

**AUDITED FINANCIAL STATEMENTS**

**DaVinci Reinsurance Ltd.**

**December 31, 2019 and 2018**





Ernst & Young Ltd.  
3 Bermudiana Road  
Hamilton HM 08  
P.O. Box HM 463  
Hamilton HM BX  
BERMUDA

Tel: +1 441 295 7000  
Fax: +1 441 295 5193  
ey.com

## Report of Independent Auditors

TO THE BOARD OF DIRECTORS OF  
DAVINCI REINSURANCE LTD.

We have audited the accompanying financial statements of DaVinci Reinsurance Ltd., which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of operations, changes in shareholder's equity, and cash flows for the years then ended, 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 conformity 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 financial statements that are free of material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 entity'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 entity'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 DaVinci Reinsurance Ltd. at December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

## Required Supplementary Information

Accounting principles generally accepted in the United States require that the incurred and paid claims development prior to the most recent year and the average annual percentage payout of incurred claims disclosed on pages 23 through 29 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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, 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 financial statements, and other knowledge we obtained during our audit of the 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.

*Ernst & Young Ltd.*

Hamilton, Bermuda  
April 27, 2020

**DAVINCI REINSURANCE LTD.  
BALANCE SHEETS  
AT DECEMBER 31, 2019 AND 2018  
(in thousands of United States Dollars)**

	2019	2018
<b>Assets</b>		
Fixed maturity investments trading, at fair value - amortized cost \$2,272,604 at December 31, 2019 (2018 - \$1,710,388) (Notes 3 and 4)	\$ 2,289,373	\$ 1,689,905
Short term investments, at fair value (Notes 3 and 4)	235,999	227,097
Equity investments trading, at fair value (Notes 3 and 4)	142	170
Total investments	2,525,514	1,917,172
Cash and cash equivalents	54,568	81,619
Premiums receivable (Note 7)	182,189	104,298
Prepaid reinsurance premiums (Notes 5 and 7)	14,372	14,942
Reinsurance recoverable (Notes 5, 6 and 7)	123,274	251,143
Accrued investment income	10,878	8,292
Deferred acquisition costs	9,181	8,157
Receivable for investments sold	20,656	92,889
Other assets (Notes 4 and 11)	1,342	3,233
<b>Total assets</b>	<b>\$ 2,941,974</b>	<b>\$ 2,481,745</b>
 <b>Liabilities and Shareholder's Equity</b>		
<b>Liabilities</b>		
Reserve for claims and claim expenses (Notes 6 and 7)	\$ 738,013	\$ 719,143
Unearned premiums (Note 7)	87,062	73,614
Reinsurance balances payable (Note 7)	22,177	7,108
Due to affiliates, net (Note 7)	21,194	24,301
Payable for investments purchased	82,492	176,976
Accounts payable and accrued liabilities	1,951	1,405
Other liabilities (Notes 4 and 11)	671	1,830
<b>Total liabilities</b>	953,560	1,004,377
<b>Shareholder's Equity (Note 8)</b>		
Common shares: \$1,000 par value – 1,000 shares authorized, issued and outstanding at December 31, 2019 (2018 - 1,000)	1,000	1,000
Additional paid-in capital	1,589,463	1,241,732
Retained earnings	397,951	234,636
<b>Total shareholder's equity</b>	1,988,414	1,477,368
<b>Total liabilities and shareholder's equity</b>	<b>\$ 2,941,974</b>	<b>\$ 2,481,745</b>

On behalf of the Board:



Director



Director

See accompanying notes to the financial statements

**DAVINCI REINSURANCE LTD.**  
**STATEMENTS OF OPERATIONS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**  
(in thousands of United States Dollars)

	<u>2019</u>	<u>2018</u>
<b>Revenues</b>		
Gross premiums written (Notes 5 and 7)	\$ 440,718	\$ 386,796
Net premiums written (Note 5)	\$ 379,128	\$ 317,172
Increase in net unearned premiums (Note 5)	(14,018)	(8,694)
Net premiums earned (Notes 5 and 7)	365,110	308,478
Net investment income (Note 3)	53,708	47,056
Net foreign exchange (losses) gains	(1,765)	442
Other income (Note 4)	345	489
Net realized and unrealized gains (losses) on investments (Note 3)	48,535	(26,775)
<b>Total revenues</b>	<u>465,933</u>	<u>329,690</u>
<b>Expenses</b>		
Net claims and claim expenses incurred (Notes 5, 6 and 7)	195,371	207,647
Acquisition expenses	42,214	35,139
Operational expenses (Note 7)	57,206	42,884
Corporate expenses	285	331
<b>Total expenses</b>	<u>295,076</u>	<u>286,001</u>
<b>Income before taxes</b>	<u>170,857</u>	<u>43,689</u>
Income tax expense (Note 9)	(82)	(646)
<b>Net income</b>	<u>\$ 170,775</u>	<u>\$ 43,043</u>

*See accompanying notes to the financial statements*

**DAVINCI REINSURANCE LTD.**  
**STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**  
(in thousands of United States Dollars)

	<u>2019</u>	<u>2018</u>
<b>Common shares</b>	\$ 1,000	\$ 1,000
<b>Additional paid-in capital</b>		
Balance – January 1	1,241,732	1,247,848
Capital contribution (Note 8)	349,192	—
Return of capital, net of adjustments (Note 8)	(1,461)	(6,116)
Balance – December 31	<u>1,589,463</u>	<u>1,241,732</u>
<b>Retained earnings</b>		
Balance – January 1	234,636	198,893
Net income	170,775	43,043
Dividends declared (Note 8)	(7,460)	(7,300)
Balance – December 31	<u>397,951</u>	<u>234,636</u>
<b>Total shareholder's equity</b>	<u>\$ 1,988,414</u>	<u>\$ 1,477,368</u>

*See accompanying notes to the financial statements*

**DAVINCI REINSURANCE LTD.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**  
(in thousands of United States Dollars)

	2019	2018
<b><i>Cash flows provided by operating activities</i></b>		
Net income	\$ 170,775	\$ 43,043
<b><i>Adjustments to reconcile net income to net cash provided by operating activities</i></b>		
Amortization and accretion	2,893	2,578
Net realized and unrealized (gains) losses on investments	(48,535)	26,775
Change in:		
Premiums receivable	(77,891)	(11,979)
Prepaid reinsurance premiums	570	(9,151)
Reinsurance recoverable	127,869	(133,891)
Accrued investment income	(2,586)	(1,313)
Deferred acquisition costs	(1,024)	(2,578)
Reserve for claims and claim expenses	18,870	124,770
Unearned premiums	13,448	17,845
Reinsurance balances payable	15,069	2,268
Due to affiliates, net	(3,107)	(8,497)
Other, net	13,679	(3,215)
<b><i>Net cash provided by operating activities</i></b>	230,030	46,655
<b><i>Cash flows used in investing activities</i></b>		
Proceeds from sales and maturities of fixed maturity investments trading	2,990,821	2,621,014
Purchases of fixed maturity investments trading	(3,501,517)	(2,678,595)
Net (purchases) sales of short term investments	(78,247)	51,676
Net sales of equity investments trading	56	157
<b><i>Net cash used in investing activities</i></b>	(588,887)	(5,748)
<b><i>Cash flows provided by (used in) financing activities</i></b>		
Contribution of capital	349,192	—
Return of capital, net of adjustments	(9,926)	(4,838)
Dividends paid	(7,460)	(15,375)
<b><i>Net cash provided by (used in) financing activities</i></b>	331,806	(20,213)
<b><i>Net (decrease) increase in cash and cash equivalents</i></b>	(27,051)	20,694
<b><i>Cash and cash equivalents, beginning of period</i></b>	81,619	60,925
<b><i>Cash and cash equivalents, end of period</i></b>	\$ 54,568	\$ 81,619

*See accompanying notes to the financial statements*

**DAVINCI REINSURANCE LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**  
**(amounts in tables expressed in thousands of United States Dollars)**

NOTE 1. ORGANIZATION

DaVinci Reinsurance Ltd. (the “Company”) was incorporated under the laws of Bermuda in October 2001 and principally provides property catastrophe reinsurance coverages to customers. The Company is a wholly-owned subsidiary of DaVinciRe Holdings Ltd. (“DaVinciRe”), a Bermuda company. DaVinciRe is a minority-owned, and controlled subsidiary of Renaissance Other Investments Holdings Ltd. (“ROIHL”), a Bermuda company, which is a wholly-owned subsidiary of RenaissanceRe Holdings Ltd. (“RenaissanceRe”), also a Bermuda company. The financial statements of the Company include the financial position and results of operations of its branches based in the Republic of Singapore (the “Singapore Branch”) and Switzerland (the “Switzerland Branch”).

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These financial statements have been prepared on the basis of accounting principles generally accepted in the United States (“GAAP”).

Use of Estimates in Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported and disclosed amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates. The major estimates reflected in the Company’s financial statements include, but are not limited to, the reserve for claims and claim expenses, reinsurance recoverables, including allowances for reinsurance recoverables deemed uncollectible, deferred acquisition costs, estimates of written and earned premiums, profit commissions and fair value, including the fair value of investments, financial instruments and derivatives.

Premiums and Related Expenses

Premiums are recognized as income, net of any applicable retrocessional coverage purchased, over the terms of the related contracts and policies. Premiums written are based on contract and policy terms and include estimates based on information received from both insureds and ceding companies. Subsequent differences arising on such estimates are recorded in the period in which they are determined. Unearned premiums represent the portion of premiums written that relate to the unexpired terms of contracts and policies in force. Amounts are computed by pro rata methods based on statistical data or reports received from ceding companies. Reinstatement premiums are estimated after the occurrence of a significant loss and are recorded in accordance with the contract terms based upon paid losses and case reserves. Reinstatement premiums are earned when written.

Acquisition costs are incurred when a contract or policy is issued and only the costs directly related to the successful acquisition of new and renewal contract or policies are deferred and amortized over the same period in which the related premiums are earned. Acquisition costs consist principally of commissions, brokerage and premium tax expenses. Deferred policy acquisition costs are limited to their estimated realizable value based on the related unearned premiums. Anticipated claims and claim 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.

**DAVINCI REINSURANCE LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**  
**(amounts in tables expressed in thousands of United States Dollars)**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES, cont'd.

Claims and Claim Expenses

The reserve for claims and claim expenses includes estimates for unpaid claims and claim expenses on reported losses as well as an estimate of losses incurred but not reported ("IBNR"). The reserve is based on individual claims, case reserves and other reserve estimates reported by insureds and ceding companies as well as management estimates of ultimate losses. Inherent in the estimates of ultimate losses are expected trends in claim severity and frequency and other factors which could vary significantly as claims are settled. The Company does not have the benefit of a significant amount of its own historical experience with its Casualty and Specialty reinsurance lines of business. Accordingly, the reserving for incurred losses in these lines of business could be subject to greater variability.

Ultimate losses may vary materially from the amounts provided 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 reflected in the statements of operations in the period in which they become known and are accounted for as changes in estimates.

