CITADEL REINSURANCE COMPANY LIMITED

Consolidated Financial Statements
(With Independent Auditor's Report Thereon)

Years Ended December 31, 2018 and 2017

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder and Board of Directors of
Citadel Reinsurance Company Limited

We have audited the accompanying consolidated financial statements of Citadel Reinsurance Company Limited and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations, changes in shareholder's equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the financial position of Citadel Reinsurance Company Limited and its subsidiaries as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other matter

U.S. generally accepted accounting principles require that certain disclosures related to short-duration contracts in Note 3 to the basic financial statements be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Financial Accounting Standards Board who consider it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
July 31, 2019

CITADEL REINSURANCE COMPANY LIMITED

Consolidated Balance Sheets

December 31, 2018 and 2017
(Expressed in United States Dollars)

	Note	As at December 31, 2018	2017
ASSETS			
Cash and cash equivalents		$ 20,040,631	$ 20,720,619
Marketable securities	4	29,504,451	29,534,588
Accounts receivable and accrued interest		8,288,190	7,969,019
Insurance and reinsurance balances receivable		11,404,095	14,700,206
Reinsurance recoverables on loss and loss adjustment reserves		52,855,064	41,018,166
Deposit assets	5	0	14,331,303
Property, plant and equipment		275,937	442,790
Goodwill	6	2,180,667	2,180,667
Total assets		124,549,035	130,897,358
LIABILITIES			
Loss and loss adjustment expense reserves	3	79,948,418	67,562,972
Unearned premiums net of deferred acquisition costs	7	6,540,860	8,498,961
Insurance and reinsurance balances payable		11,526,897	15,915,137
Deposit liabilities	8	0	14,331,303
Accounts payable and accruals		2,349,237	2,128,482
Total liabilities		100,365,412	108,436,855
EQUITY			
Share capital	9	20,000,000	20,000,000
Retained earnings		4,135,583	2,515,635
Equity attributable to shareholder of Citadel Reinsurance Company Limited		24,135,583	22,515,635
Non-controlling interests in subsidiaries	13	48,040	(55,132)
Total equity		24,183,623	22,460,503
Total equity and liabilities		$ 124,549,035	$ 130,897,358

See accompanying notes to consolidated financial statements

Signed on behalf of the Board

________________________________ Director

________________________________ Director

CITADEL REINSURANCE COMPANY LIMITED

Consolidated Statements of Operations

December 31, 2018 and 2017
(Expressed in United States Dollars)

	Note	For the years ended December 31, 2018	2017
REVENUES			
Gross premiums written		$ 63,554,581	$ 68,469,870
Premiums ceded		(42,239,987)	(44,430,626)
Net premiums written		21,314,594	24,039,244
Change in net unearned premiums		1,976,439	476,246
Net premiums earned		23,291,033	24,515,490
Net investment income		1,330,500	1,352,157
Net realized and unrealized losses on investments		(938,517)	812,014
Other income		7,174,120	8,746,770
Total revenues		30,857,136	35,426,431
EXPENSES			
Loss and loss adjustment expenses		16,815,654	18,841,387
Acquisition costs		(384,600)	(2,043,899)
General and administrative expenses		12,389,132	12,081,597
Net foreign exchange losses (gains)		167,992	(175,820)
Total expenses		28,988,178	28,703,265
Profit before income tax		1,868,958	6,723,166
Income tax expense	12	(145,838)	(2,611,824)
Net Profit		1,723,120	4,111,342
Profit attributable to non-controlling interests		103,172	539,422
Net profit attributable to shareholder of Citadel Reinsurance Company Limited		$ 1,619,948	$ 3,571,920

See accompanying notes to consolidated financial statements

CITADEL REINSURANCE COMPANY LIMITED

Consolidated Statements of Changes in Shareholder's Equity

December 31, 2018 and 2017
(Expressed in United States Dollars)

	Shareholder's equity			
	Total equity	**(Deficit) / retained earnings**	**Share capital** (Note 9)	**Non-controlling interest in subsidiaries** (Note 13)
Balance at December 31, 2016	$ 18,365,645	$ (1,056,285)	$ 20,000,000	$ (578,070)
Restructure of interests	(16,484)	–	–	(16,484)
Net Profit	4,111,342	3,571,920	–	539,422
Balance at December 31, 2017	22,460,503	2,515,635	20,000,000	(55,132)
Net Profit	1,723,120	1,619,948	–	103,172
Balance at December 31, 2018	$ 24,183,623	$ 4,135,583	$ 20,000,000	$ 48,040

See accompanying notes to consolidated financial statements

CITADEL REINSURANCE COMPANY LIMITED

Consolidated Statements of Cash Flows

December 31, 2018 and 2017
(Expressed in United States Dollars)

