

National General Re Ltd.

Consolidated Financial Statements

Year Ended December 31, 2021

National General Re Ltd.

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors

National General Re, Ltd.

Opinion

We have audited the consolidated financial statements of National General Re, 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 shareholder's 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 7 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 RE LTD.
CONSOLIDATED BALANCE SHEET
(In Thousands, Except Shares and Per Share Data)

	<u>December 31, 2021</u>
ASSETS	
Investments:	
Fixed income securities, at fair value (amortized cost, net \$888,396)	\$ 876,262
Equity securities, at fair value	14,857
Short-term, at fair value (amortized cost \$90,313)	90,313
Limited partnership interests (related parties - \$40,211)	66,573
Other investments	1,937
Total investments	1,049,942
Cash	3,183
Premiums installment receivables, net (related parties - \$747,384)	747,384
Deferred policy acquisition costs	233,522
Accrued investment income	5,623
Property and equipment, net	11,228
Intangible assets	120
Other assets, net	4,576
Deferred income taxes	27,961
Total assets	\$ 2,083,539
LIABILITIES AND SHAREHOLDERS' EQUITY	
Liabilities:	
Reserve for property and casualty insurance claims and claims expense	358,001
Unearned premiums	718,530
Accrued current income taxes	26,628
Other liabilities and accrued expenses - (related parties - \$172,316)	173,889
Total liabilities	\$ 1,277,048
Commitments and contingencies (Note 11)	
Shareholders' Equity:	
Common stock, \$1 par value, 120,000 shares authorized, issued and outstanding	\$ 120
Additional capital paid-in	713,150
Retained income	102,648
Accumulated other comprehensive income:	
Unrealized net capital gains and losses	(9,586)
Unrealized foreign currency translation adjustments	(35)
Total accumulated other comprehensive income ("AOCI")	(9,621)
Total National General Re Ltd. stockholders' equity	\$ 806,297
Noncontrolling interest	\$ 194
Total shareholders' equity	\$ 806,491
Total liabilities and shareholders' equity	\$ 2,083,539

See accompanying notes to consolidated financial statements

See accompanying notes to consolidated financial statements

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

	Year Ended December 31, 2021
Revenues:	
Property and casualty insurance premiums (net of reinsurance ceded of \$111,494)	\$ 1,942,679
Net investment income	24,833
Net losses on investments	(26,988)
Other revenue	1,573
Total revenues	1,942,097
Expenses:	
Loss and loss adjustment expense	1,154,983
Commission and other acquisition expenses	561,700
General and administrative expenses	3,061
Total expenses	1,719,744
Income before income taxes	222,353
Income tax expense	(27,045)
Net income	\$ 195,308
Other comprehensive loss	
Foreign currency translation adjustment, net of tax expense of \$77	290
Unrealized loss on investments, net of tax benefit of \$12,062	(45,378)
Total other comprehensive loss	(45,088)
Comprehensive income	\$ 150,220

See accompanying notes to consolidated financial statements

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

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Noncontrolling Interest	Total
Balance January 1, 2021	\$ 120	\$ 390,690	\$ 35,467	\$ 370,099	\$ 194	\$ 796,570
Impact of push down accounting	—	322,460	(35,431)	(370,019)	—	(82,990)
Net income	—	—	—	195,308	—	195,308
Foreign currency translation, net of tax expense of \$(10)	—	—	(35)	—	—	(35)
Net change in unrealized losses, net of tax benefit of \$2.558	—	—	(9,622)	—	—	(9,622)
Deemed dividend	—	—	—	(3,940)	—	(3,940)
Dividends to parent company	—	—	—	(88,800)	—	(88,800)
Balance December 31, 2021	<u>\$ 120</u>	<u>\$ 713,150</u>	<u>\$ (9,621)</u>	<u>\$ 102,648</u>	<u>\$ 194</u>	<u>\$ 806,491</u>

See accompanying notes to consolidated financial statements

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

	<u>Year Ended</u> <u>December 31, 2021</u>
Cash flows from operating activities:	
Net income	\$ 195,308
Adjustments to reconcile net income to net cash provided by operating activities:	
Equity in earnings of other investments	2,349
Net loss on investments	26,988
Depreciation, amortization and other non-cash items	11,771
Fair value adjustment on loss reserves	(17,050)
Accruals for interest earned but not received	(785)
DAC amortization	(32,355)
Changes in assets and liabilities:	
Accrued investment income	6,398
Premium installment receivables, net	522,728
Other operating assets and liabilities	765
Reserve for property and casualty insurance claims and claims expense	(362,923)
Unearned premiums	(111,494)
Income taxes	(18,950)
Other liabilities	(72,829)
Net cash provided by operating activities	<u>149,921</u>
Cash flows from investing activities:	
Investment purchases	
Fixed income securities	(1,304,444)
Equity securities	(46,172)
Property and equipment	(132)
Limited partnership interests	(2,680)
Proceeds from sales	
Fixed income securities	1,051,829
Equity securities	46,538
Limited partnership interests	5,157
Other investments	132,242
Investment collections	
Fixed income securities	25,991
Sale of premises and equipment	8,800
Change in short-term and other investments, net	(36,004)
Net cash used in investing activities	<u>\$ (118,875)</u>

