Somers Group Holdings Ltd.

(Formerly known as Watford Holdings Ltd.)

Consolidated Financial Statements

December 31, 2022

March 13, 2023

Report of Independent Auditors

To the Board of Directors and Shareholder of Somers Group Holdings Ltd.

Opinion

We have audited the accompanying consolidated financial statements of Somers Group Holdings Ltd. and its subsidiaries (Successor) (the “Company”), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of income (loss), comprehensive income (loss), changes in shareholder’s equity and cash flows for the year ended December 31, 2022 and for the period from July 1, 2021 to December 31, 2021, including the related notes (collectively referred to as the “consolidated financial statements”).

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the year ended December 31, 2022 and for the period from July 1, 2021 to December 31, 2021 in accordance with accounting principles generally accepted in the United States of America.

Basis for opinion

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

Responsibilities of management for the consolidated financial statements

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

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

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Required supplemental information

Accounting principles generally accepted in the United States of America require that the required supplemental information pertaining to Short-Duration Contracts disclosures labelled as "Unaudited" within Note 6 on pages 25 to 29 be presented to supplement the basic consolidated financial statements. Such information is the responsibility of management and, although not a part of the basic consolidated financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

PricewaterhouseCoopers Ltd.

Chartered Professional Accountants

March 7, 2022

Report of Independent Auditors

To the Board of Directors and Shareholder of Somers Group Holdings Ltd.

We have audited the accompanying consolidated financial statements of Watford Holdings Ltd. and its subsidiaries (Predecessor Company), which comprise the consolidated statements of income (loss), comprehensive income (loss), changes in shareholder's equity and cash flows for the period from January 1, 2021 to June 30, 2021.

Management's responsibility 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; this includes 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.

Auditors' responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of Watford Holdings Ltd, and its subsidiaries (Predecessor Company) operations and their cash flows for the period from January 1, 2021 to June 30, 2021 in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers Ltd.

Chartered Professional Accountants

SOMERS GROUP HOLDINGS LTD. (Successor)
Formerly known as WATFORD HOLDINGS LTD. (Predecessor)
CONSOLIDATED BALANCE SHEETS
(U.S. dollars in thousands)

	(Successor) December 31, 2022	(Successor) December 31, 2021
Assets		
Investments:		
Term loans, fair value option (Amortized cost: $471,477 and $573,404)	$ 425,124	$ 571,069
Short-term investments, fair value option (Cost: $929,524 and $549,069)	933,574	554,473
Fixed maturities, available for sale (Amortized cost: $1,305,342 and $1,287,866; net of allowance for credit losses: $43,226 and $4,466)	1,142,389	1,279,667
Equity securities, fair value through net income	29,547	115,315
Total investments	2,530,634	2,520,524
Cash and cash equivalents	265,873	320,628
Accrued investment income	18,184	13,886
Premiums receivable	632,318	410,677
Reinsurance recoverable on unpaid and paid losses and loss adjustment expenses	606,286	562,537
Prepaid reinsurance premiums	198,694	117,058
Deferred acquisition costs, net	119,140	94,510
Intangible assets	7,650	16,467
Other assets	259,739	141,563
Total assets	$ 4,638,518	$ 4,197,850
Liabilities		
Reserve for losses and loss adjustment expenses	$ 2,445,298	$ 2,134,495
Unearned premiums	667,214	596,717
Losses payable	102,302	60,185
Reinsurance balances payable	179,193	152,187
Long-term debt	235,765	172,961
Other liabilities	236,302	84,885
Total liabilities	$ 3,866,074	$ 3,201,430
Commitments and contingencies		
Contingently redeemable preference shares	—	53,630
Shareholder's equity		
Common shares ($0.01 par; shares authorized: 120 million; shares issued: 100)	—	—
Additional paid-in capital	954,563	954,563
Retained earnings (deficit)	(59,441)	(6,657)
Accumulated other comprehensive income (loss)	(122,678)	(5,116)
Total shareholder's equity	772,444	942,790
Total liabilities, contingently redeemable preference shares and shareholder's equity	$ 4,638,518	$ 4,197,850

See Notes to Consolidated Financial Statements

SOMERS GROUP HOLDINGS LTD. (Successor)
Formerly known as WATFORD HOLDINGS LTD. (Predecessor)
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
(U.S. dollars in thousands)

