AmTrust International Insurance

An AmTrust Financial Company

AmTrust International Insurance, Ltd.
Consolidated Financial Statements
As of and for the years ended December 31, 2022 and 2021

AMTRUST INTERNATIONAL INSURANCE, LTD.

INDEX TO FINANCIAL STATEMENTS AND SCHEDULES

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder and Board of Directors of AmTrust International Insurance, Ltd.

Opinion

We have audited the consolidated financial statements of AmTrust International Insurance, Ltd. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of operations, comprehensive loss, changes in stockholder's equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for opinion

We conducted our audits 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 consolidated financial statements* section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of management for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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 consolidated 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 consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated 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 consolidated 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 consolidated financial statements. Such information is the responsibility of management and, although not a part of the basic consolidated 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 consolidated 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 consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated 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 27, 2023

AMTRUST INTERNATIONAL INSURANCE, LTD.
CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Par Value Per Share)

	December 31,	
ASSETS	**2022**	**2021**
Investments:		
Fixed maturity securities, available-for-sale, at fair value (amortized cost $4,009,493; and $4,049,311)	$ 3,675,015	$ 4,058,203
Equity securities, at fair value (cost $41,955; and $45,324)	33,308	38,828
Short-term investments, at fair value (amortized cost $181,773; and $83,387)	180,893	83,405
Other investments (related party $141,601; and $169,616; recorded at fair value $3,819; and $5,894)	267,797	327,284
Total investments	4,157,013	4,507,720
Cash, cash equivalents, restricted cash and restricted cash equivalents	646,125	503,190
Accrued interest and dividends	28,859	21,523
Premiums receivable, net (related party $325,766; and $653,147)	858,803	1,259,393
Reinsurance receivables (related party $1,154,532; and $1,299,446)	2,083,248	2,064,097
Prepaid reinsurance premiums (related party $47,202; and $76,488)	479,976	485,075
Income tax receivable	30,665	—
Deferred policy acquisition costs	324,815	480,877
Property, equipment and software, net	150,372	173,298
Goodwill	158,483	166,896
Other intangible assets, net	32,293	41,691
Due from affiliates, net	342,921	419,855
Other assets	637,421	642,095
Total assets	$ 9,930,994	$ 10,765,710
LIABILITIES AND STOCKHOLDER'S EQUITY		
Liabilities:		
Loss and loss adjustment expense reserves	$ 4,701,794	$ 4,847,077
Unearned premiums	2,075,655	2,314,861
Ceded reinsurance premiums payable (related party $6,256; and $28,252)	344,779	341,281
Funds held under reinsurance treaties (related party $419,394; and $603,850)	884,395	906,504
Debt	93,319	106,844
Accrued expenses and other liabilities (at fair value $—; and $175)	545,539	559,758
Total liabilities	8,645,481	9,076,325
Stockholder's equity:		
Common stock, $1 par value; 250 shares authorized, issued and outstanding in 2022 and 2021, respectively	250	250
Additional paid-in capital	2,104,579	1,969,147
Accumulated other comprehensive loss	(498,588)	(116,624)
Retained deficit	(327,656)	(215,254)
Total AmTrust International Insurance, Ltd. equity	1,278,585	1,637,519
Non-controlling interest	6,928	51,866
Total stockholder's equity	1,285,513	1,689,385
Total liabilities and stockholder's equity	$ 9,930,994	$ 10,765,710

See the accompanying Notes to the Consolidated Financial Statements.

AMTRUST INTERNATIONAL INSURANCE, LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands)

	Years Ended December 31,	
	2022	**2021**
Revenues:		
Net earned premiums	$ 2,117,966	$ 2,102,698
Service and fee income	127,798	125,630
Net investment income	86,570	62,951
Net realized loss on investments	(36,698)	(5,103)
Net gain on sales of businesses	52,237	—
Other	20,277	14,705
Total revenues	2,368,150	2,300,881
Losses and expenses:		
Loss and loss adjustment expenses	1,327,993	1,272,590
Amortization of deferred acquisition costs	795,210	733,201
Underwriting, general, and administrative expenses	337,883	312,857
Interest expense, net of interest income	22,358	20,683
Foreign currency gain	(46,699)	(44,584)
Other	8,392	9,049
Total losses and expenses	2,445,137	2,303,796
Loss before income taxes and equity in earnings of unconsolidated entities	(76,987)	(2,915)
Less: Provision for income taxes	37,032	102,909
Loss before equity in earnings of unconsolidated entities	(114,019)	(105,824)
Equity in income (loss) of unconsolidated entities	6,914	(28,653)
Net loss	(107,105)	(134,477)
Net income attributable to non-controlling interests	(5,297)	(17,548)
Net loss attributable to AmTrust International Insurance, Ltd.	$ (112,402)	$ (152,025)

See the accompanying Notes to the Consolidated Financial Statements.

AMTRUST INTERNATIONAL INSURANCE, LTD.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In Thousands)

	Years Ended December 31,	
	2022	**2021**
Net loss	$ (107,105)	$ (134,477)
Other comprehensive income (loss), net of tax:		
Foreign currency translation	(96,316)	(49,755)
Pension liability	(2,448)	3,714
Net unrealized loss on investments	(283,200)	(53,586)
Other comprehensive loss, net of tax	(381,964)	(99,627)
Comprehensive loss	(489,069)	(234,104)
Comprehensive income attributable to non-controlling interest	(5,297)	(17,548)
Comprehensive loss attributable to AmTrust International Insurance, Ltd.	$ (494,366)	$ (251,652)

See the accompanying Notes to the Consolidated Financial Statements.

AMTRUST INTERNATIONAL INSURANCE, LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY
(In Thousands)
Years Ended December 31, 2022 and 2021

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss[3]	Retained Deficit	Total AmTrust International Insurance, Ltd. Equity	Non-Controlling Interest	Total Stockholder's Equity
Balance, December 31, 2020	$ 250	$ 1,969,147	$ (16,997)	$ (66,193)	$ 1,886,207	$ 31,697	$ 1,917,904
Net (loss) income	—	—	—	(152,025)	(152,025)	17,548	(134,477)
Foreign currency translation, net of tax	—	—	(49,755)	—	(49,755)	—	(49,755)
Pension liability, net of tax	—	—	3,714	—	3,714	—	3,714
Net unrealized loss on investments, net of tax	—	—	(53,586)	—	(53,586)	—	(53,586)
Cumulative effect resulting from an accounting change at equity method investee[1]	—	—	—	2,964	2,964	—	2,964
Net contributions from non-controlling interest	—	—	—	—	—	2,621	2,621
Balance, December 31, 2021	250	1,969,147	(116,624)	(215,254)	1,637,519	51,866	1,689,385
Net (loss) income	—	—	—	(112,402)	(112,402)	5,297	(107,105)
Foreign currency translation, net of tax	—	—	(96,316)	—	(96,316)	—	(96,316)
Capital contribution[2]	—	135,432	—	—	135,432	(48,132)	87,300
Pension liability, net of tax	—	—	(2,448)	—	(2,448)	—	(2,448)
Net unrealized loss on investments, net of tax	—	—	(283,200)	—	(283,200)	—	(283,200)
Distribution to non-controlling interest	—	—	—	—	—	(2,142)	(2,142)
Other changes in non-controlling interest, net	—	—	—	—	—	39	39
Balance, December 31, 2022	$ 250	$ 2,104,579	$ (498,588)	$ (327,656)	$ 1,278,585	$ 6,928	$ 1,285,513

(1) During the year ended December 31, 2021, an out of period adjustment was recorded to reflect the Company's proportional share of the cumulative effect of an equity method investee's adoption of an accounting standard. The Company has evaluated the impact of the adjustment and concluded that it is not material, individually or in the aggregate, to any prior period financial statements.

(2) During the year ended December 31, 2022, AFSI acquired the remaining $48,132 of non-controlling interest in a subsidiary and contributed it to the Company. See Note 12. "Stockholder's Equity" and Note 17. "Acquisitions" for additional information.

(3) During the year ended December 31, 2022, a reclassification between the components of Accumulated Other Comprehensive Loss was recorded to reflect the tax benefit included in foreign currency translation. The Company has evaluated the impact of the reclassification and concluded that it is not material, individually or in the aggregate, to any prior period financial statements and only impacts disclosure. See Note 12. "Stockholder's Equity" for additional information.

See the accompanying Notes to the Consolidated Financial Statements.

AMTRUST INTERNATIONAL INSURANCE, LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	Years Ended December 31, 2022	Years Ended December 31, 2021
Cash flows from operating activities:		
Net loss	$ (107,105)	$ (134,477)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	24,614	48,415
Net realized loss on investments	36,698	5,103
Net gain on sale of business [(1)]	(52,237)	—
Equity in (income) loss on investment in unconsolidated entities	(6,914)	28,653
Foreign currency gain	(46,699)	(44,584)
Other operating adjustments, net	(4,834)	(13,676)
Changes in assets – (increase) decrease:		
Premiums receivables, net	363,693	(139,196)
Reinsurance receivables	71,162	62,805
Deferred policy acquisition costs, net	140,454	30,070
Prepaid reinsurance premiums	(27,433)	(83,643)
Prepaid expenses and other assets	(377)	212,397
Due from affiliate	17,556	50,191
Changes in liabilities – increase (decrease):		
Ceded reinsurance premium payable	20,523	79,234
Loss and loss adjustment expense reserves	(21,868)	(143,422)
Unearned premiums	(138,583)	250,681
Funds held under reinsurance treaties	(131,540)	258,953
Accrued expenses and other liabilities	38,523	8,292
Net cash provided by operating activities	175,633	475,796
Cash flows from investing activities:		
Purchases of:		
Fixed maturity securities, available-for-sale	(1,230,050)	(2,658,162)
Equity securities	(253)	(19,797)
Other investments	(5,655)	(2,175)
Sales of:		
Fixed maturity securities, available-for-sale (includes maturities and paydowns)	1,239,738	1,912,134
Equity securities	14,405	7,867
Other investments	91,731	28,353
Property, equipment and software, net	(4,217)	(4,347)
Short-term investments (purchases) sales, net	(99,246)	198,266
Net cash provided by (used in) investing activities	6,453	(537,861)
Cash flows from financing activities:		
Capital contribution [(2)]	18,268	—
Secured loan agreement payments	(3,175)	(112)
Contingent consideration payments	(175)	(1,539)
Net (distributions to) contribution from non-controlling interest	(2,142)	2,621
Net cash provided by financing activities	12,776	970
Effect of exchange rate changes on cash	(51,927)	(11,331)
Net increase (decrease) in cash, cash equivalents, restricted cash and restricted cash equivalents	142,935	(72,426)
Cash, cash equivalents, restricted cash and restricted cash equivalents, beginning year	503,190	575,616
Cash, cash equivalents, restricted cash and restricted cash equivalents, end of year	$ 646,125	$ 503,190
Supplemental Cash Flow Information		
Interest paid	$ 14,379	$ 14,498
Income tax payments	$ 24,464	$ 26,854

[(1)] Amounts for the year ended December 31, 2022 primarily relate to the sale of equity in Amynta Holdings LLC ("Amynta"). See Note 16. "Divestitures" for additional information.

[(2)] See Note 12. "Stockholder's Equity" for additional information.

See the accompanying Notes to the Consolidated Financial Statements.

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1. Nature of Operations

AmTrust International Insurance, Ltd. (the “Company” or "AII") is a class 3B insurance company formed under the laws of Bermuda. The Company is a wholly-owned subsidiary of AmTrust Financial Services, Inc. ("AFSI"), a privately held multinational insurance holding company formed under the laws of Delaware and headquartered in New York, New York. The Company and its subsidiaries offer specialty property and casualty insurance products, including workers’ compensation, business owner's policy, general liability and extended service and warranty coverage.

The Company transacts business primarily through five insurance subsidiaries domiciled in the United Kingdom, Europe and the United States. In addition to third-party insurance, the Company also reinsures the underwriting activities of certain companies related through common ownership.

2. Significant Accounting Policies

Basis of Reporting — The consolidated financial statements are presented in U.S. dollars, in conformity with accounting principals generally accepted in the United States of America ("GAAP"). The consolidated financial statements include the accounts of the Company, entities over which the Company exercises control including majority and wholly-owned subsidiaries, and variable interest entities consolidated as primary beneficiary. Entities in which the Company has significant influence but does not exercise control and partnership and partnership-like entities in which the Company has more than minor influence over the operating and financial policies, are accounted for under the equity method of accounting or at fair value under the fair value option. Intercompany transactions and balances are eliminated in consolidation.

Use of Estimates — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported 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. Such estimates and assumptions, which include the reserves for loss and loss adjustment expenses, are subject to considerable variability due to the inherent uncertainty in projecting ultimate claim amounts that will be reported and settled over a period of many years. In addition, estimates and assumptions associated with the recognition and amortization of intangible assets and deferred policy acquisition costs, the determination of fair value of invested assets and related impairments, and the determination of goodwill and intangible impairments and valuation of deferred tax assets require a significant degree of judgment. The methods of determining estimates and assumptions are reevaluated on an on-going basis. Actual results may differ from the estimates and assumptions used in preparing the consolidated financial statements.

Premiums — Insurance premiums are generally recognized as earned on a pro-rata basis over the contract period other than insurance premiums on specialty risk and extended warranty programs which are recognized as earned in proportion to the costs expected to be incurred in performing services over the contract period and on title insurance, which are recognized as earned as written on the effective dates of the insurance contracts. Unearned premiums represent the portion of premiums for the insurance coverage that has not yet expired. Estimates are recorded for the ultimate amount of audit premiums and retrospectively rated policy premiums. The allowance for premiums deemed uncollectible was \$19,492 and \$21,279 as of December 31, 2022 and 2021, respectively, and presented in Premiums receivable, net on the Consolidated Balance Sheets.

Loss and Loss Adjustment Expense Reserves — Loss and loss adjustment expense (“Loss and LAE”) reserves represent the estimated ultimate costs net of recoveries of all reported and unreported losses incurred. The reserves for unpaid Loss and LAE are estimated using individual case-basis valuations and statistical analysis and are not discounted. The estimates are continually reviewed and adjusted as necessary in the period the experience develops or new information becomes available. The changes in estimates of Loss and LAE reserves are recognized on the Consolidated Statement of Operations in the period in which estimates change or claims are paid.

2. Significant Accounting Policies (continued)

Deferred Policy Acquisition Costs — Commission costs, employee compensation and payroll related costs, premium taxes and assessments as well as underwriting and safety inspection costs that vary with and are primarily related to the successful acquisition of new or renewal insurance policies are capitalized and deferred. Deferred policy acquisition costs are charged to expenses ratably as premiums are earned. Deferred policy acquisition costs are reviewed to determine whether they are recoverable from future income. If such costs are deemed to be unrecoverable, they would be expensed and the Company may be required to establish a liability for a premium deficiency reserve. Anticipated investment income is considered in determining whether a premium deficiency relating to short duration contracts exists. Deferred policy acquisition costs are presented net of ceding commissions.

Reinsurance — Reinsurance agreements that meet the transfer of risk criteria are accounted for as prospective reinsurance agreements or retroactive reinsurance agreements based on whether the agreement reinsures future or past insured events covered by the underlying insurance contracts. Prospective reinsurance is reinsurance in which a reinsurer agrees to reimburse a ceding entity for losses that may be incurred as a result of future insurable events covered under insurance contracts subject to the reinsurance in exchange for ceded premiums paid to the reinsurer. Retroactive reinsurance is reinsurance in which a reinsurer agrees to reimburse a ceding entity for liabilities incurred as a result of past insurable events covered under insurance contracts subject to the reinsurance, in exchange for ceded premiums paid to the reinsurer.

Prospective reinsurance premiums and Loss and LAE ceded to reinsurers are accounted for on a basis consistent with the accounting for the underlying reinsured contracts. Premiums earned and Loss and LAE incurred and ceded to reinsurers are recorded as reductions of Net earned premiums and Loss and LAE.

For retroactive reinsurance agreements, the ceded loss and LAE reserves recorded as reinsurance recoverable in excess of the premium for reinsurance is recorded as a deferred gain on retroactive reinsurance, and amortized to earnings using the interest method over the estimated claims settlement period. Any related development on the ceded loss and LAE reserves recoverable under the retroactive reinsurance agreement increases the deferred gain if unfavorable, or decreases the deferred gain if favorable, and a cumulative amortization adjustment based on the change in estimate is recorded to earnings. If the premium for reinsurance exceeds the ceded loss and LAE reserves, or the related favorable development on the ceded loss and LAE reserves entirely offsets the deferred gain on retroactive reinsurance, a loss on retroactive reinsurance is recognized to earnings immediately.

Reinsurance does not discharge the Company from its primary liability to policyholders, and to the extent that a reinsurer is unable to meet its obligations, the Company is obligated to pay all claims. Amounts receivable related to reinsurance recoverable are substantially collateralized by letters of credit, securities, funds held and other financial instruments. The financial condition of prospective and existing reinsurers is continually monitored. Reinsurance receivable as of December 31, 2022 included reinsurance recoverables related to the portion of Loss and LAE reserves, paid loss and LAE that are ceded to reinsurers. No reinsurance recoverables and receivables are deemed uncollectible as of December 31, 2022 and 2021.

