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Premia Reinsurance Ltd.

Financial Condition Report
December 31, 2019

Contents

Note: all amounts expressed within this document are stated in USD $000’s unless otherwise stated

Executive Summary

Premia Reinsurance Ltd. ("Premia Re", or, the "Company"), a Bermuda limited company, was incorporated on October 31, 2016. The Company was registered as a Class 4 insurer by the Bermuda Monetary Authority on January 1, 2017.

The Company's strategy is to reinsure or acquire companies or reserve portfolios in the legacy or runoff property & casualty insurance and reinsurance market. The Company can also seek to provide insurance solutions for uninsured exposures that are consistent with its business plan (e.g., self-insured retentions involving prior policy periods). In addition, the Company may acquire insurance and reinsurance claims from policyholders and insurers and seek to monetize their value. Finally, the Company may provide claim administration services for certain clients that further support the Company's efforts to acquire runoff portfolios.

The majority of the Company's runoff opportunities originate from (re)insurance entities domiciled within the United States, Bermuda, the United Kingdom and Europe; however, the Company has an appetite for appropriately priced runoff opportunities from other jurisdictions.

The Company has designed an investment strategy that it believes will provide risk-adjusted returns that are both attractive and appropriate given the long-dated nature of its (re)insurance portfolio. Premia Re's asset management strategy is designed to: preserve capital; provide sufficient liquidity to support claim and commutation payments; proactively take advantage of market conditions; and optimize risk-adjusted returns.

The Company's target investment portfolio consists of both public and private securities and is largely made up of fixed income securities.

During the year ended December 31, 2019 Premia Re entered into one corporate acquisition and three retroactive reinsurance agreements. On January 9, 2019, Premia Holdings Inc. ("Premia Inc.") purchased certain assets and liabilities from the Estate of Public Service ("Public Service"), in rehabilitation, including its operating company shell and its wholly-owned subsidiary Western Select (which was not in rehabilitation) from the Director of Insurance of the State of Illinois acting solely in her capacity as Rehabilitator of Public Service Mutual Holding Company ("PSMHC").

The Company continues to consider a wide range of potential future transactions and anticipates entering into such further transactions in 2020 and future years.

This Financial Condition Report for the year ended December 31, 2019, has been prepared in accordance with the requirements of the Insurance (Public Disclosure) Rules 2015. It covers the Business and Performance of the Company, its Governance Structure, Risk Profile, Solvency Valuation and Capital Management.

Section 1 – Business and Performance

a. Name of Insurer

Premia Reinsurance Ltd.

b. Insurance Supervisor and Group Supervisor

Bermuda Monetary Authority
BMA House
43 Victoria Street, Hamilton
Bermuda

c. Approved Auditor

Deloitte Ltd.
Corner House
20 Parliament Street
Hamilton HM 12
Bermuda

d. Ownership Details

The Company is a wholly owned subsidiary of Premia Holdings Ltd.

Premia Holdings was capitalized with $400.0 million of common equity and $110.0 million of senior debt, for a total initial capitalization of $510.0 million prior to formation expenses. The equity capital is comprised of a $300.0 million investment by Kelso & Company and its equity co-investors, and a $100.0 million investment by Arch Reinsurance Limited ("Arch Re") and certain members of Arch Re's senior management, including the senior management team of Premia Holdings itself.

The debt is re-payable in full, in one single bullet payment, in 2024, with the Company having the option to repay any time after three years. Annual interest of 7% is payable quarterly.

e. Group Structure

Please refer to Appendix 1 for the Group Structure as at the date of this report.

f. Insurance Business Written by Business Segment and by Geographical Region

The majority of the Company's runoff opportunities originate from (re)insurance entities domiciled within the United States, Bermuda, the United Kingdom and Europe. During the year ended December 31, 2019 four transactions were entered into with the distribution of Gross Written Premium by Class of Business and Geographic Region as follows:

Gross Premium Written by Class of Business for the December 31, 2019 and 2018 Reporting Periods:

	2019	2018
Multi Line Whole Account Quota Share	1,015,010	-

Gross Premium Written by Geographical Region for the Reporting Period:

	2019	2018
UK	936,197	-
USA	78,813	-

g. Performance of Investments & Material Income & Expenses for the Reporting Period

Performance of Investments for the Reporting Period

The Company primarily invests in a combination of highly rated investment grade fixed income securities and fixed income asset backed securities. The Company also invests in loans and certain higher yielding asset classes. The composition of the investment portfolio is determined by a number of factors: management's views on the risk and reward inherent in certain asset classes; capital charges associated with different types of assets; and specific investment guidelines governing collateral trust accounts in accordance with the executed run-off transactions and the amount of technical provisions recorded for the year with a margin of safety. Despite the continued low interest rate environment, the Company was able to generate a modest return on investments. The return on investments for the reporting periods ended December 31, 2019 and 2018 were as follows:

	2019		2018	
Investment Type	**Fair Value**	**Return**	**Fair Value**	**Return**
Fixed maturities	880,511	39,921	808,341	34,846
Debt funds	81,721	1,618	96,443	1,289
Term loans	180,273	14,547	181,199	14,892
Private equity funds	56,768	4,983	30,026	1,651
Funds Withheld Accounts	-	20,297	-	-
Total	**1,199,273**	**81,366**	**1,116,009**	**52,678**

Material Income & Expenses for the Reporting Period

The Company's` main income sources are premiums provided through reinsurance of reserve portfolios in the property & casualty insurance and reinsurance runoff market, and investment income earned on the invested assets supporting the assumed reserves. The Company's major expense arises from claims losses on the assumed reserves, acquisition costs and operating expenses which primarily relate to staffing costs.

