Fitzwilliam Insurance Limited

Financial Statements

For the years ended December 31, 2021 and 2020

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Fitzwilliam Insurance Limited

Opinion

We have audited the financial statements of Fitzwilliam Insurance Limited (the "Company"), which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of earnings and comprehensive income, changes in shareholder's equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for opinion

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

Responsibilities of management for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

In performing an audit in accordance with GAAS, we:

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

Required supplementary information

U.S. generally accepted accounting principles require that certain disclosures related to short-duration contracts on pages 38-45 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 financial statements, and other knowledge we obtained during our audit of the basic 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
April 29, 2022

FITZWILLIAM INSURANCE LIMITED
BALANCE SHEETS
As of December 31, 2021 and 2020

		2021		2020
		(in thousands of U.S. dollars)		
ASSETS				
Short-term investments, available-for-sale, at fair value (amortized cost: 2021 - $1,098; 2020 - $ nil)	$	1,098	$	—
Fixed maturities, trading, at fair value		140,646		228,740
Fixed maturities, available-for-sale, at fair value (amortized cost: 2021 - $183,663; 2020 - $138,852; net of allowance: 2021 - $121; 2020 - $ nil)		183,883		143,734
Funds held - directly managed		780,366		881,980
Equities, at fair value		7,651		6,545
Other investments, at fair value		109,490		174,306
Total investments		1,223,134		1,435,305
Cash and cash equivalents		35,845		25,572
Restricted cash and cash equivalents		25,062		30,122
Reinsurance balances recoverable		6,480		120,856
Funds held by reinsured companies		265,995		462,834
Other receivables		—		64,358
Other assets		39,348		47,545
Amounts due from affiliates		76,236		—
Total Assets	$	1,672,100	$	2,186,592
LIABILITIES				
Losses and loss adjustment expenses	$	1,055,935	$	1,479,797
Insurance balances payable		16,499		36,521
Funds held from reinsurers		153		671
Other liabilities		1,028		967
Amounts due to affiliates		4,633		2,736
Unearned premiums		99		—
Total Liabilities	$	1,078,347	$	1,520,692
SHAREHOLDER'S EQUITY				
Share Capital	$	1,034	$	1,034
Additional paid-in capital		452,280		483,782
Accumulated other comprehensive income		342		4,882
Retained earnings		140,097		176,202
TOTAL SHAREHOLDER'S EQUITY	$	593,753	$	665,900
Total Liabilities and Shareholder's Equity	$	1,672,100	$	2,186,592

See accompanying notes to the financial statements

FITZWILLIAM INSURANCE LIMITED
STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME
For the Years Ended December 31, 2021 and 2020

	2021	2020
	(in thousands of U.S. dollars)	
Premiums written	$ 178	$ (1,976)
Change in unearned premiums	(70)	1,166
Net premiums earned	108	(810)
Net acquisition costs	(712)	(899)
Net incurred losses and loss adjustment expenses	32,388	38,989
Net underwriting income	31,784	37,280
Fees and commission income	(3,606)	18,741
Net investment income	34,101	49,570
Net realized gains (losses)	478	1,453
Net unrealized (losses) gains	(21,363)	71,950
Other income	566	2,029
General and administrative expenses	(14,391)	(22,319)
Net income	$ 27,569	$ 158,704

	2021	2020
	(in thousands of U.S. dollars)	
Net income	$ 27,569	$ 158,704
Other comprehensive (loss) gain:		
Unrealized holding (losses) gains on investments arising during the year	(4,540)	4,843
Comprehensive income	$ 23,029	$ 163,547

See accompanying notes to the financial statements

FITZWILLIAM INSURANCE LIMITED
STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY
For the Years Ended December 31, 2021 and 2020

	2021	2020
	(in thousands of U.S. dollars)	
COMMON SHARES		
Balance, beginning of year	$ 1,000	$ 1,000
Balance, end of year	$ 1,000	$ 1,000
PREFERRED SHARES		
Balance, beginning of year	$ 34	$ 36
Redemptions	—	(2)
Balance, end of year	$ 34	$ 34
ADDITIONAL PAID-IN CAPITAL		
Balance, beginning of year	$ 483,782	$ 522,340
Return of capital	(31,502)	(38,558)
Balance, end of year	$ 452,280	$ 483,782
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)		
Balance, beginning of year	$ 4,882	$ 39
Net movement in unrealized holding gains/losses on investments	(4,540)	4,843
Balance, end of year	$ 342	$ 4,882
RETAINED EARNINGS		
Balance, beginning of year	$ 176,202	$ 163,485
Net income	27,569	158,704
Cumulative effect of change in accounting principle	—	(1,803)
Dividends paid	(63,674)	(144,184)
Balance, end of year	$ 140,097	$ 176,202

See accompanying notes to the financial statements

FITZWILLIAM INSURANCE LIMITED
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2021 and 2020

	2021	2020
	(in thousands of U.S. dollars)	
OPERATING ACTIVITIES:		
Net earnings	$ 27,569	$ 158,704
Adjustments to reconcile net earnings to cash flows (used in) provided by operating activities:		
Realized losses (gains) on sale of investments	(16,746)	(1,599)
Unrealized losses (gains) on investments	52,889	(71,360)
Sales and maturities of trading securities	362,803	410,570
Purchases of trading securities	(204,487)	(150,161)
Depreciation and other amortization	3,601	4,205
Changes in:		
Funds held by reinsurance companies	196,839	187,014
Funds held from reinsurers	(518)	—
Reinsurance recoverable	114,376	37,326
Insurance balances payable	(20,022)	(7,598)
Losses and loss adjustment expenses	(423,862)	(356,385)
Unearned premium	99	(1,166)
Amounts due from related parties	(74,338)	(24,449)
Other operating assets and liabilities	68,443	(9,658)
Net cash flows provided by (used in) operating activities	86,646	175,443
INVESTING ACTIVITIES		
Sale and maturities of available-for-sale securities	80,768	97,339
Purchase of available-for-sale securities	(127,670)	(193,410)
Purchase of other investments	(91,009)	(68,201)
Proceeds from other investments	151,653	158,190
Net cash flows provided by (used in) investing activities	13,741	(6,081)
FINANCING ACTIVITIES		
Dividends Paid	(63,674)	(144,184)
Net (return) contribution of capital	(31,501)	(38,561)
Net cash flows (used in) provided by financing activities	(95,175)	(182,745)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,213	(13,383)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	55,694	69,077
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 60,907	$ 55,694
Reconciliation to Balance Sheets:		
Cash and cash equivalents	$ 35,845	$ 25,572
Restricted cash and cash equivalents	25,062	30,122
Cash, cash equivalents and restricted cash	$ 60,907	$ 55,694

See accompanying notes to the financial statements

1. DESCRIPTION OF BUSINESS

Fitzwilliam Insurance Limited (the "Company", "Fitzwilliam", "we", "our" or "us") was incorporated under the laws of Bermuda on March 21, 2002 and is a wholly-owned subsidiary of Kenmare Holdings Ltd. ("Kenmare"), a company incorporated under the laws of Bermuda. The ultimate parent company is Enstar Group Limited ("Enstar"), a company incorporated under the laws of Bermuda.

The Company provides reinsurance coverage to both related and unrelated companies. The exposures reinsured by the Company include property and casualty, accident and health, professional indemnity, marine and political risks. The Company is licensed as a Class 3A Insurer under the Bermuda Insurance Act, 1978 and Related Regulations as amended (the "Insurance Act") and is also registered under the Segregated Accounts Companies Act, 2000 ("SAC Act") as amended. Under the provisions of the SAC Act, the Company may establish Segregated accounts where directed by the related shareholder agreement, insurance policy or reinsurance agreement. For each Segregated account, the Company has a subscription and shareholders' agreement with the preferred shareholder. These agreements describe the terms and conditions of establishing the Segregated account including an agreement by the preferred shareholder to fund any deficiency of Segregated account assets over Segregated account liabilities. Creditors of Segregated accounts have no claim on the assets of other Segregated accounts or upon the Company's general assets.

Specific activity within individual Fitzwilliam Segregated accounts during the years ended December 31, 2021 and 2020 was as follows:

- **Segregated Account No.11 ("FW#11"), Segregated Account No.17 ("FW#17"), Segregated Account No.18 ("FW#18"), Segregated Account No.29 ("FW#29") – The** exposures assumed through these four Segregated accounts from River Thames Insurance Company Limited ("River Thames"), a wholly owned subsidiary of Enstar, were commuted effective April 1, 2020 and the Segregated Accounts were subsequently closed on May 21, 2021.
- **Segregated Account ILU ("FW#ILU")** and **Segregated Account NILU ("FW#NILU")** – The exposures assumed through these two Segregated accounts from River Thames were commuted effective April 1, 2020.
- **Segregated Account No. 21 ("FW#21")** – The exposures assumed through this Segregated account from River Thames were commuted effective April 1, 2020 and the Segregated Account was subsequently closed in December 2021.
- **Segregated Account No.9 ("FW#9")** – The reinsurance agreement with Munich Re ADC was commuted effective September 15, 2021 and replaced with an XoL cover with AXA XL.
- **Segregated Account No.24 ("FW#24")** – The Clarendon reinsurance agreement was novated to Cavello Bay Reinsurance Limited ("Cavello") and the XoL reinsurance agreement with Cavello was commuted effective June 30, 2021.
- **Segregated Account No. 30 ("FW#30")** – The Yosemite Insurance Company (ex Providence Washington Insurance Company) reinsurance agreement was novated to Cavello and the XoL reinsurance agreement with Cavello was commuted effective June 30, 2021.

A description of the significant business within specific individual Fitzwilliam Segregated accounts not already discussed above is summarized below:

- **Segregated Account No. 31 ("FW#31")** – Effective January 1, 2014, FW#31 entered into retrospective and prospective quota share reinsurance agreements in respect of all of StarStone Insurance Bermuda Limited's ("SIBL") discontinued lines of business. A premium consideration equal to the loss reserves of $357.6 million ceded to FW#31 and which was retained by SIBL under a funds held arrangement, was agreed to with SIBL with respect to the retrospective business covered by the terms of the reinsurance agreement.
- **Segregated Account No. 36 ("FW#36")** – Effective February 17, 2016 FW#36 entered into a 50% quota share reinsurance agreement with Allianz SE ("Allianz"), in respect of Allianz's discontinued lines of business, originally held by Fireman's Fund Insurance Company, an indirect wholly owned subsidiary of Allianz. This transaction resulted in FW#36 assuming $1.1 billion of loss reserves in exchange for a reinsurance premium consideration of an equal amount which was however retained by Allianz under a funds held arrangement.
- **Segregated Account No. 41 ("FW#41")** – Effective October 1, 2018, FW#41 entered into a Loss Portfolio Transfer reinsurance contract ("LPT") with SIBL for specific lines of business in respect of all loses occurring on or prior to October 1, 2018. The Company assumed $208.0 million of loss reserves in excess of an attachment point of $97.0 million.

- **Segregated Account No. 42 ("FW#42")** – On August 6, 2019, FW#42 entered into an LPT with SIBL for (i) Bermuda Cat Retro business in respect of all losses occurring on or prior to January 1, 2019, and (ii) specific lines of business in respect of all loses occurring on or prior to April 1, 2019. The Company assumed $164.7 million of loss reserves in excess of an attachment point of $116.7 million.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The financial statements include our assets and liabilities as of December 31, 2021 and 2020 and results of our operations for the years ended December 31, 2021 and 2020.

From the current year, and with retrospective effect, the Company has consolidated the activities of the Segregated accounts it beneficially owns.

Use of Estimates, Risks and Uncertainties

The preparation of financial statements in accordance with U.S. GAAP requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The estimation of unpaid claim liabilities at any given point in time is subject to a high degree of uncertainty for a number of reasons. A significant amount of time can lapse between the assumption of risk, the occurrence of a loss event, the reporting of the event to an (re)insurance company and the ultimate payment of the claim on the loss event. Certain estimates for unpaid claim liabilities involve considerable uncertainty due to significant coverage litigation and it can be unclear whether past claim experience will be representative of future claim experience.

We expect that uncertainty and volatility in financial markets relating to the COVID-19 pandemic will continue to impact the value of our investments. The scope, duration and magnitude of the direct and indirect effects of the COVID-19 pandemic are changing rapidly and are difficult to anticipate.

We are subject to economic factors such as interest rates, inflation, foreign exchange rates, adverse reserve developments, regulation, tax policy changes, political risks and other market risks that can impact our strategy, operations, and results.

Significant Accounting Policies

(a) Retroactive Reinsurance Contracts

Retroactive reinsurance contracts provide indemnification for losses and loss adjustment expenses ("LAE") with respect to past loss events. We do not record any income or expense on recognition of the contracts assets and liabilities. Any subsequent remeasurement of the value of liabilities is recorded to net incurred losses and LAE within the statements of earnings.

(b) Deferred Charge Assets

If, at the inception of a retroactive reinsurance contract, the estimated liabilities for losses and LAE exceed the premiums received, a deferred charge asset ("DCA") is recorded for this difference.

The premium consideration that we charge the ceding companies under retroactive reinsurance contracts may be lower than our estimate of losses and LAE liabilities as these liabilities may not be settled for many years. Our contractual counterparties (cedants) settle the premium consideration upon inception of the contract and we invest the premium received over an extended period of time, thereby generating investment income. As a result, we expect to generate profits from these retroactive reinsurance contracts when taking into account the premium received and expected investment income, less contractual obligations and expenses.

