MUTUAL INSURANCE COMPANY LIMITED

Protecting Your Pursuit of Truth℠

Financial Condition Report

December 31, 2021

Document Control

Document History

Version	Date	Author	Change Status
2021 MIC Financial Condition Report December 31, 2021	April 22, 2022	Janet Carew, Chief Financial Officer and Chief Risk Officer	Final for review and approval

Distribution

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2021 MIC Financial Condition Report December 31, 2021	April 26, 2022	MIC Board of Directors	Approved
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Contents

Executive Summary & Declaration

In accordance with the Insurance (Public Disclosure) Rules 2015, the Bermuda Monetary Authority (BMA) requires Bermuda registered insurers to publish annually a Financial Condition Report (FCR). This is the fifth FCR published by Mutual Insurance Company Limited. Its purpose is to provide stakeholders, including policyholders and regulators with additional information on the financial condition of Mutual Insurance Company Limited (MICL) supplementary to that contained in the annual financial statements.

2021 was the third year of a five year strategy designed around five initiatives. We believe that with great change comes great opportunity for MICL. During 2021, despite the backdrop of the COVID-19 pandemic measures that prohibited travel and in person client/broker meetings, and staff and consultants working virtually, we made significant progress on key milestones including 24% growth in written premium, development of key distribution channels, implementation of a new insurance administration and accounting system, and right-sizing of our talented team.

MICL's vision consistently has been to protect the right of free expression in the Americas for creators and providers of content. Our mission at MICL is to provide high value risk management products and services to content creators and providers by offering insurance designed and managed by an industry leading team.

Declaration on the Financial Condition Report

To the best of my knowledge and belief, this financial condition report represents the financial condition of Mutual Insurance Company Limited as at December 31, 2021, in all material respects.

Joanne Richardson
Chief Executive Officer

Janet Carew
Chief Financial Officer & CRO

April 29, 2022

1. Business & Performance

1 (a - e) Business

Mutual Insurance Company Limited (the "Company", "MICL") was incorporated by an Act of Parliament in Bermuda on April 5, 1961 as a mutual company with liability limited to the premiums paid by its policyholder members. It is licensed under the Insurance Act 1978 of Bermuda to write all classes of property and casualty business. The Mutual Insurance Company Limited Amendment Act 1986 established limited liability and that the provisions of the Companies Act 1981 would apply to the Company. The Members of the Company are defined in the Bye-laws as Directors of the Company. Policyholders are not members of the Company. On October 31, 2017, the Company was reclassified as a Class 3A – Commercial Insurer by the Bermuda Monetary Authority, its regulator. Prior to October 31, 2017, the Company was registered as a Class 2 insurer.

MEMBERSHIP

Members. 2. A person who shall from time to time be elected as a Director of the Company, as herein provided, so long as he shall serve as a Director, shall be a Member.

Figure 1 - Excerpt from Bye-Laws 1986

The Company may not pay dividends according to its Bye-laws; neither may it reduce the capital or make any distribution of funds to any or all of its Members. Further, upon winding up, its surplus funds may only be distributed according to its Act, as amended, which provides for a distribution to "such organization, fund or trust established to further the free press primarily in the United States of America and Canada as the Members may by resolution nominate…"

Name and contact details of the insurance supervisor:

Bermuda Monetary Authority
BMA House
43 Victoria Street
Hamilton
Bermuda

Name and contact details of the approved auditor:

PricewaterhouseCoopers Ltd.
Washington House
4th Floor, 16 Church Street
Hamilton HM 11
Bermuda

Engagement Partner: Damian Cooper
Email: damian.cooper@pwc.com
Phone: +1 441 295 2000

1 (f) Underwriting Performance

The Company operates the following professional insurance programs:

Our Media Liability (libel) program is offered to publishers of daily and weekly newspapers, radio, TV, cable operations, digital publishers, and electronic information services based in North America in claims made and claims occurrence forms. An Information Security and Privacy Extension endorsement is available for certain policyholders.

The insurance program is protected by various per occurrence and aggregate excess of loss reinsurance policies. Risks retained were $1.25m in 2017 and 2018, $1.75m in 2019, and $2.0m thereafter.

Key Results

	Key Results (000's)	ACTUAL 2021	ACTUAL 2020
(f)	Gross Premiums Written	30,823	24,836
(h)	Material Expenses		
	Losses & loss adjustment expenses	7,273	6,541
	Commissions & brokerage	1,898	1,119
	General & administrative	6,200	10,719

Table 1 - Key Results

(g) Investment Performance (000's)	Market Value ACTUAL 2021	Market Value ACTUAL 2020	Performance ACTUAL 2021 $	Performance ACTUAL 2020 $	Performance ACTUAL 2021 %	Performance ACTUAL 2020 %
Fixed income	96,231	97,862	2,451	2,375	2.53%	2.46%
Equities	15,346	12,080	3,266	1,708	23.82%	14.68%
	111,577	109,942	5,717	4,083	5.16%	3.78%

Table 2 - Investment Performance

2. Governance Structure

MICL has established a governance structure as part of its risk management framework that is designed to anticipate reasonably foreseeable risks. It is proportionate to the nature, scale and complexity of the Company's operations.

