Monument Re Limited

Financial Condition Report at 31st December 2017

Contents

Executive Summary

The Economic Balance Sheet ("EBS") regulatory framework sets out the requirements for annual qualitative and quantitative reporting for insurance companies. This is the first Financial Condition Report for Monument Re Limited and collectively, Monument Re Limited, along with its subsidiaries, is referred to in this report as "Monument Re", the "Company" or the "Group".

This report contains information about the Group's business and performance, its corporate governance, risk profile, solvency valuation and capital management for the reporting period 1st January to 31st December 2017.

This report has been prepared in accordance with the Insurance (Public Disclosure) Rules 2015 and section 30 of Insurance (Group Supervision) Rules 2011 (the "Group Supervision Rules"), as promulgated by the Bermuda Monetary Authority ("BMA"), Bermuda's regulator of insurance companies.

Business and Performance

Monument Re is a Bermuda based reinsurance company established to provide solutions for asset intensive portfolios through reinsurance or acquisition. In executing this dual insurance and reinsurance strategy, the Company looks to assume asset based risks within our risk appetite, and efficiently operate these businesses or portfolios. The focus includes two principal areas, namely:

- Acquisition of linked savings and protection portfolios based mainly out of the key distribution centres, namely, Ireland and the Benelux region (Belgium, Netherlands and Luxembourg); and
- Reinsurance of long-dated asset intensive liabilities such as annuity business and guaranteed savings contracts.

Monument Re is a Class E reinsurer and holding company of other insurance entities and is subject to Group Supervision under the Bermuda Monetary Authority through Solvency II Equivalence attained on a permanent basis from the European Insurance and Occupational Pensions Authority.

In its first year of operation, the Company completed the acquisition of two Irish insurance subsidiaries of Barclays Bank PLC ("Barclays"), which have been rebranded as Monument Insurance Designated Activity Company ("MIDAC"), a non-life assurance company, and Monument Assurance Designated Activity Company ("MADAC"), a life insurance company. These entities were established to underwrite Payment Protection Insurance ("PPI") and short-term income protection to Barclays customers in the UK and are now closed to new business. This transaction completed on the 1st March 2017.

On the 29th August 2017, Monument Re completed the acquisition of Laguna Life Designated Activity Company ("Laguna"), an Irish insurance entity of Enstar Group Limited. This entity comprises a closed book of term life protection risks within the UK and Spain.

Trading as Monument Insurance in Ireland, these entities provide a sound platform for the Group to write further transactions in Ireland and from the European Union on a cross-border basis.

In addition to the above transactions, Monument Re has also signed three further transactions, as highlighted below. The financial results of these transactions are not included in this report because they either remained subject to regulatory approval at the reporting date or completed after the reporting date.

- On 18th September 2017, the Company signed the acquisition of ABN AMRO Life Capital Belgium N.V. ("AALCB"), a Belgian Life insurance company. On 28th March 2018, receipt of regulatory approval was obtained from the National Bank of Belgium and subsequently, Monument Re renamed AALCB as Monument Assurance Belgium N.V. ("MAB");

- On the 29th January 2018, the Company signed the acquisition of Aspecta Assurance International Luxembourg S.A. (“Aspecta”), a life insurance undertaking based in Luxembourg with branches in Germany, Italy and Spain. This transaction remains subject to regulatory approval; and
- On 16th April 2018, Monument Re signed an agreement to acquire the FIRST A portfolio from ETHIAS S.A (“Ethias”). This involves a portfolio transfer to Laguna and is subject to regulatory approval. The First A portfolio is a run-off portfolio of flexible premium retail life insurance contracts.

These transactions support our strategy to build and grow our Ireland and Benelux platforms.

System of Governance

The Company has established a system of governance which is appropriate to the Company’s business strategy and operations. There is clear delegation of responsibilities, reporting lines and allocation of functions through documented committee terms of reference and key function charters. The system of governance includes requirements relating to fitness and probity of persons responsible for key functions, remuneration practices and outsourcing activities.

During the period, the Company insourced a significant portion of its Irish operations and governance arrangements to Monument Insurance Services Limited (“MISL”), which was incorporated on 22nd May 2017. The principal driver in establishing MISL was achieving cost-efficiency through integration of almost all required services in Ireland in one entity.

Risk Profile

The Company’s risk management system is proportionate to the nature, scale and complexity of the risks to which the Company is exposed. The system includes processes for the identification, assessment and reporting of all categories of risk. The risk management system includes the Solvency Self Assessment, which assists the Board in determining whether there is adequate Available Capital to cover the Company’s risks over its business planning horizon.

The Group’s business activities give rise to market, credit, counterparty, insurance and operational risks.

The Company has adopted a robust process in managing its liquidity internally and is exploring the development of other efficient structures in the reinsurance/collateral arrangements to provide the liquidity needed for further transactions.

Solvency Valuation

The Company’s current balance sheet is not complex with the majority of assets held in individually approved money-market funds, cash deposits of very short durations and corporate bonds. All assets and liabilities have been valued in accordance with EBS valuation principles and there is no material difference to the valuation principles used in the Company’s financial statements.

Capital Management

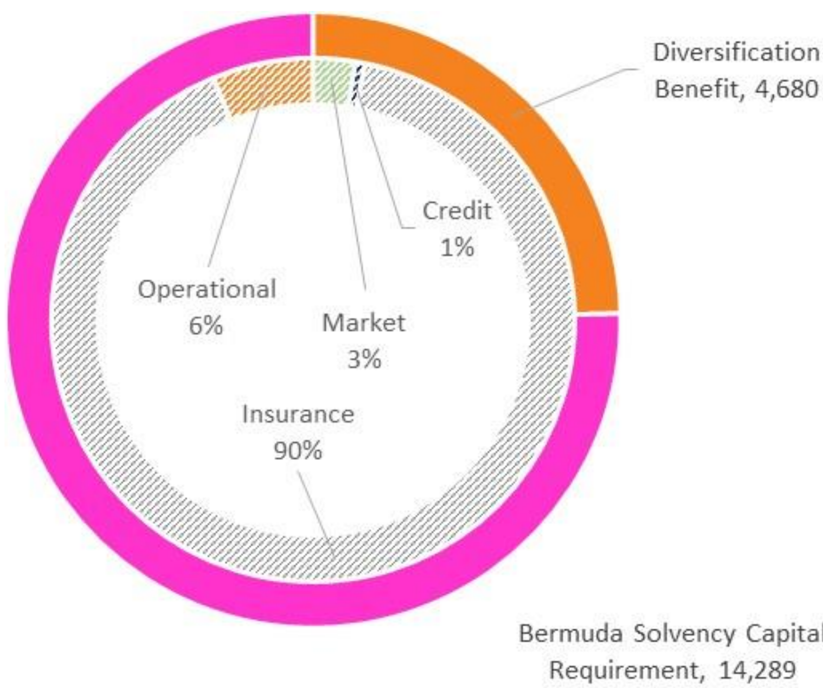
The structure of the Company’s Available Capital comprises share capital and retained earnings. The capital management policy focuses on ensuring compliance with externally imposed capital requirements and to maintain appropriate capital ratios in order to protect the security of its stakeholders, including cedants and policyholders, while maintaining shareholder value.

The capital requirements are calculated using the capital regime promulgated by the BMA. The following table summarises the Company's Available Capital and Capital Coverage Ratio at 31st December 2017.

EBS Capital Coverage Ratio (£'000)	Amount
Available Capital	58,061
Enhanced Capital Requirement	16,569
Free Surplus	**41,492**
EBS Capital Coverage Ratio	**350%**

The Group's Available Capital amounted to £58.1m compared to its Enhanced Capital Requirement ("ECR") of £16.6m. This produced an EBS Capital Coverage Ratio of 350%. Note that at the reporting date, the regulatory Minimum Solvency Margin ("MSM") is the binding constraint which is given by the sum of the Group entities local minimum capital requirements. On a Bermuda Solvency Capital Requirement ("BSCR") basis, the level of required capital is £14.3m, producing an EBS Capital Coverage Ratio of 406%.

The diagram below shows the BSCR for the Company at 31st December 2017, split by risk module. The outer ring shows the total diversified BSCR and the level of diversification benefit realised within the Group. The inner ring shows the risk module as a proportion of total undiversified capital. Figures are in £'000.



A. Business and Performance

A.1 Company Profile

Monument Re Limited ("Monument Re", the "Company" or the "Group") is a Bermuda based Class E life reinsurer (with registration number 51969 and incorporation date 27th October 2016) and a Designated Insurer with Group supervision by the Bermuda Monetary Authority ("BMA").

A.2 Group Supervisor

Table 1: Group Supervisor

Details	Group Supervisor
Name	Bermuda Monetary Authority
Jurisdiction	Bermuda
Address	BMA House, 43 Victoria Street, Hamilton, HM12, Bermuda
Contact	Craig Swan, Managing Director, Supervision (Insurance)
Email Address	cswan@bma.bm
Phone Number	+1 (441) 295 5278

Group supervision is carried out by the BMA within a comprehensive legislative framework, which includes, but is not limited to:

- The Insurance Act 1978 (the "Act");
- The Insurance (Group Supervision) Rules 2011 (the "Group Supervision Rules");
- The Insurance (Prudential Standards)(Insurance Group Solvency Requirement) Rules 2011 (the "Group Prudential Standards"); and
- The BMA Guidance Note on the Role of the Designated Insurer (the "Guidance Note").

A.3 Approved Group Auditor

Table 2: Approved Group Auditor

Details	Approved Group Auditor
Name	PricewaterhouseCoopers Limited
Jurisdiction	Bermuda
Address	P.P Box HM 1171, Hamilton, HM EX, Bermuda
Contact	Stewart Ritchie, Director
Email Address	stewart.ritchie@bm.pwc.com
Phone Number	+1 (441) 295 2000

A.4 Company Ownership

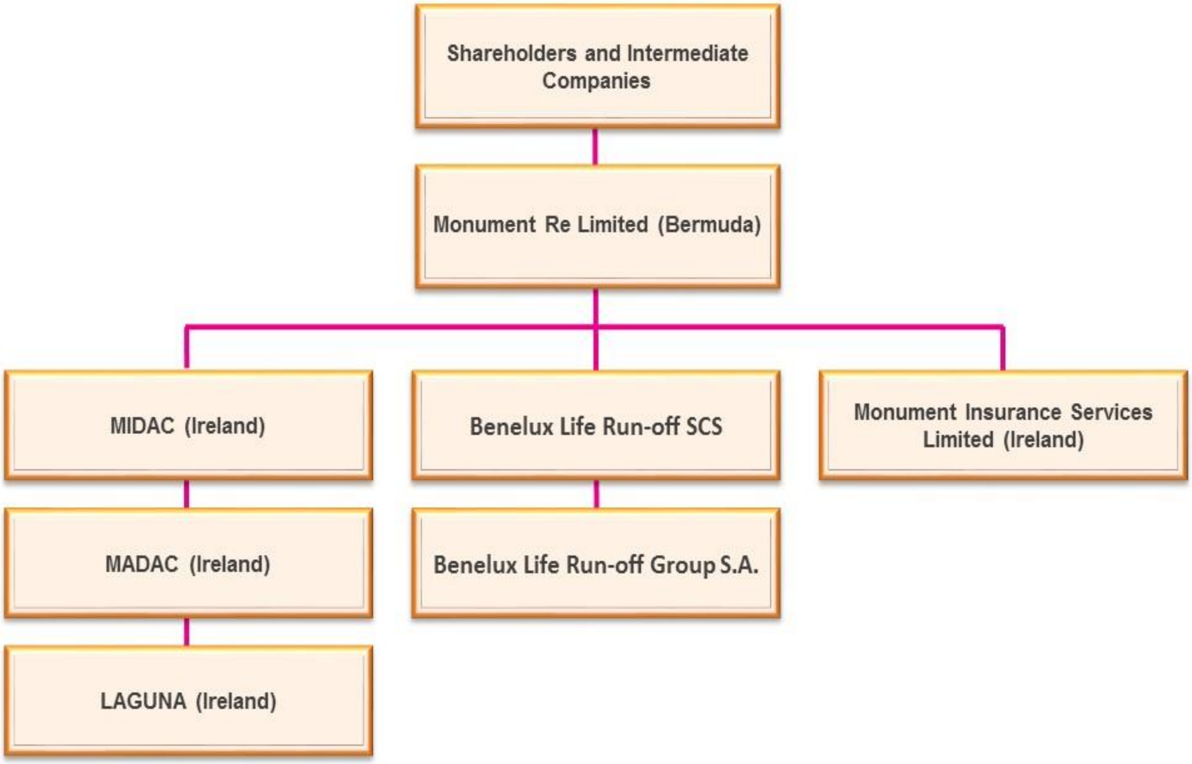
Monument Re is backed by high quality shareholders made up of a number of institutional and individual investors who are experienced insurance professionals. In particular, our institutional investors are:

- Hannover Rueck SE ("Hannover Re") (GR: HNR1) - Hannover Re was established in 1966 and is the world's third largest reinsurer with gross premium incomes of €16bn. Hannover Re transacts all lines of property and casualty and life and health reinsurance and conducts business on all continents, with more than 100 branches or subsidiaries and nearly 3,000 staff members.
- Enstar Group Limited ("Enstar") (NASDAQ: ESGR) - Enstar is publicly traded on the NASDAQ and is a leading Bermuda-based Property & Casualty ("P&C") run-off consolidator.
- E-L Financial Corporation ("ELFC") (TSE: ELF) - ELFC is an investment and insurance holding company incorporated in 1969 in Canada, and is publicly traded on the Toronto Stock Exchange. ELFC's strategy is to accumulate shareholder value through long-term capital appreciation and dividend income from its investments.