	For the years ended December 31,	
	2018	**2017**
Cash flows from operating activities:		
Net Profit (Loss)	$ 1,723,120	$ 4,111,342
Adjustments for:		
Net realized and unrealized (gains) losses on investments	866,227	(812,013)
Net unrealized foreign exchange (gains) losses	111,500	(154,924)
Depreciation expense	191,191	196,830
Changes in assets and liabilities:		
Accounts receivable and accrued interest	(319,173)	(510,003)
Insurance and reinsurance balances receivable	(8,540,787)	(3,093,283)
Deposit assets	14,331,303	11,157,686
Loss and loss adjustment expense reserves	12,385,445	(2,381,833)
Unearned premiums	(1,958,101)	(1,262,221)
Insurance and reinsurance balances payable	(4,388,240)	(123,069)
Unearned service fee	–	(153,633)
Deposit liabilities	(14,331,303)	(11,119,463)
Accounts payable and accruals	220,755	(402,098)
Net cash provided by (used in) operating activities	291,937	(4,546,682)
Cash flows from investing activities:		
Proceeds on disposal of marketable securities	14,676,972	20,487,744
Purchases of marketable securities	(15,622,949)	(15,112,856)
Purchases of property, plant and equipment	(25,948)	(98,043)
Restructure of non-controlling interests	–	(16,482)
Acquisition of subsidiaries, net of cash acquired	–	–
Net cash (used in) provided by investing activities	(971,925)	5,260,363
Increase (decrease) in cash and cash equivalents	(679,988)	713,681
Cash and cash equivalents - beginning of year	20,720,619	20,006,938
Cash and cash equivalents - end of year	$ 20,040,631	$ 20,720,619

See accompanying notes to consolidated financial statements

1. NATURE OF BUSINESS

Citadel Reinsurance Company Limited (the "Company"), which underwrites insurance and reinsurance, was incorporated under the laws of Bermuda on January 4, 1984 and is registered as a Class 3A insurer under The Insurance Act 1978, amendments thereto and related regulations ("The Act"). The Company is managed and has its principal place of business in Bermuda. The Company's ultimate parent company is Sirius International Limited, a company incorporated in Bermuda.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of financial statements in accordance with generally accepted accounting principles, requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the balance sheet date. Estimates also affect the reported amounts of income and expenses for the reporting period. Actual results could differ from those estimates. The Company's principal estimates relate to the development or determination of the following:

- the valuation of investments and determination of hierarchical inputs used to measure fair value of investments;
- loss and loss adjustment expense reserves;
- reinsurance balance recoverables.

Consolidation

These financial statements include the operations of the Company and its wholly-owned subsidiaries, (collectively, the 'Group') namely Citadel International Reinsurance Company Limited ("CIRCL"), Citadel Risk Services UK Limited, Citadel Group Representatives, Inc, Citadel Risk Management, Inc, ("CRMI"), Citadel Risk Services, Inc. ("CRS"), American Millennium Insurance Company ("AMIC"), Green Park (US) Incorporated and Citadel Tennessee Captive Insurance Company.

CIRCL is a segregated account company, incorporated in Bermuda. There are twelve segregated cells (2017 – ten) within CIRCL, two of which (2017 – two) have been consolidated into these financial statements on the basis that the Company owns 100% of the preferred shares in one of the cells and 65% of the preferred shares in the other. The remaining 35% of the latter cell's income is recognised as a minority interest. To the extent that the cell has a deficiency in excess of its share capital, the full amount of the deficiency is consolidated into these financial statements. To the extent that the cell's retained earnings exceed its share capital the non-controlling 35% interest is accrued on the balance sheet.

The Company and CRS jointly own 81.62% (2017 – 81.62%) of Great Falls Holding Company ("GFH"), a company incorporated in Delaware, U.S.A. GFH has a wholly owned subsidiary, Great Falls Insurance Company ("GFI"), which is engaged in the business of writing workers compensation insurance and employment practices liability insurance in the states of Maine and New Hampshire, U.S.A. The operations of GFH and GFI have been consolidated in these financial statements on the basis that the Company owns 81.62% of the issued capital. The remaining 18.38% (2017 - 18.38%) is recognised as a non-controlling interest (Note 13). During the third quarter of 2017, GFI sold the renewal rights to the workers compensation and employment practices liability insurance policies insured by it to the Eastern Alliance Insurance Group.

On February 29, 2016, the Company completed the acquisition of 51.0% of Citadel Management Bermuda Limited (formerly Cedar Management Limited). The remaining 49.0% is recognized as a non-controlling interest (Note 13).

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

On February 29, 2016, CRMI completed the acquisition of 51.0% of the interests held in Cedar Consulting, LLC. The remaining 49.0% is recognized as a non-controlling interest (Note 13).

On November 16, 2016, Citadel Tennessee Captive Insurance Company ("CTCIC") was incorporated in Tennessee, U.S.A. This company was capitalized by CRMI in March 2017, and on April 5, 2017 became licensed to conduct business as a protected cell captive insurance company in Tennessee effective January 1, 2017. CTCIC commenced trading during 2018.

Premiums and Acquisition Costs

Written premiums comprise the premiums on insurance contracts entered into during the accounting period and are disclosed gross of commission payable to intermediaries and exclude taxes and duties levied on premiums. Premiums are recognised when receivable and are earned on either a daily or monthly pro-rata basis over the term of the related policies.

