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Premia Reinsurance Ltd.

Consolidated Financial Statements
and Report of Independent Auditors

For the Years Ended December 31, 2019 and 2018

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Premia Reinsurance Ltd.

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Financial Statements

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholder of Premia Reinsurance Ltd.

We have audited the accompanying consolidated financial statements of Premia Reinsurance Ltd. and its subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations and comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Premia Reinsurance Ltd. and its subsidiary as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Accounting principles generally accepted in the United States of America require that the disclosure of short-duration contracts included in Note 5 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Deloitte Ltd.

April 14, 2020

Premia Reinsurance Ltd.

Consolidated Balance Sheets

As at December 31, 2019 and 2018

(Expressed in thousands of U.S. dollars, except share data)

			2019		2018
Assets					
Investments at fair value	Note 3	$	1,199,273	$	1,116,009
Cash and cash equivalents			22,056		82,892
Restricted cash and cash equivalents			160,632		113,683
Premiums receivable	Note 5		129,111		—
Accrued investment income			4,194		6,046
Funds held by ceding companies	Note 5		644,127		—
Reinsurance recoverable on paid and unpaid losses	Note 5		35,005		33,209
Receivable for securities sold			4,495		3,323
Deferred charge asset	Note 5		12,947		331,744
Other assets			11,107		1,936
Receivable from related party			103,298		36,766
Total Assets		**$**	**2,326,245**	**$**	**1,725,608**
Liabilities					
Reserve for losses and loss adjustment expenses	Note 5	$	829,446	$	1,157,835
Deposit liability	Note 5		711,715		—
Unearned premiums			86,402		—
Ceded funds held			39,709		35,209
Assumed losses payable			8,892		—
Payable for securities purchased			4,498		7,513
Deferred charge liability	Note 5		8,435		—
Other liabilities			12,059		7,085
Total Liabilities			**1,701,156**		**1,207,642**
Shareholders' Equity					
Common shares ($0.01 par; shares authorized, issued and outstanding: 40,000,000)	Note 6		1,000		1,000
Additional paid-in capital			503,000		503,000
Retained earnings			95,600		33,853
Accumulated other comprehensive income (loss)			25,489		(19,887)
Total Shareholders' Equity			**625,089**		**517,966**
Total Liabilities and Shareholders' Equity		$	**2,326,245**	**$**	**1,725,608**

Premia Reinsurance Ltd.

Statements of Operations and Comprehensive Income

For the Years Ended December 31, 2019 and 2018

(Expressed in thousands of U.S. dollars)

		2019	2018
Revenues			
Gross premiums written		$ 1,015,010	$ —
Ceded premiums		(13,678)	—
Net premiums written		1,001,332	—
Change in unearned premiums		(85,915)	—
Net premiums earned		915,417	—
Net investment income	Note 3	62,822	38,021
Net realized gains on all investments	Note 3	844	654
Net unrealized gains on fair value equity securities	Note 3	4,673	1,374
Claims administration monitoring fee		1,000	1,000
Other income		3,476	28
Total revenues		**988,232**	**41,077**
Expenses			
Net loss and loss adjustment expenses	Note 5	(920,406)	(10,484)
Acquisition expenses		(1,410)	—
Operating expenses		(4,348)	(3,922)
Net foreign exchange loss		(321)	—
Total expenses		**(926,485)**	**(14,406)**
Net income		**$ 61,747**	**$ 26,671**
Other Comprehensive Income (Loss)			
Available for sale investments:			
Change in net unrealized gains (losses) arising during the period		$ 47,307	$ (25,685)
Reclassification adjustment for unrealized gains on fair value equity securities included in net income		(1,931)	(460)
Change in net unrealized gain (loss) on available-for-sale investments		45,376	(26,145)
Total other comprehensive income (loss)		**45,376**	**(26,145)**
Comprehensive income		**$ 107,123**	**$ 526**

Premia Reinsurance Ltd.

Consolidated Statements of Changes in Shareholders' Equity

For the Years Ended December 31, 2019 and 2018

(Expressed in thousands of U.S. dollars)

	2019	2018
Common Shares		
Balance at beginning of year	$ 1,000	$ 1,000
Common shares issued	—	—
Balance at end of year	1,000	1,000
Additional Paid-in Capital		
Balance at beginning of year	503,000	503,000
Contribution during the year	—	—
Balance at end of year	503,000	503,000
Accumulated Other Comprehensive Income (Loss)		
Balance at beginning of year	(19,887)	6,258
Unrealized gains (losses) arising during the year	45,376	(24,969)
Cumulative effect of adoption of ASU No. 2016-01	—	(1,176)
Balance at end of year	25,489	(19,887)
Retained Earnings		
Balance at beginning of year	33,853	7,182
Net income	61,747	26,671
Balance at end of year	95,600	33,853
Total Shareholders' Equity	**$ 625,089**	**$ 517,966**

Premia Reinsurance Ltd.

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2019 and 2018

(Expressed in thousands of U.S. dollars)

	2019	2018
Operating Activities		
Net income	$ 61,747	$ 26,671
Adjustments to reconcile net income to net cash provided by operating		
Realized gains on all securities	(2,377)	(1,228)
Unrealized gains on fair value equity securities	(4,673)	(1,374)
Net impairment losses included in income	1,533	574
Depreciation and amortization	(1)	—
Changes in assets and liabilities:		
Unearned premiums	86,402	—
Premiums receivable	(129,111)	—
Reinsurance recoverable on paid and unpaid losses	(1,797)	6,610
Assumed losses payable	8,892	—
Deferred charge asset	318,798	16,484
Deferred charge liability	8,435	—
Accrued investment income	1,852	(649)
Funds held	(644,127)	—
Ceded funds held	4,501	(4,610)
Losses payable (Paids + case/OSLR)	(328,389)	(26,443)
Deposit liability	711,715	—
Other liabilities	4,972	1,693
Other assets	(9,042)	(1,578)
Intercompany Receivables	(66,532)	(27,100)
Net cash provided by (used in) Operating Activities	22,798	(10,950)
Investing Activities		
Purchase of available-for-sale investments	(517,307)	(785,831)
Proceeds from sale or redemption of available-for-sale investments	480,751	605,193
Purchase of property and equipment	(129)	(60)
Net cash used in Investing Activities	(36,685)	(180,698)
Net decrease in cash, cash equivalents and restricted cash	(13,887)	(191,648)
Cash, cash equivalents and restricted cash at beginning of period	196,575	388,223
Cash, cash equivalents and restricted cash at end of period	**$ 182,688**	**$ 196,575**
Reconciliation to Consolidated Balance Sheet		
Cash and cash equivalents	22,056	82,892
Restricted cash and cash equivalents	160,632	113,683
Cash, cash equivalents and restricted cash	**$ 182,688**	**$ 196,575**

1. Organization

Premia Reinsurance Ltd. ("Premia Re" or the "Company") was incorporated in Bermuda on October 31, 2016 as a Bermuda exempted company, and obtained a license from the Bermuda Monetary Authority ("BMA") to operate as a Class 4 insurer and reinsurer under the Insurance Act 1978 (the "Act") on January 1, 2017. It is the parent company of Premia LV1 ("Premia LV1"), a Bermuda domiciled entity which holds the Company's investment portfolio. The ultimate parent company of Premia Re is Premia Holdings Ltd. ("Premia Holdings"), which was incorporated in Bermuda on October 6, 2016, and was capitalized on January 6, 2017.

