# AXIS Specialty Limited

**Consolidated Financial Statements and**
**Independent Auditors' Report**

**December 31, 2021 and 2020**

Deloitte Ltd.
Corner House
20 Parliament Street
P.O. Box HM 1556
Hamilton HM FX
Bermuda

Tel: + 1 (441) 292 1500
Fax: + 1 (441) 292 0961
www.deloitte.com

# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders of AXIS Specialty Limited

## Opinion

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

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

## Basis for Opinion

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

## Responsibilities of Management for the Financial Statements

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

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

## Auditor's Responsibilities for the Audit of the Financial Statements

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

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

In performing an audit in accordance with GAAS, we:

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

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

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

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

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

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

## Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the disclosure of short-duration contracts included in note 6 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not part of the basic financial statements, is required by the Financial Accounting_Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United Stated of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Deloitte Ltd.

April 28, 2022

**AXIS SPECIALTY LIMITED**
**CONSOLIDATED BALANCE SHEETS**
December 31, 2021 and 2020
*(In thousands of U.S. dollars)*

| | 2021 | 2020 |
|---|---|---|
| **Assets** | | |
| Investments: | | |
| Fixed maturities, available for sale, at fair value | $ 4,569,954 | $ 5,236,584 |
| *(Amortized cost 2021: $4,533,757; 2020: $5,025,972 Allowance for expected credit losses 2021: $313; 2020: $320)* | | |
| Fixed maturities, held to maturity, at amortized cost | 408,316 | — |
| *(Fair value: 2021: $407,461 Allowance for expected credit losses 2021: $nil)* | | |
| Equity securities, at fair value | 103,667 | 58,290 |
| *(Cost 2021: $59,971; 2020: $35,831)* | | |
| Other investments, at fair value | 511,902 | 518,962 |
| Short-term investments, at fair value | 5,014 | 16,622 |
| Total investments | 5,598,853 | 5,830,458 |
| Cash and cash equivalents | 181,712 | 201,138 |
| Restricted cash and cash equivalents | 56,452 | 75,898 |
| Accrued interest receivable | 28,340 | 30,073 |
| Insurance and reinsurance premium balances receivable | 250,894 | 270,942 |
| Deferred acquisition costs | 160,045 | 155,508 |
| Due from affiliates | 1,899,855 | 2,032,724 |
| Prepaid reinsurance premiums | 113,929 | 120,827 |
| Reinsurance recoverable on unpaid losses and loss expenses | 877,855 | 769,750 |
| Reinsurance recoverable on paid losses and loss expenses | 98,683 | 71,205 |
| Receivable for investments sold | 3,323 | 1,800 |
| Other assets | 16,801 | 25,569 |
| Total assets | $ 9,286,742 | $ 9,585,892 |
| **Liabilities** | | |
| Reserve for losses and loss expenses | $ 4,830,909 | $ 5,030,797 |
| Unearned premiums | 930,499 | 948,705 |
| Insurance and reinsurance balances payable | 213,183 | 256,538 |
| Due to affiliates | 62,854 | 64,663 |
| Other liabilities | 92,361 | 66,470 |
| Payable for investments purchased | 18,369 | 28,565 |
| Total liabilities | 6,148,175 | 6,395,738 |
| **Shareholder's Equity** | | |
| Common shares | 1,200 | 1,200 |
| (Authorized 12,000,000 common shares, par value $0.10 Issued and outstanding 2021: 12,000,000 ; 2020: 12,000,000) | | |
| Additional paid-in capital | 2,114,237 | 2,114,237 |
| Accumulated other comprehensive income | 36,510 | 210,931 |
| Retained earnings | 986,620 | 863,786 |
| Total shareholder's equity | 3,138,567 | 3,190,154 |
| Total liabilities and shareholder's equity | $ 9,286,742 | $ 9,585,892 |

***See accompanying notes to Consolidated Financial Statements.***

**AXIS SPECIALTY LIMITED**
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**
Years ended December 31, 2021 and 2020
*(In thousands of U.S. dollars)*

| | 2021 | 2020 |
|---|---|---|
| **Revenues** | | |
| Gross premiums written | $ 1,898,375 | $ 1,753,077 |
| Premiums ceded | (405,639) | (420,853) |
| Net premiums written | 1,492,736 | 1,332,224 |
| Change in net unearned premiums | 10,007 | 109,589 |
| Net premiums earned | 1,502,743 | 1,441,813 |
| Net investment income | 221,331 | 167,751 |
| Other insurance related income (loss) | 9,621 | (6,092) |
| Net investment gains (losses) | | |
| Allowance for expected credit losses | 7 | (320) |
| Impairment losses | (7) | (968) |
| Other-than-temporary impairment (OTTI) losses | — | — |
| Other realized and unrealized investment gains | 80,850 | 27,583 |
| Total net investment gains | 80,850 | 26,295 |
| Total revenues | 1,814,545 | 1,629,767 |
| **Expenses** | | |
| Net losses and loss expenses | 913,203 | 1,089,688 |
| Acquisition costs | 425,541 | 415,684 |
| General and administrative expenses | 31,511 | 35,361 |
| Foreign exchange losses (gains) | (29,729) | 62,625 |
| Interest expense | 1,185 | 8,092 |
| Total expenses | 1,341,711 | 1,611,450 |
| **Net income** | 472,834 | 18,317 |
| **Other comprehensive income (loss):** | | |
| Available for sale investments: | | |
| Unrealized gains (losses) arising during the year for which an allowance for expected credit losses has not been recognized | (229,745) | 97,022 |
| Unrealized gains (losses) arising during the year for which an allowance for expected credit losses has been recognized | 81 | (40) |
| Adjustment for re-classification of net realized (gains) losses, impairment losses and OTTI losses recognized in net income (nil tax) | 55,243 | 26,398 |
| Unrealized gains (losses) arising during the year, net of reclassification adjustment (nil tax) | (174,421) | 123,380 |
| **Total other comprehensive income (loss)** | (174,421) | 123,380 |
| **Comprehensive income** | $ 298,413 | $ 141,697 |

***See accompanying notes to Consolidated Financial Statements.***

# AXIS SPECIALTY LIMITED
## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY
Years ended December 31, 2021 and 2020

*(In thousands of U.S. dollars)*

| | 2021 | 2020 |
|---|---|---|
| **Common shares** | | |
| Balance at beginning and end of year | $ 1,200 | $ 1,200 |
| **Additional paid-in capital** | | |
| Balance at beginning of year | 2,114,237 | 2,114,237 |
| Share-based compensation expense | 1,637 | 1,950 |
| Return of additional paid-in capital | (1,637) | (1,950) |
| Balance at end of year | 2,114,237 | 2,114,237 |
| **Accumulated other comprehensive income (loss)** | | |
| Unrealized gains (losses) on available for sale investments: | | |
| Balance at beginning of year | 210,931 | 87,551 |
| Unrealized gains (losses) arising during the year, net of reclassification adjustment | (174,421) | 123,380 |
| Balance at end of year | 36,510 | 210,931 |
| **Retained earnings** | | |
| Balance at beginning of year | 863,786 | 1,195,469 |
| Net income | 472,834 | 18,317 |
| Dividends paid to parent | (350,000) | (350,000) |
| Balance at end of year | 986,620 | 863,786 |
| **Total shareholder's equity** | $ 3,138,567 | $ 3,190,154 |

***See accompanying notes to Consolidated Financial Statements.***

**AXIS SPECIALTY LIMITED**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
Years ended December 31, 2021 and 2020
*(In thousands of U.S. dollars)*

| | 2021 | 2020 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net income | $ 472,834 | $ 18,317 |
| **Adjustments to reconcile net income to net cash (used in) provided by operating activities:** | | |
| Net investment gains | (81,095) | (26,295) |
| Net realized and unrealized (gains) losses on other investments | (81,932) | 695 |
| Amortization of fixed maturities | 10,148 | 16,450 |
| Other amortization and depreciation | 540 | 854 |
| Share-based compensation expense, net of cash payments | 1,637 | 1,950 |
| Changes in: | | |
| Accrued interest receivable | 1,733 | 8,586 |
| Insurance and reinsurance balances receivable and payable, net | (23,307) | 13,119 |
| Deferred acquisition costs | (4,537) | 28,907 |
| Due from (to) affiliates | (2,081) | 124,338 |
| Prepaid reinsurance premiums | 6,898 | (17,077) |
| Reinsurance recoverable on unpaid and paid losses | (135,583) | (116,354) |
| Reserve for losses and loss expenses | (199,888) | (20,685) |
| Unearned premiums | (18,206) | (92,512) |
| Other items | 38,520 | (33,105) |
| Net cash used in operating activities | (14,319) | (92,812) |
| **Cash flows from investing activities:** | | |
| Purchases of: | | |
| Fixed maturities, available for sale | (4,647,637) | (3,272,067) |
| Fixed maturities, held to maturity | (159,075) | — |
| Equity securities | (34,007) | (115) |
| Other investments | (103,384) | (92,098) |
| Short-term investments | (24,162) | (49,197) |
| Proceeds from the sale of: | | |
| Fixed maturities, available for sale | 3,975,094 | 3,316,831 |
| Equity securities | 4 | 27,518 |
| Other investments | 191,846 | 79,208 |
| Short-term investments | 22,917 | 28,785 |
| Proceeds from the redemption of fixed maturities, available for sale | 804,465 | 622,721 |
| Proceeds from the redemption of fixed maturities, held to maturity | 155,808 | — |
| Proceeds from the redemption of short-term investments | 11,972 | 13,874 |
| Net cash provided by investing activities | 193,841 | 675,460 |
| **Cash flows from financing activities:** | | |
| Advances and payments on behalf of parent and ultimate parent companies | (216,687) | (454,994) |
| Short term advances and loans from (to) affiliates | (1,809) | (173,773) |
| Net cash used in financing activities | (218,496) | (628,767) |
| Effect of exchange rates changes on foreign currency cash and cash equivalents and restricted cash | 102 | 2,004 |
| Decrease in cash and cash equivalents and restricted cash | (38,872) | (44,115) |
| **Cash and cash equivalents and restricted cash, beginning of year** | 277,036 | 321,151 |
| **Cash and cash equivalents and restricted cash, end of year** | $ 238,164 | $ 277,036 |

Non-cash operating and financing activities: The Company declared dividends of $350,000 in 2021 (2020: $350,000) and returned additional paid-in capital of $1,637 in 2021 (2020: $1,950). The dividends and returns of additional paid-in capital were net settled against balances due from AXIS Capital Holdings Limited, the Company’s ultimate holding company and AXIS Specialty Holdings Bermuda Limited, the Company's parent company .

***See accompanying notes to Consolidated Financial Statements.***

## 1. History

AXIS Specialty Limited (the “Company”) was incorporated on November 8, 2001 under the laws of Bermuda. Pursuant to an exchange offer consummated on December 31, 2002, the Company became a wholly owned subsidiary of AXIS Capital Holdings Limited (“AXIS Capital”, the “ultimate parent company”). On December 12, 2011, AXIS Capital assigned all of its shares of the Company to AXIS Specialty Holdings Bermuda Limited (“AXIS Specialty Holdings”). AXIS Specialty Holdings was incorporated under the laws of Bermuda on September 22, 2011 and is a wholly owned subsidiary of AXIS Capital.

The Company is licensed under the Bermuda Insurance Act 1978, amendments thereto and related regulations, to write general business as a Class 4 insurer and commenced operations on November 20, 2001, providing a broad range of insurance and reinsurance products on a worldwide basis.

The Company also provides reinsurance protection to other subsidiaries of AXIS Capital through quota share and stop loss agreements.

The Company formed a branch in Singapore (the “Branch”) on June 19, 2008 and obtained a license on August 12, 2008 to carry on general insurance business in Singapore.

On February 5, 2015, AXIS Specialty Holdings contributed all of its shares of AXIS Bermuda Services Limited (“Bermuda Services”) to the Company. Bermuda Services was repurposed as a special purpose investment company. On August 15, 2017, Bermuda Services was renamed AXIS Specialty Investments Limited ("Investments I").

On January 6, 2016, AXIS Specialty Holdings transferred all of its shares of AXIS Specialty Investments II Limited ("Investments II") to the Company. Investments II was repurposed as a special purpose investment company.

## 2. Significant Accounting Policies

### Basis of Presentation and Consolidation

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and include the results of operations and the financial position of the Branch, Investments I and Investments II. All transactions and balances between the Company, the Branch, Investments I and Investments II have been eliminated.

### Use of Estimates

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

- reserve for losses and loss expenses;
- reinsurance recoverable on unpaid losses and loss expenses, including the allowance for expected credit losses;
- gross and net premiums written and net premiums earned;
- fair value measurements for financial assets and liabilities; and
- the allowance for credit losses associated with fixed maturities, available for sale.

Significant accounting policies are as follows:

### a) Investments

***Fixed Maturities, Available for Sale, at Fair Value and Fixed Maturities, Held to Maturity, at Amortized Cost***

Fixed maturities classified as available for sale are reported at fair value (see Note 4 – Fair Value Measurements) and are presented net of an allowance for expected credit losses. The change in fair values of fixed maturities, net of tax, is recognized in accumulated other comprehensive income (loss) ("AOCI") in the consolidated statement of changes in shareholder's equity.

Fixed maturities are classified as held to maturity when the Company has the positive intent and ability to hold the securities to maturity or redemption. Fixed maturities classified as held to maturity are reported at amortized cost and are presented net of an allowance for expected credit losses.

Net investment income includes interest income and the amortization of market premiums and discounts and is presented net of investment expenses. Investment income is recognized when earned. Purchases and sales of fixed maturities are recorded on a trade-date basis and realized investment gains (losses) on sales of fixed maturities are determined based on the specific identification method. Realized gains (losses) on fixed maturities are included in net investment gains (losses) in the consolidated statements of operations.

## 2. Significant Accounting Policies (continued)

The Company recognizes investment income from fixed maturities based on the constant effective yield method, which includes an adjustment for estimated principal repayments, if applicable. The effective yield used to determine the amortization of fixed maturities subject to prepayment risk (e.g. asset-backed, mortgage-backed and other structured securities) is recalculated and adjusted periodically based on historical and/or projected future cash flows. Adjustments to the yield for highly rated prepayable fixed maturities are accounted for using the retrospective method. Adjustments to the yield for other prepayable fixed maturities are accounted for using the prospective method.

***Credit Losses - Fixed Maturities, Available for Sale***

Fixed maturities, available for sale are impaired if the fair value of the investment is below amortized cost. On a quarterly basis, the Company evaluates all fixed maturities, available for sale securities for impairment losses.

Following the adoption of Accounting Standard Update ("ASU") 2016-13, "Financial Instruments - Credit Losses (Topic 326) - Measurement of Credit Losses on Financial Instruments," on January 1, 2020, if a fixed maturity, available for sale security is impaired and the Company intends to sell the security or it is more likely than not that the Company will be required to sell the security before its anticipated recovery, the full amount of the impairment loss is charged to net income (loss) and is included in net investment gains (losses).

In instances where the Company intends to hold the impaired fixed maturity, the Company determines whether the decline in fair value below the amortized cost basis has resulted from a credit loss or other factors. If the Company does not anticipate to fully recover the amortized cost, an allowance for expected credit losses is established. The allowance for expected credit losses is limited to the difference between a security's amortized cost basis and its fair value. The allowance for expected credit losses is charged to net income and is included in net investment gains (losses).

On a quarterly basis, the Company assesses whether unrealized losses on fixed maturities, available for sale represent credit impairments by considering the following factors:

(i) the extent to which the fair value is less than amortized cost;
(ii) adverse conditions related to the security, industry, or geographical area;
(iii) downgrades in the security's credit rating by a credit rating agency; and
(iv) failure of the issuer to make scheduled principal or interest payments.

The length of time a security has been in an unrealized loss position no longer impacts the determination of whether a credit loss exists.

If a security is assessed to be credit impaired, it is subject to a discounted cash flow analysis by comparing the present value of expected future cash flows with the amortized cost basis. If the present value of expected cash flows is less than the amortized cost, a credit loss exists and an allowance for expected credit losses is recognized. If the present value of expected future cash flows is equal to or greater than the amortized cost basis, an expected credit loss does not exist.

The non-credit impairment amount of the loss (i.e. related to interest rates, market conditions, etc.) is recognized in other comprehensive income.

**2. Significant Accounting Policies (continued)**

The Company reports accrued interest receivable related to available for sale debt securities separately and has elected not to measure an allowance for expected credit losses for accrued interest receivable. Write-offs of accrued interest receivable balances are recognized in net investment gains (losses) in the period in which they are deemed uncollectible.

*Credit Losses - Fixed Maturities, Held to Maturity*

A fixed maturity, held to maturity security is impaired if the fair value of the investment is below amortized cost. On a quarterly basis, the Company evaluates all fixed maturity, held to maturity securities for impairment losses.

The Company's fixed maturity, held to maturity securities portfolio consists of asset-backed securities ("ABS") and corporate debt securities.

The Company's ABS, held to maturity consists of CLO debt tranched securities. The Company uses a scenario-based approach to review its CLO debt portfolio and reviews subordination levels of these securities to determine their ability to absorb credit losses of the underlying collateral. If losses are forecast to be below the subordination level for a tranche held by the Company, the security is determined not to have a credit loss.

To estimate expected credit losses for corporate debt securities, held to maturity, the Company's projected cash flows are primarily driven by assumptions regarding the severity of loss, which is a function of the probability of default and projected recovery rates. The Company's default and recovery rates are based on credit ratings, credit analysis and macroeconomic forecasts.

The allowance for expected credit losses is estimated based on the Company’s analysis of projected lifetime losses. The allowance for expected credit losses is recognized in net investment gains (losses) in the consolidated statements of operations. Any adjustment to the allowance for expected credit losses is recognized in the period in which it is determined.

***Equity Securities, at fair value***

Equity securities are reported at fair value (see Note 4 – Fair Value Measurements). The change in the fair values of equity securities, net of tax is recognized in net investment gains (losses) in the consolidated statements of operations.

Net investment income includes dividend income and is presented net of investment expenses. Investment income is recognized when earned. Purchases and sales of equity securities are recorded on a trade-date basis and realized gains (losses) on sales of equity securities are determined based on the specific identification method. Realized gains (losses) on equity securities are included in net investment gains (losses) in the consolidated statements of operations.

***Other Investments***

Other investments are recorded at fair value (see Note 4 – Fair Value Measurements). Changes in fair value and realized gains (losses) are reported in net investment income in the consolidated statements of operation.

## 2. Significant Accounting Policies (continued)

***Short-Term Investments***

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

### b) Cash and Cash Equivalents

Cash equivalents include money-market funds, fixed interest deposits and reverse repurchase agreements with a maturity of under 90 days when purchased. Cash and cash equivalents are recorded at amortized cost, which approximates fair value due to the short-term, liquid nature of these securities. Restricted cash consists of cash and cash equivalents held in trust primarily to secure obligations under reinsurance agreements.

### c) Premiums and Acquisition Costs

***Premiums***

Insurance premiums written are recorded in accordance with the terms of the underlying policies.

Reinsurance premiums are recorded at the inception of the contract based on estimates received from ceding companies. For multi-year contracts insurance and reinsurance premiums are recorded at the inception of the contract based on management's best estimate of total premiums to be received. Premiums are recognized on an annual basis for multi-year contracts where the cedant has the ability to unilaterally commute or cancel coverage within the term of the contract.

Any adjustments to insurance and reinsurance premium estimates are recognized in the period in which they are determined.

Insurance and reinsurance premiums are earned evenly over the period during which the Company is exposed to the underlying risk, which is generally one to two years with the exception of multi-year contracts. Unearned premiums represent the portion of premiums which relates to the unexpired risks under contracts in force.

Reinstatement premiums are recognized and earned at the time a loss event occurs and losses are recorded, where the coverage limits for the remaining life of the contract are reinstated under predefined contract terms. The recognition of reinstatement premiums is based on estimates of losses and loss expenses, which reflects management's judgment, as described in Note 2(d) – Losses and Loss Expenses below.

Following the adoption of Accounting Standard Update ("ASU") 2016-13, "Financial Instruments - Credit Losses (Topic 326) - Measurement of Credit Losses on Financial Instruments," on January 1, 2020, insurance and reinsurance premium balances receivable are reviewed for impairment at least quarterly and are presented net of an allowance for expected credit losses.

The allowance for expected credit losses is estimated based on the Company's analysis of amounts due, historical delinquencies and write-offs, and current economic conditions, together with reasonable and supportable forecasts of short-term economic conditions. The allowance for expected credit losses is

## 2. Significant Accounting Policies (continued)

recognized in net income (loss). Any adjustment to the allowance for expected credit losses is recognized in the period in which it is determined. Write-offs of premium balances receivable, together with associated allowances for expected credit losses, are recognized in the period in which balances are deemed uncollectible. The Company does not have a history of significant write-offs.

***Acquisition Costs***

Acquisition costs vary with and are directly related to the successful acquisition efforts of acquiring new or renewing existing insurance and reinsurance contracts and consist primarily of fees and commissions paid to brokers and premium taxes. In addition, certain of our contracts include profit commission provisions or other adjustable features that are estimated based on expected losses and loss expenses for those contracts. Acquisition costs are shown net of commissions on reinsurance purchased. Net acquisition costs are deferred and charged to net income as the related premium is earned. Insurance and reinsurance premium balances receivable are presented net of acquisition costs when contract terms provide for the right of offset.

Anticipated losses and loss expenses, other costs and investment income related to these premiums are considered in assessing the recoverability of deferred acquisition costs. Deferred acquisition cost amounts that are assessed to be irrecoverable are recognized in net income (loss) in the period in which the determination is made. Compensation expenses for personnel involved in contract acquisition, and advertising costs, are charged to net income (loss) when incurred.

### d) Losses and Loss Expenses

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

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

Any adjustments to estimates of reserve for losses and loss expenses are recognized in the period in which they are determined. While the Company believes that its reserves for losses and loss expenses are adequate, this estimate requires significant judgment and new information, events or circumstances may result in ultimate losses that are materially greater or less than provided for in the consolidated balance sheets.

## 2. Significant Accounting Policies (continued)

### e) Ceded Reinsurance

In the normal course of business, the Company purchases treaty and facultative reinsurance protection to limit its ultimate losses from catastrophic events and to reduce its loss aggregation risk. The premiums paid to reinsurers (i.e. ceded premiums written) are recognized over the coverage period. Prepaid reinsurance premiums represent the portion of premiums ceded which relate to the unexpired term of the contracts in force. Reinstatement premiums ceded are recognized and earned at the time a loss event occurs and losses recorded, where coverage limits for the remaining life of a contract are reinstated under predefined contract terms.