	(Successor) Year Ended December 31, 2022	(Successor) Period From July 1, 2021 through December 31, 2021	(Predecessor) Period From January 1, 2021 through June 30, 2021
Revenues			
Gross premiums written	$ 1,620,986	$ 817,900	$ 457,465
Gross premiums ceded	(445,481)	(168,050)	(102,763)
Net premiums written	1,175,505	649,850	354,702
Change in unearned premiums	(3,695)	(136,745)	(22,733)
Net premiums earned	1,171,810	513,105	331,969
Other underwriting income (loss)	998	656	739
Net investment income (loss)	(58,203)	26,829	100,390
Total revenues	1,114,605	540,590	433,098
Expenses			
Losses and loss adjustment expenses	(857,505)	(405,296)	(259,042)
Acquisition expenses	(290,697)	(96,665)	(77,615)
General and administrative expenses	(25,355)	(12,488)	(17,995)
Interest expense	(14,267)	(5,830)	(5,823)
Net foreign exchange gains (losses)	33,368	2,541	(341)
Gain on bargain purchase, net of transaction costs	—	—	18,187
Amortization of intangible assets	(8,843)	(9,742)	(898)
Total expenses	(1,163,299)	(527,480)	(343,527)
Income (loss) before income taxes	(48,694)	13,110	89,571
Income tax benefit (expense)	(1,887)	(692)	353
Net income (loss) before preference dividends	(50,581)	12,418	89,924
Preference dividends	(2,203)	(2,076)	(2,088)
Net income (loss) available to common shareholders	$ (52,784)	$ 10,342	$ 87,836

SOMERS GROUP HOLDINGS LTD. (Successor)
Formerly known as WATFORD HOLDINGS LTD. (Predecessor)
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(U.S. dollars in thousands)

	(Successor) Year Ended December 31, 2022	(Successor) Period From July 1, 2021 through December 31, 2021	(Predecessor) Period From January 1, 2021 through June 30, 2021
Comprehensive income (loss)			
Net income (loss) available to common shareholders	$ (52,784)	$ 10,342	$ 87,836
Other comprehensive income (loss) net of income tax:			
Available for sale investments:			
Unrealized holding gains (losses) arising during the period	(181,725)	(10,165)	(2,831)
Unrealized foreign currency gains (losses) arising during the period	(21,204)	(1,131)	523
Credit loss recognized in net income (loss)	38,760	4,466	56
Reclassification of net realized (gains) losses, included in net income (loss)	48,067	3,048	(3,140)
Deferred tax on unrealized gains (losses)	108	126	—
Unrealized holding gains (losses) on available for sale investments	(115,994)	(3,656)	(5,392)
Foreign currency translation adjustments	(1,568)	(1,460)	(104)
Other comprehensive income (loss) net of income tax	(117,562)	(5,116)	(5,496)
Comprehensive income (loss)	$ (170,346)	$ 5,226	$ 82,340

See Notes to Consolidated Financial Statements

SOMERS GROUP HOLDINGS LTD. (Successor)
Formerly known as WATFORD HOLDINGS LTD. (Predecessor)
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(U.S. dollars in thousands)

	(Successor) Year Ended December 31, 2022	(Successor) Period From July 1, 2021 through December 31, 2021	(Predecessor) Period From January 1, 2021 through June 30, 2021
Common shares			
Balance at beginning of period	$ —	$ —	$ 228
Common shares issued	—	—	—
Balance at end of period	—	—	228
Additional paid-in capital			
Balance at beginning of period	954,563	954,563	899,491
Share-based compensation	—	—	545
Balance at end of period	954,563	954,563	900,036
Accumulated other comprehensive income (loss)			
Balance at beginning of period	(5,116)	—	15,994
Unrealized holding gains (losses) of available for sale investments:			
Balance at beginning of period	(3,656)	—	17,371
Unrealized holding gains (losses) of available for sale investments, net of reclassification adjustment	(115,994)	(3,656)	(5,392)
Balance at end of period	(119,650)	(3,656)	11,979
Currency translation adjustment:			
Balance at beginning of period	(1,460)	—	(1,377)
Currency translation adjustment	(1,568)	(1,460)	(104)
Balance at end of period	(3,028)	(1,460)	(1,481)
Balance at end of period	(122,678)	(5,116)	10,498
Common shares held in treasury, at cost			
Balance at beginning of period	—	—	(77,923)
Shares repurchased for treasury	—	—	—
Balance at end of period	—	—	(77,923)
Retained earnings (deficit)			
Balance at beginning of period	(6,657)	—	103,554
Net income (loss) before preference dividends	(50,581)	12,418	89,924
Dividends paid to parent	—	(16,999)	—
Preference share dividends paid and accrued	(2,203)	(2,076)	(2,088)
Balance at end of period	(59,441)	(6,657)	191,390
Total shareholder's equity	$ 772,444	$ 942,790	$ 1,024,229

See Notes to Consolidated Financial Statements

SOMERS GROUP HOLDINGS LTD. (Successor)
Formerly known as WATFORD HOLDINGS LTD. (Predecessor)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(U.S. dollars in thousands)