The Company has a seasoned Board of Directors, chaired by Jonathan Yates and an experienced management team led by Manfred Maske.

A.5 Company Structure

The Company's Group structure at 31st December 2017 is summarised below:



Monument Re completed the acquisition of two Irish insurance subsidiaries of Barclays, on 1st March 2017. These subsidiaries have since been rebranded Monument Insurance Designated Activity Company ("MIDAC"), a non-life assurance company and Monument Assurance Designated Activity Company ("MADAC"), a life insurance company. These entities are both authorised in Ireland and regulated by the Central Bank of Ireland ("CBI") and were established to underwrite Payment Protection Insurance ("PPI") and short-term income protection to Barclays customers in the UK on a freedom-of-services basis. This portfolio, which is closed to new business, provides the ideal entry vehicle into Ireland. A full mis-selling indemnity was agreed with Barclays as part of the acquisition terms.

On 29th August 2017, the Company completed the acquisition of Laguna Life Designated Activity Company ("Laguna") from the Enstar Group Limited, a leading global insurance run-off consolidator and also a minority shareholder of Monument Re, which comprises a closed book of term life protection risks within the UK and Spain and voluntarily ceased to underwrite new business in 2007 and 2009 respectively. Laguna is authorised in Ireland and regulated by the CBI.

On 22nd May 2017, Monument Re established a Group service company, Monument Insurance Services Limited ("MISL"), in Ireland to provide services to the Monument entities. The staff, previously employed by MIDAC, MADAC and Laguna transferred to MISL. MISL now acts as an outsourcer for these entities as well as supporting other Group activities.

On 18th September 2017, Monument Re signed the acquisition of ABN AMRO Life Capital Belgium N.V. ("AALCB"), a Belgian Life insurance company in run-off, within a Luxembourg domiciled life consolidator fund (Benelux Life Run-off SCS or "BLR SCS") whereby Monument Re is the sole investor. BLR SCS was established by Acathia Capital as the first run-off platform for life insurance companies and life insurance portfolios based in Belgium, with AALCB being its first acquisition. Monument Re took full ownership over BLR SCS and its wholly owned subsidiary, Benelux Life Run-off Group S.A., as at 31st December 2017. On 28th March 2018, Monument Re completed the acquisition of AALCB following receipt of regulatory approval by the National Bank of Belgium and subsequently renamed AALCB as Monument Assurance Belgium N.V. ("MAB"). MAB is structured directly under BLR SCS.

On 29th January 2018, Monument Re signed an agreement to acquire full ownership of Aspecta Assurance International Luxembourg S.A. ("Aspecta"), subject to regulatory approval. Aspecta is a life insurance undertaking based in Luxembourg with branches in Germany, Italy and Spain, which was incorporated in 2000 as a 100% subsidiary of Talanx Group. Aspecta ceased writing new business at the end of 2010. This transaction remains subject to regulatory approval.

On 16th April 2018, Monument Re signed an agreement to acquire the FIRST A portfolio from ETHIAS S.A. This involves a portfolio transfer to Laguna and is subject to regulatory approval. The First A portfolio is a run-off portfolio of flexible premium retail life insurance contracts.

A.6 Insurance Business

The Company's financial statements are prepared in accordance with Generally Accepted Accounting Principles ("GAAP") in UK and the Republic of Ireland including Financial Reporting Standards ("FRS") 102 and FRS 103. The following table shows the underwriting profit, as reported in the Company's financial statements for the statutory year ended 31st December 2017.

Table 3: Underwriting Profit

Underwriting Profit (£'000)	Amount
Gross Written Premiums	31,279
Reinsurers Share of Insurance Premiums	(275)
Net Earned Premiums	**31,004**
Claims Paid	(8,151)
Change in Provision for Claims	1,587
Commissions and Profit Participation	(14,537)
Underwriting Profit (before tax)	**9,903**

As this is the first year of operations, no comparative information is presented. Note that all insurance business is comprised of run off blocks and therefore premiums and claims in relation to all current business is expected to decrease year on year.

The following tables show the premium volume by business segment, geographical location and insurance subsidiary.

Line of Business

Table 4: Written Premium by Line of Business

Line of Business (£'000)	Gross Written Premium	Net Written Premium
PPI	30,766	30,766
Term life	513	239
Written premiums	**31,279**	**31,005**

Note that written premiums are net of premium refunds.

Geographical Location

Table 5: Written Premium by Geographical Location

Geographical Location (£'000)	Gross Written Premium	Net Written Premium
United Kingdom (GBP)	31,077	30,829
Spain (EUR)	202	176
Written premiums	**31,279**	**31,005**

Subsidiary Analysis

Table 6: Underwriting Profit by Entity

Underwriting Profit by Entity (£'000)	MIDAC	MADAC	Laguna	Total
Net Earned Premiums	22,257	8,508	239	31,004
Claims Paid	(7,587)	(569)	5	(8,151)
Change in Provision for Claims	2,004	(70)	(347)	1,587
Commissions and Profit Participation	(10,129)	(4,408)	0	(14,537)
Underwriting Profit (before tax)	**6,545**	**3,462**	**(104)**	**9,903**

A.7 Investment Performance

The Company's investment return, net of investment expenses, as reported in the financial statements, is analysed in the following table:

Table 7: Investment Performance

Investment Performance (£'000)	Amount
Cash Deposits	14
Money Market Funds	72
Bond Interest Income	53
Gross Investment Income Earned	139
Net Investment Expenses	(129)
Net Realised Gains and Losses	(10)
Change in Fair Value	(40)
Net Investment Return	**(40)**

A split of the investment assets by type and credit quality within the Group is provided below:

Table 8: Cash & Cash Equivalents and Investments by Credit Rating

Assets by Credit Rating (£'000)	AAA	AA	A	BBB	BB	Total
Corporate Bonds	755	1,458	3,016	1,226	0	6,455
Money Market Funds	35,449	0	0	0	0	35,449
Cash on Hand and at Bank	0	0	33,038	70	127	33,234
Total Cash and Investments	**36,204**	**1,458**	**36,054**	**1,296**	**127**	**75,138**
Proportion	48%	2%	48%	2%	0%	100%

A.8 Other Material Information

There is no other material information regarding the business and performance of the insurance undertaking other than what has been reported in this section.

B. Governance Structure

B.1 Parent Board and Senior Executives

Parent Board Structure

Monument Re is the operating company from where the Board of Directors ("Board") governs the Group. Monument Re is also the ultimate insurance holding company of the Group subject to Group supervision by the BMA.

The Board play a critical role in the successful operation of Monument Re, being ultimately responsible for sound and prudent governance and oversight of the Company. The Board's duties, membership, frequency of meetings and quorum is defined in the Board charter. The mix of skills and experience of Board members ensures that there is an appropriate level of experience, knowledge and expertise that is commensurate with the nature, scale and complexity of Monument Re's business. Membership of the Board and its committees will be reviewed at least every three years, or more frequently upon a material change in business activities or risk profile, in compliance with the BMA's Group Supervision Rules.

Monument Re's Board includes four non-Executive Directors and one Executive Director whose duties include, but are not limited to:

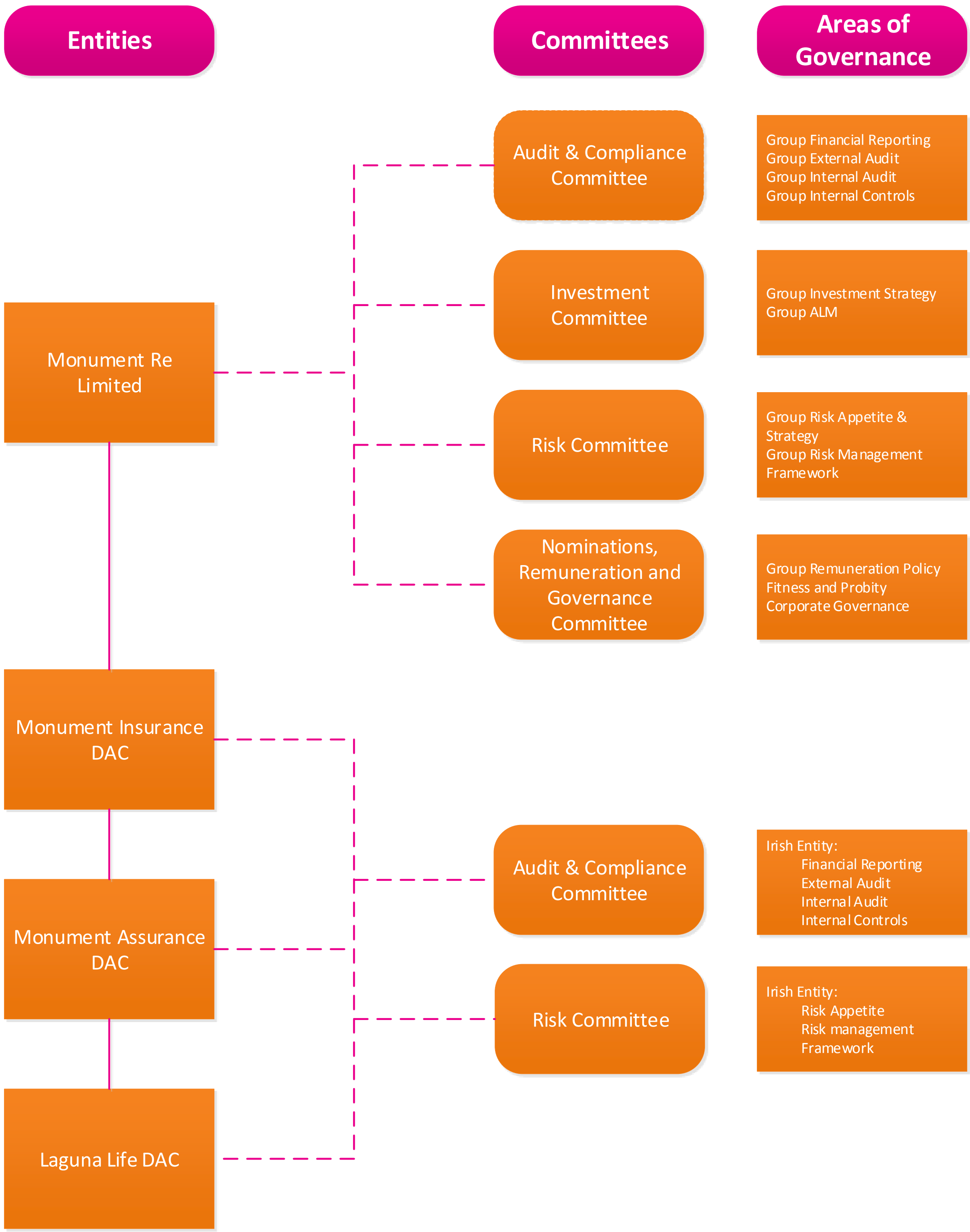
- Maintain an adequate understanding of the Company's total business and operations to be able to test and challenge the decisions of other Directors and Senior Management;
- Devote sufficient time to enable the proper discharging of the Director's governing function duties and attend all Board meetings where possible;
- Through Board meetings and activities, assist with determining the long and short-term strategy of the Company;
- When requested by the Board, represent the Company in its dealings with third parties;
- At all times comply with the legal, fiduciary and common law duties as a Director, as well as applicable regulation, including the requirements of the BMA and ensure that any conflicts of interest are properly resolved; and
- Liaise with external auditors as to their findings. Monument Re's appointed external auditor is PricewaterhouseCoopers ("PwC") Bermuda.

Monument Re's Directors comprise the following:

- Jonathan Yates (Chairman);
- Clive Rowe (nominated by ELFC);
- Paul Bohus (nominated by Enstar);
- Michael Winkler (nominated by Hannover Re); and
- Manfred Maske (Group CEO).

In line with international best practices, the Board has delegated its authority either directly or indirectly to a number of committees, which meet in Bermuda, each with their own terms of reference.

