HARRINGTON RE LTD.

Consolidated Financial Statements and
Independent Auditors' Report

For the Years Ended December 31, 2021 and 2020

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholder of Harrington Re Ltd.

Opinion

We have audited the consolidated financial statements of Harrington Re Ltd. (the "Company"), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of income (loss), changes in shareholder's equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of their operations, changes in their shareholder's equity and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

Deloitte Ltd.

May 31, 2022

HARRINGTON RE LTD.
CONSOLIDATED BALANCE SHEETS
As of December 31, 2021 and 2020
(U.S. dollars in thousands, except share and per share amounts)

	2021	2020
Assets		
Investments *(Cost 2021: $1,143,646; 2020: $948,289)*	$ 1,514,693	$ 1,079,791
Cash and cash equivalents	138,103	119,798
Reinsurance balances receivable	161,196	158,383
Deferred acquisition costs	53,696	45,513
Prepaid expenses	5,900	4,946
Other assets	40,202	38,025
Total assets	$ 1,913,790	$ 1,446,456
Liabilities		
Reserve for losses and loss expenses	$ 686,597	$ 604,469
Unearned premiums reserve	182,826	164,634
Credit facility loan payable	70,000	70,000
Accounts payable and accrued expenses	26,245	20,353
Other liabilities	14,794	5,281
Total liabilities	980,462	864,737
Shareholder’s equity		
Common shares	1,000	1,000
Contributed surplus	648,096	532,771
Retained earnings	284,232	47,948
Total shareholder’s equity	933,328	581,719
Total liabilities and shareholder’s equity	$ 1,913,790	$ 1,446,456

See Notes to the Consolidated Financial Statements

HARRINGTON RE LTD.
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
For the Years Ended December 31, 2021 and 2020
(U.S. dollars in thousands)

		2021		2020
Revenues				
Gross premiums written	$	285,915	$	260,705
Change in unearned premiums reserve		(18,192)		(12,908)
Net premiums earned		267,723		247,797
Net investment income		245,705		17,741
Total revenues		513,428		265,538
Expenses				
Losses and loss expenses		188,145		197,779
Acquisition costs		70,934		65,095
General and administrative expenses		7,878		6,123
Corporate expenses		4,669		3,665
Financing costs		109		224
Foreign exchange (gain) loss		(1,091)		1,589
Total expenses		270,644		274,475
Net income (loss)	$	242,784	$	(8,937)

See Notes to the Consolidated Financial Statements

HARRINGTON RE LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY
For the Years Ended December 31, 2021 and 2020
(U.S. dollars in thousands)

	2021	2020
Common shares		
Balance at beginning and end of year	$ 1,000	$ 1,000
Contributed surplus		
Balance at beginning of year	532,771	532,446
Share-based compensation expense	325	325
Contributions from Parent	115,000	-
Balance at end of year	648,096	532,771
Retained earnings		
Balance at beginning of year	47,948	56,885
Net income (loss)	242,784	(8,937)
Common share dividends	(6,500)	-
Balance at end of year	284,232	47,948
Total shareholder's equity	$ 933,328	$ 581,719

See Notes to the Consolidated Financial Statements

HARRINGTON RE LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2021 and 2020
(U.S. dollars in thousands)

	2021	2020
Operating activities:		
Net income (loss)	$ 242,784	$ (8,937)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Net realized gains and change in unrealized gains and losses on investments	(261,340)	(26,199)
Net accretion of discount on fixed maturities	(353)	(201)
Share-based compensation expense	325	325
Changes in:		
Reinsurance balances receivable	(2,813)	(27,009)
Deferred acquisition costs	(8,183)	(1,584)
Prepaid expenses	(954)	(1,113)
Reserve for losses and loss expenses	82,128	105,668
Unearned premiums reserve	18,192	12,908
Other items	10,890	13,657
Net cash provided by operating activities	80,676	67,515
Investing activities:		
Purchases of investments	(716,460)	(297,978)
Sales of investments	542,675	269,575
Net cash used in investing activities	(173,785)	(28,403)
Financing activities:		
Contributions from Parent	115,000	-
Payments for redemptions from general partner of the fund	(3,567)	(7,448)
Net cash provided by (used in) financing activities	111,433	(7,448)
Effect of exchange rate changes on foreign currency cash and cash equivalents	(19)	926
Net increase in cash and cash equivalents	18,305	32,590
Cash and cash equivalents, beginning of year	119,798	87,208
Cash and cash equivalents, end of year	$ 138,103	$ 119,798
Interest paid	$ 1,570	$ 2,174

See Notes to the Consolidated Financial Statements

1. General

Harrington Re Ltd. ("Harrington Re") was incorporated under the laws of Bermuda on March 16, 2016, and is a wholly-owned subsidiary of Harrington Reinsurance Holdings Limited (the "Parent"). The Parent was incorporated under the laws of Bermuda on March 15, 2016.

Harrington Re is licensed as a Class 4 multi-line insurer under the Insurance Act 1978, amendments thereto and Related Regulations of Bermuda (the "Insurance Act") and is licensed to underwrite general business on an insurance and reinsurance basis. Harrington Re was licensed by the Bermuda Monetary Authority (the "BMA") effective June 22, 2016 and commenced its operations subsequently. Harrington Re provides a broad range of reinsurance products on a worldwide basis.

During the second quarter of 2016, the Parent raised approximately $542.0 million in net proceeds through the issuance of its common shares.

AXIS Capital Holdings Limited ("AXIS Capital") through a wholly-owned subsidiary, AXIS Ventures Limited (effective March 8, 2022, AXIS Ventures Limited changed its name to AXIS ILS Ltd.), invested $100.0 million and acquired 18.1% of the Parent's common equity. The investment was subsequently increased to 19.0% of the Parent's common equity. The Blackstone Group Inc. ("Blackstone Group"), through a wholly-owned subsidiary, together with investment entities formed for certain senior professionals and employees of the Blackstone Group, have in total acquired 9.9% of the Parent's common equity.

Harrington Re has engaged AXIS Reinsurance Managers Limited ("ARM" or the "Liability Manager"), a company incorporated in Bermuda and a wholly-owned subsidiary of AXIS Capital, to act as its liability manager pursuant to a services agreement dated July 1, 2016 (the "Services Agreement"). The Liability Manager manages the day-to-day underwriting activities of Harrington Re subject to the provisions of the Services Agreement and the oversight of Harrington Re's management and Board of Directors (the "Board"). See Note 13, *"Related party transactions"* for further details.

Pursuant to an investment management agreement dated July 1, 2016 (the "Investment Management Agreement") between Blackstone Harrington Partners L.P., a Cayman Islands exempted limited partnership (the "Fund") and Blackstone Multi-Asset Advisors L.L.C., a Delaware limited liability company and an affiliate of the Blackstone Group ("BMAA"), which was assigned by BMAA to Blackstone ISG-II Advisors L.L.C., a Delaware limited liability company and an affiliate of the Blackstone Group ("BISA-II" or the "Investment Manager"), as of October 1, 2017, BISA-II serves as the investment manager of the assets of Harrington Re that are invested in the Fund. Blackstone Harrington Associates L.L.C., a Delaware limited liability company (the "General Partner"), serves as the general partner of the Fund. Harrington Re is the sole limited partner of the Fund. The Fund seeks to achieve attractive risk-adjusted returns through a portfolio of diversified investments, which includes a significant allocation to alternative assets. See Note 13, *"Related party transactions"* for further details.