(a) Board and Senior Executive

The Board of Directors is ultimately responsible for sound and prudent governance. The Company has documented Bye-laws, a Board Charter which sets out Terms of Reference, a Fit & Proper Policy for board, officer and outsource service providers, and policies regarding ethics and compliance, the authorities of executives, and performance and rewards of all employees, in addition to operational policies for functional areas such as underwriting, claims, and finance. The Board meets at least semi-annually, follows a formal agenda and the meetings are minuted by the Corporate Secretary.

Committees are in place to support the Board of Directors in discharging its responsibilities. Each committee has its own charter and standing agenda, and meets at least twice per year.

Figure 2 - Structure of Committees to the Board

The Executive Committee is comprised of the Chairman of the Board, and chairs of the other committees. This committee acts as the nominating committee for directors. It conducts and reports to the Board on annual fitness and propriety assessments of all Directors, Officers and key outsource service providers, and determines remuneration of executives.

The Underwriting Committee reviews the Company's underwriting risk appetite and tolerances, and underwriting policy at least annually. It reviews management's underwriting strategy and business plans, including the reinsurance program, and underwriting results relative to targets, including reviews of loss reserve development. The committee reports to and makes recommendations to the Board on governance practices, internal controls and other matters related to the underwriting activities, such as the use of benchmarks and stress/scenario testing in determining strategies and risk appetite. The committee approves the CEO's authority and reviews authorities granted to underwriters and claims management.

The Audit & Risk Committee is tasked with satisfying itself that the financial statements of the Company present a full and true account of the financial affairs of the Company in all material respects, and that the accounts and statements are regularly and properly audited and that the Board is provided with full and timely disclosure of the financial situation of the Company. It recommends to the Board the selection and appointment of independent auditors and the Company Loss Reserve Specialist and reviews, with the internal auditors, reports on procedures and processes for improving internal controls. The Audit & Risk Committee is also responsible for ensuring the alignment of the risk management framework with the strategic plan and operations of the Company. It sees that senior management have identified and assessed all material risks relevant to MICL, and established an infrastructure to manage, document and report on identified risks and any breaches of risk tolerance.

The Finance & Investment Committee considers the management of MICL's investment portfolio for performance against risk adjusted return benchmarks and targets, and compliance with the investment objectives and guidelines. It recommends to the Board from time to time any changes in investment guidelines that it deems appropriate, considering the advice of the investment managers and senior management, and the market and credit risks to which the Company is exposed. It also oversees the capital sufficiency of MICL by reference to internal and regulatory capital models, including the results of stress and scenario testing, and considers credit and debt financing.

The Donations Committee recommends to the Board donations to charitable institutions domiciled in Bermuda to be annually distributed by the Company according to policies approved by the Board and the annual budget.

Senior Management structure

Chief and Senior Executives are responsible for the development and execution of strategic and business plans, and the day to day operations of the Company. These executives operate along functional lines, supervising staff and outsource service providers, and are subject to contractual performance management criteria established by the Board of Directors.

The **Chief Executive Officer** is responsible for managing the insurance operations of the company and developing and driving a growth strategy for the Company. She is tasked with ensuing compliance with the Company's risk tolerance, management philosophy, guidelines and practices, developing and maintaining positive business relationships with brokers, outsource service providers, professionals and other key partners, vendors and providers; and managing the underwriting, claims, actuarial, financial reporting, and general administration of the Company

The **Chief Executive Officer, acting as Chief Underwriting Officer** also has oversight and management responsibility of all underwriting and reinsurance functions of the Company including development of a strategic underwriting framework, composition of underwriting guidelines for all approved lines of business, product development and execution of an appropriate marketing strategy, and acts as the Company's lead underwriter.

The **Chief Financial Officer and Chief Risk Officer** is responsible for the day-to-day management of the finance and risk department, provides relevant feedback to production strategies and business plans by evaluating business imperatives versus risk management and capital allocation, and manages the Company's balance sheet within the capital adequacy objectives established by the Board, ensuring financial and operational stability.

Remuneration Policy

The Board of Directors has established a remuneration policy for directors, officers, employees and outsource service providers that recognizes and rewards the contributions to the Company's mission and vision made by each compensated person. Directors receive an annual retainer, meeting fees and expense reimbursements for attendance at Board and committee meetings.

Executives receive a combination of salary, benefits, allowances, and bonuses tied to company and individual performance. Staff are paid salary, benefits and individual performance awards, and participate in a profit-sharing pool. Outsource service providers are remunerated according to contractual provisions and are not eligible for bonuses.

Pensions and Early Retirement

The Company has established a defined contribution pension plan for eligible employees. Contributions by the Company to the defined contribution plans are subject to vesting requirements, and follow a percentage of an employee's annual income based on tenure and are matched against employee contributions. There are no pension or retirement schemes for directors or outsourced service providers.

Material Transactions with Board Members

During the year ended December 31, 2021, loss adjustment expenses and administrative expenses of $242,000 (2020 - $352,000) were paid to the Company's claims management law firm of which the partner managing the MICL account is the son of a Director and Member of the Company. The afore-mentioned Director retired in October 2021.

