National General Insurance, Ltd.

Consolidated Financial Statements

Year Ended December 31, 2021

National General Insurance, Ltd.

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Deloitte & Touche LLP
111 S. Wacker Drive
Chicago, IL 60606
USA

Tel: 1 312 486 1000
Fax: 1 312 486 1486
www.deloitte.com

INDEPENDENT AUDITOR'S REPORT

Board of Directors

National General Insurance, Ltd.

Opinion

We have audited the consolidated financial statements of National General Insurance, Ltd. (the “Company”), which comprise the consolidated balance sheet as of December 31, 2021, and the related consolidated statements of income and comprehensive income, changes in shareholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively referred to as the "financial statements").

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

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor’s Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the incurred loss and paid claims development prior to the most recent year and average annual percentage payout of incurred claims disclosed in footnote 6 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Deloitte and Touche LLP

April 29, 2022

NATIONAL GENERAL INSURANCE, LTD.
CONSOLIDATED BALANCE SHEET
(In Thousands, Except Shares and Per Share Data)

		December 31, 2021
ASSETS		
Investments:		
Fixed income securities, at fair value (amortized cost $232,472)	$	229,505
Equity securities, at fair value		1,812
Short-term, at fair value (amortized cost $26,144)		26,144
Limited partnership interests		31,427
Total investments		288,888
Cash		1,991
Premiums installment receivables, net		35,076
Deferred policy acquisition costs		10,187
Accrued investment income		1,016
Intangible assets		60
Deferred income taxes		623
Other assets, net		6,288
Total assets	$	344,129
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Reserve for property and casualty insurance claims and claims expense	$	17,084
Unearned premiums		31,345
Other liabilities and accrued expenses		19,293
Total liabilities	$	67,722
Commitments and contingencies (Note 10)		
Shareholders' Equity:		
Common stock, $1 par value, 120,000 shares authorized, issued and outstanding	$	120
Additional capital paid-in		241,850
Retained income		36,781
Accumulated other comprehensive income:		
Unrealized net capital gains and losses		(2,344)
Total accumulated other comprehensive income ("AOCI")		(2,344)
Total National General Insurance, Ltd. stockholders' equity		276,407
Total shareholders' equity	$	276,407
Total liabilities and shareholders' equity	$	344,129

See accompanying notes to consolidated financial statements

NATIONAL GENERAL INSURANCE, LTD.
CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME
(In Thousands)

	Year Ended December 31, 2021
Revenues:	
Net earned premium	$ 81,575
Net investment income	5,222
Net gain on investments	1,980
Service and fee income	24,283
Total revenues	113,060
Expenses:	
Loss and loss adjustment expense	51,368
Commission and other acquisition expenses	23,547
General and administrative expenses	1,416
Total expenses	76,331
Income before income taxes	36,729
Income tax expense	52
Net income	$ 36,781
Other comprehensive income	
Unrealized loss on investments, net of tax benefit of $789	(2,968)
Total other comprehensive loss	(2,968)
Comprehensive income	$ 33,813

NATIONAL GENERAL INSURANCE, LTD.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(In Thousands)

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance January 1, 2021	$ 120	$ 184,068	$ 625	$ 80,588	$ 265,401
Net income	—	—	—	36,781	36,781
Net change in unrealized losses, net of tax benefit of $623	—	—	(2,178)	—	(2,178)
Impact of push down accounting	—	57,782	(791)	(80,588)	(23,597)
Balance December 31, 2021	$ 120	$ 241,850	$ (2,344)	$ 36,781	$ 276,407

See accompanying notes to consolidated financial statements

NATIONAL GENERAL INSURANCE, LTD.
CONSOLIDATED STATEMENT OF CASH FLOWS
(In Thousands)

		Year Ended December 31, 2021
Cash flows from operating activities:		
Net income	$	36,781
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Equity in net income of subsidiaries		(2,455)
Net gain on investments		(1,980)
Depreciation, amortization and other non-cash items		897
Accruals for interest earned but not received		(785)
DAC Amortization		(2,407)
Changes in assets and liabilities:		
Accrued investment income		1,763
Premiums installment receivables, net		14,759
Other operating assets and liabilities		125
Reserve for property and casualty insurance claims and claims expense		3,736
Unearned premiums		(2,050)
Income taxes		1,506
Other liabilities		5,893
Net cash provided by operating activities		55,783
Cash flows from investing activities:		
Purchases of:		
Fixed income securities		(279,940)
Limited partnership interests		(2,680)
Proceeds from sales:		
Fixed income securities		104,633
Equity securities		6,222
Limited partnership interests		31
Other investments		131,569
Investment collections		
Fixed income securities		709
Change in short-term and other investments, net		(25,939)
Net cash used in investing activities	$	(65,395)

NATIONAL GENERAL INSURANCE, LTD.
CONSOLIDATED STATEMENT OF CASH FLOWS
(In Thousands)

	Year Ended December 31, 2021

See accompanying notes to consolidated financial statements

Cash flows from financing activities:		
Net cash used in financing activities		—
Net decrease in cash and cash equivalents		(9,612)
Cash and cash equivalents at the beginning of year		11,603
Cash and cash equivalents at the end of year	$	1,991
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	$	—

See accompanying notes to consolidated financial statements

(In Thousands, Except Shares and Per Share Data)

1. Organization and Acquisition

National General Insurance, Ltd. (the "Company") (formerly: National General Insurance Holdings, Ltd.) was incorporated under the laws of Bermuda on December 11, 2018, as a Bermuda exempt Company limited by shares. Effective May 18, 2020 the Company was registered as a Class 3A insurer under the Bermuda Assurance Act, 1978 and related regulations as amended.

