ILS PROPERTY & CASUALTY RE II LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2022 and 2021

Crawford House, 50 Cedar Avenue, Hamilton HM 11, Bermuda

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June 30, 2023

Report of Independent Auditors

To the Board of Directors and Shareholder of ILS Property & Casualty Re II Limited

Opinion

We have audited the accompanying consolidated financial statements of ILS Property & Casualty Re II Limited and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of income (loss) and comprehensive income (loss), of changes in shareholder's equity and of cash flows for the years then ended, including the related notes (collectively referred to as the consolidated "financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the consolidated financial statements* section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of management for the consolidated financial statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date the consolidated financial statements are available to be issued.

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgement and maintain professional scepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required supplemental information

Accounting principles generally accepted in the United States of America require that the required supplemental information pertaining to Short-Duration Contracts disclosures labelled as "Unaudited" within Note 8 on pages 23 to 26 be presented to supplement the basic consolidated financial statements. Such information is the responsibility of management and, although not a part of the basic consolidated financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

PricewaterhouseCoopers Ltd.

Chartered Professional Accountants

ILS PROPERTY & CASUALTY RE II LIMITED

CONSOLIDATED BALANCE SHEETS

As at December 31, 2022 and 2021

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

	December 31, 2022	December 31, 2021
ASSETS		
Short-term investments, trading, at fair value	$ 12,557	$ 60,629
Fixed maturity investments, trading, at fair value	6,545	9,833
Total investments	19,102	70,462
Cash and cash equivalents	13,692	17,253
Restricted cash and cash equivalents	2,066	10,454
Premiums receivable	1,167	888
Due from cedants	11,050	23,680
Funds withheld	235,280	212,189
Reinsurance balances recoverable	70,694	63,834
Ceded unearned premium	13	11
Accrued investment income	239	120
Other assets	1,914	8,627
TOTAL ASSETS	$ 355,217	$ 407,518
LIABILITIES		
Reserve for losses and loss adjustment expenses	$ 216,508	$ 240,580
Unearned premiums	39	34
Due to cedants	1,240	8,001
Reinsurance balances payable	1,522	2,818
Funds withheld payable	110,101	118,338
Other liabilities	1,328	3,683
TOTAL LIABILITIES	330,738	373,454
SHAREHOLDER'S EQUITY		
Share capital		
Ordinary shares ($1.00 par; 120,000 shares authorized, issued and outstanding)	120	120
Additional paid-in capital	247,824	247,824
Accumulated other comprehensive income (loss)	371	642
Retained earnings (deficit)	(223,836)	(214,522)
TOTAL SHAREHOLDER'S EQUITY	24,479	34,064
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	$ 355,217	$ 407,518

See accompanying notes to the financial statements

ILS PROPERTY & CASUALTY RE II LIMITED

CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

For the Years Ended December 31, 2022 and 2021

(Expressed in thousands of U.S. dollars)

	2022	2021
INCOME		
Net premiums earned	$ (1,312)	$ (437)
Net investment income	2,030	378
Net realized and change in net unrealized gains (losses)	(2,093)	(626)
Other income	124	-
TOTAL INCOME	(1,251)	(685)
EXPENSES		
Net losses and loss adjustment expenses	8,204	43,710
Other reinsurance expenses	(755)	(788)
Loss on sale of subsidiary	415	-
General and administrative expenses	989	1,274
Net foreign exchange (gains) losses	(790)	1,516
TOTAL EXPENSES	8,063	45,712
NET INCOME (LOSS)	$ (9,314)	$ (46,397)
OTHER COMPREHENSIVE INCOME (LOSS)		
Foreign currency translation	(270)	580
TOTAL COMPREHENSIVE INCOME (LOSS)	$ (9,584)	$ (45,817)

See accompanying notes to the financial statements

ILS PROPERTY & CASUALTY RE II LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

For the Years Ended December 31, 2022 and 2021

(Expressed in thousands of U.S. dollars)

	2022	2021
Share capital — ordinary shares		
Balance, beginning of year	$ 120	$ 120
Issuance of shares	—	—
Balance, end of year	$ 120	$ 120
Additional paid-in capital		
Balance, beginning of year	$ 247,824	$ 247,824
Contribution from shareholder	-	-
Distributions to shareholders	-	-
Balance, end of year	$ 247,824	$ 247,824
Accumulated other comprehensive income (loss)		
Balance, beginning of year	$ 642	$ 62
Other comprehensive income (loss)	(271)	580
Balance, end of year	$ 371	$ 642
Retained earnings (deficit)		
Balance, beginning of year	$ (214,522)	$ (168,125)
Net income (loss)	(9,314)	(46,397)
Balance, end of year	$ (223,836)	$ (214,522)
TOTAL SHAREHOLDER'S EQUITY	$ 24,479	$ 34,064

See accompanying notes to the financial statements

ILS PROPERTY & CASUALTY RE II LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2022 and 2021

(Expressed in thousands of U.S. dollars)

	2022	2021
OPERATING ACTIVITIES:		
Net income (loss)	$ (9,314)	$ (46,397)
Adjustments to reconcile net income (loss) to cash flows used in operating activities:		
Net realized and change in net unrealized (gains) losses	2,091	626
Accretion of discount	(1,664)	(198)
Changes in:		
Premiums receivable	(279)	(844)
Due to / from cedants	12,935	(6,522)
Funds withheld	(23,865)	26,187
Reinsurance balances recoverable	(5,452)	548
Ceded unearned premium	(1)	5
Accrued investment income	(119)	(120)
Other assets	3,871	(3,562)
Reserve for losses and loss adjustment expenses	(24,071)	483
Unearned premiums	3	(15)
Due to cedants	(6,762)	3,354
Reinsurance balances payable	(1,295)	1,662
Funds withheld payable	(8,215)	(14,783)
Other liabilities	(1,586)	637
Net cash flows provided by (used in) operating activities	(63,723)	(38,939)
INVESTING ACTIVITIES:		
Proceeds on sales of fixed maturity investments	$ 5,586	$ 3,135
Proceeds on maturities of fixed maturity investments	3,397	5,500
Proceeds on sales of short-term investments	50,768	21,454
Proceeds on maturities of short-term investments	115,600	91,635
Purchases of short-term investments	(123,577)	(91,773)
Net cash flows provided by (used in) investing activities	51,774	29,951
FINANCING ACTIVITIES:		
Contribution by shareholder	-	-
Distributions to shareholder	-	-
Net cash flows provided by (used in) financing activities	-	-
NET (DECREASE) INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH AND CASH EQUIVALENTS	(11,949)	(8,988)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	27,707	36,695
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AND CASH EQUIVALENTS, END OF YEAR	$ 15,758	$ 27,707
SUPPLEMENTAL INFORMATION:		
Income taxes paid	$ —	$ —
Interest paid	$ —	$ —

