
FINANCIAL CONDITION REPORT

December 31, 2019



AWBURY

AWBURY INSURANCE LTD.
BMA Registration Number 46033

Wellesley House | 2nd Floor | 90 Pitts Bay Road | Pembroke HM 08 | Bermuda
Main Office Telephone Number: (441) 292-4218

Approved Auditor

KPMG Audit Limited
Crown House | 4 Par-la-Ville Road
Hamilton | Bermuda

Group Supervisor

Bermuda Monetary Authority
BMA House | 43 Victoria Street
Hamilton | Bermuda

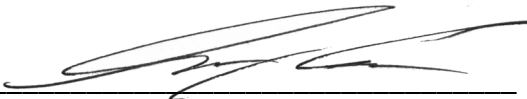
Prepared in accordance of the reporting requirements of the Bermuda Monetary Authority

DECLARATION ON FINANCIAL CONDITION REPORT

To the best of our knowledge and belief, we the undersigned confirm that the Financial Condition Report fairly represents the financial condition of Awbury Insurance Ltd. in all material respects.



President



Chief Risk Officer

IMPORTANT INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This report may include certain forward-looking statements regarding our views with respect to our business, operations, loss reserves, strategy, investment portfolio, economic model, and our expected performance for future periods, as well as the insurance market and industry conditions. These statements are solely prospective in nature, and actual results may materially differ from those set forth in the forward-looking statements. You may identify forward-looking statements by the use of words such as “believe,” “expect,” “plan,” “intend,” “anticipate,” “estimate,” “predict,” “potential,” “may,” “should,” “could,” “will” or other words or expressions of similar meaning, although not all forward-looking statements contain such terms.

Forward-looking statements involve significant risks and uncertainties, including risks of changing market conditions in the overall economy and the industry, the success of implementing our strategies, the adequacy of our loss reserves, the regulatory environment, any litigation, competitive pressures, loss of key personnel, risks relating to our active underwriting businesses, our liquidity and other factors.

Any forward-looking statement in this report reflects our current views with respect to future events and is subject to these and other risks, uncertainties and assumptions. If any of these risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary significantly from what we projected. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they are made. We undertake no obligation to update or review any forward-looking statement, whether to reflect any change in our expectations with regard thereto, or as a result of new information, future developments or otherwise, except as required by law.

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SECTION I. BUSINESS AND PERFORMANCE

Awbury Insurance Ltd. (“the Company”) was incorporated in Bermuda on December 1, 2011 and registered as a Segregated Accounts Company on December 15, 2011. The Company was licensed as a Class 3A Insurer under the Insurance Act 1978 to carry on general business effective December 16, 2011.

a. Name of Insurer

Awbury Insurance Ltd.

b. Supervisors

Insurance Supervisor

Bermuda Monetary Authority
BMA House
43 Victoria Street, Hamilton
Bermuda

Group Supervisor

Bermuda Monetary Authority
BMA House
43 Victoria Street, Hamilton
Bermuda

c. Approved Auditor

Statutory Reporting

KPMG Bermuda
Crown House
4 Par-la-Ville Road, Hamilton
Bermuda

GAAP Reporting

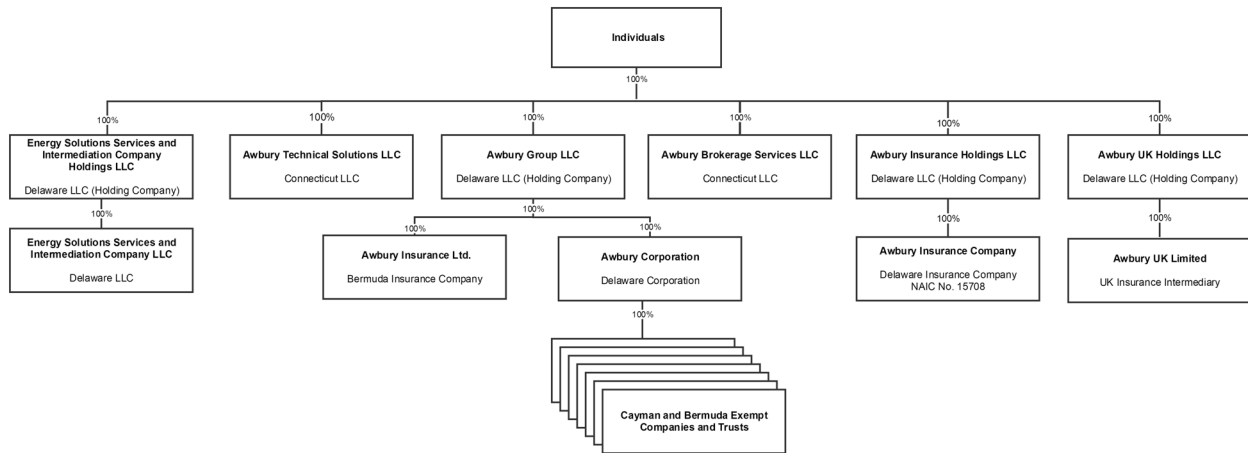
KPMG Bermuda
Crown House
4 Par-la-Ville Road, Hamilton
Bermuda

d. Ownership Details

The Company is a wholly owned subsidiary of Awbury Group LLC, a company incorporated in Delaware in the United States of America.

e. Group Structure

The following provides details of the Company in the Group Structure:



f. Insurance Business Written by Business Segment and by Geographical Region

The Company provides comprehensive insurance and capital solutions to its clients, across a range of complex credit and investment products, as well as economic and financial risks. Pursuant to its registration as a Segregated Accounts Company, the Company has established segregated accounts for each risk it has insured.

