

**Liberty Specialty Markets Bermuda Limited
(Formerly known as Ironshore Insurance Ltd.)**

**Financial Condition Report
For the year ended December 31, 2018**



Liberty

Specialty Markets

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Introduction

This Financial Condition Report (“FCR”) has been prepared in accordance with the Bermuda Insurance (Public Disclosure) Rules 2015. The FCR is required by law to be made available to stakeholders on their website to provide both qualitative and quantitative information beyond that required by Generally Accepted Accounting Principles. The FCR addresses business performance, governance approach, capital management and solvency, among other matters.

This report includes the results and discussion of Liberty Specialty Markets Bermuda Limited (formerly known as Ironshore Insurance Ltd.).

All numbers in the report are expressed in thousands of U.S. dollars unless otherwise explicitly stated.

1. BUSINESS AND PERFORMANCE

1.1 Insurer details

Liberty Specialty Markets Bermuda Limited, formerly Ironshore Insurance Ltd., (“LSM Bermuda”) was incorporated under the laws of Bermuda on October 19, 2006. LSM Bermuda, together with its subsidiaries (collectively referred to as the “Company”), began underwriting activities in 2007. With effect from November 15, 2018, the name of the Company was changed from Ironshore Insurance Ltd. to Liberty Specialty Markets Bermuda Limited.

LSM Bermuda is registered as a Class 4 insurer under The Insurance Act 1978 in Bermuda, related regulations and amendments thereto (the “Bermuda Insurance Act”). LSM Bermuda includes Liberty Specialty Markets Bermuda Limited, Singapore Branch, which is registered as a direct insurer to carry on general insurance in Singapore effective January 26, 2012, and Ironshore Insurance Ltd., Canada Branch, which writes property and casualty insurance for Canadian-domiciled risks effective March 29, 2014.

The Company’s U.S. business consists of Ironshore Holdings (U.S.) Inc. (“Ironshore Holdings U.S.”), a Delaware corporation, and its principal subsidiaries Ironshore Indemnity Inc., (“Ironshore Indemnity”), a Minnesota domiciled insurer, and Ironshore Specialty Insurance Company (“Ironshore Specialty”), an Arizona domiciled insurer (collectively referred to as the “U.S. companies”). The U.S. companies serve the property and specialty casualty insurance market sectors. The U.S. companies also insure all classes of aviation and aerospace risks worldwide through an agreement with Starr Aviation Agency, Inc.

On December 31, 2018 the Company distributed Ironshore Holdings U.S. and its principal subsidiaries to Liberty Mutual Insurance Company (“LMIC”) by issuing a dividend.

1.2 Insurance supervisor

The Bermuda Monetary Authority (“BMA”) acts as Insurance supervisor for LSM Bermuda. The contact details for the BMA are as follows:

Bermuda Monetary Authority
BMA House
43 Victoria Street
Hamilton HM 12
Bermuda

insuranceinfo@bma.bm
1 (441) 295-5278

1.3 Approved auditor

The approved auditor for LSM Bermuda is Ernst & Young Ltd. The contact details for Ernst & Young Ltd. are as follows:

Ernst & Young Ltd.
3 Bermudiana Road
Hamilton HM 08
Bermuda

Cordelia Davis
ernst.young@bm.ey.com
1 (441) 295-7000

1.4 Ownership details

LSM Bermuda was established by an investor group led by Robert Clements, John Clements and 5 private entity firms in December 2006 through a private equity placement of over \$1.03 billion. A further \$300 million private placement investment was completed in July 2009. LSM Bermuda is currently a wholly owned subsidiary of Liberty Mutual Holding Company (“Liberty Mutual”). The acquisition of all stock of LSM Bermuda by Liberty Mutual closed on May 1, 2017.

Liberty Mutual is a diversified insurer with operations in 29 countries and economies around the world. Liberty rank 75th on the Fortune 100 list of largest corporations in the U.S. based on 2016 revenue. As of December 31, 2018, Liberty Mutual had \$126.0 billion in consolidated assets, \$105.2 billion in consolidated liabilities, and \$37.9 billion in annual consolidated earned premiums. Liberty employs more than 50,000 people in over 800 offices throughout the world and offer a wide range of insurance products and services, including personal automobile, homeowners, accident & health, commercial automobile, general liability, property, surety, workers compensation, group disability, group life, specialty lines, reinsurance, individual life and annuity products.

LSM Bermuda was brought under Liberty Specialty Markets (LSM) in December 2018, which is part of the wider Global Risk Solutions (GRS) division within Liberty Mutual.

1.5 Group structure chart

See [Appendix A](#) for our corporate structure as of December 31, 2018.

1.6 Insurance business written by line of business and by geographical region

The following table summarizes the Company’s gross premiums written by line of business for the years ended December 31, 2018 and 2017:

	2018		2017	
	Gross premiums	Net premiums	Gross premiums	Net premiums
Casualty	\$291,445	\$225,836	\$299,004	\$172,648
Property	276,227	185,674	219,037	112,966
Specialty Short Tail	324,205	299,139	224,624	207,082
Total	<u>\$ 891,877</u>	<u>\$ 710,649</u>	<u>\$ 742,665</u>	<u>\$ 492,696</u>

The following table shows an analysis of the Company’s gross premiums written by geographical location for the years ended December 31, 2018 and 2017:

	Gross premiums written	
	2018	2017
United States	\$388,165	\$232,256
Europe	248,611	98,180
Asia Pacific	105,760	78,772
Canada	55,491	34,319
Latin America	19,713	24,066
Other (including worldwide)	74,137	275,072
Total	<u>\$ 891,877</u>	<u>\$ 742,665</u>

1.7 Investment performance

LSM Bermuda’s investment strategy is focused on delivering stable investment income and total return with maintaining appropriate portfolio liquidity and credit quality to meet the requirements of insureds, regulators and rating agencies. As

such, the Company structures its investment portfolio to support the payment of claims and contingent risk exposures with a portfolio of high quality fixed-income investments with a comparable duration profile.

