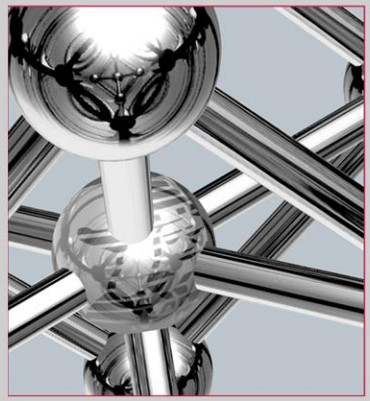
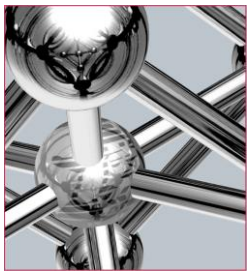
- INSURANCE
- HEALTH
- PENSIONS
- LIFE

Financial Condition Report
For the year ended 31 December 2017



Strength from synthesis, resilience in diversity

COLONIAL GROUP
INTERNATIONAL



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Reputations are defined by standards.

Executive Summary

Colonial Group International Ltd.

Colonial Group International Ltd. ("CGI") is a Bermuda-based holding company[1] for the Colonial Group of Companies (the "Group") which has commercial operations in Bermuda, the Cayman Islands, The Bahamas, the British Virgin Islands, Barbados and the Turks and Caicos Islands. The Group comprises independently incorporated companies in these jurisdictions offering property and casualty insurance, employee benefits for pensions and health, life assurance and personal investment products. The Group currently manages approximately US$400 million of premium and contributions each year with Group shareholders' equity in excess of US$285 million and assets of approximately US$507 million (not including segregated funds). CGI draws commercial strength from the cohesion of a group of companies accessing a variety of skills, experience and local knowledge in different geographic settings.

Sadly CGI's longstanding President and Chief Executive Officer Alan Peacock suddenly passed away on November 28, 2017. For more than 40 years Mr. Peacock provided strong and consistent leadership to the Colonial Group of companies. Subsequent to Mr. Peacock's passing the Board of Directors announced that Naz Farrow, COO of Colonial Medical Insurance Co Ltd., had been appointed as Interim Chief Executive Officer. Mrs. Farrow had previously been appointed as Designate Chief Executive Officer and was scheduled to assume the CEO role upon Mr. Peacock's retirement in mid-2018 consistent with the Group's succession plan. Mr. Peacock's untimely passing accelerated Mrs. Farrow's succession to the CEO role and she was formally appointed as President and CEO of the Group on February 14, 2018. The Board of Directors and Shareholder have every confidence that Mrs. Farrow possesses both the expertise and experience to meet the challenges of the CEO role and believe her experience with the Group's strategy and culture will allow her to manage the talent needed to build on the Group's success.

The 2017 hurricane season was extremely active in the jurisdictions served by CGI. Hurricanes Irma, Jose and Maria all gave the company cause for concern. Although Irma was the only storm which produced property claims, it was the potential impact of the other storms that provided the impetus for the purchase of additional limit (back-up cover) for the catastrophe excess of loss treaty (Cat XL).

After reinsurance recoveries on gross hurricane claims reserved at $130 million, the Group's net retention for losses related to the 2017 hurricane season remains at $8.5 million. Colonial Re's treaties with Colonial Insurance BVI Ltd and Security and General both had full limit losses of $4.0 million and $1.5 million respectively. These claims are included within the Group retention. Given these losses within the Group, both Colonial Re and Security and General were recapitalized prior to December 31, 2017 by $6.5 million and $3 million respectively. This fresh Tier 1 capital put both companies comfortably above their regulatory capital and solvency requirements.

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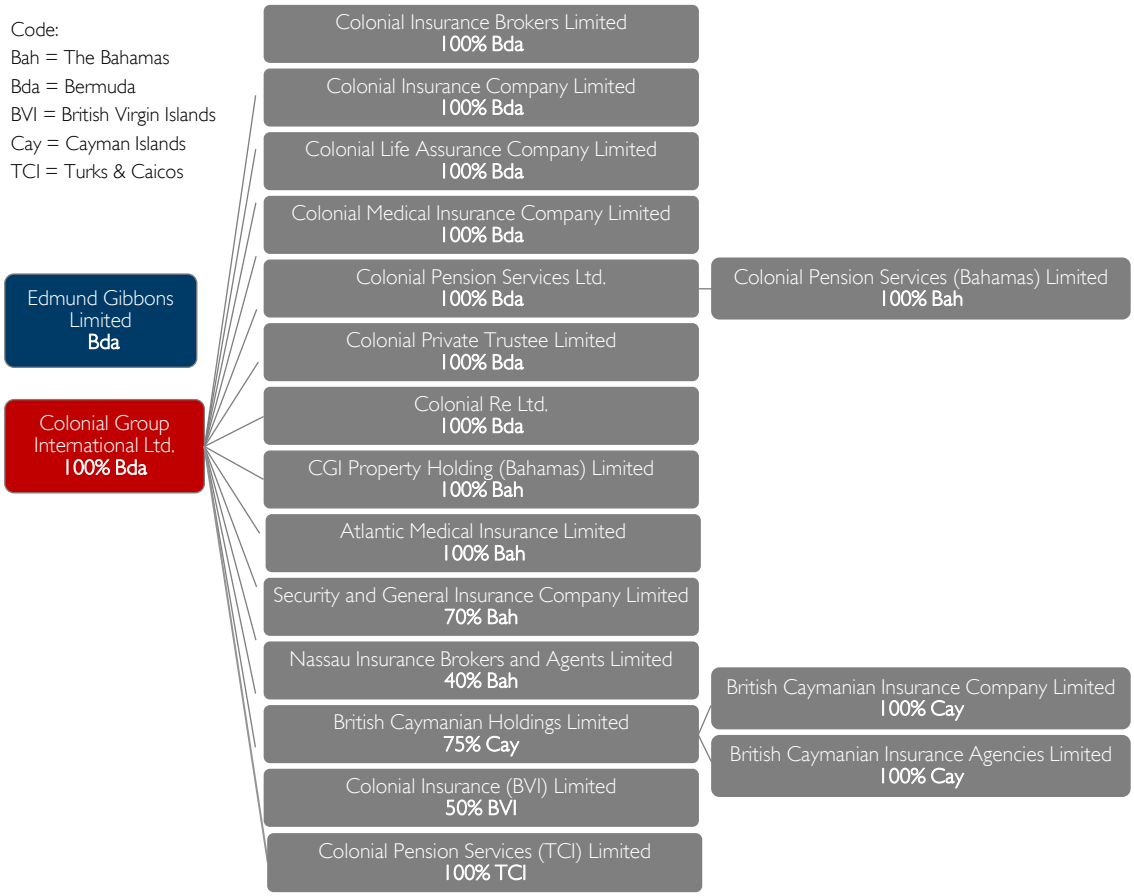
[1] CGI was incorporated in Bermuda on 30 January 1996 and is a wholly owned subsidiary of Edmund Gibbons Limited. CGI's headquarters and Registered Office is located at 33-35 Reid Street, Hamilton HM12, Bermuda.

Structure Chart



Company Details

Company	Domicile	Principle Activities	Ownership Percentage
Colonial Insurance Company Limited ("CIC")	Bermuda	Property and casualty insurance: motor; home and commercial property; marine; and general liability.	100%
Colonial Medical Insurance Company Limited ("CMIC")	Bermuda	Group and individual medical; and group life insurance.	100%
Colonial Life Assurance Company Limited ("CLAC")	Bermuda	Individual life and annuities; and accidental death. CLAC also writes unit linked investment policies.	100%
Atlantic Medical Insurance Limited ("AMI")	Bahamas	Group and individual medical; and life insurance.	100%
Security and General Insurance Company Limited ("S&G")	Bahamas	Property and casualty insurance: motor; home and commercial property; marine; and general liability.	70%
British Caymanian Holdings Limited ("BCH")[2]	Cayman Islands	Property and casualty insurance: motor; home and commercial property; marine; and general liability.	75%
Colonial Private Trustee Limited ("CPT")	Bermuda	Trustee of assets of pension plans administered by CPS.	100%
Colonial Pension Services Ltd. ("CPS")[3]	Bermuda	Pension plan administration and investment business.	100%
Colonial Pension Services (TCI) Limited ("CPST")	Turks and Caicos Islands	Pension plan administration and investment business.	100%
Colonial Insurance (BVI) Limited ("CIBVI")	British Virgin Islands	Property, casualty and medical insurance: motor; home and commercial property; marine; general liability; and group and individual medical.	50%
Colonial Re Ltd. ("ColRe")	Bermuda	Property catastrophe reinsurance.	100%
Nassau Insurance Brokers and Agents Limited ("NIBA")	Bahamas	Insurance Broker of S&G.	40%
Colonial Insurance Brokers Limited ("CIB")	Bermuda	Insurance Broker of S&G's and CMIC's TCI operations.	100%
CGI Property Holding (Bahamas) Limited (CPHB)	Bahamas	Property holding.	100%

While all of CGI's operating subsidiaries are licensed and regulated by the relevant regulatory authorities in their respective jurisdictions with the Bermuda Monetary Authority[4] ("BMA") being designated as lead

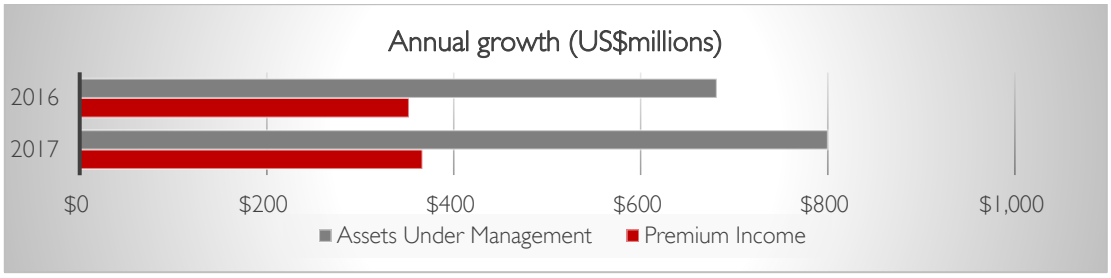
[2]BCH is established as a holding company for British Caymanian Insurance Company Limited (BCIC) and British Caymanian Insurance Agencies Limited (BCIA) – each being a Cayman Islands registered company and direct wholly owned subsidiary.

[3] CPS has a wholly owned Bahamian registered subsidiary – Colonial Pension Services (Bahamas) Limited ("CPSB"), which administers pension funds and provides related advisory services in the Bahamas.

[4] Bermuda Monetary Authority, BMA House, 43 Victoria Street, Hamilton, Bermuda.

