

# **Aspen Bermuda Limited**

**Financial Statements and  
Independent Auditors' Report**

**December 31, 2021 and 2020**

## INDEX TO THE FINANCIAL STATEMENTS

<b>Index</b>	<b>Page</b>
Report of Independent Auditors	<a href="#">3</a>
Balance Sheet as at December 31, 2021 and 2020	<a href="#">5</a>
Statement of Income and Comprehensive Income (Loss) for the years ended December 31, 2021 and 2020	<a href="#">7</a>
Statement of Changes in Shareholder's Equity for the years ended December 31, 2021 and 2020	<a href="#">8</a>
Statement of Cash Flow for the years ended December 31, 2021 and 2020	<a href="#">9</a>
Notes to the Financial Statements	<a href="#">11</a>



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## **INDEPENDENT AUDITOR'S REPORT**

### **To the Shareholder and Board of Directors of Aspen Bermuda Limited**

#### **Opinion**

We have audited the financial statements of Aspen Bermuda Limited (the "Company"), which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of income and comprehensive income, changes in shareholder's equity, and cash flows for the years then ended, and the related notes to 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<sup>5</sup> for the years then ended in accordance with U.S. generally accepted accounting principles.

#### **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 U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

U.S. generally accepted accounting principles require that certain disclosures related to short-duration contracts in Note 7 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*KPMG Audit Limited*

Chartered Professional Accountants  
Hamilton, Bermuda  
April 29, 2022

ASPEN BERMUDA LIMITED

BALANCE SHEET

As at December 31, 2021 and 2020

(In thousands of U.S. dollars, except per share and share amounts)

	As at December 31,	
	2021	2020
	US\$	US\$
<b>Assets</b>		
Investments:		
Fixed maturities, available for sale, at fair value (Amortized cost 2021: \$1,450,862; 2020: \$1,419,778) (Allowance for expected credit losses 2021: \$562; 2020: \$20) . . . . .	\$ 1,484,373	\$ 1,518,066
Fixed maturities, trading, at fair value (Amortized cost 2021: \$565,616; 2020: \$603,916) . . . . .	567,105	608,412
Short term investments, available for sale, at fair value (Amortized cost 2021: \$2,425; 2020: \$nil) . . . . .	2,432	—
Short term investments, trading, at fair value (Amortized cost 2021: \$795; 2020: \$34,360) . . . . .	795	34,360
Privately-held investments, trading, at fair value (Amortized cost 2021: \$164,172; 2020: \$314,768) . . . . .	161,928	294,973
Other investments, at fair value . . . . .	129,946	109,413
<b>Total Investments (Notes 3 and 4) . . . . .</b>	<b>\$ 2,346,579</b>	<b>\$ 2,565,224</b>
Cash and cash equivalents (Note 11) . . . . .	279,587	203,201
Reinsurance recoverable on losses and loss expenses (Note 12) (Allowance for expected credit losses 2021: \$22; 2020: \$118) . . . . .	948,841	835,192
Prepaid reinsurance premiums . . . . .	92,742	54,673
Premiums receivable (Note 12) (Allowance for expected credit losses 2021: \$nil; 2020: \$nil) . . . . .	369,598	181,741
Funds withheld . . . . .	634,443	586,634
Deferred acquisition costs . . . . .	64,729	36,405
Derivatives at fair value (Note 5) . . . . .	5,432	4,785
Right-of-use operating lease assets (Note 11) . . . . .	8,481	1,829
Due from related party (Note 9) . . . . .	159,504	109,818
Other assets . . . . .	23,193	17,362
<b>Total assets . . . . .</b>	<b>\$ 4,933,129</b>	<b>\$ 4,596,864</b>

See accompanying notes to the Financial Statements


**ASPEN BERMUDA LIMITED**  
**BALANCE SHEET (Continued)**

As at December 31, 2021 and 2020

(In thousands of U.S. dollars, except per share and share amounts)

	<b>As at December 31,</b>	
	<b>2021</b>	<b>2020</b>
	US\$	US\$
<b>Liabilities</b>		
Reserves for losses and loss expenses (Note 7) . . . . .	\$ 3,092,128	\$ 2,828,090
Unearned premium reserves . . . . .	401,352	231,907
Reinsurance premiums payable . . . . .	204,091	171,793
Due to related party (Note 13) . . . . .	75,000	—
Operating lease liabilities (Note 11) . . . . .	8,507	1,853
Liabilities under derivative contracts (Note 5) . . . . .	7,130	11,991
Deferred gain . . . . .	—	6,984
Income Tax Payable (Note 15) . . . . .	369	—
Other liabilities . . . . .	13,523	10,418
<b>Total liabilities</b> . . . . .	<b>\$ 3,802,100</b>	<b>\$ 3,263,036</b>
<b>Shareholder's equity</b>		
Common shares, \$1 par value, 1,000,000 authorized, issued and fully paid (Note 10) . . . . .	1,000	1,000
Additional paid-in capital (Note 10) . . . . .	1,329,000	1,329,000
Retained earnings . . . . .	(233,474)	(94,571)
Accumulated other comprehensive income . . . . .	34,503	98,399
<b>Total shareholder's equity</b> . . . . .	<b>\$ 1,131,029</b>	<b>\$ 1,333,828</b>
<b>Total liabilities and shareholder's equity</b> . . . . .	<b>\$ 4,933,129</b>	<b>\$ 4,596,864</b>

Signed on behalf of the Board



\_\_\_\_\_  
Name: Sybrand Van Niekerk  
Director



\_\_\_\_\_  
Name: Mark Pickering  
Director

See accompanying notes to the Financial Statements

**ASPEN BERMUDA LIMITED**  
**STATEMENT OF INCOME AND COMPREHENSIVE INCOME**

For the years ended December 31, 2021 and 2020

(Expressed in thousands of United States dollars)

	<b>For the years ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
	US\$	US\$
<b>Revenues</b>		
Gross premiums written	\$ 1,327,169	\$ 935,862
Premiums ceded (Note 8)	(381,332)	(255,328)
Net premiums written	945,837	680,534
Change in net unearned premiums	(129,499)	(19,845)
Net earned premium	816,338	660,689
Other underwriting income	6,438	(4,185)
Net investment income (Note 3)	85,687	83,591
Net realized and unrealized foreign exchange losses	18,527	(6,329)
Net realized and unrealized investment gains (Note 3)	901	25,137
<b>Total Revenues</b>	<b>\$ 927,891</b>	<b>\$ 758,903</b>
<b>Expenses</b>		
Losses and loss adjustment expenses (Note 7 and 8)	626,537	520,885
Amortization of deferred policy acquisition costs (Note 6)	195,318	160,230
General, administrative and corporate expenses (Note 9)	51,581	40,622
Change in fair value of derivatives (Note 5)	12,973	86,484
<b>Total Expenses</b>	<b>886,409</b>	<b>808,221</b>
<b>Income (loss) before income taxes</b>	<b>41,482</b>	<b>(49,318)</b>
Income Tax expense	(385)	—
<b>Net Income (Loss)</b>	<b>\$ 41,097</b>	<b>\$ (49,318)</b>
<b>Other Comprehensive Income/(Loss):</b>		
Available for sale investments:		
Reclassification adjustment for net realized (losses) on investments included in net income	(12,163)	(35,421)
Change in net unrealized (losses)/gains on available for sale securities held	(52,059)	72,293
Change in foreign currency translation adjustment	326	119
Other comprehensive (loss)/income, gross of tax	(63,896)	36,991
Total income tax benefit/(expense) allocated to other comprehensive income/(loss)	—	—
Other comprehensive (loss)/income, net of tax	\$ (63,896)	\$ 36,991
<b>Total Comprehensive (Loss) Income</b>	<b>\$ (22,799)</b>	<b>\$ (12,327)</b>

See accompanying notes to the Financial Statements

**ASPEN BERMUDA LIMITED**  
**STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY**

For the years ended December 31, 2021 and 2020

*(Expressed in thousands of United States dollars)*

	<b>For the years ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>US\$</b>	<b>US\$</b>
<b>Common shares:</b>		
Beginning and end of year	\$ 1,000	\$ 1,000
<b>Contributed surplus:</b>		
Beginning and end of year	1,329,000	1,229,000
Additional paid in capital <sup>1</sup>	—	100,000
End of Year	1,329,000	1,329,000
<b>Retained earnings:</b>		
Beginning of year	(94,571)	89,908
Net (loss) / income for the year	41,097	(49,318)
Dividends on ordinary shares	(180,000)	(135,000)
Opening credit losses ("CECL") <sup>2</sup>	—	(161)
End of the year	\$ (233,474)	\$ (94,571)
<b>Accumulated other comprehensive income:</b>		
<b>Cumulative foreign currency translation adjustments:</b>		
Beginning of the year	119	—
Change for the year	326	119
End of the year	445	119
<b>Unrealized appreciation on investments:</b>		
Beginning of the year	98,280	61,289
Change for the year	(52,059)	72,412
Reclassification for net realized (losses) / gains included in net income	(12,163)	(35,421)
End of the year	\$ 34,058	\$ 98,280
<b>Total accumulated other comprehensive income</b>	<b>34,503</b>	<b>98,399</b>
<b>Total Shareholder's Equity</b>	<b>\$ 1,131,029</b>	<b>\$ 1,333,828</b>

<sup>1</sup> The \$100 million relates to additional capital contribution received from our parent company, Aspen Insurance Holdings Limited.

<sup>2</sup> The \$161 thousand relates to the cumulative effect-adjustment to opening retained earnings as a result of the recognition of current expected credit losses ('CECL') in the Company's available-for-sale investment portfolio and reinsurance recoverables following the adoption of ASU 2016-13.

See accompanying notes to the Financial Statements



**ASPEN BERMUDA LIMITED**  
**STATEMENT OF CASH FLOWS**

For the years ended December 31, 2021 and 2020

*(Expressed in thousands of United States dollars)*

	<b>Twelve Months Ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
	US\$	US\$
<b>Cash flows from/(used in) operating activities:</b>		
Net (loss) / income	\$ 41,097	\$ (49,318)
Adjustment to reconcile net income to net cash flows provided by operating activities:		
Amortization of premium on investments	4,475	2,578
Net realized investment (gains) / losses - available for sale	(12,163)	(35,421)
Net unrealized and realized investment (gains) / losses - trading <sup>3</sup>	1,851	12,217
Change in fair value of other investments	(20,533)	2,008
<b>Change in assets and liabilities:</b>		
Loss reserves recoverable	\$ (113,649)	\$ (390,776)
Ceded unearned premiums	(38,069)	(9,558)
Premiums receivable	(187,857)	(27,084)
Funds withheld	(47,809)	67,906
Deferred policy acquisition costs	(28,324)	(3,249)
Derivatives at fair value	(647)	(3,848)
Right-of-use operating lease assets	(6,652)	24
Due from related party	(9,686)	6,813
Other assets	(5,831)	2,963
Loss and loss adjustment expense reserves	264,038	(192,235)
Unearned premium reserves	169,445	29,490
Reinsurance premiums payable	32,298	(30,054)
Operating lease liabilities	6,654	—
Liabilities under derivative contracts	(4,861)	(72,233)
Deferred gain	(6,984)	(7,475)
Income Tax Payable	369	—
Other liabilities	3,105	(2,370)
<b>Net Cash flows used in Operating Activities</b>	<b>\$ 40,267</b>	<b>\$ (699,622)</b>

<sup>3</sup> Net unrealized and realized investment (gains) / losses - trading, includes unrealized and realized foreign exchange (gains) / losses

See accompanying notes to the Financial Statements

**ASPEN BERMUDA LIMITED**  
**STATEMENT OF CASH FLOWS**

For the years ended December 31, 2021 and 2020

*(Expressed in thousands of United States dollars)*

	<b>Twelve Months Ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
	US\$	US\$
<b>Cash flows from/(used in) investing activities</b>		
Purchases of fixed maturity investments - available for sale . . . . .	\$ (436,733)	\$ (428,987)
Purchases of fixed maturity investments - trading . . . . .	(402,982)	(108,675)
Proceeds from sales of fixed maturity investments - available for sale . . . . .	411,595	857,878
Proceeds from sales of fixed maturity investments - trading . . . . .	440,243	367,705
Net (purchases) of short-term investments - available for sale . . . . .	(1,205)	—
Net (purchases) / sales of short-term investments - trading . . . . .	34,103	27,036
Purchases of private assets . . . . .	(43,823)	(91,849)
Proceeds from sale of private assets . . . . .	179,921	64,073
<b>Net Cash flows provided by Investing Activities . . . . .</b>	<b>\$ 181,119</b>	<b>\$ 687,181</b>
<b>Cash flows from/(used in) financing activities</b>		
Net loans to affiliated companies . . . . .	(40,000)	(44,125)
Net loans from affiliated companies . . . . .	75,000	—
Additional Paid in Capital . . . . .	—	100,000
Dividends paid . . . . .	(180,000)	(135,000)
<b>Net Cash flows used in Financing Activities . . . . .</b>	<b>\$ (145,000)</b>	<b>\$ (79,125)</b>
Net (decrease) increase in cash and cash equivalents . . . . .	76,386	(91,566)
Cash and cash equivalents, beginning of period . . . . .	203,201	294,767
<b>Cash and cash equivalents, end of period . . . . .</b>	<b>\$ 279,587</b>	<b>\$ 203,201</b>

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

See accompanying notes to the Financial Statements

**Aspen Bermuda Limited**  
**Notes to Financial Statements**

December 31, 2021 and 2020

*(All amounts expressed in United States dollars - amounts in tables expressed in thousands of United States dollars)*

**1. History**

Aspen Bermuda Limited (“the Company”), formerly Aspen Insurance Limited, was incorporated under the laws of Bermuda, and is a wholly-owned subsidiary of Aspen Insurance Holdings Limited (“Holdings”). The Company is regulated by the Bermuda Monetary Authority (“BMA”) and is licensed under the Insurance Act 1978, as amended (the “Insurance Act”) and related regulations to write general business as a Class 4 insurer with effect from December 9, 2002. In October 2019, the Company established a branch in Zurich, Switzerland (the “Zurich Branch”) to write prospective business effective January 1, 2020. In February 2021, the Company obtained approval to establish a branch in Singapore writing prospective business effective 1 April, 2021 (the “Singapore Branch”, with the Zurich Branch and the Singapore Branch together, the “Branches”).

The Company writes a diversified book of business which includes property, specialty and casualty reinsurance as well as direct insurance lines namely casualty and financial and professional lines. Cedants are mainly located in the United States of America, Europe and the Asia Pacific region.

The Company assumes certain risks of Aspen Insurance UK Limited (“Aspen UK”), a UK corporation, Aspen Specialty Insurance Company (“ASIC”), a North Dakota corporation, Aspen American Insurance Company (“AAIC”), a Texas corporation and, Aspen Underwriting Limited (“AUL”) (as corporate member of our Lloyd’s operations, which are managed by Aspen Managing Agency Limited “AMAL”), all of which are wholly-owned subsidiaries of Holdings. The Company also participates in quota share arrangements with Aspen UK and multiple quota share arrangements with Peregrine Re Limited, mainly in relation to its property reinsurance business.

Business Combination. On February 15, 2019, Holdings completed its merger with Highlands Merger Sub, Ltd. (“Merger Sub”), a wholly owned subsidiary of Highlands Bermuda Holdco, Ltd. (formerly known as Highlands Holdings, Ltd.) (“Parent”). Merger Sub merged with and into Holdings (the “Merger”), with Holdings continuing as the surviving company and as a wholly owned subsidiary of Parent. Parent, a Bermuda exempted company, is an affiliate of certain investments funds managed by affiliates of Apollo Global Management, Inc., a leading global investment manager (collectively with its subsidiaries, “Apollo”).

**2. Basis of preparation and significant accounting policies**

**Basis of preparation**

The accompanying financial statements are prepared in accordance with United States Generally Accepted Accounting Principles (“U.S. GAAP”).

The financial statements have been compiled on a going concern basis. The financial statements are presented in U.S. dollar thousands and all values are rounded to nearest thousand dollar except where otherwise indicated.

**(a) Use of estimates**

Assumptions and estimates made by management have a significant effect on the amounts reported within the financial statements. The most significant of these relate to losses and loss adjustment expenses, reinsurance recoverables, gross written premiums and commissions which have not been reported to the Company such as those relating to proportional treaty reinsurance contracts, the fair value of derivatives and the fair value of other and privately-held investments. All material assumptions and estimates are regularly reviewed and adjustments made as necessary but actual results could be significantly different from those expected when the assumptions or estimates were made.

*Aspen Bermuda Limited*

**Notes to Financial Statements**

December 31, 2021 and 2020

*(All amounts expressed in United States dollars - amounts in tables expressed in thousands of United States dollars)*

**2. Basis of preparation and significant accounting policies (continued)**

Significant accounting policies are as follows:

**(b) Investments**

***Fixed Income Securities***

The fixed income securities portfolio comprises securities issued by governments and government agencies, corporate bonds, mortgage and other asset-backed securities and bank loans. Investments in fixed income securities are classified as available for sale or trading and are reported at estimated fair value in the balance sheet.

Investment transactions are recorded on the trade date with balances pending settlement reflected in the balance sheet under receivables for securities sold and accrued expenses and other payables for securities purchased, respectively. Fair values are based on quoted market prices and other data provided by third-party pricing services.

***Short-term Investments***

Short-term investments primarily comprise highly liquid debt securities with a maturity greater than three months but less than one year from the date of purchase and are held as part of the investment portfolio of the Company. Short-term investments are classified as either trading or available for sale and carried at estimated fair value.