As of December 31, 2018, the fair value of the investment portfolio of LSM Bermuda totaled \$1,792 million (\$2,071 million as of December 31, 2017) and was split by asset class as follows:

	As of December 31,	
	2018	2017
U.S. government and government agency securities	\$256,999	\$390,333
Non-U.S. government securities	90,510	93,518
U.S. state and municipal securities	50,300	28,115
Corporate and other securities	978,130	927,992
Residential mortgage-backed securities	257,037	384,905
Commercial mortgage-backed securities	62,997	82,599
Other mortgage-backed and asset-backed securities	31,296	47,658
Total fixed maturity securities	1,727,269	1,955,120
Equity securities	-	1,359
Short term investments	-	33,373
Other investments	65,228	80,720
Total investments	<u>\$1,792,497</u>	<u>\$2,070,572</u>

The value of the Company's fixed maturity portfolio fluctuates with, among other factors, changes in the interest rate environment and in overall economic conditions.

During the years ended December 31, 2018 and 2017, net investment income was derived from the following sources:

	2018	2017
Fixed maturity securities	\$54,585	\$78,363
Other investments	5,490	7,286
Cash and cash equivalents	513	2,282
Short term investments	106	352
Equity securities	-	2,504
Total gross investment income	60,694	90,787
Investment expenses	(3,853)	(5,484)
Net investment income	<u>\$56,841</u>	<u>\$85,303</u>

Net investment income was \$56,841 for the year ended December 31, 2018, a decrease of \$28,462 or 33% from the year ended December 31, 2017, primarily due to negative impact on our fixed maturity returns from the increase in treasury yields and the modest widening of investment grade credit spreads.

The net realized and unrealized investment losses of \$43,982 for the year ended December 31, 2018 were primarily due to increased treasury yields. The net realized and unrealized investment gains of \$13,269 for the year ended December 31, 2017 were primarily due to narrowing of corporate bond spreads and increases in equity markets, partially offset by increases in U.S. risk-free interest rates.

The Company's investment portfolio generated a total return of 1.4% in 2018 compared to 3.8% in 2017. The total accounting return in 2017 reflected overall mark-to-market gains driven by equities and compression in corporate bonds spreads, notwithstanding increases in U.S. and European risk-free interest rates.

	2018		2017	
	Market value	Performance, %	Market value	Performance, %
Fixed maturity securities	\$1,727,269	1.1%	\$1,988,493	3.5%
Equity securities	-	0%	1,359	12.7%
Other investments	65,228	8.5%	80,720	4.6%
Total	\$ 1,792,497	1.4%	\$ 2,070,572	3.8%

1.8 Material income and expenses for the reporting period

The below tables provide summaries of the Company's material income and expenses line items for the years ended December 31, 2018 and 2017:

	2018	2017
Revenues		
Gross premiums written	\$891,877	\$742,665
Net investment income	56,841	85,303
Expenses		
Losses and loss adjustment expenses	460,917	734,697
Acquisition expenses	177,758	221,617
General and administrative expenses	77,626	72,651

Gross premiums written increased by 20.1% in the year ended December 31, 2018 compared to 2017. The majority of the increase was due to new business brought through internal reinsurance agreements with Liberty Corporate Capital (Two) Ltd. ("LCC2") and Ironshore Europe DAC ("IEDAC"), contributing total of \$96,465 to the overall increase in gross premiums written. The remaining increase in gross premiums written is primarily attributable to new business brought through Liberty Specialty Markets Agency, affiliated company, as a result of the expansion of its partnership with Oil Casualty Insurance Ltd. to underwrite property lines.

Losses and loss adjustments expenses decreased by 37.3% in the year ended December 31, 2018 compared to 2017. There was no unusual loss activity during the year ended December 31, 2018 compared to 2017, when the Company incurred significant losses from Hurricane Harvey, Hurricane Irma and Hurricane Maria.

Policy acquisition ratio for the years ended December 31, 2018 and 2017 was 27.2% and 27.5%, respectively.

2. GOVERNANCE STRUCTURE

2.1 Board and senior executive structure, role, responsibility and segregation of responsibilities

i. Directors

The Board of Directors of the Company (the “Board”) oversees the effective management of the Company’s business and affairs and its responsible for the maintenance of an effective corporate governance framework. As of December 31, 2018 the Board consisted of the following eight executive directors:

Name	Board Position
Mitchell Blaser	President of the Board
Joseph Hobbs	Director
Steven Horton	Director
Susan Pateras	Director
Shane Rozario	Director
Ian Smith	Director
Mark Wheeler	Director

The Board delegates oversight of certain key areas to its Audit, Investment and Underwriting and Risk committees.

Audit Committee

The Audit Committee is primarily responsible for assisting the Board in its oversight of the integrity of the financial statements, regulatory reporting and for reviewing effectiveness of the Company’s internal accounting and financial controls. The Audit Committee also responsible for oversight and review of both internal and external audit functions.

Underwriting and Risk Committee

The Underwriting and Risk Committee is primarily responsible for overseeing the Company’s underwriting procedures, practices and guidelines, including monitoring the Company’s underwriting performance. The Underwriting and Risk Committee also oversees the Company’s risk management exposures and makes recommendations to the Board regarding management’s proposals for the risk management framework, Risk Appetite, Key Risk Limits and the use of the Company’s Commercial Insurer Solvency Assessment (CISSA).

Investment Committee

The Investment Committee is primarily responsible for overseeing and development of the investment strategy and all significant investing activities. The Investment Committee also monitors compliance of investment portfolios with the policies, guidelines and risk limits.

ii. Senior Executives

The Company’s senior executives assist the Board with its oversight responsibilities by its reporting to the Board on the Company’s business activities. The senior executives also make recommendations to the Board regarding, and are responsible for, the execution of the Company’s strategic plans and objectives. The senior executives are responsible for the respective functions which they head and for ensuring the necessary resources, systems and controls required for the effective execution of the roles and responsibilities of those functions.