See accompanying notes to the financial statements

1. DESCRIPTION OF BUSINESS

ILS Property & Casualty Re II Limited ("PC Re II" or the "Company") is a Bermuda exempted company registered as a Class 3B insurer under the Bermuda Insurance Act 1978. The Company was incorporated on July 20, 2017 and is wholly-owned by ILS Property & Casualty Holding II Company Ltd. ("PC Holding") which itself is wholly-owned by ILS Property & Casualty Fund II, L.P. ("Fund II").

The primary purpose of the Company is to acquire discontinued property and casualty business in the non-life sector of the insurance industry from insurers, reinsurers and/or other entities (including, without limitation, self-insured organizations) and the management of the payment of future claims and the assets supporting such liabilities. Unless the context indicates otherwise, the terms the "Company," "PC Re II," "we," "us" or "our" mean ILS Property & Casualty Re II Limited.

The Investment Manager has determined to deem the Commitment Period for new investments to be terminated as of September 30, 2019 and accordingly the Company has decided to cease entering new transactions.

Co-Investment Framework Agreement

On December 29, 2017, Fund II together with Armour Re Ltd. ("Armour Re") and its affiliates, parallel vehicles, co-investment vehicles, alternative vehicles, subsidiaries and other related investment vehicles (collectively the "PCV Vehicle"), entered into a Co-Investment Framework Agreement, which was then amended and restated on December 5, 2018. Under the agreement, Fund II agreed that a pro rata portion, based on its total capital commitments and the PCV Vehicle’s aggregate equity capital, determined as of the time of the proposed investment (the “Co-Investment Ratio”) will be offered to Fund II and Fund II shall be entitled to invest in such opportunity in any amount up to the applicable Co-Investment Ratio or to decline such investment.

Both parties also agreed that subsequent changes to the Co-Investment Ratio, due to the subsequent closing of the commitment period of Fund II or a change in the equity capital of the PCV run-off pool, to re-allocate their respective interest in the Co-Investment based on the Revised Co-Investment Ratio (the “Re-Allocation”).

Initial Co-Investments were made based on the Co-Investment Ratio at the time of the Co-Investment with subsequent capital Re-Allocations occurring four times in 2018. On November 30, 2018, the commitment period of Fund II closed resulting in the Co-Investment Ratio being permanently set on that date.

The Co-investment Ratios for the PCV Vehicle and Fund II were 32.65% and 67.35%, respectively, as at December 31, 2022 and 2021.

For the PCV Vehicle and Fund II, the Co-Investments are primarily undertaken through their Bermuda registered Class 3B insurers being Armour Re and PC Re II, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The consolidated financial statements include our assets, liabilities and results of operations as at December 31, 2022 and 2021 and for the years then ended. Results of operations for acquired subsidiaries are included from the date of acquisition. All significant intercompany transactions and balances have been eliminated.

Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Our actual results could differ materially from our estimates. Accounting policies that we believe are most dependent on assumptions and estimates are considered to be our critical accounting policies and are related to the determination of:

- reserves for losses and loss adjustment expenses ("LAE");
- reinsurance balances recoverable; and
- fair value measurements of investments and funds withheld - directly managed investments.

Significant Accounting Policies

(a) Premiums

Premiums written are earned on a pro-rata basis over the period the coverage is provided. Reinsurance premiums are recorded at the inception of the policy, are based upon contractual terms and, for certain business, are estimated based on underlying contracts or from information provided by insureds and/or brokers. Changes in reinsurance premium estimates are expected and may result in adjustments in future periods. Any subsequent differences arising on such estimates are recorded as premiums written in the period in which they are determined.

Premiums receivable

Premiums receivable represent amounts currently due and amounts not yet due on reinsurance policies. Premiums for reinsurance policies generally become due over the period of coverage based on the policy terms. We monitor the credit risk associated with premiums receivable, taking into consideration the impact of our contractual right to offset loss obligations or unearned premiums against premiums receivable. Amounts deemed uncollectible are charged to the Consolidated Statement of Income (Loss) and Comprehensive Income (Loss) in the period they are determined. Changes in the estimates of premiums written will result in an adjustment to premiums receivable in the period they are determined.

Unearned premiums

Unearned premiums represent the portion of premiums written that relate to the unexpired terms of policies in force.

(b) Losses and LAE

The reserve for losses and LAE includes an amount determined from reported claims ("OSLR") and an amount, based on historical loss experience and industry statistics, for losses incurred but not yet reported ("IBNYR") and losses incurred but not enough reported ("IBNER"). IBNYR plus IBNER are commonly referred to collectively as IBNR. The ultimate claims reserves (OSLR plus IBNR) is established by management based on actuarial analysis of data provided by brokers, ceding companies and insureds and represents the estimated ultimate net outstanding claims liabilities. These estimates are continually reviewed and are necessarily subject to the impact of future changes in factors such as claim severity and frequency, changes in economic conditions including the impact of inflation, legal and judicial developments, and medical cost trends. While we believe that the amount is adequate, the ultimate liability may be in excess of, or less than, the amounts provided. Adjustments will be reflected as part of net increase or reduction in losses and LAE liabilities in the periods in which they become known. Premium and commission adjustments may be triggered by incurred losses, and any amounts are recorded in the same period that the related incurred loss is recognized.

We establish provisions for LAE relating to run-off costs for the estimated duration of the run-off, which are included in losses and LAE. These provisions are assessed at each reporting date, and provisions relating to future periods are adjusted to reflect any changes in estimates of the periodic run-off costs or the duration of the run-off, including the impact of any acceleration of the run-off period that may be caused by commutations.

(c) Reinsurance Recoverable

Amounts billed to, and due from, reinsurers resulting from paid movements in the underlying business are calculated in accordance with the terms of the individual reinsurance contracts. Similarly, reinsurance balances recoverable related to our case reserves are calculated by applying the terms of any applicable reinsurance coverage to movements in the underlying case reserves. Our estimate of reinsurance balances recoverable related to IBNR reserves is recognized on a basis consistent with the underlying IBNR reserves.

