FINANCIAL CONDITION REPORT

December 31, 2019

STARSTONE INSURANCE BERMUDA LIMITED
BMA Registration Number 41078

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Prepared in accordance

with the reporting requirements of the

Bermuda Monetary Authority

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IMPORTANT INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This report may include certain forward-looking statements regarding our views with respect to our business, operations, loss reserves, strategy, investment portfolio, economic model, and our expected performance for future periods, as well as the insurance market and industry conditions. These statements are intended as “forward-looking statements” under the Private Securities Litigation Reform Act of 1995. Actual results may materially differ from those set forth in the forward-looking statements. You may identify forward-looking statements by the use of words such as “believe,” “expect,” “plan,” “intend,” “anticipate,” “estimate,” “predict,” “potential,” “may,” “should,” “could,” “will” or other words or expressions of similar meaning, although not all forward-looking statements contain such terms.

Forward-looking statements involve significant risks and uncertainties, including risks of changing market conditions in the overall economy and the industry, the success of implementing our strategies, the adequacy of our loss reserves, the regulatory environment, current and future litigation, the success of new acquisitions, competitive pressures, loss of key personnel, risks relating to our active underwriting businesses, our liquidity and other factors detailed in Enstar Group Limited’s Annual Report on Form 10-K and our other reports filed from time to time with the Securities and Exchange Commission (“SEC”).

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

ITEM 1. BUSINESS AND PERFORMANCE

a) Description of Business

StarStone Insurance Bermuda Limited ("StarStone" or the "Company") is a global specialty insurer providing a diversified range of property, casualty and specialty insurance products to customers worldwide.

StarStone has underwriting operations in the Lloyd's and London markets, Continental Europe and the United States, and serves a diverse client base across five main product groups: Marine, Aerospace, Casualty, Property, and Workers' Compensation.

The Company has five wholly-owned insurance platforms and licenses to serve a global client base:

- StarStone Insurance Bermuda Limited ("SIBL"), a Class-4 insurer domiciled in Bermuda
- StarStone Insurance SE ("StarStone SE"), a European insurer, domiciled in Liechtenstein and regulated by the Financial Markets Authority
- Syndicate 1301 at Lloyd's, managed by StarStone Underwriting Limited, a Lloyd's-registered managing agency
- StarStone Specialty Insurance Company ("StarStone Specialty"), a U.S. excess and surplus lines insurer
- StarStone National Insurance Company ("StarStone National"), a U.S. admitted markets insurer

StarStone is rated A- (Excellent) by A.M. Best, the fourth highest of 16 rating levels. For business written through Syndicate 1301, Lloyd's is rated A+ by Standard & Poor's, AA- by Fitch Ratings and A (Excellent) by A.M. Best.

b) Ownership Details

The Company was incorporated in Bermuda on November 21, 2007 under the laws of Bermuda and is a wholly owned subsidiary of StarStone Specialty Holdings Limited ("SSHL") which is, in turn, wholly owned by North Bay Holdings Limited, an entity in which Enstar Group Limited ("Enstar") owns a 59.0% interest, with the Trident V funds ("Trident V") managed by Stone Point Capital LLC ("Stone Point") and Dowling Capital Partners ("Dowling") owning redeemable non-controlling interests of 39.3% and 1.7% respectively.

c) Group Structure

Please refer to Appendix I for the corporate structure chart.

d) Insurance Business Written by Line of Business

The Company's business is largely managed and reported through five lines of business: Marine, Aerospace, Property, Casualty and Workers' Compensation. The following table shows gross premiums written by line of business for the years ended December 31, 2019 and 2018:

	December 31, 2019 ($'000)	December 31, 2018 ($'000)
Marine	$ 245,046	$ 272,714
Aerospace	72,331	73,534
Property	118,574	304,939
Casualty	364,411	332,042
Workers' Compensation	117,191	137,906
Total	**$ 917,553**	**$ 1,121,135**

The following table shows gross premiums written by geographic area for the years ended December 31, 2019 and 2018:

	December 31, 2019 ($'000)	December 31, 2018 ($'000)
Asia	$ 79,182	$ 67,229
Europe	112,684	192,156
United Kingdom	115,015	54,057
United States & Canada	549,342	708,762
Rest of the world	61,330	98,931
Total	**$ 917,553**	**$ 1,121,135**

e) Material Income & Expenses for the Reporting Period

The consolidated financial results of the Company prepared under accounting principles generally accepted in the United States of America ("U.S. GAAP") for the year ended December 31, 2019 and 2018 are as shown below:

	December 31, 2019 ($'000)	December 31, 2018 ($'000)
INCOME		
Net premiums earned	$ 708,188	$ 561,012
Net investment income	42,360	33,672
Net realized and unrealized investment gains (losses)	48,306	(15,576)
Other income (loss)	116	(541)
	798,970	578,567
EXPENSES		
Net incurred losses and loss adjustment expenses	566,297	527,130
Acquisition costs	138,970	75,952
General and administrative expenses	161,337	153,527
Interest expense	16,137	2,500
Net foreign exchange losses	695	1,400
	883,436	760,509
LOSS BEFORE INCOME TAXES	(84,466)	(181,942)
Income tax benefit	6,931	6,327
NET LOSS	**$ (77,535)**	**$ (175,615)**

The Company's consolidated financial statements reported a net loss after tax of $77.5 million for the year, an improvement of $98.1 million on the prior year. This improvement was due to a reduction in underwriting losses as well as positive movement in the unrealized gains on our investment portfolio in 2019, which is detailed below:

Underwriting Results

The underwriting result represents the contribution from our underwriting activities and includes net premiums earned, net incurred losses and loss adjustment expenses and acquisition costs. For the year ended December 31, 2019, the Company's underwriting income was $2.9 million, compared to a loss of $42.1 million from the prior year. This improvement of $45.0 million was driven by the increase in the premiums earned.

Investment Results

Net investment income and net realized and unrealized investment gains/losses was $90.7 million in 2019, compared to $18.1 million in 2018. This increase of $72.6 million was mainly due to net realized and unrealized investment gains due to the narrowing of credit spreads and a decrease in forward interest rates.

General and Administrative Expenses

The general and administrative expenses increased to $161.3 million in 2019 from $153.5 million in 2018. This increase was due to an impairment charge of $30.4 million recorded in 2019 to reduce the carrying value of goodwill to zero which was partly offset by a reduction in expenses to support our underwriting operations.

Income Tax

Income tax was a credit of $6.9 million in 2019 compared to a credit of $6.3 million in 2018. The income tax credit in both years was primarily due to the recognition of net operating loss carryforwards.

f) Performance of Investments for the Reporting Period

The following tables show investment performance ($'000s) during the year ended December 31, 2019 and 2018 by asset type. Investment performance was calculated as a total of net investment income plus net realized and unrealized gains and losses over the average fair market value of the portfolio over the year.

December 31, 2019	Total Return ($'000)	Market value ($'000)	Performance (%)
Fixed maturities	$ 64,894	$ 997,715	6.5 %
Loan to affiliate	5,425	236,211	2.3 %
Cash and cash equivalents	5,377	222,950	2.4 %
Other investments	10,793	195,580	5.5 %
Funds held	2,976	139,113	2.1 %
Private equities	3,970	27,922	14.2 %
Equity	(615)	23,955	(2.6)%
Investment expenses	(2,154)	—	— %
Total	**$ 90,666**	**$ 1,843,446**	**4.9 %**

December 31, 2018	Total Return ($'000)	Market value ($'000)	Performance (%)
Fixed maturities	$ 14,446	$ 1,062,743	1.4 %
Loan to affiliate	2,522	116,383	2.2 %
Cash and cash equivalents	1,124	230,777	0.5 %
Other investments	(3,557)	258,746	(1.8)%
Funds held	1,852	152,545	1.4 %
Private equities	(413)	22,225	(2.0)%
Equity	4,459	21,535	19.4 %
Investment expenses	(2,337)	—	—
Total	**$ 18,096**	**$ 1,864,954**	**1.0 %**

g) Any Other Material Information

None.

ITEM 2. GOVERNANCE STRUCTURE

a) Board and Senior Executive Structure, role, responsibility and segregation of responsibilities

i) Roles & Responsibilities

Name	SIBL Board Position	Responsibilities
Guy Bowker	Director and Chief Executive Officer	Non-Executive Board Member. Chief Financial Officer of Enstar Group Limited.
Orla Gregory	Director	Non-Executive Board Member. Chief Operating Officer of Enstar Group Limited.
Karen Esdale	Director	Non-Executive Board Member. Chief Risk Officer of Enstar Group Limited.
Duncan Scott	Director	Non-Executive Board Member. SVP, Managing Director of Enstar Limited.
Walker Rainey	Independent Director and Chairperson	Independent Non-Executive Board Member

The primary responsibility of the Board is to oversee the management of the Company's affairs to further the best interests of the Company and its shareholders. The Board therefore monitors and oversees the Company's operations and strategic initiatives, sets and approves the Company's risk appetite, ensures competent and robust risk management and the implementation of appropriate accounting and other internal controls.

b) Remuneration Policy

The Company does not have any employees as services are provided by Enstar as the authorized Insurance Manager. This service arrangement includes the provision of all staff to the Company for which compensation arrangements are detailed below.

i) *Executive Compensation*

Our executive compensation program currently consists of three principal elements: base salaries, annual incentive compensation and long-term incentive compensation and is offered to align executive and shareholder interests. Executives also receive certain other benefits, including those pursuant to their employment agreements. The table below describes the elements of our executive compensation.