2. Significant accounting policies

(a) Basis of Presentation

These consolidated financial statements have been prepared in accordance with accounting policies generally accepted in the United States of America ("U.S. GAAP") and include the accounts of Harrington Re and Blackstone Harrington Partners L.P., a variable interest entity ("VIE") in which Harrington Re is considered to be the primary beneficiary (together referred to as the "Company", and together with the Parent, the "Group").

The Company is the primary beneficiary of a VIE if it has a controlling financial interest in a VIE, if it has both (a) the power to direct the activities of a VIE that most significantly impact the performance of a VIE, and (b) the obligation to absorb losses or the right to receive benefits from a VIE that could potentially be significant to a VIE.

All intercompany accounts and transactions have been eliminated.

All amounts are reported in U.S. dollars. Tabular data are in thousands.

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. While management believes that the amounts included in the consolidated financial statements reflect its best estimates and assumptions, actual results could differ from those estimates.

COVID-19 and Global Economic Market Conditions

The impact of the novel coronavirus ("COVID-19") pandemic has rapidly evolved around the globe, causing disruption in the U.S. and global economies. Although the global economy began reopening in 2021 and robust economic activity has supported a continued recovery, the emergence of new variants has contributed to setbacks to the recovery in the U.S. and abroad. The estimates and assumptions underlying these consolidated financial statements are based on the information available as of December 31, 2021. The estimates and assumptions include judgments about financial market and economic conditions which have changed, and may continue to change, over time.

2. Significant accounting policies (cont.)

(b) Premiums and Acquisition Costs

<u>*Premiums*</u>

Reinsurance premiums written are recorded in accordance with the terms of the underlying policies. Reinsurance premiums are recorded at the inception of the contract and are estimated based upon information received from ceding companies. For multi-year contracts where reinsurance premiums are payable in annual installments, premiums are recorded at the inception of the contract based on management's best estimate of total premiums to be received. However, premiums are normally recognized on an annual basis for multi-year contracts where the cedant has the ability to unilaterally commute or cancel coverage within the term of the policy. The remaining annual premiums are included as written at each successive anniversary date within the multi-year term. Any subsequent differences arising on reinsurance premium estimates are recorded in the period they are determined.

Reinsurance premiums are generally earned based on information received from ceding companies over the period during which we are exposed to the underlying risk, which is usually one to two years with the exception of multi-year contracts. Unearned premiums represent the portion of premiums written which is applicable to the unexpired risks under contracts in force.

Reinstatement premiums are recognized and earned at the time a loss event occurs, where the coverage limits for the remaining life of the contract are reinstated under pre-defined contract terms. The accrual of reinstatement premiums is based on an estimate of losses and loss expenses, which reflects management's judgment, as described in Note 2(c) *"Losses and Loss Expenses"* below.

Treatment of retroactive reinsurance contracts is described in Note 2(d) *"Retroactive reinsurance accounting"*.

Premiums receivable balances are reviewed for impairment at least quarterly and an allowance is established for amounts considered uncollectible. The need for charge-off of any amounts previously reserved as uncollectible is assessed on a quarterly basis.

<u>*Acquisition Costs*</u>

Acquisition costs vary with and are directly related to the acquisition of reinsurance contracts and consist primarily of fees and commissions paid to brokers, underwriting fees paid to the Liability Manager and premium taxes. Premiums receivable are presented net of applicable acquisition costs when contract terms provide for the right of offset.

Total acquisition costs are deferred and charged to expense as the related premium is earned. Anticipated losses and loss expenses, other costs and investment income related to these premiums are considered in assessing the recoverability of our deferred acquisition costs. If deferred amounts are estimated to be unrecoverable, they are expensed.

2. Significant accounting policies (cont.)

(c) Losses and Loss Expenses

The reserve for losses and loss expenses represents an estimate of the unpaid portion of our ultimate liability for losses and loss expenses for reinsured events that have occurred at or before the balance sheet date. The balance reflects both claims that have been reported to the Company ("case reserves") and claims that have been incurred but not yet reported to the Company ("IBNR"). IBNR includes an estimate for expected increases in case reserves which have not yet been allocated to case reserves. These amounts are reduced for estimated amounts of salvage and subrogation recoveries.

Management reviews our reserve for losses and loss expenses on a quarterly basis. Case reserves are primarily established based on amounts reported by the ceding companies. Management estimates IBNR after reviewing detailed actuarial analyses and applying informed judgment regarding qualitative factors that may not be fully captured in the actuarial estimates. A variety of actuarial methods are utilized in this process, including the Expected Loss Ratio, Bornhuetter-Ferguson and Chain Ladder methods. The reserve estimate is highly dependent on judgment as to which method(s) are most appropriate for a particular accident year and class of business. The historical claims data is often supplemented with industry benchmarks when applying these methodologies.

Any adjustments to the previous reserve for losses and loss expenses estimates are recognized in the period they are determined. While management believes that the reserves for losses and loss expenses are adequate, this estimate requires significant judgment and new information, events or circumstances may result in ultimate losses that are materially greater or less than provided for in the Consolidated Balance Sheets.

Treatment of retroactive reinsurance contracts is described in Note 2(d) *"Retroactive reinsurance accounting"*.

(d) Retroactive reinsurance accounting

Retroactive reinsurance reimburses a ceding company for liabilities incurred as a result of past insurable events covered by the underlying policies reinsured. Written premiums are fully earned and corresponding losses and loss expenses are recognized at inception. In the years that these type of contracts are written, significant variances may occur in gross premiums written, net premiums earned and losses and loss expenses.

Underwriting income (loss) generated in connection with retroactive reinsurance contracts is recorded in the Consolidated Balance Sheets as an Other Liability (Asset) and amortized using the interest method over the expected claims settlement period. This amortization is recognized within losses and loss expenses in the Consolidated Statements of Income (Loss). Subsequent changes in estimated or actual cash flows under such retroactive reinsurance contracts are accounted for by adjusting the previously deferred amount to the balance that would have existed had the revised estimate been available at the inception of the reinsurance transaction, with a corresponding charge or credit to income.

2. Significant accounting policies (cont.)

(e) Investments

The Company has elected the fair value option for its other investments in accordance with Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("ASC") 825 "*Financial Instruments".* As a result, the Company's other investments are reported at fair value with changes in fair value included in earnings in the Consolidated Statements of Income (Loss).

Investments in fixed maturities are classified as trading in accordance with ASC 320 *"Investments – Debt and Equity Securities".* Fixed maturity investments are reported at fair value in the Consolidated Balance Sheets with changes in fair value included in earnings in the Consolidated Statements of Income (Loss).

The fair value of investments in investment funds is generally determined using the reported Net Asset Value ("NAV") per share of the investment fund, or its equivalent, as a practical expedient for fair value, if the reported NAV of the investment fund is calculated in a manner consistent with the measurement principles applied to investment companies. In order to use the practical expedient, the Company has internal processes to independently evaluate the fair value measurement process utilized by the underlying investment fund to calculate the investment fund's NAV. Such internal processes include the evaluation of the investment fund's process and related internal controls in place to estimate the fair value of its underlying investments that are included in the NAV calculation, performing ongoing operational due diligence, review of the investment fund's audited financial statements, and ongoing monitoring of other relevant qualitative and quantitative factors.

The Investment Manager values investments according to U.S. GAAP which defines fair value, establishes a framework for measuring fair value, and requires enhanced disclosures regarding fair value measurements. Fair value 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 (i.e., the exit price) under current market conditions.

Valuation Techniques

Described below are valuation techniques employed by the Investment Manager to determine investment valuations.

