FIDELIS INSURANCE BERMUDA LIMITED

Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

KPMG Audit Limited
Crown House
4 Par-la-Ville Road
Hamilton
HM 08
Bermuda

Telephone +1 441 295 5063
Fax +1 441 295 8280
Internet www.kpmg.bm

INDEPENDENT AUDITOR'S REPORT

To the Shareholder and Board of Directors of Fidelis Insurance Bermuda Limited

We have audited the accompanying consolidated financial statements of Fidelis Insurance Bermuda Limited and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of income, changes in shareholder's equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; 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.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 Fidelis Insurance Bermuda Limited and its subsidiaries as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other matter

U.S. generally accepted accounting principles require that certain disclosures related to short-duration contracts in Note 10 to the basic financial statements be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Financial Accounting Standards Board who consider it to be an essential part of financial reporting for placing the basic consolidated 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 consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated 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.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
May 14, 2020

FIDELIS INSURANCE BERMUDA LIMITED
Consolidated Balance Sheets
As at December 31, 2019 and December 31, 2018
(Expressed in thousands of U.S. dollars)

	2019	2018
Assets		
Short-term investments, available-for-sale (cost: $49,196, 2018: $1,570)	$ 49,201	$ 1,570
Fixed income securities, trading at fair value (cost: $147,673, 2018: $219,271)	147,915	216,229
Fixed income securities, available-for-sale (cost: $635,835, 2018: $534,354)	644,080	534,586
Other investments, at fair value (cost: $5,117, 2018: $116,728)	5,339	113,753
Total investments	846,535	866,138
Cash and cash equivalents	113,289	35,356
Restricted cash and cash equivalents	253,855	192,018
Derivative assets, at fair value	34	11,478
Accrued investment income	5,468	5,091
Investments pending settlement	25,144	3,447
Premiums and other receivables	471,808	347,120
Deferred reinsurance premiums	91,215	30,564
Reinsurance balances recoverable on paid losses	120,718	49,994
Reinsurance balances recoverable on unpaid losses	421,558	434,067
Deferred policy acquisition costs	169,726	108,597
Amounts due from affiliates	10,071	10,764
Deferred tax asset	496	137
Other assets	12,988	9,989
Total assets	**$ 2,542,905**	**$ 2,104,760**
Liabilities and shareholder's equity		
Liabilities		
Derivative liabilities, at fair value	774	527
Investments pending settlement	6,343	3,056
Reserves for losses and loss expenses	671,546	598,243
Unearned premiums	649,844	434,878
Reinsurance balances payable	162,263	63,395
Amount due to affiliates	8,810	5,736
Other liabilities	17,917	8,772
Total liabilities	$ 1,517,497	$ 1,114,607
Shareholder's equity		
Common stock	1,000	1,000
Additional paid-in capital	932,220	986,120
Accumulated other comprehensive income	8,186	232
Retained earnings	84,002	2,801
Total shareholder's equity	**$ 1,025,408**	**$ 990,153**
Total liabilities, and shareholder's equity	**$ 2,542,905**	**$ 2,104,760**

Director

Director

See accompanying notes to the consolidated financial statements.

FIDELIS INSURANCE BERMUDA LIMITED
Consolidated Income Statements
For the years ended December 31, 2019 and December 31, 2018
(Expressed in thousands of U.S. dollars)

	2019	2018
Revenues		
Gross premiums written	$ 631,443	$ 526,659
Reinsurance premiums ceded	(243,510)	(173,653)
Net premiums written	387,933	353,006
Change in net unearned premiums	(138,741)	(124,985)
Net premiums earned	249,192	228,021
Net investment return	34,833	18,771
Other income	6,853	8,547
Total revenues	**$ 290,878**	**$ 255,339**
Expenses		
Losses and loss expenses	(105,259)	(75,338)
Policy acquisition expenses	(70,107)	(61,222)
General and administrative expenses	(29,611)	(26,860)
Net foreign exchange losses	(1,678)	(1,679)
Financing and other costs	(3,444)	(2,208)
Total expenses	**$ (210,099)**	**$ (167,307)**
Net profit before tax	80,779	88,032
Income tax benefit	422	116
Net profit after tax	**$ 81,201**	**$ 88,148**
Other comprehensive income		
Unrealised gains on available for sale financial instruments, net of tax	7,954	232
Total other comprehensive income	$ 7,954	$ 232
Total comprehensive income attributable to common shareholder	**$ 89,155**	**$ 88,380**

See accompanying notes to the consolidated financial statements.

FIDELIS INSURANCE BERMUDA LIMITED
Statements of Changes in Shareholder's Equity
As at December 31, 2019 and December 31, 2018
(Expressed in thousands of U.S. dollars)

	2019	2018
Common Stock		
Balance – beginning and end of year	$ 1,000	$ 1,000
Additional paid-in capital		
Balance - beginning of year	$ 986,120	$ 1,197,120
Distribution	(126,000)	(211,000)
Capital contribution	72,100	–
Balance - end of year	$ 932,220	$ 986,120
Accumulated other comprehensive income, net of tax		
Balance – beginning of year	$ 232	$ –
Unrealised gains on available-for-sale securities, net of tax		
Unrealised gains/(losses) arising during the year	9,832	(102)
Realised (gains)/losses transferred to net profit	(1,878)	334
Balance – end of year	$ 8,186	$ 232
Retained earnings		
Balance - beginning of year	$ 2,801	$ (85,347)
Net profit available to common shareholder	81,201	88,148
Balance - end of year	$ 84,002	$ 2,801
Total shareholder's equity	$ **1,025,408**	**$ 990,153**

See accompanying notes to the consolidated financial statements.

FIDELIS INSURANCE BERMUDA LIMITED
Statements of Consolidated Cash Flows
For the years ended December 31, 2019 and December 31, 2018
(Expressed in thousands of U.S. dollars)

	2019	2018
Operating activities		
Net profit after tax	$ 81,201	$ 88,148
Adjustments to reconcile net profit to net cash provided by operating activities:		
Depreciation	895	696
Net unrealized loss/(gain) on investments and derivatives	3,143	(1,418)
Net realized (gain)/loss on investments and derivatives	(14,264)	849
Net changes in assets and liabilities:		
Accrued investment income	(377)	(2,307)
Premiums and other receivables	(124,688)	(89,044)
Deferred reinsurance premiums	(60,651)	(440)
Reinsurance balances recoverable on paid claims	(70,724)	(30,724)
Reinsurance balances recoverable on unpaid claims	12,509	(153,815)
Deferred policy acquisition costs	(61,129)	(41,524)
Deferred tax asset	(359)	(137)
Amounts due from affiliates	693	(1,934)
Other assets	(3,328)	(4,508)
Reserves for losses and loss expenses	73,303	176,645
Unearned premiums	214,966	125,426
Reinsurance balances payable	98,868	9,159
Amounts due to affiliates	3,074	(3,193)
Other liabilities	9,164	2,550
Net cash provided by operating activities	**$ 162,296**	**$ 74,429**
Investing activities		
Purchase of investments, trading	(646)	(2,737)
Proceeds from the sale of investments, trading	104,139	615,272
Purchase of available-for-sale securities	(467,407)	(644,194)
Proceeds from sale of available-for-sale securities	301,860	116,109
Purchase of investments to cover short sales	(1,437)	(10,324)
Proceeds from short sales of investments	184	1,383
Proceeds from the sale of other investments	113,657	–
Change in investments pending settlement - assets	(21,697)	4,420
Change in investments pending settlement - liabilities	3,287	3,055
Purchase of fixed assets	(566)	(968)
Net cash provided by investing activities	**$ 31,374**	**$ 82,016**
Financing activities		
Dividends on common stock	(126,000)	(211,000)
Proceeds from capital contribution	72,100	–
Net cash used in financing activities	**$ (53,900)**	**$ (211,000)**
Net increase/(decrease) in cash, restricted cash, and cash equivalents	139,770	(54,555)
Cash, restricted cash, and cash equivalents, beginning of year	227,374	281,929
Cash, restricted cash, and cash equivalents, end of year	**$ 367,144**	**$ 227,374**
Cash and cash equivalents comprise the following:		
Cash at bank and in hand	53,053	29,329
Cash equivalents	60,236	6,027
Restricted cash and cash equivalents	253,855	192,018
	$ 367,144	**$ 227,374**

See accompanying notes to the consolidated financial statements.

1. Nature of operations

Fidelis Insurance Bermuda Limited (the "Company") was incorporated as an exempted company under the laws of Bermuda on February 26, 2015 and writes insurance and reinsurance on a global basis. The Company is registered as a Class 4 insurer under the Insurance Act of 1978 and related regulations of Bermuda (the "Insurance Act") and commenced (re)insurance operations in June 2015. The Company is a wholly owned subsidiary of Fidelis Insurance Holdings Limited ("Fidelis", or "FIHL") which was incorporated under the laws of Bermuda on August 22, 2014.

During 2018, the Company established the following wholly owned subsidiaries: Fidelis Insurance Ireland DAC ("FIID") and Fidelis European Holdings Limited ("FEHL").

- FIID is an indirect, wholly owned subsidiary of FIBL and was incorporated under the laws of Republic of Ireland ("ROI") on December 27, 2017 and writes bespoke and specialty non-U.K. European business. FIID was licensed in the ROI by the Central Bank of Ireland ("CBI") on October 22, 2018. FIID commenced writing business from January 1, 2019 and accepted non-UK EEA insurance policies from Fidelis Underwriting Limited ("FUL") through a Part VII transfer under the Financial Services and Market Act of 2000 during 2019. The Part VII transfer was completed on March 29, 2019.

- FEHL was incorporated under the laws of England and Wales on January 11, 2018 to act as a holding company within the Group.

The Company and its subsidiaries are collectively referred to as the "Group" in these financial statements.