Premia Re was capitalized with $500.0 million and $4.0 million on January 9, 2017 and February 3, 2017, respectively, by Premia Holdings.

2. Summary of significant accounting policies

(a) Basis of presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). The term "ASC" used in these notes refers to Accounting Standards Codification issued by the United States Financial Accounting Standards Board (the "FASB").

The Company's consolidated financial statements include the financial statements of the Company and its subsidiary. All intercompany balances and transactions have been eliminated on consolidation. Certain prior period amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

(b) Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported and disclosed amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. While management believes the amounts included in the consolidated financial statements reflect management's best estimates and assumptions, actual results could differ from those estimates.

The principal estimates recorded in the Company's consolidated financial statements relate to the development and determination of the following:

- valuation of loss and loss adjustment expense reserves;
- determination of whether reinsurance contracts transfer insurance risk;
- recoverability of reinsurance balances receivable;
- valuation of investments and determination of hierarchical inputs used to measure the fair value of investments; and
- valuation of deferred charge reinsurance assets and liabilities.

2. Summary of significant accounting policies, continued

(c) Premiums

Premiums for retroactive reinsurance contracts are earned at the inception of the contract, as all of the underlying loss events covered by our contracts occurred in the past.

Premiums for prospective reinsurance are earned over the life of the reinsurance contract. At inception of the contract, the Company records premiums on prospective business in full with an unearned premium reserve, equal to an actuarial analysis of the reserve balance, as of the same date. The unearned premium reserve is amortized over the remaining contract period in proportion to the amount of insurance protection provided.

(d) Reinsurance premiums ceded

Retrocessional coverage is used to limit the Company's exposures to risks of losses arising from certain reinsurance contracts. The Company remains obligated to the extent that any retrocessionaire fails to meet its obligations to it. Reinsurance premiums ceded which relate to retroactive reinsurance contracts, are written during the year in which the risks incept and are earned at the inception of the contract. Unearned premiums ceded, if any, consist of the unexpired portion of reinsurance ceded.

(e) Retroactive reinsurance

Retroactive reinsurance reimburses a ceding company for liabilities incurred as a result of past insurable events covered by the underlying policies reinsured. Underwriting income (or loss) generated in connection with retroactive reinsurance contracts is deferred and amortized using the interest rate method over the expected claims settlement period. Changes to the estimated timing or amount of loss payments produce changes in periodic amortization. Changes in such estimates are applied retrospectively and are included within net income in the period in which changes are made.

A deferred charge asset or liability ("DCA" or "DCL") is reported separately in the consolidated balance sheet when the premium received is less than, or greater than, the best estimate of the reserves assumed. The consolidated balance sheet reflects the net DCA/DCL position as at year end. The DCA/DCL amortization is recognized within net losses and loss adjustment expenses in the consolidated statement of operations.

(f) Deposit accounting

An assumed reinsurance contract that is deemed not to have transferred insurance risk is accounted for using the deposit method of accounting. Insurance risk is made up of both significant insurance risk and significant loss. Significant insurance risk exists when both the amount and timing of the reinsurance payment depend on and directly vary with the amount and timing of claims settled under the reinsured contracts, and significant loss exists when it remains reasonably possible that the reinsurer may realize a significant loss from the transaction.

2. Summary of significant accounting policies, continued

The contract accounted for under deposit accounting transfers only significant timing risk, therefore an accretion rate, based on actuarial estimates, has been established and applied at inception of the contract to increase the liability to the estimated amount payable over the contract term. The amount of the deposit liability shall be adjusted at subsequent reporting dates by calculating the effective yield of the deposit to reflect actual payments to date and expected future payment, with a corresponding credit or charge to interest income or expense.

Where a ceding company on a quota share reinsurance contract retains the related assets on a funds held basis, this is presented separately on the balance sheet. Interest and investment income produced by those assets are presented as part of net investment income on the Company's consolidated statement of operations.

(g) Acquisition costs

Acquisition costs, consisting principally of brokerage and Federal Excise Tax (“FET”), incurred at the time a retroactive reinsurance contract is issued and which directly relate to the successful effort of acquiring such new reinsurance contract, are typically expensed at inception consistent with how the premium is earned.

(h) Loss and loss adjustment expenses

The Company establishes reserves for outstanding losses and loss expenses for what it estimates will be the future amount to be paid in settlement of its ultimate liabilities for claims arising under reinsurance contracts that have occurred at or before the consolidated balance sheet date. The estimation of ultimate loss and loss expense liabilities is a significant judgment made by management and is inherently subject to uncertainties.

The Company’s loss and loss adjustment expense reserves include case reserves and reserves for losses incurred but not reported (“IBNR reserves”). Case reserves are established for losses that have been reported, but not yet paid. Reserves are established by management in large part based on actuarially determined estimates of ultimate loss and loss adjustment expenses.

Inherent in the estimate of ultimate loss and loss adjustment expenses are expected trends in claim severity and frequency and other factors that may vary significantly as claims are settled. The Company does not anticipate future changes in laws on regulations in setting its reserves. Accordingly, ultimate loss and loss adjustment expenses paid may differ materially from the reserves recorded in the consolidated financial statements. These estimates are reviewed regularly and, as experience develops and new information becomes available, the reserves may be adjusted as necessary.

Such adjustments, if any, are recorded in the consolidated statement of income in the period in which they become known unless it relates to a contract in which DCA/DCL has been established, in which case such change will require the DCA/DCL to be updated, which will impact the amortization of DCA/DCL over time. To the extent it becomes apparent that insufficient or excess DCA/DCL has been amortized to date, an adjustment will be made within the year in question.

2. Summary of significant accounting policies, continued

(i) Cash and cash equivalents

Cash equivalents include highly liquid instruments, such as money market funds and other time deposits with commercial banks and financial institutions which have maturities of less than three months from the date of purchase.

Restricted cash and cash equivalents are separately reported on the consolidated balance sheets and consist of cash and cash equivalents held in trust accounts securing obligations to the Company's cedants under certain reinsurance contracts as well as funds in transit within certain investment accounts.

(j) Investments and net investment income

The Company currently classifies its investments as “available-for-sale” and “fair value equity securities”. Available-for-sale investments are carried at estimated fair value with the changes in fair value recorded as an unrealized gain or loss component of accumulated other comprehensive income in shareholders’ equity, while the fair value equity securities are carried at estimated fair value with the changes in fair value recognized as an unrealized gain or loss in net income.

