Ascot Group Limited

Consolidated Audited Financial Statements

December 31, 2022 and 2021

Deloitte.

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

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders
of Ascot Group Limited

Opinion

We have audited the accompanying consolidated financial statements of Ascot Group Limited and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of income and comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively referred to as the "consolidated financial statements").

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of their operations, changes in their shareholders' equity and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our 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 Auditors' 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 audits. 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 accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 a period of one year after the date that the consolidated financial statements were available to be issued.

Auditors' 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 skepticism 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

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

Deloitte Ltd.

March 21, 2023

ASCOT GROUP LIMITED
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2022 AND 2021

	2022	2021
	(in thousands U.S dollars)	
ASSETS		
Fixed maturities, at fair value (amortized cost: 2022 - $3,706,160; 2021 - $2,916,792)	$ 3,417,345	$ 2,903,702
Other investments, at fair value	144,127	127,084
Short term investments, at cost and fair value	292,162	98,446
Total investments	**3,853,634**	**3,129,232**
Cash and cash equivalents	457,858	478,767
Accrued investment income	20,673	12,101
Premiums receivable	1,118,698	915,289
Deferred tax assets	37,996	23,540
Prepaid reinsurance premiums	389,945	348,317
Reinsurance recoverable on paid losses	83,899	35,115
Reinsurance recoverable on unpaid losses	1,160,147	760,565
Deferred acquisition costs	319,950	247,917
Goodwill	69,551	69,551
Intangible assets	165,295	172,431
Other assets	119,648	71,843
TOTAL ASSETS	**7,797,294**	**6,264,668**
LIABILITIES		
Reserve for loss and loss adjustment expenses	3,613,475	2,219,296
Unearned premiums	1,785,417	1,449,317
Insurance and reinsurance balances payable	308,579	251,282
Deferred tax liabilities	66,510	58,663
Debt	395,700	395,160
Other liabilities	208,544	178,474
TOTAL LIABILITIES	**6,378,225**	**4,552,192**
SHAREHOLDERS' EQUITY		
Common shares	276	276
Additional paid-in capital	1,982,674	1,970,636
Treasury shares	(250,000)	(250,000)
Accumulated other comprehensive income	1,521	4,420
Retained deficit	(315,402)	(12,856)
TOTAL SHAREHOLDERS' EQUITY	**1,419,069**	**1,712,476**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 7,797,294**	**$ 6,264,668**

See accompanying notes to the consolidated financial statements.

ASCOT GROUP LIMITED
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
	(in thousands U.S. dollars)	
REVENUES		
Gross premiums written	$ 3,576,914	$ 2,836,195
Reinsurance premiums ceded	(977,439)	(854,608)
Net premiums written	2,599,475	1,981,587
Earned premiums	3,240,719	2,282,796
Earned premiums ceded	(935,715)	(706,702)
Net premiums earned	2,305,004	1,576,094
Net investment income	66,404	44,125
Net realized and unrealized losses on investments	(280,712)	(67,355)
Other income	22,007	28,401
TOTAL REVENUES	**2,112,703**	**1,581,265**
LOSSES AND EXPENSES		
Net incurred losses and loss adjustment expenses	1,555,761	980,042
Acquisition costs	494,917	323,907
General and administrative expenses	328,149	271,878
Interest expense	17,540	17,563
Amortization of intangible assets	7,136	6,609
Net foreign exchange losses	15,208	5,714
TOTAL LOSSES AND EXPENSES	**2,418,711**	**1,605,713**
LOSS BEFORE TAXES	**(306,008)**	**(24,448)**
Income tax benefit (expense)	3,462	(5,242)
NET LOSS	**$ (302,546)**	**$ (29,690)**
Other comprehensive income (loss), net of tax		
Foreign currency translation adjustment	(2,899)	(191)
Total other comprehensive income (loss), net of tax	(2,899)	(191)
COMPREHENSIVE LOSS	**$ (305,445)**	**$ (29,881)**

See accompanying notes to the consolidated financial statements.

ASCOT GROUP LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
	(in thousands U.S. dollars)	
COMMON SHARES		
Balance at beginning of year	$ 276	$ 297
Common shares repurchased	—	(21)
Balance at end of year	276	276
ADDITIONAL PAID IN CAPITAL		
Balance at beginning of year	1,970,636	1,975,449
Common shares issued	25	750
Common shares repurchased	(3,956)	(18,564)
Share based compensation	15,969	13,001
Balance at end of year	1,982,674	1,970,636
TREASURY SHARES		
Balance at beginning and end of year	(250,000)	(250,000)
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Balance at beginning of year	4,420	4,611
Foreign currency translation adjustment	(2,899)	(191)
Balance at end of year	1,521	4,420
RETAINED EARNINGS (DEFICIT)		
Balance at beginning of year	(12,856)	16,834
Net loss	(302,546)	(29,690)
Balance at end of year	(315,402)	(12,856)
TOTAL SHAREHOLDERS' EQUITY	$ 1,419,069	$ 1,712,476

See accompanying notes to the consolidated financial statements.

ASCOT GROUP LIMITED
CONSOLIDATED STATEMENTS OF CASHFLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
	(in thousands U.S. dollars)	
CASHFLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (302,546)	$ (29,690)
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized and unrealized losses on investments	280,712	67,355
Amortization of fixed maturities	9,885	11,030
Amortization of intangible assets	7,136	6,609
Depreciation of fixed assets	4,473	4,461
Share-based compensation expense	15,969	13,001
Changes in:		
Accrued investment income	(8,572)	(772)
Premiums receivable	(203,409)	(350,248)
Reinsurance recoverables	(448,366)	(389,310)
Deferred acquisition costs	(72,033)	(94,077)
Prepaid reinsurance premiums	(41,628)	(147,904)
Reserve for loss and loss adjustment expenses	1,394,179	890,589
Unearned premiums	336,100	553,396
Insurance and reinsurance balances payable	57,297	106,580
Other items, net	(9,901)	64,954
Net cash provided by operating activities	1,019,296	705,974
CASHFLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed maturities	(1,214,922)	(1,375,110)
Proceeds from sale of fixed maturities	111,730	380,009
Proceeds from maturities and redemptions of fixed maturities	288,553	405,514
Purchases of short term investments	(332,040)	(89,378)
Proceeds from sale and maturities of short term investments	137,422	46,715
Purchases of other investments	(20,961)	(67,957)
Acquisition of subsidiary, net of cash acquired	—	(45,011)
Net cash used in investing activities	(1,030,218)	(745,218)
CASHFLOW FROM FINANCING ACTIVITIES		
Net issuance and repurchase of common shares	(3,931)	(17,835)
Net cash used in financing activities	(3,931)	(17,835)
Effect of exchange rate changes on foreign currency cash and cash equivalents	(6,056)	(2,113)
Decrease in cash and cash equivalents	(20,909)	(59,192)
Cash and cash equivalents - beginning of year	478,767	537,959
Cash and cash equivalents - end of year	$ 457,858	$ 478,767
Supplemental disclosures of cash flow information:		
Income taxes paid (refund)	1,771	(5,040)
Interest paid	17,000	17,000

See accompanying notes to the consolidated financial statements.

1. History and principal operations

Ascot Group Limited ("AGL" or "the Company") was incorporated in Bermuda on September 8, 2016. AGL acts primarily as the ultimate holding company of Ascot Bermuda Limited ("Ascot Bermuda"), Ascot Underwriting Group Limited ("AUGL") and Ascot Insurance Holdings Limited ("AIHL").

Ascot Bermuda was incorporated in Bermuda on September 8, 2016 and operates as a Class 3B insurance and reinsurance company regulated by the Bermuda Monetary Authority providing both third party insurance and reinsurance and also quota share reinsurance to Ascot Corporate Name Limited ("ACNL").

AUGL operates as a holding company for a number of entities including ACNL which is a UK based company providing underwriting capacity as the corporate member for Syndicate 1414 ("the Syndicate").

AIHL operates as a holding company for Ethos Specialty Insurance Services LLC ("Ethos"), a managing general underwriter ("MGU") as well as for Ascot Insurance Company ("AIC") and Ascot Specialty Insurance Company ("ASIC"). AIC and ASIC write admitted and non-admitted business in the United States. AIC and ASIC commenced underwriting operations on January 1, 2019. In 2021, AIC acquired AmFed National Insurance Company, a Mississippi workers' compensation insurance company, and Ascot Surety & Casualty Company ("ASC") (formerly Boston Indemnity Company) a U.S. Treasury-listed insurance carrier.

Canada Pension Plan Investment Board (“CPP Investments”) is the principal shareholder of AGL.

2. Significant accounting policies

Basis of Presentation and Consolidation

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) and include the results of operations and the financial position of AGL and its wholly owned subsidiaries. All significant inter-company balances and transactions have been eliminated in consolidation.

Use of Estimates

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

- reserve for losses and loss adjustment expenses;
- reinsurance recoverables on unpaid losses, including the provision for uncollectible amounts;
- gross and net premiums written and earned;
- fair value measurements for financial assets;
- consideration of impairment of goodwill and indefinite life intangible assets; and
- recoverability of deferred tax assets.

Significant accounting policies are as follows:

Investments and investment income

Fixed maturity securities

The Company's investments in fixed maturity securities are classified as trading and are carried at fair value, with unrealized gains and losses recorded in net realized and unrealized gains (losses) on investments included in the consolidated statements of income and comprehensive income.

Fair values of the Company's fixed maturity securities are based on quoted market prices or, when such prices are not available, by reference to broker quotes and/or internal pricing valuation techniques. Investment transactions are recorded on a trade date basis with balances pending settlement recorded as receivable for securities sold or payable for securities purchased.

For mortgage-backed and other asset-backed debt securities, fair value includes estimates regarding prepayment assumptions, which are based on current market conditions. Amortized cost in relation to these securities is calculated using a constant effective yield based on anticipated prepayments and estimated economic lives of the securities. When actual prepayments differ significantly from anticipated prepayments, the effective yield is recalculated to reflect actual payments to date. Changes in estimated yield are recorded on a retrospective basis, which results in future cash flows being used to determine current book value.

Realized gains and losses on sales of fixed maturity securities are determined based on the specific identification method.

Other investments

The Company's other investments principally include investments in senior secured credit funds, hedge funds and private debt and equity funds. The Company's other investments are recorded at fair value with changes in fair value and any interest, dividend income and income distributions included in net investment income. The fair value of the Company's investments in senior secured credit funds, hedge funds and private debt and equity funds are generally measured using net asset valuations as a practical expedient. The net asset valuations are established by the managers of such investments in accordance with the governing documents of such investments. For certain of the Company's other investments, the Company records the net asset value using a lag methodology of one to three months when timely information is not available.

Short term investments

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

Equity method investments

Investments in which the Company has the ability to exert significant influence over the operating and financial policies of the investee are accounted for under the equity method of accounting. Equity method investments are recorded in other assets in the balance sheet. Under this method, the Company records its proportionate share of income or loss from such investments in its results for the period. These amounts are recorded in general and administrative expenses in the consolidated statements of income and comprehensive income.