(d) Investments, Cash and Cash Equivalents

Short-term investments and fixed maturity investments

Short-term investments comprise investments with a maturity greater than three months up to one year from the date of purchase. Fixed maturities comprise investments with a maturity of greater than one year from the date of purchase.

Short-term and fixed maturity investments classified as trading are carried at fair value, with realized and unrealized holding gains and losses included in the Consolidated Statement of Income (Loss) and Comprehensive Income (Loss) and reported as net realized and change in net unrealized gains and losses.

Investment purchases and sales are recorded on a trade-date basis. Realized gains and losses on the sale of investments are based upon specific identification of the cost of investments. Interest on securities is recorded in net investment income when earned and includes amortization of premium or accretion of discount.

Cash and cash equivalents

Cash equivalents include all highly liquid debt instruments purchased with an original maturity of three months or less.

Restricted cash and cash equivalents

Restricted cash and cash equivalents are held in trust accounts securing obligations for third party agreements.

(e) Funds Withheld

Under funds withheld arrangements, the reinsured company has retained funds that would otherwise have been remitted to us. The funds withheld balance is credited with investment income and losses payable are deducted. The investment returns of funds withheld are recognized in net investment income. Funds withheld upon which we receive the underlying portfolio economics are disclosed in the notes to the consolidated financial statements as funds withheld - directly managed.

(f) Foreign Exchange

Our functional currency is the U.S. dollar. Monetary assets and liabilities denominated in foreign currencies are remeasured at exchange rates in effect at the balance sheet date. Foreign currency revenues and expenses are measured at average exchange rates during the year. These exchange gains and losses are recognized in the Consolidated Statement of Income (Loss) and Comprehensive Income (Loss). Non-monetary assets and liabilities denominated in foreign currencies are measured at exchange rates in effect at the time of the underlying transaction. Subsidiary functional currency assets and liabilities are translated into U.S. dollars generally using rates of exchange prevailing at the balance sheet date and the related translation adjustments are recorded as a separate component of Accumulated other comprehensive income (loss), net of any related taxes, in total shareholders’ equity. Subsidiary functional currency income statement accounts are translated using average exchange rates during the period.

(g) Retroactive Reinsurance and Deferred Charges

Retroactive reinsurance policies provide indemnification of losses and LAE with respect to past loss events.

We use the balance sheet accounting approach for assumed loss portfolio transfers, whereby at the inception of the contract there are no premiums or losses recorded in the Consolidated Statement of Income (Loss) and Comprehensive Income (Loss). At the inception of a contract, a deferred charge asset is recorded for the excess, if any, of the estimated ultimate losses payable over the premiums received. Deferred charges are amortized over the estimated claim payment period of the related contract with the periodic amortization reflected in the Consolidated Statement of Income (Loss) and Comprehensive Income (Loss) as a component of losses and LAE. The deferred charge amortization is adjusted at each reporting period to reflect new estimates of the amount and timing of remaining loss payments. Changes in the estimated amount and the timing of payments of unpaid losses may have an effect on the unamortized deferred charges and the amount of periodic amortization. Deferred charges are assessed at each reporting period for impairment. If the asset is determined to be impaired, it is written down in the period in which the determination is made.

Recently issued accounting pronouncements not yet adopted

Financial Instruments - Credit Losses (Topic 326)

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments - Credit Losses (Topic 326)”, which would change how entities account for credit losses for most financial assets, trade receivables and reinsurance receivables. This standard would replace the existing incurred loss impairment model with a new “current expected credit loss model” that generally would result in earlier recognition of credit losses. This standard will apply to financial assets subject to credit losses, including loans measured at amortized cost, reinsurance receivables and certain off-balance sheet credit exposures. Between 2018 and 2022 the FASB issued a number of amendments and targeted improvements to ease with the application of this standard. These updates are effective in line with the effective date of ASU No. 2016-13.

This standard is effective for non-public entities for fiscal years beginning after December 15, 2022. The Company is currently evaluating the impact of this guidance; however, it is not expected to have a material impact on the Company’s financial statements.

3. SIGNIFICANT BUSINESS

Portfolio 1

On December 29, 2017, we entered into a loss portfolio transfer agreement (“LPTA”) to reinsure a portfolio of legacy business which primarily includes commercial automobile, non-standard personal automobile, general liability, commercial and personal property, mono-line liquor liability, real estate errors and omissions, workers’ compensation and other smaller lines of business. Concurrently, we entered into a QS Agreement with Armour Re in relation to the LPTA whereby we, along with Armour Re, provided the total capital required to fund the reinsurance up to the aggregate limit under the terms of the LPTA and deal related expenses.

On January 2, 2019, we entered into an excess of loss agreement ("XOL Contract") with White Rock Insurance (SAC) Ltd., acting solely in respect of its segregated account "T56", ("White Rock T56"), a related party. On the same date, the Portfolio 1 QS Agreement was amended and restated in relation to the XOL Contract. The terms of the XOL contract provide coverage to the Company of $80.0 million for the aggregate limit in excess of its retention on its underlying LPTA related to Portfolio 1. As collateral is released from the underlying Portfolio 1 collateral trust accounts, it will be paid to White Rock T56, in accordance with the contractually agreed payment waterfall, and will be applied to reduce the aggregate limit under the XOL Contract. In December 2019, $29.7m was repaid and in January 2020 $0.3m was repaid. During 2022 and 2021 there were no repayments.

Portfolio 2

On March 5, 2018, we entered into a LPTA to reinsure a portfolio of U.K. commercial motor, public and employers' liability lines of business along with property/premises related to U.K. commercial motor. Concurrently, we entered into a QS Agreement with Armour Re in relation to the LPTA whereby we, along with Armour Re, provided the total capital required to fund the reinsurance up to the aggregate limit under the terms of the LPTA and deal related expenses. We assumed net reserves under the LPTA, after QS with Armour Re, of $29.4 million.

Portfolio 3

On January 31, 2019, we entered into a QS Agreement with Armour Re in relation to its LPTA where they agreed to reinsure a portfolio of US general liability, commercial package including and excluding US wind cover and miscellaneous professional and liquor liability. Together, Armour Re and the Company provided the capital required to fund the reinsurance up to the aggregate limit for claims under the terms of the LPTA and deal related expenses. We funded $82.9 million to Armour Re representing our quota share portion of the total required capital and deal related expenses.