	(Successor) Year Ended December 31, 2022	(Successor) Period From July 1, 2021 through December 31, 2021	(Predecessor) Period From January 1, 2021 through June 30, 2021
Operating Activities			
Net income (loss) before preference dividends	$ (50,581)	$ 12,418	$ 89,924
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Net realized and unrealized (gains) losses on investments	149,942	7,344	(71,061)
Amortization of fixed assets	144	76	44
Share-based compensation	—	—	545
Gain on bargain purchase	—	—	(19,122)
Amortization of intangible assets	8,843	9,742	898
Changes in:			
Accrued investment income	(4,322)	640	1,059
Premiums receivable	(237,800)	(111,290)	(10,717)
Reinsurance recoverable on unpaid and paid losses and loss adjustment expenses	(44,408)	(45,736)	(207,328)
Prepaid reinsurance premiums	(81,635)	6,213	(933)
Deferred acquisition costs, net	(25,534)	(94,461)	(12,885)
Reserve for losses and loss adjustment expenses	398,358	239,118	285,639
Unearned premiums	85,330	130,532	23,666
Reinsurance balances payable	36,661	21,582	3,050
Other liabilities	178,022	6,901	2,689
Other items	(70,904)	(56,915)	(26,492)
Net Cash Provided By (Used For) Operating Activities	342,116	126,164	58,976
Investing Activities			
Purchase of term loans	(590,793)	(103,862)	(206,314)
Purchase of fixed maturity investments	(1,282,430)	(486,405)	(1,083,677)
Purchase of short-term investments with maturities over three months	(122,290)	(1,124)	(5,993)
Proceeds from sale, redemptions and maturity of term loans	581,352	352,781	301,080
Proceeds from sales, redemptions and maturities of fixed maturity investments	1,206,368	371,350	1,080,956
Proceeds from sales, redemptions and maturities of short-term investments with maturities over three months	2,020	5,932	3,788
Net (purchases) sales of short-term investments with maturities less than three months	(258,773)	(81,729)	(54,806)
Purchases of equity securities	(196)	(5,541)	(25,089)
Proceeds from sales of equity securities	84,609	62,067	949
Net settlements of derivative instruments	3,007	1,542	(1,497)
Acquisitions, net of cash acquired	—	—	47,169
(Purchases) sales of furniture, equipment and other assets	(606)	126	(41)
Net Cash Provided By (Used For) Investing Activities	(377,732)	115,137	56,525
Financing Activities			
Dividends paid on redeemable preference shares	(2,203)	(2,076)	(2,042)
Redemption of redeemable preference shares	(53,630)	—	—
Net proceeds from issuance of long-term debt	63,500	—	—
Dividends paid to parent	—	(17,000)	—
Repayments on borrowings	—	(239,456)	—
Proceeds from borrowings	—	—	27,816
Net Cash Provided By (Used For) Financing Activities	7,667	(258,532)	25,774
Effects of exchange rate changes on foreign currency cash	(26,806)	(11,343)	(3,524)
Increase (decrease) in cash	(54,755)	(28,574)	137,751
Cash and cash equivalents, beginning of period	320,628	349,202	211,451
Cash and cash equivalents, end of period	$ 265,873	$ 320,628	$ 349,202
Supplementary information			
Income taxes paid	$ 712	$ 267	$ —
Interest paid	$ 13,891	$ 8,109	$ 9,408
Non-cash exchange of investments	$ —	$ 11,377	$ 15,328

See Notes to Consolidated Financial Statements

1. Organization

On July 1, 2021, Watford Holdings Ltd. (“Watford Holdings”) completed the previously announced merger of Greysbridge Ltd. with and into Watford Holdings, pursuant to which it became a wholly-owned subsidiary of Greysbridge Holdings Ltd. (“Greysbridge”). Greysbridge is approximately 40% owned by Arch Capital Group Ltd. (“ACGL”) and approximately 30% owned each by funds managed by Kelso & Company (“Kelso”) and Warburg Pincus LLC (“Warburg Pincus”). At the closing of the merger, Watford Holdings' common shares (other than common shares contributed to Greysbridge by Arch, Kelso or Warburg Pincus, as applicable) were canceled. Following the closing of the merger, Watford Holdings' common and cumulative redeemable preference shares were delisted from the Nasdaq Global Select Market and periodic reporting to the Securities and Exchange Commission ceased. See Note 3, “Business combinations” and Note 12, “Transactions with related parties” for further details.