Net investment income

Net investment income includes interest income on fixed maturity securities, short term investments and cash and cash equivalents, recorded when earned and the amortization of premiums and discounts on investments. The amortization of premium and accretion of discount is computed using the effective interest rate method. Net investment income also includes the change in fair value and any interest, dividend income and income distributions from the Company's other investments. Net investment income is recorded net of investment expenses.

Cash and Cash Equivalents

Cash equivalents include money-market funds and fixed interest deposits with a maturity of less than three months when purchased. Cash and cash equivalents are recorded at amortized cost, which approximates fair value due to the short-term, liquid nature of these securities.

Premiums

Direct insurance and assumed facultative reinsurance premiums are recognized as earned on a pro rata basis over the applicable policy or contract periods. For assumed treaty reinsurance written on a losses occurring basis, premiums written are earned on a pro rata basis over the risk period. For assumed treaty reinsurance written on a risks attaching basis, premiums written are earned on a pro rata basis over the periods of the underlying policies. Premiums may include estimates based on information received from brokers, ceding insurers and insureds, and any subsequent differences from such estimates are recorded in the period in which they are determined. In each case, the portions of the premiums written applicable to the unexpired terms are recorded as unearned premiums.

The accounting for reinsurance ceded depends on the method of reinsurance. If the policy is on a losses occurring basis, reinsurance premiums ceded and associated commissions are expensed on a pro rata basis over the period reinsurance coverage is provided. If the policy is on a risk attaching basis, reinsurance premiums ceded and associated commissions are expensed in line with gross premiums earned to which the risk attaching policy relates. Prepaid reinsurance premiums represent the portion of premiums ceded on the unexpired terms of the policies purchased. Reinsurance commissions that will be earned in the future are deferred and recorded as deferred acquisition costs on the balance sheets.

Reinstatement premiums are recognized and earned at the time a loss event occurs, where the coverage limits for the remaining life of the contract are reinstated under pre-defined contract terms.

Acquisition costs

Acquisition expenses are costs that vary with, and are directly related to, the production of new and renewal business, and consist principally of commissions and brokerage expenses. Acquisition expenses are shown net of commissions on reinsurance ceded. Acquisition costs associated with the successful acquisition of new or renewal policies are deferred and amortized over the periods in which the related premiums are earned. Deferred acquisition costs are limited to their estimated realizable value based on the related unearned premiums. Anticipated loss and loss adjustment expenses based on historical and current experience and anticipated investment income related to those premiums are considered in determining the recoverability of deferred acquisition costs.

Acquisition expenses also include profit commissions associated with insurance and reinsurance contracts written by the Company. Profit commissions are recognized when earned.

Losses and loss adjustment expenses

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

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

Losses and loss adjustment expenses (continued)

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

Reinsurance

In the normal course of business, the Company purchases reinsurance protection to limit its ultimate losses and to reduce its loss aggregation risk.

Reinsurance recoverable related to case reserves is estimated on a case-by-case basis by applying the terms of any applicable reinsurance coverage to individual case reserve estimates. The estimate of reinsurance recoverable related to IBNR reserves is generally developed as part of the loss reserving process.

Reinsurance recoverable is presented net of a provision for uncollectible amounts, reflecting the amount the Company believes will ultimately not be recovered due to reinsurer insolvency, contractual disputes and/or some other reason.

The estimates of reinsurance recoverable and the associated provision require management's judgment. Any adjustments to amounts recognized in prior periods are reported in net losses and loss expenses in the consolidated statements of income for the period when the adjustments were identified.

Foreign exchange

The Company's reporting currency is the U.S. dollar. In translating the financial statements of its subsidiaries where the functional currency is other than the U.S. dollar, assets and liabilities are converted into U.S. dollars using the rates of exchange in effect at the balance sheet dates and revenues and expenses are converted using the weighted average foreign exchange rates for the period. The effect of translation adjustments is reported as a separate component of accumulated other comprehensive income in shareholders' equity.

In recording foreign currency transactions, revenue and expense items are converted to the relevant functional currency at the exchange rate prevailing at the transaction date. Monetary assets and liabilities originating in currencies other than the functional currency are remeasured to the functional currency at the rates of exchange in effect at the balance sheet date. The resulting foreign currency gains or losses are recognized in the consolidated statements of income and comprehensive income.

Share based compensation

The Company has granted restricted stock awards, restricted stock units and performance stock options to certain employees. The compensation expense for these awards is recognized in the financial statements over the requisite service period based on their grant date fair values. The Company has elected to recognize forfeitures as they occur rather than estimating service-based forfeitures over the requisite service period.

Treasury shares

Common shares repurchased by the Company and not subsequently cancelled are classified as treasury shares and are recorded at cost. This results in a reduction of shareholders' equity in the consolidated balance sheets. The Company uses the average cost method to determine the cost of shares reissued from treasury.

Goodwill and other intangible assets

The Company recognized goodwill and other intangible assets in connection with certain acquisitions. Goodwill represents the excess of the purchase price paid over the fair value of the net assets acquired in these acquisitions and is not amortized. The Company classifies its intangible assets into two categories: (1) intangible assets with finite lives subject to amortization over the estimated useful live of the intangible asset and (2) intangible assets with indefinite lives not subject to amortization. Intangible assets, other than

Goodwill and other intangible assets (continued)
goodwill, generally consist of distribution channels, syndicate capacity, value of business acquired ("VOBA") and insurance licenses.

The Company assesses goodwill and indefinite life intangible assets for potential impairment during the fourth quarter each year. Such events or circumstances may include an economic downturn in a geographic market or a change in the assessment of future operations.

The Company has the option to first assess qualitative factors to determine whether it is necessary to perform the quantitative goodwill and other intangible asset impairment test. Under this option, the Company would not be required to calculate the fair value of a reporting unit unless the Company determines, based on its qualitative assessment, that it is more likely than not that a reporting unit's fair value is less than its carrying amount. If goodwill or other intangible assets are impaired, they are written down to their estimated fair value with a corresponding expense reflected in the consolidated statements of income and comprehensive income.

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

Other income
The Company earns commissions paid by insurance carriers for the binding of insurance coverage. Commissions are earned at a point in time upon the effective date of bound insurance coverage, as no performance obligation exists after coverage is bound. If there are other services within the contract, the Company estimates the stand-alone selling price for each separate performance obligation, and the corresponding apportioned revenue is recognized over a period of time as the performance obligations are fulfilled. The Company earns other fee revenue from providing services other than securing insurance coverage. Fee revenues from these agreements are recognized depending on when the services within the contract are satisfied and when control of the related services has been transferred to the customer. Profit-sharing commissions represent a form of variable consideration associated with the placement of coverage, for which the Company earns commissions. Profit-sharing commissions are estimated such that a significant reversal of revenue is not probable.

The commission income and other fee revenue are recognized in other income in the consolidated statements of income and comprehensive income.

Recently adopted accounting standards
Leases
In February 2016, the FASB issued ASU No. 2016-02, Leases and subsequently issued a number of other ASUs to amend the guidance (collectively "ASU 2016-02"). ASU 2016-02 requires lessees to recognize lease assets and lease liabilities on the balance sheet for those leases classified as operating leases under previous guidance. ASU 2016-02 became effective for non-public companies for annual periods beginning after December 15, 2021. The Company adopted ASU 2016-02 through the application of the modified retrospective transition approach. In addition, the Company employed certain practical expedients permitted under the guidance. The Company determined there was no material impact and as a result, there was no cumulative effect adjustment to opening retained earnings as of the adoption date, January 1, 2022. The adoption of the guidance did not have a material impact on the Company's consolidated statements of income and comprehensive income and balance sheet.

(Expressed in thousands of U.S. dollars, except share data)

Issued accounting standards not yet adopted

Measurement of Credit Losses on Financial Instruments
In June 2016, the FASB issued ASU No. 2016-13, Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"). ASU 2016-13 modifies the recognition of credit losses by replacing the incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. ASU 2016-13 is applicable to financial assets such as loans, debt securities, trade receivables, off-balance sheet credit exposures, reinsurance receivables, and other financial assets that have the contractual right to receive cash. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The Company's invested assets are measured at fair value through net income, and therefore those invested assets would not be impacted by the adoption of ASU 2016-13. The Company has other financial assets, such as reinsurance recoverables, that could be impacted by the adoption of ASU 2016-13. The effective date of ASU 2016-13 has been delayed by the issuance of ASU 2019-10 and is now effective for non-public companies for annual periods beginning after December 15, 2022. The Company is currently evaluating the impact of this guidance.

3. Investments

The amortized cost, gross unrealized gains and losses and fair value of fixed maturity securities as of December 31, 2022 are as follows:

	Amortized Cost	Unrealized gains	Unrealized losses	Fair value
U.S. government and government agency securities	$ 112,331	$ 75	$ (5,712)	$ 106,694
Non-U.S. government and government agency securities	246,922	279	(10,348)	236,853
Municipal securities	301,836	—	(29,187)	272,649
Corporate securities	1,903,883	773	(148,985)	1,755,671
Asset-backed securities	500,495	33	(27,657)	472,871
Mortgage-backed securities	69,225	—	(3,889)	65,336
Residential mortgage-backed securities	571,468	1,070	(65,267)	507,271
Total fixed maturity securities	3,706,160	2,230	(291,045)	3,417,345
Short term investments	292,162	—	—	292,162
	$3,998,322	$ 2,230	$ (291,045)	$ 3,709,507

(Expressed in thousands of U.S. dollars, except share data)

The amortized cost, gross unrealized gains and losses and fair value of fixed maturity securities as of December 31, 2021 are as follows:

	Amortized Cost	Unrealized gains	Unrealized losses	Fair value
U.S. government and government agency securities	$ 115,968	$ 446	$ (806)	$ 115,608
Non-U.S. government and government agency securities	183,868	676	(1,630)	182,914
Municipal securities	208,807	3,030	(1,857)	209,980
Corporate securities	1,588,691	12,799	(20,285)	1,581,205
Asset-backed securities	380,282	1,583	(1,742)	380,123
Mortgage-backed securities	37,928	769	(93)	38,604
Residential mortgage-backed securities	401,248	1,737	(7,717)	395,268
Total fixed maturity securities	2,916,792	21,040	(34,130)	2,903,702
Short term investments	98,446	—	—	98,446
	$3,015,238	$ 21,040	$ (34,130)	$ 3,002,148

The contractual maturities of fixed maturities are 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	
	Amortized cost	Fair value
Due in one year or less	$ 234,552	$ 230,631
Due after one year through five years	1,821,488	1,702,956
Due after five years through ten years	460,306	397,808
Due after ten years	48,626	40,472
Asset-backed securities	500,495	472,871
Mortgage-backed securities	69,225	65,336
Residential mortgage-backed securities	571,468	507,271
Total fixed maturity securities	$ 3,706,160	$ 3,417,345

(Expressed in thousands of U.S. dollars, except share data)

Realized and unrealized investment gains (losses)

The following represents an analysis of net realized and unrealized gains (losses) on investments for the years ended:

	December 31, 2022		
	Realized gains	Realized losses	Net realized gains (losses)
Fixed maturity securities	$ 472	$ (3,342)	$ (2,870)
Short term investments	50	(1,884)	(1,834)
	522	(5,226)	(4,704)
Net unrealized losses			(276,008)
			$ (280,712)

	December 31, 2021		
	Realized gains	Realized losses	Net realized gains (losses)
Fixed maturity securities	$ 3,803	$ (1,108)	$ 2,695
Short term investments	—	(706)	(706)
	3,803	(1,814)	1,989
Net unrealized losses			(69,344)
			$ (67,355)

Net Investment Income

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

	2022	2021
Fixed maturity securities	$ 63,793	$ 43,107
Other investments	(3,712)	2,377
Short term investments	2,984	935
Cash and cash equivalents	6,849	626
Total gross investment income	69,914	47,045
Investment expenses	(3,510)	(2,920)
Net investment income	$ 66,404	$ 44,125

Restricted cash and investments

The Company operates in the Lloyd's market through its corporate member, ACNL, which represents its participation in Syndicate 1414. Lloyd's sets capital requirements, or Funds at Lloyd's ("FAL") for corporate members annually through the application of a capital model which is based on the regulatory capital rules pursuant to Solvency II, as further adjusted by Lloyd's. The Company holds cash and investments to satisfy a portion of the FAL requirements. In addition, the Company holds cash and investments to satisfy other Lloyd's requirements including Premium Trust Deeds, Funds in Syndicates and overseas deposits.