Fitness & Propriety requirements

The Company's Fit & Proper policy considers the criteria for all positions which constitute a director, controller, chief executive, officer and senior executive. At the highest level, the criteria for all in assessing fitness and propriety are:

- Honesty, integrity, fairness and reputation
- Competence and capability
- Financial soundness

The Executive Committee considers a variety of criteria which take into account information relevant to the person's character, competence, qualifications and experience (pertinent to the duties involved), including the person's reputation in any relevant business or financial community or market. For example, the policy stipulates:

- "The Company's Board of Directors shall include persons who have a broad range of personal, professional, business, government and social acumen and experience so as to assure that the Company provides its policyholders with a comprehensive and expansive media liability insurance policy at a competitive cost."
- "The Chief Executive Officer should have broad experience in the insurance industry and generally knowledgeable of underwriting, reinsurance and claims."
- "The Chief Financial Officer should be a qualified public accountant in Bermuda or been qualified as an accountant by examination in the United Kingdom, Canada or the United States; and have prior experience in the insurance industry."

Additional criteria are prescribed by the Bermuda Monetary Authority (BMA) in relation to the Appointed Auditor and Appointed Loss Reserve Specialist. The Executive Committee takes advice from the Company's Audit and Risk, and Finance and Investment Committees, the CEO and CFO in relation to matters relating to the appointment, and ongoing assessment as to fitness and propriety, of these individuals, to ensure that the Company complies with the specific requirements of the BMA.

Outsource Service Providers should be able to exercise independent professional judgment and have sufficient skills and background to ensure they are appropriate for the position.

The Company's Fit and Proper Policy outlines a series of initial and annual assessments to be carried out and reported to the Executive Committee, as well as actions to be taken if it is determined that a person is no longer fit and proper for the position held. Every two years, at a minimum, the Board completes an Individual Skills Assessment and Board Self-Assessment. The Board reviews the individual and collective skills of its members to ensure they meet the strategic needs of the organization. The Board reviews the Self-Evaluation Questionnaire to identify and action areas in which the Board could be performing better.

The Secretary of the Company is responsible for notifying the regulators of changes to appointments.

The Whistleblower policy is referenced in the Fit and Proper Policy, including provisions about confidentiality and no retaliation for reporting violations. All employees sign the Code of Ethics.

Professional Qualifications, Skills and Expertise of the Board and Senior Executives

Board of Directors

Richard D. Spurling, Esq. – Chairman[1,6] (Bermuda) Richard Spurling has been a member of the Mutual Board since 1980 and Chairman since 1987. He retired as the Senior Partner of Appleby law firm in 2005. He is a Board member and Chair of the Finance Committee at BF&M Limited and Chairman of United Insurance Company Limited. Rick is also Chairman of several charitable organizations including the St. George's Foundation and the St. David's Island Historical Society.

Ian H. Davidson, CA – Director [1,2,3,5] (Bermuda) Ian Davidson retired as a Partner with PricewaterhouseCoopers, Bermuda, on June 30, 2007 where he had been a leader in the Investment Management practice with over twenty-five years of experience serving offshore financial services clients. He is a Fellow of The Institute of Chartered Accountants of Bermuda of which he is a past President. In addition to joining the Board of Mutual in 2014, he continues to serve on the board of directors of an investment fund and several not-for-profit organizations based in Bermuda, including past chairman of the Bermuda Festival for the Performing Arts.

Carol Feathers FCA CPA ACII – Director and Vice-President [2] (Bermuda) Carol Feathers is a Client Services Director with Ocorian and has over 30 years' experience in the Bermuda insurance market. She is a director of several Bermuda registered companies including commercial insurance companies with long term and general business licenses, and serves on related board committees. From 2007 to 2014 she was Managing Director of Appleby Management (Bermuda) Limited, having first joined the company in 1999. During this period she had oversight for developing offshore client management solutions and services, including financial and regulatory reporting for international companies and trusts, principal representative services for licensed insurers and ILS listings on the BSX. From 1993 to 1998 Ms. Feathers was Finance Director and General Manager of a privately owned hospital in Sussex, England responsible for all aspects of financial reporting and administration. Ms. Feathers spent eight years from 1984 to 1992 with the Argus Group, Hamilton, Bermuda, gaining a broad perspective in captive management, reinsurance accounting and workers compensation/employers liability insurance services. From 1979 to 1984 Ms. Feathers worked at private practice accounting firms Gibbons & Mannington and Honey Barrett in Sussex, England providing accounting, audit and tax advisory services. She is a Fellow of the Institute of Chartered Accountants in England and Wales, having qualified in 1983 and has been an Associate of the Chartered Insurance Institute since 1992. She was educated at Bexhill Grammar School and Brighton Polytechnic and served her training contract with Honey Barrett. She is currently on the board of Raleigh Bermuda Limited, a local non-profit and volunteers as a qualified Bermuda national race officer for local sailing regattas. She joined the Mutual Board in 2020.

Roger C. Gillett – Director [1,4] (Bermuda) Roger Gillett started his career in Insurance in 1969 in the UK. He joined Johnson and Higgins in 1977 in Bermuda where he became a Senior Vice President and Principal. In 1997 he joined ACE where his final position was President, ACE Risk Management International. He retired in 2007 and is now a director on a small number of Bermuda insurance companies in addition to Mutual, where he joined the Board in 2016. He is currently the Chairman of The Institute of Directors - Bermuda Branch, past Chairman of the Insurance Development Council, past President of BIMA and past President of the Bermuda Insurance Institute. Mr. Gillett is a Fellow of the Chartered Insurance Institute, an Associate in Risk Management with the Insurance Institute of America and a Chartered Director.