The Investment Manager receives market and investment specific data ("Market Data"), including quotations from market participants and pricing services that is used to determine investment fair values. The Investment Manager evaluates Market Data received from market participants and pricing services for investments that are publicly traded as well as private assets that are not traded on an exchange and may require significant judgment when determining the valuation. Investments in open ended registered investment companies and Liquid Multi-Strategy Funds ("UCITS") are valued at the published daily quotation of their net asset value.

When selecting price sources, the Investment Manager generally prioritizes fair value price sources that are most observable for each investment. Below is a listing of the valuation techniques used by the Investment Manager to determine the fair value of the Company's investments as of the measurement date. See Note 5, "*Fair value measurements*", for further discussion relating to the valuation of the Company's investments.

2. Significant accounting policies (cont.)

Over-the-counter market prices

Certain investments that trade on over-the-counter markets may also utilize published transaction prices when it is both readily available and representative of fair value.

Market Participant and Pricing Service quotations

Certain investments that trade on over-the-counter markets, where published transaction prices are not utilized are generally valued with indications of fair value from market participants and pricing services.

To determine the fair value of an investment, market participants and pricing services may consider observable market transactions for identical or similar investments, quotations by other market participants, pricing matrices or pricing relationships between investments with similar characteristics.

When evaluating quotations from a pricing service, the Investment Manager may consider the number of indications of fair value from market participants, the ability to transact at such prices based on recent trading activity, reviews of quotations and prices for similar assets, as well as other Market Data.

Modeled values

Investments that are privately held or thinly traded are generally characterized by few or no quotations and often rely on significant unobservable inputs. The General Partner performs an analysis of these investments incorporating current market conditions, investment terms, capital structure and comparable investments at the measurement date. The General Partner may consider the valuation technique discussed below or other valuation techniques to derive fair value and may apply a significant degree of judgment regarding technique weighting, internal and external assumptions that may be quantitative or qualitative in nature. Under certain circumstances recent transaction prices may be the best indicator of fair value given the proximity of the investment acquisition date to the measurement date.

Discounted cash flow – equity investments

For certain equity investments the General Partner will use projected unlevered free cash flows of the portfolio company. The terminal value is projected using an assumed exit multiple, which is generally based on the performance multiple methodology. All cash flows and the terminal value are discounted back to the valuation date using a discount rate which represents the return a market participant would require for a similar investment and risk profile. The calculation results in an enterprise value which is then reduced by the amount of the net debt outstanding to arrive at the equity value.

Valuation Process

On a quarterly basis, the General Partner validates its valuations of Level 3 investments through back testing of sales of certain material investments by comparing the amounts realized against the most recent fair values reported, and if necessary, uses any findings to recalibrate its valuation procedures.

2. Significant accounting policies (cont.)

Net investment income

Net investment income in the Consolidated Statements of Income (Loss) includes the interest income generated by our cash and cash equivalents, the change in the value of investments managed in the Fund, and is net of investment related expenses. The change in the value of investments managed in the Fund includes the interest and dividend income received by the Fund, realized and unrealized investment gains and losses together with amortization of market premiums and discounts and is net of investment management fees, borrowing costs relating to the credit facilities loans payable and other investment related expenses.

Investment gains or losses realized on the sale of investments are determined on a first-in, first-out basis. See Note 4, *"Investments"* for further details.

(f) Derivative instruments

The Company may enter into derivative instruments such as futures, options, interest rate swaps and foreign currency forward contracts as part of its overall foreign currency risk management strategy, to obtain exposure to a particular financial market or for yield enhancement. The Company measures all derivative instruments at fair value and recognizes them as either assets or liabilities in the Consolidated Balance Sheets. Subsequent changes in fair value and any realized gains or losses are recognized in the Consolidated Statements of Income (Loss).

(g) Cash and cash equivalents

Cash and cash equivalents include cash and investments with original maturities of three months or less.

Cash and cash equivalents are recorded at amortized cost, which approximates fair value due to the short-term, liquid nature of these securities.

(h) Share-Based Compensation

The Parent is authorized to issue stock options and restricted share units to the Company's eligible employees. The fair value of the compensation cost relating to service-based awards is measured at the grant date and expensed on a straight-line basis over the period for which the employee is required to provide services in exchange for the award. The fair value of performance-based awards is measured at the grant date based on pre-established targets relating to certain performance-based measures, with the associated expense recognized on a straight-line basis over the applicable performance and vesting period. Forfeiture benefits are estimated at the time of grant and incorporated in the determination of share-based compensation.

2. Significant accounting policies (cont.)

(i) Foreign Exchange

The Company's functional currency is the U.S. dollar. Revenues and expenses denominated in foreign currencies are revalued at the prevailing exchange rate at the transaction date. Monetary assets and liabilities denominated in foreign currencies are re-measured at exchange rates in effect at the balance sheet date, which may result in the recognition of foreign exchange gains or losses which are included in the determination of net income (loss).

(U.S. dollars in thousands, except share and per share amounts)

3. Reserve for losses and loss expenses

The reserve for losses and loss expenses comprises the following as of December 31, 2021 and 2020:

		2021		2020
Reserve for reported losses and loss expenses	$	238,151	$	203,271
Reserve for losses incurred but not reported		448,446		401,198
Reserve for losses and loss expenses	**$**	**686,597**	**$**	**604,469**

The following table presents a reconciliation of the beginning and ending reserve for losses and loss expenses for the years ended December 31, 2021 and 2020:

		2021		2020
Reserve for losses and loss expenses at beginning of year	$	604,469	$	498,801
Incurred losses and loss expenses relating to losses occurring in:				
Current year		181,163		175,670
Prior years		6,982		22,109
Total incurred losses and loss expenses		188,145		197,779
Paid losses and loss expenses relating to losses occurring in:				
Current year		(14,574)		(18,284)
Prior years		(85,140)		(73,911)
Total paid losses and loss expenses		(99,714)		(92,195)
Foreign exchange movements		(2,032)		5,265
Change in other assets and liabilities		(4,271)		(5,181)
Reserve for losses and loss expenses at end of year	**$**	**686,597**	**$**	**604,469**

3. Reserve for losses and loss expenses (cont.)

In prior years, the Company has entered into retroactive reinsurance contracts which has resulted in the recognition of both a deferred charge asset and an other liability, which are shown as part of Other Assets and Other Liabilities, respectively. The deferred charge asset and other liability are being amortized over the expected remaining loss settlement period using the interest method, and the periodic amortization is being charged to earnings as a component of losses and loss expenses. Subsequent changes in estimated cash flows under these reinsurance contracts has resulted in adjustments to the reserve for losses and loss expenses. These adjustments are accounted for by adjusting the deferred charge asset / other liability to the balance that would have existed had the revised cash flow estimates been available at the inception of the reinsurance transaction. For the year ended December 31, 2021, a net amount of $0.2 million (December 31, 2020: $0.7 million) of amortization relating to these contracts has been charged to losses and loss expenses.

During 2021, the Company recorded net unfavorable prior year loss reserve development of $6.8 million arising from changes to prior year losses and loss expense reserve estimates. This includes $12.3 million related to unfavorable prior year loss reserve development in its longer-tail lines, primarily in the professional and liability lines of business. This was offset by approximately $5.5 million of favorable development, primarily in the motor lines of business.

During 2020, the Company recorded net unfavorable prior year loss reserve development of $21.4 million arising from changes to prior year losses and loss expense reserve estimates. This includes $22.6 million related to unfavorable prior year loss reserve development in its longer-tail lines, primarily in the liability and professional lines of business. This was offset by approximately $1.2 million of favorable development in the shorter-tail lines of business.