The Company also holds cash and investments which are on deposit with U.S. insurance regulators to meet certain statutory requirements and also collateral to support bank credit facilities and certain insurance and reinsurance transactions. In addition, through its Ethos MGU business, the Company acts as a fiduciary for various insureds and in this role holds cash received from premiums and other amounts collected.

(Expressed in thousands of U.S. dollars, except share data)

The restricted cash and investments held on the Company's consolidated balance sheet as of December 31, 2022 and 2021 were as follows:

	December 31, 2022			
	Cash and cash equiv.	Short term investments	Fixed maturities	Other investments
Deposited at Lloyd's for FAL	$ 844	$ —	$ 375,614	$ 70,815
Other Lloyd's and overseas regulatory requirements	21,666	69,292	702,457	—
Deposits for U.S insurance regulators	1,531	—	26,428	—
Collateral pledged for letters of credit	2,105	—	255,766	—
Collateral pledged for insurance and reinsurance transactions	8,724	—	419,844	—
Fiduciary cash	34,336	—	—	—
	$ 69,206	$ 69,292	$ 1,780,109	$ 70,815

	December 31, 2021			
	Cash and cash equiv.	Short term investments	Fixed maturities	Other investments
Deposited at Lloyd's for FAL	$ 488	$ —	$ 398,933	$ 72,225
Other Lloyd's and overseas regulatory requirements	24,002	55,255	540,977	—
Deposits for U.S insurance regulators	1,711	—	18,061	—
Collateral pledged for letters of credit	3,079	—	138,055	—
Collateral pledged for insurance and reinsurance transactions	5,995	—	166,552	—
Fiduciary cash	47,837	—	—	—
	$ 83,112	$ 55,255	$ 1,262,578	$ 72,225

4. Fair value measurement

Fair value hierarchy

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

- Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.
- Level 2 - Valuations based on quoted prices in active markets for similar assets or liabilities, quoted prices for identical assets or liabilities in inactive markets, or for which significant inputs are observable (e.g. interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.

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

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

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

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

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

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

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

Municipal securities

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

Corporate securities

Corporate debt securities consist primarily of investment-grade debt of a wide variety of corporate issuers and industries. The fair values of these securities are generally determined using the spread above the risk-free yield curve. These spreads are generally obtained from the new issue market, secondary trading and broker-dealer quotes. As the yields for the risk-free yield curve and the spreads are observable market inputs, the fair values of corporate debt securities are generally classified as Level 2. Where pricing is unavailable from pricing services, non-binding quotes are obtained from broker-dealers to estimate fair value. In this event, the fair value of these securities are classified as Level 3.

Asset-backed securities ("ABS")

ABS include mostly investment-grade bonds backed by pools of loans with a variety of underlying collateral, including automobile loan receivables, student loans, credit card receivables, and collateralized loan obligation debt originated by a variety of financial institutions. The fair values of these securities are determined using a model which uses prepayment speeds and spreads sourced primarily from the new issue market. As the significant inputs used to price these securities are observable market inputs, the fair values of ABS are generally classified as Level 2. Where pricing is unavailable from pricing services, non-binding quotes are obtained from broker-dealers to estimate fair value. In this event, the fair values of these securities are classified as Level 3.

Mortgage-backed and residential mortgage-backed securities

This category includes residential and commercial mortgages originated by both U.S. government agencies (such as the FNMA) and non-U.S. government agencies. The fair values of mortgage-backed securities originated by U.S. government agencies and non-U.S. government agencies are based on a pricing model that incorporates prepayment speeds and spreads to determine appropriate average life of mortgage-backed securities. The spreads are sourced from broker-dealers, trade prices and the new issue market. As the significant inputs used to price the mortgage-backed securities are observable market inputs, the fair values of these securities are generally classified as Level 2.

Short term investments

Short term investments primarily comprise highly liquid securities with maturities greater than three months but less than one year from the date of purchase. These securities are generally classified as Level 2 as these securities are not typically actively traded due to their approaching maturity, and, as such, their amortized cost approximates fair value. Certain short term investments are issued by the U.S. Treasury and are classified as Level 1 as they are based on unadjusted market prices in active markets.

Other investments

The Company’s other investments include investments in the equity tranche of a collateralised bond obligation which are recorded at fair value based on broker bid indications. As the prices are unobservable market inputs, the fair value is classified as Level 3.

(Expressed in thousands of U.S. dollars, except share data)

The tables below present the financial instruments measured at fair value on a recurring basis at December 31, 2022 and 2021:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair value based on NAV practical expedient	Total
2022					
U.S. government and government agency securities	$ 88,656	$ 18,038	$ —	$ —	$ 106,694
Non-U.S. government and government agency securities	—	236,853	—	—	236,853
Municipal securities	—	272,649	—	—	272,649
Corporate securities	—	1,743,804	11,867	—	1,755,671
Asset-backed securities	—	472,871	—	—	472,871
Mortgage-backed securities	—	65,336	—	—	65,336
Residential mortgage-backed securities	—	507,271	—	—	507,271
Total fixed maturity securities	88,656	3,316,822	11,867	—	3,417,345
Short term investments	174,866	117,296	—	—	292,162
Other investments	—	—	4,193	139,934	144,127
	$ 263,522	$ 3,434,118	$ 16,060	$ 139,934	$ 3,853,634

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair value based on NAV practical expedient	Total
2021					
U.S. government and government agency securities	$ 96,202	$ 19,406	$ —	$ —	$ 115,608
Non-U.S. government and government agency securities	—	182,914	—	—	182,914
Municipal securities	—	209,980	—	—	209,980
Corporate securities	—	1,566,771	14,434	—	1,581,205
Asset-backed securities	—	380,123	—	—	380,123
Mortgage-backed securities	—	38,604	—	—	38,604
Residential mortgage-backed securities	—	395,268	—	—	395,268
Total fixed maturity securities	96,202	2,793,066	14,434	—	2,903,702
Short term investments	30,000	68,446	—	—	98,446
Other investments	—	—	5,770	121,314	127,084
	$ 126,202	$ 2,861,512	$ 20,204	$ 121,314	$ 3,129,232

(Expressed in thousands of U.S. dollars, except share data)

Below is a reconciliation of the beginning and ending balances, for the periods shown of assets measured at fair value on a recurring basis using Level 3 inputs.

	2022	2021
Balance beginning at January 1	$ 20,204	$ 15,109
Purchases	—	7,000
Sales	(1,125)	—
Unrealized gains (losses)		
- Included in Net investment income	(452)	(1,230)
- Included in Net realised and unrealized losses on investments	(1,059)	(559)
Foreign exchange losses	(1,508)	(116)
Ending balance at December 31	$ 16,060	$ 20,204

Measuring fair value using Net Asset Valuations

The table below shows the Company's portfolio of other investments measured using Net Asset Valuations ("NAV") as advised by the external fund manager as a practical expedient:

December 31, 2022	Fair value	Unfunded Commitments	Redemption Frequency
Senior secured credit funds	$ 112,003	$ —	See below
Hedge funds	13,665	—	See below
Private equity funds	2,544	12,332	See below
Private debt funds	11,722	8,197	See below
	$ 139,934	$ 20,529	

December 31, 2021	Fair value	Unfunded Commitments	Redemption Frequency
Senior secured credit funds	$ 104,348	$ —	See below
Hedge funds	10,009	—	See below
Private debt funds	6,957	8,069	See below
	$ 121,314	$ 8,069	

<u>Senior secured credit funds</u>

At December 31, 2022, the Company had $112,003 (2021; $104,348) principally invested in senior secured credit funds. The Company can redeem its investments in senior secured credit funds on a monthly basis.

<u>Hedge funds</u>

At December 31, 2022, the Company had $13,665 (2021; $10,009) of investments in hedge funds that are primarily focused on U.S. public and private equity opportunities which are generally redeemable at the option of the shareholder.

<u>Private equity funds</u>

At December 31, 2022, the Company had $2,544 (2021; $nil) of investments in private equity funds including alternative asset limited partnerships (or similar corporate structures) that invest in private equity asset classes across the U.S. The Company has no right to redeem its investment in these funds and it is estimated that the underlying assets of the funds would liquidate over 5-10 years from inception of the respective vehicles.

(Expressed in thousands of U.S. dollars, except share data)

Private debt funds

At December 31, 2022, the Company had $11,722 (2021; $6,957) invested in closed end funds which invest primarily in loans. The Company has no right to redeem its investment in these funds. It is estimated that the majority of the underlying assets in these closed end funds will liquidate after 4-8 years from inception of the applicable fund.

Financial instruments disclosed, but not carried, at fair value

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

The carrying values of cash and cash equivalents and accrued investment income approximated their fair values at December 31, 2022 and 2021, due to their respective short maturities. As these financial instruments are not actively traded, their fair values are classified as Level 2.

Debt

Included on the Company's consolidated balance sheet at December 31, 2022 and 2021 were debt obligations of $400,000, net of unamortized debt issuance expenses of $4,300 (2021 - $4,840). As at December 31, 2022 the fair value of the Company's debt obligations was $340,880 (2021 - $411,000).

5. Business combinations

On October 31, 2021, AIC acquired AmFed National Insurance Company and its wholly owned subsidiaries (together "AmFed"). AmFed, based in Ridgeland, Mississippi, is a Mississippi based workers' compensation insurance company with additional licenses in 15 Southeastern and Midwestern states. The purchase price was $51,525.

