Citadel Reinsurance Company Limited
Financial Condition Report
For year ending December 31, 2020

Executive Summary

The purpose of this Financial Condition Report is to satisfy the public disclosure requirements of the Insurance (Public Disclosure) Rules 2015 and Section 30 of Insurance (Group Supervision) Rules 2011 (collectively, the Rules) in respect of Citadel Reinsurance Company Limited ("Citadel" or "the Company"), a reinsurance company registered in Bermuda. The elements of the disclosure relate to business performance, governance, risk profile, solvency and capital management.

The results of both the Company, as a standalone entity, and the Citadel group of companies ("Group"), for the year ended December 31, 2020 have been disappointing. The Company and Group's recorded losses after tax for the year, per the audited Consolidated financial statements prepared in accordance with US generally accepted accounting principles (GAAP), are $1,158k (2019 $2,289k profit) and $7,271k (2019 $1,260k profit) respectively. The 2020 losses were derived primarily from the adverse run-off of Texas business produced for the Group's affiliate, American Millennium Insurance Company ("AMIC"), by Managing General Agents. The Company provided capital and operating support during 2020 which has resulted in turning the Company's otherwise strong underwriting performance into a net loss for the year.

As at December 31, 2020, the Company has Statutory economic capital and surplus of $18,040k (2019: $25,879k) compared to the Enhanced Capital Requirement and Target Capital Levels prepared under the Bermuda Monetary Authority's 2019 Year-End Revised Methodology of $14,712k (2019: $11,222k) and $17,655k (2019 $13,466k) respectively. The final amount of the solvency capital requirement remains subject to supervisory assessment. The Company intends to re-establish the substantial buffer over the solvency capital requirements over the coming 12 months to December 31, 2021 via retained profits, with strong focus on underwriting discipline and expense control, and a future capital raising. As such, the Company continues to seek opportunities which offer a good return on solvency capital.

The governance and risk frameworks of the Company are detailed further in this report. Aside from the enhancements to Cybersecurity emanating from a Group-wide review of our operating processes and data protection arrangements, and the responses initiated to maintain "business as usual" in the face of the Covid-19 pandemic, there have been no significant changes in the reporting period.

The Company

Citadel Reinsurance Company Limited was incorporated in Bermuda on January 4, 1984, and licensed as a Class 3A Insurer by the Bermuda Monetary Authority ("BMA") on January 1, 2009, to write all classes of general business insurance and reinsurance. The Company shall not write "long-term business" without obtaining the prior approval of the BMA.

1. BUSINESS AND PERFORMANCE

a. Name of Insurer
Citadel Reinsurance Company Limited

b. Supervisors

Insurance Supervisor
Bermuda Monetary Authority
BMA House
43 Victoria Street, Hamilton
Bermuda

c. Group Supervisor

The US insurance affiliates owned by the Company or its affiliates are supervised by USA State insurance regulators as determined by the State in which the US affiliate is domiciled. The UK affiliate, CRS UK Limited, is regulated by the UK insurance regulator.

d. Approved Auditor

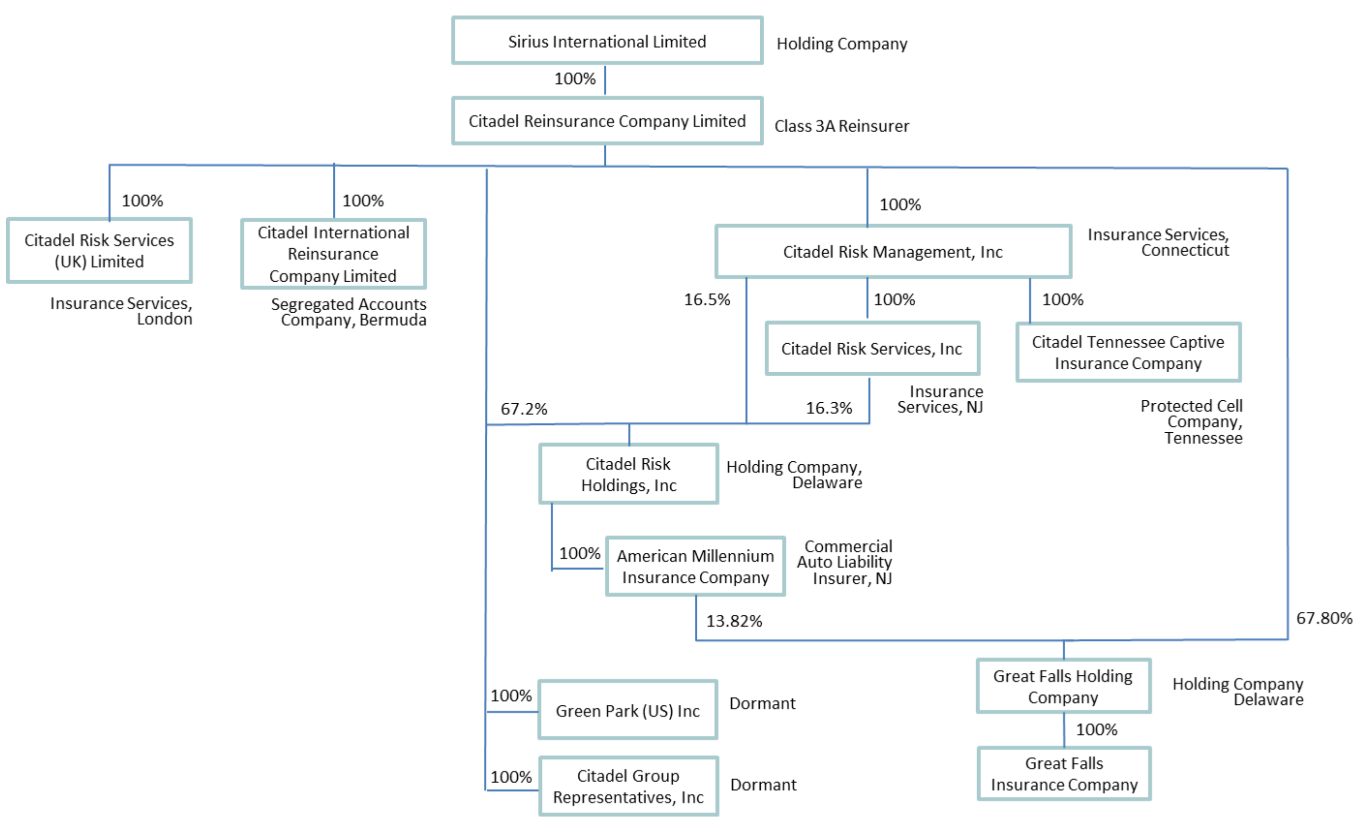
Statutory and GAAP Reporting
KPMG Audit Limited
Crown House
4 Par-la-Ville Road
Hamilton HM 08