Name	Position
Steve Horton	President of Liberty Specialty Markets Bermuda
Mitchel Blaser	Chief Transformation Officer of Global Risk Solutions, President of the Board of Liberty Specialty Markets Bermuda and CEO of IronServe
Ian Smith	Senior Vice President, Head of Bermuda Property – Liberty Specialty Markets Bermuda
Shane Rozario	Senior Vice President, Head of Underwriting Performance Management
Susan Pateras	Chief Operating Officer - Liberty Specialty Markets Bermuda
Joseph Hobbs	Senior Vice President and General Counsel of the specialty lines divisions of Liberty Mutual Insurance Company
Steven Beadle	Chief Financial Officer - Liberty Specialty Markets Bermuda
Lisa Fontanetta	Senior Vice President, Global Risk Solutions, CFO of IronServe
Mark D'Amato	Assistant Vice President and Assistant Treasurer for the Liberty Mutual Group
Heath A. Merrill	Vice President, Financial Officer – International Finance - Global Risk Solutions
Mark Wheeler	Global Client Officer of Global Risk Solutions
Graham Brady	Chief Risk Officer – Liberty Specialty Markets

2.2 Remuneration policy

i. Director compensation

The directors are not separately compensated for their Board roles.

ii. Executive compensation

The Company's executive compensation program currently consists of three principal elements: base salaries, annual bonus and long-term incentive compensation. Base salary provides the fixed portion of an executive's compensation and is established largely based on scope of responsibilities and individual and Company performance in the preceding year. Annual bonus and long-term incentive compensation each represent variable compensation and designed to reward performance consistent with financial and individual operational performance objectives.

iii. Employee compensation

All LSM Bermuda employees receive a fixed based salary (commensurate with their role, experience, annual performance in the prior year and prevailing market conditions) and annual performance-based bonus. In addition, employees benefit from various benefit plans, including medical and dental insurance, long-term disability insurance and life insurance.

iv. Supplementary/Early retirement schemes

All employees based in Bermuda, receive an amount equal to 10% of their base salaries in respect of a retirement benefit contribution.

2.3 Material transactions

On December 31, 2018 the Company distributed Ironshore Holdings (U.S.) Inc. and its principal subsidiaries to Liberty Mutual Insurance Company by issuing a dividend.

On December 21, 2018, prior to the distribution, Liberty Mutual Group forgave outstanding debt for \$297,677 and related interest of \$6,902 from Ironshore Holdings U.S.; the forgiven debt was accounted for as equity contribution in the Company's consolidated financial statements. Also in connection with the distribution, Ironshore Holdings U.S. paid to the Company a one-time \$195,418 dividend.

2.4 Fitness and proper requirements

i. Description of the Fit and Proper Process in Assessing the Board and Senior Executive

LSM Bermuda ensures that all key functions are fit to provide sound and prudent management through their professional qualifications, knowledge and experience. The Company is guided by various criteria when assessing fitness and propriety of key functions. The most important factors considered by LSM Bermuda include honesty, integrity and reputation, competence and capability and financial soundness.

In order to ensure that board and senior executives are fit, they are recruited giving due regard to the interview requirements, referencing, required skillset, professional and personal background and other checks as required and relevant to the role to be undertaken. Examples of general checks include educational background check and professional qualifications check. In order to ensure that board and senior executives are proper they are subject to a variety of checks at the commencement of their assessments. Examples include identity checks, social media, criminal record and other relevant checks. If the Company is notified or becomes aware of, any circumstances under which any board or senior executive ceases to meet fit and proper criteria, we will perform a further review if necessary. This review may result in a temporary or full suspension of them being able to continue to carry out their function.

ii. Board and Senior Executives qualifications

Steve Horton - President of Liberty Specialty Markets Bermuda

Mr. Horton is responsible for the Liberty Specialty Markets (LSM) Bermuda platform, setting and executing strategy in line with the Company's global LSM vision.

Mr. Horton joined the Ironshore International in 2008, through the Company's Lloyd's platform, Pembroke Managing Agency Limited. Mr. Horton worked as a primary financial institutions underwriter before transferring to Liberty Specialty Markets Agency (LSMA), formerly known as "Iron-Starr Excess Agency", in 2010. At the Agency, he was initially charged with growing our international business, before being promoted to the financial lines manager and subsequently to Chief Executive Officer of the Agency. Mr. Horton moved into his role as President in late 2018 and oversees the Bermuda platform. Mr. Horton holds a B.A. (Hons) from The University of Westminster and is a Harvard Business School alum.

Mitchell Blaser - Chief Transformation Officer of Global Risk Solutions, President of the Board of Liberty Specialty Markets Bermuda and CEO of IronServe

In his role as Chief Transformation Officer Mr. Blaser is responsible for transforming and implementing operational excellence efforts across all of Global Risk Solutions to achieve the best outcomes with consistent and efficient processes.

As President of the Board for the Liberty Specialty Markets Bermuda entity he continues to develop and build the Bermuda operations. Mr. Blaser was formerly the CEO of the Company. He is also responsible for the suite of operational support delivery which runs through the IronServe model.

Mr. Blaser was a founding executive of the Company in 2006 holding the role of CFO until 2012 in addition to his roles as COO of Ironshore Inc. and CEO of Ironshore Bermuda. In 2011, he was the driving force and creator of IronServe, an outsourcing venture formed with LSM Bermuda and Genpact. Prior to joining LSM Bermuda, Mr. Blaser was Chief Financial Officer for Swiss Re's Americas Division from 2001 through 2005 and served as director of Swiss Re America. Prior to Swiss Re, he was part of the leadership team at Marsh, the insurance services subsidiary of Marsh & McLennan Companies, and served in a variety of roles from 1973 until 2001 including Global Chief Financial Officer and Head of Technology and Corporate Services, as well as a member of the Marsh Board of Directors.

Mr. Blaser currently serves as chairman of the Advisory Board at The George Washington University School of Business. Mr. Blaser holds a B.B.A. from The George Washington University and an M.B.A. in Finance from Pace University.

Ian Smith - Senior Vice President, Head of Bermuda Property – Liberty Specialty Markets Bermuda

Mr. Smith joined LSM Bermuda in 2013 as Vice President, Property Underwriter and brings over fifteen years of Industry experience with both an Underwriting and Broking background. Prior to joining the Company, Mr. Smith spent five years with Arch Insurance (Bermuda) where he underwrote their Technical Risk book which include both Energy and International Property accounts. Prior to joining Arch, Mr. Smith was at XL Insurance (Bermuda) Ltd. in their Energy department where he underwrote and maintained a portfolio of U.S. Energy Accounts. Mr. Smith began his insurance career as a property broker at Aon (Bermuda). Mr. Smith holds a B.A. (Hons) in Business Studies from the Hull Business School at the University of Lincolnshire and Humberside, England.

Shane Rozario - Senior Vice President, Head of Underwriting Performance Management – Liberty Specialty Markets Bermuda

Mr. Rozario was one of the original employees of LSM Bermuda, having joined in February 2007 as Head of Property Claims, and is now Head of Underwriting Performance Management, and brings over 25 years of experience to the role. Prior to joining the Company, Mr. Rozario worked for XL Capital in Bermuda (now AXA XL) as Vice President of Property and Energy Claims; his career also includes Vericlain (now Sedgwick) and DP Mann Syndicate 435 (now Faraday). He has a deep insurance market background including experience in all three major insurance hubs: London, the US and Bermuda.