The key Board committees at Monument Re are depicted below:



The table below provides an overview of the key attendees and the role and responsibilities of each committee:

Table 9: Committee Roles and Responsibilities

Committee	Key Attendees	Key Responsibilities
Audit and Compliance	▪ Paul Bohus (Chairman); ▪ Michael Winkler; and ▪ Clive Rowe	Ensures the integrity of financial statements and the financial reporting process; Oversees, challenges and reviews both the internal and external audit functions; and Review and monitor the adequacy and effectiveness of the Company's compliance function, and risk and compliance training programs.
Risk	▪ Michael Winkler (Chairman); ▪ Paul Bohus; ▪ Jonathan Yates; and ▪ Manfred Maske	Provides leadership, direction and oversight to Monument Re's risk appetite and tolerance, and Risk Management Framework; Review and recommend for Board approval all risk policies; and Oversee the effectiveness of the internal control system.
Investment	▪ Clive Rowe (Chairman); ▪ Jonathan Yates; ▪ Michael Winkler; and ▪ Manfred Maske	Responsible for overseeing the development of the investment strategy and the making, holding and disposal of investments; To monitor compliance of investment portfolios with the policies, guidelines and risk limits; and To review and approve periodically investment benchmarks and KPI's for investment portfolios and investment function.
Nominations, Remunerations and Governance	▪ Jonathan Yates (Chairman); ▪ Clive Rowe; and ▪ Paul Bohus	Assist with the determination of the overall remuneration policy for the Group; Review membership of the Board and Committees to ensure fitness and probity; and Assist the Board in ensuring it retains an appropriate balance of skills to support Monument Re's strategic objectives.

Executive Committee

The Executive Committee ("ExCo") is not a committee of the Board but acts in ensuring effective management and in developing Monument Re's business strategy and related policies. The Committee will also draw its attention to risk management and governance matters. Effectively, the ExCo is the executive arm of the Board and is responsible for undertaking all management and operational actions to ensure the effective implementation of Monument Re's strategic objectives. The Board and Executives also have explicit focus and responsibility for new acquisitions. The table below provides an overview of the key responsibilities of the ExCo:

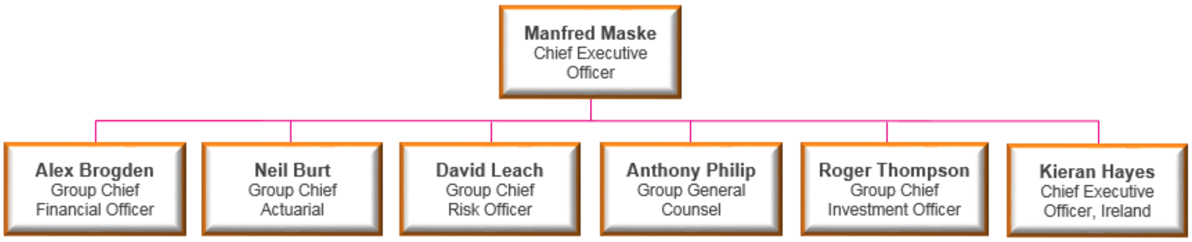
Table 10: ExCo Roles and Responsibilities

Committee	Key Attendees	Key Responsibilities
ExCo	▪ Manfred Maske (Chairman); and ▪ All Executive Officers	Formulating and recommending to the Board the annual Business Plan, with due consideration to the risk appetite statement, tolerance and limits; Reviewing and considering the development of high level policies and recommend these to the Board for approval; Reviewing compliance monitoring results to ascertain ongoing adherence to the BMA regulatory requirements and minimum standards; and Review potential reinsurance and acquisition transactions, including pricing, due diligence, integration planning and operations for presentation to and ultimate approval by the Board. It will, therefore, fulfil the role of an "underwriting committee" directly rather than by delegation.

Senior executives are individually and collectively responsible for establishing systems and controls that produce complete, reliable, clear, consistent, timely, and relevant reporting concerning the business activities and risks to which Monument Re is exposed. In particular, they are responsible for:

- Providing the Board with timely, accurate and comprehensive reports that highlight current and prospective changes in business activities, profitability, capital and funding liquidity positions, risk profile or key drivers;
- Reporting promptly to the Board any material deficiencies in the effectiveness of Monument Re's functions or any decisions which deviate materially from the Board approved risk appetite and operational strategy;
- Reviewing and approving all material outsourcing arrangements and for the effective performance and oversight of outsourced functions or tasks;
- Completion of all required returns and financial statements in an accurate, complete and timely manner; and
- Review the adequacy and effectiveness of the internal control environment and systems and controls.

Monument Re's ExCo team is comprised of:



All executives are permanently based in Bermuda apart from Kieran Hayes, who is the CEO of Monument Insurance (based in Dublin).

Key Functions

The Company has determined a number of key functional activities as being those which best support the governance and business objectives. Each key function has an equal standing within the system of governance and its activities are co-ordinated and monitored through the ExCo team.

The Company considers its key functions to be:

- Risk management, led by the Group Chief Risk Officer, and the Compliance & Internal Audit functions, led by Group General Counsel, are responsible for the oversight of the ongoing day-to-day management of the business;
- Finance function, led by the Group Chief Financial Officer, is responsible for the day to day management of all finance, financial reporting and investment matters;
- Actuarial function, led by the Group Chief Actuary, is responsible for the coordination and calculation of Technical Provisions and capital management;
- Investment function, led by the Group Chief Investment Officer, is responsible for implementing and managing the investment and asset liability matching strategy;
- Underwriting function, led by the Group Chief Financial Officer, is responsible for ensuring that pricing and terms for accepting risks in a transaction are properly understood and priced for; and
- Operations function, led by the Group Chief Executive Officer, is responsible for the day to day operational management of the business.

It is the responsibility of the key function owners to maintain the appropriate policy and procedures documentation, which incorporate the function's responsibilities for operations, risk management, internal control, internal audit, outsourcing and reporting. All governance documentation is reviewed at least annually by the senior executive management team and the Board according to the relevant terms of reference.

Remuneration Policy and Practices

Monument Re provides for a range of benefits to employees including contractual salary, variable bonuses and benefits that are moderated with regard to variable and fixed elements as well as term of award. Variable annual bonuses are defined by individual objectives linked to the performance of Monument Re and the individual. Variable longer-term bonuses relate to the proven performance of Monument Re and its transactions over longer periods. The selection of criteria for the variable compensation system and upper limits of variable compensation elements by the Remuneration

Committee ensure that inappropriate incentives are not offered, which may persuade employees to make decisions outside the risk appetite limits of Monument Re.

The Board of Monument Re are not currently remunerated by Monument Re aside from the Group CEO in the course of his duties as the Group CEO. All Board member are reimbursed for travel and accomodation expenses in respect of Board meetings.

Pensions and Early Retirement Schemes

Monument Re makes contributions to a post-employment defined contribution retirement plan based on a percentage of salary in respect of its Bermudian employees. Once the contributions have been paid, Monument Re has no further payment obligations. The assets of the benefit plan are held separately from Monument Re in the form of a government approved group policy issued by a Bermudian insurance company.

The Board of Monument Re does not receive any pension or early retirement benefits, contributions or allowances from Monument Re, aside from the Group CEO in the course of his duties as the Group CEO.

Employees in Ireland also benefit from contributions made by MISL to a post-employment defined contribution retirement plan based on a percentage of salary. Once the contributions have been paid, MISL has no further payment obligations. The assets of the benefit plan are held separately from MISL in the form of a group insurance policy issued by an Irish insurance company.

Material Transactions

No material transactions were executed during this period with the above named Board members, Senior Executives, or other individuals who exert significant influence over the Group.

B.2 Fitness and Propriety Requirements

Fit and Proper Assessment

Monument Re is committed to ensuring that it complies with its obligations under the BMA's 'Fit and Proper' framework at all times. The Company has arrangements in place to ensure the fitness, competence and propriety of persons effectively running the business and other staff who work in the business. In particular, Monument Re ensures that:

- All members of the Board and each of its committees and the members of the executive team, individually and collectively, have the requisite knowledge, skills, expertise and soundness of judgement appropriate to undertake and fulfill their responsibilities;
- All members of the Board and ExCo are, and continue to be, 'Fit and Proper' on an on-going basis; and
- Account is taken on the likely and/or actual impact of policyholder interests or of a shareholder holding a particular controller position at Monument Re to determine the application of the fit and proper requirements.

Monument Re assesses 'Fit and Proper' status against the following requirements:

- Competence and capability;
- Honest, ethical and acts with integrity; and
- Financial soundness.

Monument Re's Board is responsible for:

- Ensuring the Company complies with its legal and regulatory obligations and the 'Fit and Proper' Policy;
- Ensuring that processes and procedures to assess and document the fitness and propriety of its members, controllers and officers, as well as any individual employed by a Service Provider providing an outsourced function, are in place and in line with the BMA's requirements;
- Maintaining and supporting a culture that places a high value on appointing 'Fit and Proper' people and ensuring that robust processes exist that lead to the recruitment and appointment of 'Fit and Proper' persons;
- Reviewing any instances reported by the Compliance Officer, Anthony Philip, or others whereby any employee is suspected of misusing systems or is suspected of committing fraud, money laundering, theft, financial crime or tax evasion; and
- Reviewing the membership of the Board and its Committees, including the composition of the chief and senior executives, no less frequently than every three years and upon a material change in the business activities or risk profile of the Group to ensure that the members of the Board and ExCo continue to be 'Fit and Proper'.

Monument Re's CEO shall be responsible for selecting, in close collaboration with the Compliance function, senior executives who are 'Fit and Proper' and who have the requisite knowledge and skills, given the nature, scale and complexity of the business.

The Compliance Officer is responsible for:

- Monitoring any changes or potential changes to the law and regulatory rules dealing with fitness and probity and reporting to the Board and senior management on the impact of these changes;
- Creating and maintaining the processes and underlying procedures as set out in the 'Fit and Proper' Procedures document;
- Monitoring that the 'Fit and Proper' Policy and underlying procedures are fully implemented; and
- Liaising with the BMA in relation to the 'Fit and Proper' Policy as required under applicable legislation and regulations.

In appointing a candidate to any role within Monument Re, the qualities and skills of that person are carefully evaluated against the specified criteria for the role to ensure the individual has the competence and capability required. The duties and responsibilities of each employee are set out in a job specification, which is discussed as an integral part of the recruitment process.

Monument Re ensures that the 'Fit and Proper' system and controls in place are tested periodically to ensure they are fit for purpose. Any weaknesses in the systems and controls in place will be reported to the Compliance Officer and a plan for rectification must be put in place, which includes appropriate timeframes.

Monument Re expects, and supports, controllers to maintain all professional qualifications, including the fulfilment of continuing professional development requirements, that may be relevant to the person's fitness for his/her current role and responsibilities.

Where Monument Re becomes aware that there may be concerns regarding compliance with the requirements described in the 'Fit and Proper' Policy, an investigation into such concerns and appropriate action shall be taken immediately.

Adherence to policies and procedures is assessed on an annual basis as part of the employees' performance review. An annual Board performance and effectiveness review is also undertaken.

Board Professional Qualifications, Skills and Expertise

Monument Re's Directors comprise the following:

Table 11: Board Member Professional Qualifications, Skills and Expertise

Board Member	Professional Qualifications, Skills and Expertise
Jonathan Yates – Chairman	Jonathan is a Fellow of the Institute of Actuaries with over thirty years experience in the life insurance industry. He was previously CEO of Windsor Life Assurance Company Limited and, subsequently, Guardian Assurance Company Limited and a Director of various companies within the respective Groups, including Ark Life Assurance Company Limited in Ireland. Jonathan was also previously Group Finance Director of Phoenix Group Holdings plc; a UK listed company as well as a Director of various Group companies, including the life insurance companies within the Group and Ignis Asset Management. He has previously held non-Executive Directorships of Paternoster Insurance Company Limited, in the UK, and The Empire Life Insurance Company, in Canada. Jonathan is currently a non-Executive Director with the Viridium Group in Germany, including the various life insurance companies within the Group. He is also Chairman of Monument Assurance DAC, Monument Insurance DAC and Laguna Life DAC.
Clive Rowe	Clive is a General Partner and Managing Member of Oskie Capital Management, a New York based investment fund focused on companies going through significant transformations. He founded the firm in 2010 and is a Portfolio Manager responsible for investments in media, telecom, energy and health care including managed care organisations (health insurers). Prior to founding Oskie Capital, Clive was a partner at SLS Capital, a New York based long short equity fund which he co-founded in 1999. Prior to his career in the investment business, Clive worked at Monitor Company, a strategy consultancy where he co-led the restructuring Group. Clive is currently a Board Member of E-L Financial, a Toronto based holding company with a portfolio of investments. E-L owns a Canadian life insurer Empire Life Insurance Company (regulated by OSFI) and he serves on its Board and as Chairman of its Investment Committee. He is also on the Board of Algoma Central Corporation, a publicly traded shipping company and there he is Chairman of the Corporate Governance Committee. In the past, Clive served on the Board of Dominion of Canada, a property and casualty insurer prior to its sale to Travellers in 2013. Clive also served as Chairman of the Board of Roadone Logistics, a Boston based trucking company, from 2012 to June 2015.