Principal Element	Description	Key Features
Base Salary	Provides the fixed portion of an executive's compensation that reflects scope of skills, experience and performance.	Provides a base component of total compensation. Established largely based on scope of responsibilities, market conditions, and individual and Company performance in the preceding year.
Annual Incentive Compensation	Provides "at risk" pay that reflects annual Company performance and individual performance.	Aligns executive and shareholder interests. Designed to reward performance consistent with financial and individual operational performance objectives.
Long-Term Incentive Compensation	Provides equity-based pay, aimed at incentivizing long-term performance. Performance stock unit ("PSUs"), restricted stock unit ("RSUs") and cash awards are used with our senior management team, including executives.	Aligns executive and shareholder interests. Drives long-term performance and promotes retention. Shareholder dilution issues are considered when making equity awards.
Other Benefits and Perquisites	Reflects the Bermuda location of our corporate headquarters, as well as specific local market and competitive practices such as retirement benefits, Bermudian payroll and social insurance tax contributions and administrative assistance.	Provides benefits consistent with certain local market practices in our Bermuda location in order to remain competitive in the marketplace for industry talent. Promotes retention of executive leadership team.
Employment Agreements	Provides certain protections for executives and their families in the event of death or long-term disability, termination, or change in control. Change in control contractual benefits are payable only in a "double trigger" situation where employment is terminated following a change of control.	Provides Company with protections such as restrictive covenants (non-competition, non-solicitation, confidentiality, etc.). Promotes retention over a multi-year term and a sense of security among the leadership team. Consistent with competitive conditions in Bermuda and legal requirements in Bermuda and the U.K.

The Company relies on the Enstar Compensation Committee and, as part of our risk management practices, the Committee reviews and considers risk implications of and incentives created by our executive compensation program and our compensation policies and practices for the Company as a whole. At the Committee's direction, representatives from our risk management and legal departments conducted a risk assessment of our compensation policies and practices for executives and all employees, which was discussed and reviewed by the Committee.

The review analyzes compensation governance processes, situations where compensation programs may have the potential to raise material risks to the Company, internal controls that mitigate the risk of incentive compensation having an adverse effect, and program elements that further mitigate these risks.

Through this review, the Committee has concluded that our compensation program does not create risks that are reasonably likely to have a material adverse effect on us.

ii) *Employee Compensation*

All non-executive employees servicing the StarStone business receive a fixed base salary (commensurate with their role, experience, annual performance in the prior year and prevailing market conditions), an annual performance-based bonus and, at senior levels, employees are eligible to receive equity awards designed to incentivize and reward long term performance aligned with shareholder interests and retain and attract new qualified employees. In addition, employees, in accordance with local employment law may benefit from various benefit plans, including medical and dental insurance, long-term disability insurance and life insurance. All employee equity awards are subject to a

Clawback Policy, which allows for the recoupment of excess incentive compensation in the event of a financial restatement.

c) Pension or Early Retirement Schemes for Members, Board and Senior Employees

Enstar non-employee directors of the Company do not receive supplementary pension or retirement benefits. On an annual basis, all Enstar executive officers based in Bermuda, receive an amount equal to 10% of their base salaries in respect of a retirement benefit contribution. We also provide retirement benefits to eligible employees of our subsidiaries through various plans that we offer.

d) Material Transactions with Shareholder Controllers, Persons who Exercise Significant Influence, the Board or Senior Executives

All related party transactions are described in the Company's consolidated U.S. GAAP financial statements.

e) Fitness and Proprietary Requirements

i) *Fit and Proper Process in assessing the Board and Senior Executive*

The Company's Board believes that all of its directors have demonstrated professional integrity, ability and judgment, as well as leadership and strategic management abilities, and have each performed exceptionally well in their respective time served as directors.

On an annual basis, the Company's Directors and Executive Officers complete D&O Questionnaires that address, among other things, matters related to fitness and propriety.

In accordance with the Fit and Proper Policy, the Company's Board of Directors and Executive Officers, together with all Directors, Officers and Senior Managers of regulated subsidiaries, including personnel undertaking those roles for regulated subsidiaries under a services or other agreement (collectively referred to as “Covered Persons”) are assessed against criteria set forth in the Fit and Proper Policy in order to be deemed to have the necessary qualities, competencies and experience to perform their duties and carry out the responsibilities required of their position in an effective manner. These criteria require each Covered Person to:

- possess the necessary competencies, skills, experience, knowledge, expertise, diligence and soundness of judgment to undertake and fulfil the particular duties and responsibilities of the role;
- demonstrate the appropriate character, competence, honesty and integrity in fulfilling occupational, managerial or professional responsibilities previously and/or in the conduct of their current duties;
- demonstrate sufficient knowledge of and a willingness to comply with legal obligations, regulatory requirements, professional standards and fiduciary obligations;
- be aware of and be able to effectively ensure implementation and compliance with the underlying principles of laws, regulatory requirements and license obligations applying to the relevant entity; and
- be able to identify and appropriately manage any conflicts of interest, in accordance with our Conflict of Interest Policy.

The Fit and Proper Policy criteria also require that no Covered Person shall:

- have (or have been involved with an entity that has) been refused admission, reprimanded, disqualified or removed by a professional or regulatory body due to matters relating to such Covered Person’s honesty, integrity or business conduct;
- have been terminated, resigned or asked to resign from a position as a director or manager or professional service provider to an entity in circumstances which reflected adversely on their honesty or integrity in discharging their responsibilities in that role;
- have been the subject of civil or criminal proceedings or enforcement action, in which such Covered Person was determined in a final judgment to lack honesty or integrity; or
- have intentionally hindered, obstructed or misled, or failed to be truthful with a regulatory agency.

Covered Persons in certain jurisdictions may be subject to additional local criteria applicable to their jurisdictions. The Company takes all reasonable steps to ensure that all Covered Persons are aware of, and understand, the Company's Fit and Proper Policy as well as their obligation to continue to meet the requirements on an on-going basis.

Candidates for Covered Person positions will be pre-assessed prior to joining StarStone using the following process:

- The individuals must be assessed with the assistance of the Human Resources ("HR") function against the criteria set forth in the Fit and Proper Policy as detailed above, in addition to any local criteria, if relevant;
- References and proofs of industry/professional qualifications are sought and retained; and
- Background checks including a check of criminal records are also sought and retained.

The Company's HR and Compliance functions continuously monitor any staff changes or business activities that could have an impact upon roles and ensure that processes are in place to confirm ongoing fitness and propriety e.g. relevant individuals providing an annual attestation of their continued fitness and propriety for their position and confirmation of continued compliance with the fitness and proper criteria.

ii) *Board and Senior Executives Professional Qualifications, Skills and Expertise*

The following serve as directors and/or officers of StarStone Insurance Bermuda Limited:

Guy Bowker Chief Executive Officer of SIBL and Enstar Group Chief Financial Officer

Guy Bowker was appointed Chief Financial Officer of Enstar in 2018 and was Chief Accounting Officer since 2015. He formerly served as Senior Vice President and Controller of Platinum Underwriters from 2010 to 2015, and Director of Finance for American International Group in Bermuda from 2007 to 2010. Prior to that, he served in the Assurance & Advisory practice of Deloitte for seven years, specializing in insurance. Mr. Bowker is a Chartered Accountant, a Chartered Insurer and Fellow (FCII) of the Chartered Insurance Institute.

On April 6, 2020, Mr. Bowker informed Enstar of his intention to resign from his role as Group Chief Financial Officer and, by extension, from his role as Chief Executive Officer of SIBL. He will remain with the Company for an extended period to facilitate a smooth transition of his responsibilities (expected to be until March 2021).

Orla Gregory Director of SIBL and Enstar Chief Operating Officer

Orla Gregory was appointed Chief Operating Officer of Enstar in 2016. She served as Chief Integration Officer from 2015. Prior to that, she was Executive Vice President of Mergers and Acquisitions of Enstar. She has been with the Company since 2003. Ms. Gregory worked as Financial Controller of Irish European Reinsurance Company Ltd. in Ireland from 2001 to 2003. She worked in Bermuda from 1999 to 2001 for Ernst & Young as an Investment Accountant. Prior to this, Ms. Gregory worked for QBE Insurance & Reinsurance (Europe) Limited in Ireland from 1993 to 1998 as a Financial Accountant.

Karen Esdale Director of SIBL and Enstar Chief Risk Officer

Karen Esdale, Chief Risk Officer, joined Enstar in May 2010. Karen has overall responsibility for the Enterprise Risk Management ('ERM') Framework for Enstar and its subsidiaries, ensuring effective risk management processes are in place to meet the requirements of the Board(s) and regulators. Prior to joining Enstar, Karen was a manager in the Financial Reporting department of Bank of New York Mellon, Dublin. From 2005 to 2008, she worked as Financial Controller for The Adara Group, Bermuda. From 1999 to 2005, Karen worked for Ernst & Young, Bermuda where she was a manager in the Private Clients practice. She is a fellow of the Association of Certified Chartered Accountants.