In May 2018, the Group sponsored Socium Re Limited ("Socium"), a Bermuda domiciled special purpose insurance company formed to provide additional collateralised capacity to support the Group's business. The Group accounts for its interest in Socium at fair value based on net asset value and includes it within other assets in the Consolidated Balance Sheets.

2. Significant accounting policies

Basis of presentation

The accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States ("U.S. GAAP") and include the results of Fidelis Insurance Bermuda Limited and its subsidiaries. All significant intercompany balances and transactions have been eliminated on consolidation.

Certain reclassifications have been made to prior year amounts to conform to the 2019 presentation. There is no impact of these reclassifications on net profit or shareholder's equity.

Reporting currency

The financial information is reported in United States dollars ("U.S. dollars" or "$").

Use of estimates

The preparation of these financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported and disclosed amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates reflected in the financial statements include, but are not limited to, gross and net reserves for losses and loss expenses and estimates of written and earned premiums.

2. Significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents consist of cash held in banks and other short-term, highly liquid investments with original maturity dates of ninety days or less.

Restricted cash and cash equivalents

Restricted cash and cash equivalents consist of cash held in segregated or trust accounts, which is unavailable for immediate use by the Group, primarily to provide collateral for letters of credit and to support the current value of any amounts that may be due to counterparties based on the value of underlying financial instruments.

Investments

During 2018, the Group amended the accounting policy such that all fixed income securities acquired from January 1, 2018 are classified as available for sale. Fixed income securities acquired prior to January 1, 2018 are classified as trading. The fixed income securities portfolio comprises securities issued by governments and government agencies, corporate bonds, mortgage and other asset-backed securities. Investments in fixed income securities have been classified as available for sale or trading and are reported at estimated fair value in the Consolidated Balance sheets.

In 2019 and 2018, the Group's other investments consist of an investment in a limited partnership with York Capital Management. This is carried at fair value based on the net asset value as reported by the investment manager.

Investments with a maturity of greater than three months up to one year from date of purchase are classified as short-term investments.

For all fixed income securities and other investments, any realised and unrealised gains or losses are determined on the basis of first-in-first-out method. For all fixed income securities classified as "available for sale", realised gains and losses in the Consolidated Income Statements include adjustments to the cost basis of investments for declines in value that are considered to be other-than-temporary. Unrealised gains and losses represent the difference between the cost, or the cost as adjusted by amortisation of any difference between its cost and its redemption value ("amortised cost"), of the security and its fair value at the reporting date and are included within other comprehensive income for securities classified as "available for sale". For securities classified as "trading", realised and unrealised gains or losses are included in the Consolidated Income Statements within net investment return.

Other-than-temporary impairment of investments

A security is impaired when its fair value is below its cost or amortised cost. The Group reviews its investment portfolio each quarter on an individual security basis for potential other-than-temporary impairment ("OTTI") based on criteria including issuer-specific circumstances, credit ratings actions and general macro-economic conditions.

OTTI is deemed to occur when there is no objective evidence to support recovery in value of a security and (i) the Group intends to sell the security or it is more likely than not that it will be required to sell the security before recovery of its cost or adjusted amortised cost basis or (ii) it is deemed probable that the Group will be unable to collect all amounts due according to the contractual terms of the individual security. In the first case, the entire unrealised loss position is taken as an OTTI charge to realised losses in earnings. In the second case, the unrealised loss is separated into the amount related to credit loss and the amount related to all other factors.

The OTTI charge related to credit loss is recognised in realised losses in earnings and the amount related to all other factors is recognised in other comprehensive income. The cost basis of the investment is reduced accordingly and no adjustments to the cost basis are made for subsequent recoveries in value.

2. Significant accounting policies (continued)

Other-than-temporary impairment of investments (continued)

Although the Group reviews each security on a case by case basis, it has also established parameters focusing on the extent and duration of impairment to help identify securities in an unrealised loss position which are other-than-temporarily impaired. For fixed income securities in the available for sale portfolio, the Group considers securities which have been in an unrealised loss position for 12 months and the credit rating has deteriorated below investment grade should be other-than-temporarily impaired.

Net investment return

Net investment return includes amounts received and accrued in respect of periodic interest ("coupons") payable to the Group by the issuer of fixed income securities and interest credited on cash and cash equivalents. It also includes amortisation of premium and accretion of discount in respect of fixed income securities. Investment management, custody, and investment administration fees are charged against net investment return reported in the Consolidated Income Statements. Investment transactions are recorded on a trade date basis.

Derivative financial instruments

All derivatives are recognised in the Consolidated Balance Sheets at fair value on a gross basis and not offset against any collateral pledged or received. Unrealised gains and losses resulting from changes in fair value are included in net investment return or net foreign exchange gains and losses in the Consolidated Income Statements. The Group's derivative financial instrument assets are included in derivative assets and derivative financial instrument liabilities are included in derivative liabilities in the Consolidated Balance Sheets. None of the Group's derivatives are designated as accounting hedges for financial reporting purposes. Pursuant to the International Swaps and Derivatives Association ("ISDA") master agreements and other derivative agreements, the Group and its counterparties typically have the ability to settle on a net basis. In addition, in the event a party to one of the ISDA master agreements or other derivative agreements defaults, or a transaction is otherwise subject to termination, the non-defaulting party generally has the right to set off against payments owed to the defaulting party or collateral held by the defaulting party.

The Group enters into derivative transactions to manage interest rate risk, currency exchange risk, or other exposure risks. The Group also sometimes enters catastrophe swap derivatives to manage its exposure to catastrophe events. Derivative transactions typically include futures, options, swaps and forwards. Derivative assets represent financial contracts whereby, based upon the contract's current fair value, the Group will be entitled to receive payments upon settlement. Derivative liabilities represent financial contracts whereby, based upon the contract's current fair value, the Group will be obligated to make payments upon settlement.

The Group looks to manage foreign currency exposure by substantively balancing assets with liabilities for certain major non-U.S. dollar currencies, or by entering into currency forward contracts. However, there is no guarantee that this will effectively mitigate exposure to foreign exchange gains and losses.

Investments pending settlement

Investments pending settlement include receivables and payables from unsettled trades due from/to prime brokers. Receivables and payables from unsettled trades are carried at fair value based on quoted prices in active markets for identical assets or derived based on inputs that are observable.

Premiums and acquisition costs

Premiums written are recorded on inception of the policy. Premiums written include estimates based on information received from insureds, brokers and cedants, and any subsequent differences arising on such estimates are recorded as premiums written in the period they are determined. Premiums written are earned on a basis consistent with risks covered over the period the coverage is provided.

2. Significant accounting policies (continued)

Premiums and acquisition costs (continued)

The portion of the premiums written applicable to the unexpired terms of the underlying contracts and policies are recorded as unearned premium. Reinstatement premiums are recognised as written and earned after the occurrence of a loss and are recorded in accordance with the contract terms based upon management's estimate of losses and loss expenses.

Acquisition costs are directly related to the acquisition of insurance premiums and are deferred and amortised over the related policy period. The Group only defers acquisition costs incurred that are directly related to the successful acquisition of new or renewal insurance contracts, including commissions to agents, brokers and premium taxes. All other acquisition related expenses including indirect costs are expensed as incurred. To the extent that future policy revenues on existing policies are not adequate to cover related costs and expenses, deferred policy acquisition costs are charged to earnings.

The Group evaluates premium deficiency and the recoverability of deferred acquisition costs by determining if the sum of future earned premiums and anticipated investment return is greater than expected future loss and loss adjustment expenses and acquisition costs.

General and administrative expenses are shown net of commissions, other fees and expense allowances associated with and earned on ceded business. These costs are deferred and amortized over the periods in which the related premiums are earned.

Reinsurance

The Group seeks to reduce the risk of net losses on business written by reinsuring certain risks and exposures with other reinsurers. Ceded reinsurance contracts do not relieve the Group of its primary obligation to insureds. Ceded premiums are recognised when the coverage period incepts and are expensed pro-rata over the contract period in proportion to the period of coverage. Premiums relating to the unexpired portion of reinsurance ceded are recorded as deferred reinsurance premiums.

Losses and loss expenses

The liability for losses and loss expenses includes reserves for unpaid reported losses and for losses incurred but not reported. The reserve for losses and loss expenses is established by management based on reports from insureds, brokers, and ceding companies and the application of generally accepted actuarial techniques and represents the estimated ultimate cost of events or conditions that have been reported to or specifically identified by the Group as incurred.

Inherent in the estimates of ultimate losses and loss expenses are expected trends in claim severity and frequency which may vary significantly as claims are settled. The Group estimates ultimate losses using various actuarial methods as well as the Group's own growing loss experience, historical insurance industry loss experience, estimates of pricing adequacy trends and management's professional judgement. Ultimate losses and loss expenses may differ significantly from the amount recorded in the financial statements. These estimates are reviewed regularly and as experience develops and new information becomes known, the reserves are adjusted as necessary. Such adjustments, if any, are recorded in losses and loss expenses in the periods in which they are determined.

Premiums receivable

Premiums receivable includes amounts receivable from insureds which represent premiums that are both currently due and amounts not yet due on insurance and reinsurance policies. Premiums for insurance policies are generally due at inception. Premiums for reinsurance policies generally become due over the period of coverage based on the policy terms. Contract periods can be several years in length with premiums received in annual or quarterly instalments.

2. Significant accounting policies (continued)

Premiums receivable (continued)

The Group monitors the credit risk associated with premiums receivable, taking into consideration the fact that in certain instances credit risk may be reduced by the Group's right to offset loss obligations against premiums receivable. Amounts deemed uncollectible are charged to net profit in the period they are determined. Changes in the estimate of (re)insurance premiums written will also result in an adjustment to premiums receivable in the period they are determined.