The fair value of the Company’s investments is based on quoted market prices, or when such prices are not available, by reference to broker bid indications or industry recognized pricing vendors. Investment transactions are recorded on a trade date basis with balances pending settlement included in receivable / payable for securities sold / purchased in the consolidated balance sheet.

Realized gains and losses on sales of investments are determined on a first-in, first-out basis and are shown within net gains (losses) on investments in the consolidated statements of operations. Net investment income is recognized when earned and includes interest and dividend income, together with amortization of market premiums and discounts using the effective yield method, and is net of investment management and custody fees, third party investment accounting fees and sponsor oversight fees.

The Company performs a quarterly review of its investments to determine whether declines in fair value below the cost basis are considered other-than-temporary in accordance with applicable accounting guidance regarding the recognition and the presentation of other-than-temporary impairments (“OTTI”). The Company considers whether it intends to sell the security or if it is more likely than not required to sell the security before recovery. The process of determining whether a security is other-than-temporarily impaired requires judgement and involves analyzing many factors. These factors include an analysis on the liquidity, business prospects and overall financial condition of the issuer, the time period in which there was a significant decline in value, the significance of the decline, and the analysis of specific credit events.

The Company evaluates the unrealized losses of its securities by issuer and forecasts a reasonable period of time by which the fair value of the securities would increase and the Company would recover its costs. If the Company is unable to forecast a reasonable period of time in which to recover the cost of its securities, a net impairment loss in earnings equivalent to the entire unrealized loss is recognized.

2. Summary of significant accounting policies, continued

The Company compares the estimated present value of the cash flows expected to be collected to the amortized cost of the security. The extent to which the estimated present value of the cash flows expected to be collected is less than the amortized cost of the security represents the credit-related portion of the other-than-temporary impairment, which is recognized in net income, resulting in a new cost basis for the security. Any remaining decline in fair value represents the non-credit portion of the other-than-temporary impairment, which is recognized in other comprehensive income (loss). The discount rate used to calculate the estimated present value of the cash flows expected to be collected is the effective interest rate implicit for the security at the date of purchase.

When assessing whether it intends to sell a fixed maturity or if it is likely to be required to sell a fixed maturity before recovery of its amortized cost, the Company evaluates facts and circumstances including decisions to reposition the investment portfolio, potential sales of investments to meet cash flow needs and, ultimately, current market prices.

(k) Fair value measurement

The Company uses pricing services to obtain the fair value measurements for the majority of its investment securities. Based on management's understanding of the methodologies used, these pricing services only produce an estimate of fair value if there is observable market information that would allow them to make a fair market value estimate. The Company does not adjust prices from pricing services. The following is a description of the valuation techniques and inputs used to determine fair values for financial instruments carried at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

The Company's pricing services determine fair value in accordance with current accounting guidance, which defines fair value and establishes a three level fair value hierarchy based upon the transparency of inputs used in the valuation of an asset or liability. Fair value is defined as the price that the Company would receive to sell an asset or would pay to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities recorded at fair value in the consolidated balance sheets are categorized based upon the level of judgement associated with the inputs used to measure their fair value. An asset or liability's categorization within the fair value hierarchy is based on the lowest level of significant input to its valuation. The hierarchy is broken down into three levels as follows:

- Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgement.
- Level 2 – Valuations based on quoted prices in active markets for similar assets or liabilities, quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.
- Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement. These are generally Company generated inputs and are not market based inputs.

2. Summary of significant accounting policies, continued

Fair values for alternative investments, including investments in investment funds and limited partnerships are based on their respective net asset value ("NAV") and are excluded from the fair value hierarchy.

Other assets and liabilities

The fair value of funds held, reinsurance balances payable, loans payable, accrued expenses, other assets and other liabilities approximate their carrying value due to the immediate or short-term maturity of these financial instruments.

(l) Property and equipment

Property and equipment, which consist of leasehold improvements, office furniture and computer equipment, are stated at cost less accumulated depreciation. Depreciation is computed using a straight-line method over the estimated useful lives of the assets, ranging from five to fifteen years. Net property and equipment are included in other assets on the balance sheet.

(m) Foreign currency translation

The functional currency of the Company and its subsidiary is the U.S. dollar. For these companies, all foreign currency asset and liability amounts are translated into U.S. dollar at the year-end exchange rates with the resulting foreign exchange gains and losses recognized in the consolidated statement of operations. Foreign currency income and expenses are translated at average rates in effect during the year.

(n) Recent accounting pronouncements

Recently adopted

Technical Corrections and Improvements to Financial Instruments
In February 2018, the FASB issued ASU 2018-03 to make targeted improvements to Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities to address aspects of the recognition, measurement, presentation, and disclosure of financial instruments. The Company has implemented ASU 2018-03 into its accounting policies for the year ended December 31, 2019 and as a result there was no significant impact on the Company's financial position, results of operations, or cash flows.

Statement of Cash Flows
In August 2016, the FASB issued ASU 2016-15 in order to reduce diversity on how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, Statement of Cash Flows, and other Topics. The Company has implemented ASU 2016-15 into its accounting policies for the year ended December 31, 2019 and as a result there was no significant impact on the Company's financial position, results of operations, or cash flows.

2. Summary of significant accounting policies, continued

Recently issued but not yet adopted

Leases
In February 2016, FASB issued ASU 2016-02 in which lessees will recognize most leases on the balance sheet. The update is effective for annual periods beginning after December 15, 2020. The Company does not anticipate the adoption of this update to have a material impact on its financial position, results of operations, or cash flows.

Measurement of credit losses on financial instruments
In June 2016, the FASB issued ASU 2016-13 to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The amendments in this Update are effective for fiscal years beginning after December 15, 2022 and the Company is currently evaluating the impact of this guidance on the Company's financial position, results of operations, or cash flows.

Changes to disclosures on fair value measurement
In August 2018, the FASB issued ASU 2018-13 to modify the disclosure requirements in Topic 820 Fair Value Measurement. This ASU is effective for years beginning after December 15, 2019. As this guidance relates solely to financial statement disclosures, the adoption of ASU 2018-13 will not impact the Company's financial position, results of operations, or cash flows.

3. Investments

a) The following tables summarize the Company's investments as at December 31, 2019 and 2018. Commercial and residential mortgage-backed securities include securities issued by U.S. government-sponsored enterprises and U.S. government agencies.