The Group assumes and cedes reinsurance in the normal course of business, with retention limits varying by line of business. Premiums on reinsurance business are recognised in the same manner as they would be if the reinsurance were considered direct business.

Premiums written and ceded, and commissions payable on certain policies are subject to adjustment based upon actual loss experience. Since actual loss experience may differ from expected amounts, ultimate net premiums earned or the commissions expense may differ materially from the amounts recorded in the financial statements. Any resulting premium or commission adjustments are reflected in the operating results of the period in which the adjustment is determined.

The provision for unearned premiums represents that portion of the premiums written in respect of the current and prior years, which is attributable to the unexpired term of the corresponding policy in force.

Acquisition costs are comprised of ceding commissions, brokerage, premium taxes, profit commissions and other expenses that relate directly to the writing of insurance and reinsurance contracts. Acquisition costs that are incremental and directly attributable to new and renewal business that has been secured are deferred and amortized over the underlying term of the related policy.

Loss and Loss Adjustment Expense Reserves

Loss and loss adjustment expenses include all claims for losses incurred during the year, whether reported or not, related handling costs, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years. Estimates for loss and loss adjustment expense reserves are established based on undiscounted estimates of the ultimate cost of all claims incurred but not settled at the balance sheet date, whether reported or not, together with related claims handling costs. The estimated provisions established for the Group's reinsurance business is determined in a similar manner to direct business, and is based on reports received from the company ceding the insurance business.

The Group's loss and loss adjustment expense provisions are mainly derived from standard actuarial methods. As the provisions are based upon known facts and interpretation of circumstances, the provision setting process is a complex and dynamic process influenced by a large variety of factors. In establishing a provision for unpaid claims and claims expenses, management considers facts currently known, the current state of laws and litigation and current estimates of reported losses and loss expenses. Liabilities are recognized for known claims when sufficient information has been developed to indicate the involvement of a specific policy and management can reasonably estimate the Company's liability. In addition, a provision for adverse development for reported notifications and incurred but not reported claims is recorded based on the recommendations of an independent actuary.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Loss and Loss Adjustment Expense Reserves (continued)

The actuary has utilized the Loss Development and Bornhuetter-Ferguson methods using the paid and the reported loss and loss adjustment expense history of the Company and industry data. Each of these two methods creates two estimates for each business segment and the actuary's indicated loss and expenses reserve range is based upon a selective weighting of these methods.

Management believes that the provision for losses and loss adjustment expenses at December 31, 2018 is reasonable to cover the ultimate net cost of losses incurred, however, such liability is necessarily based on estimates and no representation is made that the ultimate liability may not exceed such estimates. Subsequent revisions to estimated ultimate losses will be reflected in operations in the period in which they are determined.

Disclosures about Short-Duration Contracts

The Company adopts FASB Accounting Standards Update (ASU) 2015-09 which requires insurance entities that issue short-duration contracts to provide detailed disclosures relative to the reserve for losses and loss adjustment expenses. This information includes incurred and paid claims development information by accident year on a net basis after risk mitigation through reinsurance. Adoption of the guidance for the first time in 2017 had no material effect on the Company's result or operations or financial position as it affected disclosure only. The disclosures are provided in Note 3 Loss and Loss adjustment expenses reserves.

Deposit Assets and Deposit Liabilities

Insurance and reinsurance contracts that principally transfer finance risk and for which no insurance risk is assumed by the Group are accounted for directly through the balance sheet. The net fees or margins earned in accordance with the terms of the contracts are recorded in the consolidated statements of operations.

The insurance/reinsurance assets and liabilities related to the contracts are recorded at their gross amounts in the balance sheet within Deposit assets and Deposit liabilities. The provision for claims reflected as part of the Deposit liabilities is discounted based upon the liability after taking account of the known duration of such liability, the rate of return on the matching assets and the future reductions in deferred underwriting expenses and the provision for unearned premiums.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired by the Company. Goodwill is recorded as an asset and is not amortized. In accordance with the Intangibles – Goodwill and Other Topic of the FASB ASC, the Company performs, at a minimum, an annual valuation of its goodwill to test for impairment or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. For purposes of annual impairment evaluation, goodwill is assigned to the applicable reporting unit of the acquired entities giving rise to the goodwill.

Fair value is determined using widely accepted valuation techniques, such as discounted cash flows and markets multiple models. These types of analyses contain uncertainties because they require management to make assumptions and to apply judgment to estimate industry economic factors and the profitability of future business strategies. It is the Company's policy to conduct impairment testing based on the Company's current business strategy in light of present industry and economic conditions, as well as the Company's future expectations. If, as a result of the assessment, the Company determines that the value of its goodwill and intangible assets are impaired, the Company will record an impairment charge in the period in which the determination is made.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

Cash and cash equivalents are short-term, highly liquid investments maturing in less than 90 days that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Marketable Securities

In accordance with the Financial Instruments Topic of the FASB ASC, the Company differentiates between held-to-maturity marketable securities, which are recognised at amortized cost, and held-for-trading marketable securities, which are recognised at market value with unrealised gains and losses being reported as other income in the consolidated statement of operations.