Board Member	Professional Qualifications, Skills and Expertise
Paul Bohus	Paul is a Senior Vice President of Corporate Development at Enstar. He has significant experience in the (re)insurance industry, particularly in mergers and acquisitions. Paul has been with Enstar since 2014 and is responsible for executing and overseeing all stages of the acquisition process including strategy, alternative capital, due diligence, valuation, financial impact analysis and integration. Prior to joining Enstar, Paul spent over ten years in public accounting, focusing on the reinsurance industry. Paul is a Certified Public Accountant (Ohio, USA).
Michael Hermann Winkler	Michael is a member of the Swiss Association of Actuaries. He is the Managing Director of RefinSol GmbH, of which he is also the founder and Executive Director, providing consulting services for international reinsurance companies. Michael has also served as CEO of WRM Reinsurance AG, a specialised carrier for bespoke reinsurance transactions for life insurance companies in the area of Financial Solutions. Michael brings over thirty years of experience to Monument Re, having covered multiple roles in the life reinsurance industry since 1980.
Manfred Maske – Group Chief Executive Officer	Manfred is a Fellow of the Institute of Actuaries with eighteen years of experience in the life industry across a number of territories. He was previously CEO and Director of Legal and General Reinsurance in Bermuda and CEO and Director of Legal & General Gulf in the Middle East. He has worked previously in a range of management and technical roles within Legal & General in the UK, culminating in the role of International Actuary, where he sat on the Boards of start-ups and either as member or chair of the Investment Committee. Prior to this, Manfred held actuarial roles with PricewaterhouseCoopers in the UK, Old Mutual and Momentum Life in South Africa. He is also on the Board of Directors of Monument Re, Monument Assurance DAC, Monument Insurance DAC, Laguna Life DAC and MISL.

Senior Executive Professional Qualifications, Skills and Expertise

Monument Re's Senior Executive team is comprised of:

Table 12: Senior Executive Professional Qualifications, Skills and Expertise

Senior Executive	Professional Qualifications, Skills and Expertise
Manfred Maske – Group Chief Executive Officer	Details as provided above.
Alex Brogden – Group Chief Financial Officer	Alex is a Fellow of the Institute of Actuaries with fourteen years of experience in the life industry. His previous role was Senior Corporate Actuary at the Phoenix Group, where his role included pricing and capital structuring of acquisitions and reinsurance, managing the Group's defined benefit pension schemes and developing significant capital management actions. He was previously Pricing Actuary at Admin Re (part of the Swiss Re Group), pricing closed fund transactions, including the c.£750m acquisition of Barclays Life. Prior to that, Alex was a life insurance consultant at Willis Towers Watson and worked on a number of client projects, across the UK, Europe, US and Asia. He is also on the Board of Directors of Monument Assurance DAC, Monument Insurance DAC, Laguna Life DAC and MISL.
Roger Thompson – Group Chief Investment Officer	Roger is a Chartered Accountant and Chartered Financial Analyst with over twenty five years of professional experience in treasury and investments. His previous role was Chief Investment Officer at Enstar Group Limited, where his role included oversight of external investment managers, modelling of investment returns for potential acquisition targets, designing and executing optimal investment strategies for newly acquired companies. Roger was previously an Executive Vice President, Chief Investment Officer at AXIS Capital Holdings Limited and had involvement in AXIS's IPO and various capital raising projects, including debt, equity, preferred shares and LOC credit facilities.
Neil Burt – Group Chief Actuary	Neil is a Fellow of the Institute of Actuaries with fifteen years of experience in the life industry and a First Class Honours degree in Mathematics. Neil was previously the Approved Actuary and Head of Actuarial Reporting for Legal & General Re, responsible for reporting the actuarial liabilities of the Company. As Approved Actuary, he was responsible for providing an opinion on the sufficiency of the long-term reserves of the Company and supporting the regulatory requirements to the Bermuda Monetary Authority. Prior to Legal & General Re, Neil transferred from within the Legal & General Group in the UK where he worked within the Legal & General Retirement Finance team. In the UK, Neil supported the development of the Solvency II reporting, strategic planning and the international expansion of the Retirement division. Prior to Legal & General, Neil was an actuarial manager at Deloitte working on a number of Solvency II and M&A projects.

Senior Executive	Professional Qualifications, Skills and Expertise
David Leach – Group Chief Risk Officer	David is a Fellow of the Institute of Actuaries (FIA) and holds a First Class Honours degree in Economics (BSc) from the University of Warwick. David has twenty years experience in life insurance. He was previously Deputy Chief Risk Officer for ReAssure Life Limited and Risk Management Head of Investment Oversight for ReAssure Group, a division of Swiss Re. Prior to that, David held the role of Senior Risk Actuary for Guardian Financial Services. He has also worked in actuarial consulting roles at EY, Deloitte and Watson Wyatt (now Willis Towers Watson) and as Pricing Actuary at Munich Re. His consulting work focused on mergers and acquisitions in Europe and Asia, actuarial audit, risk management and Solvency II. David has written a number of articles on risk and actuarial topics, and chaired the Stress and Scenario Testing working party of the Institute and Faculty of Actuaries.
Kieran Hayes – Chief Executive Officer, Ireland	Kieran has twenty-five years experience in the insurance industry. He has served as Executive Director and CEO of Laguna Life DAC in Ireland following Enstar's acquisition from CitiGroup in March 2011. Prior to that, from June 2004 to March 2011, Mr. Hayes held a number of Senior Management roles with CitiGroup, including Managing Director & VP Operations of CitiGroup's life insurance business. From January 1998 to December 2002, he worked at Old Republic Insurance in Chicago, Illinois as Senior Vice President of Operations, and prior to that in a managerial capacity at Great West Life Insurance Company, also in Chicago. He is also on the Board of Directors of Monument Assurance DAC, Monument Insurance DAC and Laguna Life DAC.
Anthony Philip – Group General Counsel	Anthony has twenty-four years experience serving as a Barrister and Attorney in the financial services industry in Bermuda. His last role was CEO of American International Company Ltd. ("AIG Bermuda"). Prior to that, he was Senior Vice President & General Counsel of AIG Bermuda. Anthony has served as a Senior Legal Adviser with Flagstone Reinsurance Limited, West End Capital Management (Bermuda) Limited (a fund management company) and Appleby, Spurling and Kempe Barristers and Attorneys. He was also the Manager of the Companies, Partnerships and Permits Division at the BMA.

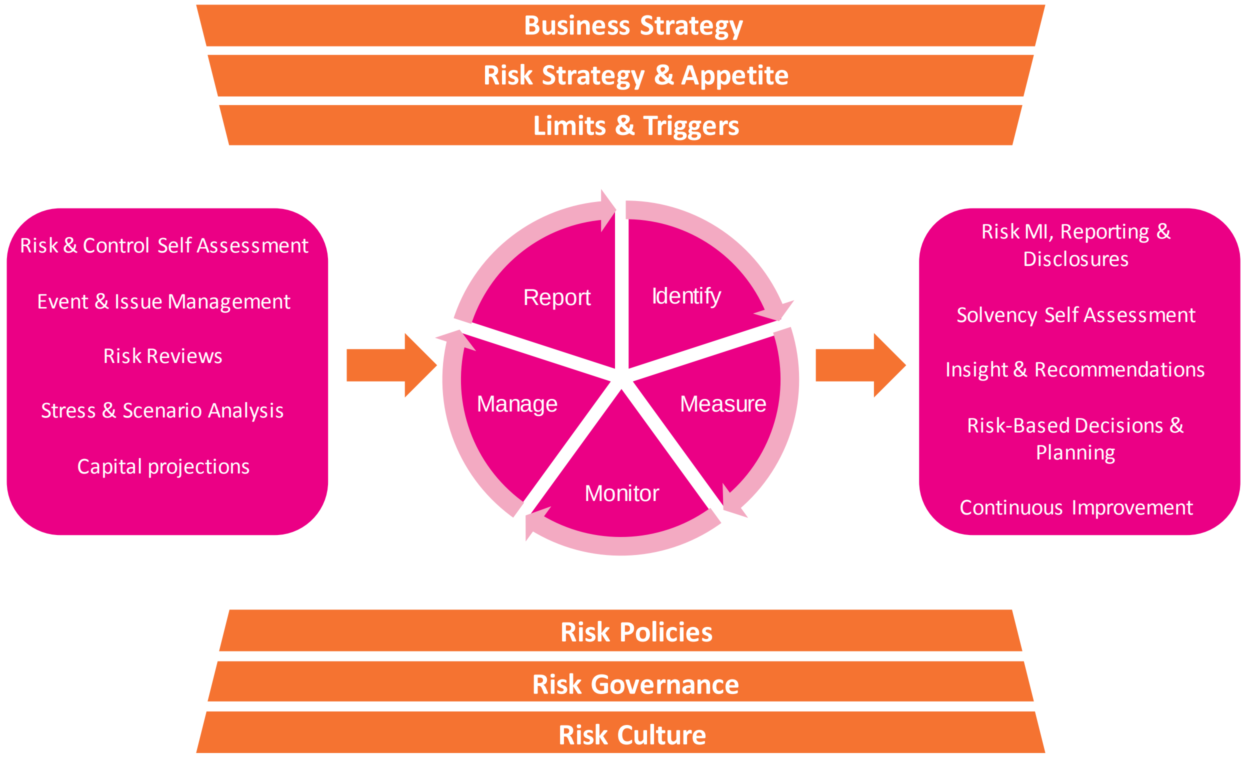
B.3 Risk Management and Solvency Self-Assessment

Risk Management Processes and Procedures

In accordance with international best practices, the Board has formalised a Risk Management Framework ("RMF"). The RMF is approved annually by the Board, and is designed to:

- Enable risk-based decision-taking;
- Promote risk awareness and sound risk taking behaviour;
- Ensure clear accountabilities;
- Highlight when the Group is taking too much risk; and
- Meet the requirements of Solvency II equivalent Bermudian capital regime.

The RMF is depicted below:



The RMF is founded on a sound risk culture, an effective system of governance including committee structures and clear accountabilities, and a suite of supporting risk policies.

The Board has established a Risk Committee to assist the Board by providing leadership, direction and oversight with regard to Monument Re's risk appetite, tolerance and RMF, including risk policies, processes and controls.

The risk strategy of the Group is aligned to the business strategy. Risk appetite statements express the Board's appetite across all categories of risk facing the business. Quantitative risk limits are set for key risks and triggers act as early warning indicators, thus supporting proactive risk management. Exposures relative to limits and triggers are regularly monitored and reported to the Board.

The RMF is applied to newly acquired businesses such that there is proportionate and consistent application of a single risk framework across the Group. A period of transition, in which pre-existing policies continue to operate, is typically required prior to embedding of Group policies with respect to newly acquired businesses.

The material risks addressed by the RMF include:

- Credit risk;
- Group risk;
- Insurance risk;
- Liquidity risk;
- Market risk;
- Operational risk; and
- Strategic risk.

The key objectives of the RMF, under the leadership of the Group CRO, are to:

- Maintain a sound risk management framework that supports effective risk-based decision-making, including risk appetite statements and tolerances of the Group, and oversee the implementation of the framework via appropriate policies, processes and controls;
- Maintain a robust risk reporting framework, including processes and systems for commenting on the overall risk environment, addressing mitigating actions for risks identified, identifying any emerging risks, discussing relevant current issues as well as reporting on risk metrics that monitor risk exposures and agreed tolerances;
- Deliver all external reports as required to meet regulatory and other stakeholder expectations, including Solvency Self-Assessment, risk content for Capital and Solvency Returns, Financial Condition Reports, Financial Statements and Regular Supervisory Reports (where relevant);
- Actively review and challenge in a second line capacity in relation to all transactions and material activities in the Company, seeking to deliver a better overall outcome for the Group by either reducing the level of risk overall or improving the reward for certain assumed risks; and
- Ensuring that the RMF remains effective and appropriately positioned, with the requisite skills, knowledge and capacity, to support the planned growth of the Group.

Implementation of Risk Management and Solvency Self-Assessment into the Insurance Group Operations

Risk reviews are a key component of Monument Re's RMF. The purpose of a risk review is to provide the Risk Committee with an impartial view from the risk function on material risk matters, ahead of final decision-making. The RMF states the instances in which risk reviews are required, consistent with the Group's Delegated Authority Schedule and the Board or Risk Committee can request a risk review at any time. Consideration of a risk review by the Risk Committee is a pre-requisite for proceeding with a transaction or material actions impacting liquidity.

Risk reviews are carried out ahead of key decisions that will materially impact the risk profile of the Group, including decisions to bind the Group to a transaction and material decisions impacting liquidity. The results of risk reviews are presented to Board Risk Committee to assist the Committee in making informed risk-based recommendations to the Board regarding the decision at hand.

Stress and scenario testing and projections of the Group's capital position are fundamental to the Group's approach to risk assessment. Stress and scenario testing is used to quantify how the economic balance sheet and capital requirements would be expected to change across a range of scenarios which are chosen to be most relevant to the decision at hand.

A key objective of risk management is to ensure that the risk profile of the Group remains within risk appetite as set at least annually by the Board, and to highlight any deviations and proposed rectifying actions. Reporting of leading risk indicators supports proactive management of risk exposures.

On a day-to-day basis, risk management is implemented first and foremost by the risk informed actions of our people, consistent with the requirements of our risk policies and formalised through a set of processes and controls.

A Risk and Control Self-Assessment process is carried out at least annually. This process requires business functions to review and self-assess the effectiveness of controls mitigating the key risks identified. This process is facilitated and overseen by the Risk Function, and the results are summarized and presented to Risk Committee, including actions to address themes and issues identified.