The fair value of the assets acquired and liabilities assumed and the allocation of the purchase price on the acquisition date are summarized in the following table:

Total purchase price	$	51,525
Assets		
Investments		53,617
Cash and cash equivalents		13,432
Premium receivable		8,224
Reinsurance recoverables on unpaid losses		34,315
Indefinite lived intangible assets - U.S. licenses		3,200
Definite life intangible assets		2,722
Other assets acquired		11,654
Total assets acquired		127,164
Liabilities		
Reserve for loss and loss adjustment expenses		58,063
Unearned premiums		10,332
Other liabilities assumed		7,244
Total liabilities assumed	$	75,639

(Expressed in thousands of U.S. dollars, except share data)

The purchase price was allocated to the assets acquired and liabilities assumed based on estimated fair values at the acquisition date and no goodwill was recognized.

On October 4, 2021, AIC acquired ASC, a U.S. Treasury-listed insurance carrier licensed in 46 states and the District of Columbia. The purchase price paid was $11,349 and the transaction was accounted for as an asset acquisition.

6. Goodwill and intangible assets

Goodwill and intangible assets as of December 31, 2022 and 2021 are as follows:

	Goodwill	Intangible assets			Goodwill & Intangible assets
	Gross	Gross	Amortization	Total	Total
Balances as of December 31, 2020	$ 69,551	$ 238,218	$ (67,761)	$ 170,457	$ 240,008
Acquired during year	—	8,583	—	8,583	8,583
Amortization	—	—	(6,609)	(6,609)	(6,609)
Balance as of December 31, 2021	69,551	246,801	(74,370)	172,431	241,982
Acquired during year	—	—	—	—	—
Amortization	—	—	(7,136)	(7,136)	(7,136)
Balance as of December 31, 2022	$ 69,551	$ 246,801	$ (81,506)	$ 165,295	$ 234,846

The gross carrying value and accumulated amortization by major category of intangible assets as of December 31, 2022 is shown below:

	Gross carrying value	Accumulated amortization	Total
Lloyd's Syndicate capacity	$ 94,000	$ —	$ 94,000
U.S. licenses	15,254	—	15,254
Indefinite life	**109,254**	—	**109,254**
Customer relationships and distribution network	95,702	(40,090)	55,612
VOBA	41,845	(41,416)	429
Definite life	**137,547**	**(81,506)**	**56,041**
Total intangible assets	**$ 246,801**	**$ (81,506)**	**$ 165,295**

(Expressed in thousands of U.S. dollars, except share data)

The gross carrying value and accumulated amortization by major category of other intangible assets as of December 31, 2021 is shown below:

	Gross carrying value	Accumulated amortization	Total
Lloyd's Syndicate capacity	$ 94,000	$ —	$ 94,000
U.S. licenses	15,254	—	15,254
Indefinite life	**109,254**	—	**109,254**
Customer relationships and distribution network	95,702	(33,468)	62,234
VOBA	41,845	(40,902)	943
Definite life	**137,547**	**(74,370)**	**63,177**
Total intangible assets	**$ 246,801**	**$ (74,370)**	**$ 172,431**

The remaining useful life of intangible assets with finite lives ranges from 1 to 9 years with a weighted average remaining amortization period of 8.5 years. Expected amortization of the intangible assets is shown below:

	Other intangible assets
2023	$ 7,050
2024	6,621
2025	6,621
2026	6,582
2027 and thereafter	29,167
Total remaining amortization expense - definite life	56,041
Indefinite life	109,254
Total	$ 165,295

On November 18, 2016, AUGL, a wholly owned subsidiary of the Company, acquired 100% ownership in Ascot Employee Corporate Member Limited ("AECM"), AUHL and ACNL (together "the UK Group") for an aggregate purchase price of $422,391. The UK Group provides underwriting capacity to Syndicate 1414. The purchase price was allocated to the assets acquired (including certain intangible assets) and liabilities assumed of the UK group based on estimated fair values at the acquisition date and AUGL recognized goodwill of $67,797.

On October 4, 2018, Ascot US Holding Corporation acquired Ascot Insurance Company (formerly Greyhawk Insurance Company), a Colorado domiciled admitted carrier, and its wholly owned subsidiary Ascot Specialty Insurance Company (formerly Greyhawk Specialty Insurance Company) a Rhode Island domiciled surplus lines carrier. The purchase price was $22,646 and was allocated to the assets acquired (including certain intangible assets) and liabilities assumed based on estimated fair values at the acquisition date and $1,754 of goodwill was recognized.

The business combinations and asset acquisitions which occurred during the year ended December 31, 2021 are described in Note 5, Business combinations.

As described in Note 2, Significant accounting policies, the annual qualitative and quantitative impairment test was performed and neither goodwill nor the intangible assets were deemed to be impaired.

7. Reserves for loss and loss adjustment expenses

Reserving Methodology

The Company believes that the most significant accounting judgment made by management is the estimate of reserve for losses and loss expenses ("loss reserves"). The loss reserves represent management's estimate of the unpaid portion of the ultimate liability for losses and loss expenses for events that have occurred at or before the balance sheet date. The reserves are estimated on an undiscounted basis.

The process of establishing loss reserves is complex and subject to considerable variability, as it requires the use of judgment to make informed estimates. These estimates are based on numerous factors, and may be revised as additional experience and other data become available and are reviewed. Loss reserves are categorized into two types:

- Case reserves - reserves for reported losses and loss expenses that have not yet been settled; and
- IBNR reserves - reserves for incurred but not reported losses or for reported losses over and above the amount of case reserves.

For all case and IBNR reserves, net of reinsurance reserves are estimated by first estimating gross of reinsurance reserves, then estimating reinsurance recoverables.

Case reserves
Case reserves generally are analyzed and established by the claims department, making use of third party input where appropriate (including, for the reinsurance business, reports of losses from ceding companies).

For insurance contracts, the Company is generally notified of insured losses by the insureds and/or their brokers. Based on this information, the Company's claims personnel estimate the ultimate losses arising from the claim, including the cost of administering the claims settlement process. These estimates reflect the judgment of the Company's claims personnel based on general reserving practices, the experience and knowledge of such personnel regarding the nature of the specific claim and, where appropriate, the advice of legal counsel, loss adjusters and other relevant consultants.

For reinsurance contracts, case reserves for reported claims are generally established based on reports received from ceding companies and/or their brokers. For excess of loss contracts, the Company is typically notified of insured losses on specific contracts and records a case reserve for the estimated ultimate liability arising from the claim. With respect to contracts written on a proportional basis, the Company typically receives aggregated claims information and records a case reserve based on that information. However, proportional reinsurance contracts typically require that losses in excess of pre-defined amounts be separately notified so that the Company can adequately evaluate them. The Company's claims department evaluates each specific loss notification received and records additional case reserves when a ceding company's reserve for a claim is not considered adequate.

IBNR reserves
IBNR reserves represent management's best estimate, at a given point in time, of the amount in excess of case reserves that is needed for the future settlement and loss adjustment costs associated with claims incurred and also for the future settlement of any incurred but not reported claims. The estimation of IBNR reserves is necessary due to the time lags between when a loss event occurs and when it is actually reported to the Company, referred to as the reporting lag. Reporting lags may arise from a number of factors, including but not limited to the nature of the loss, the use of intermediaries and complexities in the claims adjusting process.

IBNR reserves on known catastrophe and shock losses are reviewed on a monthly basis, and are adjusted as new information becomes available. Any such adjustments are accounted for as changes in estimates and are reflected in the results of operations in the period in which they are made. IBNR reserves are estimated separately for all other losses.

Attritional losses

Consistent with industry practice, the Company utilizes a variety of standard actuarial methods together with management judgment to estimate IBNR for attritional losses. The loss reserve selection from these methods is based on the loss development characteristics of the specific line of business and contracts, which take into consideration coverage terms, type of business, maturity of loss data, reported claims and paid claims.

The principal actuarial methods used by the Company to perform the quarterly loss reserve analysis are:

- Expected Loss Ratio Method. The Expected Loss Ratio method multiplies premiums by an expected loss ratio to produce ultimate loss estimates for an underwriting year. Expected loss ratios are generally based on an analysis of historical loss experience to date, industry data or pricing information. This method is insensitive to actual incurred losses for the accident year or underwriting year in question and is, therefore, often useful in the early stages of development when very few losses have been incurred.

- Loss Development Method. This method assumes that the losses incurred/paid for each underwriting year at a particular development stage follow a relatively similar pattern. It assumes that on average, every accident or underwriting year will display the same percentage of ultimate losses incurred/paid at the same point in time after the inception of that year. The percentages incurred/paid are established through analyzing the historical loss development data and/or external benchmark information.

- Bornhuetter-Ferguson Method. These methods are a weighted average of the Expected Loss Ratio and the Loss Development Method. The weighting between the two methods depends on the maturity of the business. This means that for the more recent years a greater weight is placed on the Expected Loss Ratio Method, while for the more mature years a greater weight is placed on the Loss Development Method. These methods avoid some of the distortions that could result from a large development factor being applied to a small base of paid or reported losses to calculate ultimate losses.

Known catastrophe events

IBNR reserves are established for known catastrophe events (such as hurricanes and earthquakes) for which not all claims are believed to have been reported to the Company and to allow for reported losses over and above the amount of case reserves. Loss reserves for such events are estimated by management in collaboration with actuaries, claim handlers and underwriters after a catastrophe occurs by completing an analysis based on several sources of information, including:

- Estimates of the size of insured industry losses from the catastrophic event and the Company's corresponding market share;

- A review of the Company's portfolio to identify those contracts which may be exposed to the catastrophic event;

- A review of modeled loss estimates based on information previously reported by customers and brokers, including exposure data obtained during the underwriting process;

- Discussions of the impact of the event with insureds and brokers;

- Information that has been provided by insureds or brokers as claims are notified; and

- Catastrophe bulletins published by various independent statistical reporting agencies.

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

(Expressed in thousands of U.S. dollars, except share data)

Paid losses and case reserves are then deducted from the ultimate loss to ascertain the IBNR estimate for these individual catastrophe events. The size of event for which the Company establishes a separate ultimate loss estimate may vary based on an assessment of the materiality of the event, as well as on other factors such as complexity and volatility.

In subsequent reporting periods, changes in paid and incurred losses in relation to each significant catastrophe are reviewed and adjustments are made to estimates of ultimate losses for each event if there are developments that are different from previous expectations. Adjustments are recorded in the period in which they are identified.

The reserving process produces a point estimate for the Company's loss reserves. Although the Company believes that the assumptions and methodologies used are reasonable, the Company cannot be certain that the ultimate payments will not vary, potentially materially, from the estimates made.