Gregg K. Jones – Director [2,3] (United States) Gregg Jones is Senior Advisor to Adams Publishing Group and Past President and CEO of Jones Media, Inc., a publisher of newspapers and other media-related print and digital products. Until recently, he has been active on the leadership boards of PAGE Cooperative, based in King Of Prussia, PA, and the Southern Newspaper Publishers Association, based in Atlanta, and has served as president of both organizations. Mr. Jones served nine years on the board of the Associated Press, as well as on the board of Newspaper Association of America for many years and as NAA chairman in 2004-2005. He is a Past President of the Tennessee Press Association. Mr. Jones joined the Mutual Board in 2014.

Nat Lea – Director [4] (United States) Nat Lea is currently president and chief executive officer of WEHCO Media, Inc. in Little Rock, Arkansas. WEHCO operates 14 daily newspapers, 11 cable television systems/internet service providers, and numerous weekly newspapers in six states. Nat has served on the board of the Southern Newspaper Publishers Association (SNPA) and is past president of the Arkansas Press Association. Nat is currently serving as treasurer of America's Newspapers. Nat was appointed to the board in October 2019.

Joanne Richardson, President & Chief Executive Officer [1,3] (Bermuda) (Qualifications as below per Executives)

Rochelle L Simons - Director [2] (Bermuda) Rochelle Simons started her insurance career in Bermuda in 1982. She has held senior management roles with Johnson & Higgins, Aon, and ACE. Rochelle is an Associate of the Chartered Insurance Institute, she became a Chartered Insurance Practitioner in 1996, and she is a Fellow of the Institute of Directors. Rochelle joined the Board in October, 2018.

Alan A. Waring – Director [4] (Bermuda) Alan Waring possesses many years of experience in the Bermuda and London insurance markets, chiefly as an intermediary, having held leadership positions at Arthur J Gallagher, Bermuda, Crump International and International Specialty Brokers. He is the past Chair of the Bermuda Insurance and Reinsurance Brokers Association and former board and committee member of the Insurance Development Council in Bermuda, which became the Bermuda Business Development Agency. He is a member of the Institute of Directors and has been a presenter at various industry conferences, including RIMS, AIRMIC, PRIMA and AAMGA. Alan joined the Board in October, 2018.

Richard J. Warren – Director [1,2,4] (United States) Richard J. Warren is the Editor & Publisher of Bangor Daily News in Maine, USA. He is a Commissioner of the Roosevelt Campobello International Park. Past board duties included Associated Press Audit Committee (Chair), Anthem Blue Cross of Maine, ANPA/NAA, University of Maine Board of Visitors, Eastern Maine Medical Center, and Fleet Bank of Maine. Mr. Warren joined the Mutual Board in 2007.

Board Committee memberships:

1	Executive
2	Audit & Risk
3	Finance & Investment
4	Underwriting
5	Donations

Chief and Senior Executives

Joanne Richardson - President and Chief Executive Officer/Chief Underwriting Officer (Bermuda) Joanne Richardson is a well-regarded veteran in media liability insurance, and was most recently Partner at Hiscox Insurance Company Inc. in New York, New York, and Managing Director of its Media and Entertainment practice before joining MICL in September, 2018. She previously worked at Chubb & Son as the National Accounts Underwriter for Media Liability, and at GE Capital, where she was an Underwriting Officer for Media Liability. She is a graduate of Rutgers College, Rutgers University, and is a Chartered Property and Casualty Underwriter.

Janet A. Carew, CPA, CA – Chief Financial Officer & Chief Risk Officer (Bermuda) Janet Carew is a Chartered Professional Accountant who began her career in Bermuda with Deloitte in 1986. She has over 30 years' diversified experience in corporate financial reporting, operational risk and project management in the financial services industry. She was formerly CFO at BFM Insurance Group, Director of Finance at Ernst & Young, CFO and Principal of Meridian Corporate Services, Deputy General Manager, St. George's Trust Company, and is a past director of the Bermuda Captive Owners

Association. Janet holds a Bachelor of Commerce degree, Major in Finance, from Memorial University of Newfoundland and Labrador. She joined MICL in 2015.

(b) Risk Management and Solvency Self-Assessment

MICL is exposed to a spectrum of risks including insurance, market, credit, liquidity and operational risks. Management of those risks comprises an enterprise-wide approach, which involves defining, monitoring, measuring and mitigating risks and their inter-relationships.

The Risk Management Framework is a formal structure for risk governance and risk-based decision making that continues to evolve with the business. It involves identification and evaluation of the risks to which MICL is exposed across the organization as well as in specific insurance functions. MICL has articulated its risk appetite and tolerances across functional areas in addition to entity level risk appetites. It is manifest in a system of internal controls which seek to mitigate insurance, financial, strategic and operational risks.

The Risk Register serves as a comprehensive listing of the material risks which MICL has identified and evaluated according to their inherent risks and after their mitigation to arrive at a residual risk rating. Mitigations may be key internal controls or external such as reinsurance. Each risk is assigned to a risk owner, along with mitigation plans where risks are deemed to be in excess of acceptable levels.

The Chief Risk Officer [CRO], together with other members of Executive Management, regularly reviews the status of risks, mitigation plans, emerging or changing risks, and projects to enhance controls. The CRO reports on findings and activity to the CEO and Risk Committee Chair. Internal Audit activities are focused on confirming the effectiveness of controls and mitigation efforts, covering each functional area on a cyclical schedule, and reporting directly to the Audit Committee.

