Ascot Group Limited

Consolidated Audited Financial Statements

December 31, 2021 and 2020

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders of Ascot Group Limited

Opinion

We have audited the accompanying consolidated financial statements of Ascot Group Limited and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of income and comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively referred to as the "consolidated financial statements").

In our opinion, the consolidated financial statements referred to above 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 shareholders' 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 audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated 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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Management's Responsibilities for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated 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 consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 7 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 States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Deloitte Ltd.

March 23, 2022

ASCOT GROUP LIMITED
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2021 AND 2020

	2021	2020
	(in thousands U.S dollars)	
ASSETS		
Fixed maturities, at fair value (amortized cost: 2021 - $2,916,792; 2020 - $2,284,390)	$ 2,903,702	$ 2,340,602
Other investments, at fair value	127,084	69,191
Short term investments, at cost and fair value	98,446	54,204
Total investments	**3,129,232**	**2,463,997**
Cash and cash equivalents	478,767	537,959
Accrued investment income	12,101	10,982
Premiums receivable	915,289	556,801
Deferred tax assets	23,540	20,267
Prepaid reinsurance premiums	348,317	197,334
Reinsurance recoverable on paid losses	35,115	33,663
Reinsurance recoverable on unpaid losses	760,565	336,751
Deferred acquisition costs	247,917	153,840
Goodwill	69,551	69,551
Intangible assets	172,431	170,457
Other assets	71,843	74,804
TOTAL ASSETS	**6,264,668**	**4,626,406**
LIABILITIES		
Reserve for loss and loss adjustment expenses	2,219,296	1,270,139
Unearned premiums	1,449,317	885,486
Insurance and reinsurance balances payable	251,282	142,983
Deferred tax liabilities	58,663	47,484
Payable for securities purchased	—	16,000
Debt	395,160	394,597
Other liabilities	178,474	122,526
TOTAL LIABILITIES	**4,552,192**	**2,879,215**
SHAREHOLDERS' EQUITY		
Common shares	276	297
Additional paid-in capital	1,970,636	1,975,449
Treasury shares	(250,000)	(250,000)
Accumulated other comprehensive income	4,420	4,611
Retained (deficit) earnings	(12,856)	16,834
TOTAL SHAREHOLDERS' EQUITY	**1,712,476**	**1,747,191**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 6,264,668**	**$ 4,626,406**

See accompanying notes to the consolidated financial statements.

ASCOT GROUP LIMITED
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
	(in thousands U.S. dollars)	
REVENUES		
Gross premiums written	$ 2,836,195	$ 1,818,862
Reinsurance premiums ceded	(854,608)	(519,048)
Net premiums written	1,981,587	1,299,814
Earned premiums	2,282,796	1,432,238
Earned premiums ceded	(706,702)	(407,857)
Net premiums earned	1,576,094	1,024,381
Net investment income	44,125	45,106
Net realized and unrealized (losses) gains on investments	(67,355)	43,941
Other income	28,401	21,562
TOTAL REVENUES	**1,581,265**	**1,134,990**
LOSSES AND EXPENSES		
Net incurred losses and loss adjustment expenses	980,042	550,782
Acquisition costs	323,907	221,791
General and administrative expenses	271,878	209,601
Interest expense	17,563	708
Amortization of intangible assets	6,609	6,467
Net foreign exchange losses (gains)	5,714	(9,679)
TOTAL LOSSES AND EXPENSES	**1,605,713**	**979,670**
(LOSS) INCOME BEFORE TAXES	**(24,448)**	**155,320**
Income tax expense	(5,242)	(5,617)
NET (LOSS) INCOME	**$ (29,690)**	**$ 149,703**
Other comprehensive income (loss), net of tax		
Foreign currency translation adjustment	(191)	(197)
Total other comprehensive income (loss), net of tax	(191)	(197)
COMPREHENSIVE (LOSS) INCOME	**$ (29,881)**	**$ 149,506**

See accompanying notes to the consolidated financial statements.

ASCOT GROUP LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
	(in thousands U.S. dollars)	
COMMON SHARES		
Balance at beginning of year	$ 297	$ 297
Common shares repurchased	(21)	—
Balance at end of year	276	297
ADDITIONAL PAID IN CAPITAL		
Balance at beginning of year	1,975,449	1,968,276
Common shares issued	750	—
Common shares repurchased	(18,564)	—
Treasury shares reissued	—	(2,421)
Share based compensation	13,001	9,594
Balance at end of year	1,970,636	1,975,449
TREASURY SHARES		
Balance at beginning of year	(250,000)	(250,045)
Treasury shares reissued	—	2,421
Shares repurchased	—	(2,376)
Balance at end of year	(250,000)	(250,000)
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Balance at beginning of year	4,611	4,808
Foreign currency translation adjustment	(191)	(197)
Balance at end of year	4,420	4,611
RETAINED EARNINGS (DEFICIT)		
Balance at beginning of year	16,834	(132,869)
Net (loss) income	(29,690)	149,703
Balance at end of year	(12,856)	16,834
TOTAL SHAREHOLDERS' EQUITY	$ 1,712,476	$ 1,747,191

See accompanying notes to the consolidated financial statements.

ASCOT GROUP LIMITED
CONSOLIDATED STATEMENTS OF CASHFLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
	(in thousands U.S. dollars)	
CASHFLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	$ (29,690)	$ 149,703
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized and unrealized losses (gains) on investments	67,355	(43,941)
Amortization of fixed maturities	11,030	3,097
Amortization of intangible assets	6,609	6,467
Depreciation of fixed assets	4,461	3,567
Share-based compensation expense	13,001	9,594
Changes in:		
Accrued investment income	(772)	(669)
Premiums receivable	(350,248)	(215,095)
Reinsurance recoverables	(389,310)	34,221
Deferred acquisition costs	(94,077)	(59,232)
Prepaid reinsurance premiums	(147,904)	(111,423)
Reserve for loss and loss adjustment expenses	890,589	187,641
Unearned premiums	553,396	386,626
Insurance and reinsurance balances payable	106,580	60,594
Other items, net	64,954	50,036
Net cash provided by operating activities	705,974	461,186
CASHFLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed maturities	(1,375,110)	(1,177,923)
Proceeds from sale of fixed maturities	380,009	348,567
Proceeds from maturities and redemptions of fixed maturities	405,514	285,411
Purchases of short term investments	(89,378)	(4,914)
Proceeds from sale and maturities of short term investments	46,715	59,979
Purchases of other investments	(67,957)	(16,000)
Acquisition of subsidiary, net of cash acquired	(45,011)	—
Net cash used in investing activities	(745,218)	(504,880)
CASHFLOW FROM FINANCING ACTIVITIES		
Net issuance and repurchase of common shares	(17,835)	(2,291)
Issuance of debt, net of expenses	—	394,597
Net cash (used in) provided by financing activities	(17,835)	392,306
Effect of exchange rate changes on foreign currency cash and cash equivalents	(2,113)	5,351
(Decrease) increase in cash and cash equivalents	(59,192)	353,963
Cash and cash equivalents - beginning of year	537,959	183,996
Cash and cash equivalents - end of year	$ 478,767	$ 537,959
Supplemental disclosures of cash flow information:		
Income taxes (refund) paid	(5,040)	4,095
Interest paid	17,000	—

See accompanying notes to the consolidated financial statements.

1. History and principal operations

Ascot Group Limited ("AGL" or "the Company") was incorporated in Bermuda on September 8, 2016. AGL acts primarily as the ultimate holding company of Ascot Bermuda Limited ("Ascot Bermuda"), Ascot Underwriting Group Limited ("AUGL") and Ascot Insurance Holdings Limited ("AIHL").

Ascot Bermuda was incorporated in Bermuda on September 8, 2016 and operates as a Class 3B insurance and reinsurance company regulated by the Bermuda Monetary Authority providing both third party insurance and reinsurance and also quota share reinsurance to Ascot Corporate Name Limited ("ACNL").

AUGL operates as a holding company for a number of entities including ACNL which is a UK based company providing underwriting capacity as the corporate member for Syndicate 1414 ("the Syndicate").

AIHL operates as a holding company for Ethos Specialty Insurance Services LLC ("Ethos"), a managing general underwriter ("MGU") as well as for Ascot Insurance Company ("AIC") and Ascot Specialty Insurance Company ("ASIC"). AIC and ASIC write admitted and non-admitted business in the United States. AIC and ASIC commenced underwriting operations on January 1, 2019. In 2021, AIC acquired AmFed National Insurance Company, a Mississippi workers' compensation insurance company, and Boston Indemnity Company, a U.S. Treasury-listed insurance carrier, which was renamed to Ascot Surety & Casualty Company following the acquisition.

Canada Pension Plan Investment Board (“CPP Investments”) is the principal shareholder of AGL.

2. Significant accounting policies

Basis of Presentation and Consolidation

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) and include the results of operations and the financial position of AGL and its wholly owned subsidiaries. All significant inter-company balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of these 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. The Company’s principal estimates include:

- reserve for losses and loss adjustment expenses;
- reinsurance recoverables on unpaid losses, including the provision for uncollectible amounts;
- gross and net premiums written and earned;
- fair value measurements for financial assets;
- consideration of impairment of goodwill and indefinite life intangible assets; and
- recoverability of deferred tax assets.

Significant accounting policies are as follows:

Investments and investment income

Fixed maturity securities

The Company’s investments in fixed maturity securities are classified as trading and are carried at fair value, with related unrealized gains and losses recorded in net realized and unrealized gains (losses) on investments included in the consolidated statements of income and comprehensive income.

Fair values of the Company’s fixed maturity securities are based on quoted market prices or, when such prices are not available, by reference to broker quotes and/or internal pricing valuation techniques. Investment transactions are recorded on a trade date basis with balances pending settlement recorded as receivable for securities sold or payable for securities purchased.

For mortgage-backed and other asset-backed debt securities, fair value includes estimates regarding prepayment assumptions, which are based on current market conditions. Amortized cost in relation to these securities is calculated using a constant effective yield based on anticipated prepayments and estimated economic lives of the securities. When actual prepayments differ significantly from anticipated prepayments, the effective yield is recalculated to reflect actual payments to date. Changes in estimated yield are recorded on a retrospective basis, which results in future cash flows being used to determine current book value.

Realized gains and losses on sales of fixed maturity securities are determined based on the specific identification method.

Other investments

The Company's other investments principally include investments in senior secured credit funds, hedge funds and private debt funds. The Company's other investments are recorded at fair value with changes in fair value and any interest, dividend income and income distributions included in net investment income. The fair value of the Company’s investments in senior secured credit funds, hedge funds and private debt funds are generally measured using net asset valuations as a practical expedient. The net asset valuations are established by the managers of such investments in accordance with the governing documents of such investments. For certain of the Company's other investments, the Company records the net asset value using a lag methodology of one month when timely information is not available.

Short term investments

Short term investments primarily comprise highly-liquid debt securities with maturities greater than three months but less than one year from the date of purchase. These investments are carried at amortized cost, which approximates fair value due to the short-term, liquid nature of these securities.

Equity method investments

Investments in which the Company has the ability to exert significant influence over the operating and financial policies of the investee are accounted for under the equity method of accounting. Equity method investments are recorded in other assets in the balance sheet. Under this method, the Company records its proportionate share of income or loss from such investments in its results for the period. These amounts are recorded in general and administrative expenses in the consolidated statements of income and comprehensive income.

