AUDITED FINANCIAL STATEMENTS

Fontana Reinsurance Ltd.

December 31, 2022

RenaissanceRe

April 21, 2023

Report of Independent Auditors

To the Board of Directors and Shareholder of Fontana Reinsurance Ltd.

Opinion

We have audited the accompanying financial statements of Fontana Reinsurance Ltd. (the "Company"), which comprise the balance sheet as of December 31, 2022, and the related statements of operations, changes in shareholder's equity and cash flows for the period from April 1, 2022 to December 31, 2022, including the related notes (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022, and the results of its operations and its cash flows for the period from April 1, 2022 to December 31, 2022 in accordance with accounting principles generally accepted in the United States of America.

Basis for opinion

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

Responsibilities of management for the financial statements

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

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

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

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

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Required supplemental information

Accounting principles generally accepted in the United States of America require that the required supplemental information pertaining to *Short-Duration Contracts* disclosures labelled as "Unaudited" within Note 6 on page 18 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 supplemental 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.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

FONTANA REINSURANCE LTD.
BALANCE SHEET
AT DECEMBER 31, 2022
(in thousands of United States Dollars)

	2022
Assets	
Fixed maturity investments trading, at fair value - amortized cost $159,070 at December 31, 2022 (Notes 3 and 4)	$ 151,921
Short term investments, at fair value - amortized cost $3,483 at December 31, 2022 (Notes 3 and 4)	3,483
Total investments	155,404
Cash and cash equivalents	344
Premiums receivable (Notes 5 and 7)	108,498
Accrued investment income	1,671
Deferred acquisition costs	38,227
Total assets	$ 304,144
Liabilities and Shareholder's Equity	
Liabilities	
Reserve for claims and claim expenses (Notes 5, 6 and 7)	$ 38,002
Unearned premiums	116,059
Due to affiliates, net	33
Accounts payable and accrued liabilities	292
Other liabilities (Note 7)	485
Total liabilities	154,871
Shareholder's Equity	
Common shares: $1.00 par value - 120,001 shares authorized, issued and outstanding at December 31, 2022 (Note 8)	120
Additional paid-in capital (Note 8)	149,130
Retained earnings (deficit)	23
Total shareholder's equity	149,273
Total liabilities and shareholder's equity	$ 304,144

On behalf of the Board:

Director

Director

See accompanying notes to the financial statements

FONTANA REINSURANCE LTD.
STATEMENT OF OPERATIONS
FOR THE PERIOD FROM APRIL 1, 2022 TO DECEMBER 31, 2022
(in thousands of United States Dollars)

	2022
Revenues	
Gross premiums written (Notes 5 and 7)	$ 177,240
Net premiums written (Notes 5 and 7)	$ 177,240
(Increase) decrease in net unearned premiums	(116,059)
Net premiums earned (Notes 5 and 7)	61,181
Net investment income (Note 3)	4,831
Net realized and unrealized gains (losses) on investments (Note 3)	(7,856)
Total revenues	58,156
Expenses	
Claims and claim expenses incurred (Notes 5, 6 and 7)	38,209
Acquisition expenses (Note 7)	16,040
Operational expenses	3,839
Corporate expenses	45
Total expenses	58,133
Net income (loss)	$ 23

See accompanying notes to the financial statements

FONTANA REINSURANCE LTD.
STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
FOR THE PERIOD FROM APRIL 1, 2022 TO DECEMBER 31, 2022
(in thousands of United States Dollars)

	2022
Common shares	
Balance – April 1	$ —
Issuance of shares (Note 8)	120
Balance – December 31	120
Additional paid-in capital	
Balance – April 1	—
Contribution of capital (Note 8)	149,130
Balance – December 31	149,130
Retained earnings (deficit)	
Balance – April 1	—
Net income (loss)	23
Balance – December 31	23
Total shareholder's equity	$ 149,273

See accompanying notes to the financial statements

FONTANA REINSURANCE LTD.
STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM APRIL 1, 2022 TO DECEMBER 31, 2022
(in thousands of United States dollars)

	2022
Cash flows provided by (used in) operating activities	
Net income (loss)	$ 23
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities	
Amortization and accretion	(955)
Net realized and unrealized gains (losses) on investments	7,856
Change in:	
Premiums receivable	(108,498)
Accrued investment income	(1,671)
Deferred acquisition costs	(38,227)
Reserve for claims and claim expenses	38,002
Unearned premiums	116,059
Other, net	810
Net cash provided by (used in) operating activities	13,399
Cash flows provided by (used in) investing activities	
Proceeds from sales and maturities of fixed maturity investments trading	152,954
Purchases of fixed maturity investments trading	(311,765)
Proceeds from sales and maturities of short term investments	189,484
Purchases of short term investments	(192,978)
Net cash provided by (used in) investing activities	(162,305)
Cash flows provided by (used in) financing activities	
Issuance of common shares	120
Contribution of capital	149,130
Net cash provided by (used in) financing activities	149,250
Net increase (decrease) in cash and cash equivalents	344
Cash and cash equivalents, beginning of period	—
Cash and cash equivalents, end of period	$ 344

See accompanying notes to the financial statements

NOTE 1. ORGANIZATION

Fontana Reinsurance Ltd. (“Fontana Re”) is a wholly-owned subsidiary of Fontana Holdings L.P. (“Fontana L.P.”) and a Bermuda-domiciled Class 3A general business insurer.