On December 15, 2020, the LPTA was commuted.

Portfolio 4

On February 18, 2019, we entered into a quota share retrocession agreement ("QS Agreement") with Armour Re in relation to its LPTA where they agreed to reinsure a portfolio of Italian medical malpractice liability lines of business. Together, Armour Re and the Company provided the capital required to fund the reinsurance up to the aggregate limit for claims under the terms of the LPTA and deal related expenses. The Company funded $16.3 million to Armour Re representing our quota share portion of the total required capital and deal related expenses.

On August 11, 2020, the LPTA was amended and restated. As part of the revised LPTA terms, the Company funded $3.6 million to Armour Re for its share of the total required capital.

Discussions to commute the LPTA were commenced and a potential counterparty was identified during the year ended December 31, 2022.

4. INVESTMENTS

The fair values of our short-term and fixed maturity investments classified as trading were as follows:

	December 31, 2022	December 31, 2021
U.S. government and agency	$ 18,405	$ 53,567
Non-U.S. government	-	1,002
Corporate	697	14,802
Municipal	-	500
Residential mortgage-backed	-	525
Asset-backed securities	-	66
Total investments	$ 19,102	$ 70,462

The contractual maturities of our investments classified as trading are shown below. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

As at December 31, 2022	Amortized Cost	Fair Value	% of Total Fair Value
One year or more	$ 18,480	$ 18,405	96.4 %
More than one year through two years	-	-	0 %
More than two years through five years	701	697	3.6 %
Asset-backed securities Moreyearsfive	-	-	0 %
Total Investments assea	$ 19,181	$ 19,102	100.0 %

As at December 31, 2021	Amortized Cost	Fair Value	% of Total Fair Value
One year or more	$ 64,071	$ 64,055	90.9 %
More than one year through two years	-	-	0 %
More than two years through five years	6,285	6,341	9 %
Asset-backed securities ace	66	66	0.1 %
Total Investments nvesmens	$ 70,421	$ 70,462	100.0 %

The following table sets forth the credit ratings of our investments as at December 31, 2022:

	Amortized Cost	Fair Value	% of Total Fair Value	AAA Rated	AA Rated	A Rated
U.S. government and agency	$ 18,480	$ 18,405	96.4 %	$ 18,405	$ —	$ —
Corporate	701	697	3.6 %	697	—	—
Asset-backed securities	-	-	0.0 %	66	—	—
Total	$ 19,181	$ 19,102	100.0 %	$ 19,102	$ -	$ -
% of total fair value vaue				100.0 %	0.0 %	0.0 %

The following table sets forth the credit ratings of our investments as at December 31, 2021:

	Amortized Cost	Fair Value	% of Total Fair Value	AAA Rated	AA Rated	A Rated
U.S. government and agency	$ 53,527	$ 53,506	75.9 %	$ 53,506	$ —	$ —
Non-U.S. government	1,002	1,002	1.4 %	—	1,002	—
Corporate	14,802	14,862	21.1 %	4,843	7,939	2,080
Municipal	500	502	0.7 %	—	502	—
Residential mortgage-backed	525	525	0.7 %	—	525	—
Asset-backed securities	66	66	0.1 %	66	—	—
Total	$ 70,421	$ 70,462	100.0 %	$ 58,414	$ 9,968	$ 2,080
% of total fair value vae				82.9 %	14.1 %	3.0 %

Net Investment Income

Major categories of net investment income for the years ended December 31, 2022 and 2021 is summarized as follows:

	2022	2021
Cash, cash equivalents and restricted cash and cash equivalents	$ 21	$ 1
Short-term investments	425	51
Funds withheld – directly managed	1,738	616
Gross investment income	2,174	668
Investment expenses	(168)	(201)
Investment expenses on funds withheld - directly managed	24	(89)
Net investment income	$ 2,030	$ 378

Net Realized and Change in Net Unrealized Gains (Losses)

Components of net realized and change in net unrealized gains (losses) for the years ended December 31, 2022 and 2021 were as follows:

	2022	2021
Net realized gains (losses):		
Short-term investments, trading	(6)	2
Funds withheld - directly managed	(1)	4
Total net realized gains (losses)	(7)	6
Change in net unrealized gains (losses):		
Cash, cash equivalents and restricted cash and cash equivalents	(55)	(12)
Funds withheld - directly managed	(2,030)	(620)
Total change in net unrealized gains (losses)	(2,085)	(632)
Net realized and change in net unrealized gains (losses)	$ (2,093)	$ (626)

Restricted Assets

We are required to maintain investments and cash and cash equivalents on deposit to support our reinsurance operations. The investments and cash and cash equivalents on deposit are available to settle reinsurance liabilities. We also utilize trust accounts to collateralize business with our reinsurance counterparties. The assets held in trusts as collateral are primarily cash and cash equivalents and highly rated short-term and fixed maturity securities. The carrying value of our restricted assets, including restricted cash and cash equivalents of $2.1 million, as of December 31, 2022, was $21.2 million. The carrying value of our restricted assets, including restricted cash and cash equivalents of $1.5 million, as of December 31, 2021, was $80.9 million.

5. FUNDS WITHHELD

The following table provides the total funds withheld balance as at December 31, 2022 and 2021:

	December 31, 2022	December 31, 2021
Funds withheld	$ 19,157	$ 15,590
Funds withheld - directly managed restricted cash and cash equivalents	386	99,171
Funds withheld - directly managed short-term investments	162,149	19,294
Funds withheld - directly managed fixed maturity investments	53,588	78,134
Total funds withheld	$ 235,280	$ 212,189

The fair values of our funds withheld - directly managed investments classified as trading were as follows:

	December 31, 2022	December 31, 2021
U.S. government and agency	$ 181,408	$ 51,032
Non-U.S. government	20,214	21,685
Corporate	14,116	24,710
Total funds withheld - directly managed investments	$ 215,737	$ 97,427

The contractual maturities of our funds withheld - directly managed investments classified as trading are shown below. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