e. Bermuda Ownership Details

The Company's ultimate parent company is Sirius International Limited, a company domiciled in Bermuda.

Group Structure

The organisation chart below provides details of the Company in the Group structure.



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

The Company carries on treaty and excess of loss reinsurance property and casualty liability business, assuming risks from a number of international insurance markets.

The business written by the two main general insurance affiliates within the Group is:

i. American Millennium Insurance Company ("AMIC") writes US Commercial Automobile Liability business principally in New Jersey and by Texas based producers, and

ii. Great Falls Insurance Company ("GFIC") wrote US Workers Compensation and Employers Liability business in Maine and New Hampshire until September 18, 2017. GFIC sold the rights to write new and renewed business from September 18, 2017 to Eastern Insurance Alliance Company and entered run-off from this date.

(reported in thousand US dollars)

Group Premium Written by Business Segment for the Reporting Period

	Gross Premium Written		Net Premium Written	
Line of Business	**2020**	**2019**	**2020**	**2019**
Property	-	-		1
Credit / Surety	5,540	1,726	3,964	1,549
Marine	6	-	6	-
US Casualty	43,756	49,924	16,266	14,042
US Casualty Non-Proportional	1,986	3,419	1,986	3,419
US Specialty Non-Proportional	7	-	7	-
International Casualty Non-Motor	11,722	7,542	6,518	2,775
	63,017	**62,611**	**28,747**	**21,785**

Group Net Premium Written by Geographical Region for the Reporting Period

	Net Premium Written	
Region	**2020**	**2019**
Europe	10,481	4,324
USA	18,266	17,461
	28,747	**21,785**

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

	Balance[1] ($000's)	% Return	Balance[1] ($000's)	% Return
Investment Type	**2020**	**2020**	**2019**	**2019**
Equities : Common Stocks	2,179	5.0%	1,889	6.0%
Equities : Preferred Stocks	1,986	7.1%	2,542	5.3%
Bonds and Debentures	19,022	3.3%	23,004	3.7%
US Government Agency Mortgage-backed securities	1,088	2.5%	1,575	2.7%
	24,275	**3.7%**	**29,010**	**3.9%**

[1] Investments are valued at Market Value and consistent with the EBS valuations

Performance of Investments for the Reporting Period

The Group primarily invests in quoted equities, high investment grade government and corporate bonds, and cash funds. The Mortgage-backed securities are securities with Government National Mortgage Association, Federal Home Loan Mortgage Corporation and Federal National Mortgage Association. For 2020 approximately 35 % (2019: 18%) of funds allocated for investment purposes were held in cash funds at December 31, 2020 and these are included within Cash and cash equivalents in the Group's Financial Statements. This 2020 percentage is distorted by the receipt of $6.1m cash on December 31, 2020, which was subsequently invested into securities, and without which, the cash funds would have represented 18% allocated held in cash funds at December 31, 2020.

The Group covers its technical provisions with investment grade fixed income securities or cash equivalents, and includes a conservative buffer in the event of a material adverse development of technical provisions. The balance of the portfolio includes more speculative investments to maximize returns while preserving sufficient capital to take advantage of growth opportunities. Investment returns have continued to be volatile in 2020 and interest rates remain at depressed levels. Nevertheless the Group was able to generate an overall return of 3.7% on investments which was within the Group's target range.

Material income and expenses for the Reporting Period

The Group's main revenue source is insurance and assumed reinsurance premium. Gross premiums written in 2020 of $63.0m were $0.4m higher than 2019 ($62.6m), reflecting the net of an increase of $11.1m gross reinsurance premiums assumed from non-affiliated parties, a reduction of $11.0m insurance premium written by AMIC and a reduction of $0.2m in return premiums by GFIC which entered run-off in September 2017.

The Company's strategic move to grow and diversify its reinsurance business continued in 2020 with an increase of business in non-Motor General liability (Europe and US), Professional Indemnity (UK) and Surety (Europe) classes of business, and this growth offset the forecast reduction in premium written by its affiliate, AMIC, during the year. The net assumed reinsurance business remains tightly controlled but was allowed to grow during the year. $1.6m of the Parent's $11.1m increase in gross written premium assumed from third parties during 2020, was ceded to reinsurers resulting in a net increase of $9.5m reinsurance premium written. The Parent's third party reinsurance business in 2020 performed well and has now been profitable for the past five consecutive years.