The Company was already capitalized with a) $10 of paid up share capital, b) $198,090 of contributed surplus and c) $43,405 of retained earnings. The contributed surplus was made up of the transfer of the Luxembourg subsidiaries as well as a transfer of loan from National General Holdings Luxembourg S.a.r.l ("NGHL"). The retained earnings was made up of NGHL and National General Holdings Bermuda, Ltd.'s investment in subsidiary revaluation. The company increased the paid up share capital to $120 as required for a class 3A insurer pursuant to section 7(1)(a) of the Insurance Act.

The company's license authorizing it to write insurance business was issued by the Bermuda Monetary Authority on May 18, 2020. The Company is an indirect wholly-owned subsidiary of National General Holdings Corp ("NGHC"). The Company's direct holding company is National General Re Ltd. ("NGRE") a class 3A affiliated insurer. The Company has a 6% auto physical damage, no-fault, personal injury protection and liability quota share reinsurance contract of NGRE.

As of December 31, 2021 the Company had two subsidiaries:

Entity Name	Jurisdiction of Incorporation or Formation
American Capital Acquisition Investments S.A	Luxembourg
National General Holdings Bermuda, Ltd. [1]	Bermuda
National General Holdings Luxembourg S.a.r.l.[1]	Luxembourg
National General Insurance Management Ltd.	Bermuda

Effective January 4, 2021, NGHC became a wholly owned subsidiary of The Allstate Corporation ("Allstate"), pursuant to the Agreement and Plan of Merger ("Merger"). The Merger was accounted for under the acquisition method of accounting ("purchase accounting, or PGAAP").

[1.] These companies were closed during the year, in line with the capital strategy as they were no longer required.

Related to the acquisition by Allstate, the following adjustments were made to the beginning 2021 balance sheet to reflect the push down of purchase accounting adjustments:

Recording of investments at fair value	$	(20,017)
Elimination of deferred acquisition costs		(10,853)
Recording of Value of Business Acquired (VOBA)		7,781
Recording loss reserves at fair value		(568)
Licenses		60
Net impact to beginning equity	$	(23,597)

2. Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statement includes the Company and its wholly owned subsidiaries. This consolidated financial statement has been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). All significant intercompany transactions and accounts have been eliminated.

The preparation of financial statement in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statement and accompanying notes. Actual results could differ from those estimates.

The Novel Coronovirus Pandemic or COVID-19 ("Coronavirus")

The Novel Coronavirus Pandemic or COVID-19 ("Coronavirus") resulted in governments worldwide enacting emergency measures to combat the spread of the virus, including travel restrictions, government-imposed shelter-in-place orders, quarantine periods, social distancing, and restrictions on large gatherings. These measures moderated in 2021 as vaccines have become more widely available in the United States and Bermuda. There is no way of predicting with certainty how long the pandemic might last. We continue to closely monitor and proactively adapt to developments and changing conditions. Currently, it is not possible to reliably estimate the impact to our operations.

Summary of Significant Accounting Policies

Premiums and Other Receivables

The Company recognizes earned premium on a pro rata basis over the terms of the policies, generally periods of six or twelve months. Unearned premiums represent the portion of premiums written applicable to the unexpired terms of the policies. Net premiums receivable represent affiliated premiums earned and not yet collected, received quarterly in arrears.

Premiums and other receivables are with entities under control and are exempt from allowance for credit loss evaluation.

Cash and Cash Equivalents

The Company's cash and cash equivalents include cash on hand, money market instruments and other debt instruments with a maturity of 90 days or less when purchased. Certain securities with original maturities of 90 days or less that are held as a portion of fixed maturity portfolios are classified as short-term investments.

Deferred Acquisition Costs

Costs that are related directly to the successful acquisition of new or renewal policies or contracts are deferred and recorded as DAC. These costs are principally agent and broker remuneration, premium taxes and certain underwriting expenses. All other acquisition costs are expensed as incurred and included in operating costs and expenses.

DAC is amortized into income as premiums are earned, typically over periods of six or twelve months for the policies and is included in amortization of deferred policy acquisition costs. DAC associated with property and casualty insurance is periodically reviewed for recoverability and adjusted if necessary. Future investment income is considered in determining the recoverability of DAC.

Assumptions used in the amortization of DAC and reserve calculations are established at the time the policy is issued and are generally not revised during the life of the policy. Any deviations from projected business in force resulting from actual policy terminations differing from expected levels and any estimated premium deficiencies may result in a change to the rate of amortization in the period such events occur. Generally, the amortization periods for these policies approximates the estimated lives of the policies. The Company periodically reviews the recoverability of DAC using actual experience and current assumptions. If actual experience and current assumptions are adverse compared to the original assumptions and a premium deficiency is determined to exist, any remaining unamortized DAC balance would be expensed to the extent not recoverable and the establishment of a premium deficiency reserve may be required for any remaining deficiency.

Value of Business Acquired (reported in DAC in the Consolidated Balance Sheets)

Recognized in connection with the acquisition of NGHC represents the value of future profits expected to be earned over the lives of the contracts acquired determined using a weighted-average cost of capital discount and other relevant assumptions. These costs are amortized over the policy term of the contracts in force at the acquisition date, generally over six or twelve months. The value of business acquired asset recognized in connection with the NGHC acquisition totaled $7,781, all of which was expensed in 2021.