In our people-centric environment, employees and customers are respected and appreciated.

supervisor for the Group – CMI, CLAC, CIC and ColRe (together the "Companies") are specifically licensed under the Bermuda Insurance Act 1978 and form the focus of this Financial Condition Report. The auditor for the Group is Ernst & Young Ltd.[5]

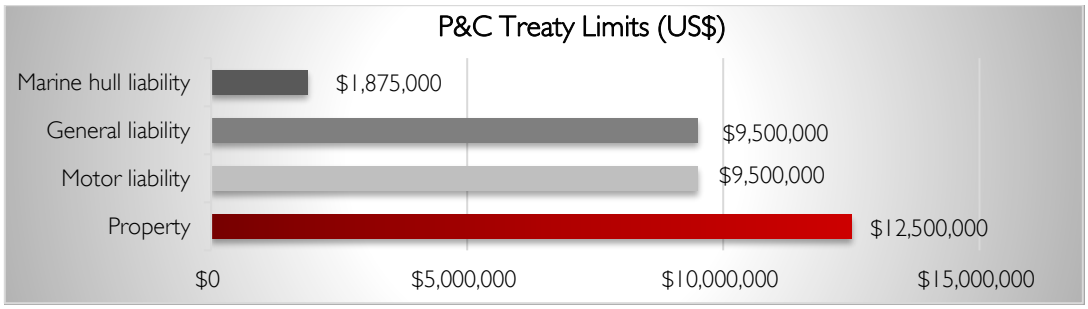


Colonial Insurance Company Limited.

CIC, incorporated in Bermuda in 1959, carries on business as an insurance company. It holds a Class 3A License under the Insurance Act, 1978 of Bermuda. Its operations are diversified as it conducts business in several jurisdictions. CIC aims to create insurance solutions for clients through the timely delivery of superior products and services, and in an environment that is people centric - where employees and customers are respected and appreciated. There is an overriding objective to be flexible and fair in the underwriting of risk and the settlement of claims. Customers can expect insurance products that are excellent value-for-money with regard to benefits, pricing and service.

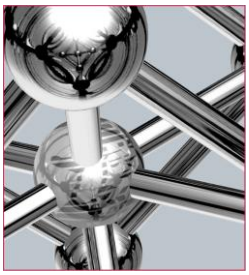
CIC provides property and casualty insurance, which includes home, motor, travel, liability, and business cover; these are the original core business lines of CGI. In Bermuda, CIC has long been a major provider of motor cover. Property and casualty lines are covered by Personal or Business Insurance.

CIC writes motor vehicle, motor cycle, property, marine and general liability risks in Bermuda with the following per risk treaty limits:



CIC acts as a reinsurer in the British Virgin Islands, as it provides 80% quota share reinsurance treaty covering property risks and 100% quota share reinsurance covering motor and marine risks for an affiliate company, CIBVI.

[5] Ernst & Young Ltd., 3 Bermudiana Road, Hamilton HM11, Bermuda.



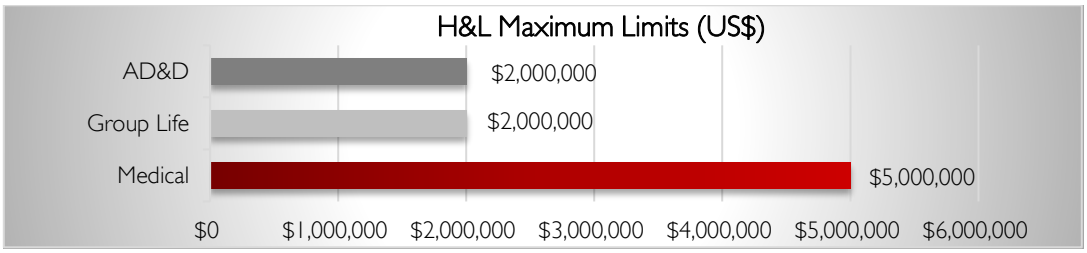
Colonial Medical Insurance Company Limited

CMIC, incorporated in Bermuda in 1990, carries on business as an insurance company. It holds a Class 3B License under the Insurance Act, 1978 of Bermuda and is the designated insurer for the Group. Its operations are diversified as it conducts business in several jurisdictions.

CMIC aims to create health insurance solutions for clients through the timely delivery of superior products and services, and in an environment that is people centric - where employees and customers are respected and appreciated.

There is an overriding objective to be flexible and fair in the underwriting of risk and the settlement of claims. Customers can expect insurance products that are excellent value-for-money with regard to benefits, pricing and service.

CMIC provides health insurance coverage in Bermuda, Cayman, Barbados, The Turks and Caicos Islands and in the Eastern Caribbean for medical, dental, vision, long-term disability, group life and accidental death and dismemberment risks with the following maximum limits:



CMIC also offers international health insurance coverage for medical, dental, life, long term disability and accidental death and dismemberment risks for individuals and groups working outside their home country. The maximum annual coverage limit for international policies is US$2,000,000 per insured.

CMIC acts as a reinsurer in the British Virgin Islands, as it reinsures all policies written by its sister company CIBVI. Additionally, it provides administrative services to a number of self-insured programs, under which it assumes no net underwriting risk but receives an administration fee.

Colonial Life Assurance Company Limited.

CLAC, incorporated in Bermuda in 1991, carries on business as a life insurance company. It holds a Class C ("long-term") License under the Insurance Act, 1978 of Bermuda. Its operations are diversified as it conducts business in several jurisdictions.

CLAC creates life insurance solutions for clients through the timely delivery of superior products and services, and in an environment that is people centric - where employees and customers are respected and appreciated.

Customers can expect insurance and investment linked products that are excellent value-for-money with regard to benefits, pricing and service. CLAC currently markets life insurance products in Bermuda, the Cayman Islands, and the British Virgin Islands for Term Life, Whole of Life and investment related products which provide a small life benefit. CLAC no longer offers, but currently still carries on its books variable life policies sold in Bermuda, the Cayman Islands and internationally.

Business strength is drawn from a cohesion of independently incorporated companies.

Reinsurance agreements are in place for individual life business. CLAC does not insure any individual life risks in excess of the reinsurers' limits. The individual life business is reinsured.

CLAC began writing annuity business in late 2014, and in 2017 received US$83,803 in annuity premium. The majority of the annuitants have been clients of CPS. It is the current intent of CLAC to focus on supporting affiliate company's clients. Investment returns and pricing are reviewed by the group's Investment Committee and management making pricing changes as market conditions warrant.

Colonial Re Ltd.

ColRe, incorporated in Bermuda in 2004, holds a Class 3A License under the Insurance Act, 1978 of Bermuda. As such, ColRe can write/reinsure all classes of related party property and casualty business. It was formed to act as an internal mechanism for reducing the Group's reliance on the external purchase of reinsurance and to effectively reduce the retention that applies under the Group's outwards Property Catastrophe Excess of Loss Treaty. This retention is currently US$5 million for the first event and then drops down to US$3.5 million for the second and third events.

The sole purpose of ColRe is to provide a property catastrophe excess of loss reinsurance program that reduces the net retention for the various insurance companies related through common control. As at 1 January 2018 ColRe, through four separate catastrophe excess of loss treaties, reduces each net retention to US$2 million for CIC (Bermuda), S&G (Bahamas) and BCIC (Cayman), and to US$1 million for CIBVI (BVI). Each of the above related companies pays an annual premium to ColRe for this protection, which includes one reinstatement for each jurisdiction. In effect, therefore, ColRe will pay a maximum of two losses in any jurisdiction during any one calendar year. However, ColRe's second event limit is reduced by $1.5 million to dove-tail with the external catastrophe excess of loss treaty, whose subsequent event retention drops down to $3.5 million from $5 million.

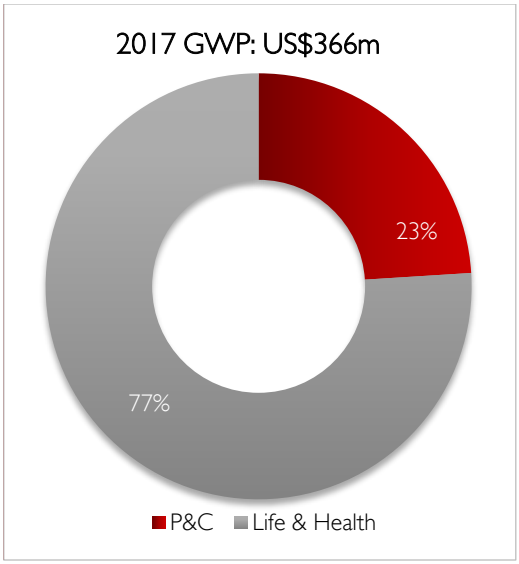
Hurricane Irma impacted both BVI and Turks and Caicos with heavy claims in 2017 amounting to approximately $117 million and $14 million respectively. BVI was impacted first resulting in a claim of $4 million on the ColRe sub-layer of $4 million in excess of $1million. Turks and Caicos was impacted next resulting in a claim of $1.5m on the ColRe sub-layer $3 million in excess of $2 million. The remaining $1.5 million of S&G's retained loss in the Turks and Caicos was ceded to the Group Catastrophe excess of loss, where the retention dropped down to $3.5 million for the second event. ColRe therefore paid claims of $5.5 million in 2017.

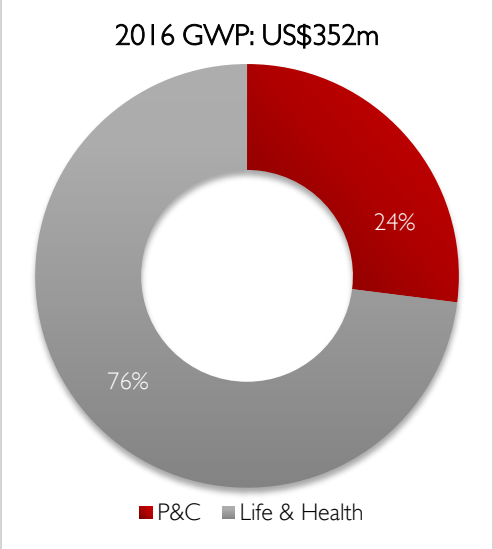
Prior to December 31, 2017 the board of the Company's parent, CGI, agreed to inject a total of $6.5 million of Tier 1 capital into the Company to effectively recapitalize post hurricanes Irma and Maria losses and to ensure that the Company could comfortably meet its BMA capital and solvency ratios.

Strength from synthesis; resilience in diversity.

