

# Allianz Re Bermuda Life Ltd. Financial Condition Report

For the Year Ended 31 December, 2017

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## Executive Summary

Allianz Re Bermuda Life Ltd (“AZRB” or “the Company”) is wholly owned by Allianz SE, a publicly listed company incorporated under the laws of Germany. The Company is licensed as a Class E insurer and was registered under the Insurance Act 1978 on 1 April 2017.

AZRB is set up as a sustainable reinsurer and helps manage capital requirements of companies within the Allianz Group. Built with life insurance and investment experience, AZRB is intended to increase the efficiency of Allianz Group entities to manage capital and support their business through periods of growth.

This is the first Financial Condition Report (“FCR”) published by the Company based on the position as at 31 December 2017.

The FCR has been produced in accordance with the Insurance (Public Disclosure) Rules 2015 under the Bermuda Insurance Act 1978 in regard to undertakings carrying on Insurance and Reinsurance business in Bermuda. This report is primarily based on the Company’s Economic Balance Sheet (EBS) as at 31 December 2017.

The Company uses the standard Bermuda Solvency Capital Requirement (“BSCR”) model to assess the Enhanced Capital Requirement.

### USD 000's

Available Statutory Economic Capital and Surplus	48,675
Enhanced Capital Requirement	9,459
Coverage Ratio	515%

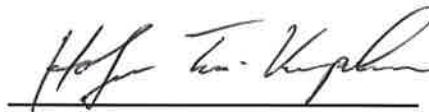
## Declaration

### Declaration on the Financial Condition Report

To the best of our knowledge and belief, the Financial Condition Report fairly represents the financial condition of Allianz Re Bermuda Life Ltd, in all material respects as at 31 December 2017.



**Richard Morris**  
Chief Executive Officer



**Holger Tewes-Kampelmann**  
Director

## I. Business and Performance

### a. Name of Insurer

Allianz Re Bermuda Life Ltd.

### b. Supervisors

#### Insurance Supervisors

Name: Bermuda Monetary Authority

Jurisdiction: 43 Victoria Street, Hamilton Bermuda HM12

#### Group Supervisor

Not applicable.

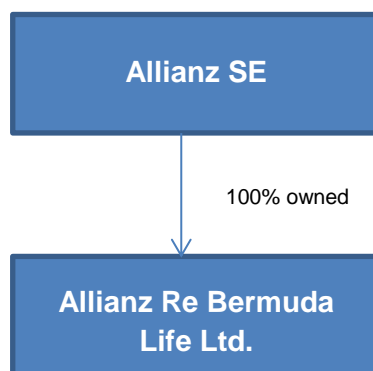
### c. Approved Auditor

Organisation:	KPMG Bermuda
Name:	Himad Zafar
Jurisdiction:	Bermuda
Email:	himadzafar@kpmg.bm
Phone:	001 441 295 5063

### d. Ownership Details

Allianz SE owns 100% of the economic interest in the Company.

### e. Group Structure



### f. Insurance Business written by line of business and geographical region

The Company predominantly writes life reinsurance business in the US, focusing on annuity products.

Premium written by product line for the year ending 2017

Line of business	Gross Premium Written USD 000's	Net Written Premium USD 000's
Fixed Indexed Annuities	429,756	429,756
<b>Total</b>	<b>429,756</b>	<b>429,756</b>

Gross Premium written by geographical location for the year ending 2017

Geographical Location	Gross Premium Written USD 000's
North America	429,756
<b>Total</b>	<b>429,756</b>

**g. Performance of Investments and Material Income and Expenses for year ending 2017**

The assets backing the Company's reserves are held on its cedents balance sheets.

The Company has appointed investment managers to manage these assets, operating within guidelines agreed with its cedents. The table below shows the market values of these assets and the average gross redemption yields at the end of the reporting period.