Reserve for property and casualty insurance claims and claims expense

The reserve for property and casualty insurance claims and claims expense is the estimate of amounts necessary to settle all reported and unreported incurred claims for the ultimate cost of insured property and casualty losses, based upon the facts of each case and the Company’s experience with similar cases. Estimated amounts of salvage and subrogation are deducted from the reserve for claims and claims expense. The establishment of appropriate reserves, including reserves for catastrophe losses, is an inherently uncertain and complex process. Reserve estimates are primarily derived using an actuarial estimation process in which historical loss patterns are applied to actual paid losses and reported losses (paid losses plus individual case reserves established by claim adjusters) for an accident or report year to create an estimate of how losses are likely to develop over time. Development factors are calculated quarterly and periodically throughout the year for data elements such as claims reported and settled, paid losses, and paid losses combined with case reserves. The historical development patterns for these data elements are used as the assumptions to calculate reserve estimates, including the reserves for reported and unreported claims. Reserve estimates are regularly reviewed and updated, using the most current information available. Any resulting reestimates are reflected in current results of operations.

Intangible Assets

Intangible assets consist of capitalized costs primarily related to licenses. Licenses are considered to have an indefinite life and are reviewed for impairment at least annually or more frequently if circumstances arise that indicate an impairment may have occurred. An impairment is recognized if the carrying amount of the asset exceeds its estimated fair value.

Investments

Fixed income securities include bonds. Fixed income securities, which may be sold prior to their contractual maturity, are designated as available-for-sale ("AFS") and are carried at fair value. The difference between amortized cost, net of credit loss allowances ("amortized cost, net") and fair value, net of deferred income taxes and related life deferred policy acquisition costs ("DAC"), is reflected as a component of AOCI. The Company excludes accrued interest receivable from the amortized cost basis of its AFS fixed income securities. Cash received from calls and make-whole payments is reflected as a component of proceeds from sales and cash received from maturities and pay-downs is reflected as a component of investment collections within the Consolidated Statements of Cash Flows.

Equity securities primarily include common stocks, exchange traded and mutual funds, non-redeemable preferred stocks and real estate investment trust equity investments. Certain exchange traded and mutual funds have fixed income securities as their underlying investments. Equity securities are carried at fair value. Equity securities without readily determinable or estimable fair values are measured using the measurement alternative, which is cost less impairment, if any, and adjustments resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer.

Investments in limited partnership interests are primarily accounted for in accordance with the equity method of accounting ("EMA") and include interests in private equity funds. Investments in limited partnership interests purchased prior to January 1, 2018, where the Company's interest is so minor that it exercises virtually no influence over operating and financial policies, are accounted for at fair value primarily utilizing the net asset value ("NAV") as a practical expedient to determine fair value.

Short-term investments, including money market funds, commercial paper, U.S. Treasury bills and other short-term investments, are carried at fair value.

Investment income primarily consists of interest, dividends and income from limited partnership interests. Interest is recognized on an accrual basis using the effective yield method and dividends are recorded at the ex-dividend date. For all others, the effective yield is generally recalculated on a prospective basis. Net investment income for AFS fixed income securities includes the impact of accreting the credit loss allowance for the time value of money. Accrual of income is suspended for fixed income securities when the timing and amount of cash flows expected to be received is not reasonably estimable. Accrual of income is suspended for mortgage loans and bank loans that are in default or when full and timely collection of principal and interest payments is not probable. Accrued income receivable is monitored for recoverability and when not expected to be collected is written off through net investment income. Cash receipts on investments on nonaccrual status are generally recorded as a reduction of amortized cost. Income from limited partnership interests carried at fair value is recognized based upon the changes in fair value of the investee's equity primarily determined using NAV. Income from EMA limited partnership interests is recognized based on the Company's share of the partnerships' earnings. Income from EMA limited partnership interests is generally recognized on a three month delay due to the availability of the related financial statements from investees.

Net gains and losses on investments and derivatives include gains and losses on investment sales, changes in the credit loss allowances related to fixed income securities, mortgage loans and bank loans, impairments, valuation changes of equity investments, including equity securities and certain limited partnerships where the underlying assets are predominately public equity securities, and periodic changes in fair value and settlements of certain derivatives, including hedge ineffectiveness. Net gains and losses on sales of investments and derivatives are determined on a specific identification basis and are net of credit losses already recognized through an allowance.

Income Taxes

The Company and Allstate file consolidated income tax returns. Income taxes are accounted for using the asset and liability method under which deferred tax assets and liabilities are recognized for temporary differences between the financial reporting and tax bases of assets and liabilities at the enacted tax rates. The principal assets and liabilities giving rise to such differences are DAC, unearned premiums, investments (including unrealized capital gains and losses), intangible assets and insurance reserves. A deferred tax asset valuation allowance is established when it is more likely than not such assets will not be realized. The Company recognizes interest expense related to income tax matters in income tax expense and penalties in other expense.

The Company recognizes tax benefits for tax positions that are more likely than not to be sustained upon examination by taxing authorities. The Company’s policy is to prospectively classify accrued interest and penalties related to any unrecognized tax benefits in its income tax provision.

Service and Fee Income

Service and fee income primarily consists of management fee income. Refer to related party note 9.

Foreign Currency Remeasurement and Translation

The local currency of the Company’s foreign subsidiaries is deemed to be the functional currency of the country in which these subsidiaries operate. The financial statement of the Company’s foreign subsidiaries are translated into U.S. dollars at the exchange rate in effect at the end of a reporting period for assets and liabilities and at average exchange rates during the period for results of operations.

