STARSTONE

Part of the Enstar Group

StarStone Insurance Bermuda Limited
Condensed Consolidated General Purpose Financial Statements
For the years ended December 31, 2021 and 2020

INDEX TO FINANCIAL STATEMENTS AND SCHEDULES

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of StarStone Insurance Bermuda Limited

Opinions

We have audited the accompanying condensed consolidated financial statements of StarStone Insurance Bermuda Limited and its subsidiaries (the "Company"), which comprise the condensed consolidated balance sheets and condensed consolidated statements of capital and surplus as of December 31, 2021 and 2020, and the related condensed consolidated statements of income for the years then ended, including the related notes to the condensed financial statements.

Unmodified opinion on regulatory basis of accounting

In our opinion, the accompanying condensed consolidated 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 for the years then ended in accordance with the financial reporting provisions of the Insurance Act 1978, amendments thereto and the Insurance Account Rules 2016 with respect to condensed general purpose financial Statements (the "Legislation").

Adverse opinion on U.S. generally accepted accounting principles

In our opinion, because of the significance of the matter discussed in the *Basis for adverse opinion on U.S. generally accepted accounting principles* section of our report, the accompanying condensed consolidated financial statements do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2021 and 2020, or the results of its operations for the years then ended.

Basis for opinions

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

Basis for adverse opinion on U.S. generally accepted accounting principles

As described in Note 3 to the condensed consolidated financial statements, the condensed consolidated financial statements are prepared by the Company on the basis of the financial reporting provisions of the Legislation, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the Bermuda Monetary Authority.

The effects on the condensed consolidated financial statements of the variances between the regulatory basis of accounting described in Note 3 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

Responsibilities of management for the condensed consolidated financial statements

Management is responsible for the preparation and fair presentation of the condensed consolidated financial statements in accordance with the financial reporting provisions of the Legislation. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the condensed consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the condensed consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the condensed consolidated 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 US 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 judgement made by a reasonable user based on the condensed consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgement and maintain professional scepticism throughout the audit.
- Identify and assess the risks of material misstatement of the condensed consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the condensed consolidated financial statements.
- Obtain an understanding of internal controls 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 condensed consolidated financial statements.
- Conclude whether, in our judgement, 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.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
April 28, 2022

STARSTONE INSURANCE BERMUDA LIMITED
CONDENSED CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31, 2021 and 2020

BMA Ref		2021 USD '000	2020 USD '000
1.	**CASH AND CASH EQUIVALENTS**	$ 89,756	$ 97,461
2.	**QUOTED INVESTMENTS:**		
(a)	Bonds and Debentures		
	ii. Other	386,398	443,320
(b)	Total Bonds and Debentures	386,398	443,320
(c)	Equities		
	i. Common stocks	35,967	68,461
(d)	Total equities	35,967	68,461
(e)	Other quoted investments	37,431	27,147
(f)	Total quoted investments	459,796	538,928
3.	**UNQUOTED INVESTMENTS:**		
(e)	Other unquoted investments	505	44,837
(f)	Total unquoted investments	505	44,837
4.	**INVESTMENTS IN AND ADVANCES TO AFFILIATES**		
(g)	Advances to affiliates	239,242	238,337
(h)	Total investments in and advances to affiliates	239,242	238,337
9.	**INVESTMENT INCOME DUE AND ACCRUED**	1,727	2,055
10.	**ACCOUNTS AND PREMIUMS RECEIVABLE:**		
(a)	In course of collection	10,979	59,617
(d)	Total accounts and premiums receivable	10,979	59,617
11.	**REINSURANCE BALANCES RECEIVABLE:**		
(d)	All other insurers	27,368	34,411
(e)	Total reinsurance balance receivable	27,368	34,411
12.	**FUNDS HELD BY CEDING REINSURERS**	208,510	258,942
13.	**SUNDRY ASSETS:**		
(f)	Deferred acquisition costs	5,164	18,024
(h)	Other Sundry Assets (Leasehold and software development assets)	3,468	3,887
(j)	Other Sundry Assets (Others – see note 13)	11,991	32,792
(k)	Total sundry assets	20,623	54,703
15.	**TOTAL**	**$ 1,058,506**	**$ 1,329,291**

STARSTONE INSURANCE BERMUDA LIMITED
CONDENSED CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31, 2021 and 2020

BMA Ref		2021 USD '000	2020 USD '000
	TOTAL INSURANCE RESERVES, OTHER LIABILITIES AND STATUTORY CAPITAL AND SURPLUS		
16.	UNEARNED PREMIUM RESERVE		
(a)	Gross unearned premium reserves	$ 53,767	$ 176,890
(b)	Less: Ceded unearned premium reserve		
	ii. Domestic affiliates	20,306	29,978
	iv. All other insurers	11,532	36,956
(c)	Total ceded unearned premium reserve	31,838	66,934
(d)	Net unearned premium reserve	21,929	109,956
17.	LOSS AND LOSS EXPENSE PROVISIONS:		
(a)	Gross loss and loss expense provisions	1,102,260	1,196,235
(b)	Less: Reinsurance recoverable balance		
	ii. Domestic affiliates	565,203	549,386
	iv. All other reinsurers	212,793	296,641
(c)	Total reinsurance recoverable balance	777,996	846,027
(d)	Net loss and loss expense provisions	324,264	350,208
19.	TOTAL GENERAL BUSINESS INSURANCE RESERVES	346,193	460,164
	OTHER LIABILITIES		
28.	INSURANCE AND REINSURANCE BALANCES PAYABLE	$ 114,904	$ 186,385
29.	COMMISSIONS, EXPENSES, FEES AND TAXES PAYABLE	—	—
30.	LOANS AND NOTES PAYABLE	—	—
31.	(a) INCOME TAXES PAYABLE	119	1,372
	(b) DEFERRED INCOME TAXES		
32.	AMOUNTS DUE TO AFFILIATES	8,917	8,285
33.	ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	5,879	19,569
34.	FUNDS HELD UNDER REINSURANCE CONTRACTS:	270,891	345,138
35.	DIVIDENDS PAYABLE	—	7,000
36.	SUNDRY LIABILITIES:		
(e)	Other sundry liabilities (Liabilities held-for-sale – see Note 36)	—	3,925
(h)	Total sundry liabilities	—	3,925
37.	LETTERS OF CREDIT, GUARANTEES AND OTHER INSTRUMENTS:		
(a)	Letters of credit		
(b)	Guarantees		
(c)	Other instruments		
(d)	Total letters of credit, guarantees and other instruments		
38.	TOTAL OTHER LIABILITIES	400,710	571,674
39.	TOTAL INSURANCE RESERVES AND OTHER LIABILITIES	746,903	1,031,838
	CAPITAL AND SURPLUS		
40.	TOTAL CAPITAL AND SURPLUS	$ 311,603	$ 297,453
41.	**TOTAL**	**$ 1,058,506**	**$ 1,329,291**

STARSTONE INSURANCE BERMUDA LIMITED
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2021 and 2020

BMA Ref		2021 USD '000	2020 USD '000
	GENERAL BUSINESS UNDERWRITING INCOME		
1.	**GROSS PREMIUMS WRITTEN**		
	(a) Direct gross premiums written	$ 8,801	$ 129,680
	(b) Assumed gross premiums written	6,928	166,253
	(c) Total gross premiums written	15,729	295,933
2.	REINSURANCE PREMIUMS CEDED	13,848	63,913
3.	NET PREMIUMS WRITTEN	1,881	232,020
4.	INCREASE (DECREASE) IN UNEARNED PREMIUMS	88,028	63,836
5.	NET PREMIUMS EARNED	89,909	295,856
6.	OTHER INSURANCE INCOME	—	—
7.	TOTAL GENERAL BUSINESS UNDERWRITING INCOME	89,909	295,856
	GENERAL BUSINESS UNDERWRITING EXPENSES		
8.	NET LOSSES INCURRED AND NET LOSS EXPENSES INCURRED	51,996	206,654
9.	COMMISSIONS AND BROKERAGE	19,087	78,666
10.	TOTAL GENERAL BUSINESS UNDERWRITING EXPENSES	71,083	285,320
11.	**NET UNDERWRITING PROFIT (LOSS) - GENERAL BUSINESS**	18,826	10,536
29.	**COMBINED NET UNDERWRITING RESULTS BEFORE THE UNDERNOTED ITEMS**	18,826	10,536
	UNDERNOTED ITEMS		
30.	COMBINED OPERATING EXPENSE		
	(a) General and administration	34,774	124,390
	(c) Other	(7,833)	11,212
	(d) Total combined operating expenses	26,941	135,602
31.	COMBINED INVESTMENT INCOME - NET	15,867	21,748
32.	COMBINED OTHER INCOME (DEDUCTIONS)	23,470	24,674
33.	COMBINED INCOME BEFORE TAXES	31,222	(78,644)
34.	COMBINED INCOME TAXES (IF APPLICABLE):		
	(a) Current	765	1,271
	(b) Deferred	(10)	(2,172)
	(c) Total	755	(901)
35	COMBINED INCOME BEFORE REALIZED GAINS (LOSSES)	30,467	(79,545)
36.	COMBINED REALIZED GAINS (LOSSES)	19,922	(1,299)
37.	COMBINED INTEREST CHARGES	1,923	6,670
38.	**NET INCOME (LOSS)**	**$ 48,466**	**$ (87,514)**