Loss development tables

The Company has disaggregated its loss reserve information below by its major lines of business. The Company has presented the below development tables for all accident years shown using exchange rates as of December 31, 2021. All accident years prior to the current year have also been presented using the current year exchange rates.

(U.S. dollars in thousands, except share and per share amounts)

3. Reserve for losses and loss expenses (cont.)

Liability

Incurred Losses and Loss Expenses
Years Ended December 31,

Accident Year	2016 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2020 (Unaudited)	2021	December 31, 2021 Total of IBNR Reserves Plus Expected Development on Reported Losses
2016	$ 24,883	$ 25,986	$ 26,770	$ 25,216	$ 30,050	$ 30,661	$ 5,627
2017		53,715	53,558	56,133	59,189	60,261	15,421
2018			50,661	52,570	54,989	55,142	18,240
2019				53,602	55,922	58,998	30,864
2020					78,028	79,506	56,966
2021						90,373	80,552
					Total	$ 374,941	

Cumulative Paid Losses and Loss Expenses
Years Ended December 31,

Accident Year	2016 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2020 (Unaudited)	2021
2016	$ 1,303	$ 4,783	$ 7,071	$ 11,058	$ 13,784	$ 17,471
2017		1,200	7,757	15,097	24,499	30,931
2018			2,849	7,833	15,740	23,226
2019				2,510	7,878	14,856
2020					3,514	10,328
2021						2,598
					Total	$ 99,410
					Reserve for losses and loss expenses	**$ 275,531**

(U.S. dollars in thousands, except share and per share amounts)

3. Reserve for losses and loss expenses (cont.)

Professional

Incurred Losses and Loss Expenses Years Ended December 31,

Accident Year	2016 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2020 (Unaudited)	2021	December 31, 2021 Total of IBNR Reserves Plus Expected Development on Reported Losses
2016	$ 14,342	$ 14,767	$ 15,772	$ 15,856	$ 16,736	$ 17,180	$ 2,851
2017		40,578	41,556	45,061	48,938	51,120	10,150
2018			43,645	44,263	47,185	48,726	15,967
2019				29,526	30,677	31,603	15,590
2020					30,403	30,660	22,199
2021						34,103	30,250
					Total	$ 213,392	

Cumulative Paid Losses and Loss Expenses Years Ended December 31,

Accident Year	2016 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2020 (Unaudited)	2021
2016	$ 18	$ 879	$ 2,391	$ 4,624	$ 6,630	$ 8,159
2017		689	4,297	10,233	17,142	23,261
2018			1,622	6,507	13,000	19,297
2019				1,015	3,747	7,560
2020					740	3,027
2021						886
					Total	$ 62,190
					Reserve for losses and loss expenses	**$ 151,202**

(U.S. dollars in thousands, except share and per share amounts)

3. Reserve for losses and loss expenses (cont.)

Motor

Incurred Losses and Loss Expenses
Years Ended December 31,

Accident Year	2017 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2020 (Unaudited)	2021	December 31, 2021 Total of IBNR Reserves Plus Expected Development on Reported Losses
2017	$ 3,673	$ 4,060	$ 3,883	$ 3,598	$ 3,722	$ 75
2018		11,843	11,520	12,161	10,631	2,124
2019			21,347	20,262	18,801	5,407
2020				23,414	22,392	9,230
2021					22,025	15,404
				Total	$ 77,571	

Cumulative Paid Losses and Loss Expenses
Years Ended December 31,

Accident Year	2017 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2020 (Unaudited)	2021
2017	$ 3	$ 13	$ 37	$ 289	$ 408
2018		1	31	114	557
2019			520	1,720	3,047
2020				1,771	4,679
2021					2,156
				Total	$ 10,847
				Reserve for losses and loss expenses	**$ 66,724**

Other

Incurred Losses and Loss Expenses
Years Ended December 31,

Accident Year	2017 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2020 (Unaudited)	2021	December 31, 2021 Total of IBNR Reserves Plus Expected Development on Reported Losses
2017	$ 20,914	$ 23,501	$ 22,823	$ 23,130	$ 22,736	$ 635
2018		35,796	34,820	37,291	34,789	554
2019			41,850	39,761	42,983	5,344
2020				43,822	42,443	9,242
2021					34,662	22,275
				Total	$ 177,613	

Cumulative Paid Losses and Loss Expenses
Years Ended December 31,

Accident Year	2017 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2020 (Unaudited)	2021
2017	$ 2,681	$ 13,993	$ 19,035	$ 20,166	$ 20,539
2018		11,393	24,063	32,561	31,751
2019			16,416	28,740	33,592
2020				12,258	28,092
2021					8,934
				Total	$ 122,908
				Reserve for losses and loss expenses	**$ 54,705**

(U.S. dollars in thousands, except share and per share amounts)

3. Reserve for losses and loss expenses (cont.)

The reporting of cumulative claims frequency is deemed to be impracticable as the information necessary to provide cumulative claims frequency for these reserve classes is not available to the Company.

Reconciliation of loss development information to the Reserve for Losses and Loss Expenses

The following table reconciles the loss development information to the Company's reserves for losses and loss expenses as of December 31, 2021:

		2021
Reserve for losses and loss expenses		
Liability	$	275,531
Professional		151,202
Motor		66,724
Other		54,705
Total		548,162
Foreign exchange and other[1]		127
Assumed reserves related to retroactive transactions[2]		138,308
Total reserve for losses and loss expenses	**$**	**686,597**

[1] Non-U.S. dollar denominated loss data is converted to U.S. dollar at the rates of exchange in effect at the balance sheet date for material underlying currencies. Fluctuations in foreign currency exchange rates may cause material shifts in loss development. Reserves for losses and loss expenses disclosed in the Consolidated Balance Sheets are also revalued using the exchange rate at the balance sheet date.
[2] For retroactive insurance contracts we do not believe that analysis of losses incurred and paid by accident year of the underlying event is relevant or meaningful given that our exposure to losses incepts when the contract incepts. Further, in this instance, we believe that the classifications of reported claims and case development liabilities to have no practical analytical value.

Historical loss duration

The following table summarizes the historic average annual percentage payout of incurred losses by age by major line of business as of December 31, 2021:

	Average Annual Percentage Payout of Incurred Losses by Age 2021 (Unaudited)					
	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**
Liability	3.8%	9.8%	11.5%	14.1%	9.8%	12.0%
Professional	2.2%	7.6%	11.5%	13.1%	11.8%	8.9%
Motor	4.1%	5.0%	2.8%	5.5%	3.2%	N/A
Other	27.5%	38.0%	19.3%	1.3%	1.6%	N/A

N/A – Not applicable

(U.S. dollars in thousands, except share and per share amounts)

4. Investments

The Company's investments are comprised of fixed maturities, investments in funds, and other securities managed by BISA-II in the Fund. The Fund is a Cayman Islands exempted limited partnership that was formed on August 20, 2015 and commenced operations on July 5, 2016. Blackstone Harrington Associates L.L.C., a Delaware limited liability company, serves as the general partner of the Fund. Harrington Re is the sole limited partner of the Fund.

Pursuant to the Investment Management Agreement, the Fund is managed by the Investment Manager. The Investment Manager provides certain administrative and investment management services to the Fund, including the investigation, evaluation, selection, allocation, negotiation, structuring, commitment to, monitoring of and disposition of the Fund's investments (including allocation of the Fund's assets among investment strategies). The General Partner and the Investment Manager are affiliates of the Blackstone Group.

