

Custodian Life Limited – Financial Condition Report

For the twelve month period ending December 31, 2018.

Table of Contents

1. Executive Summary
2. Company Background Information
3. Business and Performance
4. Governance Structure
5. Risk Profile
6. Solvency Valuation
7. Capital Management
8. Subsequent Events
9. Declaration

1. EXECUTIVE SUMMARY

This financial condition report ("**FCR**") for Custodian Life Limited ("**Custodian**", the "**Company**", "**we**" or "**our**") is produced in accordance with the Insurance (Public Disclosure) Rules 2015 and Insurance (Public Disclosure) Amendment Rules 2016 (the "**Rules**") under the Bermuda Insurance Act 1978 (the "**Act**").

This FCR outlines the financial condition of Custodian as at December 31, 2018, and contains qualitative and quantitative information of Custodian's business and performance, governance structure, risk profile, solvency valuation and capital management.

2. COMPANY BACKGROUND INFORMATION

Custodian is a privately held insurance company incorporated on June 13, 2011 under the laws of Bermuda.

The Company is licensed as a Class C long term insurer under the Insurance Act 1978 of Bermuda and related regulations (the "Insurance Act").

The Company is registered as a segregated accounts company under the Segregated Accounts Companies Act 2000 (the "SAC Act") effective October 17, 2013.

The registered office of the Company is located at Victoria Place, 31 Victoria Street, Hamilton, Bermuda.

The financial statements of the Company included in this FCR are prepared in accordance with International Financial Reporting Standards ("IFRS")

3. BUSINESS AND PERFORMANCE

a. **Name of Insurer**

Custodian Life Limited

b. **Supervisor**

Bermuda Monetary Authority ("BMA")
BMA House
43 Victoria Street, Hamilton
Bermuda

c. **Approved Auditor**

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

d. **Ownership**

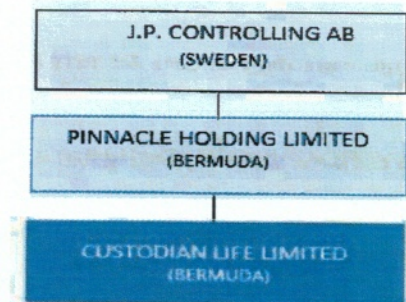
The Company is a wholly owned subsidiary of Pinnacle Holding Limited of [Victoria Place, 31 Victoria Street, Hamilton, Bermuda] and its ultimate controlling company is J.P. Controlling AB [Södra Torggatan 6, Kungsbacka, Sweden].

e. **Group Structure**

The following provides details of the Company in the Group Structure:

CUSTODIAN LIFE

Non-insurance companies
 Insurance company



f. **Insurance business written**

The long-term business of the Company consists of life insurance policies with flexible unit-linked characteristics in which Policyholders are provided the opportunity to place their premium funds in segregated accounts and allocate the respective funds among a variety of investments in order to obtain investment returns. As the total return on the underlying investments held in respective Policyholder's segregated account increases or decreases, the death benefit or encashment value of the respective life policy may increase or decrease. In the event of death, the benefit paid to the policyholder's beneficiary is 101% of the underlying policy fund value. For joint policies, the death benefit is paid following death of the second life assured. All investment returns earned on the segregated account are passed directly to the policyholder and accounted for as an adjustment to the Policyholder's respective segregated account assets and liabilities. Accordingly, the Company charges policyholders a fee for management of these segregated accounts. Consistent with prior years, the Company does not write nor participates in any reinsurance business.

g. **Performance and Material Income & Expenses for December 31, 2018 & 2017**

(Expressed in US Dollars)

	2018	2017
Revenue:		
Fee income	3,020,881	2,904,874
Investment income	56,979	(117,508)
Other income	591,773	568,081
Total revenue	3,969,083	3,350,402
Expenses:		
Acquisition cost	1,459,908	1,954,616
Change in provision for future policy benefits	88,902	91,652
General and administrative expenses	936,077	712,991
Other operating expenses	741,665	430,064
Total expenses	3,176,552	3,189,523
Net income	792,531	160,879

h. **Any other Material Information**

None.