NATIONAL GENERAL RE LTD.
CONSOLIDATED STATEMENT OF CASH FLOWS

See accompanying notes to consolidated financial statements

(In Thousands)

	Year Ended
	December 31, 2021
Cash flows from financing activities:	
Dividends paid to parent company	\$ (50,000)
Net cash used in financing activities	<u>(50,000)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>364</u>
Net decrease in cash, cash equivalents and restricted cash	(18,590)
Cash, cash equivalents, and restricted cash at the beginning of year	<u>21,773</u>
Cash, cash equivalents, and restricted cash at the end of year	<u>\$ 3,183</u>
Supplemental disclosures of cash flow information:	
Cash paid for income taxes	\$ 52

See accompanying notes to consolidated financial statements

NATIONAL GENERAL RE LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Shares and Per Share Data)

1. Organization and Acquisition

National General Re Ltd. (the “Company”) was incorporated under the laws of Bermuda on November 14, 2011, is registered as a Class 3A insurer under the Bermuda Assurance Act, 1978 and related regulations as amended and commenced operations in 2012. The Company is a wholly-owned subsidiary of National General Holdings Corp (“NGHC”). The Company was founded as a Bermuda reinsurance company organized to provide reinsurance business solutions to its parent and affiliated companies. The Company provides reinsurance coverage to NGHC’s subsidiaries.

As of December 31, 2021 we had five subsidiaries.

<u>Entity Name</u>	<u>Jurisdiction of Incorporation or Formation</u>
Allied Producers Reinsurance Company, Ltd. ¹	Bermuda
American Capital Acquisition Investments S.A	Luxembourg
Integon Properties S.A. de C.V	Mexico
National General Holdings Bermuda, Ltd. ¹	Bermuda
National General Holdings Luxembourg S.a.r.l. ¹	Luxembourg
National General Insurance, Ltd.	Bermuda
National General Insurance Management Ltd.	Bermuda
NG Holdings, LLC	Delaware

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	\$	(24,167)
Elimination of deferred acquisition costs		(269,758)
Recording of value of business acquired (VOBA)		201,168
Recording loss reserves at fair value		(17,050)
Other		145
Tax Impacts of adjustments		26,672
Net impact to beginning equity	\$	(82,990)

2. Significant Accounting Policies

Basis of Presentation

See accompanying notes to consolidated financial statements

NATIONAL GENERAL RE LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENT
(In Thousands of Dollars, Except Shares and Per Share Data)

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 Coronavirus 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 affiliated entities under common 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.

NATIONAL GENERAL RE LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT
(In Thousands, Except Shares and Per Share Data)

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 Sheet)

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 \$201,168, 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.

NATIONAL GENERAL RE LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENT
(In Thousands of Dollars, Except Shares and Per Share Data)

Investments

Fixed income securities include bonds and asset-backed securities (“ABS”). ABS includes mortgage-backed securities (“MBS”) that were previously disclosed separately. 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 Statement 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, real estate funds and other 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. Other investments primarily consist of bank loans, policy loans, real estate and derivatives. Bank loans are primarily senior secured corporate loans. Policy loans are carried at unpaid principal balances. Real estate is carried at cost less accumulated depreciation. Derivatives are carried at fair value.

Investment income primarily consists of interest, dividends, income from limited partnership interests, rental income from real estate, and income from certain derivative transactions. Interest is recognized on an accrual basis using the effective yield method and dividends are recorded at the ex-dividend date. Interest income for ABS is determined considering estimated pay-downs, including prepayments, obtained from third-party data sources and internal estimates. Actual prepayment experience is periodically reviewed, and effective yields are recalculated when differences arise between the prepayments originally anticipated and the actual prepayments received and currently anticipated. For ABS of high credit quality with fixed interest rates, the effective yield is recalculated on a retrospective basis. 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

NATIONAL GENERAL RE LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT
(In Thousands, Except Shares and Per Share Data)

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.