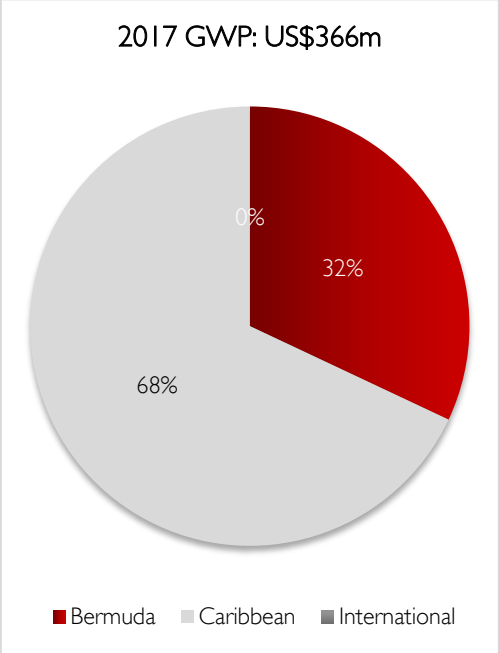
Business and Performance

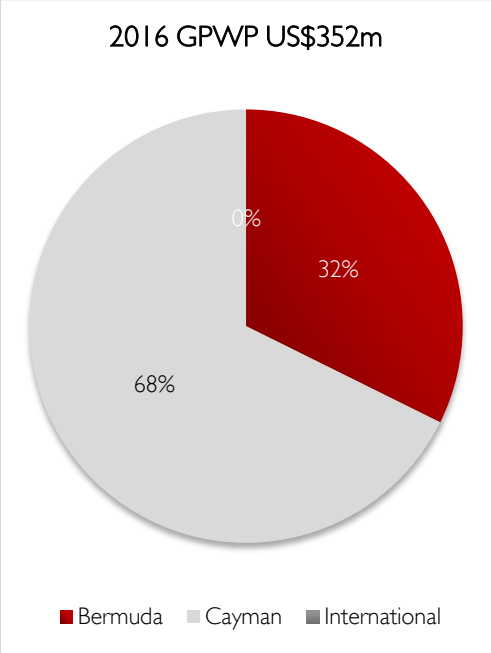
The Group's insurance products are split into Life & Health ("L&H") and Property & Casualty insurance segments and cater to commercial and retail customers. The distribution of Gross Written Premium ("GWP") is shown below by business unit and jurisdiction.

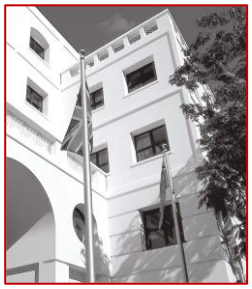




The Group offers coverage in Bermuda and various jurisdictions within the northern Caribbean region.

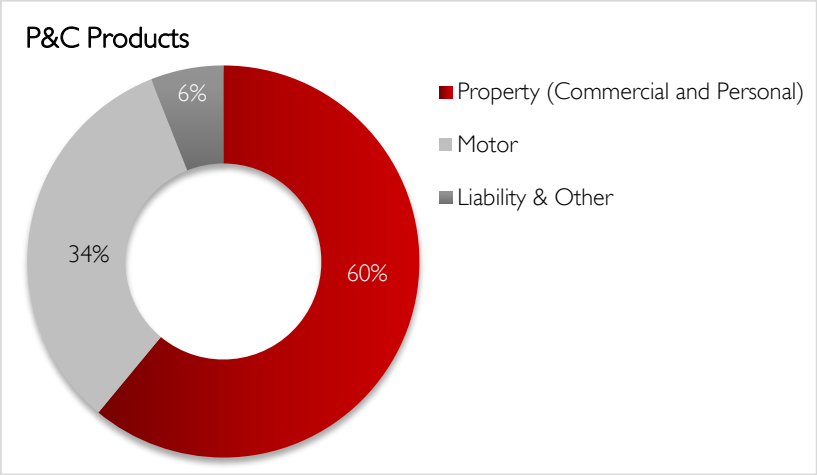






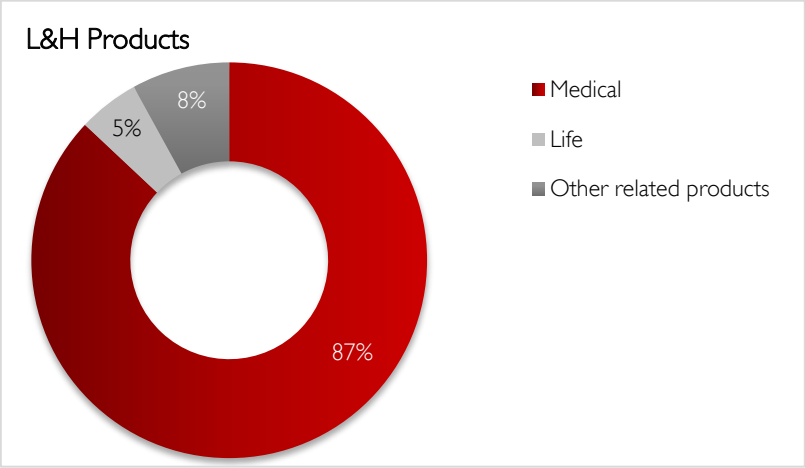
Property & Casualty products

P&C products represent 23% ($82m) of GWP in 2017.



Life & Health Products

L&H products constitute the largest segment of the Group's business at 77% ($284m) of GWP in 2017. The Group is the market leader in the medical insurance product in Cayman and the Bahamas and in the top three in Bermuda.



CGI is concerned with preserving lifestyles and livelihoods.

An analysis of GWP for the three public interest insurance entities regulated by the Bermuda Monetary Authority is presented in the tables below:

Company/Products	Gross Premiums Earned (US$000)	
Colonial Insurance Company Limited	2017	2016
Property	15,388	14,898
Motor	12,242	11,896
Liability & Other	1,664	1,896
Colonial Medical Insurance Company Limited	2017	2016
Medical	165,009	153,203
Group Life	2,122	2,014
Other related products	17,492	16,584
Colonial Life Assurance Company Limited	2017	2016
Mortality Products	4,256	4,070
Annuities	27	1,267
Other	669	711

Underwriting Performance by Lines of Business

The tables below provide key performance indicators for major lines of business.

US$000	2017	CICL	CMICL	CLACL
Gross Written Premiums	366,536	29,293	179,492	5,479
Net Premiums Earned	298,234	14,421	176,077	3,752
Claims and Policyholder Benefits	215,928	9,944	125,465	(1,236)
Net Commission Expense/(income)*	(3,367)	(2,497)	13,960	412
General & Administrative Expenses*	72,723	8,391	15,074	3,539
Net Income	24,006	(128)	16,527	1,431

*excluding Pensions business

US$000	2016	CICL	CMICL	CLACL
Gross Written Premiums	351,986	28,689	165,865	6,604
Net Premiums Earned	284,749	14,770	164,129	5,161
Claims and Policyholder Benefits	198,453	7,467	118,909	2,807
Net Commission Expense/(income)*	1,555	(2,022)	12,975	340
General & Administrative Expenses*	68,980	8,375	13,637	3,438
Net Income	27,157	1,572	12,022	835

*excluding Pensions business

Investment Performance

The Group's investment management framework sets out its Portfolio Asset Allocation methodology that is approved by the Board and is reviewed annually. Asset categories that are included are those that are suitable for the Group's liabilities profile by nature, term and currency and for which the investment managers can assess, monitor and control risks.

In line with investment allocations set out in the Investment Policy Statements, the Group holds a diversified investment portfolio in government bonds, corporate bonds, mutual funds, equities, investments in group undertakings and cash. The Group covers its technical provisions with investments in high grade fixed income securities. When determining the size of this investment pool, a conservative buffer is added to ensure that the requirement for top-up is remote in the event of material adverse development of technical provisions. A prudent allocation of the portfolio is invested in more speculative investments to enhance long-term returns while preserving sufficient capital to take advantage of growth opportunities. CIC, CMI and Col Re have nearly identical investment portfolios in respect of asset mix, security selection and risk profile. CLAC, given the long-term nature of some its liabilities, has a greater concentration of high quality, long-duration fixed income securities as per its asset liability matching policy. Given the favorable environment for financial markets (low interest rates, strong global economic growth and modest volatility) the Group was able to generate an excellent return on investments in 2017.

The return on investments for the reporting period was as follows:

2017	US$000		
	Balance	Return	%
Managed Funds	139,548	8,990	6.44
US Government bonds	1,799	53	2.97
Equities	492	(7)	-1.46
Fixed maturity securities	81,723	3,843	4.70
Total	**223,562**	**11,591**	
Interest and other		1,275	
Management fees		(943)	
Net Investment Income		**11,923**	

The Group's performance of investments for the three public interest insurance entities regulated by the Bermuda Monetary Authority is presented in the table below:

2017 (US$000)	CICL			CMICL			CLACL		
	Balance	Return	%	Balance	Return	%	Balance	Return	%
Managed Funds	22,673	1,276	5.63	61,591	3,594	5.83	576	270	46.83
US Government bonds	_	-	-	2,335	26	1.11	2,314	25	1.08
Equities	176	5	2.86	89	(8)	-9.1	58	(11)	-19.1
Fixed maturity securities	601	33	5.57	8,072	198	2.45	8,737	123	1.41
Total	23,450	1,314		72,087	3,810		11,685	407	
Interest and other		116			387			376	
Management fees		(112)			(373)			(50)	
Total		1,318			3,824			733	

Material Income & Expenses for the Reporting Period

The Group's main revenue source is premiums and although insurance rates have continued to remain under pressure, premiums written for the period modestly increased in the Health sector while declines were recorded across the P&C sector. The Group's major expense arises from claims losses. This year was characterized by significant claims emanating from Hurricanes Irma and Maria which struck in the British Virgin Islands and Turks & Caicos Islands, while higher underwriting expenses are a factor for the health insurance sector. The Group's combined ratio declined year on year to 97% from 93%.

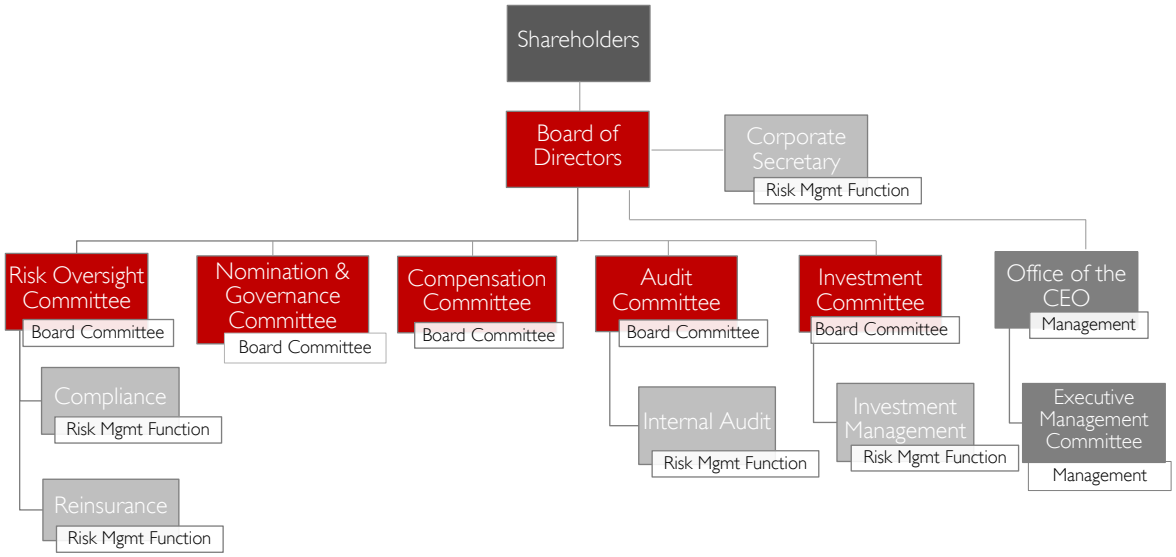
US$000	2017	2016
Claims and Policyholder benefits	215,928	198,453
Net Commission expense/(income)	(3,367)	1,555
General & Administrative expenses	72,723	68,980

Dividends

During the year, the Group declared a dividend payable to its sole shareholder of US$7,000,000 (2016 - US$7,000,000). Subsequent to year end, a dividend in the amount of US$5,000,000 was declared.