(in thousands of U.S. dollars)	2019			
	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Fixed maturities, available-for-sale				
Corporate bonds	$ 332,076	$ 18,127	$ (562)	$ 349,641
Non-agency mortgage-backed securities	260,114	10,314	(3,702)	266,726
U.S. government and govt agency bonds	29,363	339	(11)	29,691
Non-U.S. governments	3,119	252	(49)	3,322
Municipals	27,217	2,329	(11)	29,535
Agency mortgage-backed securities	32,422	1,076	(962)	32,536
Asset backed securities	170,472	1,253	(2,665)	169,060
Term loans	180,512	1,759	(1,998)	180,273
Total fixed maturities, available-for-sale	1,035,295	35,449	(9,960)	1,060,784
Total fair value equity securities	132,442	6,880	(833)	138,489
Total investments	$ 1,167,737	$ 42,329	$ (10,793)	$ 1,199,273

(in thousands of U.S. dollars)	2018			
	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Fixed maturities, available-for-sale				
Corporate bonds	$ 335,055	$ 268	$ (18,227)	$ 317,096
Non-agency mortgage-backed securities	253,987	5,803	(3,742)	256,048
U.S. government and govt agency bonds	27,440	56	(261)	27,235
Non-U.S. governments	3,327	21	(312)	3,036
Municipals	15,517	115	(372)	15,260
Agency mortgage-backed securities	28,714	339	(711)	28,342
Asset backed securities	164,390	597	(3,663)	161,324
Term loans	180,998	1,100	(899)	181,199
Total fixed maturities, available-for-sale	1,009,428	8,299	(28,187)	989,540
Total fair value equity securities	125,095	1,959	(585)	126,469
Total investments	$ 1,134,523	$ 10,258	$ (28,772)	$ 1,116,009

3. Investments, continued

b) The following tables summarize gross unrealized investment losses by the length of time that securities have continuously been in an unrealized loss position. Unrealized holding gains have specifically been omitted from the below tables.

(in thousands of US dollars)	2019					
	Less than 12 months		12 months or longer		Total	
	Fair value	Gross unrealized holding losses	Fair value	Gross unrealized holding losses	Fair value	Gross unrealized holding losses
Fixed maturities, available-for-sale						
Corporate bonds	$ 11,124	$ (250)	$ 3,873	$ (312)	$ 14,997	$ (562)
Non-agency mortgage-backed securities	54,315	(1,379)	26,292	(2,323)	80,607	(3,702)
U.S. government and govt agency bonds	2,473	(11)	2,699	—	5,172	(11)
Non-U.S. governments	—	—	1,002	(49)	1,002	(49)
Municipals	1,213	(11)	—	—	1,213	(11)
Agency mortgage-backed securities	7,362	(741)	934	(221)	8,296	(962)
Asset backed securities	48,099	(692)	51,385	(1,973)	99,484	(2,665)
Term loans	40,822	(1,633)	16,796	(365)	57,618	(1,998)
Total fixed maturities, available-for-sale	$ 165,408	$ (4,717)	$ 102,981	$ (5,243)	$ 268,389	$ (9,960)

(in thousands of US dollars)	2018					
	Less than 12 months		12 months or longer		Total	
	Fair value	Gross unrealized holding losses	Fair value	Gross unrealized holding losses	Fair value	Gross unrealized holding losses
Fixed maturities, available-for-sale						
Corporate bonds	$ 204,599	$ (13,934)	$ 88,642	$ (4,293)	$ 293,241	$ (18,227)
Non-agency mortgage-backed securities	120,431	(2,281)	20,913	(1,461)	141,344	(3,742)
U.S. government and govt agency bonds	3,540	(24)	17,359	(237)	20,899	(261)
Non-U.S. governments	442	(58)	2,075	(254)	2,517	(312)
Municipals	7,969	(333)	616	(39)	8,585	(372)
Agency mortgage-backed securities	8,299	(374)	14,358	(337)	22,657	(711)
Asset backed securities	96,870	(3,532)	2,864	(131)	99,734	(3,663)
Term loans	57,542	(787)	5,234	(112)	62,776	(899)
Total fixed maturities, available-for-sale	$ 499,692	$ (21,323)	$ 152,061	$ (6,864)	$ 651,753	$ (28,187)

3. Investments, continued

At December 31, 2019 the Company held 835 securities in an unrealized loss position with a total estimated fair value of $311.275 million and gross unrealized losses of $10.793 million of which 199 of the securities had been in a continuous unrealized loss position for one year or longer. At December 31, 2018 the Company held 972 securities in an unrealized loss position with a total estimated fair value of $707.496 million and gross unrealized losses of $28.772 million of which 177 of the securities had been in a continuous unrealized loss position for one year or longer. The Company has the ability and intent to hold securities for a period of time sufficient to allow the anticipated recovery of their fair value.

At December 31, 2019 the Company completed a detailed analysis to assess whether the decline in the fair value of any investment below its cost basis is deemed other-than-temporary. Five securities were deemed impaired resulting in a total impairment of $1,533 million (2018: 0.574 million). Two interest-only strips experienced a decrease in market value due to a decline in interest rates which adversely impacted expected returns. Two mortgage loans went into foreclosure with the impaired value based on discounted expected sale proceeds from the properties, and one term loan was impaired due to a negative outlook on forecasted earnings as a result of idiosyncratic factors. All securities with unrealized losses are reviewed quarterly. The Company considers many factors in completing its review of securities with unrealized losses for other-than-temporary impairment, including the length of time and the extent to which fair value has been below cost and the financial condition and near-term prospects of the issuer.

c) The following table sets forth certain information regarding the investment ratings of the Company's available-for-sale fixed maturity securities as of December 31, 2019 and 2018.

(in thousands of US dollars)	2019			2018		
		Fair value	%		Fair value	%
AAA	$	89,664	8.4%	$	103,809	10.5%
AA		54,696	5.2%		53,797	5.4%
A		301,775	28.4%		257,749	26.0%
BBB		217,424	20.5%		187,800	19.0%
BB		57,265	5.4%		69,814	7.1%
B		78,009	7.4%		87,264	8.8%
CCC or lower		154,095	14.5%		130,675	13.2%
Not rated		107,856	10.2%		98,632	10.0%
Total fixed maturities, available-for-sale	$	1,060,784	100%	$	989,540	100%

Mortgage loans represent $69,313 million (2018: $62.221 million) of the Company's Not Rated nationally recognized statistical rating organization ("NRSRO") classification. Mortgage loans do not receive NRSRO ratings. The Company assesses the credit quality of the company's mortgage loan portfolio against the National Association of Insurance Commissioners' ("NAIC") commercial mortgage designation methodology.

3. Investments, continued

As it relates to all other fixed maturity securities, for trust compliance and BMA capital purposes, the Company primarily utilizes the Securities Valuations Office's ("SVO") loan backed and structured securities methodology to assess and assign credit quality. The NRSRO ratings methodology is focused on the likelihood of recovery of all contractual payments, including principal at par, regardless of an investor's carrying value. In effect, the NRSRO rating assumes that the holder is the original purchaser at par. In contrast, the SVO's loan-backed and structured securities ("LBaSS") methodology is focused on determining the risk associated with the recovery of the amortized cost of each security. Because the NAIC's methodology explicitly considers amortized cost and the likelihood of recovery of such amount, we view the NAIC's methodology as the most appropriate way to view our fixed maturity portfolio for purposes of evaluating credit quality since a large portion of our holdings were purchased and are carried at significant discounts to par.