STARSTONE INSURANCE BERMUDA LIMITED
CONDENSED CONSOLIDATED STATEMENTS OF CAPITAL AND SURPLUS
AS AT DECEMBER 31, 2021 and 2020

BMA Ref				2021	2020
				expressed in thousands of USD except share and per share amounts	
1.	**CAPITAL:**				
(a)	Capital Stock				
	(i) Common Shares			1,000	1,000
	authorized	1,000,000	shares of par		
	value	$1	each issued and		
	fully paid	1,000,000	shares		
(b)	Contributed surplus			1,114,631	1,114,631
(d)	Total Capital			1,115,631	1,115,631
2.	**SURPLUS:**				
(a)	Surplus - Beginning of Year			(818,178)	(492,880)
(b)	Add: Income for the year			48,466	(87,514)
(c)	Less: Dividends paid and payable			(30,000)	(242,000)
(d)	Add (Deduct) change in unrealized appreciation (depreciation) of investments			(4,512)	4,216
(f)	Surplus - End of Year			(804,028)	(818,178)
4.	**TOTAL CAPITAL AND SURPLUS**			**$ 311,603**	**$ 297,453**

1. GENERAL

StarStone Insurance Bermuda Limited ("SIBL" or the "Company") was incorporated on November 21, 2007 under the laws of Bermuda. The Company is a wholly owned subsidiary of StarStone Specialty Holdings Limited ("SSHL").

Enstar Group Limited ("Enstar") has a 58.98% equity interest (via wholly owned subsidiary, Kenmare Holdings Limited), Trident V funds ("Trident V") managed by Stone Point Capital LLC ("Stone Point") and also a shareholder of Enstar has a 39.32% equity interest and Dowling Capital Partners ("Dowling") has a 1.7% equity interest in SSHL.

As at December 31, 2021, the Company is registered as a Class 3A insurer under the Insurance Act 1978, amendments thereto and related regulations (the "Insurance Act").

Details of the affiliates consolidated in these financial statements and their country of incorporation is shown in the table below. Affiliates are included in the consolidated financial statements up to the date of disposal or merger.

Name	Country of incorporation	Date of disposal / Merger
StarStone Corporate Capital Limited	Ireland	-
StarStone Corporate Capital 1 Limited	UK	-
StarStone Bermuda Intermediaries Limited	Bermuda	December 1, 2020
StarStone Insurance SE	Liechtenstein	-
StarStone Underwriting Limited	UK	Change of control completed March 15, 2021
StarStone Insurance Services Limited	UK	-
StarStone Finance Limited	UK	-
StarStone US Holdings Inc	US	November 30, 2020
StarStone Specialty Insurance Company	US	November 30, 2020
StarStone Specialty Insurance Company	Brazil	November 30, 2020
StarStone National Insurance Company	US	November 30, 2020
StarStone US Intermediaries Inc	US	November 30, 2020
StarStone Underwriting Services BV	Netherlands	-
Vander Haeghen & Co SA	Belgium	October 14, 2020
Arena SA	Belgium	February 10, 2021
Torus Business Solutions Private Limited	India	-

2. BUSINESS UNDERWRITTEN

The business of the Company and its subsidiaries was written in Bermuda, Liechtenstein, the UK and the US and is largely managed and reported through five lines of business: Marine, Aerospace, Property, Casualty and Workers' Compensation.

The company and its subsidiaries previously operated through four operating platforms in Bermuda (StarStone Insurance Bermuda), the UK (reinsurer to Lloyd's Syndicate 1301), Liechtenstein (StarStone Insurance SE) and the US (StarStone Specialty Insurance Company and StarStone National Insurance Company).

A decision was taken to cease writing new and renewal business from June 10, 2020 from the Bermuda, UK and Liechtenstein platforms.

The following corporate transactions were executed during 2020 and 2021:

European Financial Lines

On October 2, 2020, StarStone completed the sale of renewal rights of the European Financial Lines portfolio, previously written by SISE and S1301 to Partner Re and Applied Underwriters, Inc. for a minimum consideration of $0.1 million.

Vander Haeghen & co. SA

On October 14, 2020, the Company's UK subsidiary, StarStone Finance Limited ("SFL"), completed the sale of a majority owned s subsidiary, Vander Haeghen & Co. SA ("VdH"), a Belgium-based insurance agency, for consideration of €4 million ($4 million). A gain on the sale of $3 million was recognized in the fourth quarter of 2020.

StarStone US

On November 30, 2020, the Company's UK subsidiary, SFL (intermediate parent of StarStone US Holdings) completed on the sale of StarStone US Holdings Inc (including its US and Brazilian subsidiaries listed above) to Core Specialty Holdings Inc ("Core Specialty") in exchange for consideration of $282 million (cash of $47 million and a 25.3% shareholding in Core Specialty (valued at $235 million)). A gain on the sale of $10 million was recognized in SIBL's year ended December 31, 2020 consolidated financial statements.

Following surrender of its insurance agency license, StarStone Bermuda Intermediaries Limited (a wholly owned subsidiary of SIBL) merged with SIBL with effect from December 1, 2020.

StarStone Underwriting Limited ("SUL")

An agreement was signed on November 17, 2020 to sell the Company's wholly owned subsidiary, SUL (Lloyd's managing agent of Syndicate 1301) to Inigo (a new specialty re/insurance holding company). The sale was completed on March 15, 2021. On closing, the Company received $30 million of consideration from the sale of SUL in the form of Inigo shares. On completion, the Company distributed its $30 million shareholdings in Inigo Limited to its parent SSHL in the form of an in specie dividend, which SSHL subsequently distributed to its shareholders.

The Company will retain the economics of Syndicate 1301's 2020 and prior years underwriting portfolios as this business runs off. The net result of the Corporate Member (SGL No. 1) with respect to these years is ceded to the Company. The Company will continue to provide Funds at Lloyd's ("FAL") on behalf of SGL No.1 as collateral for this contract.

Arena N.V.

On February 10, 2021 the Company's UK subsidiaries (StarStone Insurance Services Limited ("SISL") and SFL) completed the sale of their shareholdings in Arena N.V., a Belgium-based specialist accident and health managing general agent subsidiary of the group, to Castel Underwriting Europe BV for a total consideration of $0.9 million, an initial consideration of $0.7 million and a conditional deferred consideration capped at $0.2 million.

The post year end disposals of SUL and Arena were not reported as discontinued operations in the condensed consolidated statements of income for the year ended December 31, 2021 as they are not considered to represent a strategic shift that will have a material effect on the Company's operations and financial results. The assets and liabilities of SUL and Arena are reported as assets and liabilities held for sale.

Arden Re Loss Portfolio Transfer Retrocession Agreement

Effective January 1, 2021 the Company entered into a reinsurance contract with Arden Reinsurance Company Ltd. ("Arden Re") to reinsure 100% of Arden Re's non-life reinsurance business via a loss portfolio transfer with the premium consideration of $19 million being equal to the net loss reserves reinsured.

Change of BMA License from Class 4 to Class 3A Insurer

On January 8, 2021 the BMA approved SIBL's application for re-registration from a Class 4 to a Class 3A Insurer which took effect from January 1, 2021.

Capital injection of $4.8 million in StarStone Finance Limited ("SFL")

The Company made a capital injection to SFL through issuance of 1 share at $4.8 million for a nominal value of $1 in March 2021.

The capital injection does not have a significant impact on SIBL's solvency and liquidity position.