Mark Wheeler - Global Client Officer of Global Risk Solutions (GRS)

Mr. Wheeler was appointed Global Client Officer as of April 1, 2019. Before his appointment, Mr. Wheeler was President of International Markets at Liberty Specialty Markets with responsibility for all the Liberty Specialty Markets' international business outside of the United Kingdom and North America

Prior to joining Liberty Specialty Markets, Mark was CEO of Ironshore International and managed all aspects of the business, including its subsidiaries Pembroke Managing Agency at Lloyd's of London and Ironshore Europe DAC, Ironshore's Dublin domiciled operation. Under his leadership, Ironshore International developed global reach and grew materially through the creation of alternative distribution lines within wholesale and retail markets around the world. Mr. Wheeler evolved the business from its core foundation of providing specialty insurance products to the development of insurance management services and a unique proposition to provide managing agency services to third party capital.

Prior to joining the Company, Mr. Wheeler was the founding Underwriting Director of Pembroke Managing Agency and the first Active Underwriter of the Ironshore group's Syndicate 4000 which was established in 2004. While initially focusing on Professional Lines and Financial Institutions, under his leadership the syndicate has expanded into underwriting within nearly 20 various product classes. From 1990 to 2003 he worked at SVB, now known as Novae, where he served on a number of group boards and held several senior management positions, including Active Underwriter of Syndicate 1007. He began his career in insurance at Lloyd's in 1987.

Mr. Wheeler became an Associate of the Chartered Institute of Insurance (ACII) in 1991.

Joseph M. Hobbs - Senior Vice President and General Counsel of the specialty lines divisions of Liberty Mutual Insurance Company

As Senior Vice President and General Counsel, Mr. Hobbs is responsible for providing strategic legal advice to senior management on all business strategies and operations within the specialty lines division including Liberty Specialty Markets Bermuda, Global Specialty, Liberty Mutual Surety, and Liberty Specialty Markets-London. Mr. Hobbs holds a B.S. in Accounting from Seton Hall University and a J.D. from Seton Hall University Law School.

Susan Pateras – Chief Operating Officer - Liberty Specialty Markets Bermuda

Ms. Pateras joined the LSMA in April 2013 as SVP and Healthcare Practice Leader and worked to establish the Company's healthcare platform before transitioning to COO in 2018. Ms. Pateras has over 23 years of experience working in various domiciles including London, New York and Bermuda. Prior to joining the Company, she served as a Senior Vice President at Integro Bermuda Ltd., where she developed Integro's Bermuda Healthcare strategy as well as coordinated global placements with U.S., London, and Europe participation. Prior to joining Integro, Ms. Pateras served as a Senior Vice President with Willis Bermuda Ltd. and also served as a Vice President in Marsh New York's Global Broking Healthcare Unit. Ms. Pateras started her underwriting career with Zurich and St. Paul Insurance Companies.

Ms. Pateras is a graduate of Temple University with a BA in Risk Management Insurance and Business Law.

Steven Beadle - Chief Financial Officer – Liberty Specialty Markets Bermuda

Mr. Beadle has more than 20 years' experience in accounting and finance with 13 years in the Bermuda insurance industry. Mr. Beadle joined LSM Bermuda in 2008 where he has served as the Financial Controller – Bermuda and the Corporate Controller for the group. Prior to joining the Company, Mr. Beadle spent two years with HSBC Insurance responsible for the financial and regulatory reporting of a portfolio of insurance companies. Prior to his move to Bermuda, Mr. Beadle worked in audit and finance roles in London, United Kingdom.

Mr. Beadle is a Fellow Member of the Association of the Chartered Certified Accountants and holds a B. A. (Hons) in Economics with Further Mathematical Analysis from the University of Portsmouth, United Kingdom.

Lisa Fontanetta - Senior Vice President, Global Risk Solutions (GRS), CFO of IronServe

In her role Ms. Fontanetta is responsible for strategy, planning and execution of transformation, efficient operating model and organizational design initiatives spanning across the GRS group. She also serves as the CFO of IronServe, Ironshore's global outsourcing relationship with Genpact.

Ms. Fontanetta was a founding member of the Company in 2006 and held a number of roles at LSM Bermuda including most recently as the Head of Strategic Operations responsible for global strategic initiatives including capital & strategic planning, board reporting and investor relations, and Rating Agency relationships. From 2007 through December 2012, Ms. Fontanetta was the Company's Global Head of Financial Planning & Analysis.

Prior to joining the Company, Ms. Fontanetta worked at Swiss Re America for four years holding several roles in a Planning & Analysis capacity in addition to completing Swiss Re's International Graduate Training Programme in 2004. Prior to her departure from Swiss Re, Ms. Fontanetta was a Vice President and Senior Planning Analyst whose responsibilities included internal financial reporting, planning, and analysis for their largest US business unit based in Calabasas, California.

Ms. Fontanetta has a B.B.A. in Finance and International Business and a minor in French from The George Washington University.

Heath A. Merrill - Vice President, Financial Officer – International Finance - Global Risk Solutions (GRS)

Mr. Merrill spent his 18-year career in various roles within Liberty Mutual's home office in Boston, MA. Mr. Merrill was VP & Financial Controller for Liberty Mutual's Global Specialty business unit (now GRS) from 2015 to 2018 and previously served as VP & Senior Internal Audit Manager from 2008 to 2015. He held a variety of staff and management roles within Corporate Accounting and Internal Audit from 2000 through 2008. Mr. Merrill is a Board Observer of REIN, a Chapel Hill-based insurtech MGA platform company. He holds a B.A. in Finance from Bentley University and an M.B.A. from Suffolk University.

Mark D’Amato - Assistant Vice President and Assistant Treasurer - Liberty Mutual Group

In his role as Assistant Treasurer, Mr. D’Amato is responsible for the management of overall Group liquidity ensuring that cash is efficiently managed to maximum investment returns while ensuring all payment obligations are met. In addition, Mr. D’Amato is responsible for effectively managing debt and capital throughout the Group.

Mr. D’Amato has been employed by Liberty Mutual since 1992. Prior to his role as Assistant Treasurer, he served in a variety of roles within the Internal Audit Department as well as financial roles within Personal Lines Insurance and Dover Corporate Treasury.

Mr. D’Amato holds a B.S. in Accounting from Bentley University and an M.B.A. from Northeastern University.