Expense Type	2019	2018
Loss and loss adjustment expenses	920,406	10,484
Acquisition expenses	1,410	-
Net foreign exchange gain (loss)	321	-
Operating expenses	4,348	3,922
Total Expenses	**926,485**	**14,406**

h. Any Other Material Information

On January 9, 2019 Premia Inc., an affiliate of Premia Re, purchased certain assets and liabilities from the Estate of Public Service, in rehabilitation, including its operating company shell and its wholly-owned subsidiary Western Select (which was not in rehabilitation) from the Director of Insurance of the State of Illinois acting solely in her capacity as Rehabilitator of Public Service Mutual Holding Company Premia Re entered into a quota share reinsurance agreement with the newly acquired Public Service company with respect to certain accident years not covered by other existing retrospective reinsurance. .

Section 2 – Governance structure

The Company's governance structure is established to:

- Ensure enterprise risk management is maintained at high standards;
- Ensure the business is operating in an efficient and effective manner; and
- Align control procedures for units within the organization based on the risks they carry.

a. Board and Senior Executive

i. Board & Senior Executive Structure, role, responsibilities & segregation of responsibilities.

The Board of Directors' (the "Board") role is to exercise oversight in relation to the organization. Executive decisions and risk oversight is delegated to the Executive Committee and the Governance and Risk Committee, and each of these committees meet on a quarterly basis (or ad hoc if required) in Bermuda. Committee reports are presented to the Board.

The Board consists of 7 directors: 1 executive, 4 non-executive and 2 non-executive independent directors, and their roles and responsibilities are the same as those outlined in relation to the Board of Premia Holdings Ltd. in its Bye-Laws and comply with the regulatory requirements of Bermuda. The Board's sub-committee leverages the Premia Holdings Ltd. Board of Directors' sub-committees which includes Audit, Risk and Governance, and Investment and Finance. The responsibilities of the respective sub-committees are detailed below.

- **Audit Committee**: reviews audit plans and findings of internal and independent auditors and results of regulatory examinations, and tracks all agreed corrective actions to ensure they have been successfully implemented. Further, the Audit Committee reviews administrative and accounting policies and controls, compliance programs and significant tax and legal matters and recommends to the Board of Directors the appointment, compensation, retention and oversight of independent auditors.

- **Investment and Finance Committee**: will review the Company's capital structure and financing, its asset allocation, the retention and oversight of independent asset managers and makes recommendations to the Board of Directors with respect to investment guidelines, liquidity management and financing activities. The Investment and Finance Committee will also review and make recommendations to the Board of Directors with respect to the Company's independent auditors and significant tax and legal matters.

- **Underwriting Committee**: reviews and makes recommendations to the Board of Directors with respect to the Company's underwriting guidelines and reviews and approves all large run-off transactions.

- **Governance and Risk Committee**: reviews and makes recommendations to the Board with respect to the adequacy and appropriateness of the Company's risk mitigation procedures and controls including management succession planning, risk tolerances and its reserve adequacy as estimated by the Company's Chief Actuary and the Company's third party actuarial advisors and auditors.

- **Executive Committee**: the executive committee has the power to exercise all the powers and authority of the Board in the ultimate management of the business between meetings of the Board. The Committee consists of the Chairman of Premia Holdings Ltd. and the Chairmen of each of the Audit Committee, the Investment and Finance Committee, the Underwriting Committee and the Governance and Risk Committee.

Each of the Executive Committee heads is responsible for the information and system needs that are required to support their respective functions. Where appropriate, other support functions and business units provide advice and support to the Executive and Governance and Risk Committees in relation to matters in their respective areas of expertise.

ii. Remuneration Policy

The remuneration package of each employee (including the Executive) comprises a fixed base salary along with a variable performance-based bonus incentive. In addition, Executives and certain officers and employees receive stock warrants to align with the Company's strategy and performance targets. Such amounts are approved by the Board. Board members receive a flat fee in accordance with established policies approved by the Board.

iii. Pension or Early Retirement Schemes for Members, Board and Senior Employees

The Company provides all employees with pension benefits through either a defined contribution pension program or with cash payments for self-directed pension plans. The Company provides contributions matching the employee's level of contribution up to a certain level, with discretionary matching of contributions thereafter. The funds are invested in one of the Company's pension investment portfolios based on the employee's preference, or a private pension investment portfolio selected by the employee, which is administered by a third party advisor. The Company does not have any early retirement schemes.

iv. Shareholder Controllers, Persons who Exercise Significant Influence, the Board or Senior Executive Material Transactions

There were no such material transactions during the year.

b. Fitness and Proprietary Requirements

i. Fit and Proper Process in assessing the Board and Senior Executive

The Company appoints members of the Board based on the individual's expertise and work experience as well as professional judgment. Before being appointed to the Board, all candidates must undergo a rigorous recruitment and background screening. In accordance with the Governance and Risk Committee charter, the Committee leads the search for individuals qualified to become Board members to the extent necessary to fill vacancies on the Board or as otherwise desired by the Board. The Committee conducts all necessary and appropriate inquiries into the background and qualifications of each possible director nominee and recommends that the Board select director nominees for shareholder approval at the annual meetings based on criteria approved by the Board.