Ceding Commissions on Reinsurance Transactions — Ceding commissions on reinsurance transactions are commissions received from ceding gross written premiums to third party reinsurers. The ceding commissions received cover a portion of capitalized direct acquisition costs and, when applicable, a portion of other underwriting expenses. Ceding commissions received from reinsurance transactions that represent recovery of capitalized direct acquisition costs are recorded as a reduction of Deferred policy acquisition costs and are amortized to expense in proportion to ceded earned premiums. When applicable, ceding commissions received from reinsurance transactions that represent the recovery of other underwriting expenses are recognized on the Consolidated Statements of Operations over the insurance contract period in proportion to ceded earned premiums and classified as a reduction of Underwriting, general and administrative expenses.

Investments — Fixed maturity securities classified as available-for-sale are carried at estimated fair value, with unrealized gains and losses, net of tax effects, reported as a separate component of Accumulated other comprehensive loss in Stockholder's equity. Equity securities are reported at fair value with unrealized gains and losses reported within Net realized loss on investments on the Consolidated Statement of Operations. Realized gains and losses are determined on the specific identification method.

2. Significant Accounting Policies (continued)

Fixed maturity securities in an unrealized loss position are analyzed for other-than-temporary impairment ("OTTI") each reporting period. An investment is evaluated for impairment when it has been in an unrealized loss position greater than a de minimis threshold for over 12 months, excluding securities backed by the U.S. government (e.g., U.S. treasury securities or agency-backed residential mortgage-backed securities). Additionally, the Company reviews whether any of the impaired positions related to securities for which OTTI was previously recognized, and whether there is any intent to sell any of the securities in an unrealized loss position.

Once the analysis described above is completed, each security is further evaluated to assess whether the decline in the fair value of any investment below its cost basis is deemed other-than-temporary. In completing the review of securities with unrealized losses for OTTI, the following factors, amongst others, are considered for fixed maturity securities; the length of time and the extent to which the fair value has been less than the amortized cost basis, adverse conditions and near-term prospects for improvement specifically related to the issuer, industry or geographic area, the historical and implied volatility of the fair value of the security, any information obtained from regulators and rating agencies, the issuer's capital strength and the payment structure of the security and the likelihood the issuer will be able to make payments in the future (or the historical failure of the issuer to make scheduled interest or principal payments or payment of dividends).

For fixed maturity securities where the Company intends to sell the security or it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost, a decline in fair value below the amortized cost is considered to be other-than-temporary and is recognized in Net realized loss on investments based on the fair value of the security at the time of assessment, and results in a new cost basis for the security. If the decline in fair value of a fixed maturity security below its amortized cost is considered to be other-than-temporary based upon other considerations, the estimated present value of the cash flows expected to be collected is compared to the amortized cost of the security. The extent to which the estimated present value of the cash flows expected to be collected is less than the amortized cost of the security represents the credit-related portion of the other-than-temporary impairment, the amount representing a credit loss is recognized in Net realized loss on investments, and results in a new cost basis for the security. Any remaining decline in fair value below the amortized costs represents the non-credit portion of the other-than-temporary impairment, which is recognized in Accumulated other comprehensive loss on the Consolidated Balance Sheets.

The Company has the following major types of investments:

(a) Cash, cash equivalents, restricted cash and restricted cash equivalents — Cash consists of uninvested balances in bank accounts. Cash equivalents consist of investments with original maturities of 90 days or less, primarily money market funds. Cash equivalents are carried at cost. Restricted cash consists of any cash or investment that is held for a specific purpose and therefore not available to the Company for immediate or general business use.

(b) Short-term investments — Short term investments are carried at cost, which approximates fair value, and include investments with maturities between 91 days and less than 1 year at date of acquisition.

(c) Fixed maturity securities, available-for-sale — Fixed maturity securities classified as available-for-sale are carried at fair value. Unrealized gains or losses on available-for-sale securities are included in Accumulated other comprehensive loss on the Consolidated Balance Sheets.

(d) Equity securities — Equity securities are generally carried at fair value. Gains and losses, both realized and unrealized, are included in Net realized loss on investments on the Consolidated Statements of Operations.

(e) Mortgage and asset backed securities — For mortgage and asset backed securities, income is recognized using the retrospective adjustment method based on prepayments and the estimated economic life of the securities. The effective yield reflects actual payments to date plus anticipated future payments.

2. Significant Accounting Policies (continued)

(f) Other investments — Other investments primarily consists of equity investments in corporate entities accounted for under the equity method, equity investments in limited partnerships, including private equity limited partnerships and real estate partnerships, and investments in term loans. The equity method of accounting is applied for investments in limited partnerships in which its ownership interest of the limited partnership enables the Company to exercise significant influence over the investee and does not result in a controlling financial interest in the investee. The proportionate share of the net income or loss of these unconsolidated investees is recognized in Net investment income.

Net investment income consists primarily of interest and dividends less expenses. Interest on fixed maturity securities and term loans, adjusted for the amortization of premiums or discount, is recorded as income when earned. Investment expenses are accrued as incurred. Realized gain or loss on investments are computed using the specific costs of securities sold, and, if applicable, include write-downs on investments having other-than-temporary declines in value.

Fair Value of Financial Instruments — The fair value of financial assets and financial liabilities are estimated based on the framework established in ASC 820 *Fair Value Measurement*. The framework is based on the inputs used in valuation and gives the highest priority to quoted prices in active markets and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the fair value hierarchy is based on whether the significant inputs into the valuation are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect significant market assumptions. Additionally, valuation of fixed maturity securities is more subjective when markets are less liquid due to lack of market-based inputs, which may increase the potential that the estimated fair value of an investment is not reflective of the price at which an actual transaction could occur.

For investments that have quoted market prices in active markets, the quoted market prices are used as fair value and are included in the amounts disclosed in the Level 1 hierarchy. The quoted market prices are received from internationally recognized third-party pricing services ("pricing service"). When quoted market prices are unavailable, a pricing service is utilized to determine an estimate of fair value. This pricing method is used, primarily, for fixed maturity securities. The fair value estimates provided by the pricing service are reviewed and are generally included in the Level 2 hierarchy. If the fair value estimate provided by the pricing service is determined to not represent fair value or if quoted market prices and an estimate from pricing services are unavailable, an estimate of fair value is produced based on dealer quotations of the bid price for recent activity in positions with the same or similar characteristics to that being valued or through consensus pricing of a pricing service. Depending on the level of observable inputs, the Company will then determine if the estimate is Level 2 or Level 3.

Fixed Maturity Securities — A pricing service is utilized to estimate fair value measurements for fixed maturity securities. The pricing service utilizes market quotations for fixed maturity securities that have quoted market prices in active markets. Since fixed maturity securities other than U.S. treasury securities generally do not trade on a daily basis, the pricing service prepares estimates of fair value measurements using relevant market data, benchmark curves, sector groupings and matrix pricing. The pricing service utilized has indicated it will produce an estimate of fair value only if there is verifiable information to produce a valuation. As the fair value estimates of most fixed maturity investments are based on observable market information rather than market quotes, the estimates of fair value other than U.S. Treasury securities are included in Level 2 of the hierarchy. U.S. Treasury securities are included in the amount disclosed in Level 1 as the estimates are based on unadjusted market prices. Level 2 investments include obligations of U.S. government agencies, municipal bonds, corporate debt securities and other asset backed and mortgage-backed securities.

Equity Securities — A pricing service is utilized to estimate the fair value of the majority of equity securities. The pricing service utilizes market quotations for equity securities that have quoted market prices in active markets and their respective quoted prices are provided as fair value. Equity securities are classified as Level 1. The pricing service also provides fair value estimates for certain equity securities whose fair value is based on observable market information rather than market quotes. The value of these equity securities are classified as Level 2. The Company also holds certain equity securities that are issued by privately held entities or direct equity investments that do not have an active market. The fair value of these securities is estimated primarily based on inputs such as third-party broker quotes, issuers' book value, market multiples, and other inputs. These equity securities are classified as Level 3 due to significant unobservable inputs used in the valuation.

2. Significant Accounting Policies (continued)

Service and Fee Revenue — Service and fee income is recognized at a point in time when the performance obligation is satisfied and it has the right to receive contract consideration or pro-rata over the contract service period by allocating estimated contract consideration to the performance obligations which are satisfied as the services are provided and transferred to the customer. The contract consideration amounts received or receivable at inception of the contract service periods are recognized as deferred revenue and reported in Accrued expenses and other liabilities on the Consolidated Balance Sheets.

Business Combinations — Business combinations are accounted for under the acquisition method of accounting. The acquisition method of accounting requires assets acquired, liabilities assumed and any non-controlling interest in the acquiree to be recorded at their respective fair values as of the acquisition date in the consolidated financial statements. When determining fair values, valuation methods reflecting the three approaches to value: market, income and cost are considered. The market approach is used to estimate value through the analysis of recent sales of comparable assets or business entities. The income approach is used to estimate value based on the present value of future economic benefits that are expected to be produced by an asset or business entity. The cost approach provides a systematic framework for estimating the value of tangible or intangible assets based on the economic principle of substitution: no prudent investor will purchase an existing asset for more than it will cost to create a comparable asset. The Company selects the most appropriate methods with consideration to the information available, the level of uniqueness, as well as the economics of the particular asset or liability. Insurance and reinsurance contracts are accounted for under the acquisition method as new contracts, which requires the assets and liabilities to be recorded at fair value. The acquired Loss and LAE reserves are measured in accordance with the Company's existing accounting policies for insurance and reinsurance contracts and then discounted based on expected reserve payout patterns using a current risk-free rate of interest. Based on the facts and circumstances around the acquired business, the risk free interest rate may be adjusted based on different cash flow scenarios that use different payout and ultimate reserve assumptions deemed to be reasonably possible based upon the inherent uncertainties present in determining the amount and timing of payment of such reserves if deemed appropriate and reasonable. The difference between the acquired Loss and LAE reserves and the Company's best estimate of the fair value of such reserves at the acquisition date is recorded as a fair value adjustment, as applicable, and amortized proportionately to the changes in the acquired Loss and LAE reserves over the payout period. The Company establishes an intangible asset related to the value of business acquired, which represents the fair value of the expected future profits in net unearned premium for insurance contracts acquired. Contingent consideration is recorded at fair value based on the terms of the purchase agreement with subsequent changes in fair value recorded through earnings. The determination of fair value may require management to make significant estimates and assumptions. The purchase price is the fair value of the total consideration conveyed to the seller and the excess of the purchase price over the fair value of the acquired net assets, where applicable, is recorded as goodwill. Fair values are assigned to other intangible assets based on valuation techniques including the income and market approaches. Transaction costs associated with the acquisition of a business are expensed as incurred. The results of operations of an acquired business are included in the consolidated financial statements from the date of the acquisition.

Goodwill and Other intangible Assets — Goodwill is tested for impairment on an annual basis or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. A qualitative assessment is performed for impairment testing to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount, including goodwill. If it is determined that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill, then no goodwill impairment exists. Otherwise, the fair value of each reporting unit is compared to its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized for the amount of any excess of the carrying amount of goodwill of the reporting unit over the implied fair value of that goodwill.

Indefinite-lived intangible assets are tested for impairment on an annual basis and more frequently if events or changes in circumstances indicate that it is more likely than not that the asset is impaired. The classification of an asset as indefinite-lived is reassessed and an impairment loss is recognized for the amount of any excess of the carrying amount over the fair value of the asset.

2. Significant Accounting Policies (continued)

Finite-lived intangible assets are amortized over the estimated useful life of the asset. The carrying amounts of finite-lived intangible assets are reviewed on an ongoing basis for indicators of impairment including events or changes in circumstances in which a significant adverse change in the extent, manner or length of time in which an intangible asset is being used or a significant adverse change in legal factors or in the business climate that could affect the value of an intangible asset have occurred. An impairment loss is recognized only if the carrying amount of the finite-lived intangible asset is not recoverable from its undiscounted cash flows for the amount of any excess of the carrying amount over the fair value of the asset.

Property, Equipment and Software — Property, equipment and software are recorded at cost. Maintenance and repairs are expensed as incurred. Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the assets, as follows:

Building	40 years
Equipment	5 to 7 years
Computer equipment and software	3 to 5 years
Leasehold improvements	Lesser of lease term or 15 years

The Company capitalizes the costs of computer software developed or obtained for internal use that are specifically identifiable, have determinable lives and relate to enhancements in functionality.

Leases — The Company enters into lease agreements as a lessee related to real estate and equipment used in the ordinary course of business and as a lessor of owned or sublessor of leased commercial office real estate. It is determined whether an arrangement is a lease on the date the contract commences. All current lease agreements are accounted for as operating leases. The Company elected to account for lease components and the associated nonlease components as single components for all real estate leases.

Lease assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease. Recognized right-of-use (“ROU”) assets and lease liabilities are reported within Other assets and Accrued expenses and other liabilities, respectively, on the Consolidated Balance Sheets and measured at the present value of the future lease payments over the lease terms including options to extend or renew the lease term if the Company is reasonably certain of exercising those options. Options to extend or renew leases at market rates are not included as part of the lease term when exercise is not reasonably certain. The exercise of renewal options is at the Company’s discretion. In determining the present value of lease payments, the rate implicit in the lease, if readily determinable, is utilized; otherwise, the incremental borrowing rate is used. The Company elected not to apply the recognition and measurement requirements to leases with terms of one year or less.

Lease expense is recognized on a straight-line basis over the term of the lease, which is reported in Underwriting, general and administrative expenses on the Consolidated Statement of Operations.

Commercial office and retail space is leased to lessees over lease terms that include non-cancelable lease terms and may include renewal options. The lease contracts commence at the time a lessee takes possession of the leased space. The lease contracts generally require the lessees to reimburse the Company for increases in certain operating costs and real estate taxes above the base year costs attributed to the leased space. The lease income is recognized on a straight-line basis over the lease terms which is reported in Service and fee income on the Consolidated Statement of Operations.

Income Taxes — The Company's European subsidiaries file income tax returns in their respective local jurisdictions. The Company's parent, AFSI, files a consolidated United States income tax return, which includes the Company's U.S. insurance subsidiary. Additionally, the Company has elected under section 953(d) to be treated as a U.S. taxpayer. As part of the consolidated AFSI income tax return filing, the Company is party to federal income tax allocation agreements amongst the includible entities. Under the tax allocation agreements, the Company pays to or receives from its subsidiaries the amount, if any, by which AFSI federal income tax liability was affected by virtue of inclusion of the subsidiary in the consolidated federal return.

2. Significant Accounting Policies (continued)

Deferred income taxes reflect the impact of “temporary differences” between the amount of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws and regulations. Deferred tax assets primarily consist of book versus tax differences for premiums earned, loss and loss adjustment expense reserve discounting, policy acquisition costs, and net operating losses. Changes in deferred income tax assets and liabilities that are associated with components of other comprehensive income, primarily unrealized investment gains and losses, are recorded directly to Accumulated other comprehensive loss on the Consolidated Balance Sheets. Otherwise, changes in deferred income tax assets and liabilities are included as a component of the Provision for income taxes on the Consolidated Statement of Operations.

Deferred tax assets are recognized to the extent it is believed that these assets are more likely than not to be realized. In assessing the more likely than not recoverability of deferred tax assets, management considers whether it is more likely than not that future taxable income will be generated during the periods in which those temporary differences become deductible. A valuation allowance is established to reduce the deferred tax assets to the amounts that are more likely than not to be realized.

Tax benefits are recognized only for tax positions that are more likely than not to be sustained upon examination by taxing authorities. The policy is to prospectively classify accrued interest and penalties in Interest expense and Underwriting, general and administrative expenses, respectively, on the Consolidated Statement of Operations related to any unrecognized tax benefits in its income tax provision.

Foreign Currency — the functional currency of each foreign operation is generally the currency of the local operating environment. Foreign currency transactions are remeasured to the functional currency and the resulting foreign exchange gains and losses are reflected in earnings. Functional currency amounts from the foreign operations are then translated into U.S. dollars. The change in unrealized foreign currency translation gain or loss during the year, net of tax, is a component of Accumulated other comprehensive loss on the Consolidated Balance Sheets. The foreign currency remeasurement and translation items are calculated using current exchange rates for the items reported on the balance sheets and average exchange rates for items recorded in earnings.

Recent Accounting Pronouncements

The Company is deemed a nonpublic business entity under GAAP and adopts applicable accounting standards accordingly, unless otherwise disclosed or stated.

Recent Accounting Standards, Adopted

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, *Leases* (Topic 842). The new standard amends the guidance for leasing transactions. The guidance requires a lessee to classify lease contracts as finance or operating leases, and to recognize assets and liabilities for the rights and obligations created by leasing transactions with lease terms more than twelve months. The guidance substantially retains the criteria for classifying leasing transactions as finance or operating leases. For finance leases, a lessee recognizes a right-of-use asset and a lease liability initially measured at the present value of the lease payments and recognizes interest expense on the lease liability separately from the amortization of the right-of-use asset. For operating leases, a lessee recognizes a right-of-use asset and a lease liability initially measured at the present value of the lease payments and recognizes lease expense on a straight-line basis. The guidance requires a lessor to recognize lease income related to an operating lease generally on a straight-line basis over the lease term. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The new standard is effective for fiscal years beginning after December 15, 2021 and interim periods within fiscal years beginning after December 15, 2022. The Company adopted the new standard as of January 1, 2022. There was no cumulative-effect adjustment to the opening balance of retained earnings as of the date of adoption. The adoption resulted in the recognition of a right-of-use asset of $25,447 and a lease liability of $26,100. The adoption of the new standard did not have a material effect on the results of operations or cash flows. See Note 15. "Leases" for additional information.

