# Hamilton Re, Ltd.

## Consolidated Financial Statements

## For the Year Ended November 30, 2021

# Hamilton Re, Ltd.

## Table of Contents

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

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

# Report of Independent Auditors

The Shareholder
Hamilton Re, Ltd.

We have audited the accompanying consolidated financial statements of Hamilton Re, Ltd. (the Company), which comprise the consolidated balance sheets as of November 30, 2021 and 2020, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended November 30, 2021, and the related notes to the consolidated financial statements.

## Management's Responsibility for the Financial Statements

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

## Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hamilton Re, Ltd. at November 30, 2021 and 2020, and the consolidated results of its operations and its cash flows for each of the three years in the period ended November 30, 2021, in conformity with U.S. generally accepted accounting principles.

## Required Supplementary Information

Accounting principles generally accepted in the United States require that the incurred losses and allocated loss adjustment expenses, net of reinsurance and cumulative paid losses and allocated loss adjustment expenses, net of reinsurance for the years ending 2020 and prior, and the average annual percentage payout of incurred losses by age, net of reinsurance which are on pages 22 through 24 be presented to supplement the consolidated financial statements. Such information, although not a part of the consolidated financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, 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 consolidated financial statements, and other knowledge we obtained during our audit of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Ernst + Young Ltd.

Ernst & Young Ltd.
February 11, 2022

# Hamilton Re, Ltd.
# Consolidated Balance Sheets

| *(Expressed in thousands of United States Dollars, except share information)* | November 30, 2021 | November 30, 2020 |
|---|---|---|
| **Assets** | | |
| Fixed maturity investments, at fair value (amortized cost 2021: $603,380; 2020: $452,398) | $ 597,841 | $ 460,936 |
| Short term investments, at fair value (amortized cost 2021: $629,610; 2020: $703,278) | 628,924 | 703,341 |
| Investments in Two Sigma Funds, at fair value (cost 2021: $624,379; 2020: $594,507) | 765,388 | 633,694 |
| Total investments | 1,992,153 | 1,797,971 |
| Cash and cash equivalents | 585,551 | 448,148 |
| Restricted cash | 57,485 | 7,870 |
| Premiums receivable | 605,297 | 446,044 |
| Paid loss recoverable | 22,610 | 11,610 |
| Deferred acquisition costs | 107,361 | 71,750 |
| Unpaid losses and loss adjustment expenses recoverable | 244,122 | 319,658 |
| Receivables for investments sold | 56,158 | 78,398 |
| Prepaid reinsurance | 30,569 | 42,312 |
| Receivables from related parties | 7,312 | 15,078 |
| Intangible assets | 1,045 | 2,356 |
| Other assets | 3,505 | 4,049 |
| **Total assets** | $ 3,713,168 | $ 3,245,244 |
| | | |
| **Liabilities, non-controlling interest, and shareholders' equity** | | |
| **Liabilities:** | | |
| Reserve for losses and loss adjustment expenses | $ 1,284,311 | $ 1,115,101 |
| Unearned premiums | 437,475 | 316,526 |
| Reinsurance balances payable | 56,679 | 149,730 |
| Payables for investments purchased | 145,440 | 134,701 |
| Accounts payable and accrued expenses | 11,743 | 16,897 |
| Payables to related parties | 33,496 | 381 |
| **Total liabilities** | 1,969,144 | 1,733,336 |
| | | |
| **Non-controlling interest – TS Hamilton Fund** | 150 | 119 |
| | | |
| **Shareholders' equity:** | | |
| Common Shares: | | |
| Par value $0.01; authorized, issued and outstanding 100,000,000 common shares | 1,000 | 1,000 |
| Additional paid-in capital | 917,573 | 917,000 |
| Retained earnings | 825,301 | 593,789 |
| **Total shareholders' equity** | 1,743,874 | 1,511,789 |
| | | |
| **Total liabilities, non-controlling interest, and shareholders' equity** | $ 3,713,168 | $ 3,245,244 |

See accompanying notes to the consolidated financial statements.

**Hamilton Re, Ltd.**
**Consolidated Statements of Operations**
**For the Three and Years Ended November 30, 2021, 2020 and 2019**

| *(Expressed in thousands of United States Dollars)* | 2021 | 2020 | 2019 |
|---|---|---|---|
| **Revenues** | | | |
| Gross premiums written | $ 1,048,996 | $ 734,030 | $ 562,397 |
| Reinsurance premiums ceded | (109,648) | (161,041) | (162,614) |
| Net premiums written | 939,348 | 572,989 | 399,783 |
| | | | |
| Net change in unearned premiums | (132,692) | (77,692) | (13,111) |
| Net premiums earned | 806,656 | 495,297 | 386,672 |
| | | | |
| Net investment income (loss) | 321,547 | (39,225) | 204,375 |
| Other income (loss) | 342 | (95) | 380 |
| Net foreign exchange gains (losses) | 3,702 | (7,632) | (2,071) |
| **Total revenues** | 1,132,247 | 448,345 | 589,356 |
| | | | |
| **Expenses** | | | |
| Losses and loss adjustment expenses | 539,524 | 390,059 | 313,113 |
| Acquisition costs | 216,237 | 124,956 | 101,068 |
| General and administrative expenses | 37,341 | 33,885 | 37,339 |
| Interest expense | 5,911 | 5,832 | 5,847 |
| **Total expenses** | 799,013 | 554,732 | 457,367 |
| | | | |
| Income (loss) before income tax | 333,234 | (106,387) | 131,989 |
| Income tax | 10,063 | 9,425 | 8,078 |
| **Net income (loss)** | 323,171 | (115,812) | 123,911 |
| | | | |
| Net income attributable to non-controlling interest | 61,659 | 24,931 | 67,825 |
| | | | |
| **Net income (loss) attributable to common shareholder** | $ 261,512 | $ (140,743) | $ 56,086 |

See accompanying notes to the consolidated financial statements.

# Hamilton Re, Ltd.
## Consolidated Statements of Shareholders' Equity
## For the Years Ended November 30, 2021, 2020 and 2019

| *(Expressed in thousands of United States Dollars)* | 2021 | 2020 | 2019 |
|---|---|---|---|
| **Common shares** | | | |
| **Balance, beginning of year** | $ 1,000 | $ 1,000 | $ 1,000 |
| Issuance of common shares | — | — | — |
| **Balance, end of year** | $ 1,000 | $ 1,000 | $ 1,000 |
| | | | |
| **Additional paid-in capital** | | | |
| **Balance, beginning of year** | $ 917,000 | $ 917,000 | $ 917,000 |
| Capital contribution | 573 | — | — |
| **Balance, end of year** | $ 917,573 | $ 917,000 | $ 917,000 |
| | | | |
| **Retained earnings** | | | |
| **Balance, beginning of year** | $ 593,789 | $ 758,810 | $ 840,724 |
| Net income (loss) | 323,171 | (115,812) | 123,911 |
| Dividends declared | (30,000) | (24,278) | (138,000) |
| Net income attributable to non-controlling interest | (61,659) | (24,931) | (67,825) |
| **Balance, end of year** | $ 825,301 | $ 593,789 | $ 758,810 |
| | | | |
| **Total shareholders' equity** | $ 1,743,874 | $ 1,511,789 | $ 1,676,810 |

See accompanying notes to the consolidated financial statements.

# Hamilton Re, Ltd.
# Consolidated Statements of Cash Flows
# For the Years Ended November 30, 2021, 2020 and 2019

| *(Expressed in thousands of United States Dollars)* | 2021 | 2020 | 2019 |
|---|---|---|---|
| **Operating activities** | | | |
| Net income (loss) | $ 323,171 | $ (115,812) | $ 123,911 |
| Adjustments to reconcile net income to net cash from (used in) operating activities: | | | |
| Depreciation | 2,005 | 3,256 | 3,105 |
| Loss on disposal of fixed assets | (8) | — | (1) |
| Interest accretion | 3,494 | 2,585 | (327) |
| Net realized (gains) losses on investments | (276,299) | 23,237 | (442,864) |
| Change in net unrealized (gains) losses on investments | (86,120) | (19,561) | 202,073 |
| Other items | 1,508 | (2,702) | 86 |
| Change in: | | | |
| Premiums receivable | (159,253) | (63,977) | (81,240) |
| Paid loss recoverable | (11,000) | (2,147) | 393 |
| Deferred acquisition costs | (35,611) | (22,820) | (707) |
| Prepaid reinsurance | 11,743 | 1,380 | (6,679) |
| Unpaid losses and loss adjustment expenses recoverable | 75,536 | 117,479 | (75,143) |
| Receivables from related parties | 7,766 | (12,782) | 5,104 |
| Other assets | 346 | 1,607 | (1,613) |
| Reserve for losses and loss adjustment expenses | 169,210 | (50,028) | 207,306 |
| Unearned premiums | 120,949 | 76,312 | 19,790 |
| Reinsurance balances payable | (93,051) | 7,201 | 47,461 |
| Accounts payable and accrued expenses | (5,154) | 1,322 | (1,534) |
| Payables to related parties | 33,115 | (2,291) | (117,575) |
| **Net cash from (used in) operating activities** | $ 82,347 | $ (57,741) | $ (118,454) |
| **Investing activities** | | | |
| Proceeds from redemptions from Two Sigma Funds | $ 2,113,989 | $ 2,135,985 | $ 2,224,760 |
| Contributions to Two Sigma Funds | (1,870,057) | (2,131,410) | (1,944,419) |
| Purchases of fixed maturity investments | (561,669) | (625,301) | (732,950) |
| Proceeds from sales, redemptions and maturity of fixed maturity investments | 347,418 | 520,573 | 508,876 |
| Purchases of short term investments | (2,028,858) | (2,777,196) | (2,730,654) |
| Proceeds from sale of short term investments | 2,163,920 | 2,845,058 | 3,120,797 |
| Receivables for investments sold | 22,240 | (33,362) | (21,510) |
| Payables for investments purchased | 10,739 | 61,306 | (1,504) |
| Purchases of fixed assets and development of intangible assets | (486) | (1,463) | (1,947) |
| Other | — | (2) | 2 |
| **Net cash from (used in) investing activities** | $ 197,236 | $ (5,812) | $ 421,451 |
| **Financing activities** | | | |
| Contribution of additional paid-in capital | $ 572 | $ — | $ — |
| Withdrawal of non-controlling interest | (61,629) | (24,988) | (68,033) |
| Dividends paid | (30,000) | (24,278) | (138,000) |
| **Net cash used in financing activities** | $ (91,057) | $ (49,266) | $ (206,033) |
| **Effect of exchange rate changes on cash and cash equivalents** | (1,508) | 2,702 | (86) |
| Net increase (decrease) in cash and cash equivalents | $ 187,018 | $ (110,117) | $ 96,878 |
| Cash and cash equivalents and restricted cash, beginning of year | 456,018 | 566,135 | 469,257 |
| **Cash and cash equivalents and restricted cash, end of year** | $ 643,036 | $ 456,018 | $ 566,135 |
| Net income taxes paid | $ 9,783 | $ 8,247 | $ 10,190 |
| Interest paid | $ 5,451 | $ 5,835 | $ 5,852 |

See accompanying notes to the consolidated financial statements.