Reinsurance balances recoverable

Amounts recoverable from reinsurers are estimated based on the terms and conditions of the reinsurance contracts in a manner consistent with the underlying liability reinsured. If the Group determines that adjustments to earlier estimates are appropriate, such adjustments are recorded in the periods in which they are determined within losses and loss expenses in the Consolidated Income Statements.

Allowances are established for amounts deemed uncollectible and reinsurance recoverables are recorded net of these allowances. The Group evaluates the financial condition of its reinsurers and monitors concentration risk to minimise its exposure to significant unrecoverables from individual reinsurers.

Income taxes

Income taxes have been provided for those operations that are subject to income taxes based on enacted tax laws and rates enacted in those jurisdictions. Current and deferred taxes are charged or credited to income tax (charge)/benefit. Deferred tax assets and liabilities result from temporary differences between the amounts recorded in the consolidated financial statements and the tax basis of the Group’s assets and liabilities. The effect on deferred tax assets and liabilities of a change in tax rates is recognised in the income tax (charge)/benefit in the Consolidated Income Statements in the period that includes the enactment date. Uncertain tax positions are recognised when deemed more likely than not of being sustained upon examination by tax authorities. Changes in recognition or measurement are recognised in the period in which the change in judgment occurs.

A valuation allowance against deferred tax assets is recorded if management deem it is more likely than not that all or some portion of the benefits related to the deferred tax assets will not be realised.

Foreign exchange

The Group’s functional currency is the U.S. dollar. Transactions in foreign currencies are translated in U.S. dollars at the exchange rate in effect on the transaction date. Monetary assets and liabilities in foreign currencies are re-measured at the exchange rates in effect at the reporting date. Foreign exchange gains and losses are included in the Consolidated Income Statements.

Variable Interest Entities

Variable Interest Entities (“VIE”) are entities that have either a total equity investment that is insufficient to permit the entity to finance its activities without additional subordinated financial support, or whose equity investors lack the characteristic of a controlling financial interest. The Group would be deemed to have a controlling financial interest and be the primary beneficiary if it has both of the following characteristics:

- power to direct the activities of the VIE that most significantly impact the entity’s economic performance; and
- an obligation to absorb losses of the entity that could potentially be significant to the VIE, or a right to receive benefits from the entity that could potentially be significant to the VIE.

The determination of whether an entity is a VIE requires judgment and depends on facts and circumstances specific to that entity.

2. Significant accounting policies (continued)

Variable Interest Entities (continued)

VIEs for which the Group is deemed to have a controlling financial interest and be the primary beneficiary are consolidated and all significant inter-company transactions are eliminated.

The Group has determined that its investment in Fidelis York Fund L.P. "York Fund" is an investment in a VIE for which it does not have the power to direct the activities that most significantly impact the York Fund performance. The Group records its investment in York Fund at fair value based on the net asset value as reported by the investment manager.

Recent accounting pronouncements

Recently adopted

In January 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-01, Financial Instruments – Overall, which enhances the reporting model for financial instruments. Included within the requirements of this ASU is the clarification that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. The standard update is effective for annual periods beginning after December 15, 2018. The amendment did not have a material impact on the Group's consolidated financial statements.

In February 2018, the FASB issued ASU 2018-03, Technical Corrections and Improvements to Financial Instruments—Overall, which amends multiple areas in Subtopic 825-10 via improvements to clarify the Codification or to correct unintended application of guidance. The standard update is effective for annual periods beginning after December 15, 2018. The amendment did not have a material impact on the Group's consolidated financial statements.

Effective January 1, 2019, the Group adopted ASU 2018-02, Income Statement – Reporting Comprehensive Income, that allows an optional one-time reclassification from accumulated other comprehensive income ("AOCI") to retained earnings for the stranded tax effects resulting from the new corporate tax rate under the Tax Cuts and Jobs Act (the "Tax Act") that was enacted on December 22, 2017 in the United States. The Group has elected not to reclassify the income tax effects of the Tax Act from AOCI to retained earnings. As such, the adoption of this standards update did not impact our consolidated financial statements. Our policy is to utilise an item-by-item approach to release stranded income tax effects from AOCI. Under this approach, the stranded income tax effects are released from AOCI when the related item ceases to exist.

Recently issued but not yet adopted

In February 2016, the FASB issued ASU 2016-02, Leases, and, in July 2018, the FASB issued ASU 2018-10, Codification Improvements to Topic 842, Leases and ASU 2018-11, Leases. ASU 2016-02 requires lessees to recognise operating leases on balance sheet through a lease asset and a related financial liability. The standard update is effective for annual periods beginning after December 15, 2020. The Group expects a lease asset and related liability to be presented on the Consolidated Balance Sheets, however the Consolidated Income Statements and Statements of Cashflows expect to remain unchanged.

In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments, which requires loans, receivables and available-for-sale debt securities to record credit losses through an allowance for credit losses account. The update introduces a new impairment model, known as the current expected credit loss model, which is based on expected losses rather than incurred losses. Under the new credit loss model, the Group will be required to recognise an allowance for its expected credit losses on certain financial assets including trade receivables, debt instruments not measured at fair value, and reinsurance receivables. Available-for-sale debt securities will record credit losses through an allowance for credit losses, which will be limited to the amount by which fair value is below amortised cost.

(Expressed in thousands of U.S. dollars)

2. Significant accounting policies (continued)

Recent accounting pronouncements (continued)

The Group does not expect the ASU to have a material impact on the Group's consolidated financial statements. The standard update is effective for annual periods beginning after December 15, 2022.

In August 2018, the FASB issued ASU 2018-12, Financial Services—Insurance, which amends the scope of Topic 944 via improvements to the accounting for long-duration contracts. The standard update is effective for annual periods beginning after December 15, 2023. The Group does not expect the ASU to have a material impact on the Group's consolidated financial statements.

3. Investments

As at December 31, 2019, the Group's investments are managed by external investment managers through individual investment management agreements. The Group monitors activity and performance of the external managers on a monthly basis.

a) Fixed income securities

The following table summarises the fair value of fixed maturity investments managed by external investment managers:

	As at December 31, 2019			
	Cost	Unrealised gains	Unrealised losses	Fair value
Trading				
U.S. Treasuries	$ 45,452	$ 51	$ (4)	$ 45,499
Non-U.S. government	12,973	17	–	12,990
Corporate bonds	41,647	172	(24)	41,795
Asset-backed securities	40,639	20	(27)	40,632
Agency asset-backed securities	6,962	61	(24)	6,999
Total fixed income securities, trading	$ 147,673	$ 321	$ (79)	$ 147,915
Available-for-sale				
U.S. Treasuries	$ 243,478	$ 3,803	$ (89)	$ 247,192
Agencies	7,597	55	(9)	7,643
Non-U.S. government	43,012	131	(45)	43,098
Corporate bonds	261,603	4,324	(77)	265,850
Asset-backed securities	70,521	53	(73)	70,501
Agency asset-backed securities	9,624	201	(29)	9,796
Total fixed income securities, available-for-sale	$ 635,835	$ 8,567	$ (322)	$ 644,080
Total fixed income securities	$ 783,508	$ 8,888	$ (401)	$ 791,995

(Expressed in thousands of U.S. dollars)

3. Investments (continued)

a) Fixed income securities (continued)

	As at December 31, 2018			
	Cost	Unrealised gains	Unrealised losses	Fair value
Trading				
U.S. Treasuries	$ 56,955	$ –	$ (616)	$ 56,339
Non-U.S. government	25,051	–	(192)	24,859
Corporate bonds	76,588	–	(1,700)	74,888
Asset-backed securities	52,059	15	(277)	51,797
Agency asset-backed securities	8,618	–	(272)	8,346
Total fixed income securities, trading	$ 219,271	$ 15	$ (3,057)	$ 216,229
Available-for-sale				
U.S. Treasuries	$ 203,522	$ 795	$ (87)	$ 204,230
Agencies	5,155	17	(33)	5,139
Non-U.S. government	8,676	38	(11)	8,703
Corporate bonds	250,498	412	(565)	250,345
Asset-backed securities	58,868	5	(405)	58,468
Agency asset-backed securities	7,635	66	–	7,701
Total fixed income securities, available-for-sale	$ 534,354	$ 1,333	$ (1,101)	$ 534,586
Total fixed income securities	$ 753,625	$ 1,348	$ (4,158)	$ 750,815

Review of the fixed income securities is performed on a regular basis to consider concentration, credit quality and compliance with established guidelines. The composition of the fair values of fixed income securities by credit rating is as follows:

	2019		2018	
Trading	Fair value	%	Fair value	%
AAA	$ 107,364	73%	$ 134,702	62%
AA	3,549	2%	15,175	7%
A	30,156	20%	41,966	20%
BBB	6,846	5%	24,386	11%
Total fixed income securities, trading	$ 147,915	100%	$ 216,229	100%

	2019		2018	
Available-for-sale	Fair value	%	Fair value	%
AAA	$ 366,164	57%	$ 276,558	52%
AA	45,037	7%	47,684	9%
A	146,334	23%	153,143	28%
BBB	86,545	13%	57,201	11%
Total fixed income securities, available-for-sale	$ 644,080	100%	$ 534,586	100%

(Expressed in thousands of U.S. dollars)

3. Investments (continued)

a) Fixed income securities (continued)

For individual fixed income securities, nationally recognized statistical rating organizations ("NRSROs") are used and the lower of two, middle of three ratings is taken.