2. Significant Accounting Policies (continued)

Recent Accounting Standards, Not Yet Adopted

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting* to provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions that reference London Interbank Offered Rate (LIBOR) or other reference rates expected to be discontinued due to reference rate reform. The FASB issued ASU 2022-06, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848* in December 2022 that extends the effective date through December 31, 2024 to permit the application of the guidance through the expected cessation date of LIBOR. The Company may elect to apply the amendments to eligible contract modifications through December 31, 2024. The adoption of the amendments is not expected to have a material effect on the Company's financial position, results of operations, or cash flows.

In January 2017, the FASB issued ASU 2017-04, *Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which simplifies the accounting for goodwill impairment charges. Under the current guidance, if the fair value of a reporting unit is lower than its carrying amount, an entity calculates any impairment charge by comparing the implied fair value of goodwill with its carrying amount. The implied fair value of goodwill is calculated by deducting the fair value of all assets and liabilities of the reporting unit from the reporting unit’s fair value. Under the new guidance, an entity will record an impairment charge based on the excess of a reporting unit’s carrying amount over its fair value not to exceed the amount of goodwill allocated to that reporting unit. The guidance is effective for annual and interim goodwill impairment tests in fiscal years beginning after December 15, 2022. The adoption of the amendments will not have an impact on the Company's financial position, results of operations or cash flows

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* The new standard requires financial assets measured at amortized cost basis (including premiums receivable and reinsurance receivables) to be presented at the net amount expected to be collected by recording an allowance for credit losses, presented as a deduction from the amortized cost basis, with changes in the allowance recorded as credit loss expense based on management's current estimate of expected credit losses each period. The new standard also requires impairment relating to credit losses on available-for-sale debt securities to be presented through an allowance for credit losses with changes in the allowance recorded in the period of the change as credit loss expense or reversal of credit loss expense. Any impairment amount not recorded through an allowance for credit losses on available-for-sale debt securities is recorded through other comprehensive income. The new standard is effective for fiscal years beginning after December 15, 2022 including interim periods within those fiscal years. The Company plans to adopt the new standard as of January 1, 2023, and to recognize an immaterial cumulative-effect adjustment to the opening balance of retained earnings as of the date of adoption. The adoption of the new standard is not expected to have a material effect on the Company's financial position, results of operations, or cash flows.

(In Thousands)

3. Investments

(a) Available-for-Sale Securities

The amortized cost, gross unrealized gains and losses, and estimated fair value of the available-for-sale securities as of December 31, 2022 and 2021 are presented below:

As of December 31, 2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$ 5,056	$ 6	$ (254)	$ 4,808
Municipal bonds	7,212	—	(234)	6,978
Foreign government	665,002	211	(38,073)	627,140
Corporate bonds:				
Finance	1,004,213	1,189	(95,297)	910,105
Industrial	804,021	969	(87,454)	717,536
Utilities	122,002	—	(12,627)	109,375
Commercial mortgage-backed securities	235,608	371	(17,058)	218,921
Residential mortgage-backed securities:				
Agency backed	225,430	—	(32,859)	192,571
Non-agency backed	134,794	—	(24,225)	110,569
Collateralized loan / debt obligations	741,680	71	(23,789)	717,962
Asset backed securities	64,475	136	(5,561)	59,050
Total available-for-sale securities	$ 4,009,493	$ 2,953	$ (337,431)	$ 3,675,015

As of December 31, 2021	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$ 22,595	$ 50	$ (201)	$ 22,444
Municipal bonds	7,357	461	(16)	7,802
Foreign government	905,589	2,040	(6,748)	900,881
Corporate bonds:				
Finance	986,332	14,255	(5,603)	994,984
Industrial	761,070	12,869	(5,084)	768,855
Utilities	122,484	2,035	(848)	123,671
Commercial mortgage-backed securities	105,075	722	(3,172)	102,625
Residential mortgage-backed securities:				
Agency backed	278,857	1,004	(3,936)	275,925
Non-agency backed	121,966	207	(539)	121,634
Collateralized loan / debt obligations	686,618	1,711	(460)	687,869
Asset backed securities	51,368	375	(230)	51,513
Total available-for-sale securities	$ 4,049,311	$ 35,729	$ (26,837)	$ 4,058,203

Proceeds from the sale of investments in available-for-sale securities during the years ended December 31, 2022 and 2021 were approximately $1,239,738 and $1,912,134, respectively.

(In Thousands)

3. Investments (continued)

A summary of available-for-sale securities as of December 31, 2022 and 2021, by contractual maturity, is shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	December 31, 2022		December 31, 2021	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 363,893	$ 359,030	$ 287,281	$ 289,772
Due after one through five years	1,705,193	1,577,653	1,480,623	1,497,126
Due after five through ten years	490,947	397,559	978,026	970,814
Due after ten years	47,473	41,700	59,497	60,926
Mortgage and asset backed securities	1,401,987	1,299,073	1,243,884	1,239,565
Total available-for-sale securities	$ 4,009,493	$ 3,675,015	$ 4,049,311	$ 4,058,203

There were no other than temporarily impaired ("OTTI") charges on available-for-sale securities during the years ended December 31, 2022 and 2021.

The Company did not recognize any OTTI charges on non-credit related amounts in Accumulated other comprehensive loss during the years ended December 31, 2022 and 2021. See Note 2. "Significant Accounting Policies" for additional information on how securities are tested for OTTI.

The tables below summarize the gross unrealized losses of available-for-sale securities by length of time the security has continuously been in an unrealized loss position as of December 31, 2022 and 2021:

	Less Than 12 Months		12 Months or More		Total	
As of December 31, 2022	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities	$ 2,401	$ (59)	$ 2,141	$ (195)	$ 4,542	$ (254)
Municipal bonds	6,370	(102)	608	(132)	6,978	(234)
Foreign government	317,793	(13,958)	298,590	(24,115)	616,383	(38,073)
Corporate bonds:						
Finance	582,521	(42,168)	264,522	(53,129)	847,043	(95,297)
Industrial	459,107	(38,518)	226,716	(48,936)	685,823	(87,454)
Utilities	77,555	(6,466)	31,820	(6,161)	109,375	(12,627)
Commercial mortgage backed securities	149,615	(6,566)	56,568	(10,492)	206,183	(17,058)
Residential mortgage backed securities:						
Agency backed	36,440	(3,599)	156,131	(29,260)	192,571	(32,859)
Non-agency backed	31,424	(5,036)	79,145	(19,189)	110,569	(24,225)
Collateralized loan / debt obligations	603,920	(19,907)	104,418	(3,882)	708,338	(23,789)
Asset-backed securities	25,007	(1,909)	23,120	(3,652)	48,127	(5,561)
Total	$2,292,153	$ (138,288)	$1,243,779	$ (199,143)	$ 3,535,932	$ (337,431)

(In Thousands)

3. Investments (continued)

As of December 31, 2021	Less Than 12 Months Fair Value	Less Than 12 Months Unrealized Losses	12 Months or More Fair Value	12 Months or More Unrealized Losses	Total Fair Value	Total Unrealized Losses
U.S. Treasury securities	$ 13,960	$ (201)	$ —	$ —	$ 13,960	$ (201)
Municipal bonds	730	(16)	—	—	730	(16)
Foreign government	708,349	(6,622)	13,253	(126)	721,602	(6,748)
Corporate bonds:						
Finance	344,572	(5,598)	214	(5)	344,786	(5,603)
Industrial	305,634	(4,945)	5,648	(139)	311,282	(5,084)
Utilities	38,707	(821)	735	(27)	39,442	(848)
Commercial mortgage backed securities	52,878	(874)	7,528	(2,298)	60,406	(3,172)
Residential mortgage backed securities:						
Agency backed	232,280	(3,558)	9,351	(378)	241,631	(3,936)
Non-agency backed	75,021	(539)	—	—	75,021	(539)
Collateralized loan / debt obligations	98,608	(207)	45,811	(253)	144,419	(460)
Asset-backed securities	21,640	(186)	1,840	(44)	23,480	(230)
Total	$1,892,379	$ (23,567)	$ 84,380	$ (3,270)	$ 1,976,759	$ (26,837)

There were 1,628 and 608 individual available-for-sale securities as of December 31, 2022 and 2021, respectively, that account for the gross unrealized loss, none of which is deemed to be OTTI. As of December 31, 2022, unrealized losses on fixed maturity securities were primarily due to market interest rate and credit spread changes since their date of purchase. As of December 31, 2022, there were $57,875 unrealized losses related to securities in unrealized loss positions for a period of twelve or more consecutive months and in unrealized loss positions greater than or equal to 20% of amortized cost or cost.

(b) Equity Securities

The original cost, gross unrealized gains and losses, and estimated fair value of the Company's equity securities as of December 31, 2022 and 2021, are presented below:

As of December 31, 2022	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Common stock	$ 29,602	$ 106	$ (8,261)	$ 21,447
Preferred stock	12,353	83	(575)	11,861
Total equity securities	$ 41,955	$ 189	$ (8,836)	$ 33,308

As of December 31, 2021	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Common stock	$ 45,324	$ 687	$ (7,183)	$ 38,828
Total equity securities	$ 45,324	$ 687	$ (7,183)	$ 38,828

Proceeds from the sale of investments in equity securities during the years ended December 31, 2022 and 2021 were approximately $14,405 and $7,867, respectively.

(In Thousands)

3. Investments (continued)

The table below presents the portion of gains and losses for the period related to equity securities still held for the years ended December 31, 2022 and 2021:

	Year Ended December 31, 2022	Year Ended December 31, 2021
Net losses recognized during the period on equity securities	$ (3,256)	$ (15,074)
Less: Net unrealized losses recognized during the period on equity securities sold during the period	(812)	(14,582)
Net unrealized losses recognized during the reporting period on equity securities still held at the reporting date	$ (2,444)	$ (492)

(c) Investment Income

Net investment income for the years ended December 31, 2022 and 2021 was derived from the following sources:

	Year Ended December 31, 2022	Year Ended December 31, 2021
Fixed maturity securities, available-for-sale	$ 83,082	$ 55,988
Equity securities	612	700
Other invested assets[(1)]	4,834	9,021
Cash and short-term investments	1,892	(254)
Gross investment income	90,420	65,455
Investment expenses	(3,850)	(2,504)
Net investment income	$ 86,570	$ 62,951

(1) Includes recognition of net income or loss from equity method investees.

(d) Realized Gains and Losses

The tables below summarize the gross realized gains and (losses) for the years ended December 31, 2022 and 2021.

Year Ended December 31, 2022	Gross Realized Gains	Gross Realized Losses	Net Realized Losses
Fixed maturity securities, available-for-sale	$ 24,475	$ (39,379)	$ (14,904)
Equity securities	16	(3,272)	(3,256)
Other invested assets	—	(18,538)	(18,538)
Total	$ 24,491	$ (61,189)	$ (36,698)

Year Ended December 31, 2021	Gross Realized Gains	Gross Realized Losses	Net Realized Gains and (Losses)
Fixed maturity securities, available-for-sale	$ 14,667	$ (12,114)	$ 2,553
Equity securities	777	(15,851)	(15,074)
Other invested assets	7,494	(76)	7,418
Total	$ 22,938	$ (28,041)	$ (5,103)

(In Thousands)

3. Investments (continued)

(e) Restricted Cash, Cash Equivalents and Investments

In order to conduct business in certain jurisdictions, the Company is required to maintain letters of credit or assets on deposit to support mandated regulatory requirements and certain third-party agreements. Trust accounts are utilized to collateralize business with reinsurance counterparties. These assets held are primarily in the form of cash or certain investment-grade securities. The fair values of restricted assets as of December 31, 2022 and 2021 are as follows:

	December 31, 2022	December 31, 2021
Restricted cash and cash equivalents	$ 120,624	$ 137,952
Restricted investments	1,152,724	1,598,952
Total restricted cash, cash equivalents and investments	$ 1,273,348	$ 1,736,904

(f) Other

The Company analyzes other investments in unrealized loss positions for OTTI each reporting period. The Company recognized OTTI charges of $18,538 and $— for other investments during the years ended December 31, 2022 and 2021, respectively, reflected within Net realized loss on investments on the Consolidated Statement of Operations.

4. Fair Value of Financial Instruments

Fair Value Hierarchy

The following tables present the level within the fair value hierarchy at which the financial assets and financial liabilities are measured on a recurring basis as of December 31, 2022 and 2021:

As of December 31, 2022	Total	Level 1	Level 2	Level 3
Financial Assets				
Fixed maturity securities, available-for-sale:				
U.S. Treasury securities	$ 4,808	$ 4,808	$ —	$ —
Municipal bonds	6,978	—	6,978	—
Foreign government	627,140	—	627,140	—
Corporate bonds:				
Finance	910,105	—	910,105	—
Industrial	717,536	—	717,536	—
Utilities	109,375	—	109,375	—
Commercial mortgage-backed securities	218,921	—	218,921	—
Residential mortgage-backed securities:				
Agency backed	192,571	—	192,571	—
Non-agency backed	110,569	—	110,569	—
Collateralized loan / debt obligations	717,962	—	717,962	—
Asset-backed securities	59,050	—	59,050	—
Total fixed maturity securities, available-for-sale	3,675,015	4,808	3,670,207	—
Equity securities	33,308	12,828	—	20,480
Short-term investments	180,893	—	180,893	—
Other investments	3,819	—	—	3,819
Total financial assets measured at fair value	$ 3,893,035	$ 17,636	$ 3,851,100	$ 24,299

(In Thousands)

4. Fair Value of Financial Instruments (continued)

As of December 31, 2021	Total	Level 1	Level 2	Level 3
Financial Assets				
Fixed maturity securities, available-for-sale:				
U.S. Treasury securities	$ 22,444	$ 22,444	$ —	$ —
Municipal bonds	7,802	—	7,802	—
Foreign government	900,881	—	900,881	—
Corporate bonds:				
Finance	994,984	—	994,984	—
Industrial	768,855	—	768,855	—
Utilities	123,671	—	123,671	—
Commercial mortgage-backed securities	102,625	—	102,625	—
Residential mortgage-backed securities:				
Agency backed	275,925	—	275,925	—
Non-agency backed	121,634	—	121,634	—
Collateralized loan / debt obligations	687,869	—	687,869	—
Asset-backed securities	51,513	—	51,513	—
Total fixed maturity securities, available-for-sale	4,058,203	22,444	4,035,759	—
Equity securities	38,828	29,906	303	8,619
Short-term investments	83,405	7,870	75,535	—
Other investments	5,894	—	—	5,894
Total financial assets measured at fair value	$ 4,186,330	$ 60,220	$ 4,111,597	$ 14,513
Financial Liabilities				
Contingent consideration	$ 175	$ —	$ —	$ 175
Total financial liabilities measured at fair value	$ 175	$ —	$ —	$ 175

(In Thousands)

4. Fair Value of Financial Instruments (continued)

The following tables provide a summary of changes in fair value of the Level 3 financial assets and liabilities for the years ended December 31, 2022 and 2021. The transfers into and out of Level 3 were due to changes in the availability of market observable inputs. All transfers are reflected in the table at fair value as of the end of the reporting period.

	Balance as of December 31, 2021	Net loss	Other comprehensive income (loss)	Purchases and issuances	Sales and settlements	Net transfers (out of) into Level 3	Balance as of December 31, 2022
Fixed maturity securities, available-for-sale	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Equity securities	8,619	(493)	—	12,354	—	—	20,480
Other investments	5,894	(351)	—	—	(1,724)	—	3,819
Contingent consideration	(175)	—	—	—	175	—	—
Total	$ 14,338	$ (844)	$ —	$ 12,354	$ (1,549)	$ —	$ 24,299

	Balance as of December 31, 2020	Net loss	Other comprehensive income (loss)	Purchases and issuances	Sales and settlements	Net transfers out of Level 3	Balance as of December 31, 2021
Fixed maturity securities, available-for-sale	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Equity securities	8,990	(267)	—	—	(89)	(15)	8,619
Other investments (1)	23,789	(66)	—	—	(439)	(17,390)	5,894
Life settlement contracts	1,910	—	—	—	(1,910)	—	—
Life settlement contract profit commission	(2,994)	—	—	—	2,994	—	—
Contingent consideration	(2,239)	(5)	—	—	2,069	—	(175)
Total	$ 29,456	$ (338)	$ —	$ —	$ 2,625	$ (17,405)	$ 14,338

(1) Net transfers out of Level 3 include an equity investment, previously classified as Other investments measured at fair value. The investment converted to publicly traded common stock during the first quarter of 2021, and is now classified as Level 1. The fair value reflected is as of the beginning of the reporting period, due to the transfer between asset classes.

The following methods and assumptions are used in estimating the fair value of financial instruments:

- *Fixed maturity and equity securities:* As of December 31, 2022, the Level 3 securities consisted primarily of private equity securities. The fair value of this equity security as of December 31, 2022 were measured using valuation techniques that relied upon unobservable inputs.
- *Other investments:* As of December 31, 2022, Level 3 consisted of investments required to be measured and reported at fair value and investments for which the Company has elected the fair value option of accounting. The fair value of these investments was measured using valuation techniques that relied upon unobservable inputs.
- *Cash and cash equivalents, restricted cash and restricted cash equivalents, and short-term investments:* The carrying value of cash and cash equivalents, restricted cash and restricted cash equivalents, and short-term investments approximate their respective fair value. The short-term investments are classified as Level 2 in the fair value hierarchy.
- *Premiums Receivable, Accrued Interest, Reinsurance Recoverables:* The carrying values reported in the accompanying balance sheets for these financial instruments approximate their fair values.