The President is responsible for all other hires, upon taking advice from the Executive and Governance and Risk Committees, where applicable. The Company arranges background screening and other support for all hires to ensure appropriate organizational alignment.

ii. Board and Senior Executives Professional Qualifications, Skills and Expertise

Below are details of the Board and Senior Executives qualifications, skills and expertise:

Board of Directors:

- Bill O'Farrell: (Chairman) Bill O'Farrell has more than 25 years of experience in the insurance, reinsurance and runoff sectors. Previously Chief Reinsurance Officer at ACE, where Mr. O'Farrell managed a global reinsurance recoverables in excess of $14bn and over $6bn of annual reinsurance purchases. Mr. O'Farrell served as Chairman of Brandywine (ACE's runoff portfolio). Prior to ACE Mr. O'Farrell was Vice President and Legal Counsel at Berkshire Hathaway's Reinsurance Division, responsible for numerous runoffs, including discrete runoff portfolios and acquired companies. Formerly a member of the Board of Directors of Republic Insurance Company, Resolute Reinsurance Company and Unione Italiana Reinsurance Company of New York. Mr. O'Farrell holds a B.S.B.A. in Finance and a J.D. from Creighton University.

- Nicolas Papadopoulo: (Non-Executive Director) Chairman & Chief Executive Officer of Arch Worldwide Insurance Group, and Chief Underwriting Officer for P&C Operations, a position he has held since September 2017. Previously he was Chief Executive Officer, Reinsurance Group at Arch Capital Group Ltd a position he held since July 2014. Since joining Arch Reinsurance Ltd. in December 2001, he held a variety of underwriting roles. Prior to joining Arch, he held various positions at Sorema N.A. Reinsurance Group, a U.S. subsidiary of Groupama, and he was also an insurance examiner with the Ministry of Finance, Insurance Department, in France. Mr. Papadopoulo graduated from École Polytechnique in France and École Nationale de la Statistique et de l'Administration Economique in France with a master's degree in statistics. He is also a member of the International Actuarial Association and a Fellow at the French Actuarial Society. He is currently a Director of Watford Re.

- Maamoun Rajeh: (Non-Executive Director) Chairman and Chief Executive Officer of Arch Worldwide Reinsurance Group, a position he has held since September 2017. Previously he was Chairman and Chief Executive Officer of Arch Reinsurance Ltd, a position he held since July 2014. He joined Arch Reinsurance Ltd. in 2001 as an underwriter, ultimately becoming Chief Underwriting Officer in November 2005. From 1999 to 2001, Mr. Rajeh served as Assistant Vice President at HartRe, a subsidiary of The Hartford Financial Services Group, Inc. Mr. Rajeh also served in several business analysis positions at the United States Fidelity and Guarantee Company between 1992 and 1996 and as an underwriter at F&G Re from 1996 to 1999. He has a B.S. from The Wharton School of Business of the University of Pennsylvania, and he is a Chartered Property Casualty Underwriter.

- Chris Collins: (Non-Executive Director) Joined Kelso in 2001. He spent the preceding two years attending business school and the previous three years as an Analyst at Stonington Partners. Mr. Collins leads Kelso's financial services practice and also focuses on investments in the services sector. He is currently a director of American Beacon, Augusta Sportswear, Harbor Community Bank, Renfro and Risk Strategies. In addition, he is active in the Firm's investment in Sandler O'Neill + Partners. Past directorships include Audio Visual Services, Cronos, Oceana Therapeutics and Wilton Re. He also was active in the Firm's past investments, including Eagle Bulk Shipping and Overwatch Systems. Mr. Collins received a M.B.A. from the Stanford Graduate School of Business in 2001 and received a B.A. in English with honors from Duke University in 1996.

- Steve Dutton: (Non-Executive Director) Joined Kelso in 2006. He spent the preceding two years in the investment banking division of Bear, Stearns & Co. Inc. Mr. Dutton is focused primarily on investments in the financial services and services sectors. He is currently a director of American Beacon, Logan's Roadhouse and Risk Strategies. In addition, he is active in the Firm's investment in Harbor Community Bank and Sandler O'Neill + Partners. He was also active in the Firm's past investment in Audio Visual Services, Wilton Re and Third Point Re. Mr. Dutton received a B.S. in Commerce with Distinction from the McIntire School of Commerce at the University of Virginia in 2004.

- Gary Lee: (Independent Director) Co-chair of the international law firm Morrison & Forester LLP's Finance Department. He advises clients on domestic and international restructuring and insolvency matters in the United States, United Kingdom, and continental Europe. He also served as lead lawyer representing the insurance division of the State of Rhode Island's Department of Business Regulation, when GTE RE successfully obtained approval from a Rhode Island state court for the first-ever discharge and liquidations of the obligations of a solvent insurer in the U.S. He was honored as "Person of the Year" by the Association of Insurance and Reinsurance Run-Off Companies in 2011 for his work on the GTE RE liquidation. Turnarounds & Workouts named him an Outstanding Restructuring Lawyer for 2012 and 2013, an honor that is awarded to only twelve attorneys nationwide on an annual basis. Mr. Lee was named an AmLaw Dealmaker of the Year for 2014 in recognition of his work in Residential Capital's chapter 11 case. Mr. Lee graduated from Manchester University (LL.B., 1988) and is admitted to practice in New York and England and Wales.

- Tim Barret: (Independent Director) Associate Vice Chancellor and Chief Investment Officer for Texas Tech University System (TTUS). He is responsible for day-to-day management of the Endowment Assets and responsible for Investment Strategy and Implementation of the nearly $1.2 Billion endowment and $800 Million in Operating Capital. Mr. Barrett began his relationship with TTUS in April of 2013. He has approximately 22 years of experience as a CIO and has restructured plans around the world within the three pillars of institutional investors- pension, corporate and endowment. He is a published co-author and winner of the Edward D. Baker III Award by the Investment Management Consultants Association for an article entitled "Dynamic Beta - Getting Paid to Manage Risk." Mr. Barrett is also a member of the inaugural aiCIO Power 100 and has been awarded many awards for managing best of breed plans.