## 1. Organization

Hamilton Re, Ltd. ("Hamilton Re") was incorporated in Bermuda on June 8, 2012, and is a wholly-owned subsidiary of Hamilton Insurance Group, Ltd. ("Hamilton Group"), a Bermuda domiciled holding company.

Hamilton Re is licensed as a Class 4 insurer in Bermuda and writes property, casualty and specialty insurance and reinsurance on a global basis.

Hamilton Reinsurance - U.S. Branch ("Hamilton Re US") is a tax partnership that was formed pursuant to an arrangement between Hamilton Re and its Bermuda-incorporated affiliate, Hamilton ILS Holdings Limited. The tax partnership is treated as a U.S. corporation for U.S. tax purposes and is registered with the U.S. Internal Revenue Service, such that capital and profits allocated to Hamilton Re US are subject to applicable U.S. taxation. Hamilton Managing General Agency Americas, LLC ("HMGA Americas") is licensed throughout the United States and is authorized to underwrite certain U.S. property and casualty reinsurance on behalf of Hamilton Re, solely in respect of Hamilton Re US.

In 2017 Hamilton Re established a special purpose insurer, Turing Re Ltd. ("Turing Re"), funded by third party investors to provide collateralized reinsurance capacity for Hamilton Re's property treaty business. In 2020 Hamilton Group established Ada Capital Management Limited ("ACML"). ACML is an insurance agent incorporated and regulated in Bermuda authorized to underwrite on behalf of Ada Re, Ltd. ("Ada Re"). Ada Re is a special purpose insurer funded by third party investors and formed to provide fully collateralized reinsurance and retrocession to both wholly-owned operating platforms of Hamilton Group and third-party cedants.

Two Sigma Hamilton Fund, LLC ("TS Hamilton Fund"), a Delaware limited liability company, was formed in October 2013. On December 23, 2013, Hamilton Re entered into a limited liability company agreement with TS Hamilton Fund and Two Sigma Principals, LLC (the "Managing Member") as the managing member of TS Hamilton Fund. Hamilton Re initially committed to invest all of its investable assets in TS Hamilton Fund, other than a portion thereof that it held in cash and cash equivalents as a liquidity buffer. Commencing in 2017, Hamilton Re's commitment was reduced to require that its investment in TS Hamilton Fund is equal to a minimum of 95% of the consolidated net tangible assets of Hamilton Group. TS Hamilton Fund has engaged Two Sigma Investments, LP ("Two Sigma"), a related party Delaware limited partnership, to serve as its investment manager for a term ending on December 31, 2024. Two Sigma is a United States Securities and Exchange Commission ("SEC") registered investment adviser specializing in quantitative analysis.

## 2. Summary of Significant Accounting Policies

### (a) Basis of Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The financial statements include the accounts of Hamilton Re, Hamilton Insurance Services (Bermuda), Ltd. and TS Hamilton Fund (collectively, "the Company"). All significant intercompany transactions and balances have been eliminated on consolidation. Certain comparative information has been reclassified to conform to the current year presentation.

### (b) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported and disclosed amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The major estimates recorded in the Company's financial statements include, but are not limited to, premiums written, the reserve for losses and loss adjustment expenses and the fair value of investments.

### (c) Fair Value Measurements

*Financial Instruments Subject to Fair Value Measurements*

Accounting guidance over fair value measurements requires that a fair value measurement reflect the assumptions market participants would use in pricing an asset or liability based on the best information available. Assumptions include the risks inherent in a particular valuation technique (such as a pricing model) and/or the risks inherent in the inputs to the model. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the "exit price"). Instruments that the Company owns are marked to bid prices. Fair value measurements are not adjusted for transaction costs

*Basis of Fair Value Measurements*

Fair value measurements accounting guidance also establishes a fair value hierarchy that prioritizes the inputs to the respective valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The three levels of the fair value hierarchy are:

- **Level 1** - Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date;

- **Level 2** - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active; and

- **Level 3** - Inputs that are both significant to the fair value measurement and unobservable.

Details on assets and liabilities that have been included under the requirements of authoritative guidance on fair value measurements to illustrate the bases for determining the fair values of these items held by the Company are included in each respective section of this significant accounting policies note.

The Company's fixed maturity and short term investments are primarily priced using pricing services, such as index providers and pricing vendors, as well as broker quotations. In general, the pricing vendors provide pricing for a high volume of liquid securities that are actively traded. For securities that do not trade on an exchange, the pricing services generally utilize market data and other observable inputs in matrix pricing models to determine prices. Observable inputs include benchmark yields, reported trades, broker-dealer quotes, issuer spreads, bids, offers, reference data and industry and economic events. Index pricing generally relies on market traders as the primary source for pricing, however models are also utilized to provide prices for all index eligible securities. The models use a variety of observable inputs such as benchmark yields, transactional data, dealer runs, broker-dealer quotes and corporate actions. Prices are generally verified using third party data. Securities which are priced by an index provider are generally included in the index. In general, broker-dealers value securities through their trading desks based on observable inputs. The methodologies include mapping securities based on trade data, bids or offers, observed spreads, and performance on newly issued securities. Broker-dealers also determine valuations by observing secondary trading of similar securities. Prices obtained from broker quotations are considered non-binding; however, they are based on observable inputs and by observing secondary trading of similar securities obtained from active, non-distressed markets. The Company considers these Level 2 inputs as they are corroborated with other market observable inputs.

### (d) Premiums and Acquisition Costs

Premiums written and ceded on a losses occurring basis are earned pro-rata over the terms of the related contracts and policies For contracts written on a risks attaching basis, premiums written and ceded are earned over the terms of the underlying contracts and policies. Premiums written and ceded include estimates based on information received from insureds, brokers and ceding companies, and any subsequent differences arising on such estimates are recorded in the periods in which they are determined. The portion of the premiums written and ceded applicable to the unexpired terms of the underlying contracts and policies are recorded as unearned premiums and prepaid reinsurance premiums, respectively. Amounts are computed by pro-rata methods based on statistical data or reports received from insureds, brokers or ceding companies. Reinstatement premiums are estimated after the occurrence of a significant loss and are recorded in accordance with the contract terms based upon paid losses and case reserves. Reinstatement premiums are earned when written.

Acquisition expenses are costs that vary with and are directly related to the successful acquisition of new or renewal business, and consist principally of commissions, brokerage and premium tax expenses. These costs are deferred and amortized over the periods in which the related premiums are earned. Deferred acquisition costs are limited to their estimated realizable value based on the related unearned premiums. Anticipated losses and loss expenses, based on historical and current experience, and anticipated net investment income related to the premiums are considered in determining the recoverability of deferred acquisition costs.

### (e) Reinsurance

In the normal course of business, the Company seeks to reduce the potential amount of loss arising from claims events by reinsuring certain levels of risk with other reinsurers. Ceded reinsurance contracts do not relieve the Company of its primary obligation to policyholders. Prepaid reinsurance represents the portion of premiums ceded to reinsurers applicable to the unexpired coverage terms of the reinsurance contracts in place. Amounts recoverable from reinsurers are estimated based on the terms and conditions of the reinsurance contracts, in a manner consistent with the underlying liabilities insured or reinsured by the Company. If the Company determines that adjustments to earlier estimates are appropriate, such adjustments are recorded in the periods in which they are determined. Amounts recoverable from reinsurers are recorded net of a valuation allowance for estimated uncollectible recoveries.

### (f) Reserve for Losses and Loss Adjustment Expenses

The reserve for losses and loss adjustment expenses includes reserves for unpaid reported losses and for losses incurred but not reported ("IBNR"). The reserve for unpaid reported losses and loss expenses is established by management based on reports from insureds, brokers and ceding companies, and represents the estimated ultimate cost of events or conditions that have been reported to or specifically identified by the Company. The reserve for IBNR losses and loss expenses is established by management based on estimates of ultimate losses and loss expenses.

Inherent in the estimates of ultimate losses and loss expenses are expected trends in claim severity and frequency and other factors, which may vary significantly as claims are settled. Accordingly, ultimate losses and loss expenses may differ materially from the amounts recorded in the financial statements. These estimates are reviewed regularly and, as experience develops and new information becomes known, the reserves are adjusted as necessary. Such adjustments, if any, are recorded in earnings in the periods in which they become known. See Note 6, *Reserve for Losses and Loss Adjustment Expenses*, for further details.

### (g) Cash and Cash Equivalents and Restricted Cash

Cash and cash equivalents include money market funds and highly liquid short term deposits and securities with maturities of 90 days or less at the time of purchase. Bank deposits are not considered to be fair value measurements and as such are not subject to the authoritative guidance on fair value measurement disclosures. Money market funds are classified as Level 1 as these instruments are considered actively traded; however, certificates of deposit are classified as Level 2.

Restricted cash primarily relates to funds held in trust supporting a portion of the Lloyd's capital requirements and other underwriting obligations. See Note 3, *Investments*, for further details.

**(h) Investments**

*Investments – Trading*

The Company elects the fair value option for all of its fixed maturities, short term investments, equities and certain other invested assets (excluding those that are accounted for using specialized Investment Company accounting as noted below). All changes in the fair value of investments are recorded within net investment income in the Consolidated Statements of Operations.

All investment transactions are recorded on a trade date basis and are valued using pricing data received from third parties. Realized gains or losses on sales of investments are determined on a weighted average basis. Investment income is recognized when earned and includes interest and dividend income, recorded as of the ex-dividend date, together with the amortization of premium and discount on fixed maturities and short term investments computed using the effective yield method. Net investment income includes related investment expenses.

*Short Term Investments*

Short term investments comprise securities with a maturity greater than three months but less than one year from the date of purchase.