The SVO has developed a ratings process and provides instruction on both modeled and non-modeled LBaSS. For modeled LBaSS, the process is specific to the non-agency residential mortgage-backed security ("RMBS") and commercial mortgage-backed security ("CMBS") asset classes. In order to establish ratings at the individual security level, the SVO obtains loan-level analysis of each RMBS and CMBS using a selected vendor's proprietary financial model. The SVO ensures that the vendor has extensive internal quality-control processes in place and the SVO conducts its own quality-control checks of the selected vendor's valuation process. The SVO has retained the services of Blackrock, Inc. ("Blackrock") to model non-agency RMBS and CMBS owned by U.S. insurers for all years presented herein. Blackrock provides five prices ("breakpoints"), based on each U.S. insurer's statutory book value price, to utilize in determining the NAIC designation for each modeled LBaSS.

Utilizing the above methodology, the Company's credit quality is as follows:

(in thousands of US dollars)	2019		2018	
	Fair value	%	Fair value	%
NAIC 1	$ 618,741	58.3 %	$ 687,310	69.5 %
NAIC 2	244,711	23.1 %	196,284	19.8 %
NAIC 3	76,443	7.2 %	55,446	5.6 %
NAIC 4	64,902	6.1 %	25,562	2.6 %
NAIC 5	17,510	1.7 %	6,674	0.7 %
NAIC 6	38,477	3.6 %	18,264	1.8 %
Total fixed maturities, available-for-sale	$ 1,060,784	100 %	$ 989,540	100 %

3. Investments, continued

d) The amortized cost and estimated fair value of fixed maturity securities at December 31, 2019 and 2018 are shown below by contractual maturity.

	2019		2018	
(in thousands of US dollars)	Amortized cost	Fair value	Amortized cost	Fair value
Due in one year or less	$ 44,469	$ 44,538	$ 41,684	$ 41,395
Due after one year through five years	150,329	150,942	139,787	138,465
Due after five years through ten years	123,932	128,291	129,945	129,098
Due after 10 years	253,557	268,691	250,921	234,868
Agency mortgage-backed securities	32,422	32,536	28,714	28,342
Asset backed securities	170,472	169,060	164,390	161,324
Non-agency mortgage-backed securities	260,114	266,726	253,987	256,048
Total fixed maturities, available-for-sale	$ 1,035,295	$ 1,060,784	$ 1,009,428	$ 989,540

Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties, and the lenders may have the right to put the securities back to the borrower. Based on expected maturities, the estimated duration of fixed maturity securities at December 31, 2019 was 3.9 years (2018: 4.0 years).

e) The following table presents the components of net investment income.

(in thousands of US dollars)	2019	2018
Fixed maturities, available-for-sale	$ 56,440	$ 51,128
Net ceded investment income and expenses	6,601	2,940
Fair value equity securities	(1,366)	(994)
Assumed investment income from reinsurance contracts	20,298	—
Gross investment income	81,973	53,074
Investments expenses	(19,151)	(15,053)
Net investment income	$ 62,822	$ 38,021

Assumed investment income from funds withheld reinsurance contracts relates to the investment income earned on reinsurance premium receivable related to contracts written during the presentation year end date, calculated from the inception of the reinsurance contracts to the earlier of date of receipt of reinsurance premium or period end.

3. Investments, continued

f) The following table presents net realized investment gains and the change in net unrealized gains on investments.

	2019	2018
Realized gains on fixed maturities, available-for-sale		
Cash and cash equivalents	$ 2	$ —
Corporate bonds	755	53
Non-agency mortgage-backed securities	2,347	3,261
U.S. government and govt agency bonds	51	—
Non-U.S. governments	90	—
Municipals	350	—
Agency mortgage-backed securities	637	380
Asset backed securities	463	393
Term loans	493	598
Total realized gains	5,188	4,685
Realized losses on fixed maturities, available-for-sale		
Cash and cash equivalents	—	(4)
Corporate bonds	(506)	(810)
Non-agency mortgage-backed securities	(2,549)	(2,120)
U.S. government and govt agency bonds	(30)	(15)
Non-U.S. governments	(45)	(74)
Municipals	(2)	—
Agency mortgage-backed securities	(504)	(4)
Asset backed securities	(73)	(251)
Term loans	(353)	(274)
OTTI charge recognized in net income	(1,533)	(574)
Total realized losses	(5,595)	(4,126)
Gains (losses) on securities measured at fair value through net income		
Realized investment losses	—	(616)
Realized investment gains	1,251	711
	1,251	95
Total net realized gains on all securities	$ 844	$ 654
Unrealized gains on securities measured at fair value through net income	$ 4,673	$ 1,374
Change in net unrealized gain (loss) on investments included in other comprehensive income (loss)		
Fixed maturities, available-for-sale	$ 45,376	$ (24,969)
Fair value equity securities	—	(1,176)
Net (decrease) increase in other comprehensive loss	$ 45,376	$ (26,145)

4. Fair Value Measurements

At December 31, 2019 and 2018, the Company's financial instruments are measured at fair value between Levels 1, 2, and 3. Our other investments are measured at fair value using NAV as a practical expedient and have not been classified with the fair value hierarchy described.

(in thousands of US dollars)	2019				
	Level 1	Level 2	Level 3	NAV	Fair value
Fixed maturities, available-for-sale					
Corporate bonds	$ —	349,641	—	—	$ 349,641
Non-agency mortgage-backed securities	—	264,537	2,189	—	266,726
U.S. government and govt agency bonds	24,899	4,792	—	—	29,691
Non-U.S. governments	—	3,322	—	—	3,322
Municipals	—	29,535	—	—	29,535
Agency mortgage-backed securities	—	32,536	—	—	32,536
Asset backed securities	—	169,060	—	—	169,060
Term loans	—	—	180,273	—	180,273
Total fixed maturities, available-for-sale	24,899	853,423	182,462	—	1,060,784
Total fair value equity securities	—	—	—	138,489	138,489
Total investments	$ 24,899	853,423	182,462	138,489	$ 1,199,273

(in thousands of US dollars)	2018				
	Level 1	Level 2	Level 3	NAV	Fair value
Fixed maturities, available-for-sale					
Corporate bonds	$ —	317,096	—	—	$ 317,096
Non-agency mortgage-backed securities	—	253,965	2,083	—	256,048
U.S. government and govt agency bonds	21,933	5,302	—	—	27,235
Non-U.S. governments	—	3,036	—	—	3,036
Municipals	—	15,260	—	—	15,260
Agency mortgage-backed securities	—	28,342	—	—	28,342
Asset backed securities	—	161,324	—	—	161,324
Term loans	—	—	181,199	—	181,199
Total fixed maturities, available-for-sale	21,933	784,325	183,282	—	989,540
Total fair value equity securities	—	—	—	126,469	126,469
Total investments	$ 21,933	784,325	183,282	126,469	$ 1,116,009

4. Fair value measurements, continued

The following table presents a reconciliation of the beginning and ending balances for all financial instruments measured at fair value on a recurring basis using the Level 3 inputs for the period ended December 31, 2019 and 2019:

(in thousands of US dollars)	2019	2018
Balance at beginning of period	$ 183,282	$ 122,527
Transfer of securities from Level 2 to Level 3	—	52,633
Purchases and amortization	79,364	126,128
Sales	(31,451)	(95,479)
Maturities and redemption	(47,192)	(22,552)
Total gains (losses) in net income and OCI	(194)	121
Impairments	(1,347)	(96)
Balance at end of period	$ 182,462	$ 183,282
Change in unrealized gains (losses) for securities held, end of period	$ 333	$ 209

As at December 31, 2019, Level 3 securities comprise of 1,106 term loans and 1 non-agency mortgage backed security.