4. GOVERNANCE STRUCTURE

The Company has established a corporate governance framework designed to support its core values of transparency, fairness and accountability.

a. Board and Senior Executive

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

The business and affairs of the Company are overseen by the Company's Board of Directors ("Board"). The Board maintains responsibility for the strategic direction, performance, management and oversight of the Company.

The Board currently consists of 4 directors, of which 1 is an executive director and 3 are non-executive directors. Their roles and responsibilities are outlined in the Company's Corporate Governance Guidelines and bylaws. During 2019, the Company established Risk & Compliance, Operations & Underwriting as well as Audit Committees ("Committees") comprising of members of executive and senior management, and representatives from the principal representative of the Company who have been delegated certain responsibilities relating to Company's risk management, compliance and operational review and monitoring as set forth in the respective Committee charters. Together, the Board and Committees provide oversight and monitor the Company's affairs to ensure alignment with its strategic plan and long term strategy.

ii. Remuneration Policy

The Company does not currently have any direct employees. All operational functions are fulfilled through a services agreement by employees of affiliated company J.P. Consulting Finance & Management AB. Board members receive a fixed fee, where appropriate, in accordance with established policies approved by the Board. Directors who are employed by the Principal Representative or the Corporate Administrator do not receive a fee; the Principal Representative and Corporate Administrator are compensated in accordance with its services contract.

b. Fitness and Proprietary Requirements

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

The Board seeks members who combine a broad spectrum of experience and expertise with a reputation for integrity. Directors should have experience in positions with a high degree of responsibility, be leaders in the companies or institutions with which they are affiliated and be selected based upon the contribution they can make to the Board and management. The Company's Board Corporate Governance Guidelines document outlines the Company's processes and procedures for assessing fitness and propriety of Board members, including qualifications, skills and work experience. Senior Executive level appointments are reviewed and approved by the Operations Manager with oversight from the Board.

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

Directors & Senior Executives:

Michael Burns - Director

Michael Burns is a leading Bermudian corporate lawyer, formerly a senior partner, executive board member and global group general counsel of Appleby. Michael was involved in the development and implementation of Segregated Accounts Companies legislation in Bermuda. Michael now runs his own consultancy, Aquifer Global Group. As Group Managing Partner, he focuses on advising on, planning and implementing strategy and operations in local and global business matters. During 2017, in acknowledgement of his competence and industry recognition Michael was awarded the prestigious Fred Reiss Lifetime Achievement Award.

Robert Pain - Director

Robert Pain has over 35 years of experience within the financial services industry, having worked in numerous roles in sales, marketing, customer services and business process outsourcing at Target Group, Axa, Friends Life and Investors Trust Assurance. He is the CEO of the Association of International Life Offices, the trade body that represents the international cross-border life insurance industry, having previously served for several years as its chairman and chief executive of Cadel Consulting which offers management consultancy services to the financial services industry. In 2018, Bob was credited to be one of the industry's most influential by International Adviser.

Joakim Samuelsson- Executive Director & CEO

Joakim Samuelsson has worked in the insurance industry for the past 15 years. Joakim is the founder, ultimate majority shareholder, Director and CEO of the Company. Joakim is also the ultimate majority beneficial shareholder and Director of the Bermuda based holding company Pinnacle Holding Limited holding 100% of the shares in the Company. Joakim holds Master of Science degree in Financial Economics. In 2018, Joakim was credited to be one of the industry's most influential by International Adviser.