*Investments in Two Sigma Funds*

TS Hamilton Fund invests in Two Sigma Funds ("Two Sigma Funds"), which are stated at their estimated fair values, that generally represent the Company's proportionate interest in the members' equity of the Two Sigma Funds as reported by the respective funds based on the net asset value ("NAV") provided by the fund administrator. The Company accounts for its investment in Two Sigma Funds under the variable interest model at NAV as a practical expedient for fair value in the Consolidated Balance Sheets. Increases or decreases in such fair values are recorded within net investment income in the Consolidated Statements of Operations. Realized gains or losses upon any redemptions of investments in the Two Sigma Funds are calculated using the weighted average method. The assets and liabilities of the Two Sigma Funds are recorded at fair value, or at amounts approximating fair value. The Company records contributions and withdrawals related to its investments in the Two Sigma Funds on the transaction date.

The specialized investment company accounting as described above is retained in the Company's consolidated financial statements upon consolidation of TS Hamilton Fund.

**(i) Foreign Exchange**

The Company's functional currency is the U.S. Dollar. Monetary assets and liabilities denominated in foreign currencies are revalued into the functional currency at the exchange rates in effect at the balance sheet date with the resulting foreign exchange gains and losses included in earnings. Revenues and expenses denominated in foreign currencies are revalued at the prevailing exchange rate on the transaction date.

**(j) Stock-Based Compensation**

Hamilton Group issues restricted stock units, performance stock units, restricted stock, warrants and options, and may issue other equity-based awards to its employees. The fair value of the compensation cost is measured at the grant date and expensed over the period for which the employee is required to provide services in exchange for the award. For awards subject to graded vesting, the awards are separated into vesting tranches, which are amortized over their respective vesting periods. The fair value of awards with performance conditions is remeasured at each reporting period with any changes in the expected outcome of the performance conditions recorded in compensation expense by a cumulative catch-up adjustment to apply the revised estimate. Forfeitures are recognized as they occur.

**(k) Intangible Assets**

The Company accounts for intangible assets in accordance with FASB ASC Topic *Intangibles - Goodwill and Other*. A purchase price that is in excess of the fair value of the net assets acquired arising from a business combination is recorded as goodwill or other intangible assets, according to their nature. Intangible assets with indefinite useful lives are not amortized. Intangible assets with a finite life are amortized over the estimated useful lives of the assets.

Finite lived intangible assets are reviewed for indicators of impairment on an annual basis or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable, and tested for impairment if appropriate. The Company has established the beginning of the fourth quarter as the date for performing its annual impairment tests. If intangible assets are impaired, they are written down to their estimated fair value, with a corresponding expense recorded in the Company's Consolidated Statement of Operations.

**(l) Variable Interest Entities**

The Company accounts for variable interest entities ("VIE") in accordance with GAAP guidance, which requires the consolidation of all VIEs by the primary beneficiary, that being the investor that has the power to direct the activities of the VIE and will absorb a majority of the VIE's expected losses or residual returns. The Company determines whether it is the primary beneficiary of a VIE by performing an analysis that principally considers: (i) the VIE's purpose and design, including the risks the VIE was designed to create and pass through to its variable interest holders; (ii) the VIE's capital structure; (iii) the terms between the VIE and its variable interest holders and other parties involved with the VIE; (iv) which variable interest holders have the power to direct the activities of the VIE that most significantly impact the VIE's economic performance; (v) which variable interest holders have the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE; and (vi) related party relationships. The Company reassesses its initial evaluation of an entity as a VIE upon the occurrence of certain reconsideration events. The Company also reassesses its determination of whether the Company is the primary beneficiary of a VIE upon changes in facts and circumstances that could potentially alter the Company's assessment.

**(m) Non-Controlling Interest**

The share classes related to the redeemable non-controlling interest portion of TS Hamilton Fund are not considered liabilities in accordance with GAAP and have redemption features that are not solely within the control of TS Hamilton Fund. Therefore, the redeemable non-controlling interest in TS Hamilton Fund is presented in the mezzanine section on the Company's Consolidated Balance Sheets. The net income or loss attributable to non-controlling interest is presented separately in the Company's Consolidated Statements of Operations. See Note 4, *Variable Interest Entity,* for further details.

**(n) Income Taxes**

The Company recognizes the tax benefits of uncertain tax positions only where the position is more likely than not to be sustained upon audit by tax authorities. Recognized income tax positions would be measured at the largest amount that is greater than 50 percent likely of being realized. Changes in recognition or measurement are recorded in the period in which the change in judgment occurs. The Company would recognize accruals for any interest and penalties related to underpaid taxes in income tax expenses.

The Company records deferred income taxes that reflect the tax effect of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the fiscal period that includes the enactment date. A valuation allowance against deferred tax assets is recorded if it is not more likely than not that all, or some portion, of the benefits related to deferred tax assets will be realized. The valuation allowance assessment considers tax planning strategies, where applicable.

**(o) Recent Accounting Pronouncements**

In December 2019, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2019 -12 *Simplifying the Accounting for Income Taxes*, which simplifies and changes the accounting for certain income tax transactions and makes minor improvements to the accounting guidance. This guidance is effective for annual reporting periods beginning after December 15, 2021 for private companies. Early adoption is permitted. This guidance is not expected to have a material impact on the Company's results of operations, financial position or cash flows.

In October 2018, the FASB issued ASU 2018-17 *Targeted Improvements to Related Party Guidance for Variable Interest Entities*, permitting private companies to elect not to apply VIE guidance to legal entities under common control if both the parent and the legal entity being evaluated for consolidation are not public businesses. The guidance is effective for fiscal years beginning after December 15, 2020 and early adoption is permitted. The Company has determined that it will not elect the private company option, and therefore this guidance is not expected to have an impact on the Company's results of operations, financial position or cash flows.

In August 2018, the FASB issued ASU 2018-15 *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, which updated accounting guidance on the treatment of fees paid by a customer in a cloud computing arrangement. The guidance specifies that if a license is included in the arrangement, the related costs should be recorded on the balance sheet; if no license is included, the costs should be expensed. The guidance is effective for annual reporting periods beginning after December 15, 2020. Early adoption is permitted. This guidance is not expected to have an impact on the Company's results of operations, financial position or cash flows.

In June 2016, the FASB issued ASU 2016-13 *Measurement of Credit Losses on Financial Instruments (further clarified in November 2019 ASU 2019-11 Codification Improvements Financial Instruments - Credit Losses)*, which updated accounting guidance that replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to record credit loss estimates. This guidance is effective for annual periods beginning after December 15, 2022 for private companies. Early adoption is permitted for annual periods beginning after December 15, 2018. This guidance is not expected to have a material impact on the Company's results of operations, financial position or cash flows.

In February 2016 the FASB issued ASU 2016-02 *Leases* (further clarified in July 2018 (ASU 2018-11 *Leases - Targeted Improvements*) and in January 2019 (ASU 2019-01 *Leases - Codification Improvements*)) which updated accounting guidance that applies to any entity that enters into a lease that does not meet certain scope exceptions. The guidance requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous guidance. The Company expects that, as a lessee, the primary impact to the Company will be the gross-up of the balance sheet by recognition of an operating lease liability in respect of future lease payments and the associated right-of-use asset in respect of the right to use the underlying asset for the lease term. This guidance is effective for years beginning after December 15, 2021 for private companies. Early adoption is permitted. This guidance is not expected to have a material impact on the Company's results of operations, financial position or cash flows.

## 3. Investments

*Fixed Maturity and Short Term Investments - Trading*

The Company's fixed maturity and short term investments at November 30, 2021 and 2020 are as follows:

| | 2021 | | | |
|---|---|---|---|---|
| *(Expressed in thousands of United States Dollars)* | **Amortized Cost** | **Gross Unrealized Gains** | **Gross Unrealized Losses** | **Fair Value** |
| Fixed maturities: | | | | |
| U.S. government treasuries | $ 228,155 | $ 1,253 | $ (2,196) | $ 227,212 |
| Non-U.S. sovereign governments | 2,577 | 28 | (3) | 2,602 |
| Corporate | 224,183 | 241 | (3,639) | 220,785 |
| Residential mortgage-backed securities - Agency | 137,688 | 277 | (1,468) | 136,497 |
| Residential mortgage-backed securities - Non-agency | 7,470 | 19 | (60) | 7,429 |
| Commercial mortgage-backed securities - Non-agency | 988 | — | (1) | 987 |
| Other asset-backed securities | 2,319 | 15 | (5) | 2,329 |
| Total fixed maturities | 603,380 | 1,833 | (7,372) | 597,841 |
| Short term investments | 629,610 | 21 | (707) | 628,924 |
| Total | $ 1,232,990 | $ 1,854 | $ (8,079) | $ 1,226,765 |

| | 2020 | | | |
|---|---|---|---|---|
| *(Expressed in thousands of United States Dollars)* | **Amortized Cost** | **Gross Unrealized Gains** | **Gross Unrealized Losses** | **Fair Value** |
| Fixed maturities: | | | | |
| U.S. government treasuries | $ 109,227 | $ 2,574 | $ (105) | $ 111,696 |
| Non-U.S. sovereign governments | 2,573 | 56 | — | 2,629 |
| Corporate | 199,858 | 6,977 | (37) | 206,798 |
| Residential mortgage-backed securities - Agency | 121,345 | 2,445 | (3,547) | 120,243 |
| Residential mortgage-backed securities - Non-agency | 5,115 | 29 | (132) | 5,012 |
| Commercial mortgage-backed securities - Non-agency | 4,256 | 93 | (2) | 4,347 |
| Other asset-backed securities | 10,024 | 189 | (2) | 10,211 |
| Total fixed maturities | 452,398 | 12,363 | (3,825) | 460,936 |
| Short term investments | 703,278 | 105 | (42) | 703,341 |
| Short term investments | $ 1,155,676 | $ 12,468 | $ (3,867) | $ 1,164,277 |

The Company's fixed maturity and short term investments are considered to be Level 2 in the fair value hierarchy.