Property and Equipment

Property and equipment are recorded at cost less accumulated depreciation. Included in property and equipment are capitalized costs related to computer software developed for internal use. Property and equipment depreciation is calculated using the straight-line method over the estimated useful lives of the assets, as follows:

Buildings and improvements	30 years
Leasehold improvements	Remaining lease term
Hardware & Software	3 to 5 years
Other equipment	3 to 20 years

Variable Interest Entities

A variable interest entity (“VIE”) is a legal entity that does not have sufficient equity at risk to finance its activities without additional financial support or is structured such that equity investors lack the ability to make significant decisions relating to the entity’s operations through voting rights or do not participate in the gains and losses of the entity. The Company consolidates VIEs in which the Company is deemed the primary beneficiary. The primary beneficiary is the entity that has both (1) the power to direct the activities of the VIE that most significantly affect that entity’s economic performance and (2) the obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE.

NATIONAL GENERAL RE LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENT
(In Thousands of Dollars, Except Shares and Per Share Data)

Noncontrolling Interest

Non-redeemable noncontrolling interest is the portion of equity (net assets) not attributable, directly or indirectly, to a parent.

Other Income

Other income primarily consists of rental income from real estate with 84% of the rental income with an affiliated entity. Rental income is reported on a straight line basis.

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.

Accounting Standards

Recent Accounting Standards, Adopted

Standard	Description	Effective Date	Effect on the Company
ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes	This standard simplifies the accounting for income taxes by eliminating some exceptions to the general approach in Accounting Standards Codification ("ASC") 740, Income Taxes. It also clarifies certain aspects of the existing guidance to promote more consistent	January 1, 2021	The adoption had no impact on the Company's operations and financial position.

NATIONAL GENERAL RE LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT
(In Thousands, Except Shares and Per Share Data)

3. Investments

Portfolio composition

	As of December 31, 2021
Fixed income securities, at fair value	\$ 876,262
Equity securities, at fair value	14,857
Short-term investments, at fair value	90,313
Limited partnership interests	66,573
Other investments	1,937
Total	\$ 1,049,942

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

December 31, 2021	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
U.S. government and agencies	\$ 147,741	\$ 1	\$ (1,070)	\$ 146,672
Municipal	92,030	50	(1,804)	90,276
Corporate	637,234	1,157	(10,484)	627,907
ABS	11,391	18	(2)	11,407
Total fixed income securities	\$ 888,396	\$ 1,226	\$ (13,360)	\$ 876,262

Scheduled maturities for fixed income securities

December 31, 2021	Amortized Cost	Fair Value
Due in one year or less	\$ 7,458	\$ 7,439
Due after one year through five years	510,413	503,286
Due after five years through ten years	321,088	316,400
Due after ten years	38,046	37,730
	877,005	864,855
ABS	11,391	11,407
Total	\$ 888,396	\$ 876,262

NATIONAL GENERAL RE LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT
(In Thousands, Except Shares and Per Share Data)

Actual maturities may differ from those scheduled as a result of calls and make-whole payments by the issuers. ABS is shown separately because of potential prepayment of principal prior to contractual maturity dates.

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

December 31, 2021	Less Than 12 Months			12 Months or More			Total unrealized losses
	Number of Issues	Fair Value	Unrealized Losses	Number of Issues	Fair Value	Unrealized Losses	
U.S. government and agencies	35	143,679	(1,070)	—	—	—	(1,070)
Municipal	50	79,109	(1,804)	—	—	—	(1,804)
Corporate	426	529,384	(10,484)	—	—	—	(10,484)
ABS	2	4,201	(2)	—	—	—	(2)
Total Fixed Income Securities	513	756,373	(13,360)	—	—	—	(13,360)
Investment grade fixed income securities	451	717,865	(12,666)	—	—	—	(12,666)
Below investment grade fixed income securities	62	38,508	(694)	—	—	—	(694)
Total Fixed Income Securities	513	\$ 756,373	\$ (13,360)	—	\$ —	\$ —	\$ (13,360)

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	\$ 9,891	\$ (6,579)	\$ 3,312
Funds / ETFs	9,959	(71)	9,888
Technology	1,367	(12)	1,355
Energy	5	(5)	0
Basic Industry	20	282	302
Total Equity Securities	\$ 21,242	\$ (6,385)	\$ 14,857

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(c) Net Investment Income

	For the Year Ended December 31, 2021
Fixed income securities	\$ 20,809
Equity securities	311
Short-term investments	26
Limited partnership interests	5,339
Other investments	627
Investment income, before expenses	27,112
Investment expense	(2,279)
Net investment income	\$ 24,833

(d) Net loss on investments

	For the Year Ended December 31, 2021
Fixed income securities	(10,174)
Equity securities	6,680
Short-term investments	1
Limited partnership interests	(23,495)
Net loss on investments	\$ (26,988)

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

	For the Year Ended December 31, 2021
Gross realized gains	\$ 1,603
Gross realized losses	(11,777)

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

	For the year ended December 31, 2021
Fixed income securities	\$ (12,134)
Total	(12,134)
Deferred income taxes	2,548
Decrease in unrealized net capital gains and losses, after-tax	\$ (9,586)

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(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 \$90,313.