Duncan Scott Director of SIBL and Enstar Limited SVP Managing Director

Duncan Scott serves as the Senior Vice President, Managing Director of Enstar Limited. He served as Chief Financial Officer of SIBL from April 2014 to December 2015. From 1995 until 2001, he served as Controller and General Manager of Stockholm Re (Bermuda) Ltd. From 1993 to 1994, he served as AVP Reinsurance of Stockholm Re (Bermuda) Ltd. He was a senior auditor in the Bermuda office of Ernst & Young from 1990 to 1992 and in the Newcastle, U.K. office of KPMG from 1986 to 1989.

Walker Rainey Independent Director and Chairman of SIBL

Walker Rainey is a Non-Executive Director and Chairman of SIBL. Mr. Rainey has over 30 years of experience in the insurance industry, including eight years as Managing Director of Alterra Capital Europe Ltd. and eleven years as CFO of XL Europe Limited.

f) Risk Management & Solvency Self-Assessment

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

Our risk management strategy is to:

- take on underwriting risks across a balanced range of select specialty lines where the expected margins compensate for the risk and/or the costs of risk mitigation;
- seek investment risk where it is adequately rewarded;
- maintain reserving risk at moderate levels; and
- ensure capital, liquidity, credit, operational and regulatory risks remain low.

These strategies are pursued through the use of appropriate controls, governance structures and highly skilled teams effectively working together.

Our risk strategy is embedded in our organization by promoting a culture of high risk awareness. This is achieved through the demonstration of our day-to-day approach in how we manage our business and in how we manage and assess challenges and opportunities.

Risk Appetite

The primary objective of our risk appetite framework is to monitor and protect the Company from an unacceptable level of loss, compliance failures and adverse reputational impact. Risk appetite and tolerance is set by our Board and reviewed annually to ensure alignment with the business plan. Our risk appetite framework considers material risks in the business relating to, among other things, strategic risk, insurance risk, market risk, liquidity risk, credit risk, operational risk, regulatory risk, legal risk and compliance risk. The Risk Appetite framework outlines the amount of risk that we are willing to accept via risk metrics based on our shareholders' equity, capital resources, potential financial loss, and other risk-specific measures.

Accountability for the implementation, monitoring and oversight of risk appetite is aligned with individual corporate executives and monitored and maintained by the Risk Management function. Risk tolerance levels are monitored and any deviations from pre-established levels are reported in order to facilitate responsive action or acceptance of the evolving risk profile.

Risk Governance and Risk Management Organization

The Company's ERM framework, consists of numerous processes and controls that have been designed by management, with oversight by the Board of Directors and its committees, management by our executive leaders, and implementation by employees across our organization. This framework outlines the process by which risk is managed through a process which includes identification, analysis, assessment, treatment, monitoring and reporting of risks so that we achieve our strategic, operational and financial objectives.

The Company's Board of Directors, the SSHL Board of Directors and its Risk Committee and, at a management level, the Risk Capital and Exposure Committee ("RACE") have risk oversight responsibility and play an active role in overseeing management of the risks we face. The Risk Committee has responsibility for the oversight of ERM, reviews the overall risk appetite with input from management, reviews our ERM methodologies and oversees management's execution of our ERM objectives. Among its other responsibilities, the Risk Committee also reviews our annual Commercial Insurers Solvency Self-Assessment ("CISSA") report.

The Company's RACE, a group of senior management personnel charged with assessing all significant risk issues on a global basis, reviews and evaluates the current and emerging risks to which the Company is exposed, and monitors and oversees the guidelines and policies that govern the processes by which the Company identifies, assesses and manages its exposure to risk. The RACE is chaired by the Company's Group Chief Risk Officer. The Company's Chief

Risk Officer reports on behalf of the RACE to the SSHL Risk Committee. The Company's Investment Committee is responsible for overseeing investment-related risk, including those related to cash and investment portfolio and investment strategy. In addition, the Enstar Audit Committee, comprised entirely of independent directors, oversees accounting and financial reporting-related risks. The Enstar Compensation Committee oversees compensation-related risks and the Enstar Nominating and Governance Committee is responsible for overseeing corporate governance-related risks.

In addition to director oversight, our ERM governance structure is embedded in other management committees. The committees provide oversight and governance of our ERM initiatives, oversee the operation of our internal controls, monitor the identified risks compared to our risk appetite, and provide analysis to management in order to appropriately manage and govern the business and the associated risks on a day-to-day basis.

The Risk Management department focuses primarily on implementing and overseeing the administration of the RACE directives and facilitating an efficient, effective and consistent approach to ERM across the Company. The Internal Audit department independently reviews the effectiveness of our ERM framework. The results of audits are monitored by the Audit Committee. The executive management committees have oversight of specific risk management processes, including, for example, those relating to underwriting, investments and reserving matters.

The overall objective of our ERM framework is to support good risk governance, support the achievement of business objectives, and provide overall benefits to us by adding value to the control environment and contributing to an effective business strategy, efficiency in operations and processes, strong financial performance, reliable financial reporting, regulatory compliance, a good reputation with key stakeholders, business continuity planning, and capital planning.

ii) *Risk Management and Solvency Self-Assessment Systems Implementation*

We have adopted the "three lines of defense" model. Our first line consists of our senior corporate executives and their function as leaders and risk owners. They are accountable for executing the risk management strategy. They are responsible for the appropriate management of the activities and conduct of the business functions and for ensuring that staff understand the business strategy, risk mitigating policies and procedures and have in place personal objectives focused on achieving these.

Our second line comprises our various risk, control and compliance oversight functions. Our Risk Management function reports to the Group Executive Team ("ExCo"), the RACE and the Risk Committee and focuses primarily on implementing and overseeing the administration of the RACE and Risk Committee directives and facilitating an efficient, effective and consistent approach to risk management across the Group. Our management assurance is further complemented by our Compliance function as part of the second line of defense, which seeks to mitigate legal and regulatory compliance risks and ensures that appropriate, effective and responsive compliance services are available to the business units across the Group. Other second line functions include certain activities of our Actuarial function and other group functions contributing to our management assurance.

Our third line of defense comprises our internal audit function which independently reviews the effectiveness of our ERM framework. The results of audits are monitored by the Audit Committee. Independent assurance from external third parties (e.g. independent actuarial services) also sits within our third line of defense.

Accountability for the implementation and oversight of risk appetite and processes is assigned to the RACE. Risk committees and boards receive regular risk management information to support risk governance at the Group and subsidiary levels.

Our risk appetite considers material risks relating to, among other things, strategic risk, insurance risk, market risk, liquidity risk, credit/counterparty risk, operational risk, and regulatory/reputational risk. Our risk appetite is established at the Group level and represents the amount of risk that we are willing to accept compared to risk metrics based on our shareholders equity, capital resources, potential financial loss, and other risk-specific measures. Risk levels are monitored and any deviations from pre-established levels are reported in order to facilitate responsive action.

Each subsidiary has its own risk register documenting its risk landscape with risk and control owners assigned, which is maintained through a risk management software system (Magique). We conduct the risk assessment process on a quarterly basis, beginning at the legal entity level and then aggregating the results to be reviewed and assessed at a consolidated group level. The assessment process is facilitated using the risk management software system which records all risk management related information. The risk management department reviews and consolidates the assessments for each subsidiary, enhanced in 2019 with in person risk assessment meetings, and provides challenge and to the risk owners in respect of their risk ratings.

We manage our ERM process based on the major categories of risk within our business (Strategic, Insurance, Market, Liquidity, Credit/Counterparty, Operational, and Regulatory/Reputational). Our ERM is a dynamic process, with updates continually being made as a result of changes in our business, industry and the economic environment.

The Company has an approved Internal Model for capital setting for its Lloyd's Syndicate 1301, a PRA regulated entity under Solvency II. The model undergoes an annual validation by an independent consultant firm of actuaries. This Internal Model is adapted and used at group level for our own economic capital assessment, to assist with business planning and the setting of risk appetite. The link between solvency self-assessment and risk management are fully described in the annual CISSA (consolidated group) and ORSAs used in the StarStone European entities.

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

The CISSA process is the entirety of the processes and procedures employed to identify, assess, monitor, manage and report the short and long term risks that the Company faces or may face and to determine the capital necessary to ensure that overall solvency needs are met at all times. Consequently, the CISSA framework is fully integrated into our broader ERM Framework.