Relationship between the Solvency Self-Assessment, Solvency, and Capital and Risk Management Systems of the Insurance Group

Monument Re quantifies its capital requirements in accordance with the BSCR set out within Bermuda's economic capital regime. A capital management buffer is targeted in excess of BSCR in order that the business can withstand market and other fluctuations on a day-to-day basis.

Projections of available economic capital and economic capital requirements are carried out at least annually as part of the strategic planning cycle. This includes analysis of management actions that can be taken in advance or in response to adverse events, to ensure that the capital position remains robust. These projections, combined with stress and scenario testing across a range of adverse scenarios, underpin the Group's capital and liquidity planning.

These projections are updated as required based on actual transactions, in order that capital projections remain appropriate. Material changes to the risk profile of the Group also trigger review of the appropriateness of risk limits, tolerances and triggers. Thus, capital and risk management remains synchronized as the business grows.

Solvency Self-Assessment Approval Process

Monument Re considers the above analyses as part of its ongoing solvency self assessment process. This is known as Own Risk Self Assessment ("ORSA") for European entities within the Group, Commercial Insurers Solvency Self Assessment ("CISSA") for Monument Re as a Bermudian Class E life reinsurer and Group Solvency Self Assessment ("GSSA") for Monument Re as a Designated Insurer with Group supervision by the BMA.

At least annually, Monument Re reports on this process to the regulatory authorities. The ORSA, GSSA and CISSA reports are presented to the Monument Re Risk Committee for recommendation to the Board for approval.

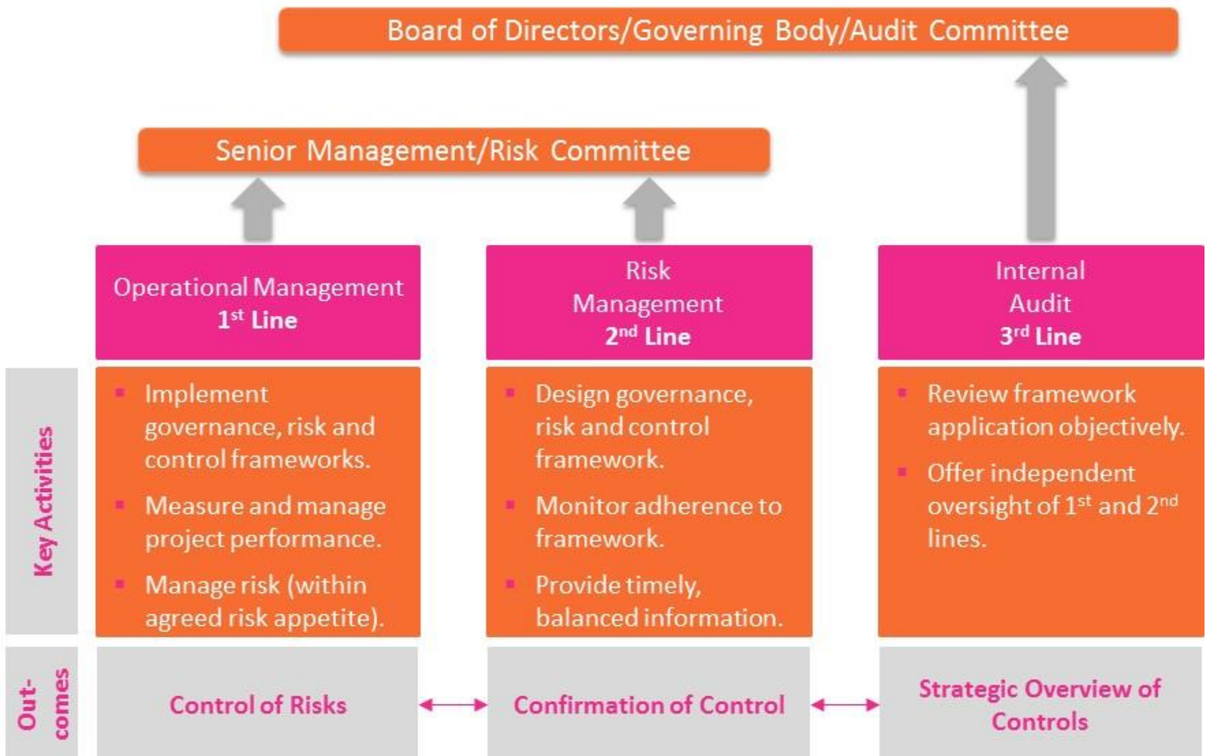
The solvency self assessment process involves cross-functional collaboration owing to the broad remit of the exercise and the above approvals follow functional review of the reports.

B.4 Internal Control

Internal Control System

The Board and the CEO, including senior executives, are responsible for adopting an effective internal controls framework.

Monument Re applies a "Three Lines of Defence" model for Enterprise Risk Management.



Such a model is widely adopted across the financial services industry and allows for appropriate segregation of risk ownership, oversight and assurance responsibilities. In particular:

- **1st line of defence**: Individuals and committees with direct responsibility for the management, control and reporting of risk;
- **2nd line of defence**: Individuals and committees with responsibility for the design, coordination, oversight of the effectiveness and integrity of Monument Re's risk management and internal control framework; and
- **3rd line of defence**: Individuals and committees providing independent assurance and challenge in respect of the effectiveness and integrity of the RMF.

Monument Re has defined high-level principles and standards to ensure that situations, which could lead to potential conflicts of interest, are appropriately managed. These are formally described in Monument Re's Conflicts of Interest policy.

The Group risk register records owners for each risk, who are responsible for ensuring that the risks are identified and that controls remain appropriate on an ongoing basis. The Group risk register is periodically reviewed by the CRO and is subject to formal review across the business at least annually. This process requires business functions to update the risk register, including the mapping of controls to risks and implementation of new controls. The Group risk register is also reviewed and approved by the Risk Committee on an annual basis.

The Risk and Control Self Assessment process requires business functions to review and self-assess the effectiveness of controls mitigating the key risks identified. The control owner is encouraged to make any relevant comments about the control and may record its operation as 'effective', 'partially effective' or 'ineffective'. Any record of the control not being effective requires a narrative explanation as well as the assessment. This process is facilitated and overseen by the Risk Function, and the results are summarized and presented to Risk Committee, including actions to address themes and issues identified.

The Internal Audit Function assesses the operating effectiveness of controls on a periodic basis.

Compliance Function

The Board of Monument Re retains ultimate responsibility for compliance within the Group, and has delegated the day-to-day responsibility to the Group Compliance Function ("GCF") to ensure that the operations are carried out in accordance with all legal and regulatory requirements. The GCF has been established in proportion to the nature, scale and complexity of the business carried on by the Group, and to assist with the monitoring and evaluation of compliance with laws, regulations, internal controls, policies and procedures.

The Board has nominated the Group General Counsel ("GC"), as the Compliance Officer, to be responsible for and to provide leadership to the GCF. The GC is to carry out these responsibilities in accordance with the laws and regulations of Bermuda, including but not limited to, the Insurance Act 1978. The Insurance Code of Conduct, the Insurance (Group Supervision) Rules, and the Bermuda Companies Act 1981. The GC is also responsible to ensure that all regulated subsidiaries within the Group are in compliance with the laws and regulations of the countries in which they carry on business.

The Audit and Compliance Committee ("ACC"), under delegated authority from the Board of Monument Re, provides oversight, review, challenge and monitoring of all compliance activities pursuant to the ACC Terms of Reference (as amended from time to time). The ACC has the duty to ensure that there are procedures in place for an independent investigation of issues of non-compliance, if appropriate, and for appropriate follow up action.

Following an application by the Company, in July 2017, the BMA made a preliminary determination to designate the Company to be the Designated Insurer in respect of the Monument Re Group. This preliminary determination was made subject to satisfaction of a condition that the Company's balance sheet be the largest in the Group. In January 2018, the BMA made its final determination on its role as a supervisor of the Monument Re Group, and designated the Company as the Designated Insurer, pursuant to section 27B(5) of the Insurance Act 1978.

Group supervision is carried out by the BMA within a comprehensive legislative framework, which includes, but is not limited to:

- The Insurance Act 1978 (the "Act");
- The Insurance (Group Supervision) Rules 2011 (the "Group Supervision Rules");
- The Insurance (Prudential Standards)(Insurance Group Solvency Requirement) Rules 2011 (the "Group Prudential Standards"); and
- The BMA Guidance Note on the Role of the Designated Insurer (the "Guidance Note").

According to the Guidance Note, the BMA has adopted an approach to supervision that combines both direct and indirect supervision. Monument Re (the "Designated Insurer"), is the lead insurer for the members of the Monument Re Group. As Designated Insurer, Monument Re must act in an early warning role. This allows the BMA to administer Group supervision in an effective and timely manner. One of the key evidences of fulfilment of the duties of the Designated Insurer was for Monument Re to establish organizational, governance and communications structures at the Group level.

In addition to quarterly and annual reporting consistent with a Solvency II equivalent jurisdiction, the BMA has the power under the legislative framework to (i) compel production of information, documents or reports; and (ii) issue directions to Monument Re with respect to compliance by the Group with the Act, the Group Supervision Rules, and the Group Prudential Standards.

Monument Re is obliged to maintain a register of every entity within the Group. Further, the Company are required to report any changes in various particulars of Group companies, including the name and address of other competent authorities supervising other members within the Group.

B.5 Internal Audit

The Company's Internal Audit Function ("IAF") is outsourced to Deloitte Limited and is governed by an internal audit charter.

The IAF assists the Company to accomplish its objectives by bringing a systematic and disciplined approach to evaluating and improving the effectiveness of the risk management control and governance processes. The objective of Internal Audit is to assist the ACC in the effective discharge of the ACC's responsibilities as defined by the ACC Terms of Reference. This includes:

- Provide management and the ACC with independent, objective analysis, appraisals, recommendations and pertinent comments designed to add value and improve the Company's operations;
- Provide management and the ACC with an independent appraisal function to assess the Company's internal control and operating environment so as to provide reasonable assurance to assist them in concluding whether:
    - Financial reporting is reliable;
    - Operations are effective and efficient;
    - Compliance with laws and regulations; and
    - Assets are appropriately safeguarded.
- Provide an annual assessment to the ACC and management on the overall condition of the Company's internal control environment based on conducting a risk based internal audit program, which includes reviewing the internal controls over financial reporting, operational controls, and fraud and risk management controls deemed necessary for such an assessment.

The function maintains its independence and its objectivity from the business it reviews by not participating in the Company's operational activities and by adhering to the Board's instruction on the function and the Institute of Internal Auditor's Standard according to the International Professional Practices Framework.

The IAF activities are free of influence by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of an independent and objective mental attitude necessary in rendering reports

Internal auditors have no direct operational responsibility or authority over any of the activities they review. Accordingly, they do not develop nor install systems or procedures, prepare records, or engage in any other activity that would normally be audited.

B.6 Actuarial Function

The Company's Group Chief Actuary is responsible for the actuarial function. The key roles of the actuarial function include:

- Delivery of actuarial reporting, bases, valuation models and corresponding processes for EBS and UK GAAP reporting on a solo and Group consolidated basis;
- Implementation of processes to deliver robust monitoring of capital, liquidity and solvency positions on an ongoing basis;

- Completion of actuarial regulatory requirements;
- Review of reinsurance transactions, acquisitions and retrocession from a capital, solvency and actuarial perspective to ensure transactions meet hurdle requirements and capital implications are well understood;
- Ensuring a robust asset liability matching framework that effectively manages investment risks within the risk appetites and tolerances of the Group in conjunction with the Chief Investment Officer; and
- Contribution to the effective implementation of the Risk Management Framework.

The actuarial function provides oversight to the local actuarial functions to ensure they adopt consistent standards while meeting local regulatory requirements.

The EBS Technical Provisions are independently reviewed by the Group Actuary to ensure that they meet:

- The requirements of the Insurance Act 1978 and related rules and regulations; and
- Make reasonable provision for the total Technical Provisions of the Group under the terms of its insurance contracts and agreements.

The Board receives an annual report from the Group Actuary, which includes the results of the tasks undertaken, clearly identifying any deficiencies and giving any recommendations as to how such deficiencies could be remedied. The Group Actuary operates under the ultimate responsibility of, and reports to the Board and, where appropriate, cooperates with the other key functions in carrying out its role. It is objective and free from the influence of other functions or the Board. It provides its opinions in an independent fashion and is able to communicate on its own initiative with any staff member, or Board member, and obtains access to any records necessary to carry out its responsibilities.

B.7 Outsourcing

Monument Re has defined a number of principles that underpin its outsourcing policy:

- The Group's outsourcing strategy shall not unduly increase the Group's exposure to Operational Risk;
- Outsourcing agreements shall be monitored and reviewed to ensure that outsourced activities are conducted in adherence to terms set out in outsourcing agreements and to applicable regulatory requirements; and
- Reporting processes shall be in place to ensure outsourcing performance is managed in line with outsourcing agreements and the Group's strategy.

Monument Re and its subsidiaries aligns the management of outsourcing arrangements in line with the "Three Lines of Defence" model. The Company retains oversight and clear accountability for all externally out-sourced functions. Monument Re has a strong interest in building-up and increasing in-sourced functions over time, as the business grows.