Net investment income

Net investment income includes interest income on fixed maturity securities, short term investments and cash and cash equivalents, recorded when earned and the amortization of premiums and discounts on investments. The amortization of premium and accretion of discount is computed using the effective interest rate method. Net investment income also includes the change in fair value and any interest, dividend income and income distributions from the Company's other investments. Net investment income is recorded net of investment expenses.

Cash and Cash Equivalents

Cash equivalents include money-market funds and fixed interest deposits with a maturity of less than three months when purchased. Cash and cash equivalents are recorded at amortized cost, which approximates fair value due to the short-term, liquid nature of these securities.

Premiums

Direct insurance and assumed facultative reinsurance premiums are recognized as earned on a pro rata basis over the applicable policy or contract periods. For assumed treaty reinsurance written on a losses occurring basis, premiums written are earned on a pro rata basis over the risk period. For assumed treaty reinsurance written on a risks attaching basis, premiums written are earned on a pro rata basis over the periods of the underlying policies. Premiums may include estimates based on information received from brokers, ceding insurers and insureds, and any subsequent differences from such estimates are recorded in the period in which they are determined. In each case, the portions of the premiums written applicable to the unexpired terms are recorded as unearned premiums.

The accounting for reinsurance ceded depends on the method of reinsurance. If the policy is on a losses occurring basis, reinsurance premiums ceded and associated commissions are expensed on a pro rata basis over the period reinsurance coverage is provided. If the policy is on a risk attaching basis, reinsurance premiums ceded and associated commissions are expensed in line with gross premiums earned to which the risk attaching policy relates. Prepaid reinsurance premiums represent the portion of premiums ceded on the unexpired terms of the policies purchased. Reinsurance commissions that will be earned in the future are deferred and recorded as deferred acquisition costs on the balance sheets.

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.

Acquisition costs

Acquisition expenses are costs that vary with, and are directly related to, the production of new and renewal business, and consist principally of commissions and brokerage expenses. Acquisition expenses are shown net of commissions on reinsurance ceded. Acquisition costs associated with the successful acquisition of new or renewal policies 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 loss and loss adjustment expenses based on historical and current experience and anticipated investment income related to those premiums are considered in determining the recoverability of deferred acquisition costs.

Acquisition expenses also include profit commissions associated with insurance and reinsurance contracts written by the Company. Profit commissions are recognized when earned.

Losses and loss adjustment expenses

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

The Company reviews its reserve for losses and loss expenses on a quarterly basis. Case reserves are primarily established based on amounts reported from insureds and/or their brokers. 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, Loss Development Method and Bornhuetter-Ferguson methods. The estimate is highly dependent on management's judgment as to which method(s) are most appropriate for a particular accident year and class of business. Historical claims data is often supplemented with industry benchmarks when applying these methodologies.

Any adjustments to previous reserve for losses and loss expenses estimates are recognized in the period they are determined. While the Company believes that its 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.

Reinsurance

In the normal course of business, the Company purchases reinsurance protection to limit its ultimate losses and to reduce its loss aggregation risk.

Reinsurance recoverable related to case reserves is estimated on a case-by-case basis by applying the terms of any applicable reinsurance coverage to individual case reserve estimates. The estimate of reinsurance recoverable related to IBNR reserves is generally developed as part of the loss reserving process.

Reinsurance recoverable is presented net of a provision for uncollectible amounts, reflecting the amount the Company believes will ultimately not be recovered due to reinsurer insolvency, contractual disputes and/or some other reason.

The estimates of reinsurance recoverable and the associated provision require management's judgment. Any adjustments to amounts recognized in prior periods are reported in net losses and loss expenses in the consolidated statements of income for the period when the adjustments were identified.

Foreign exchange

The Company's reporting currency is the U.S. dollar. In translating the financial statements of its subsidiaries where the functional currency is other than the U.S. dollar, assets and liabilities are converted into U.S. dollars using the rates of exchange in effect at the balance sheet dates and revenues and expenses are converted using the weighted average foreign exchange rates for the period. The effect of translation adjustments is reported as a separate component of accumulated other comprehensive income in shareholders' equity.

In recording foreign currency transactions, revenue and expense items are converted to the relevant functional currency at the exchange rate prevailing at the transaction date. Monetary assets and liabilities originating in currencies other than the functional currency are remeasured to the functional currency at the rates of exchange in effect at the balance sheet date. The resulting foreign currency gains or losses are recognized in the consolidated statements of income and comprehensive income.

Share based compensation

The Company has granted restricted stock awards, restricted stock units and performance stock options to certain employees. The compensation expense for these awards is recognized in the financial statements over the requisite service period based on their grant date fair values. The Company has elected to recognize forfeitures as they occur rather than estimating service-based forfeitures over the requisite service period.

Treasury shares

Common shares repurchased by the Company and not subsequently cancelled are classified as treasury shares and are recorded at cost. This results in a reduction of shareholders' equity in the consolidated balance sheets. The Company uses the average cost method to determine the cost of shares reissued from treasury.

Goodwill and other intangible assets

The Company recognized goodwill and other intangible assets in connection with certain acquisitions. Goodwill represents the excess of the purchase price paid over the fair value of the net assets acquired in these acquisitions and is not amortized. The Company classifies its intangible assets into two categories: (1) intangible assets with finite lives subject to amortization over the estimated useful live of the intangible asset and (2) intangible assets with indefinite lives not subject to amortization. Intangible assets, other than goodwill, generally consist of distribution channels, syndicate capacity, value of business acquired ("VOBA") and insurance licenses.

The Company assesses goodwill and indefinite life intangible assets for potential impairment during the fourth quarter each year. Such events or circumstances may include an economic downturn in a geographic market or a change in the assessment of future operations.

The Company has the option to first assess qualitative factors to determine whether it is necessary to perform the quantitative goodwill and other intangible asset impairment test. Under this option, the Company would not be required to calculate the fair value of a reporting unit unless the Company determines, based on its qualitative assessment, that it is more likely than not that a reporting unit's fair value is less than its carrying amount. If goodwill or other intangible assets are impaired, they are written down to their estimated fair value with a corresponding expense reflected in the consolidated statements of income and comprehensive income.

Income taxes

Certain subsidiaries and branches of the Company operate in jurisdictions where they are subject to taxation. Current and deferred income taxes are charged or credited to net income based upon enacted tax laws and rates applicable in the relevant jurisdiction in the period in which the tax becomes accruable or realizable. Deferred income taxes are provided for all temporary differences between the bases of assets and liabilities used in the consolidated balance sheets and those used in the various jurisdictional tax returns. When the assessment indicates that it is more likely than not that a portion of a deferred tax asset will not be realized in the foreseeable future, a valuation allowance against deferred tax assets is recorded. The Company recognizes the tax benefits of uncertain tax positions only when the position is more likely than not to be sustained upon audit by the relevant taxing authorities.

Other income

The Company earns commissions paid by insurance carriers for the binding of insurance coverage. Commissions are earned at a point in time upon the effective date of bound insurance coverage, as no performance obligation exists after coverage is bound. If there are other services within the contract, the Company estimates the stand-alone selling price for each separate performance obligation, and the corresponding apportioned revenue is recognized over a period of time as the performance obligations are fulfilled. The Company earns other fee revenue from providing services other than securing insurance coverage. Fee revenues from these agreements are recognized depending on when the services within the contract are satisfied and when control of the related services has been transferred to the customer. Profit-sharing commissions represent a form of variable consideration associated with the placement of coverage, for which the Company earns commissions. Profit-sharing commissions are estimated such that a significant reversal of revenue is not probable.

The commission income and other fee revenue are recognized in other income in the consolidated statements of income and comprehensive income.

Recently issued accounting standards not yet adopted

Leases

In February 2016, the FASB issued ASU No. 2016-02, Leases ("ASU 2016-02"). ASU 2016-02 requires lessees to recognize lease assets and lease liabilities on the balance sheet for those leases classified as operating leases under previous guidance. The effective date of ASU 2016-02 has been delayed by the issuance of ASU 2020-05 and is now effective for non-public companies for annual periods beginning after December 15, 2021. Early application is permitted. The Company is currently evaluating the impact of this guidance; however, it is not expected to have a material impact on the Company's consolidated statements of income and comprehensive income and balance sheet.

Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued ASU No. 2016-13, Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"). ASU 2016-13 modifies the recognition of credit losses by replacing the incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. ASU 2016-13 is applicable to financial assets such as loans, debt securities, trade receivables, off-balance sheet credit exposures, reinsurance receivables, and other financial assets that have the contractual right to receive cash. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The Company's invested assets are measured at fair value through net income, and therefore those invested assets would not be impacted by the adoption of ASU 2016-13. The Company has other financial assets, such as reinsurance recoverables, that could be impacted by the adoption of ASU 2016-13. The effective date of ASU 2016-13 has been delayed by the issuance of ASU 2019-10 and is now effective for non-public companies for annual periods beginning after December 15, 2022. The Company is currently evaluating the impact of this guidance.

(Expressed in thousands of U.S. dollars, except share data)

3. Investments

The amortized cost, gross unrealized gains and losses and fair value of fixed maturity investments as of December 31, 2021 are as follows:

	Amortized Cost	Unrealized gains	Unrealized losses	Fair value
U.S. government and government agency securities	$ 115,968	$ 446	$ (806)	$ 115,608
Non-U.S. government and government agency securities	183,868	676	(1,630)	182,914
Municipal securities	208,807	3,030	(1,857)	209,980
Corporate securities	1,588,691	12,799	(20,285)	1,581,205
Asset-backed securities	380,282	1,583	(1,742)	380,123
Mortgage-backed securities	37,928	769	(93)	38,604
Residential mortgage-backed securities	401,248	1,737	(7,717)	395,268
Total fixed maturity securities	2,916,792	21,040	(34,130)	2,903,702
Short term investments	98,446	—	—	98,446
	$ 3,015,238	$ 21,040	$ (34,130)	$ 3,002,148

The amortized cost, gross unrealized gains and losses and fair value of fixed maturity investments as of December 31, 2020 are as follows:

	Amortized Cost	Unrealized gains	Unrealized losses	Fair value
U.S. government and government agency securities	$ 150,188	$ 2,647	$ (5)	$ 152,830
Non-U.S. government and government agency securities	99,681	2,256	(47)	101,890
Municipal securities	146,130	5,779	(4)	151,905
Corporate securities	1,277,116	37,108	(352)	1,313,872
Asset-backed securities	219,445	3,495	(871)	222,069
Mortgage-backed securities	22,263	1,139	(253)	23,149
Residential mortgage-backed securities	369,567	5,431	(111)	374,887
Total fixed maturity securities	2,284,390	57,855	(1,643)	2,340,602
Short term investments	54,204	—	—	54,204
	$ 2,338,594	$ 57,855	$ (1,643)	$ 2,394,806

(Expressed in thousands of U.S. dollars, except share data)

The contractual maturities of fixed maturities are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	December 31, 2021	
	Amortized cost	Fair value
Due in one year or less	$ 200,010	$ 201,289
Due after one year through five years	1,389,877	1,385,924
Due after five years through ten years	435,679	432,089
Due after ten years	71,768	70,405
Asset-backed securities	380,282	380,123
Mortgage-backed securities	37,928	38,604
Residential mortgage-backed securities	401,248	395,268
Total fixed maturity securities	$ 2,916,792	$ 2,903,702

Realized and unrealized investment gains (losses)

The following represents an analysis of net realized and unrealized gains (losses) on investments for the years ended:

	December 31, 2021		
	Realized gains	Realized losses	Net realized gains (losses)
Fixed maturity securities	$ 3,803	$ (1,108)	$ 2,695
Short term investments	—	(706)	(706)
	3,803	(1,814)	1,989
Net unrealized losses			(69,344)
			$ (67,355)

	December 31, 2020		
	Realized gains	Realized losses	Net realized gains (losses)
Fixed maturity securities	$ 7,261	$ (115)	$ 7,146
Short term investments	323	—	323
	7,584	(115)	7,469
Net unrealized gains			36,472
			$ 43,941

(Expressed in thousands of U.S. dollars, except share data)

Net Investment Income

Net investment income for the years ended December 31, 2021 and 2020 was derived from the following sources:

	2021	2020
Fixed maturity securities	$ 43,107	$ 42,392
Other investments	2,377	2,163
Short term investments	935	1,490
Cash and cash equivalents	626	1,046
Total gross investment income	47,045	47,091
Investment expenses	(2,920)	(1,985)
Net investment income	$ 44,125	$ 45,106

Restricted cash and investments

The Company operates in the Lloyd's market through its corporate member, ACNL, which represents its participation in Syndicate 1414. Lloyd's sets capital requirements, or Funds at Lloyd's ("FAL") for corporate members annually through the application of a capital model which is based on the regulatory capital rules pursuant to Solvency II, as further adjusted by Lloyd's. The Company holds cash and investments to satisfy a portion of the FAL requirements. In addition, the Company holds cash and investments to satisfy other Lloyd's requirements including Premium Trust Deeds, Funds in Syndicates and overseas deposits.

