated its authority (under its oversight) to the following committees to assist it in discharging its responsibilities:

- Risk Committee – includes the oversight of risk management, integrity of financial statements, and oversight of internal controls.
- Investment Committee – includes the oversight of investment activity and strategy.
- Compensation Committee – includes the determination and agreement of compensation policy.

ii) *Description of Remuneration Policy*

The Independent Directors are paid a fixed retainer for their Board services, which includes attendance at Board meetings. Senior management receive a basic salary, a standard benefits package and an annual cash bonus based on Company and individual performance measures.

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

GreyCastle provides all employees with pension benefits through defined contribution schemes. There are no supplementary pension or early retirement schemes.

iv) *Details of any material transactions with Shareholder Controllers, Persons who exercise significant influence, the Board and Senior Executive*

Not applicable.

b) Fitness and Propriety Requirements

i) *Fit and Proper Process in assessing the Board and Senior Executives*

The Board and the respective Committees of the Board are governed by charters that prescribe the periodic (generally annual) self and peer assessment of each Director's contribution to the Company. Directors are elected each year at the Annual General Meeting.

Senior employees are subject to regular appraisal.

ii) *Professional Qualifications, Skills and Expertise of the Board and Senior Executives*

Board members and senior employees have appropriate academic and professional qualifications and significant industry experience, and are generally considered to be experts in their fields. Their qualifications and work experience are detailed below:

Lord James Blyth has extensive experience in senior positions in both the public and private sectors in the UK having held multiple Chairman and CEO roles over his career. Formally the Chairman of the Prime Minister's Advisory Panel on the Citizen's Charter, Governor of the London Business School (an Honorary Fellow), and made an Honorary Doctor of Law by Nottingham University. Lord Blyth was educated at Spiers School and Glasgow University M.A. (Hons). He was knighted in 1985 and awarded a life peerage in 1995.

Willis T. King is a seasoned insurance and reinsurance executive; co-founder of multiple global reinsurers and has extensive senior executive experience with insurance brokerages. Mr. King has current and previous Chairman and Director service in the reinsurance industry. He holds both a B.S and M.S. from Cornell University.

Raymond Brooks career spans over 30 years of expertise in insurance, risk management and capital markets. He led ACA Financial Guaranty Corporation's $7.5 billion run-off as its CEO from August 2008 through September 2012 in connection with its global restructuring. Prior to ACA, he was managing director of Alvarez & Marsal, and CEO and Founder of Pine Creek Capital, a manager of debt and structured financial products. He has held positions at Price Waterhouse, Lehman Bros., and Aubrey G. Lanston/Industrial Bank of Japan and served as a Member of the Chicago Mercantile Exchange and the International Monetary Market. He holds an MBA in Finance from the University of Chicago's Graduate School of Business and a B.S. from Saint John's University.

D. Andrew Cook has more than 30 years' of financial and operational experience having started his career as a Chartered Accountant in Toronto. As the founding CFO of three startup reinsurance entities in Bermuda, he was responsible for all capital markets activities including debt and equity financing, investor relations and M&A. He has a proven track record of bringing private companies to public markets having led successful IPO's at LaSalle Re and Axis Capital. He was also instrumental in the structuring of the merger of HarborPoint into Alterra Capital. At Alterra Capital, he served as Chief Integration Officer and was responsible for implementing corporate synergies as well as the financial, tax, regulatory and capital structure integrations. He currently serves on the Board of two Bermuda based reinsurance entities.

John Edwards' executive career spans a period of 35 years, during which he has held a range of senior roles in the U.K. insurance and investment sectors. These roles include CEO of a leading U.K. life, pensions and investment group and CEO of the insurance and investment division of one of the major U.K. banks. In these roles he has led significant change programmes and organic and inorganic growth strategies. His non U.K. experience includes CEO and Executive Chairman roles in several European insurance and investment companies. John is currently the Non Executive Chairman of a U.K. building society and a Non Executive Director of a leading U.K. insurer.

Beth Schneider-DeGroat has over 30 years of experience in human resources and administration in the insurance and reinsurance industry, with a focus on Bermuda domiciled international reinsurers. She has a BS, BA Human Resource Management from Western New England University.

Neil Russell has more than 30 years of life insurance and actuarial experience including previous roles as Head and CFO of XL Re's life reinsurance operation. He is a BMA Approved Actuary, has a BSc in Mathematics and Statistics from St Andrews University and is a Fellow of the Institute and Faculty of Actuaries.