Philip Anderson- Director and Chairman

Philip Anderson is a Director of the Estera Bermuda Group, heading up the Insurance Management, Listing Sponsor and Private Client & Trust teams. Philip joined Estera (formerly Appleby) in 2007, and was previously employed with Deloitte & Touche and Wilkins Kennedy (formerly Jordon Brookes), with responsibility for managing a large portfolio of clients, providing taxation advice, and business and financial planning. Philip specialises in providing solutions to and working with companies, individuals and families on corporate and trust matters and is involved in the management, administration and accounting of financial structures. Philip works closely with clients and their financial, tax and legal advisors, as well as with bankers and investment advisors. Philip is a member of the Society of Trust and Estate Practitioners and a fellow of the Association of Chartered Certified Accountants in the UK and brings a number of years of in-depth financial reporting expertise to the Estera Group. Philip graduated from Southampton (England) in 1998 with a Bachelor of Arts degree.

Approved Actuary:William C. Hines

William C. Hines, FSA., MAAA, is a member in good standing of the Society of Actuaries and the American Academy of Actuaries. He holds BBA, Finance degree from University of Massachusetts, Amherst. Since 2001, Mr. Hines is a principal and consulting actuary with the Boston office of Milliman Inc. Prior to joining Milliman Inc., William worked at John Hancock in Boston, where he gained experience in GAAP and statutory financial reporting, valuation, dividend scale development, profitability analysis, and projection, as well as many aspects of demutualization. William has consulted extensively on financial reporting issues involving IFRS, US GAAP, and US. Statutory accounting, as well as embedded value issues. He was appointed as the Company's approved actuary in 2013 and continues to serve as appointed actuary for several life insurers in the United States, Bermuda and the Cayman Islands.

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

Custodian's risk management policies provide detailed guidance on the Company's risk management and internal controls. The Board is responsible for oversight of the Company's risk management and control functions. The risk management policy includes details of Company's identified risks, responses to these risks as well monitoring and reporting processes aimed to ensure that risks are continuously assessed and monitored. The risk management policy also includes clearly defined roles and responsibilities of the respective process owners responsible for ensuring effective implementation of the Company's risk management and internal control procedures. Management recognizes that the Company is in a period of growth and development and accordingly has delegated certain responsibilities relating to risk management and compliance monitoring, to the Committees.

d. **Internal Control, Compliance and Actuarial Function**

Custodian's internal control policies aim to provide efficient and effective organization as well as management of the business including compliance with applicable regulations. The Board has the overall responsibility of the Company's internal controls. Considering the size and complexity of the Company, adherence to organizational policies, internal control and compliance functions is currently managed by the CEO with oversight from the Board. However, certain aspects of these function are also incorporated into the terms of reference of Custodian's Risk and Compliance Committee, Audit committee and its Operations and Underwriting Committee. The Company does not currently have an internal actuarial function, and instead Milliman Inc. is engaged to serve as the Approved Actuary pursuant to Bermuda Law and to prepare the annual actuarial opinion required by Bermuda Law. Milliman Inc. is actively involved in the calculations of the EBS technical provisions reported by the Company. Based on their analysis they issue an opinion on EBS technical provisions held in support of the long-term policies of the Company which is then presented to the Board for review and approval.

5. RISK PROFILE

The Company has identified following material risks relevant to its business operations:

a. **Insurance risk:**

Insurance risk arises if the Company's underwriting strategies are not aligned with the overall organizational strategy or not appropriately managed to mitigate insurance exposures. The Company has established internal policies and procedures to reduce these risks by identifying and evaluating risks arising from insurance policy obligations as well as developing systems to ensure relevant and accurate data is used to price underwriting contracts, establish adequate reserves, claims processing, as well as regular monitoring of potential risks that may impact the Company in executing its strategic goals. In order to minimize its risk, the Company has also established segregated accounts for Policyholders in accordance with the Segregated Accounts Companies Act 2000. Each Policyholder's Segregated Account contains the policy assets and liabilities that are legally separated from the assets and liabilities of the Company's general account and other segregated accounts. The Company maintains reserves in the General Account for future policy death benefits representing management's best estimate of Company's liability for death claims on underlying policies which are continually reviewed by Company risk management and compliance functions for potential changes underlying these policies such as claims severity and frequency. The Company's reserves are also assessed by the Approved Actuary pursuant to Bermuda Law as well as reported in accordance with Bermuda statutory filing guidelines. The Board regularly reviews the operational performance of the Company and monitors effective implementation of the risk mitigation strategies implemented to appraise the performance of the management.

b. **Investment & liquidity risk:**

The investments of the Company are managed in alignment with its overall organizational strategy.