(In Thousands)

4. Fair Value of Financial Instruments (continued)

- *Debt:* The Company considers its secured debt's carrying value to approximate fair value as their interest rates approximate current borrowing rates and is classified as Level 2 within the valuation hierarchy .
- *Contingent consideration*: The fair value of contingent consideration is based on a discounted cash flow methodology and is classified as Level 3 in the fair value hierarchy.

5. Other Intangible Assets and Goodwill

The composition of intangible assets is summarized as follows:

December 31, 2022	Gross Balance	Accumulated Amortization	Net Value	Useful Life
Distribution networks	48,147	38,327	9,820	5 to 18 years
Software	1,452	1,359	93	3 to 20 years
Customer relationships	59,237	45,565	13,672	7 to 15 years
Use rights	8,708	—	8,708	Indefinite
Total other intangible assets	$ 117,544	$ 85,251	$ 32,293	

December 31, 2021	Gross Balance	Accumulated Amortization	Net Value	Useful Life
Renewal rights	$ 2,320	$ 1,889	$ 431	4 to 5 years
Distribution networks	49,669	37,743	11,926	5 to 18 years
Software	1,452	1,338	114	3 to 20 years
Customer relationships	59,974	40,505	19,469	7 to 15 years
Use rights	9,751	—	9,751	Indefinite
Total other intangible assets	$ 123,166	$ 81,475	$ 41,691	

Finite lived intangible assets are generally amortized under the straight-line method, except for renewal rights, which is amortized using a 125% accelerated method, and certain customer relationships, which are amortized based on cash flows associated with the respective customer relationships. Amortization expense for these finite lived intangible assets for the years ended December 31, 2022 and 2021 was $6,717 and $7,841, respectively.

The estimated aggregate amortization expense for each of the next five years is:

2023	$ 4,215
2024	4,140
2025	3,160
2026	3,160
2027	3,145
Thereafter	5,765
Total amortization of other intangible assets with finite lives	$ 23,585

Reporting units for goodwill impairment testing are identified in accordance with ASC 350-20-35 *Intangibles - Goodwill and Other*. The Company generally combines reporting units, which are a component of an operating segment, when they have similar economic characteristics, nature of services, types of customer, distribution methods and regulatory environment. For the years ended December 31, 2022 and 2021, the Company had three reporting units that are tested for goodwill impairment. Goodwill is tested for impairment annually as of October 1st. As a result of the impairment tests performed as of October 1, 2022 and 2021, the Company did not recognize any goodwill impairment losses during the years ended December 31, 2022 and 2021, respectively.

(In Thousands)

5. Other Intangible Assets and Goodwill (continued)

The changes in the carrying amount of goodwill for the years ended December 31, 2022 and 2021 are as follows:

Goodwill as of January 1, 2021	$ 166,023
Foreign currency translation and other	873
Goodwill as of December 31, 2021	166,896
Foreign currency translation and other	(8,413)
Goodwill as of December 31, 2022	$ 158,483

6. Property, Equipment and Software, net

Property, equipment and software, net consist of the following:

	December 31,	
	2022	**2021**
Land	$ 696	$ 271
Building	164,859	182,842
Software	6,054	12,286
Computer equipment	2,378	8,001
Other equipment	7,763	8,380
Leasehold improvements	7,469	9,915
Property, equipment and software, gross	189,219	221,695
Less: Accumulated depreciation and amortization	(38,847)	(48,397)
Property, equipment and software, net	$ 150,372	$ 173,298

Depreciation and amortization expense for the years ended December 31, 2022 and 2021 was $8,339 and $10,762, respectively.

(In Thousands)

7. Loss and Loss Adjustment Expense Reserves

The following table provides a reconciliation of the beginning and ending balances for Loss and LAE reserves, reported in the accompanying Consolidated Balance Sheets as of December 31, 2022 and 2021:

	December 31, 2022	December 31, 2021
Loss and LAE reserves, at beginning of year	$ 4,847,077	$ 5,158,879
Less: Reinsurance recoverables at beginning of year	1,866,517	2,052,692
Net Loss and LAE reserves, at beginning of year	2,980,560	3,106,187
Incurred related to:		
Current year	1,351,493	1,254,900
Prior year	(23,500)	17,690
Total incurred during the year	1,327,993	1,272,590
Paid related to:		
Current year	(373,327)	(415,684)
Prior year[1]	(973,451)	(905,697)
Total paid during the year	(1,346,778)	(1,321,381)
Effect of foreign exchange rates	(107,817)	(76,836)
Net Loss and LAE reserves, at end of year	2,853,958	2,980,560
Plus: Reinsurance recoverables at end of year	1,847,836	1,866,517
Loss and LAE reserves, at end of year	$ 4,701,794	$ 4,847,077

[1] Reflects reduction in loss reserves of $142,870 related to the French Medical Malpractice Quota Share (the "FMM QS"), partially offset by ceded reserves of $24,743 and $10,390 settled with Maiden Reinsurance Ltd. ("Maiden Reinsurance") and Swiss Reinsurance Company Ltd. ("Swiss Re"), respectively, as part of a commutation agreement. See Note 9. "Reinsurance" for additional information. .

The Loss and LAE reserves, gross of related reinsurance recoverables, decreased $145,283 and $311,802 during the years ended December 31, 2022 and 2021, respectively. The decrease in loss reserves is driven by payments on liabilities, both current and prior year, exceeding the addition of current year loss exposure.

The Company had net favorable prior period reserve development of $23,500 during the year ended December 31, 2022 and an adverse prior period reserve development of $17,690 during the year ended December 31, 2021. Consistent with prior periods, the actuarial process was driven by updated incurred and paid loss data, continued review of actuarial diagnostics, and actuarial analyses based on updated data for the periods.

Driving the favorable activity in the current period was continued favorable emergence on both active Retail and Programs Workers' Compensation line of business due to continued favorable macroeconomic trends, e.g. (lower frequencies recorded across the industry) in addition to the Company's ongoing claims initiatives. These initiatives include, but are not limited to, closer monitoring and review of legal spend and engaging more cost-effective benefits providers which have benefited current and prior years. Furthermore, Workers' Compensation reserves on business acquired for years prior to 2015 has continued to perform better than expectations and resulted in favorable development.

Favorable activity was also reflected in the Cyber Liability line of business, which is written on a claims-made form with no notable losses from the prior accident years, and in the Directors and Officers line of business, which is running favorably to expectations with low notifications for prior year losses. Favorable development related to the Worker Protection program exposures in Dubai was also reflected. Given the short reporting tail and less than expected economic upheaval in the job market post COVID19, lower ultimate loss estimates was also reflected.

7. Loss and Loss Adjustment Expense Reserves (continued)

Partially offsetting the favorable activity in the current period was adverse loss emergence within the Excess & Surplus Professional Liability, General Liability and runoff Auto Liability lines of business assumed from the US. Excess & Surplus Professional Liability lines were impacted by both frequency and severity of claims exceeding original pricing expectations, particularly on the Lawyers portfolio where the Company is in the process of implementing several underwriting improvements. Adverse development in the General Liability and Auto Liability reflect rising claims severities beyond original pricing expectations, partially offset by favorable frequency trends.

Additionally, greater than expected loss emergence occurred in the General Liability – Contractors' Construction/ Structural-Defect exposed business on both a US and European basis, much of which is now in run-off. Losses on runoff Insurance Specialty Construction Group ("ISG") program (terminated in 2019) which covers housing developments primarily in California continue to exceed the reported claim expectation and is impacted by rising costs in goods and services related to home construction. Losses in the Company's UK Structural Defects segment have also seen severity increases commensurate with a higher inflationary and unfavorable legal environment.

Lastly, adverse experience was reflected in the international Title portfolio given a small number of high-severity claims and the French Medical Malpractice book, of which adverse experience was reflected in conjunction with the transaction to novate the portfolio's liabilities.

For the year ended December 31, 2021, the Company's adverse prior period reserve development of $17,690 was driven by adverse loss emergence within the Company's non-admitted Excess and Surplus Professional Liability, General Liability – Contractors (Construction Defect), and International (European) portfolios. The Excess & Surplus Professional Liability lines were impacted by both frequency and severity of claims exceeding original pricing expectations, particularly on the Lawyers portfolio where the Company is in the process of implementing several underwriting improvements and restrictions. These improvements have taken a longer than anticipated time to work through the portfolio to favorably impact the loss ratio. Additionally, greater than expected loss emergence occurred in the Company's General Liability – Contractors' Construction-Defect exposed business, much of which is now in run-off. Losses on the Company's runoff ISG program exceeded the reported claim expectation due to rising costs in goods and services related to home construction. The Company has also noted higher than expected frequency within the Builders Insurance Services segment, an active artisan contractors portfolio primarily operating in California. These claims, however, relate to liability on completed operations for small-scale specialty projects and not housing developments such as the ISG portfolio. Lastly, adverse development was recorded in the Company's International (European) portfolio largely related to unanticipated severity trends and latent development in the French Medical Malpractice ("FMM") segment which have put into run-off as of early 2021. The European portfolio was also exposed to a small number of high severity construction bond losses which were reported in 2021.

Partially offsetting the adverse activity was continued favorable emergence on the Company's active Workers' Compensation line of business due to continued favorable macroeconomic trends in addition to the Company's ongoing claims initiatives. These initiatives include, but are not limited to, closer monitoring and review of legal spend and engaging more cost-effective benefits providers. Additionally, the portion of the Company's Workers' Compensation line of business that is included within the Company's run-off of business acquired from years prior to 2015 has continued to perform better than expected and resulted in favorable development.

In setting its reserves, the Company utilizes a combination of Company loss development factors and industry-wide loss development factors. In the event that the losses develop more favorably (adversely) than the industry, as a whole, the liabilities for unpaid Losses and LAE may decrease (increase). The Company's management believes that its use of both historical experience and industry-wide loss development factors provide a reasonable basis for estimating future losses. In either case, future events beyond the control of management, such as changes in or judicial interpretations of law and inflation, may favorably or unfavorably impact the ultimate settlement of the Loss and LAE reserves.

7. Loss and Loss Adjustment Expense Reserves (continued)

The Company monitors inflation developments and potential impacts on all lines of business. The anticipated effect of inflation, particularly on Accident Year 2022 and on Property coverages, is implicitly considered when estimating Loss and LAE reserves through the selections of higher than historical severity trend and reflection of ultimate loss and expense above the initial plan projection for the year. Catastrophe activity in 2022 did not have a material impact on the loss ratio. The Company considers anticipated changes in claim costs due to inflation in estimating the ultimate claim costs. Additionally, the Company notes inflation has had a muted impact on the Workers' Compensation line of business. While Core Consumer Price Index ("CPI") inflation measures have continued to increase, medical inflation has increased at a lower rate than the broader CPI. The lower inflation rate offset the additional exposure caused by increased wage growth, ultimately limiting adverse impacts of inflation on the Workers' Compensation line of business.

Increasing average severities of claims may be caused by several factors that vary with the individual type of policy written and not necessarily economic inflation, which the Company monitors monthly. The Company projects future average severities based on historical trends adjusted for implemented changes in underwriting standards, claims handling and/or operational changes, policy provisions, as well as general economic trends. The Company monitors those anticipated trends based on actual development and makes modifications, if necessary.

The following is information about the incurred and paid claims for the year ended December 31, 2022, net of reinsurance, as well as cumulative claim frequency and the total of incurred-but-not-reported liabilities plus expected development on reported claims included within the net incurred claim amounts. Additionally, incurred and paid claims information is presented for the years ended December 31, 2013 through December 31, 2021 as supplementary information.

The Company's reserves primarily relate to short-duration contracts ("SDC"). Characteristics including type of coverage, geography, and claim development are considered when determining an appropriate level of disaggregation related to SDCs. The following table indicates the level of disaggregation included herein:

Reportable Segment and Lines of Business
North American - Property & Casualty
International Specialty Risk - Medical Malpractice
International Specialty Risk - Non-Medical Malpractice

The Company determined that certain exposures are either insignificant or have development characteristics associated with the exposures that are not representative of the Company's case reserve and claim settlement philosophies. The excluded exposures generally include loss portfolio transfers of liabilities that have development characteristics unlike the Company's ongoing business (e.g., a loss portfolio transfer of exposures that do not represent the current hazard mix or class severities).

The Company records reserves for estimated losses under insurance policies written and for loss adjustment expenses related to the investigation and settlement of policy claims. The Company's reserves for Loss and LAE represent the estimated cost of all reported and unreported Loss and LAE incurred and unpaid at any given point in time based on known facts and circumstances. In establishing its reserves, the Company does not use loss discounting, which would involve recognizing the time value of money and offsetting estimates of future payments by future expected investment income. The Company estimates its reserves for Loss and LAE using case-by-case valuations and actuarial analysis. The allocated loss adjustment expenses included in this disclosure are also referred to as defense and cost containment ("DCC") expenses.

The Company utilizes various generally accepted actuarial methods, including paid and incurred loss development factor approaches, expected loss ratio methods and paid and incurred Bornhuetter-Ferguson approaches to estimate its reserves for Loss and LAE. Embedded within these actuarial methods are loss development assumptions selected by either a review of specific loss development history, industry loss development characteristics, or a combination of both depending on the line of business and the maturity of the loss experience to date.

7. Loss and Loss Adjustment Expense Reserves (continued)

Loss development factors are a key assumption underlying many of the actuarial methods utilized. Loss development factors are the ratio of losses at successive evaluations for a defined group of claims (e.g., accident year, accident quarter, etc.). Loss development factors may be dependent on a number of elements, including frequency and severity of claims, length of time to achieve ultimate settlement of claims, case reserving practices, projected inflation of medical costs and wages (for workers' compensation), insurance policy coverage interpretations, judicial determinations and existing laws and regulations. The predictive ability of loss development factors is dependent on consistent underwriting, claims handling, and predictable legislatively and judicially imposed legal requirements. To a lesser extent, broad macroeconomic factors, such as inflation and its sustained divergence from historical levels, may impact the predictive ability of loss development factors.

The Company generally relies upon the expected loss ratio ("ELR") approach for only the most recent accident periods for which claim experience may be too immature or volatile to rely upon for a projection of ultimate Loss and LAE. The ELR is generally based on the business plan, trended historical results, or recent industry trends, all supplemented by discussions with various stakeholders including underwriting and claims. The ELR, when applied to earned premiums for an accident period, will provide an indication for estimated incurred claims and allocated claim adjustment expenses for the period.

The Bornhuetter-Ferguson method ("BFM") is a weighted blend of the loss development factor method and the ELR method. The BFM splits the ultimate claims into two components: actual reported (or paid) claims to date and expected unreported (or unpaid) claims. As experience matures, more weight is given to actual claims experience while the expected claims component becomes gradually less important.

The Company's actuarial department projects ultimate loss estimates and resulting unpaid claim and allocated claim adjustment expense reserve levels using the methodologies outlined above. The assumptions the Company employs in these methodologies are subject to regular review and update as experience matures. Management establishes the Loss and LAE and DCC reserves by assessing the results of the actuarial techniques as prepared by both the internal and external actuarial resources, followed by a review of specific underwriting, claims handling and other operational considerations. In utilizing its judgment, management makes certain assumptions regarding the Company's business, including, among other things, frequency of claims, severity of claims and claim closure rates. Management's estimation process has been generally consistent over time.

In order to establish the adjusting and other reserves, the Company reviews its past adjustment expenses in relation to past claims and estimates its future costs based on expected claims activity and duration.

Because the Company determines its reserves based on assumptions that may give significant weight to industry incurred development patterns, the Company's ultimate losses may differ substantially from estimates produced by the above methods.

The information presented below reflects acquired business on a retrospective basis, which include the historical development from acquired businesses both before and after their respective acquisition dates.

The Company presents loss development for International Specialty Risk (Medical Malpractice and Non-Medical Malpractice) operations for all accident years using month-end exchange rate as of December 31, 2022. Although this approach requires restating all prior accident year information, the changes in exchange rates do not impact incurred and paid loss development trends.

The Company calculates the average annual percentage payout based on the historical information contained within each claims development table. First, the Company converts cumulative paid claims and allocated claim adjustment expenses, net of reinsurance into incremental payment amounts (e.g., 0-12 months, 12-24 months, etc.) for each accident year and then divides each incremental payment amount by the current evaluation of incurred claims and allocated claim adjustment expenses, net of reinsurance in order to determine the historical annual percentage payout for each incremental period for each accident year. The Company averages available observations of annual percentage payout for each incremental period across accident years to determine the historical average annual percentage.

7. Loss and Loss Adjustment Expense Reserves (continued)

Note that the historical average annual percentage payout may sum to an amount different than 100%. This may be due to the length of the development pattern; for example, very long tailed lines of business may have payout periods that are in excess of the number of years included in the tables below. Furthermore, fluctuation in the annual percentage payout for individual incremental periods due to the uncertainty inherent in the loss settlement process may even cause the sum of the average annual payout percentage to exceed 100%.

North American Property & Casualty

The Company's North American Property & Casualty business are cessions from an intercompany reinsurance pooling arrangement with TIC which it assumed from U.S. property casualty insurance affiliates ("Pool Affiliates") and a US-based subsidiary and includes the retail business written and grown organically since 1998, as well as large acquired portfolios (both renewal rights and existing liabilities from periods pre-acquisition). Additionally, North American Property & Casualty includes the programs business written through Managing General Agents. This business focuses on writing smaller, niche business typically underserved by the broader insurance market and includes exposures related to Workers' Compensation, Auto Liability and General Liability. The Company typically assumes policies for Auto Liability and General Liability, which have limits of $1 million when originally written by the Pool Affiliates, limiting the severity impact of any particular claim to our overall portfolio, as well as Workers' Compensation coverage at statutory limits. See Note 10. "Related Party Transactions" for additional information on the Company's intercompany reinsurance pooling arrangement with TIC.