Fontana L.P. is an exempted limited partnership organized under the laws of Bermuda, effective April 1, 2022. Fontana Holdings Ltd. (“Fontana G.P.”), a Bermuda exempted company limited by shares, is the General Partner. RenaissanceRe Holdings Ltd. (“RenaissanceRe”), through Fontana UK Holdings Limited (“Fontana UK”), a private limited company organized under the laws of England and Wales, has committed capital to Fontana L.P. Fontana UK, collectively with third-party investors are referred to as the Limited Partners. Fontana U.S. Holdings Inc. (“Fontana U.S. Holdings”), a Delaware holding company, is a wholly-owned subsidiary of Fontana L.P.

Each of Fontana Re and Fontana Reinsurance U.S. Ltd. (“Fontana Re U.S.”), a wholly-owned subsidiary of Fontana U.S. Holdings and a Bermuda-domiciled Class 3A general business insurer, provide reinsurance capacity focused on casualty and specialty business written within RenaissanceRe.

Fontana L.P., together with Fontana U.S. Holdings, Fontana Re and Fontana Re U.S. are collectively referred to herein as the “Partnership”.

The Partnership is a joint venture formed by RenaissanceRe and is managed by Renaissance Underwriting Managers, Ltd. (“RUM”), a wholly-owned subsidiary of RenaissanceRe, which provides all management and administration, including reporting, regulatory and capital management. See “Note 7. Related Party Transactions” for additional information related to transactions with related parties.

Fontana Re entered into a combined casualty and specialty quota share reinsurance agreement (“Bermuda Quota Share Agreement”) to assume a portion of its business, excluding U.S. connected business, from certain wholly-owned subsidiaries of RenaissanceRe, including Renaissance Reinsurance Ltd. (including all branches), Renaissance Reinsurance of Europe, RenaissanceRe Lloyd’s Syndicate 1458, RenaissanceRe Syndicate Management Ltd. and RenaissanceRe Europe AG (including all branches except RenaissanceRe Europe AG, Australia Branch) (collectively referred to as the ”Bermuda Cedants”).

Fontana Re U.S. entered into a combined casualty and specialty quota share reinsurance agreement to assume a portion of its business, including U.S. connected business, from certain wholly-owned subsidiaries of RenaissanceRe, including RenaissanceRe Specialty U.S. Ltd., Renaissance Reinsurance U.S. Inc., RenaissanceRe Lloyd’s Syndicate 1458, RenaissanceRe Syndicate Management Ltd. and RenaissanceRe Europe AG (including all branches except RenaissanceRe Europe AG, Australia Branch).

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These financial statements have been prepared on the basis of accounting principles generally accepted in the United States ("GAAP").

Use of Estimates in Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported and disclosed amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates. The major estimates reflected in the Company's financial statements include, but are not limited to, the reserve for claims and claim expenses; premiums receivable, including provisions for premiums receivables to reflect expected credit losses; estimates of written and earned premiums; and fair value, including the fair value of investments.

Premiums and Related Expenses

Premiums are recognized as income over the terms of the related contracts and policies. Premiums written are based on contract and policy terms and include estimates based on information received from both insureds and ceding companies. Subsequent revisions to premium estimates are recorded in the period in which they are determined. Unearned premiums represent the portion of premiums written that relate to the unexpired terms of contracts and policies in force. Amounts are computed by pro rata methods based on statistical data or reports received from ceding companies. Reinstatement premiums are estimated after the occurrence of a significant loss and are recorded in accordance with the contract terms based upon paid losses and case reserves. Reinstatement premiums are earned when written.

Acquisition costs are incurred when a contract or policy is issued and only the costs directly related to the successful acquisition of new and renewal contract or policies are deferred and amortized over the same period in which the related premiums are earned. Acquisition costs consist principally of commissions, brokerage and premium tax expenses. Certain of our assumed contracts contain profit sharing provisions or adjustable commissions that are estimated based on the expected loss and loss adjustment expense on those contracts. Deferred policy acquisition costs are limited to their estimated realizable value based on the related unearned premiums. Anticipated claims and claim expenses, based on historical and current experience, and anticipated investment income related to those premiums are considered in determining the recoverability of deferred acquisition costs.

Claims and Claim Expenses

The reserve for claims and claim expenses includes estimates for unpaid claims and claim expenses on reported losses as well as an estimate of losses incurred but not reported ("IBNR"). The reserve is based on individual claims, case reserves and other reserve estimates reported by insureds and ceding companies as well as management estimates of ultimate losses. Inherent in the estimates of ultimate losses are expected trends in claim severity and frequency and other factors which could vary significantly as claims are settled. In addition, the Company and its subsidiaries do not have the benefit of a significant amount of its own historical experience in certain casualty and specialty lines of business. Accordingly, the reserving for incurred losses in these lines of business could be subject to greater variability.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES, cont'd.

Ultimate losses may vary materially from the amounts provided in the financial statements. These estimates are reviewed regularly and, as experience develops and new information becomes known, the reserves are adjusted as necessary. Such adjustments, if any, are reflected in the statement of operations in the period in which they become known and are accounted for as changes in estimates.