(h) Limited partnership and other Investments

	As of December 31, 2021		
	Equity method of accounting ("EMA")	Fair Value	Total
Private Equity	\$ 31,427	\$ —	\$ 31,427
Real Estate	24,693	10,453	35,146
Other investments	—	1,937	1,937
Total	\$ 56,120	\$ 12,390	\$ 68,510

Other investments at fair value include the Company's right to receive the excess servicing spread related to servicing rights, for which the Company has elected the fair value option with changes in fair value recorded in net investment income. The Company believes its exposure to risks associated with these investments is generally limited to the investment carrying amounts.

Limited Liability Companies and Limited Partnerships

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 equity method of accounting.

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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 from the LSC Entity of \$2,336, made contributions of \$2,930, and received distributions of \$370.

North Dearborn Building Company, L.P.

The Company holds an investment in North Dearborn Building Company, L.P. ("North Dearborn"), a limited partnership that owns an office building in Chicago, Illinois. AmTrust is also a limited partner in North Dearborn, and the general partner is NA Advisors GP LLC ("NA Advisors"), which is managed by an unrelated third party. The Company and AmTrust each hold a 45% limited partnership interest in North Dearborn, while NA Advisors holds a 10% general partnership interest and a 10% profit interest, which NA Advisors pays to the unrelated third-party manager. North Dearborn appointed NA Advisors as the general manager to oversee the day-to-day operations of the office building.

The Company's equity interest in North Dearborn as of December 31, 2021, was \$4,352. For the year ended December 31, 2021, the Company recorded equity in losses from North Dearborn of \$(2,982), and received distributions of \$180. There was an other than temporary impairment of \$(3,687).

4455 LBJ Freeway, LLC

The Company holds an investment in 4455 LBJ Freeway, LLC, a limited liability company that owns an office building in Dallas, Texas, with AmTrust. AmTrust has been appointed managing member of 4455 LBJ Freeway, LLC. The Company and AmTrust each have a 50% ownership interest in 4455 LBJ Freeway, LLC.

The Company's equity interest in 4455 LBJ Freeway, LLC as of December 31, 2021, was \$6,101. For the year ended December 31, 2021, the Company recorded equity in losses from 4455 LBJ Freeway, LLC of \$(266). There was an other than temporary impairment of \$(1,653).

Illinois Center Building, L.P.

The Company holds an investment in Illinois Center Building, L.P. ("Illinois Center"), a limited partnership that owns an office building in Chicago, Illinois. AmTrust and ACP Re are also limited partners in Illinois Center and the general partner is NA Advisors. The Company and AmTrust each hold a 37.5% limited partnership interest in Illinois Center, while ACP Re holds a 15.0% limited partnership interest. NA Advisors holds a 10.0% general partnership interest and a 10.0% profit interest, which NA Advisors pays to the unrelated third-party manager. Illinois Center appointed NA Advisors as the general manager to oversee the day-to-day operations of the office building.

The Company's equity interest in Illinois Center as of December 31, 2021, was \$0. For the year ended December 31, 2021, the Company recorded equity in losses from Illinois Center of \$(5,210), made contributions of \$0, and received distributions of \$0. There was an other than temporary impairment of \$(18,154).

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,

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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

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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 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

Level 2 measurements

- Fixed income securities:

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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.

Corporate - privately placed also includes redeemable preferred stock that are valued using quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields, underlying stock prices and credit spreads.

ABS: 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, collateral performance, and credit spreads. Certain ABS are valued based on non-binding broker quotes whose inputs have been corroborated to be market observable. Residential MBS, included in ABS, uses prepayment speeds as a primary input for valuation.

Level 3 measurements

• Fixed income securities:

Corporate - public: Primarily valued based on non-binding broker quotes where the inputs have not been corroborated to be market observable. Other inputs for corporate fixed income securities include an interest rate yield curve, as well as published credit spreads for similar assets that incorporate the credit quality and industry sector of the issuer.

• Equity securities: The primary inputs to the valuation include quoted prices or quoted net asset values for identical or similar assets in markets that are less active relative to those markets supporting Level 2 fair value measurements.

• Other investments: The Company values its right to receive the excess servicing spread related to servicing rights using the present value of expected cash flows provided by a third-party where the primary inputs are not market observable.

Investments excluded from the fair value hierarchy

Limited partnerships carried at fair value, which do not have readily determinable fair values, use NAV provided by the investees and are excluded from the fair value hierarchy. These investments are generally not redeemable by the investees and generally cannot be sold without approval of the general partner. The Company receives distributions of income and proceeds from the liquidation of the underlying assets of the investees.