The Pool Affiliates targets writing small, niche Workers' Compensation exposures in generally low-hazard occupations across the Retail and Programs portfolio and often bundled with other coverages through package policies. This has been the core strategy for the organic business and re-underwriting goals for acquired businesses. In the past twelve months, the core Workers' Compensation line of business has experienced overall favorable development, particularly Accident Years 2016 and subsequent. The favorable development has been driven by macroeconomic conditions on-going claims initiatives. These initiatives include re-negotiating benefit provider contracts, enhanced subrogation efforts, more effective nurse case management, legal cost-containment via actively monitored legal referrals to lower cost/better outcome providers, and reduction in allocated loss adjustment expenses ("ALAE") expenditures related to marginal benefit items such as surveillance.

The Pool Affiliates writes Commercial Auto policies on a stand-alone basis and bundled with other coverage through package policies. For example, the Pool Affiliates may write Commercial Auto with Workers' Compensation or Property Coverage. When pricing a particular risk, the Pool Affiliates focuses on overall profitability and may be willing to accept more (or less) pricing adequacy in a certain coverage and less (or more) pricing adequacy on another line. However, the Pool Affiliates's initial estimates of loss for Commercial Auto have tended to prove too low. The Pool Affiliates's results have been impacted by adverse trends impacting the broader commercial auto industry, including increasing frequency and severity of claims above expectation. As such, the Pool Affiliates curtailed writing in the Small Commercial Auto segment beginning in 2019 and has since focused on building specialty in the trucking and transportation business, included in the triangles below.

The Pool Affiliates typically writes policies that have limits of $1 million to limit the severity impact of any particular claim to the Pool Affiliates's overall line of business. However, as the Pool Affiliates grew in both Retail and Specialty Program - Commercial Auto business, the Pool Affiliates underwrote a small number of large, mono-line auto programs at limits higher than the traditional $1 million cap. These policies had a disproportionate impact on the adverse loss experience embedded in the triangle.

The Pool Affiliates has now terminated or non-renewed most of the mono-line auto policies and focused on achieving rate increases on renewed policies generally sold in concert with other coverages. Both company and industry frequency and severity trends have proven greater than initial expectations, but the Company believes the updated actuarial assumptions better reflect the current economic environment. In the past twelve months, the Company reviewed nearly every outstanding open claim, with focus on Accident Years 2019 and prior, and made case reserve adjustments necessary to bring these claims to a close given continued year-over-year severity trend increases.

7. Loss and Loss Adjustment Expense Reserves (continued)

The General Liability line of business written through the Retail and Programs policies may contain a mix of exposures from retail operations, contractors, manufacturers, and other premises. The propensity for loss from these exposures is driven by judicial and economic developments that are difficult to forecast. Additionally, claims may be reported as many as three years or more after an occurrence and the Pool Affiliates may not receive the information required to set an accurate reserve in a timely manner.

General Liability has been the line of business most subject to re-underwriting and review since bringing in additional actuarial and management resources in early 2015. During the year ended December 31, 2022, the Pool Affiliates experienced adverse development in between Accident Years 2013 and 2019, most of which was related to development within the Pool Affiliates' Premises and Operations Package policies. Construction Defect exposed contractors' risks written on both an admitted and non-admitted (Excess and Surplus) basis, and higher limit Excess and Surplus professional liability policies where claim severities exceeded initial expectations. Accident Years 2020 and 2021 have shown favorable development given the reduced frequency impacts of COVID-19 versus the original pricing expectation, as well as a greater mix of claims-made related D&O and Cyber coverages that had more favorable frequency and severity trends than expected.

The Pool Affiliates has re-underwritten or terminated many General Liability related programs, Retail exposures, and Excess & Surplus lines that have contributed to the adverse experience. The Pool Affiliates typically writes policies that have limits of $1 million, limiting the severity impact of any particular claim to the overall lines of business. However, some Construction Defect related policies earning in Accident Years 2018 and prior offered limits up to $5 million where a combination of a higher severity and longer tail reporting period than anticipated contributed to adverse development recognized. The Pool Affiliates' claims and legal teams currently have several claims initiatives underway to aid in reduction of individual claims severities, including legal provider reviews and faster and stronger claims reserving to improve settlement rates.

(In Thousands)

7. Loss and Loss Adjustment Expense Reserves (continued)

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

	For the Year Ended December 31,										December 31, 2022	
Accident Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total of Incurred-but not-Reported Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited			
2013	$ 445,882	$ 458,773	$ 482,208	$ 537,901	$ 502,973	$ 549,990	$ 553,617	$ 563,621	$ 560,712	$ 561,463	$ 1,649	91,579
2014	—	673,047	642,880	675,949	624,571	673,311	682,526	708,685	707,295	707,512	2,312	124,192
2015	—	—	766,062	785,510	709,047	746,855	757,848	781,749	789,950	795,326	5,166	149,378
2016	—	—	—	832,643	707,972	728,017	762,792	780,073	792,428	806,686	9,126	151,071
2017	—	—	—	—	678,843	667,934	684,520	665,175	669,437	684,281	66,253	142,965
2018	—	—	—	—	—	386,015	351,713	318,938	318,376	320,979	59,975	133,241
2019	—	—	—	—	—	—	292,855	285,722	287,737	295,667	38,052	107,202
2020	—	—	—	—	—	—	—	301,168	290,061	285,332	61,583	76,469
2021	—	—	—	—	—	—	—	—	403,101	390,479	138,421	101,175
2022	—	—	—	—	—	—	—	—	—	517,145	326,402	103,460
									Incurred claims and allocated claim adjustment expenses, net of reinsurance	$5,364,870		

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

	For the Year Ended December 31,									
Accident Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	
2013	$ 68,733	$ 172,692	$ 273,287	$ 373,428	$ 441,500	$ 485,752	$ 519,902	$ 537,075	$ 546,543	$ 555,999
2014	—	85,702	242,538	375,147	490,012	580,785	635,934	669,843	684,521	698,824
2015	—	—	106,707	286,429	438,726	573,950	672,821	720,413	755,288	785,241
2016	—	—	—	122,042	306,132	460,001	609,564	686,271	745,672	795,531
2017	—	—	—	—	94,078	248,787	302,293	396,971	475,899	540,475
2018	—	—	—	—	—	48,326	(50,865)	43,694	117,840	175,316
2019	—	—	—	—	—	—	44,693	100,762	152,292	196,776
2020	—	—	—	—	—	—	—	34,593	96,871	151,002
2021	—	—	—	—	—	—	—	—	44,904	135,797
2022	—	—	—	—	—	—	—	—	—	59,897
									Cumulative paid claims and allocated claim adjustment expenses, net of reinsurance	$ 4,094,858
									All outstanding liabilities before 2012, net of reinsurance	14,573
									Liabilities for claims and claim adjustment expenses, net of reinsurance	$ 1,284,585

Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance

Years	1	2	3	4	5	6	7	8	9	10
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
North American Property & Casualty	13.2%	18.5%	17.5%	16.8%	12.1%	9.8%	7.5%	1.8%	0.9%	0.9%

(In Thousands)

7. Loss and Loss Adjustment Expense Reserves (continued)

International Specialty Risk - Medical Malpractice

In 2010, the Company entered the Medical Malpractice line of business, primarily in Italy. Initial results recorded have developed adversely (Accident Years 2013 and prior) before leveling off; however, over time the Company has developed greater market knowledge, underwriting experience, and knowledge of various class and region distinctions, as well as numerous hospital and legal partnerships that allow it to exercise more leverage in the adjudication of claims. The favorable development observed subsequent to 2017 was primarily related to single doctors' exposures, which have tended to be lesser exposed to losses versus public hospitals, as well as ongoing favorable experience due to ongoing claims initiatives focusing on faster adjudication and settlement. Additionally, the Company observed a reduced frequency of reported claims on the 2020 and 2021 Accident Years related to treatment delays due to COVID-19.

The triangles below are the result of improved data processing and allocation procedures developed in 2021. In particular, prior disclosure did not include reported claim counts due to complexities of data obtained from third party reporting. In 2021, automated data feeds allowed the Company to produce claim count information.

The Medical Malpractice business is written on a claims-made coverage and data is recorded on an underwriting year basis. Accident Year in these triangles is, therefore, the result of an allocation that primarily relies on report notice.

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

	For the Year Ended December 31,										December 31, 2022	
Accident Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total of Incurred-but not-Reported Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited			
2013	$ 123,946	$ 120,211	$ 138,449	$ 140,022	$ 152,363	$ 154,704	$ 164,916	$ 155,708	$ 160,405	$ 161,949	$ 7,043	10,071
2014	—	109,362	107,050	121,577	131,196	133,894	142,576	134,675	142,429	144,886	8,902	8,702
2015	—	—	96,028	105,031	109,238	102,822	97,330	90,907	96,874	103,400	2,519	7,158
2016	—	—	—	103,622	112,972	105,872	99,219	91,111	94,860	96,234	2,896	6,221
2017	—	—	—	—	111,721	102,492	98,838	85,882	85,877	86,239	3,709	5,634
2018	—	—	—	—	—	134,348	121,438	92,093	83,078	81,921	1,597	5,176
2019	—	—	—	—	—	—	133,358	108,529	108,527	111,247	(8,089)	5,507
2020	—	—	—	—	—	—	—	100,225	88,625	76,631	(22,329)	5,214
2021	—	—	—	—	—	—	—	—	94,325	82,230	7,718	5,723
2022	—	—	—	—	—	—	—	—	—	91,613	45,154	4,492
									Incurred claims and allocated claim adjustment expenses, net of reinsurance	$1,036,350		

(In Thousands)

7. Loss and Loss Adjustment Expense Reserves (continued)

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance										
For the Year Ended December 31,										
Accident Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	
2013	$ 1,606	$ 14,595	$ 28,569	$ 44,817	$ 59,401	$ 75,095	$ 89,719	$ 109,590	$ 117,707	$ 126,925
2014	—	1,103	9,501	25,598	38,538	47,282	62,459	81,155	92,466	103,273
2015	—	—	474	8,777	22,090	31,366	42,056	53,022	60,577	72,307
2016	—	—	—	656	8,260	18,961	29,937	39,512	46,753	57,356
2017	—	—	—	—	414	3,599	10,885	23,939	33,261	41,782
2018	—	—	—	—	—	265	4,014	10,973	18,321	26,841
2019	—	—	—	—	—	—	342	10,619	21,906	33,861
2020	—	—	—	—	—	—	—	287	7,116	12,841
2021	—	—	—	—	—	—	—	—	938	7,050
2022	—	—	—	—	—	—	—	—	—	370
Cumulative paid claims and allocated claim adjustment expenses, net of reinsurance										$ 482,606
All outstanding liabilities before 2012, net of reinsurance										46,363
Liabilities for claims and claim adjustment expenses, net of reinsurance										$ 600,107

Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance										
Years	1	2	3	4	5	6	7	8	9	10
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
International Specialty Risk - Medical Malpractice	0.6%	7.2%	9.8%	10.5%	8.7%	10.3%	9.9%	9.9%	5.1%	6.4%

International Specialty Risk - Non-Medical Malpractice

International Casualty, Non-Medical Malpractice primarily consists of the Company's Professional Indemnity, Structural Defects, and Other Liability exposures. The Company has typically focused on Professional Indemnity coverage for solicitors in the UK and structural defects within the UK, French, and Scandinavian territories.

Professional Indemnity has largely performed according to expectation. Structural Defects has been the primary driver of adverse experience in the recent few calendar years, and in particular, those exposures related to fire and safety issues. Costs related to claims and investigations related to "cladding", or external building sheathing, which has proven to be extremely flammable and the source of both existing loss claims as well as claims to remediate buildings in accordance with building codes. Claims are now reserved more cautiously given this recent experience, and much of this portfolio has now been put into run-off. There have been several improvements made to processes amongst Management, Legal and Claims regarding the fire and safety issue claims. Claims have a dedicated team now working on these claims and believe that the underlying position is stabilizing/improving both in terms of numbers of claims and the reserved position.

(In Thousands)

7. Loss and Loss Adjustment Expense Reserves (continued)

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

	For the Year Ended December 31,										December 31, 2022	
Accident Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total of Incurred-but not-Reported Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited			
2013	$ 6,250	$ 12,543	$ 18,696	$ 31,501	$ 32,516	$ 33,647	$ 36,259	$ 38,049	$ 39,549	$ 40,385	1,638	NP
2014	—	9,723	16,889	37,855	38,309	39,842	42,394	45,218	47,255	48,713	2,165	NP
2015	—	—	10,612	38,457	37,266	39,405	41,981	48,182	47,974	49,725	2,750	NP
2016	—	—	—	36,943	36,684	40,106	47,755	55,489	57,841	63,687	7,545	NP
2017	—	—	—	—	44,969	38,519	52,559	55,499	63,040	76,246	13,313	NP
2018	—	—	—	—	—	47,814	47,257	48,398	45,856	52,460	4,733	NP
2019	—	—	—	—	—	—	41,021	43,416	43,516	48,602	6,957	NP
2020	—	—	—	—	—	—	—	36,678	35,419	39,236	13,226	NP
2021	—	—	—	—	—	—	—	—	46,768	42,590	26,207	NP
2022	—	—	—	—	—	—	—	—	—	48,762	38,468	NP
Incurred claims and allocated claim adjustment expenses, net of reinsurance										$ 510,406		

NP = Not practicable

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

	For the Year Ended December 31,									
Accident Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	
2013	$ 2,613	$ 6,270	$ 12,393	$ 18,211	$ 22,572	$ 25,918	$ 32,177	$ 33,865	$ 35,342	$ 36,237
2014	—	3,171	10,597	17,448	23,876	29,727	35,241	37,993	40,244	41,749
2015	—	—	4,830	9,595	14,912	24,174	30,324	34,719	37,626	39,352
2016	—	—	—	3,404	8,409	17,263	26,335	33,414	38,552	41,447
2017	—	—	—	—	4,281	9,498	18,400	25,414	32,231	37,961
2018	—	—	—	—	—	5,195	8,923	15,587	22,431	28,268
2019	—	—	—	—	—	—	3,658	9,127	16,654	21,490
2020	—	—	—	—	—	—	—	3,053	5,268	8,136
2021	—	—	—	—	—	—	—	—	2,512	4,222
2022	—	—	—	—	—	—	—	—	—	1,839
Cumulative paid claims and allocated claim adjustment expenses, net of reinsurance										$ 260,701
All outstanding liabilities before 2012, net of reinsurance										3,280
Liabilities for claims and claim adjustment expenses, net of reinsurance										$ 252,985

Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance

Years	1	2	3	4	5	6	7	8	9	10
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
International Specialty Risk -Non-Medical Malpractice	6.8%	8.8%	13.2%	13.8%	10.7%	8.5%	11.9%	8.0%	4.8%	3.2%

(In Thousands)

7. Loss and Loss Adjustment Expense Reserves (continued)

The following table presents a reconciliation of net incurred and paid claims development tables to the liability for claims and claim adjustment expenses for the years ended December 31, 2022 and 2021.

	Year Ended December 31,	
	2022	**2021**
Net liability for unpaid Losses and LAE:		
North American Property & Casualty	$ 1,284,585	$ 1,227,924
International Specialty Risk - Medical Malpractice	600,107	763,901
International Specialty Risk - Non-Medical Malpractice	252,985	218,212
Insurance not presented in the tables above:		
Other short-duration lines	527,364	593,058
Reserves related to National Council on Compensation Insurance pooling arrangement	68,163	59,304
Unallocated claims adjustment expense	120,754	118,161
Total net liability for unpaid Losses and LAE	2,853,958	2,980,560
Reinsurance recoverable on loss and loss adjustment expenses:		
Reinsurance recoverable	1,847,836	1,866,517
Total reinsurance recoverable on loss and loss adjustment expense	1,847,836	1,866,517
Total gross liability for unpaid Loss and LAE	$ 4,701,794	$ 4,847,077

(In Thousands)

8. Debt

Outstanding debt consisted of the following as of December 31, 2022 and 2021:

	December 31, 2022	December 31, 2021
Secured loan agreements	$ 93,319	$ 106,844

Aggregate scheduled maturities of the Company's outstanding debt as of December 31, 2022 are:

2023	$ 106
2024	110
2025	116
2026	121
2027	87,179
Thereafter	5,687
Total scheduled payments	$ 93,319

The following is a summary of Interest expense, net of interest income related to the outstanding debt and letters of credit for the years ended December 31, 2022 and 2021:

	December 31, 2022	December 31, 2021
Secured loan agreements	$ 3,468	$ 3,889
Interest on funds held	12,298	10,783
Other, including interest income	6,592	6,011
Total interest expense, net	$ 22,358	$ 20,683

Secured Loan Agreements

On September 18, 2015, the Company entered into a seven-year mortgage agreement in the aggregate principal amount of $10,250 to finance the purchase of a building in New York. The mortgage initially bore interest at an annual rate equal to 3.75%, with a maturity date of September 18, 2022. On July 20, 2022, the Company exercised the option to extend the initial maturity date to August 10, 2032. At that time, the Company amended and restated the note into a ten-year mortgage agreement in the aggregate principal amount of $6,266 with monthly installment payments of principal and interest. The mortgage bears interest at an annual rate equal to 4.13% until August 10, 2027, at which time the onward rate is the greater of (i) 4.13% or (ii) 2.75% above the weekly average yield on five year treasuries. The final payment upon maturity will equal the then outstanding principal balance of the mortgage plus any accrued and unpaid interest.

