

ABR REINSURANCE LTD.

Financial Statements

December 31, 2020 and 2019

ABR REINSURANCE LTD.

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March 23, 2021

Report of Independent Auditors

To the Board of Directors and Shareholder of ABR Reinsurance Ltd.

We have audited the accompanying financial statements of ABR Reinsurance Ltd., which comprise the balance sheets as of December 31, 2020 and December 31, 2019, and the related statements of income, shareholder's equity and cash flows for the years then ended.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ABR Reinsurance Ltd. as of December 31, 2020 and December 31, 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matter

Accounting principles generally accepted in the United States of America require that the required supplemental information under Accounting Standards Update 2015-09, Disclosure about Short-Duration Contracts labelled as Unaudited within Note 7 on pages 28 to 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

PricewaterhouseCoopers Ltd.

Chartered Professional Accountants

ABR REINSURANCE LTD.
BALANCE SHEETS
As at December 31, 2020 and 2019
(Expressed in '000 U.S. dollars)

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Assets		
Investments		
Fixed maturities at fair value (amortized cost: \$491,130 and \$624,557)	\$ 476,646	570,540
Equity interests at fair value (cost: \$759,611 and \$618,748)	909,881	737,162
Total investments	1,386,527	1,307,702
Cash and cash equivalents	34,151	54,026
Accrued investment income	3,752	4,273
Intercompany receivable	1,117	681
Premiums receivable	95,153	82,613
Receivable for securities sold	23,386	2,784
Reinsurance balances receivable	-	1,307
Reinsurance recoverable on losses and loss expenses	19,700	14,678
Deferred acquisition costs	59,616	59,984
Other assets	3,868	3,743
Prepaid expenses	4,677	53
Total assets	<u>\$ 1,631,947</u>	<u>1,531,844</u>
Liabilities		
Unpaid losses and loss adjustment expenses	\$ 625,701	521,917
Unearned premium reserve	185,644	180,123
Reinsurance balances payable	11,275	8,464
Payable for securities purchased	8,939	4,478
Notes payable	17,333	10,546
Repurchase agreements	21,439	-
Accounts payable and accrued expenses	13,411	24,521
Other payables	15,817	4,380
Intercompany payable	-	-
Total liabilities	<u>\$ 899,559</u>	<u>754,429</u>
Shareholders' equity		
Common shares	\$ 1,000	1,000
Additional paid-in capital	726,519	755,534
Retained earnings (deficit)	4,869	20,881
Total shareholders' equity	<u>732,388</u>	<u>777,415</u>
	-	-
Total liabilities and shareholders' equity	<u>\$ 1,631,947</u>	<u>1,531,844</u>

The accompanying notes are an integral part of these financial statements.

ABR REINSURANCE LTD.
STATEMENTS OF INCOME
For the years ended December 31, 2020 and 2019
(Expressed in '000 U.S. dollars)

	<u>Year ended</u> <u>December 31, 2020</u>	<u>Year ended</u> <u>December 31, 2019</u>
Revenues		
Gross premiums written	\$ 350,427	318,968
Reinsurance premiums ceded	<u>(6,359)</u>	<u>(4,900)</u>
Net premiums written	344,068	314,068
(Increase) decrease in unearned premiums	<u>(4,583)</u>	<u>5,941</u>
Net premiums earned	339,485	320,009
Unrealized gains (losses) on investments	56,699	23,980
Realized gains (losses) on investments	(24,604)	62,652
Interest, dividend, and amortization income, net	42,564	49,957
Foreign exchange gains (losses) on investments	<u>9,411</u>	<u>2,103</u>
Total revenues	<u>423,555</u>	<u>458,701</u>
Expenses		
Loss and loss adjustment expenses	(304,883)	(232,694)
Policy acquisition costs	(109,210)	(107,638)
General and administrative expenses	(7,539)	(7,280)
Management and performance fees	(16,124)	(26,972)
Other investment expenses	194	(958)
Interest expense on notes payable	(311)	(194)
Other income (expense)	<u>(1,694)</u>	<u>(1,409)</u>
Total expenses	<u>(439,567)</u>	<u>(377,145)</u>
Net income (loss)	<u>\$ (16,012)</u>	<u>81,556</u>

The accompanying notes are an integral part of these financial statements.

ABR REINSURANCE LTD.
STATEMENTS OF SHAREHOLDER'S EQUITY
For the years ended December 31, 2020 and 2019
(Expressed in '000 U.S. dollars)

	<u>Year ended</u> <u>December 31, 2020</u>	<u>Year ended</u> <u>December 31, 2019</u>
Common shares		
Balance – beginning of period	\$ 1,000	1,000
Share based compensation	-	-
Common shares issued (repurchased), net	-	-
Balance – end of period	<u>1,000</u>	<u>1,000</u>
Additional paid-in capital		
Balance – beginning of period	755,534	754,632
Share based compensation	985	902
Distribution of capital to parent	(30,000)	-
Balance – end of period	<u>726,519</u>	<u>755,534</u>
Retained earnings (deficit)		
Balance – beginning of period	20,881	(26,675)
Net income (loss)	(16,012)	81,556
Dividends declared and shares repurchased	-	(34,000)
Balance – end of period	<u>4,869</u>	<u>20,881</u>
Total shareholder's equity	<u>\$ 732,388</u>	<u>777,415</u>

The accompanying notes are an integral part of these financial statements.

ABR REINSURANCE LTD.
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2020 and 2019
(Expressed in '000 U.S. dollars)

	Year ended December 31, 2020	Year ended December 31, 2019
Operating activities		
Net income (loss)	\$ (16,012)	81,556
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Net unrealized (gain) loss on investments	(71,384)	(32,803)
Net realized (gain) loss on investments	17,693	(62,822)
Amortization (income) expense	(869)	(880)
Share-based compensation	986	902
Accrued investment income	521	4,470
Intercompany receivable	(436)	(622)
Premiums receivable	(12,540)	4,712
Reinsurance balances receivable	1,307	(1,307)
Reinsurance recoverable on losses and loss expenses	(5,022)	(2,579)
Deferred acquisition costs	368	5,746
Unpaid losses and loss adjustment expenses	103,785	1,233
Unearned premiums	5,520	(5,591)
Reinsurance balances payable	2,811	(2,320)
Notes payable	6,787	3,619
Accounts payable, accrued expenses, and other payables	327	10,575
Prepaid expenses and other assets	(4,750)	4,407
Net cash provided by operating activities	29,092	8,296
Investing activities		
Purchase of fixed maturities	(153,469)	(376,754)
Purchase of equity and hedge fund interests	(186,747)	(150,209)
Sale and principal paydown of fixed maturities	197,418	360,618
Maturities of fixed maturity securities	34,480	10,319
Sale of equity and hedge fund investments	70,366	120,478
Net derivative instruments settlements	(2,450)	16,302
Net cash used for investing activities	(40,402)	(19,246)
Financing activities		
Distribution of capital	(30,000)	-
Dividends paid	-	(34,000)
Proceeds from repurchase agreements	21,439	-
Net cash used for financing activities	(8,561)	(34,000)
Effects of exchange rate changes on foreign currency cash	(4)	95
Increase (decrease) in cash	(19,875)	(44,855)
Cash and cash equivalents, beginning of period	54,026	98,881
Cash and cash equivalents, end of period	\$ 34,151	54,026
Supplemental information		
Noncash operating activities		
Securities received in-kind	\$ (4,871)	(5,940)
Noncash investing activities		
Securities received in-kind	\$ 4,871	5,940

The accompanying notes are an integral part of these financial statements.

ABR REINSURANCE LTD.
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2020 and 2019
(Tables expressed in '000 U.S. dollars)

1. General

ABR Reinsurance Ltd. (collectively, “we”, the “Company” or “ABR Re”) was incorporated under the laws of Bermuda on March 6, 2015 and is a wholly-owned subsidiary of ABR Reinsurance Capital Holdings Ltd. (the “Parent”). The Parent was incorporated under the laws of Bermuda on December 15, 2014.

The Company is licensed as a Class 4 insurer under the Insurance Act 1978 of Bermuda, as amended, and related regulations (the “Insurance Act”) and is licensed to underwrite general business on an insurance and reinsurance basis. ABR Re offers a broad array of non-life reinsurance products and protection to the (re)insurance subsidiaries of Chubb Limited (“Chubb”) under the terms of a master reinsurance program agreement (the “Master Agreement”) entered into with its predecessor company, ACE Limited. On January 14, 2016 ACE Limited completed the acquisition of The Chubb Corporation and adopted the Chubb name globally. Throughout these notes to the financial statements references to Chubb apply to Chubb Limited and its (re)insurance subsidiaries under both the previous name and the current parent company name.

Although the Master Agreement allows the Company to sell reinsurance protection to third-party cedents not owned or controlled by Chubb in certain limited circumstances, ABR Re’s license provides that it shall not enter into contracts of (re)insurance other than with Chubb and/or its affiliates without obtaining the prior written approval of the Bermuda Monetary Authority (the “BMA”). The Company underwrites reinsurance on exposures worldwide. The Company commenced operations on April 1, 2015. These financial statements are presented for the years ended December 31, 2020 and 2019.

To begin operations the Parent raised \$800 million of capital consisting of \$800 million in common equity (\$787.5 million net of issuance costs). Chubb acquired 11.3% of the Parent’s common equity. BlackRock, Inc. (“BlackRock”) acquired 9.9% of the Parent’s common equity. Following Chubb’s and BlackRock’s purchase of shares in connection with the Parent’s 2020 tender offer, at December 31, 2020 Chubb and BlackRock held 15.6% and 12.5%, respectively, of the Parent’s common equity.

Pursuant to the Master Agreement, Chubb offers to ABR Re the opportunity to participate as a reinsurer with respect to a portfolio of non-life, non-property catastrophe reinsurance contracts and property catastrophe reinsurance contracts written by Chubb’s (re)insurance company subsidiaries and offered to other third-party reinsurers, and, in certain instances, participations may be offered solely to the Company. Where participation on the reinsurance contracts is offered to other third-party reinsurers, participation is offered to the Company on the same or substantially similar terms and conditions (other than terms and conditions governed by the Master Agreement or a global trading agreement the Company entered into with Chubb which provides for certain uniform terms and conditions to be incorporated by reference into all reinsurance contracts entered into between the Company and Chubb (re)insurance company subsidiaries), and in the same or substantially similar manner, as such reinsurance contracts are offered to the other third-party reinsurers. See Note 10, “Transactions with Related Parties,” for further details.