*Contractual Maturities Summary*

Contractual maturities of fixed maturity securities at November 30, 2021 are presented in the following table. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

| | 2021 | |
|---|---|---|
| *(Expressed in thousands of United States Dollars)* | **Amortized Cost** | **Fair Value** |
| Due less than one year | $ 3,671 | $ 3,661 |
| Due after one through five years | 429,191 | 425,451 |
| Due after five through ten years | 17,736 | 17,227 |
| Due after ten years | 4,317 | 4,260 |
| Mortgage backed | 146,146 | 144,913 |
| Asset backed | 2,319 | 2,329 |
| Total | $ 603,380 | $ 597,841 |

*Investments in Two Sigma Funds*

The Company's investments in Two Sigma Funds at November 30, 2021 and 2020 are as follows:

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| *(Expressed in thousands of United States Dollars)* | **Cost** | **Net Unrealized Gains (Losses)** | **Fair Value** | **Cost** | **Net Unrealized Gains (Losses)** | **Fair Value** |
| Two Sigma Futures Portfolio, LLC (FTV) | $ 256,633 | $ 76,953 | $ 333,586 | $ 279,006 | $ (10,198) | $ 268,808 |
| Two Sigma Spectrum Portfolio, LLC (STV) | 247,391 | 27,937 | 275,328 | 221,031 | 32,139 | 253,170 |
| Two Sigma Equity Spectrum Portfolio, LLC (ESTV) | 120,355 | 36,119 | 156,474 | 94,470 | 17,246 | 111,716 |
| Total | $ 624,379 | $ 141,009 | $ 765,388 | $ 594,507 | $ 39,187 | $ 633,694 |

The Company, through its investments in FTV, STV and ESTV, seeks to achieve absolute dollar-denominated returns on a substantial capital base primarily by combining multiple hedged and leveraged systematic investment strategies with proprietary risk management and execution techniques. These systematic strategies include, but are not limited to, technical and statistically-based, fundamental-based, event-based, market condition-based and spread-based strategies as well as contributor-based and/or sentiment-based strategies and blended strategies. FTV primarily trades equity securities, exchange memberships, government debt securities, option contracts, swap contracts, futures and forward contracts. STV and ESTV primarily trade equity securities, swap contracts and foreign currency forward contracts. At November 30, 2021, the Company owns an 13.8%, 13.0% and 7.1% interest in each of the FTV, STV and ESTV funds respectively.

The following table summarizes certain investments of FTV, STV and ESTV where TS Hamilton Fund's proportionate share of the fair value of the investment represents more than 5% of TS Hamilton Fund's members' equity at November 30, 2021:

| *(Expressed in thousands of United States Dollars)* | **Principal/ Shares (1)** | **Fair Value (1)** | **% of Members' Equity** |
|---|---|---|---|
| U.S. Treasury Securities, 0.0000%-2.1250%, due 12/2/2021-11/15/2051 | $ 816,604 | $ 817,406 | 47.3 % |
| State Street Treasury Obligations Money Market Fund | 133,163 | 133,163 | 7.7 % |
| Northern Institutional Funds Treasury Portfolio | 92,151 | 92,151 | 5.3 % |
| BlackRock Liquidity Funds T-Fund Portfolio | 92,589 | 92,589 | 5.4 % |
| U.S. Treasury Securities, 0.5000%-2.0000%, due 11/30/2023-11/15/2041 | (126,202) | (125,735) | (7.28)% |

*(1) Values represent TS Hamilton Fund's proportionate share of the aggregate of FTV, STV and ESTV total holdings (expressed in thousands).*

The components of net investment income for the years ended November 30, 2021, 2020 and 2019 are as follows:

| *(Expressed in thousands of United States Dollars)* | **2021** | **2020** | **2019** |
|---|---|---|---|
| Investment income: | | | |
| Net realized gains on investments | $ 276,299 | $ (23,237) | $ 442,864 |
| Change in net unrealized gains (losses) on investments | 86,120 | 19,561 | (202,073) |
| Interest | 9,338 | 14,859 | 22,566 |
| Total investment income | $ 371,757 | $ 11,183 | $ 263,357 |
| | | | |
| Investment expenses: | | | |
| Management fees | (49,334) | (49,919) | (58,322) |
| Other expenses | (876) | (489) | (660) |
| Total expenses | (50,210) | (50,408) | (58,982) |
| Net investment income | $ 321,547 | $ (39,225) | $ 204,375 |

Two Sigma and the Managing Member are related parties to the Company as described further in Note 1, *Organization*. The investment management agreement with Two Sigma requires TS Hamilton Fund to incur a management fee of 3% of the non-managing members' equity in the net asset value of the TS Hamilton Fund per annum. The management fee for the years ended November 30, 2021, 2020 and 2019 was $48.7 million, $49.5 million and $58.0 million, respectively. Under the terms of the limited liability company agreement between Hamilton Re and the Managing Member, the Managing Member is entitled to an incentive allocation equal to 30% of TS Hamilton Fund's net profits, subject to high watermark provisions, and adjusted for withdrawals, and any incentive allocation to the Managing Member. However, in the event there is a net loss during a quarter and a net profit during any subsequent quarter, the Managing Member is entitled to a modified incentive allocation whereby the regular incentive allocation will be reduced by 50% until subsequent cumulative net profits are credited in an amount equal to 200% of the previously allocated net losses.

The Managing Member is also entitled to receive an additional incentive allocation as of the end of each fiscal year (or on any date Hamilton Re withdraws all or a portion of its capital), in an amount equal to 20% of the Excess Profits. "Excess Profits" for any given fiscal year (or other such accounting period) means the net profits over 15% for such fiscal year, net of management fees and expenses and gross of incentive allocations, but only after recouping previously unrecouped net losses. To the extent Hamilton Re contributes capital other than at the beginning of a fiscal year or withdraws capital other than at the end of a fiscal year, the additional incentive allocation hurdle with respect to such capital is prorated.

The aggregate incentive allocation (inclusive of the additional incentive allocation) for the years ended November 30, 2021, 2020 and 2019 was $61.6 million, $24.9 million and  $67.8 million, respectively.

Hamilton Re has a commitment with TS Hamilton Fund to maintain at least approximately 93% of its investable assets in TS

Hamilton Fund for a period (the "Commitment Period"), subject to certain circumstances and the liquidity options described below, with the Commitment Period ending on December 31, 2024. The Commitment Period consists of a 3-year rolling term that automatically renews on an annual basis unless Hamilton Re or the Managing Member provide advance notice of non-renewal. The commitment is subject to a waiver that permits Hamilton Re to maintain a minimum investment in TS Hamilton equal to a minimum of 95% of the consolidated net tangible assets of Hamilton Group. The waiver is applicable to December 31, 2022, is intended to automatically renew annually, and may be revoked by the Managing Member in its sole discretion upon 90 days' prior written notice. The TS Hamilton Fund generally has two liquidity options, subject to Hamilton Re's minimum investment commitment, which are as follows:

Monthly liquidity - Subject to certain conditions, Hamilton Re may request a whole or partial withdrawal of its capital account, no later than fifteen days prior to the end of a calendar month, effective as of the last day of such calendar month.

Daily liquidity - Subject to certain limited circumstances, including the need to meet obligations pursuant to Hamilton Re's underwriting operations, Hamilton Re may request a withdrawal of all or a portion of its capital account upon at least one business day's written notice of such withdrawal request date to the Managing Member.

At is discretion, the Managing Member may, but is not required to, permit or require Hamilton Re to withdraw all or any portion of its respective capital account at other times, or waive or reduce certain notice periods, or allow a notice to be revoked. The Managing Member may withdraw all or any portion of its capital account at any time.

*Pledged Assets*

At November 30, 2021,  $327.1 million of investments secured a portion of the Lloyd's capital requirements. In addition, certain investments were pledged as security for letter of credit facilities as described further in Note 7, *Letter of Credit Facilities*.

At November 30, 2021, restricted cash balances were comprised of $7.1 million of cash balances held at Lloyd's securing a portion of the capital requirements and $50.4 million of cash securing other underwriting obligations.

**4. Variable Interest Entity**

TS Hamilton Fund meets the definition of a Variable Interest Entity ("VIE") principally because the Managing Member does not hold substantive equity at risk in the entity and controls all of the decision making authority over it. Therefore, the Company assessed its ownership in the VIE to determine if it is the primary beneficiary. A quantitative assessment of the VIE's expected losses and expected residual returns was not applied because the Managing Member is a related party to the Company and collectively they hold all of the variable interest. The Company performed a qualitative assessment of all relevant facts and circumstances and determined that it is the entity within the related party group that is most closely related to the VIE. As a result, the Company concluded that it is the primary beneficiary of TS Hamilton Fund.

Activity in the non-controlling interest of TS Hamilton Fund for the years ended November 30, 2021, 2020 and 2019 was as follows:

| *(Expressed in thousands of United States Dollars)* | 2021 | 2020 | 2019 |
|---|---|---|---|
| Non-controlling interest - balance at beginning of year | $ 119 | $ 177 | $ 385 |
| Withdrawals | (61,629) | (24,988) | (68,033) |
| Equity in earnings | 31 | (1) | 33 |
| Incentive allocation | 61,629 | 24,931 | 67,792 |
| Non-controlling interest - balance at end of year | $ 150 | $ 119 | $ 177 |

The following table represents the total assets and total liabilities of TS Hamilton Fund at November 30, 2021 and 2020. Creditors or beneficial interest holders of TS Hamilton Fund have no recourse to the general credit of the Company, as the Company's obligation is limited to the amount of its committed investment.

| *(Expressed in thousands of United States Dollars)* | 2021 | 2020 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 473,461 | $ 340,192 |
| Short term investments | 600,268 | 694,208 |
| Investments in Two Sigma Funds, at fair value | 765,388 | 633,694 |
| Receivables for investments sold | 55,094 | 78,398 |
| Interest and dividends receivable | 535 | 149 |
| **Total assets** | $ 1,894,746 | $ 1,746,641 |
| | | |
| **Liabilities** | | |
| Accounts payable and accrued expenses | $ 169 | $ 171 |
| Withdrawal payable | 28,874 | — |
| Payable for investments purchased | 138,319 | 134,701 |
| **Total liabilities** | 167,362 | 134,872 |
| **Total net assets managed by TS Hamilton Fund** | $ 1,727,384 | $ 1,611,769 |

The withdrawal payable of $28.9 million at November 30, 2021 is reported on the Company's balance sheet as a payable to related party.

### 5. Reinsurance

The Company purchases reinsurance and other protection to manage its risk portfolio and to reduce its exposure to large losses. The Company currently has in place contracts that provide for recovery of a portion of certain claims and claim expenses, generally in excess of various retentions or on a proportional basis. Amounts recoverable under reinsurance contracts are recorded as assets. The Company remains liable to the extent that any reinsurance company fails to meet its obligations.