***Privately-held Investments***

The Company's privately-held investments primarily comprise commercial mortgage loans and middle market loans. These investments are classified as trading and are carried on the balance sheet at estimated fair value. Privately-held investments are initially valued at cost or transaction value which approximates fair value. In subsequent measurement periods, the fair values of these securities are primarily determined using internally developed discounted cash flow models. Interest income is accrued on the principal amount of the loan based on its contractual interest rate subject to it being probable that we will receive interest on that particular underlying loan. Interest income, amortization of premiums and discounts, and prepayment fees are reported in net investment income on the statements of income.

***Other investments***

Other investments represent the Company's investment in a real estate fund. Adjustments to the fair value are made based on the net asset value of the investment.

***Gains and Losses***

Realized gains or losses on the sale of investments are determined on the basis of the first in first out cost method and, for fixed income available for sale securities, include adjustments to the cost basis of investments for declines in value that are considered to be other-than-temporary. Unrealized gains and losses represent the difference between the cost, or the cost as adjusted by amortization of any difference between its cost and its redemption value ("amortized cost"), of the security and its fair value at the reporting date and are included within other comprehensive income for securities classified as available for sale and in realized and unrealized investment gains or losses in the statement of operations for securities classified as trading.

***Current Expected Credit Losses ("CECL") / Other-than-temporary Impairment of Investments***

Following the Company's adoption of ASU 2016-13 "*Financial Instruments - Credit Losses (Topic 326)*", effective January 1, 2020, credit losses on available for sale debt securities accounting policy is applicable; prior to this date, the comparative periods presented the other-than-temporary impairment of investment accounting policy which was applicable:

**2. Basis of preparation and significant accounting policies (continued)**

***Credit Losses on Available for Sale Debt Securities.*** A detailed analysis is performed each reporting period end to assess declines in the fair values of available for sale debt securities. Our credit loss model employs a discounted cash flow approach across all asset classes. Credit losses are only computed for assets held at an unrealized loss at the balance sheet date and will have a fair value floor. Default probabilities are estimated for each rating from AAA to C and analysis is undertaken separately for different assets classes and geographies. The expected credit losses, and subsequent adjustments to such losses are recorded within net realized gains/(losses) and are deducted from the amortized cost basis of the financial asset, with the net carrying value of the financial asset presented on the balance sheet at the amount expected to be collected.

***Other-than-temporary Impairment of Investments.*** A security is impaired when its fair value is below its cost or amortized cost. The Company reviewed its investment portfolio each quarter on an individual security basis for potential other-than-temporary impairment (“OTTI”) based on criteria including issuer-specific circumstances, credit ratings actions and general macro-economic conditions.

OTTI was deemed to occur when there was no objective evidence to support recovery in value of a security and (i) the Company intended to sell the security or more likely than not would be required to sell the security before recovery of its cost or adjusted amortized cost basis or (ii) it was deemed probable that the Company would be unable to collect all amounts due according to the contractual terms of the individual security. In the first case, the entire unrealized loss position was taken as an OTTI charge to realized losses in earnings. In the second case, the unrealized loss was separated into the amount related to credit loss and the amount related to all other factors. The OTTI charge related to credit loss was recognized in realized losses in earnings and the amount related to all other factors was recognized in other comprehensive income. The cost basis of the investment is reduced accordingly and no adjustments to the cost basis were made for subsequent recoveries in value.

Although the Company reviewed each security on a case by case basis, it had also established parameters focusing on the extent and duration of impairment to help identify securities in an unrealized loss position which were other-than-temporarily impaired. For fixed income securities in the available for sale portfolio, the Company considered securities which had been in an unrealized loss position for 12 months or more which had a market value of more than 20% below cost should be other-than-temporarily impaired.

***Investment Income***

Investment income includes amounts received and accrued in respect of periodic interest (“coupons”) payable to the Company by the issuer of fixed income securities, equity dividends and interest credited on cash and cash equivalents. It also includes amortization of premium and accretion of discount in respect of fixed income securities. Investment management and custody fees are charged against net investment income reported in the statement of operations.

**(c) Cash and Cash Equivalents**

Cash and cash equivalents are carried at fair value. Cash and cash equivalents comprise cash on hand, deposits held on call with banks and other short-term highly liquid investments due to mature within three months from the date of purchase and which are subject to insignificant risk of change in fair value.

**(d) Derivative Financial Instruments**

The Company enters into derivative instruments such as interest rate swaps and forward exchange contracts in order to manage certain market and credit risks. The Company records derivative instruments at fair value on the Company’s balance sheet as either assets or liabilities, depending on their rights and obligations.

**2. Basis of preparation and significant accounting policies (continued)**

The accounting for the gain or loss due to the changes in the fair value of these instruments is dependent on whether the derivative qualifies as a hedge. If the derivative does not qualify as a hedge, the gains or losses are reported in earnings when they occur. If the derivative does qualify as a hedge, the accounting treatment varies based on the type of risk being hedged.

**(e) Right-of-Use Operating Lease Assets**

Right-of-use operating lease assets comprise primarily of leased office real estate and other assets. For all office real estate leases, rent incentives, including reduced-rent and rent free periods and contractually agreed rent increases during the lease term, have been included when determining the present value of future cash flows. Right-of-use operating lease assets are carried at cost less accumulated depreciation. Right-of-use operating lease assets are depreciated over the lease term.

Right-of-use operating lease assets are tested for impairments whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the carrying value of an asset is impaired, it is reduced to the recoverable amount by an immediate charge to the income statement. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

**(f) Premium revenues and related expenses**

***Premiums Earned***

Premiums are recorded as written on the inception date of a policy. Premiums are primarily recognized as revenues proportionately over the coverage period. Premiums earned are recorded in the statements of operations, net of the cost of purchased reinsurance. Premiums written which are not yet recognized as earned premium are recorded in the balance sheet as unearned premiums, gross of any ceded unearned premiums. Written and earned premiums and the related costs include estimates for premiums which have not been finally determined. These relate mainly to contractual provisions for the payment of adjustment or additional premiums, premiums payable under proportional treaties and delegated underwriting authorities, and reinstatement premiums.

Adjustment and additional premiums are premiums charged which relate to experience during the policy term. The proportion of adjustable premiums included in the premium estimates varies between business lines with the largest adjustment premiums being in property and casualty reinsurance casualty insurance.

Premiums under proportional treaty contracts and delegated underwriting authorities are generally not reported to the Company until after the reinsurance coverage is in force. As a result, an estimate of these "pipeline" premiums is recorded. The Company estimates pipeline premiums based on projections of ultimate premium taking into account reported premiums and expected development patterns.

Reinstatement premiums on assumed excess of loss reinsurance contracts are provided based on experience under such contracts. Reinstatement premiums are the premiums charged for the restoration of the reinsurance limit of an excess of loss contract to its full amount after payment by the reinsurer of losses as a result of an occurrence. Reinstatement premiums are recognized as revenue in full at the date of loss, triggering the payment of the reinstatement premiums. Reinstatement premiums provide future insurance cover for the remainder of the initial policy term. An allowance for uncollectible premiums is established for possible non-payment of premium receivables, as deemed necessary.

**2. Basis of preparation and significant accounting policies (continued)**

Outward reinsurance premiums, which are paid when the Company purchases reinsurance or retrocessional coverage, are accounted for using the same accounting methodology as the Company uses for inwards premiums. Premiums payable under reinsurance contracts that operate on a “losses occurring during” basis are accounted for in full over the period of coverage while those arising from “risks attaching during” policies are expensed over the earnings period of the underlying premiums receivable from the reinsured business. Adjustment premiums and reinstatement premiums in relation to outward reinsurance are accrued when it is determined that the ultimate losses will trigger a payment and recognized within premiums payable.

***Credit Losses on Underwriting Premiums Receivable***

Underwriting premium receivable balances are reported net of an allowance for expected credit losses. The allowance, based on ongoing review and monitoring of amounts outstanding, historical loss data, including write-offs and other relevant factors, is charged to net income in the period the receivable is recorded and revised in subsequent periods to reflect changes in the Company’s estimate of expected credit losses. Credit risk is partially mitigated by the Company’s ability to cancel the policy if the policyholder does not pay the premium.

***Losses and Loss Adjustment Expense***

Losses represent the amount paid or expected to be paid to claimants in respect of events that have occurred on or before the balance sheet date. The costs of investigating, resolving and processing these claims are known as loss adjustment expenses (“LAE”). The statement of operations records these losses net of reinsurance, meaning that gross losses and loss adjustment expenses incurred are reduced by the amounts recovered or expected to be recovered under reinsurance contracts.

***Reinsurance***

Written premiums, earned premiums, incurred claims, LAE and the amortization of deferred policy acquisition costs all reflect the net effect of assumed and ceded reinsurance transactions. Assumed reinsurance refers to the Company’s acceptance of certain insurance risks that other insurance companies have underwritten. Ceded reinsurance arises from contracts under which other insurance companies agree to share certain risks with the Company.

Reinsurance accounting is followed when there is significant timing risk, significant underwriting risk and a reasonable possibility of significant loss. Reinsurance and retrocession does not isolate the ceding company from its obligations to policyholders. In the event that a reinsurer or retrocessionaire fails to meet its obligations, the ceding company’s obligations remain. The Company regularly evaluates the financial condition of its reinsurers and retrocessionaires and monitors the concentration of credit risk to minimize its exposure to financial loss from reinsurers’ and retrocessionaires’ insolvency by establishing an allowance for expected credit losses to be recognized over the life of the reinsurance recoverable.

***Retroactive Reinsurance Agreements***

Retroactive reinsurance agreements are reinsurance agreements under which a reinsurer agrees to reimburse the company as a result of past insurable events. For these agreements, the excess of the amounts ultimately collectible under the agreement over the consideration paid is recognized as a deferred gain liability which is amortized into income over the settlement period of the ceded reserves once the paid losses have exceeded the minimum retention. The amount of the deferral is recalculated each period based on actual loss payments and updated estimates of ultimate losses. If the consideration paid exceeds the ultimate losses collectible under the agreement, the net loss on the retroactive reinsurance agreement is recognized within income immediately.

***Aspen Bermuda Limited***

**Notes to Financial Statements**

December 31, 2021 and 2020

*(All amounts expressed in United States dollars - amounts in tables expressed in thousands of United States dollars)*

**2. Basis of preparation and significant accounting policies (continued)**

Premiums payable for retroactive reinsurance coverage and meeting the conditions of reinsurance accounting are reported as reinsurance recoverables to the extent that those amounts do not exceed recorded liabilities relating to underlying reinsurance contracts. To the extent that recorded liabilities on an underlying reinsurance contract exceed premiums payable for retroactive coverage, a deferred gain is recognized.

***Reserves***

Insurance reserves are established for the total unpaid cost of claims and LAE in respect of events that have occurred by the balance sheet date, including the Company's estimates of the total cost of claims incurred but not yet reported ("IBNR"). Claim reserves are reduced for estimated amounts of salvage and subrogation recoveries. Estimated amounts recoverable from reinsurers on unpaid losses and LAE are reflected as assets.

For reported claims, reserves are established on a case-by-case basis within the parameters of coverage provided in the insurance policy or reinsurance agreement. For IBNR claims, reserves are estimated using a number of established actuarial methods to establish a range of estimates from which a management best estimate is selected. Both case and IBNR reserve estimates consider variables such as past loss experience, changes in legislative conditions, changes in judicial interpretation of legal liability, policy coverages and inflation.

As many of the coverages underwritten involve claims that may not be ultimately settled for many years after they are incurred, subjective judgments as to the ultimate exposure to losses are an integral and necessary component of the loss reserving process. The Company regularly reviews its reserves, using a variety of statistical and actuarial techniques to analyze current claims costs, frequency and severity data, and prevailing economic, social and legal factors. Reserves established in prior periods are adjusted as claim experience develops and new information becomes available. Adjustments to previously estimated reserves are reflected in the financial results of the period in which the adjustments are made.

The process of estimating required reserves does, by its very nature, involve considerable uncertainty. The level of uncertainty can be influenced by factors such as the existence of coverage with long duration payment patterns and changes in claims handling practices, as well as the factors noted above. Ultimate actual payments for claims and LAE could turn out to be significantly different from the Company's estimates.

***Credit Losses on Reinsurance Recoverables***

Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability with the reinsured business. The Company evaluates the financial condition of its reinsurers and monitors concentration of credit risk to minimize its exposure to significant losses from individual reinsurers. To further reduce credit exposure on reinsurance recoverables, the Company has received collateral, including letters of credit and trust accounts, from certain reinsurers. Following the adoption of ASC 326, as described above, an allowance is established for expected credit losses to be recognized over the life of the reinsurance recoverable. The allowance is based upon the current financial strength of the individual reinsurer and the amount of collateral held.

***Amortization of Deferred Policy Acquisition Costs***

The costs directly related to writing an insurance policy are referred to as policy acquisition expenses and include commissions, premium taxes and profit commissions. With the exception of profit commissions, these expenses are incurred when a policy is issued, and only the costs directly related to the successful acquisition of new and renewal insurance and reinsurance contracts are deferred and amortized over the same period as the corresponding premiums are recorded as revenues. Profit commissions are estimated based on the related performance criteria evaluated at the balance sheet date, with subsequent changes to those estimates recognized when they occur. Commissions received related to reinsurance premiums ceded are netted against broker commissions in determining acquisition costs eligible for deferral.



**2. Basis of preparation and significant accounting policies (continued)**

On a regular basis a recoverability analysis is performed of the deferred policy acquisition costs in relation to the expected recognition of revenues, including anticipated investment income, and adjustments, if any, are reflected as period costs. Should the analysis indicate that the acquisition costs are unrecoverable, further analyses are performed to determine if a reserve is required to provide for losses which may exceed the related unearned premium

***General, Administrative and Corporate Expenses***

These costs represent the expenses incurred in running the business and include, but are not limited to compensation costs for employees, rental costs, IT development and operating costs and professional and consultancy fees. General, policy and administrative costs directly attributable to the successful acquisition of business are deferred and amortized over the same period as the corresponding premiums are recorded as revenues. When reporting the results for its business segments, the Company includes expenses which are directly attributable to the segment plus an allocation of central administrative costs. Corporate expenses are not allocated to the Company's business segments as they typically do not fluctuate with the levels of premium written and are related to the Company's operations which include group executive costs, group finance costs, group legal and actuarial costs and certain strategic and other costs.

**(g) Foreign Currencies Translation**

The reporting currency of the Company is the U.S. Dollar. The functional currencies of the Company's foreign operations and branches are the currencies in which the majority of their business is transacted.

Transactions in currencies other than the functional currency are measured in the functional currency of that operation at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in non-functional currencies are remeasured at the exchange rate prevailing at the balance sheet date and any resulting foreign exchange gains or losses are reflected in the statement of operations.

Monetary and non-monetary assets and liabilities of the Company's functional currency operations are translated into U.S. Dollars at the exchange rate prevailing at the balance sheet date. Income and expenses of these operations are translated at the exchange rate prevailing at the date of the transaction. Unrealized gains or losses arising from the translation of functional currencies are recorded net of tax as a component of other comprehensive income.

**(h) Income Tax**

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and for operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. When the Company does not believe that, on the basis of available information, it is more likely than not that deferred tax assets will be fully recovered, it recognizes a valuation allowance against its deferred tax assets to reduce the deferred tax assets to the amount more likely than not to be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Furthermore, a tax benefit from a tax position may be recognized in the financial statements only if it is more-likely-than-not that the position is sustainable, based solely on its technical merits and consideration of the relevant tax authority's widely understood administrative practices and precedents. The tax benefit recognized, when the likelihood of realization is more likely-than-not (i.e. greater than 50 percent), is measured at the largest amount that is greater than 50 percent likely of being realized upon settlement.

**Aspen Bermuda Limited**

**Notes to Financial Statements**

December 31, 2021 and 2020

*(All amounts expressed in United States dollars - amounts in tables expressed in thousands of United States dollars)*

**2. Basis of preparation and significant accounting policies (continued)**

The Company applies a portfolio approach to release the income tax effects in accumulated other comprehensive income. Under this approach, the income tax effects upon the sale of an available-for-sale debt security, settlement of hedged transactions and upon foreign currency translation adjustments as of each period end, are determined under the intraperiod tax allocation approach. Any tax effects remaining in accumulated other comprehensive income are only released when the entire portfolio is liquidated, sold or extinguished.

**(i) Accounting Pronouncements**

***Accounting Pronouncements Adopted in 2021***

On December 18, 2019, Financial Accounting Standards Board (the “FASB”) issued ASU 2019-12, “*Income Taxes (Topic 740)*” which makes amendments aimed at simplifying the accounting for income taxes. This ASU was effective for fiscal years beginning after December 15, 2020 and interim periods within those fiscal years. During the year, the Company evaluated and considered the provisions of ASU 2019-12 and has concluded that there is no material impact on the financial statements for the current and future financial years. Adoption of this ASU did not have a material impact on the Company’s financial statements and disclosures.

On March 12, 2020, the FASB issued ASU 2020-04, “*Reference Rate Reform (Topic 848)*” which provides optional guidance for a limited period of time (March 12, 2020 to December 31, 2022) aiming at easing the potential burden in accounting for the effects of reference rate reform, such as the potential cessation of the London Interbank Offered Rate (“LIBOR”). This ASU was effective as of March 12, 2020 through December 31, 2022. Adoption of this ASU did not have a material impact on the Company’s financial statements and disclosures.

On January 7, 2021, the FASB issued ASU 2021-01, “*Reference Rate Reform (Topic 848)*” which provides additional clarification on the scope of Topic 848 so that derivatives affected by the discounting transition are explicitly eligible for certain optional expedients and exceptions in Topic 848. Additionally, to clarify that a receive-variable-rate, pay-variable-rate cross currency interest rate swap may be considered an eligible hedging instrument in a net investment hedge if both legs of the swap do not have the same repricing intervals and dates as a result of reference rate reform. This ASU was effective as of January 7, 2021. Adoption of this ASU did not have a material impact on the Company’s financial statements and disclosures.