On January 12, 2017, the Company entered into a ten-year secured loan agreement with Teachers Insurance and Annuity Association of America in the aggregate amount of £72,313 (or $87,375 at December 31, 2022) to finance the purchase of a commercial office building in London, England. The loan bears interest at an annual rate of 3.45% and matures on January 15, 2027. The loan requires quarterly interest payments for the term of the loan, with the principal and any accrued interest to be paid at maturity.

Letters of Credit

The Company has stand-by letters of credit with various lenders in the amount of $235,000, all of which were outstanding, as of December 31, 2022. These letters of credit are either backed by AFSI as the guarantor or applied by AFSI on the Company's behalf. The letters of credit are primarily used to support credit for reinsurance provided by the Company to TIC. Fees payable with respect to each letter of credit ranges from 1.25% to 1.50%.

(In Thousands)

8. Debt (continued)

The Company also has outstanding letters of credit with JPMorgan Chase Bank, N.A.,("JPM") as Administrative Agent and Issuing Bank amounting to $10,712 and $28,901 as of December 31, 2022 and 2021, respectively, obtained though AFSI's credit facility with JPM ("Credit Agreement"). Fees payable with respect to the letter of credit is charged to the Company by AFSI being the applicant of the letters of credit which includes an issuer fee (0.125%) and a commission fee (1.750%).

The letters of credit contains financial covenants that are the same with AFSI's Credit Agreement with JPM which requires AFSI to maintain a minimum consolidated net worth, a minimum risk-based capital ratio and specify a maximum consolidated leverage ratio. AFSI's Credit Agreement also contains certain restrictive covenants customary for facilities of this type (subject to negotiated exceptions and baskets), including restrictions on indebtedness, liens, fundamental changes, acquisitions, restricted payments, related party transactions and dispositions. The Credit Agreement provides for customary events of default, with grace periods where customary, including failure to pay principal when due, failure to pay interest or fees within five business days after becoming due, failure to comply with covenants, breaches of representations and warranties, default under certain other indebtedness, certain insolvency, receivership or insurance regulatory events affecting AFSI, the occurrence of certain material judgements, certain amounts of reportable ERISA or foreign pension plan noncompliance events, and certain changes in control of AFSI. Upon the occurrence and during the continuation of an event of default, the Administrative Agent, upon the request of the requisite percentage of the lenders, may terminate the obligations and to issue letters of credit under the Credit Agreement, declare AFSI’s obligations under the agreement immediately due and payable and/or exercise any and all remedies and other rights under the Credit Agreement. AFSI was in compliance with all of its covenants as of December 31, 2022.

9. Reinsurance

In the ordinary course of business, the Company assumes and cedes premiums to other insurers through pro-rata and excess of loss reinsurance agreements on a treaty or facultative basis. The Company generally purchases reinsurance to reduce its net liability on individual risks and to protect against catastrophe losses and volatility. The Company structures its reinsurance programs by analyzing its tolerance for risk in each line of business and on an overall consolidated basis, based on a number of factors, including market conditions, pricing, competition and the inherent risks associated with each business type.

To reduce its exposure to reinsurance credit risk, the Company evaluates the financial condition of its reinsurers and places its reinsurance with a diverse group of companies and syndicates that it believes to be financially sound. The Company uses certain financial measures to select and retain its reinsurers, such as requiring them to be fully collateralized, maintain minimum surplus of $500,000 or have a financial strength rating of “A-” or better from A.M. Best Company, Inc. or Standard & Poor's Corporation. The Company carefully monitors the credit quality of its reinsurers and may approve exceptions to these criteria when warranted.

The following is a summary of reinsurance financial data reflected in the Consolidated Statement of Operations:

	Year Ended December 31, 2022	Year Ended December 31, 2021
Net earned premiums:		
Direct	$ 1,167,498	$ 1,390,611
Assumed	1,485,238	1,304,264
Ceded	(534,770)	(592,177)
Total Net earned premiums	$ 2,117,966	$ 2,102,698
Loss and loss adjustment expenses:		
Direct	$ 857,965	$ 983,131
Assumed	969,017	770,620
Ceded	(498,989)	(481,161)
Total Loss and loss adjustment expenses	$ 1,327,993	$ 1,272,590

(In Thousands)

9. Reinsurance (continued)

Reinsurance recoverables include amounts recoverable on both paid and unpaid claims and claim adjustment expenses and were as follows:

	Year Ended December 31,	
	2022	2021
Reinsurance recoverables on unpaid claims and claim adjustment expense	$ 1,847,836	$ 1,866,517
Reinsurance recoverables on paid claims and claim adjustment expense	235,412	197,580
Reinsurance receivable	$ 2,083,248	$ 2,064,097

Reinsurance Agreements with Swiss Re

Effective July 1, 2022, AFSI renewed the 50% quota share agreement with Swiss Re for the Company's International Warranty, Medical Malpractice, Legal Expense, Accident & Health, Professional Indemnity and International Property business. The renewal maintained the notional funds withheld provision.

French Medical Malpractice Quota Share

On September 9, 2022, AFSI entered into a 100% quota share agreement with a Bermuda reinsurer, effective January 1, 2022, for the entirety of the Company's gross French Medical Malpractice ("FMM") exposures for the years 2012 to 2023. Upon execution, the Company paid $164,623 to reinsure FMM loss reserves of $142,870 and, as a result, recognized a loss on the transaction of $21,753 in Loss and Loss Adjustment Expense in the Consolidated Statement of Operations. Following the execution of the FMM QS, the Company and reinsurer applied to the Central Bank of Ireland for approval for a Section 13 portfolio transfer of the business to a Finland-domiciled insurance carrier subsidiary of the reinsurer, to achieve legal finality.

Immediately prior to the execution of the FMM QS, the Company commuted historic quota share agreements covering the FMM business with Maiden Reinsurance and Swiss Re (the "Commutation Agreement"). Under the Commutation Agreement, the Company agreed to settle FMM reserves of approximately $24,743 ceded by the Company to Maiden Reinsurance and $10,390 ceded by the Company to Swiss Re. As a result of the commutation, the Company recorded a gain of $4,863 reported as a reduction to Loss and Loss Adjustment Expense in the Consolidated Statement of Operations. For further description of the Commutation Agreement and European Quota Share, see Note 10. "Related Party Transactions".

10. Related Party Transactions

Significant Transactions with AmTrust Financial Services, Inc.

Reinsurance Agreements and Assets in Trust

During 2017 and until September 30, 2017, the Company reinsured the underwriting activities of certain companies related through common ownership ("the AmTrust Ceding Insurers"), net of unaffiliated inuring reinsurance. The AmTrust Ceding Insurers provide specialty property and casualty insurance focusing on workers' compensation and commercial package coverage for small business, specialty risk and extended warranty coverage, and property and casualty coverage for middle market business in the United States.

Effective October 1, 2017, TIC entered into an intercompany reinsurance pooling agreement ("Pooling Agreement") with the Pool Affiliates. Under the Pooling Agreement, the Pool affiliates agreed to cede and transfer to TIC and TIC agreed to assume (1) 100% of the Pool Affiliates' respective liabilities on all insurance policies and all assumed reinsurance contracts that were in force as of October 1, 2017, or that had expired or had been terminated or non-renewed as of October 1, 2017; and (2) 100% of the Pool Affiliates' respective liabilities on all insurance policies and all assumed reinsurance contracts issued subsequent to October 1, 2017.

(In Thousands)

10. Related Party Transactions (continued)

Concurrent with the Pooling Agreement and effective September 30, 2017, each of the quota share agreement between the Pool Affiliates and the Company were commuted, with insurance business obligations outstanding under the quota share agreements commuted at book value. Following the commutations and effective October 1, 2017, the Company and TIC entered into a new quota share reinsurance agreement, whereby TIC retrocedes and the Company assumes 65% of its customary insurance business obligations, which consist primarily of unearned premiums as of the effective date, gross written premiums, reserves for Loss and LAE and unallocated LAE, written as of October 1, 2017, and 50% of the customary insurance business obligations written on or after October 1, 2017. The quota share agreement has a continuous term with a one year termination notice period and covers all policies issued by TIC. The Company pays a ceding commission equal to its proportionate share of TIC's acquisition cost including a proportionate share of the reinsurance purchased by TIC, which inures to the Company's benefit. This reinsurance agreement is collateralized by assets in trust accounts, funds withheld, or letters of credit. The assets in trust are included as restricted cash and investments in Note 3. "Investments".

The Company was granted reciprocal reinsurer status by Delaware's Department of Insurance for underwriting year 2022, the Company's status as a reciprocal reinsurer will require no collateral for its obligations to TIC for underwriting year 2022 as long as the Company continues to meet the qualification criteria, and makes annual renewal applications to the Delaware Department of Insurance. At December 31, 2022 and 2021, the net balance due to the Company by TIC under the Pooling Agreement totaled $275,105 and $598,590, respectively and is included in Premiums receivable, net.

Due from Affiliate

The Due from affiliate balance represents balances receivable, net of payables, with companies under common control of AFSI and consisted of the following at December 31, 2022 and 2021:

As of December 31, 2022	**Principal**	**Accrued Interest**	**Total**
Secured promissory notes receivable	$ 43,418	$ 1,000	$ 44,418
Loans receivable from AFSI, net	266,210	2,361	268,571
Other net receivables (payables)	41,840	(11,908)	29,932
Net balances due from affiliate	$ 351,468	$ (8,547)	$ 342,921

As of December 31, 2021	**Principal**	**Accrued Interest**	**Total**
Secured promissory notes receivable	$ 43,418	$ 1,538	$ 44,956
Loans receivable from AFSI, net	285,568	8,494	294,062
Other net receivables (payables)	91,005	(10,168)	80,837
Net balances due from affiliate	$ 419,991	$ (136)	$ 419,855

Secured Promissory Notes Receivable

During 2016, a group of 6 affiliated companies collectively issued a promissory note to the Company in the amount of $50,000. These companies used proceeds from the note to purchase real estate investment properties. The note is collateralized by the properties acquired and guaranteed by certain other affiliated entities including AFSI. The note receivable accrues interest of 6.80% per annum and the interest is due to the Company quarterly in arrears. The interest rate was reduced to 4% as of January 1, 2020 as a result of an amendment updating the terms of the loan. The principal amount of the promissory note has also been reduced to $43,418 as result of a repayment from one of the affiliated company. The remaining promissory note matures on December 20, 2031, with all unpaid principal and interest due on the maturity date. The Company recorded interest income of $1,761 for the years ended December 31, 2022 and 2021, respectively.

10. Related Party Transactions (continued)

Loans Receivable From AFSI, net

On March 24, 2017, the Company entered into a loan agreement with AFSI under which the balance due from AFSI at December 31, 2016 was converted to a loan receivable upon signing of the loan agreement. Under this loan agreement, AFSI may borrow up to an aggregate principal amount of $300,000 from the Company. The loan to AFSI is unsecured and bears interest at an annual rate equal to 2.05%. The loan matures on the earlier of December 31, 2024 or the date that the Company requests repayment. All unpaid principal and interest are due on the maturity date. As of December 31, 2022 and 2021, the loan balance and related accrued interest totaled $73,911 and $149,034, respectively. The Company recorded interest income of $2,461 and $3,401 for the years ended December 31, 2022 and 2021, respectively.

On February 26, 2018, RIC a wholly-owned subsidiary of the Company entered into a loan agreement with the Company's parent in the aggregate principal amount of $76,000. The loan is unsecured, bears interest at a rate equal to 3-month LIBOR plus 137.5 basis points, and matures on February 26, 2028 or the date the lender requests payment with 30 days prior written notice. On October 26, 2022, RIC assigned the outstanding loan amount of $74,336 to its parent Company, AMT Investments LLC, which is also a wholly owned subsidiary of the Company. The amended loan agreement bears interest at a fixed annual rate of 3.28%. During the years ended December 31, 2022 and 2021, the Company recorded interest income of $3,103 and $1,268, respectively.

On February 27, 2018, in conjunction with the sale of a previously held for sale subsidiary, a wholly-owned subsidiary of the Company entered into a loan agreement with AFSI in the aggregate principal amount of $53,114. The loan is unsecured, bears interest at a rate equal to the short-term federal funds rate on the last day of each calendar quarter, and is payable together with outstanding interest on February 27, 2023. On June 30, 2021, the loan agreement was amended adding the existing $9,084 other balance between the parties to be part of the loan principal. During the years ended December 31, 2022 and 2021, the loan balance and related accrued interest totaled $62,198. The Company recorded interest income of $1,024 and $211, respectively.

Other balances due from affiliate are in relation to operating transactions yet to be settled and are unsecured, interest free, and due on demand included in Due from affiliate, net.

Significant Transactions with Maiden Holdings, Ltd.

The Company has various reinsurance and service agreements with Maiden Holdings, Ltd. ("Maiden"). Maiden is a publicly held Bermuda insurance holding company (Nasdaq: MHLD) formed by Michael Karfunkel, George Karfunkel and Barry Zyskind, principal stockholders, and, respectively, the former chairman of the board of directors of AFSI, a director of AFSI, and the current Chairman and Chief Executive Officer of AFSI. As of December 31, 2022, Barry Zyskind, owned or controlled approximately 4.5%, of the issued and outstanding capital stock of Maiden. Mr. Zyskind serves as the non-executive chairman of Maiden's board of directors. The following section describes the agreements in place between the Company and Maiden.

Reinsurance Agreements with Maiden Holdings, Ltd.

In 2007, AFSI and Maiden entered into a master agreement, as amended, which included the Maiden Quota Share between the Company and Maiden Reinsurance Ltd. ("Maiden Reinsurance"), Maiden's Bermuda subsidiary. Under the Maiden Quota Share, the Company retroceded to Maiden Reinsurance certain lines of business assumed by the Company from TIC as well as its Irish and U.K. insurance company subsidiaries.

On December 31, 2018, the Company and Maiden Reinsurance entered into a Partial Termination Endorsement effective January 1, 2019, by which the parties agreed to amend the Maiden Quota Share to terminate it on a cut-off basis with respect to Workers' Compensation, General Liability, Umbrella Liability, Professional Liability insurance coverages in the Company's North America P&C business segment and extended warranty and specialty risk insurance coverages in the Company's Specialty Risk and Extended Warranty business segment that are produced in the U.S. ("Terminated Business").

10. Related Party Transactions (continued)

On January 30, 2019, the Company and Maiden Reinsurance agreed to terminate, on a run-off basis, the remaining covered business ceded under the Maiden Quota Share effective January 1, 2019. In addition, the Company and Maiden entered into a second amendment to remove the provisions requiring the Company to reinsure business with Maiden. Maiden Reinsurance transferred $575,000 to the Company on a funds withheld basis, to fund statutory deposit requirements resulting from Maiden Reinsurance's unauthorized reinsurer status. Interest at a fixed annual interest rate of 2.1%, adjustable annually, is payable on the funds withheld balance. As of December 31, 2022, the funds withheld balance was approximately $419,042, comprising $416,835 of initial funding and $2,206 of accrued interest thereon.

In July 2019, Maiden Reinsurance and a third party Bermuda reinsurer entered into an Adverse Development Cover Agreement effective as of January 1, 2019 (the "ADC Agreement"), by which the Bermuda reinsurer, assumed from Maiden Reinsurance claims payable by Maiden Reinsurance to the Company under the Maiden Quota Share in excess of a retention of $2,178,500 up to an aggregate limit of $600,000. In connection with the ADC Agreement, the Company entered into (i) a Master Collateral Agreement with Maiden Reinsurance and the Bermuda reinsurer dated as of July 31, 2019 (described below); (ii) a Commutation Agreement and Release with Maiden Reinsurance effective as of July 31, 2019 with respect to certain workers' compensation reserves ceded by the Company to Maiden Reinsurance pursuant to the Maiden Quota Share; and (iii) a Post-Termination Endorsement No. 1 to the Maiden Quota Share.

Pursuant to the Commutation Agreement, the Company and Maiden Reinsurance agreed to settle Maiden Reinsurance's liability under the Maiden Quota Share for (a) all losses incurred in accident year 2017 and 2018 under workers' compensation policies issued by the Company in California, and (b) all losses incurred in accident year 2018 under workers' compensation policies issued by the Company in New York, in each case as of December 31, 2018.

Pursuant to Post-Termination Endorsement No.1, Maiden Reinsurance agreed that the loss corridor applicable to the Company's liability for losses falling within the Specialty Program portion of the covered business only ("the Specialty Program Loss Corridor") is capped at $40,500. In effect, the upper band of the Specialty Program Loss Corridor was reduced to 83.7%. This amendment to the Specialty Program Loss Corridor was considered an amendment to a reinsurance agreement that requires the Company to reassess risk transfer. If the Specialty Program ultimate net loss amounts exceed the 83.7% limit in future periods, the Company will determine whether to account for the Specialty Program recoveries from Maiden Reinsurance as retroactive reinsurance or under the deposit method of accounting.

Effective March 16, 2020, as a result of Maiden Reinsurance's re-domestication from Bermuda, a Solvency II equivalent jurisdiction, to Vermont, which is not, the Company and Maiden Reinsurance entered into a Post-Termination Endorsement No. 2 whereby Maiden Reinsurance provided additional collateral to the Company to secure Maiden Reinsurance's obligations through the run-off of the Maiden Quota Share. The collateral requirement increased from 105% to 110%, which could decrease to 107.5% and then 105% at lower reserve thresholds if Maiden Reinsurance maintains a certain risk based capital ratio.

