Ascot Reinsurance Company Limited

Financial Statements

For the period from September 8, 2016 (date of inception) to December 31, 2018

Deloitte.

Deloitte Ltd.
Corner House
20 Parliament Street
P.O. Box HM 1556
Hamilton HM FX
Bermuda

Tel: + 1 (441) 292 1500
Fax: + 1 (441) 292 0961
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
Ascot Reinsurance Company Limited

We have audited the accompanying financial statements of Ascot Reinsurance Limited (the "Company"), which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of income and comprehensive income, shareholders' equity, and cash flows for the year then ended December 31, 2018 and for the period from September 8, 2016 (date of inception) to December 31, 2017, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Ascot Reinsurance Company Limited as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the year ended December 31, 2018 and the period from September 8, 2016 (date of inception) to December 31, 2017 in accordance with accounting principles generally accepted in the United States of America.

Deloitte Ltd.

March 21, 2019

ASCOT REINSURANCE COMPANY LIMITED
BALANCE SHEETS
AS OF DECEMBER 31, 2018 AND 2017

	2018	2017
	(in thousands)	
ASSETS		
Fixed maturities, at fair value (amortized cost: 2018 - $975,151; 2017 - $535,520)	$ 961,032	$ 532,737
Short-term investments, at cost and fair value	—	995
Total investments	**961,032**	**533,732**
Cash and cash equivalents	357,214	955,123
Accrued investment income	6,359	2,435
Premiums receivable	232,241	—
Prepaid reinsurance premiums	1,167	—
Reinsurance recoverables	33,912	—
Deferred acquisition costs	25,255	—
Amounts receivable from related parties	199,152	9,734
Other assets	11,756	—
TOTAL ASSETS	**1,828,088**	**1,501,024**
LIABILITIES		
Reserve for loss and loss adjustment expenses	41,156	—
Unearned premiums	76,086	—
Insurance and reinsurance balances payable	2,300	—
Other liabilities	191,472	95
TOTAL LIABILITIES	**311,014**	**95**
SHAREHOLDERS' EQUITY		
Common shares	120	120
Additional paid-in capital	1,500,816	1,499,428
Retained earnings	16,138	1,381
TOTAL SHAREHOLDERS' EQUITY	**1,517,074**	**1,500,929**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 1,828,088**	**$ 1,501,024**

See accompanying notes to the financial statements.

ASCOT REINSURANCE COMPANY LIMITED
STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2018 AND PERIOD ENDED DECEMBER 31, 2017

	2018	2017
	(in thousands)	
REVENUES		
Gross premiums written	$ 425,839	$ —
Reinsurance premiums ceded	(6,785)	—
Net premiums written	419,054	—
Earned premiums	348,913	—
Earned premiums ceded	(5,619)	—
Net premiums earned	343,294	—
Net investment income	35,226	1,471
Net realized and unrealized (losses) gains on investments	(16,935)	367
Other income	8,712	—
Total revenues	370,297	1,838
LOSSES AND EXPENSES		
Net incurred losses and loss adjustment expenses	200,705	—
Acquisition costs	142,861	—
General and administrative expenses	11,255	457
Net foreign exchange losses	719	—
Total losses and expenses	355,540	457
INCOME BEFORE TAXES	**14,757**	**1,381**
Income tax expense	—	—
NET INCOME	**14,757**	**1,381**
Other comprehensive income, net of tax	—	—
COMPREHENSIVE INCOME	**$ 14,757**	**$ 1,381**

See accompanying notes to the financial statements.

ASCOT REINSURANCE COMPANY LIMITED
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2018 AND PERIOD ENDED DECEMBER 31, 2017

	2018	2017
	(in thousands)	
COMMON SHARES		
Balance at beginning of period	$ 120	$ —
Common shares issued	—	120
Balance at end of period	120	120
ADDITIONAL PAID IN CAPITAL		
Balance at beginning of period	1,499,428	—
Common shares issued	—	1,499,428
Capital contribution from parent	1,388	—
Balance at end of period	1,500,816	1,499,428
RETAINED EARNINGS		
Balance at beginning of period	1,381	—
Net income	14,757	1,381
Balance at end of period	16,138	1,381
TOTAL SHAREHOLDERS' EQUITY	$ 1,517,074	$ 1,500,929

See accompanying notes to the financial statements.

ASCOT REINSURANCE COMPANY LIMITED
STATEMENTS OF CASHFLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018 AND AND PERIOD ENDED DECEMBER 31, 2017

	2018	2017
	(in thousands)	
CASHFLOWS FROM OPERATING ACTIVITIES		
Net income	$ 14,757	$ 1,381
Adjustments to reconcile net income to net cash provided by operating activities		
Net realized and unrealized investment losses (gains)	16,935	(367)
Amortization of fixed maturities	(981)	—
Share-based compensation expense	1,388	—
Changes in:		
Accrued investment income	(3,924)	(2,435)
Premium receivable	(232,241)	—
Reinsurance recoverable balance	(33,912)	—
Deferred acquisition costs	(25,255)	—
Prepaid reinsurance premiums	(1,167)	—
Reserve for loss and loss expenses	41,156	—
Unearned premiums	76,086	—
Insurance and reinsurance balance payable	2,300	—
Other items, net	(1,919)	(9,639)
Net cash used in operating activities	(146,777)	(11,060)
CASHFLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed maturities	(891,840)	(532,371)
Proceeds from sale of fixed maturities	417,621	—
Proceeds from redemptions and maturities of fixed maturities	31,477	—
Purchases of short term investments	—	(994)
Proceeds from redemptions of short term investments	1,000	—
Purchases of other investments	(9,390)	—
Net cash used in investing activities	(451,132)	(533,365)
CASHFLOW FROM FINANCING ACTIVITIES		
Proceeds from issuance of common shares	—	1,499,548
Net cash provided by financing activities	—	1,499,548
(Decrease) increase in cash and cash equivalents	(597,909)	955,123
Cash and cash equivalents - beginning of year	955,123	—
Cash and cash equivalents - end of year	**$ 357,214**	**$ 955,123**
Supplemental disclosures of cash flow information:		
Income taxes paid	—	—
Interest paid	—	—

See accompanying notes to the financial statements.

1. History and principal operations

Ascot Reinsurance Company Limited ("Ascot Re" or "the Company") was incorporated in Bermuda on September 8, 2016. Ascot Re was registered by the Bermuda Monetary Authority on November 20, 2017 as a Class 3B (re) insurance company and received an A rating from A.M. Best on November 27, 2017. The Company commenced writing third party reinsurance contracts in 2018, and also, effective January 1, 2018, commenced writing quota share reinsurance to Syndicate 1414 ("the Syndicate") and Ascot Corporate Name Limited ("ACNL"). Both the Syndicate and ACNL are affiliated companies.

2. Significant accounting policies

Basis of Presentation and Consolidation

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). The previously issued financial statements of the Company were prepared under accounting principles generally accepted in the United Kingdom ("U.K. GAAP"). The Company has adopted this change in accounting principles retroactively. There were no significant differences in the accounting policies applied between U.K. GAAP and U.S. GAAP.