Reinsurance

Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policies. If the Company determines that adjustments to earlier estimates are appropriate, such adjustments are recorded in the period in which they are determined. Reinsurance recoverables on dual trigger reinsurance contracts require the Company to estimate its ultimate losses applicable to these contracts as well as estimate the ultimate amount of insured industry losses that will be reported by the applicable statistical reporting agency, as per the contract terms. Amounts recoverable from reinsurers are recorded net of a valuation for estimated uncollectible recoveries.

Certain assumed and ceded reinsurance contracts that do not meet all of the criteria to be accounted for as reinsurance in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic *Financial Services - Insurance* have been accounted for at fair value under the fair value option in accordance with FASB ASC Topic *Financial Instruments*.

Investments, Cash and Cash Equivalents

*Fixed Maturity Investments*

Investments in fixed maturities are classified as trading and are reported at fair value. Investment transactions are recorded on the trade date with balances pending settlement reflected in the balance sheet as a receivable for investments sold or a payable for investments purchased. Net investment income includes interest and dividend income together with amortization of market premiums and discounts and is net of investment management and custody fees. The amortization of premium and accretion of discount for fixed maturity securities is computed using the effective yield method. For mortgage-backed securities and other holdings for which there is prepayment risk, prepayment assumptions are evaluated quarterly and revised as necessary. Any adjustments required due to the change in effective yield and maturities are recognized on a prospective basis through yield adjustments. Fair values of fixed maturity investments are based on quoted market prices, or when such prices are not available, by reference to broker or underwriter bid indications and/or internal pricing valuation techniques. The net unrealized appreciation or depreciation on fixed maturity investments trading is included in net realized and unrealized gains (losses) on investments in the statements of operations. Realized gains or losses on the sale of fixed maturity investments are determined on the basis of the first in first out cost method.

**DAVINCI REINSURANCE LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**  
**(amounts in tables expressed in thousands of United States Dollars)**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES, cont'd.

*Short Term Investments*

Short term investments, which are managed as part of the Company's investment portfolio and have a maturity of one year or less when purchased, are carried at fair value. The net unrealized appreciation or depreciation on these short term investments is included in net realized and unrealized gains (losses) on investments in the statements of operations.

*Equity Investments, Classified as Trading*

Equity investments are accounted for at fair value. Fair values are primarily priced by pricing services, reflecting the closing price quoted for the final trading day of the period. Net investment income includes dividend income and the net realized and unrealized appreciation or depreciation on equity investments is included in net realized and unrealized gains (losses) on investments in the statements of operations.

*Cash and Cash Equivalents*

Cash equivalents include money market instruments with a maturity of ninety days or less when purchased.

Derivatives

From time to time, the Company enters into derivative instruments such as futures, options, swaps, forward contracts and other derivative contracts primarily to manage its foreign currency exposure, obtain exposure to a particular financial market, for yield enhancement, or for trading and to assume risk. The Company accounts for its derivatives in accordance with FASB ASC Topic *Derivatives and Hedging*, which requires all derivatives to be recorded at fair value on the Company's balance sheet as either assets or liabilities, depending on their rights or obligations, with changes in fair value reflected in current earnings. The Company does not currently apply hedge accounting. The fair value of the Company's derivatives is estimated by reference to quoted prices or broker quotes, where available, or in the absence of quoted prices or broker quotes, the use of industry or internal valuation models.

Fair Value

The Company accounts for certain of its assets and liabilities at fair value in accordance with FASB ASC Topic *Fair Value Measurements and Disclosures*. The Company recognizes the change in unrealized gains and losses arising from changes in fair value in its statements of operations.

Foreign Exchange

The Company's functional currency is the United States ("U.S.") dollar. Revenues and expenses denominated in foreign currencies are revalued at the prevailing exchange rate at the transaction date. Monetary assets and liabilities denominated in foreign currencies are remeasured at exchange rates in effect at the balance sheet date, which may result in the recognition of exchange gains or losses which are included in the determination of net income.

**DAVINCI REINSURANCE LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**  
**(amounts in tables expressed in thousands of United States Dollars)**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES, cont'd.

Recently Adopted Accounting Pronouncements

*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. ASU 2014-09 also provides guidance on accounting for certain contract costs and had also required new disclosures. ASU 2014-09 was to be effective for non-public business entities for fiscal years beginning after December 15, 2017, and interim periods beginning after December 15, 2018, however in July 2015, the FASB decided to defer by one year the effective dates of ASU 2014-09, and as a result, ASU 2014-09 is effective for non-public business entities for fiscal years beginning after December 15, 2018. Early adoption was permitted only as of a fiscal year beginning after December 15, 2016, and interim periods within fiscal years beginning one year after the fiscal year in which an entity first applies the guidance in ASU 2014-09. ASU 2014-09 notably excludes the accounting for insurance contracts, leases, financial instruments and guarantees. The Company early adopted ASU 2014-09 and it did not have a material impact on the Company's statements of operations and financial position.

*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 by requiring a qualitative assessment to identify impairment, eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost, requires the use of the exit price notion when measuring the fair value of financial instruments for disclosure purposes, 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 for 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 public business entities in annual and interim periods beginning after December 15, 2017. For all other entities, the amendments in ASU 2016-01 are effective for fiscal years beginning after December 15, 2018. All entities that are not public business entities may adopt the amendments in ASU 2016-01 earlier as of the fiscal years beginning after December 15, 2017. The Company early adopted ASU 2016-01 and it did not have a material impact on the Company's statements of operations and financial position.

**DAVINCI REINSURANCE LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**  
**(amounts in tables expressed in thousands of United States Dollars)**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES, cont'd.

*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 public business entities for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. For all other entities, ASU 2016-15 is effective for fiscal years beginning after December 15, 2018. The Company early adopted ASU 2016-15 and it did not have a material impact on the Company's statement of cash flow.

Recently Issued Accounting Pronouncements Not Yet Adopted

*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 public business entities that are SEC filers for annual and interim periods beginning after December 15, 2019. For all other public business entities, ASU 2016-13 is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. For all other entities ASU 2016-13 is effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years 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 operations and financial position.

*Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*

In August 2018, the FASB issued ASU No. 2018-13, *Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement* ("ASU 2018-13"). The ASU 2018-13 modifies the disclosure requirements of fair value measurements as part of the disclosure framework project with the objective to improve the effectiveness of disclosures in the notes to the financial statements. ASU 2018-13 allows for removal of the amount and reasons for transfer between Level 1 and Level 2 of the fair value hierarchy; the policy for transfers between levels; and the valuation processes for Level 3 fair value measurements. ASU 2018-13 is effective for all entities for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. 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 operations and financial position.

**DAVINCI REINSURANCE LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**  
(amounts in tables expressed in thousands of United States Dollars)

NOTE 3. INVESTMENTS

*Fixed Maturity Investments Trading*

The following table summarizes the fair value of fixed maturity investments trading:

<u>At December 31,</u>	<u>2019</u>	<u>2018</u>
U.S. treasuries	\$ 1,099,347	\$ 553,310
Agencies	28,512	35,569
Municipal	—	2,697
Non-U.S. government	57,682	27,243
Non-U.S. government-backed corporate	108,888	20,835
Corporate	534,575	673,120
Agency mortgage-backed	321,347	255,030
Non-agency mortgage-backed	7,397	4,629
Commercial mortgage-backed	74,944	72,708
Asset-backed	56,681	44,764
Total fixed maturity investments trading	<u>\$ 2,289,373</u>	<u>\$ 1,689,905</u>

Contractual maturities of fixed maturity investments trading are described in the following table. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

<u>At December 31, 2019</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
Due in less than one year	\$ 160,344	\$ 160,585
Due after one through five years	1,497,400	1,507,437
Due after five through ten years	150,638	152,978
Due after ten years	7,870	8,004
Mortgage-backed	399,874	403,688
Asset-backed	56,478	56,681
Total	<u>\$ 2,272,604</u>	<u>\$ 2,289,373</u>

*Equity Investments Trading*

The following table summarizes the fair value of equity investments trading:

<u>At December 31,</u>	<u>2019</u>	<u>2018</u>
Industrial, utilities and energy	\$ 142	\$ 151
Communications and technology	—	19
Total	<u>\$ 142</u>	<u>\$ 170</u>

**DAVINCI REINSURANCE LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**  
(amounts in tables expressed in thousands of United States Dollars)

NOTE 3. INVESTMENTS, cont'd.

*Pledged Investments*

At December 31, 2019, \$386.7 million (2018 - \$460.4 million) of cash and investments at fair value were on deposit with, or in trust accounts for the benefit of, various counterparties, including with respect to RenaissanceRe's letter of credit facilities. Of this amount, \$375.6 million (2018 - \$443.9 million) is on deposit with, or in trust accounts for the benefit of, U.S. state regulatory authorities and primarily relates to the Company's multi-beneficiary reinsurance trust ("MBRT") and multi-beneficiary reduced collateral reinsurance trust ("RCT"). See "Note 10. Statutory Requirements" for additional information regarding the Company's MBRT and RCT.

*Reverse Repurchase Agreements*

At December 31, 2019, the Company had \$1.1 million (2018 - \$2.7 million) of reverse repurchase agreements. These loans are fully collateralized, are generally outstanding for a short period of time and are presented on a gross basis as part of short term investments on the Company's balance sheets. The required collateral for these loans typically includes high-quality, readily marketable instruments at a minimum amount of 102% of the loan principal. Upon maturity, the Company receives principal and interest income.

*Net Investment Income*

The components of net investment income are as follows:

<u>Year ended December 31,</u>	<u>2019</u>	<u>2018</u>
Fixed maturity investments	\$ 48,699	\$ 46,136
Short term investments	7,002	3,746
Cash and cash equivalents	925	419
	<u>56,626</u>	<u>50,301</u>
Investment expenses	(2,918)	(3,245)
Net investment income	<u>\$ 53,708</u>	<u>\$ 47,056</u>

*Net Realized and Unrealized Gains (Losses) on Investments*

Net realized and unrealized gains (losses) on investments are as follows:

<u>Year ended December 31,</u>	<u>2019</u>	<u>2018</u>
Gross realized gains	\$ 17,879	\$ 4,541
Gross realized losses	(6,559)	(18,835)
Net realized gains (losses) on fixed maturity investments	11,320	(14,294)
Net unrealized gains (losses) on fixed maturity investments trading	37,285	(9,984)
Net realized and unrealized losses on investments-related derivatives	(98)	(2,758)
Net realized gains on equity investments trading	33	208
Net unrealized (losses) gains on equity investments trading	(5)	53
Net realized and unrealized gains (losses) on investments	<u>\$ 48,535</u>	<u>\$ (26,775)</u>

**DAVINCI REINSURANCE LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**  
**(amounts in tables expressed in thousands of United States Dollars)**

NOTE 4. FAIR VALUE MEASUREMENTS

The use of fair value to measure certain assets and liabilities with resulting unrealized gains or losses is pervasive within the Company's financial statements. Fair value is defined under accounting guidance currently applicable to the Company to be the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between open market participants at the measurement date. The Company recognizes the change in unrealized gains and losses arising from changes in fair value in its statements of operations.