AMIC's 2020 gross premium written of $32.9m is $11.0m lower than 2019 levels ($43.9m). The movement reflects the continued repositioning of AMIC's expansion into the southern US states with the cessation of the arrangements with two managing general agents. The reduction of 2020 gross written premiums arising from the discontinuance of MGA produced business, was only partially offset by the $3.0m increase in AMIC's core direct business, which is predominantly based in New Jersey and South Carolina.

The acquisition of AMIC in 2011 was a strategic investment as the Company sought to transition from its dependence on London market reinsurance operations towards establishing a balanced insurance and reinsurance operation. AMIC was making significant net operating losses in 2011 and required considerable re-engineering and growth of its New Jersey-based direct agency business ("Core") to turn around its fortunes. Whilst the Group's retention of most of AMIC's written premium in the initial turnaround years meant that it bore much of the brunt of the Core underwriting losses suffered during this period, the substantial efforts of the management team to improve the underwriting and claims handling, reserving and settlement practices. Clear benefits were realized, with improved development on incurred to earned loss ratios, increased closed to open claims ratios, reduced claims frequency and commercial auto pricing and the results from AMIC's Core trucking and taxi business have been consistently profitable since 2017. The Core trucking and taxi business, over which AMIC has direct control, represents the Group's ongoing insurance business.

AMIC's expansion into new US states through Managing General Agents in late 2015 and the introduction of 80% reinsurance of all new business to non-affiliates including Lloyds syndicates, represented an exciting but controlled new chapter in AMIC's development. However, over time the Texas business has proven to be unprofitable and is the major driver of the case reserve strengthening that has taken place in 2020. Several factors contributed to the deterioration including the increasingly common use of Stower Demands, the high frequency of soft tissue claims that have escalated into high value claims under the difficult Texas litigation environment and the late reporting of material claims until just before the statutes of limitations were set to expire. AMIC has now discontinued writing all MGA produced business in Texas, and effective April 1, 2021 entered into an aggregate stop loss with a third party which significantly reduces the likelihood of future possible adverse development on business produced for it by Texas managing general agents. See Section 5.6 Subsequent Event.

Where applicable, sliding scale outward reinsurance commissions are recognised in the financial statements. The Group's claims provisions are reviewed by professional and independent external actuaries, and are consistent with the mid-range of ultimate loss ratios as determined by them. Additional comfort in the adequacy of the AMIC 2020 claims provisions was obtained through an actuarial peer review of the provisions.

Since commencing operations in 2011, GFIC grew consistently to the point where the operation had sufficient premium volume to achieve consistent profits. 2017 was GFIC's third consecutive profitable year and the second in which it had been able to achieve profits in each quarter. With the commencement of operations in New Hampshire, GFIC was well positioned for the future and it came as no surprise that it had become an attractive acquisition proposition. GFIC has now been in run-off for three years and few Open claims remain.

The Group continues to seek revenue from insurance fronting, administration and support services, and this remains a key element of the strategy going forward. These services offer a risk- free income platform to offset general and administration expenses. Other Income earned in 2020 of $5,178,009 represents the third consecutive year of strong results (2019: $8.2m).

In July 2020, the Company sold its 51.0% ownership share in Citadel Management Bermuda Limited and CRMI sold its 51.0% of the interests held in Cedar Consulting, LLC, to affiliates of the Davies Group. The profit achieved from this sale and the fees earned by the two affiliates to the date of their sales are included within Other Income.

Citadel International Reinsurance Company Limited (CIRCL), a segregated accounts company operating in Bermuda and Citadel Tennessee Captive Insurance Company (CTCIC), a protected cell captive insurance company in Tennessee continued to expand their operations during 2020. .CIRCL now has 17 segregated accounts (2019: 15)and CTCIC has 4 protected cells (2019: 2)

(reported in thousand US dollars)		
Expense Type	**2020**	**2019**
Claims expense	25,392	16,126
Net commissions and other acquisition expenses (income)	2,800	(223)
General & Administrative expenses	10,661	12,340
Foreign exchange (gains) losses	(113)	74
Total expenses[1]	**38,740**	**28,318**

1 per Consolidated financial statements prepared in accordance with US GAAP.

h. Any Other Material Information

No other material information to report.

2. GOVERNANCE STRUCTURE

The Company has established the governance structure as outlined below taking into consideration the principle of proportionality and other such factors including the relationship between the Company, its ceding insurers and the parties insured, as well as the characteristics and volume of business written.

The governance structure is commensurate with the nature, scale and low level of complexity of the Company, but is established to:

- Ensure the enterprise risk management is maintained at high standards
- Ensure the business is operating in an efficient and effective manner; and
- Align control procedures for affiliates within the organisation based on the risk they carry.

a. Board and Senior Executive

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

The Board is responsible for providing strategic direction and ensuring appropriate governance practices are in place to represent the interests of the shareholders. The Chief Executive Officer and other Officers of the Company are responsible for day-to-day management and executing the strategic direction. The Board has approved the Delegation of Authority policy which articulates the respective roles and extent of delegated responsibilities.

ii. Remuneration Policy

The Company has no direct employees. The Company has engaged Davies Captive Management Limited as its insurance manager to provide management services. The Directors remuneration for 2020 was $3,000 (2019 $0).

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

None.