The unrealized gains and losses from the translation of the net assets are recorded as unrealized foreign currency translation adjustments and included in AOCI. Changes in unrealized foreign currency translation adjustments are included in OCI. Gains and losses from foreign currency transactions are reported in operating costs and expenses and have not been material.

(In Thousands, Except Shares and Per Share Data)

3. Investments

Portfolio composition	As of December 31, 2021
Fixed income securities, at fair value	$ 229,505
Equity securities, at fair value	1,812
Limited partnership interests	31,427
Short-term investments, at fair value	26,144
Total	**$ 288,888**

(a) Amortized cost, gross unrealized gains (losses) and fair value for fixed income securities

	Amortized	Gross Unrealized		Fair
December 31, 2021	cost, net	Gains	Losses	value
U.S. government and agencies	$ 94,954	$ —	$ (905)	$ 94,049
Municipal	3,513	—	(97)	3,416
Corporate	134,005	94	(2,059)	132,040
Total fixed income securities	**$ 232,472**	**$ 94**	**$ (3,061)**	**$ 229,505**

Scheduled maturities for fixed income securities

	As of December 31, 2021	
	Amortized cost, net	Fair Value
Due after one year through five years	$ 175,507	$ 173,139
Due after five years through ten years	49,685	49,152
Due after ten years	7,280	7,214
Total	**$ 232,472**	**$ 229,505**

Actual maturities may differ from those scheduled as a result of calls and make-whole payments by the issuers.

(b) Gross unrealized losses and fair value by type and length of time held in a continuous unrealized loss position

	Less Than 12 Months			12 Months or More			
December 31, 2021	Number of issues	Fair Value	Unrealized Losses	Number of issues	Fair Value	Unrealized Losses	Total unrealized losses
Fixed income securities							
U.S. government and	33	$ 94,049	$ (905)	—	$ —	$ —	$ (905)
Municipal	6	3,370	(97)	—	—	—	(97)
Corporate	138	117,374	(2,059)	—	—	—	(2,059)
Total Fixed Income	**177**	**214,793**	**(3,061)**	**—**	**—**	**—**	**(3,061)**
Investment grade fixed income securities	177	214,793	(3,061)	—	—	—	(3,061)
Total	**177**	**$ 214,793**	**$ (3,061)**	**—**	**$ —**	**$ —**	**$ (3,061)**

(In Thousands, Except Shares and Per Share Data)

Investment grade is defined as a security having a rating of Aaa, Aa, A or Baa from Moody's, a rating of AAA, AA, A or BBB from S&P Global Ratings ("S&P"), a comparable rating from another nationally recognized rating agency, or a comparable internal rating if an externally provided rating is not available. Market prices for certain securities may have credit spreads which imply higher or lower credit quality than the current third-party rating. Unrealized losses on investment grade securities are principally related to an increase in market yields which may include increased risk-free interest rates or wider credit spreads since the time of initial purchase. The unrealized losses are expected to reverse as the securities approach maturity.

Equity securities by sector

	December 31, 2021		
	Cost	Over (under) cost	Fair value
Financial Services	$ 8,391	$ (6,579)	$ 1,812
Energy	5	(5)	0
Total Equity Securities	**$ 8,396**	**$ (6,584)**	**$ 1,812**

(c) Net Investment Income

	For the year ended December 31, 2021
Fixed income securities	$ 1,763
Limited partnership interests	2,678
Short-term investments	9
Other investments	1,041
Investment income, before expense	5,491
Investment expense	(269)
Net investment income	$ 5,222

(d) Net Gain on Investments

	For the year ended December 31, 2021
Fixed income securities	$ (399)
Equity securities	2,378
Short-term investments	1
Net gain on investments	**$ 1,980**

(e) Gross realized gains (losses) on sales of fixed income securities

(In Thousands, Except Shares and Per Share Data)

	For the year ended December 31, 2021
Gross realized gains	$ 78
Gross realized losses	(477)

(f) Change in unrealized net capital gains (losses)

Change in unrealized net capital gains (losses)	For the year ended December 31, 2021
Fixed income securities	$ (2,967)
Total	**(2,967)**
Deferred income taxes	623
Decrease in unrealized net capital gains and losses, after-tax	**$ (2,344)**

(g) Short-term investments

Short-term investments, including money market funds, commercial paper, U.S. Treasury bills and other short-term investments, are carried at fair value. As of December 31, 2021 the fair value of short-term investments totaled $26,144.

(h) Limited partnership interests

	December 31, 2021	
	Equity method of accounting ("EMA")	Total
Private Equity	$ 31,427	$ 31,427
Balance at end of year	**$ 31,427**	**$ 31,427**

Equity method investments represent limited liability companies.

The Company holds a variable interest in the following entities but is not the primary beneficiary of such VIE's. The Company accounts for these entities using the equity method of accounting. The Company believes its exposure to risk associated with these investments is generally limited to the investment carrying amounts.

LSC Entity

The Company has a 50% ownership interest in an entity (the "LSC Entity") initially formed to acquire life settlement contracts, with AmTrust owning the remaining 50%. The LSC Entity used the contributed capital to pay premiums and purchase policies. A life settlement contract is a contract between the owner of a life insurance policy and a third party who obtains the ownership and beneficiary rights of the underlying life insurance policy. The LSC Entity has a 30% non-controlling equity interest in the limited partnership managed by a third party. As of December 31, 2021, the LSC Entity directly held one life settlement contract. The life settlement contract is accounted for using the fair value method.