Semi-annually, the Board reviews a Key Risk Dashboard, which includes the risk description, owner, probability, severity, mitigation and direction in which each risk is trending.

Other components of the Risk Management Framework include:

- A Board approved capital management policy
- Annual capital adequacy reporting
- Capital stress testing
- Annual risk stress tests
- Reinsurance selection policy which evaluates exposures and credit quality of reinsurers
- Directors and Officers, Professional Liability, Crime and Cyber insurance policies
- Cyber Risk Management Framework as introduced by the BMA effective 2021.

Integration of risk management and solvency self-assessment

The Company has long emphasized the importance of a strong balance sheet to provide cash for prompt claims settlement under its indemnity policies, and a reinsurance program that is limited to highly rated reinsurers (rated A- or better by AM Best or equivalent) to minimize credit risk over the long tail duration of large case reserves. Insurance risks, particularly reserve risks, are the highest rated risks for MICL under both the CISSA and BSCR models, and their management is key to our success.

For strategic and business planning, the chosen CISSA model is considered for weighting alternative strategies, establishing risk limits in existing lines, and risk appetite for prospective products, lines, and diversification strategies.

Solvency self-assessment and capital management

The CISSA model chosen by MICL is based upon the Best Capital Adequacy Ratio due to its emphasis on balance sheet strength. MICL's capital requirements have been determined by our loss and loss expense provisions, and the strength of our reinsurance panel. The nature of media liability claims involves a long tail loss development pattern. Balance sheet strength, directly and indirectly through our reinsurers, is considered key to our risk and capital self-assessment.

(c) Internal Controls

MICL's system of internal controls is an integral part of its Risk Management Framework. These are a collection of structures, practices and procedures designed to provide for the orderly and effective conduct of business activities to ensure:

- Compliance with laws and regulations
- Control and management of business risks
- Quality of accounting and financial information
- Implementation of policies defined by the Board and Senior Management

Key components of the internal control system are summarized below.

All employees and outsource service providers are tasked with internal controls through operational, administrative and accounting procedures, reporting arrangements at all levels, including a whistleblower policy adopted by the Board, and compliance activities.

Each functional area at MICL – underwriting, claims, finance, human resources and administration - has a documented set of policies and procedures which include details of roles and responsibilities relating to ownership and performance of internal controls. Risks and controls are assessed in parallel in order to identify mitigating actions and establish the scoring and monitoring of residual risk.

All employees receive training and guidance from management on the importance of internal controls to support the embedding of a risk aware culture.

The Audit & Risk Committee plays a key role in reviewing the effectiveness of the internal control systems by carrying out the following activities:

- Evaluating how the Executives ensure the adequacy of accounting and internal systems;
- Receiving reports on the effectiveness of the internal control environment from management;
- Assessing Management's response to and implementation of internal control recommendations made by the Company's external and internal auditors.

(d) Internal Audit

The internal audit function provides independent assurance to the Board and Audit & Risk Committee on the effectiveness of the internal control system. Internal Audit activities are focused on confirming the effectiveness of controls and mitigation efforts, covering each functional area on a cyclical schedule, and reporting directly to the Audit & Risk Committee. MICL has outsourced its internal audit function in order to maintain independence and objectivity, obtain specialized audit services, and due to financial considerations in staffing this function in a small insurance company.

(e) Actuarial Function

The Company's loss and loss expense reserves on a US GAAP basis and technical provisions on the BMA's Economic Balance Sheet ("EBS") basis are estimated each year by the company's external actuarial firm. The external actuarial firm also signs the Loss Reserve Specialist Opinion on the technical provisions, as required by the BMA. The results of the external review are presented to MICL's Audit Committee, which includes the Chief Financial Officer. The Board remains responsible for setting the reserves and technical provisions for the company.

(f) Outsourcing

In addition to the Actuarial function, MICL outsources its claims management as follows:

US General Counsel & Claims Management Law Firm
Whiteford Taylor & Preston, LLP, Washington, District of Columbia, USA
Stephen M. Schaefer (General Counsel, Effective October, 2018)

Stephen Schaefer is an attorney barred in the District of Columbia and the State of Maryland. He is admitted to practice law by the highest courts of those jurisdictions and is also admitted to practice in the United States District Court for the District of Maryland. Since August 1999, Mr. Schaefer has been in the private practice of law. In 1999, he joined O'Brien, Birney and Butler, which with several name changes, was merged into Whiteford Taylor & Preston, LLP in January 2009. Mr. Schaefer represents a number of nonprofit organizations in the United States, including trade associations and professional societies. Mr. Schaefer has been engaged in claims coverage and policy issues related to media perils insurance since 1999 through representation of Mutual Insurance Company Limited.

3. Risk Profile

The Company has an identified taxonomy of risks whose definitions have been derived from a combination of:

- Definitions derived from Bermuda Monetary Authority's Guidance Notes and Insurance Code of Conduct
- Definitions derived from Basel II (Seven Event Types)
- Definitions derived from Deloitte's Risk Intelligence Map

(a) Material risks

MICL's main sources of risk identified are:

Insurance Risk: Underwriting

The risk that inappropriate premiums are charged or that the structure of insurance cover does not align with MICL's risk appetite, caused by changes in emerging experience, insufficient charge for the features offered, inability to price products competitively and/or unsophisticated pricing/underwriting models, resulting in financial loss.