Product Line	Market Value of Invested Assets (USD 000's)	Gross Redemption Yield at 31 Dec 2017 (%)
FIA product (USD)	398,602	3.52%
Other Business	-	-

The Company's other assets are invested in high quality fixed interest securities. The table below shows the market values of these fixed interest securities split by type of investment at the end of the reporting period.

Fixed Interest Securities	Market Value at 31 Dec 2017 (USD 000's)	Gross Redemption Yield at 31 Dec 2017
Cash	7,716	1.25%
US Government (Federal)	4,696	2.73%
Corporate (non US Govt backed)	12,686	3.52%
Corporate (other)	1,783	3.37%
Mortgage backed (Commercial)	3,318	3.29%
<b>Total</b>	<b>30,199</b>	<b>-</b>

#### h. Any Other Material Information

There is no other material information.

## II. Governance Structure

### a. Board and Senior Executive

#### a.i. Directors and Officers, and responsibilities

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

Directors	Position
Muhammad Amer Ahmed	Non-Executive Director & Chairman
Richard Morris	Director and Chief Executive Officer
Holger Tewes-Kampelmann	Non-Executive Director
Benjamin Knoechel	Non-Executive Director
Stephan Theissing	Non-Executive Director
Janita Burke	Independent Director
Adam Brown	Non-Executive Director
Klaus Wolf	Non-Executive Director

Officers	Position
Richard Morris	Chief Executive Officer
Shari Conley-Barrett	Counsel and Assistant Secretary
Estera Services	Corporate Secretary
Seamus MacLoughlin	Principal Rep & Chief Underwriting Officer (CUO)

#### Muhammad Amer Ahmed

Amer Ahmed is the current Chief Executive Officer of Allianz SE Reinsurance in Germany. He has 18 years of experience in an actuarial role and served from 1995 to 2002 as the Chief Actuary of Odyssey Re, now known as Sphere Drake, and as Chief Actuary and Chief Risk Officer of Allianz Global Corporate Services from 2002 to 2007. Amer has been a dedicated member of the Allianz family for almost 10 years. In addition, he currently serves as a member of the board of directors for Allianz Risk Transfer and Allianz Re (Dublin) Limited, and is the chair of the Allianz Group International Security Committee. His experience in actuarial and risk analysis for several reinsurance entities is a great asset to AZRB.

Amer's insurance experience will be utilized in the audit committee and as the chair of the Board of Directors.



### **Richard Morris**

Richard Morris is a Bermuda resident and is qualified as an associate of the Institute of Chartered Accountants in England and Wales (ICAEW). He has held the position of Chief Financial Officer at Allianz Risk Transfer (ART) North America since 2008; responsible for all finance and accounting issues relating to the North American ART entities (headquartered in Zurich, Switzerland) and coordination with the global CFO for ART finance matters. Richard gained experience in supervising and managing roles for 7 years before becoming Chief Financial Officer of another multi-national insurance group in 1999. Through several organisational changes and restructuring, Richard stayed on as VP and SVP Controller for the company, overseeing the financial reporting process before moving to ART.

Richard serves as Chair to the Risk Committee

### **Holger Tewes-Kampelmann**

Holger Tewes–Kampelmann began his role as Managing Director of Resolution Management at Allianz Re in April of 2016 after fulfilling the Chief Financial Officer role at Allianz Re for the last 4 years. He also has 8 years of prior experience at Allianz SE in the Group Planning & Controlling function working in various manager and lead functions within the team.

Holger brings finance and insurance experience to the AZRB Board of Directors and serves as chair to the audit committees.

### **Benjamin Knoechel**

Benjamin Knoechel holds both Certified Financial Analyst and Financial Risk Manager certificates and has held several detailed technical roles throughout his career. Benjamin gained expertise in strategic transactions working for PricewaterhouseCoopers as a Senior Consultant in Valuation & Strategy Advisory, and as a Specialist in Mergers & Acquisitions for Financial Institutions at Nomura International, between 2005 and 2009. At Allianz, he has served in Germany, Turkey, and the USA in various planning and controlling roles.