Pursuant to a letter agreement dated as of November 2, 2016 (the "Letter Agreement") between BMAA, which was assigned by BMAA to the Investment Manager as of October 1, 2017, and the Parent, the Investment Manager provides (i) certain reporting on the Fund's investment portfolio to the Company's management and the Board and (ii) assistance and support to the Company's management in connection with the Investment Manager's management of the Fund's portfolio by providing certain supplemental reporting, data, analyses and other support (as mutually agreed) with respect to the Fund.

The Fund seeks to achieve attractive risk-adjusted returns through a portfolio of diversified investments, which includes a significant allocation to alternative assets.

The following table summarizes the fair value of the Fund's securities grouped by investment strategy held as of December 31, 2021 and 2020:

	2021	2020
Strategy		
Investment Grade[(1)]	$ 193,071	$ 132,281
Liquid Multi-Strategy Funds[(2)]	-	99,686
Long Credit[(3)]	275,924	89,441
Liquid Credit Alternative[(4)]	77,743	143,027
Private Credit Alternative[(5)]	65,031	62,101
Real Estate Liquid Credit[(6)]	201,022	112,659
Private Equity[(7)]	367,032	208,634
Private Real Estate[(8)]	261,285	173,998
Tactical Opportunities[(9)]	73,585	57,964
Total invested assets	1,514,693	1,079,791
Senior Secured Facility Borrowings[(10)]	(70,000)	(70,000)
Other Balances[(11)]	108,864	91,625
Limited Partner Net Asset Value at year end	**$ 1,553,557**	**$ 1,101,416**

4. Investments (cont.)

(1) Investment Grade - This strategy focuses on capital preservation, liquidity, and current income by investing primarily in investment grade fixed income securities while maintaining minimal levels of interest rate risk.

(2) Liquid Multi-Strategy Funds - This strategy seeks capital appreciation by allocating its assets among a variety of discretionary sub-advisers with experience managing non-traditional or "alternative" investment strategies.

(3) Long Credit - The primary objective of this strategy is to protect principal and generate superior risk-adjusted returns by investing in various forms of senior secured debt obligations, including senior secured loans, senior secured floating-rate notes, and senior secured notes and bonds, as well as collateralized loan and debt obligations.

(4) Liquid Credit Alternative - The primary objective of this strategy is to generate superior risk-adjusted returns by investing in public and private opportunities, primarily in North America and Western Europe.

(5) Private Credit Alternative – This strategy primarily focuses on making privately negotiated mezzanine investments. The strategy focuses on providing capital to upper middle market companies and private equity sponsors in connection with leveraged buyouts, mergers and acquisitions, recapitalizations, growth financings and other corporate transactions.

(6) Real Estate Liquid Credit – This strategy focuses primarily on commercial real estate lending through new loan originations and purchases of legacy loans and securities, but may otherwise pursue a broad range of real estate related debt and non-controlling equity investments.

(7) Private Equity - This strategy can include investments in funds investing directly in energy, healthcare, industrial, financial services or retail / consumer and other private equity related investments.

(8) Private Real Estate – This strategy primarily invests in funds that invest directly in real estate, real estate investment trusts and other real estate related investments.

(9) Tactical Opportunities - This strategy generally includes investing in assets focused on time-sensitive or other tactical investment ideas across asset classes and geographies. This strategy can also include investing opportunistically in a broad range of private or public securities and instruments, which may be equity or debt or similar thereto.

(10) Senior Secured Facility Borrowings – Relates to the Fund's borrowings under the Company's facility described in Note 8, "*Financing arrangements*".

(11) Other Balances – Includes but is not limited to cash, management fees accruals, performance based allocation to and ownership interest of the General Partner, other interest, and general and administrative expense accruals.

(U.S. dollars in thousands, except share and per share amounts)

4. Investments (cont.)

There are no restrictions on the Company's ability to withdraw from the Fund, however, (i) the General Partner of the Fund may limit withdrawals as of any withdrawal date for legal, regulatory or contractual reasons, (ii) the ability to withdraw capital from Harrington Re's capital account relating to any Fund investment that is illiquid by its terms will be limited and (iii) the ability to withdraw will be subject to the limitations on withdrawals imposed pursuant to the terms of the governing agreements of the underlying investments that the Fund holds.

See also Note 8, "*Financing arrangements*" for restrictions on the Company's investments imposed by the terms of the Company's credit facilities.

Net Investment Income

The components of net investment income for the years ended December 31, 2021, and 2020, were as follows:

		2021		**2020**
Realized and unrealized net gains on investments	$	261,340	$	26,199
Fund interest and dividend income		6,591		5,491
Fund interest and other expenses		(7,598)		(6,154)
Fund net investment income		260,333		25,536
Amounts attributable to the General Partner of the Fund		(9,192)		(3,611)
Net investment income attributable to the limited partner of the Fund		251,141		21,925
Investment-related general and administrative expenses		(5,437)		(4,232)
Other interest income		1		48
Net investment income	**$**	**245,705**	**$**	**17,741**

5. Fair value measurements

U.S. GAAP establishes a hierarchal disclosure framework which prioritizes and ranks the level of market price observability used in measuring financial instruments at fair value. Market price observability is affected by a number of factors, including the type of financial instrument, the characteristics specific to the financial instrument and the state of the marketplace, including the existence and transparency of transactions between market participants. Financial instruments with readily available quoted prices in active markets generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Financial instruments measured and reported at fair value are classified and disclosed based on the observability of inputs used in the determination of fair values, as follows:

- Level 1 – Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in active markets (and actively traded) that the Company has the ability to access. The Company does not adjust the quoted price for these investments.

- Level 2 – Pricing inputs and other than quoted prices in active markets (and not actively traded) which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Financial instruments which are generally included in this category include corporate bonds and bank loans where the fair value is based on observable inputs or quotations from market participants and pricing service provider with higher levels of liquid market observability than Level 3 assets or liabilities.

- Level 3 – Pricing inputs are unobservable for the financial instruments and include situations where there is little, if any, market activity for the financial instrument. Fair value is determined through the use of models or other valuation methodologies such as quotations from market participants and pricing service provider. The inputs into determination of fair value require significant management judgment of estimation. Some of the factors considered for Level 2 or Level 3 determination include number of observable quotes, and obtained standard deviation of quotes, among other things.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given financial instrument is based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument.

Changes in the observability of valuation inputs may result in a reclassification for certain financial assets or liabilities.

(U.S. dollars in thousands, except share and per share amounts)

5. Fair value measurements (cont.)

The following tables summarize the valuation of the Company's financial instruments measured at fair value on a recurring basis by the fair value hierarchy as of December 31, 2021 and 2020:

2021

Description	Level 1	Level 2	Level 3	NAV as Fair Value	Total
Assets					
Investments					
Fixed maturities	$ -	$ 115,388	$ 494	$ -	$ 115,882
Bonds	40,721	312,392	-	-	353,113
Common equity	-	-	18,795	-	18,795
Money market funds[1]	74,771	-	-	-	74,771
Affiliated Funds					
Investment funds	-	-	-	1,026,903	1,026,903
Total assets	**$ 115,492**	**$ 427,780**	**$ 19,289**	**$ 1,026,903**	**$ 1,589,464**
Liabilities					
Derivative instruments[2]	$ -	$ 638	$ -	$ -	$ 638
Total liabilities	**$ -**	**$ 638**	**$ -**	**$ -**	**$ 638**

2020

Description	Level 1	Level 2	Level 3	NAV as Fair Value	Total
Assets					
Investments					
Fixed maturities	$ -	$ 84,726	$ 1,706	$ -	$ 86,432
Bonds	-	3,010	-	-	3,010
Common equity	-	-	9,793	-	9,793
Money market funds[1]	104,663	-	-	-	104,663
Affiliated Funds					
UCITS	99,686	-	-	-	99,686
Investment funds	-	-	-	880,871	880,871
Derivative instruments[2]	-	3,574	-	-	3,574
Total assets	$ 204,349	$ 91,310	$ 11,499	$ 880,871	$ 1,188,029

(1) Money market funds are included in cash and cash equivalents.
(2) See Note 6, "Derivatives".