***Accounting Pronouncements Not Yet Adopted***

Other accounting pronouncements were issued during the year ended December 31, 2021 which were either not relevant to the Company or did not impact the Company’s financial statements.

*Aspen Bermuda Limited*

**Notes to Financial Statements**

December 31, 2021 and 2020

*(All amounts expressed in United States dollars - amounts in tables expressed in thousands of United States dollars)*

**3. Investments**

The Company's Board of Directors approves the annual investment plan of the Company, which includes its investment strategy, in accordance with the investment strategy determined by the Board of Directors of Holdings and the investment policy and guidelines determined by the Investment Committee of the management of Holdings. The Company's Board of Directors supervises the Company's investment activity and administration and implementation of the investment strategy. The investment guidelines specify minimum criteria on the overall credit quality and liquidity characteristics of the portfolio. They include limitations on the size of certain holdings as well as restrictions on purchasing certain types of securities. Management and the Investment Committee review the Company's investment performance, its compliance with investment objectives and guidelines, and assess credit and market risk concentrations and exposures to issuers.

**(a) Net Investment Income**

The following table summarizes investment income for the twelve months ended December 31, 2021 and 2020:

	<b>For the Twelve Months Ended</b>	
	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Fixed maturity investments .....	\$ 55,639	\$ 71,233
Short term investments .....	45	534
Cash and cash equivalents .....	(47)	864
Privately-held investments .....	15,859	20,356
Other investments .....	20,533	(2,008)
Investment income before expenses .....	\$ 92,029	\$ 90,979
Investment expenses .....	(6,342)	(7,388)
Net investment income .....	<u>\$ 85,687</u>	<u>\$ 83,591</u>

**Aspen Bermuda Limited****Notes to Financial Statements**

December 31, 2021 and 2020

*(All amounts expressed in United States dollars - amounts in tables expressed in thousands of United States dollars)***3. Investments (continued)****(b) Net Investment Gains (Losses)**

The following table summarizes the net realized and unrealized investment gains and losses recorded in the statement of operations and the change in unrealized gains and losses on investments recorded in other comprehensive income for the twelve months ended December 31, 2021, and 2020:

	<b>For the Twelve Months Ended</b>	
	<b>December 31, 2021</b>	<b>December 31, 2020</b>
<b>Available for sale short term investments and fixed maturities:</b>		
Gross realized gains	\$ 13,800	\$ 36,015
Gross realized (losses)	(1,637)	(594)
Net change in current expected credit loss (CECL) Allowance	(542)	—
<b>Trading portfolio short term investments and fixed maturities:</b>		
Gross realized gains	4,221	16,124
Gross realized (losses)	(1,742)	(3,847)
Net change in gross unrealized gains /(losses)	(17,353)	(2,983)
<b>Trading equity investments:</b>		
Gross realized gains	—	191
<b>Trading cash &amp; cash equivalents</b>		
Gross realized gains	101	268
Gross realized (losses)	(340)	(312)
<b>Privately-held investments - Trading</b>		
Gross realized gains	650	—
Gross realized (losses)	(13,808)	—
Net change in gross unrealized (losses) / gains	17,551	(19,725)
<b>Net realized and unrealized investment gains</b>	<b>\$ 901</b>	<b>\$ 25,137</b>

*Aspen Bermuda Limited*

**Notes to Financial Statements**

December 31, 2021 and 2020

(All amounts expressed in United States dollars - amounts in tables expressed in thousands of United States dollars)

**3. Investments (continued)**

**Balance Sheet**

**(c) Fixed Income Securities and Short-Term Investments — Available For Sale**

The following tables present the cost or amortized cost, gross unrealized gains and losses and estimated fair market value of available for sale investments in fixed income securities and short-term investments as at December 31, 2021 and December 31, 2020:

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
<b>As at December 31, 2021</b>				
U.S. Government Securities	\$ 324,633	\$ 11,976	\$ (1,832)	\$ 334,777
U.S. Agency Securities	5,453	389	—	5,842
Municipal Securities	29,276	870	(128)	30,018
Corporate Securities	637,791	19,152	(2,865)	654,078
Non-agency commercial mortgage-backed securities	1,534	64	—	1,598
Foreign Government Securities	3,369	128	(5)	3,492
Agency Mortgage-backed Securities	448,806	9,978	(4,216)	454,568
Total Fixed Income Maturities, Available for Sale	\$ 1,450,862	\$ 42,557	\$ (9,046)	\$ 1,484,373
Total Short-term Investments, Available for Sale	2,425	8	—	2,432
<b>Total</b>	<b>\$ 1,453,287</b>	<b>\$ 42,565</b>	<b>\$ (9,046)</b>	<b>\$ 1,486,805</b>

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
<b>As at December 31, 2020</b>				
U.S. Government Securities	\$ 374,764	\$ 31,518	\$ (716)	\$ 405,566
U.S. Agency Securities	5,452	695	—	6,147
Municipal Securities	31,760	3,364	—	35,124
Corporate Securities	582,438	44,712	(23)	627,127
Non-agency commercial mortgage-backed securities	1,539	150	—	1,689
Foreign Government Securities	2,297	223	—	2,520
Agency Mortgage-backed Securities	415,369	18,334	(11)	433,692
Bond Backed by Foreign Government	6,159	42	—	6,201
Total Fixed Income Maturities, Available for Sale	\$ 1,419,778	\$ 99,038	\$ (750)	\$ 1,518,066
Total Short-term Investments, Available for Sale	—	—	—	\$ —
<b>Total</b>	<b>\$ 1,419,778</b>	<b>\$ 99,038</b>	<b>\$ (750)</b>	<b>\$ 1,518,066</b>

*Current Expected Credit Loss ("CECL").* For the twelve months ended December 31, 2021, there was an increase in the CECL allowance on available-for-sale investments of \$0.5 million (December 31, 2020 — \$Nil).

**Aspen Bermuda Limited**

**Notes to Financial Statements**

December 31, 2021 and 2020

(All amounts expressed in United States dollars - amounts in tables expressed in thousands of United States dollars)

**3. Investments (continued)**

**(d) Fixed Income Securities, Short Term Investments, and Privately-held Investments — Trading**

The following tables present the cost or amortized cost, gross unrealized gains and losses, and estimated fair market value of trading investments in fixed income securities, short-term investments, and privately-held investments as at December 31, 2021 and December 31, 2020:

<b>As at December 31, 2021</b>	<b>Amortized cost</b>	<b>Gross unrealized gains</b>	<b>Gross unrealized losses</b>	<b>Fair value</b>
U.S. Government Securities	\$ 2,000	\$ —	\$ (7)	\$ 1,993
Corporate Securities	36,967	884	(434)	37,417
High Yield Loans	7,500	—	(150)	7,350
Foreign Government Securities	34,726	—	(450)	34,276
Bond Backed by Foreign Government	13,296	—	(156)	13,140
Asset-backed Securities	471,127	2,957	(1,154)	472,930
Total Fixed Income Maturities, Trading	\$ 565,616	\$ 3,841	\$ (2,351)	\$ 567,105
Total Short-term Investments, Trading	795	—	—	795
<b>Privately-held Investments - Trading</b>				
Commercial mortgage loans	80,109	13	(690)	79,432
Middle market loans	62,660	47	(1,528)	61,179
Asset-backed securities	18,750	—	(197)	18,553
Equities securities	2,653	111	—	2,764
Total privately-held-investments - Trading	\$ 164,172	\$ 171	\$ (2,415)	\$ 161,928
<b>Total</b>	<b>\$ 730,583</b>	<b>\$ 4,012</b>	<b>\$ (4,766)</b>	<b>\$ 729,828</b>

<b>As at December 31, 2020</b>	<b>Amortized cost</b>	<b>Gross unrealized gains</b>	<b>Gross unrealized losses</b>	<b>Fair value</b>
U.S. Government Securities	\$ 8,559	\$ 1,113	\$ (18)	\$ 9,654
Corporate Securities	38,308	4,684	—	42,992
High Yield Loans	10,000	—	(200)	9,800
Foreign Government Securities	41,129	72	—	41,201
Asset-backed Securities	491,759	2,968	(4,875)	489,852
Agency Mortgage-backed Securities	14,161	752	—	14,913
Total Fixed Income Maturities, Trading	\$ 603,916	\$ 9,589	\$ (5,093)	\$ 608,412
Total Short-term Investments, Trading	34,360	—	—	34,360
<b>Privately-held Investments - Trading</b>				
Commercial mortgage loans	178,589	123	(15,140)	163,572
Middle market loans	113,145	228	(4,922)	108,451
Asset-backed securities	18,750	44	(100)	18,694
Equities securities	4,284	—	(28)	4,256
Total privately-held-investments - Trading	\$ 314,768	\$ 395	\$ (20,190)	\$ 294,973
<b>Total</b>	<b>\$ 953,044</b>	<b>\$ 9,984</b>	<b>\$ (25,283)</b>	<b>\$ 937,745</b>

The Company classifies the financial instruments listed above as held for trading because this most closely reflects the facts and circumstances of the investments held.

**Aspen Bermuda Limited****Notes to Financial Statements**

December 31, 2021 and 2020

*(All amounts expressed in United States dollars - amounts in tables expressed in thousands of United States dollars)***3. Investments (continued)**

As at December 31, 2021, the Company had a 6.9% (2020: 11.5%) position in Privately-held Investments and a 5.5% (2020: 4.3%) position in a real estate fund totaling 12.4% (2020: 15.8%) of our Managed Portfolio.

**(e) Privately-held investments**

The Company has invested in privately-held investments, which primarily include commercial mortgage loans of \$79.4 million and middle market loans of \$61.2 million as at December 31, 2021 (December 31, 2020 – commercial mortgage loans of \$163.6 million and middle market loans of \$108.5 million).

*Commercial Mortgage Loans.* The commercial mortgage loans are related to investments in properties including apartments, hotels, office and retail buildings, other commercial properties and industrial properties. The commercial mortgage loan portfolio is diversified by property type, geographic region and issuer to reduce risks. As part of our investment process, we evaluate factors such as size, property type, and security to determine that properties are performing at a consistent and acceptable level to secure the related debt. The following table presents the type of commercial mortgage loans and geographic region as at December 31, 2021:

	<b>Commercial mortgage loans</b>			
	<b>As at December 31, 2021</b>		<b>As at December 31, 2020</b>	
	<b>Fair Value</b>	<b>Percentage of Total</b>	<b>Fair Value</b>	<b>Percentage of Total</b>
<b>Property type</b>				
Apartment	\$ 51,603	65 %	\$ 80,744	50 %
Hotels	18,769	24 %	20,393	12 %
Office building	9,060	11 %	33,865	21 %
Other commercial	—	— %	28,570	17 %
<b>Total commercial mortgage loans</b>	<b>\$ 79,432</b>	<b>100 %</b>	<b>\$ 163,572</b>	<b>100 %</b>
<b>Geographic Region</b>				
U.S Region	51,603	65 %	122,721	75 %
International Region	27,829	35 %	40,851	25 %
<b>Total commercial mortgage loans</b>	<b>\$ 79,432</b>	<b>100 %</b>	<b>\$ 163,572</b>	<b>100 %</b>

The primary credit quality indicator of commercial mortgage loans is loan performance. Non-performing commercial mortgage loans are generally 90 days or more past due. As of December 31, 2021, \$Nil of our commercial mortgage loans were non-performing (2020: \$0.7 million). Loan-to-value and debt service coverage ratios are measures we use to assess the risk and quality of commercial mortgage loans. The loan-to-value ratio is expressed as a percentage of the value of the loan relative to the value of the underlying property. A loan-to-value ratio in excess of 100% indicates the unpaid loan amount exceeds the underlying collateral.

*Aspen Bermuda Limited*

**Notes to Financial Statements**

December 31, 2021 and 2020

(All amounts expressed in United States dollars - amounts in tables expressed in thousands of United States dollars)

**3. Investments (continued)**

The following table represents the loan-to-value ratio of the commercial mortgage loan portfolio as at December 31, 2021 and December 31, 2020:

	<u>As at December 31, 2021</u>	<u>As at December 31, 2020</u>
<b>Loan-to-value ratio</b>		
Less than 50% .....	\$ —	\$ 14,948
50% to 60% .....	61,540	39,351
61% to 70% .....	17,892	99,524
71% to 80% .....	—	9,749
81% to 100% .....	—	—
<b>Total commercial mortgage loans</b> .....	<u>\$ 79,432</u>	<u>\$ 163,572</u>

The debt-service coverage ratio is measured by a property's net operating income as a multiple of its debt re-payments. A ratio of less than 1.0 reflects a property's operations is not sufficient to cover its debt payments. The following table represents the debt-service coverage ratio of the commercial mortgage loan portfolio as at December 31, 2021 and December 31, 2020:

	<u>As at December 31, 2021</u>	<u>As at December 31, 2020</u>
<b>Debt-service coverage ratio</b>		
Greater than 1.20x .....	\$ 9,060	\$ 82,125
1.00 - 1.20x .....	—	14,948
Less than 1.00x .....	—	—
<b>Subtotal</b> .....	<u>\$ 9,060</u>	<u>\$ 97,073</u>
Other .....	70,372	66,499
<b>Total commercial mortgage loans</b> .....	<u>\$ 79,432</u>	<u>\$ 163,572</u>

*Middle Market Loans.* The middle market loans are investments in senior secured loan positions with full covenants, focused on the middle market in both U.S. and Europe. The middle market loan portfolio is diversified by industry type, geographic region and issuer to reduce risks. As part of our investment process, we evaluate factors such as size, industry and security to determine that loans are performing at a consistent and acceptable level to secure the related debt.



*Aspen Bermuda Limited*

**Notes to Financial Statements**

December 31, 2021 and 2020

(All amounts expressed in United States dollars - amounts in tables expressed in thousands of United States dollars)

**3. Investments (continued)**

The following table presents the type of middle market loans and geographic region as at December 31, 2021 and December 31, 2020:

	<b>Middle market loans</b>			
	<b>As at December 31, 2021</b>		<b>As at December 31, 2020</b>	
	<b>Fair Value</b>	<b>Percentage of Total</b>	<b>Fair Value</b>	<b>Percentage of Total</b>
<b>Industry Type</b>				
Materials	\$ 20,837	34 %	\$ 27,900	25 %
Financials	6,057	10 %	27,127	25 %
Industrials	14,523	24 %	13,779	13 %
Consumer Discretionary	4,332	7 %	13,678	13 %
Health Care	—	— %	7,475	7 %
Energy	5,630	9 %	7,295	7 %
Consumer Staples	4,938	8 %	6,358	6 %
Information Technology	4,862	8 %	4,839	4 %
<b>Total middle market loans</b>	<b>\$ 61,179</b>	<b>100 %</b>	<b>\$ 108,451</b>	<b>100 %</b>
<b>Geographic Region</b>				
U.S. Region	51,990	85 %	88,167	81 %
International Region	9,189	15 %	20,284	19 %
<b>Total middle market loans</b>	<b>\$ 61,179</b>	<b>100 %</b>	<b>\$ 108,451</b>	<b>100 %</b>

The primary credit quality indicator of middle market loans is loan performance. Non-performing middle market loans are generally 90 days or more past due. As of December 31, 2021, all of our middle market loans were performing. Loan-to-enterprise-value and fixed charge coverage ratios are measures we use to assess the risk and quality of middle market loans. The loan-to-enterprise-value ratio is expressed as a percentage of the value of the loan relative to the value of the business. A loan-to-enterprise-value ratio in excess of 100% indicates the unpaid loan amount exceeds the value of the underlying business.

The following table represents the loan-to-enterprise-value ratio of the middle market loan portfolio as at December 31, 2021 and December 31, 2020:

	<b>As at December 31, 2021</b>	<b>As at December 31, 2020</b>
<b>Loan-to-enterprise-value ratio</b>		
Less than 50%	\$ 20,110	\$ 59,653
50% to 60%	—	7,475
61% to 70%	11,646	6,358
71% to 80%	5,630	—
81% to 100%	11,959	17,234
Greater than 100%	11,834	17,731
<b>Total middle market loans</b>	<b>\$ 61,179</b>	<b>\$ 108,451</b>

**Aspen Bermuda Limited**

**Notes to Financial Statements**

December 31, 2021 and 2020

(All amounts expressed in United States dollars - amounts in tables expressed in thousands of United States dollars)

**3. Investments (continued)**

The fixed charge coverage ratio, based upon the most recent financial statements, is expressed as a percentage of a firm's earnings plus fixed charges to its fixed charges. Fixed charges include debt repayments, interest and equipment lease expenses. A fixed charge coverage ratio of less than 1.0 indicates a firm's operations do not generate enough income to cover its fixed charges.

The following represents the fixed charge coverage ratio of the middle market loan portfolio as at December 31, 2021 and December 31, 2020:

	<u>As at December 31, 2021</u>	<u>As at December 31, 2020</u>
<b>Fixed charge coverage ratio</b>		
Greater than 1.20x	\$ 25,740	\$ 73,486
1.00 - 1.20x	18,667	—
Less than 1.00x	16,772	34,965
<b>Total middle market loans</b>	<u>\$ 61,179</u>	<u>\$ 108,451</u>

*Asset-backed securities.* Our asset-backed securities portfolio of privately-held investments consists of non-U.S. based issuers that issue fixed rate notes that are backed by future flows from international credit card companies and the securities are performing.

*Equity securities.* Our equity securities portfolio of privately-held investments consists of a single non-U.S. based issuer that is a special purpose vehicle designed to grant a first lien right to the underlying senior notes within the structure. The underlying issuer is a financial services lender to middle market companies and this security is performing.