John Cordey has more than 25 years of life insurance and actuarial experience. John's previous role at XL Re involved financial reporting, reserving, risk and capital management. John is a graduate of Cambridge University with an MA in mathematics. He is a fellow of the Institute and Faculty of Actuaries.

Garth Fleming has more than 16 years of experience in the P&C and life insurance industries in Bermuda, most recently at XL Group plc where he was in charge of the SEC reporting function. He graduated with a Bachelor of Accountancy from the University of Glasgow and is a Member of the Institute of Chartered Accountants of Scotland.

c) <u>Risk Management and Solvency Self-Assessment</u>

i) *Risk Management Process and Procedures to Identify, Measure, Manage and Report on Risk Exposures*

The Company has developed a Risk Management Framework ("RMF") to support and sustain risk management activity throughout the Company. Risks are identified, defined and measured through a Risk Register that is reviewed and updated at least annually. The risks are managed in a number of ways including: regular account monitoring and review of experience for insurance risks; asset liability management and analysis of credit exposures for investment risks; and internal controls for operational risks. Risks are reported to Senior Management and the Board through a variety of regular reports.

ii) *Risk Management and Solvency Self-Assessment Systems Implementation*

The Company's RMF is implemented into its day to day operations through its systems, processes and controls, as detailed in the Company's Controls Manuals. The Company's risk management systems are used to make the following assessments of solvency:

- Regulatory solvency is assessed on a quarterly basis to ensure the Company can meet its statutory requirements.

- Management assess capital requirements using a "Solvency Self-Assessment" model. The model is run on a quarterly basis and the results are reviewed by the Company's Senior Management team. The model is widely used throughout the Company's operations, including for stress and scenario testing.

- Operational Planning is carried out twice a year (see (iii) *Relationship between Solvency Self-Assessment, Solvency Needs and Capital, and Risk Management*), and includes a projection of likely distributions to the Company's shareholders over the lifetime of the business.

iii) *Relationship between Solvency Self-Assessment, Solvency Needs and Capital, and Risk Management Systems*

The Company's Risk Management and Solvency Self-Assessment systems also drive projections of assets, liabilities and solvency requirements. These projections are produced twice yearly and form the Company's Operating Plan (produced in April following the year end) and Reforecast (a 6 monthly update produced in September). Income statements, balance sheets and distributions are projected over the lifetime of the business, along with an analysis of change. The Reforecast is reviewed by the Company's Senior Management and the Operating Plan is reviewed and approved by the Board.

iv) *Solvency Self-Assessment Approval Process*

The Solvency Self-Assessment is now embedded in the Company's risk management processes and is regularly reviewed by the Company's Senior Management team, with the Board providing oversight.

d) <u>Internal Controls</u>

i) *Internal Control System*

Whilst responsibility for the Company's internal controls rests with the Board, the Board delegates its authority to various committees of the Board. Day to day responsibility for the control environment is delegated to management, who ensure its smooth operation through the Controls Manuals.

ii) *Compliance Function*

Oversight on compliance is delegated to Conyers, Dill and Pearman who also provide legal services.

e) <u>Internal Audit</u>

Independent verification of the adequacy and effectiveness of the internal controls will be provided by the internal audit function, supported by the Audit Committee of the Board of

GreyCastle Holdings Ltd. The Company has not yet established an internal audit function, but it is expected that this will be filled by an external service provider.

f) Actuarial Function

The Actuarial Function is outsourced to GSL. The Actuarial Function is managed by the Chief Actuary of GSL, and the team consists of (i) a reserving and financial reporting team who also maintain the Solvency Self-Assessment systems, and (ii) a risk management team whose duties also include the review of experience and recommendation of valuation bases. The Actuarial Function works closely with the Approved Actuary of the Company.

g) Outsourcing

i) *Outsourcing Policy and Key Functions that have been outsourced*

All outsourcing decisions are taken by the Board, with advice provided by management. The Company has engaged various third party service providers: (i) GreyCastle Services Limited ("GSL") provides actuarial, accounting, treaty administration and claims services; (ii) Conyers, Dill and Pearman provides legal and compliance services; (iii) Aon Insurance Managers (Bermuda) Limited and Harbour HR provide payroll services; (iv) Blackrock Client Portfolio Solutions provides Chief Investment Officer Services; (v) Blackrock Investment Management, Western Asset Management and JP Morgan Asset Management provide asset management services; and (vi) HSBC Bank of Bermuda, the Bank of N.T. Butterfield and Son, and JP Morgan Chase Bank N.A. provide banking services.