Reserve Roll-Forward

The following table presents a reconciliation of the beginning and ending gross reserve for losses and loss expenses and net reserve for losses and loss expenses for the years ended December 31, 2022 and 2021:

	2022	2021
Gross reserves for losses and loss adjustment expenses, beginning of year	$ 2,219,296	$ 1,270,139
Less: reinsurance recoverable balances, beginning of year	760,565	336,751
Net reserves for losses and loss adjustment expenses, beginning of year	1,458,731	933,388
Increase in reserve for net losses and loss adjustment expense from acquisitions	—	23,748
Increase in net losses and loss adjustment expenses incurred in respect of losses occurring in:		
Current year	1,400,480	923,707
Prior years	155,281	56,335
Total incurred losses and loss adjustment expenses	1,555,761	980,042
Less: net losses and loss adjustment expenses paid in respect of losses occurring in:		
Current year	125,756	151,873
Prior years	414,714	321,597
Total net paid losses	540,470	473,470
Net foreign currency on loss and loss adjustment expenses	(20,694)	(4,977)
Net reserve for losses and loss adjustment expenses, end of year	2,453,328	1,458,731
Plus reinsurance recoverable balances, end of year	1,160,147	760,565
Gross reserve for losses and loss adjustment expenses, end of year	$ 3,613,475	$ 2,219,296

For the year ended December 31, 2022, the Company recorded net unfavorable prior years reserve development primarily related to losses from catastrophe events and per-risk losses. The unfavorable prior year development was principally in the Company's property lines of business and related to various catastrophe events in 2020 and 2021 accident years and certain per risk losses in 2019 to 2021 accident years. The Company has experienced an increase in frequency and severity of large per risk losses. The estimation of the losses is complex due to both the location of loss, supply chain challenges and inflationary pressures.

For the year ended December 31, 2021, the Company recorded net unfavorable prior years reserve development primarily related to 2020 accident year catastrophe events, principally Hurricane Laura, and 2011 accident year catastrophe events, principally the earthquake in Christchurch, New Zealand.

(Expressed in thousands of U.S. dollars, except share data)

Net incurred and paid claims development tables by accident year

The following information presents the incurred and paid claims information as of December 31, 2022, net of reinsurance, as well as cumulative claim frequency and total IBNR reserves by accident year. The information about incurred and paid claims development presented for the years ended December 31, 2013 to December 31, 2021 is presented as supplementary information.

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

Consolidated

Incurred claims and allocated loss adjustment expenses, net of reinsurance

	Unaudited										As of December 31, 2022	
Accident Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total IBNR	Cum. No. of Reported Claims
2013	235,803	267,380	270,292	264,096	258,849	253,688	251,676	250,515	251,191	263,898	5,682	12,646
2014		230,881	260,078	261,060	253,275	250,395	243,802	243,499	243,136	246,256	1,549	14,364
2015			250,633	291,623	292,379	285,935	279,475	277,688	277,899	277,454	3,569	15,816
2016				248,103	286,175	278,499	283,798	290,693	297,741	298,382	7,960	20,017
2017					389,266	361,484	350,543	357,453	353,584	360,706	11,170	25,554
2018						349,006	425,706	470,769	477,564	487,893	19,214	34,456
2019							311,321	316,483	331,649	348,165	64,080	80,475
2020								484,863	493,493	525,489	108,120	139,551
2021									915,882	1,002,698	405,610	188,230
2022										1,362,995	1,051,957	129,205
										$5,173,936	$1,678,911	

Cumulative paid claims and loss adjustment expenses, net of reinsurance

	Unaudited									
Accident Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
2013	60,548	157,024	216,702	234,491	243,802	247,127	246,124	246,403	246,898	247,536
2014		75,326	160,765	200,868	217,994	226,942	230,254	233,020	235,588	239,708
2015			60,428	170,400	213,948	232,263	246,983	255,993	260,586	264,681
2016				65,456	166,419	217,122	226,932	247,307	260,737	274,467
2017					-16,116	193,913	253,323	293,947	314,285	336,721
2018						67,264	227,299	319,695	377,894	412,902
2019							58,042	123,156	174,496	210,276
2020								85,312	239,070	329,462
2021									144,639	341,847
2022										120,912
										$ 2,778,512

(Expressed in thousands of U.S. dollars, except share data)

The following table reconciles the net reserve for losses and loss expenses derived from the incurred and paid loss development triangles to the reserve for losses and loss expenses in the consolidated balance sheet as of December 31, 2022:

	December 31, 2022
Total incurred claims and allocated loss and loss adjustment expenses, net of reinsurance	$ 5,173,936
Less: Cumulative paid claims and loss adjustment expenses, net of reinsurance	(2,778,512)
All outstanding liabilities before 2013, net of reinsurance	16,750
Unallocated claims adjustment expenses	41,154
	$ 2,453,328

<u>Property Treaty</u>

Incurred claims and allocated loss adjustment expenses, net of reinsurance

	Unaudited										As of December 31, 2022	
Accident Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total IBNR	Cum. No. of Reported Claims
2013	43,846	43,051	47,639	44,810	43,546	41,786	41,427	41,308	41,588	36,894	18	233
2014		36,830	33,813	31,199	31,135	31,659	31,676	31,621	31,435	32,481	127	278
2015			24,508	25,496	28,926	27,601	25,904	24,943	24,868	24,971	47	231
2016				25,958	28,561	23,844	23,358	23,160	24,813	24,860	416	333
2017					102,692	88,040	68,993	72,179	69,659	74,379	8,987	592
2018						83,729	151,898	193,180	194,902	194,749	(4,661)	450
2019							39,602	28,625	36,160	42,129	12,765	271
2020								116,494	131,528	160,058	30,194	400
2021									228,618	313,514	53,460	304
2022										312,187	203,455	1,004
										$1,216,222	$304,808	

Cumulative paid claims and loss adjustment expenses, net of reinsurance

	Unaudited									
Accident Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
2013	2,535	17,434	38,737	42,209	41,867	41,174	40,588	40,545	40,642	40,627
2014		16,109	24,914	27,155	27,955	29,291	29,074	29,053	29,133	30,474
2015			2,568	7,591	12,730	15,558	18,226	21,959	22,156	23,424
2016				1,927	13,167	21,719	24,162	25,311	25,943	26,801
2017					(67,790)	36,278	49,624	71,823	70,565	84,192
2018						29,866	68,595	114,058	121,098	138,373
2019							3,665	10,031	17,379	24,385
2020								31,012	84,884	107,646
2021									62,729	141,692
2022										42,861
										$660,475

(Expressed in thousands of U.S. dollars, except share data)

Property

Incurred claims and allocated loss adjustment expenses, net of reinsurance

	Unaudited										As of December 31, 2022	
Accident Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total IBNR	Cum. No. of Reported Claims
2013	74,977	97,510	97,134	98,355	96,516	94,306	93,075	92,506	92,650	106,521	5,451	7,142
2014		89,499	115,865	116,424	115,531	115,217	112,458	112,977	112,882	114,545	310	6,549
2015			91,580	112,906	112,199	109,847	110,181	109,413	108,031	107,059	421	6,123
2016				97,066	117,141	109,614	111,679	115,482	118,225	117,761	(538)	8,317
2017					111,872	102,211	104,065	103,331	99,979	99,225	(6,323)	8,269
2018						47,377	57,619	57,556	58,872	61,116	7,519	6,324
2019							55,670	60,559	60,635	58,163	3,381	4,783
2020								95,843	106,260	111,798	(331)	4,513
2021									114,211	107,547	15,844	2,205
2022										160,796	84,727	2,553
										$ 1,044,531	$110,461	

Cumulative paid claims and loss adjustment expenses, net of reinsurance

	Unaudited									
Accident Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
2013	18,493	53,977	76,734	84,539	91,209	93,315	91,530	91,831	92,473	92,620
2014		32,987	76,092	98,945	108,485	111,624	111,734	112,719	113,427	114,418
2015			32,434	81,557	98,594	105,344	108,103	109,103	108,732	107,592
2016				27,995	82,433	97,259	102,017	109,690	114,411	115,701
2017					17,216	81,711	98,032	97,843	98,281	97,863
2018						7,567	58,936	68,602	72,324	73,029
2019							12,004	27,760	36,735	41,183
2020								24,925	73,154	99,587
2021									26,873	62,346
2022										28,244
										$ 832,583

(Expressed in thousands of U.S. dollars, except share data)

Marine & Energy

Incurred claims and allocated loss adjustment expenses, net of reinsurance

	Unaudited										As of December 31, 2022	
Accident Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total IBNR	Cum. No. of Reported Claims
2013	110,672	123,984	123,358	118,909	117,320	116,320	115,709	115,328	115,344	118,721	21	4,981
2014		90,939	95,309	96,481	92,263	91,001	87,589	87,043	86,399	85,828	(292)	6,042
2015			113,989	125,519	120,994	120,031	116,335	114,089	114,834	114,461	103	6,550
2016				89,029	95,658	94,868	95,311	94,134	94,804	94,525	1,134	7,138
2017					119,635	107,563	110,549	111,393	111,098	113,026	(2,855)	10,036
2018						114,730	106,125	108,760	112,722	114,561	4,141	8,517
2019							114,249	121,645	130,794	140,388	13,038	5,543
2020								104,340	96,323	103,960	6,469	4,139
2021									146,495	145,081	38,849	2,641
2022										165,662	85,185	3,780
										$1,196,213	$145,793	

Cumulative paid claims and loss adjustment expenses, net of reinsurance

	Unaudited									
Accident Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
2013	39,482	85,532	100,818	107,320	110,217	112,062	113,096	113,071	112,760	113,009
2014		26,171	57,493	71,119	77,442	81,082	82,879	83,478	84,402	84,910
2015			24,913	78,608	97,034	103,707	108,956	110,379	112,111	113,236
2016				34,755	63,878	84,022	77,222	80,793	83,494	88,272
2017					31,748	65,669	85,372	91,510	103,132	105,634
2018						27,217	80,091	102,512	111,364	116,534
2019							38,631	68,032	86,302	94,565
2020								21,110	56,870	75,771
2021									39,004	81,487
2022										38,721
										$912,139

(Expressed in thousands of U.S. dollars, except share data)

Casualty

Incurred claims and allocated loss adjustment expenses, net of reinsurance

	Unaudited										As of December 31, 2022	
Accident Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total IBNR	Cum. No. of Reported Claims
2013	18	2,051	1,795	1,670	1,128	949	1,140	1,046	1,284	1,437	184	270
2014		11,244	12,932	15,047	12,469	10,663	10,244	10,033	10,614	11,590	1,400	1,475
2015			19,224	26,016	28,482	26,990	25,614	27,816	28,781	29,571	2,947	2,880
2016				33,311	39,141	43,923	46,852	51,156	52,688	54,113	6,659	3,685
2017					46,854	53,043	54,228	55,509	55,295	58,144	9,321	5,655
2018						92,809	102,458	101,236	99,870	106,525	18,225	18,072
2019							91,269	93,030	89,936	92,252	28,495	68,836
2020								155,910	147,545	136,050	67,670	129,563
2021									418,786	428,847	294,798	182,782
2022										699,845	658,638	121,173
										$1,618,374	$1,088,337	