DCAs are amortized over the estimated claim payment period of the related contract with the periodic amortization reflected in earnings as a component of losses and LAE. The amortization of DCAs is adjusted at each reporting period to reflect new estimates of the amount and timing of remaining loss and LAE payments.

Changes in the estimated liability amount and the expected timing of related payments of unpaid losses may result in a subsequent remeasurement of the DCAs and the amount of periodic amortization. Any change in ultimate losses on the contracts with a recognized DCA will result in the recognition of an adjustment to the DCA, as if the adjusted reserves had existed upon inception of the contract.

When liabilities for losses and LAE are extinguished through commutations and policy buybacks, they are removed from our estimates for the remaining loss and LAE payments, and this will generally result in an acceleration of the amortization of the DCAs.

DCAs are assessed at each reporting period for impairment and if the asset is determined to be impaired, then it is written down in the period in which the determination is made with that write down reflected in earnings as a component of net incurred losses and LAE.

For each reinsurance contact where a DCA has been recorded we assess for impairment by determining the rate of return that we are required to earn on the invested assets to ensure that all cashflows arising from the assumed liabilities are met in full over the projected remaining payout period. This required rate of return is compared against the modeled rate of return, the weighted average portfolio yield and the actual annualized rate of return in order to identify indicators that would lead us to record an impairment of the DCA.

For the year ended December 31, 2021, we completed our assessment for impairment of DCA and concluded that there had been no impairment of our carried DCA balances.

(c) Short-duration Insurance Contracts

Premiums written

Premiums written related to prospective risk policies are earned on a pro-rata basis over the period of the related coverage. Reinsurance premiums on prospective risks are recorded at the inception of the policy, are based upon contractual terms and, for certain business, are estimated based on underlying contracts or from information provided by insureds and/or brokers.

Changes in reinsurance premium estimates for prospective risks are recorded as premiums written in the period in which they are determined.

Certain contracts are retrospectively rated and provide for a final adjustment to the premium based on the final settlement of all losses. Premiums on such contracts are adjusted based upon contractual terms, and management judgment is involved with respect to the estimate of the amount of losses that we expect to incur. These adjustments to the premium are recognized at the time loss thresholds specified in the contract are exceeded and are earned over the coverage period, or are earned immediately if the period of risk coverage has passed.

Unearned Premium Reserves and Premiums Receivable

Unearned premium reserves, included within other liabilities on the balance sheets, represent the unexpired portion of policy premiums. For retrospectively rated contracts as well as those contracts whose written premium amounts are recorded based on premium estimates at inception, changes to accrued premiums arising from changes to these estimates are reflected as changes in premium balances receivable where appropriate.

Premium balances receivable are reported net of an allowance for expected credit losses as appropriate. The allowance is based upon our ongoing review of amounts outstanding, historical loss data, including delinquencies and write-offs, current and forecasted economic conditions and other relevant factors. However, the credit risk on our premiums receivable balances is substantially reduced where we have the ability to cancel the underlying policy if the policyholder does not pay the related premium.

(d) Acquisition Costs

Acquisition costs, consisting principally of incremental costs including, commissions and brokerage expenses and certain premium taxes and fees incurred at the time a contract or policy is issued and which are directly related to the successful efforts of acquiring new insurance contracts or renewing existing insurance contracts, are deferred and amortized over the period in which the related premiums are earned.

Deferred acquisition costs (“DAC”), included within other assets on the consolidated balance sheets, are limited to their estimated realizable value by line of business based on the related unearned premiums, anticipated claims and claim expenses and anticipated investment income.

A premium deficiency occurs if the sum of anticipated losses and LAE exceed unearned premiums, DAC and anticipated investment income. A premium deficiency is initially recognized by charging any DAC to expense to the extent required in order to eliminate the deficiency. If the premium deficiency exceeds the DAC, then a liability is accrued for the excess deficiency.

(e) Losses and LAE

The liability for losses and LAE includes reserves for unpaid reported losses and losses incurred but not reported ("IBNR").

We establish reserves for unpaid reported losses and LAE based on reports from brokers, ceding companies and insureds and these represent the estimated ultimate cost of events or conditions that have been reported to or specifically identified by us.

The reserves for IBNR losses are established by us based on actuarially determined estimates of ultimate losses and LAE. Inherent in the estimate of ultimate losses and LAE are expected trends in claim severity and frequency, historical loss experience, industry statistics and other factors which may vary significantly as claims are settled.

These estimates are reviewed regularly and are subject to the impact of future changes in the factors noted above as well as economic conditions including the impact of inflation, legal and judicial developments, and medical cost trends.

Any subsequent remeasurement of our reserves will be recorded in earnings in the period in which they become known and reflected as part of the net increase or reduction in the estimates of ultimate losses included within net incurred losses and LAE in the statements of earnings.

Prior period development ("PPD") arises from changes to loss estimates recognized in the current calendar year that relate to loss reserves established in previous calendar years.

Our estimates, at inception and on an ongoing basis, do not include an estimate for potential future commutations and policy buybacks. Commutations and policy buybacks are often unique and circumstance-based, and each commutation or policy buyback is separately negotiated. Therefore, the successful execution of one commutation or policy buyback does not necessarily impact the likelihood of other commutations or policy buybacks occurring in the future.

Commutations and policy buybacks provide an opportunity for us to exit exposures to certain policies and insureds generally at a discount to our estimate of the ultimate liability and provide us with the ability to eliminate exposure to further losses which can be beneficial to us as they legally extinguish liabilities in full, reducing the potential for future adverse loss development and future claims handling costs.

Commutations of acquired companies' exposures have the effect of accelerating the payout of claims compared to the probability-weighted ranges of actuarially projected cash flows that we applied when estimating the fair values of assets and liabilities at the time of acquisition.

Commutations are only executed directly with (re)insureds and any changes in ultimate losses are recognized upon the execution of a commutation or policy buyback with the (re)insured.

Any material acceleration of payout together with the impact of any material loss reserve savings in any period will also accelerate the amortization of any associated fair value adjustments or DCAs in that period.

The Company also establishes provisions for unallocated loss adjustment expenses ("ULAE") for LAE relating to run-off costs for the estimated duration of the run-off, such as internal claim management or associated operational support costs, which are included in the liability for losses and LAE. These provisions are assessed at each reporting date, and provisions relating to future periods are adjusted to reflect any changes in estimates of the periodic run-off costs or the duration of the run-off, including the impact of any acceleration of the run-off period that may be caused by commutations. Provisions relating to the current period together with any adjustment to future run-off provisions are included in net incurred losses and LAE in the statements of earnings.

(f) Reinsurance Balances Recoverable on Paid and Unpaid Losses

Amounts recoverable from reinsurers are estimated in a manner consistent with the underlying liability for losses and LAE. We report our reinsurance balances recoverable on paid and unpaid losses net of an allowance for estimated uncollectible amounts.

Our allowance for estimated uncollectible reinsurance is derived based on various data sources, multiple key inputs and forecast scenarios. These include the duration of the collection period, credit quality, changes in reinsurer credit standing, default rates specific to the individual reinsurer, the geographical location of the reinsurer, contractual disputes with reinsurers over individual contentious claims, contract language or coverage issues, industry analyst reports and consensus economic forecasts.

To determine the allowance for estimated uncollectible reinsurance, we use the probability of default ("PD") and loss given default ("LGD") methodology whereby each reinsurer is allocated an appropriate PD percentage based on the expected payout duration by portfolio. This PD percentage is then multiplied by an appropriate LGD percentage to arrive at an overall credit allowance percentage which is then applied to the reinsurance balance recoverable for each reinsurer, net of any specific bad debt provisions, collateral or other contract related offsets, to arrive at the overall allowance for estimated uncollectible reinsurance by reinsurer.

Amounts deemed to be uncollectible, including amounts due from known insolvent reinsurers, are written off against the allowance.

Changes in the allowance, as well as any subsequent collections of amounts previously written off, are reported as part of the net incurred losses and LAE in our statements of earnings.

On an ongoing basis, we also evaluate and monitor the credit risk of our reinsurers, including those under voluntary schemes of arrangement, to minimize our exposure to significant losses from potential insolvencies.

(g) Investments, Cash and Cash Equivalents Cash and cash equivalents

Cash equivalents includes money market funds, fixed interest deposits and all highly liquid debt instruments purchased with an original maturity of three months or less.

Short-term investments and fixed maturity investments

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

Fixed maturity investments classified as trading are carried at fair value, with realized and unrealized gains and losses included in net earnings and reported as net realized and unrealized gains and losses, respectively.

Short-term and fixed maturity investments classified as available-for-sale ("AFS") are carried at fair value, with unrealized gains and losses excluded from net earnings and reported as a separate component of accumulated other comprehensive income (loss) ("AOCI"). Realized gains and losses on sales of investments classified as AFS are recognized in the statements of earnings.

The costs of short-term and fixed maturity investments are adjusted for amortization of premiums and accretion of discounts, recognized using the effective yield method and included in net investment income. For mortgage-backed and asset-backed investments, and any other holdings for which there is a prepayment risk, prepayment assumptions are evaluated and reviewed on a regular basis.

Investment purchases and sales are recorded on a trade-date basis. Realized gains and losses on the sale of investments are based upon specific identification of the cost of investments.

Allowance for Credit Losses

We perform a detailed analysis every reporting period to identify any credit losses on our investment portfolios not measured at fair value through net earnings. Credit losses on our AFS fixed maturity securities are recognized through an allowance account which is deducted from the amortized cost basis of the security, with the net carrying value of the security presented on the balance sheet at the amount expected to be collected.

To calculate the amount of the credit loss, we compare the present value of the expected future cash flows with the amortized cost basis of the AFS fixed maturity security, with the amount of the credit loss recognized being limited to the excess of the amortized cost basis over the fair value of the AFS fixed maturity security, effectively creating a "fair value floor".

For our AFS fixed maturity securities that we do not intend to sell or for which it is more likely than not that we will not be required to sell before an anticipated recovery in value, we separate the credit loss component of any unrealized losses from the amount related to all other factors and record the credit loss component in net realized investment gains (losses) in our statements of earnings. The unrealized losses related to non-credit factors is recorded in other comprehensive income. The allowance for credit losses account is adjusted for any additional credit losses, write-offs and subsequent recoveries and is reflected in earnings.

For our AFS fixed maturity securities where we record a credit loss, a determination is made as to the cause of the credit loss and whether we expect a recovery in the fair value of the security. For our AFS fixed maturity securities where we expect a recovery in fair value, the constant effective yield method is utilized, and the investment is amortized to par.

For our AFS fixed maturity securities that we intend to sell or for which it is more likely than not that we will be required to sell before an anticipated recovery in fair value, the full amount of the unrealized loss is included in net realized investment gains (losses). The new cost basis of the investment is the previous amortized cost basis less the credit loss recognized in net realized investment gains (losses). The new cost basis is not adjusted for any subsequent recoveries in fair value.

Our allowance for credit losses is derived based on various data sources, multiple key inputs and forecast scenarios. These include default rates specific to the individual security, vintage of the security, geography of the issuer of the security, industry analyst reports, credit ratings and consensus economic forecasts.

To determine the credit losses on our AFS securities, we use the PD and LGD methodology through a third-party proprietary tool which calculates the expected credit losses based on a discounted cash flow method. The tool uses effective interest rates to discount the expected cash flows associated with each AFS security to determine its fair value, which is then compared with its amortized cost basis to derive the credit loss on the security.

The methodology and inputs used to determine the credit loss by security type are as follows:

- **Corporate and government securities:** Expected cashflows are derived that are specific to each security. The PD is based on a quantitative model that converts agency ratings to term structures that vary by country, industry and the state of the credit cycle. This is used along with macroeconomic forecasts to produce scenario conditioned PDs. The LGD is based on default studies provided by a third party which we use along with macroeconomic forecasts to produce scenario conditioned LGDs.
- **Municipal securities:** Expected cash flows are derived that are specific to each security. The PD model produces scenario conditioned PD output over the lifetime of the municipal security. These PDs are based on key macroeconomic and instrument specific risk factors. The LGD is derived based on a model which uses assumptions specific to the municipal securities.

  For corporate, government and municipal securities, we use an explicit reversion and a three year forecast period, which we consider to be a reasonable duration during which an economic forecast could continue to be reliable.
- **Asset-backed, commercial and residential mortgaged-backed securities:** Expected cash flows are derived that are specific to each security. The PD and LGD for each security is based on a quantitative model that generates scenario conditioned PD and LGD term structures based on the underlying collateral type, waterfall and other trustee information. This model also considers prepayments. For these security types, there is no explicit reversion and the forecasts are deemed reasonable and supportable over the life of the portfolio.

We report the investment income accrued on our AFS fixed maturity securities within other assets and therefore separately from the underlying AFS fixed maturity securities. Due to the short-term period during which accrued investment income remains unpaid, which is typically six months or less since the coupon on our debt securities is paid semi-annually or more frequently, we elected not to establish an allowance for credit losses on our accrued investment income balances. Accrued investment income is written off through net realized investment gains (losses) at the time the issuer of the debt security defaults or is expected to default on payments.

Uncollectible fixed maturity securities are written off when we determine that no additional payments of principal or interest will be received.

Equities

We hold an investment in a publicly traded equity. Our equity investment is carried at fair value with realized and unrealized gains and losses included in net earnings and recorded as net realized and unrealized gains and losses, respectively.

Other investments, at fair value

Other investments include investments in limited partnerships and limited liability companies (collectively "private equity funds"), fixed income funds, hedge funds, balanced fund and collateralized loan obligation ("CLO") equity funds that carry their investments at fair value, as well as direct investments in CLO equities.