Graham Brady – Chief Risk Officer – Liberty Specialty Markets

As CRO at Liberty Specialty markets, Graham leads the Risk and Compliance teams. These teams deliver the frameworks for Risk and regulatory compliance across approximately 65 LSM’s offices around the world. He joined LSM as Head of Compliance in 2015. Prior to joining LSM he spent 15 years at XL Group, eventually becoming the Compliance Officer for the UK firms. During his time at XL he was responsible for the implementation of Solvency II pillar 2, and the development of the Conduct Risk framework.

2.5 Risk management and solvency self-assessment

- i. Risk management process and procedures to identify, measure, manage and report on risk exposures

Risk Governance

LSM Bermuda views risk management as the responsibility of every employee within the Company. Management believes that all aspects of the Company’s business incorporate daily risk decisions. Communicating and outlining the Company’s risk appetites and tolerances aids employees in making sound RM decisions. Senior management is responsible for setting the risk appetites and tolerances, and communicating this information.

The Company’s Enterprise Risk Management (“ERM”) Framework is designed to help the Company engage with risk in a controlled fashion, consistent with available capital and the Board’s Risk Appetite, helping generate appropriate returns to meet strategic objectives. It sets out our approach to how we define risk, cascade the risk appetites, the processes for ensuring the appropriate and timely identification, reporting, monitoring and management of risk and capital.

The ERM Framework is based on the industry leading practice “three lines of defense” model. Under this model, management, functional leaders and risk owners (“first line” of defense) have responsibility for the day to day ERM framework. RM, compliance, and policies represent the “second line” of defence. The Audit Committee, Internal and External Audit that provide independent assurance represent the “third line” of defense. Senior Management has ownership and oversight roles to ensure that RM practices are made a priority and help ensure stated tolerances and appetites are adhered to.

LSM Bermuda also has its own Board of Directors, including an Audit Committee and Underwriting and Risk Committee (“URC”). The URC, in particular, is responsible for discussing and reviewing the effectiveness of the Company’s ERM framework. The CRO facilitates and co-ordinates RM activity for LSM Bermuda and reports to the URC accordingly. The CRO also attends the Audit Committee meetings to report risks and tolerances outside of underwriting risk. Additionally, the CRO is an attendant of the LSM Bermuda Board.

Risk Appetite and Tolerances

Risk Appetite is expressed as a target range of each risk category within the Risk Universe set by the Board to assist LSM Bermuda in meeting its strategic objectives. The Board Risk Appetite statements are reviewed at least annually and may be revised at any point in the year in response to an actual or projected change in strategy or business planning, subject to Board approval.

Risk Reporting

Risk Management leverages the output of the monitoring processes performed by the first line to provide periodic updates to the Risk and Underwriting Committee and the Board. The CRO is responsible for reporting the actual risk position against the Board risk appetite to the Risk and Underwriting Committee and Board via the CRO Report, which also identifies any breaches, their cause, impact and means of rectification.

ii. Risk management and solvency self-assessment implementation

RM is implemented and integrated into the operations through risk management processes, procedures and risk mitigating controls. Risk mitigating controls are reviewed by RM to ensure their effectiveness and provide recommendations for any actions as necessary. RM is responsible for completing the Commercial Insurer's Solvency Self-Assessment ("CISSA"). The main purpose is to ensure that LSM Bermuda assesses all the risks inherent to its business and determine the corresponding capital needs.

iii. Relationship between the solvency self-assessment, solvency needs, and capital and risk management systems

The solvency self-assessment outlines the quality and quantity of capital needed to support LSM Bermuda's business goals. The solvency self-assessment seeks to identify and measure all material risks. Our ERM Framework outlines the level of Board approved risk appetite and tolerances for each category of risk, ensures risks are managed within its defined risk appetite and tolerances and ensure that an appropriate balance between risk and reward is achieved. LSM Bermuda seeks to provide an optimal return (maximizing returns within the given risk appetite) while preserving its capital at a level that is consistent with its business plan and risk appetite. The appropriate level of capital is determined by multiple factors including regulatory capital requirements, the business environment, conditions in the financial markets and assessments of potential future losses due to adverse changes in our business and market environments.

iv. Solvency self-assessment approval process

The solvency self-assessment reports are prepared by the RM team in consultation with the relevant functions and business units. After review by the CRO, the assessment report is provided to the Board for the approval emphasising significant changes during the year, and any current or emerging risk exposures.

2.6 Internal controls

i. Internal control system

LSM Bermuda has systems, processes and procedures to ensure accurate, timely and secure reporting, and adherence with applicable laws and regulations.

LSM Bermuda utilizes the internal control model that comprises three lines of defense. The three lines of defense addresses how specific duties related to risk and control are assigned and managed within the organization. The three separate lines of defense are organized in the framework developed by the Institute of Internal Auditors ("IIA") and each line performs the following activities:

Functions that own and manage risk and control (front line operating management):

The majority of employees comprise the first line of defense. Senior management has responsibility setting the organization's objectives, defining strategies to achieve those objectives, and establishing governance structures. Operational management identifies, assesses, controls, and mitigates risks, guiding the development and implementation of internal policies and procedures and ensuring that activities are consistent with goals and objectives. Managers design and implement detailed policies and procedures that serve as controls and supervise execution of those procedures by their employees.

Functions that monitor risk and control in support of management (RM and Compliance functions):

RM assists risk owners in defining the target risk exposure and reporting adequate risk-related information throughout the organization. The Compliance Function monitors various specific risks such as noncompliance with applicable laws and regulations.

The function that provides independent assurance to the Board and senior management concerning the effectiveness of management of risk and control (Internal Audit):

Internal Audit provides senior management and the Audit Committee with assurance based on independence and objectivity. Internal Audit provides assurance on the effectiveness of governance, risk management, and internal controls, including the manner in which the first and second lines of defense achieve risk management and control objectives. The Internal Controls team within the Internal Audit function provides independent testing of management's controls. Some of this work is relied upon by the external auditors, who also perform a necessary independence function.

ii. Compliance function

For the majority of 2018, Compliance was overseen by a dedicated resource based in the United States. This individual left the Company in December 2018, and LSM Bermuda is currently supported by the LSM Compliance function based in London. A Risk and Compliance Officer is being recruited for LSM Bermuda who will assume responsibility over this area.