Cumulative paid claims and loss adjustment expenses, net of reinsurance

	Unaudited									
Accident Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
2013	—	19	80	88	174	242	574	619	687	944
2014		58	646	2,012	2,474	3,287	4,916	6,117	6,973	8,254
2015			340	2,310	4,328	6,393	10,425	13,276	16,310	19,155
2016				435	4,939	10,749	18,881	26,285	31,271	37,464
2017					1,659	5,971	13,630	22,870	30,005	36,910
2018						1,208	13,340	24,407	61,180	72,514
2019							2,334	12,538	26,441	40,905
2020								5,456	19,445	38,226
2021									15,341	53,548
2022										8,582
										$316,502

(Expressed in thousands of U.S. dollars, except share data)

Credit

Incurred claims and allocated loss adjustment expenses, net of reinsurance

	Unaudited										As of December 31, 2022	
Accident Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total IBNR	Cum. No. of Reported Claims
2013	6,291	784	366	351	338	326	324	327	326	326	9	20
2014		2,368	2,160	1,909	1,877	1,856	1,836	1,826	1,807	1,813	3	20
2015			1,331	1,687	1,779	1,466	1,442	1,426	1,385	1,392	52	32
2016				2,738	5,674	6,250	6,597	6,761	7,210	7,123	288	544
2017					8,213	10,627	12,708	15,040	17,554	15,933	2,039	1,002
2018						10,362	7,606	10,037	11,198	10,941	(6,011)	1,093
2019							10,532	12,624	14,124	15,233	6,400	1,042
2020								12,276	11,838	13,623	4,118	936
2021									7,772	7,709	2,659	298
2022										24,504	19,953	695
										$ 98,597	$ 29,510	

Cumulative paid claims and loss adjustment expenses, net of reinsurance

	Unaudited									
Accident Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
2013	38	61	333	334	334	334	336	336	336	336
2014		—	1,620	1,638	1,638	1,658	1,650	1,653	1,653	1,653
2015			173	334	1,261	1,261	1,272	1,275	1,276	1,274
2016				344	2,003	3,374	4,650	5,229	5,619	6,229
2017					1,050	4,284	6,666	9,901	12,302	12,123
2018						1,406	6,337	10,116	11,927	12,452
2019							1,409	4,795	7,639	9,238
2020								2,809	4,718	8,230
2021									692	2,774
2022										2,504
										$ 56,813

(Expressed in thousands of U.S. dollars, except share data)

8. Reinsurance

In the ordinary course of business, the Company purchases treaty and facultative reinsurance to reduce exposure to significant losses. Facultative reinsurance provides coverage for all or a portion of the losses incurred for a single policy and each facultative contract is negotiated separately.

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

All of these reinsurance covers provide the Company the right to recover a portion of specified losses and loss expenses from reinsurers. However, to the extent that the reinsurers do not meet their obligations under these agreements due to solvency issues, contractual disputes or other reasons, the Company remains liable.

(a) Effects of reinsurance on premiums written and earned

The effects of reinsurance on premiums written and earned and on losses and loss adjustment expenses is as follows for the years ended December 31, 2022 and 2021:

	2022	2021
Net premiums written		
Direct	$ 2,191,388	$ 1,656,413
Assumed	1,385,526	1,179,782
Ceded	(977,439)	(854,608)
Net premiums written	2,599,475	1,981,587
Net premiums earned		
Direct	1,966,796	1,408,028
Assumed	1,273,923	874,768
Ceded	(935,715)	(706,702)
Net premiums earned	2,305,004	1,576,094
Losses and loss adjustment expenses		
Gross losses and loss adjustment expenses incurred	2,226,655	1,531,859
Losses and loss adjustment expense recoveries	(670,894)	(551,817)
Net incurred losses and loss adjustment expenses	$ 1,555,761	$ 980,042

(b) Credit risk

The Company evaluates the financial condition of its reinsurers and monitors concentration of credit risk arising from its exposure to individual reinsurers. As of December 31, 2022, 79.4% of reinsurance recoverables were from reinsurers rated A- or better, 19.2% from unrated reinsurers all of which is collateralized and 1.4% from unrated reinsurers on an uncollateralized basis. The uncollateralized recoverable from unrated reinsurers principally relates to a recoverable from the Mississippi Workers' Compensation Assigned Risk Pool.

As of December 31, 2021, 78.6% of reinsurance recoverables were from reinsurers rated A- or better, 18.8% was from unrated reinsurers all of which is collateralized and 2.5% from unrated reinsurers on an uncollateralized basis. The uncollateralized recoverable from unrated reinsurers principally relates to a recoverable from the Mississippi Workers' Compensation Assigned Risk Pool.

(Expressed in thousands of U.S. dollars, except share data)

Reserves for reinsurance recoverables deemed uncollectible are based on an estimate of the amount of the reinsurance recoverable balance that will ultimately not be recovered due to reinsurer insolvency, contractual dispute or some other reason. The valuation of the reserve for uncollectible reinsurance includes a review of the credit ratings of the reinsurance recoverable by reinsurer on a continuous basis with any resulting adjustments recorded in earnings in the period that collection issues are identified. As of December 31, 2022 and 2021, the reserves for reinsurance recoverables deemed uncollectible was $3,445 and $2,064, respectively.

9. Financing arrangements

Debt Facilities

On December 15, 2020, the Company issued $400,000 principal amount of its 4.25% Senior Notes due December 15, 2030, with interest on the notes payable on June 15 and December 15 of each year, commencing on June 15, 2021. The notes are redeemable at the applicable redemption price, subject to the terms described in the indenture for the notes. However, the notes may not be redeemed or repaid at any time including on the scheduled maturity date without approval from the Bermuda Monetary Authority (the “BMA”) if enhanced capital requirements, as established by the BMA, would be breached immediately before or after giving effect to the redemption of such notes, unless, in each case, the Company replaces the capital represented by the notes to be redeemed with capital having equal or better capital treatment as the notes under applicable BMA rules. The net proceeds from this offering will be used for general corporate purposes.

The following table sets forth the scheduled maturity of the Company's debt obligations reflected on its consolidated balance sheet at December 31, 2022:

2023	$	—
2024		—
2025		—
2026		—
2027		—
After 2027		400,000
Unamortized debt issuance expenses		(4,300)
	$	395,700

Letter of Credit Facilities

On November 4, 2020, Ascot Bermuda and the Company (as Guarantor) entered into an unsecured $250,000 letter of credit facility (the "FAL LOC Facility") with ING Bank N.V. London Branch and The Bank of Nova Scotia, London Branch. The facility may be collateralized at the option of Ascot Bermuda. Under the terms of the FAL LOC Facility, letters of credit to a maximum aggregate amount of $250,000 are available for issuance. These letters of credit will be used to provide Funds at Lloyd's to support the underwriting capacity provided by ACNL to the Syndicate. The FAL LOC Facility is subject to certain covenants, including the requirement to maintain a minimum consolidated tangible net worth and a maximum leverage ratio, as defined in the FAL LOC Facility Documents. Obligations under the FAL LOC Facility include contingent reimbursement obligations for outstanding letters of credit and fees. In the event of default, the Banks may exercise certain remedies, including the exercise of control over pledged collateral and the termination of the availability of the FAL LOC Facility. This facility replaced the unsecured $250,000 letter of credit facility entered into on November 2, 2018 by Ascot Bermuda and the Company (as Guarantor) with Lloyds Bank plc, ING Bank N.V. London Branch and The Bank of Nova Scotia, London Branch.

On December 20, 2018, Ascot Bermuda and the Company (as Guarantor) entered into an uncommitted secured letter of credit facility with Wells Fargo Bank, National Association (the "Wells Fargo LOC Facility"). On May 19, 2021 the terms of the Wells Fargo LOC Facility were amended to increase the maximum aggregate amount of letters of credits which are available for issuance from $50,000 to $150,000. The Wells Fargo LOC Facility is subject to certain covenants, including the requirement to maintain a minimum level of collateral in the form of cash and fixed maturity securities. Obligations under the Wells Fargo LOC Facility include contingent reimbursement obligations for outstanding letters of credit and fees. In the event of default, the Banks may exercise certain remedies, including the exercise of control over pledged collateral and the termination of the availability of the Wells Fargo LOC Facility.

On December 21, 2021, Ascot Bermuda and the Company (as Guarantor) entered into an uncommitted letter of credit facility with The Bank of Nova Scotia (the "Nova Scotia LOC Facility"). The facility may be collateralized at the option of Ascot Bermuda. Under the terms of the Nova Scotia LOC Facility, letters of credit to a maximum aggregate amount of $25,000 are available for issuance. The Nova Scotia LOC Facility is subject to certain covenants, including the requirement to maintain a minimum consolidated tangible net worth and a maximum leverage ratio, as defined in the Nova Scotia LOC Facility Documents.

At December 31, 2022, Ascot Bermuda had $250,000 letters of credit outstanding under the FAL LOC Facility, $149,145 outstanding under the Wells Fargo LOC Facility and $5,480 outstanding under the Nova Scotia LOC Facility. Ascot Bermuda was in compliance with covenants for all facilities at December 31, 2022.

On February 2, 2023, AIC entered into a Master Reimbursement Agreement with Lloyds Bank Corporate Markets plc (the "Lloyds LOC Facility"). Under the terms of the facility, letters of credit, financial guarantees, bonds or comparable demand instruments to a maximum aggregate amount of $50,000 may be extended on an unsecured basis. The Lloyds LOC Facility is subject to usual and customary representations, warranties and undertakings.

10. Commitments and contingencies

a) Concentrations of credit risk

Credit risk is the risk of default of a counterparty or obligor including the risk of default under mitigating contracts like reinsurance, financial instruments and premium payments from policy holders. The Company mitigates credit risk through the application of detailed counterparty credit assessments, working to ensure that contractual terms are fit for purpose and that full disclosure of relevant information is made, and through exerting contractual and other credit control measures in pursuit of premium and reinsurance recoverables due.

The assets that potentially subject the Company to concentrations of credit risk consist principally of cash and investments, reinsurance recoverable and premiums receivable balances, as described below.

Cash and investments

The Company's cash and cash equivalents are on deposit with various financial institutions. Credit risk arises from the failure of the counterparty to perform according to the terms of a contract. The Company's deposits are with reputable banks to minimize this risk and they are located principally in Bermuda, the U.S. and the U.K.

The Company's investment portfolio is managed by external investment managers in accordance with its investment guidelines. The Company limits such credit risk through diversification, issuer exposure limitation graded by ratings and, with respect to custodians, through contractual and other legal remedies. Some of the key limits are:

(Expressed in thousands of U.S. dollars, except share data)

- Excluding securities issued by Sovereigns and Sovereign agencies rated AA- or better, the Company limits its concentration of credit risk to any single issuer to 2% or less of its investment portfolio;
- Exposure to non investment grade fixed maturities is limited to less than 15% of its investment portfolio;
- Exposure to equities is limited to less than 20% of its investment portfolio;
- Illiquid investments are limited to 10%; and
- A minimum average portfolio quality of A- is required for fixed maturity securities.

At December 31, 2022, the Company was in compliance with these limits.

Reinsurance recoverable balances
See Note 8. Reinsurance for information with respect to reinsurance recoverables.