CGI's Board is committed to exercising compelling and effective leadership.

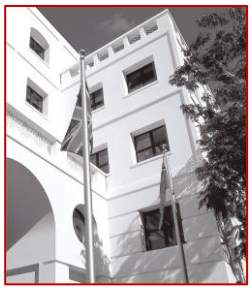
Governance Structure



The Board of Directors of CGI (the "Board") is committed to exercising compelling and effective leadership of the Group and its operations across jurisdictions through the strategic use of its corporate governance framework. This is evidenced by sufficient levels of visibility, very high levels of integrity and effective communication methods combined with demanding expectations and appropriate levels of oversight.

The Board is responsible for the stewardship of the Group, including the supervision of the management of the business affairs of all CGI operating entities. The Board, either directly or through its committees, is responsible for oversight of the following areas: strategic planning; the promotion of culture and integrity; the identification and management of risk; internal controls; succession planning and evaluation of senior management; communication and public disclosure; and corporate governance.

The activities of the Group involve the use of insurance contracts and financial instruments. As such, the Group is exposed to insurance risks and financial risks. The Board has overall responsibility for the oversight of the Group's risk management framework. The Group is also guided by its Enterprise Risk Management ("ERM") Framework. The Board has established the Investment Committee, the Audit Committee, the Compensation Committee, the Nomination and Governance Committee and the Risk Oversight Committee which, along with the CEO and COO ERM, are responsible for developing and monitoring the Group's risk management policies. The committees, the CEO and COO ERM report regularly to the Board on their business activities and how risks are being managed.



The Board regularly identifies and assesses risks potentially impacting the Group, including financial, operational, reputational, environmental, industry-related and legal and/or compliance risks. The Board (through the work of the Risk Oversight Committee) is responsible for strategic leadership in establishing the Group's risk appetite/tolerance and developing a framework of clear accountabilities for managing risk. The Board regularly reviews the adequacy of the systems and controls management put in place to identify, assess, mitigate and monitor risk and the sufficiency of its reporting. The Board is responsible for understanding the current and emerging short and long-term risks facing the Group and the relevant performance implications. The Board routinely enquires into and, where necessary, challenges management's assumptions and the adequacy of the Group's risk management processes and procedures.

The Group maintains clear lines of accountability from the Board through to Executive and Management levels. Board and committee charters set out applicable duties, responsibilities and accountabilities while detailed job descriptions are in place in respect of key management roles within the Group. In addition, separate roles are held by the Board Chairman and the CEO – the Chairman tasked with providing leadership to the Board while allowing the CEO to focus on leading management in the development and implementation of business strategy under Board accountability.

Remuneration Policy

The Group's remuneration policy provides a fixed base salary with the potential for an annual performance-based bonus, subject to individual performance, performance of the Group and approval by the Chief Operating Officer, President/Chief Executive Officer or Compensation Committee. The bonus potential varies for employees, supervisors/managers/professional employees and senior executives. Board members receive a flat fee in accordance with established policies approved by the Board.

The Human Resource Department, working with external service providers, undertakes periodic industry reviews to ensure that compensation is appropriate.

Pension Plan

The Group provides all employees with pension benefits through a defined contribution pension programme. The Group provides contributions matching the employee's level of required contribution. The funds are invested in one of the Group's pension investment portfolios based on the employee's reference, which is administered by a third party advisor. The Group does not have an early retirement scheme.

Related Party Transactions

The Group's subsidiaries insure the commercial and health risks of several related companies. These risks are written at standard commercial rates and are subject to the normal reinsurance protections of the Group.

The following services, included in the general and administrative expenses, are payable to related parties: accountancy services; rent and pension costs.

The amounts due to and from companies related through common control are due on demand, with the exception of approximately $6.5 million due to CLAC from Gibbons Management Services Limited

("GMSL"). This amount was structured in 2016 into individual loan notes with varying maturities through to 2045. Interest on the notes are settled monthly with the settlement of any maturing notes occurring on June 30th of the year for which they become due. The balances due from GMSL bears interest at rates varying from 3% to 5.75% per annum. Included in the Group's investment income is net interest income received from GMSL. Balances with all other related parties are non-interest bearing.

During the year, the Group used Clarien Bank Limited and its wholly owned subsidiaries (Clarien) for certain banking, investment custodian, and investment management services. Clarien is related through common control and all transactions with Clarien occur on standard commercial terms.

Assessment of Fit and Proper

The Board is comprised of directors who are knowledgeable, have expertise relevant to the business, are qualified/competent and have high ethical standards and integrity. Individual directors on the Board have diverse backgrounds, skill sets, and commit sufficient time to fulfil their respective and collective duties.

As expected, directors must declare conflicts of interest and refrain from voting on matters in which they have an interest arising. More importantly, a general culture of integrity in business dealings and of compliance with laws and policies is embedded within the Group's corporate culture through the dynamic implementation and adherence to key policies and procedures such as the Group Corporate Governance Guidelines, the CGI Related Party Transaction Policy and the CGI Business Code of Conduct Policy.

Directors and Senior Management

Dr. the Hon. E. Graham (Grant) Gibbons, JP, MP – Non-Executive Chairman

Grant Gibbons is the Chairman of the CGI Board of Directors and the CGI Compensation Committee and a member of the CGI Audit Committee, the CGI Risk Oversight Committee and the CGI Nomination and Governance Committee. Grant is a former Director of International Licensing, Bristol Myers Squibb; former Managing Director, Gibbons Company Ltd.; former Managing Director, Peniston Brown; former Minister of Finance (Bermuda); former Minister of Economic Development (Bermuda) and former Member of Parliament (Bermuda). Grant holds a Bachelor of Science Degree in Chemistry from Brown University, a Master of Arts Degree in Philosophy, Politics and Economics from Oxford University (Rhodes Scholar) and a Ph.D. in Organic Chemistry from Harvard University.[6]

J. David Gibbons, O.B.E., E.D., JP – Non-Executive Deputy Chairman

David Gibbons is the Deputy Chairman of the CGI Board of Directors; Chairman of the CGI Nomination and Governance Committee and a member of the CGI Risk Oversight Committee, the CGI Compensation Committee and the CGI Audit Committee. David is a former Commanding Officer, Bermuda Regiment; former Aide-de-Camp to the Governor of Bermuda; and former Director, Clarien Bank Limited. David attended Harrow School (UK) and Dartmouth College (USA). Currently David is a

[6] Dr. E. Grant Gibbons sits as a Non-Executive Director of all Group operating companies and is the Non-Executive Chairman of CGI, CIB, CIC, CLAC, CMIC, CPS, CPT, ColRe, CPSB, AMI, S&G, NIBA, BCH and CIBVI.

CGI applies the highest standards of professional and corporate integrity.

director of Gibbons Company Ltd., Bermuda Motors Ltd., Burrows Lightbourne Ltd. and Gibbons Management Services Ltd.[7]

S. Naz Farrow – Executive Director and Group CEO

Naz Farrow is an Executive Director of CGI, a member of the CGI Investment Committee and the Group Chief Executive Officer. Prior to being appointed Group CEO, Naz was the Chief Operating Officer of the Group's health insurance business – which included oversight of CMIC and AMI. Naz has been responsible for managing and operating the Group's health insurance business since 1998 and has over 20 years of business experience, having worked for insurance and financial organizations both locally and in the UK. Naz holds graduate and post graduate qualifications from UK universities.[8]

Mansfield H. R. (Jim) Brock – Independent Non-Executive Director

Jim Brock is an Independent Non-Executive Director of CGI, the Chairman of the CGI Investment Committee and a member of the CGI Audit Committee. Jim is a former Permanent Secretary of Education (Bermuda); former Financial Secretary of Bermuda; former General Manager of Butterfield Bank; former Chairman of the Bermuda Monetary Authority; and former Chief Administration Officer of CGI. Jim holds a Bachelor of Science Degree in Physics and Mathematics from McGill University and a Master's Degree in Educational Administration from the University of Toronto. Currently Jim is retired and sits as a member of various boards and other organizations in Bermuda. [9]

W. Martin Kenny – Executive Director and Group Financial Controller

Martin Kenny is an Executive Director of CGI, a member of the CGI Investment Committee and the Group Financial Controller. Martin is a former Financial Controller for Clipper Oil Limited (Bermuda); former Group Financial Controller for the Bank of Bermuda; and former Analytics Manager HSBC Bermuda. Martin attended Franciscan College, Ireland and is a qualified Chartered Accountant.[10]

Jon L. Brunson – Independent Non-Executive Director

Jon Brunson is an Independent Non-Executive Director of CGI, a member of the CGI Audit Committee and the CGI Compensation Committee. Jon is a former Head of General Administration, HR Development and Premises Management for Orbis Investment Management Limited. Jon holds a Bachelor's Degree in Business Administration and Computer Science from Flagler College and Master's Degrees in Management and Human Resources Development from Webster University. Currently Jon sits as a member of various other boards and organizations in Bermuda. [11]

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[7] David Gibbons sits as a Non-Executive Director of all Group operating companies except CIBVI.

[8] Naz Farrow is an Executive Director of all Group operating companies.

[9] Mansfield Brock is an Independent Non-Executive Director of all Group operating companies except AMI and CIBVI.

[10] Martin Kenny is an Executive Director of all Group operating companies except AMI and NIBA.

[11] Jon Brunson is an Independent Non-Executive Director of CGI and is a member of the CGI Audit Committee and the CGI Compensation Committee.

Scott Hunter, FCA, JP – Independent Non-Executive Director

Scott Hunter is an Independent Non-Executive Director of CGI, the Chairman of the CGI Audit Committee and a member of the CGI Risk Oversight Committee and the CGI Nomination and Governance Committee. Scott is a former managing partner of a public accounting practice in Bermuda. Scott holds a Bachelor's Degree in Economics from Brown University and is a qualified Chartered Accountant. Currently Scott sits as a member on various other boards and organizations in Bermuda and overseas.

Cheryl A. Packwood – Independent Non-Executive Director

Cheryl Packwood is an Independent Non-Executive Director of CGI and a member of the CGI Risk Oversight Committee. Cheryl is a former Chief Executive Officer and Deputy Chairman for Business Bermuda; former General Manager of Digicel Bermuda; former Director, Legal Services and Enforcement of International Affairs for the Bermuda Monetary Authority; and a former Overseas Representative to the United States for the Government of Bermuda. Cheryl holds a Bachelor of Arts Degree in History from Yale University, a Juris Doctor (JD) Degree from Harvard Law School and is admitted to the Bar in both New York and Washington, D.C. Currently Cheryl sits as a member of various other boards and organizations in Bermuda and overseas.