LSM Bermuda is committed to complying with all laws that govern our business and expect every employee to follow the law in their day-to-day business dealings. To ensure compliance with applicable laws and regulations, LSM's Compliance department assists with setting various policies, procedures and guidelines. The Compliance department also provides trainings to help employees stay abreast of increasing laws and regulations. The Liberty Global Compliance and Ethics ("CG&E") team monitors the adherence to the Company's Code of Business Conduct and Ethics. All material violations are reported to the Board and rectified accordingly. A Whistleblower Hotline is available which may be contacted on an anonymous nature. Calls to the hotline are reported through the CG&C chain and the Global CCO will notify the board as required.

iii. Internal audit function and its independence and objectivity when conducting its functions

Internal Audit works in collaboration with management and external auditors to assess the effectiveness of the internal controls framework. The internal controls framework consists of policies, procedures and activities that safeguard the assets of the organization to ensure that the financial reporting is reliable, and prevent and detect fraudulent activities. Internal Audit accomplishes this by evaluating business processes, strategy and the risks. Consistent with the organization's needs, the Company develops and executes a flexible, risk-based audit plan to determine the priorities of the Internal Audit activity. Risks considered when building the audit plan include financial, operational, compliance, strategic and reputational risks. Internal Audit is also responsible for auditing information systems and the controls embedded within those systems to support organizational processes and goals. Audits are designed to ensure that LSM Bermuda is functioning in the most efficient manner, and that controls are adequate. Audit activities are complemented by periodic follow-up procedures for confirmation of remedial actions.

Through the execution of this plan, the department is able to determine whether the governance processes are adequate and functioning in a manner to ensure the following: 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 control process; and, significant legislative and regulatory issues impacting the Company are recognized and addressed appropriately.

The purpose, scope, authority and responsibilities of the Internal Audit function are set out within the Internal Audit Charter, which is reviewed and updated on an annual basis, or more frequently, if required, and approved by the Audit Committee. Internal Audit's independence and objectivity depends largely on having no operational responsibility for or authority over any of the activities subject to review. Further, the Internal Audit review and appraisal does not relieve other personnel in the organization of the responsibilities assigned to them. Internal Audit can, however, make recommendations

regarding the quality of those operations or adequacy of internal controls in the normal course of the reviews. While Internal Audit may take an active role in the formulation of policy or development of new systems (process or technical), it will be an advisory capacity only, with final decisions and implementation being the responsibility of appropriate management.

iv. Actuarial Function

The Actuarial Function is involved in many of the key processes across the business and provides technical expertise and assurance over the methods used. The key processes include:

- Estimating the gross and net technical provisions, including ensuring the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions and explaining any material effect of change of data, methodologies or assumptions between valuation dates on the amount of technical provisions;
- Ensuring that the actuarial methods and techniques are compliant with all the appropriate regulatory requirements;
- Assisting with the underwriting process, including those surrounding pricing and design of underwriting contracts and risk transfer mechanisms;
- Building and maintaining rating models and the process of rate monitoring;
- Providing an opinion on the underwriting policy, providing opinion on the reinsurance arrangements, and contributing to the effective implementation of the risk management system.

2.7 Outsourcing

i. Outsourcing policy and key or Important functions that have been outsourced

LSM Bermuda has an outsourcing policy and the Board holds broad responsibility for review and approval of critical business functions of the Company. The terms and conditions of the outsourcing contract are approved by the Board. The outsourcing policy also outlines the process of selection of the service providers, and the procedures to be taken to monitor the work of outsourced partners and ensure that arrangements do not negatively affect the Company's reputation. Designated individuals manage services provided by outsourced vendors.

The Board is responsible for ensuring that an outsourcing arrangement does not diminish the Company's ability to fulfil its obligations to customers or its regulator, nor impede effective supervision by its regulator. Fundamental responsibilities such as the setting of strategies and policies, the oversight of the operation of the processes, and the final responsibility for customers, are not outsourced.

Investment management has been outsourced to Liberty Mutual Investment ("LMI") and managed in accordance with the Liberty Mutual Group investment policy guidelines. The investment management is subject to a rigorous oversight process implemented at Liberty Mutual Group, with reporting to the Company's Investment Committee.

ii. Description of Material Intra-Group Outsourcing

Following the transition into LSM, some functions are now outsourced within the group. Actuarial, Internal Audit, and some aspects of Risk Management are now performed by LSM, with oversight from the LSM Bermuda Board. During 2019, a formal memorandum of understanding will be put in place over these arrangements, including the service levels required by the Board.

The information technology platform has been centralized for efficiency and economies of scale. Further centralization will be completed as the Company further integrate into the LSM structure. The Company is dependent upon a third party, Genpact, for certain administrative and operational services. Genpact provides us with global administrative and operational services, including limited information technology services, back office services related to insurance operations and accounting functions, database management and reporting services.

3. RISK PROFILE

3.1 Material Risks Insurer is Exposed to During the Reporting Period

LSM Bermuda has identified various risk categories to which the Company is exposed. The Risk Register contains a listing of the main risks in relation to strategic, insurance, operational, investment, credit, liquidity, legal and regulatory aspects of the business.

Strategic Risk - Risk associated with the selection of strategies and the macro factors that provide the context for the execution of these strategies.

Insurance Risk - Risk of loss arising from inadequate pricing or of adverse change in the value of insurance liabilities due to inadequate provisioning assumptions.

Operational Risk - The risk of loss resulting from inadequate or failed internal processes, people and / or systems or from external events, including financial reporting risk, technology risk and compliance risk.

Investment Risk - Risk of financial loss due to movements in investment market factors, including interest rates, foreign exchange rates and credit ratings of investments.

Credit Risk - Risk of loss if another party fails to perform its obligations or fails to perform them in a timely fashion. Depending on the source of risk it is classified as either insurance or investment category within the Risk Register.

Liquidity Risk - Risk that sufficient financial resources are not maintained to meet liabilities as they fall due.

Legal and Regulatory Risk – Risk of losses, fines and other penalties arising from day-to-day actions, non-compliance with applicable regulatory and licensing requirements.

3.2 Risk mitigation

RM is primarily represented at the URC Meetings. This ensures adequate flow of risk information and provides an opportunity to discuss with key staff the existing risk areas, identification of potential emerging risks and risk mitigation techniques. RM meets with Risk Owners regularly to review their risks, assess whether any changes to either the inherent or residual risk measurements are required, discuss the current mitigating controls for their risk, discuss emerging risks and consider whether any future management actions have been identified.