The Company has engaged Oasis Insurance Services Ltd. (“Oasis”), a company incorporated in Bermuda and a subsidiary of Chubb, to provide certain administrative services pursuant to a services agreement dated March 23, 2015 (the “Oasis Services Agreement”). The Company has also entered into an arrangement with ACE INA Overseas Insurance Company Ltd. (“AIOIC”) and Chubb Tempest Reinsurance Ltd. (“CTR”), both companies incorporated in Bermuda and subsidiaries of Chubb, to reinsure risks from certain of Chubb’s (re)insurance company subsidiaries and then retrocede those same risks to the Company pursuant to an agreement effective April 1, 2015 and as amended (the “Alternative Collateral

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Facility”). See Note 10, “Transactions with Related Parties,” for further details.

The Company has engaged BlackRock Financial Management, Inc. (the “Investment Manager” or “BFM”), a subsidiary of BlackRock, as investment manager of the assets in the Company’s investment account pursuant to an Investment Management Agreement, dated March 26, 2015 and as amended (the “Investment Management Agreement”). The Investment Manager invests the Company’s assets as a diversified portfolio consisting of four broad asset classes (liquid stable income, liquid total return, private income and private total return) in a manner seeking to maintain an appropriate balance among liquidity, capital preservation and total return maximization across the investment cycle, subject to the terms of the Investment Management Agreement and the oversight of management and the Board of Directors. See Note 10, “Transactions with Related Parties,” for further details.

- Liquid stable income consists of generally highly liquid assets, with historically low volatility and a stable return profile, comprised primarily of investment income generated
- Liquid total return consists of generally relatively liquid assets, with historically medium-to-high volatility and a relatively stable return profile, comprised of both price appreciation and investment income generated
- Private income consists of generally illiquid assets, with historically medium-to-high volatility and a relatively stable return profile, comprised largely of income generated and some price appreciation
- Private total return consists of generally highly illiquid assets, with historically high volatility and a relatively unpredictable return profile, comprised largely of price appreciation at the end of the investment’s life

The Company has separately engaged the Investment Manager to provide certain investment administration, accounting, and reporting support services, pursuant to a services agreement effective as of April 1, 2015 (the “BlackRock Services Agreement”). See Note 10, “Transactions with Related Parties,” for further details.

The outbreak of the COVID-19 pandemic during the first quarter of 2020 adversely affected the global economy and may continue to cause significant economic uncertainty and constrain economic activity. As with all similar businesses, the Company was impacted by the effects of the pandemic. Specific policies were put in place to mitigate potential adverse consequences, including changes in working practices being implemented to ensure the safety of all staff members and evaluating the appropriateness of the valuation of the investment portfolio and sufficiency of reserves. Management does not consider the impact of Covid-19 to be material to the Company’s ability to continue as a going concern.

2. Significant Accounting Policies

(a) Basis of presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Amounts included in the financial statements reflect the Company’s best estimates and assumptions. Actual results could differ from those estimated amounts.

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The Company's principal estimates include, but are not limited to, unpaid losses and loss adjustment expenses, premium revenue and related expenses, reinsurance recoverable and provision for uncollectable reinsurance, and fair value of financial instruments.

(b) Premiums

Reinsurance premiums written are recorded based on the types of contracts the Company writes. Premiums on the Company's reinsurance contracts are estimated when the business is underwritten. For excess of loss contracts, premiums are generally recorded as written, on the inception date, based on the terms of the contract. Estimates of premiums written under pro rata contracts, also known as quota share contracts, are generally recorded in the period in which the underlying risks are expected to incept and are based on information provided by the broker and the ceding companies. For multi-period reinsurance contracts which are payable in periodic installments, premium recording depends on whether the contract is non-cancellable. If either party retains the ability to cancel or commute coverage prior to expiration, installments are included as premiums written at policy inception based on the cancellation or commutation terms. The remaining installments would then be included as premiums written at each successive date within the multi-period term that begins the period before the next available cancellation or commutation date. If, on the other hand, the contract is non-cancellable, the full multi-year premiums would generally be recorded as written at policy inception for excess of loss contracts and would follow the convention above for pro rata contracts.

Reinsurance premiums written, irrespective of the class of business, are generally recognized in the statements of income as earned on a pro rata basis over the term of the risk exposure period in the contracts, which is either the term of the contracts or the coverage period of the insurance policies underlying the contracts. Contracts written on a "losses occurring" basis cover claims that may occur during the term of the contract, which is typically 12 months. Contracts which are written on a "risks attaching" basis cover claims which attach to the underlying insurance policies written during the terms of such contracts. Premiums earned on such contracts usually extend beyond the original term of the reinsurance contract, typically resulting in recognition of premiums earned over a 24-month period. The portion of the premiums written applicable to the unexpired risk exposure periods of the reinsurance contracts are recorded as unearned premiums.

Reinsurance premiums written include amounts reported by the broker and ceding companies, supplemented by the Company's own estimates of premiums where reports have not been received. Premium estimates may change over time and may result in adjustments in any reporting period as additional information regarding the underlying business volume is obtained. Premium estimates are updated when new information is received, and differences between such estimates and actual amounts are recorded in the period in which estimates are changed or the actual amounts are determined. Adjustments to premium estimates could be material and such adjustments could directly and significantly impact earnings favorably or unfavorably in the period they are determined because the estimated premium may be fully or substantially earned.

Mandatory reinstatement premiums assessed on reinsurance contracts are earned in the period when the Company is notified of the loss event that gave rise to the reinstatement premiums. The accrual of reinstatement premiums is based on an estimate of losses and loss adjustment expenses, which reflects management's judgment.

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(Tables expressed in '000 U.S. dollars)

(c) Deferred acquisition costs

Policy acquisition costs are those costs related to the Company's underwriting operations that vary with, and are directly related to, the successful acquisition or renewal of business. Policy acquisition costs consist principally of commissions, including profit commissions, and brokerage and premium taxes. Profit commissions are calculated and accrued based on the expected loss experience for contracts and recorded when the loss estimate indicates a profit commission is probable under the contract terms. Policy acquisition costs are deferred and amortized over the periods in which the related premiums are earned. Deferred acquisition costs, which are based on the related unearned premiums, are carried at their estimated realizable value and take into account anticipated losses and loss adjustment expenses, based on historical and current experience, and anticipated investment income. Deferred policy acquisition costs are reviewed to determine if they are recoverable from future income, including investment income. Unrecoverable costs are expensed in the period identified.

(d) Reinsurance

The Company enters into reinsurance agreements to reduce the net loss potential from accumulations of risks and from large individual risks. Ceded reinsurance contracts do not relieve the Company of its primary obligation to its policyholders, and therefore the Company bears collection risk should its reinsurers be unable to fulfill their contractual obligations with respect to the payments of reinsurance balances owed to the Company. Ceded reinsurance premiums are recorded on the inception date of the contract and are charged to income on a pro rata basis over the term of the risk exposure period in the contract. The portion of the reinsurance premiums ceded applicable to the unexpired risk exposure period of the contract is recorded as prepaid reinsurance premiums and is included in other assets in the balance sheets.

Amounts recoverable from reinsurers are estimated based on the terms and conditions of the ceded reinsurance contracts in a manner consistent with the Company's methods for estimating and establishing its liability for the underlying risks reinsured. Reinsurance recoverable includes the balances due from reinsurance companies for paid and unpaid losses and loss expenses that are expected to be collected from the Company's reinsurers. Reinsurance recoverable is presented net of a provision for uncollectible reinsurance estimated based on management's judgement of the amount of the reinsurance recoverable balance that the Company may not ultimately be able to collect due to reinsurer insolvency, contract dispute, or any other reason. The Company reviews the reinsurance recoverable regularly, and the recoverable is adjusted as necessary. Such adjustments, if any, are reflected in income in the period in which they are determined. See Note 8, "Reinsurance", for further details.

(e) Investments

The Company has elected the fair value option for its financial investments in accordance with Financial Accounting Standards Board ("FASB") Accounting Standard Codification 825, *Financial Instruments*. As a result, the Company's financial investments are reported at fair value with changes in fair value included in the statements of income. GAAP defines fair value as the price the Company would receive to sell an asset or pay to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. For additional information on fair value measurement refer to Note 4.

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NOTES TO FINANCIAL STATEMENTS
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(Tables expressed in '000 U.S. dollars)

The Company uses derivative instruments such as futures, forward, option, and swap contracts for the purpose of managing certain investment portfolio risks and exposures. The Company uses derivatives for economic hedging purposes only. The Company's derivatives do not qualify as hedges for financial reporting purposes. All derivative financial instruments are reported as either assets or liabilities in the balance sheets and are measured at fair value, with changes in the fair value recorded as a component of realized gains (losses) on investments in the statements of income.

Net investment income includes interest and dividend income, realized and unrealized gains and losses, and amortization of market premiums and discounts and is net of investment management fees and expenses. Investment gains or losses realized on the sale of investments are determined on a first-in, first-out basis. See Note 3, "Investments," for further details.

(f) Variable interest entities

The Company invests in certain limited liability companies, partnerships, and other legal entities in which (a) equity at risk is insufficient for the entity to finance its activities without additional financial support, or (b) the holders of the equity investment at risk, as a group, do not have controlling financial interest in the entity, which is defined as having both (i) the power, through voting or similar rights, to direct the activities of the entity that most significantly impact the entity's economic performance and (ii) the obligation to absorb losses, or the right to receive benefits that could be significant to the entity. Such legal entities are considered "variable interest entities" ("VIEs"), and the Company would consolidate the results of any such entity in which it was considered to be the primary beneficiary by holding a controlling financial interest in the entity. Assessment of whether the Company is the primary beneficiary of a VIE requires judgment based on the facts and circumstances at the time of investment, and the Company reassesses its determination of whether it is the primary beneficiary upon changes in facts and circumstances that could potentially alter the Company's assessment.