We have elected the fair value option for certain of our other investments that would otherwise be accounted for as an equity method investment. The primary reason for electing the fair value option is because we believe this measurement basis is consistent with the applicable accounting guidance used by the investment funds themselves.

Our other investments are stated at fair value, which ordinarily will be the most recently reported net asset value ("NAV") as advised by the fund manager or administrator. The NAV is based on the fund manager's or administrator's valuation of the underlying holdings in accordance with the fund's governing documents. Many of our fund investments publish NAVs on a daily basis and provide daily liquidity while others report on a monthly or quarterly basis. Unrealized gains and losses on other investments are included in net earnings and reported as net unrealized gains and losses.

(h) Funds Held

Under funds held arrangements, the reinsured company has retained funds that would otherwise have been remitted to us. The funds balance is credited with investment income and losses paid are deducted.

Funds held are shown under two categories on the balance sheets, funds held where we receive the underlying portfolio economics are shown as "Funds held - directly managed", and funds held where we receive a fixed crediting rate are shown as "Funds held by reinsured companies".

Funds held by reinsured companies are carried at cost.

Funds held - directly managed, are carried at fair value, either because we elected the fair value option at the inception of the reinsurance contract, or because it represents the aggregate of funds held at cost and the value of an embedded derivative. The embedded derivative relates to our contractual right to receive the return on the underlying investment portfolio supporting the reinsurance contract. We include the estimated fair value of these embedded derivatives in the balance sheets with the host contract in order to reflect the expected settlement of these features with the host contract.

The investment returns on both categories of funds held are recognized in net investment income and net realized and unrealized gains (losses), respectively. The change in the fair value of the embedded derivative is included in net unrealized gains (losses).

(i) Foreign Exchange

Our reporting currency is the U.S. dollar. Foreign currency assets and liabilities that are considered monetary items are translated at exchange rates in effect at the balance sheet date. Foreign currency revenues and expenses are translated either at transaction date exchange rates or using an appropriately weighted average exchange rate for the reporting period. These exchange gains and losses are recognized in net earnings.

(j) Derivative Instruments

We use derivative instruments in our risk management strategies and investment operations. Derivatives, with the exception of embedded derivatives, are recorded on a trade-date basis and carried at fair value within other assets or other liabilities in the balance sheets.

Embedded derivatives are generally presented with the host contract in the balance sheets. The corresponding host contract is accounted for according to the accounting guidance applicable for that instrument. Certain of our funds held arrangements (as described above) contain embedded derivatives.

Changes in the fair value as well as realized gains or losses on derivative instruments are recognized in net earnings if they are not designated as qualifying hedging instruments or if the criteria for establishing a perfectly effective designated hedging relationship for our net investment hedges has not been met. However, if a designated net investment hedge is deemed to be perfectly effective, then we recognize the changes in the fair value of the underlying hedging instrument in AOCI until the application of hedge accounting is discontinued. Any cumulative gains or losses arising on designated net investment hedges are deferred in AOCI until the cumulative translation adjustment from the underlying hedged net investment is recognized in net earnings due to a disposal, deconsolidation or substantial liquidation.

New Accounting Standards Adopted in 2021

ASU 2020-01 - Clarifying the Interactions between ASC 321, ASC 323 and ASC 815

In January 2020, the FASB issued ASU 2020-01 to clarify the interaction of the accounting for equity securities under ASC 321 and investments accounted for under the equity method of accounting in ASC 323 and the accounting for certain forward contracts and purchased options accounted for under ASC 815. With respect to the interactions between ASC 321 and ASC 323, the amendments clarify that an entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting when applying the measurement alternative in ASC 321, immediately before applying or upon discontinuing the equity method of accounting. With respect to forward contracts or purchased options to purchase securities, the amendments clarify that when applying the guidance in ASC 815-10-15-141(a), an entity should not consider whether upon the settlement of the forward contract or exercise of the purchased option, individually or with existing investments, the underlying securities would be accounted for under the equity method in ASC 323 or the fair value option in accordance with ASC 825.

The adoption of ASU 2020-01 did not have an impact on our financial statements and disclosures.

ASU 2020-08 – Codification Improvements to Subtopic 310-20 - Receivables - Nonrefundable Fees and Other Costs

In October 2020, the Financial Accounting Standards Board (“FASB”) issued ASU 2020-08 to clarify that an entity should re-evaluate whether a callable debt security is within the scope of Accounting Standards Codification ("ASC")

310-20-35-33 during each reporting period and accelerate amortization of the premium associated with the callable debt to the earliest call date. All entities are required to apply the amendments in this ASU on a prospective basis as of the beginning of the period of adoption for existing or newly purchased callable debt securities.

The adoption of ASU 2020-08 did not have a material impact on our financial statements and the related disclosures.

3. INVESTMENTS

We hold: (i) trading portfolios of fixed maturity investments and equities, carried at fair value; (ii) AFS portfolios of fixed maturity and short-term investments, carried at fair value; (iii) other investments carried at fair value; and (iv) funds held - directly managed, carried at fair value.

Short-term and Fixed Maturity Investments

Asset Types

The fair values of the underlying asset types comprising our short-term investments and fixed maturity investments classified as trading and AFS, and the fixed maturity investments included within our funds held - directly managed balance were as follows as at December 31, 2021 and 2020:

	2021					
	Short-term investments, trading	Short-term investments-AFS	Fixed maturities, trading	Fixed maturities-AFS	Funds Held - Directly Managed	Total
	(in thousands of U.S. dollars)					
U.S. government and agency	$ —	$ 1,098	$ 18	$ 13,469	$ 68,426	$ 83,011
Other government	—	—	334	1,862	11,574	13,770
Corporate	—	—	92,577	106,776	382,936	582,289
Municipal	—	—	212	5,837	46,356	52,405
Residential mortgage-backed	—	—	414	2,631	35,511	38,556
Commercial mortgage-backed	—	—	21,970	36,272	174,757	232,999
Asset backed	—	—	25,121	17,036	46,722	88,879
Total fixed maturity and short-term investments	$ —	$ 1,098	$ 140,646	$ 183,883	$ 766,282	$ 1,091,909

	2020					
	Short-term investments, trading	Short-term investments-AFS	Fixed maturities, trading	Fixed maturities-AFS	Funds Held - Directly Managed	Total
	(in thousands of U.S. dollars)					
U.S. government and agency	$ —	$ —	$ 456	$ 11,382	$ 72,504	$ 84,342
Other government	—	—	913	928	19,153	20,994
Corporate	—	—	145,779	82,325	416,711	644,815
Municipal	—	—	216	5,787	46,126	52,129
Residential mortgage-backed	—	—	2,474	6,275	66,436	75,185
Commercial mortgage-backed	—	—	45,306	26,688	201,078	273,072
Asset backed	—	—	33,596	10,349	50,065	94,010
Total fixed maturity and short-term investments	$ —	$ —	$ 228,740	$ 143,734	$ 872,073	$ 1,244,547

Included within residential and commercial mortgage-backed securities as at December 31, 2021 are securities issued by U.S. governmental agencies with a fair value of $16.9 million (2020 - $52.9 million).

Contractual Maturities

The contractual maturities of the Company's short-term and fixed maturity investments classified as trading and AFS, and the fixed maturity investments included within our funds held - directly managed balance are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

As of December 31, 2021	Amortized Cost	Fair Value	% of Total Fair Value
	(in thousands of U.S. dollars)		
One year or less	$ 25,373	$ 25,584	2.4 %
More than one year through two years	33,777	34,326	3.1 %
More than two years through five years	180,568	188,031	17.2 %
More than five years through ten years	186,063	191,607	17.6 %
More than ten years	259,166	291,927	26.8 %
	684,947	731,475	67.1 %
Residential mortgage-backed	38,242	38,556	3.5 %
Commercial mortgage-backed	228,001	232,999	21.3 %
Asset-backed	88,503	88,879	8.1 %
	$ 1,039,693	$ 1,091,909	100 %

Credit Ratings

The following table sets forth the credit ratings of our short-term investments and fixed maturity investments, classified as trading and AFS, and the fixed maturity investments included within our funds held - directly managed balance as of December 31, 2021:

	Amortized cost	Fair value	% of total investments	AAA rated	AA rated	A rated	BBB rated	Non-investment grade	Not rated
	(in thousands of U.S. dollars)								
U.S. government and agency	$ 79,510	$ 83,011	7.6%	$ 83,011	$ —	$ —	$ —	$ —	$ —
U.K. government	—	—	—%	—	—	—	—	—	—
Other government	12,658	13,770	1.3%	—	3,289	6,395	4,086	—	—
Corporate	546,496	582,289	53.4%	1,644	18,663	259,164	280,804	22,014	—
Municipal	46,283	52,405	4.8%	346	11,165	33,161	7,733	—	—
Residential mortgage-backed	38,242	38,556	3.5%	37,548	—	176	508	282	42
Commercial mortgage-backed	228,001	232,999	21.3%	191,337	30,581	11,081	—	—	—
Asset-backed	88,503	88,879	8.1%	62,949	14,789	10,875	266	—	—
Total	$ 1,039,693	$ 1,091,909	100%	$ 376,835	$ 78,487	$ 320,852	$ 293,397	$ 22,296	$ 42
% of total fair value				34.5 %	7.2 %	29.4 %	26.9 %	2.0 %	— %

Fixed Maturity Investments

Unrealized Gains and Losses on Available-for-Sale Fixed Maturity Investments

The amortized cost and fair values of our fixed maturity investments classified as available-for-sale were as follows as at December 31, 2021 and 2020:

			Gross Unrealized Losses		
As at December 31, 2021	Amortized Cost	Gross Unrealized Gains	Non- Credit Related Losses	Allowance for Credit Losses	Fair Value
	(in thousands of U.S. dollars)				
U.S. government and agency	$ 15,205	$ 43	$ (681)	$ —	$ 14,567
Other government	1,912	35	(60)	(25)	1,862
Corporate	106,028	1,667	(823)	(96)	106,776
Municipal	5,662	188	(13)	—	5,837
Residential mortgage-backed	2,663	2	(34)	—	2,631
Commercial mortgage-backed	36,243	214	(185)	—	36,272
Asset-backed	17,048	22	(34)	—	17,036
	$ 184,761	$ 2,171	$ (1,830)	$ (121)	$ 184,981

As at December 31 2020	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses: Non-Credit Related Losses	Gross Unrealized Losses: Allowance for Credit Losses	Fair Value
			(in thousands of U.S. dollars)		
U.S. government and agency	$ 11,636	$ 96	$ (350)	$ —	$ 11,382
Other government	891	37	—	—	928
Corporate	78,422	3,917	(14)	—	82,325
Municipal	5,530	257	—	—	5,787
Residential mortgage-backed	6,242	35	(2)	—	6,275
Commercial mortgage-backed	25,833	868	(13)	—	26,688
Asset-backed	10,298	55	(4)	—	10,349
	$ 138,852	$ 5,265	$ (383)	$ —	$ 143,734

Gross Unrealized Losses on Available-for-Sale Fixed Maturity Investments

The following tables summarize our fixed maturity and short-term investments classified as AFS in a gross unrealized loss position, as at December 31, 2021 and 2020:

	2021					
	12 Months or Greater		Less Than 12 Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
			(in thousands of U.S. dollars)			
Fixed maturity investments, at fair value						
U.S. government and agency	$ 3,964	$ (552)	$ 8,883	$ (129)	$ 12,847	$ (681)
Other government	—	—	390	(32)	390	(32)
Corporate	208	(1)	52,046	(760)	52,254	(761)
Municipal	—	—	828	(13)	828	(13)
Residential mortgage-backed	38	(1)	2,327	(33)	2,365	(34)
Commercial mortgage-backed	—	—	24,801	(185)	24,801	(185)
Asset-backed	—	—	12,679	(34)	12,679	(34)
Total fixed maturity investments	$ 4,210	$ (554)	$ 101,954	$ (1,186)	$ 106,164	$ (1,740)

	2020					
	12 Months or Greater		Less Than 12 Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(in thousands of U.S. dollars)					
Fixed maturity investments, at fair value						
U.S. government and agency	$ —	$ —	$ 6,266	$ (350)	$ 6,266	$ (350)
Corporate	—	—	5,851	(14)	5,851	(14)
Residential mortgage-backed	—	—	2,308	(2)	2,308	(2)
Commercial mortgage-backed	—	—	2,134	(13)	2,134	(13)
Asset-backed	—	—	1,286	(4)	1,286	(4)
Total fixed maturity investments	$ —	$ —	$ 17,845	$ (383)	$ 17,845	$ (383)

As at December 31, 2021 and 2020, the number of securities classified as AFS in an unrealized loss position was 299 and 44, respectively. Of these securities, the number of securities that had been in an unrealized loss position for twelve months or longer was 5 and nil, respectively.

The contractual terms of a majority of these investments do not permit the issuers to settle the securities at a price less than the amortized cost basis of the security. While credit spreads have increased, and in certain cases credit ratings were downgraded, we currently do not expect the issuers of these fixed income securities to settle them at a price less than their amortized cost basis and therefore it is expected that we will recover the entire amortized cost basis of each security. Furthermore, we do not intend to sell the securities that are currently in an unrealized loss position, and it is also not more likely than not that we will be required to sell the securities before the recovery of their amortized cost bases.