*Other Investments.* On December 20, 2017, the Company committed \$100.0 million as a limited partner to a real estate fund. The investment objective of the fund is to achieve attractive risk-adjusted returns through the acquisition of income producing, high quality assets in gateway cities located in the U.S. and Canada in the office, retail, industrial and multifamily sectors of the real estate market. On May 1, 2018, the Company received a demand for an initial capital call of \$86.2 million and paid the capital call on May 10, 2018. On September 19, 2018, the Company received a demand for the final capital call of \$13.8 million and paid the capital on September 28, 2018. As at December 31, 2021, the current fair value of the real estate fund is \$129.9 million (2020: \$109.4 million).

*Fixed Income Securities.* The scheduled maturity distribution of the Company's available for sale fixed income securities as at December 31, 2021 and December 31, 2020 is set forth below. Actual maturities may differ from contractual maturities because issuers of securities may have the right to call or prepay obligations with or without call or prepayment penalties.

<u>As at December 31, 2021</u>	<u>Amortized cost</u>	<u>Fair value</u>	<u>Weighted average rating by maturity</u>
Due within one year	\$ 148,591	\$ 149,556	AA-
Due after one year through five years	483,703	499,728	AA-
Due after five years through ten years	344,395	354,432	A+
Due after ten years	23,833	24,491	A-
	<u>\$ 1,000,522</u>	<u>\$ 1,028,207</u>	
Agency Mortgage-backed Securities	448,806	454,568	AA+
Non-agency Commercial Mortgage-backed Securities	1,534	1,598	AA+
<b>Total</b>	<u>\$ 1,450,862</u>	<u>\$ 1,484,373</u>	

*Aspen Bermuda Limited*

**Notes to Financial Statements**

December 31, 2021 and 2020

(All amounts expressed in United States dollars - amounts in tables expressed in thousands of United States dollars)

**3. Investments (continued)**

<b>As at December 31, 2020</b>	<b>Amortized cost</b>	<b>Fair value</b>	<b>Weighted average rating by maturity</b>
Due within one year .....	\$ 78,504	\$ 79,133	A+
Due after one year through five years .....	549,825	583,433	AA-
Due after five years through ten years .....	304,048	331,600	AA-
Due after ten years .....	70,493	88,519	AA-
	<u>\$ 1,002,870</u>	<u>\$ 1,082,685</u>	
Agency Mortgage-backed Securities .....	415,369	433,692	AA+
Non-agency Commercial Mortgage-backed Securities .....	1,539	1,689	AA+
<b>Total</b> .....	<u><u>\$ 1,419,778</u></u>	<u><u>\$ 1,518,066</u></u>	

*Guaranteed Investments.* As at December 31, 2021 and December 31, 2020, the Company held no investments which are guaranteed by mono-line insurers, excluding those with explicit government guarantees. The Company's exposure to other third-party guaranteed debt is primarily to investments backed by non-U.S. government guaranteed issuers.

*Gross Unrealized Losses.* The following tables summarize, by type of security, the aggregate fair value and gross unrealized loss by length of time the security has been in an unrealized loss position for the Company's available for sale portfolio as at December 31, 2021 and December 31, 2020:

	<b>0-12 months</b>		<b>Over 12 months</b>		<b>Total</b>	
	<b>Gross unrealized loss</b>		<b>Gross unrealized loss</b>		<b>Gross unrealized loss</b>	
	<b>Fair value</b>	<b>Fair value</b>	<b>Fair value</b>	<b>Fair value</b>	<b>Fair value</b>	<b>Fair value</b>
U.S. Government Securities .....	\$ 25,851	\$ (317)	\$ 21,545	\$ (1,514)	\$ 47,396	\$ (1,831)
Municipal Securities .....	7,552	(128)	—	—	7,552	(128)
Corporate Securities .....	133,335	(2,497)	6,194	(368)	139,529	(2,865)
Foreign Government Securities .....	1,066	(5)	—	—	1,066	(5)
Agency Mortgage-backed Securities .....	184,292	(4,216)	—	—	184,292	(4,216)
Total Fixed Income Maturities, Available for Sale .....	\$ 352,096	\$ (7,163)	\$ 27,739	\$ (1,882)	\$ 379,835	\$ (9,046)
Total Short Term, Available for Sale .....	555	—	—	—	555	—
<b>Total</b> .....	<u><u>\$ 352,651</u></u>	<u><u>\$ (7,163)</u></u>	<u><u>\$ 27,739</u></u>	<u><u>\$ (1,882)</u></u>	<u><u>\$ 380,390</u></u>	<u><u>\$ (9,046)</u></u>

	<b>0-12 months</b>		<b>Over 12 months</b>		<b>Total</b>	
	<b>Gross unrealized loss</b>		<b>Gross unrealized loss</b>		<b>Gross unrealized loss</b>	
	<b>Fair value</b>	<b>Fair value</b>	<b>Fair value</b>	<b>Fair value</b>	<b>Fair value</b>	<b>Fair value</b>
U.S. Government Securities .....	\$ 36,928	\$ (716)	\$ —	\$ —	\$ 36,928	\$ (716)
Corporate Securities .....	6,558	(23)	—	—	6,558	(23)
Agency Mortgage-backed Securities .....	4,796	(11)	—	—	4,796	(11)
<b>Total</b> .....	<u><u>\$ 48,282</u></u>	<u><u>\$ (750)</u></u>	<u><u>\$ —</u></u>	<u><u>\$ —</u></u>	<u><u>\$ 48,282</u></u>	<u><u>\$ (750)</u></u>

*Aspen Bermuda Limited*

**Notes to Financial Statements**

December 31, 2021 and 2020

*(All amounts expressed in United States dollars - amounts in tables expressed in thousands of United States dollars)*

**4. Fair Value Measurements**

The Company's estimates of fair value for financial assets and liabilities are based on the framework established in the fair value accounting guidance included in ASC Topic 820, "Fair Value Measurements and Disclosures." The framework prioritizes the inputs, which refer broadly to assumptions market participants would use in pricing an asset or liability, into three levels.

The Company considers prices for actively traded securities to be derived based on quoted prices in an active market for identical assets, which are Level 1 inputs in the fair value hierarchy. The majority of these securities are valued using prices supplied by pricing services.

The Company considers prices for other securities that may not be as actively traded which are priced via pricing services, vendors and broker-dealers, or with reference to interest rates and yield curves, to be derived based on inputs that are observable for the asset, either directly or indirectly, which are Level 2 inputs in the fair value hierarchy. The majority of these securities are also valued using prices supplied by pricing services.

The Company considers privately-held investments whose valuation is derived by internal valuation models to be based largely on unobservable inputs, which are Level 3 inputs in the fair value hierarchy.

*Aspen Bermuda Limited*

**Notes to Financial Statements**

December 31, 2021 and 2020

(All amounts expressed in United States dollars - amounts in tables expressed in thousands of United States dollars)

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

The following tables present the level within the fair value hierarchy at which the Company's financial assets and liabilities are measured on a recurring basis as at December 31, 2021 and December 31, 2020:

	<b>December 31, 2021</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
<b>Available for Sale Financial Assets, at Fair Value</b>				
U.S. Government Securities	\$ 334,777	\$ —	\$ —	\$ 334,777
U.S. Agency Securities	—	5,842	—	5,842
Municipal Securities	—	30,019	—	30,019
Corporate Securities	—	654,078	—	654,078
Foreign Government Securities	—	3,491	—	3,491
Non-agency Commercial Mortgage-backed Securities	—	1,598	—	1,598
Agency Mortgage-backed Securities	—	454,568	—	454,568
<b>Total Fixed Income Securities Available for Sale, at fair value</b>	<b>334,777</b>	<b>1,149,596</b>	<b>—</b>	<b>1,484,373</b>
Short Term Investments, Available for Sale, at fair Value	650	1,782	—	2,432
<b>Total Investments Available for Sale, at fair value</b>	<b>335,427</b>	<b>1,151,378</b>	<b>—</b>	<b>1,486,805</b>
<b>Held for Trading Financial Assets, at Fair Value</b>				
U.S. Government Securities	1,993	—	—	1,993
Corporate Securities	—	37,417	—	37,417
Bond Backed by Foreign Government	—	13,140	—	13,140
Foreign Government Securities	11,942	22,334	—	34,276
Asset-backed	—	472,930	—	472,930
High Yield Loans	—	7,350	—	7,350
<b>Total Fixed Income Securities Trading, at Fair Value</b>	<b>13,935</b>	<b>553,171</b>	<b>—</b>	<b>567,106</b>
Short-term Investments Trading, at Fair Value	—	795	—	795
Other Investment (1)	—	—	—	129,946
Privately-held Investments Trading, at Fair Value	—	—	161,928	161,928
<b>Total Investments held for Trading, at Fair Value</b>	<b>\$ 13,935</b>	<b>\$ 553,966</b>	<b>\$ 161,928</b>	<b>\$ 859,775</b>
<b>Other Financial Assets, at Fair Value</b>				
Derivatives at Fair Value - Foreign Exchange Contracts	—	5,432	—	5,432
Liabilities under Derivative Contracts- Foreign Exchange Contracts	—	(7,130)	—	(7,130)
<b>Total</b>	<b>\$ 349,362</b>	<b>\$ 1,703,646</b>	<b>\$ 161,928</b>	<b>\$ 2,344,882</b>

(1) Other investments represents our investment in a real estate fund and is measured at fair value using the net asset value per share practical expedient. As a result this has not been classified in the fair value hierarchy. The fair value amounts presented in the table above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the balance sheet. The investment in the real estate fund is subject to restrictions as detailed in Note 11(a), "Commitments and Contingencies."

*Aspen Bermuda Limited*

**Notes to Financial Statements**

December 31, 2021 and 2020

(All amounts expressed in United States dollars - amounts in tables expressed in thousands of United States dollars)

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

	<b>December 31, 2020</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Available for Sale Financial Assets, at Fair Value</b>				
U.S. Government Securities	\$ 405,566	\$ —	\$ —	\$ 405,566
U.S. Agency Securities	—	6,147	—	6,147
Municipal Securities	—	35,124	—	35,124
Corporate Securities	—	627,127	—	627,127
Bond Backed by Foreign Government	—	6,201	—	6,201
Foreign Government Securities	—	2,520	—	2,520
Non-agency Commercial Mortgage-backed Securities	—	1,689	—	1,689
Agency Mortgage-backed Securities	—	433,692	—	433,692
Total Fixed Income Securities Available for Sale, at Fair Value	\$ 405,566	\$ 1,112,500	\$ —	\$ 1,518,066
<b>Held for Trading Financial Assets, at Fair Value</b>				
U.S. Government Securities	9,654	—	—	9,654
Corporate Securities	—	42,992	—	42,992
Foreign Government Securities	41,201	—	—	41,201
Asset-backed	—	489,852	—	489,852
High Yield Loans	—	9,800	—	9,800
Agency Mortgage-backed Securities	—	14,913	—	14,913
Total Fixed Income Securities Trading, at Fair Value	\$ 50,855	\$ 557,557	\$ —	\$ 608,412
Short-term Investments Trading, at Fair Value	34,360	—	—	34,360
Other Investment (1)	—	—	—	109,413
Privately-held Investments Trading, at Fair Value	—	—	294,973	294,973
Total Investments Trading, at Fair Value	\$ 85,215	\$ 557,557	\$ 294,973	\$ 1,047,158
<b>Other Financial Assets, at Fair Value</b>				
Derivatives at Fair Value - Foreign Exchange Contracts	—	4,785	—	4,785
Liabilities under Derivative Contracts- Foreign Exchange Contracts	—	(11,991)	—	(11,991)
<b>Total</b>	<b>\$ 490,781</b>	<b>\$ 1,662,851</b>	<b>\$ 294,973</b>	<b>\$ 2,558,018</b>

Transfers of assets into or out of a particular level are recorded at their fair values as of the end of each reporting period consistent with the date of the determination of fair value. During the twelve months ended December 31, 2021, no transfers were made between Level 1, Level 2 and Level 3. (December 31, 2020, \$8.3 million was transferred from Level 2 to Level 3 due to a change in pricing methodology. No other transfers were made between Level 1, Level 2 and Level 3).

As at December 31, 2021, there were privately-held investments worth \$161.9 million (December 31, 2020 — \$295.0 million) classified as Level 3.

**Aspen Bermuda Limited**

**Notes to Financial Statements**

December 31, 2021 and 2020

(All amounts expressed in United States dollars - amounts in tables expressed in thousands of United States dollars)

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

The following table presents a reconciliation of the beginning and ending balances for all assets and liabilities measured at fair value on a recurring basis using Level 3 inputs for the twelve months ended December 31, 2021:

Twelve Months Ended December 31, 2021	Balance at beginning of year	Purchases and issuances	Transfer in/ (out)	Settlements and sales	Increase / (decrease) in fair value included net income	Balance at end of year	Change in unrealized investment gains (losses) relating to assets held at end of year
<b>Privately-held Investments - Trading</b>							
Commercial mortgage loans	\$ 163,572	\$ 38,197	\$ —	\$ (122,265)	\$ (72)	\$ 79,432	\$ (677)
Middle market loans	108,451	5,626	—	(56,116)	3,218	61,179	(1,481)
Asset-backed securities	18,694	—	—	—	(141)	18,553	(197)
Equity securities	4,256	—	—	(1,630)	138	2,764	111
<b>Total Level 3 Assets</b>	<b>\$ 294,973</b>	<b>\$ 43,823</b>	<b>\$ —</b>	<b>\$ (180,011)</b>	<b>\$ 3,143</b>	<b>\$ 161,928</b>	<b>\$ (2,244)</b>

*Valuation of Fixed Income Securities.* The Company's fixed income securities are classified as either available for sale or trading and are carried at fair value. As at December 31, 2021 and December 31, 2020, the Company's fixed income securities were valued by pricing services or broker-dealers using standard market conventions. The market conventions utilize market quotations, market transactions in comparable instruments and various relationships between instruments including, but not limited to, yield to maturity, dollar prices and spread prices in determining value.

*Independent Pricing Services.* The underlying methodology used to determine the fair value of securities in the Company's available for sale and trading portfolios is by the pricing services. Pricing services will gather observable pricing inputs from multiple external sources, including buy and sell-side contacts and broker-dealers, in order to develop their internal prices.

Pricing services provide pricing for less complex, liquid securities based on market quotations in active markets. Pricing services supply prices for a broad range of securities including those for actively traded securities, such as Treasury and other Government securities, in addition to those that trade less frequently or where valuation includes reference to credit spreads, pay down and prepay features and other observable inputs. These securities include Government agency, municipals, corporate and asset-backed securities.

For securities that may trade less frequently or do not trade on a listed exchange, these pricing services may use matrix pricing consisting of observable market inputs to estimate the fair value of a security. These observable market inputs include: reported trades, benchmark yields, broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data, and industry and economic factors. Additionally, pricing services may use a valuation model such as an option adjusted spread model commonly used for estimating fair values of mortgage-backed and asset-backed securities. The Company does not derive dollar prices using an index as a pricing input for any individual security.

*Broker-Dealers.* The Company obtains quotes from broker-dealers who are active in the corresponding markets when prices are unavailable from independent pricing services or index providers. Generally, broker-dealers value securities through their trading desks based on observable market inputs. Their pricing methodologies include mapping securities based on trade data, bids or offers, observed spreads and performance of newly issued securities. They may also establish pricing through observing secondary trading of similar securities. Quotes from broker-dealers are non-binding.

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

The Company obtains prices for all of its fixed income investment securities via its third-party accounting service provider, and in the majority of cases receiving a number of quotes so as to obtain the most comprehensive information available to determine a security's fair value. A single valuation is applied to each security based on the vendor hierarchy maintained by the Company's third-party accounting service provider.

As at December 31, 2021, the Company obtained an average of 2.2 quotes per fixed income investment compared to 2.6 quotes at December 31, 2020. The Company, in conjunction with its third-party accounting service provider, obtains an understanding of the methods, models and inputs used by the third-party pricing service and index providers to assess the ongoing appropriateness of vendors' prices. The Company and its third-party accounting service provider also have controls in place to validate that amounts provided represent fair values. Processes to validate and review pricing include, but are not limited to:

- Quantitative analysis (e.g., comparing the quarterly return for each managed portfolio to its target benchmark, with significant differences identified and investigated);
- Comparison of market values obtained from pricing services and broker-dealers against alternative price sources for each security where further investigation is completed when significant differences exist for pricing of individual securities between pricing sources;
- Initial and ongoing evaluation of methodologies used by outside parties to calculate fair value; and
- Comparison of the fair value estimates to the Company's knowledge of the current market.

Prices obtained from pricing services and broker-dealers are not adjusted by us; however, prices provided by a pricing service, or broker-dealer in certain instances may be challenged based on market or information available from internal sources, including those available to the Company's third-party investment accounting service provider. Subsequent to any challenge, revisions made by the pricing service or broker-dealer to the quotes are supplied to the Company's investment accounting service provider.

Management reviews the vendor hierarchy maintained by the Company's third-party accounting service provider in order to determine which price source provides the most appropriate fair value (i.e., a price obtained from a pricing service with more seniority in the hierarchy will be used over a less senior one in all cases). The hierarchy level assigned to each security in the Company's available for sale and trading portfolios is based upon its assessment of the transparency and reliability of the inputs used in the valuation as of the measurement date. The hierarchy of pricing services is determined using various qualitative and quantitative points arising from reviews of the vendors conducted by the Company's third-party accounting service provider. Vendor reviews include annual onsite due diligence meetings with index providers and pricing services vendors covering valuation methodology, operational walkthroughs and legal and compliance updates.

*Fixed Income Securities.* Fixed income securities are traded on the over-the-counter ("OTC") market based on prices provided by one or more market makers in each security. Securities such as U.S. Government, U.S. Agency, Foreign Government and investment grade corporate bonds have multiple market makers in addition to readily observable market value indicators such as expected credit spread, except for Treasury securities, over the yield curve. The Company uses a variety of pricing sources to value fixed income securities including those securities that have pay down/prepay features such as mortgage-backed securities and asset-backed securities in order to ensure fair and accurate pricing. The fair value estimates for the investment grade securities in the Company's portfolio do not use significant unobservable inputs or modeling techniques.