Use of Estimates

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. While management believes that the amounts included in the financial statements reflect its best estimates and assumptions, actual results could differ from those estimates. The Company's principal estimates include:

- reserve for losses and loss adjustment expenses;
- reinsurance recoverables including the provision for uncollectible amounts;
- gross and net premiums written and earned;
- fair value measurements for financial assets.

Significant accounting policies are as follows:

Investments and investment income

The Company's investments in fixed maturity securities are classified as trading and are carried at fair value, with related unrealized gains and losses recorded in net realized and unrealized gains (losses) on investments included in the statements of income and comprehensive income.

Fair values of the Company's fixed maturity securities are based on quoted market prices or, when such prices are not available, by reference to broker quotes and/or internal pricing valuation techniques. Investment transactions are recorded on a trade date basis with balances pending settlement recorded as receivable for securities sold or payable for securities purchased and included within other assets and other liabilities, respectively.

For mortgage-backed and other asset-backed debt securities, fair value includes estimates regarding prepayment assumptions, which are based on current market conditions. Amortized cost in relation to these securities is calculated using a constant effective yield based on anticipated prepayments and estimated economic lives of the securities. When actual prepayments differ significantly from anticipated prepayments, the effective yield is recalculated to reflect actual payments to date. Changes in estimated yield are recorded on a retrospective basis, which results in future cash flows being used to determine current book value.

Realized gains and losses on sales of investments are determined based on the specific identification method.

Net investment income includes interest income on fixed maturity securities, short term investments and cash and cash equivalents, recorded when earned and the amortization of premiums and discounts on investments. The amortization of premium and accretion of discount is computed using the effective interest rate method. Net investment income is recorded net of investment expenses.

Short-term investments primarily comprise highly-liquid debt securities with maturities greater than three months but less than one year from the date of purchase. These investments are carried at amortized cost, which approximates fair value due to the short-term, liquid nature of these securities.

Investments in which the Company had significant influence over the operating and financial policies of the investee are accounted for under the equity method of accounting. Equity method investments are recorded in other assets in the balance sheet. Under this method, the Company records its proportionate share of income or loss from such investments in its results for the period. These amounts are recorded in other income in the statements of income and comprehensive income.

Cash and Cash Equivalents

Cash equivalents include money-market funds and fixed interest deposits with a maturity of less than three months when purchased. Cash and cash equivalents are recorded at amortized cost, which approximates fair value due to the short-term, liquid nature of these securities.

Premiums

Direct insurance and assumed facultative reinsurance premiums are recognized as earned on a pro rata basis over the applicable policy or contract periods. For assumed treaty reinsurance written on a losses occurring basis, premiums written are earned on a pro rata basis over the risk period. For assumed treaty reinsurance written on a risks attaching basis, premiums written are earned on a pro rata basis over the periods of the underlying policies. Premiums may include estimates based on information received from brokers, ceding insurers and insureds, and any subsequent differences from such estimates are recorded in the period in which they are determined. In each case, the portions of the premiums written applicable to the unexpired terms are recorded as unearned premiums.

The accounting for reinsurance ceded depends on the method of reinsurance. If the policy is on a losses occurring basis, reinsurance premiums ceded and associated commissions are expensed on a pro rata basis over the period reinsurance coverage is provided. If the policy is on a risk attaching basis, reinsurance premiums ceded and associated commissions are expensed in line with gross premiums earned to which the risk attaching policy relates. Prepaid reinsurance premiums represent the portion of premiums ceded on the unexpired terms of the policies purchased. Reinsurance commissions that will be earned in the future are deferred and recorded as deferred acquisition costs on the Company's balance sheet.

Reinstatement premiums are recognized and earned at the time a loss event occurs, where the coverage limits for the remaining life of the contract are reinstated under pre-defined contract terms.

Acquisition costs

Acquisition expenses are costs that vary with, and are directly related to, the production of new and renewal business, and consist principally of commissions and brokerage expenses. Acquisition expenses are shown net of commissions on reinsurance ceded. Acquisition costs associated with the successful acquisition of new or renewal policies are deferred and amortized over the periods in which the related premiums are earned. Deferred acquisition costs are limited to their estimated realizable value based on the related unearned premiums. Anticipated loss and loss adjustment expenses based on historical and current experience and anticipated investment income related to those premiums are considered in determining the recoverability of deferred acquisition costs.

Acquisition expenses also include profit commission. Profit commissions are recognized when earned.

Losses and loss adjustment expenses

Reserve for losses and loss adjustment expenses represents an estimate of the unpaid portion of the ultimate liability for losses and loss expenses for (re)insured events that have occurred at or before the balance sheet date. The balance reflects both claims that have been reported ("case reserves") and claims that have been incurred but not yet reported ("IBNR"). These amounts are reduced for estimated amounts of salvage and subrogation recoveries.

The Company reviews its reserve for losses and loss expenses on a quarterly basis. Case reserves are primarily established based on amounts reported from insureds and/or their brokers. Management estimates IBNR after reviewing detailed actuarial analyses and applying informed judgment regarding qualitative factors that may not be fully captured in the actuarial estimates. A variety of actuarial methods are utilized in this process, including the Expected Loss Ratio, Loss Development Method and Bornhuetter-Ferguson methods. The estimate is highly dependent on management's judgment as to which method(s) are most appropriate for a particular accident year and class of business. Historical claims data is often supplemented with industry benchmarks when applying these methodologies.

Any adjustments to previous reserve for losses and loss expenses estimates are recognized in the period they are determined. While the Company believes that its reserves for losses and loss expenses are adequate, this estimate requires significant judgment and new information, events or circumstances may result in ultimate losses that are materially greater or less than provided for in the Company's balance sheet.

Reinsurance

In the normal course of business, the Company purchases reinsurance protection to limit its ultimate losses from catastrophic events and to reduce its loss aggregation risk.

Reinsurance recoverable related to case reserves is estimated on a case-by-case basis by applying the terms of any applicable reinsurance coverage to individual case reserve estimates. The estimate of reinsurance recoverable related to IBNR reserves is generally developed as part of the loss reserving process.

Reinsurance recoverable is presented net of any provision for uncollectible amounts, reflecting the amount the Company believes will ultimately not be recovered due to reinsurer insolvency, contractual disputes and/or some other reason.

The estimates of reinsurance recoverable and the associated provision require management's judgment. Any adjustments to amounts recognized in prior periods are reported in net losses and loss expenses in the statements of income for the period when the adjustments were identified.

Foreign exchange

The Company's reporting currency is the U.S. dollar. In recording foreign currency transactions, revenue and expense items are converted to the relevant functional currency at the exchange rate prevailing at the transaction date. Assets and liabilities originating in currencies other than the functional currency are remeasured to the functional currency at the rates of exchange in effect at the balance sheet date. The resulting foreign currency gains or losses are recognized in the statements of income.