Fair Value of Financial Instruments

Fair values of financial instruments are disclosed in the notes to the financial statements when they differ from the carrying values. Where amounts receivable and payable are subject to normal credit terms, their carrying values are used as an approximation of their fair values.

Fair value is defined as the price to sell an asset or transfer a liability (i.e. the “exit price”) in an orderly transaction between market participants. Assets and liabilities recorded at fair value in the consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair value. An asset or a liability’s categorization within the fair value hierarchy is based on the lowest level of significant input to its valuation. The hierarchy is broken down into three levels as follows:

Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2 – Valuations based on quoted prices in active markets for similar assets or liabilities, quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement. These are generally company generated inputs and are not market based inputs.

The Company used the following valuation technique and assumptions in estimating the fair value of financial instruments as well as the general classification of such financial instruments pursuant to the above fair value hierarchy:

At each valuation date, the Company uses a market approach technique to estimate the fair value of our fixed maturities portfolios, when possible. This market approach includes, but is not limited to, prices obtained from third party pricing services and broker-dealers for identical or comparable securities. The pricing services use market quotations for securities that have quoted prices in active markets. When quoted market prices are unavailable, the pricing services prepare estimates of fair value measurements using observable market inputs such as yield curves, credit risks and spreads, measures of volatility, expected cash flows including prepayment speeds, reported trades and broker/dealer quotes.

A review of fair value hierarchy classifications is conducted on an annual basis. Changes in the observability of valuation inputs may result in a reclassification for certain financial assets and liabilities. Reclassifications between Level 1, 2 and 3 of the fair value hierarchy are reported as transfers in and/or out as of the beginning of the period in which the reclassifications occur.

(Expressed in United States Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign Currency Translation

Monetary assets and liabilities are translated into U.S. dollars at year-end exchange rates and non-monetary assets and liabilities at the exchange rates prevailing when the assets were acquired or liabilities incurred. Income and expenses are translated at the rate of exchange prevailing at the transaction date. Translation gains and losses are included in foreign exchange gains or losses unless the gain or loss is a result of trading foreign currency as part of the Company's overall investment strategy, in which case the income is recognized as other income.

Taxation

The Company's subsidiaries that are based in Bermuda, the United States of America and the United Kingdom are subject to the tax laws of those jurisdictions and the jurisdictions in which they operate.

Income taxes have been recognized in accordance with current standards on those operations that are subject to income taxes. Deferred tax assets and liabilities result from net operating loss carryforwards and temporary differences between the carrying amounts of existing assets and liabilities recorded in the consolidated financial statements and their respective tax bases. A valuation allowance for a portion or all of deferred tax assets is recorded as a reduction to deferred tax assets if it is more likely than not that such portion or all of such deferred tax assets will not be realized.

3. LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

(i) Gross loss and loss adjustment expense reserves and reinsurance recoverables comprise:

		2018		2017
				$
Gross loss and loss adjustment expenses	$	79,948,418	$	67,562,972
Reinsurance recoverables		(52,855,064)		(41,018,166)
Net loss and loss adjustment expense reserves	$	27,093,354	$	26,544,806

(ii) Loss development table

The following changes have occurred in the loss and loss adjustment reserves:

		2018		2017
Loss and loss adjustment expense reserves: beginning of year	$	26,544,806	$	28,926,639
Loss and loss expenses incurred related to losses occurring in:				
Current year		13,534,136		16,057,159
Prior year		3,281,518		2,784,228
Total loss and loss expenses incurred		16,815,654		18,841,387
Losses and loss expenses paid related to losses occurring in:				
Current year		3,049,384		4,231,319
Prior year		13,217,722		16,991,901
Total loss and loss expenses paid		16,267,106		21,223,220
Loss and loss adjustment expense reserves: end of year	$	27,093,354	$	26,544,806

3. LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES (continued)

During 2018, loss and loss expenses incurred attributable to insured events in prior years total $3,281,518 (2017: $2,784,228). These losses principally represent the impact of continued strengthening of provisions for outstanding claims in respect of:

- USA commercial automobile liability policies written by American Millennium Insurance Company during 2014, and
- A USA commercial trucking automobile liability quota share reinsurance program written by Citadel Reinsurance Company Limited between August 2012 and May 2014.

(iii) Short Duration Contract Disclosures

The following is information about incurred and paid claims development as of December 31, 2018, net of reinsurance, as well as cumulative claim frequency and the total of incurred but not reported liabilities plus expected development on reported claims included within the net incurred claims amounts. Some of the information provided in the following tables, is Required Supplementary Information (RSI) under US GAAP, and therefore it does not form part of these consolidated audited financial statements. Claims development information for all periods except the current reporting period and any information derived from it – including average annual percentage payout of claims incurred – is considered RSI and is identified as RSI in the tables presented.