Gross Premium Written by Business Segment for the Reporting Period
(Reported in U.S. thousand dollars)

<u>Line of Business</u>	<u>2019</u>	<u>2018</u>
Credit/Surety	\$ <u>475,726</u>	\$ <u>494,552</u>
	\$ 475,726	\$ 494,552

Gross Premium Written by Geographical Region for the Reporting Period
(Reported in U.S. thousand dollars)

<u>Region</u>	<u>2019</u>	<u>2018</u>
USA	\$ 248,503	\$ 401,112
Europe	178,105	68,397
Canada	430	1,300
Asia	<u>48,688</u>	<u>23,743</u>
	<u>\$ 475,726</u>	<u>\$ 494,552</u>

The numbers presented above reflect the gross written premium reported in the Company's statutory financial statements. This value is based on Bermuda statutory regulations which require consolidation of the Company's segregated accounts with its General account. This differs from the GAAP financial statements which determine the accounting treatment for the segregated accounts based on a cell-by-cell consolidation analysis using ASC 810, and reflects gross written premium only for the Company's General Account.

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

Performance of Investments for the Reporting Period

The Company held no investments (other than cash or equivalents) for the years ended December 31, 2019 and 2018.

Material Income & Expenses for the Reporting Period

Material contributors to the Company's income are (i) written insurance premium, and (ii) ceding commission, both of which relate to the Company's insurance business. The Company's expenses primarily relate to service fees paid to the Company's affiliate service company, Awbury Technical Solutions LLC, pursuant to an administrative services agreement. Other material expenses include salary, as well as management fees and audit fees.

(Reported in U.S. thousand dollars)

<u>Expense Type</u>	<u>2019</u>	<u>2018</u>
Claims and brokerage	\$ -	\$ -
Service fees	23,171	15,910
Salary and directors' fees	544	500
Audit and LRSO fees	243	305
Other	<u>400</u>	<u>241</u>
	<u>\$ 24,358</u>	<u>\$ 16,956</u>

h. Management Statistics

The Company assesses the size and scope of its business using the following two metrics:

Management Metrics

(Reported in U.S. thousand dollars)

	<u>2019</u>	<u>Inception to Date</u>
Estimated Gross Underwriting Income	\$ 123,017	403,204

Year End 2019

Total Statutory Economic Capital and Surplus \$ 184,857

The Estimated Gross Underwriting Income above reflects management's assessment of the ultimate value over time of the portfolio, related to the business accepted by the Company for the period January 1 to December 31, 2019 and from the Company's inception to December 31, 2019. This amount differs from Gross Written Premium as reported on the Company's GAAP and Statutory statements, as it reflects management's estimate for all income to be generated over the entire term of the contracts, inclusive of estimates of future income on the existing portfolio.

Management estimates that the book value of the business incepted through December 31, 2019 is \$202,095,000, defined as the net income from the contracts in the portfolio, after the deduction of operating expenses and taxes. The business spans a total asset base of \$2,773,324,000, which reflects both its GAAP consolidated balance sheet and nonconsolidated segregated account assets.

Total Statutory Economic Capital and Surplus is an amount defined by the BMA, representing the amount by which all of the Company's assets exceed all of the Company's liabilities, when assets and liabilities are fair valued. Using the BMA's fair value valuation of the Company's Balance Sheet, i.e. 'Economic Balance Sheet', the total statutory economic capital and surplus as of December 31, 2019 was \$ 184,857,371.

i. Any Other Material Information

Nothing noted.

II. GOVERNANCE STRUCTURE

The Company's governance structure is established to:

- Ensure enterprise risk management is maintained at high standards;
- Ensure the business is operating in an efficient and effective manner; and
- Ensure compliance with all rules and regulations to which it is subject.

a. Board and Senior Executive

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

The Board of Directors (the "Board") role is to exercise oversight in relation to all aspects of the business. Executive decisions and risk oversight are delegated to the senior executives (which consist of the Company's officers, including the Chairs of the Underwriting and Binding Committee, Investment Committee, Compliance Committee and Claims Committee. The Company's Audit Committee provides oversight to the Company's external financial reporting and internal audit process and this committee contains a majority of non-Executive Directors. Each of these committees meets on an as needed basis in Bermuda. Committees report directly to the Board.

The Board consists of seven directors, three of whom are independent, and their roles and responsibilities are outlined in the Company's Bye-Laws and comply with the regulatory requirements of Bermuda. The Company requires that all material transactions and relationships, including all insurance and reinsurance policies issued, be reviewed and approved by a meeting of the Board of Directors prior to binding.

ii. Remuneration Policy

Employees are paid a base salary and a discretionary bonus. The bonus is based upon the performance of the employee as well as the performance of the Company and is determined periodically. On a case-by-case basis, outside directors may also be paid compensation for their services.