Investment risk is mitigated by the Company such that it operates legally segregated accounts designed to ensure that each Policyholder's assets are insulated from the assets and liabilities of other Policyholders. Therefore, the risk identified by the Company relates to Company's own investments.

Liquidity risk relates to Custodian not being able to meet its payment obligations on due dates without the cost of obtaining funds increasing significantly. The risk of Custodian not being able to pay overdue bills or meet other payment obligations is estimated as low. Custodian has access to real-time reports on its liquidity situation and prepares detailed and accurate cash flow projections.

c. **Market risk:**

Market risk includes changes in interest rates, exchange rates and equity prices which may lead to depreciation of Custodian's assets. Custodian is also indirectly exposed to market risks through a downturn in security prices leading to the value of customers' assets declining, which in turn leads to reduced revenues. The risk of revenue decreases to Custodian's survival is assessed as low as the Company has other revenue sources that are not dependent on the amount of assets it has under management. Custodian has made the assessment of the market risk as low as it regularly monitors that the capital base does not fall below the prescribed minimum level and the placement rules for placement of funds is followed.

d. **Credit risk:**

Credit or counterparty risk is the risk of a counterparty or borrower, not fulfilling its commitments to Custodian and the risk of collateral held under a customer policy not covering a claim made on that policy. Before execution and transfer of an order, the ultimate policyholder must pay the premium and associated fees in order to purchase the securities. In the case of a sale, the proceeds will be paid out to the customer after deducting the fees. Charges are deducted from the assets of the client's account that is under discretionary portfolio management. Custodian's cash is deposited in banks with high credit rating. The credit risk of any of these banks is considered remote. Custodian Life's exposure to credit and counterparty risk is therefore assessed as minimal.

e. **Operational risk:**

Operational risk is the risk of loss resulting from inadequate or failed internal procedures or processes, human and system errors or from external events. The Company's risk management activities include monitoring the operational risk the Company is exposed to in order to identify any additional operational risks and take actions to adequately manage exposures that could lead to potential adverse developments. If key personnel leave the company, there is a risk that important specialist knowledge will be lost. To reduce this risk, the administrative staff engage in on-going training in various services so that more people can perform various job functions. The Company may hire specialist support should the vacancy be at a critical time to mitigate this risk. System related risks may arise when the Company is unable to fulfil its obligations as a result of the failure of technical systems or data breach. These system related risks are managed in accordance with Custodian's Guidelines for Business Continuity. Any incident occurring in the IT environment is directly reported to the senior management who will conduct an investigation and propose measures to remediate any problems. Furthermore, to minimize system risks, Custodian has contracted with an external IT support company. With the help from the external company Custodian has established a properly functioning firewall and full suite of protection measures.

f. **Strategic risk:**

Strategic risk relates to changes in general market conditions and institutional changes that may impact Custodian's potential to achieve its strategic goals. In conjunction with this, the Board also regularly reviews the performance of the senior management to ensure that strategic goals and objectives set by the Board are adequately implemented and achieved.

g. **Reputational risk:**

Reputational risk is the risk that Custodian's reputation in the market is damaged as a result of true or false information spread by customers, retailers or generally in the media. To avoid negative exposure of this kind,

it is important that all employees behave in a proper and professional manner. The Company's internal regulations, including guidelines for dealing with complaints and ethical guidelines, is required reading and guides the employees' behaviour when dealing with customers. The Company regularly reviews, monitors and liaises with its compliance function to ensure that any reputational risk to the Company is proactively identified and adequately addressed to mitigate the risk.

h. Legal risk:

Legal risks may arise due to changes in the legal or regulatory environment or the risk that legal rulings relevant to the Company's business model may change and create additional loss costs or expenses not anticipated when our insurance products were priced i.e. regulatory initiatives designed to reduce insurer profits or new legal theories may create costs for the insurer beyond those recorded in the financial statements or the Company may not continue in its current form due to amended legislation. The legal risk is managed in accordance with Custodian's compliance guidelines and by its compliance function which continuously monitors the legal and regulatory environment to identify potential adverse developments that may impact the Company and take actions to mitigate this risk through monitoring and review of regulatory legislation amendments, in order to minimize adverse impact of these risks.