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

None

b. Fitness and Proprietary Requirements

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

The Company appoints members of the Board based on the individual's expertise and work experiences as well as professional judgement and recommendations from third parties. The parent's representative on the Board plays an active role in the affairs of the Company and is able to assess the fitness and propriety of fellow board members, controllers, officers and third party service providers. Due to the specific nature and scale of the Company's operations, formal documentation of this process is not considered necessary.

ii. Board and Senior Executives Professional Qualifications, Skills and Expertise

Each Board member and senior executive has significant experience in the insurance industry, as well as in their respective fields, to provide the level of knowledge and expertise required to carry out their roles and responsibilities.

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

Board

Anthony B. Weller
Anthony (Tony) Weller is a Director, President and Chief Executive Officer of the Company. He qualified as a Chartered Accountant of the Institute of Chartered Accountants in Australia and New Zealand in 1991, and worked for Coopers & Lybrand (now PwC) in both Sydney and Perth, and then as a partner in Fogarty Weller Chartered Accountants in Perth, West Australia. Tony joined the Citadel Reinsurance group in 2001 and has played an instrumental role in guiding the strategy and operations of the parent and international affiliates within the group. He is also Chairman of GAGA, Goodwill and Growth in Africa, a charity registered in the United Kingdom.

Thomas R McMahon
Thomas (Tom) R McMahon is Executive Vice President of Davies Captive Management Limited ("DCM") (formerly Citadel Management Bermuda Limited), which acts as Citadel's Principal Representative and Insurance Manager. Tom graduated with Honours as a Bachelor of Commerce from University College Galway, Ireland in 1983 and is a Fellow of the Institute of Chartered Accountants in Ireland. He worked for Coopers & Lybrand and ACE Limited in Bermuda before joining CNA Risk Services Ltd (CRS) in 1994. Tom was part of management buy-out of CRS in 2005. Tom has considerable experience of the Bermuda insurance market, with particular expertise in the establishment and management of single parent, group and Segregated Account Company captives. He is also a past President of the Bermuda Insurance Management Association.

Michael Larkin
Michael (Mick) Larkin is a Director of Citadel Reinsurance Company Limited and Vice President of DCM, which acts as Citadel's Principal Representative and Insurance Manager in Bermuda. Mick is a Fellow of the Institute of Chartered Accountants in Ireland and holder of a Bermuda Insurance Institute Diploma. He moved to Bermuda in 1988 and worked for Ernst & Young and Highland Fidelity Limited before joining Cedar in 1999. He has 30 years' experience of accounting, audit, financial and management in Bermuda with particular focus on rent-a-captives, single parents and Segregated Account companies.

Sophie Greaves
Sophie was appointed as a Director of Citadel Reinsurance Company Limited on June 13, 2019 having previously served as an Alternate for Michael Frith who resigned as a Director on May 30, 2019. Sophie is

a Director in the Corporate department in the Bermuda office of Conyers Dill & Pearman and a qualified Attorney-at Law in Bermuda. Prior to joining Conyers in 2010, Sophia qualified as an Associate in the Reinsurance and Commercial Risk department of Barlow Lyde & Gilbert LLP. During her time at Barlow Lyde & Gilbert, Sophia worked in both the London and Hong Kong offices, where she acted in a broad range of (re)insurance commercial litigation proceedings. Sophia's practice at Conyers spans a number of specializations, with particular emphasis on securitizations, mergers and acquisitions, banking regulation and (re)insurance transactions, including the formation, licensing and ongoing regulatory requirements for Bermuda captives, special purpose insurers in the insurance-linked securities sector and commercial (re)insurers.

V Senior Executives

Richard Wilkins Chief Financial Officer
Richard is primarily responsible for managing the financial risks of the Citadel Risk group. His current responsibilities include economic strategy and forecasting, treasury duties, presentation and reporting of the Group's financial information, enterprise risk management and liaison with regulators and rating agencies. Richard qualified as a Chartered Accountant with the Institute of Chartered Accountants in England and Wales in 1987, and worked in PwC's specialist insurance and risk management practices in London, Sydney and South-East Asia before joining the Citadel Reinsurance Group in 2013. Richard has been involved with the insurance and reinsurance industry in the London and worldwide markets for over 30 years. He has an extensive assurance and consulting background, working with many successful and distressed multi-nationals and small to medium insurers.

Conyers Corporate Services (Bermuda) Limited - Company Secretary

Consultants
The Company contracts with CRS UK Limited to provide underwriting, claims management, risk management and business development services.

Committees
There are no formal Committees of the Board, with all Directors participating in the Board's considerations.

c. Risk Management and Solvency Self-Assessment

The Company Risk Management and Solvency Self-Assessment process as outlined below takes into consideration the principle of proportionality and the volume of business written. The Risk Management and Solvency Self-Assessment processes are commensurate with the nature, scale and low level of complexity of the Company.

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

The assessment of risks is a key component of the Group's Enterprise Risk Management Policy. The policy, the Group's 2018 to 2020 business vision and strategy, the supporting Group Enterprise Risk Management Handbook, Risk Appetite and Risk Tolerance statements were reviewed and approved by the Board in December 2020.

The Company's risk management framework establishes a seven stage continuous and systematic approach to assessing risk exposures:

Stage 1: Preparation – Determine context : focused on defining the business environment within which the entity undertaking the risk assessment operates, providing context for the assessment and the criteria against which risks will be assessed later in the process.