Reinsurance recoverable on unpaid losses and loss expenses ("reinsurance recoverable") related to case reserves is estimated on a case-by-case basis by applying the terms of applicable reinsurance cover to individual case reserve estimates. Reinsurance recoverable related to IBNR is generally developed as part of the Company's loss reserving process therefore, its estimation is subject to similar risks and uncertainties as the estimation of IBNR. Estimates of amounts to be ceded under excess of loss reinsurance contracts also take into account pricing information for those contracts and require greater judgment than estimates for proportional contracts.

Following the adoption of Accounting Standard Update ("ASU") 2016-13, "Financial Instruments - Credit Losses (Topic 326) - Measurement of Credit Losses on Financial Instruments," on January 1, 2020, reinsurance recoverable balances are reviewed for impairment at least quarterly and are presented net of an allowance for expected credit losses.

A case-specific allowance for expected credit losses against reinsurance recoverables that are deemed unlikely to be collected in full, is estimated based on the Company's analysis of amounts due, historical delinquencies and write-offs. In addition, a default analysis is used to estimate an allowance for expected credit losses on the remainder of the reinsurance recoverable balance. The principal components of the default analysis are reinsurance recoverable balances by reinsurer and default factors applied to estimate uncollectible amounts based on reinsurers' credit ratings and the length of collection periods. The default factors are based on a model developed by a major rating agency. The default analysis considers current and forecasted economic conditions.

The allowance for expected credit losses is recognized in net income (loss). Any adjustment to the allowance for expected credit losses is recognized in the period in which it is determined. Write-offs of reinsurance recoverable balances, together with associated allowances for expected credit losses, are recognized in the period in which balances are deemed uncollectible. The Company does not have a history of significant write-offs.

***Retroactive Reinsurance***

Retroactive reinsurance reimburses a ceding company for liabilities incurred as a result of past insurable events covered under contracts subject to the reinsurance. In certain instances, reinsurance contracts cover losses both on a prospective basis and on a retroactive basis and where practical the Company bifurcates the prospective and retrospective elements of these reinsurance contracts and accounts for each element separately. Initial gains in connection with retroactive reinsurance contracts are deferred and amortized into income over the settlement period while losses are recognized immediately. When changes in the estimated amount recoverable from the reinsurer or in the timing of receipts related to that amount occur, a cumulative amortization adjustment is recognized in net income in the period in which the change is

**2. Significant Accounting Policies (continued)**

determined so that the deferred gain reflects the balance that would have existed had the revised estimate been available at the inception of the reinsurance transaction.

**f) Foreign Currency Transactions**

The functional currency of the Company is the U.S. dollar. Transactions in currencies other than the functional currency are measured in U.S. dollars at the exchange rate prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are remeasured to functional currency at the rates of exchange in effect at the balance sheet date with the resulting foreign exchange losses (gains) generally being recognized in the consolidated statements of operations. Foreign exchange losses (gains) related to available for sale investments denominated in foreign currencies represent an unrealized appreciation (depreciation) in the market value of the securities and are included in AOCI. Non-monetary assets and liabilities denominated in foreign currency are not subsequently remeasured.

**g) Share-Based Compensation**

Share-based compensation expense includes share-settled and cash-settled service and performance based awards.

The fair value of share-settled and cash-settled service and share-settled performance awards is based on the market value of AXIS Capital's common share measured at the grant date and is expensed over the requisite service period. Compensation expense associated with share-settled performance awards is also subject to periodic adjustment based on the achievement of established performance criteria during the applicable performance period.

The fair value of the cash-settled service awards is recognized as a liability in the consolidated balance sheets and is remeasured at the end of each reporting period.

The Company recognizes forfeitures when they occur.

**h) Derivative Instruments**

The Company may enter into derivative instruments such as futures, options, interest rate swaps and foreign currency forward contracts as part of its overall foreign currency risk management strategy, to obtain exposure to a particular financial market or for yield enhancement.

From time to time, the Company may also enter into insurance and reinsurance contracts that meet the Financial Accounting Standards Board's ("FASB") definition of a derivative contract.

The Company measures all derivative instruments at fair value (see Note 4 – Fair Value Measurements) and recognizes these instruments as either assets or liabilities in the consolidated balance sheets. Subsequent changes in fair value and any realized gains or losses are recognized in the consolidated statements of operations.

## 2. Significant Accounting Policies (continued)

### i) Income Taxes

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

### j) New Accounting Standards Adopted in 2021

***Leases***

Effective January 1, 2021, the Company adopted ASU 2016-02, "Leases (Topic 842)," which provides a new comprehensive model for lease accounting following which it recognizes a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. The adoption of this standard resulted in the recognition of lease liabilities and right-of-use assets of $8 million in the Company's consolidated balance sheet at January 1, 2021, related to office property and equipment leases.

In addition, the Company adopted ASU 2018-11, "Leases (Topic 842) - Targeted Improvements," which provides an additional (and optional) transition method to adopt the new lease guidance. Under the alternative transition method, the Company's reporting for the comparative periods presented in its financial statements will be in accordance with the pre-effective date lease accounting requirements (Topic 840).

The Company has also elected the package of practical expedients permitted under the transition guidance of Topic 842, which must be elected as a package and applied consistently to all leases. The package of practical expedients permits the Company not to reassess the following:

1. whether any expired or existing contracts are or contain leases;
2. the lease classification for any expired or existing leases; and
3. initial direct costs for any existing leases.

In addition to electing the package of practical expedients, the Company has made an accounting policy election not to record leases with an initial term of 12 months or less (short-term) in the Company's consolidated balance sheets.

*(In thousands of U.S. dollars)*

## 3. Investments

### a) Fixed Maturities and Equity Securities

Fixed Maturities

The amortized cost and fair values of the Company's fixed maturities classified as available for sale were as follows:

| | 2021 | | | | |
|---|---|---|---|---|---|
| | **Amortized Cost** | **Allowance for expected credit losses** | **Gross Unrealized Gains** | **Gross Unrealized Losses** | **Fair Value** |
| Fixed maturities, available for sale: | | | | | |
| U.S. government and agency | $ 911,660 | $ — | $ 6,330 | $ (6,146) | $ 911,844 |
| Non-U.S. government | 198,902 | — | 4,516 | (5,081) | 198,337 |
| Corporate debt | 1,741,951 | (236) | 33,408 | (13,119) | 1,762,004 |
| Agency RMBS(1) | 450,569 | — | 10,103 | (2,164) | 458,508 |
| CMBS(2) | 481,652 | — | 12,170 | (1,192) | 492,630 |
| Non-agency RMBS | 137,085 | (77) | 1,858 | (1,784) | 137,082 |
| ABS(3) | 573,246 | — | 1,423 | (4,349) | 570,320 |
| Municipals(4) | 38,692 | — | 633 | (96) | 39,229 |
| Total fixed maturities, available for sale | $ 4,533,757 | $ (313) | $ 70,441 | $ (33,931) | $ 4,569,954 |

| | 2020 | | | | |
|---|---|---|---|---|---|
| | **Amortized Cost** | **Allowance for expected credit losses** | **Gross Unrealized Gains** | **Gross Unrealized Losses** | **Fair Value** |
| Fixed maturities, available for sale: | | | | | |
| U.S. government and agency | $ 751,720 | $ — | $ 21,357 | $ (831) | $ 772,246 |
| Non-U.S. government | 241,724 | — | 17,041 | (409) | 258,356 |
| Corporate debt | 1,804,245 | (300) | 103,749 | (4,117) | 1,903,577 |
| Agency RMBS(1) | 582,320 | — | 24,323 | (76) | 606,567 |
| CMBS(2) | 621,634 | — | 44,432 | (415) | 665,651 |
| Non-agency RMBS | 97,310 | (20) | 3,595 | (604) | 100,281 |
| ABS(3) | 873,555 | — | 6,128 | (4,828) | 874,855 |
| Municipals(4) | 53,464 | — | 1,593 | (6) | 55,051 |
| Total fixed maturities, available for sale | $ 5,025,972 | $ (320) | $ 222,218 | $ (11,286) | $ 5,236,584 |

(1) Residential mortgage-backed securities ("RMBS") originated by U.S. government-sponsored agencies.
(2) Commercial mortgage-backed securities ("CMBS").
(3) Asset-backed securities ("ABS") include debt tranched securities collateralized primarily by auto loans, student loans, credit card receivables and collateralized loan obligations ("CLOs").
(4) Municipals include bonds issued by states, municipalities, and political subdivisions.

*(In thousands of U.S. dollars)*

## 3. Investments (continued)

The amortized cost and fair values of the Company's fixed maturities classified as held to maturity were as follows:

| | 2021 | | | | | |
|---|---|---|---|---|---|---|
| | **Amortized Cost** | **Allowance for expected credit losses** | **Net Carrying Value** | **Gross Unrealized Gains** | **Gross Unrealized Losses** | **Fair Value** |
| Fixed maturities, held to maturity: | | | | | | |
| ABS[(1)] | 408,316 | — | 408,316 | 81 | (936) | 407,461 |
| Total fixed maturities, held to maturity | $ 408,316 | $ — | $ 408,316 | $ 81 | $ (936) | $ 407,461 |

(1) Asset-backed securities ("ABS") include debt tranched securities collateralized primarily by collateralized loan obligations ("CLOs").

On March 1, 2021, the Company transferred ABS securities with total fair value of $404,690 from fixed maturities, available for sale to fixed maturities, held to maturity. These securities, which the Company has the intent and ability to hold to maturity, were transferred in order to better align the accounting classification with their management strategy. The net unrealized gain at the date of the transfer, March 1, 2021, continues to be reported in the carrying value of the transferred securities and is amortized over the remaining life of the securities using the effective yield method.

Fixed maturities, held to maturity of $408,316 at December 31, 2021 were presented net of an allowance for expected credit losses of $nil.

The Company's ABS, held to maturity consist of CLO debt tranched securities. The Company uses a scenario-based approach to review its CLO debt portfolio and reviews subordination levels of these securities to determine their ability to absorb credit losses of the underlying collateral. If losses are forecast to be below the subordination level for a tranche held by the Company, the security is determined not to have a credit loss. At December 31, 2021, the allowance for credit losses expected to be recognized over the life of the Company's ABS, held to maturity was $nil.

*(In thousands of U.S. dollars)*

**3. Investments (continued)**

Equity Securities
The cost and fair values of the Company's equity securities were as follows:

| | 2021 | | | |
|---|---|---|---|---|
| | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Equity securities: | | | | |
| Exchange-traded funds | $ 59,129 | $ 43,470 | $ (149) | $ 102,450 |
| Common stocks | 727 | 586 | (275) | 1,038 |
| Preferred stocks | 115 | 64 | — | 179 |
| Total equity securities | $ 59,971 | $ 44,120 | $ (424) | $ 103,667 |

| | 2020 | | | |
|---|---|---|---|---|
| | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Equity securities: | | | | |
| Exchange-traded funds | $ 35,122 | $ 22,590 | $ — | $ 57,712 |
| Common stocks | 594 | 106 | (337) | 363 |
| Preferred stocks | 115 | 100 | — | 215 |
| Total equity securities | $ 35,831 | $ 22,796 | $ (337) | $ 58,290 |

In the normal course of investing activities, the Company actively manages allocations to non-controlling tranches of structured securities which are variable interests issued by Variable Interest Entities ("VIEs"). These structured securities include RMBS, CMBS and ABS.

The Company also invests in limited partnerships which represent 80% of the Company's other investments. The investments in limited partnerships include hedge funds, direct lending funds, private equity funds, real estate funds and CLO equity tranched securities, which are variable interests issued by VIEs (see Note 3(b) *'Other Investments'*). The Company does not have the power to direct the activities that are most significant to the economic performance of the VIEs therefore the Company is not the primary beneficiary of the VIEs.

The maximum exposure to loss on these interests is limited to the amount of commitment made by the Company. The Company has not provided financial or other support to these structured securities other than the original investment.

*(In thousands of U.S. dollars)*

## 3. Investments (continued)

### Contractual Maturities

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

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Due in one year or less | $ 146,998 | $ 147,431 | $ 80,591 | $ 83,120 |
| Due after one year through five years | 1,528,954 | 1,541,621 | 1,718,687 | 1,789,172 |
| Due after five years through ten years | 1,058,620 | 1,064,740 | 921,287 | 976,803 |
| Due after ten years | 156,633 | 157,622 | 130,588 | 140,135 |
| | 2,891,205 | 2,911,414 | 2,851,153 | 2,989,230 |
| Agency RMBS | 450,569 | 458,508 | 582,320 | 606,567 |
| CMBS | 481,652 | 492,630 | 621,634 | 665,651 |
| Non-agency RMBS | 137,085 | 137,082 | 97,310 | 100,281 |
| ABS | 573,246 | 570,320 | 873,555 | 874,855 |
| Total | $ 4,533,757 | $ 4,569,954 | $ 5,025,972 | $ 5,236,584 |

ABS classified as held to maturity with a net carrying value of $408,316 (2020: $nil) do not have a single maturity date and cannot be allocated over several maturity groupings.

### Gross Unrealized Losses

The following tables summarize fixed maturities classified as available for sale in an unrealized loss position at December 31, 2021 and 2020, and the aggregate fair value and gross unrealized loss by length of time the security has continuously been in an unrealized loss position:

| | 2021 | | | | | |
|---|---|---|---|---|---|---|
| | 12 months or greater | | Less than 12 months | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Fixed maturities, available for sale: | | | | | | |
| U.S. government and agency | $ 26,723 | $ (1,528) | $ 540,964 | $ (4,618) | $ 567,687 | $ (6,146) |
| Non-U.S. government | 6,207 | (1,707) | 70,497 | (3,374) | 76,704 | (5,081) |
| Corporate debt | 43,851 | (2,016) | 578,401 | (11,103) | 622,252 | (13,119) |
| Agency RMBS | 2,165 | (37) | 143,871 | (2,127) | 146,036 | (2,164) |
| CMBS | 10,140 | (249) | 118,393 | (943) | 128,533 | (1,192) |
| Non-agency RMBS | 4,437 | (521) | 83,871 | (1,263) | 88,308 | (1,784) |
| ABS | 26,144 | (925) | 338,382 | (3,424) | 364,526 | (4,349) |
| Municipals | — | — | 7,151 | (96) | 7,151 | (96) |
| Total fixed maturities, available for sale | $ 119,667 | $ (6,983) | $ 1,881,530 | $ (26,948) | $ 2,001,197 | $ (33,931) |

*(In thousands of U.S. dollars)*

### 3. Investments (continued)

| | 2020 | | | | | |
|---|---|---|---|---|---|---|
| | 12 months or greater | | Less than 12 months | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Fixed maturities, available for sale: | | | | | | |
| U.S. government and agency | $ — | $ — | $ 59,491 | $ (831) | $ 59,491 | $ (831) |
| Non-U.S. government | 12,534 | (243) | 3,652 | (166) | 16,186 | (409) |
| Corporate debt | 59,185 | (2,073) | 134,208 | (2,044) | 193,393 | (4,117) |
| Agency RMBS | 5,091 | (15) | 8,310 | (61) | 13,401 | (76) |
| CMBS | 9,407 | (127) | 27,668 | (288) | 37,075 | (415) |
| Non-agency RMBS | 5,047 | (595) | 742 | (9) | 5,789 | (604) |
| ABS | 240,561 | (3,445) | 231,873 | (1,383) | 472,434 | (4,828) |
| Municipals | — | — | 7,179 | (6) | 7,179 | (6) |
| Total fixed maturities, available for sale | $ 331,825 | $ (6,498) | $ 473,123 | $ (4,788) | $ 804,948 | $ (11,286) |

**Fixed Maturities**

At December 31, 2021, 1,141 fixed maturities (2020: 527) were in an unrealized loss position of $33,931 (2020: $11,286) of which $5,468 (2020: $6,162) was related to securities below investment grade or not rated.

At December 31, 2021, 147 fixed maturities (2020: 212) had been in a continuous unrealized loss position for 12 months or greater and had a fair value of $119,667 (2020: $331,825).

The unrealized losses of $33,931 (2020: $11,286) were due to non-credit factors and were expected to be recovered as the related securities approach maturity.

At December 31, 2021, the Company did not intend to sell the securities in an unrealized loss position and it is more likely than not that it will not be required to sell these securities before the anticipated recovery of their amortized costs.

*(In thousands of U.S. dollars)*

## 3. Investments (continued)

### b) Other Investments

The following tables provide a summary of the Company's other investments, together with additional information relating to the liquidity of each category:

| | Fair Value | | Redemption Frequency (if currently eligible) | Redemption Notice Period |
|---|---|---|---|---|
| **At December 31, 2021** | | | | |
| Long/short equity funds | $ 3,476 | 1 % | Annually | 60 days |
| Multi-strategy funds | 47,322 | 9 % | Quarterly | 60-90 days |
| Direct lending funds | 243,100 | 47 % | N/A | N/A |
| Private equity funds | 106,049 | 21 % | N/A | N/A |
| Real estate funds | 99,535 | 19 % | N/A | N/A |
| CLO-Equities | 5,910 | 2 % | N/A | N/A |
| Other privately held investments | 6,510 | 1 % | N/A | N/A |
| Total other investments | $ 511,902 | 100 % | | |
| **At December 31, 2020** | | | | |
| Long/short equity funds | $ 25,300 | 5 % | Annually | 60 days |
| Multi-strategy funds | 97,845 | 19 % | Quarterly, Semi-annually | 60-95 days |
| Direct lending funds | 234,561 | 45 % | N/A | N/A |
| Private equity funds | 70,118 | 14 % | N/A | N/A |
| Real estate funds | 84,965 | 16 % | N/A | N/A |
| CLO-Equities | 6,173 | 1 % | N/A | N/A |
| Other privately held investments | — | — % | N/A | N/A |
| Total other investments | $ 518,962 | 100 % | | |

N/A - not applicable

The investment strategies for the above funds are as follows:

- *Long/short equity funds*: Seek to achieve attractive returns primarily by executing an equity trading strategy involving long and short investments in publicly-traded equity securities.

- *Multi-strategy funds*: Seek to achieve above-market returns by pursuing multiple investment strategies to diversify risks and reduce volatility. This category includes funds of hedge funds which invest in a large pool of hedge funds across a diversified range of hedge fund strategies.

- *Direct lending funds*: Seek to achieve attractive risk-adjusted returns, including current income generation, by investing in funds which provide financing directly to borrowers.

- *Private equity funds*: Seek to achieve attractive risk-adjusted returns by investing in private transactions over the course of several years.

- *Real estate funds*: Seek to achieve attractive risk-adjusted returns by making and managing investments in real estate and real estate securities and businesses.

**3. Investments (continued)**

Two common redemption restrictions which may impact the Company's ability to redeem hedge funds are gates and lockups. A gate is a suspension of redemptions which may be implemented by the general partner or investment manager of the fund in order to defer, in whole or in part, the redemption request in the event the aggregate amount of redemption requests exceeds a predetermined percentage of the fund's net assets which may otherwise hinder the general partner or investment manager's ability to liquidate holdings in an orderly fashion in order to generate the cash necessary to fund extraordinarily large redemption payouts. A lockup period is the initial amount of time an investor is contractually required to hold the security before having the ability to redeem. During 2021 and 2020, neither of these restrictions impacted the Company's redemption requests. At December 31, 2021, $3,476 (2020: $25,300), representing 7% (2020: 21%) of total hedge funds, relate to holdings where the Company is still within the lockup period. The expiration of this lockup period is March 2022.

At December 31, 2021, the Company has $149,272 (2020: $150,802) of unfunded commitments as a limited partner in direct lending funds. Once the full amount of committed capital has been called by the General Partner of each of these funds, the assets will not be fully returned until the completion of the fund's investment term. These funds have investment terms ranging from four to ten years and the General Partners of certain funds have the option to extend the term by up to three years.

At December 31, 2021, the Company has $7,500 (2020: $7,500) of unfunded commitments as a limited partner in multi-strategy hedge funds. Once the full amount of committed capital has been called by the General Partner of each of these funds, the assets will not be fully returned until after the completion of the funds' investment term. These funds have investment terms ranging from inception to the dissolution of the underlying fund.

At December 31, 2021, the Company has $60,637 (2020: $97,406) of unfunded commitments as a limited partner in funds which invest in real estate and real estate securities and businesses. These funds include an open-ended fund and funds with investment terms ranging from two years to the dissolution of the underlying fund.

At December 31, 2021, the Company has $81,493 (2020: $47,376) of unfunded commitments as a limited partner in private equity funds. The life of the funds is subject to the dissolution of the underlying funds. The Company expects the overall holding period to be over five years.

During 2015, the Company made a $50,000 commitment as a limited partner of a bank revolver opportunity fund. The fund has an investment term of seven years and the General Partners have the option to extend the term by up to two years. At December 31, 2021, this commitment remains unfunded. It is not anticipated that the full amount of this fund will be drawn.

*(In thousands of U.S. dollars)*

## 3. Investments (continued)

### c) Net Investment Income

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

| | 2021 | 2020 |
|---|---|---|
| Fixed maturities | $ 128,051 | $ 154,834 |
| Other investments | 81,932 | (596) |
| Equity securities | 1,200 | 772 |
| Short-term investments | 101 | 458 |
| Cash and cash equivalents | (11) | 787 |
| Loans to affiliates | 20,716 | 22,288 |
| Gross investment income | 231,989 | 178,543 |
| Investment expenses | (10,658) | (10,792) |
| Net investment income | $ 221,331 | $ 167,751 |

### d) Net Investment Gains (Losses)

The following table provides an analysis of net investment gains (losses) for the years ended December 31, 2021 and 2020:

| | 2021 | 2020 |
|---|---|---|
| Gross realized investment gains | | |
| Fixed maturities and short-term investments | $ 71,985 | $ 83,544 |
| Equity securities | — | 6,906 |
| Gross realized investment gains | 71,985 | 90,450 |
| Gross realized investment losses | | |
| Fixed maturities and short-term investments | (16,760) | (55,984) |
| Equity securities | (116) | (82) |
| Gross realized investment losses | (16,876) | (56,066) |
| Change in allowance for expected credit losses | 7 | (320) |
| Impairment losses (1) | (7) | (968) |
| OTTI losses | — | — |
| Change in fair value of investment derivatives (2) | 4,502 | (2,190) |
| Net unrealized gains (losses) on equity securities | 21,239 | (4,611) |
| Net investment gains | $ 80,850 | $ 26,295 |

(1) Related to instances where the Company intends to sell securities or it is more likely than not that the Company will be required to sell securities before their anticipated recovery.
(2) Refer to Note 5 - Derivative Instruments

*(In thousands of U.S. dollars)*

**3. Investments (continued)**

The following table provides a reconciliation of the beginning and ending balances of the allowance for expected credit losses on fixed maturities classified as available for sale for the years ended December 31, 2021 and 2020:

| | 2021 | 2020 |
|---|---|---|
| Balance at beginning of period | $ 320 | $ — |
| Expected credit losses on securities where credit losses were not previously recognized | 95 | 16,009 |
| Additions (reductions) for expected credit losses on securities where credit losses were previously recognized | 52 | (9,537) |
| Impairments of securities which the Company intends to sell or more likely than not will be required to sell | — | — |
| Securities sold/redeemed/matured | (154) | (6,152) |
| Balance at end of period | $ 313 | $ 320 |

**Fixed maturities**

The Company evaluates available for sale securities for expected credit losses when fair value is below amortized cost. If the Company intends to sell or will be required to sell the security before its anticipated recovery, the full amount of the impairment loss is charged to net income. If the Company does not intend to sell or will not be required to sell the security before its anticipated recovery, an allowance for expected credit losses is established and the portion of the loss that relates to credit losses is recorded in net income.