The main changes to risk controls are agreed with risk control owners and documented in a set of meeting notes and subsequently in the Risk Register. RM regularly reviews the Risk Register in respect of the appropriateness of the measure of risk at both inherent and residual levels. If in the opinion of RM an amendment is required, it will be discussed with risk owners.

The risk and control owners have responsibility for monitoring their respective risks but are assisted and challenged by RM and Internal Audit. Risk owners have the responsibility of escalating or communicating any issues they find with the mitigating controls that are in place for these risks. The ongoing and formal risk assessment process ensures that the risk profile of LSM Bermuda is monitored against the stated risk appetite and risk tolerance levels.

3.3 Material risk concentrations

LSM Bermuda maintains and monitors tolerances around key risk exposures including but not limited to exposure to natural catastrophes, net exposures by insured and ceded reinsurance exposures. Exposures are monitored by the RM function.

In addition, our investments are subject to several risk limits and formal tolerances. The Company has policies governing risk concentrations in relation to counterparties, credit quality, sectors and geographical locations.

3.4 Investment in assets in accordance with the prudent person principles of the Code of Conduct

LSM Bermuda's investment portfolio is managed by Liberty Mutual Investment ("LMI") in accordance with the Liberty Mutual Group investment policy guidelines. In order to achieve the investment objectives, the portfolio is diversified and is managed with consideration for risks such as market risk, credit risk, interest rate risk, currency risk and liquidity risk. The guidelines ensure that highly liquid and low volatility fixed income securities support the technical provisions to ensure that claims can be paid on a timely basis. The size of the high quality investment portfolio is determined by the amount of technical provisions recorded for the quarter plus a large safety buffer. These guidelines are reviewed on an annual or ad hoc basis if any significant deviations have occurred that affect the financial markets.

3.5 Stress testing and sensitivity analysis to assess material risks

Various stress tests are performed to determine the adequacy of capital/liquidity to ensure regulatory requirements are met. The tests performed relate to underwriting risk exposures. Underwriting risk exposure is tested for risk concentration by considering the net exposures to several selected scenarios. This analysis facilitates discussions around emerging risks and aggregation/clash across our profit centers. The remaining traditional risk categories (e.g. credit risk, interest rate risk and market risk) are also estimated.

4. SOLVENCY VALUATION

4.1 Valuation bases, assumptions and methods to derive the value of each asset class

The consolidated financial statements for LSM Bermuda are prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). These consolidated financial statements form the basis for the preparation of both the Economic Balance Sheet ("EBS") and the Statutory Financial Statements ("SFS") as required under Bermuda insurance regulations. The EBS and SFS are used by both LSM Bermuda and the Bermuda Monetary Authority in assessing the minimum solvency and capital requirements. With certain exceptions, assets and liabilities are assessed and included on the EBS at fair value.

The following paragraphs detail how the asset classes are valued in accordance with U.S. GAAP and documents any differences between the valuation base in the Company's consolidated financial statements under U.S. GAAP and the EBS.

Cash and short term investments

Cash and cash equivalents have an original maturity of ninety days or less. Short term investments, which are managed as part of the Company's investment portfolio, have a maturity of one year or less when purchased and are carried at cost which approximates fair value.

Fixed maturity securities

Fixed maturity securities are valued in accordance with mark to market principles where possible. Quoted market prices in active markets for similar assets with adjustments to reflect differences are considered if mark to market valuation is not possible. Fixed income securities that are not actively traded and for which similar assets are also not actively traded pricing services are used to prepare inputs to assist with mark to model valuations.

Equity securities

Equity securities includes common stock and are valued using the quoted market prices.

Other investments

The fair value of other investments is estimated using the net asset value ("NAV") as provided by the general partners or investment managers. As the NAV obtained from the general partners or investment managers lags by one quarter as of the measurement date, the Company considers any adjustment to the most recent NAV such as capital calls, distributions, redemptions and all other information available to the Company.

Premiums receivable

Premiums receivable represent amounts currently due and amounts not yet due on insurance and reinsurance policies. The Company monitors the credit risk associated with premiums receivable, taking into consideration the impact of the Company's 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.

Under the EBS approach premiums receivable are valued in line with U.S. GAAP with the exception that any balance due in more than one year is discounted. In addition, premium receivable that is not contractually due or is deferred as at the balance sheet date is included within the technical provisions.

Deferred tax assets

When the Company's assessment indicates that it is more likely than not that all or some portion of deferred income tax assets will not be realized, a valuation allowance is recorded against the deferred tax assets. For the years ended December 31, 2018 and 2017, management determined no valuation allowance as necessary. The valuation methodology for deferred tax assets under U.S. GAAP is consistent with the valuation approach for EBS purposes.

Reinsurance recoverable on losses

Amounts billed to, and due from, reinsurers resulting from paid movements in the underlying business are calculated in accordance with the terms of the individual reinsurance contracts. Similarly, reinsurance balances recoverable related to the case reserves are calculated by applying the terms of any applicable reinsurance coverage to movements in the underlying case reserves. The estimate of reinsurance balances recoverable related to incurred but not reported ("IBNR") reserves is recognized on a basis consistent with the underlying IBNR reserves. The reinsurance balances recoverable are presented net of a provision for uncollectible amounts, reflecting the amount deemed not collectible due to credit quality, collection problems due to the location of the reinsurer, contractual disputes with reinsurers over individual contentious claims, contract language or coverage issues.

Deferred acquisition cost

Under U.S. GAAP acquisition costs, consisting principally of commissions and brokerage expenses and certain premium taxes and fees incurred at the time a contract or policy is issued and that vary with and are directly related to the successful efforts of acquiring new insurance contracts or renewing existing insurance contracts, are deferred and amortized over the period in which the related premiums are earned.

Under the EBS approach deferred acquisitions costs are valued at nil in order to avoid double counting as deferred acquisitions costs are implicitly included in the premium provision valuation with in the technical provision.

Prepaid reinsurance premiums

Unearned premiums represent the portion of premiums written that relate to the unexpired terms of policies in force. Premiums ceded are similarly pro-rated over the period the coverage is provided with the unearned portion being deferred as prepaid reinsurance premiums.

Under the EBS approach prepaid reinsurance premiums are valued in line with U.S. GAAP with the exception that any balance due in more than one year is discounted. In addition, premium receivable that is not contractually due or is deferred as at the balance sheet date is included within the technical provisions.

Other assets

The valuation methodology for other assets under U.S. GAAP is consistent with the valuation approach for EBS purposes.