3. BASIS OF PREPARATION

These condensed consolidated general purpose financial statements are prepared in accordance with financial reporting provisions of the Insurance Act 1978, amendments thereto and the Insurance Accounts Rules 2016 with respect to condensed general purpose financial statements (the "Legislation"). The recognition and measurement principles applied are in line with accounting principles generally accepted in the United States of America ("US GAAP"). The presentation of these financial statements in accordance with the guidance prescribed under the legislation differs from US GAAP in certain respects as follows:

- The format of the financial statements is prescribed by schedules IX and X of the Insurance Accounts Rules 2016.
- Statement of Cash Flows or equivalent is not included.
- Certain disclosures required by US GAAP are not included.
- Comprehensive income and its components are not presented in the condensed consolidated statements of income.
- Reserves for loss and loss adjustment expenses and unearned premiums are reported net of reinsured amounts.

The effects of the foregoing variances from US GAAP on the accompanying condensed consolidated general purpose financial statements have not been determined but are presumed to be material.

The condensed consolidated general purpose financial statements include the accounts of the Company and its wholly owned subsidiaries. Subsidiaries are included up to the date of disposal or merger. All intercompany transactions have been eliminated.

Effective January 1, 2017, SCC1 allocated its capacity in Syndicate 1301 to Shelbourne Group Limited No. 1 Ltd. ("SGL 1"), an affiliated corporate member, on the basis of a capacity lease agreement (the "SGL 1 Lease Agreement"). SGL 1 has 100% of the participation in Syndicate 1301 on the years of account from 2017 through 2020 which it reinsures on a quota share and stop loss basis (the "SGL 1 Reinsurance Agreement") to the Company. The combined effect of the SGL 1 Lease Agreement and the SGL 1 Reinsurance Agreement is that the net result of SGL 1's participation in Syndicate 1301 capacity is allocated to the Company.

4. SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in accordance with the Legislation requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from our estimates.

The estimation of unpaid claim liabilities at any given point in time is subject to a high degree of uncertainty for a number of reasons. A significant amount of time can lapse between the assumption of risk, the occurrence of a loss event, the reporting of the event to an (re)insurance company and the ultimate payment of the claim on the loss event. Certain estimates for unpaid claim liabilities involve considerable uncertainty due to significant coverage litigation and it can be unclear whether past claim experience will be representative of future claim experience.

We expect that uncertainty and volatility in financial markets relating to the COVID-19 pandemic will continue to impact the value of our investments. The scope, duration and magnitude of the direct and indirect effects of the COVID-19 pandemic are changing rapidly and are difficult to anticipate.

We are subject to economic factors such as interest rates, inflation, foreign exchange rates, adverse reserve developments, regulation, tax policy changes, political risks and other market risks that can impact our strategy, operations, and results.

Significant Accounting Policies

(a) Retroactive Reinsurance

Retroactive reinsurance policies provide indemnification of losses and loss adjustment expenses ("LAE") with respect to past loss events. We do not record any income or expense on recognition of the contracts assets and liabilities. Any subsequent remeasurement of the value of liabilities is recorded to net incurred losses and LAE within the condensed consolidated statements of income.

(b) Short-duration Insurance Contracts

Premiums written

Premiums written related to prospective risk policies are earned on a pro-rata basis over the period of the related coverage. Reinsurance premiums on prospective risks are recorded at the inception of the policy, are based upon contractual terms and, for certain business, are estimated based on underlying contracts or from information provided by insureds and/or brokers.

Changes in reinsurance premium estimates for prospective risks are recorded as premiums written in the period in which they are determined.

Certain contracts are retrospectively rated and provide for a final adjustment to the premium based on the final settlement of all losses. Premiums on such contracts are adjusted based upon contractual terms, and management judgment is involved with respect to the estimate of the amount of losses that we expect to incur. These adjustments to the premium are recognized at the time loss thresholds specified in the contract are exceeded and are earned over the coverage period, or are earned immediately if the period of risk coverage has passed.

Unearned Premium Reserves and Premium Receivable

Unearned premium reserves, included within other liabilities on the condensed consolidated balance sheets, represent the unexpired portion of policy premiums. For retrospectively rated contracts as well as those contracts whose written premium amounts are recorded based on premium estimates at inception, changes to accrued premiums arising from changes to these estimates are reflected as changes in premium balances receivable where appropriate.

Premium balances receivable are reported net of an allowance for expected credit losses as appropriate. The allowance is based upon our ongoing review of amounts outstanding, historical loss data, including delinquencies and write-offs, current and forecasted economic conditions and other relevant factors. However, the credit risk on our premiums receivable balances is substantially reduced where we have the ability to cancel the underlying policy if the policyholder does not pay the related premium.

(c) Acquisition Costs

Acquisition costs, consisting principally of incremental costs including commissions and brokerage expenses and certain premium taxes and fees incurred at the time a contract or policy is issued and which are directly related to the successful efforts of acquiring new insurance contracts or renewing existing insurance contracts, are deferred and amortized over the period in which the related premiums are earned.

Deferred acquisition costs (“DAC”), included within other assets on the condensed consolidated balance sheets, are limited to their estimated realizable value by line of business based on the related unearned premiums, anticipated claims and claim expenses and anticipated investment income.

A premium deficiency occurs if the sum of anticipated losses and LAE exceed unearned premiums, DAC and anticipated investment income. A premium deficiency is initially recognized by charging any DAC to expense to the extent required in order to eliminate the deficiency. If the premium deficiency exceeds the DAC, then a liability is accrued for the excess deficiency.

(d) Loss and LAE

The liability for losses and LAE includes reserves for unpaid reported losses and losses incurred but not reported ("IBNR").

We establish reserves for unpaid reported losses and LAE based on reports from brokers, ceding companies and insureds and these represent the estimated ultimate cost of events or conditions that have been reported to or specifically identified by us.

The reserves for IBNR losses are established by us based on actuarially determined estimates of ultimate losses and LAE. Inherent in the estimate of ultimate losses and LAE are expected trends in claim severity and frequency, historical loss experience, industry statistics and other factors which may vary significantly as claims are settled.

These estimates are reviewed regularly and are subject to the impact of future changes in the factors noted above as well as economic conditions including the impact of inflation, legal and judicial developments, and medical cost trends.

Any subsequent remeasurement of our reserves will be recorded in earnings in the period in which they become known and reflected as part of the net increase or reduction in the estimates of ultimate losses included within net incurred losses and LAE in the condensed consolidated statements of income.

Prior period development arises from changes to loss estimates recognized in the current calendar year that relate to loss reserves established in previous calendar years.

Our estimates, at inception and on an ongoing basis, do not include an estimate for potential future commutations and policy buybacks. Commutations and policy buybacks are often unique and circumstance-based, and each commutation or policy buyback is separately negotiated. Therefore, the successful execution of one commutation or policy buyback does not necessarily impact the likelihood of other commutations or policy buybacks occurring in the future.

Commutations and policy buybacks provide an opportunity for us to exit exposures to certain policies and insureds generally at a discount to our estimate of the ultimate liability and provide us with the ability to eliminate exposure to further losses which can be beneficial to us as they legally extinguish liabilities in full, reducing the potential for future adverse loss development and future claims handling costs.

Commutations of acquired companies’ exposures have the effect of accelerating the payout of claims compared to the probability-weighted ranges of actuarially projected cash flows that we applied when estimating the fair values of assets and liabilities at the time of acquisition.

Commutations are only executed directly with (re)insureds and any changes in ultimate losses are recognized upon the execution of a commutation or policy buyback with the (re)insured.

Our (re)insurance subsidiaries also establish provisions for unallocated loss adjustment expenses ("ULAE") for LAE relating to run-off costs for the estimated duration of the run-off, such as internal claim management or associated operational support costs, which are included in the liability for losses and LAE. These provisions are assessed at each reporting date, and provisions relating to future periods are adjusted to reflect any changes in estimates of the periodic run-off costs or the duration of the run-off, including the impact of any acceleration of the run-off period that may be caused by commutations. Provisions relating to the current period together with any adjustment to future run-off provisions are included in net incurred losses and LAE in the condensed consolidated statements of income.

(e) Reinsurance Balances Recoverable on Paid and Unpaid Losses

Amounts recoverable from reinsurers are estimated in a manner consistent with the underlying liability for losses and LAE. We report our reinsurance balances recoverable on paid and unpaid losses net of an allowance for estimated uncollectible amounts.