Within the CISSA framework, the key elements informing the CISSA process include:

i. overall solvency needs taking into account the specific risk profile, approved risk appetite and tolerance limits and the business strategy of the Group and its subsidiaries;

ii. considering all reasonably foreseeable material risks across all risk categories that the Group is or could be exposed to, taking into account a forward looking analysis of potential future changes in the risk profile due to the business strategy or the economic and financial environment and any stresses thereon;

iii. significance with which the risk profile of the Group deviates from the assumptions underlying the Bermuda Solvency Capital Requirements model and other capital modelling exercises;

iv. considering the nature and quality of capital or other resources appropriate to cover the risks identified and compliance, on a continuous basis, with relevant capital requirements;

v. the internal control and risk-management systems and approved risk appetite and tolerance limits; and

vi. while also ensuring the CISSA is an integral part of the business strategy and taken into account on an ongoing basis in the strategic decisions of the Group and that a re-assessment is carried out following any significant change in the risk profile.

iv) *The Solvency Self-Assessment Approval Process*

The Risk Management function prepares and presents the quarterly ERM and annual CISSA Reporting to Senior Management, relevant Management Committees and Directors of the Company. At least annually, they confirm that the risk profile is:

- appropriate relative to the business and that all known material risks within scope of the risk management process have been regularly reviewed and remain within risk appetite either with or without mitigation and that these risks have been sufficiently captured within the CISSA; and
- that the Company is adequately capitalized and has sufficient liquidity is available to meet the needs of the Company.

g) Internal Controls

i) *Internal Control System*

The Company's internal control framework is designed to ensure processes are performed in accordance with company standards and that risk is both monitored and managed within the approved risk appetite. Such internal controls are assessed by control owners on a quarterly basis in terms of design and operational effectiveness.

The Company's internal control policy follows the COSO Framework 2013. COSO provides the business with the framework to design, implement, maintain and evaluate internal controls. This helps the Company ensure:

- Controls are properly designed and operating effectively.

- That there are timely and transparent reports to ensure effective management of any ineffective controls.
- That, where necessary, there is effective compliance to applicable regulations.

The Company has adopted the standards of its majority shareholder and this includes a comprehensive Sarbanes Oxley ("SOX") framework for financial controls for external financial reporting. The responsibility for ensuring SOX compliance is assumed by the Chief Executive Officer and Chief Financial Officer with responsibilities appropriately assigned to a sub-committee of the Company's Board of Directors and reported up to the Enstar Disclosure Committee and other members of management. Where control failings are noted they are considered within the subsequent quarterly risk assessment as facilitated by our Risk Management application. In addition, control failings are reported on a quarterly basis to the relevant management Risk Committees.

On an annual basis, Management attests to both the design and operation effectiveness for all controls tested as part of the annual SOX 404 assessment program. This also follows the objectives and components set out within the COSO Framework 2013. The Enstar Audit Committee and the SSHL Risk Committee each receive quarterly reports outlining all control deficiencies noted as part of the controls testing program and where relevant an assessment of the aggregated impact these deficiencies could have on the Financial Statements.

ii) *Compliance Function*

The Compliance Function is responsible for embedding and monitoring compliance across all entities within the Group. As a second line of defense function, the Compliance Function is responsible for monitoring the performance of internal controls designed to prevent breaches of regulatory, legal and internal compliance guidelines. Where such breaches are identified, compliance escalates these internally, working with business units to remediate such issues and recommending/implementing improvements where the control environment has not met its objective.

The Company's Compliance Function is directed by the Enstar Head of Compliance with a dedicated StarStone Compliance Function. The Compliance Function operates within the following governance arrangements:

- Compliance Function Terms of Reference; and
- Compliance Plan / Calendar.

The Company also has local compliance functions that support each business with a regional Head of Compliance in the U.S. and International. The compliance functions are a mix of dedicated compliance teams, legal counsel and finance teams with compliance responsibilities.

The Company's compliance function reports to ExCo and the Risk Committee.

h) Internal Audit

The Company's Internal Audit function provides independent and impartial assurance directly to the individual legal entities' Boards of Directors, Audit Committees and management on the adequacy and effectiveness of the Company's system of risk management and overall internal control environment.

The Company's Internal Audit function was established in Q1 2019 as a dedicated function for StarStone. A service level agreement is in place with the Enstar Group Internal Audit function for assurance over the shared services through Enstar (mainly Tax, Investments and IT). A matrix reporting line is in place between the Company's Head of Internal Audit to the Enstar Group Head of Internal Audit, who reports into the Enstar Audit Committee.

Every activity and unit of the Company is within the scope of the Company's Internal Audit function. Internal Audit reviews take place according to a risk-based annual Internal Audit Plan, drawn up by the Company's Internal Audit and agreed with the Company's Board of Directors, sub-committees and senior executive management, as well as Enstar's Audit Committee.

To further support the Internal Audit function in the execution of their role the Head of Internal Audit has a direct reporting line to the Chairs of the Board of Directors and sub-committees, while the function also has the complete and unrestricted right to obtain information (via both Company records and/or direct communication with staff), including the whistle-blower hotline, as necessary, to discharge its responsibilities. To further ensure the independence of the Internal Audit function, Internal Audit staff members have no direct operational responsibility or authority over any activities across the Company that they review. In addition, they neither develop nor install systems or procedures, prepare records or engage in any other activity which would normally be audited. The Head of Internal Audit confirms annually to the

Company's Board of Directors, as well as individual legal entities' Boards of Directors, the organizational independence of the Internal Audit function.

Internal Audit liaises with the external auditors and internal assurance functions to foster a collaborative and professional working relationship, and optimize assurance coverage while as far as possible avoiding the duplication of assurance efforts. Internal Audit shares information with the external auditors and internal assurance functions such as internal audit plans and reports produced. It is ensured that Internal Audit's independence is maintained at all times.

Internal Audit assists in enabling the Chief Executive Officer and Chief Financial Officer in discharging their SOX responsibilities through review and testing of key control activities. The review and testing of SOX controls follows the principles set out within the COSO Framework 2013.

A written report is prepared and issued by the Internal Audit Function following the conclusion of each audit and appropriately distributed. Following the completion of each audit, management actions are agreed with those directly responsible for controls and then with those with overall responsibility for a process. Management's responses include a timetable for completion of actions to be taken and an explanation for any risks or issues not addressed. Each audit report and summary is then shared with the Group Executive Team and relevant Senior Leadership Team, Boards and relevant sub-committees.

Internal Audit is responsible for appropriate follow-up on audit findings and management actions. All significant findings remain open until management provides evidence to Internal Audit that the action can be closed.

The Company's Head of Internal Audit periodically reports to the Board of Directors and relevant sub-committees on Internal Audit's performance relative to its plan. Reporting also includes significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the Board.

i) Actuarial Function

The Actuarial Function comprises of the Company's reserving, pricing and capital modeling. Care is taken to ensure that the Company has in place sufficient governance arrangements to ensure that technical provisions and capital requirements are determined within the governance framework of the relevant regulated entity. Therefore:

- When external actuaries are engaged, their work products will include entity level results, where appropriate;
- Final decisions on the technical provisions are reviewed and agreed by the Company's Reserving Committee which has this authority duly delegated to it by the relevant legal entity Boards;
- Each subsidiary of the Company has a dedicated Chief Actuary; and
- Capital requirements are evaluated and assessed by the Internal Model Steering Group ("IMSG"), which is a sub-committee of the RACE.

The Company's Actuarial Function is led by the Group Chief Reserving Actuary with responsibility for the oversight of Group actuarial services over reserving, pricing and capital modeling.

Actuarial Reserving: Internal and external actuarial reserving estimates are reviewed by the Company's Reserving Committee to ensure that the loss reserving provisions are both reasonable and appropriate. For certain subsidiary jurisdictions, a report supporting the Actuarial Function is produced annually where the lead actuary in each of the business units confirm the duties, work completed, limitations, capital model, validation, data and controls and the actuarial movement on reserves. In addition, where contractually required, for example transactions such as Schemes of Arrangement, independent actuaries are used to perform an annual independent reserve review and to provide actuarial opinions.

A report is provided to the Enstar Audit Committee quarterly.

Actuarial Pricing: From January 2019, the Company has a dedicated pricing function tasked with ensuring the adequacy and effectiveness of the Company's actuarial pricing processes.

The Company has a U.S. Head of Pricing and an International Head of Pricing responsible for pricing for the Company. Inappropriate pricing, whether too high or too low, would have a detrimental effect on both the Company's business and its customers. The Head of Pricing reports to the Group Risk Management.

j) Outsourcing

i) *Outsource Policy and Key Functions that have been Outsourced*

The Company has an established process as laid out within the Procurement and Outsourcing Procedures (Outsourcing, Supplier Selection & Management) Framework. This document embeds sound risk management processes (including composite risk assessments) into the methodology by which suppliers and outsourced service providers are initially identified, assessed and ultimately selected. Once a provider is selected, the risk assessment performed during the selection process determines the extent of the on-going monitoring program performed by the business and overseen by the dedicated Procurement Function as well as the implementation of other risk mitigation techniques as appropriate (for example establishing alternate suppliers and contingency plans in the event of the supplier or outsourced service provider failing to deliver their contractual obligations).

ii) *Material Intra-Group Outsourcing*

Our employees are predominately employed within regional service companies which through inter-company service agreements, perform the necessary operational functions required for all of the Company's subsidiaries. These arrangements cover all the Information Technology Infrastructure as well as the Finance, Actuarial, Risk Management, Compliance and Internal Audit functions.

k) Other Material Information

None.