The following tables set forth the effect of reinsurance and retrocessional activity on premiums written and earned and on net claims and claim expenses incurred during the years ended November 30, 2021, 2020 and 2019:

| | Premiums written | | | Premiums earned | | |
|---|---|---|---|---|---|---|
| *(Expressed in thousands of United States Dollars)* | 2021 | 2020 | 2019 | 2021 | 2020 | 2019 |
| Assumed | $ 961,491 | $ 648,095 | $ 490,519 | $ 839,738 | $ 576,431 | $ 474,797 |
| Direct | 87,505 | 85,935 | 71,878 | 88,182 | 81,286 | 67,810 |
| Ceded | (109,648) | (161,041) | (162,614) | (121,264) | (162,420) | (155,935) |
| Net | $ 939,348 | $ 572,989 | $ 399,783 | $ 806,656 | $ 495,297 | $ 386,672 |

| | Net claims and claims expenses | | |
|---|---|---|---|
| *(Expressed in thousands of United States Dollars)* | 2021 | 2020 | 2019 |
| Gross losses and loss adjustment expenses | $ 556,037 | $ 382,247 | $ 522,068 |
| Losses and loss adjustment expenses ceded | (16,513) | 7,812 | (208,955) |
| Net | $ 539,524 | $ 390,059 | $ 313,113 |

The Company evaluates the financial condition of its reinsurers on a regular basis and also monitors concentrations of credit risk with reinsurers. A provision for uncollectible reinsurance would be required due to the potential failure of reinsurers to indemnify the Company for either disputes under reinsurance contracts or insolvencies. There was no allowance for doubtful recoveries recorded at November 30, 2021 or 2020.

### 6. Reserve for Losses and Loss Adjustment Expenses

The following table presents a reconciliation of unpaid losses and loss adjustment expenses ("LAE") for the years ended November 30, 2021, 2020 and 2019:

| *(Expressed in thousands of United States Dollars)* | 2021 | 2020 | 2019 |
|---|---|---|---|
| Gross unpaid losses and loss expenses, beginning of year | $ 1,115,101 | $ 1,165,129 | $ 957,823 |
| Reinsurance recoverable on unpaid losses | (319,658) | (437,137) | (361,994) |
| Net unpaid losses and loss expenses, beginning of year | 795,443 | 727,992 | 595,829 |
| | | | |
| Net losses and loss expenses incurred in respect of losses occurring in: | | | |
| Current year | 526,062 | 426,845 | 294,486 |
| Prior years | 13,462 | (36,786) | 18,627 |
| Total incurred | 539,524 | 390,059 | 313,113 |
| | | | |
| Net losses and loss expenses paid in respect of losses occurring in: | | | |
| Current year | 50,685 | 64,817 | 31,688 |
| Prior years | 233,343 | 268,979 | 149,321 |
| Total paid | 284,028 | 333,796 | 181,009 |
| Foreign currency revaluation and other | (10,750) | 11,188 | 59 |
| Net unpaid losses and loss expenses, end of year | 1,040,189 | 795,443 | 727,992 |
| Reinsurance recoverable on unpaid losses | 244,122 | 319,658 | 437,137 |
| Gross unpaid losses and loss expenses, end of year | $ 1,284,311 | $ 1,115,101 | $ 1,165,129 |

Net unfavorable prior year development of $13.5 million for the year ended November 30, 2021 was primarily comprised of:

- Net unfavorable development of $19.5 million on property contracts, driven by increases in loss estimates for Covid-19 business interruption losses and Hurricanes Laura, Sally and Zeta;
- Net unfavorable development of $26.6 million on casualty contracts, driven by increased loss estimates in commercial auto lines of business; and
- Net favorable development of $32.6 million on specialty contracts, driven by lower than expected loss experience in marine and energy, offshore energy, political violence and terror, and mortgage credit lines of business.

Net favorable prior year development of $36.8 million for the year ended November 30, 2020 was primarily comprised of:

- Net favorable development of $18.9 million on property contracts as a result of reductions in loss estimates for Hurricanes Harvey, Irma and Maria and other catastrophe events along with lower than expected attritional losses;
- Net favorable development of $22.4 million on specialty contracts as a result of lower than expected loss experience in marine and energy and mortgage credit lines of business; and
- Net unfavorable development of $4.5 million on casualty contracts.

Net unfavorable prior year development of $18.6 million for the year ended November 30, 2019 was comprised of $4.5 million of unfavorable prior year loss development arising from the following significant components:

- Net unfavorable loss development of $35.8 million in casualty lines of business, arising from reserve strengthening in anticipation of increased loss trends and mass tort losses. Reserve strengthening related primarily to casualty classes including international professional indemnity, tort liability, U.S. high excess casualty and financial institutions business.

- Net favorable loss development of $27.0 million in specialty lines of business, due primarily to reductions in estimates on financial lines of business, attritional loss reductions in marine and energy exposures, and 2018 and prior accident year catastrophes; and
- Net favorable loss development of $4.3 million in property lines of business from the 2018 and prior accident year catastrophes.

In addition to the above noted items were revisions to premium estimates relating to casualty contracts written in 2018 and prior which increased earned premium by $17.0 million during 2019. Associated loss estimates of $14.1 million recorded relating to the increased 2018 and prior year premiums are included in the prior periods development line in the above table.

The Company amortized acquisition costs of $216.2 million, $125.0 million and $101.1 million in the years ended November 30, 2021, 2020 and 2019, respectively.

*Covid-19*

The estimate of net reserves for losses and loss adjustment expenses related to the Covid-19 pandemic remains subject to significant uncertainty. While the Company believes its estimate of net reserves for losses and loss expenses is adequate for losses and loss adjustment expenses that have been incurred at November 30, 2021 based on current facts and circumstances, the Company will continue to monitor the appropriateness of its assumptions as new information comes to light and will adjust its estimate of net reserves for losses and loss adjustment expenses as appropriate. Actual ultimate losses for these events may differ materially from the Company's current estimates. As at November 30, 2021, our recorded reserves relating to the Covid-19 pandemic totaled $55.4 million.

*Reserving*

The Company's reserve for losses and loss expenses consists of case reserves and IBNR reserves. Case reserves are reserves for reported losses and loss expenses that have not yet been settled. IBNR are reserves for incurred but not reported losses and loss expenses, and include reserves for reported losses in excess of case reserves.

**Case Reserves**

For reinsurance business, the Company typically receives loss notifications from its cedants in the form of loss bordereaux or individual loss notifications. These notifications generally include varying amounts of information about the nature and quantum of the loss, including paid amounts and estimates of outstanding loss. The Company records the estimates of outstanding loss from its cedants as case reserves. Typically there is a timing lag between the cedant establishing a reserve and notifying the loss to the Company. In addition, different cedants have different claims handling practices which result in case reserve estimates that vary in the level of prudence embedded in them.

For insurance business, the Company records a case reserve for the estimated amount of settlement. This amount is based on the judgment of the Company’s claims team and takes into account the class of business, nature of the claim and if appropriate, the advice of specialist legal counsel and external loss adjusters, and includes the estimated expenses of settling the claim such as legal and other fees. The Company may sometimes use third party claims administrators to handle claims and set case reserves, within defined authority levels and service level agreements. In syndicated markets such as Lloyd’s, the Company’s case reserve will be based in part on information provided by the lead insurer, where the Company is not an agreement party. Any adjustments to case reserves are accounted for as changes in estimates and recorded in the period in which such changes are identified.

**IBNR Reserves**

The Company establishes IBNR reserves for large events based on a number of different factors, including discussions with brokers and cedants, proprietary loss modelling and pricing software, estimates of market loss and market share, experience from historical large events and other information that can guide the estimates of loss reserves. These estimates are reviewed periodically as new information emerges.

IBNR reserves for attritional losses are established using actuarial loss reserving techniques. These techniques include the loss development factor method, Bornheutter Ferguson method, the Initial Expected Loss Ratio method, and other techniques. These techniques rely on estimates of paid and reported loss development patterns and estimates of the loss ratio at the inception of the contract. The Company's actuaries review the estimates of IBNR reserves on a quarterly basis and adjust the estimates as new information becomes available. Any such adjustments are accounted for as changes in estimates and recorded in the periods in which they become known.

To establish IBNR reserves for attritional losses, contracts are grouped into cohorts, or reserving classes, that have similar coverage, inception period and loss reporting characteristics. The paid and reported losses for these reserving classes are tracked over time against expectations and against the actuarial loss reserving indications and IBNR reserve selected for each cohort.

**Claims Development and Frequency**

For incurred and paid accident year claims denominated in foreign currency, the Company used the current year-end balance sheet foreign exchange rate for all periods provided, thereby eliminating the effects of changes in foreign currency translation rates from the incurred and paid accident year claims development information included in the tables below.
In determining the cumulative number of reported claims, the Company measures claim counts on its insurance business by individual claimant where information is available. The claim counts include all claims reported where the Company has identified a potential liability for the claim even if there is no existing reserve. Reinsurance business is typically written under either proportional (quota share arrangements) or non-proportional arrangements (excess of loss or other facultative covers).

The Company typically does not have direct access to claim frequency information underlying its assumed quota share arrangements, given the nature of that business. In addition, multiple claims are often aggregated by the ceding company before being reported to the Company. The Company generally does not use claim frequency information in the determination of loss reserves or for other internal purposes relating to proportional business. In addition, the nature, size, terms and conditions of contracts entered into by the Company changes from one accident year to the next and the quantum of contractual or policy limits, and accordingly, the potential amount of losses and loss adjustment expenses associated with a reported claim can range from nominal to significant, and therefore the Company does not believe providing claims frequency information is practicable as it relates to its proportional business.

The Company has developed claims frequency information associated with its non-proportional reinsurance contracts. In determining claims frequency for its excess-of-loss reinsurance contracts, claims counts include all claims reported by each insured where a reserve for losses and loss adjustment expenses has been recorded. The Company has assumed that claims below the loss layer of a contract are excluded; if an insured's claim impacts multiple layers of a contract, the Company considers each impact to be a separate claim, and for an insured loss impacting more than one operating subsidiary, each impact is considered a separate claim.