Allowance for Credit Losses on AFS Fixed Maturity Investments

The following table provides a reconciliation of the beginning and ending allowance for credit losses on our AFS debt securities: -

	December 31, 2021					
	Other government	Corporate	Residential mortgage-backed	Commercial mortgage backed	Asset-backed	Total
	(in thousands of U.S. dollars)					
Allowance for credit losses, beginning of year	$ —	$ —	$ —	$ —	$ —	$ —
Cumulative effect of change in accounting principle	(35)	(214)	—	—	—	(249)
Allowances for credit losses on securities for which credit losses were not previously recorded	—	—	—	—	—	—
Reductions for securities sold during the year	—	—	—	—	—	—
(Increase) decrease to the allowance for credit losses on securities that had an allowance recorded in the previous period	10	118	—	—	—	128
Allowance for credit losses, end of year	$ (25)	$ (96)	$ —	$ —	$ —	$ (121)

	December 31, 2020					
	Other government	Corporate	Residential mortgage-backed	Commercial mortgage backed	Asset-backed	Total
	(in thousands of U.S. dollars)					
Allowance for credit losses, beginning of year	$ —	$ —	$ —	$ —	$ —	$ —
Cumulative effect of change in accounting principle	—	(32)	—	(46)	—	(78)
Allowances for credit losses on securities for which credit losses were not previously recorded	—	(408)	—	—	—	(408)
Reductions for securities sold during the year	—	60	—	—	—	60
(Increase) decrease to the allowance for credit losses on securities that had an allowance recorded in the previous period	—	380	—	46	—	426
Allowance for credit losses, end of year	$ —	$ —	$ —	$ —	$ —	$ —

During the years ended December 31, 2021 and 2020, we did not have any write-offs charged against the allowance for credit losses or any recoveries of amounts previously written-off.

Equity Investments

Our publicly traded equity investment in common stock is predominantly traded on the major stock exchanges and is managed by an external advisor.

The following table summarizes our equity investment carried at fair value as of December 31, 2021 and 2020:

	2021	2020
	(in thousands of U.S. dollars)	
Publicly traded equity investments in common stocks	$ 7,651	$ 6,545

Other Investments, at fair value

The following table summarizes our other investments carried at fair value as of December 31, 2021 and 2020:

	2021	2020
	(in thousands of U.S. dollars)	
Private equity funds	$ 950	$ 27,389
Patcham Fixed Income fund	37,595	102,335
Hedge fund	12,803	11,579
CLO equities	2,595	2,304
CLO equity fund	12,357	10,672
Patcham Balanced fund	43,190	20,027
	$ 109,490	$ 174,306

Due to a lag in the valuations of certain funds reported by the managers, we may record changes in valuation with up to a three-month lag. We regularly review and discuss fund performance with the fund managers to corroborate the reasonableness of the reported net asset values and to assess whether any events have occurred within the lag period that would affect the valuation of the investments.

The following is a description of the nature of each of these investment categories:

- Hedge funds invests in fixed income, equity and other investments.
- Private equity funds include primary, secondary, and direct co-investment opportunities .All of our investments in private equities funds are subject to restrictions on redemptions and sales that are determined by the governing documents and limit our ability to liquidate those investments. These restrictions have been in place since the inception of the investments.
- CLO equity funds invest primarily in the equity tranches of term-financed securitizations of diversified pools of corporate bank loans.
- CLO equities comprise investments in the equity tranches of term-financed securitizations of diversified pools of corporate bank loans.
- The Patcham Fixed Income fund, all of whose investors are Enstar subsidiaries and affiliates, is an investment in a diversified fixed income fund that is managed by a third-party manager. Underlying investments vary from high-grade corporate bonds to non-investment grade senior secured loans and bonds, but are generally invested in liquid fixed income markets. This fund has regularly published prices and is redeemable weekly.
- The Patcham Balanced fund, all of whose investors are Enstar subsidiaries and affiliates, comprises a number of positions in diversified fixed income, equity funds and also direct holdings in fixed income and equity securities. The fund has regularly published prices and is redeemable weekly.

As at December 31, 2021, the Company had unfunded commitments to private equity funds of $ nil (2020 - $26.5 million).

Funds Held

Funds Held - Directly Managed

The following table summarizes the components of the funds held - directly managed as of December 31, 2021 and 2020:

	2021	2020
	(in thousands of U.S. dollars)	
Fixed maturity investments, trading	$ 766,284	$ 872,073
Other assets	14,082	9,907
	$ 780,366	$ 881,980

The following table summarizes the fixed maturity investment components of funds held - directly managed as of December 31, 2021 and 2020:

	Funds Held - Directly Managed - Variable Return	
	2021	2020
	(in thousands of U.S. dollars)	
Fixed maturity investments, at amortized cost	$ 723,437	$ 795,002
Net unrealized gains (losses):		
Change in fair value - embedded derivative accounting	42,847	77,071
Fixed maturity investments within funds held - directly managed, at fair value	$ 766,284	$ 872,073

Funds Held by Reinsured Companies

Funds held by reinsured companies, where we receive a fixed crediting rate, are carried at cost on our balance sheets. As of December 31, 2021 and 2020, we had funds held by reinsured companies of $266.0 million and $462.8 million, respectively.

Net Investment Income

Major categories of net investment income for the years ended December 31, 2021 and 2020 are summarized as follows:

	2021	2020
	(in thousands of U.S. dollars)	
Fixed maturity investments	$ 9,254	$ 12,843
Short-term investments and cash and cash equivalents	5	438
Funds held	1	4
Funds held – directly managed	22,404	27,763
Equity securities	936	737
Other investments	550	373
Interest income from affiliate	998	8,112
Gross investment income	34,148	50,270
Investment expenses	(47)	(713)
Net investment income	$ 34,101	$ 49,557

Components of net realized and unrealized gains (losses) for the years ended December 31, 2021 and 2020 were as follows:

	2021	2020
	(in thousands of U.S. dollars)	
Net realized gains (losses) on sale:		
Gross realized gains on fixed maturity securities, available-for-sale	$ 1,245	$ 2,131
Gross realized losses on fixed maturity securities, available-for-sale	(647)	(696)
(Increase) Decrease in allowance for expected credit losses on fixed maturity securities, available-for-sale	(120)	18
Total net realized gains (losses) on sale	478	1,453
Net unrealized (losses) gains:		
Fixed maturity securities, trading	(4,251)	9,682
Equity securities	1,104	(2,182)
Other investments	11,179	16,571
Change in fair value of funds held - directly managed	(29,429)	47,134
Net unrealized (losses) gains	(21,397)	71,205
Change in fair value of embedded derivative:		
Change in fair value of embedded derivative	34	745
Total change in fair value of embedded derivative	34	745
Total net unrealized (losses) gains	$ (21,363)	$ 71,950

We have presented all net recognized gains and losses on fixed maturity trading and the fixed maturities within our funds held-directly managed for the years ended December 31, 2021 and 2020 within net unrealized (losses) gains in the table above. This is a change to our previous presentation which split recognized gains between net realized (losses) gains on sale and net unrealized gains. This change had no impact to net earnings for the year ended December 31, 2020. This change also resulted in a revision to the presentation of realized losses and gains on sale of investments and unrealized gains on investments within the statements of cash flows for the year ended December 31, 2020.

The net realized (losses) gains and change in the fair value of the embedded derivative relate to the total return on the assets retained by SIBL and Clarendon under the terms of their reinsurance agreements with the Company's Segregated accounts. As of December 31, 2021 and 2020, the following funds were withheld from the Company accounts by affiliated companies and included within "Funds held by reinsured companies" within the balance sheets.

	2021	2020
	(in thousands of U.S. dollars)	
Clarendon	$ —	$ 129,610
SIBL	232,463	83,073
	$ 232,463	$ 212,683

Restricted Assets

We are required to maintain investments and cash and cash equivalents on deposit to support the insurance and reinsurance operations of our Segregated accounts. The investments and cash and cash equivalents on deposit are available to settle insurance and reinsurance liabilities of our Segregated accounts. We also utilize trust accounts to collateralize business with our insurance and reinsurance counterparties. These trust accounts generally take the place of letter of credit requirements. The assets held in trust as collateral are primarily highly rated fixed maturity securities. The carrying value of our restricted assets, including restricted cash of $25.1 million and $30.1 million, as of December 31, 2021 and 2020, respectively, was as follows:

	2021	2020
	(in thousands of U.S. dollars)	
Collateral in trust for third party agreements	$ 280,118	$ 340,332
Collateral for secured letter of credit facilities	595	595
	$ 280,713	$ 340,927

4. FAIR VALUE MEASUREMENTS

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

- Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments.
- Level 2 - Valuations based on quoted prices in active markets for similar assets or liabilities, quoted prices for identical assets or liabilities in inactive markets, or for which significant inputs are observable (e.g. interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.
- Level 3 - Valuations based on unobservable inputs where there is little or no market activity. Unadjusted third party pricing sources or management's assumptions and internal valuation models may be used to determine the fair values.

In addition, certain of our other investments are measured at fair value using net asset value ("NAV") per share (or its equivalent) as a practical expedient and are not classified within the three levels of the fair value hierarchy above.

We have categorized our investments that are recorded at fair value on a recurring basis among levels based on the observability of inputs, or at fair value using NAV per share (or its equivalent) as follows:

	December 31, 2021				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value Based on NAV as Practical Expedient	Total Fair Value
	(in thousands of U.S. dollars)				
Investments:					
Fixed maturity investments:					
U.S. government and agency	$ —	$ 83,011	$ —	$ —	$ 83,011
U.K. government	—	—	—	—	—
Other government	—	13,770	—	—	13,770
Corporate	—	582,289	—	—	582,289
Municipal	—	52,405	—	—	52,405
Residential mortgage-backed	—	38,556	—	—	38,556
Commercial mortgage-backed	—	232,999	—	—	232,999
Asset-backed	—	88,879	—	—	88,879
	—	1,091,909	—	—	1,091,909
Other assets included within funds held - directly managed	—	14,082	—	—	14,082
Equities:					
Publicly traded equity investments	—	7,651	—	—	7,651
	—	7,651	—	—	7,651
Other investments:					
Private equity funds	—	—	—	950	950
Patcham Fixed Income fund	—	37,595	—	—	37,595
Hedge funds	—	—	—	12,803	12,803
CLO equities	—	2,595	—	—	2,595
CLO equity funds	—	—	—	12,357	12,357
Patcham Balanced fund	—	43,190	—	—	43,190
	—	83,380	—	26,110	109,490
Total Investments	$ —	$ 1,197,022	$ —	$ 26,110	$ 1,223,132
Cash and cash equivalents	$ 14,174	$ —	$ —	$ —	$ 14,174
Other Assets:					
Derivative Instruments	$ —	$ 939	$ —	$ —	$ 939
	$ —	$ 939	$ —	$ —	$ 939
Other Liabilities:					
Derivative Instruments	$ —	$ 1,364	$ —	$ —	$ 1,364
	$ —	$ 1,364	$ —	$ —	$ 1,364

	December 31, 2020				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value Based on NAV as Practical Expedient	Total Fair Value
	(in thousands of U.S. dollars)				
Investments:					
Fixed maturity investments:					
U.S. government and agency	$ —	$ 84,342	$ —	$ —	$ 84,342
U.K. government	—	—	—	—	—
Other government	—	20,994	—	—	20,994
Corporate	—	644,815	—	—	644,815
Municipal	—	52,129	—	—	52,129
Residential mortgage-backed	—	75,185	—	—	75,185
Commercial mortgage-backed	—	273,072	—	—	273,072
Asset-backed	—	94,010	—	—	94,010
	—	1,244,547	—	—	1,244,547
Other assets included within funds held - directly managed	—	9,907	—	—	9,907
Equities:					
Publicly traded equity investments	—	6,545	—	—	6,545
	—	6,545	—	—	6,545
Other investments:					
Private equity funds	—	—	—	27,389	27,389
Patcham Fixed Income fund	—	100,500	—	—	100,500
Hedge funds	—	—	—	11,579	11,579
CLO equities	—	2,304	—	—	2,304
CLO equity funds	—	—	—	10,672	10,672
Patcham Balanced fund	—	20,027	—	—	20,027
	—	122,831	—	49,640	172,471
Total Investments	$ —	$ 1,383,830	$ —	$ 49,640	$ 1,433,470
Cash and cash equivalents	$ 19,246	$ —	$ —	$ —	$ 19,246
Other Assets:					
Derivative Instruments	—	11	—	—	11
	$ —	$ 11	$ —	$ —	$ 11
Other Liabilities:					
Derivative Instruments	—	685	—	—	685
	$ —	$ 685	$ —	$ —	$ 685

Valuation Methodologies of Financial Instruments Measured at Fair Value

Short-term and Fixed Maturity Investments

The fair values for all securities in the fixed maturity investments and funds held - directly managed portfolios are obtained or validated from independent pricing services either directly or through our accounting service provided or,investment managers.

We record the unadjusted price and validate this price through a process that included, but is not limited to:

(i) comparison of prices against alternative pricing sources;

(ii) quantitative analysis (e.g. comparing the quarterly return for each managed portfolio to its target benchmark);

(iii) evaluation of methodologies used by external parties to estimate fair value, including a review of the inputs used for pricing; and

(iv) comparing the price to our knowledge of the current investment market.

Our internal price validation procedures and review of fair value methodology documentation provided by independent pricing services have not historically resulted in the adjustment of the prices obtained from the pricing services.

The independent pricing services used by the investment accounting service providers, investment managers and investment custodians obtain actual transaction prices for securities that have quoted prices in active markets. Where we utilize single unadjusted broker-dealer quotes, they are generally provided by market makers or broker-dealers who are recognized as market participants in the markets in which they are providing the quotes.