(U.S. dollars in thousands, except share and per share amounts)

5. Fair value measurements (cont.)

Significant Unobservable Inputs Used in Level 3 Measurements

The following table discloses the valuation techniques, significant unobservable inputs, and range of values used for those significant unobservable inputs for assets recognized at fair value and classified as Level 3 under the fair value hierarchy as of December 31, 2021:

	Fair value	Valuation technique	Significant unobservable inputs	Ranges	Weighted average
Investments					
Fixed Maturities	$ 494	Third Party Pricing quotes(1)	N/A	N/A	N/A
Common equity	18,795	Discounted Cash Flow	Weighted Average Cost of Capital EBITDA(2) Exit Multiple	11.2% 20.0x	N/A N/A
Total	**$ 19,289**				

(1) Third party pricing quotes are generally determined on the basis of prices between market participants provided by reputable dealers or service providers.
(2) "EBITDA" is defined as earnings before interest, tax, depreciation and amortization.

N/A – Not applicable

Fair Value of Other Financial Instruments

The changes in fair value of investments for which the Company has used Level 3 inputs to determine fair value are presented in the following table:

	Fixed Maturities and Common Equity
Purchases	$ -
Transfers in(1)	$ 498
Transfers out(1)	$ (1,362)

(1) Transfers occurred between Level 2 and Level 3 because of changes in observability of market data due to increase or decrease in market activity and information for these investments.

The fair value of financial instruments accounting guidance also applies to financial instruments disclosed, but not carried, at fair value, except for certain financial instruments, including insurance contracts. The fair value of the Company's other assets and liabilities, which qualify as financial instruments under ASC Topic 825, Financial Instruments, approximates the carrying amounts presented in the consolidated financial statements. As these financial instruments are not actively traded, their fair values are classified as Level 2.

(U.S. dollars in thousands, except share and per share amounts)

6. Derivatives

The Company holds assets and liabilities in foreign currencies and thus is exposed to foreign currency risk. The Company may enter into foreign currency forward exchange contracts to manage the exposure to this foreign currency risk. These foreign currency forward exchange contracts are used as economic hedges and are not designated as hedging instruments for financial reporting purposes.

The following table summarizes information on the classification and amount of the fair value of derivatives within the Company's Consolidated Balance Sheets as of December 31, 2021 and 2020:

	December 31, 2021			December 31, 2020		
Derivative Instrument	**Notional Amount**	**Asset Derivative at Fair Value [1]**	**Liability Derivative at Fair Value [1]**	**Notional Amount**	**Asset Derivative at Fair Value [1]**	**Liability Derivative at Fair Value [1]**
Foreign currency forward contracts	$ 106,032	$ -	$ 638	$ 134,291	$ 3,574	$ -

[1] Asset and liability derivatives are classified within Other Assets and Other Liabilities, respectively, within the Company's Consolidated Balance Sheets.

The following table summarizes information on the classification and net impact on earnings, recognized in the Company's Consolidated Statements of Income (Loss), relating to derivative instruments during the years ended December 31, 2021 and 2020:

		Years Ended December 31,	
Derivative Instrument	**Classification of gains / losses recognized in earnings**	**2021**	**2020**
Foreign currency forward contracts	Foreign exchange loss (gain)	$ 542	$ (3,866)

There was no balance sheet offsetting activity as of December 31, 2021 or 2020.

The Company provides collateral for the above derivative positions in the form of a reduction in the aggregate commitment available amount under its credit facility arrangement with Societe Generale S.A., New York branch (the "Bank"). See Note 8, *"Financing arrangements"* for more details.

7. Commitments and contingencies

(a) Concentrations of Credit Risk

Credit Risk Aggregation

The Company monitors and manages the aggregation of credit risk on a group-wide basis allowing consideration of exposure management strategies for individual countries, regions, sectors and any other relevant inter-dependencies. The creditworthiness of each counterparty is evaluated by the Company, taking into account credit ratings assigned by independent agencies.

Credit risk aggregation is also managed through monitoring of overlaps in underwriting, financing and investing activities.

The assets that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, our investments portfolio and reinsurance premiums receivable balances, as described below.

<u>Cash and Cash Equivalents</u>

In order to mitigate concentration and operational risks related to cash and cash equivalents, the Company utilizes only well-established highly-rated financial institutions and money-market funds.

<u>Investments</u>

The Company's investment portfolio is managed by the Investment Manager in accordance with the investment guidelines set-out in the Investment Management Agreement. The Investment Management Agreement provides for the limitation of the credit risk through specific investment portfolio diversification requirements, investment concentration limitations as well as detailed liquidity provisions. As of December 31, 2021, the Fund was in compliance with the requirements of the Investment Management Agreement.

<u>Premiums Receivable Balances</u>

The Company manages its credit risk in its reinsurance relationships by transacting with counterparties that it considers financially sound. For all of its reinsurance contracts the Company has the contractual right to offset premiums receivable with corresponding payments for losses and loss expenses. These contractual rights contribute to the mitigation of credit risk, as does the monitoring of aged receivable balances. In light of these mitigating factors, and considering that a significant portion of the premiums receivable are not currently due based on the terms of the underlying contracts, the Company does not utilize specific credit quality indicators to monitor the premiums receivable balance. The Company did not record any bad debts expense charges in the years ended December 31, 2021 or 2020.

7. Commitments and contingencies (cont.)

(b) Legal Proceedings

From time to time, as is common in the insurance industry, the Company may be subject to routine legal proceedings, including arbitrations, arising in the ordinary course of business. These legal proceedings generally relate to claims asserted by or against the Company in the ordinary course of reinsurance operations; estimated amounts payable under such proceedings are included in the reserve for losses and loss expenses in the Consolidated Balance Sheets. As of December 31, 2021, the Company was not party to any legal proceedings.

(c) Employment and Other Arrangements

As of December 31, 2021, the Company has entered into employment agreements with its executive officers. Such employment arrangements provide for compensation in the form of base salary, annual bonus, participation in the Company's employee benefit programs and the reimbursements of expenses.

(d) Other Commitments

Please see Note 13, *"Related party transactions"* for details on the commitments under the Services Agreement and the Investment Management Agreement.

8. Financing arrangements

Credit Facilities

On July 6, 2016, the Company entered into an aggregate credit facility arrangement with Societe Generale S.A., New York branch (the "Credit Facility"). The Credit Facility, as amended, expires on January 13, 2023, but may be extended with the Bank's consent to January 15 of the second following calendar year by giving notice to the Bank by July 15, 2022. The Bank may elect to terminate the Credit Facility by providing an irrevocable written notice to the Company not less than 365 days prior to the proposed date of termination. No such notice was received as of December 31, 2021. The aggregate commitment available under the Credit Facility was $400.0 million available from December 31, 2018, and increased to $420.0 million available from December 28, 2020. The Credit Facility aggregate available commitment increased to $500 million from December 17, 2021. The purpose of the Credit Facility is to provide senior secured borrowing facilities to the Fund, to provide a revolving loan facility to the Company and to provide a secured letter of credit facility for use by the Company to support its reinsurance obligations. The Credit Facility is also used to provide collateral to support any initial amounts and variation margins payable relating to the foreign exchange forward contracts described under Note 6, *"Derivatives"*. As of December 31, 2021 the related amount due was $5.3 million (December 31, 2020: $3.9 million) and reduced the aggregate commitment amount available under the Credit Facility as of that date. The Credit Facility is secured by the Company's investments managed by BISA-II in the Fund and is subject to certain covenants. These covenants include certain liquidity requirements with regards to the Fund's investments, credit limits based on the fair value of the Fund and certain restrictions on the composition of the Fund's investment portfolio.