Recently issued accounting standards not yet adopted

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"). ASU 2014-09 provides comprehensive guidance on the recognition of revenue from customers arising from the transfer of goods and services. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Further ASU's, ASU 2016-08, ASU 2016-10 and 2016-12, associated with Revenue from Contracts with customers were issued in 2016. All of these ASU's are effective for non-public companies for annual periods beginning after December 15, 2018. These ASU's exclude the accounting for insurance contracts, leases, financial instruments and guarantees.The

Company is currently evaluating the impact of this guidance; however, it is not expected to have a material impact on the Company's statements of income and comprehensive income and balance sheet.

Recognition and Measurement of Financial Assets and Financial Liabilities
In January 2016, the FASB issued ASU No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"). ASU 2016-01 requires equity investments (except those accounted for under the equity method of accounting or those that result in the consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income, simplifies the impairment assessment of equity investments without readily determinable values, requires separate presentation in other comprehensive income of the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the organization has elected to measure the liabilities in accordance with the fair value option, requires the separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements and clarifies that the reporting organization should evaluate the need for a valuation allowance on a deferred tax asset related to available for sale securities in combination with the organization's other deferred tax assets. ASU 2016-01 is effective for non-public companies for annual periods beginning after December 15, 2018. The adoption of ASU 2016-01 is not expected to have a material impact on the Company's statements of income and comprehensive income and balance sheet.

Leases
In February 2016, the FASB issued ASU No. 2016-02, Leases ("ASU 2016-02"). ASU 2016-02 requires lessees to recognize lease assets and lease liabilities on the balance sheet for those leases classified as operating leases under previous guidance. ASU 2016-02 is effective for non-public companies for annual periods beginning after December 15, 2019. Early application is permitted. The Company is currently evaluating the impact of this guidance; however, it is not expected to have a material impact on the Company's statements of income and comprehensive income and balance sheet.

Measurement of Credit Losses on Financial Instruments
In June 2016, the FASB issued ASU No. 2016-13, Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"). ASU 2016-13 modifies the recognition of credit losses by replacing the incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. ASU 2016-13 is applicable to financial assets such as loans, debt securities, trade receivables, off-balance sheet credit exposures, reinsurance receivables, and other financial assets that have the contractual right to receive cash. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The Company's invested assets are measured at fair value through net income, and therefore those invested assets would not be impacted by the adoption of ASU 2016-13. The Company has other financial assets, such as reinsurance recoverables, that could be impacted by the adoption of ASU 2016-13. ASU 2016-13 is effective for non-public companies for annual periods beginning after December 15, 2021. The Company is currently evaluating the impact of this guidance; however, it is not expected to have a material impact on the Company's statements of income and comprehensive income and balance sheet.

Classification of Certain Cash Receipts and Cash Payments
In August 2016, the FASB issued ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments ("ASU 2016-15"). ASU 2016-15 clarifies the classification of receipts and payments in the statement of cash flows. ASU 2016-15 provides guidance related to (1) settlement and payment of zero coupon debt instruments, (2) contingent consideration, (3) proceeds from settlement of insurance claims, (4) proceeds from settlement of corporate and bank owned life insurance policies, (5) distributions from equity method investees, (6) cash receipts from beneficial interests obtained by a transferor, and (7) general guidelines for cash receipts and payments that have more than one aspect of classification. ASU 2016-15 is effective for non-public business entities for annual periods beginning after December 15, 2018. The Company is currently evaluating the impact of this guidance; however, it is not expected to have a material impact on the Company's statement of cashflows.

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

Intra-Entity Transfers of Assets Other Than Inventory
In October 2016, the FASB issued ASU No. 2016-16, Intra-Entity Transfers of Assets Other Than Inventory ("ASU 2016-16"). ASU 2016-16 requires entities to recognize the income tax consequences of intra-entity transfers of assets other than inventory when the transfers occur; this is a change from current guidance which prohibits the recognition of current and deferred income taxes until the underlying assets have been sold to outside entities. ASU 2016-16 is effective for non-public companies for annual periods beginning after December 15, 2018. The Company is currently evaluating the impact of this guidance; however, it is not expected to have a material impact on the Company's statements of income and comprehensive income and balance sheet.

3. Investments

The amortized cost, gross unrealized gains and losses and fair value of investments as of December 31, 2018 are as follows:

	Amortized Cost	Unrealized gains	Unrealized losses	Fair value
U.S. government and government agency securities	$ 5,466	$ 32	$ —	$ 5,498
Non-U.S. government and government agency securities	20,255	—	(166)	20,089
Municipal securities	29,944	7	(209)	29,742
Corporate securities	731,045	205	(10,734)	720,516
Asset-backed securities	115,275	3	(1,595)	113,683
Mortgage-backed securities	1,701	—	(11)	1,690
Residential mortgage-backed securities	71,465	1	(1,652)	69,814
Total fixed maturity securities	975,151	248	(14,367)	961,032
Short term investments	—	—	—	—
	$ 975,151	$ 248	$ (14,367)	$ 961,032

The amortized cost, gross unrealized gains and losses and fair value of investments as of December 31, 2017 are as follows:

	Amortized Cost	Unrealized gains	Unrealized losses	Fair value
U.S. government and government agency securities	$ 18,613	$ —	$ (113)	$ 18,500
Non-U.S. government and government agency securities	20,754	—	(90)	20,664
Municipal securities	37,349	82	(7)	37,424
Corporate securities	366,067	65	(2,441)	363,691
Asset-backed securities	3,301	11	(2)	3,310
Residential mortgage-backed securities	89,436	123	(411)	89,148
Total fixed maturity securities	535,520	281	(3,064)	532,737
Short term investments	995	—	—	995
	$ 536,515	$ 281	$ (3,064)	$ 533,732

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

The contractual maturities of fixed maturities are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	December 31, 2018	
	Amortized cost	Fair value
Due in one year or less	$ 21,465	$ 21,329
Due after one year through five years	729,987	719,975
Due after five years through ten years	35,259	34,542
Asset-backed securities	115,275	113,683
Mortgage-backed securities	1,701	1,689
Residential mortgage-backed securities	71,464	69,814
Total fixed maturity securities	$ 975,151	$ 961,032

Realized and unrealized investment gains (losses)

The following represents an analysis of net realized and unrealized gains (losses) on investments for the periods ended:

	December 31, 2018		
	Realized gains	Realized losses	Net realized gains (losses)
Fixed maturity securities	$ 18	$ (4,813)	$ (4,795)
Net unrealized gains (losses)			(12,140)
			$ (16,935)

	December 31, 2017		
	Realized gains	Realized losses	Net realized gains (losses)
Fixed maturity securities	$ 211	$ —	$ 211
Net unrealized gains (losses)			156
			$ 367

Net Investment Income

Net investment income for the year ended December 31, 2018 and the period ended December 31, 2017 was derived from the following sources:

	2018	2017
Fixed maturity securities	$ 32,747	$ 231
Cash and cash equivalents and short term investments	3,594	1,240
Total gross investment income	36,341	1,471
Investment expenses	(1,115)	—
Net investment income	$ 35,226	$ 1,471

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

Pledged cash and investments

ACNL, an affiliated company, is a corporate member which operates in the Lloyd's market through its participation in Syndicate 1414. Lloyd's sets capital requirements for corporate members annually. Such capital, or Funds at Lloyd's ("FAL"), may be satisfied by cash, certain investments and undrawn letters of credit provided by approved banks. As of December 31, 2018, Ascot Re has provided assets in the form of fixed maturity securities and cash to satisfy Lloyd's FAL requirement for ACNL. The Company also pledged a letter of credit with face value of $250,000 as of December 31, 2018 for ACNL's FAL (for further details of the letter of credit see Note 8. Financing arrangements).