Effective January 1, 2020, the Company adopted the targeted changes to the impairment model for available for sale securities. The updated guidance amends the previous OTTI impairment model by requiring the recognition of impairments related to credit losses through an allowance account and limits the amount of credit loss to the difference between a security's amortized cost basis and its fair value. In addition, the length of time a security has been in an unrealized loss position no longer impacts the determination of whether a credit loss exists.

A summary of credit loss activity by asset class, the significant inputs and the methodology used to estimate credit losses are described below.

*U.S. Government, U.S. Agency and U.S. Agency RMBS:*

Unrealized losses on securities issued or backed, either explicitly or implicitly by the U.S. government are not analyzed for credit losses. The Company has concluded that the possibility of a credit loss on these securities is highly unlikely due to the explicit U.S. government guarantee related to certain securities (e.g. Government National Mortgage Association ("GNMA") issuances) and the implicit guarantee related to other securities that has been validated by past actions (e.g. U.S. government bailout of Federal National Mortgage Association ("FNMA") and Federal Home Loan Mortgage Corporation ("FHLMC") during the 2008 credit crisis). Although these securities are not analyzed for credit losses, they are evaluated for intention to sell and likely requirement to sell.

## 3. Investments (continued)

*Non-U.S. Government:*

Non-U.S. government securities are evaluated for expected credit losses primarily through qualitative assessments of the likelihood of credit losses using information such as severity of unrealized losses, credit ratings and price volatility. The gross unrealized losses of $5,081 at December 31, 2021 were mainly due to foreign exchange losses. At December 31, 2021, the Company does not anticipate any credit losses on its non-U.S. government fixed maturities.

At December 31, 2020, the gross unrealized losses of $409 were mainly due to foreign exchange losses. At December 31, 2020, the Company did not anticipate any credit losses on its non-U.S. government fixed maturities.

*Corporate Debt:*

To estimate expected credit losses for corporate debt securities, projected cash flows are primarily driven by assumptions regarding the severity of loss, probability of default and projected recovery rates. The default and loss severity rates are based on credit rating, credit analysis and macroeconomic forecasts. In 2021, the allowance for expected credit losses on corporate debt securities mainly related to loss severity where the forecasted recovery to amortized cost was uncertain.

*CMBS:*

The Company's investments in CMBS are diversified and primarily rated AA or better. Based on discounted cash flows at December 31, 2021, the current level of subordination is sufficient to cover the estimated loan losses on the underlying collateral of the CMBS.

*Non-agency RMBS:*

To estimate expected credit losses for non-agency RMBS, projected cash flows incorporated underlying data from widely accepted third-party data sources along with certain internal assumptions and judgments regarding the future performance of the security. These assumptions included default, delinquency, loss severity and prepayment rates. The assumptions used to calculate credit losses in 2021 have not changed significantly since December 31, 2020.

At December 31, 2021, the fair value of the Company's non-agency RMBS was $137,082 (2020: $100,281), consisting primarily of $74,831 (2020: $69,605) of Prime and $49,442 (2020: $16,133) of Alt-A MBS. At December 31, 2021, the allowance for expected credit losses on non-agency RMBS related to loss severity where the forecasted recovery to amortized cost was uncertain .

*(In thousands of U.S. dollars)*

## 3. Investments (continued)

*ABS:*

The Company's investments in ABS at December 31, 2021 consist mainly of CLO debt tranched securities ("CLO Debt") purchased primarily as new issues between 2017 and 2021. Substantially all of these new issues had credit ratings of AA or better. The Company utilizes a scenario-based approach to review its CLO Debt portfolio based on the current asset market price. The Company also reviews subordination levels of these securities to determine their ability to absorb credit losses of underlying collateral. If losses are forecast to be below the subordination level for a tranche held by the Company, the security is determined not to have a credit loss. At December 31, 2021, the Company does not anticipate any credit losses on its CLO Debt.

### e) Restricted Investments

In order to support the Company's obligations in regulatory jurisdictions where it operates as a non-admitted carrier, the Company provides collateral in the form of assets held in trust and, to a lesser extent, letters of credit. Refer to Note 8 for further information on collateral requirements upon issuance of certain letters of credit.

The capital provided to support underwriting, or Funds at Lloyd's ("FAL"), may be satisfied by cash, certain investments and letters of credit provided by approved banks (refer to Note 9 'Commitments and Contingencies').

The fair value of the Company's restricted investments primarily relates to the items, as noted in the table below. Restricted investments primarily consist of high-quality fixed maturity and short-term investment securities.

| | 2021 | 2020 |
|---|---|---|
| Collateral in Trust for inter-company agreements | $ 859,464 | $ 1,066,021 |
| Collateral for secured letter of credit facilities | 245,476 | 427,998 |
| Funds at Lloyd's | 713,701 | 751,255 |
| Collateral in Trust for third-party agreements | 1,100,619 | 423,745 |
| Total restricted investments | $ 2,919,260 | $ 2,669,019 |

### f) Reverse Repurchase Agreements

At December 31, 2021, the Company held no (2020: nil) reverse repurchase agreements. These loans are fully collateralized, are generally outstanding for a short period of time and are presented on a gross basis as part of cash and cash equivalents in the Company's Consolidated Balance Sheets. The required collateral for these loans is either cash or U.S. Treasuries at a minimum rate of 102% of the loan principal. At maturity, the Company receives principal and interest income. The Company monitors the estimated fair value of the securities loaned and borrowed on a daily basis with additional collateral obtained as necessary throughout the duration of the transaction.

## 4. Fair Value Measurements

### Fair Value Hierarchy

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

- Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.

- Level 2 - Valuations based on quoted prices in active markets for similar assets or liabilities, quoted prices for identical assets or liabilities in inactive markets, or for which significant inputs are observable (e.g. interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.

- Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement. The unobservable inputs reflect the Company's judgments about assumptions that market participants might use.

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

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

**4. Fair Value Measurements (continued)**

**Valuation Techniques**

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

**Fixed Maturities**

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

*U.S. Government and Agency*

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

*Non-U.S. Government*

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

**4. Fair Value Measurements (continued)**

*Corporate Debt*

Corporate debt securities consist primarily of investment-grade debt of a wide variety of corporate issuers and industries. The fair values of these securities are generally determined using the spread above the risk-free yield curve. These spreads are generally obtained from the new issue market, secondary trading and broker-dealer quotes. As the yields for the risk-free yield curve and the spreads are observable market inputs, the fair values of corporate debt securities are generally classified as Level 2. Where pricing is unavailable from pricing services, the Company obtains non-binding quotes from broker-dealers to estimate fair value. This is generally the case when there is a low volume of trading activity and current transactions are not orderly. In this event, the fair values of these securities are classified as Level 3.

*Agency RMBS*

Agency RMBS consist of bonds issued by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and the Government National Mortgage Association. The fair values of these securities are priced using a mortgage pool specific model which uses daily inputs from the active to be announced market and the spread associated with each mortgage pool based on vintage. As the significant inputs used to price these securities are observable market inputs, the fair values of Agency RMBS are classified as Level 2.

*CMBS*

CMBS mainly include investment-grade bonds originated by non-agencies. The fair values of these securities are determined using a pricing model which uses dealer quotes and other available trade information along with security level characteristics to determine deal specific spreads. As the significant inputs used to price these securities are observable market inputs, the fair values of CMBS are generally classified as Level 2. Where pricing is unavailable from pricing services, the Company obtains non-binding quotes from broker-dealers to estimate fair value. This is generally the case when there is a low volume of trading activity and current transactions are not orderly. In this event, the fair values of these securities are classified as Level 3.

*Non-agency RMBS*

Non-agency RMBS mainly include investment-grade bonds originated by non-agencies. The fair values of these securities are determined using an option adjusted spread model or other relevant models, which use inputs including available trade information or broker quotes, prepayment and default projections based on historical statistics of the underlying collateral and current market data. As the significant inputs used to price these securities are observable market inputs, the fair values of non-agency RMBS are generally classified as Level 2. Where pricing is unavailable from pricing services, the Company obtains non-binding quotes from broker-dealers to estimate fair value. This is generally the case when there is a low volume of trading activity and current transactions are not orderly. In this event, the fair values of these securities are classified as Level 3.

**4. Fair Value Measurements (continued)**

*ABS*

ABS mainly include investment-grade bonds backed by pools of loans with a variety of underlying collateral, including auto loans, student loans, credit card receivables, and collateralized loan obligations ("CLOs") originated by a variety of financial institutions. The fair values of these securities are determined using a model which uses prepayment speeds and spreads sourced primarily from the new issue market. As the significant inputs used to price these securities are observable market inputs, the fair values of ABS are generally classified as Level 2. Where pricing is unavailable from pricing services, the Company obtains non-binding quotes from broker-dealers to estimate fair value. This is generally the case when there is a low volume of trading activity and current transactions are not orderly. In this event, the fair values of these securities are classified as Level 3.

*Municipals*

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

**Equity Securities**

Equity securities include common stocks, preferred stocks and exchange-traded funds. As the fair values of common stocks, preferred stocks and exchange-traded funds are based on unadjusted quoted market prices in active markets, the fair values of these securities are classified as Level 1.

**Other Investments**

The fair value of an indirect investment in CLO-Equities is estimated using an income approach valuation technique, specifically an externally developed discounted cash flow model due to the lack of observable and relevant trades in secondary markets. As the significant inputs used to price this security are unobservable, the fair value of the indirect investment in CLO-Equities is classified as Level 3.

Other privately held investments include common shares and convertible notes. These investments are initially valued at cost, which approximates fair value. In subsequent measurement periods, the fair value of these investments is derived from one or a combination of valuation methodologies which consider factors including recent capital raises by the investee companies, comparable precedent transaction multiples, comparable publicly traded multiples, third-party valuations, discounted cash-flow models, and other techniques that account for the industry and development stage for each investee company. In order to assess the reasonableness of the information received from investee companies, the Company maintains an understanding of current market conditions, historical results, and emerging trends that may impact the results of operations, financial condition or liquidity of these companies. In addition, the Company engages in regular communication with management at investee companies. As the significant inputs used to price these investments are unobservable, the fair values of other privately held investments are classified as Level 3.

**4. Fair Value Measurements (continued)**

**Short-term Investments**

Short-term investments primarily comprise highly liquid securities with maturities greater than three months but less than one year from the date of purchase. These securities are typically not actively traded due to their approaching maturity therefore, their amortized cost approximates fair value. The fair values of short-term investments are classified as Level 2.

**Derivative Instruments**

Derivative instruments include foreign exchange forward contracts that are customized to the Company's economic hedging strategies and trade in the over-the-counter derivative market. The fair values of these derivatives are determined using a market approach valuation technique based on significant observable market inputs from third party pricing vendors, non-binding broker-dealer quotes and/or recent trading activity. As the significant inputs used to price these derivatives are observable market inputs, the fair values of these derivatives are classified as Level 2.

Other underwriting-related derivatives include insurance and reinsurance contracts that are accounted for as derivatives. These derivative contracts are initially valued at cost which approximates fair value. In subsequent measurement periods, the fair values of these derivatives are determined using internally developed discounted cash flow models. As the significant inputs used to price these derivatives are unobservable, the fair values of these contracts are classified as Level 3.

**Cash Settled Awards**

Cash settled awards comprise restricted stock units that form part of the Company's compensation program. Although the fair values of these awards are determined using observable quoted market prices in active markets, the restricted stock units are not actively traded. As the significant inputs used to price these securities are observable market inputs, the fair values of these liabilities are classified as Level 2.

*(In thousands of U.S. dollars)*

## 4. Fair Value Measurements (continued)

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

| December 31, 2021 | Quoted Prices in Active Market for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Fair value based on NAV practical expedient | Total Fair Value |
|---|---|---|---|---|---|
| **Asset** | | | | | |
| Fixed maturities, available for sale | | | | | |
| U.S government and agency | $ 906,905 | $ 4,939 | $ — | $ — | $ 911,844 |
| Non U.S. government | — | 198,337 | — | — | 198,337 |
| Corporate debt | — | 1,730,391 | 31,613 | — | 1,762,004 |
| Agency RMBS | — | 458,508 | — | — | 458,508 |
| CMBS | — | 492,630 | — | — | 492,630 |
| Non-agency RMBS | — | 137,082 | — | — | 137,082 |
| ABS | — | 570,320 | — | — | 570,320 |
| Municipals | — | 39,229 | — | — | 39,229 |
| | 906,905 | 3,631,436 | 31,613 | — | 4,569,954 |
| Equity securities | | | | | |
| Exchange-traded funds | 102,450 | — | — | — | 102,450 |
| Common stocks | 1,038 | — | — | — | 1,038 |
| Preferred stocks | 179 | — | — | — | 179 |
| | 103,667 | — | — | — | 103,667 |
| Other investments | | | | | |
| Hedge funds (1) | — | — | — | 50,798 | 50,798 |
| Direct lending funds | — | — | — | 243,100 | 243,100 |
| Private equity funds | — | — | — | 106,049 | 106,049 |
| Real estate funds | — | — | — | 99,535 | 99,535 |
| CLO-Equities | — | — | 5,910 | — | 5,910 |
| Other privately held investments | — | — | 6,510 | — | 6,510 |
| | — | — | 12,420 | 499,482 | 511,902 |
| Short-term investments | — | 5,014 | — | — | 5,014 |
| Derivative instruments (see Note 5) | — | 1,599 | — | — | 1,599 |
| **Total Assets** | $ 1,010,572 | $ 3,638,049 | $ 44,033 | $ 499,482 | $ 5,192,136 |
| **Liabilities** | | | | | |
| Derivative instruments (see Note 5) | $ — | $ 14,974 | $ 5,630 | $ — | $ 20,604 |
| Cash settled awards (see Note 12) | — | 444 | — | — | 444 |
| **Total Liabilities** | $ — | $ 15,418 | $ 5,630 | $ — | $ 21,048 |

(1) Includes Long/short equity and Multi-strategy funds.

*(In thousands of U.S. dollars)*

## 4. Fair Value Measurements (continued)

| December 31, 2020 | Quoted Prices in Active Market for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Fair value based on NAV practical expedient | Total Fair Value |
|---|---|---|---|---|---|
| **Asset** | | | | | |
| Fixed maturities, available for sale | | | | | |
| U.S government and agency | $ 772,246 | $ — | $ — | $ — | $ 772,246 |
| Non U.S. government | — | 258,356 | — | — | 258,356 |
| Corporate debt | — | 1,903,577 | — | — | 1,903,577 |
| Agency RMBS | — | 606,567 | — | — | 606,567 |
| CMBS | — | 665,651 | — | — | 665,651 |
| Non-agency RMBS | — | 100,281 | — | — | 100,281 |
| ABS | — | 866,673 | 8,182 | — | 874,855 |
| Municipals | — | 55,051 | — | — | 55,051 |
| | 772,246 | 4,456,156 | 8,182 | — | 5,236,584 |
| Equity securities | | | | | |
| Exchange-traded funds | 57,712 | — | — | — | 57,712 |
| Common stocks | 363 | — | — | — | 363 |
| Preferred stocks | 215 | — | — | — | 215 |
| | 58,290 | — | — | — | 58,290 |
| Other investments | | | | | |
| Hedge funds (1) | — | — | — | 123,145 | 123,145 |
| Direct lending funds | — | — | — | 234,561 | 234,561 |
| Private equity funds | — | — | — | 70,118 | 70,118 |
| Real estate funds | — | — | — | 84,965 | 84,965 |
| CLO-Equities | — | — | 6,173 | — | 6,173 |
| Other privately held investments | — | — | — | — | — |
| | — | — | 6,173 | 512,789 | 518,962 |
| Short-term investments | — | 16,622 | — | — | 16,622 |
| Derivative instruments (see Note 5) | — | 17,966 | — | — | 17,966 |
| **Total Assets** | $ 830,536 | $ 4,490,744 | $ 14,355 | $ 512,789 | $ 5,848,424 |
| **Liabilities** | | | | | |
| Derivative instruments (see Note 5) | $ — | $ 2,188 | $ 9,122 | $ — | $ 11,310 |
| Cash settled awards (see Note 12) | — | 659 | — | — | 659 |
| **Total Liabilities** | $ — | $ 2,847 | $ 9,122 | $ — | $ 11,969 |

(1) Includes Long/short equity and Multi-strategy funds.

*(In thousands of U.S. dollars)*

## 4. Fair Value Measurements (continued)

The following table quantifies the significant unobservable inputs used in estimating fair values at December 31, 2021 of investments classified as Level 3 in the fair value hierarchy.

| | | Fair Value | Valuation Technique | Unobservable Input | Range | Weighted Average |
|---|---|---|---|---|---|---|
| Other investments - CLO-Equities | $ | 5,910 | Discounted cash flow | Default rate | 4.5% | 4.5% |
| | | | | Loss severity rate | 50.0% | 50.0% |
| | | | | Collateral spreads | 3.0% | 3.0% |
| | | | | Estimated maturity | 6 years | 6 years |
| Derivatives - Other underwriting-related derivatives | $ | (5,630) | Discounted cash flow | Discount rate | 1.3% | 1.3% |

Note: Fixed maturities that are classified as Level 3 are excluded from the above table as these securities are priced using broker-dealer quotes. In addition, other privately held investments that are classified as Level 3 are excluded from the above table as these investments are priced using capital statements received from investee companies.

*Other investments - CLO-Equities*

The CLO-Equities market continues to be relatively inactive with only a small number of transactions being observed, particularly related to transactions involving CLO-Equities held by the Company. Accordingly, the fair value of the Company's indirect investment in CLO-Equities is determined using a discounted cash flow model prepared by an external investment manager.

The default and loss severity rates are the most judgmental unobservable market inputs to the discounted cash flow model to which the valuation of the Company's indirect investment in CLO-Equities is most sensitive. A significant increase (decrease) in either of these significant inputs in isolation would result in a lower (higher) fair value estimate for the investment in CLO-Equities and, in general, a change in default rate assumptions would be accompanied by a directionally similar change in loss severity rate assumptions. Collateral spreads and estimated maturity dates are less judgmental inputs as they are based on the historical average of actual spreads and the weighted average life of the current underlying portfolios, respectively. A significant increase (decrease) in either of these significant inputs in isolation would result in a higher (lower) fair value estimate for the investment in CLO-Equities. In general, these inputs have no significant interrelationship with each other or with default and loss severity rates.

On a quarterly basis, the Company’s valuation process for its indirect investment in CLO-Equities includes a review of the underlying cash flows and key assumptions used in the discounted cash flow model. The above significant unobservable inputs are reviewed and updated based on information obtained from secondary markets, including information received from the managers of the Company's CLO-Equities investment. In order to assess the reasonableness of the inputs the Company uses in the discounted cash flow model, the Company maintains an understanding of current market conditions, historical results, and emerging trends that may impact future cash flows. In addition, the assumptions the Company uses in its models are updated through regular communication with industry participants and ongoing monitoring of the deals in which the Company participates.

## 4. Fair Value Measurements (continued)

*Derivatives - Other underwriting-related derivatives*

Other underwriting-related derivatives are initially valued at cost which approximates fair value. In subsequent measurement periods, the fair values of these derivatives are determined using internally developed discounted cash flow models which use appropriate discount rates. The selection of an appropriate discount rate is judgmental and is the most significant unobservable input used in the valuation of these derivatives. A significant increase (decrease) in this input in isolation could result in a significantly lower (higher) fair value measurement for the derivative contracts. In order to assess the reasonableness of the inputs the Company uses in the discounted cash flow model, the Company maintains an understanding of current market conditions, historical results, as well as contract specific information that may impact future cash flows.

*(In thousands of U.S. dollars)*

## 4. Fair Value Measurements (continued)

The following table presents changes in Level 3 for financial instruments measured at fair value on a recurring basis for the years ended December 31, 2021 and 2020:

| | Opening Balance | Transfer into Level 3 | Transfer out of Level 3 | Included in earnings(1) | Included in OCI(2) | Purchases | Sales | Settlement/ Distributions | Closing Balance | Change in unrealized gain/loss(3) |
|---|---|---|---|---|---|---|---|---|---|---|
| **Year ended December 31, 2021** | | | | | | | | | | |
| **Fixed maturities** | | | | | | | | | | |
| Corporate debt | $ — | $ — | $ — | $ — | $ (187) | $ 31,800 | $ — | $ — | $ 31,613 | $ — |
| ABS | 8,182 | — | (7,703) | — | 21 | — | — | (500) | — | — |
| | 8,182 | — | (7,703) | — | (166) | 31,800 | — | (500) | 31,613 | — |
| **Other investments** | | | | | | | | | | |
| CLO-Equities | 6,173 | — | — | 2,819 | — | — | — | (3,082) | 5,910 | 2,819 |
| Other privately held investments | — | — | — | — | — | 6,510 | — | — | 6,510 | — |
| | 6,173 | — | — | 2,819 | — | 6,510 | — | (3,082) | 12,420 | 2,819 |
| **Total assets** | $ 14,355 | $ — | $ (7,703) | $ 2,819 | $ (166) | $ 38,310 | $ — | $ (3,582) | $ 44,033 | $ 2,819 |
| **Other liabilities** | | | | | | | | | | |
| Derivative instruments | 9,122 | — | — | (2,742) | — | — | — | (750) | 5,630 | (1,769) |
| **Total liabilities** | $ 9,122 | $ — | $ — | $ (2,742) | $ — | $ — | $ — | $ (750) | $ 5,630 | $ (1,769) |
| **Year ended December 31, 2020** | | | | | | | | | | |
| **Fixed maturities** | | | | | | | | | | |
| Corporate debt | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — |
| ABS | 489 | 7,609 | — | — | 84 | — | — | — | 8,182 | — |
| | 489 | 7,609 | — | — | 84 | — | — | — | 8,182 | — |
| **Other investments** | | | | | | | | | | |
| CLO-Equities | 14,328 | — | — | (6,017) | — | — | — | (2,138) | 6,173 | (5,319) |
| Other privately held investments | — | — | — | — | — | — | — | — | — | — |
| | 14,328 | — | — | (6,017) | — | — | — | (2,138) | 6,173 | (5,319) |
| **Total assets** | $ 14,817 | $ 7,609 | $ — | $ (6,017) | $ 84 | $ — | $ — | $ (2,138) | $ 14,355 | $ (5,319) |
| **Other liabilities** | | | | | | | | | | |
| Derivative instruments | 9,672 | — | — | 9,421 | — | — | — | (9,971) | 9,122 | (550) |
| **Total liabilities** | $ 9,672 | $ — | $ — | $ 9,421 | $ — | $ — | $ — | $ (9,971) | $ 9,122 | $ (550) |

(1) Realized gains (losses) on fixed maturities, and realized and unrealized gains (losses) on other assets and other liabilities included in net income are included in net investment gains (losses). Realized and unrealized gains (losses) on other investments included in net income are included in net investment income.
(2) Unrealized gains (losses) on fixed maturities are included in other comprehensive income ("OCI").
(3) Change in unrealized gains (losses) relating to assets and liabilities held at the reporting date.