Christian S. Dunleavy – Independent Non-Executive Director.

Christian Dunleavy is an Independent Non-Executive Director of CGI and the Chairman of the CGI Risk Oversight Committee. Christian is a former Senior Analyst for Renaissance Reinsurance; and former Senior Vice President of Property Catastrophe for AXIS Specialty Ltd. Christian holds a Bachelor of Arts Degree in Political Science and Sociology. Currently Christian is Head of Global Property Catastrophe for Aspen Re and sits as a member of various other boards and organizations in Bermuda.

Michael E. Rego – COO Risk Management and Corporate Services.

Michael Rego is the Chief Operating Officer responsible for the Group's Enterprise Risk Management function and other Group corporate services. He is also a member of the CGI Investment Committee. Michael is a former EVP at XL Capital Ltd. Michael holds a Bachelor of Arts Degree in Political Science and History from the University of Vermont and is a graduate of the University of Pennsylvania's Wharton School RMA/Advanced Risk Management Program.

Elliot A. Hubbard – Group General Counsel.

Elliot Hubbard is the Group General Counsel. Elliot is a former Corporate Associate Attorney at Conyers Dill & Pearman (Bermuda) and holds a Bachelor of Laws (LLB) Degree from the University of Kent, a Post Graduate Diploma in Legal Practice from BPP Professional Education and has been a practicing member of the Bermuda Bar Association since 2006.

Nathan C. Samuels – Legal Counsel.

Nathan Samuels is the Company Secretary for the Group's Bermuda entities. Nathan is a former Associate Attorney at MJM Limited and holds a BA in Law and Philosophy from the University of Kent, a Post Graduate Diploma in Legal Practice from the College of Law (London) and has been a practicing member of the Bermuda Bar Association since 2006.

Risk Management

Enterprise Risk Management Framework

The key aims of the Group's ERM Framework are to:

- identify and document all material risks relevant for each business unit using pre-defined risk categories;
- document the key controls which have been established to manage the material risks;
- introduce and maintain risk ownership as a concept at a business level to empower business risk owners as the first line of defense in mitigating the residual risk exposure through policy and procedure setting (risk and controls self assessments and risk registers are employed to this end);
- employ centralized assurance providers (Internal Audit, Risk Management and Compliance) as a second line of defense against risk (control certifications are monitored by Internal Audit to ensure ongoing operating effectiveness of documented controls);
- provide governance at a Senior Management and Board level as a third line of defense (business level risk owners report to an Executive Management Committee who in turn reports quarterly to the CGI Risk Oversight Committee);
- provide information and reports to support the Executive's regular review of risk management and overall Enterprise Risk management effort; and
- minimise risk exposures.

Throughout the implementation of the Group's ERM Framework CGI's risk management department, in conjunction with business unit risk owners, conducted an extensive review of all operations within the Group assessing and documenting both key threats and the control infrastructure at an operating unit level. A key risk and control register was established for CGI, and it forms an integral part of the Group's forward looking risk management process.

Operating risk unit coordinators and Executive risk owners are responsible for the risks within their operating unit and formally approve their risk registers. These are then presented to the Executive Management Committee ("MANCO") for review and approval. An individual responsible for determining the operating efficiency of internal controls is defined on each risk register with certifications playing an important role in determining any breakdown in the control environment. Risk coordinators prepare these certifications or facilitate review by the body responsible for their specific controls oversight. Certification failures are escalated to the Risk Oversight Committee.

Their mandate includes adopting strategies that address the resulting risks and rewards of both their day-to-day operations and any new business opportunities. They are tasked with ensuring appropriate policies and procedures and internal controls are in place in line with the risks that may be present within their operations. Risk Owners are assigned to each operating unit based on reporting lines. They ensure that significant risk issues are escalated to the MANCO and/or the Risk Oversight Committee.

Policy and procedure setting are key components in the risk management process. They manage existing threats by addressing them with controls to ensure that the level of risk remains acceptable to the Group.

Management of risk has been addressed by developing resilience out of commercial diversity.

Key policies and procedures set at an operating unit level usually require formal approval from Management and/or the Board based on the nature and materiality of the risk exposure.

Internal Audit monitors and reviews all department certifications to ensure key controls are operating effectively based on the risk register. Reporting is provided to MANCO for the purpose of identifying incomplete or overdue certifications as well as any key risks where controls implementation remains outstanding.

Embedding ERM

CGI believes an integrated approach to developing, measuring and reporting our Group Solvency Self-Assessment ("GSSA") and the Commercial Insurers' Solvency Self-Assessment ("CISSA") is an integral part of the Group's Enterprise Risk Management Framework. The GSSA/CISSA process provides the link between the Group/Company's risk profile, its Board-approved risk appetite (including approved risk tolerances and limits), its business strategy and its overall regulatory solvency requirements.

GSSA/CISSA is the entirety of the processes and procedures employed to identity, assess, monitor, manage, and report the short- and long term-term risks to which the Group/Companies are potentially exposed and determines the capital necessary to ensure CGI's, CIC's, CMIC's, CLAC's and ColRe's overall solvency needs, taking into consideration the nature, scale, and complexity of the risks inherent in their respective businesses. GSSA/CISSA is also the basis for risk reporting to the Board and its committees and acts as a mechanism to embed the Enterprise Risk Management Framework within the Group's decision making processes and operations. The Board has delegated responsibility for the supervision and oversight of GSSA/CISSA to the CGI Risk Oversight Committee. This oversight includes regular reviews of the GSSA/CISSA process and outputs.

GSSA/CISSA Reports are produced annually and the results of each assessment are reported to the respective Boards. The Boards actively participate in the GSSA/CISSA process by steering how the assessment is performed and challenging its results. This assessment is also taken into account when formulating strategic decisions for the Group. The results of solvency self-assessments are included in the quarterly reporting to the CGI Risk Oversight Committee. They are also incorporated into the GSSA/CISSA reports produced by the CRO, which are then reviewed by the Risk Oversight Committee and the Boards for approval.

Risk Management Systems

The Group uses a market leading governance risk and compliance ("GRC") software platform to efficiently manage the ERM process. The architecture of the system is such that risk identification is initiated by considering the activities which create value for the Group. The Group's strategic objectives are categorized and documented within the ERM module of the system as well as the material risks which threaten these objectives. Associations are made to the related processes and the underlying risks and controls that have an impact on the strategic objectives or contribute to the enterprise risks which threaten the objectives. This makes it easy to identify areas of concern, and to more effectively manage those business risks that could threaten the Group's ability to achieve its critical strategic objectives.

Once these activities (processes) have been identified, and ownership assigned, the risk coordinators are asked to identify key risks for each process, using a predefined risk model. Within the software, risks are

qualitatively assessed on likelihood and significance using a risk table based on standardized criteria. Controls are then associated to each risk, using a control model. Through the risk and controls models, the software enforces the use of a common risk language which provides a consistent methodology for aggregating and reporting on specific risks and controls across the organization. Each process, risk and control is designated a specific owner, who is periodically required to electronically sign off on their respective area(s) of responsibility.

Risk Governance

Risk Governance is the process by which oversight and decision making bodies review, consider and ultimately approve risk taking activities within the Group. Governance processes are designed to ensure that transactions and activities are carried out in accordance with the Group's policies, procedures, risk appetites, risk limits and risk concentrations.

Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

In order to enhance governance over its ERM activities CGI has established both a management committee as well as a subcommittee of the board (the "Risk Oversight Committee") to oversee Board and Management's responsibilities relating to the management of all material risks to which the Group is, or may in the future, be exposed. The Risk Oversight Committee reviews, among other things, the overall risk capacity of the Group, policies for the establishment of risk limits, and adherence to such limits and recommends any specific actions to the full Board, based on management's recommendation. The Risk Oversight Committee also assesses the integrity and adequacy of both the risk management function and the ERM framework and evaluates the risk impact of any strategic initiatives under consideration to determine whether they are consistent with the Group's risk profile.

CGI is managed in a conservative and prudent manner, as evidenced by its consistently solid financial performance over many years. CGI's investment and ongoing focus in the area of ERM evidences the Group's intent to strengthen the risk culture within the organization and use risk management as a means to create value and aid in the strategic decision making process.

Risk Appetite

The Group believes that the management of risk appetite is fundamental to strong governance and necessary in order to produce, among other things, high quality products and services and consistent earnings. The Group's risk appetite framework establishes the risk preferences and risk agenda for the organization, which helps set a context for where risk capital should be deployed in pursuit of value creation over time. The Group's risk appetite standards, which have historically been very conservative, are integrated into its overall business and strategic planning process.

These include:

CGI is a company where people come first.

- Loss Exposure: CGI's reinsurance placement strategy aims to limit loss exposure with conservative retention limits.
- Investment Limits: Recently revised Investment Policy Statements aim to control volatility and minimize investment loss. Additionally, Group funds are not invested in high risk vehicles. Performance is monitored by the CGI Investment Committee.
- Financial Strength: The Group targets a 12% return on equity over the business cycle. It also seeks to maintain an A.M. Best rating of A- (Excellent). The risk management framework will clearly identify the risks that could be detrimental to the achievement of these objectives.
- Reputation and Branding Image: CGI will manage situations or actions which could have a negative impact on the Group's reputation and brand. The Group has adopted the vision of "where people come first" with regards to its clients and employees. Instilling this culture of respect and appreciation mitigates some of the risk that could cause reputational and/or branding damage.

CGI has long maintained a conservative risk appetite as evidenced by the setting of conservative risk tolerances for each class of business, an embedded ERM framework, the prudent reliance on quality reinsurance and a robust investment policy ensuring the maintenance of a high quality, liquid investment portfolio.

Strategic Planning

This discipline is fundamental to the success of operations at CGI. The strategic planning process determines the basic goals and objectives of the business, the adoption of courses of action and the allocation of resources necessary for achieving a successful outcome. Strategic planning engages in a detailed analysis of the markets in which we conduct business, the opportunities or threats that may exist, product and pricing positioning, service plan, staff requirements, systems requirements, and marketing implementation. Projections also include a review of risk and return on capital. Reinsurance support is often required and is incorporated into the analysis. This is an embedded ongoing process that works with the annual budget review.

Internal Controls

Internal Control System

The Group has multiple systems, processes, policies and procedures to ensure that data and business information is reported appropriately throughout the enterprise in a timely manner. The Board, senior management, Internal Audit, and all employees have a shared commitment to maintain, and wherever possible enhance, the Group's control environment. Within the overall context of the control framework, auditing is an independent risk assessment function established within the organisation to evaluate, test and report on the adequacy and effectiveness of management's systems of internal controls.