The Company's equity interest in the LSC Entity as of December 31, 2021, was $29,758. For the year ended December 31, 2021, the Company recorded equity in earnings (losses) from the LSC Entity of $2,336, made contributions of $2,930, and received distributions of $370.

(i) Credit Agreement

The Company was party to a credit agreement (the "ACP Re Credit Agreement") by and among AmTrust, as administrative agent, ACP Re Holdings, LLC, a Delaware limited liability company as borrower, and AmTrust and the Company, as lenders of $250,000 ($125,000 each lender). The amounts borrowed were secured by equity interests, cash and, other investments held by ACP Re Holdings, LLC in an amount equal to 115% of the value of the then outstanding loan balance. The maturity date of the loan was September 20, 2036. The interest rate on the outstanding principal balance was a fixed annual rate of 3.7%, provided that up to 1.2% thereof were to be paid in kind.

Effective March 17, 2021, the ACP Re Credit Agreement was repaid in full in an amount of $132,610. As of December 31, 2021, the Company had a receivable related to the ACP Re Credit Agreement of $0. The Company recorded interest income of $1,041 for the year ended December 31, 2021, under the ACP Re Credit Agreement.

4. Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The hierarchy for inputs used in determining fair value maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. Assets and liabilities recorded on the Consolidated Statement of Financial Position at fair value are categorized in the fair value hierarchy based on the observability of inputs to the valuation techniques as follows:

Level 1: Assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Company can access.

Level 2: Assets and liabilities whose values are based on the following:

(a) Quoted prices for similar assets or liabilities in active markets;

(b) Quoted prices for identical or similar assets or liabilities in markets that are not active; or

(c) Valuation models whose inputs are observable, directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. Unobservable inputs reflect the Company's estimates of the assumptions that market participants would use in valuing the assets and liabilities.

The availability of observable inputs varies by instrument. In situations where fair value is based on internally developed pricing models or inputs that are unobservable in the market, the determination of fair value requires more judgment. The degree of judgment exercised by the Company in determining fair value is typically greatest for instruments categorized in Level 3. In many instances, valuation inputs used to measure fair value fall into different levels of the fair value hierarchy. The category level in the fair value hierarchy is determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company uses prices and inputs that are current as of the measurement date, including during periods of market disruption. In periods of market disruption, the ability to observe prices and inputs may be reduced for many instruments.

The Company is responsible for the determination of fair value and the supporting assumptions and methodologies. The Company gains assurance that assets and liabilities are appropriately valued through the execution of various processes and controls designed to ensure the overall reasonableness and consistent application of valuation methodologies, including inputs and assumptions, and compliance with accounting standards. For fair values received from third parties or internally estimated, the Company's processes and controls are designed to ensure that the valuation methodologies are appropriate and consistently applied, the inputs and assumptions are reasonable and consistent with the objective of determining fair value, and the fair values are accurately recorded. For example, on a continuing basis, the Company assesses the reasonableness of individual fair values that have stale security prices or that exceed certain thresholds as compared to previous fair values received from valuation service providers or brokers or derived from internal models. The Company performs procedures to understand and assess the methodologies, processes and controls of valuation service providers. In addition, the Company may validate the reasonableness of fair values by comparing information obtained from valuation service providers or brokers to other third-party valuation sources for selected securities. The Company performs ongoing price validation procedures such as back-testing of actual sales, which corroborate the various inputs used in internal models to market observable data. When fair value determinations are expected to be more variable, the Company validates them through reviews by members of management who have relevant expertise and who are independent of those charged with executing investment transactions.

The Company has two types of situations where investments are classified as Level 3 in the fair value hierarchy:

(1) Specific inputs significant to the fair value estimation models are not market observable. This primarily occurs in the Company's use of broker quotes to value certain securities where the inputs have not been corroborated to be market observable, and the use of valuation models that use significant non-market observable inputs.

(2) Quotes continue to be received from independent third-party valuation service providers and all significant inputs are market observable; however, there has been a significant decrease in the volume and level of activity for the asset when compared to normal market activity such that the degree of market observability has declined to a point where categorization as a Level 3 measurement is considered appropriate. The indicators considered in determining whether a significant decrease in the volume and level of activity for a specific asset has occurred include the level of new issuances in the primary market, trading volume in the secondary market, the level of credit spreads over historical levels, applicable bid-ask spreads, and price consensus among market participants and other pricing sources.

Certain assets are not carried at fair value on a recurring basis, including mortgage loans, bank loans and policy loans and are only included in the fair value hierarchy disclosure when the individual investment is reported at fair value.

(In Thousands, Except Shares and Per Share Data)

In determining fair value, the Company principally uses the market approach which generally utilizes market transaction data for the same or similar instruments. To a lesser extent, the Company uses the income approach which involves determining fair values from discounted cash flow methodologies. For the majority of Level 2 and Level 3 valuations, a combination of the market and income approaches is used.

Summary of significant inputs and valuation techniques for Level 2 and Level 3 assets and liabilities measured at fair value on a recurring basis

<u>Level 2 measurements</u>

• <u>Fixed income securities:</u>

Municipal and corporate - public: The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields and credit spreads.

Corporate - privately placed: Privately placed are valued using a discounted cash flow model that is widely accepted in the financial services industry and uses market observable inputs and inputs derived principally from, or corroborated by, observable market data. The primary inputs to the discounted cash flow model include an interest rate yield curve, as well as published credit spreads for similar assets in markets that are not active that incorporate the credit quality and industry sector of the issuer.