As at December 31, 2022	Amortized Cost	Fair Value	% of Total Fair Value
One year or less s	$ 163,204	$ 162,149	75.2 %
More than one year through two years	-	-	0 %
More than two years through five years	36,471	35,462	16.4 %
More than five years through ten years	20,205	18,126	8.4 %
Asset-backed securities	—	—	0 %
Total funds withheld - directly managed	$ 219,880	$ 215,737	100.0 %

As at December 31, 2021	Amortized Cost	Fair Value	% of Total Fair Value
One year or less	$ 20,413	$ 19,294	19.8 %
More than one year through two years	3,095	2,705	2.8 %
More than two years through five years	56,231	54,944	56.4 %
More than five years through ten years	21,486	20,484	21 %
Asset-backed securities	—	—	0 %
Total funds withheld - directly managed	$ 101,225	$ 97,427	100.0 %

The following tables set forth the credit ratings of our funds withheld - directly managed investments as at December 31, 2022 and 2021:

December 31, 2022	Amortized Cost	Fair Value	% of Total Fair Value	AAA Rated	AA Rated	A Rated
U.S. government and agency	$ 181,667	$ 181,408	84.1 %	$ 181,408	$ —	$ —
Non-U.S. government	23,364	20,214	9.4 %	8,217	4,981	—
Corporate	14,849	14,116	6.5 %	4,472	8,903	740
Total	$ 219,880	$ 215,737	100.0 %	$ 194,096	$ 13,884	$ 740
% of total fair value ai				30.1 %	66.6 %	3.3 %

December 31, 2021	Amortized Cost	Fair Value	% of Total Fair Value	AAA Rated	AA Rated	A Rated
U.S. government and agency	$ 50,129	$ 51,032	52.4 %	$ 14,342	$ 36,691	$ —
Non-U.S. government	24,506	21,685	22.3 %	15,026	6,659	—
Corporate	26,590	24,710	25.4 %	9,596	14,637	477
Total	$ 101,225	$ 97,427	100.0 %	$ 38,964	$ 57,987	$ 477
% of total fair value				40.0 %	59.5 %	0.5 %

Net Investment Income on Funds Withheld - Directly Managed

Major categories of net investment income on funds withheld - directly managed for the years ended December 31, 2022 and 2021 are summarized as follows:

	2022	2021
Restricted cash and cash equivalents	$ 4	$ (13)
Short-term investments	1,225	6
Fixed maturity investments	502	623
Gross investment income on funds withheld - directly managed	1,730	616
Investment expenses on funds withheld - directly managed	(20)	(89)
Net investment income on funds withheld - directly managed	$ 1,710	$ 527

Net Realized and Change in Net Unrealized Gains (Losses) on Funds Withheld - Directly Managed

Components of net realized and change in net unrealized gains (losses) on funds withheld - directly managed for the year ended December 31, 2022 and 2021 were as follows:

	2022	2021
Net realized gains (losses):		
Fixed maturity investments, trading	$ -	$ 2
Short-term investments, trading	(1)	2
Cash and cash equivalents and restricted cash and cash equivalents	—	—
Total net realized losses on funds withheld - directly managed	(1)	4
Change in net unrealized gains (losses):		
Fixed maturity investments, trading	(1,901)	(627)
Short-term investments, trading	(127)	7
Cash and cash equivalents	1	-
Total change in net unrealized gains (losses) on funds withheld - directly managed	(2,027)	(620)
Net realized and change in net unrealized gains (losses) on funds withheld - directly managed	$ (2,028)	$ (616)

6. FAIR VALUE MEASUREMENTS

Fair Value Hierarchy

Fair value is defined as the price at which to sell an asset or transfer a liability (i.e. the "exit price") in an orderly transaction between market participants. We use a fair value hierarchy that gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data.

The hierarchy is broken down into three levels as follows:

- Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access.
- Level 2 - Valuations based on quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or for which significant inputs are observable (e.g. interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.

- Level 3 - Valuations based on unobservable inputs where there is little or no market activity. Unadjusted third party pricing sources or management's assumptions and internal valuation models may be used to determine the fair values.

We have categorized our investments that are recorded at fair value on a recurring basis among levels based on the observability of inputs as follows:

	December 31, 2022			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Investments:				
U.S. government and agency	$ —	$ 18,405	$ —	$ 18,405
Non-U.S. government	—	—	—	—
Corporate	—	697	—	697
Total	$ —	$ 19,102	$ —	$ 19,102
Funds Withheld - Directly Managed:				
U.S. government and agency	$ —	$ 181,408	$ —	$ 181,408
Non-U.S. government	—	20,214	—	20,214
Corporate	—	14,116	—	14,116
Total	$ —	$ 215,737	$ —	$ 215,737

	December 31, 2021			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Investments:				
U.S. government and agency	$ —	$ 60,046	$ —	$ 60,046
Non-U.S. government	—	—	—	—
Corporate	—	10,350	—	10,350
Residential mortgage-backed	—	—	—	—
Asset-backed securities	—	66	—	66
Total	$ —	$ 70,462	$ —	$ 70,462
Funds Withheld - Directly Managed:				
U.S. government and agency	$ —	$ 51,032	$ —	$ 51,032
Non-U.S. government	—	21,685	—	21,685
Corporate	—	24,710	—	24,710
Commercial mortgage-backed	—	—	—	—
Asset-backed securities	—	—	—	—
Total	$ —	$ 97,427	$ —	$ 97,427

Valuation Methodologies of Financial Instruments Measured at Fair Value

Investments

The fair values for all securities in the investments and funds withheld - directly managed portfolios are independently provided by the investment manager, which utilizes internationally recognized independent pricing services. We record the price provided by the investment manager and do not adjust prices obtained from the pricing service.

The independent pricing services used by the investment manager obtain actual transaction prices for securities that have quoted prices in active markets. Where we utilize single unadjusted broker-dealer quotes, they are generally provided by market makers or broker-dealers who are recognized as market participants in the markets in which they are providing the quotes. For determining the fair value of securities that are not actively traded, in general, pricing services use "matrix pricing" in which the independent pricing service uses observable market inputs including, but not limited to, reported trades, benchmark yields, broker-dealer quotes, interest rates, prepayment speeds, default rates and such other inputs as are available from market sources to determine a reasonable fair value.

The following describes the techniques generally used to determine the fair value of our investments by asset class, including the investments underlying the funds withheld - directly managed.