The Company also holds cash and investments which are on deposit with U.S. insurance regulators to meet certain statutory requirements and also collateral to support bank credit facilities and certain insurance and reinsurance transactions. In addition, through its Ethos MGU business, the Company acts as a fiduciary for various insureds and in this role holds cash received from premiums and other amounts collected.

(Expressed in thousands of U.S. dollars, except share data)

The restricted cash and investments held on the Company's consolidated balance sheet as of December 31, 2021 and 2020 were as follows:

	December 31, 2021			
	Cash and cash equiv.	Short term investments	Fixed maturities	Other investments
Deposited at Lloyd's for FAL	$ 488	$ —	$ 398,933	$ 72,225
Other Lloyd's and overseas regulatory requirements	24,002	55,255	540,977	—
Deposits for U.S insurance regulators	1,711	—	18,061	—
Collateral pledged for letters of credit	3,079	—	138,055	—
Collateral pledged for insurance and reinsurance transactions	5,995	—	166,552	—
Fiduciary cash	47,837	—	—	—
	$ 83,112	$ 55,255	$ 1,262,578	$ 72,225

	December 31, 2020			
	Cash and cash equiv.	Short term investments	Fixed maturities	Other investments
Deposited at Lloyd's for FAL	$ 24,206	$ —	$ 392,004	$ 69,191
Other Lloyd's and overseas regulatory requirements	22,484	46,983	554,185	—
Deposits for U.S insurance regulators	309	—	5,781	—
Collateral pledged for letters of credit	168	—	43,183	—
Collateral pledged for insurance and reinsurance transactions	3,014	—	26,233	—
Fiduciary cash	29,092	—	—	—
	$ 79,273	$ 46,983	$ 1,021,386	$ 69,191

4. Fair value measurement

Fair value hierarchy

Fair value is defined as the price to sell an asset or transfer a liability (i.e. the “exit price”) in an orderly transaction between market participants. U.S. GAAP prescribes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. The level in the hierarchy within which a given fair value measurement falls is determined based on the lowest level input that is significant to the measurement. The hierarchy is broken down into three levels as follows:

- Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.
- Level 2 - Valuations based on quoted prices in active markets for similar assets or liabilities, quoted prices for identical assets or liabilities in inactive markets, or for which significant inputs are observable (e.g. interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.
- Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement. The unobservable inputs reflect the Company’s own judgments about assumptions that market participants might use.

The availability of observable inputs can vary from financial instrument to financial instrument and is affected by a wide variety of factors including, for example, the type of financial instrument, whether the financial instrument is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires significantly more judgment.

Accordingly, the degree of judgment exercised by management in determining fair value is greatest for instruments categorized in Level 3. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This may lead the Company to change the selection of its valuation technique (from market to cash flow approach) or may cause it to use multiple valuation techniques to estimate the fair value of a financial instrument. This circumstance could cause an instrument to be reclassified between levels within the fair value hierarchy.

Valuation techniques
The valuation techniques, including significant inputs and assumptions generally used to determine the fair values of the Company's financial instruments as well as the classification of the fair values of its financial instruments in the fair value hierarchy are described in detail below.

Fixed maturities
At each valuation date, the market approach valuation technique is used to estimate the fair value of the Company's fixed maturities portfolio, when possible. This market approach includes, but is not limited to, prices obtained from third party pricing services for identical or comparable securities and the use of “pricing matrix models” using observable market inputs such as yield curves, credit risks and spreads, measures of volatility, and prepayment speeds. Pricing from third party pricing services is sourced from multiple vendors, when available, and a vendor hierarchy is maintained by asset type based on historical pricing experience and vendor expertise. When prices are unavailable from pricing services, non-binding quotes are obtained from broker-dealers who are active in the corresponding markets. The valuation techniques including significant inputs generally used to determine the fair values of the Company's fixed maturities by asset class as well as the classifications of the fair values of these securities in the fair value hierarchy are described in detail below.

<u>U.S. government and government agency securities</u>
U.S. government and agency securities consist primarily of bonds issued by the U.S. Treasury and mortgage pass-through agencies such as the Federal National Mortgage Association ("FNMA"), and the Federal Home Loan Mortgage Corp ("FHLMC"). As the fair values of U.S. Treasury securities are based on unadjusted market prices in active markets, the fair values of these securities are generally classified as Level 1. The fair values of U.S. government agency securities are determined using the spread above the risk-free yield curve. As the yields for the risk-free yield curve and the spreads are observable market inputs, the fair values of U.S. government agency securities are classified as Level 2.

<u>Non-U.S. government and government agency securities</u>
Non-U.S. government securities include bonds issued by non-U.S. governments and their agencies along with supranational organizations (collectively also known as sovereign debt securities). The fair values of these securities are based on prices obtained from international indices or valuation models that include inputs such as interest rate yield curves, cross-currency basis index spreads and country credit spreads for structures similar to the sovereign bond held in terms of issuer, maturity and seniority. As the significant inputs used to price these securities are observable market inputs, the fair values of non-U.S. government securities are generally classified as Level 2.

Municipal securities

Municipals comprise revenue and general obligation bonds issued by U.S. domiciled state and municipal entities. The fair values of these securities are determined using spreads obtained from the new issue market, trade prices and broker-dealers quotes. As the significant inputs used to price these securities are observable market inputs, the fair values of municipals are generally classified as Level 2.

Corporate securities

Corporate debt securities consist primarily of investment-grade debt of a wide variety of corporate issuers and industries. The fair values of these securities are generally determined using the spread above the risk-free yield curve. These spreads are generally obtained from the new issue market, secondary trading and broker-dealer quotes. As the yields for the risk-free yield curve and the spreads are observable market inputs, the fair values of corporate debt securities are generally classified as Level 2. Where pricing is unavailable from pricing services, non-binding quotes are obtained from broker-dealers to estimate fair value. In this event, the fair value of these securities are classified as Level 3.

Asset-backed securities ("ABS")

ABS include mostly investment-grade bonds backed by pools of loans with a variety of underlying collateral, including automobile loan receivables, student loans, credit card receivables, and collateralized loan obligation debt originated by a variety of financial institutions. The fair values of these securities are determined using a model which uses prepayment speeds and spreads sourced primarily from the new issue market. As the significant inputs used to price these securities are observable market inputs, the fair values of ABS are generally classified as Level 2. Where pricing is unavailable from pricing services, non-binding quotes are obtained from broker-dealers to estimate fair value. In this event, the fair values of these securities are classified as Level 3.

Mortgage-backed and residential mortgage-backed securities

This category includes residential and commercial mortgages originated by both U.S. government agencies (such as the FNMA) and non-U.S. government agencies. The fair values of mortgage-backed securities originated by U.S. government agencies and non-U.S. government agencies are based on a pricing model that incorporates prepayment speeds and spreads to determine appropriate average life of mortgage-backed securities. The spreads are sourced from broker-dealers, trade prices and the new issue market. As the significant inputs used to price the mortgage-backed securities are observable market inputs, the fair values of these securities are generally classified as Level 2.

Short-Term Investments

Short-term investments primarily comprise highly liquid securities with maturities greater than three months but less than one year from the date of purchase. These securities are generally classified as Level 2 as these securities are not typically actively traded due to their approaching maturity, and, as such, their amortized cost approximates fair value. Certain short-term investments are issued by the U.S. Treasury and are classified as Level 1 as they are based on unadjusted market prices in active markets.

Other Investments

The Company’s other investments include investments in the equity tranche of a collateralised bond obligation which are recorded at fair value based on broker bid indications. As the prices are unobservable market inputs, the fair value is classified as Level 3.

(Expressed in thousands of U.S. dollars, except share data)

The tables below present the financial instruments measured at fair value on a recurring basis at December 31, 2021 and 2020:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair value based on NAV practical expedient	Total
2021					
U.S. government and government agency securities	$ 96,202	$ 19,406	$ —	$ —	$ 115,608
Non-U.S. government and government agency securities	—	182,914	—	—	182,914
Municipal securities	—	209,980	—	—	209,980
Corporate securities	—	1,566,771	14,434	—	1,581,205
Asset-backed securities	—	380,123	—	—	380,123
Mortgage-backed securities	—	38,604	—	—	38,604
Residential mortgage-backed securities	—	395,268	—	—	395,268
Total fixed maturity securities	96,202	2,793,066	14,434	—	2,903,702
Short term investments	30,000	68,446	—	—	98,446
Other investments	—	—	5,770	121,314	127,084
	$ 126,202	$ 2,861,512	$ 20,204	$ 121,314	$ 3,129,232

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair value based on NAV practical expedient	Total
2020					
U.S. government and government agency securities	$ 134,925	$ 17,905	$ —	$ —	$ 152,830
Non-U.S. government and government agency securities	—	101,890	—	—	101,890
Municipal securities	—	151,905	—	—	151,905
Corporate securities	—	1,298,763	15,109	—	1,313,872
Asset-backed securities	—	222,069	—	—	222,069
Mortgage-backed securities	—	23,149	—	—	23,149
Residential mortgage-backed securities	—	374,887	—	—	374,887
Total fixed maturity securities	134,925	2,190,568	15,109	—	2,340,602
Short term investments	—	54,204	—	—	54,204
Other investments	—	—	—	69,191	69,191
	$ 134,925	$ 2,244,772	$ 15,109	$ 69,191	$ 2,463,997

(Expressed in thousands of U.S. dollars, except share data)

Below is a reconciliation of the beginning and ending balances, for the periods shown of assets measured at fair value on a recurring basis using Level 3 inputs.

	2021	2020
Balance beginning at January 1	$ 15,109	$ —
Purchases	7,000	—
Transfers in (out)	—	14,991
Unrealized gains (losses)		
- Included in Net investment income	(1,230)	—
- Included in Net realised and unrealized gains (losses) on investments	(559)	116
Foreign exchange gains (losses)	(116)	2
Ending balance at December 31	$ 20,204	$ 15,109

Measuring fair value using Net Asset Valuations

The table below shows the Company's portfolio of other investments measured using Net Asset Valuations ("NAV") as advised by the external fund manager as a practical expedient:

December 31, 2021	Fair value	Unfunded Commitments	Redemption Frequency
Senior secured credit funds	$ 104,348	$ —	See below
Hedge funds	10,009	—	See below
Private debt funds	6,957	8,069	See below
	$ 121,314	$ 8,069	

Senior secured credit funds

At December 31, 2021, the Company had $104,348 principally invested in senior secured credit funds. The Company can redeem its investments in senior secured credit funds on a monthly basis.