On November 4, 2021, Watford Holdings announced it changed its name to Somers Group Holdings Ltd. (“Somers”, or the “Company”, or the “Parent”), and that Watford Re Ltd. changed its name to Somers Re Ltd. (“Somers Re”). All references to Somers and Somers Re throughout the notes to the consolidated financial statements refer to legacy Watford Holdings Ltd. and Watford Re Ltd., unless otherwise indicated.

The Parent and its wholly-owned subsidiary, Somers Re, were incorporated under the laws of Bermuda on July 19, 2013.

As used herein, the terms “Company” or “Companies,” or “we,” “us” and “our,” collectively refer to the Parent and/or, as applicable, its subsidiaries. Somers Re is licensed as a Class 4 multi-line insurer under the Insurance Act 1978 of Bermuda, as amended, and related regulations (the “Insurance Act”) and is licensed to underwrite general business on an insurance and reinsurance basis. Through Somers Re, the Company primarily underwrites reinsurance on exposures worldwide.

On April 9, 2021, the Company completed the acquisition of Axeria IARD (“Axeria”) as a wholly-owned subsidiary of the Parent. The results of operations and cash flows of Axeria are included in the consolidated financial statements from the acquisition date of April 9, 2021. See Note 3, “Business combinations” for further details.

Somers Re has four operating subsidiaries underwriting insurance exposures in the U.S. and Europe. Watford Specialty Insurance Company Ltd. ("WSIC") is a U.S.-based excess & surplus ("E&S") lines insurer. Watford Insurance Company Ltd. ("WIC"), is a U.S-based insurer writing admitted (or licensed) U.S. insurance business. Watford Insurance Company Europe Limited ("WICE") was incorporated in Gibraltar, and writes personal lines and commercial lines of property & casualty ("P&C") insurance in the United Kingdom. Axeria, a P&C insurance company based in France, writes insurance business in Europe.

2. Basis of presentation and significant accounting policies

(a) Basis of presentation

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) and include the accounts of the Company and its subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions. To facilitate comparison of information across periods, certain reclassifications have been made to prior year amounts to conform to the current year’s presentation.

(b) Business combinations

The Company accounts for business combinations in accordance with Accounting Standards Codification ("ASC") Topic 805 Business Combinations, and intangible assets that arise from business combinations in accordance with ASC Topic 350 Intangibles – Goodwill and Other. A purchase price that is in excess of the fair value of the net assets acquired arising from a business combination is recorded as goodwill, and is not amortized. A purchase price that is below the fair value of the net assets acquired arising from a business combination is recorded as a "gain on bargain purchase, net of transaction costs" in the consolidated statements of income (loss).

The Greysbridge merger was accounted for under the acquisition method of accounting (purchase accounting, or "PGAAP"), and the Company elected "pushdown" accounting by applying the guidance of Accounting Standard Codification (ASC) 805, Business Combinations.

The application of pushdown accounting represents the termination of the "old" (i.e., predecessor) reporting entity and the creation of a "new" (i.e., successor) reporting entity as of close-of-business on July 1, 2021 when the change-in-control transaction was consummated. As such, the successor reporting entity's assets and liabilities were recognized based on the acquirers new basis, with an offset to additional paid in capital. In addition, retained earnings and accumulated other comprehensive income of the predecessor were not be carried forward, as a new basis of accounting has been established.

The period from January 1, 2021 through June 30, 2021 reflect the historical cost basis of accounting of the Company that existed prior to the merger. This period is referred to as "Period from January 1, 2021 through June 30, 2021 (Predecessor)". Subsequent periods are referred to as the "Successor Period."

Due to the election of pushdown accounting, and the conforming of significant accounting policies, the results of operations, cash flows, and other financial information for the Successor period are not comparable to the Predecessor periods. The accounting policies relating to the Predecessor and Successor period, where different, have been disclosed and noted in the financial statements.

(c) Premium revenues and related expenses

Reinsurance premiums written are recorded based on the type of contracts the Company writes. Premiums on the Company’s excess of loss and pro rata reinsurance contracts are estimated when the business is underwritten. For excess of loss contracts, premiums are recorded as written, on the inception date, based on the terms of the contract. Estimates of premiums written under pro rata contracts are recorded in the period in which the underlying risks are expected to incept and are based on information provided by the brokers and the ceding companies. For multi-year reinsurance treaties which are payable in annual installments, premium recognition depends on whether the contract is non-cancellable. If either party retains the ability to cancel or commute coverage prior to expiration, only the initial annual installment is included as premiums written at policy inception. The remaining annual installments would then be included as premiums written at each successive anniversary date within the multi-year term. If, on the other hand, the contract is non-cancellable, the full multi-year premiums would be recognized as written at policy inception.