The Board appointed the following Committees:

	Audit	Investment & Finance	Executive	Governance & Risk	Underwriting
Bill O'Farrell	X	X	X		X
Nicolas Papadopoulo		X	X	X	X
Maamoun Rajeh	X		X	X	X
Chris Collins		X	X	X	X
Steve Dutton	X	X	X		X
Gary Lee	X			X	
Tim Barret		X	X		X

X = Chairperson

X = Member

Senior Executives:

- Scott Maries: (President) Mr. Maries joined Premia Re with more than 17 years of experience in the insurance industry. Significant experience with forming new companies, as Managing Director of M&A and new business formations at both Benfield Advisory Inc. and J.P. Morgan, and in P&C runoff business. At J.P. Morgan Mr. Maries was the lead banker on the sale of 2 runoff companies. Mr. Maries was with Enstar, the leading middle-market runoff company for 18 months prior to joining Premia Re. Maries is a member of the Institute of Chartered Accountancy of England and Wales.

- Chris Kelly: (Chief Investments Officer) Mr. Kelly has more than 25 years of investment and asset management experience. For 12 years Mr. Kelly was with Lehman Brothers, involved in various lines including Reinsurance, CDO and Mortgage business. After Lehman Brothers Mr. Kelly joined Zais Group LLC for 5 years and managed over $3bn of absolute return funds in the mortgage asset management business. For the 5 years prior to joining Premia Re Mr. Kelly started and managed his own consulting practice, advising various hedge funds and family offices on investment strategies and platform development. Mr. Kelly graduated from Yale University with a degree in History and is a qualified CPA.

- Tom McIntyre: (Chief Financial Officer) Mr. McIntyre has more than 30 years of actuarial and insurance industry experience. Mr. McIntyre is a former Senior Vice President of Conning Asset Management and a former Principal of Tillinghast – Towers Perrin, where he was a consulting actuary for 12 years serving a wide range of insurance and reinsurance clients. Most recently, Mr. McIntyre was a Principal in KPMG's actuarial practice for five year prior to joining Premia Re in January 2017. Mr. McIntyre holds a B.S. in Mathematics from The Pennsylvania State University. Mr. McIntyre is also a Fellow of the Casualty Actuarial Society and a Chartered Enterprise Risk Analyst.

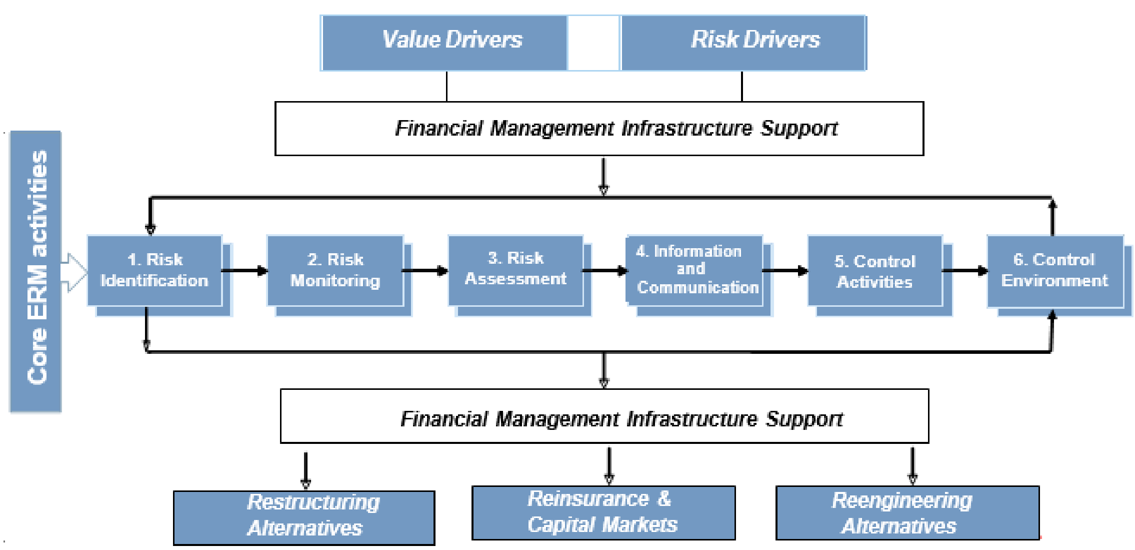
c. Risk Management and Solvency Self-Assessment

i. Risk Management Process & Procedures to Identify, Measure, Manage and Report on Risk Exposures

The overall objective of Premia Re's enterprise risk management ("ERM") framework is to support strong risk governance and the achievement of business objectives while providing overall benefits to Premia Re by adding value to the control environment.

The ERM framework contributes to an effective business strategy, efficiency in operations and processes, strong financial performance, reliable financial reporting, regulatory compliance, a strong reputation with key stakeholders, business continuity planning, and efficiency in capital planning.

The following diagram provides an illustrative representation of the Company's ERM framework:



1. Risk Identification – The Company identifies significant risks that could materially affect its financial position or objectives and includes these risks in the Company's risk register.