The Company's maximum exposure to loss with respect to these investments is limited to the carrying amounts reported in the balance sheet and any unfunded commitments. At December 31, 2020 and 2019, there were no VIEs consolidated by the Company. Accordingly, the Company records its VIE interests at fair value, with changes in fair value recorded in the income statement.

(g) Repurchase agreements

The Company may enter into repurchase agreements where the Company sells securities and repurchases them at a future date for a predetermined price. During the term of the agreement, the Company continues to receive interest and principal payments on the securities. The Company may enter into such agreements to fund investment obligations without liquidating other investment assets when there is a timing mismatch between expected receipt of funds from investment sales or maturities or when it is anticipated that the interest income to be earned from the investment of the proceeds of the repurchase agreement is greater than the interest expense of the transaction.

Repurchase agreements are accounted for as secured borrowings. A liability is recorded in the consolidated balance sheets for the contractual repurchase amounts plus accrued interest, and the fair value of the securities collateralizing the repurchase agreements is included within fixed maturities. Interest expense on such agreements is included in other investment expenses in the consolidated statements of income. See Note 6, "Repurchase Agreements," for further details.

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(Tables expressed in '000 U.S. dollars)

(h) Cash and cash equivalents

Cash and cash equivalents include cash on hand, time deposits and money market funds with original maturities of three months or less.

(i) Unpaid losses and loss adjustment expenses

A liability is established for the estimated unpaid losses and loss adjustment expenses under the terms of, and with respect to, the reinsurance contracts issued by the Company. The reserve for unpaid losses and loss adjustment expenses consists of estimates of unpaid losses and loss adjustment expenses for reported losses ("case reserves") and losses incurred but not reported ("IBNR"). Case reserves, established by management based on reports from the broker and ceding companies, represent the estimated ultimate cost of events or conditions that have been reported to or specifically identified by the Company. IBNR reserves represent management's estimates of reserves for losses incurred for which reports or claims have not been received. IBNR reserve estimates are generally calculated by first projecting the expected cost of ultimate losses and loss adjustment expenses (expected losses and loss adjustment expenses) and then subtracting paid losses and loss adjustment expenses and case reserves. The methods of determining such estimates and establishing the resulting liability are reviewed regularly, and adjustments are made based on management's judgement.

The Company reviews the reserve for unpaid losses and loss adjustment expenses regularly, and, as experience develops and new information becomes known, the reserves are adjusted as necessary. Such adjustments, if any, are reflected in income in the period in which they are determined. Inherent in the estimates of ultimate losses and loss adjustment expenses are assumptions and judgements, including those regarding future trends in claims severity and frequency and other factors which may vary significantly as claims are settled. Accordingly, ultimate losses and loss adjustment expenses may differ materially from the amounts recorded in the accompanying financial statements. Losses and loss adjustment expenses are recorded on an undiscounted basis.

(j) Share-based compensation

The Parent has an equity incentive plan under which employees and directors of the Parent and the Company may be granted restricted shares, restricted share units, and bonus shares. The fair value of the compensation cost is measured at the grant date and is expensed, for restricted rewards, on a straight-line basis over the vesting period. Awards not subject to restrictions are expensed in the period incurred.

(k) Foreign exchange

The functional currency of the Company is the U.S. Dollar. Monetary assets and liabilities, such as premiums receivable and the reserve for losses and loss adjustment expenses, denominated in foreign currencies are remeasured at the prevailing exchange rate at the balance sheet date and revenues and expenses denominated in foreign currencies are recorded using transaction-specific rates during the period, as appropriate. Accounts that are classified as non-monetary, such as deferred acquisition costs and unearned premium reserves, are not revalued. Foreign exchange gains and losses are included in the statements of income in the period incurred.

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(I) Recent accounting pronouncements

Accounting pronouncements adopted in 2020

The Company has adopted FASB Accounting Standards Update 2017-08, Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization of Purchased Callable Debt Securities (“ASU 2017-08”), which amends the amortization period for certain purchased callable debt securities. Under ASU 2017-08, premium amortization of purchased callable debt securities that have explicit, non-contingent call features and are callable at fixed prices will be amortized to the earliest call date. In accordance with the transition provisions of the standard, the Company has applied the amendments on a modified retrospective basis. Adoption of the guidance was immaterial to the results of operations and financial statement disclosures.

Accounting guidance not yet adopted

The FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”), which replaces the current incurred loss model with an expected credit loss model, that measures credit losses on financial instruments measured at amortized cost and will require companies to recognize an allowance for expected credit losses. ASU 2016-13 also amends the credit loss measurement guidance for available-for-sale debt securities and beneficial interests in securitized financial assets, removing certain factors to consider when determining whether credit losses should be recognized and will require companies to recognize expected credit losses through an allowance. ASU 2016-13 is effective for nonpublic entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022. The impact of this guidance on the Company’s results of operations and financial statement disclosures, if any, is being evaluated.

3. Investments

The following tables present the broad classification of the Company’s investment securities held at December 31, 2020:

(a) Investments by asset class

December 31, 2020	Amortized cost / cost	Gross unrealized gains	Gross unrealized losses	Fair value
Liquid stable income	\$ 231,955	4,958	(1,100)	235,813
Liquid total return	149,198	2,339	(1,548)	149,989
Private income	563,161	67,254	(51,767)	578,648
Private total return	306,427	137,963	(22,313)	422,077
	\$ 1,250,741	212,514	(76,728)	1,386,527

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(b) Fixed maturities

December 31, 2020	Amortized cost / cost	Gross unrealized gains	Gross unrealized losses	Fair value
US Treasury, agency, state, and municipal bonds	\$ 6,933	-	-	6,933
Corporate and other fixed maturities (publicly traded)	264,409	5,002	(10,020)	259,391
Bank loans	139,078	1,280	(1,157)	139,201
Private fixed maturity investments	80,710	3,427	(13,016)	71,121
	<u>\$ 491,130</u>	<u>9,709</u>	<u>(24,193)</u>	<u>476,646</u>

(c) Fixed maturities by contractual maturity

December 31, 2020	Amortized cost	Fair value
Due in 1 year or less	\$ 34,457	28,491
Due after 1 year through 3 years	44,454	45,008
Due after 3 years through 5 years	84,510	86,572
Due after 5 years through 10 years	206,982	200,275
Due after 10 years	120,727	116,300
	<u>\$ 491,130</u>	<u>476,646</u>

Expected maturities could differ from contractual maturities because borrowers may have the right to call, prepay or extend obligations with or without penalties.

(d) Equity and hedge fund investments

December 31, 2020	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Listed equity investments	\$ 8,375	17,213	-	25,588
Hedge funds	5,174	1,013	(300)	5,887
Private equity investments	746,062	184,579	(52,235)	878,406
	<u>\$ 759,611</u>	<u>202,805</u>	<u>(52,535)</u>	<u>909,881</u>

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(e) Investment income by asset type

December 31, 2020	Net unrealized gains (losses)	Net realized gains (losses)	Net interest, dividend, and amortization income	Foreign exchange gains (losses)	Gross investment income (loss)
Cash and cash equivalents	\$ -	-	83	34	117
US Treasury, agency, state, and municipal bonds	50	281	46	-	377
Corporate and other fixed maturities (publicly traded)	2,394	(1,897)	13,218	762	14,477
Bank loans	31,414	(28,637)	9,044	-	11,821
Private fixed maturity investments	(1,410)	(3,762)	5,602	1,009	1,439
Listed equity investments	17,213	-	-	-	17,213
Hedge funds	(353)	34	-	-	(319)
Private equity investments	7,391	24,051	14,571	7,606	53,619
Other assets	-	(14,674)	-	-	(14,674)
	<u>\$ 56,699</u>	<u>(24,604)</u>	<u>42,564</u>	<u>9,411</u>	<u>84,070</u>

(f) Net investment income

December 31, 2020	
Fixed maturities	\$ 13,440
Listed and private equity and hedge fund investments	70,513
Cash and cash equivalents	117
Gross investment income	<u>84,070</u>
Investment expenses	(15,930)
Net investment income	<u>\$ 68,140</u>

The following tables present the broad classification of the Company's investment securities held at December 31, 2019:

(g) Investments by asset class

December 31, 2019	Amortized cost / cost	Gross unrealized gains	Gross unrealized losses	Fair value
Liquid stable income	\$ 290,128	3,102	(2,609)	290,621
Liquid total return	147,378	2,411	(1,117)	148,672
Private income	571,706	45,831	(63,955)	553,582
Private total return	234,093	91,285	(10,551)	314,827
	<u>\$ 1,243,305</u>	<u>142,629</u>	<u>(78,232)</u>	<u>1,307,702</u>

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(h) Fixed maturities

December 31, 2019	Amortized cost / cost	Gross unrealized gains	Gross unrealized losses	Fair value
US Treasury, agency, state, and municipal bonds	\$ 11,851	1	(50)	11,802
Corporate and other fixed maturities (publicly traded)	325,159	3,419	(11,593)	316,985
Bank loans	166,255	955	(32,246)	134,964
Private fixed maturity investments	121,292	101	(14,604)	106,789
	<u>\$ 624,557</u>	<u>4,476</u>	<u>(58,493)</u>	<u>570,540</u>

(i) Fixed maturities by contractual maturity

December 31, 2019	Amortized cost	Fair value
Due in 1 year or less	\$ 65,990	34,516
Due after 1 year through 3 years	57,798	58,141
Due after 3 years through 5 years	95,944	96,470
Due after 5 years through 10 years	184,984	181,346
Due after 10 years	219,841	200,067
	<u>\$ 624,557</u>	<u>570,540</u>

Expected maturities could differ from contractual maturities because borrowers may have the right to call, prepay or extend obligations with or without penalties.