8. Financing arrangements (cont.)

As of December 31, 2021, the letters of credit outstanding under the Credit Facility totaled $406.2 million (December 31, 2020: $328.3 million). In addition, the Fund directly borrowed $70.0 million under the terms of the Credit Facility (December 31, 2020: $70.0 million). The Fund pays interest on amounts outstanding on the first business day of each month at a rate of 3-month US Dollar LIBOR, plus 1.90% per annum (2.07% as of December 31, 2021, and 2.23% as of December 31, 2020). The interest rate resets monthly two business days prior to the first calendar day of the month and any outstanding accrued but unpaid interest will capitalize into the principal. For the year ended December 31, 2021, the Fund incurred $1.5 million (2020: $1.9 million) in interest expense relating to the Credit Facility, at a weighted-average rate of 2.06% (2020: 2.62%), which is shown as part of "Net investment income" in the Consolidated Statements of Income (Loss).

During the year ended December 31, 2021, the total expense incurred by the Company including the Company's revolving loan facility interest costs and costs relating to the letter of credit facilities was $4.0 million (2020: $3.5 million).

9. Shareholder's equity

Common Shares

The authorized, issued and outstanding share capital of the Company as of December 31, 2021 and 2020 consisted of 1,000,000 common shares with a par value of $1.00 per share.

Dividends

On December 8, 2021, the Company declared and paid dividends of $6.5 million.

Contributed Surplus

During the year ended December 31, 2021, the Parent made additional capital contributions to the Company of $115 million.

10. Share-based compensation

Under its Board approved share-based compensation plans, the Parent grants stock options and restricted share awards to eligible employees of the Company.

During 2020, 117,329 restricted share units ("RSUs") were granted to certain employees of the Company. These RSUs were granted with a requisite service period of 3 years, with 33% of the grants vesting annually. During the year ended December 31, 2021, the Company recognized $0.3 million (2020: $0.3 million) as an expense relating to share-based compensation and 39,110 (2020: nil) of the RSUs vested.

10. Share-based compensation (cont.)

During 2021, 252,140 of cash-settled restricted share units ("cash-settled RSUs") were granted to certain employees of the Company. These cash-settled RSUs were granted with a requisite service period of 3 years, with 33% of the grants vesting annually. During the year ended December 31, 2021, the Company recognized $1.2 million as an expense relating to cash-settled share-based compensation and none of the cash settled RSUs have vested as of December 31, 2021.

11. Retirement plans

For purposes of providing employees with retirement benefits, the Company maintains self-directed defined contribution retirement plans. Contributions are based on the participants' eligible compensation. For the year ended December 31, 2021, the Company expensed $0.1 million (2020: $0.1 million) related to this retirement plan.

12. Income taxes

Harrington Re is incorporated under the laws of Bermuda and, under current Bermuda law, is not required to pay any taxes in Bermuda on income or capital gains. We have received an assurance from the Minister of Finance in Bermuda that, in the event that any legislation is enacted in Bermuda imposing any tax computed on profits, income, gain or appreciation on any capital asset, or any tax in the nature of estate duty or inheritance tax, such tax will not be applicable to the Company until March 31, 2035.

The Fund is an exempted limited partnership registered in the Cayman Islands, and under the current law in the Cayman Islands no income taxes are imposed on the Fund.

The Company does not consider itself to be engaged in trade or business in the United States and intends to conduct its operations in a manner that will not cause it to be treated as engaged in a trade or business in the United States and, therefore, does not expect to be required to pay U.S. federal income taxes other than the U.S. excise tax on reinsurance premiums.

The United States imposes an excise tax on insurance and reinsurance premiums paid to non-U.S. insurers or reinsurers with respect to risks located in the United States. The rate of tax, unless reduced by an applicable U.S. tax treaty, is one percent for all reinsurance premiums. The Company incurs federal excise taxes on certain of its reinsurance transactions. Such amounts are reflected as acquisition costs in the Company's Consolidated Statements of Income (Loss).

FASB guidance regarding the accounting for uncertainty in income taxes prescribes a "more likely than not" threshold for the financial statement recognition of a tax position taken or expected to be taken in a tax return, assuming the relevant tax authority has full knowledge of all relevant information. The amount recognized represents the largest amount of tax benefit that is greater than 50% likely of being ultimately realized. A liability is recognized for any benefit claimed, or expected to be claimed, in a tax return in excess of the benefit recorded in the consolidated financial statements, along with any interest and penalty (if applicable) on the excess. The Company recognizes interest and penalties relating to unrecognized tax benefits in the provision for income taxes. Changes in recognition or measurement are reflected in the period in which the change in judgement occurs.

12. Income taxes (cont.)

As of December 31, 2021, the Company's total unrecognized tax benefits, including interest and penalties, were $nil (as of December 31, 2020: $nil).

13. Related party transactions

In June 2016, AXIS Capital Holdings Limited through its wholly-owned subsidiary, AXIS Ventures Limited (since March 8, 2022, AXIS ILS Ltd.), invested $100.0 million and acquired 18.1% of the Parent's common equity. The investment was subsequently increased to 19.0% of the Parent's common equity. Under the shareholders' agreement dated July 1, 2016, as amended and restated (the "Shareholders' Agreement"), as long as the Services Agreement is in effect and AXIS Capital retains a shareholding in the Parent, AXIS Capital has the right to appoint a director to the Group's Board of Directors.

The Company has engaged AXIS Reinsurance Managers Limited ("ARM" or the "Liability Manager"), a wholly-owned subsidiary of AXIS Capital, to act as its liability manager pursuant to a long term services agreement dated July 1, 2016. The Liability Manager manages the day-to-day underwriting activities of the Company subject to the provisions of the Services Agreement and the oversight of management and Board of Directors of the Company. The Services Agreement also provides for ARM to provide certain other services to the Company, including claims handling, actuarial, risk management and information technology support as specified in the agreement. The Services Agreement has limited termination provisions and is set to initially expire on June 30, 2025, provided, however, that the term is set to automatically renew for successive three-year periods following such initial term unless the Company or the Liability Manager gives written notice of cancellation at least two years prior to the end of the then current term.

In return for its services, ARM receives fees from the Company, which include underwriting fees and profit commissions, as well as a reinsurance services fee as a reimbursement for the additional services provided to the Company.

In June 2016, the Blackstone Group, through its wholly-owned subsidiary, together with investment entities formed for certain senior professionals and employees of the Blackstone Group, have in total acquired 9.9% of the Parent's common equity. Pursuant to the Shareholders Agreement, as long as the Investment Management Agreement is in effect and the Blackstone Group retains a shareholding in the Parent, the Blackstone Group has the right to appoint a director to the Group's Board of Directors.

Pursuant to the Investment Management Agreement, BISA-II serves as the investment manager (the "Investment Manager") of the assets of the Company that are invested in the Fund. Harrington Re is the sole limited partner of the Fund. The Fund seeks to achieve attractive risk-adjusted returns through a portfolio of diversified, primarily alternative, investments.