ITEM 3. RISK PROFILE

a) Material Risks to which the Company is Exposed

The risks facing the Company currently include those related to strategic risk, capital adequacy risk, insurance risk, reserving risk, market risk, liquidity risk, credit risk, operational risk, regulatory and reputational risk and tax risk.

b) Risk Mitigation

The identification, analysis, evaluation, treatment and reporting of risks is performed by the Risk Management function as laid out within the ERM Framework and suite of supporting policies including Emerging Risks. Risks and their assessment are reported to the Boards, Risk Committees and other ERM Committees as appropriate. The mitigation activities performed by risk type are outlined below:

Strategic Risk: Strategic risk is the risk of unintended adverse impact on the business plan objectives arising from business decisions, improper implementation of those decisions, inability to adapt to changes in the external environment, or circumstances that are beyond our control. We manage strategic risk by utilizing a strategic business planning process involving our executives and Board. Our annual business plan is reviewed and overseen by our executives and Board, and actual performance, trends, and uncertainties are monitored in comparison to the plan throughout the year. Our governance process, led by our Board of Directors, reviews any material deviations from the business plan, newly proposed transaction opportunities, capital-raising matters, and other significant business initiatives. In order to meet our claims settlement obligations and manage downside risks (due to external events) we ensure we review and monitor our liquidity and available financing. We rely on our processes to help us to anticipate potential adverse changes in our business and, where possible avoid or mitigate them.

Capital Adequacy Risk: Capital adequacy risk is the risk that capital levels are or become insufficient to ensure our insurance obligations will be met and policyholders are protected. We have a low appetite for capital adequacy risk. As well as meeting our regulatory obligations, the ability to execute our business plan is dependent upon the Company continually meeting (and/or exceeding) solvency requirements. We aim to deploy capital efficiently and to establish adequate loss reserves that we believe will protect against future adverse developments. Capital adequacy and its ability on an ongoing basis to support the business under adverse circumstances is assessed via stress and scenario testing. Specific scenarios are mandated under the various regulatory regimes in which the Group and its subsidiaries operate. User-defined scenarios have also been developed and are regularly tested and reported on.

Insurance Risk: Insurance risk spans many aspects of our insurance operations, including underwriting risk and risk associated with our reserving assumptions. Underwriting risk relates to the inherent uncertainty as to the occurrence, amount and timing of insurance liabilities we assume through our underwriting process. Exposure levels are monitored across all risk categories in line with the approved risk appetite thresholds. Underwriting risk management strategies may differ depending on the line of business involved and the type of account being insured or reinsured.

We strive to mitigate underwriting risk through our controls and strategies, including our underwriting risk selection, diversification of our underwriting portfolios by class and geography, purchasing reinsurance, establishing a business plan and associated parameters, underwriting peer review (both internal and external), authority limits, underwriting guidelines that provide detailed underwriting criteria and a framework for pricing, along with the use of specialized underwriting teams supported by actuarial, catastrophe modelling, claims, risk management, legal, finance, and other technical personnel.

We utilize internally developed pricing models to evaluate individual underwriting decisions within the context of business plans and risk appetites. We also use internally developed capital models, which provide information on key risks and facilitate an understanding of the interaction among the risks and related exposures, as a comprehensive tool for business and capital planning.

In some business lines we are exposed to multiple insured losses arising out of a single peril, such as a natural catastrophe event (for example, a hurricane, windstorm, tornado, flood or earthquake) or a man-made event (for example, war, terrorism, airplane crashes and other transportation-related accidents, or building fires). We model and manage our individual and aggregate exposures to these events and other material correlated exposures in accordance with our risk appetite. Our modelling process utilizes a major commercial vendor model to measure certain of these exposures. The incidence, timing and severity of catastrophes and other event types are inherently unpredictable, and

it is difficult to estimate the amount of loss any given occurrence will generate. Accordingly, there is material uncertainty around our ability to measure exposures, which can cause actual exposures and losses to deviate from our estimates.

To monitor catastrophe risk, we review exceedance probability curves together with aggregated realistic disaster scenarios. We consider occurrence exceedance probability and aggregate exceedance probability, which reflect losses resulting from single or multiple events, from individual perils and in the aggregate. We also monitor realistic disaster scenarios for man-made events and certain natural catastrophe risks and apply absolute maximum limits by line of business.

Reserve Risk: Reserving risk is the risk that a Company's reserves are not sufficient to cover its unpaid loss and loss adjustment expense costs. The estimation of reserves is subject to uncertainty because the ultimate cost of settling claims is dependent upon future events and loss development trends that can vary with the impact of economic, social, and legal and regulatory matters.

Market Risk: Investment / Market risk is the risk of loss resulting from under-performing investment returns, dilution of investment capital, or adverse financial market movements (such as interest rates or exchange rates). Investment / Market risk can be broken down into the following sub-risks which may threaten our ability to effectively manage the investment portfolio; interest rate risk, credit spread risk, public equity risk, alternative investment risk and concentration risk. We manage Investment / Market risk in a number of ways, including use of investment guidelines; regular reviews of investment opportunities; market conditions; portfolio duration; oversight of the selection and performance of external asset managers; regular stress testing of the portfolio against known and hypothetical scenarios; established tolerance levels; and, where possible, foreign currency asset/liability matching. Investments are primarily managed by our Investment function, which is overseen by our Investment Committee.

Liquidity Risk: Liquidity risk is the risk that we are unable to realize investments and other assets in order to settle financial obligations when they fall due or that we would have to incur excessive cost to do so. We manage this risk generally by following an investment strategy designed to emphasize the preservation of our invested assets and provide sufficient liquidity for the prompt payment of claims and contract liabilities, as well as for settlement of commutation payments. Liquidity risk also includes the risk of our dependence of our future cash flows upon the availability of dividends or other statutorily permissible payments from our subsidiaries, which is limited by applicable laws and regulations. We manage this risk through our capital management and planning processes, which include reviews of minimum capital resources requirements at our regulated subsidiaries and anticipated distributions, as well as anticipated capital needs.

Credit / Counterparty Risk: Credit risk relates to the uncertainty of a counterparty's ability to make timely payments in accordance with contractual terms of the instrument or contract. We are exposed to direct credit risk primarily within our portfolios of fixed maturity and short-term investments, and through customers, brokers and reinsurers in the form of premiums receivable and reinsurance recoverables.

We firstly mitigate credit risk through our reinsurance purchasing process, where reinsurers are subject to financial security and rating requirements prior to approval and by limiting exposure to individual reinsurers. Thereafter we manage credit risk by the regular monitoring of reinsurance recoveries and premium due directly or via brokers and other intermediaries. At management level, reinsurer credit risk is monitored and overseen by the Company's Reinsurer and Broker Security Committee which meets at least quarterly. The Committee monitors risk tolerance levels which have been approved by the Board as part of the Risk Appetite Framework.

In our fixed maturity and short-term investment portfolios, we attempt to mitigate credit risk through diversification and issuer exposure limitation.

Operational Risk: Operational risk is the risk of a loss arising from inadequate or failed internal processes, or from external events, personnel, systems or third parties. We seek to mitigate operational risks through the application of our policies and procedures and internal control and compliance processes throughout the Group, including but not limited to business continuity planning, information security procedures, change management processes, financial reporting controls and a review process for material third-party vendor usage.

Regulatory / Reputational Risk: Regulatory risk is the risk of legal or regulatory sanctions resulting in a financial loss, or loss of reputation as a result of an insurer's failure to comply with laws, regulations, rules, related self-regulatory organization standards, and codes of conduct. We manage reputational risk through a focus on compliance with laws and regulations, adherence to our policies and procedures (including our Code of Conduct) and our internal controls, an established corporate governance framework and practices, and communication and engagement with external stakeholders.

Tax Risk: Tax risk is the risk that tax reporting and/or compliance requirements are not adhered to accurately or in a timely manner resulting in a financial loss. We proactively seek to identify, evaluate, manage, monitor and mitigate tax risks. We are committed to complying with all tax laws, rules and regulations applicable to the Company. In evaluating potential transactions, we consider the overall commercial, financial and tax aspects. Where there is uncertainty or complexity in relation to a tax risk, we may seek external advice and, where appropriate, we may obtain tax clearances from relevant tax authorities.

c) Material Risk Concentrations

The Company has an investment policy governing risk concentrations in relation to counterparties, credit quality, sectors and geographical locations. As a general practice, our investment holdings maintain a sufficient amount of diversification to mitigate the impact of concentration risk, with limits in place for single-issuer exposures depending on the asset class and credit quality. Risk concentration and counterparty exposure is aggregated by the investment department and reported to the Investment Committee on a quarterly basis.

The Company has governance structures in place to ensure that appropriate oversight with respect to product development, underwriting discipline and the placement and structure of reinsurance programs. Underwriting Committees regularly monitor and ensure compliance with stated risk appetite and tolerance with respect to line of business concentration, single peril and regional exposures and peril accumulation.

d) Investments in Accordance with the Prudent Person Principles of the Code of Conduct

The Company's investment portfolio is managed by Enstar's investment team in accordance with the Company's investment policy guidelines which considered the Prudent Persons Principle of the Code of Conduct. The guidelines establish as an objective:

- maintaining sufficient liquidity to settle claims and pay debts as they come due; and
- providing a prudent return on the investment portfolio within prescribed risk parameters.

The guidelines outline permitted asset classes, ratings limits, single-issuer limits, duration guidance and other constraints that impact the asset allocation. These guidelines are reviewed on an annual or ad-hoc basis if any significant deviations have occurred that affect the financial markets.

e) Stress Testing and Sensitivity Analysis to Assess Material Risks

On a quarterly basis, various standard stress tests are performed on the investment portfolio. Regular sensitivities on the Underwriting segments are also performed.