FASB ASC Topic *Fair Value Measurements and Disclosures* prescribes a fair value hierarchy that prioritizes the inputs to the respective valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to valuation techniques that use at least one significant input that is unobservable (Level 3). The three levels of the fair value hierarchy are described below:

- Fair values determined by Level 1 inputs utilize unadjusted quoted prices obtained from active markets for identical assets or liabilities for which the Company has access. The fair value is determined by multiplying the quoted price by the quantity held by the Company;
- Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals, broker quotes and certain pricing indices; and
- Level 3 inputs are based all or in part on significant unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. In these cases, 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.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement of the asset or liability. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and the Company considers factors specific to the asset or liability.

In order to determine if a market is active or inactive for a security, the Company considers a number of factors, including, but not limited to, the spread between what a seller is asking for a security and what a buyer is bidding for the same security, the volume of trading activity for the security in question, the price of the security compared to its par value (for fixed maturity investments), and other factors that may be indicative of market activity.

There have been no material changes in the Company's valuation techniques, nor have there been any transfers between Level 1 and Level 2, or transfers into or out of Level 3, respectively, during the period represented by these financial statements.

**DAVINCI REINSURANCE LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**  
(amounts in tables expressed in thousands of United States Dollars)

NOTE 4. FAIR VALUE MEASUREMENTS, cont'd.

Below is a summary of the assets and liabilities that are measured at fair value on a recurring basis and also represents the carrying amount on the Company's balance sheets:

<u>At December 31, 2019</u>	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Fixed maturity investments				
U.S. treasuries	\$ 1,099,347	\$ 1,099,347	\$ —	\$ —
Agencies	28,512	—	28,512	—
Non-U.S. government	57,682	—	57,682	—
Non-U.S. government-backed corporate	108,888	—	108,888	—
Corporate	534,575	—	534,575	—
Agency mortgage-backed	321,347	—	321,347	—
Non-agency mortgage-backed	7,397	—	7,397	—
Commercial mortgage-backed	74,944	—	74,944	—
Asset-backed	56,681	—	56,681	—
Total fixed maturity investments	<u>2,289,373</u>	<u>1,099,347</u>	<u>1,190,026</u>	<u>—</u>
Short term investments	235,999	—	235,999	—
Equity investments trading	142	142	—	—
Other assets and (liabilities)				
Derivative assets (1)	933	180	753	—
Derivative liabilities (1)	(671)	(234)	(437)	—
Total other assets and (liabilities)	<u>262</u>	<u>(54)</u>	<u>316</u>	<u>—</u>
	<u>\$ 2,525,776</u>	<u>\$ 1,099,435</u>	<u>\$ 1,426,341</u>	<u>\$ —</u>

(1) See "Note 11. Derivative Instruments" for additional information related to the fair value by type of contract, of derivatives entered into by the Company, included in other assets and liabilities on its balance sheets.

**DAVINCI REINSURANCE LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**  
(amounts in tables expressed in thousands of United States Dollars)

NOTE 4. FAIR VALUE MEASUREMENTS, cont'd.

<u>At December 31, 2018</u>	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Fixed maturity investments				
U.S. treasuries	\$ 553,310	\$ 553,310	\$ —	\$ —
Agencies	35,569	—	35,569	—
Municipal	2,697	—	2,697	—
Non-U.S. government	27,243	—	27,243	—
Non-U.S. government-backed corporate	20,835	—	20,835	—
Corporate	673,120	—	673,120	—
Agency mortgage-backed	255,030	—	255,030	—
Non-agency mortgage-backed	4,629	—	4,629	—
Commercial mortgage-backed	72,708	—	72,708	—
Asset-backed	44,764	—	44,764	—
Total fixed maturity investments	<u>1,689,905</u>	<u>553,310</u>	<u>1,136,595</u>	<u>—</u>
Short term investments	227,097	—	227,097	—
Equity investments trading	170	170	—	—
Other assets and (liabilities)				
Assumed reinsurance contract	(345)	—	—	(345)
Derivative assets (1)	2,710	563	2,147	—
Derivative liabilities (1)	(1,485)	(658)	(827)	—
Total other assets and (liabilities)	<u>880</u>	<u>(95)</u>	<u>1,320</u>	<u>(345)</u>
	<u>\$ 1,918,052</u>	<u>\$ 553,385</u>	<u>\$ 1,365,012</u>	<u>\$ (345)</u>

(1) See "Note 11. Derivative Instruments" for additional information related to the fair value by type of contract, of derivatives entered into by the Company, included in other assets and liabilities on its balance sheets.

Level 1 and Level 2 Assets and Liabilities Measured at Fair Value

*Fixed Maturity Investments*

Fixed maturity investments included in Level 1 consist of the Company's investments in U.S. treasuries. Fixed maturity investments included in Level 2 are agencies, municipal, non-U.S. government, non-U.S. government-backed corporate, corporate, agency mortgage-backed, non-agency mortgage backed, commercial mortgage-backed and asset-backed fixed maturity investments.

The Company's fixed maturity investments are primarily priced using pricing services, such as index providers and pricing vendors, as well as broker quotations. In general, the pricing vendors provide pricing for a high volume of liquid securities that are actively traded. For securities that do not trade on an exchange, the pricing services generally utilize market data and other observable inputs in matrix pricing models to determine month end prices. Observable inputs include benchmark yields, reported trades, broker-dealer quotes, issuer spreads, bids, offers, reference data and industry and economic events. Index pricing generally relies on market traders as the primary source for pricing; however, models are also utilized to provide prices for all index eligible securities. The models use a variety of observable inputs such as benchmark yields, transactional data, dealer runs, broker-dealer quotes and corporate actions. Prices are generally verified using third-party data. Securities which are priced by an index provider are generally included in the index.

**DAVINCI REINSURANCE LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**  
**(amounts in tables expressed in thousands of United States Dollars)**

NOTE 4. FAIR VALUE MEASUREMENTS, cont'd.

In general, broker-dealers value securities through their trading desks based on observable inputs. The methodologies include mapping securities based on trade data, bids or offers, observed spreads, and performance on newly issued securities. Broker-dealers also determine valuations by observing secondary trading of similar securities. Prices obtained from broker quotations are considered non-binding, however they are based on observable inputs and by observing secondary trading of similar securities obtained from active, non-distressed markets.

The Company considers these broker quotations to be Level 2 inputs as they are corroborated with other market observable inputs. The techniques generally used to determine the fair value of the Company's fixed maturity investments are detailed below by asset class.

U.S. treasuries

Level 1 - At December 31, 2019, the Company's U.S. treasuries fixed maturity investments had a weighted average yield to maturity of 1.6% and a weighted average credit quality of AA (2018 - 2.5% and AA, respectively). When pricing these securities, the pricing services utilize daily data from many real time market sources, including active broker-dealers. Certain data sources are regularly reviewed for accuracy to attempt to ensure the most reliable price source is used for each issue and maturity date.

Agencies

Level 2 - At December 31, 2019, the Company's agency fixed maturity investments had a weighted average yield to maturity of 1.9% and a weighted average credit quality of AA (2018 - 3.0% and AA, respectively). The issuers of the Company's agency fixed maturity investments primarily consist of the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and other agencies. Fixed maturity investments included in agencies are primarily priced by pricing services. When evaluating these securities, the pricing services gather information from market sources and integrate other observations from markets and sector news. Evaluations are updated by obtaining broker-dealer quotes and other market information including actual trade volumes, when available. The fair value of each security is individually computed using analytical models which incorporate option adjusted spreads and other daily interest rate data.

Municipal

Level 2 - At December 31, 2019, the Company did not hold any material positions in municipal fixed maturity investments. At December 31, 2018, the Company's municipal fixed maturity investments had a weighted average yield to maturity of 3.5% and a weighted average credit quality of A. The Company's municipal fixed maturity investments were primarily priced by pricing services. When evaluating these securities, the pricing services gathered information regarding the security from third-party sources such as trustees, paying agents or issuers. Evaluations were updated by obtaining broker-dealer quotes and other market information including actual trade volumes, when available. The pricing services also considered the specific terms and conditions of the securities, including any specific features which may have influenced risk. In certain instances, securities were individually evaluated using a spread over widely accepted market benchmarks.

**DAVINCI REINSURANCE LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**  
**(amounts in tables expressed in thousands of United States Dollars)**

NOTE 4. FAIR VALUE MEASUREMENTS, cont'd.

Non-U.S. government

Level 2 - At December 31, 2019, the Company's non-U.S. government fixed maturity investments had a weighted average yield to maturity of 1.8% and a weighted average credit quality of AA (2018 - 2.8% and AAA, respectively). The issuers of securities in this sector are non-U.S. governments and their respective agencies as well as supranational organizations. Securities held in these sectors are primarily priced by pricing services that employ proprietary discounted cash flow models to value the securities. Key quantitative inputs for these models are daily observed benchmark curves for treasury, swap and high issuance credits. The pricing services then apply a credit spread for each security which is developed by in-depth and real time market analysis. For securities in which trade volume is low, the pricing services utilize data from more frequently traded securities with similar attributes. These models may also be supplemented by daily market and credit research for international markets.

Non-U.S. government-backed corporate

Level 2 - At December 31, 2019, the Company's non-U.S. government-backed corporate fixed maturity had a weighted average yield to maturity of 1.9% and a weighted average credit quality of AA (2018 - 2.7% and AA, respectively). Non-U.S. government-backed corporate fixed maturity investments are primarily priced by pricing services that employ proprietary discounted cash flow models to value the securities. Key quantitative inputs for these models are daily observed benchmark curves for treasury, swap and high issuance credits. The pricing services then apply a credit spread to the respective curve for each security which is developed by in-depth and real time market analysis. For securities in which trade volume is low, the pricing services utilize data from more frequently traded securities with similar attributes. These models may also be supplemented by daily market and credit research for international markets.

Corporate

Level 2 - At December 31, 2019, the Company's corporate fixed maturity investments principally consisted of U.S. and international corporations and had a weighted average yield to maturity of 3.1% and a weighted average credit quality of BBB (2018 - 4.7% and BBB, respectively). The Company's corporate fixed maturity investments are primarily priced by pricing services. When evaluating these securities, the pricing services gather information from market sources regarding the issuer of the security and obtain credit data, as well as other observations from markets and sector news. Evaluations are updated by obtaining broker-dealer quotes and other market information including actual trade volumes, when available. The pricing services also consider the specific terms and conditions of the securities, including any specific features which may influence risk. In certain instances, securities are individually evaluated using a spread which is added to the U.S. treasury curve or a security specific swap curve as appropriate.

Agency mortgage-backed

Level 2 - At December 31, 2019, the Company's agency mortgage-backed fixed maturity investments included agency residential mortgage-backed securities with a weighted average yield to maturity of 2.6%, a weighted average credit quality of AA and a weighted average life of 5.0 years (2018 - 3.5%, AA and 7.2 years, respectively). The Company's agency mortgage-backed fixed maturity investments are primarily priced by pricing services using a mortgage pool specific model which utilizes daily inputs from the active to-be-announced market which is very liquid, as well as the U.S. treasury market. The model also utilizes additional information, such as the weighted average maturity, weighted average coupon and other available pool level data which is provided by the sponsoring agency. Valuations are also corroborated with daily active market quotes.