The Company has developed underwriting policy and guidelines which include specific guidance on risk selection, limit deployment, insured retention, policy wording and endorsement, and pricing. Management review detailed pricing and loss development reports and provide peer challenge at least quarterly. Underwriting discipline is promoted by compensating underwriters based on profitability.

Insurance risk: Reserves

The risk that the technical provisions for claim liabilities arising from past exposure periods will be inadequate to satisfy their ultimate cost, caused by inaccurate or flawed data affecting reserving model, assumptions and parameters, change in claim management and case reserving practices, change in payout pattern and/or incorrect reserving calculation, resulting in financial loss, inability to meet policyholder obligations, regulatory action and reputational damage. Given MICL's media liability business demonstrates a long tail loss development pattern, inadequate reserving practices can have significant impacts on the financial results of future fiscal years.

MICL's reserves comprise specific case reserves, reserves for incurred but not reported losses (IBNR), and a reserve for unallocated loss adjustment expenses (ULAE), net of ceded case and IBNR reserves. Case reserves are recommended by MICL's claims management law firm who estimate reserves based upon our own and industry experience. These case reserves are subject to regular periodic review by qualified legal personnel. The Loss Reserve committee of senior management reviews and challenges reserves activity and key performance indicators quarterly.

MICL's loss and loss expense reserves on a US GAAP basis and technical provisions on the BMA's Economic Balance Sheet ("EBS") basis are estimated each year by the company's external actuarial firm. The external actuarial firm also signs the Loss Reserve Specialist Opinion on the technical provisions, as required by the BMA. The results of the external review are presented to MICL's Audit Committee, which includes the Chief Financial Officer. The Board remains responsible for setting the reserves and technical provisions for the company.

Insurance risk: Claims

The risk that the cost of claims adversely differs from that assumed when the obligations were estimated caused by inaccurate assessment against policy terms, ineffective monitoring of claims development and/or reduction in premiums, resulting in financial loss.

The Company employs a claims management law firm that follows policies and procedures established by the Company. This guidance assigns clear responsibilities for new claims coverage determination, periodic review and recommendations on payments, as well as notification to reinsurers. MICL's policies feature indemnity provisions, which require the insured to defend and pay claims in the first instance.

Reinsurance and Reinsurance Credit Risk

There is a risk that reinsurance coverage appropriate to MICL's needs and risk appetite cannot be obtained and/or maintained due to lack of Reinsurance Strategy and inadequate management of reinsurance counterparties, resulting in increased exposure and financial loss and inability to meet policyholder obligations.

MICL retains a London market reinsurance broker to assist with design and negotiation of the reinsurance program, with an established renewal process. Our reinsurance panel is diversified and comprises only A- or better rated reinsurers to manage exposures to credit risk and over dependence on any one reinsurance market. Reinsurer credit ratings and receivable ageing are monitored regularly. The Company notes that one of its BMA license conditions is that we must only place outward reinsurance contracts with reinsurers who are rated A- or better by AM Best or equivalent.

Credit risk is also present with MICL's primary and reinsurance brokers should they not pass on premiums or (re)insurance recoveries in a timely manner. The Company monitors these balances carefully and maintains close ties with brokers in order to resolve any issues quickly. MICL makes claims payments directly to insureds, who must first submit proof of payment per the indemnity terms of our policies.

Market risk: Investment

Market risk is defined as the risk that an event or series of economic events will impact the value of an insurer's assets or liabilities. The most common source of this risk type relates to interest rate changes, market price changes, exchange rate movements and counterparty default (excluding reinsurance and intermediary creditors).

Funds held for reserves are invested in high quality corporate and sovereign bonds. The Company's investment manager operates with clear investment guidelines regarding issuer limits, types of fixed income securities, and credit quality. A proportion of funds is allocated to riskier equity investments.

The Company also performs stress testing based on plausible or historic market events to determine its resiliency to changes such as interest rate hikes, inflation or equity market disruptions. Biannually, the Company reviews a peer analysis to compare its investment allocation practices to other insurers of a similar size and business profile.

Market risk: Liquidity

This market risk includes liquidity demands and liquidity funding risk in both the short and long term. If cash requirements to pay claims rise above cash flows from other sources such as cash balances, premiums, and investment income, the Company must ensure that it will be able to liquidate investments without undue penalty. Therefore, the Company maintains a mix of durations in its fixed income investments appropriate to its liability profile.

Strategic Risks

The following types of strategic risk have been identified as relevant to MICL, for which an action plan is in progress.

- **Strategic Planning/Execution**

There is a risk that adverse business decisions could be undertaken or improperly executed caused by failure to engage in a formal business planning process, resulting in the loss of financial opportunities, impairment of policyholder satisfaction and reputational damage.

- **Business Model**
  The risk that the inability to maintain the appropriate organizational structure to facilitate decision-making, failure to adequately analyze the competitive landscape, anticipate changes within the media industry and secure desired credit rating, results in potential financial loss, impairment of policyholder satisfaction, and reputational damage.

- **Governance**
  There is a risk of ineffective corporate governance oversight by the Board, resulting in potential financial loss due to ineffective decision making, non-compliance with regulations, and reputational damage.