Hedge funds

At December 31, 2021, the Company had $10,009 of investments in hedge funds that are primarily focused on U.S. public and private equity opportunities which are generally redeemable at the option of the shareholder.

Private debt funds

At December 31, 2021, the Company had $6,957 invested in closed end funds which invest primarily in loans. The Company has no right to redeem its investment in these funds. It is estimated that the majority of the underlying assets in these closed end funds will liquidate after 4-8 years from inception of the applicable fund.

Financial instruments disclosed, but not carried, at fair value

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 carrying values of cash and cash equivalents and accrued investment income approximated their fair values at December 31, 2021 and 2020, due to their respective short maturities. As these financial instruments are not actively traded, their fair values are classified as Level 2.

(Expressed in thousands of U.S. dollars, except share data)

Debt

Included on the Company's consolidated balance sheet at December 31, 2021 and 2020 were debt obligations of $400,000, net of unamortized debt issuance expenses of $4,840 (2020 - $5,403). As at December 31, 2021 the fair value of the Company's debt obligations was $411,000 (2020 - $400,000).

5. Business combinations

On October 31, 2021, AIC acquired AmFed National Insurance Company and its wholly owned subsidiaries (together "AmFed"). AmFed, based in Ridgeland, Mississippi, is a Mississippi based workers' compensation insurance company with additional licenses in 15 Southeastern and Midwestern states. The purchase price was $51,525.

The fair value of the assets acquired and liabilities assumed and the allocation of the purchase price on the acquisition date are summarized in the following table:

Total purchase price	$	51,525
Assets		
Investments		53,617
Cash and cash equivalents		13,432
Premium receivable		8,224
Reinsurance recoverables on unpaid losses		34,315
Indefinite lived intangible assets - U.S. licenses		3,200
Definite life intangible assets		2,722
Other assets acquired		11,654
Total assets acquired		127,164
Liabilities		
Reserve for loss and loss adjustment expenses		58,063
Unearned premiums		10,332
Other liabilities assumed		7,244
Total liabilities assumed	$	75,639

The purchase price was allocated to the assets acquired and liabilities assumed based on estimated fair values at the acquisition date and no goodwill was recognized.

On October 4, 2021, AIC acquired Boston Indemnity Company, a U.S. Treasury-listed insurance carrier licensed in 46 states and the District of Columbia. Subsequent to the acquisition, the Company's name was changed to Ascot Surety & Casualty Company ("ASC"). The purchase price paid was $11,349 and the transaction was accounted for as an asset acquisition.

(Expressed in thousands of U.S. dollars, except share data)

6. Goodwill and intangible assets

Goodwill and intangible assets as of December 31, 2021 and 2020 are as follows:

	Goodwill	Intangible assets			Goodwill & Intangible assets
	Gross	**Gross**	**Amortization**	**Total**	**Total**
Balances as of December 31, 2019	$ 69,551	$ 238,218	$ (61,294)	$ 176,924	$ 246,475
Acquired during year	—	—	—	—	—
Amortization	—	—	(6,467)	(6,467)	(6,467)
Balance as of December 31, 2020	69,551	238,218	(67,761)	170,457	240,008
Acquired during year	—	8,583	—	8,583	8,583
Amortization	—	—	(6,609)	(6,609)	(6,609)
Balance as of December 31, 2021	$ 69,551	$ 246,801	$ (74,370)	$ 172,431	$ 241,982

The gross carrying value and accumulated amortization by major category of intangible assets as of December 31, 2021 is shown below:

	Gross carrying value	Accumulated amortization	Total
Lloyd's Syndicate capacity	$ 94,000	$ —	$ 94,000
U.S. licenses	15,254	—	15,254
Indefinite life	**109,254**	—	**109,254**
Customer relationships and distribution network	95,702	(33,468)	62,234
VOBA	41,845	(40,902)	943
Definite life	**137,547**	**(74,370)**	**63,177**
Total intangible assets	**$ 246,801**	**$ (74,370)**	**$ 172,431**

(Expressed in thousands of U.S. dollars, except share data)

The gross carrying value and accumulated amortization by major category of other intangible assets as of December 31, 2020 is shown below:

	Gross carrying value	Accumulated amortization	Total
Lloyd's Syndicate capacity	$ 94,000	$ —	$ 94,000
U.S. licenses	8,402	—	8,402
Indefinite life	**102,402**	—	**102,402**
Customer relationships and distribution network	95,000	(26,945)	68,055
VOBA	40,816	(40,816)	—
Definite life	**135,816**	**(67,761)**	**68,055**
Total intangible assets	**$ 238,218**	**$ (67,761)**	**$ 170,457**

The remaining useful life of intangible assets with finite lives ranges from 2 to 10 years with a weighted average remaining amortization period of 9.4 years. Expected amortization of the intangible assets is shown below:

	Other intangible assets
2022	$ 7,110
2023	7,050
2024	6,621
2025	6,621
2026 and thereafter	35,775
Total remaining amortization expense - definite life	63,177
Indefinite life	109,254
Total	$ 172,431

On November 18, 2016, AUGL, a wholly owned subsidiary of the Company, acquired 100% ownership in Ascot Employee Corporate Member Limited ("AECM"), AUHL and ACNL (together "the UK Group") for an aggregate purchase price of $422,391. The UK Group provides underwriting capacity to Syndicate 1414. The purchase price was allocated to the assets acquired (including certain intangible assets) and liabilities assumed of the UK group based on estimated fair values at the acquisition date and AUGL recognized goodwill of $67,797.

On October 4, 2018, Ascot US Holding Corporation acquired Greyhawk Insurance Company, a Colorado domiciled admitted carrier, and its wholly owned subsidiary Greyhawk Specialty Insurance Company, a Rhode Island domiciled surplus lines carrier. Following the completion of the acquisition, the companies were renamed as Ascot Insurance Company and Ascot Specialty Insurance Company, respectively. The purchase price was $22,646 and was allocated to the assets acquired (including certain intangible assets) and liabilities assumed based on estimated fair values at the acquisition date and $1,754 of goodwill was recognized.

The business combinations and asset acquisitions which occurred during the year ended December 31, 2021 are described in Note 5, Business combinations.

As described in Note 2, Significant accounting policies, the annual qualitative and quantitative impairment test was performed and neither goodwill nor the intangible assets were deemed to be impaired.

7. Reserves for loss and loss adjustment expenses

Reserving Methodology

The Company believes that the most significant accounting judgment made by management is the estimate of reserve for losses and loss expenses (“loss reserves”). The loss reserves represent management’s estimate of the unpaid portion of the ultimate liability for losses and loss expenses for events that have occurred at or before the balance sheet date. The reserves are estimated on an undiscounted basis.

The process of establishing loss reserves is complex and subject to considerable variability, as it requires the use of judgment to make informed estimates. These estimates are based on numerous factors, and may be revised as additional experience and other data become available and are reviewed. Loss reserves are categorized into two types:

- Case reserves - reserves for reported losses and loss expenses that have not yet been settled; and
- IBNR reserves - reserves for incurred but not reported losses or for reported losses over and above the amount of case reserves.

For all case and IBNR reserves, net of reinsurance reserves are estimated by first estimating gross of reinsurance reserves, then estimating reinsurance recoverables.

Case reserves
Case reserves generally are analyzed and established by the claims department, making use of third party input where appropriate (including, for the reinsurance business, reports of losses from ceding companies).

For insurance contracts, the Company is generally notified of insured losses by the insureds and/or their brokers. Based on this information, the Company's claims personnel estimate the ultimate losses arising from the claim, including the cost of administering the claims settlement process. These estimates reflect the judgment of the Company's claims personnel based on general reserving practices, the experience and knowledge of such personnel regarding the nature of the specific claim and, where appropriate, the advice of legal counsel, loss adjusters and other relevant consultants.

For reinsurance contracts, case reserves for reported claims are generally established based on reports received from ceding companies and/or their brokers. For excess of loss contracts, the Company is typically notified of insured losses on specific contracts and records a case reserve for the estimated ultimate liability arising from the claim. With respect to contracts written on a proportional basis, the Company typically receives aggregated claims information and records a case reserve based on that information. However, proportional reinsurance contracts typically require that losses in excess of pre-defined amounts be separately notified so that the Company can adequately evaluate them. The Company's claims department evaluates each specific loss notification received and records additional case reserves when a ceding company’s reserve for a claim is not considered adequate.

IBNR reserves
IBNR reserves represent management's best estimate, at a given point in time, of the amount in excess of case reserves that is needed for the future settlement and loss adjustment costs associated with claims incurred and also for the future settlement of any incurred but not reported claims. The estimation of IBNR reserves is necessary due to the time lags between when a loss event occurs and when it is actually reported to the Company, referred to as the reporting lag. Reporting lags may arise from a number of factors, including but not limited to the nature of the loss, the use of intermediaries and complexities in the claims adjusting process.

IBNR reserves on known catastrophe and shock losses are reviewed on a monthly basis, and are adjusted as new information becomes available. Any such adjustments are accounted for as changes in estimates and are reflected in the results of operations in the period in which they are made. IBNR reserves are estimated separately for all other losses.

Attritional losses

Consistent with industry practice, the Company utilizes a variety of standard actuarial methods together with management judgment to estimate IBNR for attritional losses. The loss reserve selection from these methods is based on the loss development characteristics of the specific line of business and contracts, which take into consideration coverage terms, type of business, maturity of loss data, reported claims and paid claims.

The principal actuarial methods used by the Company to perform the quarterly loss reserve analysis are:

- Expected Loss Ratio Method. The Expected Loss Ratio method multiplies premiums by an expected loss ratio to produce ultimate loss estimates for an underwriting year. Expected loss ratios are generally based on an analysis of historical loss experience to date, industry data or pricing information. This method is insensitive to actual incurred losses for the accident year or underwriting year in question and is, therefore, often useful in the early stages of development when very few losses have been incurred.

- Loss Development Method. This method assumes that the losses incurred/paid for each underwriting year at a particular development stage follow a relatively similar pattern. It assumes that on average, every accident or underwriting year will display the same percentage of ultimate losses incurred/paid at the same point in time after the inception of that year. The percentages incurred/paid are established through analyzing the historical loss development data and/or external benchmark information.

- Bornhuetter-Ferguson Method. These methods are a weighted average of the Expected Loss Ratio and the Loss Development Method. The weighting between the two methods depends on the maturity of the business. This means that for the more recent years a greater weight is placed on the Expected Loss Ratio Method, while for the more mature years a greater weight is placed on the Loss Development Method. These methods avoid some of the distortions that could result from a large development factor being applied to a small base of paid or reported losses to calculate ultimate losses.

Known catastrophe events

IBNR reserves are established for known catastrophe events (such as hurricanes and earthquakes) for which not all claims are believed to have been reported to the Company and to allow for reported losses over and above the amount of case reserves. Loss reserves for such events are estimated by management in collaboration with actuaries, claim handlers and underwriters after a catastrophe occurs by completing an analysis based on several sources of information, including:

- Estimates of the size of insured industry losses from the catastrophic event and the Company's corresponding market share;

- A review of the Company's portfolio to identify those contracts which may be exposed to the catastrophic event;

- A review of modeled loss estimates based on information previously reported by customers and brokers, including exposure data obtained during the underwriting process;

- Discussions of the impact of the event with insureds and brokers;

- Information that has been provided by insureds or brokers as claims are notified; and

- Catastrophe bulletins published by various independent statistical reporting agencies.