2. Monitor – The entire process is monitored, and modifications made as necessary. In this way, the system reacts dynamically, changing as conditions warrant.
3. Assessment - Each exposure is assessed based on the Company's risk categories and provides the impact the exposure has to the Company.
4. Information and communication - Surrounding these activities are information and communication systems. These enable the Company's people to capture and exchange the information needed to conduct, manage and control its operations.
5. Manage – assesses the response to the exposure based on acceptance, mitigation, transferability or avoidance and takes into account the Company's risk appetite, risk tolerance levels and limits. If the exposure is to occur in the future, ensure there are controls in place to manage the exposure before it occurs or have an effective plan in place if the exposure becomes significant.
6. Report - ensures that the Company's Governance and Risk Management and Executive Committees are informed of all material risk exposures and that these are tracked against the Company's risk guidelines and reviewed by the Board.

ii. Risk Management and Solvency Self-Assessment Systems Implementation

The Company's risk management framework is implemented and integrated into its operations through the systems, processes and procedures, and controls developed by management. The framework provides a mechanism for identifying which risks represent opportunities and which represent potential pitfalls. Through this framework, the Company is able to evaluate and assume the right risks whilst employing the appropriate controls to ensure regulatory compliance and effective and efficient operations.

The Company executes a small number of transactions per year; the capital requirement of each proposed transaction and the impact on the overall portfolio of business are assessed by Management. The Company uses the Bermuda Solvency Capital Reporting ("BSCR") model, a proprietary multi-year Return on Equity ("ROE") analysis tool, bespoke quarterly transaction reports from clients, and third-party risk models to monitor risk, return, and liquidity at the transaction level and in the aggregate. Each completed transaction is monitored by Management from a risk, return and cash flow perspective quarterly, and reported on to the Board. Additionally, the portfolio of completed transactions is reviewed quarterly to assess risk and deployment of available capital.

iii. Relationship between Solvency Self-Assessment, Solvency Needs & Capital, and Risk Management

The Company's Solvency Self-Assessment serves as an annual review of ongoing (transactional) and quarterly risk, capital and liquidity assessments as described above. The annual assessment provides key inputs to a financial planning process in which the Company outlines its strategy and short and longer term business goals, and the quality and quantity of capital needed to support these plans. The Solvency Self-Assessment seeks to identify and measure all material risks, and aids in the decision making process regarding which risks it can eliminate, transfer or retain within its agreed risk appetite and tolerance. The process, upon considering severe stress events, also facilitates the identification of contingent sources of liquidity and capital support to ensure that the Company continues to be able to achieve agreed strategic objectives.

iv. Solvency Self-Assessment Approval Process

The Company's Solvency Self-Assessment Report is prepared by the management team and is provided to the Board for review annually, and more frequently as conditions warrant; the emphasis being on significant changes, current and emerging risk exposures, and how the exposures are mitigated. The Board reviews compliance with the Company's risk appetite. Internal Audit and other third-party consultants provide periodic reviews of the assessment.

d. Internal Controls

i. Internal Control System

The Company, through management and the Board, has appropriate systems, processes and procedures in place to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

If any deficiencies or material weaknesses are found, they are documented and presented to the Board. The Board monitors the progress on remediation plans through the internal audit reports.

ii. Compliance Function

The Company's President has the responsibility to monitor regulatory changes in the relevant jurisdictions and compliance with applicable existing laws, including regulatory reporting and public disclosure requirements. The monitoring of such changes and compliance is assisted by third party legal advisers with expert knowledge in their respective jurisdictions. The President monitors compliance with organizational policies and procedures and adherence to the Company's Code of Business Conduct. All material violations are reported to the Board and corrected accordingly.

e. Internal Audit

The Company's Internal Audit Function has unrestricted access to all areas and property of the organization, including personnel records, records held by third-party service providers, and also has direct access to the Board through the Board's Audit Subcommittee. It assists the Company in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's governance, risk management, and internal control.

The Function's responsibilities are set-out in the Internal Audit Charter, which was approved by the Audit Committee who periodically reviews the appropriateness thereof. The Audit Committee reviews and approves the internal audit plan, which is developed using a risk-based methodology, including input of senior management and the Audit Committee. The Internal Audit function reviews and adjusts the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls. Any significant deviation from the approved internal audit plan is communicated to senior management and approved by the Audit Committee through periodic activity reports.

To ensure Internal Audit remains independent, the Company's internal auditors have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditor judgment.

f. Actuarial Function

The actuarial function comprises experienced, fully qualified, individuals with in-depth knowledge of actuarial and financial mathematics. The function is staffed appropriately given the nature, scale and complexity of the risks inherent in the Company's operations.

Technical provisions are reviewed by the Board and Reserve Committee on a quarterly basis. Provisions are also independently estimated by external actuaries annually for the purpose of supporting their opinion as required under the 1978 Insurance Act. The external analysis also provides for consistency and appropriateness of methodology and assumptions, including assumptions of industry benchmarks, and discusses any concerns or changes identified.

The Reserve Committee comprised of the Group CEO, Group CFO/President of Premia Re and Group Chief Actuary/Premia Re CFO is responsible for setting, monitoring and adjusting technical provisions relating to both premium and loss and loss expenses best estimates, and the risk margin.

g. Outsourcing

i. Outsourcing Policy and Key Functions that have been Outsourced

The Management Team ensures that the duties, responsibilities and authorities of any third party service provider are clearly set out in a services agreement which include terms detailing compliance with applicable laws, co-operation with the Bermuda Monetary Authority (the "BMA") and access to data and records in a timely manner. In accordance with paragraphs 60 and 61 of the Insurance Code of Conduct (July 2015 (Revised)) ("Code of Conduct") the Board of Directors has established and administers an appropriate governance structure to provide robust and prudential oversight and clear accountability of any outsourced functions as if the outsourced function were performed internally and subject to Premia Re's own standards of governance and internal controls.