The following table presents additional information with respect to investments that are measured at fair value using NAV as a practical expedient.

		2019		2018	
(In thousands of U.S. Dollars)	Redemption period remaining until liquidation of underlying assets	Fair Value	Unfunded Capital Commitments	Fair Value	Unfunded Capital Commitments
Private Credit Investment Funds	Quarterly	$ 81,721	$ —	$ 96,442	$ —
Real Assets and Intellectual Property	5 to 9 years	16,794	16,697	4,508	29,274
Residential Real estate	5 to 6 years	25,148	—	23,035	5,504
Commercial Real estate	10 to 11 years	4,389	25,574	—	14,531
Financial	8 to 9 years	7,729	11,886	2,483	7,775
Traditional	9 to 12 years	2,708	12,388	—	—
Total fair value equity securities		$ 138,489	$ 66,545	$ 126,468	$ 57,084

With the exception of Private Credit Investment Funds, the Company's fair value equity securities contain characteristics similar to traditional private equity funds such as lockup periods, capital draws on committed capital and extension periods which are subject to the discretion of the fund. For all fair value equity securities except for Private Credit Investment funds, the redemption period represents the maximum length of time until liquidation which includes discretionary extension periods. Discretionary extension periods represent a maximum of three consecutive one year periods.

4. Fair value measurements, continued

For Private Credit Investment Funds, the Company's investment in the fund can be redeemed subject to notifying the fund of the Company's intention to redeem prior to the next redemption date. Notice periods for the Company's Private Credit Investment Funds range between 65 to 180 days.

Investment Classification	Underlying Objective of Fund
Residential Real estate	Investments are primarily focused on residential real estate assets and may take the form of liquidation claims, re-performing loans, receivables, repayment plans and other cash flowing assets.
Commercial Real estate	Investments primarily focused on global commercial real estate assets.
Financial	Investments primarily focused on financial service companies covering a broad spectrum of sectors.
Traditional Private Equity	Employs traditional private equity investment strategies across a broad spectrum of sectors.
Real Assets and Intellectual Property	Investments primarily related to intellectual property, natural resources and infrastructure.
Private Credit Investment Funds	Investments are in a broad range of credit strategies including exposure to investment grade securities, high yield and other credit opportunities.

5. Outstanding losses and loss adjustment expenses

As at December 31, 2019 and 2018, loss and loss adjustment expense reserves in the consolidated balance sheets were comprised of the following:

(in thousands of U.S. dollars)		2019		2018
Reserve for losses and loss adjustment expenses, beginning of year	$	1,157,835	$	1,184,278
Losses assumed during the period		926,920		—
Paid losses & ULAE related to losses occuring in prior years		(231,583)		(18,443)
Contract reclassified to deposit accounting		(1,025,000)		—
Gross favorable development on prior year loss reserves		(9,727)		(8,000)
Foreign exchange loss		11,001		—
Reserve for losses and loss adjustment expenses, end of period		829,446		1,157,835
(-) Reinsurance recoverable on paid and unpaid losses		35,005		33,209
Outstanding losses and loss expenses, net of reinsurance	$	794,441	$	1,124,626

During 2019, Premia Re entered into two quota share reinsurance agreements on a funds withheld basis wherein adjustments in estimates of the loss and loss adjustment expense reserve and claim payments in the consolidated statement of operations shall be offset by an adjustment to funds withheld. Funds held by cedants at December 31, 2019 of $644.127 million (2018: $nil) is reported on the consolidated balance sheet.

5. Outstanding losses and loss adjustment expenses, continued

One of the aforementioned quota share reinsurance agreements receives premiums in three tranches over the span of three years. Premiums receivable of $129.332 million relating to tranche two and three, have been recognized on the balance sheet at December 31, 2019 (2018: nil). Premiums relating to tranche one are included within funds held by ceding companies.

The consolidated balance sheets as at December 31, 2019 and 2018 report a reinsurance recoverable for paid and unpaid losses of $35.005 million and $33.209 million, respectively in regards to cessions from Premia Re to Arch Re.

As at December 31, 2019 and 2018 the DCA and DCL in the consolidated balance sheets were comprised of the following:

(in thousands of U.S. dollars)		2019		2018
Deferred charge asset, beginning of year	$	331,744	$	348,228
Deferred charge recognized during the period		15,367		—
Contract reclassified to deposit accounting		(313,285)		—
Amortization of deferred charge asset		(20,879)		(16,484)
Deferred charge asset, end of period	$	12,947	$	331,744

(in thousands of U.S. dollars)		2019		2018
Deferred charge liability, beginning of year	$	—	$	—
Deferred charge recognized during the period		(10,672)		—
Amortization of deferred charge liability		2,237		—
Deferred charge liability, end of period	$	(8,435)	$	—

During 2019, Premia Re agreed to amend and restate an existing retroactive reinsurance agreement. Management assessed that the amended agreement should be accounted for as a deposit liability of $711.715 million at December 31, 2019 (2018: nil) and is recognized on the consolidated balance sheet as such. This resulted in the reduction of DCA by 313.285 million.

5. Outstanding losses and loss adjustment expenses, continued

The following table represents the activity in outstanding losses and loss expenses for the periods ending December 31, 2019 and 2018.

(in thousands of U.S. dollars)	2019	2018
Change in ceded reinsurance loss reserves	$ (10,729)	$ 2,000
Change in deferred charge asset and liability	13,947	16,484
Change in incurred loss reserves	917,188	(8,000)
Loss and loss adjustment expenses	$ 920,406	$ 10,484

The change in ceded reinsurance loss reserves of $10.729 million at December 31, 2019 relates to the contract effective January 9, 2019 written for Western Select and ceded to Arch Re Bermuda of $6.487 million as well as $4.241 million related to two retroactive reinsurance agreements signed with non-related parties, which were ceded to Arch Re Bermuda. An amount of $2.019 million in ceded favorable development on case loss reserves was recognized in arriving at the overall change in ceded case loss reserves of $10.729 million.

The process of establishing loss and loss expense reserves for property and casualty claims can be complex and is subject to considerable uncertainty as it requires the use of informed estimates and judgments based on circumstances known as of the evaluation date. These estimates and judgments are based on numerous factors and may be revised as additional experience and other data becomes available and is reviewed, as new or improved methodologies are developed or laws or circumstances change.