- **External Factors**
  The Company recognizes that as a mono-line insurer focused on the publishing industry sector, it is particularly exposed to external factors such as:
  - **Competition** - inadequate competitive analysis in terms of price, service, or quality;
  - **Customer demands** - changing customer preferences; shifting terms and conditions
  - **Industry trends** - changes in industry structure; macroeconomic changes, cyber threats
  - **Markets** - decreasing market for products

  Since reclassification as a Commercial Insurer in 2017, the Company has undertaken a Board level review of its strategy and complementary governance structure that serve the Company's objective of sustaining its capital and operations to serve its stakeholders according to the Company's vision and mission.

  An experienced and industry recognized Chief Executive Officer was recruited by the Board to provide guidance and leadership in developing the Company's strategic goals, business model and team. The Executive team is executing strategic plans that evaluate the opportunities and threats of external factors, and a path forward to ensure profitable growth.

Operational Risks

Key operational risks identified include:

- **Cyber and Data protection, delivery and process management**

There is a risk of an inability to ensure physical and logical security of sensitive policy holder information and failure to meet confidentiality and privacy requirements caused by a failure of IT systems, resulting in policyholder dissatisfaction, confidentiality breach, reputational damage, increased expenses and possibly financial loss.

There is a risk of failure to maintain accurate, complete, timely and appropriate data needed for decision making caused by inadequate or outdated IT systems, resulting in poor business decisions and possibly financial or reputational loss.

Mitigation actions have included a critical review of existing application systems and implementation of a functionally appropriate insurance administration system. The Company has also addressed data risk with data retention policies, enhanced IT security reviews, regular staff training, and outsource of data and applications storage to a managed cloud platform with a SOC1 qualified vendor. A Disaster Recovery and Business Continuity plan is developed and reviewed annually for enhancement.

» **Regulatory compliance**

There is a risk that the inability to identify, anticipate, respond and adapt to regulatory/legislative requirements and developments, including effectively managing the relationship with the BMA, caused by limited resources will result in regulatory/legislative breach, regulatory action, fines and penalties and reputational damage.

The CEO and CRO share responsibility for monitoring regulatory compliance and providing assurance to the Audit Committee. This includes review of regulatory updates, attendance at insurance industry forums and conferences, and regular management consideration.

The Audit Committee also receives reports addressing review of and any deficiencies identified by the Internal Auditors and external audit firm.

» **Other operational risks**

Other identified risks include loss of key outsource service providers, talent acquisition and retention, and Key Person reliance. The Company acknowledges that, as a small insurer, there will be some risk in these areas. Mitigations include engagement of a CEO/CUO under a multi-year contract, talent recruitment aimed at functional experience, a Company remuneration policy, benchmarking of staff performance and rewards plans, and a multi-year contract with its key OSP, the claims management law firm.

(b) Risk relationships, correlations and aggregations

MICL has a long history of writing media liability insurance and combined with the experienced industry professionals on its executive team, believes this experience will assist in refining the consideration of risk relationships and aggregations. This process includes:

- Approach to determining relationships and correlations
- Risk aggregations and testing of key assumptions
- Measurement of operational risks and mitigation effectiveness

(c) Material risk concentrations

MICL is a mono-line insurer writing media liability risks for the publishing industry. This focus has implicated concentration and aggregation risks which we have examined in our strategic plans. We seek to mitigate these risks by robust application of underwriting guidelines, appropriate risk selection, and our reinsurance program. Strategically, we acted on opportunities to diversify our products to adjacent markets such as Entertainment E&O that meet our criteria for risk versus reward, and where we have experience and resources to manage those risks.

(d) Investment of assets in accordance with the prudent person principles of the Insurance Code of Conduct

MICL's investment strategy is conservative. Our objective is to seek market level returns through diversification across a broad range of fixed income instruments and equities, while seeking to preserve capital. Investment guidelines set out permissible investments, credit quality and investment limits, valuation methods, reporting of other than temporary impairment, tax considerations, diversification and asset allocation, and agreed fixed income benchmarks. Any investments outside of these guidelines require the specific approval of the investment committee. The portfolio may not utilize futures, options, swaps or structured notes.

Senior management maintains levels of cash and short term deposits which are sufficient to fulfill the Company's short term obligations, mitigate liquidity risks and meet solvency requirements.

(e) Stress and scenario testing

Currently the stress and scenario testing performed by MICL is as prescribed by the BMA for a Class 3A insurers. The results are submitted as part of the Capital and Solvency Return.

The objective of stress testing is to assess the capital adequacy of the Company under adverse financial market and underwriting conditions. More specifically, the purpose of the tests is to assess the impact of the prescribed stress/scenario on the Company's statutory balance sheet (i.e. statutory admitted assets, admitted liabilities, and capital and surplus). Thus, these tests help determine the financial capacity of the Company to absorb the manifestation of key financial risks, such as shocks to investment performance and projected losses arising from specific underwriting risks.

The Company selected underwriting scenarios which it considered relevant and plausible. The results showed the impact on both statutory assets and liabilities and that would be observed immediately upon the occurrence of the defined stress/scenario (both with and without the effect of reinsurance and/or other loss mitigation instruments). The Company has limited residual exposure due to its robust reinsurance program.

The results of the tests are communicated to the Board of Directors and used by senior management to inform their consideration of risks, aggregations and correlations in the selection of strategic alternatives, and business plans, and capital management. Based on the latest results, senior management believes that MICL has sufficient capital and liquidity to comply with its policy obligations and regulatory requirements upon experiencing losses within and stressing its risk tolerances.

4. Solvency Valuation

Financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). These are prepared on going concern and historical cost bases, except as modified by the revaluation of investments available for sale, which are measured at fair value.