Investments

Fixed Maturity Investments

Investments in fixed maturities are classified as trading and are reported at fair value. Investment transactions are recorded on the trade date with balances pending settlement reflected in the balance sheet as a receivable for investments sold or a payable for investments purchased. Net investment income includes interest income together with amortization of market premiums and discounts and is net of investment management and custody fees. The amortization of premiums and accretion of discounts for fixed maturity securities is computed using the effective yield method. Any adjustments required due to the change in effective yield and maturities are recognized on a prospective basis through yield adjustments. Fair values of investments are based on quoted market prices, or when such prices are not available, by reference to broker or underwriter bid indications and/or internal pricing valuation techniques. The net unrealized appreciation or depreciation on fixed maturity investments trading is included in net realized and unrealized gains (losses) on investments in the statement of operations. Realized gains or losses on the sale of investments are determined on the basis of the first in first out cost method.

Short Term Investments

Short term investments have a maturity of one year or less when purchased and are carried at fair value. The net unrealized appreciation or depreciation on short term investments is included in net realized and unrealized gains (losses) on investments in the statement of operations.

Cash and Cash Equivalents

Cash equivalents include money market instruments with a maturity of ninety days or less when purchased.

Foreign Exchange

The Company's functional currency is the U.S. dollar. Revenues and expenses denominated in foreign currencies are revalued at the prevailing exchange rate at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates in effect at the balance sheet date, which may result in the recognition of exchange gains or losses which are included in the determination of net income (loss).

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

NOTE 3. INVESTMENTS

Fixed Maturity Investments Trading

The following table summarizes the fair value of fixed maturity investments trading:

At December 31,	2022
Corporate	$ 144,349
U.S. treasuries	7,572
Total fixed maturity investments trading	$ 151,921

Contractual maturities of fixed maturity investments trading are described in the following table. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

At December 31, 2022	Amortized Cost	Fair Value
Due after one through five years	$ 28,200	$ 27,237
Due after five through ten years	123,791	118,023
Due after ten years	7,079	6,661
Total	$ 159,070	$ 151,921

Net Investment Income

The components of net investment income are as follows:

Period ended December 31,	2022
Fixed maturity investments	$ 5,066
Short term investments	34
	5,100
Investment expenses	(269)
Net investment income	$ 4,831

Net Realized and Unrealized Gains (Losses) on Investments

Net realized and unrealized gains (losses) on investments are as follows:

Period ended December 31,	2022
Net realized gains (losses) on fixed maturity investments trading	$ (707)
Net unrealized gains (losses) on fixed maturity investments trading	(7,149)
Net realized and unrealized gains (losses) on investments	$ (7,856)

NOTE 4. FAIR VALUE MEASUREMENTS

The use of fair value to measure certain assets and liabilities with resulting unrealized gains or losses is pervasive within the Company's financial statements. Fair value is defined under accounting guidance currently applicable to the Company as the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between open market participants at the measurement date. The Company recognizes the change in unrealized gains or losses arising from changes in fair value in its statement of operations.

FASB ASC Topic *Fair Value Measurements and Disclosures* prescribes a fair value hierarchy that prioritizes the inputs to the respective valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to valuation techniques that use at least one significant input that is unobservable (Level 3). The three levels of the fair value hierarchy are described below:

- Fair values determined by Level 1 inputs utilize unadjusted quoted prices obtained from active markets for identical assets or liabilities for which the Company has access at the measurement date. The fair value is determined by multiplying the quoted price by the quantity held by the Company;

- Fair values determined by Level 2 inputs utilize inputs (other than quoted prices included in Level 1) that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals, broker quotes and certain pricing indices; and

- Level 3 inputs are based all or in part on significant unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. In these cases, significant management assumptions can be used to establish management's best estimate of the assumptions used by other market participants in determining the fair value of the asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement of the asset or liability. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and the Company considers factors specific to the asset or liability.

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

NOTE 4. FAIR VALUE MEASUREMENTS, cont'd.

In order to determine if a market is active or inactive for a security, the Company considers a number of factors, including, but not limited to, the spread between what a seller is asking for a security and what a buyer is bidding for the same security, the volume of trading activity for the security in question, the price of the security compared to its par value (for fixed maturity investments), and other factors that may be indicative of market activity.

There have been no material changes in the Company's valuation techniques, nor have there been any transfers between Level 1 and Level 2, or Level 2 and Level 3, respectively, during the period represented by these financial statements.

Below is a summary of the assets that are measured at fair value on a recurring basis and also represents the carrying amount on the Company's balance sheet:

At December 31, 2022	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fixed maturity investments				
Corporate	$ 144,349	$ —	$ 144,349	$ —
U.S. treasuries	7,572	7,572	—	—
Total fixed maturity investments	151,921	7,572	144,349	—
Short term investments	3,483	—	3,483	—
	$ 155,404	$ 7,572	$ 147,832	$ —

<u>Level 1 and Level 2 Assets and Liabilities Measured at Fair Value</u>

Fixed Maturity Investments

Fixed maturity investments included in Level 1 consist of the Company's investments in U.S. treasuries and included in Level 2 are corporate (including non-U.S. government-backed corporate) fixed maturity investments.