Our allowance for estimated uncollectible reinsurance is derived based on various data sources, multiple key inputs and forecast scenarios. These include the duration of the collection period, credit quality, changes in reinsurer credit standing, default rates specific to the individual reinsurer, the geographical location of the reinsurer, contractual disputes with reinsurers over individual contentious claims, contract language or coverage issues, industry analyst reports and consensus economic forecasts.

To determine the allowance for estimated uncollectible reinsurance, we use the probability of default ("PD") and loss given default ("LGD") methodology whereby each reinsurer is allocated an appropriate PD percentage based on the expected payout duration by portfolio. This PD percentage is then multiplied by an appropriate LGD percentage to arrive at an overall credit allowance percentage which is then applied to the reinsurance balance recoverable for each reinsurer, net of any specific bad debt provisions, collateral or other contract related offsets, to arrive at the overall allowance for estimated uncollectible reinsurance by reinsurer.

Amounts deemed to be uncollectible, including amounts due from known insolvent reinsurers, are written off against the allowance.

Changes in the allowance, as well as any subsequent collections of amounts previously written off, are reported as part of the net incurred losses and LAE in our condensed consolidated statements of income.

On an ongoing basis, we also evaluate and monitor the credit risk of our reinsurers, including those under voluntary schemes of arrangement, to minimize our exposure to significant losses from potential insolvencies.

(f) Investments, Cash and Cash Equivalents

Cash and cash equivalents

Cash equivalents includes money market funds, fixed interest deposits and all highly liquid debt instruments purchased with an original maturity of three months or less.

Short-term investments and fixed maturity investments

Short-term investments comprise investments with a maturity greater than three months up to one year from the date of purchase. Fixed maturities comprise investments with a maturity of greater than one year from the date of purchase.

Short-term and fixed maturity investments classified as trading are carried at fair value, with realized and unrealized gains and losses included in net earnings and reported as net realized and unrealized gains and losses, respectively.

Short-term and fixed maturity investments classified as available-for-sale ("AFS") are carried at fair value, with unrealized gains and losses excluded from net earnings and reported as a separate component of accumulated other comprehensive income (loss) ("AOCI"). Realized gains and losses on sales of investments classified as AFS are recognized in the condensed consolidated statements of income.

The costs of short-term and fixed maturity investments are adjusted for amortization of premiums and accretion of discounts, recognized using the effective yield method and included in net investment income. For mortgage-backed and asset-backed investments, and any other holdings for which there is a prepayment risk, prepayment assumptions are evaluated and reviewed on a regular basis.

Investment purchases and sales are recorded on a trade-date basis. Realized gains and losses on the sale of investments are based upon specific identification of the cost of investments.

Allowance for Credit Losses

We perform a detailed analysis every reporting period to identify any credit losses on our investment portfolios not measured at fair value through net earnings. Credit losses on our AFS fixed maturity securities are recognized through an allowance account which is deducted from the amortized cost basis of the security, with the net carrying value of the security presented on the condensed consolidated balance sheets at the amount expected to be collected.

To calculate the amount of the credit loss, we compare the present value of the expected future cash flows with the amortized cost basis of the AFS fixed maturity security, with the amount of the credit loss recognized being limited to the excess of the amortized cost basis over the fair value of the AFS fixed maturity security, effectively creating a “fair value floor”.

For our AFS fixed maturity securities that we do not intend to sell or for which it is more likely than not that we will not be required to sell before an anticipated recovery in value, we separate the credit loss component of any unrealized losses from the amount related to all other factors and record the credit loss component in net realized investment gains (losses) in our condensed consolidated statements of income. The unrealized losses related to non-credit factors is recorded in other comprehensive income. The allowance for credit losses account is adjusted for any additional credit losses, write-offs and subsequent recoveries and is reflected in earnings.

For our AFS fixed maturity securities where we record a credit loss, a determination is made as to the cause of the credit loss and whether we expect a recovery in the fair value of the security. For our AFS fixed maturity securities where we expect a recovery in fair value, the constant effective yield method is utilized, and the investment is amortized to par.

For our AFS fixed maturity securities that we intend to sell or for which it is more likely than not that we will be required to sell before an anticipated recovery in fair value, the full amount of the unrealized loss is included in net realized investment gains (losses). The new cost basis of the investment is the previous amortized cost basis less the credit loss recognized in net realized investment gains (losses). The new cost basis is not adjusted for any subsequent recoveries in fair value.

Our allowance for credit losses is derived based on various data sources, multiple key inputs and forecast scenarios. These include default rates specific to the individual security, vintage of the security, geography of the issuer of the security, industry analyst reports, credit ratings and consensus economic forecasts.

To determine the credit losses on our AFS securities, we use the PD and LGD methodology through a third-party proprietary tool which calculates the expected credit losses based on a discounted cash flow method. The tool uses effective interest rates to discount the expected cash flows associated with each AFS security to determine its fair value, which is then compared with its amortized cost basis to derive the credit loss on the security.

The methodology and inputs used to determine the credit loss by security type are as follows:

- **Corporate and government securities:** Expected cashflows are derived that are specific to each security. The PD is based on a quantitative model that converts agency ratings to term structures that vary by country, industry and the state of the credit cycle. This is used along with macroeconomic forecasts to produce scenario conditioned PDs. The LGD is based on default studies provided by a third party which we use along with macroeconomic forecasts to produce scenario conditioned LGDs.
- **Municipal securities:** Expected cash flows are derived that are specific to each security. The PD model produces scenario conditioned PD output over the lifetime of the municipal security. These PDs are based on key macroeconomic and instrument specific risk factors. The LGD is derived based on a model which uses assumptions specific to the municipal securities.

  For corporate, government and municipal securities, we use an explicit reversion and a three year forecast period, which we consider to be a reasonable duration during which an economic forecast could continue to be reliable.
- **Asset-backed, commercial and residential mortgaged-backed securities:** Expected cash flows are derived that are specific to each security. The PD and LGD for each security is based on a quantitative model that generates scenario conditioned PD and LGD term structures based on the underlying collateral type, waterfall and other trustee information. This model also considers prepayments. For these security types, there is no explicit reversion and the forecasts are deemed reasonable and supportable over the life of the portfolio.

We report the investment income accrued on our AFS fixed maturity securities within other assets and therefore separately from the underlying AFS fixed maturity securities. Due to the short-term period during which accrued investment income remains unpaid, which is typically six months or less since the coupon on our debt securities is paid semi-annually or more frequently, we elected not to establish an allowance for credit losses on our accrued investment income balances. Accrued investment income is written off through net realized investment gains (losses) at the time the issuer of the debt security defaults or is expected to default on payments.

Uncollectible fixed maturity securities are written off when we determine that no additional payments of principal or interest will be received.

Equities

We hold investments in exchange-traded funds. Our equity investments are carried at fair value with realized and unrealized gains and losses included in net earnings and recorded as net realized and unrealized gains and losses, respectively.

Other investments, at fair value

Other investments include investments in limited partnerships and limited liability companies (collectively "private equity funds") and Euro fund.

We have elected the fair value option for certain of our other investments that would otherwise be accounted for as an equity method investment. The primary reason for electing the fair value option is because we believe this measurement basis is consistent with the applicable accounting guidance used by the investment funds themselves.

Our other investments are stated at fair value, which ordinarily will be the most recently reported net asset value ("NAV") as advised by the fund manager or administrator. The NAV is based on the fund manager's or administrator's valuation of the underlying holdings in accordance with the fund's governing documents. Many of our fund investments publish NAVs on a daily basis and provide daily liquidity while others report on a monthly or quarterly basis. Unrealized gains and losses on other investments are included in net earnings and reported as net unrealized gains and losses.

(g) Funds held

Under funds held arrangements, certain reinsured companies have retained funds that would otherwise have been remitted to us. The funds balances are carried at cost and, where applicable, are credited with investment income and losses paid are deducted.

(h) Foreign Exchange

Our reporting currency is the U.S. dollar. Assets and liabilities of certain of our subsidiaries and equity method investees whose functional currency is not the U.S. dollar are translated at period end exchange rates. Revenues and expenses of such foreign entities are translated at average exchange rates during the year. The effect of the currency translation adjustments for these foreign entities is included in AOCI.

Other foreign currency assets and liabilities that are considered monetary items are translated at exchange rates in effect at the balance sheet date. Foreign currency revenues and expenses are translated either at transaction date exchange rates or using an appropriately weighted average exchange rate for the reporting period. These exchange gains and losses are recognized in net earnings.