Reinsurance premiums written and assumed include amounts reported by brokers and ceding companies, supplemented by the Company’s own estimates of premiums where reports have not been received. The determination of premium estimates requires a review of the ceding companies, familiarity with each market, the timing of the reported information, an analysis and understanding of the characteristics of each line of business, and management’s judgment of the impact of various factors, including premium or loss trends, on the volume of business written and ceded to the Company. On an ongoing basis, the Company reviews the amounts reported by these third parties for reasonableness based on their experience and knowledge of the subject class of business. In addition, reinsurance contracts under which the Company assumes business generally contain specific provisions which allow the Company to perform audits of the ceding company to ensure compliance with the terms and conditions of the contract, including accurate and timely reporting of information. Based on a review of all available information, management establishes premium estimates where reports have not been received. Premium estimates are updated when new information is received and differences between such estimates and actual amounts are recorded in the period in which estimates are changed or the actual amounts are determined. Adjustments to premium estimates could be material and such adjustments could directly and significantly impact earnings favorably or unfavorably in the period they are determined because the estimated premium may be fully or substantially earned.

Reinstatement premiums are recognized at the time a loss event occurs, where coverage limits for the remaining life of the contract are reinstated under predefined contract terms. Reinstatement premiums, if obligatory, are fully earned when recognized. The accrual of reinstatement premiums is based on an estimate of losses and loss adjustment expenses, which reflects management's judgment.

Reinsurance premiums written, irrespective of the class of business, are generally earned on a pro rata basis over the term of the underlying policies or reinsurance contracts. Contracts and policies written on a "losses occurring" basis cover claims that may occur during the term of the contract or policy, which is typically 1 year. Accordingly, the premium is earned evenly over the term. Contracts which are written on a "risks attaching" basis cover claims which attach to the underlying insurance policies written during the terms of such contracts. Premiums earned on such contracts usually extend beyond the original term of the reinsurance contract, typically resulting in recognition of premiums earned over a 2 year period. Certain of the Company's reinsurance contracts include provisions that adjust premiums or acquisition expenses based upon the experience under the contracts. Premiums written and earned, as well as related acquisition expenses are recorded based upon the projected experience under such contracts.

Acquisition expenses consist primarily of brokerage fees, ceding commissions, premium taxes, underwriting fees payable to Arch under our services agreements and other direct expenses that relate to our contracts and policies and are presented net of commissions received from reinsurance we purchase. We amortize deferred acquisition expenses over the related contract term in the same proportion that the premiums are earned. Our acquisition expenses may also include profit commissions paid to our sources of business in the event of favorable underwriting experience.

Deferred acquisition costs, which are based on the related unearned premiums, are carried at their estimated realizable value and take into account anticipated losses and loss adjustment expenses, based on historical and current experience, and anticipated investment income. A premium deficiency occurs if the sum of anticipated losses and loss adjustment expenses, unamortized acquisition costs and anticipated investment income exceed unearned premiums. A premium deficiency is recorded by charging any unamortized acquisition costs to expense to the extent required in order to eliminate the deficiency. If the premium deficiency exceeds unamortized acquisition costs then a liability is accrued for the excess deficiency. No premium deficiency charges were recorded by the Company for the year ended December 31, 2022, the period from January 1, 2021 through June 30, 2021 and the period from July 1, 2021 through December 31, 2021.

(d) Retroactive Reinsurance Accounting

Retroactive reinsurance reimburses a ceding company for liabilities incurred as a result of past insurable events covered by the underlying policies reinsured. For retroactive contracts that meet the established criteria for reinsurance accounting, written premiums are fully earned and corresponding losses and loss expense are recognized at inception. The initial gain, if applicable, is deferred and amortized into income over an actuarially determined expected payout period. Any future loss is recognized immediately and charged against earnings. The contracts can cause significant variances in gross premiums written, net premiums written, net premiums earned, and net incurred losses in the years in which they are written. Reinsurance contracts sold not meeting the established criteria for reinsurance accounting are recorded using the deposit method.

In certain instances, reinsurance contracts cover losses both on a prospective basis and on a retroactive basis and, accordingly, the Company bifurcates the prospective and retrospective elements of these reinsurance contracts and accounts for each element separately where practical. Underwriting income generated in connection with retroactive reinsurance contracts is deferred and amortized into income over the settlement period while losses are charged to income immediately. Subsequent changes in estimated or actual cash flows under such retroactive reinsurance contracts are accounted for by adjusting the previously deferred amount to the balance that would have existed had the revised estimate been available at the inception of the reinsurance transaction, with a corresponding charge or credit to income.