The contractual maturities of fixed income securities are listed in the following table:

	2019		2018	
Trading	Cost	Fair value	Cost	Fair value
Due in one year or less	$ 63,760	$ 63,768	$ 25,790	$ 25,637
Due after one year through five years	46,630	46,842	143,104	140,726
Due after five years through ten years	26,122	26,117	28,430	28,214
Due after ten years	11,161	11,188	21,948	21,652
Total fixed income securities, trading	$ 147,673	$ 147,915	$ 219,272	$ 216,229

	2019		2018	
Available-for-sale	Cost	Fair value	Cost	Fair value
Due in one year or less	$ 10,746	$ 10,799	$ 1,983	$ 1,981
Due after one year through five years	556,848	564,893	477,851	478,405
Due after five years through ten years	45,684	45,675	38,503	38,156
Due after ten years	22,557	22,713	16,016	16,044
Total fixed income securities, available-for-sale	$ 635,835	$ 644,080	$ 534,353	$ 534,586

Expected maturities may differ from contractual maturities as borrowers may have the right to call or repay obligations with or without call or prepayment penalties. Additionally, lenders may have the right to put the securities back to the borrower.

b) Short-term investments

The following investments were included in short-term investments managed by external investment managers and are classified as available-for-sale:

	As at December 31, 2019			
	Cost	Unrealised gains	Unrealised losses	Fair value
Non-U.S. government	$ 48,691	$ 6	$ –	$ 48,697
Asset-backed securities	505	–	(1)	504
Total short-term investments	$ 49,196	$ 6	$ (1)	$ 49,201

	As at December 31, 2018			
	Cost	Unrealised gains	Unrealised losses	Fair value
Non-U.S. government	$ 995	$ –	$ –	$ 995
Asset-backed securities	575	–	–	575
Total short-term investments	$ 1,570	$ –	$ –	$ 1,570

(Expressed in thousands of U.S. dollars)

3. Investments (continued)

b) Short-term investments (continued)

The composition of the fair values of short-term fixed income securities by credit rating is as follows:

	2019		2018	
Available-for-sale	Fair value	%	Fair value	%
AAA	$ 48,697	99%	$ 1,570	100%
BBB	504	1%	–	–
Total short-term fixed income securities, available-for-sale	$ 49,201	100%	$ 1,570	100%

c) Available-for-sale – net loss position

The following table summarises, by type of security, the aggregate fair value and gross unrealised loss by length of time the security has been in an unrealised loss position for the Group's available for sale portfolio as at December 31, 2019:

	As at December 31, 2019			
		0-12 months	**> 12 months**	
	Fair value	Gross unrealised losses	Gross unrealised losses	Number of securities
U.S. Treasuries	$ 30,924	$ (89)	$ –	18
Agencies	3,007	(9)	–	1
Non-U.S. government	23,626	(45)	–	11
Corporate bonds	48,486	(77)	–	34
Asset-backed securities	45,311	(23)	(50)	25
Agency asset-backed securities	3,625	(29)	–	1
Total	$ 154,979	$ (272)	$ (50)	90

	As at December 31, 2018			
		0-12 months	**> 12 months**	
	Fair value	Gross unrealised losses	Gross unrealised losses	Number of securities
U.S. Treasuries	$ 74,862	$ (87)	$ –	12
Agencies	1,670	(32)	–	4
Non-U.S. government	2,179	(11)	–	6
Corporate bonds	158,885	(566)	–	104
Asset-backed securities	56,355	(405)	–	41
Total	$ 293,951	$ (1,101)	$ –	167

A security is potentially impaired when its fair value is below its cost or amortised cost. The Group analyses its available for sale fixed income portfolios on an individual security basis for potential OTTI each quarter based on criteria including issuer-specific circumstances, changes in credit ratings to below investment grade and general macro-economic conditions. The total OTTI expense for the twelve months ended December 31, 2019 was $nil (2018: $nil).

(Expressed in thousands of U.S. dollars)

3. Investments (continued)

d) Other investments, at fair value

As at December 31, 2019, the Group only held the investment in the York Fund. The limited partnership with York Capital Management is invested in a credit hedge fund, which is managed by York. Redemptions in the credit hedge fund have been suspended while York liquidates the fund's underlying assets. The fair value of the York Fund at December 31, 2019 was $5.3 million (2018: $113.8 million). The Group has recorded its investment in the York Fund at reported net asset value. There are currently no outstanding commitments to the York Fund. During 2019, the Group redeemed $113.7 million (2018: $nil) of which $25.1 million has yet to be received as of December 31, 2019 (2018: $nil) and is included in investments pending settlement in the Consolidated Balance Sheets.

e) Net investment return

The components of net investment return are as follows:

		2019		2018
Net interest and dividend income	$	24,733	$	22,066
Net realised losses on fixed income securities, trading		(287)		(2,215)
Net realised gains/(losses) on fixed income securities, available for sale		1,878		(334)
Net realised losses on equity securities		–		(70)
Net realised gains on other investments		1,111		356
Net realised gains/(losses) on derivatives		8,948		(8,803)
Net realised gains on foreign exchange		–		9,621
Change in net unrealised gains/(losses) on fixed income securities, trading		3,284		(680)
Change in net unrealised gains/(losses) on other investments		4,239		(7,862)
Change in net unrealised (losses)/gains on derivatives		(7,858)		8,139
Change in net unrealised gains on foreign exchange		–		23
Investment expenses		(1,215)		(1,470)
Net investment return	$	34,833	$	18,771

4. Fair value measurements

FASB ASC 820-10, Fair Value Measurements and Disclosures, defines fair value, establishes a consistent framework for measuring fair value and requires disclosures about fair value measurements. The standard requires the Group to maximise the use of observable inputs and minimise the use of unobservable inputs when measuring fair value.

Fair value hierarchy

FASB ASC 820-10 specifies a hierarchy of inputs based on whether the inputs are observable or unobservable. Observable inputs are developed using market data and reflect market participant assumptions, while unobservable inputs reflect the Group's market assumptions. The fair value hierarchy is as follows:

- Level 1: Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities traded in active markets. The fair value is determined by multiplying the quoted price by the quantity held by the Group.
- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices (e.g. interest rates, yield curves, prepayment spreads, default rate, etc.) for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability or can be corroborated by observable market data.
- Level 3: Inputs to the valuation methodology are unobservable for the asset or liability and are significant to the fair value measurement. Significant management assumptions can be used to establish management's best estimate of the assumptions used by other market participants in determining the fair value of the asset or liability.

4. Fair value measurements (continued)

As required under the fair value hierarchy, the Group considers relevant and observable market inputs in its valuations where possible. The frequency of transactions, the size of the bid-ask spread and the amount of adjustment necessary when comparing similar transactions are all factors in determining the liquidity of markets and the relevance of observable prices in those markets.

The Group's policy with respect to transfer between levels of the fair value hierarchy is to recognise transfers into and out of each level as of the end of the reporting period

Determination of fair value

The following section describes the valuation methodologies used by the Group to measure assets and liabilities at fair value, including an indication of the level within the fair value hierarchy in which each asset or liability is generally classified.

Fixed income securities

The Group's fixed income securities portfolio is managed by external investment managers with oversight from the Group's Chief Investment Officer, and the Company's's Board of Directors. Fair values for all securities in the fixed income investments portfolio are independently provided by the investment administrator, investment custodians, and investment managers, each of which utilise internationally recognised independent pricing services. Reuters is, however, the main pricing service utilised to estimate the fair value measurements for the Group's fixed income securities for corporate and government bonds. Reuters is the main pricing service for asset backed fixed income securities.

For determining the fair value of securities that are not actively traded, in general, pricing services use "matrix pricing" in which the independent pricing service uses observable market inputs including, but not limited to, reported trades, benchmark yields, broker-dealer quotes, interest rates, prepayment spreads, default rates and such other inputs as are available from market sources to determine a reasonable fair value.

The following describes the techniques generally used to determine the fair value of the Group's fixed income securities by asset class.

- U.S. Treasuries are bonds issued by the U.S. government. The significant inputs used to determine the fair value of these securities are based on quoted prices in active markets for identical assets and are therefore classified within Level 1.
- Agency securities consists of securities issued by U.S. and non-U.S. government sponsored agencies such as the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, government development banks and other agencies which are not mortgage pass-through. The fair values of these securities are classified as Level 2
- Non-U.S. government securities consist of bonds issued by non-U.S. governments and supranationals. The significant inputs used to determine the fair value of these securities include the spread above the risk-free yield curve, reported trades and broker-dealer quotes. These are considered to be observable market inputs and, therefore, the fair values of these securities are classified within Level 2.
- Corporate bonds consist primarily of investment-grade debt of a wide variety of corporate issuers and industries. When available, significant inputs are used to determine the fair value of these securities and are based on quoted prices in active markets for similar assets. When not available, the fair values of these securities are determined using the spread above the risk-free yield curve, reported trades, broker-dealer quotes, benchmark yields, and industry and market indicators. The fair values of these securities are classified as Level 2.
- Asset-backed securities consist of only investment-grade bonds backed by pools of loans with a variety of underlying collateral. The significant inputs used to determine the fair value of these securities include the spread above the risk-free yield curve, reported trades, benchmark yields, broker-dealer quotes, prepayment spreads and default rates. These are considered observable market inputs and, therefore, the fair values of these securities are classified within Level 2.

4. Fair value measurements (continued)

Fixed income securities (continued)

- Agency asset-backed securities consist of securities issued by mortgage pass-through agencies such as the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and other agencies. These are considered to be observable market inputs and, therefore, the fair values of these securities are classified within Level 2.

Short-term investments

The Group's short-term investments consist of certificates of deposit, commercial paper and bonds with maturities of less than one year at the time of purchase. The significant inputs used to determine the fair value of these securities include the spread above the risk-free yield curve, reported trades and broker-dealer quotes. These are considered to be observable market inputs and, therefore, the fair values of these securities are classified within Level 2.