*Claims Development*

The information provided herein about incurred and paid accident year claims development, net of reinsurance, for the periods ended prior to November 30, 2021 and the annual percentage payouts of incurred claims by age, net of reinsurance, is presented as supplementary information. The following tables show the paid and incurred loss development by broad classification based on groupings of contracts that are similar in coverage and duration:

***Property***

*(Expressed in thousands of United States Dollars, except claim count)*

| | Incurred losses and allocated loss adjustment expenses, net of reinsurance | | | | | | | | | | As of November 30, 2021 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | For the years ended November 30, | | | | | | | | | | | |
| Accident year | 2012 (unaudited) | 2013 (unaudited) | 2014 (unaudited) | 2015 (unaudited) | 2016 (unaudited) | 2017 (unaudited) | 2018 (unaudited) | 2019 (unaudited) | 2020 (unaudited) | 2021 | IBNR (1) | Cumulative Number of Reported Claims |
| 2012 | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | 0 |
| 2013 | | 15,447 | 14,779 | 12,065 | 10,948 | 9,262 | 9,642 | 9,707 | 9,411 | 9,093 | — | 27 |
| 2014 | | | 19,416 | 20,563 | 19,374 | 17,934 | 17,855 | 17,830 | 17,528 | 17,356 | — | 48 |
| 2015 | | | | 29,519 | 17,011 | 12,595 | 12,185 | 7,895 | 6,503 | 6,400 | 1 | 42 |
| 2016 | | | | | 61,893 | 43,930 | 42,706 | 41,363 | 40,024 | 41,445 | 136 | 106 |
| 2017 | | | | | | 129,789 | 130,542 | 127,312 | 112,454 | 110,305 | (6,543) | 266 |
| 2018 | | | | | | | 105,771 | 107,495 | 94,885 | 100,252 | 1,842 | 200 |
| 2019 | | | | | | | | 59,141 | 68,855 | 77,296 | 10,737 | 98 |
| 2020 | | | | | | | | | 203,405 | 218,184 | 52,282 | 212 |
| 2021 | | | | | | | | | | 217,315 | 144,183 | 116 |
| | | | | | | | | | Total | $ 797,646 | $ 202,638 | 1115 |

(1) *Total of incurred but not reported liabilities plus expected development on reported claims.*

| | Cumulative paid losses and allocated loss adjustment expenses, net of reinsurance | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | For the years ended November 30, | | | | | | | | | |
| Accident year | 2012 (unaudited) | 2013 (unaudited) | 2014 (unaudited) | 2015 (unaudited) | 2016 (unaudited) | 2017 (unaudited) | 2018 (unaudited) | 2019 (unaudited) | 2020 (unaudited) | 2021 |
| 2012 | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — |
| 2013 | | 4,295 | 6,136 | 8,345 | 8,874 | 8,699 | 9,258 | 9,466 | 9,235 | 8,961 |
| 2014 | | | 8,047 | 14,310 | 15,920 | 16,442 | 17,012 | 17,234 | 17,098 | 17,302 |
| 2015 | | | | 1,776 | 4,664 | 5,066 | 5,277 | 5,477 | 5,616 | 5,561 |
| 2016 | | | | | 12,969 | 27,891 | 33,251 | 37,103 | 38,404 | 38,747 |
| 2017 | | | | | | 31,404 | 112,809 | 97,101 | 113,062 | 101,615 |
| 2018 | | | | | | | 13,621 | 77,874 | 92,471 | 83,086 |
| 2019 | | | | | | | | 5,543 | 37,267 | 46,028 |
| 2020 | | | | | | | | | 29,773 | 109,225 |
| 2021 | | | | | | | | | | 30,207 |
| | | | | | | | | | Total | 440,732 |
| | | | | | Liabilities for claims and claims adjustment expenses, net of reinsurance | | | | | $ 356,914 |

| | Average annual percentage payout of incurred losses by age, net of reinsurance (1) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Years | 1 (unaudited) | 2 (unaudited) | 3 (unaudited) | 4 (unaudited) | 5 (unaudited) | 6 (unaudited) | 7 (unaudited) | 8 (unaudited) | 9 (unaudited) | 10 (unaudited) |
| | 23 % | 50 % | 12 % | 3 % | 1 % | 6 % | — % | — % | — % | — % |

(1) *Unaudited supplementary information*

***Casualty***

*(Expressed in thousands of United States Dollars, except claim count)*

| | Incurred losses and allocated loss adjustment expenses, net of reinsurance | | | | | | | | | | As of November 30, 2021 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | For the years ended November 30, | | | | | | | | | | | |
| Accident year | 2012 (unaudited) | 2013 (unaudited) | 2014 (unaudited) | 2015 (unaudited) | 2016 (unaudited) | 2017 (unaudited) | 2018 (unaudited) | 2019 (unaudited) | 2020 (unaudited) | 2021 | IBNR (1) | Cumulative Number of Reported Claims |
| 2012 | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | 0 |
| 2013 | | 2,201 | 2,758 | 2,911 | 2,501 | 3,640 | 4,413 | 4,407 | 4,411 | 4,661 | 522 | 1 |
| 2014 | | | 13,350 | 13,408 | 18,549 | 12,899 | 18,410 | 20,196 | 16,537 | 16,590 | 2,739 | 4 |
| 2015 | | | | 19,729 | 18,378 | 31,764 | 30,632 | 38,932 | 39,548 | 50,750 | 9,799 | 28 |
| 2016 | | | | | 44,878 | 50,558 | 54,988 | 55,430 | 57,496 | 56,793 | 13,958 | 6 |
| 2017 | | | | | | 85,886 | 100,932 | 107,757 | 110,794 | 118,241 | 24,318 | 27 |
| 2018 | | | | | | | 102,458 | 120,496 | 127,541 | 125,377 | 36,421 | 31 |
| 2019 | | | | | | | | 93,026 | 102,929 | 107,898 | 59,593 | 10 |
| 2020 | | | | | | | | | 94,204 | 95,360 | 66,205 | 17 |
| 2021 | | | | | | | | | | 125,872 | 120,282 | 5 |
| | | | | | | | | | Total | $ 701,542 | $ 333,837 | 129 |

(1) *Total of incurred but not reported liabilities plus expected development on reported claims.*

| | Cumulative paid losses and allocated loss adjustment expenses, net of reinsurance | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | For the years ended November 30, | | | | | | | | | |
| Accident year | 2012 (unaudited) | 2013 (unaudited) | 2014 (unaudited) | 2015 (unaudited) | 2016 (unaudited) | 2017 (unaudited) | 2018 (unaudited) | 2019 (unaudited) | 2020 | 2021 |
| 2012 | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — |
| 2013 | | 55 | 229 | 572 | 958 | 1,858 | 2,242 | 2,619 | 2,877 | 3,572 |
| 2014 | | | 776 | 2,026 | 3,330 | 4,602 | 6,217 | 10,590 | 12,764 | 13,240 |
| 2015 | | | | 708 | 2,111 | 3,525 | 11,249 | 17,009 | 18,780 | 25,596 |
| 2016 | | | | | 1,541 | 5,138 | 12,793 | 20,617 | 27,093 | 35,303 |
| 2017 | | | | | | 3,780 | 11,005 | 23,391 | 52,116 | 72,172 |
| 2018 | | | | | | | 3,816 | 23,144 | 52,238 | 68,746 |
| 2019 | | | | | | | | 4,009 | 11,539 | 24,852 |
| 2020 | | | | | | | | | 6,985 | 18,294 |
| 2021 | | | | | | | | | | 2,316 |
| | | | | | | | | Total | | 264,091 |
| | | | | | Liabilities for claims and claims adjustment expenses, net of reinsurance | | | | | $ 437,451 |

| | Average annual percentage payout of incurred losses by age, net of reinsurance (1) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Years | 1 (unaudited) | 2 (unaudited) | 3 (unaudited) | 4 (unaudited) | 5 (unaudited) | 6 (unaudited) | 7 (unaudited) | 8 (unaudited) | 9 (unaudited) | 10 (unaudited) |
| | 3 % | 7 % | 10 % | 18 % | 11 % | 9 % | — % | — % | — % | — % |

(1) *Unaudited supplementary information*

***Specialty***

*(Expressed in thousands of United States Dollars, except claim count)*

| | Incurred losses and allocated loss adjustment expenses, net of reinsurance | | | | | | | | | | As of November 30, 2021 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | For the years ended November 30, | | | | | | | | | | | |
| Accident year | 2012 (unaudited) | 2013 (unaudited) | 2014 (unaudited) | 2015 (unaudited) | 2016 (unaudited) | 2017 (unaudited) | 2018 (unaudited) | 2019 (unaudited) | 2020 (unaudited) | 2021 | IBNR (1) | Cumulative Number of Reported Claims |
| 2012 | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | 0 |
| 2013 | | 1,742 | 2,284 | 827 | 571 | 819 | 781 | 709 | 674 | 654 | 39 | 3 |
| 2014 | | | 11,857 | 12,478 | 10,293 | 8,377 | 9,128 | 8,870 | 8,733 | 8,611 | 142 | 19 |
| 2015 | | | | 27,712 | 26,756 | 19,436 | 19,411 | 17,644 | 16,930 | 15,478 | 313 | 38 |
| 2016 | | | | | 40,055 | 38,519 | 33,088 | 27,197 | 23,912 | 19,596 | 1,769 | 56 |
| 2017 | | | | | | 74,532 | 57,419 | 49,145 | 41,105 | 40,984 | 3,075 | 69 |
| 2018 | | | | | | | 83,337 | 76,496 | 70,961 | 70,404 | 6,837 | 94 |
| 2019 | | | | | | | | 103,945 | 99,277 | 89,432 | 6,717 | 97 |
| 2020 | | | | | | | | | 122,824 | 113,427 | 45,530 | 76 |
| 2021 | | | | | | | | | | 133,091 | 115,481 | 4 |
| | | | | | | | | | Total | $ 491,677 | $ 179,903 | 456 |

(1) *Total of incurred but not reported liabilities plus expected development on reported claims.*

| | Cumulative paid losses and allocated loss adjustment expenses, net of reinsurance | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | For the years ended November 30, | | | | | | | | | |
| Accident year | 2012 (unaudited) | 2013 (unaudited) | 2014 (unaudited) | 2015 (unaudited) | 2016 (unaudited) | 2017 (unaudited) | 2018 (unaudited) | 2019 (unaudited) | 2020 (unaudited) | 2021 |
| 2012 | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — |
| 2013 | | 14 | 438 | 406 | 425 | 517 | 583 | 590 | 589 | 587 |
| 2014 | | | 2,218 | 7,196 | 6,767 | 6,362 | 7,459 | 7,508 | 7,523 | 8,206 |
| 2015 | | | | 3,330 | 8,650 | 13,162 | 13,210 | 14,320 | 14,511 | 14,528 |
| 2016 | | | | | 3,124 | 10,219 | 8,644 | 13,168 | 15,711 | 16,259 |
| 2017 | | | | | | 4,008 | 16,943 | 26,891 | 32,745 | 33,622 |
| 2018 | | | | | | | 9,152 | 32,347 | 49,076 | 51,574 |
| 2019 | | | | | | | | 11,740 | 43,241 | 59,058 |
| 2020 | | | | | | | | | 15,150 | 50,954 |
| 2021 | | | | | | | | | | 9,785 |
| | | | | | | | | | Total | $ 244,573 |
| | | | | | | | | | Liabilities for claims and claims adjustment expenses, net of reinsurance | $ 247,104 |

| | Average annual percentage payout of incurred losses by age, net of reinsurance (1) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Years | 1 (unaudited) | 2 (unaudited) | 3 (unaudited) | 4 (unaudited) | 5 (unaudited) | 6 (unaudited) | 7 (unaudited) | 8 (unaudited) | 9 (unaudited) | 10 (unaudited) |
| | 11 % | 26 % | 4 % | (1)% | 12 % | 9 % | — % | — % | — % | — % |