ii) *Material Intra Group Outsourcing*

The Company outsources actuarial, accounting, treaty administration and claims services to GSL, which is wholly owned by GreyCastle Holdings Ltd.

h) Other Material Information

There is no other material information.

iii) RISK PROFILE

a) Material Risks that the Insurer was exposed to during the Reporting Period

The Company is exposed to the following risks:

- Insurance Risk – the adverse impact arising from fluctuations in the timing, frequency and severity of insured events, relative to the expectations of the Company at the time of underwriting or subsequent reassessment at the time of reserving. The most significant insurance risk that the Company is exposed to is longevity risk on its annuity business, but it is also exposed to mortality, morbidity and persistency risk on its UK term assurance business and other smaller product lines.

- Investment, Liquidity and Concentration Risk – the adverse impact arising from a lack of sufficient financial resources available to meet obligations as they fall due or because such resources can only be secured at excessive cost.

- Market risk – the adverse impact arising from the uncertainty in the valuation arising from changes in interest rate risk, foreign exchange, equities and or macroeconomic factors.

- Credit Risk – the adverse impact arising from the failure of counterparties to make full and timely payments on their financial obligations or from the change in the market value of assets due to deterioration of the counterparty's creditworthiness.

- Operational Risk – the adverse impact arising from inadequate or failed internal processes, people and systems, or from external events.

- Strategic Risk – the adverse impact from internal or external factors which threaten the ability of the Company to execute its overall organisational strategy.

- Legal Risk – the adverse impact arising from external events, actions or changing conditions in the legal environment.

- Emerging Risk – the adverse impact arising from external events, actions or changing conditions in the business environment.

The Company measures these risks using a combination of proprietary and third party models, where quantifiable. There were no material changes to the risks during the reporting period, although the Company continues to monitor its investment risks very closely following a number of geopolitical events (e.g. the United Kingdom's preparations for leaving the European Union).

b) Risk Mitigation in the Organisation

The Company has an appetite for the insurance and credit risks that are written. Risks are managed through the RMF (for more detail see (ii) GOVERNANCE STRUCTURE (c) *Risk Management and Solvency Self-Assessment*)

c) Material Risk Concentrations

The most material insurance risk concentration is longevity risk which the Company has actively sought, and this risk is managed through the processes discussed in previous sections. The Company has policies to limit concentrations of investment risk in relation to counterparties, credit quality and mismatches in duration between its assets and liabilities.

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

Investments are managed within strict investment guidelines that ensure that assets are invested in accordance with the prudent person principle defined in Paragraph 5.1.2 of the Insurance Code of Conduct. The purpose of the guidelines is (i) to establish the investment objectives and performance standards of the portfolio; (ii) to ensure that the respective portfolios are structured to meet the objectives of GreyCastle and its cedants; and (iii) to prevent exposure to excessive risk aggregation.

e) Stress Testing and Sensitivity Analysis to assess material risks

The Company performs regular stress and scenario testing to ensure that regulatory requirements can be met (see (v) CAPITAL MANAGEMENT (b) *Regulatory Capital Requirements*). For certain scenarios, these analyses have been extended to investigate the dividend paying ability of the Company under these scenarios.

The Company uses a combination of simple deterministic analysis and more complex stochastic techniques to model its key risks. The tests consider the immediate impact on regulatory requirements, and also longer term impacts on dividend paying ability.

f) Any other material information

There is no other material information.

iv) SOLVENCY VALUATION

Key figures from the Company's Economic Balance Sheet (Form 4EBS of the 2018 Capital and Solvency Return) are shown in the table below:

USD 000's	31 December 2017	31 December 2018
Cash and Investments	241,210	291,906
Funds Withheld	4,214,622	3,487,351
Other Assets	34,406	20,888
Total Assets	4,490,238	3,800,145
Claims o/s (inc IBNR)	71,692	61,985
Best Estimate Policy Reserves	3,451,139	3,025,471
Risk Margin	122,501	101,705
Other Liabilities	10,316	5,132
Total Liabilities	3,655,648	3,194,293
Statutory Economic Capital and Surplus	834,590	605,852

The valuation bases and assumptions used to derive the figures are discussed in the sections below:

a) Valuation bases, assumptions and methods used to derive the value of each asset class