The Company's fixed maturity investments are primarily priced using pricing services, such as index providers and pricing vendors, as well as broker quotations. In general, the pricing vendors provide pricing for a high volume of liquid securities that are actively traded. For securities that do not trade on an exchange, the pricing services generally utilize market data and other observable inputs in matrix pricing models to determine month end prices. Observable inputs include benchmark yields, reported trades, broker-dealer quotes, issuer spreads, bids, offers, reference data and industry and economic events. Index pricing generally relies on market traders as the primary source for pricing; however, models are also utilized to provide prices for all index eligible securities. The models use a variety of observable inputs such as benchmark yields, transactional data, dealer runs, broker-dealer quotes and corporate actions. Prices are generally verified using third-party data. Securities which are priced by an index provider are generally included in the index.

In general, broker-dealers value securities through their trading desks based on observable inputs. The methodologies include mapping securities based on trade data, bids or offers, observed spreads, and performance on newly issued securities. Broker-dealers also determine valuations by observing secondary trading of similar securities. Prices obtained from broker quotations are considered non-binding, however they are based on observable inputs and by observing secondary trading of similar securities obtained from active and non-distressed markets.

NOTE 4. FAIR VALUE MEASUREMENTS, cont'd.

The Company considers these broker quotations to be Level 2 inputs as they are corroborated with other market observable inputs. The techniques generally used to determine the fair value of the Company's fixed maturity investments are detailed below by asset class.

Corporate

Level 2 - At December 31, 2022, the Company's corporate fixed maturity investments principally consist of U.S. and international corporations and non-U.S. government-backed corporations and had a weighted average yield to maturity of 6.1% and a weighted average credit quality of BBB.

The Company's corporate fixed maturity investments, other than non-U.S. government-backed corporations, are primarily priced by pricing services. When evaluating these securities, the pricing services gather information from market sources regarding the issuer of the security and obtain credit data, as well as other observations, from markets and sector news. Evaluations are updated by obtaining broker-dealer quotes and other market information including actual trade volumes, when available. The pricing services also consider the specific terms and conditions of the securities, including any specific features which may influence risk. In certain instances, securities are individually evaluated using a spread which is added to the U.S. treasury curve or a security specific swap curve as appropriate.

Non-U.S. government-backed corporate fixed maturity investments are primarily priced by pricing services that employ proprietary discounted cash flow models to value the securities. Key quantitative inputs for these models are daily observed benchmark curves for treasury, swap and high quality credits. The pricing services then apply a credit spread to the respective curve for each security which is developed by in-depth and real time market analysis. For securities in which trade volume is low, the pricing services utilize data from more frequently traded securities with similar attributes. These models may also be supplemented by daily market and credit research for international markets.

U.S. Treasuries

Level 1 - At December 31, 2022, the Company's U.S. treasuries fixed maturity investments were primarily priced by pricing services and had a weighted average yield to maturity of 4.2% and a weighted average credit quality of AA. When pricing these securities, the pricing services utilize daily data from many real time market sources, including active broker-dealers. Certain data sources are regularly reviewed for accuracy to attempt to ensure the most reliable price source is used for each issue and maturity date.

Short Term Investments

Level 2 - At December 31, 2022, the Company's short term investments had a weighted average yield to maturity of 4.2% and a weighted average credit quality of AAA. Amortized cost approximates fair value for the majority of the Company's short term investments portfolio and, in certain cases, fair value is determined in a manner similar to the Company's fixed maturity investments noted above.

Level 3 Assets and Liabilities Measured at Fair Value

At December 31, 2022, the Company did not hold any assets or liabilities measured at fair value on a recurring basis using Level 3 inputs.

NOTE 4. FAIR VALUE MEASUREMENTS, cont'd.

Financial Instruments Disclosed, But Not Carried, at Fair Value

The Company uses various financial instruments in the normal course of its business. The Company's (re)insurance contracts are excluded from the fair value of financial instruments accounting guidance, unless the Company elects the fair value option, and therefore, are not included in the amounts discussed herein. The carrying values of cash and cash equivalents, accrued investment income, receivables for investments sold, certain other assets, payables for investments purchased, certain other liabilities, and other financial instruments not included herein approximated their fair values.

NOTE 5. PREMIUMS RECEIVABLE

In assessing an allowance for reinsurance assets, which includes premiums receivable, the Company considers historical information, financial strength of reinsurers, collateralization amounts, and counterparty credit ratings to determine the appropriateness of the allowance. In assessing future default for reinsurance assets, the Company evaluates the provision for current expected credit losses under the probability of default and loss given default method. The Company utilizes its internal capital and risk models, which use counterparty ratings from major rating agencies, and assesses the current market conditions for the likelihood of default. The Company updates its internal capital and risk models for counterparty credit ratings and current market conditions on a periodic basis. During the period ending December 31, 2022, the Company has not experienced material credit losses from reinsurance assets.

Premiums receivable reflect premiums written based on contract and policy terms and include estimates based on information received from both insureds and ceding companies, supplemented by our own judgment, including our estimates of premiums that are written but not reported. Due to the nature of reinsurance, ceding companies routinely report and remit premiums to us subsequent to the contract coverage period, although the time lag involved in the process of reporting and collecting premiums is typically shorter than the lag in reporting losses.