*U.S. Government and Agency Securities.* U.S. government and agency securities consist primarily of bonds issued by the U.S. Treasury and corporate debt issued by agencies such as the Federal National Mortgage Association ("FNMA"), the Federal Home Loan Mortgage Corporation ("FHLMC") and the Federal Home Loan Bank. As the fair values of U.S. Treasury securities are based on unadjusted market prices in active markets, they are classified within Level 1. The fair values of U.S. government agency securities are priced using the spread above the risk-free yield curve. As the yields for the risk-free yield curve and the spreads for these securities are observable market inputs, the fair values of U.S. government agency securities are classified within Level 2.



***Aspen Bermuda Limited***

**Notes to Financial Statements**

December 31, 2021 and 2020

*(All amounts expressed in United States dollars - amounts in tables expressed in thousands of United States dollars)*

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

*Municipal Securities.* The Company's municipal portfolio consist of bonds issued by U.S. domiciled state and municipality entities. The fair value of these securities is determined using spreads obtained from broker-dealers, trade prices and the new issue market which are Level 2 inputs in the fair value hierarchy. Consequently, these securities are classified within Level 2.

*Non-U.S. Government.* The issuers for securities in this category are non-U.S. governments and their agents including, but not limited to, the U.K., Australia, Canada, France and Germany. The fair values of certain non-U.S. government bonds, primarily sourced from international indices, are based on unadjusted market prices in active markets and are therefore classified within Level 1. The remaining non-U.S. government bonds are classified within level 2 as they are not actively traded. The fair values of the non-U.S. agency securities, again primarily sourced from international indices, are priced using the spread above the risk-free yield curve. As the yields for the risk-free yield curve and the spreads for these securities are observable market inputs, the fair values of non-U.S. agency securities are classified within Level 2.

*Corporate.* Corporate securities consist primarily of short-term, medium-term and long-term debt issued by U.S. and foreign corporations covering a variety of industries and are generally priced by index providers and pricing vendors. Some issuers may participate in government programs which guarantee timely payment of principal and interest in the event of a default. The fair values of these securities are generally determined using the spread above the risk-free yield curve. Inputs used in the evaluation of these securities include credit data, interest rate data, market observations and sector news, broker-dealer quotes and trade volumes. In addition, corporate securities include a portion of the EMD portfolio. The Company classifies all of these securities within Level 2.

*Mortgage-backed Securities.* Residential and commercial mortgage-backed securities consist of bonds issued by the Government National Mortgage Association, the FNMA and the FHLMC as well as private non-agency issuers. The fair values of these securities are determined through the use of a pricing model (including Option Adjusted Spread) which uses prepayment speeds and spreads to determine the appropriate average life of the mortgage-backed security. These spreads are generally obtained from broker-dealers, trade prices and the new issue market. As the significant inputs used to price mortgage-backed securities are observable market inputs, these securities are classified within Level 2.

*Asset-backed Securities.* Asset-backed securities are securities backed by notes or receivables against assets other than real estate. The underlying collateral for the Company's asset-backed securities consists mainly of student loans, automobile loans and credit card receivables. These securities are primarily priced by index providers and pricing vendors. Inputs to the valuation process include broker-dealer quotes and other available trade information, prepayment speeds, interest rate data and credit spreads. The Company classifies these securities within Level 2.

*Short-term Investments.* Short-term investments consist of highly liquid debt securities with a maturity greater than three months but less than one year from the date of purchase. Short-term investments are classified as either trading or available for sale according to the facts and circumstances of the investment held. Short-term investments are valued in a manner similar to the Company's fixed maturity investments and are classified within Levels 1 and 2.

*Privately-Held Investments.* Privately-held investments are initially valued at cost or transaction value which approximates fair value. In subsequent measurement periods, the fair values of these securities are determined using internally developed discounted cash flow models. These models include inputs that are specific to each investment. The inputs used in the fair value measurements include dividend or interest rates and 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 securities. A significant increase (decrease) in this input in isolation could result in significantly lower (higher) fair value measurement for privately-held investments. In order to assess the reasonableness of the inputs the Company uses in the discounted cash flow models, the Company maintains an understanding of current market conditions, issuer specific information that may impact future cash flows as well as collaboration with independent vendors for most securities to assess the reasonableness of the discount rate being used.

**Aspen Bermuda Limited**

**Notes to Financial Statements**

December 31, 2021 and 2020

(All amounts expressed in United States dollars - amounts in tables expressed in thousands of United States dollars)

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

The following table summarizes the quantitative inputs and assumptions used for financial assets and liabilities categorized as Level 3 under the fair value hierarchy as at December 31, 2021:

<b>December 31, 2021</b>	<b>Fair Value</b>	<b>Valuation Techniques</b>	<b>Unobservable (U) Inputs</b>	<b>Ranges</b>	<b>Weighted Average</b>
<b>Privately-held investments - Trading</b>					
Commercial Mortgage Loans	\$79,432	Discounted cash flow	Discount rate	3.5%-9.5%	6.7%
Middle Market Loans	61,179	Discounted cash flow	Discount rate	6.2% -15.5%	8.9%
Asset-backed securities	18,553	Discounted cash flow	Discount rate	5.7% -6.7%	6.4%
Equity securities	2,764	Discounted cash flow	Discount rate	9.20%	9.2%
<b>Total</b>	<b>\$161,928</b>				

*Foreign Exchange Contracts.* The foreign exchange contracts which the Company uses to mitigate currency risk are characterized as OTC due to their customized nature and the fact that they do not trade on a major exchange. These instruments trade in a very deep liquid market, providing substantial price transparency and accordingly are classified as Level 2.

*Other investments.* The Company's other investments represent our investment in a real estate fund. Adjustments to the fair value are made based on the net asset value of the investment. The net valuation criteria established by the manager of such investments are established in accordance with the governing documents and the asset manager's valuation guidelines, which consider a two part approach: the discounted cash flows approach and the performance multiple approach, which uses a multiple/capitalization rate derived from market metrics from comparable companies or assets to produce operating performance metrics. Alternative valuation methodologies may be employed for investments with unusual characteristics.

**5. Derivative Financial Instruments**

The following table summarizes information on the location and amounts of derivative fair values on the balance sheets as at December 31, 2021 and 2020:

<b>Derivatives not designated as Hedging Instruments under ASC 815</b>	<b>Balance Sheet Location</b>	<b>December 31, 2021</b>		<b>December 31, 2020</b>	
		<b>Notional Amount</b>	<b>Fair Value</b>	<b>Notional Amount</b>	<b>Fair Value</b>
Foreign Exchange Contracts	Derivatives at fair value	\$ 213,435	\$ 5,432	\$ 219,492	\$ 4,785
Foreign Exchange Contracts	Liabilities under derivative contracts	\$ 335,026	\$ (7,130)	\$ 224,437	\$ (11,991)

*Aspen Bermuda Limited***Notes to Financial Statements**

December 31, 2021 and 2020

*(All amounts expressed in United States dollars - amounts in tables expressed in thousands of United States dollars)***5. Derivative Financial Instruments (continued)**

The following table provides the total unrealized and realized gains (losses) recorded in earnings for the twelve months ended December 31, 2021 and 2020:

<b>Derivatives not designated as Hedging Instruments under ASC 815</b>	<b>Location of (Loss) / Gain Recognized in Income</b>	<b>Amount of (Loss) / Gain Recognized in Income</b>	
		<b>Year Ended December 31, 2021</b>	<b>Year Ended December 31, 2020</b>
Foreign Exchange Contracts	Change in fair value of derivatives	\$ (12,973)	\$ (5,339)
Interest Rate Swaps	Change in fair value of derivatives	\$ —	\$ (81,145)

*Foreign Exchange Contracts.* The Company uses foreign exchange contracts to manage foreign currency risk associated with our operating expenses but also foreign exchange risk associated with net assets or liabilities in currencies other than the U.S. dollar. A foreign exchange contract involves an obligation to purchase or sell a specified currency at a future date at a price set at the time of the contract. Foreign exchange contracts will not eliminate fluctuations in the value of the Company's assets and liabilities denominated in foreign currencies but rather allow it to establish a rate of exchange for a future point in time.

As at December 31, 2021, the Company held foreign exchange contracts that were not designated as hedging under ASC 815 with an aggregate nominal amount of \$548.5 million (2020 — \$443.9 million). The foreign exchange contracts are recorded as derivatives at fair value in the balance sheet with changes recorded as a change in fair value of derivatives in the statement of operations. For the twelve months ended December 31, 2021, the impact of foreign exchange contracts on net income was a loss of \$13.0 million (December 31, 2020 — \$5.3 million loss).

*Interest Rate Swaps.* As at December 31, 2021, the Company held \$Nil million notional amount of floating interest rate swaps (2020 - \$Nil). The interest rate swaps are used in the ordinary course of the Company's investments activities to partially mitigate any negative impact of rises in interest rates on the market value of the Company's fixed income portfolio. For the twelve months ended December 31, 2021, there was a gain of \$Nil (December 31, 2020 — \$81.1 million loss).

**6. Deferred Policy Acquisition Costs**

The following table represents a reconciliation of beginning and ending deferred policy acquisition costs for the twelve months ended December 31, 2021 and 2020:

	<b>Twelve Months Ended</b>	
	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Balance at the beginning of the period	\$ 36,405	\$ 33,156
Acquisition costs deferred	223,642	163,479
Amortization of deferred policy acquisition costs	(195,318)	(160,230)
<b>Balance at the end of the period</b>	<b>\$ 64,729</b>	<b>\$ 36,405</b>

*Aspen Bermuda Limited***Notes to Financial Statements**

December 31, 2021 and 2020

*(All amounts expressed in United States dollars - amounts in tables expressed in thousands of United States dollars)***7. Reserve for losses and loss adjustment expenses**

The following table summarizes the activity in the reserves for losses and loss adjustment expenses for the years ended December 31, 2021 and 2020:

	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Gross reserves as at January 1	\$ 2,828,090	\$ 3,020,325
Loss reserves recoverable as at January 1	835,192	444,416
Net reserves as at January 1	\$ 1,992,898	\$ 2,575,909
Net loss and LAE expenses (disposed) <sup>4</sup>	(827)	(430,413)
Net losses incurred related to:		
Current year	585,941	493,957
Prior years	40,596	26,928
Total net incurred losses	\$ 626,537	\$ 520,885
Net paid losses related to:		
Current year	(60,843)	(50,079)
Prior years	(342,050)	(531,799)
Total net paid losses	\$ (402,893)	\$ (581,878)
Foreign exchange and other	(72,428)	(91,605)
Total net reserves as at December 31	2,143,287	1,992,898
Loss recoverable as at December 31	948,841	835,192
<b>Total gross reserves as at December 31</b>	<b>\$ 3,092,128</b>	<b>\$ 2,828,090</b>

For the twelve months ended December 31, 2021, there was net unfavorable prior year loss development of \$40.6 million. Prior years development was attributable to various lines of business. For the twelve months ended December 31, 2020, there was net unfavorable loss development of 26.9 million.

<sup>4</sup> Net loss and LAE expenses disposed includes the adverse development cover reinsurance agreement providing \$461.0 million (2020: \$423.5 million of cover. The adverse development cover is detailed in Note 8., "Reinsurance").

**7. Reserve for losses and loss adjustment expenses (continued)**

**Short Duration Contracts**

The Company is required by U.S. GAAP to establish loss reserves for the estimated unpaid portion of the ultimate liability for losses and loss expenses (“ultimate losses”) under the terms of our policies and agreements with our insured and reinsured customers. Our loss reserves comprise the following components:

- the cost of claims reported to us but not yet paid known as case reserves (“case reserves”);
- Reserves to cover the anticipated cost of IBNR claims. Within this, we also include the potential development of reported claims; and
- the expenses associated with settling claims, including legal and other fees and the general expenses of administering the claims adjustment process, known as the loss adjustment expenses (“LAE”).

Prior to the selection of the reserves to be included in our financial statements, our actuarial team employs a number of techniques to determine the actuarial central estimate which is presented to the Holdings management-level Reserve Committee. The Committee reviews and evaluates the actuarial central estimate and provides input to management for its determination of the management best estimate, which provides the basis for management’s recommendation to the Board of Directors of the Company regarding the reserve amounts to be recorded in the financial statements.

*Case Reserves.* For reported claims, reserves are established on a case-by-case basis within the parameters of coverage provided in the insurance policy or reinsurance agreement. The method of establishing case reserves for reported claims differs among our operations. With respect to our insurance operations, we are advised of potential insured losses and our claims handlers’ record reserves for the estimated amount of the expected indemnity settlement, loss adjustment expenses and cost of defense where appropriate. The reserve estimate reflects the judgment of the claims personnel and is based on claim information obtained to date, general reserving practices, the experience and knowledge of the claims personnel regarding the nature of the specific claim and where appropriate and available, advice from legal counsel, loss adjusters and other claims experts.

With respect to our reinsurance claims operations, claims handlers set case reserves for reported claims generally based on the claims reports received from our ceding companies and take into consideration our cedants’ own reserve recommendations and our prior loss experience with the cedant. Additional case reserves (“ACR”), in addition to the cedants’ own recommended reserves, may be established by us to reflect our estimated ultimate cost of a loss. ACRs are generally the result of either a claims handler’s own experience and knowledge of handling similar claims, general reserving practices or the result of reserve recommendations following an audit of cedants’ reserves.

Case reserves are based on a subjective judgment of facts and circumstances and are established for the purposes of internal reserving only. Accordingly, they do not represent a commitment to any course of conduct or admission of liability on our behalf in relation to any specific claim.

*IBNR Reserves.* The need for IBNR reserves arises from time lags between when a loss occurs and when it is actually reported and settled. By definition, we do not have specific information on IBNR claims so they need to be estimated by actuarial methodologies. IBNR reserves are therefore generally calculated at an aggregate level and cannot generally be identified as reserves for a particular loss or contract. We calculate IBNR reserves by class of business within each line of business. Where appropriate, analyses may be conducted on sub-sets of a class of business. IBNR reserves are calculated by projecting our ultimate losses on each class of business and subtracting paid losses and case reserves. IBNR reserves also cover the anticipated cost of claims incurred but not reported, within this we also include any potential development of reported claims. Estimates and judgments for new insurance and reinsurance lines of business are more difficult to make than those made for more mature lines of business because we have more limited historical information through December 31, 2021.

## **7. Reserve for losses and loss adjustment expenses (continued)**

*Sources of Information.* Claims information received typically includes the loss date, details of the claim, the recommended reserve and reports from the loss adjusters dealing with the claim. In respect of pro rata treaties and any business written through managing general agents, we receive regular statements (bordereaux) which provide paid and outstanding claims information, often with large losses separately identified. Following widely reported loss events, such as catastrophes, we adopt a proactive approach to establish our likely exposure to claims by reviewing policy listings and contacting brokers and policyholders as appropriate.

### ***Actuarial Methodologies***

The main projection methodologies that are used by our actuaries are as follows:

- *Initial expected loss ratio (“IELR”) method:* This method calculates an estimate of ultimate losses by applying an estimated loss ratio to an estimate of ultimate earned premium for each accident year. The estimated loss ratio may be based on pricing information and/or industry data and/or historical claims experience revalued to the year under review.
- *Bornhuetter-Ferguson (“BF”) method:* The BF method uses as a starting point an assumed IELR and blends in the loss ratio, which is implied by the claims experience to date using benchmark loss development patterns on paid claims data (“Paid BF”) or reported claims data (“Reported BF”). Although the method tends to provide less volatile indications at early stages of development and reflects changes in the external environment, it can be slow to react to emerging loss development and can, if the IELR proves to be inaccurate, produce loss estimates which take longer to converge with the final settlement value of loss.
- *Loss development (“Chain Ladder”) method:* This method uses actual loss data and the historical development profiles on older accident years to project more recent, less developed years to their ultimate position.
- *Exposure-based method:* This method is typically used for specific large catastrophic events such as a major hurricane. All exposure is identified and we work with known market information and information from our cedants to determine a percentage of the exposure to be taken as the ultimate loss.

In addition to these methodologies, our actuaries may use other approaches depending upon the characteristics of the class of business and available data.

In general terms, the IELR method is most appropriate for classes of business and/or accident years where the actual paid or reported loss experience is not yet mature enough to modify our initial expectations of the ultimate loss ratios. Typical examples would be recent accident years for classes of business in casualty reinsurance. The BF method is generally appropriate where there are few reported claims and a relatively less stable pattern of reported losses. Typical examples would be our treaty risk excess class of business in our reinsurance segment and marine hull class of business in our insurance segment. The Chain Ladder method is appropriate when there are relatively stable patterns of loss emergence and a relatively large number of reported claims.

*Reserving Procedures and Process.* Our actuaries calculate the IELR, BF and Chain Ladder and, if appropriate, other methods for each class of business and each accident year. They then calculate a single point actuarial central estimate (“ultimate”) for each class of business and provide a stochastic distribution around the mean for each line of business. The actuarial methodologies involve significant subjective judgments reflecting many factors, including but not limited to, changes in legislative conditions, changes in judicial interpretation of legal liability policy coverages and inflation. Our actuaries collaborate with our underwriting, claims, legal and finance teams in identifying factors which are incorporated in their range of ultimates in which management’s best estimate is most likely to fall.

There are no differences between our year-end and our quarterly internal reserving procedures and processes because our actuaries perform the basic projections and analyses described above for each class of business quarterly.