**4. Fair Value Measurements (continued)**

Transfers into Level 3 from Level 2

There were no transfers into Level 3 from Level 2 during 2021.

The transfers into Level 3 from Level 2 during 2020 were primarily due to the lack of observable market inputs and multiple quotes from pricing vendors and broker-dealers for certain fixed maturities.

Transfers out of Level 3 into Level 2

The transfers into Level 2 from Level 3 during 2021 were primarily due to the availability of observable market inputs and multiple quotes from pricing vendors for certain fixed maturities.

There were no transfers into Level 2 from Level 3 during 2020.

**Measuring the Fair Value of Other Investments Using Net Asset Valuations**

The fair values of hedge funds, direct lending funds, private equity funds and real estate funds are estimated using net asset valuations ("NAVs") as advised by external fund managers or third party administrators. For these funds, NAVs are based on the manager's or administrator's valuation of the underlying holdings in accordance with the fund's governing documents and in accordance with U.S. GAAP.

For hedge funds, direct lending funds, private equity funds and real estate funds, valuation statements are typically released on a reporting lag therefore, the Company estimates the fair value of these funds by starting with the most recent fund valuations and adjusting for capital calls, redemptions, drawdowns and distributions. Return estimates are not available from the relevant fund managers for these funds therefore the Company typically has a reporting lag in its fair value measurements of these funds. At December 31, 2021 and 2020, all funds measured at fair value using NAVs are reported on a lag.

The Company often does not have access to financial information relating to the underlying securities held within the funds, therefore management is unable to corroborate the fair values placed on the securities underlying the asset valuations provided by fund managers or fund administrators. In order to assess the reasonableness of the NAVs, the Company performs a number of monitoring procedures on a quarterly basis, to assess the quality of the information provided by fund managers and fund administrators. These procedures include, but are not limited to, regular review and discussion of each fund's performance with its manager, regular evaluation of fund performance against applicable benchmarks and the backtesting of the Company's fair value estimates against subsequently received NAVs. Backtesting involves comparing the Company's previously reported fair values for each fund against NAVs per audited financial statements (for year-end values) and final NAVs from fund managers and fund administrators (for interim values).

The fair values of hedge funds, direct lending funds, private equity funds and real estate funds are measured using the NAV practical expedient, therefore the fair values of these funds have not been categorized within the fair value hierarchy.

*(In thousands of U.S. dollars)*

## 4. Fair Value Measurements (continued)

**<u>Financial Instruments Disclosed, But Not Carried, at Fair Value</u>**

The fair value of financial instruments accounting guidance also applies to financial instruments disclosed, but not carried, at fair value, except for certain financial instruments, including insurance contracts.

At December 31, 2021, the carrying values of cash and cash equivalents including restricted amounts, accrued investment income, receivable for investments sold, certain other assets, payable for investments purchased and certain other liabilities approximated fair values due to their short maturities. As these financial instruments are not actively traded, their fair values are classified as Level 2.

At December 31, 2021, the Company's fixed maturities held to maturity, were recorded at amortized cost with a carrying value of $408,316 (2020: $nil) and a fair value of $407,461 (2020: $nil). The fair values of these securities are determined using a model which uses prepayment speeds and spreads sourced primarily from the new issue market. As the significant inputs used to price these securities are observable market inputs, their fair values are classified as Level 2.

## 5. Derivative Instruments

The balance sheet classifications of derivatives recorded at fair value are shown in the following table.

| | December 31, 2021 | | | December 31, 2020 | | |
|---|---|---|---|---|---|---|
| | Derivative Notional Amount | Derivative Asset Fair Value (1) | Derivative Liability Fair Value (1) | Derivative Notional Amount | Derivative Asset Fair Value (1) | Derivative Liability Fair Value (1) |
| *Relating to investment portfolio:* | | | | | | |
| Foreign exchange forward contracts | $ 180,677 | $ 13 | $ 1,450 | $ 100,568 | $ 2 | $ 2,188 |
| *Relating to underwriting portfolio:* | | | | | | |
| Foreign exchange forward contracts | $1,037,142 | $ 1,586 | $ 13,524 | $1,028,906 | $ 17,964 | $ — |
| Other underwriting-related contracts | 50,000 | — | 5,630 | 75,000 | — | 9,122 |
| Total derivatives | | $ 1,599 | $ 20,604 | | $ 17,966 | $ 11,310 |

(1) Derivative assets and derivative liabilities are classified within other assets and other liabilities in the Consolidated Balance Sheets.

The notional amounts of derivative contracts represent the basis on which amounts paid or received are calculated and are presented in the above table to quantify the volume of the Company's derivative activities. Notional amounts are not reflective of credit risk.

None of the Company's derivative instruments are designated as hedges under current accounting guidance.

*(In thousands of U.S. dollars)*

## 5. Derivative Instruments (continued)

### Offsetting Assets and Liabilities

The Company's derivative instruments are generally traded under International Swaps and Derivatives Association master netting agreements, which establish terms that apply to all transactions. In the event of a bankruptcy or other stipulated event, master netting agreements provide that individual positions be replaced with a new amount, usually referred to as the termination amount, determined by taking into account market prices and converting into a single currency. Effectively, this contractual close-out netting reduces credit exposure from gross to net exposure.

A reconciliation of gross derivative assets and liabilities to the net amounts presented in the Company's Consolidated Balance Sheets, with the difference being attributable to the impact of master netting agreements, is shown in the following table:

| | December 31, 2021 | | | December 31, 2020 | | |
|---|---|---|---|---|---|---|
| | Gross Amounts | Gross Amounts Offset | Net Amounts (1) | Gross Amounts | Gross Amounts Offset | Net Amounts (1) |
| Derivative assets | $ 7,437 | $ (5,838) | $ 1,599 | $ 26,853 | $ (8,887) | $ 17,966 |
| Derivative liabilities | $ 26,442 | $ (5,838) | $ 20,604 | $ 20,197 | $ (8,887) | $ 11,310 |

(1) Net asset and liability derivatives are classified within other assets and other liabilities in the Consolidated Balance Sheets.

For information on reverse repurchase agreements see Note 3 *'Investments'*.

*a) Relating to Investment Portfolio*

Foreign Currency Risk

The Company's investment portfolio is exposed to foreign currency risk therefore the fair values of its investments are partially influenced by changes in foreign exchange rates. The Company may enter into foreign exchange forward contracts to manage the effect of this foreign currency risk. These foreign currency hedging activities are not designated as specific hedges for financial reporting purposes.

Interest Rate Risk

The Company's investment portfolio includes a large percentage of fixed maturities which exposes it to significant interest rate risk. As part of overall management of this risk, the Company may use interest rate swaps.

*(In thousands of U.S. dollars)*

## 5. Derivative Instruments (continued)

*b) Relating to Underwriting Portfolio*

Foreign Currency Risk

The Company's underwriting portfolio is exposed to significant foreign currency risk. The Company manages foreign currency risk by seeking to match its foreign-denominated net liabilities under insurance and reinsurance contracts with cash and investments that are denominated in the same currencies. The Company uses derivative instruments, specifically forward contracts to economically hedge foreign currency exposures.

Other Underwriting-related Risks

The Company enters into insurance and reinsurance contracts that are accounted for as derivatives. These insurance or reinsurance contracts provide indemnification to an insured or cedant as a result of a change in a variable as opposed to an identifiable insurable event. The Company considers these contracts to be part of its underwriting operations.

The total unrealized and realized gains (losses) recognized in net income for derivatives not designated as hedges for the years ended December 31, 2021 and 2020 are shown in the following table:

| | Location of Gain (Loss) Recognized In Net Income | Amount of Gain (Loss) Recognized in Net Income | |
|---|---|---|---|
| | | 2021 | 2020 |
| **Derivatives not designated as hedging instruments** | | | |
| Relating to investment portfolio: | | | |
| Foreign exchange forward contracts | Net investment gains (losses) | $ 4,502 | $ (2,190) |
| Interest rate swaps | Net investment gains (losses) | — | — |
| Relating to underwriting portfolio: | | | |
| Foreign exchange forward contracts | Foreign exchange (losses) gains | (45,460) | 36,492 |
| Other underwriting-related contracts | Other insurance related income (loss) | 2,742 | (9,035) |
| Total | | $ (38,216) | $ 25,267 |

## 6. Reserve for Losses and Loss Expenses

### Reserving Methodology

*Sources of Information*

The Company's loss reserving process begins with the collection and analysis of paid and incurred claim data for each of the Company's insurance and reinsurance operations. The data is disaggregated by reserve class and further disaggregated by underwriting year and accident year. Underwriting year or accident year information is used to analyze the Company's business and to estimate reserves for losses and loss expenses. Reserve classes are selected to ensure that the underlying contracts have homogeneous loss development characteristics, while remaining large enough to make the estimation of trends credible. The Company's reserve classes are reviewed on a regular basis and adjusted over time as the Company's business evolves. The paid and incurred claim data serves as a key input to many of the methods employed by the Company's actuaries.

The following tables map the Company's lines of business to reserve classes and the expected claim tails:

| **Insurance Operations** | | | | | | |
|---|---|---|---|---|---|---|
| | **Reserve class and tail** | | | | | |
| | Property and Other | Marine | Aviation | Credit and Political Risk | Professional Lines | Liability |
| | Short | Short | Short/ Medium | Medium | Medium | Long |
| **Reported lines of business** | | | | | | |
| Property | X | | | | | |
| Marine | | X | | | | |
| Terrorism | X | | | | | |
| Aviation | | | X | | | |
| Credit and Political Risk | | | | X | | |
| Professional Lines | | | | | X | |
| Liability | | | | | | X |
| Accident and Health | X | | | | | |

## 6. Reserve for Losses and Loss Expenses (continued)

| **Reinsurance Operations** | **Reserve class and tail** | | | | |
|---|---|---|---|---|---|
| | Property and Other | Credit and Surety | Professional Lines | Motor | Liability |
| | Short | Medium | Medium | Long | Long |
| **Reported lines of business** | | | | | |
| Catastrophe | X | | | | |
| Property | X | | | | |
| Credit and Surety | | X | | | |
| Professional Lines | | | X | | |
| Motor | | | | X | |
| Liability | | | | | X |
| Engineering | X | | | | |
| Agriculture | X | | | | |
| Marine and aviation | X | | | | |
| Accident and Health | X | | | | |

*Actuarial Analysis*

Multiple actuarial methods are available to estimate ultimate losses. Each method has its own assumptions and its own advantages and disadvantages, with no single estimation method being better than the others in all situations and no one set of assumption variables being meaningful for all reserve classes. The relative strengths and weaknesses of the particular estimation methods when applied to a particular group of claims can also change over time.

The following is a brief description of the reserve estimation methods commonly employed by the Company's actuaries including a discussion of their particular strengths and weaknesses:

- Expected Loss Ratio Method ("ELR Method"): This method estimates ultimate losses for an accident year or underwriting year by applying an expected loss ratio ("ELR") to the earned or written premium for that year. Generally, expected loss ratios are based on one or more of (a) an analysis of historical loss experience to date, (b) pricing information and (c) industry data, adjusted as appropriate, to reflect changes in rates, loss and exposure trends, and terms and conditions. This method is insensitive to actual incurred losses for the accident year or underwriting year in question and is, therefore, often useful in the early stages of development when very few losses have been incurred. Conversely, the lack of sensitivity to incurred/paid losses for the accident year or underwriting year in question means that this method is usually inappropriate in later stages of an accident year or underwriting year’s development.

**6. Reserve for Losses and Loss Expenses (continued)**

- Loss Development Method (also referred to as the "Chain Ladder Method" or "Link Ratio Method"): This method assumes that the losses incurred/paid for each accident year or underwriting year at a particular development stage follow a relatively similar pattern. It assumes that on average, every accident year or underwriting year will display the same percentage of ultimate losses incurred/paid at the same point in time after the inception of that year. The percentages incurred/paid are established for each development stage (e.g. 12 months, 24 months, etc.) after examining averages from historical loss development data and/or external industry benchmark information. Ultimate losses are then estimated by multiplying the actual incurred/ paid losses by the reciprocal of the established incurred/paid percentage. The strengths of this method are that it reacts to loss emergence/payments and that it makes full use of historical claim emergence/payment experience. However, this method has weaknesses when the underlying assumption of stable loss development/payment patterns is not valid. This could be the consequence of changes in business mix, claim inflation trends or claim reporting practices and/or the presence of large claims, amongst other things. Furthermore, this method tends to produce volatile estimates of ultimate losses where there is volatility in the underlying incurred/paid patterns. In particular, where the expected percentage of incurred/paid losses is low, small deviations between actual and expected claims can lead to very volatile estimates of ultimate losses. As a result, this method is often unsuitable at early development stages for an accident year or underwriting year.

- Bornhuetter-Ferguson Method ("BF Method"): This method can be seen as a combination of the ELR and Loss Development Methods, under which the Loss Development Method is given progressively more weight as an accident year or underwriting year matures. The main advantage of the BF Method is that it provides a more stable estimate of ultimate losses than the Loss Development Method at earlier stages of development, while remaining more responsive to emerging loss development than the ELR Method. In addition, the BF Method allows for the incorporation of external market information through the use of expected loss ratios, whereas the Loss Development Method does not incorporate such information.

As part of the loss reserving process, the Company's actuaries employ the estimation method(s) that they believe will produce the most reliable estimate of ultimate losses, at that particular evaluation date, for each reserve class and accident year or underwriting year combination. Often, this is a blend (i.e. weighted average) of the results of two or more appropriate actuarial methods. These ultimate loss estimates are generally utilized to evaluate the adequacy of ultimate loss estimates for previous accident or underwriting years, established in the prior reporting period. For the initial estimate of the current accident or underwriting year, the available claim data is typically insufficient to produce a reliable estimate of ultimate losses. As a result, initial estimates for an accident or underwriting year are generally based on the ELR Method for longer tailed lines and a BF Method for shorter tailed lines. The initial ELR for each reserve class is established by the Company's actuaries at the start of the year as part of the planning process, taking into consideration prior accident years' or underwriting years' experience and industry benchmarks, adjusted after considering factors such as loss and exposure trends, rate differences, changes in contract terms and conditions, business mix changes and other known differences between the current year and prior accident or underwriting years. The initial expected loss ratios for a given accident or underwriting year may be modified over time if the underlying assumptions, such as loss development or premium rate changes, differ from the original assumptions.

## 6. Reserve for Losses and Loss Expenses (continued)

*Key Actuarial Assumptions*

The use of the above actuarial methods requires the Company to make certain explicit assumptions, the most significant of which are: (1) expected loss ratios and (2) loss development patterns.

The Company relies on historical loss experience in establishing expected loss ratios and selecting loss development patterns. In establishing expected loss ratios for the insurance operations, consideration is given to a number of other factors, including exposure trends, rate adequacy on new and renewal business, ceded reinsurance costs, changes in claims emergence and the Company's underwriters' view of terms and conditions in the market environment. For the reinsurance operations, expected loss ratios are based on a contract-by-contract review, which considers information provided by clients together with estimates provided by the Company's underwriters and actuaries about the impact of changes in pricing, terms and conditions and coverage. Market experience for some lines of business as compiled and analyzed by an independent actuarial firm is also considered, as appropriate.

*Claims Tail Analysis*

Short-Tail Business

Short-tail business generally includes exposures for which losses are usually known and paid within a relatively short period of time after the underlying loss event has occurred. Short-tail business includes the underlying exposures in the property and other, marine, and aviation (hull and war business) reserve classes in the insurance operations, and the underlying exposures in the property and other reserve class in the reinsurance operations.

The key actuarial assumptions for short-tail business are primarily developed with reference to the Company's historical loss experience for expected loss ratios and loss development patterns utilized to establish estimates of ultimate losses for an accident year. Due to the relatively short reporting and settlement patterns for short-tail business, more weight is generally placed on experience-based methods and other qualitative considerations in establishing reserves for recent and more mature accident years.

The majority of development for an accident year or underwriting year is expected to be recognized in the subsequent one to three years.

Medium-Tail Business

Medium-tail business generally has claim reporting and settlement periods that are longer than those of short-tail reserve classes. Medium-tail business includes the underlying exposures in the professional lines, credit and political risk and aviation (liability business) reserve classes in the insurance operations, and the credit and surety reserve class in the reinsurance operations. The Company considers credit and political risk business to have a medium-tail, due to the complex nature of claims and the potential additional time that may be required to realize subrogation assets.

**6. Reserve for Losses and Loss Expenses (continued)**

Long-Tail Business

In contrast to short and medium-tail business, the claim tail for long-tail business is expected to be notably longer, as claims are often reported and ultimately paid or settled years, or even decades, after the related loss events occur. Long-tail business includes the underlying exposures in the liability reserve class in the insurance operations and the liability and motor reserve classes in the reinsurance operations.

As a general rule, estimates of accident year or underwriting year ultimate losses for long-tail business are notably more uncertain than those for short and medium-tail business. To date, key actuarial assumptions for long-tail business have been derived from a combination of industry benchmarks supplemented with Company historical loss experience. While industry benchmarks that the Company believes reflect the nature and coverage of its business are considered, actual loss experience may differ from the benchmarks based on industry averages. Due to the length of the development tail for this business, reserve estimates for most accident years and underwriting years are predominantly based on the BF Method or ELR Method and the consideration of qualitative factors.

*Reserving for Significant Catastrophic Events*

The Company cannot estimate losses from widespread catastrophic events, such as hurricanes and earthquakes, using the traditional actuarial methods described above. The magnitude and complexity of losses associated with certain of these events inherently increase the level of uncertainty and, therefore, the level of management judgment involved in arriving at estimated net reserves for losses and loss expenses. As a result, actual losses for these events may ultimately differ materially from current estimates.

Net reserves for losses and loss expenses related to the COVID-19 pandemic represents the Company's best estimate of losses and loss expenses that have been incurred at December 31, 2021. The determination of these net reserves for losses and loss expenses was based on the Company's ground-up assessment of coverage from individual contracts and treaties across all lines of business, and included a review of modeling analyses and market information, where appropriate. In addition, the Company considered information received from clients, brokers and loss adjusters together with global shelter-in-place orders and the outcomes of recent court judgments, including the UK Supreme Court ruling on January 15, 2021.

The estimate of net reserves for losses and loss expenses related to the COVID-19 pandemic is subject to significant uncertainty. This uncertainty is driven by the inherent difficulty in making assumptions around the impact of the COVID-19 pandemic due to the lack of comparable events, the ongoing nature of the event, and its far-reaching impacts on world-wide economies and the health of the population. These assumptions include:

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

**6. Reserve for Losses and Loss Expenses (continued)**

While the Company believes its estimate of net reserves for losses and loss expenses is adequate for losses and loss expenses that have been incurred at December 31, 2021 based on current facts and circumstances, the Company continues to monitor the appropriateness of these assumptions as new information comes to light and adjustments are made to the estimate of ultimate losses related to the COVID-19 pandemic if there are developments that are different from previous expectations. Adjustments are recorded in the period in which they are identified. Actual losses for this event may ultimately differ materially from the Company's current estimates.

Net reserves for losses and loss expenses related to catastrophes other than the COVID-19 pandemic represent the Company's best estimate of losses and loss expenses that have been incurred at December 31, 2021.The determination of these net reserves for losses and loss expenses is estimated by management after a catastrophe occurs by completing an in-depth analysis of individual contracts which may potentially have been impacted by the catastrophic event. This in-depth analysis may rely on several sources of information including:

- estimates of the size of insured industry losses from the catastrophic event and the Company's corresponding market share;
- a review of the Company's portfolio of contracts to identify those contracts which may be exposed to the catastrophic event;
- a review of modeled loss estimates based on information previously reported by customers and brokers, including exposure data obtained during the underwriting process;
- discussions of the impact of the event with customers and brokers; and
- catastrophe bulletins published by various independent statistical reporting agencies.

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

While the Company believes its estimate of net reserves for losses and loss expenses is adequate for losses and loss expenses that have been incurred at December 31, 2021 based on current facts and circumstances, the Company monitors changes in paid and incurred losses in relation to each significant catastrophe in subsequent reporting periods and adjustments are made to estimates of ultimate losses for each event if there are developments that are different from previous expectations. Adjustments are recorded in the period in which they are identified. Actual losses for these events may ultimately differ materially from the Company's current estimates.

*Selection of Reported Reserves - Management's Best Estimate*

The Company's loss reserving process involves the collaboration of underwriting, claims, actuarial, legal, ceded reinsurance and finance departments, including various segmental committee meetings and culminates with the approval of a single point best estimate by the Company's Group Reserving Committee, which comprises senior management. In selecting this best estimate, management considers actuarial estimates and applies informed judgment regarding qualitative factors that may not be fully captured in these actuarial estimates. Such factors include, but are not limited to: the timing of the emergence of claims, volume and complexity of claims, social and judicial trends, potential severity of individual claims and the extent of Company historical loss data versus industry information. While these qualitative factors are considered in arriving at the point estimate, no specific provisions for qualitative factors are established.