**DAVINCI REINSURANCE LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**  
**(amounts in tables expressed in thousands of United States Dollars)**

NOTE 4. FAIR VALUE MEASUREMENTS, cont'd.

Non-agency mortgage-backed

Level 2 - The Company's non-agency mortgage-backed fixed maturity investments included non-agency prime residential and non-agency Alt-A mortgage-backed securities. At December 31, 2019, the Company's non-agency prime residential mortgage-backed fixed maturity investments had a weighted average yield to maturity of 2.8%, a weighted average credit quality of AAA and a weighted average life of 3.8 years (2018 - 3.7%, AAA and 2.5 years, respectively). The Company's non-agency Alt-A fixed maturity investments held at December 31, 2019 had a weighted average yield to maturity of 2.6%, a weighted average credit quality of AAA and a weighted average life of 2.4 years (2018 - 3.9%, AAA and 1.6 years, respectively). Securities held in these sectors are primarily priced by pricing services using an option adjusted spread model or other relevant models, which principally utilize inputs including benchmark yields, available trade information or broker quotes, and issuer spreads. The pricing services also review collateral prepayment speeds, loss severity and delinquencies among other collateral performance indicators for the securities valuation, when applicable.

Commercial mortgage-backed

Level 2 - At December 31, 2019, the Company's commercial mortgage-backed fixed maturity investments had a weighted average yield to maturity of 2.5%, a weighted average credit quality of AAA and a weighted average life of 4.6 years (2018 - 3.6%, AAA and 4.5 years, respectively). Securities held in these sectors are primarily priced by pricing services. The pricing services apply dealer quotes and other available trade information such as bids and offers, prepayment speeds which may be adjusted for the underlying collateral or current price data, the U.S. treasury curve and swap curve as well as cash settlement. The pricing services discount the expected cash flows for each security held in this sector using a spread adjusted benchmark yield based on the characteristics of the security.

Asset-backed

Level 2 - At December 31, 2019, the Company's asset-backed fixed maturity investments had a weighted average yield to maturity of 2.7%, a weighted average credit quality of AAA and a weighted average life of 2.5 years (2018 - 3.6%, AAA and 2.2 years, respectively). The underlying collateral for the Company's asset-backed fixed maturity investments primarily consists of bank loans, auto loans, credit card and other receivables. Securities held in these sectors are primarily priced by pricing services. The pricing services apply dealer quotes and other available trade information such as bids and offers, prepayment speeds which may be adjusted for the underlying collateral or current price data, the U.S. treasury curve and swap curve as well as cash settlement. The pricing services determine the expected cash flows for each security held in this sector using historical prepayment and default projections for the underlying collateral and current market data. In addition, a spread is applied to the relevant benchmark and used to discount the cash flows noted above to determine the fair value of the securities held in this sector.

*Short Term Investments*

Level 2 - At December 31, 2019, the Company's short term investments had a weighted average yield to maturity of 1.5% and a weighted average credit quality of AAA (2018 - 1.9% and AAA, respectively). The fair value of the Company's portfolio of short term investments is generally determined using amortized cost which approximates fair value and, in certain cases, in a manner similar to the Company's fixed maturity investments noted above.

**DAVINCI REINSURANCE LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**  
(amounts in tables expressed in thousands of United States Dollars)

NOTE 4. FAIR VALUE MEASUREMENTS, cont'd.

*Equity Investments, Classified as Trading*

Level 1 - The fair value of the Company's portfolio of equity investments, classified as trading is primarily priced by pricing services, reflecting the closing price quoted for the final trading day of the period. When pricing these securities, the pricing services utilize daily data from many real time market sources, including applicable securities exchanges. All data sources are regularly reviewed for accuracy to attempt to ensure the most reliable price source was used for each security.

*Other Assets and Liabilities*

Derivatives

Level 1 and Level 2 - Other assets and liabilities include certain derivatives entered into by the Company. The fair value of these transactions includes certain exchange traded futures contracts which are considered Level 1, and foreign currency contracts and certain credit derivatives, determined using standard industry valuation models and considered Level 2, with inputs to the valuation model based on observable market inputs. For credit derivatives, these inputs include credit spreads, credit ratings of the underlying referenced security, the risk free rate and the contract term. For foreign currency contracts, these inputs include foreign currency spot rates and interest rate curves.

*Level 3 Liabilities Measured at Fair Value*

Below is a reconciliation of the beginning and ending balances, for the periods shown, of liabilities measured at fair value on a recurring basis using Level 3 inputs. Interest and dividend income are included in net investment income and are excluded from the reconciliation.

	<u>Other liabilities</u>
Balance - January 1, 2019	\$ (345)
Total realized and unrealized gains	
Included in other income	345
Balance - December 31, 2019	<u>\$ —</u>

	<u>Other liabilities</u>
Balance - January 1, 2018	\$ (845)
Total realized and unrealized gains	
Included in other income	489
Settlements	11
Balance - December 31, 2018	<u>\$ (345)</u>

Other liabilities - Assumed reinsurance contract

Level 3 - At December 31, 2019 the Company had a \$Nil liability related to an assumed reinsurance contract accounted for at fair value, with the fair value obtained through the use of an internal valuation model. The inputs to the models are primarily based on the unexpired period of risk and an evaluation of the probability of loss. The fair value of the contracts are sensitive to loss-triggering events. In the event of a loss, the

**DAVINCI REINSURANCE LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**  
**(amounts in tables expressed in thousands of United States Dollars)**

NOTE 4. FAIR VALUE MEASUREMENTS, cont'd.

Company would adjust the fair value of the contract to account for a recovery or liability in accordance with the contract terms and the estimate of exposure under the contract. The inputs for the contracts are based on management's evaluation and are unobservable.

Financial Instruments Disclosed, But Not Carried, at Fair Value

The Company uses various financial instruments in the normal course of its business. The Company's insurance contracts are excluded from the fair value of financial instruments accounting guidance, unless the Company elects the fair value option, and therefore, are not included in the amounts discussed herein. The carrying values of cash and cash equivalents, accrued investment income, receivables for investments sold, certain other assets, payables for investments purchased, certain other liabilities, and other financial instruments not included herein approximated their fair values.

**DAVINCI REINSURANCE LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**  
(amounts in tables expressed in thousands of United States Dollars)

NOTE 5. REINSURANCE

The Company purchases reinsurance and other protection to manage its risk portfolio and reduce its exposure to large losses. The Company currently has in place contracts that provide for recovery of a portion of certain claims and claim expenses, generally in excess of various retentions. In addition to loss recoveries, certain of the Company's ceded reinsurance contracts also provide for payments of additional premiums, for reinstatement premiums and for lost no-claims bonuses, which are incurred when losses are ceded to the respective reinsurance contracts. The Company remains liable to the extent that any reinsurer fails to meet its obligations.

The following table sets forth the effect of reinsurance and retrocessional activity on net premiums written and earned and on net claims and claim expenses incurred:

<u>Year ended December 31,</u>	<u>2019</u>	<u>2018</u>
<u>Premiums written</u>		
Assumed	\$ 440,718	\$ 386,796
Ceded	(61,590)	(69,624)
Net premiums written	<u>\$ 379,128</u>	<u>\$ 317,172</u>
<u>Premiums earned</u>		
Assumed	\$ 427,270	\$ 368,951
Ceded	(62,160)	(60,473)
Net premiums earned	<u>\$ 365,110</u>	<u>\$ 308,478</u>
<u>Claims and claim expenses</u>		
Gross claims and claim expenses incurred	\$ 253,201	\$ 402,161
Claims and claim expenses recovered	(57,830)	(194,514)
Net claims and claim expenses incurred	<u>\$ 195,371</u>	<u>\$ 207,647</u>

At December 31, 2019, the Company's reinsurance recoverable balance was \$123.3 million (2018 - \$251.1 million). Of the Company's reinsurance recoverable balance at December 31, 2019, 60.0% is fully collateralized by the Company's reinsurers, 34.3% is recoverable from reinsurers rated A- or higher by major rating agencies and 5.7% is recoverable from reinsurers rated lower than A- by major rating agencies (2018 - 73.5%, 25.5% and 1.0%, respectively). The reinsurers with the three largest balances accounted for 23.7%, 20.7% and 12.9%, respectively, of the Company's reinsurance recoverable balance at December 31, 2019 (2018 - 21.5%, 14.8% and 8.3%, respectively). The valuation allowance recorded against reinsurance recoverable was \$0.2 million at December 31, 2019 (2018 - \$0.9 million). The three largest company-specific components of the valuation allowance represented 42.5%, 12.9% and 10.3%, respectively, of the Company's total valuation allowance at December 31, 2019 (2018 - 49.0%, 16.5% and 7.3%, respectively).

**DAVINCI REINSURANCE LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**  
(amounts in tables expressed in thousands of United States Dollars)

NOTE 6. RESERVE FOR CLAIMS AND CLAIM EXPENSES

The Company believes the most significant accounting judgment made by management is its estimate of claims and claim expense reserves. Claims and claim expense reserves represent estimates, including actuarial and statistical projections at a given point in time, of the ultimate settlement and administration costs for unpaid claims and claim expenses arising from the insurance and reinsurance contracts the Company sells. The Company establishes its claims and claim expense reserves by taking claims reported to the Company by insureds and ceding companies, but which have not yet been paid ("case reserves"), adding estimates for the anticipated cost of claims incurred but not yet reported to the Company, or incurred but not enough reported to the Company (collectively referred to as "IBNR") and, if deemed necessary, adding costs for additional case reserves which represent the Company's estimates for claims related to specific contracts previously reported to the Company which it believes may not be adequately estimated by the client as of that date, or adequately covered in the application of IBNR.

The following table summarizes the Company's claims and claim expense reserves allocated between case reserves, additional case reserves and IBNR:

	Case Reserves	Additional Case Reserves	IBNR	Total
At December 31, 2019	\$ 147,524	\$ 308,371	\$ 282,118	\$ 738,013
At December 31, 2018	\$ 127,592	\$ 341,994	\$ 249,557	\$ 719,143

Activity in the liability for unpaid claims and claim expenses is summarized as follows:

<u>Year ended December 31,</u>	<u>2019</u>	<u>2018</u>
Net reserves as of beginning of period	\$ 468,000	\$ 477,121
Net incurred related to:		
Current year	209,688	298,765
Prior years	(14,317)	(91,118)
Total net incurred	<u>195,371</u>	<u>207,647</u>
Net paid related to:		
Current year	8,187	126,419
Prior years	40,416	90,327
Total net paid	<u>48,603</u>	<u>216,746</u>
Foreign exchange (1)	<u>(29)</u>	<u>(22)</u>
Net reserves as of end of period	614,739	468,000
Reinsurance recoverable as of end of period	123,274	251,143
Gross reserves as of end of period	<u>\$ 738,013</u>	<u>\$ 719,143</u>

(1) Reflects the impact of the foreign exchange revaluation of net reserves denominated in non-U.S. dollars as at the balance sheet date.