The Board has ultimate responsibility for all out-sourced functions, and the Risk Committee has responsibility to agree and monitor all out-sourcing agreements.

Monument Re has implemented a selection and due diligence process for the selection of external vendors and third-party supply arrangements that is consistent with the principles defined above. This due diligence is applied and maintained so that those individuals providing the external service to Monument Re are 'Fit and Proper' in accordance with the outsourcing policy and regulatory requirements.

The following key functions are currently outsourced:

Table 13: Key Outsourced Functions

Service provider	Activity	Jurisdiction
Covéa Insurance Services Limited	Policy Servicing and Claims Administration	UK
IBM	IT services	Ireland
Independent Consulting Solutions Limited	IT Services	Bermuda
Deloitte (effective from 9th March 2017)	Internal Audit Function	Group
Milliman Limited	Actuarial Reporting for Laguna	Ireland
Expertise Limited	Payroll, Tax and Regulatory Services	Bermuda

Monument Re also outsources its investment management and other investment related services to third party service providers. This includes investment management, custodian services, risk analytics, and investment accounting. These service providers are selected after a due diligence process comparing services provided, experience, reputation, costs, and a number of other factors. The service providers, including mandates and guidelines, are recommended to the Investment Committee for approval by the ExCo. The relationships with investment service providers are overseen by the Chief Investment Officer who regularly reviews the performance under each arrangement and reports back to the ExCo and Investment Committee.

A business owner is assigned responsibility for management and monitoring of each supplier. The business owner's responsibilities include managing the relationship and monitoring the performance and quality of service provided against agreed service levels.

Monument Re has an in-sourced master services agreement with MISL to provide defined support for Group functions, as deemed necessary.

B.8 Other Material Information

The system of governance is considered appropriate for the Company and there is no other material information to be provided.

C. Risk Profile

C.1 Material Risks

The table below sets out the material risks to which Monument Re is exposed along with risk mitigations in each case:

Table 14: Material Risks

Risk	Description	Mitigating Actions and Controls
Market Risk	The risk that movements in markets (e.g. exchange rates, interest rates and inflation rates) cause a financial loss to the Group.	Market Risk Policy imposing close matching of assets to insurance liabilities, by currency, interest rate and inflation sensitivity. Risk is measured using standard metrics such as "DV01", which measures the sensitivity of asset and liability values to small changes in market variables, supplemented by stress and scenarios testing.
Insurance Risk	The risk that unexpected fluctuations in the timing, frequency or severity of insured events, or timing and amount of claim settlements and expenses, cause a financial loss or other adverse impact to the Group.	Regular monitoring of actual versus expected claims and expenses. Regular review of actuarial assumptions. Management of persistency through high quality customer service. Selective use of reinsurance. Risk is measured principally through sensitivity tests to key assumptions, and stress and scenario testing.
Credit Risk	The risk that one party to a financial instrument will fail to discharge an obligation resulting in a financial loss or other adverse impact to the Group.	Investment Policy imposing credit rating limits for investment counterparties and concentration limits to avoid overexposure to any investment counterparty. Key risk measures include exposure by credit rating, risk concentration and sensitivity of asset values to movements in credit spreads.
Strategic Risk	The risk that the Group will fail to identify and react appropriately to opportunities and/or threats arising from changes in the market, some of which may emerge over a number of years.	Strategic Risk Policy imposing requirements for strategic risk management. Board and ExCo members with broad experience and deep industry knowledge. Rigorous due diligence process led by internal experts with support from external specialists as required. Tried-and-tested integration approach and experienced, skilled integration team.

Risk	Description	Mitigating Actions and Controls
		Emerging risk analysis and reporting. Strategic risks are measured qualitatively.
Operational Risk	The risk that inadequate or failed internal processes, personnel or systems or external events (impacting operations) cause a financial loss or other adverse impact to the Group.	Regular Risk and Control Self Assessment ("RCSA") process. Event and issue management process, root cause analysis and learning from adverse experience. Oversight exercised by Internal Audit, Risk and Compliance functions. Risk is measured principally through the RCSA process, event data and deep dives.
Liquidity Risk	The risk that insufficient liquidity resources are available to meet obligations as they fall due.	Policy imposing close matching of asset and liability cash flows and prudent restrictions on investment in illiquid assets. Regular analysis of liquidity requirements on a forward-looking basis along with stress and scenario testing, which also enables risk measurement.
Group Risk	The risk that the Group fails to identify and react appropriately to opportunities and/or threats arising from other parts of the Group as well as those resulting from its own activities. This includes reputational risk, contagion risk, risk accumulations and concentration of risks arising from activities across the Group and intra-Group transactions.	Group Risk Policy imposing requirements for group risk management. Significant commonality of Board composition across the Group and its subsidiaries. Close scrutiny of intra-group transactions including external specialist input where appropriate. Reputational Risk policy and escalation process. Risk is measured qualitatively and quantitatively e.g. via stress and scenario testing of adverse scenarios across the Group.

C.2 Risk Mitigation

Risk mitigation for each material risk has been provided in section C.1.

C.3 Risk Concentrations

At 31st December 2017, Monument Re held a cash balance of £30.9m with a single A rated bank, the majority of which was deposited in operating accounts at Barclays.

On the liability side, there is concentration in certain product categories, in particular payment protection insurance. However, individual sums assured are limited by product type and the policyholder base is well diversified.

C.4 Prudent Person Principle

Monument Re aims to achieve its investment objectives through adhering to the prudent person principle in the implementation of the investment strategy. This is accomplished through an investment framework focused on governance, risk assessment and portfolio diversification. A key part of the implementation is the use of third party investment service providers who can provide expertise for their appointed mandates.

The Company governance structure is outlined in section B.1 of this report. In summary, the Board of Directors, as advised by the Investment Committee and ExCo, establish and oversee the investment strategy. This structure includes a robust reporting process between ExCo and the Investment Committee with frequent communication between the key internal resources responsible for the investment function and third party investment service providers.

Monument Re continually assesses the risks associated with the business objectives, particularly those related to the investment portfolio, and determines which risks to accept and which to mitigate. This is encompassed within the risk management framework, as outlined in section B.3, and is manifested in the Company's risk policies. These policies, which include investment, hedging and derivatives, and liquidity policies highlight the risk appetites for each identified risk with documented mitigating actions and controls. This risk assessment has led the Company to structure the investment portfolios primarily in investment grade, fixed income assets with a closely matched duration and cash flow profile to the liabilities that they support.

One of the key risk mitigants is to diversify the investment portfolios. This is achieved through documentation of guideline limits in the investment policies and ensuring that third party investment service providers adhere to these limits. Specific exposure limits are established for investment sector, issuer and credit ratings. For each mandate, the Company oversees compliance of the service providers against the limits through a regular review of each portfolio. As noted above, the governance framework establishes reporting protocols for policy compliance.

C.5 Stress Testing

Stress testing has been carried out on the business in force at the reporting date, as set out below.

Table 15: Stress Descriptions

Risk	Stress Description
Interest Rate Risk	A 100 basis points parallel shift up and down in interest rates
Spread Risk	Application of the Solvency II Standard Formula spread capital charges
Currency Risk	A 10% appreciation in reported currency (GBP) relative to USD and EUR
Disability Risk	A 35% increase in morbidity rates applied over the contract boundary period and a 20% decrease in recovery rates
Unemployment Risk	A 40% increase in claim frequencies applied over the contract boundary period and a 20% decrease to recovery rates
Lapse Risk	A permanent 50% decrease in lapse rates
Mortality Risk	A permanent 15% increase in mortality rates
Expense Risk	A 10% increase in expenses and a 1% increase in expense inflation per annum

Interest Rate Risk

Movements in interest rates impact the value of fixed interest assets and policyholder liabilities. The Group mitigates this risk by holding assets with similar sensitivity to interest rate changes to its liabilities. Limits are set around net exposures. At the reporting date, the net exposure to interest rates was low (£0.1m).

Credit Spread Risk

At the reporting date, Monument Re had a £6.5m portfolio of corporate bonds. Movements in spreads impact the market value of these fixed interest assets without a corresponding increase in liabilities (which are valued at risk-free). At the reporting date, the net exposure to spread risk was low (£0.4m).

Currency Risk

The Group recognise two forms of currency risk:

- Currency risk where there is a mismatch between assets and liabilities by currency (‘Currency Mismatch Risk’). The Company has very low risk appetite for this risk and mitigates currency risk by matching policyholder liabilities with assets denominated in the same currency; and
- Reporting risk when translating the financial results into the reporting currency, GBP (‘Currency Translation Risk’). The Group has exposure to this risk because of its strategy to acquire assets and liabilities denominated in Euro and GBP. The reporting risk arising from fluctuations in Euro and USD assets to the GBP exchange rate is an accepted risk for Monument Re.

At 31st December 2017, the Company had no exposure to Currency Mismatch Risk on the basis there were sufficient assets to cover the liabilities arising by currency. However, the Company does have exposure to Currency Translation Risk because surplus assets are invested in Euro and USD, primarily reserved for new transactions (to pay any consideration, plus expenses). This exposure is given below:

- A 10% appreciation in GBP relative to USD would reduce the Company's net assets by £0.6m ($0.9m).
- A 10% appreciation in GBP relative to EUR would reduce the Company's net assets by £3.4m (€4.2m).

Insurance Risk

A range of insurance risk sensitivities have been carried out on the key demographic risks.

Stress Impacts

A number of stresses were performed to assess the impact on the Economic Balance Sheet, as quantified below.

Table 16: EBS Stress Impacts

Stress	Available Capital (£'000)	Delta (£'000)	EBS Capital Coverage Ratio (%)	EBS Capital Coverage Ratio Delta (%)
Base	58,061		350%	
Interest Rate Up	57,951	(110)	350%	-1%
Interest Rate Down	58,201	140	351%	1%
Spread Risk	57,671	(390)	348%	-2%
Disability Risk	57,811	(250)	349%	-2%
Unemployment Risk	57,961	(100)	350%	-1%
Lapse Risk	57,881	(180)	349%	-1%
Mortality Risk	57,951	(110)	350%	-1%
Expense Risk	57,741	(320)	348%	-2%

The impacts allow for the inclusion of a contract boundary, as discussed in section D. Stresses have been rounded to the nearest £0.01m.

C.6 Other Material Information

The risk exposures of the Group are expected to change as the Group continues to pursue its growth strategy through acquisition and reinsurance.

D. Solvency Valuation

D.1 Assets

Asset Overview

The Group's investments are held in bonds and cash & cash equivalents. These balances make up a significant proportion of the Company's assets at the reporting date. The remaining assets comprise of amounts owed from other Group companies and trade debtors. All of the investments are valued using quoted market prices in active markets where possible apart from debtors and cash which are held at cost and revalued for exchange rate movements.

The following table summarises the valuation of the Company's assets for EBS purposes with a comparison against the Company's financial statement assets at the reporting date.

The Company's financial statements are prepared in accordance with GAAP in the UK and the Republic of Ireland including FRS 102 and FRS 103. The GAAP principles are issued by the Financial Reporting Council of the UK and promulgated by the Institute of Chartered Accountants in the UK.

Table 17: Asset Comparison between Financial Statements and Economic Balance Sheet

Assets (£'000)	EBS	Financial Statements	Delta
Cash & Cash Equivalents and Investments	75,138	75,138	0
Insurance & Intermediaries' Receivables	1,963	1,963	0
Reinsurers Share of Technical Provisions	84	84	0
Deferred Expenses	0	291	(291)
Other Assets	409	618	(209)
Total Assets	**77,595**	**78,095**	**(500)**

The EBS basis has certain prudential filters that must be applied under BMA regulations. Specifically, this relates to expenses in relation to successful new business which have been capitalised against future acquisitions. This led to a £0.3m reduction in the asset base of the Group.

Additionally, prepayments are not permissible under the BMA Rules and have been removed, leading to a £0.2m reduction in the asset base of the Group.

For EBS regulatory reporting purposes, the "Reinsurers Share of Technical Provisions" are shown as a negative liability within the Technical Provisions.

Cash & Cash Equivalents and Investments

Investments and cash & cash equivalents are based on observable data for each individual asset. All investments are initially valued at their fair value and subsequently revalued to fair value at the period end with gains or losses recognised through profit and loss.

Insurance & Intermediaries' Receivables

Insurance & intermediaries' receivables are valued at their estimated transaction price i.e. the premium that is expected to be received from policyholders and intermediaries. The majority of these receivables are due from Barclays and are collected within five workings days of the reporting date.

Other Assets

Other assets consist of other trade debtors valued at their transaction price and due within one month of the reporting date.

Deferred Expenses

Deferred expenses are permissible under UK GAAP but not on an EBS basis. The Group capitalises expenses incurred to the period end that are directly related to successful new business efforts within the balance sheet.

Other Material Differences

There are no other material differences in the bases, methods and assumptions used between EBS and the financial statements.

D.2 Technical Provisions

Technical Provisions Overview

Technical Provisions represent the value of the inforce liabilities at the reporting date, calculated in line with the EBS valuation principles as defined in the BMA's Group Prudential Standards and Guidance Note for Commercial Insurers and Groups (dated 30th November 2016).