*(In thousands of U.S. dollars)*

## 6. Reserve for Losses and Loss Expenses (continued)

### Reserve Roll-Forward

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

| | 2021 | 2020 |
|---|---|---|
| Gross reserve for losses and loss expenses, beginning of year | $ 5,030,797 | $ 5,051,482 |
| Less: reinsurance recoverable on unpaid losses, beginning of year | (769,750) | (693,104) |
| Net reserve for unpaid losses and loss expenses, beginning of year | 4,261,047 | 4,358,378 |
| Net incurred losses and loss expenses related to: | | |
| Current year | 945,273 | 1,134,431 |
| Prior years | (32,070) | (44,743) |
| | 913,203 | 1,089,688 |
| Net paid losses and loss expenses related to: | | |
| Current year | (153,596) | (221,462) |
| Prior years | (977,291) | (1,093,733) |
| | (1,130,887) | (1,315,195) |
| Foreign exchange and other | (90,309) | 128,176 |
| Net reserve for unpaid losses and loss expenses, end of year | 3,953,054 | 4,261,047 |
| Reinsurance recoverable on unpaid losses, end of year | 877,855 | 769,750 |
| Gross reserve for losses and loss expenses, end of year | $ 4,830,909 | $ 5,030,797 |

The Company writes business with loss experience generally characterized as low frequency and high severity in nature, which can result in volatility in its financial results. During 2021 and 2020, the Company recognized catastrophe and weather-related losses of $212,476 and $374,171.

### Estimates for Significant Catastrophe Events

At December 31, 2021, net reserve for losses and loss expenses included estimated amounts for numerous catastrophe events. The magnitude and complexity of losses arising from certain of these events inherently increase the level of uncertainty and, therefore, the level of management judgement involved in arriving at estimated net reserves for losses and loss expenses. These events include Hurricane Ida, U.S. Winter Storms Uri and Viola, and July European Floods in 2021, the COVID-19 pandemic, Hurricanes Laura, Sally, Zeta and Delta, Midwest derecho and wildfires across the West Coast of the United States in 2020, Japanese Typhoons Hagibis, Faxai and Tapah, Hurricane Dorian and Australia Wildfires in 2019 and Hurricanes Michael and Florence, California Wildfires and Typhoon Jebi in 2018. As a result, actual losses for these events may ultimately differ materially from current estimates.

**6. Reserve for Losses and Loss Expenses (continued)**

**Prior Year Reserve Development**

Net losses and loss expenses incurred include net favorable prior period reserve development of $32,070 and $44,743 for the years ended December 31, 2021 and 2020, respectively. Prior year reserve development arises from changes to losses and loss expense estimates related to loss events that occurred in previous calendar years.

The net favorable prior period reserve development for both years originates from insurance and reinsurance operations on business both written directly by the Company and assumed from affiliates.

*Insurance operations*

In 2021, the Company recognized $13 million of net favorable prior year reserve development, the principal components of which were:

- $17 million of net favorable prior year reserve development on marine business primarily due to better than expected loss emergence mainly related to the 2017 to 2020 accident years.

- $19 million of net favorable prior year reserve development on property and other business primarily due to better than expected loss emergence across multiple accident years, including decreases in loss estimates attributable to specific large claims related to the 2011 and 2012 accident years.

- $11 million of net favorable prior year reserve development on aviation business primarily due to better than expected loss emergence related to the 2020 accident year.

- $35 million of net adverse prior year reserve development on professional lines business primarily due to reserve strengthening related to the 2017, 2018 and 2019 accident years.

In 2020, the Company recognized $27 million of net favorable prior year reserve development, the principal components of which were:

- $12 million of net favorable prior year reserve development on marine business primarily due to better than expected loss emergence mainly related to the 2017 and 2018 accident years.

- $8 million of net favorable prior year reserve development on property and other business primarily due to better than expected loss emergence mainly related to the 2018 accident year.

- $6 million of net favorable prior year reserve development on aviation business primarily due to better than expected loss emergence across multiple accident years.

*Reinsurance operations*

In 2021, the Company recognized $19 million of net favorable prior year reserve development, the principal components of which were:

**6. Reserve for Losses and Loss Expenses (continued)**

- $26 million of net favorable prior year reserve development on motor business primarily due to proportional and non-proportional treaty business mainly related to 2016 and older accident years.

- $7 million of net adverse prior year reserve development on professional lines business primarily due to reserve strengthening related to the 2015 and 2017 accident years.

In 2020, the Company recognized $18 million of net favorable prior year reserve development, the principal components of which were:

- $20 million of net favorable prior year reserve development on credit and surety business primarily due to better than expected loss emergence across multiple accident years.

- $15 million of net favorable prior year reserve development on motor business primarily due to non-proportional treaty business mainly related to older accident years partially offset by an increase in loss estimates for proportional treaty business mainly on the 2018 accident year.

- $11 million of net adverse prior year reserve development on professional lines business due to an increase in the loss estimate attributable to a specific large claim related to the 2016 accident year.

- $8 million of net adverse prior year reserve development on liability business due to an increase in the loss estimate attributable to a specific large claim related to the 2009 accident year.

**Net Incurred and Paid Claims Development Tables By Accident Year**

The following tables present net incurred and paid claims development by accident year, total incurred-but-not-reported liabilities plus expected development on reported claims, cumulative reported claims frequency and average annual percentage payout of incurred claims by age for each reserve class. The loss development tables are presented on an accident year basis for both the insurance and reinsurance operations. The Company does not discount unpaid losses and loss expense reserves.

Non-U.S. dollar denominated loss data is converted to U.S. dollar at the rates of exchange in effect at the balance sheet date for material underlying currencies. Fluctuations in foreign currency exchange rates may cause material shifts in loss development. Reserves for losses and loss expenses disclosed in the consolidated balance sheets, are also remeasured using the rates of exchange in effect at the balance sheet date.

There are many considerations in establishing net reserves for losses and loss expenses. An attempt to evaluate net reserves for losses and loss expenses using solely the paid losses and claim counts presented in these tables could be misleading. When projecting net reserves for losses and loss expenses, the Company relies on several inputs in addition to the information presented in this disclosure including case incurred loss projections, changes in mix of business, external trends, and additional qualitative information. The Company cautions against mechanical application of standard actuarial methodologies to project ultimate losses using data presented in this disclosure.

(In thousands of U.S. dollars)

## 6. Reserve for Losses and Loss Expenses (continued)

### *Insurance Operations*

The reporting of cumulative claims frequency for the reserve classes within the insurance operations has been measured by counting the number of unique claim references including claim references assigned to nil and nominal case reserves. Claim references are grouped by claimant by loss event for each reserve class. For certain insurance facilities and business produced by managing general agents where underlying data is reported to the Company in an aggregated format, the information necessary to provide cumulative claims frequency is not available therefore reporting of claims frequency is deemed to be impracticable.

*Insurance Property and Other*

This reserve class includes property, terrorism and accident and health lines of business.

The property line of business provides physical loss or damage, business interruption and machinery breakdown cover for virtually all types of property, including commercial buildings, residential premises, construction projects and onshore energy installations. This line of business includes primary and excess risks, some of which are catastrophe-exposed.

The terrorism line of business provides cover for physical damage and business interruption of an insured following an act of terrorism and includes kidnap and ransom, and crisis management insurance.

The accident and health line of business includes accidental death, travel insurance and specialty health products for employer and affinity groups.

In general, reporting and payment patterns are relatively short-tailed although they can be volatile due to the incidence of catastrophe events.

**Insurance Property and Other**

| | Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance | | | | | | | | | | At December 31, 2021 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | For the Years Ended December 31, | | | | | | | | | | | |
| Accident Year | 2012 Unaudited | 2013 Unaudited | 2014 Unaudited | 2015 Unaudited | 2016 Unaudited | 2017 Unaudited | 2018 Unaudited | 2019 Unaudited | 2020 Unaudited | 2021 | Total of Incurred-But-Not-Reported Liabilities Plus Expected Development on Reported Claims | Cumulative Number of Reported Claims |
| 2012 | $ 223,829 | $ 233,530 | $ 223,515 | $ 210,854 | $ 207,961 | $ 204,046 | $ 203,452 | $ 198,391 | $ 198,193 | $ 193,286 | $ (362) | 29,793 |
| 2013 | | 187,332 | 179,966 | 163,110 | 160,899 | 160,795 | 165,977 | 163,853 | 163,782 | 164,214 | 457 | 53,020 |
| 2014 | | | 214,303 | 209,841 | 203,652 | 190,735 | 189,612 | 188,391 | 185,056 | 183,021 | 1,005 | 62,221 |
| 2015 | | | | 166,040 | 159,596 | 153,725 | 150,967 | 148,854 | 150,248 | 143,236 | 397 | 48,317 |
| 2016 | | | | | 209,544 | 227,419 | 222,788 | 213,980 | 210,139 | 211,620 | 1,620 | 93,582 |
| 2017 | | | | | | 438,202 | 412,151 | 400,696 | 400,913 | 400,861 | 5,239 | 698,013 |
| 2018 | | | | | | | 146,955 | 167,570 | 162,463 | 163,505 | 427 | 4,742 |
| 2019 | | | | | | | | 102,507 | 107,523 | 107,451 | 4,428 | 3,718 |
| 2020 | | | | | | | | | 205,361 | 200,696 | 43,078 | 4,419 |
| 2021 | | | | | | | | | | 107,610 | 41,500 | 1,256 |
| | | | | | | | | | Total | $ 1,875,500 | | |

*(In thousands of U.S. dollars)*

## 6. Reserve for Losses and Loss Expenses (continued)

**Insurance Property and Other**

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

For the Years Ended December 31,

| Accident Year | 2012 Unaudited | 2013 Unaudited | 2014 Unaudited | 2015 Unaudited | 2016 Unaudited | 2017 Unaudited | 2018 Unaudited | 2019 Unaudited | 2020 Unaudited | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| 2012 | $ 40,524 | $ 116,036 | $ 156,430 | $ 169,021 | $ 174,104 | $ 177,891 | $ 177,924 | $ 179,042 | $ 179,212 | $ 179,269 |
| 2013 | | 39,913 | 116,784 | 142,612 | 148,822 | 156,282 | 157,802 | 158,239 | 160,435 | 162,894 |
| 2014 | | | 71,999 | 148,150 | 179,095 | 182,569 | 184,062 | 184,718 | 182,183 | 181,888 |
| 2015 | | | | 58,091 | 120,256 | 135,154 | 143,068 | 143,073 | 147,346 | 141,588 |
| 2016 | | | | | 72,596 | 173,423 | 197,327 | 202,920 | 203,157 | 207,791 |
| 2017 | | | | | | 131,986 | 296,812 | 357,400 | 371,746 | 381,575 |
| 2018 | | | | | | | 47,423 | 123,428 | 144,590 | 154,761 |
| 2019 | | | | | | | | 32,748 | 79,521 | 91,899 |
| 2020 | | | | | | | | | 38,355 | 112,718 |
| 2021 | | | | | | | | | | 29,715 |
| | | | | | | | | | Total | 1,644,098 |
| | | | | | All outstanding liabilities before 2012, net of reinsurance | | | | | 4,847 |
| | | | | | Liabilities for claims and claim adjustment expenses, net of reinsurance | | | | | $ 236,249 |

**Insurance Property and Other**

Average annual percentage payout of incurred claims by age, net of reinsurance

| Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | Year 8 | Year 9 | Year 10 |
|---|---|---|---|---|---|---|---|---|---|
| 29.9% | 43.0% | 14.3% | 4.3% | 1.8% | 1.7% | (1.3)% | 0.6% | 0.8% | —% |

*Insurance Marine*

This reserve class includes the marine line of business which provides cover for traditional marine classes, including offshore energy, renewable offshore energy, cargo, liability, recreational marine, fine art, specie and hull and war. Offshore energy coverages include physical damage, business interruption, operators extra expense and liability coverage for all aspects of offshore upstream energy, from exploration and construction through the operation and distribution phases. The complex nature of claims arising under marine policies tends to result in reporting and payment patterns that are longer than those of the property and other reserve class. Exposure to natural perils such as windstorm and earthquake can result in volatility.

*(In thousands of U.S. dollars)*

## 6. Reserve for Losses and Loss Expenses (continued)

**Insurance Marine**

| | Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance | | | | | | | | | | At December 31, 2021 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | For the Years Ended December 31, | | | | | | | | | | | |
| Accident Year | 2012 Unaudited | 2013 Unaudited | 2014 Unaudited | 2015 Unaudited | 2016 Unaudited | 2017 Unaudited | 2018 Unaudited | 2019 Unaudited | 2020 Unaudited | 2021 | Total of Incurred-But-Not-Reported Liabilities Plus Expected Development on Reported Claims | Cumulative Number of Reported Claims |
| 2012 | $ 66,613 | $ 60,594 | $ 50,416 | $ 52,458 | $ 53,195 | $ 55,134 | $ 53,595 | $ 44,538 | $ 46,898 | $ 46,352 | $ 1,794 | 4,135 |
| 2013 | | 59,675 | 75,142 | 72,017 | 72,657 | 60,843 | 60,130 | 59,264 | 58,627 | 59,226 | 948 | 2,356 |
| 2014 | | | 44,909 | 33,535 | 36,103 | 32,969 | 33,848 | 34,087 | 29,539 | 27,609 | 2,112 | 2,169 |
| 2015 | | | | 116,619 | 103,145 | 100,599 | 94,595 | 85,004 | 88,280 | 88,594 | 939 | 2,232 |
| 2016 | | | | | 63,962 | 57,976 | 56,356 | 51,085 | 50,056 | 49,269 | 1,677 | 2,867 |
| 2017 | | | | | | 54,807 | 51,311 | 47,625 | 40,852 | 38,958 | 3,576 | 4,038 |
| 2018 | | | | | | | 48,813 | 57,554 | 52,200 | 45,970 | 6,025 | 3,103 |
| 2019 | | | | | | | | 44,856 | 44,265 | 40,753 | 6,160 | 1,889 |
| 2020 | | | | | | | | | 59,282 | 52,640 | 19,135 | 812 |
| 2021 | | | | | | | | | | 55,284 | 40,250 | 417 |
| | | | | | | | | | Total | $ 504,655 | | |

*(In thousands of U.S. dollars)*

## 6. Reserve for Losses and Loss Expenses (continued)

**Insurance Marine**

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

For the Years Ended December 31,

| Accident Year | 2012 Unaudited | 2013 Unaudited | 2014 Unaudited | 2015 Unaudited | 2016 Unaudited | 2017 Unaudited | 2018 Unaudited | 2019 Unaudited | 2020 Unaudited | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| 2012 | $ 6,749 | $ 27,561 | $ 31,979 | $ 35,212 | $ 35,809 | $ 37,561 | $ 39,028 | $ 39,793 | $ 39,928 | $ 41,503 |
| 2013 | | 13,163 | 31,656 | 39,709 | 45,820 | 47,714 | 55,978 | 56,084 | 56,909 | 57,822 |
| 2014 | | | 4,223 | 10,668 | 19,088 | 19,126 | 25,512 | 28,896 | 29,704 | 25,305 |
| 2015 | | | | 15,218 | 38,936 | 77,920 | 80,032 | 81,041 | 82,154 | 87,070 |
| 2016 | | | | | 8,346 | 22,105 | 40,668 | 45,061 | 45,607 | 46,418 |
| 2017 | | | | | | 6,476 | 16,733 | 25,436 | 29,404 | 31,265 |
| 2018 | | | | | | | 5,404 | 22,519 | 27,958 | 30,735 |
| 2019 | | | | | | | | 4,063 | 15,287 | 29,417 |
| 2020 | | | | | | | | | 19,830 | 29,745 |
| 2021 | | | | | | | | | | 4,305 |
| | | | | | | | | | Total | 383,585 |
| | | | | | | All outstanding liabilities before 2012, net of reinsurance | | | | 4,732 |
| | | | | | | Liabilities for claims and claim adjustment expenses, net of reinsurance | | | | $ 125,802 |

**Insurance Marine**

Average annual percentage payout of incurred claims by age, net of reinsurance

| Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | Year 8 | Year 9 | Year 10 |
|---|---|---|---|---|---|---|---|---|---|
| 17.0% | 29.3% | 25.5% | 6.4% | 5.8% | 6.6% | 3.0% | (4.3)% | 0.9% | 3.4% |

*Insurance Aviation*

This reserve class includes the aviation line of business which provides cover for hull and liability, and specific war covers primarily for passenger airlines but also for cargo operations, general aviation operations, airports, aviation authorities, security firms and product manufacturers. The claims reporting pattern varies by insurance coverage provided. Losses arising from war or terrorism and damage to hulls of aircraft are generally reported quickly compared with liability claims which involve passengers and third parties and generally exhibit longer reporting and payment patterns. To date, the claims reported to the Company have predominantly related to damage to hulls, therefore reporting and payment patterns have typically exhibited a relatively short tail.

*(In thousands of U.S. dollars)*

## 6. Reserve for Losses and Loss Expenses (continued)

**Insurance Aviation**

| Accident Year | Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance — For the Years Ended December 31, 2012 Unaudited | 2013 Unaudited | 2014 Unaudited | 2015 Unaudited | 2016 Unaudited | 2017 Unaudited | 2018 Unaudited | 2019 Unaudited | 2020 Unaudited | 2021 | At December 31, 2021 — Total of Incurred-But-Not-Reported Liabilities Plus Expected Development on Reported Claims | Cumulative Number of Reported Claims |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2012 | $ 12,051 | $ 10,097 | $ 10,287 | $ 8,270 | $ 7,321 | $ 7,266 | $ 7,152 | $ 6,246 | $ 6,165 | $ 6,071 | $ 35 | 886 |
| 2013 | | 14,889 | 15,509 | 14,383 | 14,447 | 14,747 | 14,624 | 16,867 | 16,762 | 16,536 | 253 | 1,043 |
| 2014 | | | 19,210 | 21,596 | 22,368 | 19,674 | 19,648 | 16,177 | 14,261 | 13,632 | (280) | 1,374 |
| 2015 | | | | 22,326 | 21,559 | 22,418 | 22,036 | 17,785 | 17,880 | 17,530 | (416) | 2,053 |
| 2016 | | | | | 21,229 | 24,151 | 24,318 | 26,156 | 26,361 | 27,192 | (434) | 1,945 |
| 2017 | | | | | | 37,949 | 27,134 | 36,070 | 34,105 | 34,151 | (600) | 4,466 |
| 2018 | | | | | | | 52,845 | 41,963 | 38,821 | 39,396 | 3,167 | 4,214 |
| 2019 | | | | | | | | 31,204 | 25,997 | 23,337 | 1,502 | 2,779 |
| 2020 | | | | | | | | | 22,077 | 10,483 | 5,156 | 1,581 |
| 2021 | | | | | | | | | | 26,925 | 18,094 | 1,267 |
| | | | | | | | | | Total | $ 215,253 | | |

**Insurance Aviation**

| Accident Year | Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance — For the Years Ended December 31, 2012 Unaudited | 2013 Unaudited | 2014 Unaudited | 2015 Unaudited | 2016 Unaudited | 2017 Unaudited | 2018 Unaudited | 2019 Unaudited | 2020 Unaudited | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| 2012 | $ 875 | $ 2,659 | $ 3,848 | $ 5,586 | $ 6,427 | $ 6,638 | $ 6,748 | $ 6,858 | $ 6,851 | $ 6,846 |
| 2013 | | 4,270 | 6,864 | 9,095 | 10,712 | 12,764 | 13,350 | 13,765 | 15,221 | 15,229 |
| 2014 | | | 3,785 | 7,322 | 10,460 | 12,244 | 12,791 | 13,460 | 13,510 | 13,487 |
| 2015 | | | | 6,088 | 11,952 | 15,444 | 17,095 | 18,727 | 19,740 | 19,779 |
| 2016 | | | | | 7,395 | 13,708 | 18,853 | 21,413 | 22,299 | 22,877 |
| 2017 | | | | | | 4,745 | 9,497 | 17,236 | 20,945 | 21,406 |
| 2018 | | | | | | | 3,521 | 17,475 | 19,487 | 21,228 |
| 2019 | | | | | | | | 13,537 | 14,025 | 14,476 |
| 2020 | | | | | | | | | 585 | 2,287 |
| 2021 | | | | | | | | | | 875 |
| | | | | | | | | | Total | 138,490 |
| | All outstanding liabilities before 2012, net of reinsurance | | | | | | | | | 3,438 |
| | Liabilities for claims and claim adjustment expenses, net of reinsurance | | | | | | | | | $ 80,201 |

*(In thousands of U.S. dollars)*

## 6. Reserve for Losses and Loss Expenses (continued)

**Insurance Aviation**

Average annual percentage payout of incurred claims by age, net of reinsurance

| Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | Year 8 | Year 9 | Year 10 |
|---|---|---|---|---|---|---|---|---|---|
| 22.0% | 21.7% | 15.6% | 12.2% | 7.4% | 4.0% | 1.2% | 3.5% | (0.1)% | (0.1)% |

*Insurance Credit and Political Risk*

This reserve class includes the credit and political risk line of business which provides credit and political risk insurance products for banks, commodity traders, corporations and multilateral and export credit agencies. Cover is provided for a range of risks including sovereign default, credit default, political violence, currency inconvertibility and non-transfer, expropriation, aircraft non-repossession and contract frustration due to political events.

The credit insurance coverage is primarily for lenders seeking to mitigate the risk of non-payment from their borrowers. In order to claim compensation under a credit insurance contract, the insured (most often a bank) cannot assign, without the Company's prior agreement, the insured contract (most often a loan) to any third party and is normally obliged to hold a material portion of insured asset on their own books, unhedged and uninsured. Claims for this business tend to be characterized by their severity risk, as opposed to their frequency risk.

Claim reporting and payment patterns are anticipated to be volatile and are generally medium-tailed. Under the notification provisions of credit insurance policies issued by the Company, it anticipates being advised of an insured event within a relatively short time period. Consequently, the Company generally estimates ultimate losses based on a contract-by-contract analysis which considers the contracts' terms, the facts and circumstances of underlying loss events and qualitative input from claims managers.