Internal Audit Function

CGI's Internal Audit Department, with strict accountability for confidentiality and safeguarding records and information, is authorized full, free, and unrestricted access to any and all of Colonial Group's records, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist the internal audit activity in fulfilling its roles and responsibilities. Internal audit also has free and

CGI is managed in a conservative and prudent manner, as evidenced by its consistently solid financial performance.

unrestricted access to the Audit Committee and the Board. Internal Audit exhibits the highest level of professional objectivity in gathering, evaluating, and communicating information about any activity or process being examined. Internal Audit makes balanced assessments of all relevant circumstances and is not unduly influenced by its own interests or by others in forming judgments. Internal Audit will confirm to the Audit Committee, at least annually, the organizational independence of its activities.

Legal and Compliance Function

The CGI Legal and Compliance Department is comprised of the COO, ERM; Group General Counsel; Legal Counsel; Group Compliance Manager and the respective jurisdictional Compliance Officers/Money Laundering Reporting Officers. It is the internal department which assists the Group and all its employees to conduct business operations and activities ethically; with the highest level of integrity; and in compliance with legal and regulatory requirements. It performs the role of assisting each business unit and internal support department to comply with applicable legal and regulatory requirements, providing recommendations to management with respect to requirements and the implementation of measures at the operational level to ensure ongoing compliance. The CGI Legal and Compliance function encompasses elements of legal and compliance related advisory, monitoring, assurance, control and the management of regulatory risks and relationships.

The primary responsibility to ensure ongoing compliance with applicable laws and regulations rests with the Board and senior management of CGI. The CGI Legal and Compliance Department is in place to ensure the Board, senior management and ultimately all employees understand their respective legal and regulatory obligations and to make recommendations for the purpose of ensuring the same are consistently fulfilled by all parties.

Actuarial Function

CGI effectively outsources its actuarial function via the appointment of specific, highly qualified consulting actuaries for each primary insurance line, i.e. Medical, Property & Casualty and Life. These consulting actuaries are responsible for setting, monitoring and adjusting technical provisions for premium, loss, loss expense best estimates, and the risk margin. The technical provisions are reviewed by the business COO's, the Group CEO and the Board on a quarterly basis, as well as being independently reviewed by other third party actuaries as deemed appropriate. All of CGI's consulting actuaries are duly approved by the BMA, both in respect of specific legal entities and the Group. The Group Financial Controller is responsible for reconciling individual technical provisions to CGI's consolidated financial statements on an annual basis.

Outsourcing

The Group has an outsourcing policy that governs all Group outsourcing arrangements. This policy defines what constitutes an outsourcing arrangement and sets out the protocol and criteria for approval of the same. The purpose of the policy is: (i) to bring appropriate focus to internal functions that have been outsourced by any Group company to external service providers; (ii) to ensure that there is oversight and clear accountability for all outsourcing arrangements as if these functions were performed internally and subject to the Group's own standards of governance and internal controls; and (iii) to ensure that all Group outsourcing arrangements are in the best interest of the Group and its stakeholders. Key outsourcing arrangements are as follows:

- IT software development and management;

- Investment management;
- Actuarial services; and
- Payroll.

Material Intra-Group Arrangements

Bermuda is the commercial hub for the Group's regional operating companies. Commercial, professional and ethical standards are maintained from the Group's head office in Bermuda – which provides support to local operating entities in the following areas:

- Strategic Management;
- Financial Management;
- Product Development;
- Reinsurance;
- Marketing;
- Information Technology;
- Human Resources;
- Compliance;
- Legal; and
- Enterprise Risk Management.

Material Risks

Key Material risks identified and assessed for CGI are as follows:

Insurance risk. The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims is greater than estimated. Insurance events are random and the actual number and amount of claims will vary from year to year from the level established using statistical techniques.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered. The Group insures the risks of individuals located in Bermuda, the Bahamas, the Cayman Islands, the British Virgin Islands, the Turks and Caicos Islands, Barbados, and internationally; therefore, there is a diversification of geographic risk. There is a concentration of industry risk which is managed through its underwriting strategy and reinsurance arrangements. The Group actively manages and pursues early settlements of claims to reduce its exposure to unpredictable developments. In addition, the Group places a ceiling on its exposure by establishing life-time maximum pay-outs for certain types of claims.

Financial risk. The Group has exposure to the following risks from its use of financial instruments:

CGI applies the highest standards and professional and corporate integrity.

- credit risk;
- liquidity risk; and
- market risk.

The nature and extent of the financial instruments outstanding at the balance sheet date and the risk management policies of the Group are discussed below.

Credit risk. Credit risk is the risk that a counterparty will fail to discharge an obligation or commitment that it has entered into with the Group. The Group's maximum credit risk exposure is the carrying value of assets less any provisions for irrecoverable amounts. The Group is exposed to credit risk in the following areas:

Cash and investments. Investment asset allocation is determined by the Group's Investment Manager who manages the distribution of the assets to achieve the Group's investment objectives. Divergence from target asset allocations and the composition of the portfolio is monitored by the Board through its Investment Committee.

Premiums receivable. The Group's exposure to credit risk is influenced by the financial stability of entities that purchase insurance products. This credit risk is controlled by monitoring the aging of all amounts outstanding on an ongoing basis and monitoring the customers' financial health by reference to the media and discussions with the customers. A provision is made for non-recovery if considered necessary.

Collateral is not held against any of the outstanding balances. However, the Group has the right to cancel the policy for non-payment. Based on the Group's current aging procedure, the majority of premiums receivable over 30 days are considered to be past due but not impaired. Customer accounts that become past due over 60 days are placed on-hold and those that are over 90 days past due may be considered for impairment by management. Cancellation or extension of the terms of the credit may be considered on a case by case basis and only with requisite approvals.

Due from reinsurers. Reinsurance contracts do not relieve the Group from its obligations to policyholders. Failure of reinsurers to honour their obligations could result in losses to the Group; consequently, allowances are established for amounts deemed uncollectible. The Group evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of its reinsurers to minimise the exposure to significant losses from reinsurer insolvencies.

The Group reviews the creditworthiness of reinsurers on an annual basis and only enters and maintains contracts with reinsurers that: (1) have been rated as A- or higher by the A.M. Best credit rating agency; and (2) have in excess of $500 million in capital and surplus. Current financial statements for the reinsurers are reviewed annually. Based on the individual reinsurance agreements, the Group may have the right to offset amounts due to reinsurers against any amounts due from reinsurers. As at December 31, 2017 there is no significant credit risk associated with any of the Group's reinsurers.

Related Party & Other Receivables. Amounts due from related parties and other receivables are assessed and monitored on a monthly basis for any indication of impairment. As at December 31, 2017, all amounts are considered to be collectible.

Liquidity risk. Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they come due. The Group is exposed to daily calls on its available cash resources for the payment of claims and operating expenses. In order to manage liquidity, management seeks to maintain levels of cash and short-term deposits sufficient to meet its liabilities when due, under normal and stressed conditions without incurring unacceptable losses or risking damage to the Group's reputation. In addition, CGI maintains a highly liquid investment portfolio to ensure that investment assets could, if the need arose, be liquidated in order to raise funds to pay claims or meet any other obligation of the Group.

Market risk. Market risk is the risk that changes in market prices such as equity prices, interest rates and foreign exchange rates will affect the Group income or the value of its holdings of financial instruments. The objective of the Group's market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. Market risk is effectively monitored and controlled via the various investment policy statements with oversight performed by the Investment Committee.

Interest-rate risk. The Group invests in corporate bonds and managed funds, the fair values of which are affected by changes in interest rates. Interest rate risk is effectively managed by our investment managers who manage our fixed income portfolios in accordance with guidelines established within the various investment policy statements.

Currency risk. The majority of the Group's financial assets and liabilities are denominated in either Bermuda Dollars or U.S. Dollars; therefore, the Group is not normally exposed to significant currency risk. The Group does have some exposure to currency risk if, for whatever reason, the Bahamian Dollar were to be devalued against the U.S. Dollar. The Bahamian Dollar and the U.S. Dollar currently trade at par.

Equity price risk. The Group is subject to equity price risk due to daily changes in the market value of securities in its fund and equity portfolios. Equity price risk is actively managed in order to mitigate anticipated unfavourable market movements where this lies outside the risk appetite of the Investment Committee. Diversified portfolios of assets are held in order to reduce exposure to individual equities.

Operational Risk. Operational risks and losses can result from, among other things, fraud, errors, lack of authorization and review, information technology failures and external events. CGI manages these risks using several direct controls. Detailed policy and procedure documents outline the correct way to undertake key processes. In addition, software controls for claims and underwriting form an integral part of CGI's information technology control environment. CGI has business continuity and disaster recovery plans which are tested on an annual basis.

Strategic Risk. Strategic risk is defined as the risk associated with future business plans and strategies, including plans for entering new business lines, expanding existing services through mergers and acquisitions, enhancing infrastructure, etc. CGI has a robust strategic planning process which determines the organizational strategy regarding jurisdictions and products. The plan is subject to Board approval and has the full support and involvement of its legal and risk management departments.

Legal/Compliance Risk. This is the risk of non-compliance with jurisdictional laws and regulations and potentially unfavourable legal proceedings. CGI has the support of a sound compliance structure in all jurisdictions and an internal legal team. There are controls in place to ensure that filing and reporting requirements are met, possible changes to legislation are notified, and any regulatory issues are addressed.

Risk management policies are established to identify and analyse the risks faced by the Group.

CGI has negotiated provider agreements for its primary operating entities which help to ensure high performance standards thereby reducing the risk of litigation. CGI carries appropriate levels of Executive & Officers and Director and Officers insurance.

Material Risk Concentrations

The Group has policies governing risk concentrations in relation to counterparties within its managed investment portfolios. Obligor, market sector and geographical diversification is prescribed in the investment policy statements governing the management of the portfolios. Apart from highly rated sovereigns and associated sponsored agencies, the Group has a policy that prohibits exposure exceeding 5% of its statutory capital and surplus to any single counterparty (not including affiliates) in its investment portfolios without Board approval. Counterparty exposure is monitored by both the CGI Investment Committee and the Risk Management Function. The Group is currently in compliance with this policy. The Group's only counterparty exposure that exceeds 5% relates to the Government of the United States and the Government of the Bahamas arising from exposure in its bond portfolios. As at 31 December 2017 this exposure represented approximately 8% and 16% of Group statutory capital and surplus respectively.

Investments

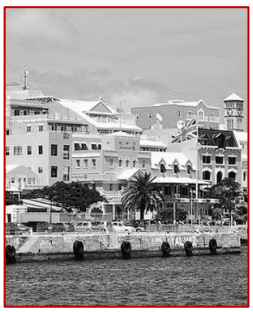
The Group's investments primarily comprise of managed funds, government bonds, high investment grade corporate bonds, common equity securities, preferred shares, bank deposits and derivatives. The managed funds owned by the Group invest in a number of different types of investments which include: large cap, small cap and emerging market equity, U.S. bonds, high yield bonds, and alternative investments which can include private equity. These investments are subject to the conditions and restrictions as further defined in the terms of the offering of each fund, which are usually contained in a formal Offering Memoranda. Such Offering Memoranda generally define the nature and types of investments in which a managed fund can invest and provide for specified procedures regarding further investment in and redemption from the particular fund.