**7. Reserve for losses and loss adjustment expenses (continued)**

*Selection of Reported Gross Reserves.* The Reserve Committee, reviews and evaluates the actuarial central estimate and provides input to management for its determination of management best estimate of reserves for each line of business. Management selects the “management best estimate” by considering all the information provided to them and the risks and uncertainties associated with the actuarial mean best estimate. Management has to date selected its best estimate above that of the actuarial central estimate. The management’s best estimate provides the basis for management’s recommendation to the Audit Committee and the Board regarding the reserve amounts and related disclosures to be recorded in our financial statements.

Each class of business is reviewed in detail by management through its Reserve Committee at least once a year. The timing of such reviews varies throughout the year. Additionally, we review the emergence of actual losses relative to expectations every fiscal quarter for all classes of business. If warranted from this analysis, we may accelerate the timing of our detailed actuarial reviews.

*Uncertainties.* While the management selected reserves make a reasonable provision for unpaid loss and loss adjustment expense obligations, we note that the process of estimating required reserves, by its very nature, involves uncertainty and therefore the ultimate claims may fall outside the actuarial range. The level of uncertainty can be influenced by such factors as the existence of coverage with long duration reporting patterns and changes in claims handling practices, as well as the other factors described above.

Given many of the coverages underwritten involve claims that may not be ultimately settled for many years after they are incurred, subjective judgments as to the ultimate exposure to losses are an integral and necessary component of the loss reserving process. We review our reserves regularly, using a variety of statistical and actuarial techniques to analyze current claims costs, frequency and severity data, and prevailing economic, social and legal factors. Reserves established in prior periods are adjusted as claims experience develops and new information becomes available.

Estimates of IBNR are generally subject to a greater degree of uncertainty than estimates of the cost of settling claims already notified to us, where more information about the claim event is generally available. IBNR claims often may not be apparent to the insured until many years after the event giving rise to the claims has happened. Classes of business where the IBNR proportion of the total reserve is high, such as casualty insurance, will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves.

Classes of business where claims are typically reported relatively quickly after the claim event tend to display lower levels of volatility between initial estimates and final outcomes. Reinsurance claims are subject to a longer time lag both in their reporting and in their time to final settlement. The time lag is a factor which is included in the projections to ultimate claims within the actuarial analyses and helps to explain why in general a higher proportion of the initial reinsurance reserves are represented by IBNR than for insurance reserves for business in the same class. Delays in receiving information from cedants are an expected part of normal business operations and are included within the statistical estimate of IBNR to the extent that current levels of backlog are consistent with historical data. Currently, there are no processing backlogs which would materially affect our financial statements.

Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims, including:

- changes in our processes which might accelerate or slow down the development and/or recording of paid or incurred claims;
- changes in the legal environment (including challenges to tort reform);
- the effects of inflation;
- changes in the mix of business;
- the impact of large losses; and
- changes in our cedants’ reserving methodologies.

**7. Reserve for losses and loss adjustment expenses (continued)**

These factors are incorporated in the recommended reserve range from which management selects its best point estimate. We take all reasonable steps to ensure that we utilize all appropriate information and actuarial techniques in establishing our IBNR reserves. However, given the uncertainty in establishing claims liabilities, it is likely that the final outcome will prove to be different from the original provision established at the balance sheet date. Changes to our previous estimates of prior period loss reserves impact the reported calendar year underwriting results by worsening our reported results if the prior year reserves prove to be deficient or improving our reported results if the prior year reserves prove to be redundant.

*Loss Reserving Sensitivity Analysis.* The most significant key assumptions identified in the reserving process are that (i) the historic loss development and trend experience is assumed to be indicative of future loss development and trends, (ii) the information developed from internal and independent external sources can be used to develop meaningful estimates of the initial expected ultimate loss ratios, and (iii) no significant losses or types of losses will emerge that are not represented in either the initial expected loss ratios or the historical development patterns.

*Effect if Actual Results Differ From Assumptions.* Given the risks and uncertainties associated with the process for estimating reserves for losses and loss expenses, management has performed an evaluation of the potential variability in loss reserves and the impact this variability may have on reported results, financial condition and liquidity. Because of the inherent uncertainties discussed above, we have developed a reserving philosophy which attempts to incorporate prudent assumptions and estimates.

Management's best estimate of the net reserve for losses and loss expenses as at December 31, 2021 was \$2,143 million.

Management believes that the reserve for losses and loss expenses are sufficient to cover expected claims incurred before the reporting date on the basis of the methodologies and judgments used to support its estimates. However, there can be no assurance that actual payments will not vary significantly from total reserves. The reserve for losses and loss expenses and the methodology of estimating such reserve are regularly reviewed and updated as new information becomes known. Any resulting adjustments are reflected in income in the period in which they become known.

All of the business contained within the Company's Reinsurance segment represents treaty business that is assumed from other insurance and reinsurance companies, for which the Company does not have access to the underlying claim counts.

Further, this business includes both quota share and excess of loss treaty reinsurance, through which only a portion of each reported claim results in losses to the Company. As such, the Company has excluded claim count information from the claims development tables. Information about the average annual percentage payout of incurred claims, has also been omitted as management believes the information to be immaterial to the financial statements and would be inaccurate due to the quota share and excess of loss treaty business previously mentioned.

The Company has revalued all historical data using exchange rates at December 31, 2021 in order to mitigate the effect of foreign exchange on the development throughout the triangles. Due to currency mix changes from one year-end to the next, revaluation of incurred losses will result in different year-on-year movements within the triangles with each annual presentation. This approach for handling foreign exchange movements within the triangles differs somewhat from the underlying calculation of prior year development in the Company's financial statements due to the inclusion of the historical loss payments as well as reserves and the level of granularity used in the calculation. Management have assessed these differences have been deemed not to be material.



**7. Reserve for losses and loss adjustment expenses (continued)**

Our reserves for loss and loss adjustment expenses relate to short-duration contracts with various characteristics (e.g., type of coverage, geography, claims duration). We have considered such information in determining the level of disaggregation for disclosures related to our short-duration contracts, as detailed in the table below:

<u>Level of disaggregation</u>	<u>Lines of Business</u>	<u>Included product lines</u>
Property Reinsurance	Property catastrophe reinsurance	Property catastrophe reinsurance is generally written on a treaty excess of loss basis where we provide protection to an insurer for an agreed portion of the total losses from a single event in excess of a specified loss amount.
	Other Property Reinsurance	Property risks written on excess of loss and proportional treaties, facultative or single risk reinsurance.
Casualty Reinsurance	U.S. treaty and casualty facultative reinsurance	Workers' compensation (including catastrophe), medical malpractice, general liability, auto liability, professional liability and excess liability including umbrella liability.
	International treaty	General liability, auto liability, professional liability, workers' compensation and excess liability.
Specialty Reinsurance	Credit and surety reinsurance	Mortgage reinsurance and insurance, marine, aviation, terrorism, engineering, cyber
	Agriculture reinsurance	Crop and multi-peril business
	Other specialty lines	Reinsurance treaties and some insurance policies covering policyholders' interests in marine, energy, aviation liability, space, contingency, terrorism, engineering, nuclear and personal accident.

We have determined the following product lines to be insignificant for disclosure purposes: (i) property insurance, (ii) casualty insurance, and (iii) financial and professional lines insurance. Such amounts are included as reconciling items under Insurance Lines.

The following tables show an analysis of incurred claims and allocated loss adjustment expenses, net of reinsurance and cumulative paid claims and allocated claims adjustment expenses, as at December 31, 2021, 2020, 2019, 2018, 2017, 2016, 2015, 2014 and 2013.

*Aspen Bermuda Limited*

**Notes to Financial Statements**

December 31, 2021 and 2020

(All amounts expressed in United States dollars - amounts in tables expressed in thousands of United States dollars)

**7. Reserve for losses and loss adjustment expenses (continued)**

**Property Reinsurance**

**Incurred Claims, IBNR and Loss Adjustment Expenses, Net of Reinsurance**

Accident Year	<u>For the year ended December 31,</u>									December 31, 2021
	2013	2014	2015	2016	2017	2018	2019	2020	2021	IBNR
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited			
2013	328,186	482,615	503,948	509,768	517,022	519,634	510,752	511,533	508,657	(1,760)
2014		319,118	367,506	357,229	352,306	342,527	343,608	335,207	341,528	1,443
2015			382,595	386,061	372,341	346,967	364,149	355,429	366,856	13,404
2016				405,301	477,504	478,476	469,610	458,144	452,338	21,852
2017					652,390	682,255	669,964	637,907	637,579	25,806
2018						330,393	336,951	369,779	395,598	34,176
2019							196,496	231,768	213,320	45,693
2020								197,730	191,844	39,818
2021									277,406	159,335
<b>Total</b>									<u>3,385,126</u>	

**Cumulative Paid Claims and Allocated Adjustment Expenses Net of Reinsurance**

Accident Year	<u>For the year ended December 31,</u>										
	2013	2014	2015	2016	2017	2018	2019	2020	2021		
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited				
2013	67,030	328,127	401,998	439,137	464,611	473,926	475,313	485,414	481,788		
2014		70,952	162,461	241,949	266,122	282,665	293,848	302,684	307,176		
2015			70,496	193,694	255,893	272,473	310,571	330,195	340,792		
2016				93,029	295,304	363,882	401,541	425,596	434,108		
2017					189,848	477,795	540,168	587,577	594,857		
2018						64,479	279,293	366,094	361,427		
2019							36,207	109,047	146,698		
2020								23,445	66,978		
2021									35,989		
<b>Total</b>									<u>2,769,813</u>		
										Outstanding liabilities for 2013 and subsequent years, net of reinsurance	615,313
										All outstanding liabilities before 2013	49,149
										Liabilities for claims and claims adjustment expenses, net of reinsurance	<u>664,462</u>

*Aspen Bermuda Limited*

**Notes to Financial Statements**

December 31, 2021 and 2020

(All amounts expressed in United States dollars - amounts in tables expressed in thousands of United States dollars)

**7. Reserve for losses and loss adjustment expenses (continued)**

**Casualty Reinsurance**

**Incurred Claims, IBNR and Loss Adjustment Expenses, Net of Reinsurance**

<u>Accident Year</u>	<u>For the year ended December 31,</u>									<u>December 31, 2021</u>
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>IBNR</u>
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited			
2013	328,826	474,825	450,459	435,071	415,968	427,610	419,151	394,176	388,374	485
2014		328,986	319,352	298,961	275,264	288,017	285,647	256,959	255,385	22,528
2015			375,316	342,624	306,980	344,803	361,504	324,142	325,414	50,439
2016				428,166	340,713	374,744	382,012	346,422	371,843	83,780
2017					445,557	342,656	353,554	321,181	329,937	59,348
2018						243,724	262,315	216,702	221,775	98,761
2019							212,086	184,003	182,948	68,213
2020								182,150	170,789	126,764
2021									189,206	163,381
<b>Total</b>									<u>2,435,671</u>	

**Cumulative Paid Claims and Allocated Expenses Net of Reinsurance**

<u>Accident Year</u>	<u>For the year ended December 31,</u>										
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>		
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited				
2013	10,882	249,304	264,969	289,653	321,044	343,905	345,821	350,587	354,218		
2014		15,550	54,089	90,831	122,603	155,246	192,447	216,541	222,178		
2015			21,046	55,170	104,653	152,617	199,009	234,487	252,967		
2016				33,373	87,921	133,499	197,734	235,433	267,152		
2017					24,646	55,034	109,084	179,088	216,171		
2018						14,181	51,771	88,376	125,654		
2019							12,065	38,405	95,110		
2020								9,692	33,081		
2021									9,444		
<b>Total</b>									<u>1,575,975</u>		
										Outstanding liabilities for 2013 and subsequent years, net of reinsurance	859,696
										All outstanding liabilities before 2013	163,083
										Liabilities for claims and claims adjustment expenses, net of reinsurance	<u>1,022,779</u>

*Aspen Bermuda Limited*

**Notes to Financial Statements**

December 31, 2021 and 2020

(All amounts expressed in United States dollars - amounts in tables expressed in thousands of United States dollars)

**7. Reserve for losses and loss adjustment expenses (continued)**

**Specialty Reinsurance**

**Incurred Claims, IBNR and Loss Adjustment Expenses, Net of Reinsurance**

<u>Accident Year</u>	<u>For the year ended December 31,</u>									<b>December 31, 2021</b>
	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>IBNR</b>
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited			
<b>2013</b>	103,953	157,838	154,415	154,990	154,746	154,253	151,319	148,802	146,889	860
<b>2014</b>		97,589	101,481	99,116	98,253	99,667	99,160	107,491	113,370	1,252
<b>2015</b>			139,814	153,369	152,533	136,712	136,655	131,439	140,260	26,550
<b>2016</b>				125,861	150,465	161,496	150,693	149,502	150,805	35,114
<b>2017</b>					168,643	169,509	169,923	164,574	156,137	57,006
<b>2018</b>						129,543	133,423	123,006	125,754	27,445
<b>2019</b>							98,420	98,464	99,770	32,223
<b>2020</b>								101,803	82,153	29,357
<b>2021</b>									95,417	183,641
<b>Total</b>									<u>1,110,555</u>	

**Cumulative Paid Claims and Allocated Adjustment Expenses Net of Reinsurance**

<u>Accident Year</u>	<u>For the year ended December 31,</u>										
	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>		
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited				
<b>2013</b>	17,182	124,686	133,352	139,297	141,596	141,566	141,407	143,737	143,199		
<b>2014</b>		8,810	34,448	59,814	68,837	79,378	84,624	93,485	97,420		
<b>2015</b>			6,250	30,615	72,650	89,427	109,517	118,242	124,414		
<b>2016</b>				4,614	34,050	60,739	72,995	84,596	91,411		
<b>2017</b>					9,614	54,150	79,820	99,016	103,208		
<b>2018</b>						14,270	48,934	78,182	83,577		
<b>2019</b>							21,606	43,853	52,337		
<b>2020</b>								14,167	30,025		
<b>2021</b>									13,083		
<b>Total</b>									<u>738,674</u>		
										Outstanding liabilities for 2013 and subsequent years, net of reinsurance	371,881
										All outstanding liabilities before 2013	1,551
										Liabilities for claims and claims adjustment expenses, net of reinsurance	<u>373,432</u>

*Aspen Bermuda Limited*

**Notes to Financial Statements**

December 31, 2021 and 2020

(All amounts expressed in United States dollars - amounts in tables expressed in thousands of United States dollars)

**7. Reserve for losses and loss adjustment expenses (continued)**

**Reconciliation of Incurred and Paid Claims Development to total Provision for Losses and LAE**

	<b>Twelve Months Ended December 31, 2021</b>	<b>Twelve Months Ended December 31, 2020</b>
<b>Net outstanding liabilities:</b>		
Property Reinsurance .....	664,462	532,744
Casualty Reinsurance .....	1,022,779	1,060,689
Specialty Reinsurance .....	373,432	361,102
Insurances lines .....	76,185	34,197
<b>Net loss and LAE .....</b>	<b>2,136,858</b>	<b>1,988,732</b>
<b>Reinsurance recoverable on unpaid losses:</b>		
Reinsurance lines .....	801,354	754,277
Insurances lines .....	147,487	80,915
<b>Total reinsurance recoverable on unpaid losses .....</b>	<b>948,841</b>	<b>835,192</b>
Unallocated claims incurred .....	6,429	4,166
<b>Provision for losses and LAE at the end of the year .....</b>	<b>3,092,128</b>	<b>2,828,090</b>

*Adverse Development Cover.* On March 2, 2020, Holdings and its operating subsidiaries entered into an adverse development cover reinsurance agreement (“ADC”) with a subsidiary of Enstar Group Limited (“Enstar”), pursuant to which Enstar’s subsidiary will reinsure losses incurred on or prior to December 31, 2019. Enstar’s subsidiary will provide \$770.0 million of cover (of which the Company is allocated \$423.5 million) in excess of \$3.805 billion retention up to an aggregate of \$4.575 billion, and an additional \$250.0 million of cover in excess above \$4.815 billion, up to \$5.065 billion. As a result of the ADC, we have significantly reduced our exposure to claims from risks underwritten on or prior to December 31, 2019, and we expect the ADC to significantly reduce volatility from our historical business going forward.

As at December 31, 2021, the Company has recognized \$37.5 million of recoverables on the ADC, of which \$30.3 million has been recognized as a deferred gain on the balance sheet within reinsurance recoverables unpaid losses. The deferred gain on retroactive contracts is amortized into income over the settlement period of the ceded reserves. For the twelve months ended December 31, 2021, amortization of deferred gains totaling \$7.2 million has been recognized as income within net insurance losses and loss adjustment expenses.

The following table provides a reconciliation of reinsurance recoverables on unpaid losses as at December 31, 2021, 2020:

	<b>As at December 31st,</b>	
	<b>2021</b>	<b>2020</b>
Reinsurance recoverable excluding adverse development cover.....	\$ 518,139	\$ 411,692
Adverse development cover reinsurance agreement cover.....	423,500	423,500
Movement in reinsurance recoverables excess of attachment point.....	37,480	—
Less unamortized deferred gain on retroactive contracts .....	(30,278)	—
<b>Reinsurance recoverable on unpaid losses.....</b>	<b>\$ 948,841</b>	<b>\$ 835,192</b>

*Aspen Bermuda Limited*

**Notes to Financial Statements**

December 31, 2021 and 2020

*(All amounts expressed in United States dollars - amounts in tables expressed in thousands of United States dollars)*

**7. Reserve for losses and loss adjustment expenses (continued)**

*Credit Losses.* Following the adoption of ASU 2016-13, “*Financial Instruments — Credit Losses (Topic 326)*” with effect from January 1, 2020, the Company recognized a reduction in the Company’s reinsurance recoverables under the new current expected loss model (“CECL”) by \$0.1 million as a result of recognizing CECL through opening retained earnings for periods 2019 and prior. For the twelve months ended December 31, 2021 there was an decrease in the CECL allowance on reinsurance recoverables of \$0.1 million (December 31, 2020 — \$Nil).