**Insurance Credit and Political Risk**

| | Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance | | | | | | | | | | At December 31, 2021 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | For the Years Ended December 31, | | | | | | | | | | | |
| Accident Year | 2012 Unaudited | 2013 Unaudited | 2014 Unaudited | 2015 Unaudited | 2016 Unaudited | 2017 Unaudited | 2018 Unaudited | 2019 Unaudited | 2020 Unaudited | 2021 | Total of Incurred-But-Not-Reported Liabilities Plus Expected Development on Reported Claims | Cumulative Number of Reported Claims |
| 2012 | $ 30,124 | $ 14,052 | $ 12,105 | $ 12,257 | $ 10,290 | $ 35 | $ 149 | $ 149 | $ 149 | $ 37 | $ 4 | 4 |
| 2013 | | 23,894 | 24,320 | 9,766 | 9,795 | 14,856 | 13,977 | 12,334 | 12,696 | 12,571 | 419 | 2 |
| 2014 | | | 36,191 | 66,698 | 64,005 | 64,867 | 67,754 | 69,329 | 68,802 | 67,271 | — | 6 |
| 2015 | | | | 27,020 | 29,727 | 26,880 | 25,827 | 25,688 | 24,619 | 24,122 | 813 | 2 |
| 2016 | | | | | 45,348 | 44,294 | 42,129 | 42,655 | 26,524 | 25,594 | 1,078 | 1 |
| 2017 | | | | | | 17,975 | 17,632 | 15,734 | 9,155 | 5,968 | 4,707 | 3 |
| 2018 | | | | | | | 11,294 | 6,781 | 5,700 | 4,262 | 2,685 | 1 |
| 2019 | | | | | | | | 14,168 | 39,841 | 39,606 | 4,180 | 5 |
| 2020 | | | | | | | | | 24,645 | 27,479 | 11,116 | 20 |
| 2021 | | | | | | | | | | 15,888 | 13,159 | 2 |
| | | | | | | | | | Total | $ 222,798 | | |

*(In thousands of U.S. dollars)*

## 6. Reserve for Losses and Loss Expenses (continued)

**Insurance Credit and Political Risk**

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

For the Years Ended December 31,

| Accident Year | 2012 Unaudited | 2013 Unaudited | 2014 Unaudited | 2015 Unaudited | 2016 Unaudited | 2017 Unaudited | 2018 Unaudited | 2019 Unaudited | 2020 Unaudited | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| 2012 | $ — | $ — | $ — | $ — | $ 30 | $ 31 | $ 33 | $ 33 | $ 33 | $ 33 |
| 2013 | | 745 | 2,235 | 3,726 | 5,216 | 11,769 | 13,828 | 13,828 | 13,828 | 12,151 |
| 2014 | | | 1,924 | 38,645 | 58,456 | 56,016 | 56,016 | 62,209 | 68,382 | 68,382 |
| 2015 | | | | — | 23,309 | 23,309 | 23,309 | 23,309 | 23,309 | 23,309 |
| 2016 | | | | | — | 24,516 | 24,516 | 24,516 | 24,516 | 24,516 |
| 2017 | | | | | | — | 1,452 | 2,727 | 3,642 | 3,642 |
| 2018 | | | | | | | 2,857 | 1,830 | 1,830 | 1,578 |
| 2019 | | | | | | | | 6,851 | 35,377 | 35,359 |
| 2020 | | | | | | | | | 6,780 | 59,910 |
| 2021 | | | | | | | | | | 2,722 |
| | | | | | | | | | Total | 231,602 |
| | | | | | | All outstanding liabilities before 2012, net of reinsurance | | | | (935) |
| | | | | | | Liabilities for claims and claim adjustment expenses, net of reinsurance | | | | $ (9,739) |

**Insurance Credit and Political Risk**

Average annual percentage payout of incurred claims by age, net of reinsurance

| Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | Year 8 | Year 9 | Year 10 |
|---|---|---|---|---|---|---|---|---|---|
| 13.5% | 58.3% | 7.8% | 2.5% | 22.2% | 5.7% | 3.7% | —% | (6.7)% | —% |

*Insurance Professional Lines*

This reserve class includes the professional line of business which provides directors' and officers' liability, errors and omissions liability, employment practices liability, fiduciary liability, crime, professional indemnity, cyber and privacy insurance, medical malpractice and other financial insurance related covers for public and private commercial enterprises, financial institutions, not-for-profit organizations and other professional service providers. This business is predominantly written on a claims-made basis. Typically this reserve class is anticipated to exhibit medium to long tail claim reporting and payment patterns.

*(In thousands of U.S. dollars)*

## 6. Reserve for Losses and Loss Expenses (continued)

With respect to key actuarial assumptions, the Company relies on its loss experience when establishing expected loss ratios and selected loss development patterns. Loss reporting patterns for professional lines business tend to be volatile, causing instability in actuarial indications based on incurred loss data until an accident year or underwriting year matures. Consequently, initial reserves for losses and loss expenses for an accident year or underwriting year are generally based on an ELR Method and the consideration of relevant qualitative factors. As accident years and underwriting years mature, the Company increasingly gives more weight to methods that reflect its experience until its selections are based almost exclusively on experience-based methods. The Company evaluates the appropriateness of the transition to experience-based methods at the reserve class level, commencing this transition when it believes that its incurred loss development is sufficient to produce meaningful actuarial indications. The rate at which the Company transitions fully to sole reliance on experience-based methods can vary by reserve class and by year, depending on its assessment of the stability and relevance of such indications. For some professional lines in the insurance operations, the Company also relies on the evaluation of the open claim inventory in addition to the commonly employed actuarial methods when establishing reserves.

**Insurance Professional Lines**

| | Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance | | | | | | | | | | At December 31, 2021 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | For the Years Ended December 31, | | | | | | | | | | | |
| Accident Year | 2012 Unaudited | 2013 Unaudited | 2014 Unaudited | 2015 Unaudited | 2016 Unaudited | 2017 Unaudited | 2018 Unaudited | 2019 Unaudited | 2020 Unaudited | 2021 | Total of Incurred-But-Not-Reported Liabilities Plus Expected Development on Reported Claims | Cumulative Number of Reported Claims |
| 2012 | $ 189,122 | $ 213,123 | $ 212,320 | $ 209,134 | $ 202,016 | $ 205,289 | $ 200,534 | $ 198,365 | $ 184,163 | $ 185,341 | $ 11,291 | 8,348 |
| 2013 | | 221,027 | 226,454 | 228,580 | 207,980 | 203,084 | 204,297 | 189,527 | 190,029 | 187,444 | 19,645 | 9,473 |
| 2014 | | | 233,338 | 231,936 | 236,995 | 220,181 | 210,255 | 196,650 | 194,251 | 194,794 | 31,314 | 9,858 |
| 2015 | | | | 214,954 | 213,600 | 218,179 | 205,488 | 199,212 | 187,404 | 186,652 | 26,052 | 10,532 |
| 2016 | | | | | 199,584 | 201,906 | 206,300 | 210,628 | 217,362 | 221,203 | 35,642 | 11,909 |
| 2017 | | | | | | 199,231 | 212,531 | 236,649 | 236,111 | 245,713 | 53,341 | 13,865 |
| 2018 | | | | | | | 75,655 | 80,646 | 91,132 | 104,607 | 37,152 | 5,962 |
| 2019 | | | | | | | | 86,247 | 89,173 | 99,918 | 53,326 | 5,048 |
| 2020 | | | | | | | | | 75,564 | 76,186 | 65,204 | 3,092 |
| 2021 | | | | | | | | | | 94,059 | 88,776 | 2,451 |
| | | | | | | | | | Total | $1,595,917 | | |

*(In thousands of U.S. dollars)*

## 6. Reserve for Losses and Loss Expenses (continued)

**Insurance Professional Lines**

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

For the Years Ended December 31,

| Accident Year | 2012 Unaudited | 2013 Unaudited | 2014 Unaudited | 2015 Unaudited | 2016 Unaudited | 2017 Unaudited | 2018 Unaudited | 2019 Unaudited | 2020 Unaudited | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| 2012 | $ 4,078 | $ 22,926 | $ 54,251 | $ 98,846 | $ 125,060 | $ 136,896 | $ 147,930 | $ 152,203 | $ 163,317 | $ 166,367 |
| 2013 | | 9,248 | 38,797 | 71,157 | 96,662 | 117,267 | 135,479 | 148,147 | 155,434 | 162,569 |
| 2014 | | | 12,513 | 39,848 | 71,132 | 104,007 | 121,410 | 132,081 | 137,208 | 150,218 |
| 2015 | | | | 11,812 | 35,975 | 73,723 | 95,025 | 114,526 | 136,151 | 144,744 |
| 2016 | | | | | 8,911 | 39,979 | 83,780 | 110,544 | 135,390 | 150,201 |
| 2017 | | | | | | 10,320 | 36,618 | 74,643 | 110,120 | 128,250 |
| 2018 | | | | | | | 3,151 | 13,303 | 26,544 | 39,434 |
| 2019 | | | | | | | | 8,869 | 16,333 | 31,882 |
| 2020 | | | | | | | | | 771 | 3,794 |
| 2021 | | | | | | | | | | 2,550 |
| | | | | | | | | | Total | 980,009 |
| | | | | | | All outstanding liabilities before 2012, net of reinsurance | | | | 78,467 |
| | | | | | | Liabilities for claims and claim adjustment expenses, net of reinsurance | | | | $ 694,375 |

**Insurance Professional Lines**

Average annual percentage payout of incurred claims by age, net of reinsurance

| Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | Year 8 | Year 9 | Year 10 |
|---|---|---|---|---|---|---|---|---|---|
| 4.4% | 11.0% | 16.8% | 15.0% | 10.5% | 8.0% | 5.0% | 4.3% | 4.9% | 1.6% |

*Insurance Liability*

This reserve class includes the liability line of business which primarily targets primary and low to mid-level excess and umbrella commercial liability risks in the U.S. wholesale markets in addition to primary and excess of loss employers, public, and products liability predominately in the U.K. Target industry sectors include construction, manufacturing, transportation and trucking and other services. The delay between the writing of a contract, notification and subsequent settlement of a claim in respect of that contract results in claim reporting and payment patterns that are typically long tail in nature. A consequence of the claim development tail is that this line of business is particularly exposed, amongst a number of uncertainties, to the potential for unanticipated levels of claim inflation relative to that assumed when the contracts were written. Factors influencing claim inflation on this class can include, but are not limited to, underlying economic and medical inflation, judicial inflation, mass tort and changing social trends.

*(In thousands of U.S. dollars)*

## 6. Reserve for Losses and Loss Expenses (continued)

**Insurance Liability**

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

| | For the Years Ended December 31, | | | | | | | | | | At December 31, 2021 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Accident Year | 2012 Unaudited | 2013 Unaudited | 2014 Unaudited | 2015 Unaudited | 2016 Unaudited | 2017 Unaudited | 2018 Unaudited | 2019 Unaudited | 2020 Unaudited | 2021 | Total of Incurred-But-Not-Reported Liabilities Plus Expected Development on Reported Claims | Cumulative Number of Reported Claims |
| 2012 | $ 41,218 | $ 41,607 | $ 41,145 | $ 37,651 | $ 34,617 | $ 42,365 | $ 40,555 | $ 36,003 | $ 34,710 | $ 33,115 | $ 5,483 | 3,355 |
| 2013 | | 57,277 | 57,663 | 56,901 | 50,490 | 56,649 | 58,251 | 55,220 | 53,668 | 56,124 | 7,060 | 3,690 |
| 2014 | | | 57,373 | 65,772 | 68,534 | 66,595 | 67,332 | 66,387 | 66,561 | 66,009 | 7,226 | 5,265 |
| 2015 | | | | 68,557 | 66,084 | 74,454 | 88,172 | 96,583 | 100,904 | 101,191 | 13,149 | 6,389 |
| 2016 | | | | | 63,160 | 66,381 | 65,886 | 64,659 | 60,836 | 60,749 | 13,877 | 7,186 |
| 2017 | | | | | | 72,549 | 73,417 | 82,735 | 90,900 | 93,749 | 16,201 | 6,972 |
| 2018 | | | | | | | 8,610 | 8,142 | 7,840 | 8,078 | 2,345 | 788 |
| 2019 | | | | | | | | 13,275 | 12,814 | 13,531 | 7,002 | 531 |
| 2020 | | | | | | | | | 18,115 | 18,594 | 14,538 | 333 |
| 2021 | | | | | | | | | | 23,675 | 21,855 | 347 |
| | | | | | | | | | Total | $ 474,815 | | |

**Insurance Liability**

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

| | For the Years Ended December 31, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Accident Year | 2012 Unaudited | 2013 Unaudited | 2014 Unaudited | 2015 Unaudited | 2016 Unaudited | 2017 Unaudited | 2018 Unaudited | 2019 Unaudited | 2020 Unaudited | 2021 |
| 2012 | $ 826 | $ 2,803 | $ 7,776 | $ 15,161 | $ 18,669 | $ 23,073 | $ 24,981 | $ 25,731 | $ 25,881 | $ 25,953 |
| 2013 | | 1,210 | 16,409 | 21,453 | 25,827 | 37,492 | 41,173 | 43,899 | 44,625 | 47,583 |
| 2014 | | | 721 | 9,406 | 25,010 | 35,862 | 42,257 | 46,861 | 51,589 | 53,083 |
| 2015 | | | | 2,723 | 10,976 | 20,507 | 46,797 | 60,828 | 75,800 | 81,903 |
| 2016 | | | | | 3,215 | 11,850 | 18,407 | 28,601 | 33,726 | 40,242 |
| 2017 | | | | | | 2,298 | 13,709 | 28,139 | 54,528 | 67,081 |
| 2018 | | | | | | | 147 | 670 | 1,880 | 3,469 |
| 2019 | | | | | | | | 393 | 1,297 | 2,131 |
| 2020 | | | | | | | | | 185 | 1,241 |
| 2021 | | | | | | | | | | 528 |
| | | | | | | | | | Total | 323,214 |
| All outstanding liabilities before 2012, net of reinsurance | | | | | | | | | | 31,930 |
| Liabilities for claims and claim adjustment expenses, net of reinsurance | | | | | | | | | | $ 183,531 |

*(In thousands of U.S. dollars)*

## 6. Reserve for Losses and Loss Expenses (continued)

**Insurance Liability**

Average annual percentage payout of incurred claims by age, net of reinsurance

| Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | Year 8 | Year 9 | Year 10 |
|---|---|---|---|---|---|---|---|---|---|
| 2.4% | 11.1% | 13.1% | 19.6% | 12.8% | 10.5% | 6.0% | 2.0% | 2.9% | 0.2% |

***Reinsurance Operations***

The presentation of net incurred and paid claims development tables by accident year for the reinsurance operations is challenging due to the need to allocate loss information related to proportional treaties to the appropriate accident years. Information related to proportional treaty reinsurance contracts is generally submitted to the Company using quarterly bordereaux reporting by underwriting year, with a supplemental listing of large losses. Large losses can be allocated to the corresponding accident years accurately. The remaining losses can generally only be allocated to accident years based on estimated premiums earned and loss reporting patterns. To the extent management's assumptions and allocation procedures differ from the actual loss development patterns, the actual loss development may differ materially from the net incurred and paid claims development presented in the tables below.

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

*Reinsurance Property and Other*

This reserve class includes catastrophe, property, agriculture, engineering, marine and aviation and accident and health lines of business.

The catastrophe line of business provides protection for most catastrophic losses that are covered in the underlying insurance policies written by the Company's cedants. The underlying policies principally cover property-related exposure but other exposures including workers compensation and personal accident are also covered. The principal perils covered by policies in this portfolio include hurricane and windstorm, earthquake, flood, tornado, hail and fire. In some instances, terrorism may be a covered peril or the only peril. The Company underwrites this business on a proportional and on an excess of loss basis.

The property line of business provides protection for property damage and related losses resulting from natural and man-made perils that are covered in underlying personal and commercial lines insurance policies written by the Company's cedants. The predominant exposure is to property damage, but other risks, including business interruption and other non-property losses, may also be covered when arising from a covered peril. The most significant perils covered by policies in this portfolio include windstorm, tornado and earthquake, but other perils such as freezes, riots, floods, industrial explosions, fires, hail and a number of other loss events are also included. This business is written on a proportional and excess of loss basis.

*(In thousands of U.S. dollars)*

## 6. Reserve for Losses and Loss Expenses (continued)

The agriculture line of business provides protection for risks associated with the production of food and fiber on a global basis for primary insurance companies writing multi-peril crop insurance, crop hail, and named peril covers, as well as custom risk transfer mechanisms for agricultural dependent industries with exposures to crop yield and/or price deviations. This business is written on a proportional and aggregate stop loss reinsurance basis.

The engineering line of business provides protection for all types of construction risks and risks associated with erection, testing and commissioning of machinery and plants during the construction stage. This line of business also includes coverage for losses arising from operational failures of machinery, plant and equipment and electronic equipment as well as business interruption. The Company exited this line of business in 2020.

The marine and aviation line of business includes specialty marine classes such as cargo, hull, pleasure craft, marine liability, inland marine and offshore energy. The principal perils covered by policies in this portfolio include physical loss, damage and/or liability arising from natural perils of the seas or land, man-made events including fire and explosion, stranding/sinking/salvage, pollution, shipowners and maritime employers liability. This business is written on a non-proportional and proportional basis. Aviation provides cover for airline, aerospace and general aviation exposures. This business is written on a proportional and non-proportional basis.

The accident and health line of business includes personal accident, specialty health, accidental death, travel, life and disability reinsurance products which are offered on a proportional and catastrophic or per life excess of events loss basis.

In general, reporting and payment patterns are relatively short-tailed and can be volatile due to the incidence of catastrophe.

**Reinsurance Property and Other**

| | Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance | | | | | | | | | | At December 31, 2021 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | For the Years Ended December 31, | | | | | | | | | | |
| Accident Year | 2012 Unaudited | 2013 Unaudited | 2014 Unaudited | 2015 Unaudited | 2016 Unaudited | 2017 Unaudited | 2018 Unaudited | 2019 Unaudited | 2020 Unaudited | 2021 | Total of Incurred-But-Not-Reported Liabilities Plus Expected Development on Reported Claims |
| 2012 | $ 470,662 | $ 444,298 | $ 429,150 | $ 402,447 | $ 388,920 | $ 384,042 | $ 385,139 | $ 382,410 | $ 382,135 | $ 379,805 | $ 13 |
| 2013 | | 428,926 | 411,254 | 386,581 | 370,070 | 365,177 | 364,390 | 361,144 | 360,258 | 358,313 | 651 |
| 2014 | | | 368,159 | 377,846 | 358,948 | 349,304 | 346,941 | 346,171 | 343,886 | 344,156 | 38,642 |
| 2015 | | | | 335,713 | 321,597 | 318,411 | 314,558 | 311,940 | 315,504 | 313,192 | 418 |
| 2016 | | | | | 426,308 | 434,088 | 425,067 | 420,094 | 421,223 | 421,942 | 6,297 |
| 2017 | | | | | | 774,368 | 766,875 | 798,096 | 798,377 | 795,599 | 29,388 |
| 2018 | | | | | | | 470,538 | 549,102 | 570,869 | 558,689 | 40,249 |
| 2019 | | | | | | | | 524,170 | 504,318 | 486,997 | 63,502 |
| 2020 | | | | | | | | | 473,362 | 506,843 | 105,556 |
| 2021 | | | | | | | | | | 385,621 | 197,230 |
| | | | | | | | | | Total | $ 4,551,157 | |

*(In thousands of U.S. dollars)*

## 6. Reserve for Losses and Loss Expenses (continued)

**Reinsurance Property and Other**

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

For the Years Ended December 31,

| Accident Year | 2012 Unaudited | 2013 Unaudited | 2014 Unaudited | 2015 Unaudited | 2016 Unaudited | 2017 Unaudited | 2018 Unaudited | 2019 Unaudited | 2020 Unaudited | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| 2012 | $ 100,010 | $ 242,379 | $ 307,026 | $ 326,705 | $ 338,569 | $ 346,538 | $ 348,515 | $ 359,972 | $ 360,191 | $ 364,300 |
| 2013 | | 77,548 | 229,484 | 317,350 | 340,570 | 347,785 | 348,875 | 348,811 | 347,135 | 350,956 |
| 2014 | | | 74,572 | 222,374 | 273,610 | 287,208 | 291,649 | 295,574 | 291,895 | 298,111 |
| 2015 | | | | 53,702 | 179,165 | 249,666 | 275,161 | 284,537 | 287,765 | 301,351 |
| 2016 | | | | | 92,513 | 256,075 | 348,732 | 379,184 | 392,206 | 398,595 |
| 2017 | | | | | | 181,472 | 493,719 | 606,681 | 666,646 | 688,822 |
| 2018 | | | | | | | 83,166 | 328,227 | 401,972 | 440,458 |
| 2019 | | | | | | | | 45,786 | 271,716 | 345,643 |
| 2020 | | | | | | | | | 102,829 | 211,217 |
| 2021 | | | | | | | | | | 71,018 |
| | | | | | | | | | Total | 3,470,471 |
| | | | | | | All outstanding liabilities before 2012, net of reinsurance | | | | 18,268 |
| | | | | | | Liabilities for claims and claim adjustment expenses, net of reinsurance | | | | $ 1,098,954 |

**Reinsurance Property and Other**

Average annual percentage payout of incurred claims by age, net of reinsurance

| Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | Year 8 | Year 9 | Year 10 |
|---|---|---|---|---|---|---|---|---|---|
| 19.4% | 39.2% | 17.9% | 6.5% | 2.6% | 1.2% | 0.9% | 1.4% | 0.6% | 1.1% |

*Reinsurance Credit and Surety*

This reserve class includes the credit and surety line of business which provides reinsurance of trade credit insurance products and includes proportional and excess of loss structures. The underlying insurance indemnifies sellers of goods and services in the event of a payment default by the buyer of those goods and services. Surety reinsurance provides protection for losses arising from a broad array of surety bonds issued by insurers to satisfy regulatory demands or contract obligations in a variety of jurisdictions around the world. The Company also provides mortgage reinsurance to mortgage guaranty insurers and U.S. government sponsored entities for losses related to credit risk transfer into the private sector.

Initial and most recent underwriting year loss projections are generally based on the ELR Method, with consideration given to qualitative factors. Given that there is a quicker and more stable reporting pattern for trade credit and mortgage business, the Company generally commences the transition to experience-based methods sooner for these lines of business than for the surety business.