<u>Level 3 measurements</u>

None of the Company's assets or liabilities are valued using level 3 valuation techniques as of December 31, 2021.

	December 31, 2021				
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Counterparty and cash collateral netting	Total
Assets					
Fixed income securities:					
U.S. government and agencies	$ 94,049	$ —	$ —	$ —	$ 94,049
Municipal	—	3,416	—	—	3,416
Corporate - public	—	103,775	—	—	103,775
Corporate - privately placed	—	28,265	—	—	28,265
Total fixed income securities	94,049	135,456	—	—	229,505
Equity securities	1,812	—	—	—	1,812
Short-term investments	26,144	—	—	—	26,144
Total recurring basis assets	122,005	135,456	—	—	257,461
Non-recurring basis	—	—	—		—
Total assets at fair value	$ 122,005	$ 135,456	$ —	$ —	$ 257,461
% of total assets at fair value	47 %	53 %	— %	— %	100 %

(In Thousands, Except Shares and Per Share Data)

At December 31, 2021, the carrying values of the Company's cash and cash equivalents, premiums and other receivables, and accounts payable and accrued expenses approximate the fair value given their short-term nature and were classified as Level 1.

5. Deferred Acquisition Costs

The following table reflects the activity of policy acquisition costs deferred and amortized:

	Year Ended December 31, 2021
Balance, beginning of the year	$ 10,853
DAC written off	(10,853)
Acquisition costs deferred	25,845
Amortization charged to income	(15,658)
Change in DAC	(666)
Balance, end of the year	**$ 10,187**

	Year Ended December 31, 2021
Balance, beginning of the year	$ —
VOBA additions	7,781
VOBA amortization	(7,781)
Change in VOBA	—
Balance, end of the year	**$ —**

6. Reserve for property and casualty insurance claims and claims expense

The unpaid losses and Loss Adjustment Expense ("LAE") reserves are an estimate of the Company's liability from incurred claims at the end of the reporting period. The unpaid losses and LAE reserves are the result of an ongoing analysis of recent loss development trends and emerging historical experience. Original estimates are increased or decreased as additional information becomes known regarding individual claims. In setting its reserves, the Company reviews its loss data to estimate expected loss development. Management believes that its use of standard actuarial methodology applied to its analyses of its historical experience provides a reasonable estimate of future losses. However, actual future losses may differ from the Company's estimate, and may be affected by future events beyond the control of management, including inflation, which may favorably or unfavorably impact the ultimate settlement of the Company's losses and LAE, as well as changes in the law and judicial interpretations.

The anticipated effect of inflation is implicitly considered when estimating liabilities for losses and LAE. In addition to inflation, the average severity of claims is affected by a number of factors that may vary by types and features of policies written. Future average severities are projected from historical trends, adjusted for implemented changes in underwriting standards and policy provisions, as well as general economic trends. These estimated trends are monitored and revised as necessary based on actual development.

(In Thousands of Dollars, Except Shares and Per Share Data)

The following tables present a reconciliation of beginning and ending balances for unpaid losses and LAE:

	Year Ended December 31, 2021
Gross balance at beginning of the year*	$ 13,916
Incurred losses and LAE related to:	
Current year	51,664
Prior year	(296)
Total incurred	51,368
Paid losses and LAE related to:	
Current year	(38,845)
Prior year	(9,355)
Total paid	(48,200)
Gross balance at end of the year	$ 17,084

- The beginning reserves include a $568 fair value adjustment related to the Purchase Accounting due to the acquisition of National General by Allstate.

Prior year loss development

2021. Loss and LAE for the year ended December 31, included $296 of favorable loss development on prior accident year loss and LAE reserves, driven by greater than expected emergence in the small business auto segment, and offset by favorable development in private passenger auto.

Short-duration contracts

The following is information about incurred and paid claims development as of December 31, 2021, net of reinsurance, as well as cumulative claim frequency and the total of incurred-but-not-reported liabilities ("IBNR") plus expected development on reported claims included within the net incurred claims amounts. The information about incurred and paid claims development for the years ended prior to December 31, 2021, is presented as unaudited supplementary information.

Property and Casualty

	Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance		December 31, 2021	
	Year Ended December 31,			
Accident Year	2020	2021	Total of IBNR Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
	(unaudited)			
2020	24,405	24,109	3,701	8,547
2021		52,232	8,279	18,370
Total (A)		$ 76,341		

(In Thousands of Dollars, Except Shares and Per Share Data)

	Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance	
	Year Ended December 31,	
Accident Year	2020	2021
	(unaudited)	
2020	11,058	20,409
2021		38,848
Total (B)		$ 59,257
Unpaid loss and allocated loss adjustment expense reserves before 2011, net of reinsurance (C)		$ —
Unpaid loss and allocated loss adjustment expense reserves, net of reinsurance (A) - (B) + (C)		$ 17,084

Average Annual Percentage Payout of Accident Year Incurred Claims by Age, Net of Reinsurance							
Years	1	2	3	4	5	6	7
				(unaudited)			
Property and Casualty	61.9 %	26.5 %	3.8 %	2.9 %	3.1 %	1.2 %	0.7 %

Methodology for Estimating Incurred-But-Not-Reported Reserves

Loss and LAE reserves represent management's estimate of the ultimate liability for claims that have been reported and claims that have been incurred but not yet reported as of the balance sheet date. Because the establishment of loss and LAE reserves is a process involving estimates and judgment, currently estimated reserves may change. The Company reflects changes to the reserves in the results of operations for the period during which the estimates are changed.