- U.S. government and agency securities consist of securities issued by the U.S. Treasury. Non-U.S. government securities consist of bonds issued by non-U.S. governments and agencies along with supranational organizations. The significant inputs used to determine the fair value of these securities include the spread above the risk-free yield curve, reported trades and broker-dealer quotes. These are considered to be observable market inputs and, therefore, the fair values of these securities are classified as Level 2.

- Corporate securities consist primarily of investment-grade debt of a wide variety of corporate issuers and industries. The fair values of these securities are determined using the spread above the risk-free yield curve, reported trades, broker-dealer quotes, benchmark yields, and industry and market indicators. These are considered observable market inputs and, therefore, the fair values of these securities are classified as Level 2. Where pricing is unavailable from pricing services, such as in periods of low trading activity or when transactions are not orderly, we obtain non-binding quotes from broker-dealers. Where significant inputs are unable to be corroborated with market observable information, we classify the securities as Level 3.

- Asset-backed securities consist primarily of investment-grade bonds backed by pools of loans with a variety of underlying collateral. Commercial mortgage-backed securities include both agency and non-agency originated securities. Where pricing is unavailable from pricing services, we obtain non-binding quotes from broker-dealers. This is generally the case when there is a low volume of trading activity and current transactions are not orderly. The significant inputs used to determine the fair value of these securities include the spread above the risk-free yield curve, reported trades, benchmark yields, prepayment speeds and default rates. The fair values of these securities are classified as Level 2 if the significant inputs are market observable. Where significant inputs are unable to be corroborated with market observable information, we classify the securities as Level 3.

Changes in Leveling of Financial Instruments

Transfers into or out of levels are recorded at their fair values as of the end of the reporting period, consistent with the date of determination of fair value. During the years ended December 31, 2022 and 2021, there were no transfers between levels.

Disclosure of Fair Values for Financial Instruments Carried at Cost

Disclosure of fair value of amounts relating to insurance contracts is not required. Our remaining assets and liabilities were generally carried at cost or amortized cost, which due to their short-term nature approximates fair value as of December 31, 2022 and 2021. As these assets and liabilities are not actively traded, their respective fair values are classified as Level 2.

7. REINSURANCE

The following table provides the total reinsurance balances recoverable as at December 31, 2022 and 2021:

Reinsurance balances recoverable	December 31, 2022	December 31, 2021
Outstanding losses	$ 31,537	$ 24,228
IBNR	38,348	36,711
ULAE	682	1,428
Total reinsurance reserves recoverable	70,567	62,367
Other reinsurance balances recoverable	127	1,467
Total reinsurance balances recoverable	$ 70,694	$ 63,834

As of December 31, 2022 and 2021, we had reinsurance balances recoverable of approximately $70.7 million and $64.4 million, respectively.

Effects of reinsurance on premiums written and earned and losses and loss adjustment expenses

The effects of reinsurance on net premiums written and earned and losses and loss adjustment expenses for the years ended December 31, 2022 and 2021 were as follows:

Premiums written:	2022	2021
Assumed	$ 279	844
Ceded	(1,588)	(1,291)
Net premiums written	$ (1,309)	(447)

Premiums earned:	2022	2021
Assumed	$ 274	859
Ceded	(1,587)	(1,296)
Net premiums earned	$ (1,312)	(437)

Losses and loss adjustment expenses:		2022		2021
Assumed	$	15,146	$	57,787
Ceded		(7,508)		(14,077)
Net losses and loss adjustment expenses	$	7,638	$	43,710

Credit Risk

We remain liable to the extent that retrocessionaires do not meet their obligations under these agreements, and therefore, we evaluate and monitor concentration of credit risk among our reinsurers. Provisions are made for amounts considered potentially uncollectible.

As of December 31, 2022 and 2021, all of the reinsurance balances recoverable of $70.7 million (2021: $64.8 million) is due from Armour Re, a non-rated reinsurer, which has provided security in the form of funds withheld.

8. RESERVE FOR LOSSES AND LOSS ADJUSTMENT EXPENSES

The liability for losses and LAE, also referred to as loss reserves, represents our gross estimates before reinsurance for unpaid reported losses and losses that have been incurred but not reported ("IBNR"). We recognize an asset for the portion of the liability that we expect to recover from reinsurers. LAE reserves include allocated loss adjustment expenses ("ALAE"), and unallocated loss adjustment expenses ("ULAE"). ALAE are linked to the settlement of an individual claim or loss, whereas ULAE are based on our estimates of future costs to administer the claims. IBNR represents reserves for loss and LAE that have been incurred but not yet reported to us. This includes amounts for unreported claims, development on known claims and reopened claims.

The following table summarizes the liability for losses and LAE as at December 31, 2022 and 2021:

		2022		2021
Outstanding losses	$	89,781	$	104,662
IBNR		121,849		127,818
ULAE		4,878		8,100
Total	$	216,508	$	240,580

The table below provides a reconciliation of the beginning and ending liability for losses and LAE for the years ended December 31, 2022 and 2021:

	2022	2021
Balance as at January 1,	$ 240,580	$ 240,097
Less: reinsurance reserves recoverable	62,367	62,924
Net balance as at January 1,	178,213	177,173
Net incurred losses and LAE:		
Prior periods	8,204	43,710
Total net incurred losses and LAE	8,204	43,710
Net paid losses:		
Prior periods	(36,611)	(40,092)
Total net paid losses	(36,611)	(40,092)
Effect of exchange rate movement	(3,992)	(2,578)
Net balance as at December 31,	145,814	178,213
Plus: reinsurance reserves recoverable	70,694	62,367
Balance as at December 31, 2022	$ 216,508	$ 240,580

Short Duration Contract Disclosures

The reserve for losses and loss expenses related to the completion of trades have been incorporated on a prospective basis. This treatment has been adopted primarily as a result of the data necessary to produce the loss development tables not being migrated over on acquisition of the portfolios as it was not requested or received and as a result does not exist within PC Re II's data systems.

Disclosures of Incurred and Paid Loss Development, IBNR, Claims Counts and Payout Percentages

The loss development tables disclosed below set forth our historic incurred and paid loss development by acquisition year through December 31, 2022, net of reinsurance, as well as the cumulative number of reported claims, IBNR balances, and other supplementary information.