Market Risk testing is designed to simulate interest rate shocks, market down turns, segment sell offs and inflationary/deflationary pressures are performed and reported to the Investment Committee. These standard investment stress tests are also used to evaluate potential changes in strategic direction with respect to the underlying investment allocation.

Insurance Risk exposure and associated concentration and aggregation is simulated principally through the use of proprietary models and scenario testing. These tests are designed to quantify both aggregate and single event perils by region and the potential for clash between regions/sub-regions. In addition, non-modelled risk scenarios (based on the Lloyds Realistic Disaster Scenarios) are run to enable localized focus within peril regions and to facilitate the identification and subsequent management of risk at a more granular level.

Based on this on-going analysis, management consider the Company to be appropriately capitalized with adequate liquidity to meet its liabilities and that risks to which the Company are exposed continue to be managed within our appetite.

ITEM 4. SOLVENCY VALUATION

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

Investments

We measure fair value in accordance with ASC 820, Fair Value Measurements. The guidance dictates a framework for measuring fair value and a fair value hierarchy based on the quality of inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments.
- Level 2 - Quoted prices in active markets for similar assets or liabilities, quoted prices for identical assets or liabilities in inactive markets, or for which significant inputs are observable (e.g. interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.
- Level 3 - Model-driven valuations in which one of more significant inputs or significant value drivers are unobservable.

When the inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. Thus, a Level 3 fair value measurement may include inputs that are observable (Level 1 and 2) and unobservable (Level 3).

Fixed Maturities

The fair values for all securities in the fixed maturities portfolio are independently provided by the investment accounting service providers, investment managers and investment custodians, each of which utilize internationally recognized independent pricing services. We record the unadjusted price provided by the investment accounting service providers, investment managers or investment custodians and validate this price through a process that includes, but is not limited to:

- comparison of prices against alternative pricing sources;
- quantitative analysis (e.g. comparing the quarterly return for each managed portfolio to its target benchmark);
- evaluation of methodologies used by external parties to estimate fair value, including a review of the inputs used for pricing; and
- comparing the price to our knowledge of the current investment market. Our internal price validation procedures and review of fair value methodology documentation provided by independent pricing services have not historically resulted in adjustment in the prices obtained from the pricing service.

The independent pricing services used by the investment accounting service providers, investment managers and investment custodians obtain actual transaction prices for securities that have quoted prices in active markets. Where we utilize single unadjusted broker-dealer quotes, they are generally provided by market makers or broker-dealers who are recognized as market participants in the markets in which they are providing the quotes. For determining the fair value of securities that are not actively traded, in general, pricing services use "matrix pricing" in which the independent pricing service uses observable market inputs including, but not limited to, reported trades, benchmark yields, broker-dealer quotes, interest rates, prepayment speeds, default rates and such other inputs as are available from market sources to determine a reasonable fair value. In addition, pricing services use valuation models, using observable data, such as an Option Adjusted Spread model, to develop prepayment and interest rate scenarios. The Option Adjusted Spread model is commonly used to estimate fair value for securities such as mortgage-backed and asset-backed securities.

Where pricing is unavailable from pricing services, such as in periods of low trading activity or when transactions are not orderly, we obtain non-binding quotes from broker-dealers. Where significant inputs are unable to be corroborated with market observable information, we classify the securities as Level 3.

The valuation methodology for fixed maturities under U.S. GAAP is consistent with the valuation approach for Economic Balance Sheet ("EBS") purposes.

Equities

Our investment in equities consist of a publicly traded investment. Our publicly traded equity investment predominately trades on the major exchanges and there is no significant concentration in any specific industry. We use an internationally recognized pricing serves to estimate the fair value of our publicly traded equities.

Other Investments

We have ongoing due diligence processes with respect to the other investments in which we invest and their managers. These processes are designed to assist us in assessing the quality of information provided by, or on behalf of, each fund and in determining whether such information continues to be reliable or whether further review is warranted. Certain funds do not provide full transparency of their underlying holdings; however, we obtain the audited financial statements for funds annually, and regularly review and discuss the fund performance with the fund managers to corroborate the reasonableness of the reported net asset values ("NAV").

The use of NAV as an estimate of the fair value for investments in certain entities that calculate NAV is a permitted practical expedient. Due to the time lag in the NAV reported by certain fund managers we adjust the valuation for capital calls and distributions. Other investments using NAV as a practical expedient have not been classified in the fair value hierarchy. Other investments for which we do not use NAV as a practical expedient have been valued using prices from independent pricing services, investment managers and broker-dealers.

The valuation methodology for other investments under U.S. GAAP is consistent with the valuation approach for EBS purposes.

Cash and Cash Equivalents (including restricted cash and cash equivalents)

Cash and cash equivalents includes money market funds, fixed interest deposits and highly liquid debt instruments purchased with an original maturity of three months or less. Cash and cash equivalents are recorded at amortized cost, which due to the short-term, liquid nature of these securities, approximates fair value.

The valuation methodology for cash and cash equivalents under U.S. GAAP is considered to approximate fair value and, therefore, no adjustments are made for EBS purposes.

Premiums Receivable

Premiums receivable represent amounts currently due and amounts not yet due on insurance and reinsurance policies. Premiums for insurance policies are generally due at inception. Premiums for reinsurance policies generally become due over the period of coverage based on the policy terms. We monitor the credit risk associated with premiums receivable, taking into consideration the impact of our contractual right to offset loss obligations or unearned premiums against premiums receivable. Amounts deemed uncollectible are charged to net earnings in the period they are determined. Changes in the estimates of premiums written will result in an adjustment to premiums receivable in the period they are determined.

Under the EBS approach, premiums receivable are valued in line with U.S. GAAP which is considered to approximate the fair value, and therefore no adjustments are made for the EBS purposes.

Deferred Tax Assets

Certain of our subsidiaries and branches operate in jurisdictions where they are subject to taxation. Current and deferred income taxes are charged or credited to net income, or, in certain cases, to accumulated other comprehensive income, based upon enacted tax laws and rates applicable in the relevant jurisdiction in the period in which the tax becomes accruable or realizable. Deferred income taxes are provided for all temporary differences between the bases of assets and liabilities used in the financial statements and those used in the various jurisdictional tax returns. When our assessment indicates that it is more likely than not that all or some portion of deferred income tax assets will not be realized, a valuation allowance is recorded against the deferred tax assets.

We recognize a tax benefit relating to uncertain tax positions only where the position is more likely than not to be sustained assuming examination by tax authorities. A liability is recognized for any tax benefit (along with any interest and penalty, if applicable) claimed in a tax return in excess of the amount allowed to be recognized in the financial

statements under U.S. GAAP. Any changes in amounts recognized are recorded in the period in which they are determined.

The valuation methodology for deferred tax assets under U.S. GAAP is consistent with the valuation approach for EBS purposes.

Reinsurance Balances Recoverable

Amounts billed to, and due from, reinsurers resulting from paid movements in the underlying business are calculated in accordance with the terms of the individual reinsurance contracts. Similarly, reinsurance balances recoverable related to our case reserves are calculated by applying the terms of any applicable reinsurance coverage to movements in the underlying case reserves. Our estimate of reinsurance balances recoverable related to incurred but not reported ("IBNR") reserves is recognized on a basis consistent with the underlying IBNR reserves.

Our reinsurance balances recoverable are presented net of a provision for uncollectible amounts, reflecting the amount deemed not collectible due to credit quality, collection problems due to the location of the reinsurer, contractual disputes with reinsurers over individual contentious claims, contract language or coverage issues.

Deferred Acquisition Costs

Under U.S. GAAP, acquisition costs, consisting principally of commissions and brokerage expenses and certain premium taxes and fees incurred at the time a contract or policy is issued and that vary with and are directly related to the successful efforts of acquiring new insurance contracts or renewing existing insurance contracts, are deferred and amortized over the period in which the related premiums are earned.

Under the EBS approach, deferred acquisition costs are valued at nil.

Other Assets and Intangibles

Goodwill

In 2010, the Company acquired Glacier Insurance AG and the Direct and Facultative book of Glacier Reinsurance AG (collectively “Glacier”) and recorded $30.4 million of goodwill. During the year ended December 31, 2019, the recorded goodwill amount was assessed for impairment by management. An income-based approach was used to develop a discounted cash flow model, including sensitivity analysis, to estimate the current fair value of the reporting unit which could then be compared to its current carrying value on the Company's consolidated balance sheet. Based on this model, management concluded that the goodwill value was impaired. As a result, an impairment charge of $30.4 million was recorded.

Intangible assets with an indefinite life

In 2009, the Company acquired StarStone Specialty and recorded intangible assets of $11.8 million at the acquisition date. In 2010, the Company acquired StarStone National and recorded $8.1 million of intangible assets at the acquisition date. In both cases, the acquired assets consisted of insurance licenses which have an indefinite life.

In 2012, the Company recorded $24.6 million of syndicate capacity as a result of the acquisition of StarStone Corporate Capital Number 1, a corporate member for Syndicate 1301. The intangible asset acquired consists of syndicate capacity which represents the authorization to write insurance and reinsurance business into the Lloyd’s of London market.