Derivative financial instruments

Exchange-traded derivatives, measured at fair value using quoted prices in active markets, where available are classified as Level 1 of the fair value hierarchy. Derivatives without quoted prices in an active market and derivatives executed over the counter are valued using internal valuations techniques that consider the time value of money, volatility, the current market and contractual prices of underlying financial instruments. These derivative instruments are classified as either Level 2 or Level 3 depending upon the observability of the significant inputs to the model. The valuation techniques and key inputs depend on the type of derivative and the nature of the underlying instrument.

Other investments

The Group values its limited partnership in the York Fund at fair value, which is estimated based on the Group's share of the net asset value (NAV) as provided by the investment manager of the underlying investment fund. The Group has elected to use the practical expedient method to record the fair value of the investment in the limited partnership at net asset value and has therefore not assigned levels to these investments in the fair value hierarchy.

(Expressed in thousands of U.S. dollars)

4. Fair value measurements (continued)

The following table presents the financial instruments measured at fair value on a recurring basis as at December 31, 2019 and 2018:

	As at December 31, 2019			
Assets	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 367,144	$ –	$ –	$ 367,144
Investments pending settlement	25,144	–	–	25,144
Fixed income securities				
U.S. Treasuries	292,691	–	–	292,691
Agencies	–	7,643	–	7,643
Non-U.S. government	–	56,088	–	56,088
Corporate bonds	–	307,645	–	307,645
Asset-backed securities	–	111,133	–	111,133
Agency asset-backed securities	–	16,795	–	16,795
Total fixed income securities	292,691	499,304	–	791,995
Short-term investments				
U.S Treasuries	48,697	–	–	48,697
Corporate bonds	–	504	–	504
Total short-term investments	48,697	504	–	49,201
Derivative assets	34	–	–	34
Total Assets	$ 733,710	$ 499,808	$ –	$ 1,233,518

	As at December 31, 2019			
Liabilities	Level 1	Level 2	Level 3	Total
Derivative liabilities	$ (167)	$ (607)	$ –	$ (774)
Investments pending settlement	(6,343)	–	–	(6,343)
Total Liabilities	$ (6,510)	$ (607)	$ –	$ (7,117)

There were no transfers into or out of Level 1 and Level 2 during 2019.

(Expressed in thousands of U.S. dollars)

4. Fair value measurements (continued)

	As at December 31, 2018			
Assets	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 227,374	$ –	$ –	$ 227,374
Investments pending settlement	3,447	–	–	3,447
Fixed income securities				
U.S. Treasuries	260,569	–	–	260,569
Agencies	–	5,139	–	5,139
Non-U.S. government	–	33,562	–	33,562
Corporate bonds	–	325,233	–	325,233
Asset-backed securities	–	110,265	–	110,265
Agency asset-backed securities	–	16,047	–	16,047
Total fixed income securities	260,569	490,246	–	750,815
Short-term investments				
Non-U.S. government	–	995	–	995
Corporate bonds	–	575	–	575
Total short-term investments	–	1,570	–	1,570
Derivative assets	320	11,158	–	11,478
Total Assets	$ 491,710	$ 502,974	$ –	$ 994,684

	As at December 31, 2018			
Liabilities	Level 1	Level 2	Level 3	Total
Derivative liabilities	$ (527)	$ –	$ –	$ (527)
Investments pending settlement	(3,056)	–	–	(3,056)
Total Liabilities	$ (3,583)	$ –	$ –	$ (3,583)

There were no transfers into or out of Level 1 and Level 2 during 2018.

5. Investments pending settlement

The Group has receivables and payables from financials instruments sold and purchased from prime brokers and external managers which arise in the ordinary course of business. The Group is exposed to risk of loss from the inability of brokers to pay for purchases or to deliver the financial instruments pending transfer, in which case the Group would have to sell or purchase the financial instruments at prevailing market prices. Credit risk is reduced to the extent that an exchange or clearing organization acts as a counterparty to the transaction and replaces the prime broker. As of December 31, 2019, the Group recognised a receivable of $25.1 million (2018: $3.4 million) and a payable of $6.3 million (2018: $3.1 million) for trades pending settlement.

(Expressed in thousands of U.S. dollars)

6. Cash and cash equivalents

	2019	2018
Cash at bank	$ 259,314	$ 208,531
Cash held with brokers/custodians	47,594	12,816
Cash held in money market funds	59,438	6,027
Short-term deposits	798	–
Total cash and cash equivalents	$ 367,144	$ 227,374

Due to the short-term nature of cash and cash equivalents, management believes the above noted carrying values approximate their fair value.

7. Restricted cash and cash equivalents

The Group is required to maintain certain levels of cash in segregated accounts with prime brokers and derivative counterparties. The amount of restricted cash held by derivative counterparties is cash collateral to support the current value of any amounts that may be due to the counterparty based on the value of the underlying financial instrument.

The Group has cash and investments in segregated portfolios primarily to provide collateral for Letters of Credit, which support its (re)insurance business. In addition, the Group also has cash and investments in trust funds which support the (re)insurance business written on certain lines of business with reinsurers and insurers.

The following table presents the restricted cash and cash equivalents as at December 31, 2019 and 2018:

	2019	2018
Restricted cash held by prime brokers	$ 20,346	$ 5,737
Letters of Credit collateral	214,416	154,952
Cash held in trust	19,093	31,329
Total restricted cash and cash equivalents	$ 253,855	$ 192,018

8. Pledged investments

At December 31, 2019, $79.9 million (2018: $187.7 million) of trading fixed income securities and $303.7 million (2018: $280.9 million) of available-for-sale fixed income securities were on deposit with a custodian in respect of letter of credit facilities and trust accounts.

9. Derivative financial instruments

The Group enters into derivative instruments such as futures and forward contracts primarily for duration, interest rate and foreign currency exposure management. From time to time the Group also enters into insurance linked securities to manage its exposure to catastrophe risk. The Group's derivative instruments are generally traded under International Swaps and Derivatives Association master agreements, which establish the terms of the transactions entered into with the Group's derivative counterparties. In the event one party becomes insolvent or otherwise defaults on its obligations, a master agreement generally permits the non-defaulting party to accelerate and terminate all outstanding transactions and net the transactions' marked-to-market values so that a single sum in a single currency will be owed by, or owed to, the non-defaulting party. Effectively, this contractual close-out netting reduces credit exposure from gross to net exposure.

(Expressed in thousands of U.S. dollars)

9. Derivative financial instruments (continued)

The following tables identify the listing currency, fair value and notional amounts of derivative instruments included in the Consolidated Balance Sheets, categorised by primary underlying risk. Balances are presented on a gross basis:

	As at December 31, 2019		
	Listing currency (1)	Notional amount of underlying instruments (2)	Fair value of net assets on derivatives
Derivative assets by primary underlying risk			
Interest rate contracts			
Futures	USD	$ 3,884	$ 34
Total derivatives assets		$ 3,884	$ 34

	As at December 31, 2019		
	Listing currency (1)	Notional amount of underlying instruments (2)	Fair value of net obligations on derivatives
Derivative liabilities by primary underlying risk			
Interest rate contracts			
Futures	USD	$ 51,564	$ (167)
Foreign exchange contracts			
Forwards (3)	AUD/CAD/EUR/GBP/JPY	39,955	(607)
Total derivative liabilities		$ 91,519	$ (774)

(1) AUD=Australian Dollar, CAD=Canadian Dollar, EUR=Euro, GBP=British Pound, JPY=Japanese Yen and USD=US Dollar.
(2) The absolute notional exposure represents the Group's derivative activity as of December 31, 2019, which is representative of the volume of derivatives held during the period.
(3) Contracts used to manage foreign currency risks in underwriting and non-investment operations.

(Expressed in thousands of U.S. dollars)

9. **Derivative financial instruments** (continued)

	As at December 31, 2018		
	Listing currency [1]	Notional amount of underlying instruments [2]	Fair value of net assets on derivatives
Derivative assets by primary underlying risk			
Interest rate contracts			
Futures	USD	$ 18,809	$ 320
Insurance linked securities			
Catastrophe swap contracts	USD	10,000	10,000
Foreign exchange contracts			
Forwards [3]	AUD/CAD/EUR/GBP/JPY	39,087	1,158
Total derivatives assets		$ 67,896	$ 11,478

	As at December 31, 2018		
	Listing currency [1]	Notional amount of underlying instruments [2]	Fair value of net obligations on derivatives
Derivative liabilities by primary underlying risk			
Interest rate contracts			
Futures	USD	$ (76,008)	$ (527)
Total derivative liabilities		$ (76,008)	$ (527)

(1) AUD=Australian Dollar, CAD=Canadian Dollar, EUR=Euro, GBP=British Pound, JPY=Japanese Yen and USD=US Dollar.
(2) The absolute notional exposure represents the Group's derivative activity as of December 31, 2018, which is representative of the volume of derivatives held during the period.
(3) Contracts used to manage foreign currency risks in underwriting and non-investment operations.

(Expressed in thousands of U.S. dollars)

9. Derivative financial instruments (continued)

The following table presents derivative instruments by major risk type, the Group's net realised gains/(losses) and change in net unrealised gains/(losses) relating to derivative trading activities for the years ended December 31, 2019 and 2018. Net realised gains/(losses) and net unrealised gains/(losses) related to derivatives are included in net investment return and net foreign exchange gains and losses in the Consolidated Income Statements.

	2019		2018	
Derivatives	Net realised gains/(losses)	Change in net unrealised gains/(losses)	Net realised gains/(losses)	Change in net unrealised gains/(losses)
Interest rate contracts				
Futures	$ 998	$ 92	$ 657	$ (249)
Total interest rate contracts	998	92	657	(249)
Foreign exchange contracts				
Forwards (1)	364	(1,765)	622	1,798
Forwards (2)	–	–	(9,460)	438
Total foreign exchange contracts	364	(1,765)	(8,838)	2,236
Insurance linked securities				
Catastrophe swap contracts	7,950	(7,950)	–	7,950
	$ 9,312	$ (9,623)	$ (8,181)	$ 9,937

(1) Contracts used to manage foreign currency risks in underwriting and non-investment operations.
(2) Contracts used to manage foreign currency risks in investments operations.