Whilst investments in managed investment funds can achieve investment diversification, these investments can also subject the Group to a concentration of risk in one group or investment strategy. Because the investments in managed investment funds can only be redeemed or transferred in accordance with the terms of the offering of the particular fund, generally weekly, monthly, or quarterly, the ability of the Group to realize such investments may be restricted.

In addition, the Group has an intercompany asset/loan on its balance sheet to affiliate Gibbons Management Services Limited ("GMSL"). GMSL is a wholly owned subsidiary of Edmund Gibbons Limited ("EGL"), which is also the sole shareholder of CGI.

The primary investment managers of CGI's portfolios are Clarien Investments Limited (EGL affiliate) and CPSB.

The investment portfolio is monitored by the Investment Committee of the Board and management and is subject to the Investment Policy Statements approved by the Board of Directors. These investment guidelines are reviewed on an annual or ad hoc basis if any significant deviations have occurred that materially affect the financial markets



Stress Testing and Sensitivity Analysis

The Group has constructed economic capital models which are used to assess the likely range of outcomes and results, and the resulting capital requirements for CGI and its insurance operating subsidiaries, under a variety of scenarios. These models were constructed using the Risk Explorer platform of Ultimate Risk Solutions ("URS"), a leading third-party vendor of dynamic financial analytic software solutions. Risk Explorer is a simulation-based financial analyses software package developed specifically for the insurance industry. The package is a widely used capital modelling tool for internal capital assessments as well as for Solvency II purposes in Europe.

The capital models include simulated economic environment data generated from an Economic Scenario Generator ("ESG") which contribute towards the evaluation of market risk within the models' capital allocation. The ESG provides a set of systemic economic drivers which determine the basis for discounting future cash flows and the valuation of the investment portfolio. It is capable of capturing the economic drivers for multiple currencies. The valuation principles applied to the asset portfolio are to derive a simulated market value at each future time period using the ESG outputs and the specific characteristics of the individual assets.

The calibration of the loss models is a function of the historical data, where available, and a degree of judgment in the selection of frequency and severity distributions for the per-risk large losses. A set of correlation assumptions is applied to the claims models based on management's views and experience. Models are run at the base Solvency II standard which requires outputs to demonstrate insurer solvency over a one year time horizon at a 99.5% confidence level.

The Group's economic capital models are used to run a variety of both regulatory prescribed and self-constructed stress scenarios to independently assess the level of capital buffer above the BMA's Minimum Solvency Margin ("MSM") and Enhanced Capital Requirement ("ECR"). Several stress scenarios are tested using the internal capital models to assess the Group's capital position at the end of one year. These scenarios include: severe hurricane activity in multiple jurisdictions, stressing investment asset performance, assuming reinsurer defaults, assuming extreme claims inflation and reducing future business volume. As at 31 December 2017 none of these scenarios alone would bring the Group's ECR ratio below 150%.

The Group also performs annual Reverse Stress Testing exercises to identify and assess events and circumstances that would cause the Group (or an individual company within the Group) to become unviable. Reverse Stress Testing allows the Group to assess extreme risks which could threaten the Group and consequently ensures that both pre event and post event mitigation/remediation are appropriately considered by senior management and the Board.

Solvency Valuation

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

The consolidated financial statements of the Group, and the financial statements of each legal entity in the Group, are compiled on the going concern basis and prepared on the historical cost basis, except for the financial assets at fair value through profit or loss and available for sale financial instruments, which are stated at fair value, and financial assets held-to-maturity, which are carried at amortized cost.

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the year. These financial statements are the basis for the preparation of the Statutory Financial Statements, as required under Bermuda insurance regulations, and the Economic Balance Sheet (EBS). These statements are used by the Group, and each Bermuda legal entity regulated by the Bermuda Monetary Authority, to assess the minimum solvency and required capital, both current and projected future needs.

The Group has used the valuation principles outlined by Bermuda Monetary Authority's "Guidance Note for Statutory Reporting Regime" for the reporting period's statutory filing. The economic valuation principles outlined in this document are to measure assets and liabilities on a fair value basis (which is the value that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between open market participants at the measurement date). The fair value principles used for each asset class are stated below:

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

Fixed Income Securities – are valued in accordance with mark to market principles where possible or quoted market prices in active markets for similar assets with adjustments to reflect differences if mark to market valuation is not possible. For fixed income securities that are not actively traded and for which similar assets are also not actively traded, the Group uses pricing services to prepare inputs to assist the Company with marked to model valuations.

Equities and investment funds - includes common stock and preferred shares and are valued using the quoted market prices.

Investments in & Advances to Affiliates - includes investments in and advances to affiliates that are unregulated non-financial operating entities included in our group structure (GMSL and Colonial Master Retirement Trust (net)).

Compliance is a facet of the Group's reputation for integrity, fairness and professionalism, which help to define CGI as a company where people come first.

Accounts Receivable and Premium Receivable – are recorded at a fair value and balances due in more than one year have been discounted at the relevant risk free rate.

Real Estate – has been valued at amortised original cost. The Group obtains independent appraisals on a three year cycle or more often if the market indicates a risk of significant permanent diminution in value has occurred.

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

Insurance technical provisions are valued based on best estimate cash flows, adjusted to reflect the time value of money using a risk-free discount rate term structure with an appropriate illiquidity adjustment. In addition, there is a risk margin to reflect the uncertainty contained inherent in the underlying cash flows which is calculated using the cost of capital approach and a risk-free discount rate term structure. The discount rate term structures are prescribed by the Bermuda Monetary Authority for each reporting period.

The best estimate for the loss and loss expense provision is calculated by using IFRS reserves as the starting point and then performing a series of adjustments:

- Incorporation of expected reinsurance counterparty defaults
- Incorporation of events not in data ("ENID").
- Other adjustments related to consideration for investment expenses, etc.
- Reinsurance recoveries.
- Discounting of cash flows.

The best estimate for the premium provision is calculated by starting with the unearned premium reserve on an IFRS basis, adjusting for bound but not incepted business as at 31 December 2017 and applying expected future loss ratios, expense ratios and appropriate claims pay-out patterns to derive cash flows which are then discounted.

The risk margin will be calculated using the cost of capital method, which reflects the uncertainty (insurance risk, credit risk, and operational risk) associated with the best estimate liabilities. The application of the risk margin shall be for the full period needed to run-off the insurance liabilities.

Technical Provisions

As at December 31, 2017, the Technical Provisions for Colonial Group International Limited amounted to $83.5 million:

CGI	General Business	Long-Term Business	
000's	Insurance	Insurance	Consolidated
Net Premium Provisions	21,538	Nil	21,538
Net Loss & Loss Expense Provisions	52,220	7,043	59,263
Risk Margin	1,674	1,020	2,694
Total Technical Provisions	75,432	8,063	83,495

As at December 31, 2017, the Technical Provisions for Colonial Insurance Company Limited amounted to $17.1 million:

CIC	General Business
000's	Insurance
Net Premium Provisions	9,524
Net Loss & Loss Expense Provisions	7,070
Risk Margin	549
Total Technical Provisions	17,143

As at December 31, 2017, the Technical Provisions for Colonial Medical Insurance Company Limited amounted to $13.7 million:

CMIC	General Business
000's	Insurance
Net Premium Provisions	253
Net Loss & Loss Expense Provisions	13,280
Risk Margin	148
Total Technical Provisions	13,681

CGI has achieved customer trust by placing the individual at the heart of product and service offerings.

Long Term

The technical provisions for the Life portfolio differ from those reported on a statutory basis in significant ways and are computed on a best estimate basis. This is, the margins that are built into every assumption used in the statutory valuation are removed.

These technical provision reserves are discounted at currency specific rates promulgated by the BMA – these rates are reflective of current yield curves adjusted for liquidity and defaults which are low given the current interest rate environment. This has the effect of increasing positive reserves but decreasing (improving) the level of negative reserves. A 100bp margin has been used in the computation of the negative Unit-Linked insurance reserves to allow for a sudden market decline scenario. This could be considered an allowance for ENID's for this sub-line/product.

The calculation of the total technical provisions requires a computation of risk margins. In 2015, the BMA provided a computation guide that has again been used this year to develop the discounted value of future risk margins. These risk margins are based on factors for a variety of risks – such as mortality, longevity or operational risks. Projected cash flows are used to estimate future risk levels.

As at December 31, 2017, the Technical Provisions for Colonial Life Assurance Company Limited amounted to $8.1 million:

CLAC	Long-term Business
000's	Insurance
Net Premium Provisions	Nil
Net Loss & Loss Expense Provisions	6,843
Risk Margin	745
Total Technical Provisions	7,588

Description of Recoverables from Reinsurance contracts

Recoverables from reinsurance contracts are based on principles similar to the gross best estimate. The reinsurance structure for the existing business is considered in the projection of the best estimate by the actuarial team.

The balance is then adjusted for counterparty credit rating based on rating agency and experience default statistics.

The reinsurance recoveries are calculated separately for the claims provision and the premiums provision, with the ceded IFRS reserves and ceded unearned premium reserves respectively used as the start point in the calculations.

CGI draws commercial strength from the cohesion of a group of companies deploying a variety of skills, experience and local knowledge in different geographic settings.

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

Similar to the valuation principles for assets, the Group's liabilities follow the valuations principles outlined by Bermuda Monetary Authority's "Guidance Note for Statutory Reporting Regime" which values liabilities at a fair value basis. All other liabilities (with the exception of Loans and Notes Payable) are valued on an IFRS basis and settlements not expected to be settled within a year, are discounted using the prescribed discount rates provided by the Bermuda Monetary Authority as at 31 December 2017. Loans and Notes Payable are valued on an IFRS basis.

Any Other Material Information

There is no other material information to report.

The primary capital management objectives are to maintain a strong capital base to support development.

Capital Management

The Group's capital base is structured to exceed regulatory targets and desired capital ratios, maintain strong credit ratings and provide flexibility to take advantage of growth opportunities and provide an adequate return to shareholders. Capital is managed on a consolidated basis under principles that consider all the risks associated with the business. It is also managed at the business unit level under the principles appropriate to the jurisdiction in which it operates. The Board of Directors is responsible for devising the Group's capital plan with management responsible for the implementation of the plan. The policy is designed to provide an appropriate level of risk management over capital adequacy risk, which is defined as the risk that capital is not or will not be sufficient to withstand adverse economic conditions, to maintain financial strength or to allow the Group to take advantage of opportunities for expansion.

The primary capital management objectives of the Group are to maintain a strong capital base to support the development of its business and to meet regulatory and rating agency capital requirements at all times. The Group recognises the impact on shareholder returns of the level of equity capital employed and seeks to maintain a prudent balance. It strives for an appropriate capital structure that efficiently allocates the risk to the capital. The Group's capital and risk management strategy are primarily unchanged over the prior year.