At December 31, 2022, the Company's premiums receivable balance was $108.5 million. Of the Company's premiums receivable balance as of December 31, 2022, all are receivable from RenaissanceRe entities under the terms of the Bermuda Quota Share Agreement. The provision for current expected credit losses on the Company's premiums receivable at December 31, 2022 was $Nil.

NOTE 6. RESERVE FOR CLAIMS AND CLAIM EXPENSES

The Company believes the most significant accounting judgment made by management is its estimate of claims and claim expense reserves. Claims and claim expense reserves represent estimates, including actuarial and statistical projections at a given point in time, of the ultimate settlement and administration costs for unpaid claims and claim expenses arising from reinsurance contracts the Company assumes. The Company's reserve for claims and claim expense are a combination of case reserves, additional case reserves ("ACR") and incurred but not reported losses and incurred but not enough reported losses (collectively referred to as "IBNR") as reported to the Company by ceding companies. Case reserves are losses reported to the Company by ceding companies, but which have not yet been paid. If deemed necessary and in certain situations, the Company establishes ACR which represents the Company's estimate for claims related to specific contracts which the Company believes may not be adequately estimated by the ceding company as of that date or within the IBNR. The Company establishes IBNR using actuarial techniques and expert judgement to represent the anticipated cost of claims which have not been reported to the Company yet, or where the Company anticipates increased reporting.

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

NOTE 6. RESERVE FOR CLAIMS AND CLAIM EXPENSES, cont'd.

The following table summarizes the Company's reserve for claims and claim expenses allocated between case reserves, additional case reserves and IBNR:

	Case Reserves	Additional Case Reserves	IBNR	Total
At December 31, 2022	$ 521	$ —	$ 37,481	$ 38,002

Activity in the reserve for claims and claim expenses is summarized as follows:

Period ended December 31,	**2022**
Reserve for claims and claim expenses, as of beginning of period	$ —
Incurred related to:	
Current period	38,209
Total incurred	38,209
Paid related to:	
Current period	207
Total paid	207
Reserve for claims and claim expenses, as of end of period	$ 38,002

The Company's reserving methodology for each line of business uses a loss reserving process that calculates a point estimate for its ultimate settlement and administration costs for claims and claim expenses. The Company does not calculate a range of estimates and does not discount any of its reserves for claims and claim expenses. The Company uses this point estimate, along with paid claims and case reserves, to record its best estimate of additional case reserves and IBNR in its financial statements. Under GAAP, the Company is not permitted to establish estimates for catastrophe claims and claim expense reserves until an event occurs that gives rise to a loss.

Reserving involves other uncertainties, such as the dependence on information from ceding companies, the time lag inherent in reporting information from the Company's ceding companies, and differing reserving practices among ceding companies. The information received from ceding companies is typically in the form of bordereaux, broker notifications of loss and/or discussions with ceding companies or their brokers. This information may be received on a monthly, quarterly or transactional basis and normally includes paid claims and estimates of case reserves. The Company sometimes also receives an estimate or provision for IBNR. This information is updated and adjusted periodically during the loss settlement period as new data or facts in respect of initial claims, client accounts, industry or event trends may be reported or emerge in addition to changes in applicable statutory and case laws.

NOTE 6. RESERVE FOR CLAIMS AND CLAIM EXPENSES, cont'd.

The Company's estimates of large losses are based on factors including currently available information derived from claims information from certain customers and brokers, industry assessments of losses, proprietary models, and the terms and conditions of the Company's contracts. The uncertainty of the Company's estimates for large losses is also impacted by the preliminary nature of the information available, the magnitude and relative infrequency of the events, the expected duration of the respective claims development period, inadequacies in the data provided to the relevant date by industry participants and the potential for further reporting lags or insufficiencies; and in certain large losses, significant uncertainty as to the form of the claims and legal issues, under the relevant terms of insurance and reinsurance contracts. In addition, a significant portion of the claims and claim expenses associated with certain large losses can be concentrated with a few large clients and therefore the loss estimates for these large losses may vary significantly based on the claims experience of those clients. The contingent nature of business interruption and other exposures will also impact losses in a meaningful way, which may give rise to significant complexity in respect of claims handling, claims adjustment and other coverage issues, over time.

Given the magnitude of certain events, there can be meaningful uncertainty regarding total covered losses for the insurance industry and, accordingly, several of the key assumptions underlying the Company's loss estimates.

The Company reevaluates its actuarial reserving assumptions on a periodic basis. Typically, the quarterly review procedures include reviewing paid and reported claims in the most recent reporting period, reviewing the development of paid and reported claims from prior periods, and reviewing the Company's overall experience by underwriting year and in the aggregate. The Company monitors its expected ultimate claims and claim expense ratios and expected claims reporting assumptions on a quarterly basis and compares them to its actual experience. These actuarial assumptions are generally reviewed annually, based on input from the Company's actuaries, underwriters, claims personnel and finance professionals, although adjustments may be made more frequently if needed. Assumption changes are made to adjust for changes in the terms of coverage the Company provides, changes in industry results for similar business, as well as its actual experience to the extent the Company has enough data to rely on its own experience. If the Company determines that adjustments to an earlier estimate are appropriate, such adjustments are recorded in the period in which they are identified.