A blend of these information sources is generally used to arrive at aggregate estimates of the ultimate losses arising from the catastrophic event.

Paid losses and case reserves are then deducted from the ultimate loss to ascertain the IBNR estimate for these individual catastrophe events. The size of event for which the Company establishes a separate ultimate loss estimate may vary based on an assessment of the materiality of the event, as well as on other factors such as complexity and volatility.

In subsequent reporting periods, changes in paid and incurred losses in relation to each significant catastrophe are reviewed and adjustments are made to estimates of ultimate losses for each event if there are developments that are different from previous expectations. Adjustments are recorded in the period in which they are identified.

IBNR reserves have also been established for exposure to claims associated with the Covid-19 pandemic which have not yet been reported to the Company. Similar to the loss reserves estimated for other known catastrophe events, the loss reserves are estimated by management in collaboration with actuaries, claim handlers and underwriters. The judgment required in determining these reserves is increased due to the uncertainly associated with the potential extent and duration of the pandemic. The analysis is based on several sources of information including:

- the nature and duration of the pandemic;
- the response of government bodies including legislative, regulatory or judicial actions and social influences that could alter the interpretation of the Company's contracts;
- the coverage provided under the Company's contracts;
- the coverage provided by the Company's ceded reinsurance; and
- the evaluation of the loss and impact of loss mitigation actions.

The Company continues to monitor the appropriateness of its assumptions as new information comes to light and adjustments are made to the estimate of ultimate losses related to the Covid-19 pandemic if there are developments that are different from previous expectations. Adjustments are recorded in the period in which they are identified.

The reserving process produces a point estimate for the Company's loss reserves. Although the Company believes that the assumptions and methodologies used are reasonable, the Company cannot be certain that the ultimate payments will not vary, potentially materially, from the estimates made.

(Expressed in thousands of U.S. dollars, except share data)

Reserve Roll-Forward

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

	2021	2020
Gross reserves for losses and loss adjustment expenses, beginning of year	$ 1,270,139	$ 1,082,498
Less: reinsurance recoverable balances, beginning of year	336,751	384,244
Net reserves for losses and loss adjustment expenses, beginning of year	933,388	698,254
Increase in reserve for net losses and loss adjustment expense from acquisitions	23,748	—
Increase in net losses and loss adjustment expenses incurred in respect of losses occurring in:		
Current year	923,707	491,780
Prior years	56,335	59,002
Total incurred losses and loss adjustment expenses	980,042	550,782
Less: net losses and loss adjustment expenses paid in respect of losses occurring in:		
Current year	151,873	84,847
Prior years	321,597	236,120
Total net paid losses	473,470	320,967
Net foreign currency on loss and loss adjustment expenses	(4,977)	5,319
Net reserve for losses and loss adjustment expenses, end of year	1,458,731	933,388
Plus reinsurance recoverable balances, end of year	760,565	336,751
Gross reserve for losses and loss adjustment expenses, end of year	$ 2,219,296	$ 1,270,139

For the year ended December 31, 2021, the Company recorded net unfavorable prior years reserve development primarily related to 2020 accident year catastrophe events, principally Hurricane Laura, and 2011 accident year catastrophe events, principally the earthquake in Christchurch, New Zealand.

For the year ended December 31, 2020, the Company recorded net unfavorable prior years reserve development primarily related to 2018 accident year wildfire catastrophe events.

(Expressed in thousands of U.S. dollars, except share data)

Net incurred and paid claims development tables by accident year

The following information presents the incurred and paid claims information as of December 31, 2021, net of reinsurance, as well as cumulative claim frequency and total IBNR reserves by accident year. The information about incurred and paid claims development presented for the years ended December 31, 2012 to December 31, 2020 is presented as supplementary information.

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 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.

<u>Consolidated</u>

Incurred claims and allocated loss adjustment expenses, net of reinsurance

	Unaudited										As of December 31, 2021	
Accident Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total IBNR	Cum. No. of Reported Claims
2012	207,764	249,980	237,500	233,377	235,334	227,965	223,196	218,585	217,115	219,263	(302)	10,940
2013		246,989	276,659	278,320	271,372	265,700	260,238	258,137	256,926	257,630	83	12,539
2014			242,755	269,515	268,880	260,001	256,698	249,360	249,234	248,898	1,253	14,145
2015				263,314	303,116	301,987	293,814	286,962	285,096	285,054	3,816	15,355
2016					260,435	295,112	285,173	289,288	296,029	303,538	8,898	19,443
2017						402,031	370,770	356,020	362,748	360,731	15,017	24,792
2018							359,027	432,726	477,043	484,628	27,913	30,545
2019								322,280	327,038	344,878	72,674	67,513
2020									487,853	496,124	168,731	89,402
2021										924,569	666,728	62,746
										$3,925,313	$964,811	

Cumulative paid claims and loss adjustment expenses, net of reinsurance

	Unaudited									
Accident Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
2012	49,959	118,590	145,299	169,421	188,456	199,558	207,520	210,277	210,404	211,158
2013		61,286	158,666	218,881	236,908	246,551	249,923	252,804	253,094	253,634
2014			76,089	162,214	202,933	220,297	229,288	236,872	239,776	242,396
2015				61,297	173,483	217,976	236,792	253,613	262,928	267,637
2016					66,597	169,000	220,381	233,143	254,105	267,988
2017						(15,037)	196,601	260,310	301,332	321,629
2018							68,150	232,992	326,519	385,631
2019								59,280	125,225	177,362
2020									85,695	239,040
2021										144,788
										$ 2,511,263

(Expressed in thousands of U.S. dollars, except share data)

The following table reconciles the net reserve for losses and loss expenses derived from the incurred and paid loss development triangles to the reserve for losses and loss expenses in the consolidated balance sheet as of December 31, 2021:

	December 31, 2021
Total incurred claims and allocated loss and loss adjustment expenses, net of reinsurance	$ 3,925,313
Less: Cumulative paid claims and loss adjustment expenses, net of reinsurance	(2,511,261)
All outstanding liabilities before 2012, net of reinsurance	22,044
Unallocated claims adjustment expenses	22,635
	$ 1,458,731

Property Treaty

Incurred claims and allocated loss adjustment expenses, net of reinsurance

	Unaudited										As of December 31, 2021	
Accident Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total IBNR	Cum. No. of Reported Claims
2012	88,161	59,473	54,094	36,355	41,968	38,470	34,878	29,733	29,331	28,195	5,071	432
2013		45,862	44,140	48,453	45,495	44,225	42,458	42,098	41,970	42,275	4	215
2014			37,928	34,335	31,559	31,411	31,930	31,946	31,979	31,828	27	261
2015				26,348	26,722	30,155	28,488	26,774	25,811	25,734	49	159
2016					27,400	29,119	24,159	23,630	23,433	25,082	672	227
2017						104,052	89,411	70,452	73,646	71,097	11,734	456
2018							83,232	151,467	192,754	194,801	(4,950)	383
2019								42,211	31,271	39,080	6,411	159
2020									117,318	132,365	23,611	157
2021										231,222	150,299	120
										$ 821,679	$192,928	

Cumulative paid claims and loss adjustment expenses, net of reinsurance

	Unaudited									
Accident Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
2012	21,384	31,949	27,093	18,099	21,445	18,506	23,193	24,757	24,578	24,630
2013		2,571	17,769	39,151	42,673	42,345	41,657	41,942	41,892	41,990
2014			16,109	24,936	27,226	28,060	29,399	30,044	30,024	30,104
2015				2,568	7,802	13,045	16,137	18,834	22,723	22,920
2016					1,936	13,200	21,860	24,968	26,117	26,749
2017						(67,775)	36,397	51,279	73,485	72,236
2018							29,963	70,515	116,188	123,684
2019								3,769	10,208	17,868
2020									31,029	85,068
2021										62,730
										$507,979

(Expressed in thousands of U.S. dollars, except share data)

Property

Incurred claims and allocated loss adjustment expenses, net of reinsurance

	Unaudited										As of December 31, 2021	
Accident Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total IBNR	Cum. No. of Reported Claims
2012	69,332	66,818	88,676	92,485	89,666	90,463	89,299	89,787	89,128	89,105	(3,787)	5,959
2013		80,069	103,319	102,588	103,662	101,610	99,156	97,877	97,258	97,375	(122)	7,127
2014			95,312	121,513	121,461	120,337	119,895	116,955	117,528	117,420	44	6,531
2015				96,745	117,836	116,623	113,895	114,143	113,350	111,861	231	6,082
2016					102,576	121,986	113,653	115,471	119,302	122,311	(987)	8,273
2017						116,242	106,030	106,365	105,578	104,154	(5,655)	8,193
2018							50,745	60,609	60,358	62,224	5,830	6,232
2019								57,539	62,300	64,380	6,938	4,061
2020									96,187	99,058	3,277	3,911
2021										93,507	53,107	1,485
										$ 961,395	$ 58,876	

Cumulative paid claims and loss adjustment expenses, net of reinsurance

	Unaudited									
Accident Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
2012	17,443	43,807	57,769	70,257	77,780	86,913	87,220	87,919	88,047	88,298
2013		18,651	54,420	77,485	85,370	92,317	94,419	94,958	95,268	95,938
2014			33,139	76,531	99,787	109,427	112,584	115,919	116,993	117,748
2015				32,849	82,461	99,637	106,427	112,152	113,208	112,807
2016					28,580	83,723	98,602	105,838	113,741	118,771
2017						17,784	82,808	101,703	101,575	101,742
2018							7,809	61,143	71,000	74,952
2019								12,454	28,459	37,363
2020									24,985	65,170
2021										22,645
										$ 835,434

(Expressed in thousands of U.S. dollars, except share data)

Marine & Energy

Incurred claims and allocated loss adjustment expenses, net of reinsurance

	Unaudited										As of December 31, 2021	
Accident Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total IBNR	Cum. No. of Reported Claims
2012	47,982	99,747	90,586	100,462	101,565	96,898	96,893	96,954	96,551	99,872	(1,581)	4,509
2013		114,272	126,236	125,012	120,145	118,400	117,367	116,743	116,365	116,410	10	4,951
2014			95,119	97,999	98,581	93,843	92,533	88,729	88,190	87,550	(281)	5,900
2015				118,765	130,019	124,623	123,160	119,392	117,108	117,703	85	6,368
2016					93,401	98,490	97,119	97,261	96,042	96,838	1,587	7,030
2017						124,918	110,571	112,460	113,247	113,016	(4,053)	9,810
2018							119,464	109,167	111,640	115,525	5,219	8,265
2019								118,184	125,652	134,850	12,914	4,876
2020									105,016	96,882	19,114	3,141
2021										148,279	68,708	2,256
										$1,126,925	$101,722	

Cumulative paid claims and loss adjustment expenses, net of reinsurance

	Unaudited									
Accident Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
2012	11,031	42,611	60,137	80,700	87,082	91,976	94,947	95,444	95,622	96,073
2013		40,024	86,395	101,828	108,438	111,376	113,267	114,985	114,969	114,672
2014			26,783	58,481	72,269	78,696	82,359	84,263	84,881	85,809
2015				25,367	80,565	99,651	106,502	110,775	112,219	113,965
2016					35,267	64,974	85,496	78,512	82,191	84,900
2017						32,221	67,037	86,797	93,075	104,829
2018							27,745	81,429	104,441	113,385
2019								39,274	69,079	87,561
2020									21,364	57,457
2021										39,510
										$898,161