For each acquisition year for which loss development tables have been provided below, the disclosure approach and format adopted reflects the following:

- The incurred loss development tables include both reported case reserves and IBNR liabilities, as well as cumulative paid losses;
- Both the incurred and cumulative paid loss development tables include allocated LAE ("ALAE", i.e. claims handling costs allocated to specific individual claims) but exclude unallocated LAE (i.e. the costs associated with internal claims staff and third-party administrators);
- The amounts relating to the increase (reduction) in provisions for unallocated LAE are excluded from the

loss development tables;

- The amounts included within the loss development tables as well as the historical average annual percentage payout ratios as at December 31, 2022, are presented as supplementary information and are therefore unaudited; and
- The IBNR reserves included within each incurred loss development table by acquisition year, reflect the net IBNR recorded as at December 31, 2022, including expected development on reported losses.

Reported claim counts, on a cumulative basis, are provided as supplemental information to each incurred loss development table by acquisition year. The claims frequency includes open and closed claims by acquisition year at the claimant level and exclude claims that closed before the acquisition. Reported claims that are closed without a payment are included within our cumulative number of reported claims because we typically incur claim adjustment expenses on them prior to their closure.

The following tables show the incurred and paid claims development for the acquired portfolios on a consolidated basis as of December 31, 2022:

	Cumulative Incurred Claims and ALAE, Net of Reinsurance as at Year Ended December 31, ($000's)						December 31, 2022	
Acquisition Year	2017	2018	2019	2020	2021	2022	Total IBNR	Cumulative Number of Reported Claims
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)		
2017	$ 251,912	$ 296,032	$ 286,486	$ 351,816	$ 380,236	$ 395,288	$ 79,533	24,271
2018	-	27,678	31,236	33,498	33,391	32,471	(416)	27,505
2019	-	-	239,503	238,377	250,698	235,378	12,221	35,080
Total	251,912	323,710	557,225	623,691	664,325	663,137	91,338	86,856

	Cumulative Paid Claims and ALAE, Net of Reinsurance as at Year Ended December 31, ($000's)					
Acquisition Year	2017	2018	2019	2020	2021	2022
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
2017	$ -	$ 107,926	$ 187,699	$ 234,503	$ 258,584	$ 278,079
2018	-	10,161	19,555	25,701	29,315	30,550
2019	-	-	57,785	195,972	204,885	212,891
Total	-	118,087	265,039	456,176	492,784	521,520
	Total Reserves For Losses and ALAE, Net of Reinsurance ($000's)					
	$ 251,912	$ 205,623	$ 292,186	$ 167,515	$ 171,541	$ 141,617

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

	December 31, 2022
Reserve for losses and ALAE, net of reinsurance	141,617
Reinsurance balances recoverable on loss reserves	70,013
Unallocated loss adjustment expenses	4,878
Total reserve for losses and loss adjustment expenses	$ 216,508

Claims duration

The following table is presented as supplementary information and presents the Company's unaudited historical average annual percentage payout of loss and loss adjustment expenses incurred, net by age, as at December 31, 2022:

Average Annual Percentage Payout of Incurred Losses by Age, Net of Reinsurance

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
10.1 %	37.8 %	14.0 %	8.7 %	5.9%	4.9%	N/A	N/A	N/A	N/A

9. SHARE CAPITAL AND ADDITIONAL PAID-IN CAPITAL

As at December 31, 2022 and 2021, the authorized, issued and fully paid share capital of the Company was 120,000 ordinary shares divided into 120,000 shares of par value of $1.00 each.

As at December 31, 2022, the Company recorded $247.8 million (2021: $247.8 million) in additional paid-in capital less distributions in relation to contributions from its parent for purposes of funding significant business transactions and operational expenses.

10. TAXATION

The Company is incorporated under the laws of Bermuda and under Bermuda law is not required to pay taxes in Bermuda based upon income or capital gains. The Company, under the Exempted Undertakings Tax Protection Act of 1966, is protected against any legislation that may be enacted in Bermuda which would impose any tax on profits, income, or gain until March 31, 2035.

11. RELATED PARTY TRANSACTIONS

Armour Re

See Note 1 - "Description of Business" and Note 3 - "Significant Business" for discussion related to the Co-Investment Framework Agreement and transactions between PC Re II and Armour Re, a wholly-owned subsidiary of Armour Group Ltd. ("Armour Group").

During the years ended December 31, 2022 and 2021, PC Re II received $(0.6) million of net premiums earned (2021: $(0.5) million), $(1.0) million of net investment income (2021: $0.4 million), $(0.6) million of net realized and change in net unrealized gains (losses) (2021: $0.3 million), $6.9 million of net losses and LAE (2021: $12.9 million), $(0.4) million of other reinsurance expenses (2021: $0.4 million) and $0.1 million of general and administrative expenses (2021: $0.1 million) to Armour Re.

During the years ended December 31, 2022 and 2021, Armour Re ceded $0.1 million of net investment income (2021: $(0.1) million), $(0.9) million of net realized and change in net unrealized gains (2021: $0.1 million), $0.0 million of net losses and LAE (2021: $14.4 million) and $0.0 million of general and administrative expenses (2020: $0.0 million) to PC Re II.

Our balance sheet as at December 31, 2022, primarily includes the following balances related to transactions with Armour Re: net due from cedants of $5.0 million (2021: $5.2 million), funds withheld of $32.8 million (2021: $44.0

million), reinsurance balances recoverable of $57.4 million (2021: $64.8 million), reserve for losses and LAE of $34.8 million (2020: $49.5 million), reinsurance balances payable of $1.5 million (2021: $2.8 million), funds withheld payable of $73.3 million (2021: $83.0 million) and other liabilities of $0.6 million (2021: $0.2 million).

On February 1, 2021, Armour Group entered into a Sale and Exchange Agreement (the "Agreement") with Premia Holdings Ltd. (“Premia”). The Agreement included the sale of 100% of the share capital of Armour Re and the novation of service contracts for Portfolios 1, 2, and 4 from Armour Risk Management Inc. and Armour Risk Management Limited (collectively "Armour Risk"), affiliates of Armour Re, to Premia.

White Rock T56

See Note 3 - "Significant Business" for discussion related to the XOL Contract between PC Re II and White Rock T56, a consolidated variable interest entity of Armour Group. During the year ended December 31, 2022, the Company ceded premiums of $2.2 million (2021: $1.0 million) to White Rock T56 of which Nil was payable at December 31, 2022 (2021: Nil). The Company also had funds withheld payable to White Rock T56 of $52.2 million (2021: $35.3 million) as at December 31, 2022.