(j) Equity and hedge fund investments

December 31, 2019	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Hedge funds	\$ 6,182	1,136	(69)	7,249
Private equity investments	612,566	137,017	(19,670)	729,913
	<u>\$ 618,748</u>	<u>138,153</u>	<u>(19,739)</u>	<u>737,162</u>

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(k) Investment income by asset type

December 31, 2019	Net unrealized gains (losses)	Net realized gains (losses)	Net interest, dividend, and amortization income	Foreign exchange gains (losses)	Gross investment income (loss)
Cash and cash equivalents	\$ -	-	1,364	494	1,858
US Treasury, agency, state, and municipal bonds	(121)	422	161	-	462
Non-US government bonds	1	-	4	-	5
Corporate and other fixed maturities (publicly traded)	1,708	1,524	14,114	(156)	17,190
Bank loans	(1,420)	(742)	11,001	-	8,839
Private fixed maturity investments	(8,888)	570	16,003	2,555	10,240
Hedge funds	(11,115)	15,098	-	-	3,983
Private equity investments	43,815	36,121	7,310	(790)	86,456
Other assets	-	9,659	-	-	9,659
	<u>\$ 23,980</u>	<u>62,652</u>	<u>49,957</u>	<u>2,103</u>	<u>138,692</u>

(l) Net investment income

December 31, 2019	
Fixed maturities	\$ 46,395
Private equity and hedge fund investments	90,439
Cash and cash equivalents	1,858
Gross investment income	<u>138,692</u>
Investment expenses	(27,930)
Net investment income	<u>\$ 110,762</u>

4. Fair Value

GAAP defines fair value as the price the Company would receive to sell an asset or pay to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. The Company uses independent pricing services or valuation agents to obtain fair value measurements for the majority of the Company's investment securities. Based on management's understanding of the methodologies used, these pricing services and valuation agents only produce an estimate of fair value if there is observable market information that would allow them to make a fair value estimate. Based on the Company's understanding of the market inputs used by the pricing services and valuation agents, all applicable investments have been valued in accordance with GAAP. For investments that the Company is unable to obtain fair values from a pricing service or valuation agent, fair values are estimated by the Company's Investment Manager. The Company does not adjust prices obtained from pricing services or valuation agents or the Investment Manager.

The Company's Investment Manager has a formal valuation policy that sets forth the pricing methodology for investments to be used in determining the fair value of each security in the Company's portfolio and which uses quoted market prices or, when such prices are not available, using independent broker-dealers, pricing services, valuation agents or selected appraisal firms.

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In the event that application of these methods of valuation results in a price for an investment that is deemed not to be representative of the fair value of such investment, or if a price is not available, the investment will be valued by the Investment Manager, in accordance with a policy approved by the Investment Manager as reflecting fair value ("Fair Value Assets"). When determining the price for Fair Value Assets, the Investment Manager seeks to determine the price that the Company might reasonably expect to receive from the current sale of that asset in an arm's length transaction. Based on management's understanding of the methodologies used, fair value determinations by the Investment Manager are based upon all available factors that the Investment Manager deems relevant, consistent with the principles of fair value measurement which include the market approach, income approach and/or in the case of recent investments, the cost approach, as appropriate. The market approach generally consists of using comparable market transactions. The income approach generally is used to discount future cash flows to present value and is adjusted for liquidity as appropriate. These factors include but are not limited to (i) attributes specific to the investment or asset; (ii) the principal market for the investment or asset; (iii) the customary participants in the principal market for the investment or asset; (iv) data assumptions by market participants for the investment or asset, if reasonably available; (v) quoted prices for similar investments or assets in active markets; and (vi) other factors, such as future cash flows, interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks, recovery rates, liquidation amounts and/or default rates. Due to the inherent uncertainty of valuations of such investments, the fair values may differ from the values that would have been used had an active market existed. The Investment Manager employs various methods for calibrating valuation approaches for investments where an active market does not exist, including regular due diligence of the Company's pricing vendors, a regular review of key inputs and assumptions, transactional back testing or disposition analysis to compare unrealized gains and losses to realized gains and losses, reviews of missing or stale prices and large movements in market values and reviews of any market related activity. Significant changes in key inputs or assumptions could result in a significantly different fair value measurement for a given investment. For example: with the market approach, changes in the comparable transactions selected could result in a different fair value measurement; with the income approach, increases in discount rate, credit risk, or expected default rate could result in lower fair value measurement, while decreases in those inputs could result in higher fair value measurement; and with the cost approach, changes in the business environment of the issuer, valuations of peers, or changes in issuer credit rating could result in a different fair value measurement. At December 31, 2020 and 2019, there were no Fair Value Assets held by the Company.

The guidance establishes a three-level valuation hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. 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 (Level 1 being the highest priority and Level 3 being the lowest priority). The hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data.

The levels in the hierarchy are defined as follows:

- Level 1: Unadjusted quoted prices for identical assets or liabilities in active markets;
- Level 2: Includes, among other items, inputs other than unadjusted quoted prices for identical assets or liabilities in active markets such as quoted prices for similar assets and liabilities in active markets, prices quoted for identical or similar assets or liabilities in markets that are not considered to be active, and inputs that are observable for the asset or liability (e.g. interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks and

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default rates), either directly or indirectly, or can be corroborated by observable market data; and

Level 3: Inputs that are unobservable and significant to the fair value measurement, reflecting judgements about assumptions that market participants would use in pricing an asset or liability.

The Company categorizes financial instruments within the valuation hierarchy at the balance sheet date based upon the lowest level of inputs that are significant to the fair value measurement. The categorization of a value determined for investments and derivative financial instruments is based on the pricing transparency of the investment and derivative financial instrument and is not necessarily an indication of liquidity or the risks associated with investing in those securities. Transfers between levels within the valuation hierarchy occur when there are significant changes to the inputs, such as increases or decreases in market activity, changes to the availability of current prices, changes to the transparency of underlying inputs, and whether there are significant variances in quoted prices, among other factors. Transfers into or out of any level are assumed to occur at the beginning of the period.

Although the Company does not have access to the specific unobservable inputs that may have been used by the independent pricing services, valuation agents or the Investment Manager in the fair value measurements of the securities in Level 3 of the valuation hierarchy, we would expect that the significant inputs considered include discount rate, growth rate, risk premium, earnings or revenue multiple, loan acceleration probability, and recovery rate in the event of default. Valuation techniques for Level 3 securities may include, but are not limited to, market pricing models, discounted cash flow methodologies, and other similar techniques where significant assumptions are based on unobservable inputs. Given the security type characteristics, the priority or use of inputs may change or some inputs may not be relevant. Significant increases (decreases) in any of those inputs in isolation could result in a significantly different fair value measurement. For example: increases in discount rate or risk premium could result in a lower fair value measurement, while increases in growth rate, earnings or revenue multiple, or recovery rate in the event of default could result in higher fair value measurement.

The Company has adopted Accounting Standards Update 2015-07 - Fair Value Measurement - Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). The amendments in this Update apply to reporting entities that elect to measure the fair value of an investment within the scope of paragraphs 820-10-15-4 through 15-5 using the net asset value practical expedient. The amendments remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value practical expedient and requires disclosure to permit reconciliation of the fair value of assets categorized within the fair value hierarchy to the amounts presented in the balance sheets.

The Company reviews its securities measured at fair value and discusses the proper classification of such investments with the Investment Manager and others. A discussion of the general classification of the Company's financial instruments follows:

Fixed maturities. The Company uses pricing services or valuation agents to estimate fair value measurements for the majority of the Company's fixed maturity investments. The pricing services use market quotations for fixed maturities that have quoted prices in active markets; such securities are classified within Level 1. For fixed maturities in less liquid markets or that generally do not trade on a daily

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basis, the pricing services or valuation agents prepare estimates of fair value measurements using their pricing applications, which include available relevant market information, benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing. Additional valuation factors can be taken into account, including nominal spreads, liquidity adjustments, and various relationships observed in the market between investment and calculated yield measures. The pricing services and valuation agents evaluate each security type based on relevant market and credit information, perceived market movements, and sector news. The market inputs used in the pricing evaluation include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data, and industry and economic events. The extent of the use of each input is dependent on the security type and the market conditions. Given the security type characteristics, the priority or use of inputs may change or some market inputs may not be relevant. Additionally, fixed maturities valuation is more subjective when markets are less liquid due to the lack of market based inputs (i.e. stale pricing), which may increase the potential that an investment's estimated fair value is not reflective of the price at which an actual transaction would occur. The majority of publicly traded fixed maturities are classified within Level 2 because the most significant inputs used in the pricing techniques are observable. For certain fixed maturities, including certain private investments, the company includes these fair value estimates in Level 3.

Equity securities. Equity securities with active markets are classified within Level 1 as fair values are based on quoted market prices. For equity securities in markets which are less active, fair values are based on market valuations and are classified within Level 2. Equity securities for which pricing is unobservable are classified within Level 3.

Investment funds, limited companies, and limited partnerships. Fair values for investment funds, limited companies, and limited partnerships are based on their respective net asset values or equivalent ("NAV"). NAV in investment funds is equal to the value of the Company's capital account in such investments as provided by the managers of the investment funds. NAV for limited companies and limited partnerships is based upon the Company's percentage ownership of the net assets of each limited company and limited partnership. In some cases, the Company has both debt and equity investments in a limited company or limited partnership. In determining the fair value of the debt and equity investments, an enterprise value approach is used to determine the fair value of the entire limited company or limited partnership and allocates the fair value between the investments. This value represents the estimated exit price at the measurement date as though both the debt and equity investments were sold to maximize the value of the entire investment position. In allocating the enterprise value between investments, the fair value is allocated first to repay the outstanding principal and accrued interest for the debt investment, with the remainder allocated to the equity investment. Accordingly, the fair value of the debt and equity investments in limited companies and limited partnerships is equal to the outstanding principal amount issued to the Company and the Company's equity ownership percentage of the net assets of the limited company or limited partnership, respectively.

Investment funds for which the Company has used NAV as a practical expedient to measure fair value are not classified within the fair value hierarchy table below. At December 31, 2020 and 2019 these investment funds employed three strategies, event driven, fundamental long/short, and direct sourcing, and had a carrying value of \$5.9 million and \$7.2 million, respectively. The Company has submitted full redemption notices to all its investment funds, and the positions are generally expected to be liquidated by December 31, 2022, but we cannot be sure that the positions will be liquidated by this date.