### **Stephan Theissing**

Since 2002 Stephan Theissing has been Head of Corporate Finance & Treasury at Allianz SE, the holding company of Allianz Group. He is responsible for Capital Management of the Group, Treasury, Capital Markets and Financial Investments. From 1998 – 2001 he served on the board of Allianz Australia Ltd. as Chief Financial Officer. Before, he held various managerial positions in the finance departments of the holding company and its US subsidiaries.

Stephan Theissing was educated at the University of Munich in Germany in Law and Business Administration. He started his professional career as an attorney of an international law firm.

Stephan has significant investment experience and is a member of the investment committee at AZRB.

### **Janita Burke**

Janita Burke, Client Director at Estera Services (Bermuda) Limited brings her previous legal experience to the Board of Directors of AZRB and is a member of the Audit and Risk Committees.

### **Adam Brown**

Adam Brown has 12 years of actuarial experience in product development at Allianz Life Insurance Company of North America. In Adam's current role as Assistant Vice President Actuary, he holds many responsibilities, including asset and liability management, hedge profitability management, pricing annuity products, and developing reinsurance solutions. Adam also serves as a consultant for other Allianz entities in Europe and Asia in developing index annuity products and inforce management, and for Allianz Life Financial Services, LLC on annuity product development, hedging, and risk management. He has for over 9 years worked to price Allianz Life annuity products, and has taken a significant role in assessing reinsurance solutions for a block of inforce variable annuity business.

### **Klaus Wolf**

Klaus has 19 years of experience as an actuary in the life insurance industry, specializing in insurance, reinsurance, and Solvency II actuarial matters. Klaus spent two years as a treaty underwriter for Munich Re before becoming a people leader. Klaus served in various life and account manager positions at Munich Re for 9 years and transitioned to Allianz Re in 2011, where he currently holds the position of Head of Client Management Life & Health.

### **Shari Conley-Barrett**

Shari Conley-Barrett is a Bermudian resident and passport holder and qualified as a Barrister and Solicitor of the Supreme Court of Nova Scotia. She has been Bermuda in-house counsel to Allianz Risk Transfer (ART) since 2007 with responsibility for drafting all documentation in respect of global multi-line reinsurance business as well as all corporate legal contracts. She is also the Bermuda Compliance officer of ART with responsibility for all compliance matters affecting ART's Bermuda operation. Prior to her current role at ART, Shari held senior positions as corporate and underwriting

counsel as well as compliance officer at several Bermuda based multi-national reinsurance companies. Overall, she has more than 20 years of experience as legal counsel in the reinsurance industry in Bermuda.

### **Seamus MacLoughlin**

Seamus is a qualified life and health actuary. Seamus is a Bermuda resident employee and a Fellow of the Faculty of Actuaries, with a wide range of experience of reinsurance pricing (inwards and direct), regulatory reporting requirements, reserve valuation, marketing, corporate work and analytics gained from a number of leading reinsurers including XL Group plc, Lucida Re Limited, and Athene Life Re. Involved in numerous successful reinsurance transactions with clients. Overall, he has more than 20 years of underwriting, pricing and corporate actuarial experience in the (re)insurance industry including 10 years in Bermuda.

#### **a.ii. Board Committee Structure:**

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

Committee	Minimum Frequency	Purpose
<b>Risk Committee</b>	Quarterly	<ul style="list-style-type: none"> <li>• Oversee the overall risk position of the Company, monitoring all risk types (both quantifiable and unquantifiable, e.g. emerging risk, reputational risk);</li> <li>• Define, maintain and monitor the structure and scope of the risk management and controlling frameworks, including risk limits, guidelines, risk methodology (procedures for the identification, assessment, quantification and reporting of risks);</li> <li>• Promote and enhance a strong risk culture and develop risk talent for the Company;</li> <li>• Consider, assess and contribute to the development of the Company’s risk/return strategy;</li> <li>• Ensure that appropriate internal reporting, to the Risk Committee, the Board of Directors and the Group, is in place both on regular and ad-hoc basis;</li> <li>• Regularly reviewing, on at least an annual basis, the consistency between the Company’s Risk strategy and business strategy, as well as the Allianz Group’s Risk strategy and appetite, and, as appropriate based on this review, proposing changes to the Risk strategy and appetite to the Board of Management; and</li> </ul>