For determining the fair value of securities that are not actively traded, in general, pricing services use "matrix pricing" in which the independent pricing service uses observable market inputs including, but not limited to, reported trades, benchmark yields, broker-dealer quotes, interest rates, prepayment speeds, default rates and other such inputs as are available from market sources to determine a reasonable fair value.

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

- **U.S. government and agency securities** consist of securities issued by the U.S. Treasury and mortgage pass-through agencies such as the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and other agencies. The significant inputs used to determine the fair value of these securities include the spread above the risk-free yield curve, reported trades and broker-dealer quotes. These are considered to be observable market inputs and, therefore, the fair values of these securities are classified as Level 2.

- **Corporate securities** consist primarily of investment-grade debt of a wide variety of corporate issuers and industries. The fair values of these securities are determined using the spread above the risk-free yield curve, reported trades, broker-dealer quotes, benchmark yields, and industry and market indicators. These are considered observable market inputs and, therefore, the fair values of these securities are classified as Level 2.

- **Municipal securities** consist primarily of bonds issued by U.S.-domiciled state and municipal entities. The fair values of these securities are determined using the spread above the risk-free yield curve, reported trades, broker-dealer quotes and benchmark yields. These are considered observable market inputs and, therefore, the fair values of these securities are classified as Level 2.

- **Asset-backed and commercial and residential mortgaged-backed securities** consist primarily of investment-grade bonds backed by pools of loans with a variety of underlying collateral. Residential and commercial mortgage-backed securities include both agency and non-agency originated securities. The significant inputs used to determine the fair value of these securities include the spread above the risk-free yield curve, reported trades, benchmark yields, prepayment speeds and default rates. These are considered observable market inputs and therefore the fair value of these securities are classified as Level 2.

Equities

We use internationally recognized pricing services to estimate the fair value of our publicly traded equities. Our equity securities trade in an inactive market and, as a result have been classified as Level 2. The fair value estimates of our investments in publicly traded preferred stock are based on observable market data and, as a result, have been categorized as Level 2.

Other investments, at fair value

We have ongoing due diligence processes with respect to the other investments carried at fair value in which we invest, including active discussions with managers of the investments. These processes are designed to assist us in assessing the quality of information provided by, or on behalf of, each fund and in determining whether such information continues to be reliable or whether further review is warranted.

Certain funds do not provide full transparency of their underlying holdings; however, we obtain the audited financial statements for funds annually and review the audited results relative to the net asset values provided by the managers, and regularly review and discuss the fund performance with the fund managers to corroborate the reasonableness of the reported NAV.

The use of NAV as an estimate of the fair value for investments in certain entities that calculate NAV is a permitted practical expedient. Due to the time lag in the NAV reported by certain fund managers we adjust the valuation for capital calls and distributions. Other investments measured at fair value using NAV as a practical expedient have not been classified in the fair value hierarchy. Other investments for which we do not use NAV as a practical expedient have been valued using prices from independent pricing services and investment managers.

The following describes the techniques generally used to determine the fair value of our other investments:

- For our investments in hedge funds, private equity funds and CLO equity funds, we measure fair value by obtaining the most recently available NAV as advised by the external fund manager or third-party administrator. The fair values of these investments are measured using the NAV as a practical expedient and therefore have not been categorized within the fair value hierarchy.
- Our investments in the fixed income and balanced funds are valued based on a combination of prices from independent pricing services, external fund managers or third-party administrators. These are publicly available prices so therefore we have classified the investments as Level 2.
- We measure the fair value of our direct investment in CLO equities based on valuations provided by independent pricing services. The fair values measured using prices provided by independent pricing services have been classified as Level 2.

Level 3 Measurements and Changes in Leveling

Transfers into or out of the different levels within the fair value hierarchy are recorded at their fair values as of the end of the reporting period, consistent with the date of determination of fair value.

Investments

For 2021 there were no level 3 investments. The following tables present a reconciliation of the beginning and ending balances for all investments measured at fair value on a recurring basis using Level 3 inputs during the year ended December 31, 2020

	December 31, 2020	
	Other Investments	**Total**
	(in thousands of U.S. dollars)	
Beginning fair value	$ 1,968	$ 1,968
Transfer into Level 3 from Level 2	(1,968)	(1,968)
Ending fair value	**$ —**	**$ —**

Net realized and unrealized gains related to the Level 3 securities summarized on the table above are included in net realized and unrealized gains (losses) in the statements of operations related to the Segregated accounts.

The securities transferred from Level 3 to Level 2 were transferred based upon obtaining market observable information to support the valuations of the specific securities.

5. DERIVATIVE INSTRUMENTS

Derivatives Not Designated or Not Qualifying as Hedging Instruments

From time to time, we may also utilize foreign currency forward contracts as part of our overall foreign currency risk management strategy or to obtain exposure to a particular financial market, as well as for yield enhancement in non-qualifying hedging relationships.

Foreign Currency Forward Contracts

The following tables present the gross notional amounts and the estimated fair values recorded within other assets and liabilities as of December 31, 2021 and 2020 and the net gains and losses included in earnings during the years ended December 31, 2021 and 2020, on the non-qualifying foreign currency forward exchange rate hedging relationships related to our Segregated accounts:

	December 31, 2021			
		Fair Value		
	Gross Notional Amount	Assets	Liabilities	Net gains (losses) on non-qualifying hedges included in earnings
	(in thousands of U.S. dollars)			
Total foreign currency non-qualifying hedges	**$ 25,283**	**$ 13**	**$ 204**	**$ 800**

	December 31, 2020			
		Fair Value		
	Gross Notional Amount	Assets	Liabilities	Net gains (losses) on non-qualifying hedges included in earnings
	(in thousands of U.S. dollars)			
Total foreign currency non-qualifying hedges	**$ 19,508**	**$ 11**	**$ 685**	**$ 1,339**

6. REINSURANCE BALANCES RECOVERABLE

The following table provides the total reinsurance balances recoverable on paid and unpaid losses as of December 31, 2021 and 2020:

	2021	2020
	(in thousands of U.S. dollars)	
Recoverable from reinsurers on:		
Outstanding losses	$ 2,634	$ 108,264
Losses incurred but not reported (IBNR)	627	3,644
ULAE	—	5,353
Total reinsurance reserves recoverable	3,261	117,261
Recoverable on paid losses	3,219	3,595
	$ 6,480	$ 120,856

The following table presents the reinsurance balances recoverable by reinsurer related to the Company as of December 31, 2021 and 2020:

	2021		2020	
	Reinsurance Recoverable	% of total	Reinsurance Recoverable	% of total
	(in thousands of U.S. dollars)			
Top 2 reinsurer (2021 - 2)	$ 2,177	33.6 %	$ 106,132	87.8 %
Other reinsurers > $1 million	—	— %	10,848	9.0 %
Other reinsurers < $1million	4,303	66.4 %	3,876	3.2 %
Total	$ 6,480	100.0 %	$ 120,856	100.0 %

For the year ended December 31, 2021, the top 2 reinsurers accounted for 33.6% (December 31, 2020 - 87.8%) of the reinsurance balances recoverable related to the Segregated accounts. Security in the form of letters of credit totaling $ nil (2020 - $121.0 million) have been provided as collateral to certain Segregated accounts through an affiliated reinsurer.

In the event that all or any of the reinsuring companies are unable to meet their obligations under existing reinsurance agreements, the Company's Segregated accounts will be liable for such defaulted amounts.

We evaluate and monitor the credit risk related to our reinsurers, and an allowance for estimated uncollectible reinsurance balances recoverable on paid and unpaid losses ("allowance for estimated uncollectible reinsurance") is established for amounts considered potentially uncollectible.

With respect to our process for determining the allowances for estimated uncollectible reinsurance, we adopted ASU 2016-13 and the related amendments on January 1, 2020 and recorded a cumulative effect adjustment of $1.8 million in 2020 to decrease the opening retained earnings on the initial adoption of the guidance. Our allowance for estimated uncollectible reinsurance is derived based on various data sources, multiple key inputs and forecast scenarios. These include the duration of the collection period, credit quality, changes in reinsures credit standing, default rates specific to the individual reinsurer, the geographical location of the reinsure, contractual disputes with reinsures over individual contentious claims, contract language or coverage issues, industry analyst reports and consensus economic forecasts.

To determine the allowance for estimated uncollectible reinsurance, we use the PD and LGD methodology whereby each reinsurer is allocated an appropriate PD percentage based on the expected payout duration by portfolio. This PD percentage is then multiplied by an appropriate LGD percentage to arrive at an overall credit allowance percentage which is then applied to the reinsurance balance recoverable for each reinsurer, net of any specific bad debt provisions, collateral or other contract related offsets, to arrive at the overall allowance for estimated uncollectible reinsurance by reinsurer.

At December 31, 2021, the provision for uncollectible reinsurance relating to losses recoverable was $0.5 million (2020 - $0.8 million).

7. LOSS AND LOSS ADJUSTMENT EXPENSES

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

Our loss reserves cover multiple lines of business, including asbestos, environmental, general casualty, workers' compensation, marine, aviation and transit, construction defect, professional indemnity/directors and officers, motor, property and other non-life lines of business.

The following table summarizes the liability for losses and LAE as of December 31, 2021 and 2020:

	2021	2020
	(in thousands of U.S. dollars)	
Outstanding losses	$ 709,268	$ 1,005,742
IBNR	322,571	429,133
ULAE	24,096	44,922
Total	$ 1,055,935	$ 1,479,797

The table below provides a reconciliation of the beginning and ending liability for losses and LAE for the years ended December 31, 2021 and 2020. Losses incurred and paid are reflected net of reinsurance recoverables.

	2021	2020
	(in thousands of U.S. dollars)	
Balance as at January 1	$ 1,479,797	$ 1,836,182
Less: reinsurance reserves recoverable	(117,261)	(144,904)
Less: deferred charges	(42,597)	(51,886)
Net balance as at January 1	1,319,939	1,639,392
Net incurred losses and LAE:		
Current year	—	—
Reduction in estimates of net ultimate losses	(40,383)	(38,626)
Reduction in provisions for ULAE	(369)	(9,652)
Amortizations of DCAs	8,365	9,289
Total net incurred losses and LAE	(32,388)	(38,989)
Net paid losses and LAE:		
Current year	—	—
Prior periods	(37,994)	(281,410)
Total net paid losses and LAE	(37,994)	(281,410)
Effect of exchange rate movement and other	(105)	946
Novated business	(231,009)	—
Net balance as at December 31	1,018,443	1,319,939
Plus: reinsurance reserves recoverable	3,260	117,261
Plus: deferred charges	34,232	42,597
Balance as at December 31	$ 1,055,935	$ 1,479,797

The total net change in incurred losses and LAE reserves is comprised of, (1) the movement during the year in specific case reserve liabilities as a result of claims settlements or changes advised to us by our policyholders and attorneys, less changes in case reserves recoverable advised by us to our reinsurers as a result of the settlement of or movement in assumed claims, and (2) the net change in IBNR which represents the gross change in the Company's actuarial estimates of the IBNR , less amounts recoverable from reinsurers.

For the year ended December 31, 2021 the Company recorded an overall decrease in ultimate losses and LAE liabilities of $32.4 million (2020 - $39.0 million). The favorable incurred loss developments in both years relate primarily to the resetting of loss ultimates based on actuarial studies.

The Novated business of $231.0 million reflects the novation of assumed reserves in FW#24 and FW#30 to Cavello.

Prior Period Development ("PPD")

Reduction in Estimates of Net Ultimate Losses

The following table summarizes the reduction in estimates of net ultimate losses related to prior years by line of business:

	2021	2020
	(in thousands of U.S. dollars)	
Asbestos	$ —	$ 7,577
Environmental	—	(7,968)
General casualty	(6,673)	(1,502)
Workers' compensation	(26,074)	(37,892)
Marine, aviation and transit	(3,838)	(7,539)
Construction defect	2,428	2,448
Professional indemnity/Directors and Officers	287	3,590
Motor	(1,451)	(816)
Property	(5,324)	9,228
All Other	262	(5,752)
Total	$ (40,383)	$ (38,626)

Reconciliation of the Net Liability for Losses and LAE, Prior to the Provision for Bad debt to the Gross Liability for Losses and LAE included in the Balance Sheet

The table below presents the reconciliation of the loss development tables disclosed further below to the liability for losses and LAE in the balance sheet.

	December 31, 2021				
	Net Liability for Losses and LAE, Prior to Provision for Bad Debt	Provision for Bad Debt	Net Liability for Losses and LAE	Reinsurance Recoverable on Liabilities for Losses and LAE	Gross Liabilities for Losses and LAE
	(in thousands of U.S. dollars)				
Presented in the loss development tables:					
Asbestos	$ 365,742	$ —	$ 365,742	$ —	$ 365,742
General casualty	90,019	—	90,019	—	90,019
Workers' compensation	338,015	114	337,901	(3,261)	341,162
Professional indemnity/Directors and Officers	37,972	—	37,972	—	37,972
Motor	22	—	22	—	22
Excluded from the loss development tables:	—	—	—	—	—
Environmental	86,378	—	86,378	—	86,378
Marine, aviation and transit	41,013	—	41,013	—	41,013
Construction defect	11,220	—	11,220	—	11,220
Property	47,165	—	47,165	—	47,165
Other	11,146	—	11,146	—	11,146
Total OLR and IBNR	1,028,692	114	1,028,578	(3,261)	1,031,839
ULAE	24,096	—	24,096	—	24,096
Total	**$ 1,052,788**	**$ 114**	**$ 1,052,674**	**$ (3,261)**	**$ 1,055,935**
DCAs on retroactive reinsurance	(34,232)	—	(34,232)		
Total	**$ 1,018,556**	**$ 114**	**$ 1,018,442**		

Loss Development Information

Methodology for Establishing Reserves (Excluding Asbestos and Environmental Claims)

We perform our analysis of loss reserves and IBNR by each portfolio that we have acquired. Exposures for each portfolio are separated into homogenous reserving classes, generally lines of business, within each portfolio. Each reserving class contains either direct insurance or assumed reinsurance reserves and groups of relatively similar types of risks and exposures and lines of business written.