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

The Company has not established a supplementary pension or early retirement scheme for members, the Board of Directors or for senior employees.

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

The Company has not engaged in any other material transactions with shareholder controllers, persons who exercise significant influence, the Board of Directors or senior executives.

b. Fitness and Proprietary Requirements

i. Fit and Proper Process in assessing the Board and Senior Executives

The Company employs a fit and proper process in assessing the members of the Board

of Directors and senior executives. This process involves assessing whether the identified person has the relevant skills, experience, knowledge and soundness of judgement. The process further involves consideration of, amongst other things, the subject person's character and reputation.

As demonstrated by their biographies (attached in Appendix A), the Company's Board of Directors and senior management are well qualified, experienced, and known individuals within the insurance industry.

ii. Board and Senior Executives

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

Board

Directors/Alternates:	<u>Directors</u>	<u>Alternates</u>
	Alexander A. Dubitsky	
	David S. Goldman	
	Andrew J. Kaplan	
	David J. Ensor	
	J. Oliver Heyliger (Non-Exec)	
	Jason Carne (Non-Exec)	
	Janita K. Burke (Non-Exec)	James Bodi / Alison Dyer-Fagundo
Officers*:	David J. Ensor	President / Active Underwriter
	Alexander A. Dubitsky	Executive Vice President
	David S. Goldman	Executive Vice President
	Andrew J. Kaplan	Executive Vice President
	J. Oliver Heyliger	Segregated Accounts Representative and Principal Representative
	B. Schuyler Edwards	Internal Auditor
	Yaakov B. Feingold	General Counsel
	Joseph J Curran	VP/COO
	Sokha Au-Ferris	VP Finance
	Ocorian Services (Bermuda) Ltd.	Secretary

***See Appendix A for Executive Biographies**

c. Risk Management and Solvency Self-Assessment

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

The Company's Board of Directors oversees the setting of the Company's risk appetite and delegates authority for management of all identified risks to the Company's Executive Vice President, Andrew Kaplan (the "CRO") and the Company's President /

Active Underwriter, David Ensor (the “President”). Working with the Board of Directors and appropriate officers, including the President and General Counsel, the CRO identifies all the material risks to which the Company is actually or potentially exposed, including insurance and underwriting; retrocession/reinsurance/counterparty, credit, capital, liquidity, investment, operational, business, legal, regulatory, reputational and intra-group.

In each case, the Board of Directors, the Chief Risk Officer (the “CRO”), the President and appropriate officers examine and assess the materiality of each of the risks so far as they relate to the Company.

The Company utilizes various systems and tools for the identification, tracking, measurement, and reporting of risk. On a continuous basis, the senior officers of the Company review whether any issues have arisen which would change their opinion of the risks to which the Company is exposed, with a view to ensuring that the Company is not exposed to risks unexpectedly, or beyond its capacity to absorb and remain both liquid and solvent.

With respect to risks insured by the Company, prior to binding, all such risks are first reviewed and approved by the Underwriting and Binding Committee (“UBC”). UBC membership includes the Company’s President/Active Underwriter, CRO, General Counsel and Internal Auditor. The underwriting recommendation of the UBC is provided to and considered by the Company’s Board of Directors as part of its review and approval of each insurance transaction to be bound by the Company.

ii. Risk Management and Solvency Self-Assessment Systems Implementation

The CRO has overall responsibility for risk management, under authority from the Company’s President and Board of Directors. The CRO also oversees the Company’s Solvency Self-Assessment (SSA), working in conjunction with the Company’s Vice President – Finance, thereby integrating both the risk management and SSA processes. In addition, the Company’s Board of Directors is involved in decisions affecting all material risks accepted by the Company, including capital adequacy and solvency, thereby ensuring that adequate oversight is in place.

The Company has a relatively “flat” organizational structure and an open culture in terms of decision-making and communication. This ensures that all decisions are widely disseminated to and known by those responsible for their implementation.

In terms of strategic planning, the Company’s senior officers and the Board of Directors discuss regularly the Company’s business plan with a view to identifying whether any changes are required to assumptions; and, as part of the annual year-end review cycle, re-assess the Company’s strategic position and the Board of Directors’ views on whether it, and the resulting plans, need to be adjusted or amended.

The Company uses a combination of proprietary and third-party (vendor) capital models

to determine the adequacy of capital. The models are calibrated at a 99.0% Tail Value-at-Risk (TVaR) level. Capital is managed to have a sufficiently conservative buffer to allow the Company to continue to meet regulatory capital requirements after a significant loss event.

iii. Relationship Between Solvency Self-Assessment, Solvency Needs & Capital, and Risk Management

The solvency self-assessment is performed with input from the Company's senior management and reviewed by the Board of Directors. Although formally an annual exercise, the Company integrates solvency and capital adequacy assessments into its risk management and underwriting analyses.

The Company has weekly risk management meetings in which market conditions are discussed and impacts on risks written are evaluated. As part of these meetings and resulting from the discussion, the Company re-assesses its capital position.