Stage 2: Risk identification : uncovering the material risks that could affect the financial position or objectives of the organisation. The Board and senior management consider categories of risks that align to those risk categories considered in the Bermuda regulatory capital model, and collectively identify risks to the overall business.

Stage 3: Risk analysis : understanding the root causes and factors that contribute to the occurrence of risks and making an evaluation of the likelihood of occurrence and financial and non-financial impacts of risks, and the overall risk rating. It relies on assessment tools developed to provide a consistent way to evaluate and rate risks across specified dimensions (eg solvency, liquidity etc). Only risks considered material to the business are collected in the Risk Register.

Stage 4: Risk evaluation : evaluating the residual risk (the risk remaining after the existing controls implemented by management to mitigate the risk) to determine whether further actions are required to mitigate the risk further and the desired tolerance (target) level of risk.

Stage 5: Risk treatment : determining risk treatment strategies that can be applied to mitigate risks.

Stage 6: Risk monitoring : focused on monitoring risks to ensure that they remain within tolerable levels.

Stage 7: Risk reporting : risk events are reported by management as and when they occur, and are considered at the appropriate level of management and to the Board. The risk profile of the organisation as a whole is reported annually.

ii. Risk Management and Solvency Self-Assessment Systems Implementation

In accordance with the Group's Enterprise Risk Management Policy and the Insurance Code of Conduct ("Code") requirements, a complete assessment of the Company's material risks was completed during 2020 by the Board of Directors.

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

The Company's Capital Management Policy was reviewed and re-affirmed by the Board in December 2020.

Due to the nature, scale and limited complexity of the Company's operations, the Board largely adopts the Bermuda Regulatory risk-based capital model for the purposes of determining its Solvency Self-Assessment capital requirements. Aside from the annual determination of capital requirements associated with the completion of the annual BSCR return for the BMA, the anticipated capital requirements are now explicitly considered in all key decisions made by the Board and senior management during the year.

iv. Solvency Self-Assessment Approval Process

The Company's Solvency Self-Assessment Report is prepared through a collaborative effort between the Chief Executive Officer, the Chief Financial Officer and DCM.

d. Internal Controls

i. Internal Control System

The Company has systems, processes and procedures to ensure that data and reporting is reliable, organizational policies are adhered to and adequate security measures are implemented. The Company has engaged DCM to manage the affairs of the Company and places reliance upon the internal control system operating at DCM.

The Board is mindful of the growing and very real risks associated with information security and data protection and for the need to continually refresh the Group's business processes and technical cyber risk controls. In 2019, the Board commissioned a review of the Group's existing practices against the NIST Cybersecurity Framework of standards, guidelines and best practices to manage cybersecurity risk. The comprehensive review conducted by Intersys, an independent IT and Cyber Security Support Group, was completed in January 2020. Intersys were retained to act as the Group's Chief Information Officer and have assisted the Group's management and consulting partners to establish a cyber risk management framework. The Company's Cyber Security Policy was approved by the Board in December 2020.

ii. Compliance Function

The compliance function is executed under the direction of the Board of Directors of the Company. Compliance directives are applied to the Company as appropriate after considering the concept of proportionality.

e. Internal Audit

Due to the nature and scale of the Company's current operations, the Company relies upon the external auditors to fulfill the role of the internal audit function. Officers of the company and its affiliates periodically perform targeted reviews on key risk areas and new insurance and reinsurance programmes across the Group.

f. Actuarial Function

The Company has engaged Epsilon Actuarial Solutions, LLC as the actuary and Loss Reserve Specialist for the Company, AMIC and GFIC. Senior management across the Group initially determine the insurance technical provisions (including premium and loss and loss expenses best estimates, and the risk margin), which the actuary and Loss Reserve Specialist independently reviews, monitors and makes recommendations on. The Company also commissioned an independent actuarial peer review of the AMIC loss and loss expense provisions at December 31, 2020 by Casualty Actuarial Assistance LLC was also commissioned by the Company to provide additional comfort to the Board in connection with the adequacy of the carrying value of the year end reserves.

g. Outsourcing

i. Outsourcing Policy and Key Functions that have been Outsourced

As the Company has no direct employees, the key functions are overseen by the Directors, and by Mr Anthony Weller in his dual capacity as Director and Chief Executive Officer, but are performed by affiliates and third parties.

The Company has contracted with DCM, a Bermuda company specializing in the management of insurance companies. DCM is licensed and approved by the Bermuda Monetary Authority ("the Authority") to provide management services to the Company and to act as the Company's Principal Representative.

The Company has contracted with Epsilon Actuarial Solutions, LLC to provide actuarial services to the Company and to act as the Company's Loss Reserve Specialist. Epsilon Actuarial Solutions, LLC is approved by the Bermuda Monetary Authority ("the Authority").

ii. Material Intra-Group Outsourcing

See (i) above.

h. Other Material Information

No other material information to report.

3. RISK PROFILE

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

The Company's main risk categories are as follows:

- Insurance Risk – the risk of loss arising from inadequate pricing or of adverse change in the value of insurance liabilities due to inadequate reserve setting assumptions.
- Market Risk – the risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and volatility of market prices of financial instruments.
- Credit Risk – the risk of loss or of adverse change in the financial situation, resulting from the deterioration of the credit quality of an issuer of a financial instrument or a counterparty in a reinsurance contract.
- Operational Risk – the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events, and including key person risk.
- Liquidity Risk – the risk of not been able to meet obligations when obligations come due, due to a lack of sufficient liquid assets or the inability of selling assets without incurring significant losses or the difficulty of raising capital when needed.
- Strategic Risk – the risk of loss arising from the adverse effect of management decisions on both business strategies and their execution, as well as from unexpected changes in environmental trends that damages the operating economics of the business.