Because of the inherent uncertainties discussed above, the Company has developed a reserving philosophy that attempts to incorporate prudent assumptions and estimates.

<u>Incurred and Paid Claims Development and Reserving Methodology</u>

For incurred and paid accident year claims denominated in currencies other than the U.S. dollar, the Company used the current period end balance sheet foreign exchange rate for all periods provided, thereby eliminating the effects of changes in foreign currency translation rates from the incurred and paid accident year claims development information included in the tables below.

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

NOTE 6. RESERVE FOR CLAIMS AND CLAIM EXPENSES, cont'd.

The following table details the Company's incurred claims and claim expenses and cumulative paid claims and claim expenses as of December 31, 2022, as well as IBNR and ACR included within the incurred claims amounts.

	Incurred claims and claim expenses	At December 31, 2022
	For the period ended December 31,	
Accident Year	**2022**	**IBNR and ACR**
2022	$ 38,209	$ 37,481
Total	$ 38,209	$ 37,481

	Cumulative paid claims and claim expenses
	For the period ended December 31,
Accident Year	**2022**
2022	$ 207
Total	$ 207
Reserve for claims and claim expenses	$ 38,002

Casualty and Specialty Class of Business

The Company offers casualty and specialty reinsurance products to certain wholly-owned subsidiaries of RenaissanceRe under the terms of the Bermuda Quota Share Agreement, which excludes U.S. connected business. The Company assumed a whole account quota share of the global casualty and specialty book of business, including the credit portfolio. See "Note 1. Organization" for additional details of these quota share agreements.

The Company's casualty and specialty main class of business reinsurance contracts can include coverage for relatively large limits or exposures. As a result, the Company's casualty and specialty reinsurance business can be subject to significant claims volatility. In periods of low claims frequency or severity, the Company's results will generally be favorably impacted while in periods of high claims frequency or severity the Company's results will generally be negatively impacted.

The Company's casualty and specialty coverages are likely to be impacted by factors such as long-term inflation and changes in the social and legal environment, which the Company believes gives rise to greater uncertainty in its reserves for claims and claim expenses. Moreover, in many lines of business the Company does not have the benefit of a significant amount of its own historical experience and may have little or no related corporate reserving history in many of its newer or growing lines of business.

NOTE 6. RESERVE FOR CLAIMS AND CLAIM EXPENSES, cont'd.

The Company calculates multiple point estimates for claims and claim expense reserves using a variety of actuarial reserving techniques for many, but not all, of its classes of business for each underwriting year within the casualty and specialty main class of business. The Company does not believe that these multiple point estimates are, or should be considered, a range. Rather, the Company considers each class of business and determines the most appropriate point estimate for each underwriting year based on the characteristics of the particular class including: (1) loss development patterns derived from historical data; (2) the credibility of the selected loss development pattern; (3) the stability of the loss development patterns; (4) how developed the underwriting year is; and (5) the observed loss development of other underwriting years for the same class. The Company also considers other relevant factors, including: (1) historical ultimate loss ratios; (2) the presence of individual large losses; and (3) known occurrences that have not yet resulted in reported losses. The Company makes determinations of the most appropriate point estimate of loss for each class based on an evaluation of relevant information and does not ascribe any particular portion of the estimate to a particular factor or consideration. In addition, the Company believes that a review of individual contract information improves the loss estimates for some classes of business.

When developing claims and claims expense reserves for its casualty and specialty main class of business, the Company considers several actuarial techniques such as the expected loss ratio method, the Bornhuetter-Ferguson actuarial method and the paid and reported chain ladder actuarial method.

For classes of business and underwriting years where the Company has limited historical claims experience, estimates of ultimate losses are generally initially determined based on the loss ratio method applied to each underwriting year and to each class of business. Unless the Company has credible claims experience or unfavorable development, it generally selects an ultimate loss based on its initial expected loss ratio. The selected ultimate losses are determined by multiplying the initial expected loss ratio by the earned premium. The initial expected loss ratios are key inputs that involve management judgment and are based on a variety of factors, including: (1) contract by contract expected loss ratios developed during the Company's pricing process; (2) historical loss ratios and combined ratios adjusted for rate change and trend; and (3) industry benchmarks for similar business. These judgments take into account management's view of past, current and future factors that may influence ultimate losses, including: (1) market conditions; (2) changes in the business underwritten; (3) changes in timing of the emergence of claims; and (4) other factors that may influence ultimate loss ratios and losses.

The determination of when reported losses are sufficient and credible to warrant selection of an ultimate loss ratio different from the initial expected loss ratio also requires judgment. The Company generally makes adjustments for reported loss experience indicating unfavorable variances from initial expected loss ratios sooner than reported loss experience indicating favorable variances. This is because the reporting of losses in excess of expectations tends to have greater credibility than an absence or lower than expected level of reported losses. Over time, as a greater number of claims are reported and the credibility of reported losses improves, actuarial estimates of IBNR are typically based on the Bornhuetter-Ferguson actuarial method or the reported chain ladder actuarial method.

NOTE 6. RESERVE FOR CLAIMS AND CLAIM EXPENSES, cont'd.