The Company's loss and loss adjustment expense reserves are estimates based on customary actuarial methods including the Loss Development Method and Bornhuetter-Ferguson ("B-F") Method applied to both paid and reported data as described below. The Company's analysis conforms to relevant Actuarial Standards of Practice ("ASP"), including ASP 43 Property/Casualty Unpaid Claim Estimates.

Loss Development Method: The paid or reported loss development method relies on the assumption that, at any given state of maturity, ultimate losses can be predicted by multiplying cumulative paid or reported losses by a cumulative loss development factor ("LDF"). The validity of the results of this method depends on the stability of claim reporting and settlement rates, as well as the consistency of case reserve levels. Case reserves do not have to be adequately stated for the reported method to be effective; they only need to have a consistent level of adequacy at all stages of maturity. Historical "age-to-age" LDFs were calculated to measure the relative development of an accident year from one maturity-point to the next. We then select appropriate age-to-age LDFs based on these historical factors, supplemented with industry benchmarks where necessary. We used the selected factors to project the ultimate losses.

Bornhuetter-Ferguson Method: The reported B-F loss projection method is based on reported loss data and relies on the assumption that remaining unreported losses are a function of the total expected losses rather than a function of currently reported losses.

5. Outstanding losses and loss adjustment expenses, continued

The expected losses used in this analysis are based on initial selected ultimate loss ratios by year derived from either prior analyses or review of more mature years. The expected losses are multiplied by the unreported percentage to produce expected unreported losses. The unreported percentage is calculated as one minus the reciprocal of the selected cumulative incurred LDFs. Finally, the expected unreported losses are added to the current reported losses to produce ultimate losses. The Company also used a paid B-F methodology which applies the same procedures using paid loss data to estimate ultimate losses.

Management believes that the assumptions used represent an appropriate basis for estimating the outstanding loss and loss adjustment expenses as of December 31, 2019 and 2018. However, these assumptions are subject to change and the Company regularly reviews its reserve estimates and reserving methodologies taking into account all currently known information and updated assumptions related to unknown information.

The information below includes net loss and loss adjustment expenses incurred ("L&LAE, net") and net losses incurred but not reported ("IBNR, net"), by accident year for the Company's retroactive reinsurance contracts.

(in thousands of U.S. dollar)	2017	2018	2019	
Accident year	L&LAE, net	L&LAE, net	L&LAE, net	IBNR, net
	(unaudited)	(unaudited)		
2010	$ —	$ —	$ 12,946	$ 6,063
2011	—	—	17,422	8,139
2012	5,327	5,300	20,629	9,563
2013	27,900	27,137	30,328	13,556
2014	215,558	210,003	57,408	21,993
2015	405,781	398,352	93,763	37,267
2016	447,318	442,119	154,353	65,642
2017	55,838	55,513	206,507	67,773
2018	—	—	280,229	85,415
2019	—	—	131,604	44,470
Total	$ 1,157,722	$ 1,138,424	$ 1,005,189	$ 359,881

All information for acquisitions and retroactive reinsurance agreements is presented prospectively. As the reserves are effectively re-underwritten at the date the reserves are acquired or assumed, we believe that the historical loss development prior to being acquired is not relevant to our own experience managing these reserves. In addition, the information required to prepare the loss development on a retrospective basis is not always available to us. For the retroactive reinsurance agreement accounted for as a deposit liability during 2019, claims information related to this contract has been removed from all accident years disclosed.

5. Outstanding losses and loss adjustment expenses, continued

Paid loss and loss adjustment expenses, net:

(in thousands of U.S. dollar)

Accident year	2017	2018	2019
	(unaudited)	(unaudited)	
2010	$ —	$ —	$ 363
2011	—	—	529
2012	4	197	581
2013	628	531	1,035
2014	4,480	3,402	3,879
2015	5,328	5,105	5,983
2016	2,823	4,561	10,730
2017	—	—	65,846
2018	—	—	102,951
2019	—	—	39,308
Total	$ 13,263	$ 13,797	$ 231,206

The reconciliation of the net incurred and paid claims development tables to the liability for loss and loss adjustment expenses in the consolidated balance sheet is as follows:

(in thousands of U.S. dollar)	2019	2018
Net reserves for loss and loss adjustment expenses from 2010 - 2019	$ 746,925	$ 904,169
Net reserves for loss and loss adjustment expenses prior to 2010	47,516	220,456
Outstanding losses and loss expenses, net of reinsurance	794,441	1,124,625
Reinsurance recoverable on unpaid losses	35,005	33,209
Reserve for loss and loss adjustment expenses, end of year	$ 829,446	$ 1,157,834

Cumulative claims frequency

The Company provides reinsurance products on a global basis, the majority of which involves bordereaux reporting without detailed claim level information. As such, the Company has determined that it is impractical to provide this information.

5. Outstanding losses and loss adjustment expenses, continued

Claims duration

The following table is presented as supplementary information and presents the Company's historical average annual percentage payout of loss and loss adjustment expenses incurred, net by age, as of December 31, 2019 (unaudited).

Year 1 2017	Year 2 2018	Year 3 2019
1.1%	1.2%	22.5%

6. Share capital

The authorized share capital of the Company at December 31, 2019 consists of 1,000,000 common shares, of par value $1.00 per share.

7. Concentrations and contingencies

The Company's investment portfolio is managed by external investment advisors in accordance with the Company's investment guidelines. The majority of the Company's assets are invested in separately managed accounts ("SMA"). Each SMA contains detailed investment guidelines which limit exposure to any single issuer, industry or rating category as a percentage of the total SMA market value at the time of purchase.

As of December 31, 2019 the largest single non-U.S. government and agency issuer accounted for less than 15% of the aggregate market value of the Company's invested assets. As at December 31, 2019 approximately 75.7% (2018: 83.1%) of the Company's investment portfolio is rated as either NAIC 1 or NAIC 2.

Reinsurance assets due from reinsurers include outstanding loss and loss expense recoverable. The Company is subject to credit risk with respect to reinsurance ceded as the ceding of risk does not relieve the Company from its primary obligations to its policyholders. Failure of the Company's reinsurer to honor their obligations could result in credit loss. As of December 31, 2019 the Company's largest single reinsurance recoverable exposure, net of collateral, was zero. The Company has not recorded a provision for credit losses and no amounts were written off within the period.

The Company utilizes trust funds where the trust funds are set up for the benefit of the ceding companies. The fair value of these restricted assets is $1,172.206 million (2018: $956.875 million), of which $1,014.696 million (2018: $854.458 million) relates to investments and $157.510 million (2018: $102.417 million) relates to cash and cash equivalents from investments, as at December 31, 2019. Included in restricted assets is $120.000 million of additional collateral related to two retroactive reinsurance contracts in effect, of which the Company funded $5.000 million on behalf of Arch Re with respect to one of the retroactive reinsurance contracts.