Derivatives. Actively traded investment derivative instruments, including futures and exchange-traded

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swap contracts, are classified within Level 1 as fair values are based on quoted market prices. Over-the-counter derivatives, including interest rate swaps and forward foreign currency contracts, where valuations are based on significant observable inputs are classified within Level 2. All other derivatives are classified within Level 3.

The following table presents the Company's financial instruments measured at fair value by level at December 31, 2020:

December 31, 2020	Level 1	Level 2	Level 3	Total
Assets				
<i>Fixed Maturities</i>				
US Treasury, agency, state and municipal bonds	\$ -	6,933	-	6,933
Corporate and other fixed maturities (publicly listed)	-	254,505	4,886	259,391
Bank loans	-	135,190	4,011	139,201
Private fixed maturity investments	-	-	71,121	71,121
Total fixed maturities	-	396,628	80,018	476,646
<i>Equity securities</i>				
Listed equity	25,588	-	-	25,588
Private equity investments	-	-	878,406	878,406
Total equity securities	25,588	-	878,406	903,994
<i>Derivatives</i>				
Total assets measured at fair value	2	926	72	1,000
	\$ 25,590	397,554	958,496	1,381,640
Liabilities				
<i>Derivatives</i>				
Total liabilities measured at fair value	\$ (56)	(14,574)	(18)	(14,648)
	(56)	(14,574)	(18)	(14,648)
Investments using net asset value as a practical expedient for fair value				\$ 5,887

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The following table presents the Company's financial instruments measured at fair value by level at December 31, 2019:

December 31, 2019	Level 1	Level 2	Level 3	Total
Assets				
<i>Fixed Maturities</i>				
US Treasury, agency, state and municipal bonds	\$ -	11,802	-	11,802
Corporate and other fixed maturities (publicly listed)	-	316,985	-	316,985
Bank loans	-	122,546	12,418	134,964
Private fixed maturity investments	-	-	106,789	106,789
Total fixed maturities	-	451,333	119,207	570,540
<i>Equity securities</i>				
Private equity investments	-	-	729,913	729,913
Total equity securities	-	-	729,913	729,913
<i>Derivatives</i>				
Total assets measured at fair value	115	1,505	99	1,719
	\$ 115	452,838	849,219	1,302,172
Liabilities				
<i>Derivatives</i>				
Total liabilities measured at fair value	(6)	(2,845)	(288)	(3,139)
	\$ (6)	(2,845)	(288)	(3,139)
Investments using net asset value as a practical expedient for fair value				7,249

When the fair value of financial assets and financial liabilities cannot be derived from active markets, the fair value is determined using a variety of valuation techniques that include the use of models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required to establish fair values. Changes in assumptions about these factors could affect the reported fair value of financial instruments and the level where the instruments are disclosed in the fair value hierarchy. During the years ended December 31, 2020 and 2019, there were no transfers between Level 1 and Level 2. During the years ended December 31, 2020 and 2019, transfers from Level 2 to Level 3 were due to use of a third-party pricing service which used significant unobservable inputs in determining the value of the transferred investments due to lack of current or reliable market-based data vs. the prior use of observable inputs to determine value, and transfers from Level 3 to Level 2 were due to use of observable inputs for those investments as a result of the availability of current and reliable market-based data in determining value of the transferred investments vs. the prior use of a third-party pricing service which utilized significant unobservable inputs in determining value.

The following tables present for financial instruments measured at fair value using significant unobservable inputs (Level 3) transfers into and out of Level 3 and purchases for the years ended December 31, 2020 and 2019:

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Year ended December 31, 2020	Assets				
	Corporate and other fixed maturities (publicly listed)	Bank loans	Private fixed maturity investments	Private equity investments	Derivatives
Transfers into level 3	-	234	-	-	-
Transfers out of level 3	-	(2,156)	-	-	-
Purchases	5,035	2,689	9,156	214,990	-

Year ended December 31, 2019	Assets				
	Corporate and other fixed maturities (publicly listed)	Bank loans	Private fixed maturity investments	Private equity investments	Derivatives
Transfers into level 3	-	9,235	-	-	-
Transfers out of level 3	-	(8,106)	-	-	-
Purchases	-	9,042	34,690	215,081	-

5. Derivative Instruments

The Company's investment strategy allows for the use of derivative instruments. The Company uses derivative instruments such as futures, forward, option, and swap contracts for the purpose of managing certain investment portfolio risks and exposures. The Company uses derivatives for economic hedging purposes only. The Company's derivatives do not qualify as hedges for financial reporting purposes. All derivative financial instruments are reported as either assets or liabilities in the balance sheets and are measured at fair value, with changes in fair value recorded as a component of realized gains (losses) on investments in the statements of income. Derivatives are accounted for using the fair value option and the derivative assets and liabilities are included in other assets and other payables in the balance sheets, respectively.

The following table summarizes the realized and unrealized gains and losses on derivative instruments reflected in the statements of income for the years ended December 31, 2020 and 2019:

	Year ended December 31, 2020	Year ended December 31, 2019
Net realized gains (losses) from derivatives		
Foreign currency forwards	\$ (14,433)	10,087
Futures	(690)	434
Options	(31)	(100)
Swaps	507	(853)
Warrants	(27)	91
Total	<u>\$ (14,674)</u>	<u>9,659</u>

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The following table summarizes information on the fair values of the Company's derivative instruments at December 31, 2020 and 2019:

	December 31, 2020		December 31, 2019	
	Fair Value	Notional Exposure	Fair Value	Notional Exposure
Foreign currency forwards – assets	\$ 926	32,214	1,505	65,308
Futures – assets	2	486	115	37,271
Options – assets	-	-	-	-
Swaps – assets	-	-	1	1,380
Warrants - assets	72	88	98	80
Foreign currency forwards – liabilities	(14,574)	266,847	(2,845)	150,468
Futures – liabilities	(56)	43,635	(6)	9,406
Options – liabilities	-	-	(82)	1,626
Swaps – liabilities	(18)	740	(206)	4,563
Net derivatives	\$ (13,648)	344,010	(1,420)	270,102

The Company may enter into master netting agreements with its derivative contract counterparties. A master netting agreement establishes terms that apply to all derivative transactions with a counterparty. Under a master netting agreement, the Company may, under certain circumstances such as bankruptcy or other stipulated event of default, offset with the counterparty certain derivative financial instruments' payables and/or receivables in order to close out and net all individual derivative positions into one single net payment to be made to the party "in-the-money". At December 31, 2020 there were \$0.9 million and \$14.6 million of derivatives assets and derivatives liabilities, respectively, subject to a master netting agreement. At December 31, 2019 there were \$1.5 million and \$3.1 million of derivatives assets and derivatives liabilities, respectively, subject to a master netting agreement. The remaining derivatives included in the table above were not subject to a master netting agreement.

6. Repurchase Agreements

The Company has entered into repurchase agreements where the Company sells securities and repurchases them at a future date for a predetermined price. Such agreements are accounted for as secured borrowings in the consolidated balance sheets, with a liability recorded for the contractual repurchase amounts plus accrued interest and fair value of the securities collateralizing the repurchase agreements included within fixed maturities. Interest expense on repurchase agreements is included in other investment expenses in the consolidated statements of income.

As of December 31, 2020, the Company had pledged \$22.8 million of corporate bonds as collateral for the Company's \$21.4 million repurchase agreement obligations, which were all open-ended and terminable on demand by the Company or its counterparties. Upon termination of the repurchase agreements, the Company and its counterparties are obligated to return the amounts borrowed and the securities posted as collateral, respectively. The \$1.3 million collateralization in excess of the Company's repurchase agreement obligations, was due to the requirements of repurchase agreements that collateral posted exceed the amount of the liability. The Company had free use of the collateral pledged and the cash received from the repurchase agreements. The repurchase agreements outstanding at December 31, 2020 have all been terminated by the Company, and the Company had no repurchase agreements outstanding as of the date these consolidated financial statements were available to be issued. The Company had no

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repurchase agreements outstanding at December 31, 2019.

Potential risks exist with the Company's repurchase agreements resulting from market conditions and counterparty exposure. The Company posts securities as collateral with a market value greater than the repurchase price to be paid by the Company at maturity of the repurchase agreements. There is risk that in the event of a decline in the fair value of pledged securities, the Company may be required to post additional securities or cash as collateral. There is also risk that a counterparty may not return the collateral at termination of the repurchase agreement. If a counterparty fails to return the collateral, the Company will continue to have free use of the borrowed funds until the collateral is returned and would be an unsecured creditor of the counterparty with respect to the amount collateral pledged in excess of the borrowed funds.

7. Unpaid Losses and Loss Adjustment Expenses

The Company establishes reserves for the estimated unpaid ultimate liability for losses and loss adjustment expenses under the terms of its reinsurance policies and contracts. These reserves include estimates for both reported losses and IBNR and include estimates of expenses associated with processing and settling these claims and estimates of reinsurance recoverable. The process of establishing claims reserves can be complex and is subject to considerable variability as it requires use of informed estimates and judgements. The Company regularly evaluates its reserves in light of developing information and in light of discussions with ceding companies. The Company's estimates and judgements may be revised for reasons including additional experience and other data becoming available and being reviewed, new or improved methodologies being developed, or changes in current laws. Any such revisions could result in future changes in claims reserves and would be recorded in the period in which the estimates are changed. While the Company believes that its reserves for unpaid losses and loss adjustment expenses at December 31, 2020 are adequate, ultimate losses and loss adjustment expenses may be significantly greater or less than the reserves established.