Incurred-but-not-reported reserve estimates are generally calculated by first projecting the ultimate cost of all claims that have occurred and then subtracting reported losses and loss expenses. Reported losses include cumulative paid losses and loss expenses plus case reserves. Therefore, the IBNR also includes provision for expected development on reported claims.

The Company’s internal actuarial analysis of the historical data provides the factors the Company uses in its actuarial analysis in estimating its loss and LAE reserves. These factors are implicit measures over time of claims reported, average case incurred amounts, case development, severity and payment patterns. However, these factors cannot be directly used as they do not take into consideration changes in business mix, claims management, regulatory issues, medical trends, and other subjective factors. In accordance with Actuarial Standards of Practice, the Company generally uses multiple traditional methods in determining our estimates of the ultimate unpaid claim liabilities. Each of these methods require actuarial judgment and assumptions. The techniques can include, but are not limited to:

- Paid Development Method - uses historical, cumulative paid losses by accident year and develops those actual losses to estimated ultimate losses based upon the assumption that each accident year will develop to estimated ultimate cost in a manner that is analogous to prior years.
- Paid Generalized Cape Cod Method - combines the Paid Development Method with the expected loss method, where the expected loss ratios are estimated from exposure and claims experience weighted across multiple accident periods. The selected expected loss ratio for a given accident year is derived by giving some weight to all of the accident years in the experience history rather than treating each accident year independently.
- Paid Bornhuetter-Ferguson Method - a combination of the Paid Development Method and the Expected Loss Method, the Paid Bornhuetter-Ferguson Method estimates ultimate losses by adding actual paid losses and

projected future unpaid losses. The amounts produced are then added to cumulative paid losses to produce the final estimates of ultimate incurred losses.

- Incurred Development Method - uses historical, cumulative incurred losses by accident year and develops those actual losses to estimated ultimate losses based upon the assumption that each accident year will develop to estimated ultimate cost in a manner that is analogous to prior years.
- Incurred Generalized Cape Cod Method - combines the Incurred Development Method with the expected loss method, where the expected loss ratios are estimated from exposure and claims experience weighted across multiple accident periods. The selected expected loss ratio for a given accident year is derived by giving some weight to all of the accident years in the experience history rather than treating each accident year independently.
- Incurred Bornhuetter - Ferguson Method - a combination of the Incurred Development Method and the Expected Loss Method, the Incurred Bornhuetter-Ferguson Method estimates ultimate losses by adding actual incurred losses and projected future unreported losses. The amounts produced are then added to cumulative incurred losses to produce an estimate of ultimate incurred losses.
- Expected Loss Method - utilizes an expected ultimate loss ratio based on historical experience adjusted for trends multiplied by earned premium to project ultimate losses.

For each method, losses are projected to the ultimate amount to be paid. The Company then analyzes the results and may emphasize or deemphasize some or all of the outcomes to reflect actuarial judgment regarding their reasonableness in relation to supplementary information and operational and industry changes. These outcomes are then aggregated to produce a single selected point estimate that is the basis for the internal actuary’s point estimate for loss reserves.

Methodology for Determining Cumulative Number of Reported Claims

When the Company is notified of an incident of potential liability that may lead to demand for payment(s), a claim file is created. Methods used to summarize claim counts have not changed significantly over the time periods reported in the tables above. The methodology of counting claims for each of the Company’s segments may be summarized as follows:

The Company's P&C claims are counted by claim number assigned to each claimant per insured event. However, if an insured event occurs and demand for payment is made with respect to more than one coverage (e.g., an automobile claim arising from the same incident demanding separate payment for liability and physical damage), there would be one claim counted for each coverage for which a demand for payment was made. Claims closed without payment are included in the cumulative number of reported P&C claims.

(In Thousands of Dollars, Except Shares and Per Share Data)

7. Reinsurance

The following is the effect of reinsurance on premiums and loss and LAE:

	Year Ended December 31, 2021	
Premium:	Written	Earned
Assumed Gross Premium	$ 79,525	$ 81,575

	Year Ended December 31, 2021	
	Assumed	Direct
Loss and LAE*	$ 51,368	$ —

- The Loss and LAE include a $568 fair value adjustment related to the Purchase Accounting due to the acquisition of National General by Allstate.

8. Income Taxes

The Company provides for income tax expense or benefit based upon pre-tax income or loss reported in the consolidated financial statement and the provisions of currently enacted tax laws. The Company is incorporated under the laws of Bermuda and is subject to Bermuda law with respect to taxation. Under current Bermuda law, the Company is not subject to any income or capital gains taxes in Bermuda. In the event that such taxes are imposed, the Company would be exempted from any such taxes until March 2035 under the Tax Assurance Certificates issued to such entities pursuant to the Bermuda Exempted Undertakings Tax Protection Act of 1966 as amended.

9. Related Party Transactions

Reinsurance

Effective July 1, 2020, the Company assumes 6% of the net premiums of NGRE's auto physical damage, no-fault, personal injury protection and liability business, pursuant to a quota share reinsurance agreement.

Assumed activity and balances related to this reinsurance treaty are as follows:

	Year Ended December 31, 2021
Premiums earned	$ 81,575
Commission expenses	25,846
Losses and loss adjustment expense	51,368
Premium receivable, net	$ 35,076
Reinsurance payable	19,384
Losses and loss expense reserves	17,084
Unearned premium	31,345

- The Loss and LAE include a $568 fair value adjustment related to the Purchase Accounting due to the acquisition of National General by Allstate.