The Company has provided seven years claims development history in its initial application of ASU 2015-09, covering the accident years 2012 to 2018. In late 2011, the Citadel group of companies acquired its affiliate, American Millennium Insurance Company ("AMIC") which fundamentally changed the nature and scale of the group's operations. The following tables encompass the first full year of claims development following the acquisition of AMIC and management consider the determination of complete and accurate information prior to 2012 as impracticable.

The first table presents the estimated ultimate cost of claims and the development of claim payments for the accident years 2012 to 2018. For example, as reflected in the upper section of the table, the original estimated ultimate cost of claims of $8,739,000 with respect to the accident year 2012 was re-estimated to be $9,481,000 at 31 December 2018. The bottom half of the table shows the cumulative amounts paid during successive years related to each accident year, and with respect to the accident year 2012, by the end of 2018 $9,279,000 had actually been paid in settlement of claims.

The original estimates will be increased or decreased, as more information becomes known about the individual claims and overall claim frequency and severity. The Group aims to maintain reserves in respect of its general insurance and reinsurance business that protect against adverse future claims experience and development. The Group establishes reserves in respect of the current accident year (2018), where the development of claims is less mature, that allow for the greater uncertainty attaching to the ultimate cost of current accident year claims.

As claims develop and the ultimate cost of claims become more certain, the absence of adverse claims experience will result in a release of reserves from earlier accident years, or in the case of adverse claims experience a strengthening of reserves, as shown in the loss development table and movement tables above.

3. LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES (continued)

(iii) Short Duration Contract Disclosures (continued)

Management believes that the assumptions used when establishing its provision for loss and loss adjustment expenses represent a realistic and appropriate basis for estimating those reserves. However, these assumptions are subject to change and the Company continually reviews and adjusts its reserve estimates taking into account all currently known information and updated assumptions related to unknown information. The claims provisions established in 2018 and 2017 are reviewed by professional and independent actuaries, and are consistent with the mid-range of ultimate loss ratios as determined by the actuaries.

Liability for Unpaid Claims and Claims Adjustment Expenses

	Incurred Losses and Loss Expenses, Net of Reinsurance ($'000) Years ended December, 31							Total of IBNR, net of reinsurance	Cumulative Claim Count
Accident Year	2012 note (i)	2013 note (i)	2014 note (i)	2015 note (i)	2016 note (i)	2017 note (i)	2018	2018	2018
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	
2012	8,739	9,439	9,276	9,667	9,640	9,526	9,481	24	878
2013		10,673	11,940	16,726	22,099	22,873	22,924	131	2,342
2014			13,212	15,382	18,452	19,768	20,789	846	2,510
2015				10,314	10,552	11,523	12,767	587	2,230
2016					13,836	13,739	13,700	2,123	3,254
2017						16,057	16,968	5,296	3,365
2018							13,534	7,932	2,282
Total	8,739	20,112	34,428	52,089	74,579	93,486	110,163	16,939	16,861

	Cumulative Paid Losses and Loss Expenses, Net of Reinsurance ($'000) Years ended December, 31						
Accident Year	2012 note (i)	2013 note (i)	2014 note (i)	2015 note (i)	2016 note (i)	2017 note (i)	2018
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2012	2,205	4,681	6,205	7,954	8,771	8,959	9,279
2013		2,060	1,698	7,157	16,237	21,302	22,652
2014			2,265	4,886	11.202	16,498	18,299
2015				4,585	6,673	9,188	11,247
2016					3,050	6,769	9,481
2017						4,231	9,065
2018							3,049
							83,072
Reserves for losses and losses expenses, before 2012, net of reinsurance							2
Reserves for losses and losses expenses, net of reinsurance							27,093

Note (i) Years ended December 31, 2012 to 2017 are Required Supplementary Information and are unaudited

3. LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES (continued)

(iv) Reconciliation of Loss Development Information to the Reserves for Losses and Loss Expenses

The reconciliation of the net incurred and paid claims development tables to the liability for claims and claim adjustment expenses in the consolidated statement of financial position is as follows:

($'000s)	**2018**	**2017**
Total outstanding losses and loss expenses including ULAE, net of reinsurance, for all classes of business	27,093	26,545
Total loss reserves recoverable for all classes of business	52,855	41,018
Total gross outstanding losses and losses expenses	79,948	67,563

(v) Claims Duration

The following table presents supplementary information about average historical claims duration as of December 31, 2018 based on cumulative incurred and historical paid losses and allocated loss adjustment expense patterns presented above.

	Average Annual Percentage Payout of Incurred Losses by Age (in Years)						
Unaudited (RSI)	1	2	3	4	5	6	7
All Classes	19.5%	15.5%	19.3%	24.5%	12.2%	6.6%	0.3%

(Expressed in United States Dollars)

4. MARKETABLE SECURITIES

The total fair value of held-for-trading securities and held-to-maturity securities as at December 31, 2018 was $28,874,919 (2017 - $29,464,501).