Technical Provisions are calculated as the sum of the Best Estimate Liabilities and Risk Margin. The table below contains the Technical Provisions for Monument Re at 31st December 2017.

Table 18: Technical Provisions

Technical Provisions (£'000)	Amount
Best Estimate Liabilities (Gross)	9,159
Risk Margin	1,089
Technical Provisions (Gross)	**10,248**
Reinsurance Asset	84
Technical Provisions (Net)	**10,164**

The valuation and amount of the financial statement liabilities and the EBS Technical Provisions are equivalent. Note that the financial statement liabilities are presented gross of reinsurance with the reinsurance recoverable shown as an asset (rather than deducted from the Best Estimate Liabilities). The EBS Technical Provisions are reported net of reinsurance, with the reinsurance asset removed from the asset side of the balance sheet.

Methodology

The Best Estimate Liabilities ("BEL") are based on an assessment of best estimate cash flows required to satisfy insurance obligations. The cash flow projections used in the calculation of the best estimate take into account of all future cash in- and out-flows required to settle the insurance obligations attributable to the lifetime of the policy, with contract boundaries in place where applicable.

Contract boundaries are deemed applicable where, under the terms and conditions of the underlying contracts, the Company is no longer required to provide coverage or can reassess the premium to fully reflect the risk. Contract boundaries are deemed to apply to both MIDAC and MADAC business as well as UK accelerated critical illness business within Laguna.

The best estimate reflects gross amounts, without deduction of amounts recoverable from reinsurance contracts. The best etimate of reinsurance recoverable amounts are calculated and then shown separately under EBS.

The BEL is calculated deterministically on an individual policy-by-policy basis for all contracts in force at the valuation date. The best estimate cash flows are based on best estimate assumptions.

The best estimate cash flows are discounted using the prescribed risk-free spot rates provided by the BMA. No allowance has been made for an illiquidity premium in the calculation of the BEL.

The Risk Margin ("RM") is an allowance for the risk of uncertainty inherent in the best estimate cash flows. The risk margin is intended to reflect the compensation that an insurer needs to bear this risk. A cost of capital approach is used to determine the RM by projecting the non-hedgeable BSCR's using appropriate risk drivers and discounting these cash flows using the BMA's prescribed risk-free curves. A cost of capital rate of 6% is applied to the cash flows, as prescribed by the BMA. The risk drivers used to project the non-hedgeable BSCR are deemed an appropriate representation of the projected BSCR.

Assumptions

An annual review is performed on the claims experience of the Company to determine the appropriateness of the demographic assumptions used in calculating the BEL.

The key assumptions underlying the calculation of the Technical Provisions at the reporting date are the claim inception and recovery rates, expenses and lapses. Mortality is not material as Laguna reinsures a significant proportion of its mortality risk.

Key assumptions are derived with reference to the Company's past experience. The Company closely monitors its expense basis and uses historic experience to determine the future level of expenses.

The discount rates used in the calculation of the Technical Provisions are the risk-free term structure provided by the BMA.

Uncertainty Associated with the Value of Technical Provisions

Given the use of assumptions, there is inherent uncertainty. The level of uncertainty associated with the value of Technical Provisions has been estimated by examining how the Technical Provisions would change if certain material assumptions were to change. Such quantifications have been undertaken as part of the process of calculating the BSCR. These were quantified in section C.5.

The Company's Technical Provisions are most sensitive to changes in claim rates (in respect of unemployment and disability risk within MIDAC and MADAC) and lapse rates (in respect of Laguna). The Company is also at risk of higher expenses but is relatively insensitive to changes in other assumptions.

D.3 Reinsurance

The Company has reinsurance treaties in place with two major reinsurers in respect of mortality and morbidity risk within Laguna. There is no reinsurance in place within MIDAC and MADAC.

The Company cedes insurance premiums and risk in the normal course of business. Outwards reinsurance premiums are accounted for in the same accounting period as the related premiums for the direct reinsurance business being reinsured. Reinsurance assets include balances due from reinsurance companies for paid and unpaid losses, ceded unearned premiums and ceded future life policy benefits. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy.

D.4 Other Liabilities

The following table summarises the valuation of the Company's Other Liabilities (excluding Technical Provisions) for EBS purposes and the valuation used in the Company's financial statements at the reporting date.

Table 19: Other Liabilities

Other Liabilities (£'000)	Amount
Insurance & Intermediaries' Payables	5,777
Deferred Tax Liabilities	138
Other Liabilities	3,370
Total Other Liabilities (Excluding Technical Provisions)	**9,285**

Insurance & intermediaries' payable are mostly represented by commission and profit share amounts payable to Barclays which are valued in accordance with the terms and conditions set out in the distribution agreement between Barclays and Monument Re.

Deferred tax liabilities reflect expected future tax payable. When calculating a deferred tax liability, consideration is given to the net assets on the tax balance sheet compared to EBS Available Capital. Where EBS Available Capital exceeds the net assets on the tax balance sheet, a deferred tax liability is required. The tax rate used to calculate the deferred tax balance is 12.5%, as given by the current corporation tax rate in Ireland.

The remaining liabilities comprise accruals for expenses and taxes incurred but not yet settled. Trade and other creditors are also included and are valued at their respective transaction price, and deemed payable within three months after the reporting date.

D.5 Other Material Information

There is no other material information to be provided.

E. Capital Management

E.1 Eligible Capital

Capital Management Policy

Capital management and allocation is a key driver of the Group's success.

The primary objective of the Group is to ensure compliance with externally imposed capital requirements and to maintain appropriate capital ratios in order to protect the security of its stakeholders, including cedants and policyholders, while maintaining shareholder value.

As a Bermuda reinsurer, the Group's primary capital benchmark is to maintain sufficient Available Capital to meet, at all times, the Enhanced Capital Requirement ("ECR"), adhering to the EBS framework.

The key principles of capital management at Monument Re are:

Monument Re Capital Management Principles

1) Target Setting

- Sufficient capital levels set by the Board, so that the Group is able to withstand appropriate stress scenarios, as approved by the Board
- The current Target Capital level for Monument Re is to maintain Available Capital equivalent to 150% of the ECR
- The Target Capital level for each subsidiary is approved by the relevant Board, taking into account local requirements

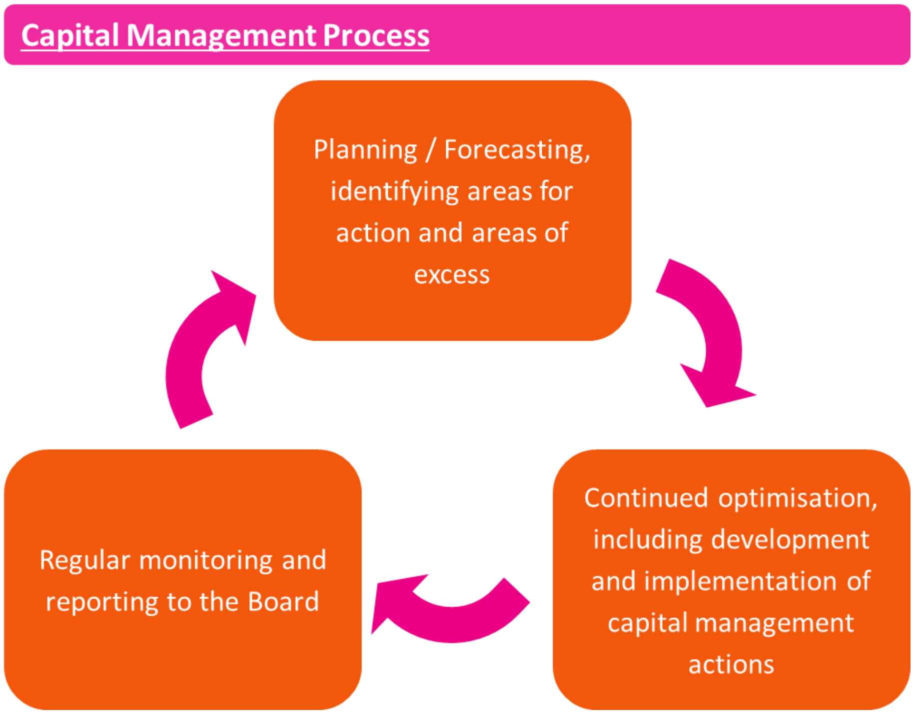
2) Monitoring

- Capital levels shall be assessed regularly to ensure that they remain appropriate to support the Group's operations
- Appropriate processes maintained to enable effective monitoring and reporting of capital positions across the Group including the impact of new transactions

3) Management Actions

- Activities undertaken to optimise the capital position of the company (and /or subsidiaries)
- Actions continuously identified and executed, in order to optimize capital and remedy breaches of capital levels should a breach occur

The process followed for Capital Management is depicted below:



A capital management plan is prepared annually with the business planning period covering five years. This process culminates in an assessment of the capital necessary to maintain solvency at the threshold targeted by senior management and the firm's risk profile. This plan is reviewed and updated on a regular basis to reflect the actual performance of the business. The policy is reviewed annually with the results of the annual GSSA process taken into consideration.

Categorisation of Eligible Capital

Available Capital must be adjusted to reflect, where applicable, the limited accessibility of the assets. At the end of the reporting period, the Company's Eligible Capital was categorised as Tier 1. This means that 100% of the Available Capital can be used to support the ECR.

Table 20: Eligible Capital

Eligible Capital (£'000)	Amount
Tier 1	58,061
Tier 2	0
Tier 3	0
Total	**58,061**

Eligible Capital that is Subject to Transitional Arrangements

No Eligible Capital is subject to transitional arrangements.

Factors Affecting Encumbrances on the Availability and Transferability of Capital to Meet the ECR

There are no factors affecting encumbrances on the availability and transferability of capital to meet the ECR.

Identification of Ancillary Capital Instruments Approved by the BMA

There was no ancillary capital at the reporting date.

Differences in Shareholder Equity as Stated in the Financial Statements Versus the Available Capital and Surplus

There are no significant differences between UK GAAP Shareholder Equity and Available Capital.

The only differences relate to deferred expenses and prepayments, as set out in section D.

E.2 Regulatory Capital Requirements

Enhanced Capital Requirement

At the end of the reporting period, the Company's regulatory capital requirement, also known as the ECR, was assessed as follows:

Table 21: Enhanced Capital Requirement

Enhanced Capital Requirement (£'000)	Amount
Bermuda Solvency Capital Requirement ("BSCR")	14,289
Minimum Solvency Margin ("MSM")	16,569
Enhanced Capital Requirement ("ECR")	**16,569**

The ECR is given by the maximum of the MSM and BSCR.

Minimum Solvency Margin

The Group Supervision Rules require that the Company must ensure that the value of the Available Capital, as calculated in accordance with Schedule XIV of the Group Prudential Standards, exceeds the aggregate of:

- The aggregate MSM of each qualifying member of the Group controlled by Monument Re; and
- Monument Re's percentage shareholding in the member multiplied by the member's MSM, where the parent company exercises significant influence over a member of the group but does not control the member.

A member is a qualifying member of the Group if it is subject to solvency requirements in the jurisdiction in which it is registered. The MSM for each qualifying member is given by the minimum solvency requirements, calculated in accordance with the local regulatory capital regime. The table below shows the MSM for each qualifying member of the Group.

Table 22: Minimum Solvency Margin

Minimum Solvency Margin (£'000)	Amount
Monument Re (Class E)	5,922
MIDAC	4,081
MADAC	3,283
Laguna	3,283
Monument Re (Group)	**16,569**

Monument Re (Class E) is subject to the MSM calculated in accordance with the Insurance Account Rules 2016. This requires Monument Re to calculate the MSM as the greater of:

- $8m (£5.9m at the reporting date); or
- 2% of the first $500m of assets plus 1.5% of assets above $500m.
- This is subject to a minimum floor of 25% of ECR.

For MIDAC, MADAC and Laguna, the MSM is given by the Minimum Capital Requirement ("MCR") calculated in accordance with the Solvency II legislative framework.

Bermuda Solvency Capital Requirement

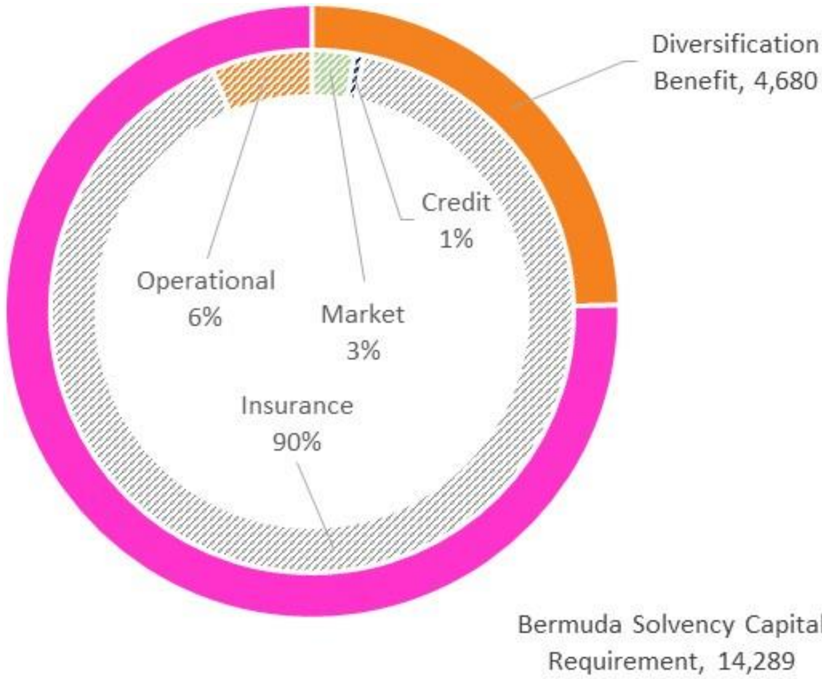
The BSCR is calculated at an individual risk level and is based on the methodology and capital charge calibrations prescribed by the Group Prudential Standards. The BMA has calibrated the BSCR capital charges to a 99% tail value at risk over a one year time horizon.