The Company's reserving methodology for each line of business uses a loss reserving process that calculates a point estimate for its ultimate settlement and administration costs for claims and claim expenses. The Company does not calculate a range of estimates and does not discount any of its reserves for claims and claim expenses. The Company uses this point estimate, along with paid claims and case reserves, to record its best estimate of additional case reserves and IBNR in its financial statements. Under GAAP, the Company is not permitted to establish estimates for catastrophe claims and claim expense reserves until an event occurs that gives rise to a loss.

**DAVINCI REINSURANCE LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**  
**(amounts in tables expressed in thousands of United States Dollars)**

NOTE 6. RESERVE FOR CLAIMS AND CLAIM EXPENSES, cont'd.

Reserving for reinsurance claims involves other uncertainties, such as the dependence on information from ceding companies, the time lag inherent in reporting information from the primary insurer to the Company or to the Company's ceding companies, and differing reserving practices among ceding companies. The information received from ceding companies is typically in the form of broker notifications of loss and/or discussions with ceding companies or their brokers. This information may be received on a monthly, quarterly or transactional basis and normally includes paid claims and estimates of case reserves. The Company sometimes also receives an estimate or provision for IBNR. This information is often updated and adjusted from time to time during the loss settlement period as new data or facts in respect of initial claims, client accounts, industry or event trends may be reported or emerge in addition to changes in applicable statutory and case laws.

The Company's estimates of losses from large events are based on factors including currently available information derived from claims information from certain customers and brokers, industry assessments of losses from the events, proprietary models, and the terms and conditions of the Company's contracts. The uncertainty of the Company's estimates for large events is also impacted by the preliminary nature of the information available, the magnitude and relative infrequency of the events, the expected duration of the respective claims development period, inadequacies in the data provided to the relevant date by industry participants and the potential for further reporting lags or insufficiencies; and in certain large events, significant uncertainty as to the form of the claims and legal issues, under the relevant terms of insurance and reinsurance contracts. In addition, a significant portion of the net claims and claim expenses associated with certain large events can be concentrated with a few large clients and therefore the loss estimates for these events may vary significantly based on the claims experience of those clients. The contingent nature of business interruption and other exposures will also impact losses in a meaningful way, which may give rise to significant complexity in respect of claims handling, claims adjustment and other coverage issues, over time. Given the magnitude of certain events, there can be meaningful uncertainty regarding total covered losses for the insurance industry and, accordingly, several of the key assumptions underlying the Company's loss estimates. Loss reserve estimation in respect of the Company's retrocessional contracts poses further challenges compared to directly assumed reinsurance. In addition, the Company's actual net losses from these events may increase if the Company's reinsurers or other obligors fail to meet their obligations.

Because of the inherent uncertainties discussed above, the Company has developed a reserving philosophy that attempts to incorporate prudent assumptions and estimates, and the Company has generally experienced favorable net development on prior accident years net claims and claim expenses in the last several years. However, there is no assurance that this favorable development on prior accident years net claims and claim expenses will occur in future periods.

The Company reevaluates its actuarial reserving techniques on a periodic basis. Typically, the quarterly review procedures include reviewing paid and reported claims in the most recent reporting period, reviewing the development of paid and reported claims from prior periods, and reviewing the Company's overall experience by underwriting year and in the aggregate. The Company monitors its expected ultimate claims and claim expense ratios and expected claims reporting assumptions on a quarterly basis and compares them to its actual experience. These actuarial assumptions are generally reviewed annually, based on input from actuaries, underwriters, claims personnel and finance professionals, although adjustments may be made more frequently if needed. Assumption changes are made to adjust for changes in the pricing and terms of coverage the Company provides, changes in industry results for similar business, as well as its actual experience to the extent the Company has enough data to rely on its own experience. If the Company determines that adjustments to an earlier estimate are appropriate, such adjustments are recorded in the period in which they are identified.

**DAVINCI REINSURANCE LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**  
**(amounts in tables expressed in thousands of United States Dollars)**

NOTE 6. RESERVE FOR CLAIMS AND CLAIM EXPENSES, cont'd.

*Incurred and Paid Claims Development and Reserving Methodology*

The Company principally writes property catastrophe excess of loss reinsurance contracts to insure insurance and reinsurance companies against natural and man-made catastrophes. Under these contracts, the Company indemnifies an insurer or reinsurer when its aggregate paid claims and claim expenses from a single occurrence of a covered peril exceeds the attachment point specified in the contract, up to an amount per loss specified in the contract. The Company also writes aggregate reinsurance contracts. Under these contracts, the Company indemnifies an insurer or reinsurer when its aggregate paid claims and claim expenses from multiple events within set conditions exceeds the attachment point specified in the contract, up to an amount specified in the contract. The Company's most significant exposure is to losses from hurricanes, earthquakes and other windstorms, although the Company is also exposed to claims arising from other catastrophes, such as tsunamis, winter storms, freezes, floods, fires, tornadoes, explosions and acts of terrorism. The Company's predominant exposure under such coverage is to property damage. However, other risks, including business interruption and other non-property losses, may also be covered under the Company's catastrophe contracts when arising from a covered peril. The Company's coverages are offered on either a worldwide basis or are limited to selected geographic areas.

Coverage can also vary from "all property" perils to limited coverage on selected perils, such as "earthquake only" coverage. The Company also enters into retrocessional contracts that provide property catastrophe coverage to other reinsurers or retrocedants. This coverage is generally in the form of excess of loss retrocessional contracts and may cover all perils and exposures on a worldwide basis or be limited in scope to selected geographic areas, perils and/or exposures. The exposures the Company assumes from retrocessional business can change within a contract term as the underwriters of a retrocedant may alter their book of business after the retrocessional coverage has been bound. The Company also offers dual trigger reinsurance contracts which require the Company to pay claims based on claims incurred by insurers and reinsurers in addition to the estimate of insured industry losses as reported by referenced statistical reporting agencies.

The Company also writes certain casualty and specialty reinsurance contracts. The Company's predominant exposure under such coverage is to catastrophe. However, other risks, including business interruption and other non-property losses, may also be covered when arising from a covered peril. The Company's coverages are offered on either a worldwide basis or are limited to selected geographic areas. The exposures assumed from retrocessional business can change within a contract term as the underwriters of a retrocedant may alter their book of business after the retrocessional coverage has been bound. The Company offers these products principally through excess of loss coverage.

Claims and claim expenses are generally characterized by loss events of low frequency and high severity. Initial reporting of paid and incurred claims in general, tends to be relatively prompt. The Company considers this business "short-tail" as compared to the reporting of claims for "long-tail" products, which tends to be slower. However, the timing of claims payment and reporting also varies depending on various factors, including: whether the claims arise under reinsurance of primary insurance companies or reinsurance of other reinsurance companies; the nature of the events (e.g., hurricanes, earthquakes or terrorism); the geographic area involved; post-event inflation which may cause the cost to repair damaged property to increase significantly from current estimates, or for property claims to remain open for a longer period of time, due to limitations on the supply of building materials, labor and other resources; complex policy coverage and other legal issues; and the quality of each client's claims management and reserving practices. Management's judgments regarding these factors are reflected in the Company's reserve for claims and claim expenses.

**DAVINCI REINSURANCE LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**  
**(amounts in tables expressed in thousands of United States Dollars)**

NOTE 6. RESERVE FOR CLAIMS AND CLAIM EXPENSES, cont'd.

Claims and claim expense reserves are estimated by management after a catastrophe occurs by completing an in-depth analysis of the individual contracts which may potentially be impacted by the catastrophic event. The in-depth analysis generally involves: 1) estimating the size of insured industry losses from the catastrophic event; 2) reviewing reinsurance contract portfolios to identify contracts which are exposed to the catastrophic event; 3) reviewing information reported by customers and brokers; 4) discussing the event with customers and brokers; and 5) estimating the ultimate expected cost to settle all claims and administrative costs arising from the catastrophic event on a contract-by-contract basis and in aggregate for the event. Once an event has occurred, during the then current reporting period, the Company records its best estimate of the ultimate expected cost to settle all claims arising from the event. The Company's estimate of claims and claim expense reserves is then determined by deducting cumulative paid losses from its estimate of the ultimate expected loss for an event. The Company's estimate of IBNR is determined by deducting cumulative paid losses, case reserves and additional case reserves from its estimate of the ultimate expected loss for an event. Once the Company receives a valid notice of loss or payment request under a catastrophe reinsurance contract, it is generally able to process and pay such claims promptly.

Because the events from which claims arise under policies written are typically prominent, public occurrences such as hurricanes and earthquakes, the Company is often able to use independent reports as part of its loss reserve estimation process. The Company also reviews catastrophe bulletins published by various statistical reporting agencies to assist in determining the size of the industry loss, although these reports may not be available for some time after an event.

For smaller events including localized severe weather events such as windstorms, hail, ice, snow, flooding, freezing and tornadoes, which are not necessarily prominent, public occurrences, the Company initially places greater reliance on catastrophe bulletins published by statistical reporting agencies to assist in determining what events occurred during the reporting period than the Company does for large events. This includes reviewing catastrophe bulletins published by Property Claim Services for U.S. catastrophes. The Company sets its initial estimates of reserves for claims and claim expenses for these smaller events based on a combination of its historical market share for these types of losses and the estimate of the total insured industry property losses as reported by statistical reporting agencies, although management may make significant adjustments based on the Company's current exposure to the geographic region involved as well as the size of the loss and the peril involved. This approach supplements the Company's approach for estimating losses for larger catastrophes, which as discussed above, includes discussions with brokers and ceding companies and reviewing individual contracts impacted by the event. Approximately one year from the date of loss for these small events, the Company typically estimates IBNR for these events by using the paid Bornhuetter-Ferguson actuarial method. The loss development factors for the paid Bornhuetter-Ferguson actuarial method are selected based on a review of the Company's historical experience. There were no significant changes to the Company's paid loss development factors over the last three years.

In general, reserves for the Company's more recent reinsured catastrophic events are subject to greater uncertainty and, therefore, greater potential variability, and are likely to experience material changes from one period to the next. This is due to the uncertainty as to the size of the industry losses from the event, uncertainty as to which contracts have been exposed to the catastrophic event, uncertainty due to complex legal and coverage issues that can arise out of large or complex catastrophic events, and uncertainty as to the magnitude of claims incurred by the Company's customers. As the Company's claims age, more information becomes available and the Company believes its estimates become more certain.

**DAVINCI REINSURANCE LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**  
**(amounts in tables expressed in thousands of United States Dollars)**

NOTE 6. RESERVE FOR CLAIMS AND CLAIM EXPENSES, cont'd.