(e) Reinsurance ceded

The accompanying consolidated statements of income (loss) reflect premiums and losses and loss adjustment expenses and acquisition expenses, net of reinsurance ceded (see Note 4, "Reinsurance"). Ceded unearned premiums are reported as prepaid reinsurance premiums and estimated amounts of reinsurance recoverable on unpaid losses are reported as reinsurance recoverable on unpaid losses and loss adjustment expenses. Reinsurance premiums ceded and reinsurance recoverable on unpaid losses and loss adjustment expenses are estimated in a manner consistent with that of the original policies issued and the terms of the reinsurance contracts. If the reinsurers are unable to satisfy their obligations under the agreements, the Company would be liable for such defaulted amounts. Reinsurance ceding commissions are recognized as income on a pro rata basis over the period of risk. Reinsurance ceding commissions that represent a recovery of acquisition costs are recognized as a reduction to acquisition expenses while the remaining portion is deferred.

(f) Cash and cash equivalents

Cash includes cash equivalents, which are investments with original maturities of three months or less that are not managed by the external Investment Managers. Short-term investments include certain cash equivalents which are part of investment portfolios under the management of our Investment Managers.

(g) Investments

Prior to the completion of the merger on July 1, 2021, the Company elected the fair value option for the majority of its long and short-term investments in accordance with Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("ASC") 825, *Financial Instruments.* As a result, the Company's non-investment grade investments were reported at fair value with changes in fair value included in "net investment income (loss)" in the consolidated statements of income (loss).

As of July 1, 2021, in order to conform with the accounting policies of its Parent, the Company reclassified its fixed maturity investments in its non-investment grade portfolio from fair value option to available for sale, consistent with the classification of fixed maturity investments in the investment grade portfolio. Accordingly, they are carried at fair value with the changes in fair value recorded as an unrealized gain or loss component of accumulated other comprehensive income (loss) in shareholder's equity. In addition, the Company reclassified its equity securities from fair value option to fair value through net income, with changes in fair value included in "net investment income (loss)" in the consolidated statements of income (loss). See Note 8, "Investments" for further information about the investment portfolios.

The fair values of investments are based on quotations received from nationally recognized pricing services, or when such prices are not available, by reference to broker or underwriter bid indications. Short-term investments are comprised of securities due to mature within one year of the date of issue. Investment transactions are recorded on a trade date basis with balances pending settlement recorded separately in the consolidated balance sheets as "other assets" or "other liabilities." See Note 9, "Fair value" for further details.

Investment Impairments

The Company conducts a periodic review to identify and evaluate invested assets that may have credit impairments.

Credit Impairments of Available For Sale Fixed Maturities

The Company derives estimated credit losses for fixed maturities by comparing expected future cash flows to be collected to the amortized cost of the security. Estimates of expected future cash flows consider among other things, macroeconomic conditions as well as the financial condition of the issuer, near-term and long-term prospects for the issuer, and the likelihood of the recoverability of principal and interest.

Credit losses are recognized through an allowance account subject to reversal, rather than a reduction in amortized cost. Declines in value attributable to factors other than credit are reported in other comprehensive income (loss) while the allowance for credit loss is charged to "net investment income (loss)" in the Company's consolidated statements of income (loss).

For fixed maturity investments the Company intends to sell or for which it is more likely than not that the Company will be required to sell before an anticipated recovery in value, the full amount of the impairment is included in "net investment income (loss)" on the Company's consolidated statements of income (loss). The new cost basis of the investment is the previous amortized cost basis less the impairment recognized in "net investment income (loss)." The new cost basis is not adjusted for any subsequent recoveries in fair value.

The Company reports accrued investment income separately from available for sale fixed maturities, and has elected not to measure an allowance for credit losses for accrued investment income. Uncollectible accrued interest is written off when the Company determines that no additional interest payments will be received.

Investment gains or losses realized on the sale of investments are determined on a first-in, first-out basis and are reflected in net income. Unrealized appreciation or decline in the value of available for sale securities, which are carried at fair value, is excluded from net income and recorded as a separate component of accumulated other comprehensive income (loss), net of applicable deferred income tax.

Net interest income includes interest income together with amortization of market premiums and discounts, net of investment management fees, interest expense and custody fees. Anticipated prepayments and expected maturities are used in applying the interest method for certain investments, such as asset-backed securities. When actual prepayments differ significantly from anticipated prepayments, the effective yield is recalculated to reflect actual payments to date and anticipated future payments. The investment in such securities is adjusted to the amount that would have existed had the new effective yield been applied since the acquisition of the security. Such adjustments, if any, are included in interest income when determined. Investment gains or losses realized on the sale of investments are determined on a first-in, first-out basis and are reflected in "net investment income (loss)" in the consolidated statements of income (loss). See Note 8, "Investments" for further details.