(Expressed in thousands of U.S. dollars, except share data)

Casualty

Incurred claims and allocated loss adjustment expenses, net of reinsurance

	Unaudited										As of December 31, 2021	
Accident Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total IBNR	Cum. No. of Reported Claims
2012	—	—	—	—	—	—	—	—	—	—	—	—
2013		17	2,191	1,922	1,741	1,151	956	1,119	1,030	1,268	187	226
2014			11,941	13,662	15,513	12,679	10,634	10,045	9,862	10,444	1,468	1,433
2015				20,102	26,928	28,912	26,915	25,323	27,512	28,481	3,440	2,718
2016					34,359	40,068	44,427	46,843	51,019	52,625	7,588	3,399
2017						48,989	54,784	54,940	56,339	56,014	12,409	5,421
2018							95,713	104,139	102,743	101,375	24,293	14,673
2019								94,029	95,606	92,872	43,255	57,633
2020									157,945	156,925	118,891	81,441
2021										443,670	388,015	58,612
										$ 943,674	$599,546	

Cumulative paid claims and loss adjustment expenses, net of reinsurance

	Unaudited									
Accident Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
2012	—	—	—	—	—	—	—	—	—	—
2013		—	19	80	88	174	242	582	627	695
2014			58	646	2,013	2,475	3,288	4,984	6,215	7,072
2015				340	2,320	4,382	6,464	10,570	13,495	16,661
2016					456	5,078	11,026	19,145	26,797	31,917
2017						1,671	6,042	13,820	23,252	30,471
2018							1,222	13,526	24,689	61,586
2019								2,365	12,669	26,913
2020									5,491	26,596
2021										19,191
										$221,102

(Expressed in thousands of U.S. dollars, except share data)

Political Risk, Terror and Personal Accident

Incurred claims and allocated loss adjustment expenses, net of reinsurance

	Unaudited										As of December 31, 2021	
Accident Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total IBNR	Cum. No. of Reported Claims
2012	2,289	23,942	4,143	4,075	2,135	2,133	2,126	2,110	2,105	2,091	(5)	40
2013		6,768	773	345	329	314	302	300	303	302	4	20
2014			2,454	2,006	1,766	1,731	1,705	1,684	1,675	1,656	(5)	20
2015				1,354	1,610	1,674	1,356	1,330	1,316	1,275	12	28
2016					2,698	5,448	5,815	6,083	6,234	6,682	39	514
2017						7,830	9,973	11,803	13,938	16,449	581	912
2018							9,873	7,345	9,548	10,702	(2,480)	992
2019								10,318	12,209	13,697	3,155	784
2020									11,387	10,894	3,838	752
2021										7,891	6,599	273
										$ 71,639	$ 11,738	

Cumulative paid claims and loss adjustment expenses, net of reinsurance

	Unaudited									
Accident Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
2012	101	223	301	365	2,148	2,164	2,161	2,157	2,157	2,157
2013		39	63	337	339	339	339	338	338	338
2014			—	1,621	1,639	1,639	1,659	1,661	1,664	1,664
2015				173	334	1,262	1,262	1,281	1,284	1,285
2016					358	2,026	3,399	4,681	5,260	5,650
2017							4,317	6,710	9,946	12,349
2018							1,410	6,379	10,201	12,023
2019								1,418	4,811	7,657
2020									2,825	4,749
2021										711
										$ 48,583

(Expressed in thousands of U.S. dollars, except share data)

8. Reinsurance

In the ordinary course of business, the Company purchases treaty and facultative reinsurance to reduce exposure to significant losses. Facultative reinsurance provides coverage for all or a portion of the losses incurred for a single policy and each facultative contract is negotiated separately.

Treaty reinsurance provides coverage for a specified type or category of risks. Treaty reinsurance agreements provide this cover on either an excess of loss or a proportional basis. Excess of loss covers provide a contractually set amount of coverage after a specified loss amount has been reached. These treaties can provide cover for a number of lines of business within one contract. Under proportional reinsurance, the Company cedes an agreed proportion of the premiums and the losses and loss expenses on the policies it underwrites. These treaties provide a specified percentage of coverage from the first dollar of loss.

All of these reinsurance covers provide the Company the right to recover a portion of specified losses and loss expenses from reinsurers. However, to the extent that the reinsurers do not meet their obligations under these agreements due to solvency issues, contractual disputes or other reasons, the Company remains liable.

(a) Effects of reinsurance on premiums written and earned

The effects of reinsurance on premiums written and earned and on losses and loss adjustment expenses is as follows for the years ended December 31, 2021 and 2020:

	2021	2020
Net premiums written		
Direct	$ 1,656,413	$ 1,110,861
Assumed	1,179,782	708,001
Ceded	(854,608)	(519,048)
Net premiums written	1,981,587	1,299,814
Net premiums earned		
Direct	1,408,028	857,040
Assumed	874,768	575,198
Ceded	(706,702)	(407,857)
Net premiums earned	1,576,094	1,024,381
Losses and loss adjustment expenses		
Gross losses and loss adjustment expenses incurred	1,531,859	663,318
Losses and loss adjustment expense recoveries	(551,817)	(112,536)
Net incurred losses and loss adjustment expenses	$ 980,042	$ 550,782

(b) Credit risk

The Company evaluates the financial condition of its reinsurers and monitors concentration of credit risk arising from its exposure to individual reinsurers. As of December 31, 2021, 78.6% of reinsurance recoverables were from reinsurers rated A- or better, 18.8% from unrated reinsurers all of which is collateralized and 2.5% from unrated reinsurers on an uncollateralized basis. The uncollateralized recoverable from unrated reinsurers principally relates to a recoverable from the Mississippi Workers' Compensation Assigned Risk Pool.

(Expressed in thousands of U.S. dollars, except share data)

As of December 31, 2020, 81.5% of reinsurance recoverables were from reinsurers rated A- or better, 18.2% was from unrated reinsurers all of which is collateralized and 0.3% from unrated reinsurers on an uncollateralized basis.

Reserves for reinsurance recoverables deemed uncollectible are based on an estimate of the amount of the reinsurance recoverable balance that will ultimately not be recovered due to reinsurer insolvency, contractual dispute or some other reason. The valuation of the reserve for uncollectible reinsurance includes a review of the credit ratings of the reinsurance recoverable by reinsurer on a continuous basis with any resulting adjustments recorded in earnings in the period that collection issues are identified. As of December 31, 2021 and 2020, the reserves for reinsurance recoverables deemed uncollectible was $2,064 and $1,380, respectively.

9. Financing arrangements

Debt Facilities

On December 15, 2020, the Company issued $400,000 principal amount of its 4.25% Senior Notes due December 15, 2030, with interest on the notes payable on June 15 and December 15 of each year, commencing on June 15, 2021. The notes are redeemable at the applicable redemption price, subject to the terms described in the indenture for the notes. However, the notes may not be redeemed or repaid at any time including on the scheduled maturity date without approval from the Bermuda Monetary Authority (the “BMA”) if enhanced capital requirements, as established by the BMA, would be breached immediately before or after giving effect to the redemption of such notes, unless, in each case, the Company replaces the capital represented by the notes to be redeemed with capital having equal or better capital treatment as the notes under applicable BMA rules. The net proceeds from this offering will be used for general corporate purposes.

The following table sets forth the scheduled maturity of the Company's debt obligations reflected on its consolidated balance sheet at December 31, 2021:

2022	$	—
2023		—
2024		—
2025		—
2026		—
After 2025		400,000
Unamortized debt issuance expenses		(4,840)
	$	395,160

Letter of Credit Facilities

On November 4, 2020, Ascot Bermuda and the Company (as Guarantor) entered into an unsecured $250,000 letter of credit facility (the "FAL LOC Facility") with ING Bank N.V. London Branch and The Bank of Nova Scotia, London Branch. The facility may be collateralized at the option of Ascot Bermuda. Under the terms of the FAL LOC Facility, letters of credit to a maximum aggregate amount of $250,000 are available for issuance. These letters of credit will be used to provide Funds at Lloyd's to support the underwriting capacity provided by ACNL to the Syndicate for the 2021 and 2022 years of account and any prior open years of account for the Syndicate. The FAL LOC Facility is subject to certain covenants, including the requirement to maintain a minimum consolidated tangible net worth and a maximum leverage ratio, as defined in the FAL LOC Facility Documents. Obligations under the FAL LOC Facility include contingent reimbursement obligations for outstanding letters of credit and fees. In the event of default, the Banks may exercise certain remedies, including the exercise of control over pledged collateral and the termination of the availability of the FAL LOC Facility. This facility replaced the unsecured $250,000 letter of credit facility entered into on November 2, 2018 by Ascot Bermuda and the Company (as Guarantor) with Lloyds Bank plc, ING Bank N.V. London Branch and The Bank of Nova Scotia, London Branch.

On December 20, 2018, Ascot Bermuda and the Company (as Guarantor) entered into an uncommitted secured letter of credit facility with Wells Fargo Bank, National Association (the "Wells Fargo LOC Facility"). On May 19, 2021 the terms of the Wells Fargo LOC Facility were amended to increase the maximum aggregate amount of letters of credits which are available for issuance from $50,000 to $150,000. The Wells Fargo LOC Facility is subject to certain covenants, including the requirement to maintain a minimum level of collateral in the form of cash and fixed maturity securities. Obligations under the Wells Fargo LOC Facility include contingent reimbursement obligations for outstanding letters of credit and fees. In the event of default, the Banks may exercise certain remedies, including the exercise of control over pledged collateral and the termination of the availability of the Wells Fargo LOC Facility.

On December 21, 2021, Ascot Bermuda and the Company (as Guarantor) entered into an uncommitted letter of credit facility with The Bank of Nova Scotia (the "Nova Scotia LOC Facility"). The facility may be collateralized at the option of Ascot Bermuda. Under the terms of the Nova Scotia LOC Facility, letters of credit to a maximum aggregate amount of $25,000 are available for issuance. The Nova Scotia LOC Facility is subject to certain covenants, including the requirement to maintain a minimum consolidated tangible net worth and a maximum leverage ratio, as defined in the Nova Scotia LOC Facility Documents.

At December 31, 2021, Ascot Bermuda had $250,000 letters of credit outstanding under the FAL LOC Facility, $100,191 outstanding under the Wells Fargo LOC Facility and $977 outstanding under the Nova Scotia LOC Facility. Ascot Bermuda was in compliance with covenants for all facilities at December 31, 2021.

10. Commitments and contingencies

a) Concentrations of credit risk

Credit risk is the risk of default of a counterparty or obligor including the risk of default under mitigating contracts like reinsurance, financial instruments and premium payments from policy holders. The Company mitigates credit risk through the application of detailed counterparty credit assessments, working to ensure that contractual terms are fit for purpose and that full disclosure of relevant information is made, and through exerting contractual and other credit control measures in pursuit of premium and reinsurance recoverables due.

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

Cash and investments
The Company’s cash and cash equivalents are on deposit with various financial institutions. Credit risk arises from the failure of the counterparty to perform according to the terms of a contract. The Company’s deposits are with reputable banks to minimize this risk and they are located principally in Bermuda, the U.S. and the U.K.

The Company's investment portfolio is managed by external investment managers in accordance with its investment guidelines. The Company limits such credit risk through diversification, issuer exposure limitation graded by ratings and, with respect to custodians, through contractual and other legal remedies. Some of the key limits are:

(Expressed in thousands of U.S. dollars, except share data)

- Excluding securities issued by Sovereigns and Sovereign agencies rated AA- or better, the Company limits its concentration of credit risk to any single issuer to 2% or less of its investment portfolio;
- Exposure to non investment grade fixed maturities is limited to less than 15% of its investment portfolio;
- Exposure to equities is limited to less than 20% of its investment portfolio;
- Illiquid investments are limited to 10%; and
- A minimum average portfolio quality of A- is required for fixed maturity securities.