The Company has used the valuation principles outlined by the Bermuda Monetary Authority's "Guidance note for Statutory Reporting Regime" dated 30 November 2016 for the reporting period's regulatory filing. The economic valuation principles are to measure assets and liabilities on a fair value basis. The fair value principles used for the assets are as follows:

- Cash and cash equivalents – the fair value of these holdings is determined using a mark to market valuation.
- Fixed income securities – these are valued using quoted market prices.
- Premium receivable – this is recorded at fair value. Any balances owing for more than 12 months are eliminated.
- Derivative instruments – these are valued using quoted market prices.

b) Valuation bases, assumptions and methods used to derive the value of technical provisions

Insurance technical provisions are valued using best estimate cashflows, which are discounted using a risk free discount rate term structure with an appropriate illiquidity adjustment which is assessed as follows:

- Single Premium Annuity business – a "scenario based approach" is used which reflects the assets that are held to back each portfolio, and the extent to which they are duration and cashflow matched, using tests prescribed by the Bermuda Monetary Authority ("BMA").

- Other business – a "standard approach" is used, using an adjustment provided by the BMA.

The best estimate assumptions used to derive the cashflows are, wherever possible, based on detailed historic experience investigations and expectations of future experience.

A risk margin is also established to reflect the inherent uncertainty in the underlying cashflows using a cost of capital approach and a risk free discount rate term structure.

For previous year ends, expenses were loaded onto treaty reserves and so ran-off in line with the reserves. For year end 2018 an alternative approach has been used whereby the reserves have been calculated by projecting expected future costs over the likely remaining lifetime of the business after making an allowance for cost allocations and anticipated cost savings, along with future expense inflation. This approach produces a slower run down of expenses and so a higher reserve is generated. The increased expense reserve is the primary driver of the fall in the solvency ratio.

The Company's Approved Actuary has confirmed that the information provided to perform the EBS valuation was adequate and there were no material areas of uncertainty; the only area of uncertainty related to a minority line of business representing around 1% of best estimate reserves. For this line of business policy-by-policy data was not available and hence it was not possible for the Company to analyse the demographic experience. The reserves for this line of business were based on the reserves reported by the underlying cedants under their reporting regimes with the addition of small margins of prudence. Reasonableness checks on the suitability of these reserves were carried out. Given these checks, the amounts of the reserves and the regimes under which they were calculated, the reported amounts were considered adequate for the EBS valuation requirements.

c) Description of recoverables from reinsurance contracts

The Company does not use reinsurance or any other risk transfer mechanisms.

d) Valuation bases, assumptions and methods used to derive the value of other liabilities

Other liabilities are valued using generally accepted accounting principles.

e) Any other material information

There is no other material information.

v) CAPITAL MANAGEMENT

a) Eligible Capital

i) *Capital management policy and process for capital needs*

The Company holds capital equivalent to a Standard & Poors "AA" rated level. This level of capital and reserves is tested against the regulatory level quarterly. There have been no material changes in the approach in the reporting period.

ii) *Eligible Capital categorised by tiers in accordance with the eligible capital rules*

The Company's Eligible Capital was categorised as Tier 1 for the years ending 2017 and 2018:

Eligible Capital (USD 000's)	31 December 2017	31 December 2018
Tier 1	834,590	605,852
Tier 2	-	-
Tier 3	-	-
Total	834,590	605,852

The reduction in eligible capital reflects the distributions made in 2018, the depreciation of sterling and the euro (using year end exchange rates) against the US dollar, and the establishment of additional expense reserves.

iii) *Eligible Capital by tiers, used to meet ECR and MSM requirements*

For the years ending 2017 and 2018, all of the Company's Eligible Capital for its Minimum Margin of Solvency ("MSM") and Enhanced Capital Requirement ("ECR") was categorised as Tier 1:

	31 December 2017		31 December 2018	
USD 000's	Minimum Margin of Solvency	Enhanced Capital Requirement	Minimum Margin of Solvency	Enhanced Capital Requirement
Tier 1	834,590	834,590	605,852	605,852
Tier 2	-	-	-	-
Tier 3	-	-	-	-
Total	834,590	834,590	605,852	605,852

iv) *Confirmation of Eligible Capital that is subject to transitional arrangements*

None of the eligible capital is subject to transitional arrangements.

v) *Identification of any factors affecting encumbrances on the availability and transferability of capital to meet the ECR*

There are no policyholder liabilities that sit outside the pledged accounts, so all capital is classified as Tier 1.