*(In thousands of U.S. dollars)*

## 6. Reserve for Losses and Loss Expenses (continued)

**Reinsurance Credit and Surety**

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

For the Years Ended December 31,

| Accident Year | 2012 Unaudited | 2013 Unaudited | 2014 Unaudited | 2015 Unaudited | 2016 Unaudited | 2017 Unaudited | 2018 Unaudited | 2019 Unaudited | 2020 Unaudited | 2021 | At December 31, 2021: Total of Incurred-But-Not-Reported Liabilities Plus Expected Development on Reported Claims |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2012 | $ 113,668 | $ 106,927 | $ 108,978 | $ 106,779 | $ 100,448 | $ 94,326 | $ 91,669 | $ 89,287 | $ 87,971 | $ 86,931 | $ 1,137 |
| 2013 | | 119,347 | 110,792 | 105,014 | 102,437 | 98,670 | 90,356 | 90,381 | 92,385 | 91,538 | 1,760 |
| 2014 | | | 97,070 | 98,623 | 104,488 | 101,961 | 93,784 | 92,671 | 89,872 | 88,798 | 388 |
| 2015 | | | | 115,911 | 120,662 | 116,685 | 113,580 | 100,630 | 101,594 | 102,491 | 2,744 |
| 2016 | | | | | 102,500 | 101,896 | 106,520 | 88,194 | 82,798 | 81,145 | 1,409 |
| 2017 | | | | | | 91,267 | 89,874 | 85,793 | 79,806 | 77,444 | 4,482 |
| 2018 | | | | | | | 67,413 | 74,589 | 75,137 | 73,258 | 9,234 |
| 2019 | | | | | | | | 42,859 | 39,191 | 38,312 | 6,720 |
| 2020 | | | | | | | | | 26,866 | 33,020 | 5,959 |
| 2021 | | | | | | | | | | 18,416 | 14,375 |
| | | | | | | | | | Total | $ 691,353 | |

**Reinsurance Credit and Surety**

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

For the Years Ended December 31,

| Accident Year | 2012 Unaudited | 2013 Unaudited | 2014 Unaudited | 2015 Unaudited | 2016 Unaudited | 2017 Unaudited | 2018 Unaudited | 2019 Unaudited | 2020 Unaudited | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| 2012 | $ 35,813 | $ 61,269 | $ 70,874 | $ 74,954 | $ 77,425 | $ 78,701 | $ 79,666 | $ 81,192 | $ 81,615 | $ 80,889 |
| 2013 | | 23,977 | 55,543 | 66,130 | 71,031 | 76,210 | 77,673 | 81,338 | 82,959 | 81,825 |
| 2014 | | | 26,575 | 44,982 | 62,965 | 69,670 | 75,452 | 78,558 | 78,855 | 78,623 |
| 2015 | | | | 24,637 | 59,949 | 72,961 | 85,354 | 86,725 | 89,742 | 90,350 |
| 2016 | | | | | 31,454 | 53,678 | 66,271 | 73,090 | 73,767 | 72,839 |
| 2017 | | | | | | 24,390 | 49,430 | 60,885 | 69,883 | 66,793 |
| 2018 | | | | | | | 26,250 | 45,196 | 47,151 | 55,112 |
| 2019 | | | | | | | | 13,489 | 19,157 | 25,801 |
| 2020 | | | | | | | | | 14,231 | 17,934 |
| 2021 | | | | | | | | | | 2,841 |
| | | | | | | | | | Total | 573,007 |
| All outstanding liabilities before 2012, net of reinsurance | | | | | | | | | | 16,506 |
| Liabilities for claims and claim adjustment expenses, net of reinsurance | | | | | | | | | | $ 134,852 |

*(In thousands of U.S. dollars)*

## 6. Reserve for Losses and Loss Expenses (continued)

**Reinsurance Credit and Surety**

Average annual percentage payout of incurred claims by age, net of reinsurance

| Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | Year 8 | Year 9 | Year 10 |
|---|---|---|---|---|---|---|---|---|---|
| 32.1% | 25.6% | 13.2% | 8.7% | 2.2% | 1.7% | 1.5% | 1.1% | (0.4)% | (0.8)% |

*Reinsurance Professional Lines*

This reserve class includes the professional line of business which provides protection for directors' and officers' liability, employment practices liability, medical malpractice, professional indemnity, environmental liability, cyber and miscellaneous errors and omissions insurance risks. The underlying business is predominantly written on a claims-made basis. This business is written on a proportional and excess of loss basis. Typically, this reserve class is anticipated to exhibit medium to long-tail claim reporting and payment patterns.

With respect to key actuarial assumptions, the Company relies on its loss experience when establishing expected loss ratios and selecting loss development patterns. Loss reporting patterns for professional lines business tend to be volatile, causing instability in actuarial indications based on incurred loss data until an underwriting year matures. Consequently, initial reserves for losses and loss expenses for an underwriting year are generally based on the ELR Method and the consideration of relevant qualitative factors. As underwriting years mature, the Company increasingly gives more weight to methods that reflect its experience until its selections are based almost exclusively on experience-based methods. The Company evaluates the appropriateness of the transition to experience-based methods at the reserve class level, commencing this transition when it believes that its incurred loss development is sufficient to produce meaningful actuarial indications. The rate at which the Company transitions fully to sole reliance on experience-based methods can vary by reserve class and by year, depending on its assessment of the stability and relevance of such indications.

*(In thousands of U.S. dollars)*

## 6. Reserve for Losses and Loss Expenses (continued)

**Reinsurance Professional Lines**

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

| | For the Years Ended December 31, | | | | | | | | | | At December 31, 2021 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Accident Year | 2012 Unaudited | 2013 Unaudited | 2014 Unaudited | 2015 Unaudited | 2016 Unaudited | 2017 Unaudited | 2018 Unaudited | 2019 Unaudited | 2020 Unaudited | 2021 | Total of Incurred-But-Not-Reported Liabilities Plus Expected Development on Reported Claims |
| 2012 | $ 110,610 | $ 113,833 | $ 116,856 | $ 117,863 | $ 117,018 | $ 112,168 | $ 112,209 | $ 108,112 | $ 106,692 | $ 107,835 | $ 4,074 |
| 2013 | | 110,661 | 113,044 | 113,485 | 112,423 | 112,111 | 108,351 | 94,830 | 87,979 | 86,577 | 3,946 |
| 2014 | | | 115,225 | 115,032 | 114,814 | 114,676 | 121,615 | 120,001 | 119,433 | 118,735 | 2,881 |
| 2015 | | | | 111,612 | 111,673 | 113,236 | 119,577 | 124,359 | 123,617 | 127,813 | 9,529 |
| 2016 | | | | | 98,431 | 99,227 | 101,206 | 117,482 | 133,871 | 133,614 | 15,473 |
| 2017 | | | | | | 67,995 | 68,697 | 72,056 | 80,713 | 85,838 | 15,009 |
| 2018 | | | | | | | 20,528 | 21,336 | 22,241 | 21,940 | 6,019 |
| 2019 | | | | | | | | 28,193 | 29,765 | 30,315 | 13,332 |
| 2020 | | | | | | | | | 27,869 | 28,534 | 18,521 |
| 2021 | | | | | | | | | | 25,242 | 17,540 |
| | | | | | | | | | Total | $ 766,443 | |

**Reinsurance Professional Lines**

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

| | For the Years Ended December 31, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Accident Year | 2012 Unaudited | 2013 Unaudited | 2014 Unaudited | 2015 Unaudited | 2016 Unaudited | 2017 Unaudited | 2018 Unaudited | 2019 Unaudited | 2020 Unaudited | 2021 |
| 2012 | $ 396 | $ 5,544 | $ 15,610 | $ 27,859 | $ 44,416 | $ 55,933 | $ 68,713 | $ 76,136 | $ 81,034 | $ 86,227 |
| 2013 | | 540 | 6,389 | 15,933 | 33,472 | 41,918 | 54,120 | 63,707 | 66,594 | 68,728 |
| 2014 | | | 1,184 | 6,920 | 25,418 | 38,543 | 56,600 | 76,031 | 82,148 | 92,288 |
| 2015 | | | | 1,640 | 7,054 | 21,851 | 41,242 | 59,126 | 70,018 | 80,768 |
| 2016 | | | | | 1,062 | 10,460 | 26,765 | 48,715 | 63,818 | 79,233 |
| 2017 | | | | | | 1,445 | 6,597 | 17,566 | 26,094 | 39,235 |
| 2018 | | | | | | | 396 | 1,056 | 2,221 | 4,897 |
| 2019 | | | | | | | | 257 | 1,199 | 4,814 |
| 2020 | | | | | | | | | 376 | 2,228 |
| 2021 | | | | | | | | | | 897 |
| | | | | | | | | | Total | 459,315 |
| All outstanding liabilities before 2012, net of reinsurance | | | | | | | | | | 38,663 |
| Liabilities for claims and claim adjustment expenses, net of reinsurance | | | | | | | | | | $ 345,791 |

*(In thousands of U.S. dollars)*

## 6. Reserve for Losses and Loss Expenses (continued)

**Reinsurance Professional Lines**

Average annual percentage payout of incurred claims by age, net of reinsurance

| Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | Year 8 | Year 9 | Year 10 |
|---|---|---|---|---|---|---|---|---|---|
| 1.3% | 5.1% | 11.2% | 13.8% | 13.5% | 12.2% | 9.2% | 6.2% | 3.5% | 4.8% |

*Reinsurance Motor*

This reserve class includes the motor line of business which provides cover to insurers for motor liability and motor property damage losses arising from any one occurrence. A loss occurrence can involve one or many claimants where the ceding insurer aggregates the claims from the occurrence. The Company offers traditional proportional and non-proportional reinsurance as well as structured solutions predominantly relating to European exposures.

The business written on a proportional basis has expanded significantly since 2010 and now represents the majority of the premium in this line of business. Most of the premium relates to a relatively small number of large United Kingdom ("U.K.") quota share reinsurance treaties. The motor proportional business generally has a significantly shorter reported and payment pattern, relative to the motor non-proportional business.

The motor non-proportional business consists of standard excess of loss contracts written for cedants in several European countries with most of the premium related to two major markets, U.K. and France. Since 2009/2010, an increasing number of large bodily injury settlements in the U.K. market were settled using indexed annuities (Periodical Payment Orders "PPOs"). This led to a materially longer development tail on the older accident years for the U.K. non-proportional motor book. This also resulted in the inclusion of capitalization clauses on a number of U.K. motor treaties which allow reinsurers to settle claims arising under PPOs with a lump sum payment, to help mitigate the lengthening of the development tail on more recent accident years.

In 2017, the U.K. Ministry of Justice announced a decrease in the discount rate to be used to calculate lump sum awards in U.K. bodily injury cases, known as the Ogden Rate. Effective March 20, 2017, the Ogden rate changed from plus 2.5% to minus 0.75%. This resulted in a trend toward a lower number of claims settlements using PPOs and an increase in projected ultimate losses, particularly related to recent accident years.

Effective August 5, 2019, the Ogden rate changed from minus 0.75% to minus 0.25%. This resulted in a decrease in projected ultimate losses, particularly related to recent accident years.

*(In thousands of U.S. dollars)*

## 6. Reserve for Losses and Loss Expenses (continued)

**Reinsurance Motor**

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance — For the Years Ended December 31,

| Accident Year | 2012 Unaudited | 2013 Unaudited | 2014 Unaudited | 2015 Unaudited | 2016 Unaudited | 2017 Unaudited | 2018 Unaudited | 2019 Unaudited | 2020 Unaudited | 2021 | At December 31, 2021 Total of Incurred-But-Not-Reported Liabilities Plus Expected Development on Reported Claims |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2012 | $ 137,281 | $ 130,562 | $ 121,746 | $ 115,968 | $ 112,145 | $ 104,937 | $ 102,748 | $ 96,534 | $ 96,741 | $ 93,674 | $ 6,921 |
| 2013 | | 125,315 | 124,167 | 115,327 | 108,152 | 105,543 | 103,444 | 96,593 | 94,282 | 91,334 | 4,231 |
| 2014 | | | 140,967 | 143,007 | 139,417 | 137,382 | 133,780 | 131,253 | 128,910 | 128,954 | 3,752 |
| 2015 | | | | 171,801 | 169,743 | 172,926 | 174,029 | 165,370 | 164,381 | 162,494 | 6,472 |
| 2016 | | | | | 189,558 | 205,103 | 206,499 | 198,535 | 192,236 | 190,303 | 5,835 |
| 2017 | | | | | | 258,214 | 263,047 | 250,592 | 250,167 | 253,095 | 12,871 |
| 2018 | | | | | | | 268,603 | 269,487 | 278,141 | 275,340 | 27,080 |
| 2019 | | | | | | | | 257,416 | 258,098 | 258,543 | 37,564 |
| 2020 | | | | | | | | | 162,798 | 165,403 | 50,375 |
| 2021 | | | | | | | | | | 133,682 | 77,769 |
| | | | | | | | | | Total | $ 1,752,822 | |

**Reinsurance Motor**

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance — For the Years Ended December 31,

| Accident Year | 2012 Unaudited | 2013 Unaudited | 2014 Unaudited | 2015 Unaudited | 2016 Unaudited | 2017 Unaudited | 2018 Unaudited | 2019 Unaudited | 2020 Unaudited | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| 2012 | $ 22,174 | $ 41,102 | $ 52,573 | $ 60,163 | $ 65,224 | $ 68,400 | $ 70,195 | $ 71,120 | $ 64,597 | $ 73,061 |
| 2013 | | 25,796 | 41,544 | 52,558 | 60,450 | 64,893 | 69,230 | 71,584 | 64,899 | 74,932 |
| 2014 | | | 32,939 | 57,692 | 73,109 | 79,554 | 87,543 | 95,136 | 92,011 | 107,911 |
| 2015 | | | | 43,936 | 72,559 | 88,513 | 101,968 | 114,419 | 115,502 | 132,923 |
| 2016 | | | | | 46,264 | 81,502 | 100,477 | 114,541 | 125,119 | 143,913 |
| 2017 | | | | | | 53,121 | 102,846 | 126,983 | 152,471 | 169,588 |
| 2018 | | | | | | | 63,797 | 111,324 | 161,957 | 170,560 |
| 2019 | | | | | | | | 68,686 | 140,859 | 155,090 |
| 2020 | | | | | | | | | 33,058 | 74,460 |
| 2021 | | | | | | | | | | 31,228 |
| | | | | | | | | | Total | 1,133,666 |
| All outstanding liabilities before 2012, net of reinsurance | | | | | | | | | | 176,577 |
| Liabilities for claims and claim adjustment expenses, net of reinsurance | | | | | | | | | | $ 795,733 |

*(In thousands of U.S. dollars)*

## 6. Reserve for Losses and Loss Expenses (continued)

**Reinsurance Motor**

Average annual percentage payout of incurred claims by age, net of reinsurance

| Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | Year 8 | Year 9 | Year 10 |
|---|---|---|---|---|---|---|---|---|---|
| 24.3% | 20.3% | 11.2% | 7.2% | 6.1% | 4.9% | 3.2% | 2.0% | 2.0% | 9.0% |

*Reinsurance Liability*

This reserve class includes the liability line of business which provides protection to insurers of admitted casualty business, excess and surplus lines casualty business and specialty casualty programs. The primary focus of the underlying business is general liability, workers' compensation, auto liability and excess casualty.

Claim reporting and payment patterns are typically long-tail in nature and, therefore, subject to increased uncertainty surrounding future loss development. In particular, claims can be subject to inflation from a number of sources including, but not limited to, economic and medical inflation, judicial inflation, mass tort and changing social trends.

**Reinsurance Liability**

| | Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance | | | | | | | | | | At December 31, 2021 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | For the Years Ended December 31, | | | | | | | | | | Total of Incurred-But-Not-Reported Liabilities Plus Expected Development on Reported Claims |
| Accident Year | 2012 Unaudited | 2013 Unaudited | 2014 Unaudited | 2015 Unaudited | 2016 Unaudited | 2017 Unaudited | 2018 Unaudited | 2019 Unaudited | 2020 Unaudited | 2021 | |
| 2012 | $ 89,939 | $ 88,101 | $ 90,372 | $ 92,558 | $ 93,176 | $ 91,352 | $ 86,235 | $ 82,279 | $ 83,232 | $ 84,530 | $ 5,781 |
| 2013 | | 93,918 | 95,423 | 98,670 | 99,635 | 99,645 | 94,656 | 82,152 | 80,463 | 79,386 | 6,296 |
| 2014 | | | 107,770 | 109,049 | 109,802 | 107,785 | 107,144 | 105,746 | 100,293 | 97,081 | 9,793 |
| 2015 | | | | 114,858 | 114,978 | 115,441 | 115,418 | 114,436 | 113,029 | 107,670 | 16,123 |
| 2016 | | | | | 120,835 | 123,378 | 126,370 | 128,157 | 131,357 | 132,771 | 23,906 |
| 2017 | | | | | | 117,718 | 115,318 | 118,562 | 122,611 | 128,560 | 34,697 |
| 2018 | | | | | | | 28,056 | 31,572 | 30,369 | 29,924 | 14,628 |
| 2019 | | | | | | | | 28,243 | 29,192 | 28,301 | 21,141 |
| 2020 | | | | | | | | | 25,437 | 32,076 | 20,469 |
| 2021 | | | | | | | | | | 21,685 | 20,348 |
| | | | | | | | | | Total | $ 741,984 | |

*(In thousands of U.S. dollars)*

## 6. Reserve for Losses and Loss Expenses (continued)

**Reinsurance Liability**

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

For the Years Ended December 31,

| Accident Year | 2012 Unaudited | 2013 Unaudited | 2014 Unaudited | 2015 Unaudited | 2016 Unaudited | 2017 Unaudited | 2018 Unaudited | 2019 Unaudited | 2020 Unaudited | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| 2012 | $ 1,837 | $ 6,474 | $ 14,342 | $ 29,950 | $ 39,905 | $ 51,664 | $ 59,003 | $ 64,775 | $ 69,200 | $ 70,287 |
| 2013 | | 3,101 | 11,491 | 26,694 | 35,099 | 44,852 | 52,107 | 57,426 | 63,339 | 65,482 |
| 2014 | | | 3,654 | 14,432 | 24,375 | 35,814 | 45,584 | 56,313 | 68,325 | 71,880 |
| 2015 | | | | 3,695 | 13,869 | 27,868 | 41,186 | 56,345 | 67,632 | 73,375 |
| 2016 | | | | | 5,670 | 17,327 | 33,189 | 53,976 | 69,985 | 81,481 |
| 2017 | | | | | | 5,569 | 17,317 | 32,228 | 47,896 | 64,182 |
| 2018 | | | | | | | 550 | 1,930 | 2,738 | 4,269 |
| 2019 | | | | | | | | 552 | 1,372 | 2,067 |
| 2020 | | | | | | | | | 256 | 1,397 |
| 2021 | | | | | | | | | | 315 |
| | | | | | | | | | Total | 434,735 |
| | | | | | | | | | All outstanding liabilities before 2012, net of reinsurance | 80,238 |
| | | | | | | | | | Liabilities for claims and claim adjustment expenses, net of reinsurance | $ 387,487 |

**Reinsurance Liability**

Average annual percentage payout of incurred claims by age, net of reinsurance

| Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | Year 8 | Year 9 | Year 10 |
|---|---|---|---|---|---|---|---|---|---|
| 2.8% | 7.3% | 10.1% | 12.3% | 12.2% | 10.7% | 8.3% | 6.0% | 4.0% | 1.3% |

*(In thousands of U.S. dollars)*

## 6. Reserve for Losses and Loss Expenses (continued)

### Reconciliation of Development Tables to Consolidated Balance Sheet

The following table reconciles the reserve for losses and loss expenses at December 31, 2021 included in the loss development tables to the reserve for losses and loss expenses reported in the consolidated balance sheet:

**Reconciliation of the Disclosure of Incurred and Paid Claims Development to the Liability for Unpaid Claims and Claim Adjustment Expenses**

| | December 31, 2021 | | |
|---|---|---|---|
| | **Net outstanding liabilities** | **Reinsurance recoverable on unpaid claims** | **Gross outstanding liabilities** |
| Insurance Operations | | | |
| Property and Other | $ 236,249 | $ 1,159 | $ 237,408 |
| Marine | 125,802 | 53,906 | 179,708 |
| Aviation | 80,201 | 15,867 | 96,068 |
| Credit and Political Risk | (9,739) | 2,196 | (7,543) |
| Professional Lines | 694,375 | 45,591 | 739,966 |
| Liability | 183,531 | 22,760 | 206,291 |
| Total Insurance Operations | 1,310,419 | 141,479 | 1,451,898 |
| Reinsurance Operations | | | |
| Property and Other | 1,098,954 | 363,631 | 1,462,585 |
| Credit and Surety | 134,852 | 14,027 | 148,879 |
| Professional Lines | 345,791 | 70,790 | 416,581 |
| Motor | 795,733 | 204,440 | 1,000,173 |
| Liability | 387,487 | 83,488 | 470,975 |
| Total Reinsurance Operations | 2,762,817 | 736,376 | 3,499,193 |
| Total | $ 4,073,236 | $ 877,855 | 4,951,091 |
| Unallocated claims adjustment expenses | | | 46,937 |
| Foreign exchange and other[(1)] | | | (53,172) |
| Ceded reserves related to retroactive transactions | | | (113,947) |
| Total liability for unpaid claims and claims adjustment expense | | | $ 4,830,909 |

(1) Non-U.S. dollar denominated loss data is converted to U.S dollar at the rates of exchange in effect at the balance sheet date for material underlying currencies. Fluctuations in currency exchange rates cause material shifts in loss development. Reserves for losses and loss expenses, disclosed on our consolidated balance sheets, are also revalued using the exchange rate at the balance sheet date.

*(In thousands of U.S. dollars)*

## 7. Reinsurance

In the normal course of business, the Company purchases treaty and facultative reinsurance protection to limit ultimate losses from catastrophic events and reduce loss aggregation risk.

Facultative reinsurance provides coverage for all or a portion of the losses incurred for a single policy and the Company separately negotiates each facultative contract.

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

All of these reinsurance contracts provide the Company with the right to recover a specified amount of losses and loss expenses from reinsurers. To the extent that reinsurers do not meet their obligations under these agreements due to solvency issues, contractual disputes over contract language or coverage and/or other reasons, the Company remains liable. The Company predominantly cedes its business to reinsurers rated A- or better by A.M. Best Company, Inc. ("A.M. Best") or on a fully collateralized basis.

Gross and net premiums written and earned for the years ended December 31, 2021 and 2020 are as follows:

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | **Premiums Written** | **Premiums Earned** | **Premiums Written** | **Premiums Earned** |
| Gross | $ 1,898,375 | $ 1,915,280 | $ 1,753,077 | $ 1,845,589 |
| Ceded | (405,639) | (412,537) | (420,853) | (403,776) |
| Net | $ 1,492,736 | $ 1,502,743 | $ 1,332,224 | $ 1,441,813 |

For the year ended December 31, 2021, the Company recognized ceded losses and loss expenses of $311,852 (2020: $286,139).