At December 31, 2021, the Company was in compliance with these limits.

Reinsurance recoverable balances
See Note 8. Reinsurance for information with respect to reinsurance recoverables.

Premiums receivable balances
The diversity of the Company's client base limits the credit risk associated with its premium balances receivable. In addition, for insurance contracts, the Company has contractual rights to cancel coverage for non-payment of premiums and for reinsurance contracts, it has contractual rights to offset premiums receivable with corresponding payments for losses and loss expenses.

Brokers and other intermediaries collect premiums from customers to be paid to the Company. The Company has policies and standards in place to manage and monitor credit risk from intermediaries with a focus on day-to-day monitoring of the largest positions.

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 premium balances receivable are not currently due based on the terms of the underlying contracts, the Company does not utilize specific credit quality indicators to monitor its premium balances receivable balance. At December 31, 2021 , the reserve for uncollectible premium balances receivable was $868 (December 31, 2020 $nil).

b) Brokers

The Company produces its business through brokers and direct relationships with insurance companies. During the years ended December 31, 2021 and 2020, the following brokers were used to generate greater than 10% of the Company's consolidated gross premiums written:

	% of Gross Premiums Written	
Broker	**2021**	**2020**
Marsh & McLennan Companies	18.5 %	18.7 %
Aon companies	17.6 %	20.5 %
Willis Towers Watson	16.5 %	12.1 %

c) Lease commitments

The Company leases office space under operating leases which expire at various dates. The Company renews and enters into new leases in the ordinary course of business, as required. Total rent expense with respect to these operating leases for the year ended December 31, 2021 was $6,000 (2020: $5,561).

(Expressed in thousands of U.S. dollars, except share data)

Future minimum lease payments under the leases are expected to be as follows:

2022	$	6,963
2023		5,973
2024		6,005
2025		6,061
2026		5,987
Later years		11,588
Total minimum future lease commitments	$	42,577

d) Litigation

The Company is subject to litigation and arbitration in the normal course of its business. These lawsuits and arbitrations principally involve claims on policies of insurance and contracts of reinsurance and are typical for the Company and for the property and casualty insurance and reinsurance industry in general. Such legal proceedings are considered in connection with the Company’s loss and loss expense reserves. In addition to litigation relating to insurance and reinsurance claims, the Company and its subsidiaries are subject to lawsuits in the normal course of business. The status of any such legal actions is actively monitored by management. If management believed, based on available information, that an adverse outcome upon resolution of a given legal action was probable and the amount of that adverse outcome was reasonable to estimate, a loss would be recognized and a related liability recorded. No such liabilities were recorded by the Company as of December 31, 2021 and 2020.

11. Share capital

(a) Authorized and issued

The issued shares as of December 31, 2021 by each class of ordinary share capital was as follows:

	Issued	Nominal value	Issued and Paid (US$)
Class A	1,895,863,158	0.0001	$ 189,586
Class B1	60,909,644	0.0001	6,091
Class B2	800,000	0.1000	80,000
Class C1	45	0.0001	—
Class C2	47	0.0001	—
	1,957,572,894		$ 275,677

As of December 31, 2021 and 2020, the authorized share capital of the Company was $2,500,000.

Class A shares have both economic and voting rights. Class B1 shares have economic rights but no voting rights. Class B2 shares have economic rights and voting rights subject to a maximum voting percentage of 5% in total. Class C1 shares have no economic or voting rights, other than the right to vote on Director appointments. Class C2 shares have no economic or voting rights, other than the right to vote on Director appointments.

(Expressed in thousands of U.S. dollars, except share data)

The following table is a summary of changes in Class B1, Class B2 and Class C2 common shares issued and outstanding:

	2021	2020
Class B1		
Issued and outstanding shares - January 1	75,244,225	73,094,254
Issued and outstanding shares held in treasury - January 1	—	130,330
Total issued and outstanding shares - January 1	75,244,225	73,224,584
Issuance of shares	656,914	—
Issuance of shares from treasury	—	26,881
Repurchase of shares and held in treasury	—	(1,374,504)
Repurchase of shares and cancelled	(15,436,411)	(1,088,427)
Issuance of restricted stock awards	444,916	3,108,068
Issuance of restricted stock awards from treasury	—	1,477,953
Issued and outstanding shares - December 31	60,909,644	75,244,225
Issued and outstanding shares held in treasury - December 31	—	—
Total issued and outstanding shares - December 31	60,909,644	75,244,225
Class B2		
Issued and outstanding shares - January 1	1,000,000	1,000,000
Repurchase of shares and cancelled	(200,000)	—
Issued and outstanding shares - December 31	800,000	1,000,000
Class C2		
Issued and outstanding shares - January 1	55	55
Repurchase of shares and cancelled	(8)	—
Issued and outstanding shares - December 31	47	55

There were no changes in the number of Class A and Class C1 common shares issued and outstanding during the years ended December 31, 2021 and 2020. The issued and outstanding Class A shares held in treasury as of December 31, 2021 and 2020 were as follows:

	2021	2020
Class A		
Issued and outstanding shares	1,635,174,942	1,635,174,942
Issued and outstanding shares held in treasury	260,688,216	260,688,216
Total issued and outstanding shares	1,895,863,158	1,895,863,158

(b) Dividends

The Company did not declare any dividends during the years ended December 31, 2021 and 2020.

(Expressed in thousands of U.S. dollars, except share data)

12. Retirement plans

The Company maintains defined contribution plans to provide retirement benefits to eligible employees. Contributions to the plans, which are managed externally, are based on eligible compensation.

For the year ended December 31, 2021, the Company's total pension expenses were $5,973 (2020: $6,235) for the above retirement benefits.

13. Share based compensation

Restricted shares and restricted share units

During 2018, the Company established a stock incentive plan, the "Restricted Share Incentive Plan", under which the Company may periodically grant restricted share awards and restricted share units to employees. The restricted share awards granted generally vest in annual installments over a four year service period and the restricted share units granted generally vest at the end of a three year service period.

Activity with respect to restricted share awards for the years ended December 31, 2021 and 2020 was as follows:

	Restricted shares	Weighted average grant date fair value
Restricted shares outstanding as of December 31, 2019	6,459,799	$ 0.925
Restricted shares issued	4,586,021	0.930
Restricted shares vested	(2,579,938)	0.914
Restricted shares forfeited	(150,000)	0.891
Restricted shares outstanding as of December 31, 2020	8,315,882	0.929
Restricted shares issued	444,916	1.180
Restricted shares vested	(3,568,646)	0.929
Restricted shares forfeited	—	—
Restricted shares outstanding as of December 31, 2021	5,192,152	$ 0.951

Activity with respect to restricted share units for the years ended December 31, 2021 and 2020 was as follows:

	Restricted share units	Weighted average grant date fair value
Restricted share units outstanding as of December 31, 2019	5,879,041	$ 0.959
Restricted share units issued	8,530,107	0.930
Restricted share units vested	—	
Restricted share units forfeited	(602,679)	0.946
Restricted share units outstanding as of December 31, 2020	13,806,469	0.942
Restricted share units issued	3,160,532	1.180
Restricted share units vested	(762,559)	0.946
Restricted share units forfeited	(508,371)	0.944
Restricted share units outstanding as of December 31, 2021	15,696,071	$ 0.989

The share based compensation expense related to restricted stock awards and restricted stock units recorded in general and administrative expenses in the statement of income and comprehensive income was $7,826 for the year ended December 31, 2021 (2020: $6,504).

(Expressed in thousands of U.S. dollars, except share data)

Performance share options

During 2019, the Company established a Performance Share Option Plan under which the Company may grant share options to employees. The exercise price of the options granted is equal to the share price of the Company's shares on the grant date. Options granted will vest after four years, subject to the satisfaction of service and performance conditions. The number of options vesting is dependent on the employee's continuous service and the growth in the market value of the Company's shares over the four year period. Options are exercisable for a period of up to 10 years after the grant date.

The expense recognized during the year ended December 31, 2021 related to options was $5,179 (2020: $2,976) recorded in general and administrative expenses in the statement of income and comprehensive income.

The expense recognized was based on the grant date fair value of options issued which was estimated using a Monte Carlo simulation model with the weighted average assumptions detailed below.

	2021	2020
Expected term	8.4 years	8.6 years
Expected dividend yield	— %	— %
Expected volatility	26.9 %	26.6 %
Risk-free interest rate	1.7 %	0.7 %
Post vesting restrictions discount	10.0 %	10.0 %

Activity with respect to options for the years ended December 31, 2021 and 2020 was as follows:

	Options	Weighted average exercise price	Weighted average remaining contractual term	Range of exercise prices
Options outstanding as of January 1, 2020	25,591,706	0.959	9 years	0.959
Options issued	30,973,941	0.930		
Options forfeited	(2,385,619)	0.945		
Options outstanding as of December 31, 2020	54,180,028	0.943	8.6 years	$0.930 - $0.959
Options exerciseable at December 31, 2020	—			
Options issued	35,732,963	1.180		
Options vested	(127,000)	0.959		
Options forfeited	(1,890,320)	0.995		
Options outstanding as of December 31, 2021	87,895,671	$ 1.036	8.1 years	$0.93 - $1.18
Options exerciseable at December 31, 2021	—			

14. Taxation

(a) Bermuda

Under current Bermuda law, AGL and it's Bermuda subsidiaries are exempt from all Bermuda income, withholding and capital gains taxes. At the present time, no such taxes are levied in Bermuda. In the event that such taxes are imposed, Ascot Bermuda would be exempt until March 2035 pursuant to the Bermuda Exempted Undertakings Tax Protection Act 1966, and Amended Act of 1987.

(Expressed in thousands of U.S. dollars, except share data)

(b) United Kingdom

The Company operates in the U.K. through its U.K. subsidiaries and the profits of these companies are subject to U.K. corporation taxes. Income from the Company's operations at Lloyd's is also subject to U.S. income taxes. Under a Closing Agreement between Lloyd's and the U.S. Internal Revenue Service ("IRS"), Lloyd's Members pay U.S. income tax on U.S.- connected income written by Lloyd's Syndicates. U.S. income tax due on this U.S.- connected income is calculated by Lloyd's and remitted directly to the IRS and is charged by Lloyd's to Members in proportion to their participation on the relevant Syndicates. The Company's Corporate Member is subject to this arrangement and will receive a U.K. corporation tax credit for any U.S. income tax incurred up to the value of the equivalent U.K. corporation tax charge on the U.S. income.

The Company's U.K. operating companies are taxed at the U.K. corporate tax rate of 19%. In 2021, the UK enacted Finance Act 2021 which increases the U.K. corporate tax rate from 19% to 25% on April 1, 2023. The remeasurement of the Company's U.K. deferred tax assets and liabilities on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases at the higher enacted U.K. corporate tax rate resulting in additional tax expense of $8,001 during the year ended December 31, 2021.

(c) United States

The Company's U.S. subsidiaries are subject to federal, state, and local corporate income taxes and other taxes applicable to U.S. corporations. A valuation allowance has been established for the Company's net deferred tax asset related to U.S. operations, as management believes that the realization of the tax benefits from these deferred tax assets is uncertain.

The Company's U.S. operating companies are subject to a U.S. federal income tax rate of 21%.