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Assets measured at fair value

	December 31, 2021			
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets				
Fixed income securities:				
U.S. government and agencies	\$ 146,672	\$ —	\$ —	\$ 146,672
Municipal	—	90,276	—	90,276
Corporate - public	—	445,741	1,395	447,136
Corporate - privately placed	—	180,771	—	180,771
ABS	—	11,407	—	11,407
Total fixed income securities	\$ 146,672	\$ 728,195	\$ 1,395	\$ 876,262
Equity securities	11,700	—	3,157	14,857
Short-term investments	90,313	—	—	90,313
Other investments	—	—	1,937	1,937
Total recurring basis assets	\$ 248,685	\$ 728,195	\$ 6,489	\$ 983,369
Total assets at fair value	\$ 248,685	\$ 728,195	\$ 6,489	\$ 983,369
% of total assets at fair value	25.3 %	74.0 %	0.7 %	100 %
Investments reported at NAV				10,453
Total				\$ 993,822

For the year ended December 31, 2021, there were transfers into Level 3.

The following tables provide a reconciliation of recurring fair value measurements of the Level 3 financial assets:

	Corporate - Public	Other investments	Equity Securities	Total
Balance as of January 1, 2021	\$ 2,324	\$ 3,026	\$ —	\$ 5,350
Transfers into Level 3	—	—	2,887	2,887
Total gains (losses) for the period:				
Included in net income	24	(414)	270	(120)
Included in other comprehensive income	(14)	—	—	(14)
Sales	(939)	(675)	—	(1,614)
Balance as of December 31, 2021	\$ 1,395	\$ 1,937	\$ 3,157	\$ 6,489
Change in realized and unrealized gains (losses) for the period included in net income for assets held at the end of the reporting period	\$ 24	\$ (414)	\$ 270	\$ (120)
Change in unrealized gains (losses) for the period included in other comprehensive income for assets held at the end of the reporting period	\$ (14)	\$ —	\$ —	\$ (14)

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

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5. Deferred Acquisition Costs and Value of Business Acquired (VOBA)

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

	Year Ended December 31, 2021
Balance, beginning of the year	\$ 269,758
DAC written off	(269,758)
Additions	594,055
Amortization	(360,533)
Change in DAC	(36,236)
Balance, end of the year	\$ 233,522

	Year Ended December 31, 2021
Balance, beginning of the year	\$ —
VOBA additions	201,168
VOBA amortization	(201,168)
Change in VOBA	—
Balance, end of the year	\$ —

6. Property and Equipment

The composition of property and equipment consisted of the following:

	December 31, 2021		
	Cost	Accumulated Depreciation	Net Value
Land	\$ 2,690	\$ —	\$ 2,690
Building	8,778	(291)	8,487
Furniture and equipment	71	(20)	51
Total	\$ 11,539	\$ (311)	\$ 11,228

Depreciation and amortization expense related to property and equipment for the year ended December 31, 2021, was \$384 included under general and administration expenses. Effective March 19, 2021 the aircraft was sold. Refer Note 10. Related party transactions.

7. 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

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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.

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

	Year Ended December 31, 2021
	Property and Casualty
Gross balance at beginning of the year *	\$ 737,973
Incurred losses and LAE related to:	
Current year	1,160,317
Prior year	(5,334)
Total incurred	1,154,983
Paid losses and LAE related to:	
Current year	(819,360)
Prior year	(715,595)
Total paid	(1,534,955)
Gross balance at end of the year	\$ 358,001

- The beginning reserves include a \$17,050 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 \$5,334 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 by reserving subgroups 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.

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Property and Casualty

Accident Year	Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance							December 31, 2021	
	Year Ended December 31,							Total of IBNR Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
	2015	2016	2017	2018	2019	2020	2021		
	(unaudited)								
2015	\$ 76,945	\$ 77,548	\$ 78,169	\$ 75,972	\$ 77,742	\$ 78,660	\$ 79,491	\$ —	\$ 30,944
2016		635,380	633,828	638,109	650,123	653,614	656,643	—	233,294
2017			997,510	960,377	959,753	971,949	974,967	—	382,824
2018				954,654	937,630	945,915	950,127	—	377,735
2019					1,009,598	998,588	1,005,981	—	433,463
2020						1,011,258	987,440	—	374,813
2021							<u>1,177,365</u>	253,788	418,254
Total (A)							<u>\$5,832,014</u>		