During the year ended December 31, 2022, the Company's losses in relation to Portfolio 1 exceeded the aggregate limit under the under the terms of the XOL Contract with White Rock T56. As a result the Company has recorded a reinsurance recoverable balance amounting to $15.8m on a gross basis from White Rock T56, before cession to Armour Re, amounting to $5.2m resulting in a net amount of $10.6m being recoverable as of December 31, 2022. Related to this, the security balance, amounting to $5.0m, advanced to Thames as was written off in conjunction with the recording of the reinsurance recoverable amount due from White Rock T56.

Thames

During the year ended December 31, 2019, the Company made an advance of $6.6 million to Thames Limited ("Thames"), a wholly-owned subsidiary of Armour Group, to provide security for a four year term facility agreement ($5.0 million) and to fund the cost of the fees and expenses associated with the agreement ($1.6 million). During the year ended December 31, 2020, Thames allocated the cost of the fees and expenses associated with the agreement ($1.6 million) to the Company. The Company has allocated $0.5 million of the cost of the fees and expenses associated with the agreement to Armour Re, for its share of the total, in line with the QS Agreement. The security balance amounting to $5.0 million was due upon payment of the obligations under the term facility agreement, was written off during the year ended December 31, 2022, as discussed in the prior paragraph.

Armour Risk

Armour Risk, wholly-owned subsidiaries of Armour Group, entered into administrative services agreements with PC Re II and Armour Re agreeing to act as claims administrator for Portfolios 1 to 4. During the years ended December 31, 2022 and 2021, PC RE II paid Armour Risk fees of $0.0 million (2021: $4.0 million), net of recoveries, for services provided. These companies both ceased operations at 31 May 2021 and the new service providers are not related parties.

12. DIVIDEND RESTRICTIONS AND STATUTORY FINANCIAL INFORMATION

The Company is registered under the Insurance Act 1978 of Bermuda and related regulations, as amended (the "Insurance Act"). The Insurance Act imposes certain solvency and liquidity standards and auditing and reporting requirements and grants the Bermuda Monetary Authority ("BMA") powers to supervise, investigate, require information and the production of documents and intervene in the affairs of insurance companies.

The Insurance Act requires that we maintain certain solvency and liquidity standards. The minimum liquidity ratio requires that the value of relevant assets not be less than 75% of the amount of relevant liabilities. The minimum solvency margin ("MSM"), which varies depending on the class of the insurer, is determined as a percentage of either net reserves for losses and LAE or premiums or pursuant to a risk-based capital measure. We are required to maintain a minimum statutory capital and surplus (Enhanced Capital Requirement or "ECR") at least equal to the greater of the MSM or the Bermuda Solvency Capital Requirement ("BSCR"). The BSCR is calculated based on a standardized risk-based capital model.

The Company prepares its statutory financial statements in conformity with statutory accounting practices prescribed or permitted by the applicable local laws and relevant regulatory authority. The statutory financial statements may vary materially from statements prepared in accordance with U.S. GAAP.

Statutory capital and surplus as at December 31, 2022 and 2021 and statutory net income for the years ended December 31, 2022 and 2021 were as follows:

Statutory Capital and Surplus				Statutory Net Income (Loss)	
Required		Actual		Actual	
December 31,		December 31,		Year Ended December 31,	
2022	2021	2022	2021	2022	2021
$ 47,152	$ 60,963	$ 41,477	$ 34,061	$ (9,313)	$ (46,395)

We would be prohibited from declaring or paying any dividends if we were in breach of our minimum statutory capital and surplus (which is mainly a function of outstanding losses) or liquidity ratio (which is a function of relevant assets) or if the declaration or payment of such dividends would cause it to fail to meet such margin or ratio. In addition, we would be prohibited, without the prior approval of the BMA, from reducing by 15% or more our total statutory capital as set out in its previous year’s statutory financial statements.

As at December 31, 2022 and 2021, the Company’s actual statutory capital and surplus is below the ECR. The Company has made the BMA aware of this breach of capital requirements.

13. COMMITMENTS AND CONTINGENCIES

Concentration of Credit Risk

We believe that there are no significant concentrations of credit risk associated with our portfolio of cash and investments.

We have exposure to credit risk on certain of our assets pledged to ceding companies under reinsurance contracts. In addition, we are potentially exposed should any reinsurance intermediaries be unable to fulfill their contractual obligations with respect to payments of balances owed to and by us.

Credit risk exists in relation to our reinsurance balances recoverable. We remain liable to the extent that counterparties do not meet their contractual obligations and, therefore, we evaluate and monitor concentration of credit risk among our reinsurers. Amounts recoverable from reinsurers are described in Note 7 - "Reinsurance."

We are also subject to credit risk in relation to funds withheld by reinsured companies. Under funds withheld arrangements, the reinsured company has retained funds that would otherwise have been remitted to us. The funds may be placed into trust or subject to other security arrangements. The funds withheld balance is credited with investment income and losses payable are deducted. We are subject to credit risk if the reinsured company is unable to honor the value of the funds withheld balances, such as in the event of insolvency. However, we generally have the contractual ability to offset any shortfall in the payment of the funds withheld balances with amounts owed by us to the reinsured for losses payable and other amounts contractually due. We routinely monitor the creditworthiness of reinsured companies with whom we have funds withheld arrangements. We have funds withheld of $184.5 million (2021: $153.8 million) with a company which has a financial strength credit ratings of A+ from Fitch and A+ from Standard & Poor's. The remaining balances is primarily held by Armour Re.

Legal Proceedings

We are, from time to time, involved in various legal proceedings in the ordinary course of business, including litigation and arbitration regarding claims. Estimated losses relating to claims arising in the ordinary course of business, including the anticipated outcome of any pending arbitration or litigation are included in the liability for losses and LAE in our balance sheets. We do not believe that the resolution of any currently pending legal proceedings, either individually or taken as a whole, will have a material effect on our business, results of operations or financial condition. We anticipate that, similar to the rest of the reinsurance industry, we will continue to be subject to litigation and arbitration proceedings in the ordinary course of business.

14. SUBSEQUENT EVENTS

The board of directors of the Company has performed an evaluation of subsequent events through June 30th, 2023, the date that the consolidated financial statements were available to be issued. No other subsequent requiring adjustments or disclosure occurred.