(i) Combined income taxes

Certain of our subsidiaries and branches operate in jurisdictions where they are subject to taxation. Current and deferred tax expense or benefit is allocated to net earnings (loss), or, in certain cases, to discontinued operations or other comprehensive income (loss). Current tax is recognized and measured using enacted tax laws and rates applicable in the relevant jurisdiction in the period in which the income tax is accrued or realized. Deferred taxes are provided for temporary differences between the carrying amount of assets and liabilities used in the financial statements and the tax basis used in the various jurisdictional tax returns. When our assessment indicates that all or some portion of deferred tax assets will not be realized, a valuation allowance is recorded against the deferred tax assets to reduce the assets to an amount more likely than not to be realized.

We recognize the benefit relating to tax positions only where the position is more likely than not to be sustained assuming examination by tax authorities. A recognized tax benefit is measured as the largest amount that is greater than 50 percent likely of being realized upon settlement. A liability or other adjustment is recognized for any tax benefit (along with any interest and penalty, if applicable) claimed in a tax return in excess of the amount allowed to be recognized in the financial statements under U.S. GAAP. Any changes in amounts recognized are recorded in the period in which they are determined in our condensed consolidated statements of income.

5. BASIS OF RECOGNITION OF PREMIUM, COMMISSION AND INVESTMENT INCOME

See Notes 4 (b) and (f).

6. FOREIGN EXCHANGE TRANSLATION

See note 4(h).

7. EXCHANGE CONTROL RESTRICTIONS

Not applicable.

8. CONTINGENCIES AND COMMITMENTS

8(b) Concentration of Credit Risk and Restricted assets

We believe that there are no significant concentrations of credit risk associated with our cash and cash equivalents, fixed maturity investments, or other investments. Cash, cash equivalents and fixed maturity investments are managed pursuant to guidelines that follow prudent standards of diversification and limit the allowable holdings of a single issue and issuers. Other investments are managed pursuant to guidelines that emphasize diversification and liquidity. Pursuant to these guidelines, we manage and monitor risk across a variety of investment funds and vehicles, markets and counterparties.

We are also subject to custodial credit risk on our fixed maturity and equity investments, which we manage by diversifying our holdings amongst large financial institutions that are highly regulated.

We limit the amount of credit exposure to any one counterparty and none of our counterparty credit exposures, excluding U.S. government instruments, exceeded 10% of shareholders' equity as of December 31, 2021. Our credit exposure to the U.S. government was $132 million as at December 31, 2021 (2020: $115 million).

Credit risk exists in relation to our insurance and reinsurance balances recoverable on paid and unpaid losses. We remain liable to the extent that counterparties do not meet their contractual obligations and, therefore, we evaluate and monitor concentration of credit risk among our insurers and reinsurers. Amounts recoverable from reinsurers are disclosed under items 16(c) and 17(c) of the condensed consolidated balance sheets.

We have exposure to credit risk on certain of our assets pledged to ceding companies under insurance contracts. In addition, we are potentially exposed should any insurance intermediaries be unable to fulfill their contractual obligations with respect to payments of balances owed to and by us.

We are required to maintain investments and cash and cash equivalents on deposit to support our insurance and reinsurance operations. The investments and cash and cash equivalents on deposit are available to settle insurance and reinsurance liabilities. We also utilize trust accounts to collateralize business with our insurance and reinsurance counterparties. These trust accounts generally take the place of letter of credit requirements. The assets in trusts as collateral are primarily highly rated fixed maturity securities. We pledge assets with the Society of Lloyd's in respect of 2020 and prior years of account to support its capital requirements with respect to SCC1's participation in Syndicate 1301's capacity which has since been assigned to SGL 1.

We are also subject to credit risk in relation to funds held by reinsured companies. Under funds held arrangements, the reinsured company has retained funds that would otherwise have been remitted to our subsidiaries. The funds may be placed into trust or subject to other security arrangements. The funds balance is credited with investment income and losses payable are deducted.

We are subject to credit risk if the reinsured company is unable to honor the value of the funds held balances, such as in the event of insolvency. However, we generally have the contractual ability to offset any shortfall in the payment of the funds held balances with amounts owed by us to the reinsured for losses payable and other amounts contractually due. We routinely monitor the creditworthiness of reinsured companies with whom we have funds held arrangements.

In July 2009, the Company entered into a multi-currency revolving Letter of Credit facility with Barclays Bank Plc. to be applied in the issuance of Letters of Credit to support its reinsurance business. The commitment under the facility is for $36 million (2020: $36 million) and as at the end of the year, Letters of Credit with a value of $26 million (2020: $27 million) have been issued. This facility is collateralized by eligible assets of the Company in the form of cash and investments held in a trust account. The terms of the facility require that certain financial covenants be met through the filing of compliance certificates.

The carrying value of our restricted assets as of December 31, 2021 and 2020, respectively, was as detailed below:

	2021	**2020**
	USD '000	USD '000
Collateral in trust for third party agreements	255,164	337,245
Collateral for secured letter of credit facilities	36,109	36,500
Funds at Lloyd's	36,301	69,448
Others	3,711	3,172
	331,285	446,365

8(c) Guarantees and Indemnifications

The Company has provided a variety of guarantees and indemnifications to its policyholders with respect to the obligations and liabilities of its insurance subsidiaries arising from the reinsurance operations. The maximum exposure with respect to such contractual guarantees are deemed to be minimal.

9. DEFAULT BY THE INSURER IN RELATION TO SECURITIES ISSUED OR ANY CREDIT ARRANGEMENT

Not applicable.

10. ARREARS OF DIVIDENDS ON PREFERRED CUMULATIVE SHARES

Not applicable.

11. LOANS MADE DURING THE YEAR TO DIRECTORS OR OFFICERS

Not applicable.

12. RETIREMENT BENEFIT OBLIGATIONS TO EMPLOYEES ARISING FROM PRE-YEAR END SERVICE NOT CHARGED IN THE FINANCIAL STATEMENTS

Not applicable.

13. FAIR VALUE OF INVESTMENTS

We hold: (i) trading portfolios of fixed maturity and equities, carried at fair value; (ii) available-for-sale portfolios of fixed maturity and short-term investments, carried at fair value; and (iii) other investments, both quoted and unquoted, carried at fair value.

Fair value is defined as the price at which to sell an asset or transfer a liability (i.e. the “exit price”) in an orderly transaction between market participants. We use a fair value hierarchy that gives the highest priority to quoted prices in active markets and lowest priority to unobservable data. 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 we have the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments.
- 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 unobservable inputs where there is little or no market activity. Unadjusted third-party pricing sources or management's assumptions and internal valuation models may be used to determine the fair values.

In addition, certain of our other investments are measured at fair value using net asset value (“NAV”) per share (or its equivalent) as a practical expedient and are not classified within the three levels of the fair value hierarchy described above. We have categorized our investments that are recorded at fair value on a recurring basis among levels based on the observability of inputs, or at fair value using NAV per share (or its equivalent) as follows:

	December 31, 2021			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Fair Value Based on NAV as Practical Expedient	Total Fair Value
	USD '000	USD '000	USD '000	USD '000
Investments:				
Fixed maturity investments:				
U.S. government and agency	—	84,546	—	84,546
U.K. government	—	5,621	—	5,621
Other government	—	4,926	—	4,926
Corporate	—	99,827	—	99,827
Residential mortgage-backed	—	42,758	—	42,758
Commercial mortgage-backed	—	78,468	—	78,468
Asset-backed	—	70,252	—	70,252
	—	386,398	—	386,398
Equities:				
Exchange traded-fund	35,967	—	—	35,967
	35,967	—	—	35,967
Other investments:				
Euro-fund	—	505	—	505
Private equity fund	—	—	37,431	37,431
	—	505	37,431	37,936
Total investments	**35,967**	**386,903**	**37,431**	**460,301**