The Company’s provision for unrecoverable reinsurance was $2,488 at December 31, 2021 (2020: $2,251).

## 8. Financing Arrangements

***Letter of Credit Facility***

On November 20, 2013, the Company and certain of AXIS Capital's operating subsidiaries ("Participating Subsidiaries") entered into an amendment to extend the term of a secured $750 million letter of credit facility with Citibank Europe plc ("Citibank") (the "$750 million Facility") pursuant to a Master Reimbursement Agreement and other ancillary documents (together, the "LOC Facility Documents"). Under the terms of the $750 million Facility, letters of credit to a maximum aggregate amount of $750 million are available for issuance on behalf of the Participating Subsidiaries. These letters of credit are principally used to support the reinsurance obligations of the Participating Subsidiaries. The $750 million Facility is subject to certain covenants, including the requirement to maintain sufficient collateral, as defined in the LOC Facility Documents, to cover all of the obligations under the $750 million Facility. Such obligations include contingent reimbursement obligations for outstanding letters of credit and fees payable to Citibank. In the event of default, Citibank may exercise certain remedies, including the exercise of control over pledged collateral and the termination of the availability of the $750 million Facility to any or all of the Participating Subsidiaries.

On March 31, 2015, the Participating Subsidiaries entered into an amendment to reduce the maximum aggregate utilization capacity of the $750 million Facility to $500 million (the "$500 million Facility"). All other material terms and conditions remained unchanged.

On March 27, 2017, the Participating Subsidiaries amended the existing $500 million Facility to include an additional $250 million of secured letter of credit capacity (the "$250 million Facility") pursuant to a Committed Facility Letter and an amendment to the Master Reimbursement Agreement. Under the terms of the amended $750 million Facility, letters of credit to a maximum aggregate amount of $250 million are available for issuance on behalf of the Participating Subsidiaries once the $500 million Facility is fully utilized.

On December 24, 2019, the expiration date of the $500 million Facility was extended to December 31, 2023.

On March 28, 2020, the expiration date of the $250 million Facility was extended to March 31, 2021.

On March 31, 2021, the Participating Subsidiaries amended their existing secured $750 million Facility to extend the expiration date of the $250 million Facility to March 31, 2022, with each letter of credit provided pursuant to such credit facility having a tenor not to extend beyond March 31, 2023, to reduce the utilization capacity available under the $250 million Facility to $150 million (the "$150 million Facility"), reducing the maximum aggregate utilization capacity of the credit facility from $750 million to $650 million, and to make administrative changes to the remaining $500 million Facility.

At December 31, 2021, the Company had $175,905 and nil letters of credit outstanding under the $500 million Facility and $150 million Facility, respectively. In addition, letters of credit of $39,284 issued on behalf of other Participating Subsidiaries under the $500 million Facility for which the Company provides collateral were outstanding as at December 31, 2021. AXIS Capital and the Participating Subsidiaries were in compliance with all LOC Facility covenants at December 31, 2021.

## 9. Commitments and Contingencies

### a) Concentrations of Credit Risk

***Credit Risk Aggregation***

The aggregation of credit risk is monitored and managed on an AXIS Capital group-wide basis by considering exposure management strategies for individual companies, countries, regions, sectors and any other relevant inter-dependencies. Credit exposures are aggregated based on the origin of risk. Credit risk aggregation is also managed through minimizing overlaps in underwriting, financing and investing activities. As part of its credit aggregation framework, aggregate credit limits are assigned by country and by single counterparty (or parent of affiliated counterparties). These limits are based on and adjusted for a variety of factors, including the prevailing economic environment and the nature of the underlying credit exposures.

The credit aggregation measurement and reporting process is facilitated by a credit risk exposure database, which contains relevant information on counterparty details and credit risk exposures. The database is accessible by management throughout AXIS Capital, therefore providing transparency to allow for the implementation of active exposure management strategies on a group-wide basis. AXIS Capital also licenses third-party tools to provide credit risk assessment. AXIS Capital monitors all its credit aggregations on a group-wide basis and, where appropriate, adjusts its internal risk limits and/or takes specific actions to reduce risk exposures. These AXIS Capital group-wide processes include some entity level monitoring and limits.

The assets that potentially subject the Company to concentrations of credit risk consist principally of cash and investments, reinsurance recoverable on unpaid and paid claims and insurance and reinsurance premium balances receivable, as described below.

***Cash and Investments***

In order to mitigate concentration and operational risks related to cash and cash equivalents, the Company limits the maximum amount of cash that can be deposited with a single counterparty and limits acceptable counterparties based on current rating, outlook and other relevant factors.

The Company's fixed maturity investment portfolio is exposed to potential losses arising from the diminished creditworthiness of issuers of bonds.. The Company's investment portfolio is managed by external investment managers in accordance with its investment guidelines. The Company limits credit risk through diversification and issuer exposure limits graded by ratings and, with respect to custodians, through contractual and other legal remedies. Excluding U.S. government and agency securities, the Company limits its concentration of credit risk to any single corporate issuer to less than 2% of its investment grade fixed maturities portfolio for securities rated A- or above and less than 1% of its investment grade fixed maturities portfolio for securities rated below A-.

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

## 9. Commitments and Contingencies (continued)

***Reinsurance Recoverable on Unpaid and Paid Losses and Loss Expense***

The Company is exposed to the credit risk associated with reinsurance recoverable on unpaid and paid losses to the extent that any of its reinsurers fail to meet their obligations under reinsurance contracts. To help mitigate this risk, the Company's purchase of reinsurance is subject to financial security requirements specified by the AXIS Group Reinsurance Security Committee. This Committee maintains a list of approved reinsurers, performs credit risk assessments for potential new reinsurers, regularly monitors approved reinsurers with consideration for events which may have a material impact on their creditworthiness, recommends counterparty tolerance levels for different types of ceded business and monitors concentrations of credit risk. This assessment considers a wide range of individual attributes, including a review of the counterparty’s financial strength, industry position and other qualitative factors. Generally, the Committee requires that reinsurers who do not meet specified requirements provide collateral.

At December 31, 2021, the three largest balances by reinsurer accounted for 69% (2020: 75%) of reinsurance recoverable on unpaid and paid losses and loss expenses. At December 31, 2021, balances recoverable from Harrington Re Ltd. accounted for 37% (2020: 45%) of reinsurance recoverable on unpaid and paid loss and loss expenses (see Note 13 - Related Party Transactions) .

At December 31, 2021, 57% of the Company’s reinsurance balances recoverable were collectible from reinsurers rated A- or better by A.M. Best (2020: 71%) and 42% were fully collateralized (2020: 28%).

***Insurance and Reinsurance Premium Balances Receivable***

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

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

These contractual rights contribute to the mitigation of credit risk, together with the monitoring of aged premium balances receivable. In light of these mitigating factors, and considering that a significant portion of premium balances receivable are not currently due based on the terms of the underlying contracts, the Company does not utilize specific credit quality indicators to monitor its premium balances receivable.

At December 31, 2021, and 2020 the Company recorded a negligible allowance for estimated uncollectible premium balances receivable. The corresponding bad debt expense was negligible in 2021 and 2020.

*(In thousands of U.S. dollars)*

## 9. Commitments and Contingencies (continued)

### b) Brokers

The Company produces its business through brokers and direct relationships with insurance companies. Excluding business assumed from affiliates, during 2021, three brokers accounted for 25% (2020: 29%) of the total gross premiums written by the Company. Aon plc accounted for 11% (2020: 12%), Marsh & McLennan Companies Inc. 9% (2020: 10%), and Willis Tower Watson PLC for 5% (2020: 6%). With the exception of reinsurance provided to other subsidiaries of AXIS Capital through quota share and stop loss agreements, no other broker and no one insured or reinsured accounted for more than 10% of gross premiums written in the years ended December 31, 2021 and 2020.

### c) Lease Commitments

In the ordinary course of business, the Company renews and enters into new leases for office space which expire at various dates.The total rent expense with respect to these operating leases for the year ended December 31, 2021 was $3,401 (2020: $3,779).

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

| Year | Amount | |
|---|---|---|
| 2022 | $ | 3,451 |
| 2023 | | 3,451 |
| 2024 | | 2,877 |
| 2025 | | 2,158 |
| 2026 | | — |
| Later years | | — |
| Total | $ | 11,937 |

### d) Guarantees

During 2014, the Company entered into a Deed of Guarantee (the "Guarantee") with a policyholder of AXIS Specialty Europe SE ("ASE"), one of AXIS Capital's operating subsidiary following which the Company guarantees the obligations of ASE in the event of non-payment of balances owing to the policyholder following ASE's insolvency. The maximum limit of the guarantee is $250,000 and the amount outstanding which is based on in-force policies was $nil at December 31, 2021 (2020: $nil).

## 10. Shareholder's Equity

Share capital consists of 12,000,000 authorized common shares of a par value of $0.10 per share. As at December 31, 2021, 12,000,000 common shares were issued and fully paid (2020: 12,000,000 common shares).

## 11. Retirement Plans

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

For the year ended December 31, 2021, the Company's total pension expenses were $1,618 (2020: $1,562) for the above retirement benefits.

## 12. Share-Based Compensation

AXIS Capital adopted long-term equity compensation plans that provide for, among other things, the issuance of restricted shares, restricted stock units (share-settled awards and cash-settled awards), performance units (share-settled awards and cash-settled awards), stock options, stock appreciation rights and other equity-based awards to our employees and directors.

*Restricted Stock Units - Share-Settled*

The grant date fair value of share-settled restricted stock units granted is established at the fair market value of AXIS Capital's common shares at the date of grant. These awards either cliff vest at the end of a three year period, vest in accordance with a three year graded vesting schedule in three annual installments beginning on the grant date, or vest in accordance with a four year graded vesting schedule in four annual installments beginning on the grant date.

*Restricted Stock Units - Cash-settled*

The grant date fair value of cash-settled restricted stock units granted is established at the fair market value of AXIS Capital's common shares at the date of grant. These awards are liability awards and generally cliff vest at the end of a three year period, or vest in accordance with a four year graded vesting schedule in four annual installments beginning on the grant date.

*Performance Restricted Stock Units - Share-Settled and Cash-Settled*

Performance restricted stock units granted represent the right to receive a specified number of common shares in the future, based on the achievement of established performance criteria and continued service during the applicable performance period. The grant date fair value of performance restricted stock units was established at the fair market value of AXIS Capital's common shares at the date of grant and generally cliff vest at the end of a three year period. Compensation expense is recognized on a straight-line basis over the applicable requisite service period and is subject to periodic adjustment based on the achievement of established performance criteria during the applicable performance period.

**12. Share-Based Compensation (continued)**

*Acceleration provisions*

Grants provided generally allow for accelerated vesting provisions on the employee's death, permanent disability, or certain terminations following a change in control of AXIS Capital occurring within two years of the change in control event. Notwithstanding these vesting provisions, the Compensation Committee of the AXIS Capital Board has broad authority to accelerate vesting at its discretion.

*Retirement Plan*

In 2016, AXIS Capital established the AXIS Executive Restricted Stock Unit Retirement Plan (the "Plan") to reward certain eligible long-term employees of the Company for their dedicated service. The Plan was implemented in 2017. Subject to certain conditions being met, eligible employees do not forfeit all of their outstanding share-settled restricted stock units or cash-settled restricted stock units on or following their retirement. Absent the Plan, outstanding restricted stock units are generally forfeited on termination of employment.

At December 31, 2021, the liability for cash-settled restricted stock units, included in other liabilities in the consolidated balance sheets, is $444 (2020: $659).

At December 31, 2021, there were $4,362 (2020: $3,243) of unrecognized compensation costs which are expected to be recognized over the weighted average period of 2.5 years (2020: 2.4 years).

For the year ended December 31, 2021, the Company incurred share-based compensation costs of $2,118 (2020: $2,644) related to share-settled restricted stock units, and cash-settled restricted stock units.

*(In thousands of U.S. dollars)*

## 13. Related Party Transactions

During the years ended December 31, 2021 and 2020, the Company entered into various transactions with AXIS Capital and its subsidiaries.

The following amounts relating to the quota share and stop loss agreements (see Note 1) are included in the consolidated statements of operations for the years ended December 31, 2021 and 2020:

| | | 2021 | | 2020 |
|---|---|---|---|---|
| Gross premiums written | $ | 1,355,682 | $ | 1,150,645 |
| Net premiums earned | | 1,306,209 | | 1,218,347 |
| Acquisition costs expensed | | 396,308 | | 376,106 |
| Losses and loss expenses | | 911,746 | | 934,754 |

At December 31, 2021, amounts due from AXIS Capital and its subsidiaries were $1,899,855 (2020: $2,032,724). This balance includes $1,103,198 (2020: $1,084,724) of balances receivable under reinsurance arrangements that typically include quarterly settlement provisions. The balance also includes $494,929 (2020: $494,929) of loans receivable from AXIS Specialty Holdings, $301,728 (2020: $407,071) of unsecured, non-interest bearing advances to AXIS Capital and its subsidiaries that are payable on demand and notes receivable from AXIS Specialty Finance plc of $nil (2020: $46,000 ).

The loans and accrued interest balance due from AXIS Specialty Holdings are comprised of three loans:

- The first loan of $103,500 is unsecured, matures on June 23, 2026 and bears interest at an annual rate of 3.68%, which is payable semi-annually.
- The second loan of $4,365 is unsecured, matures on December 12, 2026 and bears interest at an annual rate of 4.17%, which is payable semi-annually.
- The third loan of $387,064 is unsecured, matures on December 6, 2027 and bears interest at an annual rate of 4.25%, which is payable semi-annually.

AXIS Specialty Holdings may prepay any or all amounts due under these loans at any time without penalty.

On April 18, 2019 AXIS Specialty Finance PLC ("AXIS Finance PLC"), a company affiliated through common ownership, executed a deed following which it can issue up to $390,000 of fixed rate unsecured loan notes maturing on or before April 22, 2022 ("Notes Facility"). The Notes Facility bears interest at LIBOR plus 1.50% with interest payable semi-annually on June 30 and December 31. On January 28, 2022, the Notes Facility was amended to mature on or before April 18, 2024 and bear interest at the Secured Overnight Financing Rate plus 1.50%.

On December 18, 2020 the Company invested $46,000 in the Notes Facility with an interest rate of 1.73% and a maturity date of March 31, 2021. On January 21,2021, the Company invested an additional $20,000 in the Notes Facility with an interest rate of 1.72% and a maturity date of March 31, 2021. The aggregate balance of $66,000 invested in the Notes Facility was extended on March 31, 2021 with an interest rate of 1.70% and a maturity of on or before June 30, 2021. It was fully repaid on June 4, 2021.

For the year ended December 31, 2021, the Company recognized $20,716 (2020: $22,288) of interest income in relation to the these loans.

**13. Related Party Transactions (continued)**

At December 31, 2021, insurance and reinsurance balances payable included $70,984 (2020: $93,157) payable to affiliates under quota share agreements. Due to affiliates included $45,000 of loans and accrued interest payable to AXIS Specialty U.S. Holdings Inc. ("Specialty U.S. Holdings") (2020: $55,646), and $17,854 (2020: $9,017) of unsecured, non-interest bearing amounts due to certain of AXIS Capital's subsidiaries that are payable on demand.

On June 19, 2019, the Company entered into a loan with Specialty U.S. Holdings following which it borrowed $136,603 at an annual interest rate of 2.37%. The loan was extended to mature on or before December 15, 2020. The loan was repaid in 2020 and there were no amounts outstanding as at December 31, 2021 and 2020.

On January 14, 2020, the Company entered into a loan with Specialty U.S. Holdings following which it borrowed $260,000 with a maturity of May 28, 2020 at an annual interest rate of 5.15%. The loan was repaid in 2020 and there were no amounts outstanding as at December 31, 2021 and 2020.

On July 29, 2019, the Company entered into a loan with Specialty U.S. Holdings following which it borrowed $80,000 at an annual interest rate of 2.13%. The loan was partially repaid in 2020 and extended to mature on or before December 15, 2021. The remaining outstanding balance of $55,646 was settled on December 15, 2021.

On December 17, 2021, the company entered into a loan with Specialty U.S. Holdings following which it borrowed $45,000 at an annual interest rate of 1.65%. The loan matures on or before September 30, 2022.

For the year ended December 31, 2021, the Company recognized $1,185 (2020: $8,092) of interest expense in relation to the these loans.

Harrington Reinsurance Holdings Limited ("Harrington"), the parent company of Harrington Re Ltd. ("Harrington Re"), an independent reinsurance company jointly sponsored by AXIS Capital and The Blackstone Group L.P., and Harrington Re commenced operations in 2016. AXIS Capital has the ability to exercise significant influence over the operating and financial policies of Harrington and Harrington Re. In the normal course of business, the Company enters into certain reinsurance transactions with Harrington Re. For the year ended December 31, 2021, the Company ceded reinsurance premiums of $68,091 (2020: $75,995) and ceded losses of $42,908 (2020: $67,268) to Harrington Re. In addition, Harrington Re paid certain acquisition costs and administrative fees to the Company. At December 31, 2021, the amount of reinsurance recoverable on unpaid and paid losses from Harrington Re was $360,082 (2020: $381,427) and the amount of ceded reinsurance payable to Harrington Re included in insurance and reinsurance balances payable was $44,998 (2020: $55,936) in the consolidated balance sheets. All transactions were conducted at market rates consistent with negotiated arms-length contracts.

## 13. Related Party Transactions (continued)

A member of AXIS Capital's Board of Directors, Mr. Charles Davis, is the Chief Executive Officer of Stone Point Capital, LLC ("Stone Point"). In the ordinary course of business, the Company engages SKY Harbor Capital Management, LLC, an affiliate of Stone Point, to provide asset management services for certain high yield debt portfolios. For the year ended December 31, 2021, total fees paid to SKY Harbor Capital Management, LLC, were $1,764 (2020: $2,659).

The Company has co-investments of $25,337 with Stone Point's private equity fund, Trident VIII L.P. ("Trident VIII"). For the year ended December 31, 2021, the Company has not paid any fees to Stone Point in relation to Trident VIII co-investments (2020: $nil).

The Company has an investment of $12,467 in Stone Point Credit Corporation. For the year ended December 31, 2021, the Company has not paid any fees to Stone Point in relation to Stone Point Credit Corporation.

The Company's investment portfolio includes certain investments where the Company is considered to have the ability to exercise significant influence over the operating and financial policies of the investee. Significant influence is generally deemed to exist where the Company has an investment of 20% or more in the common stock of a corporation or an investment greater than 3% to 5% in closed end funds, limited partnerships, LLCs or similar investment vehicles. At December 31, 2021, the Company had $167,438 (2020: $183,302) of investments where it is deemed to have the ability to exercise such significant influence. The Company generally pays management and performance fees to the investment managers of these investments. The Company considers all fees paid to the investment managers to be at market rates consistent with negotiated arms-length contracts.

## 14. Taxation

Under current Bermuda law, the Company is not required to pay any taxes in Bermuda on income or capital gains. The Company has received an assurance from the Minister of Finance in Bermuda that, in the event of any taxes being imposed, the Company will be exempt from taxation in Bermuda until March 2035. The Branch is subject to taxes in Singapore. The Branch is not under examination in this tax jurisdiction, but remains subject to examination for the tax years 2018 through 2021.

At December 31, 2021, the total operating loss carry forwards for the Branch were $76,286 (2020: $110,504). Such operating losses are currently available to offset future taxable income of the Branch and may be carried forward indefinitely. At December 31, 2021 and 2020, the Company established a full valuation allowance on these operating loss carry forwards due to the cumulative losses historically.

*(In thousands of U.S. dollars)*

## 15. Other Comprehensive Income (Loss)

Reclassifications out of AOCI into net income were as follows:

| **AOCI Components** | **Consolidated statements of operations line item that includes reclassification** | **Amount Reclassified from AOCI(1)** | |
|---|---|---|---|
| | | **Year ended December 31,** | |
| | | **2021** | **2020** |
| Unrealized gains (losses) on available for sale investments | | | |
| | Other realized investment gains | $ 55,250 | $ 27,366 |
| | Impairment losses | (7) | (968) |
| | OTTI losses | — | — |
| | **Total before tax** | **55,243** | **26,398** |
| | Income tax expenses | — | — |
| | **Net of tax** | **$ 55,243** | **$ 26,398** |

(1) Amounts in parentheses are charges to net income

*(In thousands of U.S. dollars)*

## 16. Statutory Financial Information

The Company is licensed under the Bermuda Insurance Act 1978, amendments thereto and Related Regulations (the "Act") and is required to comply with various provisions of the Act regarding solvency and liquidity. Under the Act, the Company is required to maintain minimum statutory capital and surplus equal to the greater of a minimum solvency margin ("MSM") and an Enhanced Capital Requirement ("ECR"). The MSM is the greater of $100 million, 50% of net written premiums, 15% of the net reserve for losses and loss adjustment expenses or 25% of the ECR. The ECR is calculated based on either an internally developed risk-based capital model or a standard risk-based capital model developed by the Bermuda Monetary Authority ("BMA"). In 2016, the BMA implemented an Economic Balance Sheet ("EBS") framework, which is used as the basis to determine the required and available statutory capital and surplus. Actual and required minimum statutory capital and surplus at December 31, 2021 and 2020 were as follows:

| | 2021 | 2020 |
|---|---|---|
| Required minimum statutory capital and surplus | $ 1,517,485 | $ 1,584,854 |
| Actual statutory capital and surplus | $ 3,067,879 | $ 3,004,077 |

Under the Act, the Company is restricted as to the payment of dividends for amounts greater than 25% of the prior year's statutory capital and surplus, whereby a signed affidavit by at least two members of the Board of Directors attesting that a dividend in excess of this amount would not cause the company to fail to meet its relevant margins is required. The maximum dividend the Company could pay, without a signed affidavit, having met minimum levels of statutory capital and surplus requirements, was approximately $782,111 (2020: $792,353).

In accordance with the Company's license under the Act, loss reserves are certified annually by an independent loss reserve specialist.

The Branch is licensed under the Insurance Act of Singapore and is required to comply with various provisions of the Act regarding solvency.

## 17. Subsequent Events

Events related to the recent Russia-Ukraine war have caused volatility within economic markets. The duration of the conflict and resultant economic impact are uncertain and cannot be predicted. The impact of the conflict may affect future financial results of the Company and its' financial position. The Company is closely monitoring the situation and complying with the requirements of the various sanction regimes.