Intangible assets with a definite life

In 2010, as part of the Glacier acquisition, an intangible asset of $5.0 million was recognized in respect of customer and broker relationships which had a carrying value of $0.2 million as at December 31, 2019. This remaining unamortized balance will be amortized in 2020.

Under the EBS approach, goodwill and the customer and broker relationships are valued at nil as they are not capable of being sold separately whilst the syndicate capacity and insurance licenses are valued in line with U.S. GAAP.

b) Valuation bases, Assumptions and Methods to Derive the Value of Technical Provisions

All reserves are initially established in accordance with U.S. GAAP. We establish reserves for individual claims incurred and reported, as well as for IBNR claims. We use considerable judgment in estimating losses for reported claims on

an individual claim basis based upon our knowledge of the circumstances surrounding the claim, the severity of the injury or damage, the jurisdiction of the occurrence, the potential for ultimate exposure, the type of loss, and our experience with the line of business and policy provisions relating to the particular type of claim. We also use considerable judgment to establish reserves for IBNR claims using a variety of generally accepted actuarial methodologies and procedures to estimate the ultimate cost of settling IBNR claims.

The reserves for unpaid reported losses and LAE are established by management based on reports from brokers, ceding companies and insureds and represents the estimated ultimate cost of events or conditions that have been reported to, or specifically identified by us. IBNR reserves are established by management based on actuarially determined estimates of ultimate losses and loss expenses. Inherent in the estimate of ultimate losses and LAE are expected trends in claim severity and frequency and other factors which may vary significantly as claims are settled. These estimates are reviewed regularly and, as experience develops and new information becomes known, the reserves are adjusted as necessary.

Once U.S. GAAP provisions have been determined, insurance technical provisions for our EBS are calculated in accordance with the methodology prescribed by the Bermuda Monetary Authority ("BMA") as further described below.

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 with an appropriate illiquidity adjustment. In addition, there is a risk margin to reflect the uncertainty inherent in the underlying cash flows which is calculated using a cost of capital approach and a risk-free discount rate. The risk-free discount rates are prescribed by the BMA for each reporting period.

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

- Removal of prudence margins;
- Incorporation of expected reinsurance counterparty defaults;
- Incorporation of Events not in Data ("ENIDs");
- Other adjustments related to consideration for investment expenses, etc.; and
- Discounting of cash flows.

The best estimate for the premium provision is calculated by using the unearned premium reserve on a U.S. GAAP basis, adjusting for bound but not incepted ("BBNI") business and applying expected future loss ratios, expense ratios and appropriate claims pay-out patterns to derive cash flows which are then discounted.

c) Description of Recoverables from Reinsurance Contracts

As at December 31, 2019 and 2018, we had reinsurance recoverables of $1,413.2 million and $1,103.7 million, respectively, as per the U.S. GAAP consolidated financial statements of the Company. The Company purchases reinsurance in order to mitigate its risk exposure and to enable it to underwrite higher limits and increase the aggregate level of underwriting capacity. The Company purchases various reinsurance agreements across all lines of business written. The Company purchases both group-wide reinsurance policies as well as entity-specific policies. The purchase of reinsurance does not legally discharge the Company or its subsidiaries from its primary gross liability and therefore, the Company remains liable to the extent that its reinsurers do not meet their obligations under these reinsurance agreements. The Company continuously evaluates and monitors the concentration of its credit risk among its reinsurers and provisions are made for amounts considered potentially uncollectible. Amounts recoverable from reinsurers are estimated in a manner consistent with the underlying liabilities.

The Company manages the risk of a reinsurer failing to meet its obligations under coverage that we have purchased by maintaining a list of approved reinsurers, performing credit assessments of reinsurers, monitoring the creditworthiness of approved reinsurers, and monitoring the concentration of credit risk.

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

Other liabilities comprise indemnity and defense costs for pending claims, deposit liabilities, deferred retroactive reinsurance gains, amounts due to affiliates, accrued expenses and other payables. All, with the exception of funds held (non-managed) for reinsurers, are carried at fair value under U.S. GAAP as required by the BMA's "Guidance Notes for Statutory Reporting Regime".

The following paragraphs detail how the liability classes are valued in accordance with U.S. GAAP and documents any differences between the valuation base in our consolidated financial statements under U.S. GAAP and the EBS.

Loss and Loss Adjustment Expenses

Refer to Item 4(b) for further information on our technical provisions.

Unearned Premiums

Refer to Item 4(b) for further information on our technical provisions.

Reinsurance Balances Payable

The valuation methodology for reinsurance balances payable under U.S. GAAP is consistent with the valuation approach for EBS purposes.

Deposit Liability

The valuation methodology for the deposit liability under U.S. GAAP is consistent with the valuation approach for EBS purposes.

Deferred Retroactive Reinsurance Gains

Under U.S. GAAP principles, ceded adverse development on ceded retroactive reinsurance contracts is deferred on the balance sheet as a retroactive reinsurance gain within liabilities. Under EBS principles, the deferred gain is recognized immediately within equity.

Deferred Tax Liabilities

Certain of our subsidiaries and branches operate in jurisdictions where they are subject to taxation. Current and deferred income taxes are charged or credited to net income, or, in certain cases, to accumulated other comprehensive income, based upon enacted tax laws and rates applicable in the relevant jurisdiction in the period in which the tax becomes accruable or realizable. Deferred income taxes are provided for all temporary differences between the bases of assets and liabilities used in the financial statements and those used in the various jurisdictional tax returns. When our assessment indicates that it is more likely than not that all or some portion of deferred income tax assets will not be realized, a valuation allowance is recorded against the deferred tax assets.

We recognize a tax benefit relating to uncertain tax positions only where the position is more likely than not to be sustained assuming examination by tax authorities. A liability is recognized for any tax benefit (along with any interest and penalty, if applicable) claimed in a tax return in excess of the amount allowed to be recognized in the financial statements under U.S. GAAP. Any changes in amounts recognized are recorded in the period in which they are determined.

The valuation methodology for deferred tax liabilities under U.S. GAAP is consistent with the valuation approach for EBS purposes.

Other Liabilities

The valuation methodology for other liabilities under U.S. GAAP is consistent with the valuation approach for EBS purposes.

ITEM 5. CAPITAL MANAGEMENT

a) Eligible Capital

i) *Capital Management Policy & Process for Capital Needs*

The capital management of the Company is subject to the laws and regulations applicable to each of its jurisdiction operating regions, as well as the insurance subsidiaries' need to maintain capital requirements adequate to maintain their insurance and reinsurance operations and their financial strength ratings issued by independent rating agencies.

Bermuda

The Company is registered as a Class 4 insurer under the Insurance Act 1978 of Bermuda and related regulations, as amended (the "Insurance Act"). Under the Insurance Act, the Company is required to prepare Statutory Financial Statements and to file a Statutory Financial Return. The Insurance Act also requires the Company to meet certain minimum capital and surplus requirements. Effective December 31, 2008, the BMA introduced a risk based capital model, the Bermuda Statutory Capital Requirement ("BSCR"), as a tool to measure risk and determine an enhanced capital requirement ("ECR") and target capital level, defined as 120% of the ECR for Class 4 insurers. While the required statutory capital and surplus has increased under the BSCR, the Company has capital and surplus in excess of the target capital level.

Statutory capital and surplus as reported under the Insurance Act is different from shareholder's equity as determined in conformity with U.S. GAAP due to certain items that are capitalized under U.S. GAAP but expensed under the Insurance Act. The Company is also required to maintain a minimum liquidity ratio under the Insurance Act, which was met for the years ended December 31, 2019 and 2018.

The Company is prohibited from declaring or paying a dividend if its statutory capital is less than its ECR, or if it is in breach of its solvency margin or minimum liquidity ratio, or if the declaration or payment of such dividend would cause subsequent breach. Further, the Company shall not pay dividends in any year which would exceed 25% of its prior year statutory capital and surplus or reduce its prior year statutory capital by 15% or more, without the prior notification to, and in certain cases the approval of, the BMA. In addition, the Bermuda Companies Act 1981 limits the Company's ability to pay dividends and distributions to its shareholder if there are reasonable grounds for believing that it would be unable to pay its liabilities as they become due or if the realizable value of its assets would be less than the aggregate of its liabilities, issued share capital and additional paid-in capital.

United States

As defined by the regulations of the state of Delaware, the maximum amount of dividends that can be paid by StarStone National and StarStone Specialty to shareholders, without prior approval of the Insurance Commissioner, is subject to certain restrictions. Dividends are not considered to be extraordinary and may be paid out of earned surplus without prior approval if during the preceding twelve month period the dividends declared and paid do not exceed the greater of (1) 10% of surplus as regards policyholders for the prior year or (2) prior year's net income excluding realized capital gains.

United Kingdom - Lloyd's

As of December 31, 2019, the Company participated in the Lloyd's market through its interests in Syndicate 1301, which is managed by SUL. The underwriting capacity of a member of Lloyd's is supported by providing Funds at Lloyd's. Business plans, including maximum underwriting capacity, for Lloyd's syndicates requires annual approval by the Lloyd's Franchise Board, which may require changes to any business plan or additional capital to support underwriting plans. The Lloyd's market has applied the Solvency II internal model under Lloyd's supervision, and our Lloyd's operations are required to meet Solvency II standards.