		<ul style="list-style-type: none"> <li>• Assessing on a regular basis the adequacy of the Risk Policy framework towards fulfilment of regulatory requirements and achievement of the Risk strategy and ensuring updates occur as appropriate, specifically with respect to the Risk Policy and Standards for the management of:             <ul style="list-style-type: none"> <li>○ Underwriting and reserving;</li> <li>○ Asset Liability Management;</li> <li>○ Investment risk;</li> <li>○ Liquidity risk;</li> <li>○ Concentration risk;</li> <li>○ Operational risk; and</li> <li>○ Retrocession and other insurance risk mitigation techniques.</li> </ul> </li> </ul>
<b>Finance and Investment Committee</b>	As Required	<ul style="list-style-type: none"> <li>• Optimise the risk / return investment position of the Company;</li> <li>• Support the Company in generating planned investment income;</li> <li>• Support the defined process of asset allocation and manage the investments in accordance with the policies of both the Company and Allianz SE;</li> <li>• Assess the capital needs of the Company; and</li> <li>• Advise on dividend payments, subject to the AZRB Capital Management Policy.</li> </ul>
<b>Audit Committee</b>	As Required	<ul style="list-style-type: none"> <li>• Oversee the accounting and financial reporting processes of the Company and its subsidiaries.</li> <li>• Review processes and determine whether the Company's control framework, as designed and represented by the management, is adequate, in place and operating effectively.</li> </ul>
<b>Reserve Committee</b>	Quarterly	<ul style="list-style-type: none"> <li>• Review and approve each quarter the IFRS reserves (including Margin for Uncertainty);</li> <li>• Review and approve the EBS technical provisions (including risk margin) each quarter;</li> <li>• Review the proposed IFRS reserves (incl. Margin for Uncertainty) each year-end, and make recommendation for the appropriate levels to be pre-approved by the Audit Committee and approved by the Board of Directors;</li> <li>• Review the proposed EBS technical provisions (including risk margin) each year-end, and make recommendation for the appropriate levels to be pre-approved by the Audit Committee and approved by the Board of Directors;</li> <li>• Review and approve the approach, methods and granularity of the loss reserve analysis;</li> <li>• Provide a rationale for differences between reported reserves and the actuarial best estimate reserves, if any; and</li> <li>• Communicate changes in reported reserves to enable the implementation of appropriate business</li> </ul>

		responses in a timely manner.
<b>Underwriting Committee</b>	As Required	<ul style="list-style-type: none"> <li>• Oversee the overall underwriting position of the Company;</li> <li>• Define the structure and scope of the Underwriting management and controlling frameworks for approval by the Board of Directors, including Underwriting guidelines and underwriting methodology within the framework set by the Risk Committee;</li> <li>• Maintain the Underwriting Guidelines of the Company as well as procedures for Underwriting, and propose to the Board of Directors the Underwriting Guidelines for approval;</li> <li>• Discuss and propose approval of certain deals with high exposure to the Company; and</li> <li>• Monitor on an ongoing basis the performance of the Company's underwriting sections.</li> </ul>

**a.iii. Description of Remuneration Policy**

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

**a.iv. Supplementary Pension or Early Retirement Schemes for Members, Board and Senior Employees**

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

**a.v. Details of any material transactions with Shareholder Controllers, Persons who exercise significant influence, the Board and Senior Executives**

Not applicable

**b. Fitness and Propriety Requirements**

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

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

Directors are elected each year at the Annual General Meeting.

Senior employees are subject to regular appraisal.