The Strategic Risk associated with writing commercial auto liability program business in Texas produced by Managing General Agents has been fundamentally reduced following AMIC's discontinuance of these arrangements. However, the substantial adverse development of previous year claims in 2020 has reduced the Company's and the Group's Statutory Economic Capital and Surplus to $18,040k (2019: $25,879k). AMIC's 2020 operating losses required the injection of additional capital funded from within the Group to help meet its regulatory obligations and further support has been provided during 2021. The Group is currently seeking external capital to support future growth of the Company's profitable reinsurance operations and AMIC's existing capital and liquidity requirements, and the future growth ambitions for its now profitable direct operations.

The establishment of the Citadel's Cyber Risk Management framework in 2020 has helped the Group to address the threat that cybersecurity risk imposes on insurers and the business community as a whole.

Covid-19

Since the December 31, 2019 reporting date, many countries have experienced an outbreak of the Covid-19 virus and on March 11, 2020, the World Health Organization declared the disease to be a global pandemic. The Covid-19 pandemic developed rapidly, causing disruption to global supply chains and adversely impacting many industries. The outbreak caused a material adverse impact on economic and market conditions and triggered a period of global economic slowdown.

The well-being, health, and safety of people remain the Company's top priority. We have taken all the necessary steps to protect our Group's employees and consultants and have come up with solutions to keep our agents and brokers protected as well. Despite the Group's offices generally being closed during this crisis, our employees and consultants were able to and in some operations, continue to work from home with full access to the network and all supplies needed to work without interruption. The Group continually discusses and monitors the situation and makes any necessary modifications necessary to serve our agents, brokers and insureds better. As a result of having been able to manage the heightened inherent levels of Operational Risk, Citadel has been able to maintain business continuity and internal control disciplines since the pandemic was declared, and is operating on a business as usual basis.

The Company mainly writes US Commercial Automobile Liability, General Third Party Liability, Travel and Surety insurance and reinsurance business through the US subsidiary (AMIC) and parent company, all of which may be adversely affected by the pandemic. Citadel's management is monitoring developments closely and where considered prudent, has taken steps to restructure coverages on both existing and planned programmes, thereby reducing exposures to possible adverse trends.

AMIC is feeling some effects on both Underwriting and Claims, with some downturn in taxi business whereas the trucking business appears to be holding solid. There is evidence of claimants seeking accelerated claim settlements, some below established reserves, and of reduced reported claims incidence.

The global financial markets continue be volatile, with quoted securities first suffering significant falls in late March and April 2020 followed by a substantial recovery through to the current date. Citadel has neither made nor anticipates making substantial investment re-allocations, although there are some individual industry sectors that Citadel is less likely to participate in. Cash funds available for investment are increasing during the current volatile but volatility also provides opportunity, and we are in regular communication with investment advisers to take advantage of any favourable opportunities that may arise.

Other areas within the financial statements that could be materially impacted include the Loss and loss adjustment expense reserves and amounts recoverable from reinsurers. Whilst the impact from the pandemic on claims valuations in particular is still uncertain, there is no indication of significant deterioration on claims valuations, counterparty credit risk or the Group's liquidity risk at this time.

b. Risk Mitigation in the Organization

The Company controls risk through a variety of means but ultimately risks are reported and monitored by the senior executive and officers of the Company and affiliates, with which the Board of Directors is closely involved with. Adherence to the Company's underwriting and investment guidelines are closely monitored by the Chief Executive Officer, Chief Financial Officer and Board of Directors.

c. Material Risk Concentrations

The Company's investment guidelines address concentrations within the investment portfolio.

The Group is conscious of risk concentrations within its underwriting insurance and assumed reinsurance programmes and of its focus on commercial automobile liability insurance. The diversification of the geographic sourcing of this direct line of business into different US States, the significant expansion of the Company's assumed reinsurance business in non-Motor lines of business (including General Third Party Liability, Travel and Surety business referred to previously) and the expansion of non- underwriting risk business has been considered when establishing where additional capital is to be deployed.

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

The Company's investment portfolio is managed internally by the Chief Executive Officer and Chief Financial Officer in accordance with the Company's investment guidelines and following advice sought from professional, third party investment managers. The Investment Adviser reports monthly on market trends and the performance of the Company's investment portfolios for which they are responsible.

The primary use of the Company's cash is to pay policyholder obligations and, thereafter, to meet working capital requirements for day-to-day operations. As a result, on an overall basis, investment decisions attempt to satisfy the following criteria:

- Preservation of principal
- Maintenance of appropriate liquidity reasonably sufficient to meet the known, and potentially unanticipated, cash requirements
- Maximize total return given applicable constraints.

Portfolios in general are managed on a total return basis within applicable legal, regulatory, and business constraints. The portfolio management process includes both business and economic inputs that are analyzed as part of the overall investment framework. Duration, yield and the liability cash flow characteristics are key evaluation inputs taken into consideration when making investment decisions.

Liquidity and marketability of the overall portfolio are important attributes that facilitate timely availability of cash to meet business needs. Portfolio liquidity will be maintained such that reasonably expected cash flow needs can be satisfied with minimal disruption to the investment portfolio.