European Quota Share

The Company, through its subsidiaries AmTrust Europe Limited ("AEL") and AmTrust International Underwriters DAC ("AIU"), had a reinsurance agreement with Maiden Reinsurance, originally effective April 1, 2011, by which AEL and AIU ceded certain percentages of European medical liability business to Maiden Reinsurance. On February 12, 2019, AEL, AIU and Maiden Reinsurance agreed to terminate this reinsurance agreement on a run-off basis, effective January 1, 2019. In January 2019, Maiden Reinsurance transferred €51,106 ($54,709) to AIU, on a funds withheld basis, to fund collateral requirements. AIU paid interest to Maiden Reinsurance on the funds withheld balance at a fixed interest rate of 0.5%. The funds withheld balance was exhausted as part of the Commutation Agreement effective July 11, 2022, discussed below.

10. Related Party Transactions (continued)

Effective March 16, 2020, as a result of Maiden Reinsurance's re-domestication from Bermuda, a Solvency II equivalent jurisdiction, to Vermont, which is not, AEL, AIU and Maiden Reinsurance entered into a Post-Termination Endorsement No. 1 whereby Maiden Reinsurance provided additional collateral to AEL and AIU to secure Maiden Reinsurance's obligations to each of them through the run-off of the agreement. The collateral requirement increased from 100% of total unearned premium and loss reserves to the greater of (i) 120% of total unearned premium and loss reserves or (ii) the collateralization level that would result in the same solvency coverage ratio obtained if Maiden Reinsurance were still domesticated in Bermuda (i.e., a Solvency II equivalent regime).

On May 12, 2020, AIU and Maiden Reinsurance entered into a Post-Termination Endorsement No. 2 (with effect from January 1, 2020) to confirm AIU's right to utilize and retain the withheld funds for the purposes of "Collateral", as defined in the Solvency II Directive and provide AIU with entitlement to the funds in the event of default or non-performance of obligations under the European Quota Share by Maiden Reinsurance.

On May 20, 2020, the Company and Maiden Reinsurance entered into a Commutation and Release as of March 31, 2020 with respect to Norwegian structural defect reserves of approximately $10,855 ceded by the Company to Maiden Reinsurance pursuant to the European Quota Share. The Company and Maiden Reinsurance agreed to settle Maiden Reinsurance's liability for this business for a premium equal to the reserves and unearned premium.

On July 31, 2020, AEL and AIU transferred their respective Italian medical liability businesses covered by the European Quota Share to the Company's Italian insurance company subsidiary, AmTrust Assicurazioni S.p.A.

On July 11, 2022, the Company and Maiden Reinsurance entered into a Commutation and Release as of July 1, 2022, with respect to the FMM reserves of approximately $24,743 ceded by the Company to Maiden Reinsurance pursuant to the European Quota Share. The Company and Maiden Reinsurance agreed to settle Maiden Reinsurance's liability for the business for approximately $28,269.

Collateral for Proportionate Share of Reinsurance Obligations

Effective December 1, 2008, the Company and Maiden Reinsurance entered into a Reinsurer Trust Assets Collateral agreement whereby Maiden Reinsurance is required to provide AII the assets required to secure Maiden's proportional share of AII's obligations to the AmTrust Ceding Insurers. In addition, pursuant to the quota share reinsurance agreement among AEL, AIU and Maiden Reinsurance for the Company's European medical liability business, Maiden Reinsurance is required to provide AEL and AIU the assets required to secure AEL's and AIU's obligations. As of December 31, 2022, assets held in the reinsurance trust account were approximately $231,922. Maiden Reinsurance retains ownership of the collateral in the trust accounts.

On July 31, 2019, the Company, AII, TIC, Maiden Reinsurance and a third party Bermuda reinsurer entered into a Master Collateral Agreement whereby AII released to the third party Bermuda reinsurer $445,000 in collateral from the reinsurance trust accounts referenced above as the premium payment pursuant to the ADC Agreement, which were replaced with $445,000 of letters of credit provided by the Bermuda reinsurer. The Bermuda reinsurer will be required to increase the letters of credit to cover adverse development of up to $600,000 in the aggregate. In the event it is necessary for AII to draw down on the collateral, AII will use Maiden Reinsurance's collateral prior to drawing on the Bermuda reinsurer's letters of credit. In addition, Maiden Reinsurance has over-collateralized the existing reinsurance trust accounts to 105%, which was then further increased as a result of its re-domestication to Vermont. The aggregate amount of collateral from Maiden Reinsurance, including letters of credit, trusts and funds withheld balances was approximately $1,117,127, as of December 31, 2022.

Significant Transactions with ACP Re, Ltd.

AFSI, as Administrative Agent, AII and NG Re Ltd. (both "Lenders") entered into an amended and restated credit agreement with ACP Re Holdings, LLC, a Delaware LLC owned 99.9% by the Trust (the "Borrower") in September 2016 (the "Amended and Restated Credit Agreement").

10. Related Party Transactions (continued)

The Amended and Restated Credit Agreement had a maturity date of September 20, 2036, but commencing on September 20, 2026, and for each year thereafter, 2% of the then outstanding principal balance of the loan (inclusive of any amounts previously paid in kind) was due and payable. Interest on the outstanding principal balance of $250,000 was a fixed annual rate of 3.70% (payable in cash, semi-annually, in arrears, on the last day of January and July), provided that up to 1.20% thereof could be paid in kind. The Borrower had the right to prepay the amounts borrowed, in whole or in part. At the Lenders' discretion, the Borrower could repay the loan using cash or tradeable stock of an equivalent market value of any publicly traded company on the NYSE, Nasdaq or London stock exchange. The Company earned fees for its service as Administrative Agent, plus reimbursement of any costs, expenses and certain other charges.

On March 17, 2021, ACP Re Holdings, LLC prepaid the entirety of this loan. As a result, the Amended and Restated Credit Agreement terminated and the Company and NG Re, Ltd released the collateral securing the loan. The Company received principal of $131,569 and accrued interest of $811. In addition, AFSI, as Administrative Agent for the loan, received a service fee of $159.

Significant Transactions with Amynta

On February 28, 2018, AFSI completed the transfer to Amynta Holdings LLC ("Amynta") of a majority interest in the portion of their U.S.-based fee businesses that (a) acted as managing general agents for the distribution, underwriting and procurement of property and casualty insurance on behalf of certain of the Company's affiliates and other insurance carriers and (b) designed, developed, marketed and acted as third party administrators for programs for service contracts, limited warranties and replacement plans (the "U.S.-based fee business"). The newly formed joint venture referred to as "The Amynta Group" was owned 48.9% by MH JV Holdings L.P., an investment vehicle owned by affiliates of Madison Dearborn Partners ("MDP"), 4.1% by members of Amynta's senior management and 47.0% by AFSI including 15% owned by the Company as of December 31, 2021. The Company's ownership interest in Amynta was an equity method investment. The Company recognized loss on its ownership interest in Amynta of $8,605 for the year ended December 31, 2021.

Upon the closing of the transaction, AFSI and Amynta entered into a five-year agreement whereby AFSI remained a provider of insurance coverage related to warranty and service contracts and remained an underwriter of policies offered via Amynta's managing general agents.

Effective February 16, 2022, the Company, along with various affiliates ("AmTrust Parties"), entered into a purchase agreement with Amynta whereby the Company sold back to Amynta the Company's equity interest at fair value in exchange for cash, deferred payments, and preferred stock issued by an Amynta affiliate. The transaction received regulatory approval and closed on March 4, 2022. See Note 16. "Divestitures" for more information.

(In Thousands)

11. Income Taxes

The provision for income taxes consists of the following for the years ended December 31, 2022 and 2021:

	Year Ended December 31,	
	2022	2021
Current expense:		
Federal	$ 8,132	$ 1,980
Foreign	(1,347)	40,856
Total current tax expense	6,785	42,836
Deferred expense (benefit):		
Federal	19,537	65,255
Foreign	10,710	(5,182)
Total deferred tax expense	30,247	60,073
Total income tax expense	$ 37,032	$ 102,909

The following table is a reconciliation of the statutory income tax expense to the effective tax rate for the years ended December 31, 2022 and 2021:

	Year Ended December 31,	
	2022	2021
Loss before taxes	$ (70,073)	$ (31,568)
Tax at federal statutory rate of 21%	(14,715)	(6,629)
Tax effects resulting from:		
Tax rate changes	1,464	—
Permanent adjustments	39,884	42,838
Foreign rate differential	5,638	13,658
Adjustments to prior year taxes	6,676	40,413
Valuation allowance	7,793	23,460
Tax credits	(2,405)	(10,831)
Other, net[1]	(7,303)	—
Total income tax expense	$ 37,032	$ 102,909
Effective tax rate	(52.8)%	(326.0)%

[1] Reflects adjustments to deferred tax assets related to the purchase of non-controlling interest of Tiger Capital. See Note 17. "Acquisitions" for additional information.

(In Thousands)

11. Income Taxes (continued)

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities as of December 31, 2022 and 2021 are shown below:

	December 31, 2022	December 31, 2021
Deferred tax assets:		
Net operating loss carryforward	$ 270,531	$ 243,310
Unearned premiums	48,266	46,359
Bad debt	946	2,527
Loss and LAE reserves	55,367	36,697
ROU lease liability	5,852	—
Other	—	53,404
Depreciation	—	4,838
Unrealized loss on investments	78,435	1,078
Intangible assets	424	425
Deferred compensation	2	—
Investments	17,179	7,505
Total gross deferred tax assets	477,002	396,143
Valuation allowance	(254,770)	(235,990)
Total deferred tax assets	222,232	160,153
Deferred tax liabilities:		
Deferred acquisition costs	(24,817)	(27,600)
ROU asset	(5,756)	—
Depreciation	(976)	—
Other	(12,643)	—
Total deferred tax liabilities	(44,192)	(27,600)
Deferred tax asset, net	$ 178,040	$ 132,553

The net deferred tax assets at December 31, 2022 is included in Other assets in the Consolidated Balance Sheets. The likelihood of realizing deferred tax assets is reviewed periodically. Any adjustments required to the valuation allowance are made in the period during which developments requiring an adjustment become known.

The majority of the Company's deferred tax asset of $270,531 (tax effected), derived from foreign Net Operating Losses ("NOLs"), have no expiration.

Management believes that as of December 31, 2022, except for a portion of foreign NOLs, the Company will realize the benefits of the deferred tax assets, which are included as a component of Other assets in the Consolidated Balance Sheet. The Company has a valuation allowance on a significant portion of the foreign NOLs as of December 31, 2022. The Company has a valuation allowance of $254,770 and $235,990, as of December 31, 2022 and 2021, respectively. The valuation allowance increased for the year ended December 31, 2022, as a result of changes to NOLs in Luxembourg, Ireland, and the UK due to tax rate changes.

(In Thousands)

11. Income Taxes (continued)

On August 16, 2022, the Inflation Reduction Act ("IRA") was enacted, implementing numerous changes to tax laws including a new 15% corporate alternative minimum tax. The IRA will require corporations whose average annual adjusted financial statement income exceeds $1,000,000 for any three consecutive tax years preceding the tax year ending with the relevant tax year to compute two separate calculations for federal income tax purposes and pay the greater of the corporate alternative minimum tax or their regular tax liability (regular tax liability plus BEAT liability). The IRA will be effective for tax years beginning after December 31, 2022. The Company does not anticipate to meet the $1,000,000 minimum financial statement income requirement but will reassess the position at the end of each fiscal year.

Earnings of certain foreign subsidiaries have been indefinitely reinvested in foreign operations. Therefore, no provision has been made for any U.S. taxes or foreign withholding taxes that may be applicable upon any repatriation or disposition. The determination of any unrecognized deferred tax liability for temporary differences related to investments in certain foreign subsidiaries is not practicable. As of December 31, 2022 and 2021, the financial reporting basis in excess of the tax basis for which no deferred taxes have been recognized was approximately $474,757 and $715,587, respectively.

The Company's major taxing jurisdictions include the U.S. (federal and state), the United Kingdom, Ireland and Italy. The years subject to potential audit vary depending on the tax jurisdiction. Generally, the statute of limitation is open for tax years ended December 31, 2017 and forward. The Company was selected for audit in the U.S. for tax years 2017, 2018 and 2019. The audit began in 2020 and is still on-going.

Listed below are the tax years that remain subject to examination by major tax jurisdictions:

	Open Tax Years
United States	2017 - 2021
United Kingdom	2021
Ireland	2018 - 2021
Italy	2017 - 2021

As permitted by ASC 740-10 Income Taxes, interest and penalties, if any, are recognized related to unrecognized tax benefits. The Company has recorded interest and penalties in Interest expense and Underwriting, general and administrative expenses on the Consolidated Statements of Operations. The Company did not generate additional unrecognized tax benefit as of December 31, 2022. The below unrecognized tax benefit was generated in tax year 2019. No significant changes to the unrecognized tax benefits in total are anticipated in the next 12 months.

A reconciliation of the total amounts of gross unrecognized tax benefits is as follows:

	Year Ended December 31,	
	2022	2021
Gross unrecognized tax benefits at January 1	$ 4.3	$ 6.1
Decreases in tax positions for prior years	(1.5)	(1.8)
Gross unrecognized tax benefits at December 31	$ 2.8	$ 4.3

(In Thousands)

12. Stockholder's Equity

Additional Paid-In Capital

During the year, AFSI contributed the following additional paid-in capital to the Company: (1) equity interest of $48,132 in Tiger Capital LLC, a subsidiary of the Company that owns an equity interest in a limited partnership investing in life settlement contracts; (2) equity interest of $2,300 in North Dearborn, a limited partnership that owns an office building in Chicago, Illinois and in which the Company already held a 45% interest and (3) cash of $18,268 and available-for-sale securities of $66,731. See Note 17. "Acquisitions" for additional information.

Accumulated Other Comprehensive Loss

The following table summarizes accumulated other comprehensive income for the years ended December 31, 2022 and 2021:

	Foreign Currency Translation	Unrealized Gains (Losses) on Investments	Pension Liability	Accumulated Other Comprehensive (Loss) Income
Balance, December 31, 2020	$ (51,234)	$ 46,711	$ (12,474)	$ (16,997)
Other comprehensive (loss) income before reclassification	(49,755)	(70,794)	4,425	(116,124)
Reclassification adjustment for income tax benefit included in foreign currency translation	(13,909)	13,909	—	—
Income tax benefit (expense)	—	17,208	(711)	16,497
Net current-period other comprehensive (loss) income	(63,664)	(39,677)	3,714	(99,627)
Balance, December 31, 2021	$ (114,898)	$ 7,034	$ (8,760)	$ (116,624)
Other comprehensive loss before reclassification	(96,316)	(362,710)	(3,361)	(462,387)
Income tax benefit	—	79,510	913	80,423
Net current-period other comprehensive loss	(96,316)	(283,200)	(2,448)	(381,964)
Balance, December 31, 2022	$ (211,214)	$ (276,166)	$ (11,208)	$ (498,588)

During the years ended December 31, 2022 and 2021, amounts reclassed from Accumulated other comprehensive loss into net loss were included in Net realized loss on investments on the Consolidated Statements of Operations.

13. Commitments and Contingencies

Litigation

The Company’s insurance subsidiaries are named as defendants in various legal actions arising principally from claims made under insurance policies and contracts. Those actions are considered in estimating the Loss and LAE reserves. The Company is also a party in various commercial and employment disputes, including claims both by and against the Company. Management believes the resolution of these actions will not have a material adverse effect on the financial position or results of operations.

In view of the inherent difficulty of assessing the potential outcome of legal proceedings, governmental, regulatory and legislative investigations and inquiries, claims and litigation and similar matters and contingencies, the Company generally cannot predict what the eventual outcome of the pending matters will be or the timing of any resolution of such matters. Unless specified below, the Company cannot reasonably estimate a potential range of loss, if any, with respect to the matters disclosed below due to, among other factors, the complexity of the matters involved and in many instances, the relatively early stage of the proceedings. The Company also is not able to predict at this time the impact, if any, that any such matters might have on how its business is conducted, on its competitive position or on its financial position, results of operations or cash flows. As the process to resolve any pending matters progresses, management will continue to review the latest information available and assess its ability to predict the outcome of such matters and the effects, if any, on the operations and financial condition and to accrue for and disclose such matters as and when required.

The Company's parent is subject to litigation, which could have indirect impact on the Company, as noted below.