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

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

**c. Risk Management and Solvency Self-Assessment**

**c.i. Risk Management Process and Procedures to Identify, Manage and Report on Risk Exposures**

AZRB risk management is based on a common understanding of risk throughout the organisation, a comprehensive scope of risk, effective control processes, and clear organisational structures. The risk management objective is to optimise risk-adjusted returns within clearly defined risk tolerances in order to protect capital and minimize volatility.

The Company aligns its risk management approach with that of Allianz SE. The fundamental principles are described below.

	Principle	Comment
1	Executive management is responsible for the risk strategy	Executive management establishes and adheres to the risk strategy which reflects the tolerance of risk and, thereby, the desired level of confidence in relation to clearly defined risk and performance criteria. The risk strategy includes a clearly defined risk appetite. It is reviewed at least annually and, if deemed necessary, adjusted and communicated to all impacted parties.
2	Risk capital as a key risk Indicator	Risk capital is defined as the diversified economic capital requirement for the Company generated by the Bermuda Solvency Capital Requirements (BSCR). Additionally, risk capital and sensitivities to risk capital are used for risk aggregation, capital attribution, and limit setting purposes.
3	Separation of line management responsibility and independent risk oversight	The Company's risk governance framework is based on a three lines of defence system. Clear separation of the risk oversight functions (e.g. risk management) from the risk taking functions (e.g. operations) assures objectivity and avoids conflicts of interest.
4	Clear definition of the organisational	The organisational structure, inclusive of the roles and responsibilities of all persons

	structure and risk process	involved in the risk process, is clearly defined and covers all categories of risk relevant for the Company.
5	Development of limit systems	<p>Consistent limit systems are established to manage concentration of risk exposures and, where appropriate, assist with capital allocation.</p> <p>Limit systems are based on relevant risk measures and are regularly reviewed by the AZRB Risk Committee (RiCo) against the background of the risk strategy.</p>
6	Mitigation of risks exceeding the risk appetite	<p>Appropriate risk mitigation techniques are employed to address instances where identified risks exceed, or otherwise breach, the established risk appetite. When such cases occur, clear courses of action designed to resolve the breach are initiated.</p>
7	Consistent and efficient monitoring	<p>A risk monitoring process covers all material quantifiable risks and includes both risk measurement and ongoing monitoring, taking into account the effects of risk diversification and concentration where appropriate.</p> <p>A clearly defined and strict limit breach reporting and escalation process ensures limits are adhered to and remediation activities are taken as needed if limits are exceeded.</p> <p>Early warning systems for the identification of new and emerging risks, and the continuous monitoring of identified risks, are in place and are subject to regular reviews.</p>
8	Consistent risk reporting and risk communication	<p>Internal risk reports, which contain all important, risk-relevant information in a clear and concise form, are generated both at regular intervals and on an ad hoc basis as required to ensure timely risk communication to all relevant levels of management.</p>
9	Integration of risk management into business processes	<p>Risk management processes are embedded directly within business processes wherever possible and especially where strategic decisions impacting the risk profile are made. As such, risk management is primarily a forward-looking mechanism to steer risk and only secondarily a reactionary process.</p>

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10	Comprehensive and timely documentation	All relevant methods, procedures, structures and processes are documented in a comprehensive and timely manner in order to ensure clarity and transparency.
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**c.ii. Risk Management and Solvency Self-Assessment Systems Implementation**

The Company's risk management systems are used to make assessments of its solvency. All material and quantifiable risks, including market, credit, insurance and operational risks, are calculated on a quarterly basis using the Bermuda Solvency Capital Requirement (BSCR) model.

The Company uses the BSCR model to ensure that adequate capital exists to protect against unexpected, extreme economic losses. It is also used for decision-making and risk management processes with respect to each of the quantifiable risk categories.

The Company's risk management system is implemented into its day to day operations through its systems, processes and controls.