On December 20, 2018, Ascot Re and the Ascot Group Limited (as Guarantor) entered into a $50,000 uncommitted secured letter of credit facility with Wells Fargo Bank, National Association (the "Wells Fargo LOC Facility"). As of December 31, 2018, Ascot Re provided collateral in the form of fixed maturity securities in support of this facility.

The restricted cash and fixed maturities held on the Company's balance sheet as of December 31, 2018 were as follows:

	December 31, 2018	
	Cash	Fixed maturities
Letter of credit collateral	$ —	$ 5,005
Deposited at Lloyd's for FAL	3,698	333,732
	$ 3,698	$ 338,737

The restricted cash, short term investments and fixed maturities held on the Company's balance sheet as of December 31, 2017 were $nil.

4. Fair value measurement

Fair value hierarchy

Fair value is defined as the price to sell an asset or transfer a liability (i.e. the "exit price") in an orderly transaction between market participants. U.S. GAAP prescribes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. The level in the hierarchy within which a given fair value measurement falls is determined based on the lowest level input that is significant to the measurement. The hierarchy is broken down into three levels as follows:

- Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.
- Level 2 - Valuations based on quoted prices in active markets for similar assets or liabilities, quoted prices for identical assets or liabilities in inactive markets, or for which significant inputs are observable (e.g. interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.
- Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement. The unobservable inputs reflect the Company's own judgments about assumptions that market participants might use.

The availability of observable inputs can vary from financial instrument to financial instrument and is affected by a wide variety of factors including, for example, the type of financial instrument, whether the financial instrument is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires significantly more judgment.

Accordingly, the degree of judgment exercised by management in determining fair value is greatest for instruments categorized in Level 3. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This may lead the Company to change the selection of its valuation technique (from market to cash flow approach) or may cause it to use multiple valuation techniques to estimate the fair value of a financial instrument. This circumstance could cause an instrument to be reclassified between levels within the fair value hierarchy.

Valuation techniques
The valuation techniques, including significant inputs and assumptions generally used to determine the fair values of the Company's financial instruments as well as the classification of the fair values of its financial instruments in the fair value hierarchy are described in detail below.

Fixed maturities
At each valuation date, the market approach valuation technique is used to estimate the fair value of the Company's fixed maturities portfolio, when possible. This market approach includes, but is not limited to, prices obtained from third party pricing services for identical or comparable securities and the use of "pricing matrix models" using observable market inputs such as yield curves, credit risks and spreads, measures of volatility, and prepayment speeds. Pricing from third party pricing services is sourced from multiple vendors, when available, and a vendor hierarchy is maintained by asset type based on historical pricing experience and vendor expertise. When prices are unavailable from pricing services, non-binding quotes are obtained from broker-dealers who are active in the corresponding markets. The valuation techniques including significant inputs generally used to determine the fair values of the Company's fixed maturities by asset class as well as the classifications of the fair values of these securities in the fair value hierarchy are described in detail below.

<u>U.S. government and government agency securities</u>
U.S. government and agency securities consist primarily of bonds issued by the U.S. Treasury and mortgage pass-through agencies such as the FNMA, the FHLMC and the GNMA. As the fair values of U.S. Treasury securities are based on unadjusted market prices in active markets, the fair values of these securities are generally classified as Level 1. The fair values of U.S. government agency securities are determined using the spread above the risk-free yield curve. As the yields for the risk-free yield curve and the spreads are observable market inputs, the fair values of U.S. government agency securities are generally classified as Level 2.

<u>Non-U.S. government and government agency securities</u>
Non-U.S. government securities include bonds issued by non-U.S. governments and their agencies along with supranational organizations (collectively also known as sovereign debt securities). The fair values of these securities are based on prices obtained from international indices or valuation models that include inputs such as interest rate yield curves, cross-currency basis index spreads and country credit spreads for structures similar to the sovereign bond held in terms of issuer, maturity and seniority. As the significant inputs used to price these securities are observable market inputs, the fair values of non-U.S. government securities are generally classified as Level 2.

<u>Municipal securities</u>
Municipals comprise revenue and general obligation bonds issued by U.S. domiciled state and municipal entities. The fair values of these securities are determined using spreads obtained from the new issue market, trade prices and broker-dealers quotes. As the significant inputs used to price these securities are observable market inputs, the fair values of municipals are generally classified as Level 2.

Corporate securities

Corporate debt securities consist primarily of investment-grade debt of a wide variety of corporate issuers and industries. The fair values of these securities are generally determined using the spread above the risk- free yield curve. These spreads are generally obtained from the new issue market, secondary trading and broker-dealer quotes. As the yields for the risk-free yield curve and the spreads are observable market inputs, the fair values of corporate debt securities are generally classified as Level 2. Where pricing is unavailable from pricing services, non-binding quotes are obtained from broker-dealers to estimate fair value. In this event, the fair value of these securities are generally classified as Level 3.

Asset-backed securities

ABS include mostly investment-grade bonds backed by pools of loans with a variety of underlying collateral, including automobile loan receivables, student loans, credit card receivables, and CLO debt originated by a variety of financial institutions. The fair values of these securities are determined using a model which uses prepayment speeds and spreads sourced primarily from the new issue market. As the significant inputs used to price these securities are observable market inputs, the fair values of ABS are generally classified as Level 2. Where pricing is unavailable from pricing services, non-binding quotes are obtained from broker-dealers to estimate fair value. In this event, the fair values of these securities are generally classified as Level 3.

Mortgage-backed and residential mortgage-backed securities

This category includes residential and commercial mortgages originated by both U.S. government agencies (such as the Federal National Mortgage Association) and non-U.S. government agencies. The fair values of mortgage-backed securities originated by U.S. government agencies and non-U.S. government agencies are based on a pricing model that incorporates prepayment speeds and spreads to determine appropriate average life of mortgage-backed securities. The spreads are sourced from broker-dealers, trade prices and the new issue market. As the significant inputs used to price the mortgage-backed securities are observable market inputs, the fair values of these securities are generally classified as Level 2.

Short-term investments

Short-term investments primarily comprise highly liquid securities with maturities greater than three months but less than one year from the date of purchase. These securities are generally classified as Level 2 as these securities are not typically actively traded due to their approaching maturity, and, as such, their amortized cost approximates fair value.