The Company's reserves for unpaid loss and loss adjustment expenses represent management's best estimate of the unpaid ultimate liability for losses and loss adjustment expenses under the terms of its reinsurance policies and contracts as of the balance sheet date. This estimate is based on a contract by contract review employing generally accepted actuarial methods, as described below, and other considerations such as claims review, discussions with cedents, and industry information. One or more actuarial methods may be employed depending on factors including the type of reinsurance product or contract and the origin year (i.e. "underwriting year" or "treaty year") of the contract. Exposure-based methods are generally used on relatively recent (i.e. "immature") treaty years, and experience-based methods are generally used to a greater extent as the treaty matures and the pool of loss experience grows. In evaluating reserves for any given treaty year, judgement is required regarding the credibility, uncertainty, and inherent limitations of applying actuarial techniques to historical data to project future loss experience. Fundamental judgements when applying actuarial techniques include those regarding (i) credibility and reliability of the information used in establishing initial expected ultimate loss ratios during the underwriting process; (ii) expected consistency between future loss development and trends and with historical loss development and trend experience; (iii) potential for loss emergence, in size or type, not represented in the initial loss estimates or historical development patterns.

The standard actuarial methods commonly employed by the Company include:

Expected Loss Ratio Method. Ultimate losses for a treaty year are estimated by applying to earned

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premiums an estimated loss ratio based on factors including historical loss ratios, premium and loss trends, contract level loss modeling, industry data, and other quantitative and subjective considerations. The expected loss ratio is established during the underwriting process and relies entirely on expectation to project ultimate losses. This method is generally used to estimate reserves for immature treaty years and on products where loss experience is not considered sufficiently credible.

Incurred Loss Development ("Chain Ladder") Method. Ultimate losses are estimated by calculating historical incurred loss development factors and applying them to future periods where loss development is expected to occur. This method relies entirely on historical loss experience to project ultimate loss experience, under the assumption that future loss experience will be sufficiently similar to historical experience. This method reacts relatively quickly to loss emergence but could produce volatile estimates of ultimate losses, particularly where there is inconsistent or limited historical loss experience.

Bornhuetter-Ferguson Method. This method is a combination of the expected loss ratio and loss development methods, where the two methods are incorporated with weightings corresponding to the maturity of the treaty year. The expected loss ratio generally receives a relatively higher weighting in earlier periods and the weighting is increasingly shifted toward the loss development method as the treaty year matures. This method benefits from progressive sensitivity to actual loss experience as the treaty year matures vs. the expected loss ratio method, with the potential to produce more stable estimates of ultimate losses in immature treaty years and where historical loss experience is limited vs. the loss development method. This approach allows a logical transition between the expected loss ratio method and loss development method.

In addition to these standard methods, other recognized actuarial methods and reserving approaches may be used to produce, in our actuaries' judgement, the best estimate of ultimate losses as of the evaluation date. For the year ended December 31, 2020, there were no significant changes in the methodologies used to estimate the unpaid ultimate liability for losses and loss adjustment expenses.

The Company manages its business as a single segment, property and casualty reinsurance, and we have disaggregated it for the purposes of this disclosure into three product line groupings: short-tail, long-tail, and specialty. Short-tail lines are generally those where losses typically become known and paid shortly after the loss occurs: examples include commercial and personal property. Long-tail lines tend to have loss reporting and payment patterns that extend for many years after the losses occur: examples include general liability, directors' and officers' liability, professional liability, and workers' compensation. Specialty lines tend to have relatively more variable loss reporting, development and payment patterns: examples include aviation, surety, personal accident, political risk, and trade credit.

Contracts in each line of business may have significant intricacies in the terms and conditions afforded to cedents, relatively more so with long-tail and specialty lines, so there are inherent limits to the homogeneity of the three lines in which the business is presented. The loss development disclosures below allow readers to understand, at the disaggregation level presented, the change over time in the Company's reported incurred loss estimates and associated cash flows. The Company analyzes and manages its business on a treaty year basis rather than on an accident year basis, and preparation of the accident year loss development tables required conversion of certain treaty year data to an accident year basis for purposes of this disclosure. We analyze and manage the business at a more detailed level (i.e. contract by contract) than is presented in the loss development tables and believe information provided therein is of limited use for independent analysis, including application of standard actuarial methods, and the results of

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attempts to do so should be interpreted with care.

The following table represents an analysis of losses and loss adjustment expenses and a reconciliation of the beginning and ending reserves for losses and loss adjustment expenses:

	<u>Year ended</u> <u>December 31, 2020</u>	<u>Year ended</u> <u>December 31, 2019</u>
Gross unpaid losses and loss adjustment expenses	\$	
– beginning of period	521,917	520,683
Reinsurance recoverable	<u>14,678</u>	<u>12,099</u>
Net unpaid losses and loss adjustment expenses		
– beginning of period	<u>507,239</u>	<u>508,584</u>
Net losses and loss adjustment expenses incurred in respect of losses occurring in:		
Current year	256,336	201,129
Prior years	<u>48,547</u>	<u>31,565</u>
Total	<u>304,883</u>	<u>232,694</u>
Net losses and loss adjustment expenses paid in respect of losses occurring in:		
Current year	29,661	17,718
Prior years	<u>177,938</u>	<u>217,468</u>
Total	<u>207,599</u>	<u>235,186</u>
Foreign currency revaluation	1,478	1,147
Net unpaid losses and loss adjustment expenses		
– end of period	606,001	507,239
Reinsurance recoverable	<u>19,700</u>	<u>14,678</u>
Gross unpaid losses and loss adjustment expenses	\$	
– end of period	<u>625,701</u>	<u>521,917</u>

Much of the business written by the Company is long-tailed in nature and can exhibit a high degree of variability. The nature of the business written coupled with the relative immaturity of the business can expose the reserves to a high degree of uncertainty and the ultimate losses may be materially different.

In 2020 the company recorded \$48.6 million of net unfavorable prior period development primarily attributable to greater than expected loss emergence on certain long-tail contracts underwritten in 2018 and prior. In 2019 the company recorded \$31.6 million of net unfavorable prior period development, primarily attributable to greater than expected loss emergence on certain long-tail contracts and deterioration on a single short-tail claim related to Hurricane Maria.

The following tables present, as of December 31, 2020, the Company's incurred and paid loss and loss adjustment expenses net of reinsurance recoverable. The estimated liability for unpaid losses and loss adjustment expenses for claims denominated in foreign currencies are presented in the tables below at the prevailing exchange rate at the balance sheet date. Claim payments denominated in foreign currency are recorded and presented in the tables using transaction-specific exchange rates. At December 31, 2020,

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the Company had approximately \$33.9 million in claims denominated in currencies other than the U.S. Dollar, primarily denominated in British Pounds, Australian Dollars, and Euros.

Total Reinsurance

Net Incurred Loss and Allocated Loss Adjustment Expenses							December 31, 2020
For the Years Ended December 31							Net IBNR Reserves
Unaudited							
Accident Year	2015	2016	2017	2018	2019	2020	
2015	\$ 33,117	30,287	30,660	28,922	32,370	38,794	1,377
2016		157,649	168,830	172,379	159,938	168,178	12,870
2017			335,239	328,330	354,305	367,589	35,655
2018				220,862	235,446	254,595	62,213
2019					202,276	203,727	93,341
2020						257,814	199,111
				Total		\$ 1,290,697	

Total Reinsurance

Net Cumulative Paid Loss and Allocated Loss Adjustment Expenses						
For the Years Ended December 31						
Unaudited						
Accident Year	2015	2016	2017	2018	2019	2020
2015	\$ 4,896	14,190	18,738	20,988	25,518	28,049
2016		12,779	55,845	89,662	120,043	139,844
2017			20,672	114,390	206,426	278,390
2018				16,869	107,391	146,979
2019					17,718	61,773
2020						29,661
				Total		\$ 684,696
						Net liabilities for losses and loss adjustment expenses
						\$ 606,001

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Short-tail Reinsurance

Net Incurred Loss and Allocated Loss Adjustment Expenses							December 31, 2020
For the Years Ended December 31							Net IBNR Reserves
Unaudited							
Accident Year	2015	2016	2017	2018	2019	2020	
2015	\$ 23,863	19,676	17,870	17,302	16,919	17,557	100
2016		82,598	95,521	84,450	74,295	72,163	1,507
2017			214,303	220,375	226,373	225,656	2,953
2018				86,079	102,233	102,137	4,600
2019					51,514	59,175	2,626
						90,086	52,484
				Total		\$ 566,774	

Short-tail Reinsurance

Net Cumulative Paid Loss and Allocated Loss Adjustment Expenses						
For the Years Ended December 31						
Unaudited						
Accident Year	2015	2016	2017	2018	2019	2020
2015	\$ 4,083	11,928	15,259	15,844	16,217	17,290
2016		7,599	42,972	54,325	64,756	68,889
2017			16,410	96,375	173,756	204,999
2018				12,523	65,702	81,112
2019					9,803	35,319
						17,537
				Total		\$ 425,146
						\$ 141,628

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Long-tail Reinsurance

Net Incurred Loss and Allocated Loss Adjustment Expenses							December 31, 2020
For the Years Ended December 31							Net IBNR Reserves
Unaudited							
Accident Year	2015	2016	2017	2018	2019	2020	
2015	\$ 7,375	7,968	9,757	9,050	12,903	18,942	1,012
2016		60,255	57,673	68,584	64,558	76,017	9,551
2017			99,862	88,724	104,322	118,712	28,629
2018				113,060	112,974	132,581	53,944
2019					125,982	115,795	83,680
						131,227	122,553
				Total		\$ 593,274	

Long-tail Reinsurance

Net Cumulative Paid Loss and Allocated Loss Adjustment Expenses						
For the Years Ended December 31						
Unaudited						
Accident Year	2015	2016	2017	2018	2019	2020
2015	\$ -	761	1,626	3,346	7,439	8,835
2016		2,569	6,574	23,227	40,385	55,262
2017			309	5,833	18,317	56,593
2018				2,366	33,221	53,140
2019					1,886	14,701
						2,863
				Total		\$ 191,394
						\$ 401,880

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Specialty Reinsurance

Net Incurred Loss and Allocated Loss Adjustment Expenses							December 31, 2020
For the Years Ended December 31							Net IBNR Reserves
Unaudited							
Accident Year	2015	2016	2017	2018	2019	2020	
2015	\$ 1,879	2,643	3,033	2,570	2,548	2,295	265
2016		14,796	15,636	19,345	21,085	19,998	1,812
2017			21,074	19,231	23,610	23,221	4,073
2018				21,723	20,239	19,877	3,669
2019					24,780	28,757	7,035
						36,501	24,074
				Total		\$ 130,649	