Senior Management regularly updates the Board of Directors with respect to the effectiveness of third party service provider performance. In particular, the Board of Directors have ongoing regard to whether any outsourced functions will (i) adversely affect Premia Re's governance and risk management structures; (ii) increase operational risk; (iii) affect the BMA's ability to effectively supervise Premia Re; and (iv) have any impact on policyholder's interests.

The Company has outsourced the Internal Audit Function, subject to direction and oversight of the Company's President and Head of Internal Audit. The Company also outsourced its IT Information System provision and administration under an executed service-level agreement.

ii. Material Intra-Group Outsourcing

The Company outsources part of the claims management to Alan Gray LLC ("Alan Gray"), an entity under common control. These services were provided by Alan Gray under a service level agreement ("SLA") from October 2018, prior to Premia Holdings' acquisition of Alan Gray in 2018. The services provided continue to be governed by the SLA and fees are set at market-related rates.

For the year ended December 31, 2019, Premia Re obtained services to the value of $1,960.

h. Other Material Information

No other material information to report.

Section 3 – Risk Profile

a. Material Risks the Insurer is Exposed to During the Reporting Period

The Company monitors and assesses the following main risk areas:

- Insurance Risk: underwriting and reserving risk;
- Market Risk: the risk of adverse changes in the Company's financial situation driven by fluctuations in interest rate, credit, equity and foreign exchange levels;
- Liquidity Risk: the risk of insufficient liquidity to pay claims and commutations and pursue acquisitions consistent with the Company's business objectives;
- Credit/Counterparty Risk: the risk of deterioration in the creditworthiness of counterparties in (re)insurance agreements or issuers of financial instruments;
- Operational Risk: the risk of loss from inappropriate or failed internal processes, personnel and systems; including the risk of incorrect accounting treatment of complex deals/transactions;
- Strategic Risk: the risk that inappropriate decisions taken by management, or the failure to effectively executive business strategy negatively impacts the Company's business plan and ability to attain its objectives; and
- Regulatory & Reputational Risk: the risk that corporate governance structures, processes or inappropriate or unethical Company practices may damage stakeholder confidence or lead to non-compliance with legal and regulatory requirements.

The Company's management team is actively involved in the identification and assessment of these risks.

b. Risk Mitigation in the Organization

The Company controls risk in the organization through a variety of ways, but ultimately risks are reported and monitored centrally by the Executive Committee. The Executive Committee also verifies that risks are either kept within agreed limits or temporary breaches for unique situations are appropriately escalated to the Board and either approved or corrected. Further, the Board, Governance and Risk Committee, and Internal Audit review the enterprise risk management framework and ensure the controls in place for managing the risk exposures are operating as intended. If a new risk emerges, the Executive Committee establishes new controls to manage the risk.

Effective risk oversight is an important priority for the Board of Directors and the Company places strong emphasis on ensuring it has a robust risk management framework to identify, monitor, measure, manage and report risks that affect the achievement of its strategic, operational and financial objectives.

The largest contributors to the Company's risk areas are the run-off transactions entered into by the Company. Premia Re is selective in the opportunities it targets and prepares detailed underwriting memoranda to support all transactions. Specific attention is paid to the risks and expected returns inherent within each transaction, and how to most appropriately structure each transaction to limit downside. Each transaction risk assessment memoranda includes:

- Scope and structure of the transaction;
- Risks of the transaction;
- Outstanding claims and potential exposures;
- Claims management practices;
- Reserve requirements;
- Integration risk: systems, people and processes;
- Potential synergies;
- Potential economic returns; and
- Liability portfolio diversification implications.

Actuarial pricing models not only take conventional underwriting metrics into account, but also incorporate components for risk aversion that place greater weight on scenarios that would result in greater loss.

Through this process risks are preemptively identified, quantified and assessed prior to the consummation of any run-off transaction.

Furthermore, prior to the entering into of any insurance or reinsurance transaction, the Company presents the terms of the deal and related Premia Re assessment to the BMA for their approval. No such transaction will be entered into prior to obtaining BMA approval.

c. Material Risk Concentrations

The Company has policies governing risk concentrations in relation to counterparties, credit quality and sectors. Large exposures are subject to either a reduction in the concentration, a hedge (subject to Board approval) or executive-level exception. Any exceptions identified will be carefully tracked and reported on in board/committee meetings. To date there have been no exceptions on exposures. Apart from highly rated sovereigns and associated sponsored agencies, the Company has a policy that prohibits exposure exceeding 2% of assets to any single counterparty. Credit risk reports will be submitted to the executive team on a quarterly basis, which serve as the basis for discussion in quarterly meetings. As of December 31, 2019 the largest single non-U.S. government and agency issuer accounted for 0.51% (2018: 3.72%) of the aggregate market value of the Company's invested assets.

d. Investment in Assets in Accordance with the Prudent Person Principles of the Code of Conduct

The Company's investment portfolio is managed by the Chief Investment Officer in accordance with the Company's investment policy guidelines. These guidelines require that the investment portfolio consist of investments of high credit quality and significant diversification to allow Premia Re to withstand both market volatility and stress to enable the Company to meet its obligations. The size of the high quality investment portfolio is determined by the guidelines governing collateral trust accounts in accordance with the executed run-off transactions and the amount of technical provisions recorded for the quarter with a margin of safety.

The Company's investment policy guidelines are reviewed by the Investment and Finance Committee on an annual or ad hoc basis if any significant deviations have occurred that affect the financial markets.

e. Stress Testing and Sensitivity Analysis to Assess Material Risks

The Company has retained BlackRock's Aladdin platform to perform various stress tests on a quarterly basis to determine the adequacy of capital/liquidity to ensure regulatory requirements can be met. The tests performed relate to underwriting risk exposures, interest rate risk, and credit risk.