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

The tables below present the financial instruments measured at fair value on a recurring basis at December 31, 2018 and 2017:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
2018				
U.S. government and government agency securities	$ 5,498	$ —	$ —	$ 5,498
Non-U.S. government and government agency securities	—	20,089	—	20,089
Municipal securities	—	29,742	—	29,742
Corporate securities	—	720,516	—	720,516
Asset-backed securities	—	113,683	—	113,683
Mortgage-backed securities	—	1,690	—	1,690
Residential mortgage-backed securities	—	69,814	—	69,814
Total fixed maturity securities	5,498	955,534	—	961,032
Short term investments	—	—	—	—
	$ 5,498	$ 955,534	$ —	$ 961,032

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
2017				
U.S. government and government agency securities	$ 18,500	$ —	$ —	$ 18,500
Non-U.S. government and government agency securities	—	20,664	—	20,664
Municipal securities	—	37,424	—	37,424
Corporate securities	—	363,691	—	363,691
Asset-backed securities	—	3,310	—	3,310
Residential mortgage-backed securities	—	89,148	—	89,148
Total fixed maturity securities	18,500	514,237	—	532,737
Short term investments	—	995	—	995
	$ 18,500	$ 515,232	$ —	$ 533,732

Financial instruments disclosed, but not carried, at fair value

The fair value of financial instruments accounting guidance also applies to financial instruments disclosed, but not carried, at fair value, except for certain financial instruments, including insurance contracts.

The carrying values of cash equivalents, accrued investment income, receivable for securities sold and payable for securities purchased approximated their fair values at December 31, 2018, due to their respective short maturities. As these financial instruments are not actively traded, their fair values are classified as Level 2.

5. Equity method investments

As of December 31, 2018, the Company owns 1,473,382 ordinary shares of Azur Group. This represents a 27% ownership of Azur Group and the investment has been recorded using the equity method basis of accounting.

6. Reserves for loss and loss adjustment expenses

The Company believes that the most significant accounting judgment made by management is the estimate of reserve for losses and loss expenses ("loss reserves"). The loss reserves represent management's estimate of the unpaid portion of the ultimate liability for losses and loss expenses for events that have occurred at or before the balance sheet date. The reserves are estimated on an undiscounted basis.

The process of establishing loss reserves is complex and subject to considerable variability, as it requires the use of judgment to make informed estimates. These estimates are based on numerous factors, and may be revised as additional experience and other data become available and are reviewed. Loss reserves are categorized into two types:

- Case reserves - reserves for reported losses and loss expenses that have not yet been settled; and
- IBNR reserves - reserves for incurred but not reported losses or for reported losses over and above the amount of case reserves.

For all case and IBNR reserves, net of reinsurance reserves are estimated by first estimating gross of reinsurance reserves, then estimating reinsurance recoverables.

Case reserves
Case reserves generally are analyzed and established by the claims department, making use of third party input where appropriate (including, for the reinsurance business, reports of losses from ceding companies).

For insurance contracts, the Company is generally notified of insured losses by the insureds and/or their brokers. Based on this information, the Company's claims personnel estimate the ultimate losses arising from the claim, including the cost of administering the claims settlement process. These estimates reflect the judgment of the Company's claims personnel based on general reserving practices, the experience and knowledge of such personnel regarding the nature of the specific claim and, where appropriate, the advice of legal counsel, loss adjusters and other relevant consultants.

For reinsurance contracts, case reserves for reported claims are generally established based on reports received from ceding companies and/or their brokers. For excess of loss contracts, the Company is typically notified of insured losses on specific contracts and records a case reserve for the estimated ultimate liability arising from the claim. With respect to contracts written on a proportional basis, the Company typically receives aggregated claims information and records a case reserve based on that information. However, proportional reinsurance contracts typically require that losses in excess of pre-defined amounts be separately notified so that the Company can adequately evaluate them. The Company's claims department evaluates each specific loss notification received and records additional case reserves when a ceding company's reserve for a claim is not considered adequate.

IBNR reserves
IBNR reserves represent management's best estimate, at a given point in time, of the amount in excess of case reserves that is needed for the future settlement and loss adjustment costs associated with claims incurred. The estimation of IBNR reserves is necessary due to the time lags between when a loss event occurs and when it is actually reported to the Company, referred to as the reporting lag. Reporting lags may arise from a number of factors, including but not limited to the nature of the loss, the use of intermediaries and complexities in the claims adjusting process.

IBNR reserves on known catastrophe and shock losses are reviewed on a monthly basis, and are adjusted as new information becomes available. Any such adjustments are accounted for as changes in estimates and are reflected in the results of operations in the period in which they are made. IBNR reserves are estimated separately for attritional losses and known catastrophe events.

Attritional losses

Consistent with industry practice, the Company utilizes a variety of standard actuarial methods together with management judgment to estimate IBNR for attritional losses. The loss reserve selection from these methods is based on the loss development characteristics of the specific line of business and contracts, which take into consideration coverage terms, type of business, maturity of loss data, reported claims and paid claims.

The principal actuarial methods used by the Company to perform the quarterly loss reserve analysis are:

- Expected Loss Ratio Method. The Expected Loss Ratio method multiplies premiums by an expected loss ratio to produce ultimate loss estimates for an underwriting year. Expected loss ratios are generally based on an analysis of historical loss experience to date, industry data or pricing information. This method is insensitive to actual incurred losses for the accident year or underwriting year in question and is, therefore, often useful in the early stages of development when very few losses have been incurred.

- Loss Development Method. This method assumes that the losses incurred/paid for each underwriting year at a particular development stage follow a relatively similar pattern. It assumes that on average, every accident or underwriting year will display the same percentage of ultimate losses incurred/paid at the same point in time after the inception of that year. The percentages incurred/paid are established through analyzing the historical loss development data and/or external benchmark information.

- Bornhuetter-Ferguson Method. These methods are a weighted average of the Expected Loss Ratio and the Loss Development Method. The weighting between the two methods depends on the maturity of the business. This means that for the more recent years a greater weight is placed on the Expected Loss Ratio Method, while for the more mature years a greater weight is placed on the Loss Development Method. These methods avoid some of the distortions that could result from a large development factor being applied to a small base of paid or reported losses to calculate ultimate losses.

Known catastrophe events

IBNR reserves are established for known catastrophe events (such as hurricanes and earthquakes) for which not all claims are believed to have been reported to the Company and to allow for reported losses over and above the amount of case reserves. Loss reserves for such events are estimated by management in collaboration with actuaries, claim handlers and underwriters after a catastrophe occurs by completing an analysis based on several sources of information, including:

- Estimates of the size of insured industry losses from the catastrophic event and the Company's corresponding market share;
- A review of the Company's portfolio to identify those contracts which may be exposed to the catastrophic event;
- A review of modeled loss estimates based on information previously reported by customers and brokers, including exposure data obtained during the underwriting process;
- Discussions of the impact of the event with insureds and brokers;
- Information that has been provided by insureds or brokers as claims are notified; and
- Catastrophe bulletins published by various independent statistical reporting agencies.