Liechtenstein

The Company's European insurance subsidiary, StarStone SE, is based in Liechtenstein and is regulated by the Financial Market Authority Liechtenstein ("FMA"). Under the Liechtenstein Insurance Regulations, StarStone SE is required to meet certain minimum capital and surplus requirements. To satisfy these requirements, the company was required to maintain a minimum level of statutory capital and surplus of $82.4 million at December 31, 2019 which was met.

We expect our cash flows, together with our existing capital base and cash and investments acquired on the acquisition of insurance and reinsurance subsidiaries, to be sufficient to meet cash requirements and to operate our business.

ii) *Eligible Capital Categorized by Tiers in Accordance with the Eligible Capital Rules*

	December 31, 2019 ($'000)	December 31, 2018 ($'000)
Tier 1	613,283	685,103
Tier 2	72,580	81,741
Tier 3	—	—
Total	**685,863**	**766,844**

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

$'000	Limits	MSM	ECR	Minimum Margin of Solvency	Enhanced Capital Requirement
Tier 1	Min	80%	60%	613,283	685,863
Tier 2	Max	25%	66.67%	72,580	—
Tier 3			17.65%	—	—
Total				**685,863**	**685,863**

Description of the eligible capital categorized by tiers, in accordance with the Eligible Capital Rules used to meet the Enhanced Capital Requirement ("ECR") and the Minimum Margin of Solvency ("MSM") defined in accordance with section (1) (1) of the Act:

Only Tier 1 capital required to meet ECR and MSM.

iv) *Confirmation of Eligible Capital That is Subject to Transitional Arrangements*

N/A

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

N/A

vi) *Identification of Ancillary Capital Instruments Approved by the Authority*

N/A

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

Reconciliation of US GAAP to BSCR (EBS) Capital	$'000
Shareholders' Equity per U.S. GAAP Financial Statements	**622,973**
Remove non-admitted assets	(2,796)
Bermuda Statutory Capital and Surplus	**620,177**
Net discount on general business technical reserves	(44,817)
Deferred retroactive reinsurance gain	110,503
BSCR (EBS) Statutory Economic Capital and Surplus	**685,863**
Company Eligible Capital	**685,863**

b) Regulatory Capital Requirements

i) ECR and MSM Requirements at the end of the reporting period:

	Amount - $'000	Ratio
Minimum Margin of Solvency	150,750	455%
Enhanced Capital Requirement	343,982	199%

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

N/A

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

N/A

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

N/A

c) Approved Internal Capital Model to derive the ECR

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

N/A

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

N/A

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

N/A

iv) *Description of Aggregation Methodologies and Diversification Effects*

N/A

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

N/A

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

N/A

vii) *Any other Material Information*

N/A

ITEM 6. SUBSEQUENT EVENTS

The World Health Organization (WHO), on March 11, 2020, declared the coronavirus, COVID-19, outbreak as a global pandemic. The Company is closely monitoring the outbreak and actively assessing the potential impact to all stakeholders. The Company has a formal business continuity plan which is being continually reviewed in light of current developments and being actively deployed as events require, which includes office closures where required. From an employee wellbeing and business continuity perspective, the Company is proactively monitoring this outbreak by maintaining continuous dialogue regarding its status and issuing periodic updates and guidance to all staff on preventative measures to maintaining good health. As the situation evolves, the Company is regularly assessing its exposure to potential underwriting losses and the impact on solvency capital in line with established risk metrics and in compliance with the Company's risk appetite, including the impact following the recent volatility in the financial markets.

The long-term impact of this pandemic is unclear at this time due to the unprecedented nature but may have a significant impact on the operations of the Company. The key areas within the consolidated financial statements that have the potential to be impacted include valuation of the Company's investment portfolio, reserves for loss and loss expenses, reinsurance recoverables, premiums receivable, and the deferred tax asset.

DECLARATION ON FINANCIAL CONDITION REPORT

To the best of our knowledge and belief, we the undersigned confirm that the Financial Condition Report fairly represents the financial condition of StarStone Insurance Bermuda Limited, in all material respects:

Guy Bowker

Chief Executive Officer

May 26, 2020

Karen Esdale

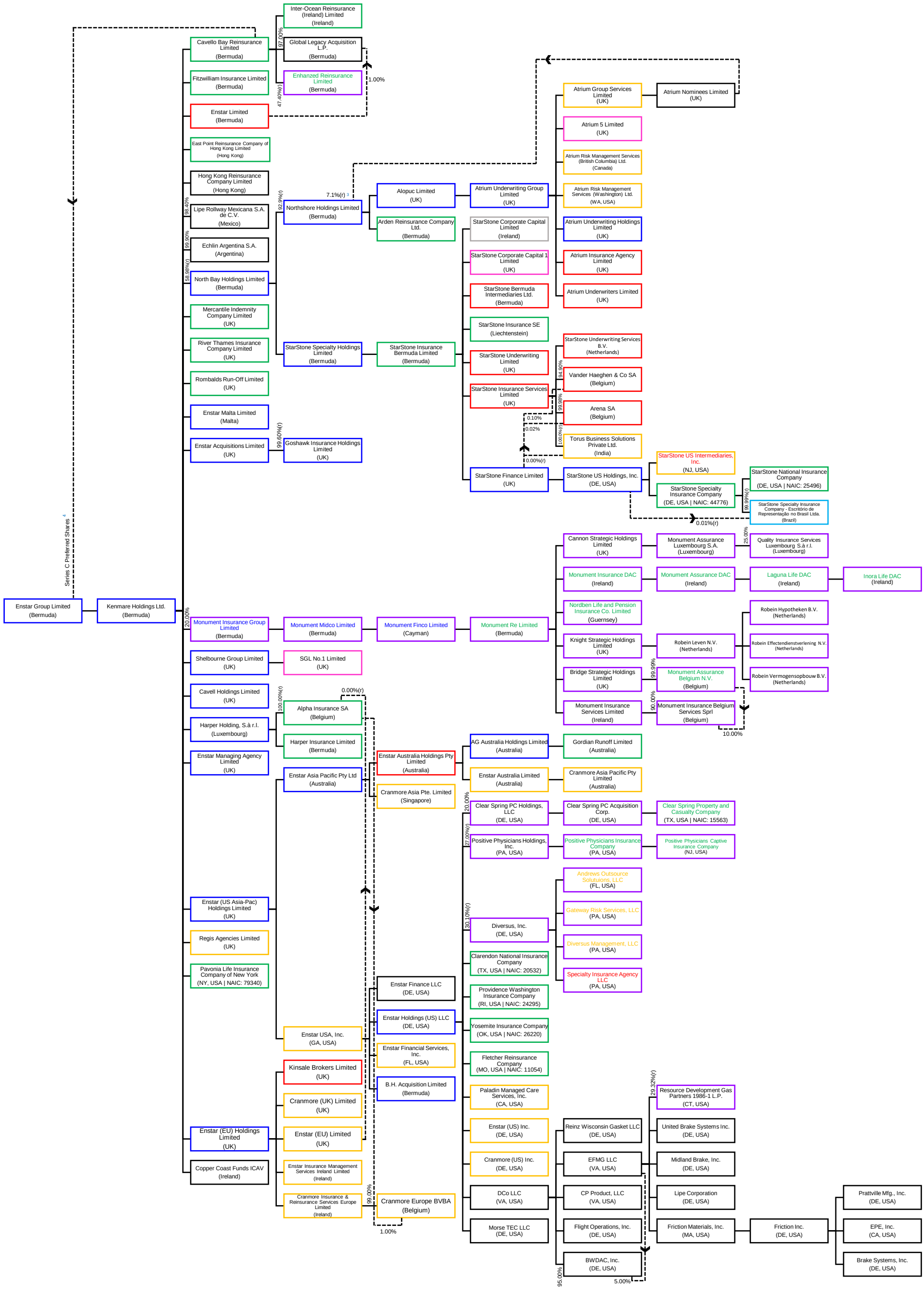
Director, Chief Risk Officer of Enstar Group Limited

May 26, 2020

Enstar Corporate Structure Chart[1]

Enstar Group Limited and its Subsidiaries – as at March 31, 2020

APPENDIX I



Notes

[1] Unless otherwise noted, each entity is wholly held by the parent before it. Any ownership percentages followed by '(r)' are rounded to the nearest hundredth.

[2] In the ordinary course of managing the assets in our investment portfolios, we may from time to time passively invest in equity or other security holdings of companies we do not control and/or which do not conduct insurance related business; such entities are not reflected in this chart. The legal names of noncontrolling investments featured herein in green are classified as insurance / reinsurance entities, while those in red are classified as other regulated / licensed entities, those in yellow are classified as service entities, and those in black are none of the aforementioned.

[3] Atrium Nominees Limited holds an equity interest in Northshore Holdings Limited on behalf of employee participants in any of Atrium's equity/share/incentive plans.

[4] Cavello Bay Reinsurance Limited holds a minority variable non-voting economic interest in Enstar Group Limited in the form of Series C Preferred Stock.

Key

- Holding Entity
- Insurance / Reinsurance Entity
- Other Regulated / Licensed Entity
- Service Entity
- Noncontrolling Investment[2]
- Representative Company
- Active Lloyds Corporate Member
- Dormant Lloyd's Corporate Member
- Unregulated Entity / Non-Insurance Entity