(h) Derivative instruments

The Company recognizes all derivative financial instruments, including embedded derivative instruments, at fair value in the consolidated balance sheets. The Company's investment and underwriting strategy allows for the limited use of derivative instruments to enhance investment performance, replicate investment positions or manage market exposures and duration risk that would be allowed under the Company's investment guidelines if implemented in other ways. For such investment derivative instruments, changes in assets and liabilities measured at fair value are recorded as a component of "net investment income (loss)." In addition, the Company's derivative instruments include amounts related to underwriting activities where an insurance or reinsurance contract meets the accounting definition of a derivative instrument. For such contracts, changes in fair value are reflected in "other underwriting income" in the consolidated statements of income (loss), as the underlying contract originates from the Company's underwriting operations. See Note 10, "Derivative instruments" for further details.

(i) Reserves for losses and loss adjustment expenses

The reserve for losses and loss adjustment expenses consists of estimates of unpaid reported losses and loss adjustment expenses and estimates for losses incurred but not reported. The reserve for unpaid reported losses and loss adjustment expenses, established by management based on reports from ceding companies and claims from insureds, represents the estimated ultimate cost of events or conditions that have been reported to or specifically identified by the Company. Such reserves are supplemented by management's estimates of reserves for losses incurred for which reports or claims have not been received. The Company's reserves are based on a combination of reserving methods, incorporating ceding company and industry loss development patterns. The Company selects the initial expected losses and loss adjustment expense ratios based on information derived by the underwriting teams during the initial pricing of the business, supplemented by industry data where appropriate. Such ratios consider, among other things, rate changes and changes in terms and conditions that have been observed in the market. The Company, in conjunction with data and analysis supplied by the underwriting teams, reviews the reserves regularly and, as experience develops and new information becomes known, the reserves are adjusted as necessary. Such adjustments, if any, are reflected in income in the period in which they are determined. Inherent in the estimates of ultimate losses and loss adjustment expenses are expected trends in claims severity and frequency and other factors which may vary significantly as claims are settled. Accordingly, ultimate losses and loss adjustment expenses may differ materially from the amounts recorded in the accompanying consolidated financial statements. Losses and loss adjustment expenses are recorded on an undiscounted basis. See Note 5, "Reserve for losses and loss adjustment expenses" for further details.

(j) Foreign exchange

Monetary assets and liabilities, such as premiums receivable and the reserve for losses and loss adjustment expenses, denominated in foreign currencies are revalued at the exchange rate in effect at the balance sheet date with the resulting foreign exchange gains and losses included in net income. Accounts that are classified as non-monetary, such as deferred acquisition costs and the unearned premium reserves, are not subsequently re-measured. In the case of foreign currency-denominated cash and investments, the change in exchange rates between the local currency and the Company's functional currency at each balance sheet date is included as a component of net foreign exchange gains and losses included in the consolidated statements of income (loss). In the case of foreign currency denominated fixed maturity securities which are classified as "available for sale," the change in exchange rates between the local currency in which the investments are denominated and the Company's functional currency at each balance sheet date is included in unrealized appreciation or decline in value of securities, a component of accumulated other comprehensive income (loss), net of applicable deferred income tax.

Assets and liabilities of foreign operations whose functional currency is not the U.S. dollar are translated at the prevailing exchange rates at each balance sheet date. Revenues and expenses of such foreign operations are translated at average exchange rates during the year. The net effect of the translation adjustments for foreign operations is included in accumulated other comprehensive income (loss).

(k) Intangible assets

The Company's intangible assets with indefinite lives include licenses held by its U.S. insurance subsidiary which allow such subsidiary to write insurance business in various jurisdictions. These indefinite-lived intangible assets are carried at or below fair value and are tested annually for impairment, either qualitatively or quantitatively, and between annual tests if events or change in circumstances indicate that it is more likely than not that the asset is impaired. If intangible assets are impaired, such assets are written down to their fair values with the related expense recorded in the Company's consolidated statements of income (loss).

Intangible assets arising from our business acquisitions are classified as finite-lived intangible assets and are amortized over their useful lives with the amortization expense being recognized in "amortization of intangible assets" in the consolidated statements of income (loss). The amortization periods approximate the period over which the Company expects to generate future net cash inflows from the use of these assets. All of these assets are subject to impairment testing for the impairment or disposal of long-lived assets when events or conditions indicate that the carrying value of an asset may not be fully recoverable from future cash flows. These intangible assets include Value of Business Acquired (or "VOBA") which is based on actuarially estimated present value of future cash flows from existing insurance policies. VOBA is presented as part of intangible assets on the balance sheet and is amortized over its estimate useful life of one year.