(d) Others

The Company is subject to income taxation in other jurisdictions than those stated above, but the impact of the other jurisdictions is not material to the provision for income taxes for the years ended December 31, 2021 and 2020.

The components of the provision for income taxes attributable to operations consist of the following for the years ended December 31, 2021 and 2020:

	2021	2020
Current tax expense (benefit):		
United Kingdom	$ (3,119)	$ (5,079)
U.S. Federal	(670)	(88)
U.S. State & local	1,126	3,561
Other	(1)	17
Total	(2,664)	(1,589)
Deferred tax expense (benefit):		
United Kingdom	6,873	7,211
U.S. Federal	1,027	—
U.S. State & local	—	—
Other	6	(5)
Total	7,906	7,206
Income tax expense	$ 5,242	$ 5,617

(Expressed in thousands of U.S. dollars, except share data)

Deferred income taxes reflect the tax impact of temporary differences between the carrying amounts of assets and liabilities for financial reporting and income tax purposes. Significant components of the deferred tax assets and liabilities were as follows as of December 31, 2021 and 2020:

	2021	2020
Deferred tax assets:		
Loss carryforwards	$ 17,386	$ 18,965
Deferred underwriting loss	6,637	10,800
Accrued expenses	6,931	4,651
Unearned premium reserve	7,316	3,525
Loss reserve discounting	3,031	583
Stock based compensation	2,940	1,333
Other temporary differences	3,458	1,204
Total deferred tax assets	47,699	41,061
Valuation allowance	(24,159)	(20,794)
Deferred tax assets, net of valuation allowance	**23,540**	**20,267**
Deferred tax liabilities		
Intangible assets	(41,220)	(32,555)
Equalization provision reserves	(1,846)	(5,808)
Deferred underwriting loss	(13,981)	—
Profit commisions	—	(5,540)
Investments	(42)	(1,062)
Other temporary differences	(1,574)	(2,519)
Total deferred tax liabilities	**(58,663)**	**(47,484)**
Net deferred tax liabilities	**$ (35,123)**	**$ (27,217)**

As of December 31, 2021, the Company had net operating losses of $35,534 that can be used to offset future taxable income in the Company's U.S subsidiaries. The Company's ability to use the majority of these losses expires between the years 2024 and 2041. As of December 31, 2021, the Company had net operating losses of $45,716 that can be used indefinitely to offset future taxable income in the Company's U.K. subsidiaries.

As of December 31, 2021, the Company has provided a valuation allowance of $24,159 ($20,794 as at December 31, 2020) to reduce certain deferred tax assets in the Company's U.S. operations to an amount that management expects will more likely than not be realized.

(Expressed in thousands of U.S. dollars, except share data)

The expected tax provision computed on pre-tax income at the weighted average tax rate has been calculated as the sum of the pre-tax income in each jurisdiction multiplied by that jurisdiction's applicable statutory tax rate. A reconciliation of income before tax expense by taxing jurisdiction to the expected income tax provision by taxing jurisdiction and consolidated weighted average effective income tax rate is as follows for the years ended December 31, 2021 and 2020:

	2021	2020
Income (loss) before tax expense by taxing jurisdiction		
Bermuda	$ 17,815	$ 188,636
United Kingdom	35,605	7,019
United States	(77,330)	(40,243)
Singapore	(22)	(93)
Canada	(516)	1
Consolidated income before tax	$ (24,448)	$ 155,320
Statutory tax rates		
Bermuda	— %	— %
United Kingdom	19 %	19 %
United States	21 %	21 %
Singapore	17 %	17 %
Canada	27 %	27 %
Expected income tax expense (benefit) by taxing jurisdiction		
Bermuda	$ —	$ —
United Kingdom	6,765	1,334
United States	(16,239)	(8,451)
Singapore	(4)	(16)
Canada	(137)	—
Consolidated	$ (9,615)	$ (7,134)
Consolidated weighted average effective income tax rate	39.3 %	(4.6)%

A reconciliation of the difference between the provision for income taxes and the expected tax provision at the weighted average tax rate is as follows for the years ended December 31, 2021 and 2020:

	2021	%	2020	%
Expected income tax (benefit) expense at weighted average rate	$ (9,615)	39.3 %	(7,134)	(4.6)%
Change in tax rate	8,001	(32.7)%	—	— %
Change in valuation allowance	3,365	(13.8)%	8,993	5.8 %
Elimination of intercompany transaction	6,011	(24.6)%	—	— %
Prior year adjustments	(4,045)	16.5 %	(1,939)	(1.2)%
Foreign tax	(15)	0.1 %	1,556	1.0 %
Disallowed deductions	410	(1.7)%	190	0.1 %
State and local taxes	889	(3.6)%	2,882	1.9 %
Other	241	(1.0)%	1,069	0.7 %
Income tax expense	$ 5,242	(21.4)%	5,617	3.6 %

During 2021 and 2020, the Company had no unrecognized benefits from uncertain tax positions. The Company does not anticipate any significant changes in the amount of unrecognized tax benefits during the next 12 months. Interest and penalties related to unrecognized tax benefits will be included in income tax expense.

The Company's U.K. corporation tax returns for certain subsidiaries for the 2020 and 2021 fiscal years are open for examination by the U.K. tax authorities.

The U.S. corporation tax returns for fiscal years 2018 to 2020 are open for examination by the U.S. tax authorities.

15. Statutory financial information

The Company's operations are subject to insurance and/or reinsurance laws and regulations in the jurisdictions in which they operate, the most significant of which include Bermuda, the U.S. and Lloyd's in the U.K. These regulations include certain restrictions on the amount of dividends or other distributions available to shareholders without prior approval of the insurance regulatory authorities.

Bermuda

Ascot Bermuda is regulated by the BMA. Under the Insurance Act 1978, amendments thereto and Related Regulations of Bermuda (the "Act"), Ascot Bermuda is required to maintain minimum statutory capital and surplus equal to the greater of a minimum solvency margin ("MSM") and the Enhanced Capital Requirement ("ECR"). The MSM is the greater of $1 million, approximately 15% of net premiums written, 15% of the net reserve for losses and loss expenses or 25% of the ECR. The ECR is calculated based on either an internally developed risk-based capital model or a standard risk-based capital model developed by the BMA. Under the Act, Ascot Bermuda is restricted as to the payment of dividends for amounts greater than 25% of the prior year's statutory capital and surplus, whereby an affidavit signed by at least two members of the Board of Directors is required, attesting that any dividend in excess of this amount would not cause the company to fail to meet its relevant margins. In addition, Ascot Bermuda is restricted from reducing by 15% or more its prior years's total statutory capital without approval from the BMA.

As of December 31, 2021, the required statutory capital and surplus was $881,147 and the available statutory capital and surplus was $2,017,889. As of December 31, 2020, the required statutory capital and surplus was $741,264 and the available statutory capital and surplus was $1,972,764. As of December 31, 2021, Ascot Bermuda is restricted from paying a dividend due to availability of statutory surplus. As of December 31, 2021 the maximum capital distribution Ascot Bermuda could pay without regulatory approval is $303,114 ($306,000 as of December 31, 2020).

United States

The required statutory capital and surplus of the Company's U.S. insurance subsidiaries, AIC, ASIC, AmFed and ASC is determined using the risk-based capital formula ("RBC"), which is the National Association of Insurance Commissioners' ("NAIC") method of measuring the minimum capital appropriate for a U.S. reporting entity to support its overall business operations in consideration of its size and risk profile. If a company falls below the authorized control level as determined under the RBC, the NAIC is authorized to take whatever regulatory actions may be considered necessary to protect policyholders and creditors. The maximum dividend that may be paid by the Company's U.S. insurance subsidiaries is restricted by the regulatory requirements of the domiciliary states. Generally, the maximum dividend that may be paid by each of the Company's U.S. insurance subsidiaries is limited to unassigned surplus (statutory equivalent of retained earnings) and may also be limited to statutory net income, net investment income or 10% of total statutory capital and surplus. At December 31, 2021, for AIC (which owns ASIC, AmFed and ASC) the required statutory capital and surplus was $55,888 and the actual statutory capital and surplus was $240,124. At December 31, 2020, the required statutory capital and surplus of AIC was $28,619 and the actual statutory capital and surplus was $107,271. As of December 31, 2021 and 2020 the maximum dividend that could be paid without regulatory approval was nil.

Lloyd's

The Company operates in the Lloyd’s market through ACNL which is the corporate member of Syndicate 1414. Corporate members of Lloyd’s and Lloyd’s syndicates are bound by the rules of Lloyd’s, which are prescribed by Bye-laws and Requirements made by the Council of Lloyd’s under powers conferred by the Lloyd’s Act 1982. These rules prescribe members’ membership subscription, the level of their contribution to the Lloyd’s Central Fund and the assets they must deposit with Lloyd’s in support of their underwriting. The Council of Lloyd’s has broad powers to sanction breaches of its rules, including the power to restrict or prohibit a member’s participation on Lloyd’s syndicates. The capital provided to support underwriting, or FAL, is not available for distribution for the payment of dividends or for working capital requirements. Corporate members may also be required to maintain funds under the control of Lloyd’s in excess of their capital requirements and such funds also may not be available for distribution for the payment of dividends. Lloyd’s sets the corporate members’ required capital annually through the application of a capital model that is based on regulatory rules pursuant to Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking up and pursuit of business of Insurance and Reinsurance (Solvency II).

FAL may be satisfied by cash, certain investments and letters of credit provided by approved banks. As of December 31, 2021 fixed maturities and other fixed income investments with a fair value of $471,158 (2020: $461,195) and cash of $488 (2020: $24,206), respectively, were restricted to satisfy FAL requirements. In addition, as of December 31, 2021 a letter of credit facility of $250,000 supported the FAL requirements (2020: $250,000).

16. Related party transactions

Canro Re Limited

Canro Re Limited ("Canro Re"), a Bermuda-domiciled special purpose insurer ("SPI") was formed to provide reinsurance capacity to subsidiaries of Ascot, namely Ascot Bermuda and Syndicate 1414, through reinsurance agreements which will be collateralized and funded by Canro Re through the issuance of non-voting redeemable preference shares to investors. As of December 31, 2021 and 2020, the sole investor of the preference shares issued by Canro Re was CPP Investment Board PMI-2 Inc., CPP Investment Board PMI-2 Inc. is a related party of the Company.

Upon issuance of the preference shares, the proceeds from the issuance are deposited into a collateral account to fund any potential obligations under the reinsurance agreements entered into with Ascot Bermuda and Syndicate 1414.

The Company concluded that Canro Re meets the definition of a VIE as it does not have sufficient equity capital to finance its activities. The Company evaluated its relationship with Canro Re and concluded it does not have a variable interest in Canro Re, as a result the financial position and results of operations of Canro Re are not consolidated by the Company.

Canro Re commenced underwriting operations on January 1, 2020. For the year ended December 31, 2021, the Company recorded $41,247 of ceded premiums written to Canro Re and $52,438 of losses and loss adjustment expense recoveries. As of December 31, 2021, the company had a reinsurance recoverable on unpaid losses of $53,715 due from Canro Re and $15,438 of reinsurance balances payable due to Canro Re.

For the year ended December 31, 2020, the Company recorded $33,053 of ceded premiums written to Canro Re. As of December 31, 2020, the Company had a reinsurance balances payable of $9,672 due to Canro Re.

17. Subsequent events

The Company has completed its subsequent events evaluation for the period subsequent to the balance sheet date of December 31, 2021 through March 23, 2022, the date the financial statements were available to be issued, and concluded that there are no subsequent events requiring recognition or disclosure