(Expressed in thousands of U.S. dollars)

9. Derivative financial instruments (continued)

The Group obtains/provides collateral from/to counterparties for OTC derivative financial instruments in accordance with bilateral credit facilities.

The Group does not offset its derivative instruments and presents all amounts in the Consolidated Balance Sheets on a gross basis. The Group has pledged cash collateral to counterparties to support the current value of amounts due to the counterparties based on the value of the underlying security. The gross and net amounts of derivative instruments that are subject to enforceable master netting arrangements or similar agreements were as follows:

	As at December 31,2019			
		Gross amounts not offset in the balance sheet		
	Gross amounts of assets presented in the balance sheet	Financial instruments available for offset	Cash collateral received	Net amount of asset
Counterparty 1	$ 53	$ 53	$ –	$ –
	$ 53	$ 53	$ –	$ –

	As at December 31, 2019			
		Gross amounts not offset in the balance sheet		
	Gross amounts of liabilities presented in the balance sheet	Financial instruments available for offset	Cash collateral pledged	Net amount of liability
Counterparty 1	$ 167	$ 53	$ 431	$ (317)
Counterparty 2	607	–	–	607
	$ 774	$ 53	$ 431	$ 290

	As at December 31,2018			
		Gross amounts not offset in the balance sheet		
	Gross amounts of assets presented in the balance sheet	Financial instruments available for offset	Cash collateral received	Net amount of asset
Counterparty 1	$ 320	$ 320	$ –	$ –
Counterparty 2	1,158	–	–	1,158
Counterparty 3	10,000	–	–	10,000
	$ 11,478	$ 320	$ –	$ 11,158

	As at December 31, 2018			
		Gross amounts not offset in the balance sheet		
	Gross amounts of liabilities presented in the balance sheet	Financial instruments available for offset	Cash collateral pledged	Net amount of liability
Counterparty 1	$ 527	$ 320	$ 347	$ (140)
	$ 527	$ 320	$ 347	$ (140)

10. Reserves for losses and loss expenses

The reserves for losses and loss expenses include an amount determined from reported claims and estimates based on historical loss experience and industry statistics for losses incurred but not reported using a variety of actuarial methods.

The unpaid reported reserves for losses and loss expenses are established by management based on reports from brokers, ceding companies and insureds and represents the estimated ultimate cost of events or conditions that have been reported to, or specifically identified by the Group.

The reserves for IBNR losses and loss expenses is established by management based on actuarially determined estimates of ultimate losses and loss expenses. Inherent in the estimate of ultimate losses and loss expenses are expected trends in claim severity and frequency and other factors which may vary significantly as claims are settled. Accordingly, ultimate losses and loss expenses may differ materially from the amounts recorded in the consolidated financial statements.

These estimates are reviewed regularly and, as experience develops and new information becomes known, the reserves are adjusted as necessary. Such adjustments, if any, will be recorded in losses and loss expenses in the period in which they become known. IBNR reserves are calculated on a best estimate basis and are estimated by management using various actuarial methods as well as the Group's own growing loss experience, historical insurance industry loss experience, estimates of pricing adequacy trends and management's professional judgement. Due to the limited historical data available, reliance is placed upon industry data and a review of individual policies. Estimates are calculated at the lowest level line of business, separately for gross and ceded, and for attritional, extreme and catastrophic claims.

The reserve estimates contain an inherent level of uncertainty and actual results may vary, potentially significantly, from the estimates the Group has made. Reserves are reviewed on a quarterly basis and estimates are adjusted to reflect emerging claims experience.

The Group estimates reserves for unallocated claims adjustment expenses based on a percentage of loss reserves as determined by management however this may be overridden in exceptional circumstances where this approach is not deemed appropriate. There were no material changes made to the Group's methodology for calculating reserves for unallocated claims adjustment expenses for the year ended December 31, 2019.

The principal actuarial methods, and associated key assumptions, used to perform the Group's loss reserve analysis include:

Initial expected loss ratio

To estimate ultimate losses, the Group multiplies earned premiums by an expected loss ratio. The expected loss ratio is determined using a combination of benchmark data, the business plan, and expert judgement.

Paid and incurred chain ladder

This method estimates ultimate losses by calculating past paid and incurred loss development factors and applying them to exposure periods with further expected paid loss development. The main underlying assumption of this method is that historical loss development patterns are indicative of future loss development patterns.

***Paid and incurred Bornhuetter-Ferguson* (“BF”)**

This method combines features of the chain ladder and initial expected loss ratio method by using both reported and paid losses as well as an a priori expected loss ratio to arrive at an ultimate loss estimate. The weighting between these two methods depends on the maturity of the business. This means that for more recent years a greater weight is placed on the initial expected loss ratio, while for more mature years a greater weight is placed on the loss development patterns.

(Expressed in thousands of U.S. dollars)

10. Reserves for losses and loss expenses (continued)

Benktander: Credible claims reserves

The Benktander method is similar to the Bornhuetter-Ferguson, but replaces the initial loss ratio used within the BF method with the loss estimate from the BF method. The credibility factor is increased as claims develop. It gives more weight to:

- Emerged losses than the BF; and
- Initial expected loss ratio rather than the chain ladder.

Case-by case

Given the nature of the business written, some of the lines of business may consist of a small number of policies. Where appropriate, the loss reserves will be calculated explicitly for a particular contract using expert judgement and documented appropriately.

It is the responsibility of the actuarial function to apply the relevant actuarial methodologies and judgements to the calculation of loss reserves. The Chief Actuary presents the recommendations of the actuarial review of the reserves to the Reserving Committee for review, challenges and recommendations, the results of which are included in the Chief Actuary's Reserving Report for approval by the Company's Board of Directors.

The following table presents a reconciliation of unpaid losses and loss expenses for the year ended December 31, 2019 and period ended December 31, 2018.

	2019	2018
Gross unpaid losses and loss expenses, beginning of year	$ 598,243	$ 421,598
Reinsurance recoverable on unpaid losses	(434,067)	(280,253)
Net unpaid losses and loss expenses, beginning of year	164,176	141,345
Net losses and loss expenses incurred in respect of losses occurring in		
Current year	111,648	117,043
Prior year	(6,389)	(41,705)
Total incurred	105,259	75,338
Net losses and loss expenses paid in respect of losses occurring in:		
Current year	(6,487)	(13,858)
Prior period	(20,025)	(37,811)
Total paid	(26,512)	(51,669)
Foreign exchange and other	1,890	(838)
Part VII transfer[1]	5,175	–
Net unpaid losses and loss expenses, end of year	249,988	164,176
Reinsurance recoverable on unpaid losses	421,558	434,067
Gross unpaid losses and loss expenses, end of year	$ 671,546	$ 598,243

(1) This balance represents the amount not previously assumed through the intragroup reinsurance arrangement with FUL. Post Part VII transfer this balance is now consolidated by the Group.

(Expressed in thousands of U.S. dollars)

10. Reserves for losses and loss expenses (continued)

As a result of the changes in estimates of insured events in prior years, the 2019 reserves for losses and loss expenses net of reinsurance recoveries decreased by $6.4 million (2018: $41.7 million). Reserve releases have resulted from changes in reserving estimates across the bespoke pillar which was partially offset by deterioration for the reinsurance pillar as a result of reserving estimate increases for the 2018 loss event, Typhoon Jebi.

There were no material changes made to the Group's methodology for calculating loss and loss adjustment reserves for the year ended December 31, 2019.

a) Incurred and paid loss development tables by accident year

The Group's loss reserve analysis is based primarily on underwriting year data. The preparation of the below accident year development tables required an allocation of underwriting year data to the corresponding accident year.

Allocations are performed using accident year loss payment and reporting patterns, which are derived from company specific loss data. Ultimate reserves are allocated based on reserve movement splits between prior and current year and reflects the movement in earned premium by underwriting year. The Group considers its allocations to be reasonable, based on the principal of proportionality.

The following tables present the Group's total loss and loss adjustment expenses incurred, net of reinsurance and paid losses and loss adjustment expenses by accident year, net of reinsurance. The information has been provided separately for each of bespoke, specialty and reinsurance lines in line with how the Fidelis Group manages the business. No data has been omitted in providing this information on a segment basis.