This section of the report describes the internal operational structures/procedures underlying capital management within the company as well as the projections of capital position over a one year planning horizon. The capital plan is updated annually or more frequently if a material change occurs to the Group's risk or capital profile, business strategy, the macro-economic outlook or if regulatory feedback warrants a change. Key elements include:

- Eligible capital;
- ECR and MSM;
- Rating Agency Review.

Eligible Capital

The Group's eligible capital is comprised of items on the balance sheet which are referred to as basic own funds and off balance sheet items that may be called up to absorb losses referred to as ancillary own funds. This sub-section of the report aims to provide a view of capital management activities in the Group, its capital management methods and the structure, amount and quality of Eligible Capital.

Composition and Quality of Eligible Capital

Under Solvency II regulation, capital is referred to as Own Funds and the regulation distinguishes between Basic Own Funds ("BOF") and Ancillary Own Funds ("AOF"). Capital under Solvency II starts with the excess of assets over liabilities as determined by the Economic Balance Sheet ("EBS"). Qualifying subordinated debt is then added to this and the combined amount is known as BOF. The whole amount is classified into tiers of Own Funds. Restrictions are applied to limit the extent to which the various components of Own Funds can be used to meet the capital requirements.

Tier 1 basic eligible capital

The basic eligible capital has been classified and tiered in accordance with the Group's Own Funds Policy. The Group's ordinary share capital, the related share premium amount and contributed surplus are classified as Tier 1 capital.

Tier 2 basic eligible capital

The Group has encumbered assets in excess of policyholder obligations. These relate to funds placed in trust to meet licensing requirements where the Group's subsidiaries operate as foreign insurers.

Tier 3 basic eligible capital

The Group has no Tier 3 eligible capital as of the reporting date (2016 $nil).

Eligible capital

The classification into tiers is relevant to the determination of eligible capital. These are the own funds that are eligible for covering the regulatory capital requirements – the solvency capital requirement and the minimum capital requirement. For example, the minimum capital requirements must be covered by Tier 1 and Tier 2 capital and may not therefore be covered by Tier 3 capital. The extent to which the tiers are eligible to cover the capital requirements is set out in the regulations.

The composition and total eligible capital for the Group as at 31 December 2017 is provided below:

US$000	Tier 1 (Unrestricted)	Tier 2	Tier 3	Total
Ordinary Share Capital	1,512			1,512
Contributed Surplus or Share Premium	12,304			12,304
Statutory Economic Surplus	252,917	1,633		254,550
Economic Capital & Surplus	266,733	1,633		268,366
Minority Interest	13,443			13,443
Total Eligible Capital	280,176	1,633		281,809

The composition and total eligible capital for the three public interest entities regulated by the Bermuda Monetary Authority as at 31 December 2017 is provided below (in US$000):

Colonial Medical Insurance Company Limited	Tier 1 (Unrestricted)	Tier 2	Tier 3	Total
Ordinary Share Capital	2,000			2,000
Contributed Surplus or Share Premium	1,500			1,500
Statutory Economic Surplus	98,002			98,002
Economic Capital & Surplus	**101,502**			**101,502**

Colonial Insurance Company Limited	Tier 1 (Unrestricted)	Tier 2	Tier 3	Total
Ordinary Share Capital	4,000			4,000
Contributed Surplus or Share Premium	10,500			10,500
Statutory Economic Surplus	3,998			3,998
Economic Capital & Surplus	**18,498**			**18,498**

Colonial Life Assurance Company Limited	Tier 1 (Unrestricted)	Tier 2	Tier 3	Total
Ordinary Share Capital	4,000			4,000
Contributed Surplus or Share Premium	14,812			14,812
Statutory Economic Surplus	(4,775)	2,486		(2,289)
Economic Capital & Surplus	**14,037**	**2,486**		**16,523**

The corporate culture encourages creativity and clarity of purpose with customer service and general business performance.

Identification of differences in shareholder's equity as stated in the financial statements versus available statutory capital and surplus include the following:

	CMIC	CIC	CLAC	CGI
US$000's				
Reported Under IFRS	99,975	21,696	15,922	285,931
Adjustments for Statutory Capital & Surplus:				
Non-admitted asset - prepaid expenses	(502)	(136)	(111)	
Non-admitted asset - property, plant & equipment	(1,102)	(1,688)	(326)	
Non-admitted intangible assets	(769)	(310)		(5,388)
Non-admitted asset - goodwill				(6,518)
Non-admitted asset - deferred acquisition expenses				(3,707)
Non-admitted asset - net property				(8,375)
Non-admitted deferred commission income				5,042
Statutory Capital & Surplus	97,602	19,562	15,485	266,985
Adjustments for Economic Balance Sheet:				
Net technical provisions	370	(614)	1,718	1,085
Fair value of financial assets	45	43	165	269
Deferred acquisition costs	(15)	(493)	(845)	
Economic Capital & Surplus	98,002	18,498	16,523	268,366

Regulatory Capital Requirements

The Enhanced Capital Requirement ("ECR") reflects a level of eligible capital that enables the Group and each legal entity regulated by the Bermuda Monetary Authority to absorb significant losses and that gives reasonable assurance to policyholders and beneficiaries that payments will be made as they fall due.

The Minimum Margin of Solvency ("MSM") should ensure a minimum level below which the amount of resources should not fall.

As at 31 December 2017, the Group ECR of US$69,935k was covered by US$268,366k of eligible capital resources, providing a Bermuda statutory surplus of US$198,431k as per the Group BSCR filed with the BMA on May 31, 2018.

The MSM, ECR and capital requirement ratios of the insurance entities of the Colonial Group of companies regulated by the BMA are summarized in the table below:

	000's			Capital
			Available Statutory	Requirement
	MSM	ECR	Capital and Surplus	Ratio
Colonial Group International Limited	58,314	69,935	268,366	384%
Colonial Medical Insurance Company Limited	26,708	26,708	98,002	378%
Colonial Insurance Company Limited	3,768	15,071	18,498	123%
Colonial Life Assurance Company Limited	841	3,363	16,523	491%
Colonial Re Ltd	2,076	8,305	12,352	149%

Internal Capital Model

The Group primarily uses its own economic capital models (see page 27) to determine its CISSA and GSSA capital. For CLAC and ColRe the BMA's standard deterministic approach is used. The capital requirements for the Group and insurance entities regulated by the BMA are not determined by the internal capital models. Rather, the standard BSCRs are used to determine the Enhanced Capital Requirements and Minimum Solvency Margins.

The Group was granted approval to use a credit risk charge of 2.8% to assess the capital required for contingent credit risk to reinsurers associated with any property catastrophe risk exposure in the 2017 Bermuda Solvency Capital Return (BSCR). The standard credit risk charge is 10%. The BMA granted the reduction on the basis that the standard factor was not commensurate with the credit risk profile of the reinsurers to which the Group cedes its general insurance business.

All rated CGI insurance companies are rated A- (Excellent) by A.M. Best.

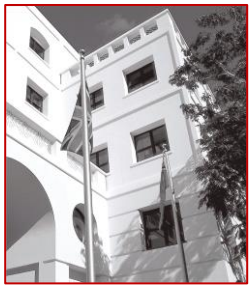
Capital strength confirmed by independent rating agency

The Group contracts with the rating agency, A.M. Best, to conduct on an annual basis independent assessments of capital strength for all the licensed insurance entities of the Group. The results of these assessments are published and available to the public on the A.M. Best website.

The ratings methodology employed by A.M. Best underwent a meaningful change during 2017. The methodology used to assess insurer balance sheet strength is now stochastic in nature, with a number of qualitative factors then taken into consideration prior to determination of the insurer's rating. This methodology is designed to assess each insurer's ability to remain in business in the wake of multiple stress events that can be reasonably foreseen. The latest published results for the three public interest insurance subsidiaries regulated by the Bermuda Monetary Authority are summarized below:

Colonial Insurance Company Limited **Colonial Medical Insurance Company Limited** **Colonial Life Assurance Company Limited**	**AM Best Rating:** **A- (Excellent)** **Stable outlook**

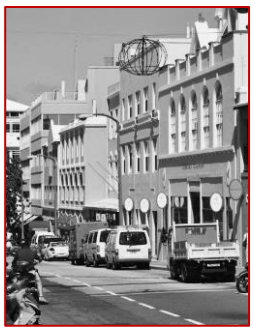
Other than the impact of applying statutory-based technical provision valuation techniques, significant differences between GAAP shareholder equity and available statutory capital and surplus include the elimination of the value of goodwill and other intangible assets from statutory capital and surplus.



General Information

Subsequent Events

During 2017 the Group entered negotiations with Beacon Insurance Company Ltd. ("Beacon") with the intent of strengthening its representation in the southern and eastern Caribbean regions. On May 7, 2018 the Group signed a letter of intent with Beacon to acquire 40% of its shareholders' equity immediately on obtaining the necessary regulatory approvals with the option to acquire a further 35% in 3 years' time. On completion, this acquisition will deliver 7 additional licenses to offer insurance products in these regions. The directors expect the acquisition to be accretive within 3 years of the business being fully integrated. The Group is currently assessing the accounting treatment for this transaction.



Declaration

We declare to the best of our knowledge and belief that the information in this Financial Condition Report represents the financial condition of the Group and or the Companies (as the case may be) in all material respects.

S. Naz Farrow
President and Chief Executive Officer

Michael Rego
Chief Risk Officer

COLONIAL GROUP
INTERNATIONAL

Jardine House, 33-35 Reid Street, Hamilton HM 12, Bermuda
tel. (441) 293 2444 fax. (441) 296 6452 www.cgigroup.com

Colonial Insurance Company Limited
Jardine House, 33-35 Reid Street, Hamilton
P.O. Box HM 1557, Hamilton HM FX, Bermuda
tel. (441) 296 3700

British Caymanian Insurance Company Limited
BritCay House, 236 Eastern Avenue, George Town
P.O. Box 74, Grand Cayman, KY1-1102, Cayman Islands
tel. (345) 949 8699

Colonial Insurance (BVI) Limited
Palm Grove House, P.O. Box 2377
Road Town, Tortola, British Virgin Islands VG1110
tel. (284) 494 8450

Security & General Insurance Company Limited
Atlantic House, 2nd Terrace & Collins Avenue
P.O. Box N-3540, Nassau, Bahamas
tel. (242) 326 7100

Atlantic Medical Insurance Limited
Atlantic House, 2nd Terrace & Collins Ave
P.O. Box SS-5915, Nassau, Bahamas
tel. (242) 326 8191

Colonial Pension Services (Bahamas) Limited
Atlantic House, 2nd Terrace & Collins Ave
P.O. Box SS-6246, Nassau, Bahamas
tel. (242) 502 7526

Colonial Insurance Brokers Limited
Suite 3D-A, Courtyard Plaza, Leeward Highway
Providenciales, Turks & Caicos Islands
tel. (649) 941 3195

COLONIAL GROUP
INTERNATIONAL

Colonial Group International Ltd.
Jardine House, 33-35 Reid Street, Hamilton HM 12
P.O. Box HM 1559, Hamilton HM FX, Bermuda
tel. (441) 293 2444 www.cgigroup.com

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