For its Casualty and Specialty class of business, the Company calculates multiple point estimates for claims and claim expense reserves using a variety of actuarial reserving techniques. The Company does not believe that these multiple point estimates are, or should be considered a range. Rather, the Company considers each class of business and determines the most appropriate point estimate for each underwriting year based on the characteristics of the particular class including: (1) loss development patterns derived from historical data; (2) the credibility of the selected loss development pattern; (3) the stability of the loss development patterns; (4) how developed the underwriting year is; and (5) the observed loss development of other underwriting years for the same class. The Company also considers other relevant factors, including: (1) historical ultimate loss ratios; (2) the presence of individual large losses; and (3) known occurrences that have not yet resulted in reported losses. The Company makes determinations of the most appropriate point estimate of loss for each class based on an evaluation of relevant information and do not ascribe any particular portion of the estimate to a particular factor or consideration. In addition, the Company believes that a review of individual contract information improves the loss estimates for some classes of business.

When developing claims and claims expense reserves for the Company's Casualty and Specialty class of business, it considers several actuarial techniques such as the expected loss ratio method, the Bornhuetter-Ferguson actuarial method and the paid and reported chain ladder actuarial method.

The information provided herein about incurred and paid accident year claims development for the years ended prior to December 31, 2019 is presented as supplementary information. For incurred and paid accident year claims denominated in foreign currency, the Company used the current year-end balance sheet foreign exchange rate for all periods provided, thereby eliminating the effects of changes in foreign currency translation rates from the incurred and paid accident year claims development information included in the tables below.

**DAVINCI REINSURANCE LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**  
(amounts in tables expressed in thousands of United States Dollars)

NOTE 6. RESERVE FOR CLAIMS AND CLAIM EXPENSES, cont'd.

The following table details the Company's incurred claims and claim expenses and cumulative paid claims and claim expenses as of December 31, 2019, net of reinsurance, as well as IBNR and ACR included within the net incurred claims amounts.

Incurred claims and claim expenses, net of reinsurance											At December 31, 2019
For the year ended December 31,											IBNR and ACR
Accident Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	IBNR and ACR
	(unaudited)										
<b>2010</b>	\$ 132,621	\$ 122,576	\$ 110,118	\$ 114,735	\$ 123,414	\$ 123,183	\$ 125,283	\$ 126,637	\$ 121,341	\$ 126,908	\$ 5,437
<b>2011</b>	—	362,859	352,447	341,790	324,017	316,040	304,536	301,490	300,432	293,569	8,118
<b>2012</b>	—	—	129,341	107,189	98,372	92,810	87,266	82,576	79,587	78,254	2,666
<b>2013</b>	—	—	—	48,114	36,150	32,918	25,359	21,505	20,737	20,254	678
<b>2014</b>	—	—	—	—	28,289	19,619	16,261	15,120	14,507	14,252	356
<b>2015</b>	—	—	—	—	—	51,847	38,822	33,359	29,868	28,156	1,386
<b>2016</b>	—	—	—	—	—	—	62,048	58,062	50,453	41,588	10,218
<b>2017</b>	—	—	—	—	—	—	—	496,657	428,325	375,806	96,837
<b>2018</b>	—	—	—	—	—	—	—	—	299,888	337,336	148,897
<b>2019</b>	—	—	—	—	—	—	—	—	—	225,115	191,633
<b>Total</b>										<u>\$ 1,541,238</u>	<u>\$ 466,226</u>
Cumulative paid claims and claim expenses, net of reinsurance											
For the year ended December 31,											
Accident Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	
	(unaudited)										
<b>2010</b>	\$ 16,098	\$ 31,611	\$ 42,568	\$ 53,413	\$ 65,238	\$ 72,543	\$ 97,568	\$ 100,312	\$ 103,701	\$ 107,000	
<b>2011</b>	—	108,286	149,551	231,163	258,644	272,980	278,504	281,111	282,057	283,059	
<b>2012</b>	—	—	27,847	49,216	61,163	66,140	68,205	71,806	72,260	73,733	
<b>2013</b>	—	—	—	14,341	17,259	18,416	19,177	19,295	19,436	19,484	
<b>2014</b>	—	—	—	—	10,215	12,627	13,373	13,628	13,814	13,885	
<b>2015</b>	—	—	—	—	—	19,059	26,279	27,562	26,559	26,700	
<b>2016</b>	—	—	—	—	—	—	10,726	26,384	29,802	30,594	
<b>2017</b>	—	—	—	—	—	—	—	121,424	203,759	231,052	
<b>2018</b>	—	—	—	—	—	—	—	—	126,495	133,824	
<b>2019</b>	—	—	—	—	—	—	—	—	—	8,155	
<b>Total</b>										<u>\$ 927,486</u>	
											987
											<u>\$ 614,739</u>

**DAVINCI REINSURANCE LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**  
(amounts in tables expressed in thousands of United States Dollars)

NOTE 6. RESERVE FOR CLAIMS AND CLAIM EXPENSES, cont'd.

*Prior Year Development of the Reserve for Net Claims and Claim Expenses*

The Company's estimates of claims and claim expense reserves are not precise in that, among other things, they are based on predictions of future developments and estimates of future trends and other variable factors. Some, but not all, of the Company's reserves are further subject to the uncertainty inherent in actuarial methodologies and estimates. Because a reserve estimate is simply an insurer's estimate at a point in time of its ultimate liability, and because there are numerous factors that affect reserves and claims payments that cannot be determined with certainty in advance, the Company's ultimate payments will vary, perhaps materially, from its estimates of reserves. If the Company determines in a subsequent period that adjustments to its previously established reserves are appropriate, such adjustments are recorded in the period in which they are identified. On a net basis, the Company's cumulative favorable or unfavorable development is generally reduced by offsetting changes in its reinsurance recoverables, as well as changes to loss related premiums such as reinstatement premiums.

The following table details the Company's prior year development of its liability for unpaid claims and claim expenses:

<u>Year ended December 31,</u>	<u>2019</u>	<u>2018</u>
Favorable development of prior accident years net claims and claim expenses	\$ (14,317)	\$ (91,118)

Changes to prior year estimated claims reserves increased the Company's net income by \$14.3 million during 2019 (2018 - increased the Company's net income by \$91.1 million), excluding the consideration of changes in reinstatement, adjustment or other premium items, profit commissions and income tax.

During 2019, favorable development of prior accident year net claims and claim expenses of \$14.3 million primarily included \$48.5 million of net decreases in the estimated ultimate losses associated with the 2017 large catastrophe events, namely Hurricanes Harvey, Irma and Maria, the Mexico City Earthquake, the wildfires in California during the fourth quarter of 2017 and certain losses associated with aggregate loss contracts, and partially offset by \$34.1 million of net increases in the estimated ultimate losses associated with the 2018 large catastrophe events, namely Hurricanes Michael and Florence, Typhoon Jebi, the wildfires in California during the third and fourth quarter of 2018 and certain losses associated with aggregate loss contracts.

During 2018, favorable development of prior accident year net claims and claim expenses of \$91.1 million primarily included \$66.7 million of net decreases in the estimated ultimate losses associated with certain 2017 large catastrophe events, namely Hurricanes Harvey, Irma and Maria, the Mexico City Earthquake, the wildfires in California during the fourth quarter of 2017 and certain losses associated with aggregate loss contracts, with the remainder driven by a number of relatively small net decreases in the estimated ultimate losses associated with a number of smaller events from prior accident years.

*Reconciliation of the Disclosure of Incurred and Paid Claims Development to the Reserve for Claims and Claim Expenses*

The reconciliation of the net incurred and paid claims development tables to the reserve for claims and claim expenses in the balance sheet is as follows:

<u>At December 31, 2019</u>	
Net reserve for claims and claim expenses	\$ 614,739
Reinsurance recoverable	123,274
Gross reserve for claims and claim expenses	<u>\$ 738,013</u>

**DAVINCI REINSURANCE LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**  
**(amounts in tables expressed in thousands of United States Dollars)**

NOTE 6. RESERVE FOR CLAIMS AND CLAIM EXPENSES, cont'd.

*Historical Claims Duration*

The following is unaudited supplementary information about average historical claims duration:

<u>At December 31, 2019</u>	<u>Average annual percentage payout of incurred claims by age, net of reinsurance (number of years)</u>									
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>
	30.0%	14.9%	14.1%	7.3%	5.1%	3.1%	5.4%	1.0%	1.0%	2.6%

*Claims Frequency*

The Company's business is broadly considered to be assumed reinsurance, where multiple claims are often aggregated, perhaps multiple times through retrocessional reinsurance, before ultimately being ceded to the Company. In addition, the nature, size, terms and conditions of contracts entered into by the Company, changes from one accident year to the next and the quantum of contractual or policy limits, and accordingly the potential amount of claims and claim expenses associated with a reported claim, can range from nominal, to significant. These factors can impact the amount and timing of the claims and claim expenses to be recorded and accordingly, developing claim frequency information is highly subjective and is not prepared or utilized for internal purposes.

Notwithstanding the factors noted above, the Company has developed claims frequency information associated with its excess of loss reinsurance contracts. As each accident year develops, the Company would expect the cumulative number of reported claims to increase in certain of its excess of loss reinsurance contracts. In determining claims frequency for its excess of loss reinsurance contracts, the Company has made the following assumptions:

- Claims below the insured layer of a contract are excluded;
- If an insured loss event results in claims associated with a number of layers of a contract, the Company would consider this to be a single claim; and
- If an insured loss event results in claims associated with a number of the Company's operating subsidiaries, the Company considers each operating subsidiary to have a reported claim.

**DAVINCI REINSURANCE LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**  
(amounts in tables expressed in thousands of United States Dollars)

NOTE 6. RESERVE FOR CLAIMS AND CLAIM EXPENSES, cont'd.

The following table details the Company's cumulative number of reported claims for its excess of loss reinsurance contracts:

Accident Year	At December 31, 2019
	Cumulative number of reported claims
2010	38
2011	142
2012	83
2013	49
2014	27
2015	47
2016	101
2017	257
2018	237
2019	71

NOTE 7. RELATED PARTY TRANSACTIONS AND MAJOR CUSTOMERS

Amounts due to and from affiliates are non-interest bearing and payable on demand, or in accordance with the contractual terms of reinsurance-related transactions.

*Reinsurance-Related Transactions*

The Company has entered into reinsurance agreements to assume a portion of Renaissance Reinsurance's property catastrophe and casualty business. During 2019, net earned premiums assumed under these agreements were \$30.9 million (2018 - \$15.0 million) and net claims and claim expenses incurred were \$31.2 million (2018 - \$34.5 million). At December 31, 2019, outstanding reserves for claims and claim expenses under these agreements were \$69.3 million (2018 - \$41.1 million), unearned premiums for these agreements were \$14.9 million (2018 - \$11.3 million) and premiums receivable were \$3.1 million (2018 - \$3.1 million). Since its inception, the Company has had net earned premiums assumed under these agreements of \$318.1 million and net claims and claim expenses incurred of \$196.7 million.