	December 31, 2020			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Fair Value Based on NAV as Practical Expedient	Total Fair Value
	USD '000	USD '000	USD '000	USD '000
Investments:				
Fixed maturity investments:				
U.S. government and agency	—	77,410	—	77,410
U.K. government	—	14,004	—	14,004
Other government	—	5,117	—	5,117
Corporate	—	122,977	—	122,977
Residential mortgage-backed	—	57,686	—	57,686
Commercial mortgage-backed	—	82,021	—	82,021
Asset-backed	—	84,105	—	84,105
	—	443,320	—	443,320
Equities:				
Exchange traded-fund	68,461	—	—	68,461
	68,461	—	—	68,461
Other investments:				
Euro-fund	—	44,836	—	44,836
High yield fixed income fund	—	—	—	—
Private equity fund	—	—	27,147	27,147
Hedge fund	—	—	—	—
	—	44,836	27,147	71,983
Total investments	**68,461**	**488,156**	**27,147**	**583,764**

14. CONTRACTUAL MATURITY PROFILE OF FIXED MATURITY AND SHORT-TERM INVESTMENTS

The contractual maturities of our short-term investments and fixed maturity investments are shown below. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

As of December 31, 2021	**Amortized cost**	**Fair value**	**% of Total Fair Value**
	USD '000	USD '000	USD '000
One year or less	24,913	25,317	7%
More than one year through two years	49,079	49,485	13%
More than two years through five years	104,136	104,625	27%
More than five years through ten years	14,357	14,948	4%
More than ten years	512	545	—%
Residential mortgage-backed	41,672	42,758	11%
Commercial mortgage-backed	78,691	78,468	20%
Asset-backed	73,283	70,252	18%
Total bonds and debentures	386,643	386,398	100%

As of December 31, 2020	**Amortized cost**	**Fair value**	**% of Total Fair Value**
	USD '000	USD '000	USD '000
One year or less	16,612	16,915	4%
More than one year through two years	44,690	46,225	10%
More than two years through five years	138,761	144,671	33%
More than five years through ten years	66,949	61,692	14%
More than ten years	173,876	173,817	39%
Total bonds and debentures	440,888	443,320	100%

15. RELATED PARTY TRANSACTIONS

The Company has entered into certain reinsurance transactions with affiliated companies and also earns fees or incurs costs related to various administrative services that are either provided to or obtained from entities related through common control. Some of the Company's investment portfolios are also managed by affiliated entities as described further below.

Fitzwilliam Insurance Limited

The Company entered into LPT agreements with Fitzwilliam #31, Fitzwilliam #41 and Fitzwilliam #42 in 2014, 2018 and 2019, respectively. Each of these counterparties are segregated account entities whose preferred shares are held by Northshore, the sole shareholder of SSHL and are managed by Fitzwilliam, a wholly owned subsidiary of Enstar. On January 1, 2021 North Bay transferred its shares in SSHL to its shareholders (Trident V, Enstar and Dowling) who then became direct shareholders in SSHL in the same proportions as their previous shareholdings in North Bay.

Our condensed consolidated balance sheets and statements of income for the years ended December 31, 2021 and 2020 included the following amounts:

2021	**FW 31**	**FW 41**	**FW 42**
	USD '000	USD '000	USD '000
Ceded premium earned	182	—	—
Net incurred losses and LAE	24,966	(221)	(4,923)
Acquisition costs	(547)	—	—
Interest charges on assets supporting the LPT	278	373	246
Reinsurance recoverable	62,696	97,900	58,474
Ceded deferred acquisition costs	(22)	—	—
Funds held	(76,941)	(98,169)	(57,379)

2020	**FW 31**	**FW 41**	**FW 42**
	USD '000	USD '000	USD '000
Ceded premium earned	298	—	—
Net incurred losses and LAE	8,995	(221)	73
Acquisition costs	272	—	—
Interest charges on assets supporting the LPT	(1,777)	(3,091)	(1,782)
Reinsurance recoverable	91,049	123,184	79,256
Ceded unearned premium	(70)	—	—
Ceded deferred acquisition costs	(567)	—	—
Funds held	(83,073)	(126,496)	(80,965)

Cavello Bay

The Company has a continuous 35% quota share reinsurance contract with KaylaRe. Effective September 30, 2019, KaylaRe merged with Cavello Bay with Cavello Bay as the surviving company. The Company has investment assets to support the quota share agreement on a funds withheld basis. Cavello Bay pays Enstar Limited, a wholly owned subsidiary of Enstar, 3% of the net written premiums assumed under this continuous quota share contract as a servicing fee, 75% of which is then paid to the Company.

The Company entered into an LPT agreement with Cavello Bay in 2020.

Our condensed consolidated balance sheets and statements of income for the years ended December 31, 2021 and 2020 included the following balances, inclusive of the amounts ceded via the Cavello Bay quota share agreement:

2021	**Cavello Bay QS**	**Cavello Bay LPT**
	USD '000	USD '000
Ceded premium earned	4,007	17,151
Net incurred losses and LAE	(4,053)	852
Acquisition costs	(1,498)	(1,056)
Interest charges on assets supporting the LPT	345	333
Other income/ (expense)	3	—
Reinsurance recoverable	183,855	182,585
Net losses and loss adjustment expenses	30	—
Ceded deferred acquisition costs	(923)	(1,442)
Funds held	(42,668)	4,266

2020	**Cavello Bay QS**	**Cavello Bay LPT**
	USD '000	USD '000
Ceded premium earned	(1,598)	(15,036)
Net incurred losses and LAE	9,517	30,670
Acquisition costs	4,814	(152)
Interest charges on assets supporting the LPT	—	862
Reinsurance recoverable	57,208	198,688
Ceded unearned premium	8,789	21,259
Ceded deferred acquisition costs	(1,136)	(1,803)
Funds held	(52,854)	(1,750)

SGL 1

SGL 1 has reinsured its participation in Syndicate 1301 through the SGL 1 Reinsurance Agreement with the Company. Our condensed consolidated statements of income for the years ended December 31, 2021 and 2020 included the following amounts:

	2021	**2020**
	USD '000	USD '000
Net premium earned	(53,745)	173,325
Net incurred losses and LAE	(100,088)	(111,156)
Acquisition costs	17,253	(41,149)
Other income/(expense)	(7,518)	(8,559)
Premium receivable	(15,567)	1,426
Deferred acquisition costs	3,887	16,200
Net unearned premiums	(13,390)	(64,506)
Net losses and loss adjustment expenses	(243,089)	(300,355)
Funds held	197,616	255,399
Other assets	6,803	—

Core Specialty

On November 30, 2020, we completed the sale and recapitalization of StarStone U.S. to Core Specialty. There is existing reinsurance agreement with Core Specialty where SIBL provides reinsurance protection to Core Specialty. Our condensed consolidated balance sheets and statements of income for the years ended December 31, 2021 and 2020 included the following amounts:

	2021	2020
	USD '000	USD '000
Net premium earned	1,529	(5,729)
Net incurred losses and LAE	13,946	6,217
Net acquisition costs	1	(200)
Other (expense)/income	(49)	81
Premium receivable	(7,195)	—
Deferred acquisition costs	—	1
Net unearned premiums	—	(2,744)
Net losses and loss adjustment expenses	(113,893)	(145,480)
Insurance and reinsurance balances payable	(27,111)	(9,343)
Other liabilities	1,732	(3)

Kenmare Holdings Ltd.

Kenmare Holdings Limited (“Kenmare”), an affiliated company which is wholly owned by Enstar, pledged cash and investments to Lloyd’s of London to collateralize the Company’s exposure to the business it assumes from SGL 1 under the SGL 1 Reinsurance and Leasing Agreements as described in Note 3 "Basis of Preparation". The Company in turn loaned funds to Kenmare equal to the cash and investments pledged to Lloyd's of London to collateralize the Company's exposure to the business it assumes from SGL 1 as described above. As at December 31, 2021, the balance owed by Kenmare to the Company under this funding agreement was $238 million (2020: $238 million).

Enstar Affiliates

The Company incurs costs related to administrative services provided by Enstar (EU) Limited, which is an affiliated company. Our condensed consolidated statements of income and balance sheets for the years ended December 31, 2021 and 2020 and as at December 31, 2021 and 2020 respectively, included the following amounts in respect of these administrative services:

Administrative services costs:	2021	2020
	USD '000	USD '000
Enstar (EU) Limited	5,877	9,722
Enstar Limited	1,623	—
Enstar (US) Inc.	—	1

Outstanding balances - administrative services:	2021	2020
	USD '000	USD '000
Enstar (EU) Limited	6,786	6,660
Enstar Limited	1,281	—
Enstar (US) Inc.	801	10

Stone Point

The Company had a separate account managed by Eagle Point Credit Management, which is an affiliate of entities owned by the Trident V funds. Our condensed consolidated statements of income and balance sheets for the years ended December 31, 2021 and 2020 included the following amounts in respect of these investments:

	2021	2020
	USD '000	USD '000
Fixed maturities, trading, at fair value	28,751	—
Fixed maturities, AFS, at fair value	16,059	—
Other investments, at fair value	—	34,573
Cash	20	—
Management fees	97	80

Patcham Investment Funds Plc (“Patcham Funds”)

The Company also invests in Patcham Funds, as part of a group investment pool with other companies related through common control. These funds are managed by a wholly-owned subsidiary of Enstar. Our condensed consolidated statements of income and balance sheets for the years ended December 31, 2021 and 2020 included the following amounts in respect of these investments:

	2021	2020
	USD '000	USD '000
Patcham euro fund	505	44,836
Net unrealized gains	90	1,798

16. Subsequent Events

There are no significant subsequent events of note.