Bespoke

Incurred losses and allocated loss adjustment expenses – net of reinsurance

	For the years ended December 31,					As of December 31, 2019	
Accident year	2015 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2019	Total of IBNR plus expected development on reported losses	Cumulative number of reported losses
2015	$ 406	$ 375	$ 221	$ 112	$ 52	$ 52	–
2016		6,441	4,104	2,709	4,215	257	19
2017			11,707	8,394	7,254	4,265	46
2018				19,879	14,992	12,296	80
2019					25,361	23,438	82
Total					$ 51,874	$ 40,308	

Cumulative paid losses and allocated loss adjustment expenses - net of reinsurance

	For the years ended December 31,				
Accident year	2015 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2019
2015	$ –	$ –	$ –	$ –	$ –
2016		6	556	1,260	1,373
2017			1,778	1,787	2,588
2018				136	1,231
2019					946
Total					$ 6,138
Liabilities for losses and loss adjustment expenses, net of reinsurance					$ 45,736

(Expressed in thousands of U.S. dollars)

10. Reserves for losses and loss expenses (continued)

a) Incurred and paid loss development tables by accident year (continued)

Specialty

Incurred losses and allocated loss adjustment expenses - net of reinsurance

	For the years ended December 31,					As of December 31, 2019	
Accident year	2015 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2019	Total of IBNR plus expected development on reported losses	Cumulative number of reported losses
2015	$ 2,192	$ 1,008	$ 231	$ 19	$ 27	$ 27	1
2016		8,492	3,600	2,701	2,555	579	32
2017			7,636	5,240	1,832	259	38
2018				6,902	9,256	4,398	62
2019					18,184	12,793	82
Total					$ 31,854	$ 18,056	

Cumulative paid losses and allocated loss adjustment expenses - net of reinsurance

	For the years ended December 31,				
Accident year	2015 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2019
2015	$ –	$ –	$ –	$ –	$ –
2016		–	35	1,474	1,557
2017			1	204	324
2018				14	1,783
2019					2,591
Total					$ 6,255
Liabilities for losses and loss adjustment expenses, net of reinsurance					$ 25,599

(Expressed in thousands of U.S. dollars)

10. Reserves for losses and loss expenses (continued)

b) Incurred and paid loss development tables by accident year (continued)

Reinsurance

Incurred losses and allocated loss adjustment expenses - net of reinsurance

	For the years ended December 31,					As of December 31, 2019	
Accident year	2015 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2019	Total of IBNR plus expected development on reported losses	Cumulative number of reported losses
2015	$ 9,013	$ 7,271	$ 6,418	$ 4,255	$ 4,249	$ 1,455	2
2016		69,858	57,059	50,453	48,536	27,824	108
2017			87,986	59,076	56,745	9,550	480
2018				93,748	101,807	26,026	498
2019					68,857	57,454	220
Total					$ 280,194	$ 122,309	

Cumulative paid losses and allocated loss adjustment expenses - net of reinsurance

	For the years ended December 31,				
Accident year	2015 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2019
2015	$ –	$ 475	$ 2,746	$ 2,762	$ 2,751
2016		2,317	9,356	17,996	19,328
2017			27,811	44,242	46,645
2018				24,133	36,453
2019					2,950
Total					$ 108,127
Liabilities for losses and loss adjustment expenses, net of reinsurance					$ 172,067

(Expressed in thousands of U.S. dollars)

10. Reserves for losses and loss expenses (continued)

b) Reconciliation of loss development information to the reserves for losses and loss expenses

The table below reconciles the loss development information to the Group's reserves for losses and loss expenses as at December 31, 2019 and December 31, 2018:

	December 31, 2019	December 31, 2018
Reserves for losses and loss expenses, net of reinsurance		
Bespoke	$ 45,736	$ 27,911
Specialty	25,599	13,170
Reinsurance	172,067	118,456
Total reserves for losses and loss expenses, net of reinsurance	243,402	159,537
Reinsurance recoverable on unpaid losses		
Bespoke	399	78
Specialty	42,005	17,844
Reinsurance	379,154	416,145
Total reinsurance recoverable on unpaid losses	421,558	434,067
Unallocated loss adjustment expenses	6,586	4,639
Total gross liability for unpaid losses and loss adjustment expenses	$ 671,546	$ 598,243

Historical loss duration

The following table presents the Group's historical average annual percentage payout of loss and loss adjustment expenses incurred, net of reinsurance by age as of December 31, 2019.

December 31, 2019 (Unaudited)

Years	1	2	3	4
All lines	17%	16%	13%	2%

The Group was incorporated on February 26, 2015, commenced underwriting in 2015. As a result, the Group has limited historical data and is unable to present a full cycle of claim payments.

(Expressed in thousands of U.S. dollars)

11. Reinsurance

The Group from time to time uses reinsurance and retrocessional reinsurance to manage its net retention on individual risks as well as overall exposure to losses while providing it with the ability to offer policies with sufficient limits to meet policyholder needs. In a reinsurance transaction, an insurance company transfers, or cedes, all or part of its exposure in return for a portion of the premium. In a retrocessional reinsurance transaction, a reinsurance company transfers, or cedes, all or part of its exposure in return for a portion of the premium. The ceding of insurance does not legally discharge the Group from its primary liability for the full amount of the policies, and the Group will be required to pay the loss and bear collection risk if the reinsurer fails to meet its obligations under the reinsurance or retrocessional agreement.

A credit risk exists with ceded reinsurance to the extent that any reinsurer is unable to meet the obligations assumed under the reinsurance or retrocessional contracts. Allowances are established for amounts deemed uncollectible. No allowances have been made at December 31, 2019 (2018: $nil).

The following table summarizes the effect of reinsurance and retrocessional reinsurance on premiums written and earned and on net loss and loss expenses for the year ended December 31, 2019 and period ended December 31, 2018:

2019	Premiums written	Premiums earned	Losses incurred
Direct	$ 148,442	$ 31,371	$ 6,514
Assumed	483,001	401,202	293,506
Ceded	(243,510)	(183,381)	(194,761)
Net	$ 387,933	$ 249,192	$ 105,259

2018	Premiums written	Premiums earned	Losses incurred
Direct	$ 33,663	$ 7,668	$ 1,531
Assumed	492,996	393,565	338,675
Ceded	(173,653)	(173,213)	(264,868)
Net	$ 353,006	$ 228,020	$ 75,338

The Group evaluates the financial condition of its reinsurers on a regular basis and also monitors concentrations of credit risk with reinsurers. As at December 31, 2019, the reinsurance balance recoverable on unpaid losses and loss expenses was $421.6 million (2018: $434.1 million) and the reinsurance balance recoverable on paid losses was $120.7 million (2018: $50.0 million). All reinsurance premiums ceded and reinsurance recoverable are either fully collateralized or placed with reinsurers that are rated A- or greater by A.M. Best.

12. Variable Interest Entities

Within its investment portfolio, the Group has a holding in the York Fund, an investment in a VIE, for which it does not have the power to direct the activities that most significantly impact the York Fund performance. The Group records its investment in the York Fund at reported net asset value. This investment is included in other investments. At December 31, 2019, the carrying value of the Group's investment in the York Fund is $5.3 million (2018: $113.8 million) which is the maximum loss exposure to the Group.

Effective May 2018, Socium Re Limited ("Socium"), a Bermuda domiciled special purpose insurer, was formed to provide additional collateralised capacity to support the Company's business through retrocession agreements which are collateralised and funded by Socium.

(Expressed in thousands of U.S. dollars)

12. Variable Interest Entities (continued)

Socium meets the definition of a VIE, as it does not have sufficient equity capital to finance its own activities. The Group concluded that it is not the primary beneficiary of the segregated account of Socium and therefore the Group does not consolidate Socium and records its investment at reported net asset value within other assets in the Consolidated Balance Sheets. At December 31, 2019, the carrying value of the Group's investment in Socium is $3.3 million (2018: $5.0 million), which is the maximum loss exposure to the Group.

13. Commitments and contingencies

a) Lease commitments

The following table presents our future minimum annual lease commitments under various non-cancellable operating leases for our facilities:

Years Ended December 31:	
2020	$ 1,227
2021	1,317
2022	1,317
2023	843
2024	180
Thereafter	1,801
Total	$ 6,685

Operating lease expense was $1.7 million for the year ended December 31, 2019 (2018: $1.2 million).

b) Letter of credit facilities

As at the December 31, 2019, the Fidelis Group had the following letter of credit facilities:

- A Standby Letter of Credit Facility Agreement with Lloyds Bank plc ("Lloyds"), under which Lloyds committed to make available to the Fidelis Group a letter of credit facility in the amount of $200.0 million. The letter of credit facility was renewed on September 26, 2019 and is available until December 31, 2021. The renewal was amended to include an unsecured tranche of $50.0 million and secured tranche of $150.0 million. Letters of credit can be issued under the facility for the purposes of 1) the provision of Funds at Lloyds; and 2) supporting insurance and reinsurance obligations. As of December 31, 2019, the Group has letters of credit outstanding under this facility totalling $117.8 million (2018: $45.1 million), secured by collateral in the amount of $89.2 million (2018: $99.8 million).

- A Master Agreement for the Issuance of Payment Instruments with Citibank NA London Branch ("Citibank"), under which Citibank committed to make available a letter of credit facility in the amount of $250.0 million. The letter of credit facility was renewed on December 24, 2019 and the facility is available until December 31, 2020. As of December 31, 2019, the Group has letters of credit outstanding under this facility totalling $167.4 million (2018: $141.1 million), secured by collateral in the amount of $177.3 million (2018: $154.7 million).

- On September 6, 2019 the Letter of Credit Facility with Barclays Bank plc was amended to include an unsecured tranche, in addition to the existing secured tranche. The initial secured facility of $100.0 million was amended to a $50.0 million secured tranche and a $50.0 million unsecured tranche. As at December 31, 2019, the Group has letters of credit outstanding under this facility totalling $97.6 million (2018: $97.6 million), secured by collateral in the amount of $54.0 million (2018: $116.5 million).

(Expressed in thousands of U.S. dollars)

13. Commitments and contingencies (continued)

b) Letter of credit facilities (continued)

- On September 17, 2019 a new letter of credit facility with Bank of Montreal was established. It is a $60.0 million facility, with a $30.0 million secured tranche and a $30.0 million unsecured tranche. As at December 31, 2019, the Group has letters of credit outstanding under this facility totalling $nil (2018: $nil).

c) Legal proceedings

From time to time in the normal course of business, the Group may be involved in formal and informal dispute resolution procedures, which may include arbitration or litigation, the outcomes of which determine the rights and obligations of the Group under the Group's (re)insurance contracts, and other contractual agreements, or other matters as the case may be. In some disputes, the Group may seek to enforce its rights under an agreement or to collect funds owing to it. In other matters, the Group may resist attempts by others to collect funds or enforce alleged rights. While the final outcome of legal disputes that may arise cannot be predicted with certainty, we do not believe that the eventual outcome of any specific litigation, arbitration or alternative dispute resolution proceedings to which we are currently a party will have a material adverse effect on the financial condition of our business as a whole.

d) Concentration of credit risk

Credit risk arises out of the failure of a counterparty to perform according to the terms of the contract. The Group underwrites all of its (re)insurance business through brokers and credit risk exists should any of these brokers be unable to fulfil their contractual obligations with respect to the payments of premium or failure to pass on claims, if there is risk transfer, to the Group. During the years ended December 31, 2019 and December 31, 2018, gross premiums written generated from or placed by the below companies individually accounted for more than 10% of the Group's consolidated gross premiums written, as follows:

(Percentage of gross premiums written)	2019	2018
Aon plc	34%	44%
Marsh & McLennan Companies	21%	21%
Others	45%	35%

The Group believes that the brokers will meet all of their obligations. The Group's credit risk is generally reduced by the right to offset loss obligations against premiums receivable.