Underwriting Risk Exposures

Underwriting risk exposure is tested for risk concentration to a specific region as well as identification of stress events that can lead to material losses across the portfolio.

Interest Rate Risk

The Company's investment portfolio is tested for price sensitivity to interest rate changes and liquidity shocks as well as asset-liability mismatches to ensure that these will not impair the Company's ability to pay policyholder obligations, operational expenses and for unexpected events.

Credit Risk

The Company's reinsurance recoverables and premiums receivable are tested to assess the impact of a counterparty's ability to make payments in accordance with the contractual terms.

Based on the latest results, management of the Company believes that it has sufficient capital and liquidity to comply with the contractual obligations of the organization and regulatory requirements upon experiencing losses within its risk tolerance.

Section 4 – Solvency Valuation

a. Valuation Bases, Assumptions and Methods to Derive the Value of Each Asset Class

The Company has used the valuation principles outlined by Bermuda Monetary Authority's "Guidance Note for Statutory Reporting Regime" for the reporting period's statutory filing. The economic valuation principles outlined in this document are to measure assets and liabilities on a fair value basis (which is the value that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between open market participants at the measurement date). The fair value principles used for the assets are as follows:

- Cash and Cash Equivalents – includes cash time deposits and investments maturing within three months. The fair value of these holdings is determined by using mark to market valuation, or quoted market prices in active markets for similar assets with adjustments to reflect differences if mark to market valuation is not possible, or mark to model valuation otherwise.
- Fixed Income Securities – are valued in accordance with mark to market principles where possible or quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Other investments – including investment funds, are recorded at fair value in line with United States Generally Accepted Accounting Principles ("US GAAP") with both changes in fair value and realized gains/losses netted off Statutory Economic Capital and Surplus.
- Accounts Receivable and Premium Receivable – are recorded at a fair value and balances due in more than one year have been discounted at the relevant risk free rate.

b. Valuation Bases, Assumptions and Methods to Derive the Value of Technical Provisions

Premia Re's stated reserves represent the Management Team's best estimate of unpaid claims as of the reported date, which are developed through collaboration with actuarial, underwriting, claims, legal and finance functions. The best estimate represents a combination of accepted exposure and experience based actuarial methods. Premia Re establishes reserves for each individual claim incurred and reported, as well as IBNR claims.

The Claims Team applies considerable judgment in estimating losses for reported claims on an individual claim basis based upon their knowledge of circumstances surrounding the claim, severity of the injury or damage, jurisdiction of the occurrence, potential for ultimate exposure, the type of loss and the experience with the line of business and policy provisions relating to the particular type of claim.

Premia Re use a variety of generally accepted actuarial methodologies and procedures to estimate the ultimate cost of settling IBNR claims. The Company's reserving methodologies may vary depending on whether the exposures in question relate to traditional lines, or mass torts.

At present, the Company employs standard actuarial reserving methodologies for evaluating reserves including but not limited to expected loss ratios, paid and reported loss development and Bornhuetter-Ferguson methods.

For purposes of BMA reporting, insurance technical provisions are valued based on best estimate cash flows, adjusted to reflect the time value of money using a risk-free discount rate term structure with an appropriate illiquidity adjustment per BMA reporting guidance. In addition, there is a risk margin to reflect the uncertainty contained inherent in the underlying cash flows which is calculated using the cost of capital approach and a risk-free discount rate term structure. The discount rate term structures are prescribed by the BMA for each reporting period.

The economic balance sheet best estimate for the loss and loss expense provision is calculated by using US GAAP reserves as the starting point and then performing a series of adjustments:

- Removal of prudence margins.
- Incorporation of expected reinsurance counterparty defaults.
- Other adjustments related to consideration for investment expenses, etc.
- Discounting cash flows.

The premium provision at December 31, 2019 was noted as follows:

	2019	2018
● Premium Provision	61,119	-

The total Technical Provisions at December 31, 2019 amounted to $856,558 (2018: $732,870) comprising the following:

	2019	2018
● Best Estimate Loss and Loss Expense Provision	751,502	708,511
● Risk Margin	43,937	24,359

c. Description of Recoverables from Reinsurance Contracts

Recoverables from reinsurance contracts are based on principles similar to the gross best estimate and when appropriate, include reinstatement premiums required to be paid to the reinsurer.

Where inuring ceded reinsurance is part of underwriting a transaction, the ceded reinsurance balance is adjusted for counterparty credit risk, generally based upon financial strength ratings from recognized rating agencies and corresponding default statistics.

To the extent we have procured ceded reinsurance at the time we have entered into transactions, this reinsurance is often on a funds withheld basis and as such we have substantially mitigated the credit risk.

d. Valuation Bases, Assumptions and Methods to Derive the Value of Other Liabilities

Similar to the valuation principles for assets, the Company's liabilities follow the valuations principles outlined by Bermuda Monetary Authority's "Guidance Note for Statutory Reporting Regime" which values liabilities at a fair value basis. All other liabilities are valued on a GAAP basis and settlements not expected to be settled within a year, are discounted using the prescribed discount rates provided by the BMA as at December 31, 2019. Long Term Debt is valued on a GAAP basis.

e. Any Other Material Information

No additional material information to report.