Accident Year	Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance								
	Year Ended December 31,								
	2015	2016	2017	2018	2019	2020	2021		
	(unaudited)								
2015	\$ 41,681	\$ 58,639	\$ 62,411	\$ 63,944	\$ 69,187	\$ 74,505	\$ 79,491		
2016		366,342	526,173	566,975	601,623	635,580	656,643		
2017			630,786	851,299	880,883	914,133	974,967		
2018				543,681	813,871	864,231	950,127		
2019					633,976	876,560	1,005,981		
2020						574,049	987,440		
2021							<u>819,364</u>		
Total (B)									<u>\$5,474,013</u>
Unpaid loss and allocated loss adjustment expense reserves before 2011, net of reinsurance (C)									<u>\$ —</u>
Unpaid loss and allocated loss adjustment expense reserves, net of reinsurance (A) - (B) + (C)									<u>\$ 358,001</u>

Years	Average Annual Percentage Payout of Accident Year Incurred Claims by Age, Net of Reinsurance									
	1	2	3	4	5	6	7	8	9	10
	(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.

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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 the 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.

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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.

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8. Reinsurance

The Company's insurance subsidiaries utilize quota share reinsurance programs to limit its exposure. Reinsurance agreements transfer portions of the underlying risk of the business the Company writes. Reinsurance does not discharge or diminish the Company's obligation to pay claims covered by the insurance policies it issues; however, it does permit the Company to recover certain incurred losses from its reinsurers.

Effective January 1, 2021, Amendment No.2 (the "Amendment") modifies and amends the Amended and Restated National General Reinsurance Intercompany Quota Share. The Quota Share participation of losses incurred has decreased from 50% to 40%.

Effective January 4, 2021 a reinsurance novation endorsement was entered into by Integon National Insurance Company (the "Replaced Company"), NG Re and AIC (the "New Company") whereas the New Company assumed all liabilities of Replaced Company.

Effective October 1, 2021 NG Re commuted the 50% quota share participation of Losses Incurred. The total assets were transferred to AIC ("Cedant") at their fair market value as detailed in Schedule 1 of the commutation endorsement.

Effective June 1, 2021 an aggregate excess catastrophe reinsurance contract was entered into by Castle Key Insurance Company and Castle Key Indemnity Company (hereinafter referred to collectively as "Castle Key") and NG Re ("Reinsurer") affiliated companies. The reinsurer agrees to reinsure the excess liability of the Personal Lines Property business. The annual deposit premium is \$5,700 for the term of this contract. The premium as at December 31, 2021 is \$3,325.

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

	Year Ended December 31, 2021	
Premium:	Written	Earned
Assumed Gross Premium	\$ 1,831,185	\$ 1,942,679
	Year Ended December 31, 2021	
	Assumed	Direct
Loss and loss adjustment expense*	\$ 1,154,983	\$ —
Net Loss and loss adjustment expense	\$ 1,154,983	\$ —

- The loss and loss adjustment expense include a \$17,050 fair value adjustment related to the Purchase Accounting due to the acquisition of National General by Allstate.

9. 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

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pursuant to the Bermuda Exempted Undertakings Tax Protection Act of 1966 as amended. The Company made an election under Section 953(d) of the U.S. Internal Revenue Code of 1986, as amended, to be taxed as a U.S. entity. As a result, the Company's operations will be subject to U.S. federal incomes taxes generally at a rate of 21%.

The components of the income tax benefit are as follows:

	Year Ended December 31, 2021
Current - U.S.	\$ 26,648
Current - foreign	35
Deferred - U.S.	362
Income tax expense	<u>\$ 27,045</u>

The Tax Cuts and Jobs Act ("TCJA") included provisions for Global Intangible Low-Taxed Income ("GILTI"), which imposes a minimum tax on global intangible low-tax income, defined as the excess income of foreign subsidiaries over a 10% rate of routine return on tangible business assets, and for Base Erosion and Anti-Abuse tax ("BEAT") which imposes tax on certain base eroding payments to affiliated foreign companies. Consistent with accounting guidance, the Company will treat both GILTI and BEAT as an in period tax charge when incurred in future periods for which no deferred taxes need be provided. The Company analyzed the impact of both GILTI and BEAT on its operations for the period and determined that for the year ended December 31, 2021 the Company was subject to GILTI but was not subject to the BEAT.

Deferred income taxes are recognized for the future tax consequences of temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities. The tax effects of temporary differences that give rise to the net deferred tax asset or liability are presented below based upon the 2021, enacted rate of 21%.