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

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

These contractual rights contribute to the mitigation of credit risk, as does the monitoring of aged receivable balances. In light of these mitigating factors, and considering that a significant portion of premium balances receivable are not currently due based on the terms of the underlying contracts, the Company does not utilize specific credit quality indicators to monitor its premium balances receivable balance. At December 31, 2022, the reserve for uncollectible premium balances receivable was $1,750 (December 31, 2021; $868).

b) Brokers

The Company produces its business through brokers and direct relationships with insurance companies. During the years ended December 31, 2022 and 2021, the following brokers were used to generate greater than 10% of the Company's consolidated gross premiums written:

	% of Gross Premiums Written	
Broker	**2022**	**2021**
Marsh & McLennan Companies	20.8 %	18.5 %
Willis Towers Watson	14.5 %	16.5 %
Aon companies	12.8 %	17.6 %

c) Lease commitments

The Company leases office space under operating leases principally in Bermuda, the U.K. and the U.S. These leases expire at various dates through 2032. The Company renews and enters into new leases in the ordinary course of business, as required. Included in other assets and other liabilities at December 31, 2022 is a right-to-use asset of $33,404 and a lease liability of $39,155 associated with the Company's operating leases. Operating lease expenses with respect to these leases for the year ended December 31, 2022 of $6,466 (2021: $6,000) was recorded in general and administrative expenses.

(Expressed in thousands of U.S. dollars, except share data)

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

2023	$	7,172
2024		7,854
2025		7,856
2026		6,985
2027		6,102
Later years		8,881
Total minimum future lease commitments	$	44,850

d) Litigation

The Company is subject to litigation and arbitration in the normal course of its business. These lawsuits and arbitrations principally involve claims on policies of insurance and contracts of reinsurance and are typical for the Company and for the property and casualty insurance and reinsurance industry in general. Such legal proceedings are considered in connection with the Company's loss and loss expense reserves. In addition to litigation relating to insurance and reinsurance claims, the Company and its subsidiaries are subject to lawsuits in the normal course of business. The status of any such legal actions is actively monitored by management. If management believed, based on available information, that an adverse outcome upon resolution of a given legal action was probable and the amount of that adverse outcome was reasonable to estimate, a loss would be recognized and a related liability recorded. No such liabilities were recorded by the Company as of December 31, 2022 and 2021.

11. Share capital

(a) Authorized and issued

The issued shares as of December 31, 2022 by each class of ordinary share capital was as follows:

	Issued	Nominal value	Issued and Paid (US$)
Class A	1,895,863,158	0.0001	$ 189,586
Class B1	62,454,527	0.0001	6,245
Class B2	800,000	0.1000	80,000
Class C1	45	0.0001	—
Class C2	47	0.0001	—
	1,959,117,777		$ 275,831

As of December 31, 2022 and 2021, the authorized share capital of the Company was $2,500,000.

Class A shares have both economic and voting rights. Class B1 shares have economic rights but no voting rights. Class B2 shares have economic rights and voting rights subject to a maximum voting percentage of 5% in total. Class C1 shares have no economic or voting rights, other than the right to vote on Director appointments. Class C2 shares have no economic or voting rights, other than the right to vote on Director appointments.

(Expressed in thousands of U.S. dollars, except share data)

The following table is a summary of changes in Class B1, Class B2 and Class C2 common shares issued and outstanding:

	2022	2021
Class B1		
Total issued and outstanding shares - January 1	60,909,644	75,244,225
Issuance of shares	4,807,268	656,914
Repurchase of shares and cancelled	(3,262,385)	(15,436,411)
Issuance of restricted stock awards	—	444,916
Issued and outstanding shares - December 31	62,454,527	60,909,644
Class B2		
Issued and outstanding shares - January 1	800,000	1,000,000
Repurchase of shares and cancelled	—	(200,000)
Issued and outstanding shares - December 31	800,000	800,000
Class C2		
Issued and outstanding shares - January 1	47	55
Repurchase of shares and cancelled	—	(8)
Issued and outstanding shares - December 31	47	47

There were no changes in the number of Class A and Class C1 common shares issued and outstanding during the years ended December 31, 2022 and 2021. The issued and outstanding Class A shares held in treasury as of December 31, 2022 and 2021 were as follows:

	2022	2021
Class A		
Issued and outstanding shares	1,635,174,942	1,635,174,942
Issued and outstanding shares held in treasury	260,688,216	260,688,216
Total issued and outstanding shares	1,895,863,158	1,895,863,158

(b) Dividends

The Company did not declare any dividends during the years ended December 31, 2022 and 2021.

12. Retirement plans

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

For the year ended December 31, 2022, the Company’s total pension expenses were $7,865 (2021: $5,973) for the above retirement benefits.

(Expressed in thousands of U.S. dollars, except share data)

13. Share based compensation

Restricted shares and restricted share units

During 2018, the Company established a stock incentive plan, the "Restricted Share Incentive Plan", under which the Company may periodically grant restricted share awards and restricted share units to employees. The restricted share awards granted generally vest in annual installments over a four year service period and the restricted share units granted generally vest at the end of a three year service period.

Activity with respect to restricted share awards for the years ended December 31, 2022 and 2021 was as follows:

	Restricted shares	Weighted average grant date fair value
Restricted shares outstanding as of December 31, 2020	8,315,882	$ 0.929
Restricted shares issued	444,916	1.180
Restricted shares vested	(3,568,646)	0.929
Restricted shares forfeited	—	
Restricted shares outstanding as of December 31, 2021	5,192,152	0.951
Restricted shares issued	—	
Restricted shares vested	(1,917,708)	0.953
Restricted shares forfeited	(187,500)	0.959
Restricted shares outstanding as of December 31, 2022	3,086,944	$ 0.949

Activity with respect to restricted share units for the years ended December 31, 2022 and 2021 was as follows:

	Restricted share units	Weighted average grant date fair value
Restricted share units outstanding as of December 31, 2020	13,806,469	$ 0.942
Restricted share units issued	3,160,532	1.180
Restricted share units vested	(762,559)	0.946
Restricted share units forfeited	(508,371)	0.944
Restricted share units outstanding as of December 31, 2021	15,696,071	0.989
Restricted share units issued	6,081,978	1.250
Restricted share units vested	(4,774,764)	0.959
Restricted share units forfeited	(561,295)	0.935
Restricted share units outstanding as of December 31, 2022	16,441,990	$ 1.096

The share based compensation expense related to restricted stock awards and restricted stock units recorded in general and administrative expenses in the statement of income and comprehensive income was $8,160 for the year ended December 31, 2022 (2021: $7,826).

Performance share options

During 2019, the Company established a Performance Share Option Plan under which the Company may grant share options to employees. The exercise price of the options granted is equal to the share price of the Company's shares on the grant date. Options granted will vest after four years, subject to the satisfaction of service and performance conditions. The number of options vesting is dependent on the employee's continuous service and the growth in the market value of the Company's shares over the four year period. Options are exercisable for a period of up to 10 years after the grant date.

(Expressed in thousands of U.S. dollars, except share data)

The expense recognized during the year ended December 31, 2022 related to options was $7,809 (2021: $5,179) recorded in general and administrative expenses in the statement of income and comprehensive income.

The expense recognized was based on the grant date fair value of options issued which was estimated using a Monte Carlo simulation model with the weighted average assumptions detailed below.

	2022	2021
Expected term	8.4 years	8.4 years
Expected dividend yield	— %	— %
Expected volatility	27.2 %	26.9 %
Risk-free interest rate	2.3 %	1.7 %
Post vesting restrictions discount	10.0 %	10.0 %

Activity with respect to options for the years ended December 31, 2022 and 2021 was as follows:

	Options	Weighted average exercise price	Weighted average remaining contractual term	Range of exercise prices
Options outstanding as of January 1, 2021	54,180,028	0.943	8.6 years	$0.930 - $0.959
Options issued	35,732,963	1.180		
Options forfeited	(1,890,320)	0.995		
Option vested	(127,000)	0.959		
Options outstanding as of December 31, 2021	87,895,671	1.036	8.1 years	$0.930 - $1.18
Options exerciseable at December 31, 2021	—			
Options issued	36,955,871	1.245		
Options vested	—			
Options forfeited	(7,678,637)	1.086		
Options outstanding as of December 31, 2022	117,172,905	$ 1.099	7.7 years	$0.930 - $1.25
Options exerciseable at December 31, 2022	—			

14. Taxation

(a) Bermuda

Under current Bermuda law, AGL and it's Bermuda subsidiaries are exempt from all Bermuda income, withholding and capital gains taxes. At the present time, no such taxes are levied in Bermuda. In the event that such taxes are imposed, Ascot Bermuda would be exempt until March 2035 pursuant to the Bermuda Exempted Undertakings Tax Protection Act 1966, and Amended Act of 1987.

(b) United Kingdom

The Company operates in the U.K. through its U.K. subsidiaries and the profits of these companies are subject to U.K. corporation taxes. Income from the Company's operations at Lloyd's is also subject to U.S. income taxes. Under a Closing Agreement between Lloyd's and the U.S. Internal Revenue Service ("IRS"), Lloyd's Members pay U.S. income tax on U.S.- connected income written by Lloyd's Syndicates. U.S. income tax due on this U.S.- connected income is calculated by Lloyd's and remitted directly to the IRS and is charged by Lloyd's to Members in proportion to their participation on the relevant Syndicates. The Company's Corporate Member is subject to this arrangement and will receive a U.K. corporation tax credit for any U.S. income tax incurred up to the value of the equivalent U.K. corporation tax charge on the U.S. income.

(Expressed in thousands of U.S. dollars, except share data)

The Company's U.K. operating companies are taxed at the U.K. corporate tax rate of 19%. In 2021, the UK enacted Finance Act 2021 which increases the U.K. corporate tax rate from 19% to 25% on April 1, 2023. The remeasurement of the Company's U.K. deferred tax assets and liabilities on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases at the higher enacted U.K. corporate tax rate resulting in additional tax expense of $8,001 during the year ended December 31, 2021.

(c) United States
The Company's U.S. subsidiaries are subject to federal, state, and local corporate income taxes and other taxes applicable to U.S. corporations. A valuation allowance has been established for the Company's net deferred tax asset related to U.S. operations, as management believes that the realization of the tax benefits from these deferred tax assets is uncertain.

The Company's U.S. operating companies are subject to a U.S. federal income tax rate of 21%.

(d) Others
The Company is subject to income taxation in other jurisdictions than those stated above, but the impact of the other jurisdictions is not material to the provision for income taxes for the years ended December 31, 2022 and 2021.