Subsidiaries of the Company's ultimate parent have entered into equity investments in Tower Hill Holdings Inc. ("Tower Hill") and certain of its subsidiaries, which are accounted for under the equity method of accounting. As a result, Tower Hill and its subsidiaries and affiliates are considered related parties to the Company. The Company has entered into reinsurance agreements with certain subsidiaries and affiliates of Tower Hill and has also entered into reinsurance agreements with respect to business produced by certain subsidiaries and affiliates of Tower Hill. During 2019, the Company recorded \$10.4 million (2018 - \$9.6 million) of gross premiums written assumed from Tower Hill and its subsidiaries and affiliates. Gross premiums earned totaled \$9.9 million (2018 - \$10.0 million) and expenses incurred were \$1.1 million (2018 - \$1.1 million) for 2019 related to these contracts. During 2019, the Company assumed net claims and claim expenses of \$11.6 million (2018 - \$31.4 million) and, as of December 31, 2019, had a net reserve for claims and claim expenses of \$13.4 million (2018 - \$17.4 million). The Company had a net related outstanding receivable balance of \$4.3 million as of December 31, 2019 (2018 - \$4.1 million).

**DAVINCI REINSURANCE LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**  
(amounts in tables expressed in thousands of United States Dollars)

NOTE 7. RELATED PARTY TRANSACTIONS AND MAJOR CUSTOMERS, cont'd.

*Other Items*

Under the terms of a management agreement, Renaissance Underwriting Managers, Ltd. ("RUM"), a wholly-owned subsidiary of RenaissanceRe, has contracted to provide all of the Company's management, underwriting, investment management and administrative functions, for which it is paid a fee that is a percentage of premium and a profit commission. Operational expenses for 2019 includes expenses of \$55.2 million (2018 - expenses of \$41.1 million), as discussed in more detail below, and amounts due to affiliates at December 31, 2019 includes a receivable of \$2.0 million (2018 - payable of \$8.0 million) related to these services. The Company incurred underwriting losses for the 2018 underwriting year related to the occurrence of certain large catastrophe events, and as designed, the deferred profit commissions balance was recorded as a partial reduction to the 2018 underwriting year losses, with corresponding decreases in the Company's operational expenses in both 2019 and 2018. Following the recording of the deferred profit commission as a partial reduction of the 2018 underwriting year losses, amounts due to affiliates includes \$1.6 million of deferred profit commission, which is not currently due, but will be applied against future underwriting year deficits, should they occur, subject to a maximum dollar amount (2018 - \$Nil). In addition to the fees discussed above, the Company is required to reimburse RUM for other directly identifiable costs. For the years ended December 31, 2019 and 2018, no such directly identifiable costs were allocated to the Company.

See "Note 8. Shareholder's Equity" for additional information related to transactions with current and former shareholders.

Broker Concentration

During 2019, the Company received 85.2% (2018 - 77.7%) of its gross premiums assumed from three reinsurance brokers. Subsidiaries and affiliates of AON, Marsh and Tiger Risk Partners accounted for approximately 47.4%, 30.7% and 7.1%, respectively, of the Company's gross premiums assumed in 2019 (2018 - 46.0%, 26.3% and 5.4%, respectively).

NOTE 8. SHAREHOLDER'S EQUITY

The aggregate authorized capital of the Company is 1,000 common shares of \$1,000 par value each. All authorized shares are Class AA and are issued and outstanding as of December 31, 2019.

	Number of Shares					Par Value 2019
	Authorized Sublimit	Outstanding 2018	Issued	Redeemed	Outstanding 2019	
Class AA	1,000	1,000	—	—	1,000	\$ 1,000
		1,000	—	—	1,000	\$ 1,000

	Number of Shares					Par Value 2018
	Authorized Sublimit	Outstanding 2017	Issued	Redeemed	Outstanding 2018	
Class AA	1,000	1,000	—	—	1,000	1,000
		1,000	—	—	1,000	\$ 1,000

**DAVINCI REINSURANCE LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**  
**(amounts in tables expressed in thousands of United States Dollars)**

NOTE 8. SHAREHOLDER'S EQUITY, cont'd.

*2019*

During 2019, the Company declared and paid aggregate cash dividends of \$7.5 million and also paid aggregate net cash dividends of \$9.9 million associated with holdbacks in connection with shareholder transactions in prior years, as described below, resulting in net cash dividend paid of \$17.4 million.

*2018*

During 2018, the Company declared and paid aggregate cash dividends of \$7.3 million and also paid aggregate cash dividends of \$8.1 million associated with holdbacks in connection with shareholder transactions in prior years, as described below, resulting in net cash dividend paid of \$15.4 million.

There were no net issuances or redemptions of the Company's outstanding shares during 2019 or 2018.

NOTE 9. TAXATION

Under current Bermuda law, the Company is not subject to any income or capital gains taxes. In the event that such taxes are imposed, the Company would be exempted from any such tax until March 2035 pursuant to the Bermuda Exempted Undertakings Tax Protection Act of 1966, and Amended Acts of 1987 and 2011, respectively.

The Singapore Branch and Switzerland Branch are subject to the tax laws of Singapore and Switzerland, respectively. The taxation balances related to the Singapore Branch and Switzerland Branch are not material to the Company.

NOTE 10. STATUTORY REQUIREMENTS

*Bermuda Statutory Requirements*

The Company is subject to insurance laws and regulations in Bermuda. These regulations include certain restrictions on the amount of dividends or other distributions, such as loans or cash advances, available to shareholders without prior approval of the BMA. Under the Insurance Act 1978, amendments thereto and related regulations of Bermuda (collectively, the "Insurance Act"), the Company is required to maintain certain measures of solvency and liquidity, including its minimum solvency margin ("MSM"), defined as the prescribed minimum amount by which the value of the assets of the Company must exceed the value of its liabilities, the breach of which represents an unacceptable level of risk and triggers the strongest supervisory actions.

In addition, the Company is required to maintain statutory capital and surplus at a level equal to or in excess of its enhanced capital requirement ("ECR") which is established by reference to the Bermuda Solvency Capital Requirement (the "BSCR") model. The BSCR is a mathematical model designed to give the BMA robust methods for determining an insurer's capital adequacy. The ECR is equal to the greater of the MSM or required capital calculated by reference to the BSCR. The BMA has also embedded the Economic Balance Sheet ("EBS") framework in the Bermuda legislative and regulatory regime. The EBS is an input to the BSCR which determines the Company's ECR. The EBS regime prescribes the use of financial statements prepared in accordance with GAAP as the basis on which statutory financial statements are prepared, and those statutory financial statements form the starting basis for the EBS.

**DAVINCI REINSURANCE LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**  
(amounts in tables expressed in thousands of United States Dollars)

NOTE 10. STATUTORY REQUIREMENTS, cont'd.

Underlying the BSCR is the belief that all insurers should operate on an ongoing basis with a view to maintaining their capital at a prudent level in excess of the minimum solvency margin otherwise prescribed under the Insurance Act. Alternatively, under the Insurance Act, insurers may, subject to the terms of the Insurance Act and to the BMA's oversight, elect to utilize an approved internal capital model to determine regulatory capital. In either case, ECR shall at all times equal or exceed the Class 4 insurer's minimum solvency margin and may be adjusted in circumstances where the BMA concludes that the insurer's risk profile deviates significantly from the assumptions underlying its ECR or the insurer's assessment of its risk management policies and practices used to calculate ECR applicable to it.

Under the Insurance Act, the Company is defined as a Class 4 insurer. Class 4 insurers are prohibited from declaring or paying any dividends if in breach of the required minimum solvency margin or minimum liquidity ratio (the "Relevant Margins") or if the declaration or payment of such dividend would cause the insurer to fail to meet the Relevant Margins. Where an insurer fails to meet its Relevant Margins on the last day of any financial year, it is prohibited from declaring or paying any dividends during the next financial year without the prior approval of the BMA. Further, Class 4 insurers are 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 (at least seven days before payment of such dividends) with the BMA an affidavit stating that it will continue to meet its Relevant Margins. Class 4 insurers must obtain the BMA's prior approval for a reduction by 15% or more of the total statutory capital as set forth in its previous year's statutory financial statements. These restrictions on declaring or paying dividends and distributions under the Insurance Act are in addition to the solvency requirements under the Companies Act 1981, amendments thereto of Bermuda (the "Companies Act") which apply to all Bermuda companies. In addition, an insurer engaged in general business is also required to maintain the value of its relevant assets at not less than 75% of the amount of its relevant liabilities. The BMA has established a target capital level ("TCL") which is set at 120% of the ECR. While the Company is not required to maintain statutory capital and surplus at this level, it serves as an early warning signal for the BMA, and failure to meet the TCL may result in additional reporting requirements or increased regulatory oversight. The Company has completed its 2019 BSCR, which must be filed with the BMA on or before April 30, 2020, and exceeds the target level of required statutory capital.

The statutory capital and surplus, required minimum statutory capital and surplus and unrestricted net assets of the Company are detailed below:

<u>At December 31,</u>	<u>2019</u>	<u>2018</u>
Statutory capital and surplus (1)	\$ 1,987,496	\$ 1,476,930
Required minimum statutory capital and surplus	297,322	257,133
Unrestricted net assets (2)	555,642	421,964

- (1) Actual capital and surplus is based on the relevant insurer's statutory financial statements and required statutory capital and surplus is based on the MSM.
- (2) Unrestricted net assets represents the amount of shareholders' equity that is permitted to be distributed in light of the statutory restrictions noted above, and the definition of distributable reserves and certain legal restrictions per the Companies Act.

*Singapore Branch*

The Singapore Branch is licensed to carry on insurance business as a general reinsurer under the regulation of the Monetary Authority of Singapore pursuant to Singapore's Insurance Act. The activities of the Singapore Branch are primarily regulated by the Monetary Authority of Singapore pursuant to Singapore's Insurance Act. Additionally, the Singapore Branch is regulated by the Accounting and Corporate Regulatory Authority as a foreign company pursuant to Singapore's Companies Act. The activities and regulatory requirements of the Singapore Branch are not considered to be material to the Company.

**DAVINCI REINSURANCE LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**  
**(amounts in tables expressed in thousands of United States Dollars)**

NOTE 10. STATUTORY REQUIREMENTS, cont'd.

*Switzerland Branch*

The Switzerland Branch is considered a branch office of a foreign reinsurer, and is not regulated by the Swiss Financial Market Supervisory Authority. The activities and regulatory requirements of the Switzerland Branch are not considered to be material to the Company.

*Multi-Beneficiary Reinsurance Trust*

The Company is approved as a Trusteed Reinsurer in the state of New York and established an MBRT to collateralize its (re)insurance liabilities associated with U.S. domiciled cedants. The MBRT is subject to the rules and regulations of the state of New York and the respective deed of trust, including but not limited to certain minimum capital funding requirements, investment guidelines, capital distribution restrictions and regulatory reporting requirements. Assets held under trust at December 31, 2019 with respect to the MBRT totaled \$336.5 million (2018 - \$385.8 million), compared to the minimum amount required under U.S. state regulations of \$249.4 million (2018 - \$356.9 million).

*Multi-Beneficiary Reduced Collateral Reinsurance Trust*

The Company is approved as a "certified reinsurer" eligible for collateral reduction in certain states, and is authorized to provide reduced collateral equal to 50% of its net outstanding insurance liabilities to insurers domiciled in those states. The Company has established an RCT to collateralize its (re)insurance liabilities associated with cedants domiciled in those states. Because the RCT was established in New York, it is subject to the rules and regulations of the state of New York including but not limited to certain minimum capital funding requirements, investment guidelines, capital distribution restrictions and regulatory reporting requirements. Assets held under trust at December 31, 2019 with respect to the RCT totaled \$43.8 million (2018 - \$63.2 million), compared to the minimum amount required under U.S. state regulations of \$40.9 million (2018 - \$26.9 million).