A blend of these information sources is generally used to arrive at aggregate estimates of the ultimate losses arising from the catastrophic event. Paid losses and case reserves are then deducted from the ultimate loss to ascertain the IBNR estimate for these individual catastrophe events. The size of event for which the Company establishes a separate ultimate loss estimate may vary based on an assessment of the materiality of the event, as well as on other factors such as complexity and volatility.

In subsequent reporting periods, changes in paid and incurred losses in relation to each significant catastrophe are reviewed and adjustments are made to estimates of ultimate losses for each event if there are developments that are different from previous expectations. Adjustments are recorded in the period in which they are identified.

The reserving process produces a point estimate for the Company's loss reserves. Although the Company believes that the assumptions and methodologies used are reasonable, the Company cannot be certain that the ultimate payments will not vary, potentially materially, from the estimates made.

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

Reserve Roll-Forward

The following table presents a reconciliation of the beginning and ending gross reserve for losses and loss expenses and net reserve for unpaid losses and loss expenses for the years ended December 31, 2018 and 2017:

	2018	2017
Gross reserves for losses and loss adjustment expenses, beginning of year	$ —	$ —
Less: reinsurance recoverable balances, beginning of year	—	—
Net reserves for losses and loss adjustment expenses, beginning of year	—	—
Increase (decrease) in net losses and loss adjustment expenses incurred in respect of losses occurring in:		
Current year	228,447	—
Prior years	(27,742)	—
Total incurred losses and loss adjustment expenses	200,705	—
Less: net losses and loss adjustment expenses paid in respect of losses occurring in:		
Current year	42,813	—
Prior years	150,558	—
Total net paid losses	193,371	—
Net foreign currency on loss and loss adjustment expenses	(90)	—
Net reserve for losses and loss adjustment expenses, end of year	7,244	—
Plus reinsurance recoverable balances, end of year	33,912	—
Gross reserve for losses and loss adjustment expenses, end of year	$ 41,156	$ —

The Company commenced underwriting operations in 2018. The Company entered into a quota share reinsurance arrangement with ACNL, an affiliated company, to reinsure the 2018 results of ACNL which would include movement in prior accident year reserves. In 2018, ACNL experienced favorable development of prior accident year losses principally related to the 2017 accident year within the Treaty, Property and Marine & Energy lines of business.

Net incurred and paid claims development tables by accident year

The following information presents the incurred and paid claims information as of December 31, 2018, net of reinsurance, as well as cumulative claim frequency and total IBNR reserves by accident year. The Company commenced underwriting in 2018.

Non-U.S. dollar denominated loss data is converted to U.S. dollar at the rates of exchange in effect at the balance sheet date for material underlying currencies. Fluctuations in currency exchange rates may cause material shifts in loss development. Reserves for losses and loss expenses, disclosed in the Company's balance sheet, are also revalued using the exchange rate at the balance sheet date.

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

Incurred claims and allocated loss adjustment expenses, net of reinsurance

	For the year ended December 31, 2018						As of December 31, 2018	
Accident Year	Treaty	Property	Marine & Energy	Casualty	Political Risk, Terror and Personal Accident	Total	Total Net IBNR	Cum. Reported Claims
2009	$ (578)	$ (1)	$ (55)	$ —	$ —	$ (634)	$ 29	—
2010	(137)	(66)	(170)	—	—	(373)	(44)	—
2011	(388)	174	301	—	—	87	(2,138)	—
2012	(1,551)	(591)	(42)	—	(3)	(2,187)	(1,098)	—
2013	(885)	(829)	(496)	(79)	(5)	(2,294)	(1,364)	—
2014	262	(473)	(579)	(848)	(10)	(1,648)	(4,541)	—
2015	(737)	(1,225)	(528)	(650)	(149)	(3,289)	(15,096)	—
2016	(2,427)	(3,912)	(400)	2,654	250	(3,835)	(14,982)	—
2017	(7,356)	(4,896)	(6,227)	3,673	1,237	(13,569)	(4,729)	—
2018	72,633	37,678	70,409	40,217	5,781	226,718	62,887	3
	$ 58,836	$ 25,859	$ 62,213	$ 44,967	$ 7,101	$ 198,976	$ 18,924	

Cumulative paid claims and loss adjustment expenses, net of reinsurance

	For the year ended December 31, 2018					
Accident Year	Treaty	Property	Marine & Energy	Casualty	Political Risk, Terror and Personal Accident	Total
2009	$ (329)	$ (159)	$ 22	$ —	$ 4	$ (462)
2010	71	8	149	—	—	228
2011	272	356	108	—	—	736
2012	2,341	183	1,476	—	(1)	3,999
2013	(344)	1,066	945	34	—	1,701
2014	668	1,513	1,826	406	10	4,423
2015	1,503	3,361	3,385	1,035	—	9,284
2016	4,273	7,365	10,224	2,937	686	25,485
2017	52,090	32,140	17,140	2,162	1,632	105,164
2018	17,042	6,021	16,545	732	834	41,174
	$ 77,587	$ 51,854	$ 51,820	$ 7,306	$ 3,165	$ 191,732

The following table reconciles the net reserve for losses and loss expenses derived from the incurred and paid loss development triangles to the reserve for losses and loss expenses in the balance sheet as of December 31, 2018:

	December 31, 2018
Total incurred claims and allocated loss and loss adjustment expenses, net of reinsurance	198,976
Less: cumulative paid claims and loss adjustment expenses, net of reinsurance	(191,732)
Net reserves for loss and loss adjustment expenses	7,244

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

7. Reinsurance

In the ordinary course of business, the Company purchases treaty and facultative reinsurance to reduce exposure to significant losses. Facultative reinsurance provides coverage for all or a portion of the losses incurred for a single policy and each facultative contract is negotiated separately.

Treaty reinsurance provides coverage for a specified type or category of risks. Treaty reinsurance agreements provide this cover on either an excess of loss or a proportional basis. Excess of loss covers provide a contractually set amount of coverage after a specified loss amount has been reached. These treaties can provide cover for a number of lines of business within one contract. Under proportional reinsurance, the Company cedes an agreed proportion of the premiums and the losses and loss expenses on the policies it underwrites. These treaties provide a specified percentage of coverage from the first dollar of loss.

All of these reinsurance covers provide the Company the right to recover a portion of specified losses and loss expenses from reinsurers. However, to the extent that the reinsurers do not meet their obligations under these agreements due to solvency issues, contractual disputes or other reasons, the Company remains liable.