(In Thousands of Dollars, Except Shares and Per Share Data)

Management Agreement

Effective January 1, 2014, the Manager entered into a management agreement with NGRE, in which the Manager provides certain investment management, accounting and administrative services in connection with the operations of NGRE. Effective January 1, 2018 this agreement was amended. NGRE's fee is an amount equal to the Manager's actual costs incurred plus 5%. NGRE incurred charges of $941 related to these services for the year ended December 31, 2021.

Reinsurance Brokerage Management Agreement

Effective November 15, 2018, a reinsurance brokerage agreement was entered between National General Insurance Management Limited ("NGIM") and NGRE, in which the NGRE appoints NGIM as its exclusive broker for the negotiation, procurement and/or placement of reinsurance by NGRE. The Original Agreement dated January 1, 2014 was entered between National General Reinsurance Broker, Ltd. On November 15, 2018 NGRB and NGIM merged with the surviving company being NGIM. NGRE's fee is an amount equal to 1.25% of Net Earned premium assumed by NGRE. NGRE incurred charges of $24,283 related to these services for the year ended December 31, 2021.

10. Commitments and Contingencies

There are no commitments and contingencies identified during the year.

11. Shareholders' Equity

Capital

For the year ended December 31, 2021, the Company paid a dividend of $0.

Accumulated Other Comprehensive Income

Components of other comprehensive income (loss) on a pre-tax and after-tax basis

	Year ended December 31, 2021
Unrealized net capital gains and losses pre-tax	$ (2,967)
Tax	623
Unrealized net capital gains and losses after-tax	(2,344)
Accumulated other comprehensive loss	$ (2,344)

Reclassification of other comprehensive income to realized capital gains and losses

(In Thousands of Dollars, Except Shares and Per Share Data)

	Year ended December 31, 2021
Realized loss fixed income	$ (399)
Realized gain short term	1
Less current period buy and sell in realized gain/loss: (1)	
Adjustment for comprehensive income - fixed income	20
Adjustment for comprehensive income short term	1
Total reclassification of OCI to realized gain/loss, pretax	$ (419)

(1) RCGL amount not impacting OCI for the period

12. Statutory Capital and Surplus

In 2015, the Bermuda Monetary Authority implemented the Economic Balance Sheet ("EBS") framework which will now be used as the basis to determine the Insurer's Enhanced Capital Requirement ("ECR"). The Authority also revised the basis in which Statutory Financial Statement ("SFS") for commercial insurers are prepared. Before the changes, commercial insurers were required to prepare SFS under Section 15 of the Act as prescribed under the Insurance Accounts Regulations 1980 (the "Accounts Regulations") as well as additional GAAP financial statement under Section 17 of the Act. Under the new changes financial statements prepared under Section 17A will act as the basis on which SFS will now be prepared subject to application of certain prudential filters. This financial statement will in turn, form the starting basis for the preparation of the EBS. The SFS will have a statement both on a consolidated and unconsolidated basis. The unconsolidated information will form the basis for assessing the Insurer's liquidity position, Minimum Solvency Margin ("MSM"), and class of registration while the consolidated information will form the starting point for the EBS. The EBS, will be the basis to calculate the Insurer's ECR.

Under the Act, the Company will be required to file a statutory income statement and statutory statement of capital and surplus on an unconsolidated basis ("unconsolidated SFS") reflecting the entity's unconsolidated financial position for the year ended December 31, 2021. The information contained in the unconsolidated SFS will be used as one of the basis for computation of the MSM with the other consideration being 25% of ECR which is computed from the EBS.

The statutory capital and surplus of the Company for the year ended December 31, 2021 was $276,346, and the amount required to be maintained under Bermuda law, the minimum solvency margin, was $12,229 at December 31, 2021. The Company was also required to maintain a minimum liquidity ratio. All requirements were met by the Company throughout the period. In addition, the Company is subject to statutory and regulatory restrictions under the Act.

The Company is registered as a Class 3A insurer under the Act and, therefore, must maintain capital at a level equal to its enhanced capital requirement ("ECR"). The Company is currently completing the 2021 Bermuda Solvency

(In Thousands of Dollars, Except Shares and Per Share Data)

Capital Requirement ("BSCR"), SFS and EBS and believes that it meets the target level of required capital as of December 31, 2021.

The statutory basis financial statement differs from financial statements prepared in accordance with U.S. GAAP with the principal difference relating to non-admitted assets under the Insurance Account Rules 2016 ("Rules"). Non-admitted assets under the Rules are identified as prepaids, deferred expenses and intangibles. The following tables present and reconcile statutory net income of the Company as a standalone entity for the year ended December 31, 2021, and the statutory capital and surplus as per statutory basis financial returns as of December 31, 2021, to U.S. GAAP net income and equity:

	Year Ended December 31, 2021
Statutory net income	$ 36,781
Unrealized gain (loss) on subsidiaries	—
U.S. GAAP net income	$ 36,781
Statutory surplus and capital	$ 276,346
Non - admitted assets	61
U.S. GAAP shareholders’ equity	$ 276,407

13. Subsequent Events

The Company has evaluated subsequent events through April 29, 2022, the date on which the Consolidated Financial Statement were available to be issued.

On April 29, 2022, the Company entered into a transaction to sell its interest in the limited partnership holding the LSC Entity. The Company received $14,600 in this transaction and recognized a loss of $13,000 on the transaction date.