The Company reviews its capital position and its sufficiency for existing and new business each time it considers binding a new policy. The Board is apprised of the Company's assessed capital position and informed of the availability of capital to allocate to new policies.

iv. Solvency Self-Assessment Approval Process

The Company's SSA is prepared by the CRO (with input from senior officers); then reviewed and revised, as appropriate, by the Company's executive officers; and then submitted to the Company's Board of Directors for consultation, review and approval.

d. Internal Controls

i. Internal Control System

The Company has an internal control system in place in order to mitigate operational risks, including those relating to financial reporting, compliance with laws and regulations, and adherence to internal Company guidelines and policies. Such controls generally involve segregation of duties, third party verification, and continuous evaluation and monitoring to ensure the efficacy of such controls.

ii. Compliance Function

The Company's General Counsel, with guidance from the Company's outside counsel (Appleby (Bermuda) Limited) and Principal Representative, is responsible for ensuring compliance with laws, regulations and other applicable rules and standards. The Compliance Committee, which includes the General Counsel, President/Active Underwriter, is responsible for formulating, documenting and maintaining compliance policies and procedures. Such policies and procedures are regularly reviewed by senior management and approved by the Board of Directors. The Company's compliance function is executed in proportion to the nature, scale and complexity of the Company's business.

e. Internal Audit

In accordance with the Company's internal audit procedures, the Company's internal audit function is structured and implemented through a direct communication between the Internal Auditor and the Audit Committee of the Board of Directors. The internal auditor does not report to any individual with respect to the audit function and provides feedback directly to the Audit Committee. Through this direct reporting relationship, the internal auditor maintains independence from other management and, given that he is not influenced by other management in this capacity, is objective when conducting his functions and reporting to the Board of Directors.

f. Actuarial Function

The Company employs the services of a third party actuary, William J. Miller FCAS, MAAA, to review and confirm, in his capacity as the Company's loss reserve specialist, the adequacy of loss and loss expense provisions, as reflected in the Company's financial statements. Mr. Miller has been approved by the Bermuda Monetary Authority to serve as the Company's Loss Reserve Specialist. This function is implemented in proportion to the nature, scale and complexity of the Company's business.

g. Outsourcing

i. Outsourcing Policy and Key Functions that have been Outsourced

The Company's relationships with external service providers are supervised by the Board of Directors. The Company's outsourcing policy requires that all material outsourcing arrangements be reviewed and approved by the Board of Directors prior to commencement. Such review incorporates an assessment of any potential impact on the Company's risk profile stemming from the arrangement, and specifically includes consideration of the outsourcing counterparty's service capability and financial viability. The outsourcing policy further requires that outsourcing arrangements be documented by contract, and that such contracts reflect the outsourcing counterparty's obligation to comply with all applicable laws and regulations. Outsourcing relationships are subject to continuous review to ensure compliance with service level agreements.

The Company currently outsources its premium payment processing and payroll functions to Marsh Ltd. and Expertise Limited, respectively.

ii. Material Intra-Group Outsourcing

The Company is party to an Administrative Services Agreement with its affiliate service company, Awbury Technical Solutions LLC ("ATS"), pursuant to which ATS provides a broad spectrum of technical services to the Company, including, but not limited to, product management, technical underwriting, legal, compliance, due diligence, management, finance, human resources, tax, audit, information technology, and communications. The Company's outsourcing relationship with ATS is supervised by the Company's Board of Directors.

h. Other Material Information

There is no other material information to report.

III. RISK PROFILE

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

The extent of the Company's exposure to each of the key risks identified in the section is as follows. In the opinion of the Board of Directors, and the Company's senior executives, no material changes occurred during the reporting period.

- **Underwriting:** This is the Company's core risk. A careful analysis of each individual policy to be accepted on behalf of the Company is undertaken by the Company's Underwriting and Binding Committee with a view to identifying the precise nature of the inherent risks, as well as realistic "tail" or "worst case" scenarios in order to quantify the potential exposure on each policy, and the Company's share of such exposure. As a matter of practice, it is the Company's policy to underwrite potential exposures to a low probability of loss standard.

The Company's underwriting risks include the following primary exposures: (1) Corporate credit risk; (2) Price and liquidity performance of sub-prime mortgage securitizations; and (3) Performance of managed portfolios of equity and leveraged loan positions.

- **Market/Off Balance Sheet:** The Company takes minimal to no market risk, as most of its Invested Assets are in the form of cash or equivalents, or highly rated fixed income, or equivalent securities of short duration.
- **Credit Risk:** The Company's credit risk is limited to the risk of failure of those banking institutions with which it has placed cash deposits. It does not retrocede from its General Account and, the structure of the insurance policies that the Company underwrites ensures that the Company bears minimal or no credit risk related to premium payments.
- **Liquidity:** The Company minimizes its liquidity risk, as its Invested Assets are invested in overnight or short term deposits, or highly-marketable fixed income securities of short duration.
- **Operational:** The Company's operational risk is mitigated through the application of internal controls, processes and procedures. Risks relating to operational functions performed by the Company's affiliate and third party service providers are similarly mitigated through the implementation of internal controls. The Company's Board of Directors reviews and approves all such outsourcing relationships. The Company selects outsourcing partners with which it has had long-standing relationships, and which have long-term, proven track records with respect to quality and risk controls.
- **Legal:** The Company is exposed to this risk primarily in the form that its

contractual arrangements and policies of insurance and reinsurance are properly drafted and conform to the risks that the Company's Board of Directors has approved. This risk is mitigated by the employment of an experienced General Counsel, and by the use of experienced, specialized and highly regarded external counsel. In addition, all other legal documentation is completed by the General Counsel and experienced external counsel prior to binding.