(a) Effects of reinsurance on premiums written and earned

The effects of reinsurance on premiums written and earned and on losses and loss adjustment expenses is as follows:

	2018	2017
Net premiums written		
Direct	$ 1,658	$ —
Assumed	424,181	—
Ceded	(6,785)	—
Net premiums written	419,054	—
Net premiums earned		
Direct	211	—
Assumed	348,702	—
Ceded	(5,619)	—
Net premiums earned	343,294	—
Losses and loss adjustment expenses		
Gross losses and loss adjustment expenses incurred	234,617	—
Losses and loss adjustment expense recoveries	(33,912)	—
Net losses and loss adjustment expenses	$ 200,705	$ —

(b) Credit risk

The Company evaluates the financial condition of its reinsurers and monitors concentration of credit risk arising from its exposure to individual reinsurers. As of December 31, 2018, 15.7% of reinsurance recoverables were from reinsurers rated A+ and 14.7% from reinsurers rated A-. The remaining 69.6% was from unrated reinsurers and all of this was collateralized.

Reserves for reinsurance recoverables deemed uncollectible are based on an estimate of the amount of the reinsurance recoverable balance that will ultimately not be recovered due to reinsurer insolvency, contractual dispute or some other reason. The valuation of the reserve for uncollectible reinsurance includes a review of the credit ratings of the reinsurance recoverable by reinsurer on a continuous basis with any resulting adjustments recorded in earnings in the period that collection issues are identified. As of December 31, 2018, the reserves for reinsurance recoverables deemed uncollectible was $nil.

8. Financing arrangements

Letter of Credit Facilities

On November 2, 2018, the Company and Ascot Group Limited (as Guarantor) entered into an $250,000 letter of credit facility (the "FAL LOC Facility") with Lloyds Bank plc, ING Bank N.V. London Branch and The Bank of Nova Scotia, London Branch (the "Banks"). The facility may be collateralized at the option of the Company. Under the terms of the FAL LOC Facility, letters of credit to a maximum aggregate amount of $250,000 are available for issuance. These letters of credit will be used to provide Funds at Lloyd's to support the underwriting capacity provided by ACNL to Syndicate 1414 for the 2019 and 2020 years of account and any prior open years of account for Syndicate 1414. The FAL LOC Facility is subject to certain covenants, including the requirement to maintain a minimum tangible net worth and a maximum leverage ratio, as defined in the FAL LOC Facility Documents. Obligations under the FAL LOC Facility include contingent reimbursement obligations for outstanding letters of credit and fees. In the event of default, the Banks may exercise certain remedies, including the exercise of control over pledged collateral and the termination of the availability of the FAL LOC Facility. On January 28, 2019, the Company utilized its option to collateralize the facility and pledged assets of $257,000 to fully secure the outstanding FAL LOC.

On December 20, 2018,the Company and Ascot Group Limited (as Guarantor) entered into an uncommitted secured letter of credit facility with Wells Fargo Bank, National Association (the "Wells Fargo LOC Facility"). Under the terms of the Wells Fargo LOC Facility, letters of credit to a maximum aggregate amount of $50,000 are available for issuance. The Wells Fargo LOC Facility is subject to certain covenants, including the requirement to maintain a minimum level of collateral in the form of cash and fixed maturity securities. Obligations under the Wells Fargo LOC Facility include contingent reimbursement obligations for outstanding letters of credit and fees. In the event of default, the Banks may exercise certain remedies, including the exercise of control over pledged collateral and the termination of the availability of the Wells Fargo LOC Facility.

At December 31, 2018, the Company had $250,000 letters of credit outstanding under the FAL LOC Facility and $1,702 outstanding under the Wells Fargo LOC Facility. The Company was in compliance with all covenants for both facilities at December 31, 2018.

9. Commitments and contingencies

a) Concentrations of credit risk

Credit risk is the risk of default of a counterparty or obligor including the risk of default under mitigating contracts like reinsurance, financial instruments and premium payments from policy holders. The Company mitigates credit risk through the application of detailed counterparty credit assessments, working to ensure that contractual terms are fit for purpose and that full disclosure of relevant information is made, and through exerting contractual and other credit control measures in pursuit of premium and reinsurance recoverables due.

The assets that potentially subject the Company to concentrations of credit risk consist principally of cash and investments, reinsurance recoverable and (re)insurance premiums receivable balances, as described below.

Cash and investments

In order to mitigate concentration and operational risks related to cash and cash equivalents, the Company limits acceptable counterparties based on current rating, outlook and other relevant factors.

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

The Company's cash and cash equivalents are on deposit with various financial institutions. Credit risk arises from the failure of the counterparty to perform according to the terms of a contract. The Company's deposits are with reputable banks to minimize this risk and they are located principally in Bermuda and the U.S.

The Company's investment portfolio is managed by external investment managers in accordance with its investment guidelines. The Company limits such credit risk through diversification, issuer exposure limitation graded by ratings and, with respect to custodians, through contractual and other legal remedies.

Reinsurance recoverable balances

See Note 7. Reinsurance for information with respect to reinsurance recoverables.

Premiums receivable balances

The diversity of the Company's client base limits the credit risk associated with its premium balances receivable. In addition, for insurance contracts, the Company has contractual rights to cancel coverage for non-payment of premiums and for reinsurance contracts, it has contractual rights to offset premiums receivable with corresponding payments for losses and loss expenses.

Brokers and other intermediaries collect premiums from customers to be paid to the Company. The Company has policies and standards in place to manage and monitor credit risk from intermediaries with a focus on day-to-day monitoring of the largest positions.

These contractual rights contribute to the mitigation of credit risk, as does the monitoring of aged receivable balances. In light of these mitigating factors, and considering that a significant portion of premium balances receivable are not currently due based on the terms of the underlying contracts, the Company does not utilize specific credit quality indicators to monitor its premium balances receivable balance. At December 31, 2018, the Company had determined that no allowance for uncollectible premium balances receivable was needed.

b) Brokers

The Company produces its third party business through brokers and direct relationships with insurance companies. During the years ended December 31, 2018 and 2017, the following brokers were used to generate greater than 10% of the Company's third party gross premiums written:

	% of Gross Premiums Written	
Broker	**2018**	**2017**
Aon plc	37.5%	—%
Marsh & McLennan Companies	21.7%	—%

The Company's third party business represents $52,364 of its gross premiums written for the year ended December 31, 2018. The remainder is generated through two quota share reinsurance arrangements with affiliated companies (see note 12. Related party transactions for additional information).

c) Lease commitments

The Company leases office space under an operating lease which commenced on January 1, 2018 and expires on December 31, 2022. The rent expense with respect to this operating lease for the year ended December 31, 2018 was $411 (2017: $nil).

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

Future minimum lease payments under the leases are expected to be as follows:

2019	$	581
2020		596
2021		611
2022		627
Total minimum future lease commitments	$	2,415

d) Litigation

The Company is subject to litigation and arbitration in the normal course of its business. These lawsuits and arbitrations principally involve claims on policies of insurance and contracts of reinsurance and are typical for the Company and for the property and casualty insurance and reinsurance industry in general. Such legal proceedings are considered in connection with the Company's loss and loss expense reserves.