Held for trading	**2018 Fair value**	**2017 Fair value**
Ordinary shares	$ 1,500,471	$ 1,852,738
Preferred shares	702,964	1,563,141
Corporate and Municipal Bonds	-	247,162
	$ 2,203,435	$ 3,663,041

Held to maturity

The amortized cost, gross unrealized gains and losses and estimated fair value of held-to-maturity securities as of December 31, 2018 and 2017, are as follows:

	2018			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair Value
Preferred shares	$ 1,274,055	$ 71,951	$ (45,562)	$ 1,300,444
Floating notes	970,716	39,245	(41,596)	968,365
Corporate bonds	20,338,671	24,223	(608,034)	19,754,860
Treasury notes	4,717,574	24,065	(93,824)	4,647,815
	$ 27,301,016	$ 159,484	$(789,016)	$26,671,484

	2017			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair Value
Preferred shares	$ 1,186,609	$ 282,885	$ (2,496)	$ 1,466,998
Floating notes	1,204,524	27,583	(87,359)	1,144,748
Corporate bonds	17,929,443	50,370	(248,432)	17,731,381
Treasury notes	5,550,971	931	(93,569)	5,458,333
	$ 25,871,547	$ 361,769	$(431,856)	$25,801,460

The investment portfolio is managed following prudent standards of diversification across counterparties, issuers, asset classes and geographical regions. Investment guidelines are designed to limit the holdings of a single issue and issuer, control non-US dollar currency exposure and minimize sovereign risk. At December 31, 2018, 89% (2017 - 82%) of the fixed and floating income portfolio at fair value was rated investment grade (considered equivalent to Standard & Poors' credit rating of BBB or above).

(Expressed in United States Dollars)

4. MARKETABLE SECURITIES (continued)

The following table represents the fair value hierarchy for the Company's investments measured at fair value as at December 31, 2018:

	2018			
	Level 1	Level 2	Level 3	Total
Ordinary shares	$ 1,500,471	$ –	$ –	$ 1,500,471
Preferred shares	2,003,408	–	–	2,003,408
Floating notes	–	968,365	–	968,365
Corporate and Municipal bonds	–	19,754,860	–	19,754,860
Treasury funds	–	4,647,815	–	4,647,815
	$ 3,503,879	$ 25,371,040	$ –	$ 28,874,919

The following table represents the fair value hierarchy for the Company's investments measured at fair value as at December 31, 2017:

	2017			
	Level 1	Level 2	Level 3	Total
Ordinary shares	$ 1,852,738	$ –	$ –	$ 1,852,738
Preferred shares	3,030,139	–	–	3,030,139
Floating notes	–	1,144,748	–	1,144,748
Corporate and Municipal bonds	–	17,978,543	–	17,978,543
Treasury funds	–	5,458,333	–	5,458,333
	$ 4,882,877	$ 24,581,624	$ –	$ 29,464,501

The Company did not impair its investment in the held-to-maturity portfolio in 2018 or 2017. The Company considers impairment as other than temporary if evidence indicating that an investment's cost is recoverable within a reasonable period of time is outweighed by evidence to the contrary. The Company also considers its ability and intent to hold an investment until such recovery of the security's fair value. Recognition of impairment losses for declines in the value of securities attributable to issuer-specific events are based upon all relevant facts and circumstances for each investment. Factors considered by management include, but are not limited to, the impact of issuer-specific events, dividend flow, industry-specific events, current and expected future market and economic conditions, the nature of the investment, the severity and duration of the impairment and the volatility of the security's market price.

The amortized cost and estimated fair value amounts for preferred shares and corporate bonds held at December 31, 2018 and December 31, 2017 are shown by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

There were no securities transferred between Level 1, Level 2 or Level 3 during the years ended December 31, 2018 and 2017.

(Expressed in United States Dollars)

4. MARKETABLE SECURITIES (continued)

The maturity distribution for fixed maturities held as of December 31, 2018 was:

	2018	
	Amortized cost	Fair value
Due within one year	$ 3,807,897	$ 3,794,549
Due after one year through five years	12,246,937	12,169,653
Due after five years	10,275,466	9,738,917
	$ 26,330,300	$ 25,703,119

The maturity distribution for fixed maturities held as of December 31, 2017 was:

	2017	
	Amortized cost	Fair value
Due within one year	$ 2,808,054	$ 2,792,672
Due after one year through five years	5,878,089	5,845,418
Due after five years	15,980,880	16,018,621
	$ 24,667,023	$ 24,656,711

Excluded from the above table are floating rate note securities with a fair value of $968,365 as of December 31, 2018 (2017 - $1,144,748). The interest rates are reset quarterly, based on a margin over the Australian 90 day bank bill benchmark rate. Most of these securities have passed early redemption dates and can be redeemed at any time by the issuer of the securities. In such cases, this would be taken as the maturity date.