Specialty Reinsurance

Net Cumulative Paid Loss and Allocated Loss Adjustment Expenses						
For the Years Ended December 31						
Unaudited						
Accident Year	2015	2016	2017	2018	2019	2020
2015	\$ 813	1,501	1,853	1,798	1,862	1,924
2016		2,611	6,299	12,110	14,902	15,693
2017			3,953	12,182	14,353	16,798
2018				1,980	8,468	12,727
2019					6,029	11,753
						9,261
				Total		\$ 68,156
						\$ 62,493

**Average Annual Percentage Payout of Incurred Losses by Age,
Net of Reinsurance**

Years	1	2	3	4	5	6
Total Reinsurance	7.9%	27.2%	20.5%	18.2%	11.8%	6.5%
Short-tail Reinsurance	12.0%	42.4%	25.7%	13.4%	5.0%	6.1%
Long-tail Reinsurance	1.7%	11.7%	14.4%	26.7%	20.0%	7.4%
Specialty Reinsurance	18.9%	26.4%	19.3%	11.4%	3.8%	2.7%

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The following table presents a reconciliation of the loss development tables above to the Company's gross liability for unpaid losses and loss adjustment expenses in the balance sheet:

	December 31, 2020	December 31, 2019
Net liabilities for losses and loss adjustment expenses		
Short-Tail	\$ 141,628	141,100
Long-Tail	401,880	319,491
Specialty	62,493	46,648
Net unpaid losses and loss adjustment expenses	<u>606,001</u>	<u>507,239</u>
Reinsurance recoverable		
Short-Tail	19,700	14,678
Reinsurance recoverable on unpaid losses and loss adjustment expenses	<u>19,700</u>	<u>14,678</u>
Losses and loss adjustment expenses on other than short-duration contracts	-	-
Unallocated loss adjustment expenses	-	-
Gross unpaid losses and loss adjustment expenses	<u>\$ 625,701</u>	<u>521,917</u>

The Company underwrites reinsurance on exposures worldwide and does not receive claim count or claim frequency information on a consistent basis. In addition, the terms and conditions of the reinsurance contracts entered into by the Company, including coverages, deductibles, or policy limits, and the Company's participation percentage on the contracts may change year to year, making the potential number of claims and the quantum of loss and loss adjustment expenses associated with a given contract or line of business variable over time. Accordingly, the Company has determined that it is impracticable to provide claim frequency information and any such information provided would not support a meaningful analysis of the Company's loss exposure.

8. Reinsurance

The Company purchases reinsurance to reduce net exposure to catastrophe risks. Although the reinsurance agreements purchased contractually obligate the Company's reinsurers to reimburse it for the agreed-upon portion of specified losses and loss adjustment expenses, they do not discharge the Company's primary liability. The following tables present assumed and ceded premiums and reinsurance recoverable on ceded reinsurance for the years ended December 31, 2020 and 2019.

	Year ended	Year ended
	December 31, 2020	December 31, 2019
Premiums written		
Assumed	\$ 350,427	318,968
Ceded	(6,359)	(4,900)
Net	<u>\$ 344,068</u>	<u>314,068</u>
Premiums earned		
Assumed	\$ 344,908	324,559
Ceded	(5,423)	(4,550)
Net	<u>\$ 339,485</u>	<u>320,009</u>

The Company evaluates the financial condition of its reinsurers and monitors concentrations of credit

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risk on a regular basis. A provision for uncollectable reinsurance is established due to the potential for failure by the Company's reinsurers to fulfill their contractual payment obligations, principally resulting from disputes under the reinsurance agreements and insolvencies. The provision for uncollectable reinsurance is primarily based on the credit quality of the reinsurer and collateral posted for the benefit of the Company.

At December 31, 2020 and 2019, the Company had reinsurance recoverable of \$19.7 million and \$14.7 million, respectively, net of the provision for uncollectable reinsurance. All amounts recoverable from reinsurers at December 31, 2020 were fully collateralized or due from large, well established reinsurers, and the provision for uncollectable reinsurance was immaterial.

9. Share-based Compensation

Under the ABR Reinsurance Capital Holdings Ltd. 2015 Equity Incentive Plan ("EIP") employees and directors of the Company may be granted restricted shares, restricted share units, and bonus share awards. A total of 800,000 common shares are authorized to be issued pursuant to the EIP. To the extent that shares relating to outstanding awards are not issued or delivered or are repurchased by the Company, such shares shall be added back to the EIP. At December 31, 2020 and 2019 282,912 and 297,251 restricted shares were outstanding, respectively. At December 31, 2020 and 2019 207,819 and 289,003 shares, respectively, remained available for issuance under the EIP.

The Company incurred \$1.0 million and \$0.9 million in expenses relating to the EIP during the years ended December 31, 2020 and 2019, respectively. Such expenses are included in general and administrative expenses in the statements of income and represent the proportionate accrual of the value of each grant based on the vesting schedule, as applicable. With the exception of certain discretionary awards, restricted awards vest ratably over 3 years from the grant date, subject to certain conditions, including the recipient's continued service to the Company. At December 31, 2020 and 2019 the Company had \$1.4 million and \$1.5 million, respectively, of unamortized share-based compensation expense, with an expected amortization period of approximately 2.25 years in 2020 and 2019, respectively.

10. Transactions with Related Parties

Chubb and BlackRock own 15.6% and 12.5% of the common equity of the Parent, respectively. Chubb (re)insurance company subsidiaries are the sole cedents to the Company, and BFM, a subsidiary of BlackRock, manages the Company's investment assets, each under separate long-term agreements. Pursuant to a shareholders' agreement among the shareholders of the Parent, one representative of Chubb and one representative of BlackRock are appointed to the Board of Directors of the Company. The Master Agreement with Chubb and the Investment Management Agreement with BFM are for an extended period of time with limited termination rights by the Company. In addition, these agreements allow for both Chubb and BFM to participate in the favorable results of the Company in the form of a master profit commission and performance fees.

Pursuant to the Master Agreement, Chubb offers to the Company the opportunity to participate as a reinsurer with respect to a portfolio of non-life, non-property catastrophe reinsurance contracts and property catastrophe reinsurance contracts written by Chubb's (re)insurance company subsidiaries and offered to other third-party reinsurers, and, in certain instances, participations may be offered solely to the Company. Where participation on the reinsurance contracts is offered to other third-party reinsurers, participation is offered to the Company on the same or substantially similar terms and conditions (other than terms and

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conditions governed by the Master Agreement or a global trading agreement the Company entered into with Chubb which provides for certain uniform terms and conditions to be incorporated by reference into all reinsurance contracts entered into between the Company and Chubb (re)insurance company subsidiaries), and in the same or substantially similar manner, as such reinsurance contracts are offered to the other third-party reinsurers. The term of the Master Agreement is perpetual, subject to each party's right to terminate the Master Agreement as of December 31, 2030 or any subsequent December 31 by delivering written notice of termination at least five years prior to the effective date of such termination. In consideration of this Master Agreement, Chubb is entitled to a ceding commission from the Company on the same terms as third-party reinsurers and a master profit commission.

Pursuant to the Oasis Services Agreement, Oasis provides certain administrative services to the Company for an initial term ended April 1, 2016. The Oasis Services Agreement renews automatically in one-year increments unless either party provides written notice of cancellation at least 90 days prior to expiration. As part of the Oasis Services Agreement, Oasis secured office space, along with information technology and telephone services, for the Company. There is a leasehold agreement between the Company and an Oasis affiliate for the provision of office space. It has been agreed that compensation for certain reinsurance services is included in the brokerage fee paid to the Chubb intermediary from the Company. The Company reimburses Oasis for information technology and telephone services on a fixed cost basis for each of the Company's employees. Compensation for additional administrative services is to be agreed as the scope of any such services are agreed.

Pursuant to the Alternative Collateral Facility with AIOIC and CTR, these companies reinsure risks from certain of Chubb's (re)insurance company subsidiaries and then retrocede those same risks to the Company for an initial term ending December 31, 2020 and automatically renewing, subject to each party's right to terminate the facility as of December 31, 2030 or any subsequent December 31 by delivering written notice of termination at least five years prior to the effective date of such termination. The intent is that the Alternative Collateral Facility shall have a term co-existent with the term of the Master Agreement. In return for this service, AIOIC and CTR receive a fee based on the total amount of reserves for unpaid losses and loss adjustment expenses carried by each company at the end of each calendar year on the business retroceded to the Company.

Pursuant to the Investment Management Agreement with BFM, BFM manages the Company's investment assets. The term of the Investment Management Agreement is perpetual, subject to each party's right to terminate the Investment Management Agreement as of December 31, 2023 or any subsequent December 31 by delivering written notice of termination at least five years prior to the effective date of such termination. In return for its investment services, BFM is entitled to a management fee on investment assets managed and an incentive fee based on investment performance. BFM is entitled to an annual management fee of 0.10% on Liquid Stable Income, 0.40% on Liquid Total Return, and 1.0% on Private Income and Private Total Return investment assets managed. Through June 30, 2020, BFM was entitled to a performance fee of 15% of investment returns from Private Income and Private Total Return investment assets. Beginning on July 1, 2020, BFM is entitled to an annual performance fee of 12.5% of investment returns from such assets, subject to yearly investment return hurdles of 5% on Private Income assets and 8% on Private Total Return assets. Subject to the terms of the Investment Management Agreement, 50% of the performance fee is paid in cash when earned by BFM and the remaining 50% is paid by the Company in the form of a promissory note, secured by assets equal to the face amount of the note and any interest thereon, which matures on the third anniversary of the year in which the performance fee was earned. If the portfolio performance fee basis at maturity of the promissory note is less than the portfolio performance fee basis on which the performance fee was calculated, the promissory note shall be reduced by an amount

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equal to the difference between the originally calculated performance fee and the performance fee calculated on the portfolio performance fee basis at maturity. The Company's obligation under the promissory note is re-estimated at each balance sheet date and any adjustments are recorded in the period in which the estimates are changed. At December 31, 2020 and 2019, the amount of such promissory note obligations outstanding was \$17.3 million and \$10.5 million, respectively.