10. Share capital

Authorized and issued

The issued shares as of December 31, 2018 by each class of ordinary share capital was as follows:

	Authorized	Nominal value (US$)	Authorised (US$)	Issued	Issued and Paid (US$)
Director Voting Shares	100	1	$ 100	100	$ 100
Non Director Voting Shares	119,900	1	119,900	119,900	119,900
	120,000		$ 120,000	120,000	$ 120,000

The Company did not issue any shares during 2018.

During 2017, the Company issued 119,800 Non Director Voting Shares with a par value of $1 each.

Dividends

The Company did not declare any dividends during the years ended December 31, 2018 and 2017.

11. Retirement plans

The Company maintains defined contribution plans to provide retirement benefits to eligible employees. Contributions to the plans, which are managed externally, are based on eligible compensation.

During 2018, the Company's total pension expenses were $363 (2017: $nil) for the above retirement benefits.

12. Related party transactions

The Company purchases operating services and support from various affiliated group companies and also provides certain services and support to various affiliated group companies. As of December 31, 2018, the Company has an outstanding receivable of $19,595 included under amounts receivable from related parties related to these services. These amounts are unsecured, non-interest bearing and payable upon demand.

During the year ended December 31, 2018, the Company advanced certain amounts to affiliated companies owned by Ascot Insurance Holdings Limited (together the "US Group"). These advances totaled $113,209 and were used to purchase Greyhawk Insurance Company and provide working capital for the build out of the newly acquired companies. This is included under amounts receivable from related parties. These amounts are unsecured, non-interest bearing and payable upon demand.

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

On March 22, 2018, the Company entered into a loan agreement with Ascot Group Limited ("AGL"), an affiliated company, where the Company loaned AGL $7,000. The term of the loan is 2 years and interest is payable at a rate of LIBOR plus 1.75% per annum. As of December 31, 2018, the balance of the loan and interest due is included in amounts receivable from related parties on the balance sheet and $236 was recorded in other income during the year ended December 31, 2018.

On March 28, 2018, the Company entered into a loan agreement with ACNL, an affiliated company, whereby the Company loaned ACNL $50,000. The term of the loan is 2 years and interest is payable at a rate of LIBOR plus 1.75% per annum. As of December 31, 2018, the balance of the loan and interest due is included in amounts receivable from related parties on the balance sheet and $1,553 was recorded in other income during the year ended December 31, 2018.

Ascot Re has provided assets in the form of fixed maturity securities and cash to satisfy Lloyd's FAL requirement for ACNL, an affiliated company. In consideration of this Ascot Re has received $7,409 of fees during the year ended December 31, 2018. In addition, from November 9, 2018 the Company also pledged a letter of credit with face value of $250,000 for ACNL's FAL. In consideration for this, Ascot Re has received $386 of fees from ACNL during the year ended December 31, 2018. These fees are included in other income.

Reinsurance agreements
Effective January 1, 2018, the Company entered into a reinsurance agreement with ACNL, an affiliated company in respect of ACNL's participation on Syndicate 1414. This agreement provides that the Company assumes a 50% quota share of all insurance and reinsurance risks earned by ACNL. In addition to the insurance and reinsurance risk, the Company assumes 50% of ACNL's investment returns and operating expenses.

Also effective January 1, 2018, the Company entered into a reinsurance agreement with Syndicate 1414, acting through Ascot Underwriting Limited, an affiliated company. This agreement provides that the Company assumes a 20% quota share of all insurance and reinsurance risks earned by Syndicate 1414 during 2018.

The balance sheet as of December 31, 2018 and income statement for the year ended December 31, 2018 include the following amounts related to the quota share agreements with ACNL and Syndicate 1414:

	December 31, 2018
Balance Sheet	
Premium receivable	$ 217,398
Deferred acquisition costs	15,725
Reserve for losses and loss adjustment expenses	(26,907)
Unearned premiums	50,725
Other liabilities	190,102
Income Statement	
Net premiums earned	321,911
Losses and loss adjustment expenses	165,046
Acquisition expenses	$ 137,116

13. Taxation

Under current Bermuda law, the Company is exempt from all Bermuda income, withholding and capital gains taxes. At the present time, no such taxes are levied in Bermuda. In the event that such taxes are imposed, the Company would be exempt until March 2035 pursuant to the Bermuda Exempted Undertakings Tax Protection Act 1966, and Amended Act of 1987.

14. Statutory financial information

Under the Insurance Act 1978, amendments thereto and Related Regulations of Bermuda (the "Act"), the Company is required to maintain minimum statutory capital and surplus equal to the greater of a minimum solvency margin ("MSM") and the Enhanced Capital Requirement ("ECR"). The MSM is the greater of $100 million, 50% of net premiums written,15% of the net reserve for losses and loss expenses or 25% of the ECR. The ECR is calculated based on either an internally developed risk-based capital model or a standard risk-based capital model developed by the Bermuda Monetary Authority ("BMA"). Under the Act, the Company is restricted as to the payment of dividends for amounts greater than 25% of the prior year's statutory capital and surplus, whereby an affidavit signed by at least two members of the Board of Directors is required, attesting that any dividend in excess of this amount would not cause the company to fail to meet its relevant margins.

As of December 31, 2018, the Company was required to maintain a minimum statutory capital and surplus of $232,715 which is calculated as equal to or greater than the Enhanced Capital Requirement ("ECR") or the Minimum Margin of Solvency ("MSM"). ECR is calculated based on the greater of risk-based capital measure called Bermuda Solvency Capital Requirement ("BSCR") or an approved internal capital model. As of December 31, 2018, the Company had available statutory capital and surplus of $1,532,668 and statutory net income of $14,757 for the year then ended. The declaration of dividends from retained earnings and distributions from additional paid-in capital are limited to the extent that the solvency and liquidity requirements are met.

For 2019, the maximum dividend the Company could pay, without a signed affidavit, having met minimum levels of statutory capital and surplus requirements, was approximately $383,000.

15. Subsequent events

On January 25, 2019, the Company amalgamated with Ascot Holdings Limited, an affiliated company, with the Company continuing as the surviving entity. As a result of this amalgamation, the Company is the direct holding company of Ascot Underwriting Group Limited (AUGL). AUGL operates as a holding company for a number of entities including ACNL, which is a UK based company providing underwriting capacity as the corporate member for Syndicate 1414 of the Society of Lloyd's.

Following the amalgamation, AGL contributed its shareholding in Ascot Insurance Holdings Limited (AIHL) to the Company, such that the Company is the sole shareholder of AIHL. AIHL operates as a holding company for Ethos Specialty Insurance Services LL, a managing general agency and Ascot Insurance Company and Ascot Specialty Insurance Company which write both admitted and non-admitted business in the United States.

On January 31, 2019, the Company contributed $117,335 to AIHL.

On January 31, 2019, the Company completed the acquisition of Ascot Underwriting (Bermuda) Limited from Ascot Underwriting Holdings Limited (a wholly owned subsidiary) for cash consideration of $2,176.

The Company has completed its subsequent events evaluation for the period subsequent to the balance sheet date of December 31, 2018 through March 21, 2019, the date the financial statements were available to be issued, and concluded that there are no subsequent events requiring recognition or disclosure.