NOTE 11. DERIVATIVE INSTRUMENTS

From time to time, the Company may enter into derivative instruments such as futures, options, swaps, forward contracts and other derivative contracts primarily to manage its foreign currency exposure, obtain exposure to a particular financial market, for yield enhancement, or for trading and to assume risk. The Company's derivative instruments can be exchange traded or over-the-counter, with over-the-counter derivatives generally traded under International Swaps and Derivatives Association master agreements, which establish the terms of the transactions entered into with the Company's derivative counterparties. In the event a 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. Where the Company has entered into master netting agreements with counterparties, or the Company has the legal and contractual right to offset positions, the derivative positions are generally netted by counterparty and are reported accordingly in other assets and other liabilities.

**DAVINCI REINSURANCE LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**  
(amounts in tables expressed in thousands of United States Dollars)

NOTE 11. DERIVATIVE INSTRUMENTS, cont'd.

The tables below show the gross and net amounts of recognized derivative assets and liabilities at fair value, including the location on the balance sheets of the Company's principal derivative instruments:

Derivative Assets						
<u>At December 31, 2019</u>	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Balance Sheet	Net Amounts of Assets Presented in the Balance Sheet	Balance Sheet Location	Collateral	Net Amount
Interest rate futures	\$ 180	—	\$ 180	Other assets	\$ —	\$ 180
Foreign currency forward contracts	753	—	753	Other assets	—	753
<b>Total</b>	<b>\$ 933</b>	<b>\$ —</b>	<b>\$ 933</b>		<b>\$ —</b>	<b>\$ 933</b>
Derivative Liabilities						
<u>At December 31, 2019</u>	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Balance Sheet	Net Amounts of Liabilities Presented in the Balance Sheet	Balance Sheet Location	Collateral Pledged	Net Amount
Interest rate futures	\$ 234	—	\$ 234	Other liabilities	\$ 119	\$ 115
Foreign currency forward contracts	466	29	437	Other liabilities	—	437
<b>Total</b>	<b>\$ 700</b>	<b>\$ 29</b>	<b>\$ 671</b>		<b>\$ 119</b>	<b>\$ 552</b>

Derivative Assets						
<u>At December 31, 2018</u>	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Balance Sheet	Net Amounts of Assets Presented in the Balance Sheet	Balance Sheet Location	Collateral	Net Amount
Interest rate futures	\$ 563	—	\$ 563	Other assets	\$ —	\$ 563
Foreign currency forward contracts	2,252	105	2,147	Other assets	—	2,147
<b>Total</b>	<b>\$ 2,815</b>	<b>\$ 105</b>	<b>\$ 2,710</b>		<b>\$ —</b>	<b>\$ 2,710</b>
Derivative Liabilities						
<u>At December 31, 2018</u>	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Balance Sheet	Net Amounts of Liabilities Presented in the Balance Sheet	Balance Sheet Location	Collateral Pledged	Net Amount
Interest rate futures	\$ 658	—	\$ 658	Other liabilities	\$ 658	\$ —
Foreign currency forward contracts	827	—	827	Other liabilities	—	827
<b>Total</b>	<b>\$ 1,485</b>	<b>\$ —</b>	<b>\$ 1,485</b>		<b>\$ 658</b>	<b>\$ 827</b>

**DAVINCI REINSURANCE LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**  
(amounts in tables expressed in thousands of United States Dollars)

NOTE 11. DERIVATIVE INSTRUMENTS, cont'd.

The location and amount of the (loss) gain recognized in the Company's statements of operations related to the Company's principal derivative instruments are shown in the following table:

<u>Year ended December 31,</u>	<u>Location of (loss) gain recognized on derivatives</u>	<u>Amount of (loss) gain recognized on derivatives</u>	
		<u>2019</u>	<u>2018</u>
Interest rate futures	Net realized and unrealized gains (losses) on investments	\$ (98)	\$ (2,758)
Foreign currency forward contracts	Net foreign exchange (losses) gains	(692)	1,658
Total		<u>\$ (790)</u>	<u>\$ (1,100)</u>

Interest Rate Futures

The fair value of interest rate futures is determined using exchange traded prices. At December 31, 2019, the Company had \$483.5 million of notional long positions and \$303.8 million of notional short positions of primarily U.S. treasury futures contracts (2018 - \$405.8 million and \$217.7 million, respectively). The fair value of these derivatives is determined using exchange traded prices.

Foreign Currency Derivatives

The Company's functional currency is the U.S. dollar. The Company writes a portion of its business in currencies other than U.S. dollars and may, from time to time, experience foreign exchange gains and losses in the Company's financial statements. All changes in exchange rates, with the exception of non-monetary assets and liabilities, are recognized currently in the Company's statements of operations. Changes in the fair value of the Company's foreign currency derivatives are recognized in the statements of operations.

*Underwriting and Non-Investments Operations Related Foreign Currency Contracts*

The Company's foreign currency policy with regard to its underwriting operations is generally to hold foreign currency assets, including cash, investments and receivables that approximate the foreign currency liabilities, including claims and claim expense reserves and reinsurance balances payable. When necessary, the Company may use foreign currency forward and option contracts to minimize the effect of fluctuating foreign currencies on the value of non-U.S. dollar denominated assets and liabilities associated with its underwriting operations. The fair value of the Company's underwriting operations related foreign currency contracts is determined using indicative pricing obtained from counterparties or broker quotes. At December 31, 2019, the Company had outstanding underwriting related foreign currency contracts of \$9.2 million in notional long positions and \$159.6 million in notional short positions, denominated in U.S. dollars (2018 - \$40.5 million and \$83.8 million, respectively).

NOTE 12. COMMITMENTS AND CONTINGENCIES

Concentration of Credit Risk

Instruments which potentially subject the Company to concentration of credit risk consist principally of investments, cash, premiums receivable and reinsurance balances. The Company limits the amount of credit exposure to any one financial institution and except for U.S. treasuries, none of the Company's investments exceeded 10% of shareholder's equity at December 31, 2019. See "Note 5. Reinsurance" and "Note 6. Reserve for Claims and Claim Expenses" for additional information with respect to reinsurance recoverables.

**DAVINCI REINSURANCE LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**  
**(amounts in tables expressed in thousands of United States Dollars)**

NOTE 12. COMMITMENTS AND CONTINGENCIES, cont'd.

Letters of Credit and Other Commitments

RenaissanceRe, the Company's ultimate parent, maintains a standby letter of credit facility with Wells Fargo Bank, National Association ("Wells Fargo") which, as of December 31, 2019, provides for a secured, uncommitted facility under which letters of credit may be issued from time to time for the respective accounts of RenaissanceRe's operating subsidiaries and joint ventures, including the Company (the "Applicants"). Pursuant to the agreement, the Applicants may request secured letter of credit issuances, and also have an option to request the issuance of up to \$25.0 million of unsecured letters of credit (outstanding on such request date). The agreement contains representations, warranties and covenants that are customary for facilities of this type. Under the agreement, each applicant is required to pledge eligible collateral having a value sufficient to cover all of its obligations under the agreement with respect to secured letters of credit issued for its account. In the case of an event of default under the agreement, Wells Fargo may exercise certain remedies, including conversion of collateral of a defaulting applicant into cash. At December 31, 2019, RenaissanceRe had \$31.5 million of secured letters of credit outstanding and \$Nil of unsecured letters of credit outstanding under this agreement, of which \$5.3 million and \$Nil, respectively, relates to DaVinci.

In addition, RenaissanceRe, the Company's ultimate parent, maintains a facility letter, with Citibank Europe plc ("Citibank Europe"), pursuant to which Citibank Europe has established a letter of credit facility under which Citibank Europe provides a commitment to issue letters of credit for the accounts of RenaissanceRe's operating subsidiaries and joint ventures, including the Company (the "Participants"). The aggregate commitment amount is \$300.0 million. The letter of credit facility is scheduled to expire on December 31, 2021. At all times during which it is a party to the facility, each Participant is obligated to pledge to Citibank Europe securities with a value that equals or exceeds the aggregate face amount of its then-outstanding letters of credit. In the case of an event of default under the facility with respect to a Participant, Citibank Europe may exercise certain remedies, including terminating its commitment to such Participant and taking certain actions with respect to the collateral pledged by such Participant (including the sale thereof). In the facility letter, each Participant makes representations and warranties that are customary for facilities of this type and agrees that it will comply with certain informational and other undertakings. At December 31, 2019, RenaissanceRe had \$266.5 million aggregate face amount of letters of credit outstanding and, subject to the sublimits described above, \$33.5 million remained unused and available to the Participants under this facility, of which \$2.0 million of the aggregate face amount of letters of credit outstanding relates to DaVinci.

Indemnifications and Warranties

In the ordinary course of its business, the Company may enter into contracts or agreements that contain indemnifications or warranties. Future events could occur that lead to the execution of these provisions against the Company. Based on past experience, management currently believes that the likelihood of such an event is remote.

**DAVINCI REINSURANCE LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**  
**(amounts in tables expressed in thousands of United States Dollars)**

NOTE 12. COMMITMENTS AND CONTINGENCIES, cont'd.

Legal Proceedings

The Company is subject to lawsuits and regulatory actions in the normal course of business that do not arise from or directly relate to claims on reinsurance treaties or contracts or direct insurance policies, as applicable. In the Company's industry, business litigation may involve allegations of underwriting or claims-handling errors or misconduct, employment claims, regulatory actions or other disputes. The Company may also directly or indirectly be subject to its claims litigation involving disputed interpretations of policy coverages. These lawsuits, involving or arising out of claims on policies issued by the Company are typical to the insurance industry in general and in the normal course of business, are considered in its claims and claim expense reserves. In addition, the Company may from time to time engage in litigation or arbitration related to claims for payment in respect of ceded reinsurance, including disputes that challenge the Company's ability to enforce its underwriting intent. Such matters could result, directly or indirectly, in providers of protection not meeting their obligations to the Company or not doing so on a timely basis. The Company may also be subject to other disputes from time to time, relating to operational or other matters distinct from insurance or reinsurance related claims. Any litigation or arbitration, or regulatory process, contains an element of uncertainty, and the value of an exposure or a gain contingency related to a dispute is difficult to estimate. The Company believes that no individual litigation or arbitration to which the Company is presently a party is likely to have a material adverse effect on the Company's financial condition, business or operations.

NOTE 13. SUBSEQUENT EVENTS

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China, and has since spread to a number of other countries. In January 2020, the World Health Organization declared the outbreak a global health emergency, and on March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. Due to the recent, ongoing and evolving nature of the pandemic, the Company's assessment of the impact and potential exposures is in its preliminary stages.

The Company has completed its subsequent events evaluation for the period subsequent to the balance sheet date of December 31, 2019, through April 27, 2020, the date the financial statements were available to be issued.