	December 31, 2021
Deferred tax assets:	
Suspended Subpart F losses	\$ 34,252
Loss reserve discount	2,183
Investments	9,151
Partnerships	501
Unearned premiums and other revenue	28,862
Accrued expenses	41
Gross deferred tax assets	<u>74,990</u>
Valuation allowance	—
Total deferred tax assets	<u>74,990</u>
Deferred tax liabilities:	
Deferred acquisition costs	(46,900)
Investments	(129)
Gross deferred tax liabilities	<u>(47,029)</u>
Net deferred tax assets	<u>\$ 27,961</u>

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The Company's income tax expense differs from the statutory U.S. federal amount computed by applying the federal income tax rate of 21% for the year ended December 31, 2021. The reasons for such differences are as follows:

	Year Ended	
	December 31, 2021	
	Amount	Tax Rate
Income before taxes	\$ 222,353	
Tax rate	21.0 %	
Computed "expected" tax expense	46,694	21.0 %
Tax effects resulting from:		
Tax-exempt interest	(91)	— %
Effect of foreign operations	(3,635)	(1.6)%
Change in valuation allowance	(72,212)	(32.5)%
Benefits of operating loss carry forwards	58,554	26.3 %
Foreign tax expense	35	— %
Foreign tax credits	(2,305)	(1.0)%
Other	5	— %
Total income tax expense reported	<u>\$ 27,045</u>	<u>12.2 %</u>

Unrecognized tax benefits

The Company recognizes tax positions in the consolidated financial statement only when it is more likely than not that the position will be sustained on examination by the relevant taxing authority based on the technical merits of the position. A position that meets this standard is measured at the largest amount of benefit that will more likely than not be realized on settlement. A liability is established for differences between positions taken in a tax return and amounts recognized in the consolidated financial statement.

The following table presents a reconciliation of the beginning and ending balances of the total amounts of gross unrecognized tax benefits:

	Year Ended	
	December 31, 2021	
Gross unrecognized tax benefits, beginning of year	\$ 560	
Increases in tax positions for prior years	—	
Decreases in tax positions for prior years	—	
Increases in tax positions for current year	—	
Settlements	—	
Gross unrecognized tax benefits, end of year	<u>\$ 560</u>	

At December 31, 2021, our unrecognized tax benefits, excluding interest and penalties were \$560. Interest and penalties related to unrecognized tax benefits are recorded in the income tax expense. At December 31, 2021, the Company accrued an expense of \$83 (net of federal benefit) and \$0, respectively for payment of interest and penalties. The Company does not anticipate any significant changes to the total unrecognized tax liabilities in the next 12 months.

The Company joins the Allstate Corporation and its 156 domestic subsidiaries in the filing of a consolidated federal income tax return. The consolidated group has elected under IRC Section 155(a)(2) to allocate the consolidated

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federal income tax liability based on each member's federal income tax liability computed on a separate return basis, except all tax benefits resulting from operating losses and tax credits are allocated to the Company to the extent they can be utilized in the \$30,478.

All tax liabilities are payable to the Internal Revenue Service ("IRS"). The Company is currently under audit by the IRS, as part of its parent's consolidated return, for the years ended after December 31, 2017.

10. Related Party Transactions

Reinsurance

Effective October 1, 2015, the Company assumes 50% (which decreased to 40%) of the net premiums of the AIC personal lines business, pursuant to a quota share reinsurance agreement. Refer section 8 Reinsurance.

Effective June 1, 2021 an aggregate excess catastrophe reinsurance contract was entered into by Castle Key Insurance Company and Castle Key Indemnity Company (hereinafter referred to collectively as "Castle Key") and NG Re ("Reinsurer") affiliated companies. The reinsurer agrees to reinsure the excess liability of the Personal Lines Property business. The annual deposit premium is \$5,700 for the term of this contract. The premium as at December 31, 2021 is \$3,325. Refer section 8 Reinsurance.

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

	Year Ended December 31, 2021	
	Castle Key	AIC QS
Premiums earned	\$ 3,325	\$ 1,939,534
Commission expenses	—	561,700
Losses and Loss adjustment expense*	—	1,154,983
Premium receivable , net	\$ —	\$ 747,384
Commission payable	—	(172,316)
Losses and loss expense reserves	—	(358,001)

- The loss and loss adjustment expense include a \$17,050 fair value adjustment related to the Purchase Accounting due to the acquisition of National General by Allstate.

Surplus Notes

New Jersey Skylands Insurance Association ("NJSIA") is a New Jersey reciprocal managed by an affiliate of NG Re.

NG Re owned a \$31,250 surplus note ("31,250 Note") with NJSIA. The 31,250 Note bore interest at prime plus 1% divided by 1 minus the corporate income tax rate of 21%. If the calculated interest rate exceeded 12%, the interest rate would have been prime plus 5%. Any principle repayments, as well as interest payments, required prior written approval of the Commissioner of the New Jersey Department of Banking and Insurance ("NJDOBI"). As of December 31, 2021, no principle payments were made on the \$31,250 Note.