The Company is potentially exposed to concentrations of credit risk in respect of amounts recoverable from reinsurers, refer to Note 12, “Concentrations of Credit Risk — Reinsurance recoverables” of these consolidated financial statements for more detail.

**8. Reinsurance**

The Company purchases retrocession and reinsurance to limit and diversify the Company’s risk exposure and to increase its own insurance and reinsurance underwriting capacity. These agreements provide for recovery of a portion of losses and loss adjustment expenses from reinsurers. As is the case with most reinsurance contracts, the Company remains liable to the extent that reinsurers do not meet their obligations under these agreements. In line with its risk management objectives, the Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk.

Balances pertaining to reinsurance transactions are reported “gross” on the balance sheet, meaning that reinsurance recoverable on unpaid losses and ceded unearned premiums are not deducted from insurance reserves but are recorded as assets. For more information on reinsurance recoverables, refer to Note 12, “Concentrations of Credit Risk - Reinsurance recoverables” and Note 7, “Reserves for Losses and Loss Adjustment Expenses” of these financial statements.

The effect of assumed and ceded reinsurance on premiums written, premiums earned and insurance losses and loss adjustment expenses for the twelve months ended December 31, 2021, and 2020 was as follows:

	Twelve Months Ended	
	December 31, 2021	December 31, 2020
Premiums written:		
Direct	\$ 97,492	\$ 66,711
Assumed	1,229,676	869,151
Ceded	(381,332)	(255,328)
Net Premiums written	945,836	680,534
Premiums earned:		
Direct	\$ 76,864	\$ 58,840
Assumed	1,080,620	847,532
Ceded	(341,147)	(245,683)
Net Premiums earned	816,337	660,689
Incurred losses:		
Direct	\$ 40,865	\$ 8,177
Assumed	891,349	624,218
Ceded	(305,677)	(111,510)
Net Incurred losses	\$ 626,537	\$ 520,885

**Aspen Bermuda Limited****Notes to Financial Statements**

December 31, 2021 and 2020

*(All amounts expressed in United States dollars - amounts in tables expressed in thousands of United States dollars)***9. Related Party Transactions**

As discussed in Note 1, in 2021 and 2020 the Company participated in a number of reinsurance agreements with affiliated companies.

Balances relating to these contracts, various intercompany loan arrangements and intercompany recharges are reflected in the balance sheet as at December 31, 2021 and 2020 as follows:

<b>Balance Sheet</b>	<b>As at December 31, 2021</b>	<b>As at December 31, 2020</b>
<b>Assets</b>		
Loss reserves recoverable	\$ 113,218	\$ 103,537
Ceded unearned premiums	4,579	7,917
Premium receivable	81,139	40,992
Funds withheld	634,981	583,928
Deferred acquisition costs	30,747	16,049
Due from related party	159,504	109,818
<b>Total Assets</b>	<b>\$ 1,024,168</b>	<b>\$ 862,241</b>
<b>Liabilities</b>		
Loss and loss adjustment expense reserves	\$ 2,222,823	\$ 2,270,753
Unearned premium reserves	99,720	58,404
Reinsurance balances payable	55,729	80,457
Due to related party <sup>5</sup>	75,000	—
Deferred gain	—	6,984
<b>Total Liabilities</b>	<b>\$ 2,453,272</b>	<b>\$ 2,416,598</b>

Revenues and expenses relating to these contracts, various intercompany loan arrangements and intercompany recharges, are incorporated in the statement of income for the years ended December 31, 2021 and 2020 as follows:

<b>Statement of Income</b>	<b>For the 12 months ended</b>	
	<b>December 31, 2021</b>	<b>December 31, 2020</b>
<b>Revenues</b>		
Gross premiums written	\$ 612,791	\$ 487,233
Premiums ceded	(82,167)	(90,828)
Net premiums written	530,624	396,405
Change in net unearned premiums	(42,538)	18,812
Net premiums earned	488,086	415,217
Other underwriting income	2,558	9,240
<b>Total Revenues</b>	<b>\$ 490,644</b>	<b>\$ 424,457</b>
<b>Expenses</b>		
Loss and loss adjustment expenses	(320,714)	(387,662)
Acquisition costs	(154,716)	(132,122)
<b>Total Expenses</b>	<b>\$ (475,430)</b>	<b>\$ (519,784)</b>

<sup>5</sup> See "Note 13 - Debt and Financing Arrangements" for more information regarding the debt owed to an affiliate company

## **9. Related Party Transactions (continued)**

### **Relationships and Related Party Transactions with Apollo or its Affiliates**

Apollo's indirect subsidiary, Apollo Asset Management Europe PC LLP ("AAME"), serves as the investment manager for the Company. A description of relationships we have with Apollo and its affiliates and transactions that have existed or that we have entered into with Apollo and its affiliates are described below.

#### **Investment Management Relationships**

AAME serves as the investment manager and provides centralized asset management investment advisory and risk services for the portfolio of investments pursuant to the investment management agreement ("IMA") that have been entered into with AAME. AAME is integrated into the Apollo investment platform and provides the Company with access to Apollo's investment expertise and fully-built infrastructure without the burden of incurring the development and maintenance costs of building an in-house investment asset manager with the capabilities of Apollo/AAME.

AAME is registered in England and Wales and is authorized and regulated by the Financial Conduct Authority in the United Kingdom under the Financial Services and Markets Act 2000 and the rules promulgated thereunder for the primary purpose of providing a centralized asset management and risk function to European clients in the financial services and insurance sectors. AAME has necessary permissions to engage in certain specified regulated activities including providing investment advice, undertaking discretionary investment management and arranging deals in relation to certain types of investment.

In addition, pursuant to the IMA, AAME may engage sub-advisors or delegates to provide certain of the investment advisory and management services. In this regard, AAME is able to leverage its relationships with other Apollo-affiliated investment advisors in a sub-advisory capacity, pursuant to which AAME has mandated its affiliates, Apollo Management International LLP ("AMI") and Apollo Capital Management L.P. ("AMC"), to invest in asset classes in which they have investment expertise and sourcing capabilities, such as middle market loans, commercial mortgage loans, structured products and short term secured investments. Pursuant to the IMA, all sub-advisors and delegates are ultimately overseen by AAME to ensure they are appropriate for the business and consistent with the investment strategy of the Company and such sub-advisory delegations are revocable by AAME.

#### **Investment Management Agreement ("IMA")**

In April 2019, following the completion of the Merger, AAME was engaged as the investment advisor. The Company's assets are managed by AAME and certain affiliates of AAME through a sub-advisory arrangement.

Under the IMA, AAME will be paid an annual investment management fee (the "Management Fee") which will be based on a cost-plus structure. The "cost" is comprised of the direct and indirect fees, costs, expenses and other liabilities arising in or otherwise connected with the services provided under the IMA. The "plus" component will be a mark-up in an amount of up to 25% determined based on an applicable transfer pricing study. The Management Fee will be subject to certain maximum threshold levels, including an annual fee cap of 15 bps of the total amount of investable assets. Affiliated sub-advisors, including AMI and AMC, will also earn additional fees for sub-advisory services rendered.

#### **Termination of Investment Management or Advisory Agreements with AAME**

The IMA has no stated term and may be terminated by either AAME or the relevant subsidiary, as applicable, upon 60 days' notice at any time or when required by such party's regulator or by applicable law. In addition, AAME may terminate the IMA immediately upon notice if the implementation of any amendments to the applicable investment guidelines is impossible for, or cannot reasonably be expected of, AAME. Such termination rights may adversely affect the Company's investment results.



*Aspen Bermuda Limited*

**Notes to Financial Statements**

December 31, 2021 and 2020

*(All amounts expressed in United States dollars - amounts in tables expressed in thousands of United States dollars)*

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

**Third Party Sub-Advisory Agreements**

In the limited instances in which AAME desires to invest in asset classes for which neither AAME nor Apollo possesses the investment expertise or sourcing abilities required to manage the assets, or in instances in which AAME makes the determination that it is more effective or efficient to do so, AAME may mandate third-party sub-advisors to invest in such asset classes. Pursuant to the IMA, the Company will be responsible for fees paid to such sub-advisors.

**IMA and Management Consulting Fees**

During the year ended December 31, 2021, the Company recognized IMA fees of \$6.4 million (2020 - \$6.1 million), of which \$2.2 million (2020 - \$1.4 million) remains payable to AAME and AMI at year end.

**Privately-held investments**

All investments in privately-held investments, disclosed within Note 4, "Investments", have either been placed via the AAME structures mentioned above, or are investments directly or indirectly in Companies or funds affiliated with Apollo.

**10. Share capital and additional paid-in capital**

Share capital consists of 1,000,000 authorized, issued and fully paid common shares with a par value of \$1 each.

Additional paid-in capital represents amounts contributed in cash by the shareholder in addition to the subscription to the issued share capital.

**11. Commitments and Contingent Liabilities**

**(a) Restricted assets**

The following table details the forms and value of Company's material restricted assets as at December 31, 2021 and 2020:

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Regulatory trusts and deposits		
Affiliated transactions	\$ 803,835	\$ 926,964
Third party	788,769	644,770
Letters of credit / guarantees	418,505	389,477
Total restricted assets (excluding illiquid assets)	2,011,109	1,961,211
Other investments - real estate fund (illiquid assets)	129,946	109,413
<b>Total restricted assets and illiquid assets</b>	<b>\$ 2,141,055</b>	<b>\$ 2,070,624</b>
Cash and invested assets <sup>6</sup>	\$ 2,642,992	\$ 2,781,641
<b>Percentage of cash and invested assets</b>	<b>81.0 %</b>	<b>74.4 %</b>

<sup>6</sup> Cash and invested assets comprise total investments, cash and cash equivalents, accrued interest, receivables for securities sold and payables for securities purchased.

**Aspen Bermuda Limited**

**Notes to Financial Statements**

December 31, 2021 and 2020

*(All amounts expressed in United States dollars - amounts in tables expressed in thousands of United States dollars)*

**11. Commitments and Contingent Liabilities (continued)**

*Real Estate Fund.* On December 20, 2017, the Company committed \$100.0 million as a limited partner to a real estate fund. The investment objective of the fund is to achieve attractive risk-adjusted returns through the acquisition of income producing, high quality assets in gateway cities located in the U.S. and Canada in the office, retail, industrial and multifamily sectors of the real estate market. On May 1, 2018, the Company received a demand for an initial capital call of \$86.2 million and the capital call on May 10, 2018. On September 19, 2018, the Company received a demand for the final capital call of \$13.8 million and paid the capital on September 28, 2018. As at December 31, 2021, the current fair value of the real estate fund is \$129.9 million (2020: \$109.4 million).

Investments in the real estate fund may be redeemed on a quarterly basis with 90 days' notice subject to available cash in the fund once the lock-up period ends two years after the capital call. If sufficient cash is not available then all requested redemptions will be made on a pro rata basis. If a redemption request has not been met in full, as of such calendar quarter, the remaining portion of the request will be redeemed in subsequent quarters. There are no assurances as to when the Company may be able to withdraw, in whole or in part, its redemption request from the fund. A lock-up period is the initial amount of time an investor is contractually required to remain invested before having the ability to redeem.

The Company's current arrangements with our bankers for the issue of letters of credit require us to provide collateral in the form of cash and investments for the full amount of all secured and undrawn letters of credit that are outstanding. We monitor the proportion of our otherwise liquid assets that are committed to trust funds or to the collateralization of letters of credit. As at December 31, 2021 and 2020, these funds amounted to approximately 81.0% of the \$2.6 billion and approximately 74.4% of the \$2.8 billion of investable assets held by the Company, respectively. We do not consider that this unduly restricts our liquidity at this time.

The Company has established and must retain a multi-beneficiary U.S. trust fund for the benefit of its U.S. cedants so that they may take financial statement credit without the need to post cedant-specific security. The minimum trust fund amount is \$20.0 million plus an amount equal to 100% of the Company's liabilities to its U.S. cedants which was \$450.4 million and \$382.8 million as at December 31, 2021 and 2020 respectively.

On November 30, 2021, Aspen Underwriting Limited (AUL) and the Company (acting as AUL's guarantor) entered into a Funds at Lloyd's Amendment Agreement, amending the original Funds at Lloyd's Facility Agreement dated November 30, 2020, for the account of AUL, pursuant to which the lender pledges securities for the benefit of Lloyd's to support AUL's Funds at Lloyd's requirements. This facility is for a one year period, subject to annual automatic extensions, and provides that a maximum aggregate amount of up to \$150 million (2020: \$100 million) may be pledged on behalf of AUL. As at December 31, 2021, \$150 million in securities were pledged on behalf of AUL under this facility (2020 - \$100 million).

**(b) Operating Leases**

Right-of-use lease assets comprises of leased office real estate globally. For all office real estate leases, rent incentives, including reduced-rent and rent free periods and contractually agreed rent increases during the lease term, have been included when determining the present value of future cash flows.

The Company renewed the expiring lease of its existing office space in Bermuda and entered into a new lease agreement with included additional office space effective 1 November 2021. The new lease period is for 5 years with an option to renew at the end of the lease for an additional 5 years.

The Singapore Branch of the Company entered into a new lease agreement for office space commencing 1 January 2022. The new lease term will continue for 5 years with option to renew for an additional 3 years.

*Aspen Bermuda Limited*

**Notes to Financial Statements**

December 31, 2021 and 2020

(All amounts expressed in United States dollars - amounts in tables expressed in thousands of United States dollars)

**11. Commitments and Contingent Liabilities (continued)**

The Company believes its office space is sufficient to conduct its operations for the foreseeable future in these locations. The Company has no lease transactions between related parties. The Company has assessed their right-of-use lease assets for impairment and have concluded that there is no impairment charge within the period (2020 - \$nil).

The following table summarizes the operating lease charge for the twelve months ended December 31, 2021 and 2020:

	<b>For the Twelve Months Ended</b>	
	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Amortization charge on right-of-use operating leased assets	\$ 1,234	\$ 1,154
Interest on operating lease liabilities	109	111
<b>Operating lease charge</b>	<b>\$ 1,343</b>	<b>\$ 1,265</b>
<b>Other information on operating leases:</b>		
Cash payments included in the measurement of lease liability reported in operating cash flows	\$ (1,311)	\$ (1,254)
Right-of-use assets	8,481	1,853
Operating lease liability	\$ (8,507)	\$ (1,853)
Weighted average discount rate	5 %	5 %
Weighted average remaining lease term in years	4.74	3.14

*Lease Liabilities.* The following table summarizes the maturity of lease liabilities under non-cancellable leases as of December 31, 2021 and 2020:

	<b>December 31, 2021</b>	<b>December 31, 2020</b>
<b>Operating leases — maturities</b>		
2021	—	1,142
2022	2,008	259
2023	2,051	259
2024	2,073	259
2025	1,885	65
2026	1,608	—
Later years	—	—
<b>Total minimum lease payments</b>	<b>9,625</b>	<b>1,984</b>
Less imputed interest	(1,118)	(131)
<b>Total lease liabilities</b>	<b>8,507</b>	<b>1,853</b>

**Aspen Bermuda Limited**

**Notes to Financial Statements**

December 31, 2021 and 2020

*(All amounts expressed in United States dollars - amounts in tables expressed in thousands of United States dollars)*

**11. Commitments and Contingent Liabilities (continued)**

**(c) Contingent liabilities**

In common with the rest of the insurance and reinsurance industry, the Company is also subject to litigation and arbitration in the ordinary course of business. The Company is regularly engaged in the investigation, conduct and defense of disputes, or potential disputes, resulting from questions of insurance or reinsurance coverage or claims activities. Pursuant to insurance and reinsurance arrangements, many of these disputes are resolved by arbitration or other forms of alternative dispute resolution. Such legal proceedings are considered in connection with estimating the Company's Insurance Reserves – Loss and Loss Adjustment Expenses, as provided on the Company's balance sheet.

As at December 31, 2021, it was the opinion of the Company's management based on available information that the probability of the ultimate resolution of pending or threatened litigation or arbitration having a material effect on the Company's financial condition, results of operations or liquidity would be remote.

**12. Concentration of Credit Risk**

The Company is potentially exposed to concentrations of credit risk in respect of amounts recoverable from reinsurers, investments and cash and cash equivalents, and insurance and reinsurance balances owed by the brokers with whom the Company transacts business.

The Company defines credit risk tolerances in line with the risk appetite set by our Board and they, together with the group's risk management function, monitor exposures to individual counterparties. Any exceptions are reported to senior management and the Board of Directors.

**Reinsurance Recoverables**

The total amount recoverable by the Company from reinsurers as at December 31, 2021 was \$948.8 million (2020 — \$835.2 million) of which \$192.2 million was uncollateralized (2020 — \$212.9 million). As at December 31, 2021, of the Company's uncollateralized reinsurance recoverables 48.6% (2020 — 43.3%) were with Aspen Insurance UK Limited which is rated A by A.M. Best and A- by S&P, 12.5% (2020 — 6.5%) were with Everest Re which is rated A+ by A.M. Best and A+ by S&P. There were no other exposures to uncollateralized reinsurance balances that exceeded 10% of the Company's total uncollateralized reinsurance balance as at December 31, 2021.

On June 16, 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326)" which introduced a new impairment model, known as the current expected loss model ("CECL"), which is based on expected losses rather than incurred losses. Under the new credit loss model, the Company would recognize an allowance for its estimate of expected credit losses and this would apply to reinsurance receivables. Following the adoption of this ASU with effect from January 1, 2020, the Company recognized a reduction in the Company's reinsurance recoverables by \$0.1 million. For the twelve months ended December 31, 2021 there was a decrease in the CECL allowance on reinsurance recoverables of \$0.1 million (December 31, 2020 — \$Nil).