There is no substitute for acting prudently, which requires that investment personnel always act with an appropriate amount of care and in the best interests of the Company in the management of its investment portfolio. Consistent and constant awareness of the condition of the marketplace and the safety of the Company's investments is required.

e. Stress Testing and Sensitivity Analysis to Assess Material Risks

Interest Rate Risk

The Company external investment manager monitors sensitivity to interest rate changes by revaluing financial assets and liabilities using a variety of different interest rates.

Active management of market risk is integral to operations. The Company's manager may change the character of future investments purchased or sold to manage exposure to market risk within defined tolerance ranges.

Underwriting Risk Exposures

The Company monitors sensitivity for events that can lead to material losses across the portfolio.

Credit Risk

The Company's reinsurance receivables and funds held by ceding reinsurers are reviewed to assess the likelihood and potential impact of a counterparty's inability to make payments in accordance with the contractual terms.

Stress testing

Citadel's monitoring of its capital position includes the conduct of annual stress testing exercises, with consideration given to individual loss scenarios deemed unlikely but possible, worst case annual aggregate loss scenarios and reverse stress testing.

The worst-case underwriting loss scenarios envisaged in each of the Group' insurance and reinsurance operations include assumptions that:

- The AMIC and Great Falls Insurance affiliates suffer adverse loss ratio developments between 1.5% and 7.5% according to the policy year, in excess of the actuarially determined high indicated ranges

- Substantially increased claims administration expenses, and
- Each of the Company's twenty-seven third party assumed reinsurance programmes simultaneously suffer worst case outcomes.

It is considered extremely unlikely that such a scenario of simultaneous stressed events would ever arise given the rapidly reduced numbers and exposures within the remaining open claims in AMIC's Texas MGA and pre-2016 Core business and the consistently conservative nature and level of net underwriting reinsurance risk written relative to the capital retained by the Company. However, if it were to, the stressed underwriting losses and investment valuations would result in Citadel's total statutory economic capital falling below its Enhanced Capital Requirement at December 31, 2020. The Company's Board is currently seeking to raise additional capital to support any concern regarding such a scenario and to fund the Group's future ambitions.

4. SOLVENCY VALUATION

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

The Company has used the valuation principles outlined by the Bermuda Monetary Authority's "Guidance Note for Statutory Reporting Regime" for the reporting period's statutory filing.

The fair value principles used for assets are as follows:

- Cash and cash equivalents – include cash held in banks, money market funds and other short-term deposits having maturities within three months of the date of purchase. The fair value of these holdings is determined by using mark to market principles.
- 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.
- Premium receivable and funds held by ceding reinsurers – are recorded at fair value

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

Insurance technical provisions are calculated as follows:

i) Nominal Best Estimate of the Loss Reserves less;
ii) Discount in the Best Estimate of the Loss Reserves plus;
iii) The Unearned Premium Reserve plus;
iv) Bound but Not Incepted Business plus;
v) A risk margin.

The Nominal Best Estimate of the Loss Reserves is calculated using United States Generally Accepted Accounting Principles (US GAAP) as a starting point and includes a provision for Events Not in Data (ENID) and estimation of future run-off expenses.

The key areas of uncertainty around technical provisions include -

- estimation of reported outstanding loss reserves – while information about claims is generally available, assessing the cost of settling the claim is subject to some uncertainty.
- estimation of the losses relating to claims which have been incurred but not reported ("IBNR") – this is generally subject to a greater degree of uncertainty than estimating reserves for reported claims since the nature of the claims is not known at the time of reserving.

- estimating a provision for events not in data (ENID) is subject to uncertainty as the events being reserved have not been observed
- Run-off expenses – the estimation of the change in expense base for run-off of the Company is inherently uncertain due to the estimations around the period of the runoff, base costs and inflation.

The Discount in the Best Estimate of the Loss Reserves is calculated based on the best estimate of the projected cash flows and a risk-free yield curve prescribed by the Bermuda Monetary Authority.

The Unearned Premium Reserve is the product of the Unearned Premium on a US GAAP basis, the expected loss ratio and the expected expense ratio. The Unearned Premium Reserve is discounted for the time value of money based on the expected payout pattern and a risk-free yield curve prescribed by the Bermuda Monetary Authority.

The Bound But Not Incepted Premium ("BBNI") technical provision is the product of premium bound but not incepted at December 31, 2020 times the expected ultimate loss and future expense ratios. The BBNI is discounted for the time value of money using projected cash flows and the risk-free yield curve prescribed by the Bermuda Monetary Authority. The Company has gross BBNI of $5,183k at December 31, 2020 ($3,722k at December 31, 2019). Claims estimated on the BBNI are uncertain as the claims have not yet been incurred but are expected to be incurred on the business written by the Group.

The risk margin is calculated using a cost of capital approach and a risk-free yield curve prescribed by the Bermuda Monetary Authority. The risk margin considers the uncertainty inherent to the estimation of the Discounted Nominal Best Estimate of the Loss Reserves ("Reserve Risk"), the risk inherent to the collectability of ceded reinsurance ("Default Risk Charge"), the risk inherent to the operations of the Company ("Operational Risk Charge") and the favorable impact of diversification.

At December 31, 2020, the total Technical Provisions amounted to $48,032,091 (2019: $34,922,551) per the EBS accounts and comprised:

	2020	2019
Best Estimate Loss and Loss Expense Provision, net of reinsurance	$ 38,384,457	$28,604,664
Best Estimate Premium Provision, net of reinsurance	$ 7,245,364	$ 4,945,071
Risk Margin	$ 2,402,270	$ 1,372,816

c. Description of Recoverables from Reinsurance Contracts

Refer to the Company's General Purpose Financial Statements for the years ended December 31, 2020 and 2019.