The Group has policies and standards in place to manage and monitor the credit risk of intermediaries with a focus on day to day monitoring of the largest positions. Note 11 describes the credit risk related to the Group's reinsurance recoverable asset.

14. Related party transactions

For the year ended December 31, 2019, the Group ceded reinsurance premiums of $10.7 million (2018: $12.6 million), of which $10.8 million was earned in the year (2018: $7.7 million) and ceded losses of $11.4 million (2018: $21.0 million) to Socium. In addition, Socium paid commissions of $0.6 million (2018: $1.0 million) to the Group during 2019. At December 31, 2019, the amount of reinsurance recoverable on unpaid and paid losses was $17.9 million (2018: $21.0 million) and the amount of ceded reinsurance payable included in insurance and reinsurance balances payable was $4.5 million (2018: $5.1 million) in the Consolidated Balance Sheets. All transactions were conducted at market rates consistent with negotiated arms-length contracts.

(Expressed in thousands of U.S. dollars)

14. Related party transactions (continued)

The Company has a quota share intragroup reinsurance arrangement with FUL, under which FUL cedes 50% of net premiums retained after third party and Socium cessions to the Company. For the year ended December 31, 2019, FUL ceded reinsurance premiums of $89.4 million (2018: $141.6 million), of which $68.9 million was earned in the year (2018: $65.1 million) and ceded losses of $23.3 million (2018: $17.6 million) to the Group. At December 31, 2019, the Consolidated Balance Sheets includes $136.5 million (2018: $144.9 million), $80.8 million (2018: $81.4 million), $41.7 million (2018: $29.5 million) and $230.7 million (2018: $226.0 million) of premiums and other receivables, deferred policy acquisition costs, reserves for losses and loss expenses and unearned premium, respectively.

With effect from 29 March 2019, the transfer of FUL's non-UK EEA direct insurance policies to FIID written through December 31, 2018, pursuant to Part VII of the Financial Services and Markets Act 2000, was completed. The assets and liabilities at the date of transfer are disclosed below:

	2019
Cash and cash equivalents	9,570
Premium and other receivables	8,609
Unearned premium ceded	16,361
Deferred policy acquisition costs	6,763
Reinsurance recoverable on unpaid and unpaid losses	5,392
Total assets	46,695
Reserves for losses and loss expenses	10,501
Unearned premium	31,940
Reinsurance premiums payable	4,254
Total liabilities	46,695

During the year, the Group received income for various marketing and administrative services provided to companies under common control. Fees received for these services were $6.9 million (2018: $8.5 million). The amount due from affiliates at December 31, 2019 is $10.1 million (2018: $10.8 million).

During the year, the Group incurred expenses for various marketing and administrative services received from companies under common control. Fees incurred for these services were $12.5 million (2018: $7.2 million). The amount due to affiliates at December 31, 2019 is $8.8 million (2018: $5.7 million).

During 2019, the Company made interest free loans to management of $4.5 million and is recorded within other assets in the Consolidated Balance Sheets.

Related party balances are due on demand and carry no interest.

15. Statutory requirements and dividend restrictions

The Company's ability to pay dividends is subject to certain regulatory restrictions on the payment of dividends by its subsidiaries. The payment of such dividends is limited by applicable laws and statutory requirements of the jurisdictions in which the Company and its subsidiaries operate, detailed further below. The minimum required statutory capital and surplus is the amount of statutory capital and surplus necessary to satisfy regulatory requirements based on the Company's current operations.

(Expressed in thousands of U.S. dollars)

15. Statutory requirements and dividend restrictions (continued)

The estimated statutory capital and surplus and minimum required statutory capital and surplus for the Group's regulatory jurisdictions is as follows:

	2019	
	Bermuda[1]	ROI[2]
Minimum statutory capital and surplus	$ 350,000	$ 25,000
Statutory capital and surplus	1,120,000	40,000

	2018	
	Bermuda[1]	ROI[2]
Minimum statutory capital and surplus	$ 350,000	$ 20,000
Statutory capital and surplus	990,000	36,000

(1) Required statutory capital and surplus represents 100% of the Bermuda Solvency Capital Requirement ("BSCR").
(2) Required statutory capital and surplus represents the Solvency II Solvency Capital Requirement ("SCR").

Bermuda operations

Under the Insurance Act 1978, amendments thereto and Related Regulations of Bermuda (the Insurance Act), FIBL is required to prepare and submit annual audited GAAP financial statements and statutory financial statements and to file with the Bermuda Monetary Authority ("BMA") a statutory financial return and a capital and solvency return. In accordance with the insurance group solvency rules, FIBL is required to prepare and submit annual audited Group GAAP financial statements, annual Group statutory financial statements, an annual Group statutory financial return, an annual Group capital and solvency return and quarterly unaudited GAAP financial statements.

As a Class 4 (re)insurer, FIBL must maintain available statutory economic capital at a level equal to its enhanced capital requirement ("ECR"), which is established by reference to the Bermuda Solvency Capital Requirement ("BSCR") model. The BSCR model is a risk-based capital model that provides a method for determining a (re)insurer's capital requirements (statutory capital and surplus) by taking into account the risk characteristics of different aspects of the (re)insurer's business.

Under the Insurance Act, FIBL is prohibited from declaring or paying a dividend if it is in breach of its minimum solvency margin, ECR or minimum liquidity ratio or if the declaration or payment of such dividend would cause such a breach. In addition, FIBL is prohibited from declaring or paying in any financial year dividends of more than 25% of its total statutory capital and surplus (as shown on its previous financial year's statutory balance sheet) unless it files with the BMA an affidavit stating that it will continue to meet the relevant solvency and liquidity margins. Without the approval of the BMA, FIBL is prohibited from reducing by 15% or more its total statutory capital as set out in its previous year's financial statements and any application for such approval must include an affidavit stating that it will continue to meet the required solvency and liquidity margins.

Ireland operations

The CBI regulatory requirements impose no explicit restrictions on FIID's ability to pay a dividend, but FIID would have to notify the CBI prior to any proposed dividend payment. Under Irish Company law dividends may only be distributed from profits available for distribution, which consist of accumulated realised profits less accumulated realised losses.

(Expressed in thousands of U.S. dollars)

16. Taxation

Bermuda

Under current Bermuda law, FIBL, is not required to pay any taxes in Bermuda on its income or capital gains. FIBL has received undertakings from the Minister of Finance in Bermuda that, in the event of any taxes being imposed, they will be exempt from taxation in Bermuda until March 2035 under the Tax Assurance Certificates issued to such entities pursuant to the Bermuda Exempted Undertakings Tax Protection Act of 1966, as amended. The impact of this is included within income not subject to income taxes in the reconciliation of taxes below.

Ireland

FIID is tax resident in the ROI and is subject to Irish corporation tax on trading profits at a rate of 12.5%. 2018 to 2019 are open tax years in Ireland for those relevant entities that are either within the statutory time for examination or subject to open examinations by local tax authorities.

The Group income tax benefit for the years ended December 31, 2019 and 2018, is as follows:

	2019	2018
Corporation tax charge	$ –	$ (21)
Deferred tax benefit	422	137
Income tax benefit	$ 422	$ 116

The effective tax rate for the Group is negative 0.5% (2018: negative 0.1%).

The components of the Group's net non-current deferred tax asset as at December 31, 2019 and 2018 are as follows:

	2019	2018
Operating losses	$ 496	$ 137
Deferred tax asset	$ 496	$ 137

There is no expiry date for the losses.

(Expressed in thousands of U.S. dollars)

16. Taxation (continued)

FIID is the taxpayer within the group and as such a reconciliation is shown below based on the Irish tax rate of 12.5%.

	2019	2018
Loss on ordinary activities before tax	$ 80,779	$ 88,032
Tax charge at 12.50% (2018: 12.50%)	(10,097)	(11,004)

Tax charge at 12.50% (2018: 12.50%)	$ (10,097)	(11,004)
Effects of:		
Income not subject to income taxes	10,526	11,132
Other permanent and timing differences	(9)	38
Expenses not deductible	–	(65)
Income taxed at higher rate of corporation tax	–	(11)
Non-taxable income	–	26
Prior year deferred tax provision	2	–
Tax credit for the year	$ 422	$ 116

The Group did not pay or accrue any interest or penalties during the years ended December 31, 2019 and December 31, 2018.

17. Subsequent events

On February 18, 2020, FIBL received a capital contribution of $122.0 million from Fidelis Insurance Holdings Limited.

On May 13, 2020, the Board approved a distribution of $50.0 million to Fidelis Insurance Holdings Limited.

Since December 31, 2019 many countries have experienced an outbreak of the COVID-19 virus and on March 11, 2020, the World Health Organization declared the disease to be a global pandemic. The situation is developing rapidly and the long-term impact of this pandemic is unclear at this time. Management is monitoring the developments closely. Areas within the financial statements that have a potential to be impacted include valuation of the Company's investment portfolio and net reserves for losses and loss expenses. The potential for losses arising from COVID-19 have been and will continue to be monitored and discussed by management.

Subsequent events have been evaluated up to and including May 14, 2020, the date of issuance of these consolidated financial statements.