Based upon the exposure characteristics and the nature of available data for each individual reserving class, we select loss development extrapolation methods to calculate an estimate of ultimate losses.

We establish our recorded reserves as an estimate of unpaid losses for each class primarily by utilizing actuarial expertise and projection methods. The actuarial methodologies are selected after consideration of exposure characteristics, data limitations, and strengths and weaknesses of each method applied.

We use generally accepted actuarial methodologies to estimate ultimate losses and LAE, including:

- **Cumulative Reported and Paid Loss Development Methods**: The Cumulative Reported (Case Incurred) Loss Development method estimates ultimate losses by multiplying cumulative reported losses (paid losses plus case reserves) by a cumulative development factor.

  Historical "age-to-age" loss development factors (“LDFs”) are calculated to measure the relative development of an accident year from one maturity point to the next. Age-to-age LDFs are then selected based on these historical factors. The selected age-to-age LDFs are used to project the ultimate losses.

  The Cumulative Paid Loss Development Method is mechanically identical to the Cumulative Reported Loss Development Method described above, but the paid method does not rely on case reserves or claim reporting patterns in making projections.

- **Incremental Reported and Paid Loss Development Methods**: Incremental incurred and paid analyses are performed in cases where cumulative data is not available. The concept of the incremental loss development methods is similar to the cumulative loss development methods described above, in that the pattern of historical paid or incurred losses is used to project the remaining future development.

- **IBNR-to-Case Outstanding Method**: This method requires the estimation of consistent cumulative paid and reported (case) incurred loss development patterns and age-to-ultimate LDFs, either from data that is specific to the segment being analyzed or from applicable benchmark or industry data. These patterns imply a specific expected relationship between IBNR, including both development on known claims (bulk reserve) and losses on true late reported claims, and reported case incurred losses.

- **Bornhuetter-Ferguson Expected Loss Projection Reported and Paid Methods**: The Bornhuetter-Ferguson Expected Loss Projection method produces expected unreported losses by multiplying the expected losses, which are based on initial selected ultimate loss ratios by year, by the unreported percentage. The unreported percentage is calculated as one minus the reciprocal of the selected cumulative incurred LDFs. Finally, the expected unreported losses are added to the current reported losses to produce ultimate losses.

  The calculations underlying the Bornhuetter-Ferguson Expected Loss Projection method based on paid loss data are similar to the Bornhuetter-Ferguson calculations based on reported losses, with the exception that paid losses and unpaid percentages replace reported losses and unreported percentages.

- **Reserve Run-off Method:** This method first projects the future values of case reserves for all underwriting years to future ages of development by selecting a run-off pattern of case reserves based on the observed run-off ratios at each age of development. Once the ratios have been selected, they are used to project the future values of case reserves.

A paid on reserve factor is selected in a similar way. The ratios of the observed amounts paid during each development period to the respective case reserves at the beginning of the periods are used to estimate how much will be paid on the case reserves during each development period. These paid on reserve factors are then applied to the case reserve amounts that were projected during the first phase of this method. A summation of the resulting paid amounts yields an estimate of the liability.

We also consider additional information, such as, but not limited to, changes in the legal, regulatory and judicial environment; medical cost trends and general inflation; and adjust the estimate of ultimate losses as deemed necessary.

Paid-to-date losses are then deducted from the estimate of ultimate losses and LAE to arrive at an estimated total loss reserve, and reported outstanding case reserves are then deducted from estimated total loss reserves to calculate the estimated IBNR reserve.

These estimates are reviewed regularly and, as experience develops and new information becomes known, the reserves are adjusted as necessary. We generally perform a full review of each portfolio annually and additionally we perform interim reviews quarterly to ascertain whether changes to claims paid or case reserve amounts have varied from our expectations developed during the last annual reserve review. In this event, we consider the timing and magnitude of the actual versus expected development and may record an interim adjustment to our recorded reserves.

Asbestos and Environmental Reserving Methodologies

The ultimate losses from A&E claims cannot be estimated using traditional actuarial reserving techniques that extrapolate losses to an ultimate basis using loss development. Claims are spread across multiple policy years, generally from 1985 and prior, based on the still evolving case law in each jurisdiction, making historical development patterns unreliable to forecast the future claim payments.

As such, we estimate IBNR reserves for each of our portfolios with A&E exposures separately using the following methodologies:

- **Paid Survival Ratio Method**: In this method, our historical calendar year payments are examined to determine an expected future annual average payment amount. This amount is multiplied by an expected number of future payment years to estimate a reserve.

  Trends in calendar year payment activity are considered when selecting an expected future annual average payment amount and accepted industry benchmarks are used in determining an expected number of future payment years.

- **Paid Market Share Method**: In this method, our estimated market share is applied to the industry estimated unpaid losses or estimate of industry ultimate losses. The ratio of our historical calendar year payments to industry historical calendar year payments is examined to estimate our market share. This ratio is then applied to the estimate of industry unpaid losses or estimate of industry ultimate losses.
- **Reserve-to-Paid Method**: In this method, the ratio of estimated industry reserves to industry paid-to-date losses is multiplied by our paid-to-date losses to estimate our reserves.
- **IBNR - Case Ratio Method**: In this method, the ratio of estimated industry IBNR reserves to industry case reserves is multiplied by our case reserves to estimate our IBNR reserves.
- **Ultimate-to-Incurred Method**: In this method, the ratio of estimated industry ultimate losses to industry incurred-to-date losses is applied to our incurred-to-date losses to estimate our IBNR reserves.
- **Decay Factor Method**: In this method, a decay factor is directly applied to our payment data to estimate future payments. The decay factors were selected based on a review of our own decays and industry decays.
- **Asbestos Ground-up Exposure Analysis Using Frequency-Severity Method**: This method is used when we have policy and claim data at the defendant or claimant level. In a frequency-severity method there are two components that need to be estimated, namely, (1) the number of claims that will ultimately be settled with payment and (2) the severity of these claims including legal costs.

The estimate of future settled claims is based on the historical claim filing rates, historical claim dismissal rates, current pending claims and epidemiological forecasts of asbestos disease incident for future claim filings.

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

The loss development tables set forth our historic incurred and paid loss development through December 31, 2021, net of reinsurance, as well as the cumulative number of reported claims, IBNR balances, and other supplementary information for our segment lines of business with material net losses and LAE balances as of December 31, 2021.

The following factors are relevant to the loss development information presented in the tables below:

- **Level of Disaggregation:** In addition to accident year, we have disaggregated the information in the loss development tables by line of business and acquisition year. We have presented only the last 10 years of portfolio acquisitions as we believe that the current activity on the preceding acquisition years is not meaningful. We have not presented empty rows where we did not acquire any business for that combination of line of business, acquisition and accident year.

  We present acquisition year information so that the impact of take-on positions from acquired and assumed business (as described below) is additionally separated and provides a consistent trend of the development of our ultimate loss reserves.

- **Assumed Business:** Assumed net reserves arising from retroactive reinsurance agreements are included in the loss development tables on a prospective basis as the loss reserves are effectively re-underwritten at the date that they are acquired or assumed.

  We believe that the historical loss development prior to our acquisition is not relevant with respect to our own experience managing these acquired loss reserves. Furthermore, the information required to prepare the loss development disclosures on a retrospective basis is not always available to us or reliable.

- **Commutations and Policy Buybacks:** The loss development tables include the net incurred effect of agreeing a commutation or policy buyback in the year in which the commutation or policy buyback is contractually agreed and the related settlement in the year in which it is paid or received.

  We do not recast prior years to remove commuted or bought back claims, since this practice would eliminate any historical favorable or adverse development we may have experienced on the commuted loss and LAE reserves.

- **Net Liabilities for Losses and LAE and Net Paid Losses and LAE:** The loss development tables include reported case reserves and IBNR liabilities as well as cumulative paid losses, both of which include ALAE and are net of reinsurance recoveries.

  The loss development tables exclude ULAE and DCAs.

- **PPD:** PPD included in the loss development tables is calculated as follows: subtract the 2020 calendar year net cumulative incurred losses and ALAE from the 2021 calendar year for all accident years.

- **Foreign Exchange:** The loss development tables exclude the impact of foreign exchange rates. Historical amounts are disclosed on a constant-currency basis, which is achieved by using constant foreign exchange rates between years in the loss development tables, and translating prior year amounts denominated in currencies other than the U.S. dollar, which is our reporting currency, using the closing exchange rates as of December 31, 2021.

- **Reported Claim Counts:** Reported claim counts are included in the loss development tables on a cumulative basis. We measure claim frequency information on an individual claim count basis as follows:

  - The claim frequency information includes direct and assumed open and closed claims at the claimant level. Reported claims that are closed without a payment are included within our cumulative number of reported claims because we typically incur claim adjustment expenses on them prior to their closure.
  - The claim count numbers exclude counts related to claims within policy deductibles where the insured is responsible for the payment of losses within the deductible layer.
  - Individual claim counts related to certain assumed reinsurance contracts such as excess-of-loss and quota share treaties are not available to us, and the losses arising from these treaties have been treated as single claims for the purposes of determining claim counts. Therefore, each treaty year within the reinsurance contract is deemed a single claim because the detailed underlying individual claim information is generally not reported to us by our cedants.
  - For certain insurance facilities and business produced or managed by managing general agents, coverholders and third party administrators where the underlying claims data is reported to us in an aggregated format, the information necessary to provide cumulative claims frequency is not available. In such cases, we typically record a “block” claim in our system.

  Our reported claim frequency information is subject to the following inherent limitations when analyzing our loss experience and severity:

  - Claim counts are presented only on a reported and not on an ultimate basis. Reported claim counts include open claims which have outstanding reserves but excludes claim counts that may relate to IBNR. As such the reported claims are consistent with reported losses, which can be calculated by subtracting IBNR losses from incurred losses. However, the reported claim counts are inconsistent with the losses in the incurred loss development tables, which include IBNR losses, and to losses in the paid loss development tables, which exclude outstanding reserves.

  - Reported claim counts have not been adjusted for ceded reinsurance, which may distort any measures of frequency or severity.
  - For lines of business that have a mix of primary and excess layer exposures, such as our general casualty and workers' compensation lines of business, the reported claim counts may fluctuate from period to period between exposure layers, thereby distorting any measure of frequency and severity.
  - The use of our reported claim frequency information to project ultimate loss payouts by disaggregated disclosure category or line of business may not be as meaningful as claim count information related to individual contracts at a more granular level.
- **Annual Percentage Payout:** Annual percentage payout disclosures are based on the payout of claims by age, net of reinsurance. Claim age reflects the number of years that have lapsed since the original acquisition to the date the claim is paid.

There may be occasions where, due to our claims management strategies (including commutations and policy buybacks) or due to the timing of claims payments relative to the associated recovery, the cash received from reinsurance recoveries is greater than the cash paid out to our claimants, (i.e. a net recovery rather than a net payout for a particular calendar year), thereby resulting in a negative annual percentage payout for that calendar year.

- **Supplemental Information:** The information related to net incurred and paid loss development for all calendar years preceding the year ended December 31, 2021, as well as 2011 and prior accident year and all acquisition year information (including net acquired reserves and PPD), and the related historical average claims payout percentage disclosure is unaudited and is presented as supplementary information.