(1) *Unaudited supplementary information*

***Reconciliation***

| *(Expressed in thousands of United States Dollars)* | **November 30, 2021** |
|---|---|
| Net outstanding liabilities | |
| Property | $ 356,914 |
| Casualty | 437,451 |
| Specialty | 247,104 |
| Liabilities for unpaid losses and loss adjustment expenses, net of reinsurance | 1,041,469 |
| | |
| Reinsurance recoverable on unpaid claims | |
| Property | 86,763 |
| Casualty | 134,120 |
| Specialty | 23,239 |
| Total reinsurance recoverable on unpaid claims | 244,122 |
| | |
| Other insurance lines | 1,430 |
| Unallocated loss adjustment expenses | 4,975 |
| Other (i.e. discounting; provision for uncollectible reinsurance, etc) | (7,685) |
| | (1,280) |
| | |
| **Total gross liability for unpaid losses and loss adjustment expenses** | **$ 1,284,311** |

## 7. Letter of Credit Facilities

The Company has several available letter of credit facilities provided by commercial banks. These facilities are utilized to provide collateral to reinsureds of Hamilton Re and its affiliates to the extent required under reinsurance agreements and to support the capital requirements of the Company's affiliated Lloyd's operations.

On December 5, 2018 Hamilton Re entered into a committed letter of credit facility agreement with Citibank Europe PLC ("Citi") under which Citi agreed to make available to Hamilton Re a secured letter of credit facility of $50 million for a term that expired on December 5, 2020. On December 4, 2020 Hamilton Re amended and restated its committed letter of credit facility agreement with Citibank Europe PLC under which Citi agreed to make available to Hamilton Re a secured letter of credit facility of $75 million for a term that will expire on December 5, 2022.

On June 28, 2019, Hamilton Re amended its letter of credit facility agreement with Macquarie Funding LLC ("Macquarie") (the "Macquarie Facility"), as further amended on September 30, 2019, under which Macquarie and certain of its affiliates agreed to make available to Hamilton Re a secured letter of credit facility for up to an aggregate amount of $50 million. The Company did not extend or renew the Macquarie Facility, allowing it to terminate on its expiry date of June 30, 2021.

On December 10, 2019, Hamilton Re and Hamilton Group amended and restated its unsecured letter of credit agreement with a syndication of lenders, as further amended on May 25, 2021 (the "Unsecured Facility). Under the Unsecured Facility, the lenders have agreed to provide up to an aggregate of $415 million of letter of credit capacity for the Company, up to $150 million of which may be utilized for revolving loans to be issued to Hamilton Group. To the extent such loans are issued, the available letter of credit capacity shall decrease proportionally, such that the aggregate credit exposure for the lenders under the credit agreement is $415million. Capacity is provided by Wells Fargo Bank, National Association, Truist Bank, BMO Harris Bank N.A., Commerzbank AG, New York Branch, HSBC Bank USA, National Association and Barclays Bank Plc. Unless renewed or otherwise terminated in accordance with its terms, the Unsecured Facility is scheduled to terminate on May 25, 2024.

On August 13, 2021, Hamilton Re and an affiliate entered into a committed letter of credit facility agreement with Bank of Montreal ("BMO"), with Hamilton Group as guarantor, under which BMO agreed to make available a secured letter of credit facility of $50 million for a term that will expire on August 13, 2023.

On October 28, 2021, Hamilton Re amended its letter of credit facility agreement with UBS AG ("UBS") under which UBS and certain of its affiliates agreed to make available to Hamilton Re a secured letter of credit facility of $100 million for a term that will expire on October 28, 2022.

In addition, Hamilton Re is the borrower under an unsecured letter of credit facility agreement that it utilizes to provide Funds at Lloyd's ("FAL") ("FAL LOC Facility") to support the FAL requirements of Syndicate 3334 and Syndicate 4000. See Note 10, *Commitments and Contingencies* for further details. Capacity is provided by Barclays Bank PLC, ING Bank N.V., London Branch and Bank of Montreal, London Branch.

The Company's obligations under the Letter of Credit facilities require Hamilton Re to comply with various covenants. The Company was in compliance with all such covenants at November 30, 2021.

At November 30, 2021, the facilities were secured by pledged interests in the TS Hamilton Fund and the Company's fixed income security portfolio. The Company's facilities at November 30, 2021, and associated securities pledged, were as follows:

| *(Expressed in thousands of United States Dollars)* | | **2021** |
|---|---|---|
| Available letter of credit facilities - commitments | $ | 892,378 |
| Available letter of credit facilities - in use | | 569,803 |
| | | |
| Security pledged under letter of credit facilities | | |
| Cash | $ | 23,816 |
| Pledged interests in fixed income portfolio | | 96,250 |
| Pledged interests in TS Hamilton Fund | | 201,350 |

The Company has recognized interest expense related to the above credit facilities of $5.9 million, $5.8 million and $5.8 million for the years ended November 30, 2021, 2020 and 2019 respectively.

**8. Stock Incentive Plans**

Hamilton Group has a stock incentive plan under which employees, directors, and consultants of Hamilton Group may be granted restricted stock units, performance stock awards, restricted stock awards, warrants, options, stock appreciation rights, and stock bonus awards. During the years ended November 30, 2021, 2020 and 2019, the Company was recharged by Hamilton Group for amounts related to the stock incentive plan in the amounts of $2.6 million, $1.2 million and $2.7 million, respectively.

**9. Income Taxes**

Hamilton Re is domiciled in Bermuda and is not subject to Bermuda income tax under current Bermuda law. In the event there is a change in the current law and taxes are imposed, Hamilton Re would be exempt from tax until 2035, pursuant to the Exempted Undertakings Tax Protection Act of 1966 of Bermuda, as amended. Hamilton Re US, a U.S. tax corporation formed in partnership with a Hamilton ILS Holdings Limited, began operations in December 2020. Hamilton Re U.S. operates in and is subject to tax in the United States.

Net income (loss) before taxes by tax jurisdiction for the years ended November 30, 2021, 2020 and 2019 is as follows:

| *(Expressed in thousands of United States Dollars)* | 2021 | 2020 | 2019 |
|---|---|---|---|
| Jurisdiction: | | | |
| Bermuda | $ 335,261 | $ (106,387) | $ 131,989 |
| United States | (2,027) | — | — |
| Income before income tax | $ 333,234 | $ (106,387) | $ 131,989 |

Income tax expense (benefit) consists of the following components for the years ended November 30, 2021, 2020 and 2019:

| *(Expressed in thousands of United States Dollars)* | 2021 | 2020 | 2019 |
|---|---|---|---|
| Current - Bermuda | $ 10,489 | $ 9,425 | $ 8,078 |
| Current - United States | — | — | — |
| Total current tax | 10,489 | 9,425 | 8,078 |
| | | | |
| Deferred - United States | (426) | — | — |
| Total deferred tax | (426) | — | — |
| Total income tax expense | $10,063 | $9,425 | $8,078 |

The following table presents a reconciliation of taxes calculated using the 0% Bermudian statutory rate (the tax rate at which the majority of Hamilton Group's worldwide operations are taxed) to the income tax benefit (expense) on pre-tax (loss) income for the years ended November 30, 2021, 2020 and 2019:

| *(Expressed in thousands of United States Dollars)* | 2021 | 2020 | 2019 |
|---|---|---|---|
| Expected tax provision at Bermuda statutory tax rate of 0% | $ — | $ — | $ — |
| Permanent differences: | | | |
| Taxes on earnings subject to rate other than Bermuda statutory rate | (426) | — | — |
| Withholding tax | 10,489 | 9,425 | 8,078 |
| Total income tax expense: | $ 10,063 | $ 9,425 | $ 8,078 |

Withholding taxes on investment income from TS Hamilton Fund represent substantially all of the cash taxes paid by Hamilton Re in the amount of $10.5 million, $9.4 million, and $8.1 million for the years ended November 30, 2021, 2020 and 2019, respectively.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for tax purposes. The following table presents Hamilton Re US deferred tax assets and liabilities for the years ended November 30, 2021, 2020 and 2019:

| *(Expressed in thousands of United States Dollars)* | **2021** | **2020** | **2019** |
|---|---|---|---|
| Deferred tax assets: | | | |
| U.S. net operating loss carryforwards | $ 691 | $ — | $ — |
| Unearned Premium Reserve | 940 | — | — |
| Loss Reserve Discounting | 149 | — | — |
| Total deferred tax assets | 1,780 | — | — |
| Deferred tax liabilities: | | | |
| Deferred acquisition costs | (1,354) | — | — |
| Total deferred tax liabilities | (1,354) | — | — |
| Net deferred tax asset (liability) | $ 426 | $ — | $ — |

Hamilton Re US had the following net operating loss carry-forwards, inclusive of cumulative currency translation adjustments, as of November 30, 2021:

*(Expressed in thousands of United States Dollars)*

| **Tax jurisdiction** | **Losses carried forward** | **Tax effect** | **Expiration** |
|---|---|---|---|
| United States | $ 3,291 | $ 691 | 2040 - 2041 |

Recognition of the benefit of a given tax position is based upon whether a company determines that it is more likely than not that a tax position will be sustained upon examination based upon the technical merits of the position. At November 30, 2021, the Hamilton Re believes that it has no uncertain tax positions that, if challenged on technical merits, would cause a material effect on the Company's consolidated financial statements.

Hamilton Re classifies all interest and penalties on unrecognized tax benefits as part of income tax expense. During the years ended November 30, 2021, 2020 and 2019 the Company did not recognize any net interest income or expense on unrecognized tax benefits. There was no accrued interest as of November 30, 2021.

Hamilton Re is no longer subject to tax examinations by U.S. federal before 2018.