6. SOLVENCY VALUATION

The Company has considered the valuation principles outlined by the BMA's "Guidance Note for Statutory Reporting Regime" for December 31, 2018 statutory filing. The Company's economic valuation principles are to measure assets on a fair value basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (not a forced liquidation or distress sale) between market participants at the measurement date, that is, an exit value.

The Company categorizes its fair value measurements according to a three-level hierarchy. The hierarchy prioritizes the inputs used by the Company's valuation techniques. A level is assigned to each fair value measurement based on the lowest level input significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are defined as follows:

Level 1 – Fair value measurements that reflect unadjusted, quoted prices in active markets for identical assets and liabilities that the Company has the ability to access at the measurement date reflecting market transactions.

Level 2 – Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in inactive markets, inputs that are observable that are not prices (such as interest rates, credit risks, etc.) and inputs that are derived from or corroborated by observable market data.

Level 3 – Fair value measurements using significant non-market observable inputs. These include valuations for assets and liabilities that are derived using data, some or all of which is not market observable, including assumptions about risk.

The Company use a number of valuation sources to determine fair values. Valuation sources may include quoted market prices; third-party commercial pricing services; third-party brokers; industry standard, vendor modelling software that uses market observable inputs; and other modelling techniques based on projected cash flows.

The principles for determining technical provisions are made with respect to mortality tables, investment returns, rates of policy termination and operating expenses. Actual experience is monitored to ensure that assumptions underlying these provisions remain appropriate. The Company has varied the mortality assumption by region by grouping policies and assigning publicly available mortality tables. Due to the small

mortality risk associated with the policies, the provision for future policy death benefits is assessed as not being very sensitive to the mortality assumption. The technical provisions are recorded lower than overall fund value and total reserve reported in the Company's Statutory Balance Sheet. The Company does not retain the investment risk on the performance of the assets underlying the contract fund value and anticipated fees are generally expected to be higher than anticipated expenses. The Company's Approved Actuary Milliman Inc. is actively involved in the calculations of the technical provisions. Based on their analysis and review they issue an opinion on Company's technical provisions held in support of the long-term policies of the Company.

7. CAPITAL MANAGEMENT

The Company's policy is to maintain a strong capital base so as to maintain policyholder, creditors and market confidence and to sustain future development of the business. To enable the BMA to better assess the quality of the insurer's capital resources, a Class C insurer is required to disclose the makeup of its capital in accordance with the '3-tiered capital system'. Highest quality capital is classified as Tier 1 Capital, lesser quality capital is classified as either Tier 2 or Tier 3 Capital. The Act requires that Class C insurers have Tier 1 Capital equal to or greater than 50% of the value of its enhanced capital requirement ("ECR") and Tier 3 Capital of not more than 17.65% of the aggregate of its Tier 1 Capital and Tier 2 Capital.

As of December 31, 2018, all of the eligible capital used by the Company to meet the minimum margin of solvency ("MMS") and ECR was Tier 1 Capital.

8. SUBSEQUENT EVENTS

None.

9. DECLARATION

Declaration of the Financial Condition Report.

We, the undersigned, declare that to the best of our knowledge and belief, the financial condition report fairly represents the financial condition of the Company in all material respects as at December 31, 2018.



Executive Director
Joakim Samuelsson

Date signed: 27.9.2019



Director
Philip Anderson

Date signed: 27.9.2019