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In April 2018, NJSIA issued a \$12,000 subordinated surplus note (“\$12,000 Note”) to NG Re. The \$12,000 Note bore interest at prime plus 1% divided by 1 minus the corporate income tax rate of 21%. If the calculated interest rate exceeded 12%, the interest rate would have been prime plus 5%. Any principle repayments, as well as interest payments, required prior written approval of the Commissioner of the NJDOBI. As of December 31, 2021, no principle payments were made on the \$12,000 Note.

In February 2019, NJSIA issued a \$6,000 subordinated surplus note (“\$6,000 Note”) to NG Re. The \$6,000 Note bore interest at prime plus 1% divided by 1 minus the corporate income tax rate of 21%. If the calculated interest rate exceeded 12%, the interest rate would have been prime plus 5%. Any principle repayments, as well as interest payments, required prior written approval of the Commissioner of the NJDOBI. As of December 31, 2021, no principle payments were made on the \$6,000 Note.

The Company recorded accrued interest of \$2,321 for the year ended December 31, 2021, related to the three notes.

Effective December 30, 2021 the above mentioned \$31,250 Note, \$12,000 Note and \$6000 Note collectively identified as ("Surplus Notes") were assigned from NG Re to National General Holdings Corp., a Delaware corporation and insurance holding company. NG Re declared a dividend (return of capital) in the amount of \$38,800.

Company Aircraft

In 2017, the Company acquired an aircraft for use by Company Management and affiliates of the Company.

In 2017, the Company engaged a third party to act as trustee and formed NG Re Trust (“Trust”) to hold and register the aircraft on the Company’s behalf with the Company maintaining the rights to the beneficial interest of the trust. The Company contributed the aircraft to the Trust and the Company remains the sole beneficiary. The Trust is limited to holding title and registration to the aircraft to ensure eligibility with the Federal Aviation Administration (“FAA”). The Company may direct usage of the aircraft at any time via written instruction. Following the formation of the Trust, an aircraft operating agreement was entered into between the trustee and the Company, allowing the Company possession of the aircraft to use and operate. The operating agreement was designed to remain in force for as long as the Trust exists. The Company retains the ability to direct the aircraft usage based on the operating agreement. Also, the operating cost of the aircraft, fees, and other costs are the responsibility of the Company to fund.

The Company determined that the Trust qualifies as a VIE and the Company is the primary beneficiary as it has the power to direct their activities that most significantly impact their economic performance and will absorb more than an insignificant amount of expected losses or residual returns of the Trust. Based on the determination the Company consolidates the Trust.

Concurrent with the above the Company is party to an aircraft lease agreement with National General Management Corp. (“NGMC”). The agreement provides for payment to the Company for usage of the company-owned aircraft and cover actual expenses incurred. During the year ended December 31, 2021, NGMC paid \$0 for their use of the company-owned aircraft under this agreement.

Effective March 19, 2021, an Aircraft Purchase Agreement ("Aircraft agreement") was entered into for the sale of the Aircraft to the purchaser subject to terms and conditions identified in the Aircraft agreement. The purchase price to be paid by the purchaser is \$8,900.

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11. Commitments and Contingencies

There are no commitments and contingencies identified during the year.

12. Shareholders' Equity

Capital

For the year ended December 31, 2021, the Company paid a dividend of \$88,800, and paid a distribution of capital 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
Foreign currency translation adjustment	\$ 45
Tax	(10)
Foreign currency translation adjustment, net of tax	35
Unrealised net capital gains and losses pre-tax	12,134
Tax	(2,548)
Unrealised net capital gains and losses after-tax	9,586
Accumulated other comprehensive income	<u>\$ 9,621</u>

Reclassification of other comprehensive income to realized capital gains and losses

	Year ended December 31, 2021
Realized loss fixed income	\$ (10,174)
Realized gain short term	1
Less current period buy and sell in realized gain/loss: ⁽¹⁾	
Adjustment for comprehensive income - fixed income	78
Adjustment for comprehensive income short term	1
Total reclassification of OCI to realized gain/loss, pretax	<u>\$ (10,252)</u>

(1) RCGL amount not impacting OCI for the period

13. 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

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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 \$806,323, and the amount required to be maintained under Bermuda law, the minimum solvency margin, was \$263,049 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 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 the 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	\$ 195,308
Unrealized gain (loss) on subsidiaries	—
U.S. GAAP net income	<u>\$ 195,308</u>
Statutory surplus and capital	\$ 806,323
Non - admitted assets	168
U.S. GAAP shareholders’ equity	<u>\$ 806,491</u>

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14. 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 limited partnerships holding the LSC Entity, North Dearborn, 4455 LBJ Freeway and Illinois Center. The Company received \$19,100 in this transaction and recognized a loss of \$17,000 on the transaction date.