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

Similar to the valuation principles for assets, the Company's liabilities follow the valuations principles outlined by the Bermuda Monetary Authority's "Guidance Note for Statutory Reporting Regime" which values liabilities at a fair value basis. All Other Liabilities are valued in accordance with US GAAP.

e. Any Other Material Information

No additional material information to report.

5. CAPITAL MANAGEMENT

a. Eligible Capital

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

The primary capital management objectives of the Company are to maintain a strong capital base to support the development of its business and to meet regulatory requirements at all times.

The Directors re-affirmed the Company's Capital Management Policy in December 2020 which sets out the framework for managing and reporting against the Company's internal and external capital adequacy requirements. The framework involves the establishment of a target capital level and range within which the Company seeks to operate, and establishes a process and responsibilities for the consideration of actual and projected capital at least annually, and more frequently should significant new strategies or programmes be planned or significant actual events occur.

Due to the nature, scale and limited complexity of the Company's operations, the Company leverages the framework and risk based capital requirements of the current Bermuda Regulatory capital model for the purpose of determining Commercial Insurer's Solvency Self-Assessment (CISSA) Capital, and has not established a separate Internal Capital Model.

The Board has discussed the capital and surplus of the Company and considers that the net worth of the Company is adequate for the risks currently assumed and the overall strategic goals of the Company. Notwithstanding this, the Board considers it desirable to return the capital base of the Company to its historic levels of between $20m and $25m and to provide a platform for future growth of the Company and its affiliates. The difference between the total capital requirements as determined by the Bermuda and Regulatory capital model at December 31, 2020 are not material.

Eligible Capital Categorised by Tiers in Accordance with the Eligible Capital Rules.

All of the Company's capital at December 31, 2020 was categorized as follows:

Expressed in $'000		
Tier 1	$17,639	Capital Stock and Contributed Surplus plus Statutory economic surplus (deficit)
Tier 2	$400	Capital Stock and Contributed Surplus (encumbered assets)

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

At the end of the reporting period, the Company's Eligible Capital applied to its Minimum Margin of solvency (MSM) and Enhanced Capital Requirements (ECR) was categorized as follows:

Expressed in $'000	Minimum Margin of Solvency	Enhanced Capital Requirement
Tier 1	17,639	17,639
Tier 2	400	400

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

Not applicable

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

Not applicable.

v. Identification of Ancillary Capital Instruments Approved by the Authority

Not applicable.

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

The difference between the Shareholder's Equity of $17,479,821 at December 31, 2020 (2019: $24,928,924) as shown in the Consolidated financial statements prepared in accordance with US generally accepted accounting principles, and the Available Capital of $18,040,000 (2019: $25,879,000) determined in accordance with the Eligible Capital Rules relates to:

	2020	2019
	$000	$000
Valuation of all securities at market value	459	244
Net impact of valuation of General Business Insurance Technical Provisions	2,029	3,090
<u>Non-allowable assets for Available Capital purposes</u>		
Goodwill	(1,634)	(2,180)
Prepayments	(294)	(204)
Total difference between Shareholder's Equity (GAAP) and Available Capital determined under Eligible Capital Rules	**560**	**950**

b. Regulatory capital requirements

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

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

Expressed in $'000	Minimum Margin of Solvency	Enhanced Capital Requirement	Transition Enhanced Capital Requirement
Requirement	3,697	14,712	13,513

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

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

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

Not applicable.

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

Not applicable.

c. Approved Internal Capital Model

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

The Company has not applied to have an internal capital model approved to determine regulatory capital requirements.

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

Not applicable.

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

Not applicable.

iv. Description of Aggregation Methodologies and Diversification Effects

Not applicable.

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

Not applicable.

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

Not applicable.

vii. Any Other Material Information

Not applicable.

6. SUBSEQUENT EVENT

Effective April 1, 2021, AMIC entered into an Aggregate Stop Loss reinsurance agreement ("Agreement") with a third-party reinsurer. The Reinsurer shall be liable to indemnify and reinsure AMIC for 100% of its net retention of any losses in excess of claims paid at April 1, 2021 on USA commercial automobile liability policies produced for AMIC by three managing general agents based in Texas. The effect of the Agreement is to reinsure any future adverse claims development that might occur on the business covered beyond March 31, 2021.

During June and August 2021, Citadel Reinsurance Company Limited increased its investment in its affiliate, Citadel Risk Holdings, Inc by $6,200,000. Citadel Risk Holdings, Inc has provided additional $6,200,000 surplus to its affiliate AMIC, enabling AMIC to achieve a Risk Based Capital ratio that exceeds the minimum capital requirements.

On August 20, 2021, AMIC's immediate parent entity, Citadel Risk Holdings, Inc agreed to sell 45,000 Class A Common Stock to an investor. The full purchase price of $10,000,000 shall be payable in ten annual instalments of $1,000,000 over ten years commencing at or before December 31, 2021. The investor will receive one tenth (4,500) of the purchased shares in exchange for each payment of $1,000,000 made.

On August 20, 2021, Citadel Risk Holdings, Inc issued and agreed to sell 10,000,000 Class B Stock without par value, to the same investor for $10,000,000 issued in the form of promissory notes fully collateralized by US Treasury Bills. If mutually agreed by both parties, the holder of the Class B Stock may redeem a portion of the Class B Stock any time after August 20, 2031, at a redemption price equal to the purchase price or a pro-rated equivalent if a smaller number of Class B Stock is sold.