17. OTHER INFORMATION

Run-off of Starstone International (non-U.S.)

On March 15, 2021, we sold Starstone Underwriting Limited ("SUL"), a Lloyd's managing agency, together with the right to operate Lloyd's Syndicate 1301 for the 2021 and future years of account, to Inigo Limited ("Inigo").

1(a) SHARE CAPITAL / CAPITAL STOCK

As at December 31, 2021 and 2020 the authorized share capital was 1,000,000 ordinary shares of par value $1 per share, all of which are issued and outstanding.

1(b) ADDITIONAL PAID IN CAPITAL / CONTRIBUTED SURPLUS

As at December 31, 2021 and 2020, the Company had contributed surplus of $1,115 million.

No additional paid-in capital was contributed to the Company during the year ended December 31, 2021 and 2020.

2(c) DIVIDENDS PAID AND PAYABLE

On November 30, 2020, the Company paid a dividend of $242 million to its parent SSHL consisting of a cash dividend of $7 million and an in specie dividend of $235 million (25.3% shareholding in Core Specialty).

On March 15, 2021, Starstone Group sold SUL to Inigo Limited ("Inigo") in exchange for US $30 million shares in Inigo, which was then distributed to Cavello Bay via SSHL and Kenmare.

There are no further dividends proposed with respect to the year ended December 31, 2021.

ADDITIONAL NOTES

(a) There were no changes in the Company’s authorized share capital during the year.
(b) The Company has not contracted to issue or reissue shares or given options to purchase shares.
(c) There were no share transactions during the year in relation to shares in the Company.

1. ENCUMBRANCE ON CASH AND CASH EQUIVALENTS

Restricted assets are discussed in Note 8(b) of the General Notes to the condensed consolidated financial statements and the position at the year-end is shown in a table in that note. Cash at December 31, 2021 of $6 million (2020: $24 million) is restricted.

2-3 VALUATION OF INVESTMENTS

The valuation methodology applied to investments is explained in note 4(e) of the General Notes to the condensed consolidated financial statements.

Restricted assets are discussed in Note 8(b) of the General Notes to the condensed consolidated financial statements and the position at the year-end is shown in a table in that note. Investments at December 31, 2021 of $325 million (2020: $422 million) are restricted.

4. INVESTMENTS IN AND ADVANCES TO AFFILIATED ENTITIES

There are no investments in affiliated entities. Affiliate balances included under point 4 in the condensed consolidated balance sheets relate to non-interest bearing inter-company loans which are repayable on demand.

Details of transactions and balances with affiliated entities are provided in Note 15 of the General Notes to the condensed consolidated financial statements.

5. INVESTMENTS IN MORTGAGE LOANS ON REAL ESTATE

The Company does not provide direct mortgages on real estate. The amounts of the Company's investments in residential and commercial mortgage-backed securities are shown in Note 13 of the General Note to the condensed consolidated financial statements.

6. POLICY LOANS

Not applicable.

7. INVESTMENTS IN REAL ESTATE

Not applicable.

8. COLLATERAL LOANS

Not applicable.

9. INVESTMENT INCOME DUE AND ACCRUED

Investment income due and accrued amounted to $2 million (2020: $2 million) as at year end.

10. ACCOUNTS AND PREMIUMS RECEIVABLE

(a) Accounts and premiums receivable are not collateralized.
(b) Accounts and premiums receivable due from affiliates are $nil (2020: $1 million).

11. REINSURANCE BALANCES RECEIVABLE

Reinsurance balances receivable include reinsurance balances receivable on paid losses. Reinsurance balances receivable are not collateralized.

12. FUNDS HELD BY CEDING REINSURERS

As at December 31, 2021, funds held by ceding reinsurer affiliates are $209 million (2020: $259 million)

13. SUNDRY ASSETS

The following table summarizes the Other Sundry assets as of December 31, 2021 and 2020:

	2021	2020
	USD '000	USD '000
Deferred tax assets (see balance sheet note 31)	42	32
Corporation tax assets	2,141	4,112
Due from affiliates	4,748	8,751
Prepayments and other assets	5,060	7,812
Assets held for sale - Arena	—	4,389
Assets held for sale - SUL	—	7,696
Total Other Sundry Assets	11,991	32,792

Derivatives and embedded derivatives

The Company has not entered into any derivative contracts. There are no embedded derivatives.

14. LETTERS OF CREDIT GUARANTEES AND OTHER ASSETS

There are no letters of credit, guarantees and other assets which have not been considered in points 1 to 13 above.

16. UNEARNED PREMIUM RESERVE

The method of calculating the unearned premium reserve is set out in note 4(a) of the General Note to the condensed consolidated financial statements.

LOSS AND LOSS EXPENSE PROVISIONS

(a) Movements in loss and loss expense provisions for the current and previous year

The following table summarizes the liability for gross losses and LAE as of December 31, 2021 and 2020:

	2021	2020
	USD '000	USD '000
Outstanding losses	630,499	631,097
IBNR	428,352	529,855
ULAE	43,409	35,283
Losses and loss adjustment expenses	1,102,260	1,196,235

The table below provides a consolidated reconciliation of the beginning and ending liability for losses and LAE for the years ended December 31, 2021 and 2020:

	2021	2020
	USD '000	USD '000
Loss and loss adjustment expenses	1,196,235	1,156,949
Less: reinsurance recoverable on unpaid losses	(846,027)	(918,178)
Deferred gain on retroactive reinsurance	91,025	110,478
Net balance as at January 1	441,233	349,249
Net incurred losses and LAE:		
Current year	68,874	237,454
Prior periods	12,717	(11,347)
Movement in the deferred gain on retroactive reinsurance contracts	(29,595)	(19,453)
Total net incurred losses and LAE	51,996	206,654
Net losses paid:		
Current year	(4,692)	(45,798)
Prior periods	(108,453)	(89,067)
Total net paid losses	(113,145)	(134,865)
Ceded business		—
Effect of exchange rate movement	5,609	20,195
Net unpaid losses and LAE reserves as at December 31	324,263	350,208
Plus: reinsurance recoverable on unpaid losses as at December 31	777,996	846,027
Gross losses and loss adjustment expenses as at December 31	1,102,260	1,196,235
Deferred gain on retroactive reinsurance as at December 31	61,430	91,025
Total losses and LAE and deferred retroactive reinsurance gain as at December 31	1,163,690	1,287,260

(b) Reasons for the change in the net losses incurred and net loss expenses incurred related to prior years and indicate whether additional premiums or return premiums have been accrued as a result of the prior year effects

Net change in incurred losses and LAE reserves comprises of:(1) the movement during the year in specific case reserve liabilities as a result of claims settlements or changes advised to us by our policyholders and attorneys, less changes in case reserves recoverable advised by us to our reinsurers as a result of the settlement or movement of assumed claims, and (2) the net change in IBNR which represents the gross change in our actuarial estimates of IBNR, less amounts recoverable.

For the year ended December 31, 2021, the Company recorded an overall net increase in ultimate losses and loss adjustment expense liabilities of $52 million after considering the impact of foreign exchange. Current year loss activity was $69 million in 2021, driven by losses relating to earning $104 million of premium during the year. The Company recorded a negative net prior period reserve development of $12 million across numerous lines.

For the year ended December 31, 2020, the Company recorded an overall net increase in ultimate losses and loss adjustment expense liabilities of $207 million after considering the impact of foreign exchange. Current year loss activity was $237 million in 2020, driven by COVID-19 losses impacting a number of our lines. The Company recorded a positive net prior period reserve development of $11 million mainly due to the U.S. Directors and Officers and U.S. Workers Compensation.