The Company is required to maintain collateral on its cedants' balance sheets to support the retroceded liabilities and the required level of collateral may exceed the Company's EBS technical provisions for the business. Periodic valuations are performed to determine the required level of collateral and if these demonstrate an excess, amounts are released to the Company's own Balance Sheet portfolio. While the requirement to hold collateral restricts the Company's ability to move certain assets between portfolios, it does not affect the availability of those assets to meet the ECR.

vi) *Identification of Ancillary Capital Instruments that have been approved by the Authority*

The Company has no Ancillary Capital Instruments.

vii) *Identification of differences in Shareholder's Equity as stated in the financial statements versus the available statutory capital and surplus*

The major differences between the shareholder's equity in the accounts and the statutory capital and surplus relate to differences in the accounting approach. The financial statements are prepared using "US GAAP" accounting rules, whereas the statutory capital and surplus is prepared using the BMA's Economic Balance Sheet rules. The major differences relate to:

- Inclusion of the "Value of Business Acquired" asset in the US GAAP financial statements.
- Use of a market rate of interest (using risk free yields plus an illiquidity premium) for the derivation of the valuation interest rate used in the reserve calculations in the statutory capital and surplus, as opposed to a "locked in" valuation interest rate in the US GAAP financial statements.
- Use of best estimate assumptions for decrements in the statutory capital and surplus, as opposed to "locked in" assumptions in the US GAAP financial statements.

b) Regulatory Capital Requirements

i) *ECR and MSM requirements at the end of the reporting period*

For the years ending 2017 and 2018, the Company's regulatory capital requirements were as follows:

	31 December 2017		31 December 2017	
	Amount in USD 000's	Coverage Ratio	Amount in USD 000's	Coverage Ratio
Minimum Margin of Solvency	67,354	1,239%	57,002	1,063%
Enhanced Capital Requirement	246,906	338%	213,723	283%

The Company carries out stress testing on its Economic Balance Sheet. These include:

- Financial stresses that have been defined by the BMA (e.g. fall in equity values; currency shocks; widening credit spreads).

- Underwriting stresses that have been defined by the Company, and have a probability of occurrence of approximately 1 in 100 over a one year time frame. These include an expectation of higher longevity improvements leading to increases in annuity reserves; a flu pandemic causing increased term assurance claims; and a new cancer also causing increased term assurance claims.

The Company can meet its Enhanced Capital Requirement in all stress events and also in likely combinations of these stress events. The biggest underwriting loss produced is the higher longevity improvement stress and the Company can also withstand a loss at a 1 in 250 probability of occurrence over a one year timeframe.

ii) *Identification of any non-compliance with the MSM and the ECR*

The Company was compliant with the MSM and the ECR during the year ending 31 December 2018 and remains compliant at the date of the report.

iii) *Description of the amount and circumstances surrounding the non-compliance, the remedial measures taken and their effectiveness*

Not applicable

iv) *Where the non-compliance has not been resolved, description of the amount of non-compliance at the end of the reporting period*

Not applicable

c) <u>Approved Internal Capital Model</u>

i) *Description of the purpose and scope of the business and risk areas where the Internal Model is used*

Not applicable

ii) *Where a Partial Internal Model is used, description of the integration with the BSCR Model*

Not applicable

iii) *Description of the methods used in the Internal Model to calculate the ECR*

Not applicable

iv) *Description of the aggregation methodologies and diversification effects*

Not applicable

v) *Description of the main differences in the methods and assumptions used for the risk areas in the Internal Model versus the BSCR Model*

Not applicable

vi) *Description of the nature and suitability of the data used in the Internal Model*

Not applicable

vii) *Any other material information*

There is no other material information.

vi) SIGNIFICANT EVENTS

a) Description of the significant event

There are no significant events either in the reporting period, or that have occurred between the end of the reporting period and the date of signing the return.

b) Approximate date(s) or proposed timings of the significant event

Not applicable

c) Confirmation of how the significant event has impacted or will impact any information provided in the most recent financial condition report filed with the Authority

Not applicable

d) Any other material information

Not applicable

DECLARATION STATEMENT

To the best of our knowledge and belief, the financial condition report fairly represents the financial condition of the Company in all material respects.

Raymond J Brooks, Jr
Chief Executive Officer

11 April 2019

John Cordey
Chief Risk Officer

11 April 2019