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

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

As a minimum, the Company considers its solvency needs through the BSCR model in the following decisions:

- Setting the business strategy and capital planning as well as the risk strategy including limit systems;
- The underwriting process (covering underwriting, market, credit and business risks) in the analysis and development, as well as in the pricing and approval, of new and existing treaties;
- Setting the retrocession strategy; (at present the strategy is not to use retrocession);
- The strategic asset allocation (the analysis of the risk bearing capacity with respect to market and credit risk);
- Performance management (risk adjusted return on capital); and
- Potential merger and acquisition transactions.

The calculation of the risk capital for the Company is managed by the Risk Function.



The Company's Risk Management and Solvency Self-Assessment systems also drive projections of assets, liabilities and solvency requirements.

**c.iv. Solvency Self-Assessment Approval Process**

The calculation of the risk capital for the Company is managed by the Risk Function and communicated to senior management and the Board on a regular basis. The Board is responsible for the prudent management of the Company, ensuring the solvency position is sufficient to protect policyholders and for delivery the strategic plans.

The Risk Function, senior management, Risk Committee and Board all review and approve the solvency assessment as part of the year-end submission process to the regulator.

**d. Internal Controls**

**d.i. Internal Control System**

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

**d.ii. Compliance Function**

Oversight on compliance is performed through an outsourcing agreement with Allianz SE and Allianz Risk Transfer.

**e. Audit**

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

**f. Actuarial Function**

As previously mentioned, the Actuarial Function is outsourced to Allianz SE. It considers reserving, financial reporting and review of experience and valuation bases. The Actuarial Function works with the Approved Actuary of the Company.

**g. Outsourcing**

**g.i. Outsourcing Policy and Key Functions that have been outsourced**

All outsourcing decisions are taken by the Board, with advice provided by management. The Company has engaged various third party service providers:

- (i) Allianz SE provide actuarial, risk management, audit, accounting, treaty administration, legal and claims services;
- (ii) Allianz Life Insurance Company of North America (“AZ Life”) provide actuarial, accounting and risk services.
- (iii) Allianz Investment Management (“AIM”) provide asset management services; and
- (iv) Allianz Risk Transfer and Allianz Technology provide IT infrastructure and support
- (v) Allianz SE and Allianz Risk Transfer provide Compliance services.

#### **g.ii. Material Intra Group Outsourcing**

The Company outsources actuarial, risk management, audit, compliance, accounting, treaty administration and claims services to Allianz SE, which wholly owns the Company.

#### **h. Other Material Information**

There were no material changes to the risks during the reporting period, although the Company increased its monitoring of its investment risks due to a number of geopolitical events.

### **III. Risk Profile**

#### **a. Material Risks that the Insurer is exposed to during the Reporting Period**

The Company is exposed to the following risks:

- *Insurance Risk* – the adverse impact arising from fluctuations in the timing, frequency and severity of insured events, relative to the expectations of the Company at the time of underwriting or subsequent reassessment at the time of reserving.
- *Interest Rate and Policyholder Behaviour Risk* – The adverse impact arising from uncertainty around policyholder behaviour and assumptions made, including interest rates, rates of surrender and income utilization.
- *Credit Risk* – the adverse impact arising from the failure of counterparties to make full and timely payments on their financial obligations or from the change in the market value of assets due to deterioration of the counterparty’s creditworthiness.
- *Basis and Hedge Inefficiency Risk* – the adverse impact arising from index exposure, unexpected price changes and macroeconomic factors.

The Company measures these risks using a combination of proprietary and third party models, where quantifiable.

#### **b. Risk Mitigation in the Organisation**

The Company has an appetite for the insurance, market and credit risks that are written. Risks are managed through the risk management system (for more detail see section II.c).

**c. Material Risk Concentrations**

The most material risk is Fixed Income Investment risk, and this risk is managed through the processes discussed in previous sections. In addition the Company has policies to limit concentrations of investment risk in relation to counterparties, credit quality and mismatches in duration between its assets and liabilities.

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

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

**e. Stress Testing and Sensitivity Analysis to assess material risks**

The Company performs regular stress and scenario testing to ensure that regulatory requirements can be met.