Pursuant to the BlackRock Services Agreement, BFM provides the Company certain investment administration, accounting, and reporting support services. The BlackRock Services Agreement remains in effect perpetually until, and unless, the Investment Management Agreement is terminated, upon which the BlackRock Services Agreement terminates automatically.

The related statements of income and balance sheets account balances for the transactions and services agreements with Chubb, BlackRock, and the Parent for the years ended December 31, 2020 and 2019 were as follows:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Statement of income (loss) items		
Gross written premiums	\$ 350,427	318,968
Net premiums earned	344,907	324,559
Loss and loss adjustment expenses	214,520	236,580
Policy acquisition costs	109,210	107,638
General and administrative expenses	276	276
Investment expenses	16,381	27,230
Balance sheet items		
Premiums receivable	95,153	82,613
Deferred acquisition costs	59,616	59,984
Prepaid expenses	4,620	(45)
Intercompany receivable	1,117	681
Unpaid losses and loss adjustment expenses	625,701	521,917
Unearned premiums	185,644	180,123
Reinsurance balances payable	11,275	8,464
Accounts payable and accrued expenses	10,357	22,166
Notes payable and interest payable	17,333	10,546
Return of capital and dividends declared	30,000	34,000

11. Commitments and Contingencies

(a) Concentration of business

The Company currently depends entirely on Chubb for its (re)insurance business.

In reinsuring a broadly diversified portfolio of business from Chubb's (re)insurance company subsidiaries, the Company expects to benefit from Chubb's sophisticated direct underwriting expertise, specialized knowledge, risk selection capabilities and breadth of distribution channels across a wide spectrum of insurance lines and territories. However, the Company may be materially adversely affected due to circumstances arising from Chubb, including, but not limited to, if Chubb's (re)insurance company subsidiaries perform inadequately, cease to purchase reinsurance, materially decrease the amount of reinsurance purchased, or materially change the types of risk they (re)insure.

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Although the term of the Master Agreement is perpetual, subject to each party's right to terminate the agreement as of December 31, 2030 or any subsequent December 31 by delivering written notice of termination at least five years prior to the effective date of such termination, there is no assurance that in the event of such termination, or termination arising from certain early termination provisions, the Company would obtain permission from the BMA to sell (re)insurance to third-party cedents or that the Company would find suitable replacement (re)insurance business. The failure to find replacement (re)insurance business in the event of a termination of the Master Agreement could materially adversely affect the Company's business, financial condition and results of operations.

(b) Collateralization

The Company is licensed and admitted as an insurer only in Bermuda. Many jurisdictions do not permit insurance companies to take credit for reinsurance obtained from reinsurers that are not licensed or admitted in that jurisdiction on that company's statutory financial statements unless appropriate security measures are in place. In part to address such credit for reinsurance issues, the terms of the Master Agreement and global trading agreement the Company entered into with Chubb requires that the Company collateralize its obligations with respect to each reinsurance contract it enters into with Chubb's (re)insurance company subsidiaries. As of December 31, 2020 and 2019, the Company had placed \$539.2 million and \$548.6 million, respectively, of assets in trust for the benefit of the Chubb cedents.

In cases where the Company enters into certain derivative financial instruments, the Company may segregate or designate on its books and records cash or liquid securities having a market value at least equal to the amount of the Company's future obligations under such investments. Furthermore, if required by an exchange or counterparty agreement, the Company may be required to deliver/deposit cash and/or securities to/with an exchange, or broker-dealer or custodian as collateral for certain investments. As of December 31, 2020 and 2019, the Company had \$0.2 million and \$0.3 million, respectively, posted as collateral in connection with its derivatives positions.

(c) Concentrations of credit risk

The areas where significant concentrations of credit risk may exist include, but are not limited to, reinsurance premiums receivable, reinsurance claims payable, investments and cash and cash equivalents balances.

Should the Company's cedents fail to remit reinsurance contract premiums the Company may terminate the reinsurance contracts. However, the Company underwrites all of its business through an intermediary wholly owned by Chubb, so a credit risk exists should this broker be unable to fulfill its contractual obligations with respect to the payments of reinsurance balances owed to the Company or the remittance of claims payments to the cedents that the Company has delivered to the broker.

Although the Company's investment portfolio is managed following prudent standards that stress diversification of risks and preservation of capital, including specific provisions limiting the allowable holdings of a single issue and issuer, the Company's investments are subject to market risks and risks inherent in individual securities. At December 31, 2020 and 2019 the Company did not have an aggregate exposure to any single issuer of more than 2.1% and 2.8%, respectively, of its investment portfolio, other than with respect to government and agency securities, special purpose investment vehicles, and cash held at its custodian bank. A substantial portion of the investment portfolio is held in non-investment grade and

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unrated securities, which are expected to generate higher returns than investment-grade securities but also carry potentially higher degrees of credit or default risk and are generally less liquid. While the Company has procedures to monitor credit risk of invested assets, it is possible that the Company may experience credit or default losses in the investment portfolio which could adversely affect results of operations and financial condition. The Company believes there are no significant concentrations of credit risk associated with the investment portfolio.

The Company maintains significant cash and cash equivalent balances with its investment portfolio custodian, The Bank of New York Mellon, and in its operating accounts held at HSBC Bank Bermuda Limited. There is credit risk associated with recovery of such balances if these banks become impaired or insolvent. These banks are large and well established, and the Company has no indication that they are financially distressed.

(d) Investment commitments

The Company may enter into commitments or agreements to acquire or fund certain investments at a future date (subject to conditionality), generally in connection with private fixed maturity and private equity investments. Such agreements may obligate the Company to make future cash payments. As of December 31, 2020 and 2019, the Company had outstanding investment commitments of \$94.4 million and \$110.5 million, respectively.

12. Income Taxes

The Company is incorporated under the laws of Bermuda and, under current Bermuda law, is not required to pay any taxes in Bermuda based upon income or capital gains. The Company has received a written undertaking from the Minister of Finance in Bermuda under the Exempted Undertakings Tax Protection Act 1966 that, in the event that any legislation is enacted in Bermuda imposing any tax computed on profits, income, gain or appreciation on any capital asset, or any tax in the nature of estate duty or inheritance tax, such tax will not be applicable to the Company until March 31, 2035.

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

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

At December 31, 2020 and 2019, the Company’s total unrecognized tax benefits, including interest

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and penalties, were nil.

13. Shareholder's Equity

Common shares

The Company's authorized, issued and outstanding share capital consists of 1,000,000 common shares, par value \$1.00 per share.

14. Legal Proceedings

The Company, in common with the insurance industry in general, is subject to litigation and arbitration in the normal course of its business. At December 31, 2020 and 2019, the Company was not a party to any litigation or arbitration which is expected by management to have a material adverse effect on the Company's results of operations and financial condition and liquidity.

15. Statutory Requirements

Under the Insurance Act, ABR Reinsurance Ltd. is registered as a Class 4 insurer and is required to annually prepare and file statutory financial statements with the BMA. The Insurance Act also requires the Company to maintain minimum share capital and must ensure that the value of its general business assets exceeds the amount of its general business liabilities by an amount greater than the prescribed minimum solvency margins and enhanced capital requirement pertaining to its general business. At December 31, 2020 and 2019, all such requirements were met.

The Company is also required under its Class 4 license to maintain a minimum liquidity ratio whereby the value of its relevant assets is not less than 75% of the amount of its relevant liabilities for general business. At December 31, 2020 and 2019, the Company met the minimum liquidity ratio requirement.

Under the Insurance Act, the Company is subject to capital requirements calculated using the Bermuda Solvency and Capital Requirement model ("BSCR model"), which is a standardized statutory risk-based capital model used to measure the risk associated with the Company's assets, liabilities and premiums. Under the BSCR model, the Company's required statutory capital and surplus is referred to as the enhanced capital requirement ("ECR"). The Company is required to calculate and submit the ECR to the BMA annually. Following receipt of the submission of the Company's ECR, the BMA has the authority to impose additional capital requirements or capital add-ons, if it deems necessary. If an insurer fails to maintain or meet its ECR, the BMA may take various degrees of regulatory action. As of December 31, 2020 and 2019, the Company met its ECR of \$449.9 million and \$391.4 million, respectively.

Statutory accounting differs from U.S. GAAP in the reporting of certain items such as prepaid expenses. The statutory capital and surplus for the Company at December 31, 2020 and 2019 was \$732.3 million and \$777.3 million, respectively.

The Bermuda Companies Act 1981 limits the Company's ability to pay dividends and distributions to its Parent if there are reasonable grounds for believing that: (a) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or (b) the realizable value of the Company's assets

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would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

The Company may declare dividends subject to it continuing to meet its solvency and capital requirements, which includes continuing to hold statutory capital and surplus equal to or exceeding its ECR. The Company is prohibited from declaring or paying in any fiscal period dividends of more than 25% of its prior period's statutory capital and surplus unless the Company files with the BMA a signed affidavit by at least two members of its Board of Directors attesting that a dividend would not cause the company to fail to meet its relevant requirements. As of December 31, 2020 and 2019, the Company could pay dividends of approximately \$183.1 million and \$194.3 million, respectively, without providing such an affidavit to the BMA.

The Insurance Act further prohibits the Company from reducing its prior period statutory capital by 15% or more without prior approval of the BMA. As of December 31, 2020 and 2019, the Company could reduce its statutory capital by approximately \$109.1 million and \$113.5 million, respectively, without prior approval from the BMA. During 2020 and 2019, the Company distributed \$30 million and \$34 million, respectively, to the Parent.

16. Subsequent Events

The Company has completed its subsequent events evaluation for the period subsequent to the balance sheet date of December 31, 2020 through March 23, 2021, the date the financial statements were available to be issued, and concluded that there are no subsequent events requiring recognition or disclosure.