(U.S. dollars in thousands, except share and per share amounts)

13. Related party transactions (cont.)

Pursuant to the Investment Management Agreement, the Investment Manager provides certain administrative and investment management services to the Fund, including the investigation, evaluation, selection, allocation, negotiation, structuring, commitment to, monitoring of and disposition of investments (including allocation of the Fund's assets among investment strategies). The Investment Management Agreement has limited termination provisions and is set to initially expire on the earlier of (i) the liquidation of the Fund and (ii) June 30, 2025, provided, however, that the term is set to automatically renew for successive three-year periods following such initial term unless the Company or the Investment Manager gives written notice of cancellation at least two years prior to the end of the then current term.

Pursuant to the Letter Agreement, the Investment Manager provides (i) certain reporting on the Fund's investment portfolio to the Company's management and the Board and (ii) assistance and support to the Company's management in connection with the Investment Manager's management of the Fund's portfolio by providing certain supplemental reporting, data, analysis and other support (as mutually agreed) with respect to the Fund.

In return for its investment services, the Investment Manager receives a management fee from the Fund and the General Partner receives a performance fee from the Fund.

Certain executive officers of AXIS Capital and certain management and senior professionals of the Blackstone Group own common shares of the Parent.

During the years ended December 31, 2021 and 2020, the Company exclusively wrote reinsurance business with various entities in the AXIS Capital group for property and casualty risks on a quota share basis.

The related Consolidated Statement of Income (Loss) and Consolidated Balance Sheet account balances for these transactions, including the related ARM fees, for the years ended December 31, 2021 and 2020 were as follows:

	2021	2020
Consolidated Statement of Income (Loss) items:		
Gross premiums written	$ 285,915	$ 260,705
Net premiums earned	267,723	247,797
Losses and loss expenses	188,145	197,779
Acquisition costs	70,934	65,095
General and administrative expenses	1,329	1,154
Corporate expenses	543	485
Consolidated Balance Sheet items:		
Reinsurance balances receivable	161,196	158,383
Deferred acquisition costs	53,696	45,513
Prepaid expenses	1,096	954
Reserve for losses and loss expenses	686,597	604,469
Unearned premiums reserve	$ 182,826	$ 164,634

(U.S. dollars in thousands, except share and per share amounts)

14. Statutory financial information

Harrington Re is registered as a Class 4 insurer under the Insurance Act 1978, amendments thereto and Related Regulations of Bermuda (the "Insurance Act"). Under the Insurance Act, the Company is required to annually prepare and file with the Bermuda Monetary Authority a statutory financial return which includes statutory financial statements, a capital and solvency return and audited financial statements.

At the time of filing its statutory financial statements, Harrington Re is also required to deliver to the BMA a declaration of compliance, in such form and with such content as may be prescribed by the BMA, declaring whether or not Harrington Re has, with respect to the 2021 financial year (i) complied with all requirements of the minimum criteria applicable to it; (ii) complied with the minimum margin of solvency as of its financial year end; (iii) complied with the applicable enhanced capital requirements as of its financial year end; and (iv) observed any limitations, restrictions or conditions imposed upon issuance of its license, if applicable.

The Insurance Act provides that the value of the statutory assets of an insurer must exceed the value of its statutory liabilities by an amount greater than its prescribed minimum solvency margin ("MSM").

The MSM that must be maintained by Harrington Re 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 ceded not exceeding 25% of gross premiums) or (iii) 15% of net loss and loss expense provisions and other insurance reserves or (iv) 25% of the ECR (as defined below) as reported at the end of the relevant year.

Harrington Re is also required to maintain available statutory economic capital and surplus at a level equal to or in excess of its enhanced capital requirement ("ECR") which is established by reference to either the Bermuda Solvency Capital Requirement ("BSCR") model or an approved internal capital model, provided that the ECR shall at all times be an amount equal to, or exceeding the margin of solvency. The BSCR model is a standardized statutory risk-based capital model developed by the BMA which is used to measure the risk associated with Harrington Re's assets, liabilities and premiums. In 2016, the BMA implemented an Economic Balance Sheet ("EBS") framework which was used as the basis to determine the ECR.

The required and available statutory economic capital and surplus as of December 31, 2021 and 2020, in the table below are based on this EBS framework:

	2021	2020
Required statutory capital and surplus	$ 484,568	$ 381,246
Available statutory capital and surplus	$ 950,206	$ 556,236

Harrington Re is required to calculate and submit the ECR to the BMA annually. Following receipt of the submission of Harrington Re's ECR, the BMA has the authority to impose additional capital requirements or capital add-ons, if it deems necessary. If an insurer fails to maintain or meet its ECR, the BMA may take various degrees of regulatory action. As of December 31, 2021, the Company was in compliance with all solvency requirements of the Insurance Act.

14. Statutory financial information (cont.)

Harrington Re is also required under the Insurance Act to maintain a minimum liquidity ratio whereby the value of its relevant assets is not less than 75% of the amount of its relevant liabilities for general business. As of December 31, 2021, Harrington Re met the minimum liquidity ratio requirement.

Harrington Re's statutory net income for the year ended December 31, 2021 was $242.8 million (2020 net loss: $8.9 million). Statutory accounting differs from U.S. GAAP in the reporting of certain items such as intangible assets and prepaid expenses.

Harrington Re is prohibited from declaring or paying a dividend if it is in breach of its MSM, ECR or minimum liquidity ratio or if the declaration or payment of such dividend would cause such a breach. Where an insurer fails to meet its MSM or minimum liquidity ratio on the last day of any financial year, it will be prohibited from declaring or paying any dividends during the next financial year without the approval of the BMA.

In addition, Harrington Re is also prohibited from declaring or paying in any financial year dividends of more than 25% of its total statutory capital and surplus (as shown on its previous financial year's statutory balance sheet) unless it files (at least seven days before payment of such dividends) with the BMA an affidavit signed by at least two directors (one of whom must be a Bermuda resident director if any of the insurer's directors are resident in Bermuda) and the principal representative stating that it will continue to meet its solvency margin and minimum liquidity ratio. Furthermore, Harrington Re must obtain the BMA's prior approval for a reduction by 15% or more of the total statutory capital as set forth in its previous year's financial statements.

The Bermuda Companies Act 1981 further limits Harrington Re's ability to pay dividends and make distributions from contributed surplus to its Parent if there are reasonable grounds for believing that: (a) Harrington Re is, or would after the payment be, unable to pay its liabilities as they become due; or (b) the realizable value of Harrington Re's assets would thereby be less than the aggregate of its liabilities.

15. Subsequent events

The Company has completed its subsequent events evaluation for the period subsequent to the balance sheet date of December 31, 2021 through May 31, 2022, the date these financial statements were available to be issued and has determined that there were no subsequent events requiring adjustment to or disclosure in the consolidated financial statements other than those discussed below.

On February 24, 2022, Russian troops began a full-scale invasion of Ukraine and, as of the issuance date, the countries remain in active armed conflict. Around the same time, the United States, the United Kingdom, the European Union, and several other nations announced a broad array of new or expanded sanctions, export controls, and other measures against Russia, Russia-backed separatist regions in Ukraine, and certain banks, companies, government officials, and other individuals in Russia and Belarus. The ongoing conflict and the rapidly evolving measures in response could be expected to have a negative impact on the economy and business activity globally, and therefore could adversely affect the performance of the Company's investments. Similarly, while it currently believes its exposure is low, the Company may incur losses as a result of the invasion through its underwriting activities. The severity and duration of the conflict and its impact on global economic and market conditions are impossible to predict, and as a result, could present material uncertainty and risk with respect to the Company and the performance of its investments and underwriting operations, and the ability of the Company to achieve its business objectives.