- Reputational: The senior officers of the Company and the Board of Directors monitor the Company's reputation in the market, as well as with its partners, suppliers and regulators on a continuous basis.
- Intra-Group: The Company depends upon its affiliate service company, Awbury Technical Solutions LLC ("ATS"), for a variety of services and functions. Such services are provided to the Company pursuant to a service agreement with ATS, and include, but are not limited to, the following: product management, technical underwriting support, legal, compliance, due diligence, management, finance, human resources, tax, audit, information technology, and communications. The Company's outsourcing relationship with ATS is supervised by the Company's Board of Directors.

b. Risk Mitigation in the Organisation

The Company's Board has delegated risk management to the CRO. The CRO with assistance from other officers of the Company monitors the portfolio for developments that could lead to a loss. Capital markets, rating agency reports, insureds' reporting, and data provided by third party sources (including investment banks, Bloomberg and CreditSights) are actively monitored. Weekly, the results are discussed and action, if needed, is taken. It is the responsibility of the CRO to propose all risk mitigation strategies to the Board for their consideration and approval.

c. Material Risk Concentrations

The Company's underwriters, the CRO, its senior officers and its Board of Directors (which approves the assumption of each and every underwriting risk) review each material transaction for potential concentration or correlation of risk. In the opinion of the Board of Directors, the Company does not have any material risk concentrations that would cause the Company to become insolvent or be unable to meet its obligations, as they fall due. The Company's has determined that none of its material risks, on a 99.0% TVaR basis, exceed 20% of the statutory economic capital.

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

The Company's investment portfolio is managed by the Investment Committee, headed by the CRO, in accordance with the Company's investment policy guidelines. Assets are generally held in cash at quality rated institutions. They are readily available for any liquidity need.

e. Stress Testing and Sensitivity Analysis to Assess Material Risks

The Company performs various stress tests and portfolio analyses, on an ad-hoc basis and prior to Board meetings for consideration of binding new policies, to determine the impact of market developments on the adequacy of capital/liquidity to ensure regulatory requirements can be met. The analysis performed relate to underwriting risks, interest rate risk, and credit risk. Target stresses are meant to replicate 99.0% TVaR in the aggregate over the complete life of a policy.

- **Underwriting Risks:** As part of the Company's underwriting, it assesses the material drivers of risk for each policy written. Material risks are determined via the underwriting process. The Company questions the insured, researches historical events, reviews third party data and/or considers materials provided by the insured. The Company considers any relevant historical data it can source and/or current market implied data to determine a reasonably conservative stress estimate assessment. The Company uses historical worst performance or a statistically implied stress of a sample of data in its stress testing and sensitivity analysis.
- **Interest Rate Risk:** The Company's investment portfolio is held as cash and bears no interest rate risk.
- **Credit Risk:** The Company's reinsurance recoverables and premiums receivable are not impacted by its counterparties' ability to make payments in accordance with the contractual terms as its insurance contracts are structured to eliminate the Company's credit risk to either the Insured or reinsurer counterparties.

Based on the latest results, the Company believes that it has sufficient capital and liquidity to comply with its contractual obligations of the organization and regulatory requirements.

IV. SOLVENCY VALUATION

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

The Company has used the valuation principles outlined by Bermuda Monetary Authority's "Guidance Note for Statutory Reporting Regime" for the reporting period's statutory filing. Assets are valued on the balance sheet based on US GAAP or BMA statutory guidance.

Cash and Cash Equivalents include cash, time deposits and investments maturing within three months. The fair value of these holdings is determined by using mark-to-market valuation, or quoted market prices in active markets for similar assets with adjustments to reflect differences if mark to market valuation is not possible, or mark to model valuation otherwise.

Derivative instruments are valued at quoted market prices. In the absence of an active market, prices are based on observable market inputs.

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

The underlying data used in the calculation of the EBS Technical Provisions are the same as or consistent with that used in the calculation of the provisions in the Company's audited US GAAP statements. In addition to the data used in preparation of the financial statements, the historical data for certain non-payment risks originated from Moody's Investor Services and the alternative asset class performance data originally were sourced from Preqin. Both are used as a basis for assessing future performance expectations.

The majority of the business included within the Technical Provisions relates to 'Fund Opportunities'. These are financial guarantee insurance policies that protect the lender against the inability of a borrower to repay its loan to the lender. The remainder of the Technical Provisions relate to other non-payment insurance products, which trigger upon a non-payment event of a single or portfolio of obligors.

The modelling methodology used in determination of the ultimate premiums and losses is consistent with those used in the determination of inputs into the US GAAP accounts.

The methodology is based on cash flow modelling techniques. These models capture the features of the product contracts and determine the amount and timing of cash flows based on a set of input assumptions. For the other non-payment policies, the premiums are scheduled and fixed and thus only losses are modelled using cash flow models, using Moody's historical default experiences and recoveries as inputs.