The components of the provision for income taxes attributable to operations consist of the following for the years ended December 31, 2022 and 2021:

	2022	2021
Current tax expense (benefit):		
United Kingdom	$ (55)	$ (3,119)
U.S. Federal	2,154	(670)
U.S. State & local	1,046	1,126
Other	1	(1)
Total	3,146	(2,664)
Deferred tax expense (benefit):		
United Kingdom	(6,427)	6,873
U.S. Federal	(181)	1,027
U.S. State & local	—	—
Other	—	6
Total	(6,608)	7,906
Income tax (benefit) expense	$ (3,462)	$ 5,242

(Expressed in thousands of U.S. dollars, except share data)

Deferred income taxes reflect the tax impact of temporary differences between the carrying amounts of assets and liabilities for financial reporting and income tax purposes. Significant components of the deferred tax assets and liabilities were as follows as of December 31, 2022 and 2021:

	2022	2021
Deferred tax assets:		
Loss carryforwards	$ 21,017	$ 17,386
Deferred underwriting loss	7,444	6,637
Accrued expenses	7,042	6,931
Unearned premium reserve	11,832	7,316
Loss reserve discounting	6,602	3,031
Investments	10,775	—
Stock based compensation	6,125	2,940
Other temporary differences	4,756	3,458
Total deferred tax assets	75,593	47,699
Valuation allowance	(37,597)	(24,159)
Deferred tax assets, net of valuation allowance	**37,996**	**23,540**
Deferred tax liabilities		
Intangible assets	(39,903)	(41,220)
Deferred acquisition costs	(5,768)	(1,945)
Equalization provision reserves	—	(1,846)
Deferred underwriting loss	(19,636)	(13,981)
Other temporary differences	(1,203)	329
Total deferred tax liabilities	**(66,510)**	**(58,663)**
Net deferred tax liabilities	**$ (28,514)**	**$ (35,123)**

As of December 31, 2022, the Company had net operating losses of $9,684 ($35,534 as of December 31, 2021) that can be used to offset future taxable income in the Company's U.S subsidiaries. The Company's ability to use the majority of these losses expires between the years 2024 and 2041. As of December 31, 2022, the Company had net operating losses of $67,550 ($45,716 as of December 31, 2021) that can be used indefinitely to offset future taxable income in the Company's U.K. subsidiaries.

As of December 31, 2022, the Company has provided a valuation allowance of $37,597 ($24,159 as at December 31, 2021) to reduce certain deferred tax assets primarily in the Company's U.S. operations to an amount that management expects will more likely than not be realized.

(Expressed in thousands of U.S. dollars, except share data)

The expected tax provision computed on pre-tax income at the weighted average tax rate has been calculated as the sum of the pre-tax income in each jurisdiction multiplied by that jurisdiction's applicable statutory tax rate. A reconciliation of income before tax expense by taxing jurisdiction to the expected income tax provision by taxing jurisdiction and consolidated weighted average effective income tax rate is as follows for the years ended December 31, 2022 and 2021:

	2022	2021
Income (loss) before tax expense by taxing jurisdiction		
Bermuda	$ (227,408)	$ 17,815
United Kingdom	(23,678)	35,605
United States	(53,925)	(77,330)
Singapore	(29)	(22)
Canada	(968)	(516)
Consolidated loss before tax	$ (306,008)	$ (24,448)
Statutory tax rates		
Bermuda	— %	— %
United Kingdom	19 %	19 %
United States	21 %	21 %
Singapore	17 %	17 %
Canada	27 %	27 %
Expected income tax expense (benefit) by taxing jurisdiction		
Bermuda	$ —	$ —
United Kingdom	(4,499)	6,765
United States	(11,324)	(16,239)
Singapore	(5)	(4)
Canada	(257)	(137)
Consolidated	$ (16,085)	$ (9,615)
Consolidated weighted average effective income tax rate	5.3 %	39.3 %

A reconciliation of the difference between the provision for income taxes and the expected tax provision at the weighted average tax rate is as follows for the years ended December 31, 2022 and 2021:

	2022	%	2021	%
Expected income tax (benefit) expense at weighted average rate	$ (16,085)	5.3 %	(9,615)	39.3 %
Change in tax rate	(553)	0.2 %	8,001	(32.7)%
Change in valuation allowance	13,433	(4.4)%	3,365	(13.8)%
Elimination of intercompany transaction	(1,990)	0.7 %	6,011	(24.6)%
Prior year adjustments	14	— %	(4,045)	16.5 %
Disallowed deductions	491	(0.2)%	410	(1.7)%
State and local taxes	827	(0.3)%	889	(3.6)%
Other	401	(0.1)%	226	(0.9)%
Income tax (benefit) expense	$ (3,462)	1.1 %	5,242	(21.4)%

During 2022 and 2021, the Company had no unrecognized benefits from uncertain tax positions. The Company does not anticipate any significant changes in the amount of unrecognized tax benefits during the next 12 months. Interest and penalties related to unrecognized tax benefits will be included in income tax expense.

The Company's U.K. corporation tax returns for certain subsidiaries for the 2021 and 2022 fiscal years are open for examination by the U.K. tax authorities.

The U.S. corporation tax returns for fiscal years 2019 to 2021 are open for examination by the U.S. tax authorities.

15. Statutory financial information

The Company's operations are subject to insurance and/or reinsurance laws and regulations in the jurisdictions in which they operate, the most significant of which include Bermuda, the U.S. and Lloyd's in the U.K. These regulations include certain restrictions on the amount of dividends or other distributions available to shareholders without prior approval of the insurance regulatory authorities.

Bermuda

Ascot Bermuda is regulated by the BMA. Under the Insurance Act 1978, amendments thereto and Related Regulations of Bermuda (the "Act"), Ascot Bermuda is required to maintain minimum statutory capital and surplus equal to the greater of a minimum solvency margin ("MSM") and the Enhanced Capital Requirement ("ECR"). The MSM is the greater of $1 million, approximately 15% of net premiums written, 15% of the net reserve for losses and loss expenses or 25% of the ECR. The ECR is calculated based on either an internally developed risk-based capital model or a standard risk-based capital model developed by the BMA. Under the Act, Ascot Bermuda is restricted as to the payment of dividends for amounts greater than 25% of the prior year's statutory capital and surplus, whereby an affidavit signed by at least two members of the Board of Directors is required, attesting that any dividend in excess of this amount would not cause the company to fail to meet its relevant margins. In addition, Ascot Bermuda is restricted from reducing by 15% or more its prior years's total statutory capital without approval from the BMA.

As of December 31, 2022, the required statutory capital and surplus was $1,085,703 and the available statutory capital and surplus was $1,909,262. As of December 31, 2021, the required statutory capital and surplus was $881,067 and the available statutory capital and surplus was $1,992,732. As of December 31, 2022, Ascot Bermuda is restricted from paying a dividend due to availability of statutory surplus. As of December 31, 2022 the maximum capital distribution Ascot Bermuda could pay without regulatory approval is $298,632 ($303,132 as of December 31, 2021).

United States

The required statutory capital and surplus of the Company's U.S. insurance subsidiaries, AIC, ASIC, AmFed and ASC is determined using the risk-based capital formula ("RBC"), which is the National Association of Insurance Commissioners' ("NAIC") method of measuring the minimum capital appropriate for a U.S. reporting entity to support its overall business operations in consideration of its size and risk profile. If a company falls below the authorized control level as determined under the RBC, the NAIC is authorized to take whatever regulatory actions may be considered necessary to protect policyholders and creditors. The maximum dividend that may be paid by the Company's U.S. insurance subsidiaries is restricted by the regulatory requirements of the domiciliary states. Generally, the maximum dividend that may be paid by each of the Company's U.S. insurance subsidiaries is limited to unassigned surplus (statutory equivalent of retained earnings) and may also be limited to statutory net income, net investment income or 10% of total statutory capital and surplus. At December 31, 2022, for AIC (which owns ASIC, AmFed and ASC) the required statutory capital and surplus was $100,574 and the actual statutory capital and surplus was $371,718. At December 31, 2021, the required statutory capital and surplus of AIC was $55,888 and the actual statutory capital and surplus was $240,124. As of December 31, 2022 and 2021 the maximum dividend that could be paid without regulatory approval was $nil.

Lloyd's

The Company operates in the Lloyd’s market through ACNL which is the corporate member of Syndicate 1414. Corporate members of Lloyd’s and Lloyd’s syndicates are bound by the rules of Lloyd’s, which are prescribed by Bye-laws and Requirements made by the Council of Lloyd’s under powers conferred by the Lloyd’s Act 1982. These rules prescribe members’ membership subscription, the level of their contribution to the Lloyd’s Central Fund and the assets they must deposit with Lloyd’s in support of their underwriting. The Council of Lloyd’s has broad powers to sanction breaches of its rules, including the power to restrict or prohibit a member’s participation on Lloyd’s syndicates. The capital provided to support underwriting, or FAL, is not available for distribution for the payment of dividends or for working capital requirements. Corporate members may also be required to maintain funds under the control of Lloyd’s in excess of their capital requirements and such funds also may not be available for distribution for the payment of dividends. Lloyd’s sets the corporate members’ required capital annually through the application of a capital model that is based on regulatory rules pursuant to Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking up and pursuit of business of Insurance and Reinsurance (Solvency II).

FAL may be satisfied by cash, certain investments and letters of credit provided by approved banks. As of December 31, 2022 fixed maturities and other fixed income investments with a fair value of $446,429 (2021: $471,158) and cash of $844 (2021: $488), respectively, were restricted to satisfy FAL requirements. In addition, as of December 31, 2022 a letter of credit facility of $250,000 supported the FAL requirements (2021: $250,000).

16. Related party transactions

Canro Re Limited

Canro Re Limited ("Canro Re"), a Bermuda-domiciled special purpose insurer ("SPI") was formed to provide reinsurance capacity to subsidiaries of Ascot, namely Ascot Bermuda and Syndicate 1414, through reinsurance agreements which will be collateralized and funded by Canro Re through the issuance of non-voting redeemable preference shares to investors. As of December 31, 2022 and 2021, the sole investor of the preference shares issued by Canro Re was CPP Investment Board PMI-2 Inc., CPP Investment Board PMI-2 Inc. is a related party of the Company.

Upon issuance of the preference shares, the proceeds from the issuance are deposited into a collateral account to fund any potential obligations under the reinsurance agreements entered into with Ascot Bermuda and Syndicate 1414.

The Company concluded that Canro Re meets the definition of a VIE as it does not have sufficient equity capital to finance its activities. The Company evaluated its relationship with Canro Re and concluded it does not have a variable interest in Canro Re, as a result the financial position and results of operations of Canro Re are not consolidated by the Company.

For the year ended December 31, 2022, the Company recorded $74,971 of ceded premiums written to Canro Re and $81,528 of losses and loss adjustment expense recoveries from Canro Re. As of December 31, 2022, the Company had a reinsurance recoverable on unpaid losses of $147,596 due from Canro Re and $34,741 of reinsurance balances payable due to Canro Re.

For the year ended December 31, 2021, the Company recorded $41,247 of ceded premiums written to Canro Re and $52,438 of losses and loss adjustment expense recoveries from Canro Re. As of December 31, 2021, the Company had a reinsurance recoverable on unpaid losses of $53,715 due from Canro Re and $15,438 of reinsurance balances payable due to Canro Re.

17. Subsequent events

The Company has completed its subsequent events evaluation for the period subsequent to the balance sheet date of December 31, 2022 through March 21, 2023, the date the financial statements were available to be issued, and concluded that there are no subsequent events requiring recognition or disclosure