(b) Secured and unsecured policyholder liabilities

Restricted assets are discussed in Note 8(b) of the General Note to the condensed consolidated financial statements and the position at the year-end is shown in a table in that note. As at December 31, 2021 the total restricted assets of $331 million (2020: $446 million) are deposited as security for policyholder liabilities. The total restricted assets include $36 million (2020: $69 million) FAL deposits made to Lloyd's which can be called to protect policyholders in case any underwriting member should be unable to meet his or her liabilities.

As at December 31, 2021, the amount of unsecured policyholder liabilities was $781 million (2020: $1,030 million).

20. RESERVES FOR REPORTED CLAIMS – LONG TERM BUSINESS

The Company has not written any long term business and consequently there is no reserve for reported claims for long term business in the condensed consolidated balance sheets.

21. RESERVES FOR UNREPORTED CLAIMS – LONG TERM BUSINESS

The Company has not written any long term business and consequently there is no reserve for unreported claims for long term business in the condensed consolidated balance sheets.

22. POLICY RESERVES – LONG TERM BUSINESS - LIFE

The Company has not written any life business and consequently there are no life policy reserves in the condensed consolidated balance sheets.

23. POLICY RESERVES – LONG TERM BUSINESS - ACCIDENT AND HEALTH

The Company has not written any accident and health business which falls under the definition of long term business and consequently there are no policy reserves for accident and health included under long term business in the condensed consolidated balance sheets.

24. POLICYHOLDERS' FUNDS ON DEPOSIT – LONG TERM BUSINESS

The Company has not written any long term insurance business and consequently there are no policyholder funds on deposit included under long-term business in the condensed consolidated balance sheets.

25. LIABILITY FOR FUTURE POLICYHOLDERS' DIVIDENDS

The Company has not written any long term business and consequently there are no liabilities for policyholder dividends included in the condensed consolidated balance sheets.

26. OTHER RESERVES – LONG TERM

The Company has not written any long-term business and consequently there are no other reserves for long term business included in the condensed consolidated balance sheets.

27. TOTAL LONG TERM BUSINESS INSURANCE RESERVES

The Company has not written any long term business and consequently there are no reserves for long term business included in the condensed consolidated balance sheets.

28. INSURANCE AND REINSURANCE BALANCES PAYABLE

Details of transactions and balances with affiliated entities are provided in Note 15 of the General Note to the condensed consolidated financial statements.

Balances with affiliates relate primarily to reinsurance contracts and therefore there are no repayment terms and rates to interest to disclose.

29. COMMISSION, EXPENSES, FEES AND TAXES PAYABLE

The method of recognizing commission is set out in note 4(b) of the General Note to the condensed consolidated financial statements.

30. LOANS AND NOTES PAYABLE

There are no loans and notes payable.

31. INCOME TAX PAYABLE AND DEFERRED TAXATION

The Company is incorporated under the laws of Bermuda and is therefore subject to Bermuda law with respect to taxation. Under current law, the Company is not taxed on any Bermuda income or capital gains and has received an undertaking from the Bermuda Minister of Finance that, in the event of any Bermuda income or capital gains taxes being imposed, it will be exempt from those taxes until 2035.

The Company has foreign operating subsidiaries and branch operations principally located in the United Kingdom and Continental Europe that are subject to local taxes in those jurisdictions. At December 31, 2021 and 2020, the income tax receivable was $2.0 million and $3.0 million, respectively.

Deferred tax assets and liabilities reflect the tax effect of the differences between the financial reporting and income tax bases of assets and liabilities. Significant components of the deferred tax assets and deferred tax liabilities relating to our operations were as follows:

	2021	**2020**
	USD'000	USD'000
Net operating loss carryforwards	17,593	10,570
Other deferred tax assets	3,051	2,798
Gross deferred tax assets	20,644	13,368
Less valuation allowance	(20,602)	(13,336)
Deferred tax assets	42	32
Total	42	32

Assessment of Valuation Allowance on Deferred Tax Assets

As of December 31, 2021, we had deferred tax asset valuation allowances of $21 million (2020: $13 million) related to foreign subsidiaries.

The realization of deferred tax assets is dependent on generating sufficient taxable income in future periods in which the tax benefits are deductible or creditable. The amount of the deferred tax asset considered realizable, however, could be revised in the future if estimates of future taxable income change. Taxes are determined and assessed jurisdictionally by legal entity or by filing group. Certain jurisdictions require or allow combined or consolidated tax filings. We have estimated future taxable income of our foreign subsidiaries and provided a valuation allowance in respect of those assets where we do not expect to realize a benefit. We have considered all available evidence using a “more likely than not” standard in determining the amount of the valuation allowance. We considered the following evidence: (i) net earnings or losses in recent years; (ii) the future sustainability and likelihood of positive net earnings of our subsidiaries; (iii) the carryforward periods of tax losses including the effect of reversing temporary differences; and (iv) tax planning strategies, in making our determination. The assumptions used in determining future taxable income require significant judgment and any changes in these assumptions could have an impact on earnings.

The Company classifies all interest and penalties related to uncertain tax positions as income tax expense. As of December 31, 2021 and 2020, the Company recognized no expenses or liabilities for tax related interest and penalties in its condensed consolidated statements of income and condensed consolidated balance sheets, respectively. The Company had no unrecognized tax benefits relating to uncertain tax positions as of December 31, 2021 and 2020.

Our operating subsidiaries may be subject to audit by various tax authorities and may have different statutes of limitations expiration dates. Tax authorities may propose adjustments to our income taxes. Listed below are the tax years that remain subject to examination by major tax jurisdiction as of December 31, 2021:

Major Tax Jurisdiction	**Open Tax Years**
United Kingdom	2020-2021

31. AMOUNTS DUE TO AFFILIATES

Affiliate balances included under item 31 of the condensed consolidated balance sheets do not relate to insurance or reinsurance contracts and are non-interest bearing and repayable on demand.

Details of transactions and balances with affiliated entities are provided in Note 15 of the General Notes to the condensed consolidated financial statements.

32. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

At December 31, 2021, the Company had accrued liabilities of $6 million (2020: $20 million) in relation to expenses incurred.

33. FUNDS HELD UNDER REINSURANCE CONTRACTS

The company had liabilities to affiliate reinsurers for funds held under reinsurance contracts of $270 million as at December 31, 2021 (2020: $345 million).

Details of transactions and balances with affiliated entities are provided in Note 15 of the General Notes to the condensed consolidated financial statements.

34. DIVIDENDS PAYABLE

At December 31, 2021, the Company had a liability for dividends payable of $0 million (2020: $7 million).

35. SUNDRY LIABILITIES

The following table summarizes the Other Sundry Liabilities as of December 31, 2021 and 2020:

	2021	**2020**
	USD '000	USD '000
Liabilities held for sale - Arena	—	3,042
Liabilities held for sale - SUL	—	883
Total Other Sundry Liabilities	—	3,925

Liabilities held for sale for each entity as of December 31, 2021 and December 31, 2020 are analyzed in Note 13 of the notes to the condensed consolidated balance sheets.

Derivatives and embedded derivatives

The Company has not entered into any derivative contracts. There are no embedded derivatives.

36. LETTERS OF CREDIT GUARANTEES AND OTHER ASSETS

There are no letters of credit, guarantees and other assets provided by the Company which have been included as liabilities on the condensed consolidated balance sheets.

Details of assets provided as collateral for letters of credit are shown in Note 8(b) of the General Notes to the condensed consolidated financial statements.

6. OTHER INSURANCE INCOME GENERAL BUSINESS

There is no other insurance income on general business.

15. OTHER INSURANCE INCOME LONG TERM BUSINESS

The Company does not write long term business.

32. COMBINED OTHER INCOME

	2021	2020
	USD'000	USD'000
Net earnings from discontinued operations, net of income taxes	—	11,391
Gain/(loss) on sale of subsidiary	22,738	12,931
Rental Income	—	200
Other income/(expense)	732	152
Total	23,470	24,674

The gain on sale of subsidiary in 2021 is comprised of a gain on sale of SUL amounting to $23 million, and in 2020 sale of StarStone US amounting to $10 million, and a gain on VdH sale amounting to $3 million including loss from the minority interest on net income.

33. COMBINED REALIZED GAINS (LOSS)

This relates to realized gains on investments as set out in Note 4(e) of the of the General Notes to the condensed consolidated financial statements.