In performing the calculation of Technical Provisions, the cash flow modeling technique and determined probability distributions are used. Estimates of the Technical Provisions rely on a reasonable formulation of the contract features within a stochastic model, where a reasonable attempt has been made to parameterize the key inputs. This allows multiple possible scenarios and assigned probability weights attached to each to be outputs of these models. This is achieved through a Monte Carlo simulation approach. The Technical Provisions are therefore the result of the use of a simulated probability distribution. To arrive at the aggregate value of the Technical Provisions, estimates are calculated on an individual

policy basis.

To determine unallocated loss adjustment expenses, the Company's 2019 G&A recurring expenses have been allocated (being all expenses in the G&A line, minus estimated new business costs) to in-force policies using each policy's 2019 earned premium to apportion the expense. Most of the Company's in-force policies are multiyear coverages. Expenses have been projected out over its remaining exposure term and applied; and a level of inflation and discounting to present value using the BMA's published rates has also been incorporated. Once summed across all policies, this represents the expense provision within the premium provision. For the contracts that are denominated in Euros, the premium and loss estimates are converted to dollars at the December 31, 2019 rate: \$1 = €0.8907.

The best estimate for the premium provision is calculated by using the unearned premium reserve on a US GAAP basis, adjusting for bound but not incepted business as at December 31, 2019 and applying expected future loss ratios, expense ratios and appropriate claims payout patterns to derive cash flows which are then discounted.

At December 31, 2019, the total Technical Provisions amounted to (\$107,379,772) comprising the following (reported in U.S. thousand dollars):

• Best Estimate Loss and Loss Expense	Nil
• Best Estimate Premium Provision	(\$135,868)
• Risk Margin	\$28,489

c. Description of Recoverables from Reinsurance Contracts

The Company follows the BMA's guidance for solvency valuation, including determination of reinsurance recoverables. There are currently no reinsurance recoverables recorded.

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

Similar to the valuation principles for assets, the Company's liabilities follow the valuations principles outlined by BMA's "Guidance Note for Statutory Reporting Regime", which values liabilities at a fair value basis. All other liabilities (with the exception of Loans and Notes Payable and Derivative Instruments) are valued on a US GAAP basis and settlements not expected to be settled within a year, are discounted using the prescribed discount rates provided by the BMA as at December 31 2019. Loans and Notes Payable are valued on a US GAAP basis and Derivative Instruments are valued at quoted market prices. In the absence of an active market, prices are based on observable market inputs.

e. Any Other Material Information

There is no additional material information to report.

V. CAPITAL MANAGEMENT

a. Eligible capital

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

The primary capital management objectives of the Company are to maintain a strong capital base to support the development of its business and to meet regulatory requirements at all times. The Company's capital and risk management strategy are primarily unchanged over the prior year.

The Company follows the BMA's guidance for determining regulatory capital requirements. It is the Company's policy to maintain a prudent level of capital in excess of the minimum requirements which will support its risk and underwriting business model as well as allow for measured growth. The Company's Board of Directors makes all decisions about capital uses and is the sole decision maker for any material changes. Capital increased during the reporting period from an increase in retained earnings.

In order to maintain a strong capital base, the Company monitors its Total Statutory Economic Capital and Surplus, reported as of December 31, 2019 at \$184,857,371, to insure company stability and provide for measured growth. The BMA's regulations require the Company to maintain Total Statutory Economic Capital and Surplus in excess of its Enhanced Capital Requirement, which as of December 31, 2019 was \$7,728,276.

ii. Eligible Capital Categorized by Tiers in Accordance with the Eligible Capital Rules

At the end of the reporting period, the Company's Eligible Capital was categorized as follows:

(Reported in U.S thousand dollars)

Tier 1	\$35,987
Tier 2	-
Tier 3	-
Total	\$35,987

All Eligible Capital of the Company is categorized as Tier 1 Basic. Specifically, it is comprised of fully paid shares, contributed surplus and statutory surplus in the form of retained earnings.

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

At the end of the reporting period, the Company's Eligible Capital for its Minimum

Margin of Solvency (MSM) and Enhanced Capital Requirement (ECR) was categorized as follows:

(Reported in U.S. thousand dollars)

	<u>Minimum Margin of Solvency</u>	<u>Enhanced Capital</u>
Tier 1	\$ 35,987	\$ 35,987
Tier 2	-	-
Tier 3	<u>-</u>	<u>-</u>
Total	<u>\$ 35,987</u>	<u>\$ 35,987</u>

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

Confirmed.

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

None identified.

vi. Identification of Ancillary Capital Instruments Approved by the Authority

None identified.

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

The only differences between US GAAP shareholder equity and available statutory capital and surplus are the impact of employing statutory-based technical provision valuation techniques. Using the BMA's fair value valuation of the Company's Balance Sheet, i.e. 'Economic Balance Sheet', the statutory economic capital and surplus as of December 31, 2019 is \$ 184,857,371.

b. Regulatory capital requirements

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

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

(Reported in U.S. thousand dollars)

<u>Requirement</u>	<u>Amount</u>
Minimum Margin of Solvency	\$ 2,462
Enhanced Capital	\$ 7,728

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

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

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

Not applicable.

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

Not applicable.

c. Approved Internal Capital Model

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

Not applicable - The Company uses the BMA's capital and solvency model (BSCR) to assess capital requirements. No separate approved internal model is used for this purpose.