Credit Risk

The Company aims to maintain a diversified investment portfolio including issuer and sector stratification. The largest exposures to credit concentration risk of single issuers as a percentage of the Company's total marketable securities are as follows:

Concentration of Credit Risk	Fair Value $	% of total Marketable Securities
US Treasury Notes & Bonds	3,383,662	11.7%
Wells Fargo & Co	971,410	3.4%
American International Group	934,341	3.2%
Federal National Mortgage Association	899,592	3.1%
Lincoln National Corporation	849,154	2.9%
JPMorgan Chase & Co	792,137	2.7%
S&P Global Inc	751,441	2.6%
Flaherty & Crumrine	750,549	2.6%
Macys Retail Holdings Inc	674,037	2.3%
Dominion Energy Inc	615,280	2.1%

(Expressed in United States Dollars)

5. DEPOSIT ASSETS

Deposit assets represent cash, fixed deposits, marketable securities and accrued interest held to meet the Company's future obligations on non-risk transfer business.

	2018		2017	
	Carrying value	Fair value	Carrying value	Fair value
Cash	$ -	$ -	$ 8,931,798	$ 8,931,798
Marketable securities	-	-	5,367,796	5,367,796
Accrued interest	-	-	31,709	31,709
	$ -	$ -	$ 14,331,303	$ 14,331,303

The total deposit asset balance of $0 (2017 - $14,331,303) is fully comprised of amounts due within one year. The estimated fair value at December 31, 2018 of $0 (2017 - $14,331,303) represents management's best estimate using all available information to the report date.

6. ACQUISITIONS AND GOODWILL

The Company accounts for acquisitions using the acquisition method of accounting, which requires that the acquirer recognize and measure the identifiable assets acquired and liabilities assumed at their acquisition-date fair values.

During the year ended December 31, 2016, the Company recorded goodwill of $504,145 for the acquisition of Citadel Management Bermuda Limited (formerly Cedar Management Limited) and $42,783 for the acquisition of Cedar Consulting, LLC.

During the year ended December 31, 2011, the Company recorded $1,633,739 of goodwill on the determination of the final purchase price of the acquisition of American Millennium Insurance Company.

The Company has determined that no impairment of goodwill exists as of December 31, 2018 and 2017.

7. UNEARNED PREMIUMS NET OF DEFERRED ACQUISITION COSTS

	2018	2017
Gross unearned premiums provision	$ 24,863,065	$ 29,754,867
Prepaid reinsurance premiums provision	(18,066,936)	(20,973,020)
Net unearned premiums provision	6,796,129	8,781,847
Deferred policy acquisition costs	(5,629,930)	(6,433,667)
Deferred ceding commission income	5,374,661	6,150,781
Net deferred acquisition costs	(255,269)	(282,886)
Unearned premiums net of deferred acquisition costs	$ 6,540,860	$ 8,498,961

8. DEPOSIT LIABILITIES

Deposit liabilities represent loss reserves due to insureds on the Company's non-risk transfer business. The total balance of $0 (2017 - $14,331,303) and in 2017 was fully comprised of amounts due in less than one year.

The Company's exposure under these contracts is limited to the value of the Deposit assets at any point in time (Note 5).

(Expressed in United States Dollars)

9. SHARE CAPITAL

Share capital is comprised of the following authorized, issued and fully paid shares of the par value $1 each:

	2018	2017
Common shares (20,000,000 shares in 2018 and 2017)	$ 20,000,000	$ 20,000,000

No dividends were declared or paid during 2018 (2017 - $Nil).

10. RELATED PARTY TRANSACTIONS

Included in accounts payable and accruals are advances made by affiliated companies totaling $45,986 (2017 - $62,082).

Included in accounts receivable and accrued interest are advances made to the parent company and affiliates totaling $3,812,037 (2017 - $3,505,525). The advances are non-interest bearing and repayable on demand.

11. CONTINGENCIES AND COMMITMENTS

The Company is liable on reinsurance ceded to the extent that the companies to which the business is ceded do not meet their contractual obligations. In the opinion of management, no loss to the Company is expected to arise in the future as a result of reinsurance ceded.

12. TAXATION

The Company is incorporated in Bermuda, and under current Bermuda law, is not required to pay any taxes in Bermuda on either income or capital gains. The Company has received an undertaking from the Minister of Finance in Bermuda that in the event of such taxes being imposed the Company will be exempted from taxation until the year 2035. The Company is subject to withholding tax on investment income from foreign securities.

The Company's subsidiaries that are based in the United States and the United Kingdom are subject to the tax laws of those jurisdictions and the jurisdictions in which they operate.

The components of income tax (credit) expense were as follows:

	2018	2017
Current tax expense	$ 392,167	$ 652,420
Deferred tax (benefit) / expense	(246,329)	1,959,404
Total tax expense	$ 145,838	$ 2,611,824

At December 31, 2018, the Company had recorded:

- total tax receivables of $1,285,899 within Accounts receivable and accrued interest (2017 - $1,318,574) including total deferred tax assets of $888,392 (2017 - $642,063), and
- total tax payables of $480,471 in Accounts payable and accruals (2017 - $736,116).

The Company has not recorded any interest or penalties during the years ended December 31, 2018 and 2017.