The Economic Balance Sheet ("EBS") and the Statutory Financial Statements ("SFS") as required under Bermuda insurance regulations are used by the BMA and the Company in determining minimum solvency and capital requirements. The EBS differences in valuation are discussed following.

(a) Valuation of assets

Cash and cash equivalents, quoted investments, investment income due and accrued, premiums receivable in the course of collection, and reinsurance balances receivable have been assessed by management to be carried at approximate fair values.

(b) Valuation of liabilities

Technical provisions are determined in accordance with the EBS Technical Provisions Note, and the guidance set out in the Insurance Prudential Standards (Class 3A Solvency Requirement) Rules. In theory, these provisions represent the amount that an insurance company would pay in order to transfer its obligations to another insurer in an arm's length transaction.

The starting point for technical provisions are the US GAAP undiscounted unpaid loss and loss adjustment expenses ("LAE"), gross and net of reinsurance. The unearned exposure loss and LAE provision is comprised of unpaid loss and LAE amounts relating to the unearned portion of the current book of business as at December 31, 2021, as well as bound policies with an inception date after December 31, 2021 (bound but not incepted ("BBNI") policies). The historical loss experience is used to project expected loss ratios for BBNI business.

The resulting unpaid loss and loss adjustment expenses estimates are offset by projected future premiums receivable net of expenses, gross and net of reinsurance to calculate the best estimate premium provision associated with the BBNI, gross and net of reinsurance.

These unpaid loss and loss adjustment expenses are then adjusted for the following:

- Estimated uncollectible reinsurance
- Events not in dataset ("ENID")
- Cash flows arising from expenses that will be incurred servicing existing policies during their lifetime.
- Premium receivables for premiums not yet due.

All provisions are then discounted for the time value of money, at a risk free rate plus illiquidity premium, and assuming a risk free asset portfolio matched to the liabilities.

A risk margin is then included to reflect the uncertainty inherent in the underlying cash flows.

Technical Provisions

At December 31, 2021, the Technical Provisions for the Company amounted to $66,640,000 as set out below.

Mutual Insurance Company Limited	ACTUAL December 31, 2021 (000's)	ACTUAL December 31, 2020 (000's)
Premium provisions, net of reinsurance	11,980	8,529
Net loss and loss expense provision	48,516	42,975
Risk margin	6,145	5,334
Total technical provisions	66,640	56,838

Table 3 - Technical Provisions

(c) Recoverables from reinsurance contracts

Estimates of recoverables from reinsurance contracts are based on similar principles to the gross best estimates, including cash flows from the gross and net amounts for earned and unearned/BBNI business.

(d) Other liabilities

Insurance and reinsurance balances payable, commissions and accounts payable, which are considered to be short-term payables, and are also assessed by management to be carried at approximate fair values.

5. Capital Management

(a) Eligible Capital

Capital requirements are reported to the Company's Audit Committee at least annually. Senior management monitors the adequacy of the Company's capital on a quarterly basis.

Differences between GAAP members' equity and available statutory capital and surplus include:

Mutual Insurance Company Limited	Equity ACTUAL 2021 (000's)	Equity ACTUAL 2020 (000's)
Reported under GAAP	77,106	76,522
Adjusted for:		
Non-admitted fixed assets	(1,339)	(1,266)
Non-admitted prepaid assets	(153)	(95)
EBS valuation adjustments:		
Net technical provisions	(18,879)	(16,253)
Available statutory capital and surplus	56,735	58,908

Table 4 - Reconciliation of GAAP and Statutory Capital

(b) Regulatory Capital Requirements

Mutual Insurance Company Limited	Minimum Margin of Solvency December 31, 2021 (000's)	Enhanced Capital Requirement December 31, 2021 (000's)
Regulatory requirement	6,305	25,219
Enhanced Capital Requirement ratio		225%
Eligible capital held:		
Tier 1	53,051	53,051
Tier 2	3,684	3,684
Tier 3		
Total	56,735	56,735

Table 5 - Regulatory Capital Requirements

All Tier 1 capital is available to pay policyholder obligations as they become due. The Company has a cash encumbrance of $3.684 m related to a letter of credit issued as collateral in favour of a ceding insurer, which is classified as Tier 2 capital.

(c) Approved internal capital model used to derive the ECR

The Company uses the BMA's standard approach to capital calculation and does not use an internal capital model.

6. Subsequent Events

In preparing this report, management evaluated subsequent events through April 28, 2022.

Potential economic and financial impacts of the Russian-Ukrainian conflict

In January 2022, Russia began mobilizing military forces around Ukraine's border. Escalation continued and on February 24, 2022, Russia launched a full-scale invasion on three fronts: on the north from Belarus, on the east from Russia, and on the south from Crimea. The Company has no direct insurance exposure related to these events.

Capital markets are reacting to the economic effects of economic and other sanctions, which include a material increase in commodity prices, which could add to already high inflationary pressures, challenging efforts by the global central banks to curb inflation. The results of sanctions and overall uncertainty have resulted in incremental instability within equity and bond markets resulting in higher equities volatility and widening bond spreads.

The extent and duration of the impact of Russia's invasion of Ukraine, including the resulting sanctions levied against Russia, on global and local economies, financial markets, claim emergence, and specific sectors in which the Company operates is uncertain and ever evolving and has the potential to adversely affect the Company's business, results of operations or financial condition.