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

Not applicable.

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

Not applicable.

iv. Description of Aggregation Methodologies and Diversification Effects

Not applicable.

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

Not applicable.

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

Not applicable.

vii. Any Other Material Information

Not applicable.

APPENDIX A – EXECUTIVE BIOGRAPHIES

Alexander Dubitsky – Director, Executive Vice President

Alex Dubitsky has been with the company since its inception in 2010. Alex is responsible for Awbury's strategic direction and core relationships, and leads the company's key expansion initiatives. Mr. Dubitsky also serves on the board of Awbury and its group companies.

Prior to joining Awbury, Alex was a Managing Director at Credit Suisse and Goldman Sachs, where he built a number of successful ventures, including insurance businesses in both the credit and life and longevity areas. Mr. Dubitsky lead and served on the boards of multiple financial services and insurance companies in the US, Ireland and Bermuda. Prior to his experiences in the insurance space, Alex was a member of the emerging markets group at Credit Suisse, and practiced law for several years at the Washington DC offices of Hogan Lovells. Mr. Dubitsky holds an LL.M. from Yale Law School and an MBA from University of Chicago.

David Ensor – Director, President / Active Underwriter

David Ensor is the President and Active Underwriter of Awbury Insurance Ltd, responsible for overseeing and managing all aspects of the insurer's operations, including policy issuance, management accounting, governance and regulatory compliance. He also chairs the firms' Underwriting and Binding Committee.

Prior to joining Awbury in 2012, David held the position of global Chief Credit Officer for Chartis. In that role, Mr. Ensor had responsibility for the control, approval and management of credit risk assumed by all Chartis business units in over 130 countries. David was also the global "Risk Expert" for credit risk within the firm's Enterprise Risk Management Group and managed the firm's portfolio of credit risk exposures, worth \$200BN. David was responsible for credit-related matters linked to Chartis' Invested Asset, Reinsurance, Life Settlements and Intermediary/Broker exposures, as well as its political risk, surety and trade credit activities. Prior to assuming his role at Chartis in 2009, David was responsible for all credit risk taken by AIG in Europe, Middle East and Africa, and a member of its 10 person global sovereign-rating committee.

David read Law at St. John's College, Cambridge, and has a MA from the University of Cambridge. He is also an Associate of the Chartered Institute of Bankers, London, and has over 35 years of international experience in the financial services industry.

David Goldman – Director, Executive Vice President

David Goldman has been the group's Chief Product Officer since 2011, and is responsible for Awbury's new product development, implementation and execution, along with the management of key client relationships. David serves as a member of the firm's Underwriting and Binding

Committee and sits on the board of multiple Awbury Group entities.

Prior to joining the firm Mr. Goldman spent 11 years at Credit Suisse where he built a career designing solutions for clients in the insurance and reinsurance markets, as well as asset managers with a focus on structured credit and longevity risk. David's years of experience in structuring, risk analysis, and relationship management, together with his intimate knowledge of the drivers of value in both the banking and insurance sectors, allow Awbury to design products that meet the needs of insureds while ensuring strict alignment of interests between all parties. David has served on the boards of multiple regulated insurance financing entities, and has extensive experience in cross-border transactions, including the establishment of offshore debt issuance vehicles and the launch of several international specialized investment funds.

David graduated cum laude with a B.S. in economics from the Wharton School at the University of Pennsylvania.

Andrew Kaplan – Director, Executive Vice President

Andrew Kaplan has been Awbury Group's Chief Risk Officer since 2011, and oversees all of the firm's risk functions and decisions. Mr. Kaplan has been actively managing risk and building financial services businesses since 1990. Andy is a member of the AIL Underwriting and Binding Committee and Investment Committee and sits on the boards of multiple Awbury Group entities.

His experience in trading and risk management extends across both credit (structured and illiquid) and insurance products. From 2007 to 2010, Mr. Kaplan was a Managing Director at JPMorgan. During his tenure at the firm, he was responsible for the successful development and implementation of risk management and operational systems, which were held to the standards and satisfaction of both the Federal Reserve Bank of NY and the FSA. Among other things, Mr. Kaplan served on the board of a leading industry trade association. Prior to joining JPMorgan, Andrew co-founded the longevity trading business at Credit Suisse. Previous experience includes 10 years of trading and managing illiquid fixed income derivatives risk within the emerging markets units of Credit Suisse and JPMorgan.

Mr. Kaplan received his MBA in finance from Fairleigh Dickenson University and his B.S. in engineering from Cornell University.

J Oliver Heyliger – Director (Non-Executive), Principal Representative, Segregated Accounts Representative

Oliver Heyliger has been associated with Awbury since its inception and became a non-executive director and its Bermuda Statutory Principal Representative in 2015. Oliver is the former President and Managing Director at Willis Management (Bermuda) Limited having spent 30 years with Willis in various broking and management positions. Oliver's prior experience at broking and insurance companies includes underwriting, claims management and accounting in both the Life and non-Life lines of business including Property Cat, ILS and other structured financial products.