The capital charges determine the required level of capital for each individual risk. These capital amounts are then aggregated and an adjustment is made for the covariance between all the risks to arrive at the diversified BSCR (before operational risk).

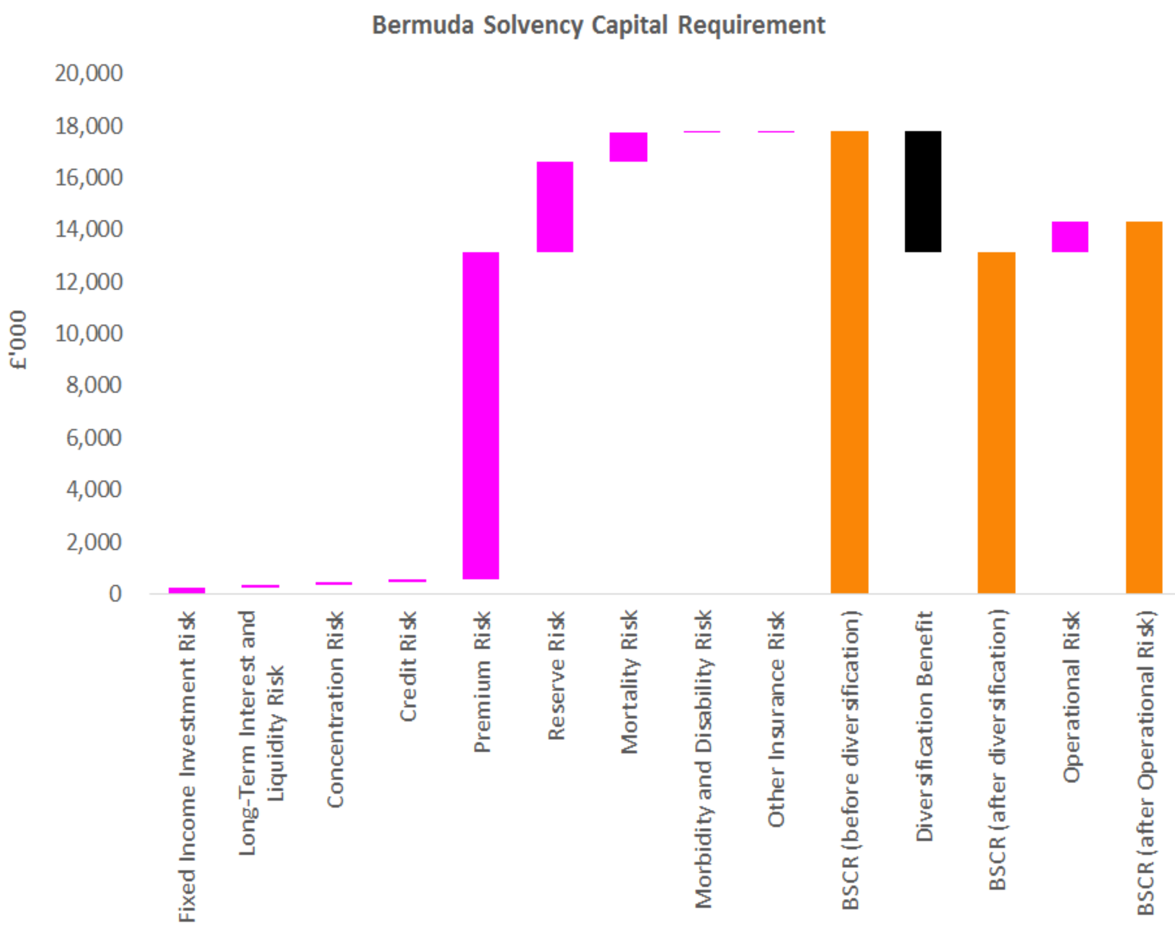
In assessing operational risk, the Company has performed a Commercial Insurer Risk Assessment ("CIRA") to assess the quality of the Group's risk management function surrounding its operational risk exposures. Operational risk is expressed as an adjustment to the diversified BSCR.

The risk modules in the BSCR regime include Market, Credit, P&C and Long-Term Insurance.

The diagram below shows the BSCR for the Company at 31st December 2017, split by risk module. The outer ring shows the total diversified BSCR and the level of diversification benefit realised within the Group. The inner ring shows the risk module as a proportion of total undiversified capital. Figures are in £'000.



The diagram below shows a further split by the underlying individual risks:



Under the EBS framework, premium and reserve risk represented the most material risks on the Group balance sheet at 31st December 2017. The capital requirement for these risks are attributable to the PPI business within MIDAC.

The premium risk BSCR is determined based on a 45.4% capital charge applied to the net written premiums attributable to MIDAC PPI business over the 12 month reporting period. Given this business experiences high lapse rates, the premium risk capital requirement is expected to fall away relatively quickly.

The reserve risk BSCR is based on a 43.5% capital charge applied to the gross loss and expense provisions, which is broadly equivalent to the EBS BEL.

The significant weighting of these two risks on the Group balance sheet is not an appropriate representation of Monument Re's strategy and future business mix. Monument Re, operating as a long-term reinsurance company, has a clear focus on:

- Acquisition of linked savings and protection portfolios based mainly out of the key distribution centres, namely, Ireland and the Benelux regions; and
- Reinsurance of long-dated asset intensive liabilities such as annuity business and guaranteed savings contracts.

Through the execution of this strategy, it is expected that the business mix and risk profile of the balance sheet will materially change, with the expectation of a greater weighting towards market and long-term insurance risks.

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.

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

Not applicable.

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

Not applicable.

E.3 Approved Internal Capital Model

Not applicable. The Company has not applied to use an internal capital model to determine its regulatory capital requirements.

E.4 Capital Coverage Ratio

The table below shows the EBS Capital Coverage Ratio ("CCR") of the Company at the reporting date.

Table 23: Capital Coverage Ratio

EBS Capital Coverage Ratio (£'000)	Amount
Available Capital	58,061
Enhanced Capital Requirement	16,569
Free Surplus	**41,492**
EBS Capital Coverage Ratio	**350%**

The EBS CCR exceeds the minimum target level set by the BMA (120% of ECR) and the minimum level set by the Board (150% of ECR).

F. Significant Event

On 18th September 2017, Monument Re signed the acquisition of ABN AMRO Life Capital Belgium N.V. ("AALCB"), a Belgian Life insurance company in run-off. On 28th March 2018, receipt of regulatory approval was obtained from the National Bank of Belgium and subsequently, Monument Re renamed AALCB as Monument Assurance Belgium N.V. ("MAB").

On 29th January 2018, Monument Re signed an agreement to acquire full ownership of Aspecta Assurance International Luxembourg S.A. ("Aspecta"), subject to regulatory approval. Aspecta is a life insurance undertaking based in Luxembourg with branches in Germany, Italy and Spain, which was incorporated in 2000 as a 100% subsidiary of Talanx Group. Aspecta ceased writing new business at the end of 2010. This transaction remains subject to regulatory approval.

On 16th April 2018, Monument Re signed an agreement to acquire the FIRST A portfolio from ETHIAS S.A. This involves a portfolio transfer to Laguna and is subject to regulatory approval. The First A portfolio is a run-off portfolio of flexible premium retail life insurance contracts.

The acquisitions will have the following impacts on the Financial Condition Report:

- Business and performance – the Company will have expanded its geographical reach entering into new territories, Belgium and Luxembourg.
- Governance structure – Risk management and internal controls will be impacted.
- Risk profile – The Company's risk appetite statement will remain unchanged, but the risk profile will change on account of the acquisitions. It is expected that the transactions will introduce a greater proportion of market and life insurance risk, aligned to our strategy, which will allow the Company to diversify its business.
- Capital management – The Company's internal calculations indicate that it will be able to meet all regulatory requirements post acquisition and the Company will be in full adherence to its Capital Management Policy.

G. Declaration

We declare that to the best of our knowledge and belief, the information in the Financial Condition Report fairly represents the financial condition of the Company in all material respects.

M. Maske Dated: 28.5.18

Manfred Maske, Group Chief Executive Officer

Dated: 28th May 2018

Alex Brogden, Group Chief Financial Officer

H. Glossary

Available Capital: Available Capital relates to the value of the Groups total statutory economic capital and surplus, as defined and calculated in accordance with Schedule XIV of the Group Prudential Standards. This is defined as the sum of:

- The Company's tier 1 capital, which shall be not less than 80% of the value of the Company's MSM; and
- The Company's tier 2 capital, which shall be not more than 25% of the amount above.

Bermuda Monetary Authority ("BMA"): The BMA is the integrated regulator of the financial services sector in Bermuda. Established under the Bermuda Monetary Authority Act 1969, the BMA supervises, regulates and inspects financial institutions operating in or from within the jurisdiction. It also issues Bermuda's national currency; manages exchange control transactions; assists other authorities in Bermuda with the detection and prevention of financial crime; and advises the Government and public bodies on banking and other financial and monetary matters. The BMA develops risk-based financial regulation that it applies to the supervision of Bermuda's banks, trust companies, investment businesses, investment funds, fund administrators, money service businesses, corporate service providers, and insurance companies. It also regulates the Bermuda Stock Exchange.

Bermuda Solvency Capital Requirement ("BSCR"): Establishes a measure of solvency capital that is used by the BMA to monitor the capital adequacy of insurance groups domiciled in Bermuda. The BSCR is determined by combining the calculated capital for each risk category (excluding operational risk) and applying a covariance adjustment with the square root rule, which is further adjusted to include operational risk, group-related risks and any capital add-ons.

The BSCR is determined as the required capital to be held by insurance and reinsurance undertakings in order to ensure that ruin occurs no more often than once in every 200 cases or, alternatively, that those undertakings remain in a position, with a probability of at least 99% tail value at risk, to meet their obligations to policyholders and beneficiaries over the following 12 months.

Best Estimate Liability ("BEL"): The BEL represents the expected present value of future cash flows related to insurance and reinsurance obligations in force at valuation date. The best estimate liability is calculated on a gross and net of reinsurance basis, i.e. with and without a deduction for a recoverable amount from reinsurance contracts.

Best Estimate Demographic Assumptions: Non-market assumptions which can have an impact on future best estimate cash flows i.e. mortality, longevity, disability, morbidity, lapses and expenses.

Capital Coverage Ratio ("CCR"): Defined as the ratio between Available Capital and the maximum of the BSCR and MSM, calculated in accordance with the Group Prudential Standards under the EBS regime.

Cash & Cash Equivalents: This item includes cash, highly liquid short-term financial investments, short-term deposits and money market investment funds.

Contract Boundaries: This is the limit beyond which relevant cash flows are excluded from the calculation of the BEL. It is defined in paragraph 122 of the BMA's Guidance Note for Commercial Insurers and Groups Statutory Reporting Regime (dated 30th November 2016), and refers to the situation where the insurance undertaking has a right to either terminate the contract, reject payable premiums or to amend the payable premiums or the benefits in such a way that the premiums fully reflect the underlying risks.

Economic Balance Sheet ("EBS"): Solvency II equivalent capital regime promulgated by the BMA.

Eligible Capital: Available Capital eligible to support the Company's ECR.

Enhanced Capital Requirement ("ECR"): Maximum of BSCR and MSM.

Gross Written Premiums: Equal to the gross written premiums of direct business and accepted by third parties.

Insurance Contracts: A contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary.

Minimum Solvency Margin ("MSM"): The prescribed minimum amount by which the value of the assets of the Company must exceed the value of its liabilities.

Other Investments: Includes participations in non-consolidated Group companies, derivative investments and receivables form banks and customers, the latter mainly related to normal banking operations.

Reinsurance Recoverables: Reinsurance recoverables represent the amount of BEL expected to be recovered via reinsurance treaties or special purpose reinsurance vehicles and correspond to the expected present value of the future cash flows referring to the in force reinsurance agreements.

Risk appetite: Risk appetite refers to the Group's relative desire to take specific risks, underpinned by an assessment of the relative risks and rewards.

Risk Margin ("RM"): The RM is an allowance for the risk of uncertainty inherent in the best estimate cash flows. The RM is intended to reflect the compensation that an insurer needs to bear this risk.

Tail Value At Risk: Means the conditional average potential given that the loss outcome exceeds a given threshold.

Technical Provisions: The Technical Provisions correspond to the sum of the BEL and RM.