Asbestos

Acquisition Year	Accident Year	Net Acquired Reserves	Net cumulative incurred losses and allocated loss adjustment expenses For the years ended December 31						Year Ended December 31, 2021	As of December 31, 2021	
			2016	2017	2018	2019	2020	2021	PPD	IBNR	Cumulative number of claims
		(in thousands of U.S. dollars, except cumulative number of claims)									
			Unaudited						Unaudited		
2016	2011 and Prior	$ 549,568	$ 499,568	$ 560,068	$ 608,268	$ 623,268	$ 631,237	$ 631,237	$ —	$193,160	2,059
	Grand Total	$ 549,568						$ 631,237	$ —	$193,160	2,059
Net cumulative paid losses and ALAE (from table below)								(265,495)			
Total net liabilities for losses and ALAE / net increase (reduction) in estimates of net ultimate losses related to prior years								$ 365,742	$ —		

Asbestos

Acquisition Year	Accident Year	Net cumulative paid losses and allocated loss adjustment expenses For the years ended December 31					
		2016	2017	2018	2019	2020	2021
		(in thousands of U.S. dollars, except cumulative number of claims)					
		Unaudited					
2016	2011 and Prior	$ 20,363	$ 70,308	$ 122,914	$ 182,181	$ 227,320	$ 265,495
	Grand Total						$ 265,495

Asbestos

	Annual Percentage Payout of Incurred Losses since Year of Acquisition, Net of Reinsurance					
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Acquisition Year	Unaudited					
2016	3.23 %	11.14 %	19.47 %	28.86 %	36.01 %	42.06 %

General Casualty

Acquisition Year	Accident Year	Net Reserves Acquired	Net cumulative incurred losses and allocated loss adjustment expenses For the years ended December 31 2014	2015	2016	2017	2018	2019	2020	2021	Year Ended December 31, 2021 PPD	As of December 31, 2021 IBNR	Cumulative number of claims
		(in thousands of U.S. dollars, except cumulative number of claims)											
			Unaudited								Unaudited		
2014	2011 and Prior	$ 19	$ 43,613	$ 42,355	$ 41,945	$ 40,981	$ 41,886	$ 46,447	$ 49,874	$ 44,292	$ (5,582)	$ 511	3,214
2014	2012	6	15,310	18,927	20,590	18,076	15,047	16,656	15,381	14,212	(1,169)	1,513	2,326
2014	2013	9	9,728	10,540	8,630	7,861	10,462	13,492	9,392	7,880	(1,512)	1,174	3,151
2014	2014	—	629	589	463	611	1,890	1,830	2,420	1,476	(944)	17	3,284
2014	2015	—		37	30	3	2	3	1	1	—	—	2,308
2014	2016	—			12	8	3	4	1	—	(1)	—	2,548
2014	2017	—				—	17	18	14	14	—	—	3,101
2014	2018	—					13	—	—	—	—	—	2,541
2014	2019	—						—	—	—	—	—	2,075
2014	2020	—							—	—	—	—	1,239
2014	2021	—								—	—	—	73
	Total	34	69,280	72,448	71,670	67,540	69,320	78,450	77,083	67,875	(9,208)	3,215	25,860
2018	2011 and Prior	79					—	84	125	179	54	94	1
2018	2012	145					—	155	344	379	35	286	1
2018	2013	324					—	347	475	553	78	503	1
2018	2014	4,267					—	4,567	2,470	2,578	108	1,414	1
2018	2015	10,348					—	11,074	10,859	12,175	1,316	3,383	1
2018	2016	13,143					—	14,065	8,925	6,320	(2,605)	632	1
2018	2017	15,055					—	16,111	17,037	17,042	5	1,743	1
2018	2018	2,604					—	2,786	1,781	1,481	(300)	1,474	1
	Total	45,965					—	49,189	42,016	40,707	(1,309)	9,529	8
2019	2013	—						5,888	4,604	4,686	82	933	1
2019	2014	—						9,202	9,447	7,212	(2,235)	1,486	1
2019	2015	—						11,182	11,088	11,133	45	(1,066)	1
2019	2016	—						32,674	33,173	32,120	(1,053)	7,148	1
2019	2017	—						33,755	36,157	42,248	6,091	8,492	1
2019	2018	—						18,791	15,644	15,343	(301)	5,818	1
2019	2019	—						1,763	1,317	1,507	190	1,488	1
2019	2020	—							(23)	5	28	(20)	1
	Total	—						113,255	111,407	114,254	2,847	24,279	8
	Grand Total	$ 45,999								$222,836	$ (7,670)	$37,023	25,876

Net cumulative paid losses and ALAE (from table below)	(147,847)	
2012 - 2021 acquisition years - net liabilities for losses and ALAE	74,989	
2011 and prior acquisition years - net liabilities for losses and ALAE / net increase (reduction) in estimates of net ultimate losses related to prior years	15,030	997
Total net liabilities for losses and ALAE / net increase (reduction) in estimates of net ultimate losses related to	$ 90,019	$ (6,673)

General Casualty

Acquisition Year	Accident Year	Net cumulative paid losses and allocated loss adjustment expenses — For the years ended December 31: 2014	2015	2016	2017	2018	2019	2020	2021
		(in thousands of U.S. dollars, except cumulative number of claims)							
		Unaudited							
2014	2011 and Prior	$ 25,544	$ 26,879	$ 29,084	$ 27,974	$ 29,202	$ 30,414	$ 30,826	$ 34,065
2014	2012	4,064	6,850	9,114	9,198	7,613	8,717	9,110	9,667
2014	2013	2,770	1,238	1,169	1,349	4,319	5,117	5,104	5,161
2014	2014	65	173	313	317	1,189	1,243	1,250	1,459
2014	2015		—	—	—	1	1	1	1
2014	2017				—	13	14	14	14
	Total	32,443	35,140	39,680	38,838	42,337	45,506	46,305	50,367
2018	2011 and Prior					—	(5)	3	57
2018	2012					—	—	93	93
2018	2013					—	10	45	50
2018	2014					—	1,312	1,388	1,164
2018	2015					—	1,857	3,751	5,961
2018	2016					—	4,818	5,303	5,687
2018	2017					—	2,385	14,639	14,843
2018	2018					—	—	—	1
	Total					—	10,377	25,222	27,856
2019	2013						1,996	2,592	2,829
2019	2014						101	903	1,849
2019	2015						4,270	4,905	7,892
2019	2016						7,927	14,685	21,157
2019	2017						12,906	18,577	29,259
2019	2018						533	5,533	6,609
2019	2019						2	3	10
2019	2020							—	19
	Total						27,735	47,198	69,624
	Grand Total								$147,847

General Casualty

	Annual Percentage Payout of Incurred Losses since Year of Acquisition, Net of Reinsurance: Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Year of Acquisition	Unaudited							
2014	47.80 %	51.77 %	58.46 %	57.22 %	62.37 %	67.04 %	68.22 %	74.21 %
2018	— %	25.49 %	61.96 %	68.43 %				
2019	24.27 %	41.31 %	60.94 %					

Workers' Compensation

Acquisition Year	Accident Year	Net Reserves Acquired	Net cumulative incurred losses and allocated loss adjustment expenses For the years ended December 31 2014	2015	2016	2017	2018	2019	2020	2021	Year Ended December 31, 2021 PPD	As of December 31, 2021 IBNR	Cumulative number of claims
		(in thousands of U.S. dollars, except cumulative number of claims)											
		Unaudited									Unaudited		
2015	2011 and Prior	$ 675,618		$644,614	$362,963	$328,205	$302,496	$276,272	$265,179	$256,377	$ (8,802)	$22,563	6,471
	Total	675,618		644,614	362,963	328,205	302,496	276,272	265,179	256,377	(8,802)	22,563	6,471
2016	2011 and Prior	345,876			345,876	322,434	320,993	314,643	298,543	295,049	(3,494)	6,729	9,249
2016	2012	13,074			13,074	15,465	13,276	11,379	11,256	11,335	79	660	612
	Total	358,950			358,950	337,899	334,269	326,022	309,799	306,384	(3,415)	7,389	9,861
2019	2011 and Prior	—						30	(85)	(88)	(3)	—	5
2019	2012	—						(156)	(46)	(17)	29	—	1
2019	2013	—						1,041	837	854	17	527	6
2019	2014	—						829	826	969	143	425	1,091
2019	2015	—						1,160	1,018	1,042	24	4	2,550
2019	2016	—						1,004	1,118	1,166	48	19	2,580
2019	2017	—						2,797	728	914	186	70	2,284
2019	2018	—						5,562	8,606	8,805	199	281	3,150
2019	2019	—						1,808	4,072	3,152	(920)	507	3,687
	Total	—						14,075	17,074	16,797	(277)	1,833	18,134
	Grand Total	$1,034,568								$579,558	$ (12,494)	$31,785	34,466

Net cumulative paid losses and ALAE (from table below)	(268,361)	
2012 - 2021 acquisition years - net liabilities for losses and ALAE	311,197	
2011 and prior acquisition years - net liabilities for losses and ALAE / net increase (reduction) in estimates of net ultimate losses related to prior years	26,818	(13,580)
Total net liabilities for losses and ALAE / net increase (reduction) in estimates of net ultimate losses related to prior years	$338,015	$ (26,074)

Workers' Compensation

		Net cumulative paid losses and allocated loss adjustment expenses							
		For the years ended December 31							
Acquisition Year	Accident Year	2014	2015	2016	2017	2018	2019	2020	2021
		(in thousands of U.S. dollars, except cumulative number of claims)							
		Unaudited							
2015	2011 and Prior		$ 8,112	$ 35,261	$ 60,632	$ 69,180	$ 80,511	$ 91,271	$ 112,244
	Total		8,112	35,261	60,632	69,180	80,511	91,271	112,244
2016	2011 and Prior			35,101	57,973	72,857	97,946	120,263	135,338
2016	2012			2,638	5,028	6,247	7,382	8,117	8,644
	Total			37,739	63,001	79,104	105,328	128,380	143,982
2019	2011 and Prior						17	(26)	(29)
2019	2012						(184)	(42)	(38)
2019	2013						132	(12)	10
2019	2014						117	95	105
2019	2015						867	869	920
2019	2016						523	699	788
2019	2017						1,468	(230)	(44)
2019	2018						2,832	6,634	7,459
2019	2019						148	2,556	2,964
	Total						5,920	10,543	12,135
	Grand Total								$ 268,361

Workers' Compensation

	Annual Percentage Payout of Incurred Losses since Year of Acquisition, Net of Reinsurance						
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Year of Acquisition	**Unaudited**						
2015	3.16 %	13.75 %	23.65 %	26.98 %	31.40 %	35.60 %	43.78 %
2016	12.32 %	20.56 %	25.82 %	34.38 %	41.90 %	46.99 %	
2019	35.24 %	62.77 %	72.25 %				

Professional Indemnity / Directors and Officers

			Net cumulative incurred losses and allocated loss adjustment expenses For the years ended December 31								Year Ended December 31, 2021	As of December 31, 2021	
Acquisition Year	Accident Year	Net Reserves Acquired	2014	2015	2016	2017	2018	2019	2020	2021	PPD	IBNR	Cumulative number of claims
		(in millions of U.S. dollars, except cumulative number of claims)											
			Unaudited								Unaudited		
2014	**2011 and Prior**	$ 23	$ 21,822	$ 26,032	$ 23,424	$ 23,071	$ 22,631	$ 22,764	$ 21,273	$ 21,334	$ 61	$ 1,085	1,062
2014	**2012**	49	39,037	51,300	48,709	46,159	39,041	40,491	37,420	34,810	(2,610)	795	1,147
2014	**2013**	31	42,877	60,833	53,660	59,316	49,907	45,718	42,051	43,596	1,545	4,858	1,053
2014	**2014**	—	7,289	4,935	4,493	3,755	5,500	5,968	4,539	9,205	4,666	5,203	411
2014	**2015**	—		197	6,199	8,200	8,473	6,670	6,827	2,044	(4,783)	21	476
2014	**2016**	—			31	—	(6)	—	2	1	(1)	—	341
2014	**2017**	—				58	(172)	42	42	42	—	—	718
2014	**2018**	—					10	—	—	—	—	—	814
2014	**2019**	—						—	—	—	—	—	875
2014	**2020**	—							—	16	16	—	723
2014	**2021**	—								131	131	131	220
	Total	103	111025	143,297	136,516	140,559	125,384	121,653	112,154	111,179	(975)	12,093	7,840
2018	**2011 and Prior**	469					—	502	(1,235)	(1,455)	(220)	(87)	1
2018	**2012**	2,136					—	2,286	(47)	(321)	(274)	777	1
2018	**2013**	4,218					—	4,514	1,590	1,336	(254)	1,916	1
2018	**2014**	5,394					—	5,773	1,361	1,407	46	1,660	1
2018	**2015**	6,219					—	6,655	15,572	17,242	1,670	149	1
2018	**2016**	970					—	1,038	2,720	3,002	282	(11)	1
2018	**2017**	1,360					—	1,455	2,259	2,034	(225)	—	1
2018	**2018**	392					—	420	390	628	238	—	1
	Total	21,158					—	22,643	22,610	23,873	1,263	4,404	8
	Grand Total	$ 21,261								$135,052	$ 288	$ 16,497	7,848

Net cumulative paid losses and ALAE (from table below)	(97,081)	
2012 - 2021 acquisition years - net liabilities for losses and ALAE	37,971	
2011 and prior acquisition years - net liabilities for losses and ALAE / net increase (reduction) in estimates of net ultimate losses related to prior years	1	(1)
Total net liabilities for losses and ALAE / net increase (reduction) in estimates of net ultimate losses related to prior years	$ 37,972	$ 287

Professional Indemnity / Directors and Officers

Net cumulative paid losses and allocated loss adjustment expenses

For the years ended December 31

(in thousands of U.S. dollars, except cumulative number of claims)

Unaudited (2014–2020)

Acquisition Year	Accident Year	2014	2015	2016	2017	2018	2019	2020	2021
2014	2011 and Prior	$9,902	$ 14,011	$ 16,714	$ 17,874	$ 19,218	$ 19,281	$ 19,341	$ 19,109
2014	2012	13,840	24,578	31,557	34,332	27,981	28,414	28,573	26,747
2014	2013	14,735	26,881	31,020	39,954	35,804	36,035	36,766	37,815
2014	2014	425	713	1,071	1,123	2,562	2,971	3,145	3,141
2014	2015		29	198	1,746	2,859	3,032	3,344	1,940
2014	2016			—	—	—	—	1	1
2014	2017				37	40	42	42	42
2014	2020							—	16
	Total	38,902	66,212	80,560	95,066	88,464	89,775	91,212	88,811
2018	2011 and Prior					—	—	(1,380)	(1,378)
2018	2012					—	—	(1,099)	(1,099)
2018	2013					—	1,359	(1,118)	(1,094)
2018	2014					—	115	(956)	(793)
2018	2015					—	1,143	8,359	9,111
2018	2016					—	260	2,125	2,314
2018	2017					—	163	1,013	970
2018	2018					—	51	199	239
	Total					—	3,091	7,143	8,270
	Grand Total								$ 97,081

Professional Indemnity/Directors & Officers

Annual Percentage Payout of Incurred Losses since Year of Acquisition, Net of Reinsurance

Unaudited

Year of Acquisition	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
2014	34.99 %	59.55 %	72.46 %	85.51 %	79.57 %	80.75 %	82.04 %	79.88 %
2018	— %	12.95 %	29.92 %	34.64 %				