**Underwriting premium receivables**

The total underwriting premium receivable by the Company as at December 31, 2021 was \$369.6 million (2020 — \$181.7 million). As at December 31, 2021, none of the total premiums receivable balance has been due for settlement for more than one year (2020 — \$Nil). The Company assesses the recoverability of premium receivables through a review of policies and the concentration of receivables by broker. Allowance for credit losses of \$Nil as at December 31, 2021 (2020 — \$Nil) for underwriting premiums unlikely to be collected.

**Aspen Bermuda Limited**

**Notes to Financial Statements**

December 31, 2021 and 2020

(All amounts expressed in United States dollars - amounts in tables expressed in thousands of United States dollars)

**12. Concentration of Credit Risk (continued)**

**Investments and cash and cash equivalents**

The Company's investment policies include specific provisions that limit the allowable holdings of a single issue and issuer. As at December 31, 2021, there were no investments in any single issuer, other than the U.S. government, U.S. government agencies, U.S. government sponsored enterprises, the Canadian government and the U.K. government in excess of 2% of the aggregate investment portfolio.

**Balances owed by brokers**

The Company underwrites a significant amount of its business through brokers and a credit risk exists should any of these brokers be unable to fulfill their contractual obligations in respect of insurance or reinsurance balances due to the Company.

The following table shows the largest brokers that the Company transacted business with during the two years ended December 31, 2021 and the proportion of gross written premiums from each of those brokers.

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Aon Corporation .....	36.8 %	36.5 %
Guy Carpenter .....	24.0 %	30.5 %
Willis Group Holdings, Ltd. ....	22.9 %	18.1 %
Other brokers/non-broker sources <sup>7</sup> .....	16.3 %	14.9 %
<b>Total</b> .....	<u>100.0 %</u>	<u>100.0 %</u>
Gross written premiums (\$ thousands) .....	<u>\$ 945,837</u>	<u>\$ 680,534</u>

**13. Debt and Credit Facilities**

**a) Due to Related Party**

On December 31, 2021, the Company entered into an Intercompany Subordinated Note Agreement as borrower with the lender and affiliate Aspen American Insurance Company ("AAIC"), a Texas domiciled insurance company for an amount of \$75,000,000. The loan is under guaranty of Holdings and matures on December 31, 2024 with an annual interest rate of 1.75%, payable annually commencing December 31, 2022.

The Company may prepay any or all amounts due under this loan at any time before the maturity date without penalty. The full amount outstanding, if not paid sooner, is due and payable on the maturity date.

**b) Credit Facilities**

In the normal course of its operations, the Company enters into agreements with financial institutions to obtain secured and unsecured credit facilities.

<sup>7</sup> No other individual broker accounted for more than 10% of total gross written premiums.

**Aspen Bermuda Limited**

**Notes to Financial Statements**

December 31, 2021 and 2020

*(All amounts expressed in United States dollars - amounts in tables expressed in thousands of United States dollars)*

**13. Debt and Credit Facilities (continued)**

*Credit Agreement.* On December 1, 2021, the Company, Holdings and certain of its direct or indirect subsidiaries (collectively, the "Borrowers") entered into a Third Amended and Restated Credit Agreement (the "Credit Agreement") with various lenders and Barclays Bank plc, as administrative agent, which amends and restates the Amended and Restated Credit Agreement, dated as of June 12, 2013 and the Second Amended and Restated Credit Agreement, dated as of March 27, 2017, among the Company, Holdings and certain subsidiaries thereof, various lenders and Barclays Bank plc, as administrative agent. The credit facility will be used by the Borrowers to finance the working capital needs of Holdings and its subsidiaries, for letters of credit in connection with the insurance and reinsurance businesses of Holdings and its subsidiaries and for other general corporate purposes. Initial availability under the Credit Agreement is \$300,000,000 and the Company has the option (subject to obtaining commitments from acceptable lenders) to increase the credit facility by up to \$100,000,000. The credit facility will expire on December 1, 2026.

As at December 31, 2021, \$100,000,000 in borrowings were outstanding by another affiliate company and subsidiary of Holdings under the Credit Agreement. The fees and interest rates on the loans and the fees on the letters of credit payable by the Borrowers under the Credit Agreement are based upon the credit ratings for the Company's long-term unsecured senior debt by S&P and Moody's. In addition, the fees for a letter of credit vary based upon whether the applicable Borrower has provided collateral (in the form of cash or qualifying debt securities) to secure its reimbursement obligations with respect to such letter of credit.

*Other Credit Facilities.* On June 26, 2020, the Company and Citibank Europe plc ("Citi Europe") amended the committed letter of credit facility, dated July 30, 2012, as amended on June 30, 2014, June 30, 2016, June 29, 2018 and September 20, 2019 (the "LOC Facility"). The latest amendment to the LOC Facility extends the term to June 30, 2022. The maximum aggregate amount available under the LOC Facility is \$500.0 million. Under the LOC Facility, the Company will pay to Citi Europe (a) a letter of credit fee based on the available amounts of each letter of credit and (b) a commitment fee, which varies based upon usage, on the unutilized portion of the LOC Facility. The Company will also pay interest on the amount drawn by any beneficiary under the LOC Facility at a rate per annum of LIBOR plus 1% (plus reserve asset costs, if any) from the date of drawing until the date of reimbursement by the Company.

In addition, the Company and Citi Europe entered into an uncommitted letter of credit facility whereby the Company has the ability to request letters of credit under this facility subject to the prior approval of Citi Europe. The fee associated with the uncommitted facility is a letter of credit fee based on the available amounts of each letter of credit issued under the uncommitted facility. Both the LOC Facility and the uncommitted facility are used to secure obligations of the Company to its policyholders. In addition to these facilities, we also use regulatory trusts to secure our obligations to policyholders.

The terms of a pledge agreement between the Company and Citi Europe (pursuant to an assignment agreement dated October 11, 2006) dated January 17, 2006, as amended, were also amended on June 30, 2014 to change the types of securities or other assets that are acceptable as collateral under the New LOC Facility. All other agreements relating to the Company's LOC Facility, which now apply to the LOC Facility with Citi Europe, as previously filed with the SEC, remain in full force and effect. As at December 31, 2021, we had \$452.4 million of outstanding partially collateralized letters of credit under the LOC Facility (December 31, 2020 — \$446.2 million).

On November 5, 2021, the Company entered into an uncommitted Continuing Agreement for Standby Letters of Credit and Demand Guarantees with Deutsche Bank AG, New York Branch, where the Company has the ability to request letters of credit to be used in support of policyholder obligations with the consent of the lender. The fee associated with this facility is a facility fee based on the aggregate face amount of outstanding letters of credit. The total commitment under the facility is \$100,000,000 of which \$90,000,000 has been utilized as at December 31, 2021.

*Aspen Bermuda Limited*

**Notes to Financial Statements**

December 31, 2021 and 2020

*(All amounts expressed in United States dollars - amounts in tables expressed in thousands of United States dollars)*

**13. Debt and Credit Facilities (continued)**

On November 5, 2021, Holdings entered into a letter of credit facility agreement. The letter of credit issued under this facility is for the benefit of the Company, as beneficiary, and has been applied towards the eligible capital of Aspen Bermuda, and classified as ancillary Tier 3 capital of such entity, in accordance with applicable Bermuda laws and regulations. The total commitment under the facility is \$100,000,000 and was fully utilized the same day as the agreement.

On December 29, 2021, Holdings entered into a committed letter of credit facility agreement. The letter of credit issued under this facility is for the benefit of the Company, as beneficiary, and has been applied towards the eligible capital of Aspen Bermuda, and classified as ancillary Tier 3 capital of such entity, in accordance with applicable Bermuda laws and regulations. The total commitment under the facility is \$75,000,000. On December 30, 2021 the full facility amount was utilized under the agreement.

The above credit facilities include certain restrictive covenants customary for facilities of this type, including restrictions on indebtedness, consolidated tangible net worth, and minimum financial strength ratings, with such financial covenants largely consistent with these set forth in the Credit Agreement. In addition, the agreements include default covenants, which could require the Company to fully secure the outstanding amounts thereunder and/or result in the Company not being allowed to issue any new letters of credit.

**14. Shareholder's Equity and Regulation**

The Insurance Act imposes solvency and liquidity standards as well as auditing and reporting requirements on Bermuda insurers and reinsurers, and it empowers the BMA to supervise, investigate, require information and intervene in the affairs of Bermuda registered insurance companies. There are a number of remedial actions the BMA can take to protect the public interest if it determines that a Bermuda insurer or reinsurer may become insolvent or that a breach of the Insurance Act or of a registration condition has occurred or is about to occur.

The BMA also acts as group supervisor of the Aspen group of companies ("Aspen Group") and has named the Company as the designated insurer.

In addition to requiring the appointment of a principal representative in Bermuda, the appointment of an independent auditor and the appointment of a loss reserve specialist, significant provisions of the Insurance Act applicable to the Company include:

*Annual Filings.* On an annual basis, the Company is required to submit to the BMA: (i) a statutory financial return; (ii) audited financial statements including notes to the financial statements, in accordance with GAAP Standards; and (iii) a capital and solvency return ("CSR"), which includes the Bermuda Solvency Capital Requirement ("BSCR"), a risk-based capital adequacy model, and associated schedules, including, amongst others, a Commercial Insurer Solvency Self-Assessment ("CISSA"), a Financial Condition Report (the "FCR") and an opinion of a BMA approved loss reserve specialist on the economic balance sheet technical provisions. The CISSA is a self-assessment of our risk and solvency requirements that allows the BMA to obtain our view of the capital resources required to achieve our business objectives and to assess our governance, risk management and controls surrounding this process. The audited financial statements are published by the BMA on its website. The FCR is submitted in conjunction with that of the Aspen Group and published on our website, and includes information pertaining to the Company.

*Enhanced Capital Requirements.* The Company must maintain available statutory economic capital and surplus in an amount equal to or exceeding its Enhanced Capital Requirement ("ECR"). The ECR is determined either by reference to the BSCR model or an approved internal capital model. The Company currently relies on the BSCR model to establish its ECR.

The BMA also expects Class 4 insurers such as the Company to operate at or above a Target Capital Level ("TCL"), which the BMA has set at 120% of the ECR. The Company holds capital in excess of its TCL as at December 31, 2021.

**14. Shareholder's Equity and Regulation (continued)**

*Minimum Solvency Margin and Minimum Liquidity Ratio.* The Company is also required to comply with a minimum solvency margin ("MSM") and minimum liquidity ratio in respect of its business. The minimum solvency margin is the greater of: (i) \$100,000,000; or (ii) 50% of net premiums written (being gross premiums written less any premiums ceded (not exceeding 25% of gross premium written)) in its current financial year; or (iii) 15% of net loss and loss expense provisions and other insurance reserves; or (iv) 25% of the ECR reported at the end of its relevant year. The minimum liquidity ratio requires that the value of relevant assets not be less than 75% of the amount of relevant liabilities.

*Restrictions on Dividends, Distributions and Reduction of Capital.* The Company may not declare or pay any dividends during any financial year if it would cause the insurer to fail to meet its relevant solvency margins, enhanced capital requirements or liquidity ratio, and an insurer which fails to meet its relevant margins on the last day of any financial year may not, without the approval of the BMA, declare or pay any dividends during the next financial year. In addition, as a Class 4 insurer, The Company may not in any financial year pay dividends which would exceed 25% of its total statutory capital and surplus, as shown on its statutory balance sheet in relation to the previous financial year, unless it files with the BMA a solvency affidavit at least seven days in advance of payment. Further, The Company must obtain the prior approval of the BMA before reducing by 15% or more its total statutory capital as set out in its previous year's financial statements.

The Insurance Amendment (No. 2) Act 2018 amended the Insurance Act to provide for the prior payment of policyholders' liabilities ahead of general unsecured creditors in the event of the liquidation or winding up of an insurer. The amendments provide among other matters that, subject to certain statutorily preferred debts, the insurance debts of an insurer must be paid in priority to all other unsecured debts of the insurer. Insurance debt is defined as a debt to which an insurer is or may become liable pursuant to an insurance contract excluding debts owed to an insurer under an insurance contract where the insurer is the person insured.

In addition, the Company must comply with the provisions of the Bermuda Companies Act 1981, as amended (the "Companies Act"), regulating the payment of dividends and distributions. A Bermuda company may not declare or pay a dividend or make a distribution out of contributed surplus if there are reasonable grounds for believing that: (i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realizable value of the company's assets would thereby be less than its liabilities.

The statutory capital and surplus and required minimum statutory capital and surplus for the Company, as at December 31, 2021 and December 31, 2020 were estimated as follows:

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Statutory capital and surplus <sup>8</sup>	1,305,407	1,333,083
Required statutory capital and surplus <sup>9</sup>	683,672	633,663

*Singapore Branch.* The Company has established segregated Singaporean bank accounts to secure policyholder liabilities as a condition of maintaining a Singaporean license and meet local solvency requirements. As at December 31, 2021 the balance of the account is SGD\$13.1 million (2020 - SGD\$ Nil).

<sup>8</sup> Statutory capital and surplus is based on the statutory financial statements.

<sup>9</sup> Required statutory capital and surplus is based on the Enhanced Capital Requirement (ECR). The ECR is calculated using the Bermuda Solvency Capital Requirement model which is a risk-based capital model.



**Aspen Bermuda Limited**

**Notes to Financial Statements**

December 31, 2021 and 2020

*(All amounts expressed in United States dollars - amounts in tables expressed in thousands of United States dollars)*

**15. Taxation**

Under current Bermuda law the Company is not required to pay any taxes in Bermuda on either income or capital gains. The Company has received an assurance from the Minister of Finance of Bermuda under The Exempted Undertakings Tax Protection Act, 1966 of Bermuda that in the event of any such taxes being imposed the Company will be exempted from taxation until March 31, 2035.

The Branches are subject to taxes under their respective tax jurisdictions. The Branches are not under examination in this tax jurisdiction, but remain subject to examination for the tax years 2020 through 2021 for Zurich and 2021 for Singapore respectively.

The Zurich Branch was taxed at the Zurich combined Federal and Cantonal income tax rate of 19.7% and Zurich capital tax rate of 0.1718%. As a result of the aforementioned capital gains tax, the Company recognized a current corporate tax expense of \$0.4 million even though the Zurich Branch had operated at an assessed tax loss in 2021.

The Singapore Branch is taxed at the Singapore Federal income tax rate of 17%.

The Company established the Branches in order to underwrite, largely similar business that was previously written by branches operated by affiliated companies of the Company. Including the periods when the Branches were controlled by affiliated companies, the operations of the Zurich and Singapore Branches reflect cumulative losses over the last three years. Therefore, full valuation allowances have been provided on deferred tax assets of \$9.9 million on \$55.3 million on the Swiss branch of the Company net operating losses and \$0.8 million on Singapore branch of the Company net operating losses of \$4.7million, as management believes that it is more likely than not that a tax benefit will not be realized.

**16. Subsequent Events**

*Loss Portfolio Transfer Agreement.* On January 10, 2022, Holdings and certain of its subsidiaries, including the Company (together, "Aspen") entered into an Amended and Restated Reinsurance Agreement with a subsidiary of Enstar Group Limited (the "Agreement"), which amends and restates the Adverse Development Cover Agreement, dated as of March 2, 2020 (the "Original Agreement"), previously entered into between the parties. Under the terms of the Agreement, Enstar's subsidiary will reinsure net losses incurred on or prior to December 31, 2019 on Aspen's diverse mix of property, liability and specialty lines across the U.S., U.K. and other jurisdictions (the "Subject Business") having net loss reserves of \$3.12 billion as of September 30, 2021. The Agreement provides for a limit of \$3.57 billion in consideration for a premium of \$3.16 billion. The amount of net loss reserves ceded, as well as the premium and limit amounts provided under the Agreement, will be adjusted for claims paid between October 1, 2021 and the closing date of the transaction. The premium includes \$770.0 million of premium previously paid with respect to reserves ceded under the Original Agreement, which will continue to be held in trust accounts to secure the Enstar subsidiary's obligations under the Agreement. The incremental new premium will initially be held in funds withheld accounts maintained by Aspen but will be released to the trust accounts maintained by the Enstar subsidiary no later than September 30, 2025. The funds withheld by Aspen will be credited with interest at an annual rate of 1.75% plus, for periods after October 1, 2022, an additional amount equal to 50% of the amount by which the total return on the investments and cash and cash equivalents of Holdings and its subsidiaries exceeds 1.75%.

Under the Agreement, the Enstar subsidiary will assume claims control of the Subject Business upon closing and entrance into an administrative services agreement. The Agreement includes customary representations and warranties, indemnification obligations, covenants and termination rights of the parties. Completion of the transaction is subject to regulatory approvals and satisfaction of various other closing conditions. The transaction is expected to close in the first half of 2022. If the transaction cannot be completed, the Original Agreement would remain in effect.

***Aspen Bermuda Limited***

**Notes to Financial Statements**

December 31, 2021 and 2020

*(All amounts expressed in United States dollars - amounts in tables expressed in thousands of United States dollars)*

**16. Subsequent Events (continued)**

*Russian invasion of Ukraine.* On February 24, 2022, Russia launched a full-scale military invasion of Ukraine. As a result of this action, various nations, including the U.S., E.U., U.K. and other jurisdictions, have imposed economic sanctions against Russia. We cannot predict the impact of the invasion and any heightened military conflict, economic impact or geopolitical instability that may follow, including heightened operating risks in the E.U., additional sanctions or counter-sanctions, heightened inflation, cyber disruptions or attacks, and higher energy costs. Any of the forgoing could have a material adverse effect on our business, financial condition, and results of operations.

The Company completed its subsequent events evaluation for the period subsequent to the balance sheet date of December 31, 2021 through to April 29, 2022, the date the financial statements were available for issuance.