Restatement Securities Litigation

AFSI and certain of its officers and directors are defendants in three putative securities class action lawsuits filed in March and April of 2017 in the U.S. District Court for the Southern District of New York. These cases in the Southern District of New York have been consolidated under the case name In re AmTrust Financial Services, Inc. Securities Litigation. Plaintiffs in this proceeding filed a consolidated, amended complaint on August 21, 2017. The Consolidated Amended Complaint (“CAC”) added as defendants BDO USA LLP, Citigroup Global Markets Inc., Keefe, Bruyette & Woods, Inc., Morgan Stanley & Co. LLC, RBC Capital Markets, LLC, and UBS Securities LLC. In October 2017, the defendants filed motions to dismiss the CAC, which were fully briefed as of January 2, 2018, and oral argument was held on February 7, 2018. On November 26, 2018, Plaintiffs filed a Consolidated Second Amended Complaint (the “SAC”). Plaintiffs assert in the SAC claims under Sections 10(b) and 20(a) of the Exchange Act, and Rule 10b-5 promulgated thereunder and Sections 11, 12(a)(2) and 15 of the Securities Act of 1933, as amended. Plaintiffs seek an unspecified amount in damages, attorneys’ fees, and other relief. On December 5, 2018, the defendants filed motions to dismiss the SAC. The motions to dismiss were fully briefed as of January 23, 2019. By a Decision and Order dated September 9, 2019, Judge Kaplan completely dismissed the securities class action. On October 7, 2019, Plaintiffs filed a notice of motion seeking an order granting Plaintiffs leave to file a third amended complaint, which defendants opposed. By an Order dated November 4, 2019, the Court granted Plaintiffs’ motion for leave to file a third amended complaint (the “TAC”). On January 10, 2020, defendants filed motions to dismiss the TAC, which was fully briefed and submitted to the Court by February 27, 2020. By a Decision and Order dated April 20, 2020, Judge Kaplan dismissed the TAC, with prejudice. On May 22, 2020, Plaintiffs timely filed a notice of appeal of the decision dismissing the TAC and on September 18, 2020, filed Appellants’ Opening Brief with the U.S. Court of Appeals for the Second Circuit. Defendants-Appellees filed an Opposition Brief on December 17, 2020. The reply brief of Plaintiffs-Appellants was filed with the Court on January 21, 2021. The Court of Appeals heard oral argument on June 4, 2021, but has not yet rendered a decision.

Litigation Related to the Merger

On May 31, 2018, Pompano Beach Police & Firefighters’ Retirement System, City of Lauderhill Police Officers’ Retirement System and West Palm Beach Police Pension Fund filed a putative class action lawsuit against the AFSI’s board of directors, Stone Point, Trident Pine Acquisition LP (“Trident Pine”), Trident VII Professionals Fund, Trident VII, Trident VII DE Parallel Fund, and Trident VII Parallel Fund (collectively, the "Trident Funds") in the Court of Chancery of the State of Delaware, Case No. 2018-0396-AGB (the “2018 Pompano Action”). The complaint in the 2018 Pompano Action alleges that defendants Barry Zyskind, George Karfunkel, Leah Karfunkel, Abraham Gulkowitz, Susan Fisch, Donald DeCarlo, and Raul Rivera breached their fiduciary duties, which resulted in an unfair Merger stock price through an unfair process. The complaint

13. Commitments and Contingencies (continued)

alleges additional claims for breaches of fiduciary duty against Zyskind, G. Karfunkel and L. Karfunkel in their capacity as officers and directors of AFSI and as controlling stockholders of AFSI. The complaint alleges that Stone Point, Trident Pine and the Trident Funds aided and abetted the breaches of fiduciary duties.

On June 4, 2018, Cambridge Retirement System ("Cambridge") filed a putative class action lawsuit against AFSI's board of directors, the Estate of Michael Karfunkel, Evergreen Parent, K-Z Evergreen, LLC, Merger Sub, Trident Pine and Stone Point in the Court of Chancery of the State of Delaware, Case No. 2018-0402-AGB (the "2018 Cambridge Action"). On September 24, 2018, Plaintiff in the 2018 Cambridge Action filed a Verified Supplemental and Amended Stockholder class action complaint (the "Amended Complaint"). Similar to the 2018 Pompano Action, the Amended Complaint alleges that the director defendants breached their fiduciary duties, which resulted in an unfair Merger stock price through an unfair process. The Estate of Michael Karfunkel is not named as a Defendant in the Amended Complaint. The complaint alleges an additional claim for breach of fiduciary duty against Zyskind, G. Karfunkel, and L. Karfunkel in their capacity as controlling shareholders of AFSI and alleges that Evergreen Parent, K-Z Evergreen, Merger Sub, Stone Point, and Trident Pine aided and abetted the foregoing breaches of fiduciary duties. On October 10, 2018, the court appointed counsel for Plaintiffs in the 2018 Pompano Action and counsel for Plaintiff in the 2018 Cambridge Action as Co-Lead Counsel, and on November 16, 2018, the court consolidated the two actions into a putative class action captioned In re AmTrust Financial Services, Inc. Stockholder Litigation, Consolidated C.A. No. 2018-0396-AGB (the "2018 Stockholder Action"). On January 25, 2019, Plaintiffs in the 2018 Stockholder Action filed a Verified Consolidated Class Action Complaint, alleging that defendants Zyskind, G. Karfunkel, L. Karfunkel, Gulkowitz, Fisch, DeCarlo, and Rivera breached their fiduciary duties, which resulted in an unfair Merger stock price through an unfair process. The complaint alleges additional claims for breaches of fiduciary duty against Zyskind as an officer of AFSI and against Zyskind, G. Karfunkel and L. Karfunkel in their capacity as alleged controlling stockholders of AFSI. The complaint alleges that Stone Point, Trident Pine and the Trident Funds aided and abetted the breaches of fiduciary duties. Defendants filed a Notice of Motion to Dismiss. Plaintiffs in the 2018 Stockholder Action sought the consolidation of the below described 2018 Arca Action into the 2018 Stockholder Action.

On or about February 21, 2019, Arca Investments, a.s., Arca Capital Bohemia, a.s., and Krupa Global Investments f/k/a Arca Venture Capital a.s. (together, "Arca") commenced an action in the Court of Chancery of the State of Delaware (the "2019 Arca Action"). The Arca Action names as defendants Zyskind, G. Karfunkel, L. Karfunkel, Gulkowitz, Fisch, DeCarlo, Rivera, the Trident Funds, K-Z Evergreen, LLC and Stone Point. The 2019 Arca Action is very similar to the 2018 Stockholder Action. Plaintiffs in the 2018 Stockholder Action moved the Delaware Court to consolidate the 2019 Arca Action with the 2018 Stockholder Action. On April 18, 2019, the Court ordered the consolidation of this action into the 2018 Stockholder Action with an amended 2018 Stockholder Action complaint to be filed by May 8, 2019. Plaintiffs filed the CAC on May 8, 2019. On June 6, 2019, AFSI filed a motion to dismiss the CAC. Opposition to AFSI's motion to dismiss was filed with the court on August 21, 2019, and AFSI filed reply papers on September 27, 2019.

On November 5, 2019, the Court heard oral argument on defendants' motion to dismiss. On February 26, 2020, the Court ruled on the motion to dismiss, denying, for the most part, AFSI's motion to dismiss the complaint, but dismissing Stone Point and Rivera from the action. The Court's reasoning largely relied upon Plaintiff's assertion that three of the four members of the Special Committee had a material self-interest in the Merger because going private would extinguish the potential personal liability arising out of the prior filed derivative actions. On August 30, 2021, the Plaintiffs, on behalf of themselves and the putative class, and defendants entered into a stipulation and agreement of compromise, settlement and release requiring a total settlement payment of $40,000. The settlement was subject to court approval, which the court provided on November 22, 2021. The payment, net of $26,150 of insurance recoveries from its third-party Directors and Officers insurers, did not have a material impact on the Company's financial position, results of operations or cash flows.

On March 26, 2019, Verition Partners Master Fund LTD. and Verition Multi-Strategy Master Fund LTD filed a petition for appraisal of stock. Verition's petition asked the Court of Chancery for a determination of the fair value of shares of the AFSI's common stock. Verition argued that the Merger Consideration of $14.75 per share was too low. The parties to the appraisal action entered into a settlement agreement on June 16, 2021, whereby Evergreen Parent paid Verition $63,412, which included Merger consideration of $14.75 per share plus statutory interest. The case was then dismissed with prejudice by a stipulation and order by the Court of Chancery dated June 23, 2021.

(In Thousands)

13. Commitments and Contingencies (continued)

Litigation Related to the Delisting of Securities

On August 30, 2019, Jan Martinek commenced a securities class action against AFSI, Barry Zyskind, George Karfunkel and Leah Karfunkel in the U.S. District Court of the Southern District of New York. Plaintiff alleged that AFSI consistently stated in its public disclosures that AmTrust's preferred securities would (1) continue to be outstanding; (2) be listed on the NYSE following the going private transaction; (3) continue to pay dividends; and (4) AFSI would continue to file reports with the SEC. Plaintiffs asserted that these statements were false or misleading statements made in violation of Sections 10(b) and 20(a) of the Exchange Act. Pursuant to Section 21D(a)(3)(A) of the Exchange Act, 15 U.S.C. Section 78u4(a)(3)(A), the deadline for any class member to move for appointment as Lead Plaintiff was October 29, 2019. On that date, Martinek moved to be appointed Lead Plaintiff, which the Court granted. On January 20, 2020, defendants moved to dismiss the complaint. The motion to dismiss was fully briefed and submitted to the Court on April 3, 2020, and the Court by an opinion and order dated August 14, 2020, denied defendants' motion to dismiss the complaint. AFSI and the Plaintiffs entered into a settlement agreement, which was approved by the court on November 16, 2022, and AFSI made a payment of $13,000 in the aggregate.

Other than as discussed above, AFSI is not involved presently in any material litigation nor, to the Company's knowledge, is any material litigation threatened against the Company or its properties.

Lease Commitments

Future minimum lease payments as of December 31, 2021 under non-cancellable operating leases for each of the next five years are approximately as follows:

2022	$	2,530
2023		1,725
2024		1,051
2025		906
2026		897
2027 and Thereafter		1,640
Future minimum lease payments	$	8,749

Rent expense for the year ended December 31, 2021 was $5,452.

Employment Agreements

The Company has employment agreements with 18 of its key executives and employees. The agreements terminate on varying dates through 2026, contain annual minimum levels of compensation, and contain bonuses based on the Company achieving certain financial targets. The annual future minimum compensation payments in the aggregate through 2026 are as follows:

2023	$	6,157
2024		1,700
2025		1,700
2026		573
Future minimum compensation payments		10,130

Funding Commitments

As of December 31, 2022, the Company had commitments of $5,959 to further fund its Other investments. See Note 2. "Significant Accounting Policies" for additional information.

14. Statutory Financial Data, Risk Based Capital and Dividend Restrictions

The Company's insurance subsidiaries file financial statements in accordance with statutory accounting practices ("SAP") prescribed or permitted by domestic insurance regulatory authorities. The differences between statutory financial statements and financial statements prepared in accordance with GAAP vary between jurisdictions. The principal differences relate to (1) acquisition costs incurred in connection with acquiring new business that are charged to expense under SAP but under GAAP are deferred and amortized as the related premiums are earned; (2) limitations on net deferred tax assets created by the tax effects of temporary differences; (3) unpaid losses and LAE, and unearned premium reserves that are presented gross of reinsurance with a corresponding asset recorded; (4) fixed maturity portfolios that are carried at fair value instead of amortized cost and changes in fair value are reflected directly in unassigned surplus, net of related deferred taxes; and (5) certain assets designated as "non-admitted assets" that are charged against surplus under SAP.

Bermuda

For the Company, the regulations require that the available statutory capital and surplus should be equal to or exceed the value of both its Minimum Margin of Solvency and the Enhanced Capital Requirement. The Capital and Solvency Return for the year ended December 31, 2021 was filed with the Bermuda Monetary Authority on April 29, 2022. AII's capital levels exceed the regulatory minimum requirements as of December 31, 2021.

Europe and the United Kingdom

The Company's European entities prepare financial statements in accordance with local regulatory requirements. These statutory accounting practices differ from U.S. GAAP primarily by charging policy acquisition costs to expense as incurred and establishing future policy benefit liabilities using different actuarial assumptions, as well as valuing investments and certain assets and accounting for deferred taxes on a different basis.

Effective January 1, 2016, the European Union's executive body, the European Commission, implemented a new capital adequacy and risk management regulation called "Solvency II" that applies to the Company's businesses across the European Union. Solvency II imposes requirements with respect to capital structure, technical provisions, solvency calculations, governance, disclosure and risk management.

The insurance subsidiaries based in the United Kingdom ("U.K.") including AEL and MIC, are regulated by the U.K. Prudential Regulatory Authority (the "PRA"). Since January 1, 2016, the U.K. companies have been required to comply with the Solvency II Framework Directive adopted by the PRA. The Solvency Capital Requirement for the U.K. subsidiaries are assessed using the Solvency II standard formula model.

All of the Company's international insurance subsidiaries have capital levels that exceed their respective regulatory minimum requirements, and none have utilized prescribed or permitted practices that vary materially from the practices prescribed by the regulatory bodies for the years ended December 31, 2022 and 2021, respectively. The declaration of dividends for the Company's U.K. and European entities is restricted to profits available for distribution as a matter of respective jurisdictional law and in certain entities requires consent of local regulators. The European dividends included in the total below represent the estimated maximum potential dividend available based on the most recent solvency returns submitted to local regulators. Any final dividends would still be subject to regulatory approval.

United States

Property and casualty insurance companies in the United States are subject to certain Risk-Based Capital ("RBC") requirements that establish the minimum amount of statutory capital and surplus that must be maintained by each company, as specified by the National Association of Insurance Commissioners. The minimal capital requirements are determined by using a formula that focuses on the material risks to which the insurance company is exposed, and are designed to ensure that obligations to shareholders can be fulfilled. As of December 31, 2022 and 2021, the statutory capital and surplus of Company's insurance subsidiary domiciled in the United States exceeded the RBC requirements.

(In Thousands)

14. Statutory Financial Data, Risk Based Capital and Dividend Restrictions (continued)

The payment of dividends or distributions to the Company from its foreign and U.S. insurance subsidiary is restricted by the insurance laws and regulations in the jurisdictions in which they are domiciled. Ordinary dividends or distributions, for which no regulatory approval is generally required, are limited to amounts determined by a formula, which varies by jurisdiction. Certain jurisdictions may impose limits, if the entity is in breach of local minimum capital, solvency or liquidity requirements or the payment would cause a breach of those requirements. In addition to these limitations, the Company also takes into consideration expected earnings, business growth and capitalization of the subsidiaries, and liquidity requirements of the individual operating companies, prior to payment of dividends or distributions from subsidiaries. As of December 31, 2022, the estimated amount of dividends or distributions available to be paid in the subsequent calendar year, without prior regulatory approval, total approximately $245,576.

15. Leases

Lessee

The table below presents operating lease ROU assets and lease liabilities as of December 31, 2022:

Operating lease ROU assets	$	25,447
Operating lease liabilities	$	26,100
Weighted – average remaining lease term		33 years
Weighted – average discount rate		4.7 %

The table below presents the contractual maturities of the operating lease liabilities as of December 31, 2022:

2023	$	4,253
2024		3,541
2025		3,393
2026		3,045
2027		2,647
2028 and thereafter		43,997
Total undiscounted future minimum lease payments	$	60,876
Less: Discount		(34,776)
Total operating lease liabilities	$	26,100

The table below presents the components of lease expense and other operating lease information:

		Year Ended December 31, 2022
Operating lease cost	$	4,659
Short-term lease cost		1,176
Sublease income		(1,205)
Total lease costs included in Underwriting, general and administrative expenses		4,630
Cash payments included in the measurement of lease liabilities reported in operating cash flows		4,822
Right-of-use assets obtained in exchange for new lease liabilities		1,866

There were no material changes to lease transactions between related parties during the year ended December 31, 2022.

(In Thousands)

15. Leases (continued)

Lessor

Lease income was $3,998 for the year ended December 31, 2022. Future minimum rents to be received over the next five years and thereafter for operating leases in effect at December 31, 2022 are as follows:

2023	$ 3,442
2024	3,285
2025	2,180
2026	3,183
2027	3,116
2028 and thereafter	5,515
Total	$ 20,721

16. Divestitures

Gains or losses are recognized upon the divestiture of controlling interest in a subsidiary or group of assets operated as a business. Any gains or losses are recorded in Net gain on sales of businesses on the Consolidated Statement of Operations.

Sale of Amynta

Effective February 16, 2022, AFSI, along with its two subsidiaries and the Company, entered into a purchase agreement with Amynta whereby the Company and the two AFSI subsidiaries would sell to Amynta their respective equity interests at fair value in exchange for cash, deferred payments, and preferred stock issued by an Amynta affiliate. The transaction received regulatory approval and closed on March 4, 2022. The sale of Amynta equity interests were net settled among the parties and resulted in a net cash payment and preferred stock at closing, as well as future cash payments to the Company. The Company recorded a pre-tax gain of $54,316 reported in Net gain on sales of businesses in the Consolidated Statement of Operations.

17. Acquisitions

Acquisition of Non-Controlling Interests of Tiger Capital, and Equity of North Dearborn Building Company

On April 29, 2022, AFSI transferred its 50% equity interest in 800 Superior, LLC, an AFSI subsidiary that owns an office building in Cleveland, Ohio, and $2,000 to a third party in exchange for a) the third party's non-controlling 50% equity interests in 4455 LBJ Freeway, LLC, an AFSI subsidiary that owns an office building in Dallas, Texas, b) the third party's noncontrolling 50% equity interest in Tiger Capital LLC, and c) the third party's 45% equity interest in North Dearborn. The aggregate fair value of the equity interests AFSI received is $22,000. Upon closing the transaction, the AFSI contributed its purchased 50% noncontrolling equity interest in Tiger Capital LLC of $48,132 and 45% equity interest in North Dearborn of $2,300 to the Company. See Note 12. “Stockholder’s Equity” for additional information.

18. Subsequent Events

The Company has evaluated subsequent events for disclosure through the date of issuance April 27, 2023.

Share Purchase Agreement

On March 31, 2023, the Company entered into a share purchase agreement to acquire all of the outstanding shares of a private limited company operating as a wholesale broker that sells rental and investment property insurance in the United Kingdom. The total consideration consists of cash payments of approximately $55,000 subject to working capital and other adjustments, plus future earn-out payments. The acquisition closing is subject to regulatory approval and certain closing conditions.