The Bornhuetter-Ferguson actuarial method allows for greater weight to be applied to expected results in periods where little or no actual experience is available, and, hence, is less susceptible to the potential pitfall of being excessively swayed by experience of actual paid and/or reported loss data, compared to the chain ladder actuarial method. The Bornhuetter-Ferguson actuarial method uses the initial expected loss ratio to estimate IBNR, and it assumes that past experience is not fully representative of the future. As the Company's reserves for claims and claim expenses age, and actual claims experience becomes available, this method places less weight on expected experience and places more weight on actual experience. This experience, which represents the difference between expected reported claims and actual reported claims, is reflected in the respective reporting period as a change in estimate. The utilization of the Bornhuetter-Ferguson actuarial method requires the Company to estimate an expected ultimate claims and claim expense ratio and select an expected loss reporting pattern. The Company selects its estimates of the expected ultimate claims and claim expense ratios as described above and selects its expected loss reporting patterns by utilizing actuarial analysis, including management's judgment, and historical patterns of paid losses and reporting of case reserves to the Company, as well as industry loss development patterns. The estimated expected claims and claim expense ratio may be modified to the extent that reported losses at a given point in time differ from what would be expected based on the selected loss reporting pattern.

The reported chain ladder actuarial method utilizes actual reported losses and a loss development pattern to determine an estimate of ultimate losses that is independent of the initial expected ultimate loss ratio and earned premium. The Company believes this technique is most appropriate when there are a large number of reported losses with significant statistical credibility and a relatively stable loss development pattern. Information that may cause future loss development patterns to differ from historical loss development patterns is considered and reflected in the Company's selected loss development patterns as appropriate. For certain reinsurance contracts, historical loss development patterns may be developed from ceding company data or other sources.

Prior Year Development of the Reserve for Claims and Claim Expenses

The Company's estimates of claims and claim expense reserves are not precise in that, among other things, they are based on predictions of future developments and estimates of future trends and other variable factors. Some, but not all, of the Company's reserves are further subject to the uncertainty inherent in actuarial methodologies and estimates. Because a reserve estimate is simply an insurer's estimate at a point in time of its ultimate liability, and because there are numerous factors that affect reserves and claims payments that cannot be determined with certainty in advance, the Company's ultimate payments will vary, perhaps materially, from its estimates of reserves. If the Company determines in a subsequent period that adjustments to its previously established reserves are appropriate, such adjustments are recorded in the period in which they are identified. The Company's cumulative favorable or unfavorable development will generally be reduced by offsetting changes to loss related premiums such as reinstatement premiums, all of which generally move in the opposite direction to changes in the Company's ultimate claims and claim expenses. Since this is the first year of operations for the Company, there is no favorable or unfavorable development on prior accident years net claims and claim expenses.

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

NOTE 6. RESERVE FOR CLAIMS AND CLAIM EXPENSES, cont'd.

Historical Claims Duration

The following is unaudited supplementary information about average historical claims duration:

	Average annual percentage payout of incurred claims by age (number of years)									
	1	2	3	4	5	6	7	8	9	10
At December 31, 2022	0.5 %	— %	— %	— %	— %	— %	— %	— %	— %	— %

Claims Frequency

Each of the Company's main classes of business are broadly considered to be assumed reinsurance, where multiple claims are often aggregated, perhaps multiple times through retrocessional reinsurance, before ultimately being ceded to the Company. In addition, the nature, size, terms and conditions of contracts entered into by the Company changes from one accident year to the next and the quantum of contractual or policy limits, and accordingly the potential amount of claims and claim expenses associated with a reported claim, can range from nominal, to significant. These factors can impact the amount and timing of the claims and claim expenses to be recorded and accordingly, developing claim frequency information is highly subjective and is not prepared or utilized for internal purposes. In addition, the Company does not have direct access to claim frequency information underlying its proportional contracts given the nature of that business. As a result, the Company does not believe providing claim frequency information is practicable as it relates to its proportional contracts.

NOTE 7. RELATED PARTY TRANSACTIONS AND MAJOR CUSTOMERS

Amounts due to and from affiliates are non-interest bearing and payable on demand, or in accordance with the contractual terms of reinsurance-related transactions.

Reinsurance-Related Transactions

During 2022, gross premiums written under the Bermuda Quota Share Agreement were $177.2 million, net premiums earned were $61.2 million, acquisition expenses were $16.0 million, override expenses were $3.7 million and claims and claim expenses incurred were $38.2 million. At December 31, 2022, outstanding reinsurance balances receivable under this agreement were $108.5 million and outstanding reserves for claims and claim expenses assumed under this agreement were $38.0 million.

Other Items

Under the terms of a management agreement, RUM has contracted to provide all of the Company's management, underwriting, investment management and administrative functions, for which it is paid a fee that is a percentage of underwriting profit. Included in acquisition expenses are expenses of $0.5 million and at December 31, 2022, other liabilities includes a payable of $0.5 million related to these services.

NOTE 8. SHAREHOLDER'S EQUITY

The aggregate authorized capital of the Company is 120,000 Class A common shares of $1 par value each and 1 Class B common share of $1 par value. All authorized shares are issued and outstanding as of December 31, 2022.