(Expressed in United States Dollars)

12. TAXATION (continued)

Deferred income taxes reflect net operating loss carry forwards and the tax impact of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and those for income tax purposes. The significant components of the net deferred tax assets and liabilities as of December 31, 2018 and 2017 are as follows:

		2018	2017
Outstanding losses and loss expenses	$	123,528	116,843
Unearned premiums		295,291	427,932
Net operating loss carry forwards		222,404	334,653
Other		201,412	(240,586)
Unrealised losses (gains)		45,757	3,221
Total deferred tax assets		888,392	642,063
Valuation allowance		-	-
Total deferred tax assets net of valuation allowance	$	888,392	642,063

The effect of a change in tax laws or rates on deferred taxes assets and liabilities is recognized in income in the period in which such change is enacted. On December 22, 2017, the Tax Cuts and Jobs Act was signed into law by the President of the United States which significantly changed the U.S. tax law in many ways including a reduction of the U.S. federal income tax rate from 35% to 21% effective January 1, 2018. As a result of the Act, the Company remeasured its U.S. net deferred tax assets and liabilities at December 31, 2017.

As of December 31, 2018, the Company has a net deferred tax asset of $222,404 (2017 - $334,653) generated by net operating loss carry forwards ("NOLs") of approximately $1,092,382 (2017 - $1,993,850) relating to Federal and State NOLs in the United States expiring through to the year 2036. The assets are recognized at the relevant Federal and State tax rates.

In light of the continued improvement in the profitability of the operations in the United States, the Company has recognized a deferred tax asset in 2018 in respect of post-acquisition NOLs. Although realization is not assured, management believes it is more likely than not that the results of future operations will generate sufficient taxable income to realize the net balance of deferred tax assets carried forward. The total deferred tax assets net of valuation allowance are included within Accounts receivable and accrued interest.

13. NON-CONTROLLING INTEREST

In connection with the Company's co-investments in Great Falls Insurance Company, Great Falls Holding Company has issued ordinary shares to a non-controlling interest. These shares represent an 18.38% (2017 - 18.38%) ownership interest in Great Falls Holding Company and the carrying value of that interest is presented in Equity.

In connection with the Company's acquisition of Citadel Management Bermuda Limited (formerly Cedar Management Limited) on February 29, 2016, non-controlling interests also own shares in this company. These shares represent a 49.0% (2017 - 49.0%) ownership interest and the carrying value of that interest is presented in Equity.

In connection with CRMI's acquisition of Cedar Consulting, LLC on February 29, 2016, non-controlling interests also hold interests in this company. These interests represent a 49.0% (2017 - 49.0%) ownership interest and the carrying value of that interest is presented in Equity.

14. STATUTORY REQUIREMENTS

Under the Bermuda Insurance Act 1978 ("The Act"), the Company is required to prepare Statutory Financial Statements and to file a Statutory Financial Return. Each year the Company is required to file with the Bermuda Monetary Authority (the "Authority") a capital and solvency return within four months of its relevant financial year end (unless specifically extended).

The prescribed form of capital and solvency return comprises the Company's Bermuda Solvency Capital Requirement ("BSCR") model, a schedule of fixed income investments by rating category, a schedule of net loss and loss expense provision by line of business, a schedule of premiums written by line of business, a schedule of risk management and a schedule of fixed income securities.

As a Class 3A insurer, the Company is required to maintain available statutory capital and surplus in an amount that is equal to or exceeds the target capital levels based on enhanced capital requirements ("ECR") calculated using the BSCR model. The BSCR model is a risk-based capital model introduced by the Authority that measures risk and determines ECR and a target capital level (defined as 120% of the ECR) based on the Company's statutory financial statements. In circumstances where the Authority concludes that the Company's risk profile deviates significantly from the assumptions underlying the ECR or the Company's assessment of its management policies and practices, it may issue an order requiring that the Company adjust its ECR.

The Act mandates certain actions and filings with the Authority if the Company fails to meet and maintain its ECR or solvency margin, including the filing of a written report detailing the circumstances giving rise to the failure and the manner and time within which the insurer intends to rectify the failure. The Company is prohibited from declaring or paying a dividend if its statutory capital and surplus is less than its ECR, or if it is in breach of its solvency margin or minimum liquidity ratio, or if the declaration or payment of such dividend would cause such breach.

The Act also requires the Company to meet certain minimum capital and surplus requirements. To satisfy these requirements, the Company was required to maintain a minimum level of statutory capital and surplus of $2,213,365 at December 31, 2018 (2017 - $2,525,119). The Company's statutory capital and surplus was $21,937,886 at December 31, 2018 (2017 - $20,234,635). The Company is also required to maintain a minimum liquidity ratio whereby the value of its relevant assets is not less than 75% of the amount of its relevant liabilities. At December 31, 2018 the Company's relevant assets of $19,669,594 exceed 75% of the relevant liabilities of $20,017,166 which is $15,012,875 and the minimum liquidity ratio is therefore met.

All Statutory requirements were met at December 31, 2018 and 2017.

15. SUBSEQUENT EVENTS

Subsequent events have been evaluated through July 30, 2019, which is the date the December 31, 2018 financial statements were available to be issued.