7. Concentrations and contingencies, continued

The Company makes contributions to and receives distributions from private equity funds. During the year the combination of contributions and distributions resulted in a net distribution of $1.398 million (2018: net contribution of $84.916 million). The company is committed to fund an additional $66.545 million (2018: $57.084 million) over time.

8. Income taxes

Premia Re and its parent company, Premia Holdings, are incorporated under the laws of Bermuda and, under current Bermuda law, they are not obligated to pay any taxes in Bermuda based upon income or capital gains. The Company has received a written undertaking from the Minister of Finance in Bermuda under the Exempted Undertakings Tax Protection Act 1966 that, in the event that any legislation is enacted in Bermuda imposing any tax computed on profits, income, gain or appreciation on any capital asset, or any tax in the nature of estate duty or inheritance tax, such tax will not be applicable to Premia Holdings or any of its operations until March 31, 2035.

The Company is not subject to taxation other than stated above. There can be no assurance that there will not be changes in applicable laws, regulations or treaties, which might require the Company to become subject to additional taxation.

9. Related party transactions

Arch Re, along with certain members of senior management, has a 25% equity ownership in the Company. The Company holds retrocession agreements with Arch Re in which 25% of the reinsurance contracts with Client 2 and Western Select and 12.5% of the reinsurance contract with Client 3 have been ceded to Arch Re on a pro rata basis.

On December 31, 2019, Premia Re entered into two retroactive reinsurance related transactions with a wholly owned subsidiary of Arch, pursuant to which Premia Re assumed a transfer of liability for the 2018 and prior years of account as of July 1, 2019.

Premia Re has a service agreement with Arch Underwriters Ltd specifying that Arch will provide to Premia Re services including technical support, financial services, office space and other miscellaneous services as requested. For the year ending December 31, 2019 Arch invoiced Premia Re $0.401 million in relation to the service agreement.

Premia Re's parent company Premia Holdings, entered into a long term debt agreement with Apollo on January 6, 2017 with a principal amount of $110,000, repayable in full at the end of seven years, with quarterly interest due at a rate of 7% per annum. During the year ended December 31, 2019, Premia Re transferred to Premia Holdings a cumulative total of $5.839 million as funding for the interest payments.

In January 2019, the Company issued a loan to Premia Holdings in the amount of $49.433 million to fund the acquisition of Public Service Insurance Company and its wholly owned subsidiary Western Select Insurance Company.

9. Related party transactions, continued

The funding supports the purchase price of $2.50 million and an additional capital injection of $46.933 million to meet the agreed upon risk based capital ratio, both set out in the sale and purchase agreement. The loan bears interest at a rate of 7% per annum. Premia Holdings shall repay the loan, together with accrued interest upon demand from Premia Re. Premia Holdings subsequently down streamed the funding to the acquirer Premia Holdings Inc. ("Premia Inc.") as an equity investment.

To fund start-up operations of a Luxembourg domiciled entity, Premia Re issued a revolving credit facility to Premia Holdings, who subsequently issued a similar credit facility to the Luxembourg entity. The credit facilities accumulated lending of $1.183 million during the year ending December 31, 2019.

To fund start-up operations of a U.S. domiciled entity, Premia Re issued a revolving credit facility to Premia Holdings, who subsequently down streamed the funding to Premia Inc. as an equity investment. The credit facilities accumulated lending of $5.500 million during the year ending December 31, 2019.

In addition to the above directed funding, the Company also loaned Premia Holdings $0.790 million during the year as funding for miscellaneous business activities, all in the normal course of operations.

During the year ending December 31, 2019, a U.S. domiciled related party invoiced the Company a sum of $1.316 million in relation to claims administration and due diligence services provided.

10. Statutory financial information and dividend restrictions

Under the Insurance Act 1978, as amended, and related regulations of Bermuda (the “Insurance Act”), Premia Re is registered as a Class 4 insurer, and is required to annually prepare and file statutory financial statements and a statutory financial return with the Bermuda Monetary Authority (“BMA”).

The Insurance Act also required Premia Re to maintain minimum share capital and must ensure that the value of its general business assets exceeds the amount of its general business liabilities by an amount greater than the prescribed minimum solvency margins (“MSM”) and enhanced capital requirements (“ECR”) pertaining to its general business.

At December 31, 2019 all such requirements were met. Premia Re is also required under its Class 4 license to maintain a minimum liquidity ratio whereby the value of its relevant assets is not less than 75% of the amount of its relevant liabilities for general business. As of December 31, 2019 Premia Re met the minimum liquidity ratio.

Under the Insurance Act, Premia Re is subject to capital requirements calculated using the Bermuda Solvency Capital Requirement model (“BSCR model”), which is a standardized statutory risk-based capital model used to measure the risk associated with Premia Re’s assets, liabilities and premiums. Under the BSCR model, Premia Re’s required statutory capital and surplus is referred to as the ECR. The ECR is equal to the higher of the MSM or the BSCR model. The BSCR for relevant insurers for the period ended December 31, 2019 will not be filed with the BMA until April 30, 2019.

10. Statutory financial information and dividend restrictions, continued

Following receipt of the submission of Premia Re's ECR, the BMA has the authority to impose additional capital requirements or capital add-ons, if it deems necessary. If an insurer fails to maintain or meet its ECR, the BMA may take various degrees of regulatory action. As of December 31, 2019 Premia Re met its ECR.

The BSCR will be based on an Economic Balance Sheet ("EBS") derived from the Company's U.S. GAAP financial statements, with certain adjustments related to loss reserves, intangibles and contingencies, among others.

Premia Re may declare dividends subject to it continuing to meet its solvency and capital requirements, which includes continuing to hold statutory capital and surplus equal to or exceeding its ECR. Premia Re is prohibited from declaring or paying in any fiscal year dividends of more than 25% of its prior year's statutory capital and surplus unless Premia Re files with the BMA a signed affidavit by at least two members of the Board of Directors attesting that a dividend would not cause the company to fail to meet its relevant margins. While Premia's capital is in excess of its ECR, no dividends were paid for the year ended December 31, 2019.

11. Subsequent events

On March 11, 2020, the Company paid £7.760 to its parent company Premia Holdings as funding for the acquisition of Charles Taylor Managing Agency Holdings Limited, Charles Taylor Corporate Name Limited, and Standard Club Corporate Name Limited. The funding to Premia Holdings was treated as a loan. The loan is non-interest bearing and will be repayable on demand by Premia Re.

The recent global outbreak of the coronavirus ("COVID-19") has caused significant volatility within the economic markets, for which the duration and spread of the outbreak and the resultant economic impact is uncertain and cannot be predicted. The effect of the impact of COVID-19 has not been reflected in these financial statements; such impact may affect the future results of the Company.

The Company completed its subsequent events evaluation for the period subsequent to the consolidated balance sheet date of December 31, 2019 through April 14, 2020, the date the consolidated financial statements were available to be issued, and concluded that there were no subsequent events requiring recognition or disclosure other than those mentioned above.