During 2022, the Company's parent, Fontana L.P., contributed additional paid-in capital of $149.1 million which was settled in cash during the period.

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

NOTE 9. TAXATION

Under current Bermuda law, the Company is not subject to any income or capital gains taxes. In the event that such taxes are imposed, the Company would be exempted from any such tax until March 2035 pursuant to the Bermuda Exempted Undertakings Tax Protection Act of 1966, and Amended Act of 1987 and 2011, respectively.

NOTE 10. STATUTORY REQUIREMENTS

The Company is subject to insurance laws and regulations in Bermuda. These regulations include certain restrictions on the amount of dividends or other distributions, such as loans or cash advances, without prior approval of the respective regulatory authorities.

The Insurance Act 1978, amendments thereto and related regulations of Bermuda (collectively, the “Insurance Act”), requires that the statutory assets of the Company exceed its statutory liabilities by an amount equal to or greater than the prescribed minimum solvency margin (“MSM”). The MSM is the greater of (i) $1.0 million, (ii) 20% of the first $6.0 million of net premiums written; if in excess of $6.0 million, the figure is $1.2 million plus 15% of net premiums written in excess of $6.0 million, (iii) 15% of net aggregate loss and loss expense provisions and other insurance reserves, or (iv) 25% of the insurer’s Enhanced Capital Requirement (“ECR”). The ECR is calculated by reference to the Bermuda Solvency Capital Requirement (“BSCR”) model.

The Company is registered as Class 3A general business insurers under the Insurance Act. Class 3A insurers are required to maintain available statutory economic capital and surplus at a level at least equal to their ECR and may be adjusted if the BMA concludes that the insurer’s risk profile deviates significantly from the assumptions underlying its ECR or the insurer’s assessment of its risk management policies and practices used to calculate the ECR. The BMA has established a target capital level which is set at 120% of the ECR, which is not a required level of capital, but serves as an early warning tool to the BMA. The Company is currently completing its 2022 BSCR, which must be filed with the BMA on or before April 30, 2023, and at this time, the Company believes it will exceed the target capital level.

The statutory capital and surplus and required minimum statutory capital and surplus of the Company are detailed below:

At December 31,	2022
Statutory capital and surplus (1)	$ 149,273
Required statutory capital and surplus (1)	28,816

(1) The Company’s statutory capital and surplus is based on the relevant insurer’s statutory financial statements and required statutory capital and surplus is based on the minimum solvency margin.

The difference between statutory financial statements and statements prepared in accordance with GAAP varies by jurisdiction; however, the primary difference is that for the Company’s regulated entities the statutory financial statements generally do not recognize goodwill and intangible assets.

Class 3A insurers are prohibited from declaring or paying any dividends if in breach of the required minimum solvency margin or minimum liquidity ratio, or if the declaration or payment of such dividend would cause the insurer to fail to meet the required minimum solvency margin or minimum liquidity ratio. Further, Class 3A insurers are prohibited to declare or pay dividends over certain thresholds without the BMA’s approval. These restrictions on declaring or paying dividends and distributions under the Insurance Act are in addition to the solvency requirements under the Companies Act 1981 which apply to all Bermuda companies.

NOTE 11. COMMITMENTS, CONTINGENCIES AND OTHER ITEMS

Concentration of Credit Risk

Instruments which potentially subject the Company to concentration of credit risk consist principally of investments, cash and cash equivalents and premiums receivable. The Company limits the amount of credit exposure to any one financial institution and none of the Company's fixed maturity or short term investments exceeded 10% of shareholder's equity at December 31, 2022.

Indemnifications and Warranties

In the ordinary course of its business, the Company may enter into contracts or agreements that contain indemnifications or warranties. Future events could occur that lead to the execution of these provisions against the Company. Based on past experience, management currently believes that the likelihood of such an event is remote.

Legal Proceedings

The Company is subject to lawsuits and regulatory actions in the normal course of business that do not arise from or directly relate to claims on reinsurance treaties or contracts or direct insurance policies, as applicable. In the Company's industry, business litigation may involve allegations of underwriting or claims-handling errors or misconduct, disputes relating to the scope of, or compliance with, the terms of delegated underwriting agreements, employment claims, regulatory actions or other disputes. The Company may also directly or indirectly be subject to claims litigation involving disputed interpretations of policy coverages. In addition, the Company may from time to time engage in litigation or arbitration related to its claims for payment in respect of ceded reinsurance, including disputes that challenge the Company's ability to enforce its underwriting intent. Such matters could result, directly or indirectly, in providers of protection not meeting their obligations to the Company or not doing so on a timely basis. The Company may also be subject to other disputes from time to time, relating to operational or other matters distinct from insurance or reinsurance claims. Any litigation or arbitration, or regulatory process, contains an element of uncertainty, and the value of an exposure or a gain contingency related to a dispute is difficult to estimate. The Company believes that no individual litigation or arbitration to which the Company is presently a party is likely to have a material adverse effect on the Company's financial condition, business or operations.

NOTE 12. SUBSEQUENT EVENTS

The Company has completed its subsequent events evaluation for the period subsequent to the balance sheet date of December 31, 2022, through April 21, 2023, the date the financial statements were available to be issued.