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

The stress tests highlighted the resilience of the Company. The Company continued to meet regulatory capital requirements throughout the stress tests.

**f. Any other material information.**

There is no other material information.

## **IV. Solvency Valuation**

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

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

All assets are held at fair market value.

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

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

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

A risk margin is also established to reflect the inherent uncertainty in the underlying cashflows using a cost of capital approach and a risk free discount rate term structure. The best estimate assumptions used to derive the cashflows are based on detailed historic experience investigations, and expectations of future experience.

	EBS Basis USD 000's
Loss Reserves	378,863
Risk Margin	1,095
<b>Technical Provisions</b>	<b>379,958</b>

**c. Description of recoverables from reinsurance contracts**

The company does not have any reinsurance.

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

Other liabilities are valued using International Financial Reporting Standards (“IFRS”).

**e. Any other material information**

There is no other material information.

## V. Capital Management

**a. Eligible Capital**

**a.i. Capital management policy and process for capital needs**

The Company assesses its capital adequacy in relation to its risk profile. This is tested against the regulatory level on a quarterly basis. There have been no material changes in the approach in the reporting period.

**a.ii. Eligible Capital categorized by tiers in accordance with eligible capital rules**

At the end of the reporting period all of the Company's Eligible Capital was categorised as Tier 1, as per the Eligible Capital Rules 2011 under the Bermuda Insurance Act 1978:

USD 000's	Eligible Capital
Tier 1	48,675
Tier 2	-
Tier 3	-
<b>Total</b>	<b>48,675</b>

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

At the end of the reporting period, all of the Company's Eligible Capital for its Minimum Margin of Solvency ("MSM") and Enhanced Capital Requirements ("ECR") was categorized as Tier 1:

USD 000's	Minimum Margin of Solvency	Enhanced Capital Requirement
Tier 1	48,675	48,675
Tier 2	-	-
Tier 3	-	-
<b>Total</b>	<b>48,675</b>	<b>48,675</b>

**a.iv. Confirmation of Eligible Capital that is subject to transitional arrangement**

None of the eligible capital is subject to transitional arrangements

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

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

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

The Company has no Ancillary Capital Instruments

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

The major differences between the Shareholder's Equity in the accounts and the statutory capital and surplus relate to differences in the accounting approach. The financial statements are prepared using IFRS accounting rules, whereas the statutory capital and surplus is prepared using the BMA's Economic Balance Sheet (EBS) rules. The major differences relate to:

- The reserves for liabilities under EBS are lower than under IFRS
- A DAC asset is introduced under IFRS, but not under EBS.

Overall, this results in Shareholder Equity being larger under EBS.

## b. Regulatory Capital Requirements

### b.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 as follows:

	Amount USD 000's	Coverage Ratio
Minimum Margin of Solvency	9,322	522%
Enhanced Capital Requirement	9,459	515%

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

The Company was compliant with the MSM and the ECR during the year ending December 31, 2017 and remains compliance at the date of the report.

### b.iii. Description of the amount and circumstances surrounding the non-compliance, the remedial measures taken and their effectiveness

Not applicable

### b.iv. Where the non-compliance has not been resolved, description of the amount of non-compliance at the end of the reporting period.

Not applicable

## c. Approved Internal Capital Model

### c.i. Description of the purpose and scope of the business and risk areas where the Internal Model is used

Not applicable

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

Not applicable

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

No applicable

**c.iv. Description of the aggregation methodologies and diversification effects**

Not applicable

**c.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

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

Not applicable

**c.vii. Any other material information**

There is no other material information

**d. Significant events**

**d.i. Description of the significant event**

Not applicable

**d.ii. Approximate date(s) or proposed timings of the significant event**

Not applicable

**d.iii. Confirmation of how the significant event has impacted or will impact any information provided in the most recent financial condition report filed with the authority**

Not applicable

**d.iv. Any other material information**

Not applicable