4.2 Valuation bases, assumptions and methods to derive the value of technical provisions

Insurance technical provisions are valued based on best-estimate cash flows, adjusted to reflect the time value of money using a risk-free discount rate term structure. In addition, there is a risk margin to reflect the uncertainty inherent in the underlying cash flows, which is calculated using risk-free discount rate term structure as prescribed by Bermuda Monetary Agency ("BMA").

The best-estimate for loss and loss expense provisions is calculated by using U.S. GAAP reserves as a starting point. The U.S. GAAP reserves for losses and loss adjustment expenses represent the Company's best estimate of loss and loss expenses reserves on an undiscounted basis. The discounted reserve is then calculated using expected payout patterns and the risk-free yield curves published by BMA.

The best-estimate for premium provisions is calculated using the unearned premium reserve on U.S. GAAP basis, adjusting for bound but not incepted business as of December 31, 2018, and applying expected loss and expense ratios and appropriate claims payout patterns to derive cash flows, which are then discounted using a risk-free discount rate term structure as prescribed by BMA.

The risk margin is calculated using a cost of capital approach and discounted using a risk-free discount rate term structure as prescribed by BMA, using the risk-free discount curve propagated by BMA.

As of December 31, 2018, the total technical provisions were comprised of the following:

	Net provision
Best estimate loss and loss expense provision	\$694,394
Best estimate premium provision	(138,836)
Risk margin	71,303
Total insurance technical provisions	<u>\$ 626,861</u>

4.3 Description of recoverable amounts from reinsurance contracts

In the normal course of business, LSM Bermuda seek to reduce the potential amount of loss arising from claims events by reinsuring certain levels of risk with other insurers and reinsurers. Amounts recoverable from reinsurers are estimated based on the terms and conditions of the reinsurance contracts, in a manner consistent with the underlying liabilities insured. The reinsurance balances recoverable are presented net of a provision for uncollectible amounts.

4.4 Valuation bases, assumptions and methods to derive the value of other liabilities

Insurance and Reinsurance Balances Payable

Insurance and reinsurance balances payable principally represents ceded premiums payable and profit commissions payable to third party reinsurance companies or program administrators.

Other liabilities

Other liabilities represent accounts payable and accrued expenses as well as other liabilities. The carrying value of other liabilities approximated their fair values at December 31, 2018, due to their respective short maturities.

5. CAPITAL MANAGEMENT

5.1 Eligible capital

- i. Capital management policy and process for capital needs, how capital is managed and material changes during the reporting period

As the profile and strategic plans change, so do capital needs. The Board recognizes the importance of having a plan for addressing capital requirements to meet its strategic plans for growth and in times of crisis. The capital management process seeks to provide a thorough and realistic structure for maintaining an efficient level of capital. Shortfalls are managed by setting out actions that may be undertaken based on the severity and urgency of the deficit.

In the short to medium term, capital management is closely aligned with the business planning process and utilizes the risk appetite to guide business decisions. In the long term, the strategy is to consistently deliver superior profitable growth through a balanced and diversified portfolio with a keen focus on execution. This is accomplished through revenue growth, expense management, investment management, focus on underwriting specialty lines and developing top talent.

There have been no material changes to capital and how it is managed during the reporting period.

- ii. Eligible capital categorized by tiers in accordance with the eligible capital rules

Eligible capital as of December 31, 2018 is categorized into the following tiers:

	December 31, 2018	December 31, 2017
Tier 1	\$1,652,746	\$1,730,088
Tier 2	34,532	75,571
Tier 3	-	-
Total	<u>\$ 1,687,278</u>	<u>\$ 1,805,659</u>

The majority of capital is Tier 1, which is comprised of fully paid common shares, contributed surplus and retained earnings. The Company has immaterial amount of Tier 2 capital, which is made up of the excess of assets encumbered for policyholder obligations and actual policyholder obligations.

- iii. Eligible capital categorized by tiers, in accordance with the eligible capital rules used to meet ECR and MSM requirements of the Insurance Act

Eligible capital for the Minimum Margin of Solvency (MSM) and Enhanced Capital Requirement (ECR) as of December 31, 2018 is categorized as follows:

	Limits	MSM	ECR	Minimum margin of solvency	Enhanced capital requirement
Tier 1	Min	80%	60.00%	\$1,652,746	\$1,667,918
Tier 2	Max	25%	66.67%	34,532	34,169
Tier 3	-	-	17.65%	-	-
Total				<u>\$ 1,687,278</u>	<u>\$ 1,702,087</u>

- iv. Confirmation of eligible capital that is subject to transitional arrangements

Not applicable

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

Not applicable

- vi. Identification of ancillary capital instruments approved by the BMA

Not applicable

- vii. Identification of differences in shareholder's equity as stated in the financial statements versus the available statutory capital and surplus

	December 31, 2018	December 31, 2017
Reconciliation of U.S. GAAP to BSCR (EBS) capital		
Shareholder's equity per U.S. GAAP	\$1,726,952	\$1,589,579
Remove non-admitted prepaid expenses	(847)	(3,238)
Remove non-admitted goodwill and intangible assets	-	(25,185)
Add liabilities for letters of credit, guarantees and other	(17,370)	(11,915)
Bermuda statutory capital and surplus	\$ 1,708,735	\$ 1,549,241
Gross loss and loss expense provision	51,378	39,085
Gross premium provision	437,886	218,665
Risk Margin	(71,302)	(85,886)
Deferred gain on retroactive contract	-	303,219
Premiums receivable not yet due	(439,419)	(218,665)
Statutory economic capital and surplus	\$ 1,687,278	\$ 1,805,659

5.2 Regulatory Capital Requirements

- i. ECR and MSM requirements at the end of the reporting period

As at December 31, 2018, regulatory capital requirements were assessed as follows:

	December 31, 2018	Ratio
Minimum margin of solvency	\$355,325	495%
Enhanced capital requirement	\$355,325	475%

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

LSM Bermuda was compliant with the requirements of the MSM and the ECR at the end of the reporting period.

- iii. A description of the amount and circumstances surrounding the non-compliance, the remedial measures and their effectiveness

Not applicable.

- iv. Where the non-compliance is not resolved, a description of the amount of the non-compliance

Not applicable.

5.3 Approved Internal Capital Model

LSM Bermuda does not utilize an approved internal capital model to derive ECR. The ECR is based on the BSCR model.

6. SUBSEQUENT EVENTS

There have been no subsequent material events during the time of the closing and December 31, 2018.

Appendix A