## 10. Commitments and Contingencies

*Concentrations of Credit Risks*

Credit risk arises out of the failure of a counter-party to perform according to the terms of the contract. The Company underwrites most of its insurance and reinsurance business through brokers and credit risk exists should any of these brokers be unable to fulfill their contractual obligations with respect to the payments of insurance and reinsurance balances to the Company. During the years ended November 30, 2021, 2020 and 2019 gross premiums written generated from or placed by the below companies individually accounted for more than 9% of the Company's consolidated gross written premiums, as follows:

| *(Percentage of consolidated gross premiums written)* | 2021 | 2020 | 2019 |
|---|---|---|---|
| Intercompany | 47 % | 42 % | 19 % |
| Marsh & McLennan Companies, Inc | 22 % | 22 % | 28 % |
| Aon plc | 17 % | 21 % | 32 % |
| Willis Towers Watson plc | 9 % | 9 % | 12 % |
| All Others/Direct | 5 % | 6 % | 9 % |
| Total | 100 % | 100 % | 100 % |

The Company believes that the brokers will meet all of their obligations. The Company's credit risk is generally reduced by the contractual right to offset loss obligations against premiums receivable.

*Lloyd's Capital Requirements*

Lloyd's bases the capital funding requirements of the Hamilton Group's corporate members, Hamilton Corporate Member Limited ("HCML") and Ironshore CC (Three) Ltd. ("ICCL"), on their latest approved Economic Capital Assessments which are determined by reference to their business plans, internal capital models, and actual performance, among other factors, as well as any other relevant corporate member obligations or receivables. Capital may be in the form of FAL or Funds in Syndicate ("FIS"). While FAL is generally available to settle the obligations of the corporate members, FIS is only available to support the capital requirements arising in the syndicate to which it relates.

Syndicate 3334 was solely supported by HCML for the 2015-2019 underwriting years of account ("YOA"), at which time Syndicate 3334 ceased underwriting operations. Syndicate 4000 was solely supported by ICCL for the 2019 underwriting YOA and solely supported by HCML for the 2020 underwriting YOA and all years thereafter. For the 2020 underwriting YOA onwards, Hamilton Group's Lloyd's operations consist of a managing agent, Hamilton Managing Agency Limited, which manages the affairs of Syndicate 4000 and the run-off of Syndicate 3334 on behalf of HCML and ICCL.

As at November 30, 2021, the FAL provided by Hamilton Re was comprised of (1) a $105.0 million unsecured letter of credit for the benefit of HCML and (2) a $100.0 million unsecured letter of credit and $334.1 million of fixed income and cash support for the benefit of ICCL.

Notwithstanding the above, the corporate members and Hamilton Managing Agency Limited have received approval from Lloyd's for the FAL provided by the Company (and other forms of FAL otherwise made available to the corporate members in support of their capital obligations) to be made interavailable, subject to any requirements or restrictions from Lloyd's from time to time.

*Indemnifications*

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

*Bermuda Infrastructure Fund*

On April 27, 2018, Hamilton Re entered into a limited partnership agreement with Fortress Bermuda Infrastructure Partners (A) LP (the "Fund"), whose purpose is to provide capital for development of various Bermuda-based infrastructure projects. Hamilton Re committed to subscribing to the Fund for up to an aggregate of $5.0 million, upon demand. As of November 30, 2021, less than $0.6 million had been called under the agreement.

**11. Related Party Transactions**

Receivables from related parties as at November 30, 2021 and November 30, 2020 were $7.3 million and $15.1 million, respectively. These amounts represent balances due from affiliates that are unsecured, non interest bearing and due on demand.

Payables to related parties as at November 30, 2021 and November 30, 2020 were comprised of $4.6 million and $0.4 million, respectively, representing balances due to affiliates that are unsecured, non interest bearing and due on demand and withdrawals payable representing withdrawals made by the Managing Member of TS Hamilton Fund at November 30, 2021 of $28.9 million which were paid in December 2021.

Hamilton Re provides intercompany reinsurance to affiliates. The following table summarizes the impact of intercompany reinsurance for the years ended November 30, 2021, 2020 and 2019:

| *(Expressed in thousands of United States Dollars)* | 2021 | 2020 | 2019 |
|---|---|---|---|
| Gross premiums written | $ 494,737 | $ 309,031 | $ 108,542 |
| Net premiums earned | 421,246 | 204,793 | 110,167 |
| Losses and loss adjustment expenses | (251,823) | (156,237) | (108,519) |
| Acquisition costs | (139,686) | (66,897) | (37,141) |
| Net income (loss) on related party reinsurance | $ 29,737 | $ (18,341) | $ (35,493) |

Included in the Company's balance sheet as at November 30, 2021 and November 30, 2020 are the following balances related to intercompany reinsurance:

| *(Expressed in thousands of United States Dollars)* | 2021 | 2020 |
|---|---|---|
| Premiums receivable | $ 417,326 | $ 214,722 |
| Deferred acquisition costs | 74,664 | 49,073 |
| Reserve for losses and loss adjustment expenses | 276,524 | 169,579 |
| Unearned premiums | 227,504 | 154,013 |

During June 2017, Hamilton Re established Turing Re, a special purpose insurer, to provide collateralized reinsurance capacity for Hamilton Re's property treaty business. The following table summarizes the impact of the business ceded to Turing Re for the years ended November 30, 2021, 2020 and 2019:

| *(Expressed in thousands of United States Dollars)* | 2021 | 2020 | 2019 |
|---|---|---|---|
| Reinsurance premiums ceded | $ (556) | $ (17,348) | $ (24,149) |
| Net premiums earned | (2,095) | (18,404) | (23,184) |
| Losses and loss adjustment expenses | (7,935) | (866) | 32,523 |
| Acquisition costs | 664 | 3,550 | 4,081 |
| Net gain (loss) on related party reinsurance | $ (9,366) | $ (15,720) | $ 13,420 |

In 2020 Hamilton Group established ACML, an insurance agent authorized to underwrite on behalf of Ada Re, as more fully described in Note 1., *Organization*. No business was ceded to Ada Re for the year ended November 30, 2020. The following table summarizes the impact of the business ceded to Ada Re for the year ended November 30, 2021:

| *(Expressed in thousands of United States Dollars)* | **2021** |
|---|---|
| Reinsurance premiums ceded | $ (13,553) |
| Net premiums earned | (12,428) |
| Losses and loss adjustment expenses | 9,015 |
| Acquisition costs | 2,144 |
| Net gain (loss) on related party reinsurance | $ (1,269) |

**12. Statutory Requirements**

The statutory net income (loss) for the Company for the years ended November 30, 2021, 2020 and 2019, was $262 million; $(140.7) million and $56.1 million, respectively.

At November 30, 2021 the primary difference between statutory financial statements and statements prepared in accordance with GAAP is that statutory financial statements do not reflect prepaid expenses, intangible assets or deferred tax asset.

Under the Insurance Act 1978, amendments thereto and Related Regulations of Bermuda (the "Insurance Act"), Hamilton Re is required to prepare statutory financial statements and to file with the Bermuda Monetary Authority ("BMA") a statutory financial return. As a Class 4 (re)insurer, Hamilton Re must maintain capital at the greater of a minimum solvency margin ("MSM") and its Enhanced Capital Requirement ("ECR"), which is established by reference to the Bermuda Solvency Capital Requirement ("BSCR") model. The BSCR model is a risk-based capital model for determining a (re)insurer's statutory capital and surplus requirements by weighting the risk characteristics of various aspects of the (re)insurer's business. The Insurance Act also requires Hamilton Re to maintain certain measures of solvency and liquidity. The MSM to be maintained by a Class 4 insurer with respect to its general business is the greater of (i) $100 million, or (ii) 50% of net premiums written (with a credit for reinsurance premiums ceded up to 25% of gross premiums written) or (iii) 15% of net discounted aggregate loss and loss expense provisions and other insurance reserves.

The BSCR for Hamilton Re for the year ended November 30, 2021 will not be filed with the BMA until March 2022 . As a result, the required statutory capital and surplus disclosed as at November 30, 2021 is based on the MSM. At November 30, 2021, the actual statutory capital and surplus of Hamilton Re was $1.7 billion and the MSM was $469.7 million.

The BMA uses the economic balance sheet ("EBS") framework as the basis for determining Hamilton Re's ECR. Under the EBS, assets and liabilities are mainly assessed and reported at fair value, using the (re)insurer's GAAP balance sheet as the starting point. The model also requires insurers to estimate insurance technical provisions, which consist of the insurer's insurance-related balances valued based on best-estimate cash flows, adjusted to reflect the time value of money using a risk-free discount rate, with the addition of a risk margin to reflect the uncertainty of the underlying cash flows.

Independent of the Insurance Act, the BMA has also established a target capital level ("TCL") for Class 4 (re)insurers, equal to 120% of their ECR. While Hamilton Re is not required to maintain their statutory capital and surplus at this level, the TCL serves as an early warning tool for the BMA and failure to maintain statutory capital at least equal to the TCL will likely result in increased regulatory oversight. Hamilton Re's actual capital and surplus levels are expected to exceed the TCL at November 30, 2021.

Hamilton Re received approval from the BMA to treat its investment in TS Hamilton Fund as a "Relevant Asset" for the purpose of computing its "Liquidity Ratio" (under which relevant assets must be maintained at not less than 75% of relevant liabilities) in respect of 2022 and 2021. Hamilton Re is in compliance with the Liquidity Ratio at November 30, 2021.

Under the Insurance Act, Hamilton Re is restricted as to the payment of dividends and/or distributions for amounts greater than 25% of the prior year's statutory capital and surplus. In addition, before reducing its total statutory capital by 15% or more (as set out in its previous year's statutory financial statements), a Class 4 Bermuda insurance subsidiary must make application to the BMA for permission to do so; such application shall consist of an affidavit signed by at least two directors and such insurance subsidiary's principal representative stating that, in their opinion, the proposed reduction in capital will not cause such subsidiary to fail to meet its relevant margins, and such other information as the BMA may require. For the year ended November 30, 2021, Hamilton Re had capacity to pay dividends of $377.1 million without prior approval under Bermuda law, of which $30.0 million of dividends were paid during the year. It is estimated that Hamilton Re will have capacity to pay dividends of $435.6 million in 2022.

**13. Subsequent Events**

The Company has evaluated subsequent events through February 11, 2022, the date these financial statements were available to be issued, and concluded that, except as disclosed below, there are no subsequent events requiring recognition or disclosure.

*Change in Year End*

On January 28, 2022, the Company changed its fiscal year end from November 30 to December 31. Accordingly, financial statements for the 2022 fiscal year will be for the periods ended March 31, June 30, September 30 and December 31.