Mr. Heyliger holds a B.S. degree in Economics from Trent University in Ontario, Canada and a M.A. in Business Administration and Management from Webster University. He is an Associate of the UK

Chartered Insurance Institute and a Chartered Insurance Practitioner. He is the former president of the Bermuda Insurance Management trade association.

Janita Burke – Director (Non-Executive)

Janita Burke is a Client Director and Senior Manager at Estera Services (Bermuda) Ltd. She is a former partner in the Corporate department of Appleby Law Bermuda office where she practiced for 17 years in all areas of corporate and commercial law with an emphasis on non-contentious insurance work. She has advised a number of Fortune 500 companies on a range of areas including regulation and financing of insurance companies, formation of captive insurance companies, public and private offerings of debt and equity securities and segregated account structures. Janita is a member of the Bermuda Bar Association and sits as an independent director on a number of Bermuda exempted companies.

Janita was educated in Bermuda, Canada and England. She received her LLB (Hons) from Warwick University in Coventry, England in 1997 and completed the Legal Practice course at the College of Law, London in 1999.

Jason Carne – Director (Non-Executive)

Jason Carne was a Partner and then a Managing Director with KPMG in Bermuda from 1998 to 2016 having joined the firm in 1992. During this time Jason acted as a lead audit and advisory partner to his clients with a particular focus on reinsurance in both the life and non-life industries. Jason acted as the lead or concurring audit engagement partner on a number of KPMG Bermuda's large accounts including several SEC and UK listed reinsurers. In 2009 Jason also founded and then led the firm's ILS practice building it into a market leading position. After leaving KPMG, Jason acted as a Partner and Chief Financial Officer of Hudson Structured Capital Management Limited before retiring from that position in early 2020 to move into an Advisory role. Jason also acts as a non-executive Director to several Bermuda reinsurance companies.

Jason holds a Bachelor of Science degree in Economics and Politics from Southampton University and is a fellow of the Institute of Chartered Accountants of England and Wales, a member of CPA Bermuda as well as a qualified Associate in Reinsurance.

Yaakov (Koby) Feingold – General Counsel

Koby Feingold has been General Counsel for Awbury Group since 2012, and is responsible for the firm's legal, compliance and regulatory functions. Koby serves on AIL's Underwriting and Binding Committee.

Mr. Feingold joined Awbury after working at Dewey & LeBoeuf's insurance group, where he focused on corporate transactions and regulatory matters involving insurance companies. Koby has significant experience in the areas of mergers and acquisitions, reinsurance transactions, complex restructurings and structured finance transactions. Prior to joining Dewey & LeBoeuf and its predecessor firm, Koby served as a law intern for The Honorable T.S. Ellis III, U.S. District Court, Eastern District of Virginia.

Mr. Feingold received his J.D. from the University of Virginia School Of Law and his B.A. from Haverford College.

Joseph Curran, CFA – Vice President, Chief Operating Officer

Joseph Curran has over 20 years' of experience in technology and finance, and serves as Awbury's Chief Operating Officer. Joe's prior experience includes serving as the Chief Operating Officer and/or Chief Technology Officer for numerous firms within the alternative investment space, including Sivik Global Healthcare, Traxis Partners and Wexford Capital. Joe has led major business integration and transformation projects and has first-hand experience providing solutions to the operational and technological challenges faced by financial organizations. He has expertise in risk management, budgeting, cost controls, business continuity, security and financial modeling.

Joe has a B.S. in Mathematics from New York University, a B.S. in Engineering from The Cooper Union and a M.S. in Engineering from Binghamton University.

B. Schuyler Edwards, Internal Auditor

Schuyler Edwards is responsible for Group risk functions, and heads ALL's internal audit.

Prior to joining Awbury in 2011, Mr. Edwards spent five years with Credit Suisse in its Longevity Markets Group, focusing on asset origination and portfolio management. Schuyler was responsible for pricing, execution and maintenance of a \$10 billion portfolio of complex insurance assets. He also played a key role in establishing best in class control processes for origination, servicing and claims management for the group. Prior to his front office experience, Mr. Edwards was a member of Credit Suisse's Legal and Compliance Department supporting fixed income businesses. Schuyler has extensive international experience having spent two years in Chennai, India managing a 150 person outsourced servicing team and 1.5 years in Beijing, China as part of the legal team at Beijing Sanyou Intellectual Property Agency Ltd. Mr. Edwards attended Michigan State University.

Sokha Au-Ferris – Vice President, Finance

Sokha Au-Ferris is responsible for Awbury's accounting, controls, and treasury functions, including financial and regulatory reporting, compliance, forecasting and planning, and premium and expense management.

Prior to joining Awbury, Mrs. Au-Ferris was a VP, FP&A with Torus Insurance, where she developed the financial and business planning activities for the group's U.S. operations, and managed special projects including the SOX and ERM implementation for Torus Americas segment. Sokha has previously worked for Endurance Reinsurance, where she managed the annual SOX attestation, and focused on development of process improvements and best practices, as well as risk management. Before focusing on (re)insurance, Mrs. Au-Ferris started her finance career at Deloitte LLP in the United Kingdom. Sokha is a Chartered Accountant with the ICAEW, a Certified Information Systems Auditor (CISA), and a member of ISACA and the AFP.

Mrs. Au-Ferris graduated cum laude with distinction with a B.A. in psychology from Yale University.