Section 5 – Capital Management

a. Eligible capital

i. Capital Management Policy and Process for Capital Needs, How Capital is Managed and Material Changes During the Reporting Period

The primary capital management objectives of the Company are to maintain a strong capital base to support the development of its business and to meet regulatory and rating agency capital requirements at all times. The Company recognizes the impact on shareholder returns of the level of equity capital employed and seeks to maintain a prudent balance. It strives for an appropriate capital structure that efficiently allocates the risk to the capital and ensures that the Company has sufficient capital resources to deploy as new opportunities arise in the market.

Premia Re is selective in the opportunities it targets and prepares detailed underwriting memoranda to support all transactions. Specific attention is paid to the risks and expected returns inherent within each transaction, and the effect on the Company's capital requirements and allocation.

To maintain a strong capital base, the Company identifies, assesses, manages and monitors the underwriting, investment and operational risks arising from completed transactions, known potential transactions and as anticipated over its near term and long term planning horizon. This process culminates in an assessment of the capital necessary to maintain solvency at the threshold targeted by senior management given the firm's risk profile.

The Company's risk profile includes an assessment of the current and anticipated future material risks faced by the Company, the strength of the organization's enterprise risk management, capital and liquidity measures derived from proprietary and vendor models, qualitative risks, stress testing, and contingent financing mechanisms.

ii. Eligible Capital Categorized by Tiers in Accordance With the Eligible Capital Rules

At the end of each reporting period, the Company's Eligible Capital was categorized as follows:

	2019	2018
Tier 1	544,835	577,206
Tier 2	-	-
Tier 3	-	-
Total	**544,835**	**577,206**

All capital is Tier 1, the highest quality capital, consisting of capital stock, contributed surplus, and statutory surplus. The Company has no Tier 2 or Tier 3 capital.

iii. Eligible Capital Categorized by Tiers in Accordance to the Eligible Capital Rules Used to Meet ECR and MSM Requirements of the Insurance Act

At the end of the reporting period, the Company's Eligible Capital for its Minimum Margin of Solvency (MSM) and Enhanced Capital Requirement (ECR) was categorized as follows:

	Minimum Margin of Solvency	**Enhanced Capital Requirement**
Total	119,166	271,457

iv. Confirmation of Eligible Capital That is Subject to Transitional Arrangements

No Eligible Capital is subject to transitional arrangements.

v. Identification of Any Factors Affecting Encumbrances on the Availability and Transferability of Capital to Meet the ECR

The Company has entered into contracts with cedants that require the Company to collateralize estimates of its obligations calculated by the cedant. Assets are held in trust accounts for the benefit for the cedant. These assets are released to the Company upon the payment of the obligations. Interest income arising from these assets accrues to the Company.

vi. Identification of Ancillary Capital Instruments Approved by the Authority

Not applicable.

vii. Identification of Differences in Shareholder's Equity as Stated in the Financial Statements Versus the Available Capital and Surplus

Other than the impact of employing statutory-based technical provision valuation techniques, there were no significant differences between GAAP shareholder equity and available statutory capital and surplus.

b. Regulatory capital requirements

i. ECR and MSM Requirements at the End of the Reporting Period

At the end of the reporting period, the Company's regulatory capital requirements were assessed as follows:

Requirement	**Amount**
Minimum Margin of Solvency	119,166
Enhanced Capital Requirement	271,457

ii. Identification of Any Non-Compliance with the MSM and the ECR

The Company was compliant with the MSM and ECR requirement at the end of the reporting period.

iii. A Description of the Amount and Circumstances Surrounding the Non-Compliance, the Remedial Measures and their Effectiveness

Not applicable.

iv. Where the Non-Compliance is not Resolved, a Description of the Amount of the Non-Compliance

Not applicable.

c. Approved Internal Capital Model

i. Description of the Purpose and Scope of the Business and Risk Areas Where the Internal Model is used

Not applicable - the Company has not applied to for approval of an internal capital model.

ii. Where a Partial Internal Model is Used, Description of the Integration with the BSCR Model

Not applicable.

iii. Description of Methods Used in the Internal Model to Calculate the ECR

Not applicable.

iv. Description of Aggregation Methodologies and Diversification Effects

Not applicable.

v. Description of the Main Differences in the Methods and Assumptions Used for the Risk Areas in the Internal Model Versus the BSCR Model

Not applicable.

vi. Description of the Nature & Suitability of the Data Used in the Internal Model

Not applicable

d. Any Other Material Information

Not applicable.

Section 6 – Subsequent Events

On March 11, 2020, Premia Re loaned Premia Holdings Ltd. £7.760 million to fund the acquisition of Charles Taylor Managing Agency Holdings Limited, Charles Taylor Corporate Name Limited, and Standard Club Corporate Name Limited. The funding from Premia Re was treated as a loan which is non-interest bearing and will be repayable on demand by Premia Re. The aforementioned acquisition closed on March 16, 2020 following the receipt of Prudential Regulation Authority approval. The Company is currently in the process of determining the fair values of the underlying assets and liabilities at the acquisition date. The Company will include amounts recognized for net assets and liabilities acquired, together with any goodwill or gain from bargain purchase, as of the acquisition date in subsequent consolidated financial statements.

Based on an analysis performed, Premia Re has no direct insurance exposure to COVID-19 claims but has potential exposure under two reinsurance transactions, although this exposure is expected to be minimal. COVID-19 has also caused significant volatility in the economic markets, for which the duration and spread of the outbreak and the resultant economic impact is uncertain and cannot be predicted.

Management declaration

We the undersigned declare, that to the best of our knowledge and belief, the financial condition report fairly represents, in all material respects, the financial condition of Premia Reinsurance Ltd.

Scott Maries
President

Appendix I – Group Structure