Motor

Acquisition Year	Accident Year	Net Reserves Acquired	Net cumulative incurred losses and allocated loss adjustment expenses For the years ended December 31								Year Ended December 31, 2021	As of December 31, 2021	
			2014	2015	2016	2017	2018	2019	2020	2021	PPD	IBNR	Cumulative number of claims
		(in thousands of U.S. dollars, except cumulative number of claims)											
		Unaudited									Unaudited		
2014	2011 and Prior	$ 13	$ 15,196	$ 17,067	$ 17,481	$ 17,308	$ 5,004	$ 7,547	$ 5,326	$ 4,791	$ (535)	$ (43)	693
2014	2012	12	17,499	17,714	19,227	18,910	11,032	10,872	11,519	10,874	(645)	(35)	988
2014	2013	9	6,336	7,162	5,636	5,853	1,671	1,715	1,910	1,639	(271)	123	443
2014	2014	—	300	285	258	782	775	775	776	775	(1)	—	5
2014	2015	—		—	—	—	1	1	1	1	—	—	1
2014	2016	—			—	—	—	—	—	—	—	—	1
2014	2017	—				—	—	—	—	—	—	—	1
2014	2018	—					1	—	—	—	—	—	—
	Total	34	39,331	42,228	42,602	42,853	18,484	20,910	19,532	18,080	(1,452)	45	2,132

Net cumulative paid losses and ALAE (from table below)	(18,059)	
2012 - 2021 acquisition years - net liabilities for losses and ALAE	21	
2011 and prior acquisition years - net liabilities for losses and ALAE / net increase (reduction) in estimates of net ultimate losses related to prior years	1	1
Total net liabilities for losses and ALAE / net increase (reduction) in estimates of net ultimate losses related to prior years	$ 22	$ (1,451)

Motor

Acquisition Year	Accident Year	Net cumulative paid losses and allocated loss adjustment expenses For the years ended December 31							
		2014	2015	2016	2017	2018	2019	2020	2021
		(in thousands of U.S. dollars, except cumulative number of claims)							
		Unaudited							
2014	2011 and Prior	$ 6,973	$ 15,268	$ 16,216	$ 16,603	$ 4,820	$ 4,841	$ 4,837	$ 4,835
2014	2012	10,661	14,006	16,442	17,634	10,814	10,922	10,916	10,910
2014	2013	1,331	4,744	5,368	5,645	1,536	1,538	1,538	1,538
2014	2014	119	119	137	765	775	775	775	775
2014	2015		—	—	—	1	1	1	1
	Total	19,084	34,137	38,163	40,647	17,946	18,077	18,067	18,059

Motor

	Annual Percentage Payout of Incurred Losses since Year of Acquisition, Net of Reinsurance							
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Year of Acquisition	Unaudited							
2014	105.55 %	188.81 %	211.08 %	224.82 %	99.26 %	99.98 %	99.93 %	99.88 %

8. SHAREHOLDER'S EQUITY

Share Capital

As of December 31, 2021 and 2020 the authorized share capital was 1,000,000 common shares of par value $1.00 per share, all of which are issued and outstanding.

	2021	2020
Share Capital		
Authorized share capital		
Par value $1.00 each	$ 1,000,000	$ 1,000,000
Issued and fully paid		
1,000,000 common shares	$ 1,000,000	$ 1,000,000
Total common shares	$ 1,000,000	$ 1,000,000

	2021	2020
Preferred Shares in Segregated accounts		
Issued		
1 Class A, non-voting preferred share	1	1
1 Class B, non-voting preferred share	1	1
1,000 Class 9, non-voting preferred shares	1,000	1,000
1 Class 11, non-voting preferred share	—	1
1 Class 17, non-voting preferred share	—	1
100 Class 18, non-voting preferred share	—	100
1 Class 19, non-voting preferred share	1	1
1 Class 21, non-voting preferred share	—	1
1 Class 23, non-voting preferred share	1	1
1 Class 24, non-voting preferred share	1	1
1 Class 29, non-voting preferred share	—	1
1 Class 30, non-voting preferred share	1	1
10,000 Class 31, non-voting preferred shares	10,000	10,000
1,000 Class 33, non-voting preferred share	1,000	1,000
1,000 Class 35, non-voting preferred shares	1,000	1,000
1,000 Class 36, non-voting preferred shares	1,000	1,000
10,000 Class 41, non-voting preferred shares	10,000	10,000
10,000 Class 42, non-voting preferred shares	10,000	10,000
Total preferred shares	$ 34,006	$ 34,110

In most circumstances, preference shares of par value $1 each are issued upon the establishment of a Segregated account, the class of shares being different for each Segregated account established. These preference shares hold no voting rights, are not interest bearing and participate only in the earnings of their respective Segregated accounts.

9. RELATED PARTY TRANSACTIONS

a. Reinsurance Agreements with affiliates

The table below summarizes the outstanding liabilities under reinsurance agreements between the Company and its affiliates as of December 31, 2021 and 2020.

	2021	2020
	(in thousands of U.S. dollars)	
StarStone Insurance Bermuda Limited	$ 218,970	$ 293,489
Syndicate 2008	15,544	13,850
Clarendon Insurance Company	—	177,412
Yosemite Insurance Company	—	63,624

As described in Note 1 - "Description of Business" above, the Clarendon and Yosemite reinsurance agreements were novated to Cavello during 2021.

b. Management fees

The Company pays annual management fees to Enstar and its subsidiaries on a quarterly basis. The management fee expense incurred by the Company to Enstar and its subsidiaries during the year ended December 31, 2021 included in General and administrative expenses was $6.3 million (2020 - $8.7 million).

c. Patcham Funds

The Company invest in the Patcham Funds, as part of a group investment pool with other companies related through common control. These funds are managed by a wholly-owned subsidiary of Enstar and are included in other investments at fair value.

The table below summarizes the investments in the Patcham Funds carried on the Company's balance sheets as at December 31, 2021 and 2020 as well as the net realized and unrealized gains (losses) included in the statements of earnings for the years ended December 31, 2021 and 2020:

	2021	2020
	(in thousands of U.S. dollars)	
Patcham Fixed Income fund	$ 37,595	$ 102,335
Patcham Balanced fund	43,190	20,376
Net realized and unrealized gains (losses) on the Patcham Funds	764	5,356

d. Stone Point Capital LLC (“Stone Point”)

As at December 31, 2021, the Company had investments in funds, which are included within other investments and in a registered investment company affiliated with entities owned by Trident V funds ("Trident") or otherwise affiliated with Stone Point, a shareholder of Enstar.

The table below summarizes the investments with Stone Point and its affiliated entities carried on the balance sheet as at December 31, 2021 and 2020 as well as the net realized and unrealized gains (losses) and interest income included in the statements of earnings for the years ended December 31, 2021 and 2020:

	2021	2020
	(in thousands of U.S. dollars)	
Fixed maturities, trading, at fair value	$ 24,478	$ 48,204
Fixed maturities, AFS, at fair value	22,824	10,364
Equities, at fair value	7,650	6,545
Other investments, at fair value:		
Private equity funds	950	1,511
CLO equity funds	12,357	10,672
Total investments	68,259	77,296
Cash and cash equivalents	438	5,732
Other assets	—	—
Net investments	$ 68,697	$ 83,028

The following table presents the amounts included in net earnings related to our related party transactions with Stone Point and its affiliated entities:

	2021	2020
	(in thousands of U.S. dollars)	
Net investment income	$ 879	$ 738
Net realized and unrealized gains (losses)	4,434	(620)
Total net earnings	$ 5,313	$ 118

e. Cavello Bay

In relation to the XoL reinsurance agreements assumed by Cavello Bay following its merger with KaylaRe which took effect from September 30, 2019, the table below summarizes the significant balances related to these XoL agreements which are included within the balance sheets and statements of earnings as at December 31, 2021 and 2020:

	2021	2020
	(in thousands of U.S. dollars)	
Reinsurance balances recoverable	$ —	$ 94,573
Other receivables	75,331	62,174
Fees and commission income	(3,606)	18,741
Net incurred losses and loss adjustment expenses	4,242	(22,048)

As described in Note 1 - "Description of Business" above, these reinsurance agreements were commuted during 2021.

The investment income earned on the premiums retained by FW#24 and FW#30 on a funds withheld basis, accrued to the benefit of FW#24 and FW#30 under the terms of the XoL agreements.

10. TAXATION

The Company is incorporated under the laws of Bermuda and is therefore subject to Bermuda law with respect to taxation. Under current law, the Company is not taxed on any Bermuda income or capital gains taxes and has received an undertaking from the Bermuda government that, in the event of any income or capital gains taxes being imposed, it will be exempt from such taxes until the year 2035.

11. STATUTORY REQUIREMENTS

The Company is registered as a Class 3A reinsurer under the Insurance Act which imposes certain solvency and liquidity standards, auditing and reporting requirements and grants the Bermuda Monetary Authority ("BMA") powers to supervise, investigate, require information and the production of documents and intervene in the affairs of insurance companies.

Under the Insurance Act, the Company is either required to or is prohibited from doing the following:

- Required to maintain certain solvency and liquidity standards which includes maintaining a minimum liquidity ratio whereby the value of relevant assets must not be less than 75% of the amount of relevant liabilities. The minimum solvency margin is determined as a percentage of either net reserves for losses and LAE or premiums.
- Required to maintain a minimum statutory capital and surplus (Enhanced Capital Requirement or "ECR") at least equal to the greater of a minimum solvency margin or the Bermuda Solvency Capital Requirement ("BSCR"). The BSCR is calculated based on a standardized risk-based capital model used to measure the risk associated with assets, liabilities and premiums.
- Prohibited from declaring or paying any dividends if it were in breach of its minimum solvency margin or liquidity ratio or if the declaration or payment of such dividends would cause it to fail to meet such margin or ratio.
- Prohibited, without the prior approval of the BMA, from reducing by 15% or more its total statutory capital as set out in its previous year's statutory financial statements.
- Prohibited, without obtaining the prior written approval of the BMA, from writing any "long-term business", as such expression is understood in the Insurance Act.
- Prohibited, without obtaining the prior written approval of the BMA, from writing any "insurance business", as such expression is understood in the Insurance Act, as a direct insurer.
- Prohibited, without obtaining the prior written approval of the BMA, from writing any "insurance business", as such expression is understood in the Insurance Act.

As of December 31, 2021, the Company met all the requirements that it is subject to under the Insurance Act.

12. COMMITMENTS AND CONTINGENCIES

Concentration of Credit Risk

We believe that there are no significant concentrations of credit risk associated with our cash and cash equivalents, fixed maturity investments, or other investments. Cash, cash equivalents and fixed maturity investments are managed pursuant to guidelines that follow prudent standards of diversification and limit the allowable holdings of a single issue and issuers. Other investments are managed pursuant to guidelines that emphasize diversification and liquidity. Pursuant to these guidelines, we manage and monitor risk across a variety of investment funds and vehicles, markets and counterparties. We are also subject to custodial credit risk on our investments, which we manage by diversifying our holdings amongst large financial institutions that are highly regulated.

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

Credit risk exists in relation to our insurance and reinsurance balances recoverable. We remain liable to the extent that counterparties do not meet their contractual obligations and, therefore, we evaluate and monitor concentration of credit risk among our insurers and reinsurers. Amounts recoverable from reinsurers are described in Note 4 - "Reinsurance Balances Recoverable".

We are also subject to credit risk in relation to funds held by reinsured companies. Under funds held arrangements, the reinsured company has retained funds that would otherwise have been remitted to our Segregated accounts. The funds may be placed into trust or be subject to other security arrangements. The funds held balance is credited with investment income and losses payable are deducted. We are subject to credit risk if the reinsured company is unable to honor the value of the funds held balances, such as in the event of insolvency. However, we generally have the contractual ability to offset any shortfall in the payment of the funds held balances with amounts owed by us to the reinsured for losses payable and other amounts contractually due. We routinely monitor the creditworthiness of reinsured companies with whom we have funds held arrangements. As of December 31, 2021 we have a significant concentration of $780 million (2020 - $882 million) with one reinsured company, which has financial strength ratings of A+ from A.M. Best and AA from Standard & Poor's.

We limit the amount of credit exposure to any one counterparty and none of our counterparty credit exposures, excluding U.S. government instruments, exceeded 10% of shareholders' equity as of December 31, 2021. Our credit exposure to the U.S. government was $99.9 million and $137.2 million as at December 31, 2021 and 2020, respectively.

Legal Proceedings

We are, from time to time, involved in various legal proceedings in the ordinary course of business, including litigation and arbitration regarding claims. Estimated losses relating to claims arising in the ordinary course of business, including the anticipated outcome of any pending arbitration or litigation are included in the liability for losses and LAE in our balance sheets. In addition to claims litigation, we may be subject to other lawsuits and regulatory actions in the normal course of business, which may involve, among other things, allegations of underwriting errors or omissions, employment claims or regulatory activity. We do not believe that the resolution of any currently pending legal proceedings, either individually or taken as a whole, will have a material effect on our business, results of operations or financial condition. We anticipate that, similar to the rest of the insurance and reinsurance industry, we will continue to be subject to litigation and arbitration proceedings in the ordinary course of business, including litigation generally related to the scope of coverage with respect to asbestos and environmental and other claims.

13. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through to April 29, 2022, which is the date that the financial statements were available to be issued. As part of this evaluation, the following should be noted:

- **Dividend Declaration** - In March 2022 the Company's Board of Directors approved the declaration of dividends in the amount of $75 million.