(l) Income taxes

Deferred income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for income tax purposes. A valuation allowance is recorded if it is more likely than not that some or all of a deferred tax asset may not be realized. The Company considers future taxable income and feasible tax planning strategies in assessing the need for a valuation allowance. In the event the Company determines that it will not be able to realize all or part of its deferred income tax assets in the future, an adjustment to the deferred income tax assets would be charged to income in the period in which such determination is made. In addition, if the Company subsequently assesses that the valuation allowance is no longer needed, a benefit would be recorded to income in the period in which such determination is made. See Note 11, "Income taxes" for more information.

The Company recognizes a tax benefit where it concludes that it is more likely than not that the tax benefit will be sustained on audit by the taxing authority based solely on the technical merits of the associated tax position. If the recognition threshold is met, the Company recognizes a tax benefit measured at the largest amount of the tax benefit that, in the Company's judgment, is greater than 50% likely to be realized. The Company records related interest and penalties in income tax expense.

(m) Share-based compensation

Prior to the completion of the merger on July 1, 2021, the Company applied a fair value-based measurement method in accounting for its share-based compensation plans with eligible employees and directors. Compensation expense was estimated based on the fair value of the award at the grant date and was recognized in net income over the requisite service period with a corresponding increase in shareholder's equity. No value was attributed to awards that employees forfeited because they failed to satisfy vesting conditions. The Company's time-based awards generally vested over a three-year period with one-third vesting on each of the first, second and third anniversaries of the grant date. The share-based compensation expense associated with awards that had graded vesting features and vested based only on service conditions was calculated on a straight-line basis over the requisite service period for the entire award. Compensation expense recognized in connection with performance awards was based on the achievement of the specified performance and service conditions. The final measure of compensation expense recognized over the requisite service period reflected the final performance outcome. During the recognition period, compensation expense was accrued based on the specified performance conditions that were probable of achievement. For awards granted to retirement-eligible employees where no service was required for the employee to retain the award, the grant date fair value was immediately recognized as compensation expense at the grant date because the employee was able to retain the award without continuing to provide service. For employees near retirement eligibility, the attribution of compensation expense was over the period from the grant date to the retirement eligibility date. The Company accounted for forfeitures of share-based awards as such forfeitures occurred. Upon completion of the merger on July 1, 2021, the outstanding restricted share units were settled with cash. See Note 18, "Share transactions" for information relating to the Company's share-based compensation.

(n) Reinsurance recoverables

In the normal course of business, the Company's subsidiaries cede a portion of their premium and losses through pro rata and excess of loss reinsurance agreements on a treaty or facultative basis. Reinsurance recoverables are recorded as assets, predicated on the reinsurers' ability to meet their obligations under the reinsurance agreements. In certain instances, the Company obtains collateral, including letters of credit and trust accounts, to further reduce the credit exposure on its reinsurance recoverables. The Company reports its reinsurance recoverables net of an allowance for expected credit loss in the Company's consolidated balance sheets. The allowance is based upon the Company's ongoing review of amounts outstanding, the financial condition of its reinsurers, amounts and form of collateral obtained and other relevant factors. A ratings based probability-of-default and loss-given-default methodology is used to estimate the allowance for expected credit loss. Any allowance for credit losses is charged to the Company's consolidated statements of income (loss) in the period the recoverable is recorded and revised in subsequent periods to reflect changes in the Company's estimate of expected credit losses.

(o) Premiums receivable and unearned premium reserves

Premiums are recognized as revenues pro rata over the policy period. Unearned premium reserves represent the unexpired portion of policy premiums. Accrued retrospective premiums are included in premiums receivable balances. Premiums receivable balances are reported net of an allowance for expected credit losses. The Company monitors credit risk associated with premiums receivable through its ongoing review of amounts outstanding, aging of the receivable, historical loss data and counterparty financial strength measures. The allowance also includes estimated uncollectible amounts related to dispute risk. Amounts deemed to be uncollectible, are written off against the allowance. In certain instances, credit risk may be reduced by the Company's right to offset loss obligations or unearned premiums against premiums receivable. Any allowance for credit losses is charged to the Company's consolidated statements of income (loss) in the period the receivable is recorded and revised in subsequent periods to reflect changes in the Company's estimate of expected credit losses.

(p) Recent accounting pronouncements

Recently adopted accounting standards and accounting standard updates ("ASU")

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740), Simplifying the Accounting for Income Taxes* ("ASU 2019-12"). ASU 2019-12 simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. ASU 2019-12 is effective for fiscal years beginning after December 31, 2021. This ASU was adopted on January 1, 2022, and did not have a material impact on the Company’s consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848)* (“ASU 2020-04”), and in January 2021, the FASB issued ASU 2021-01, *Reference Rate Reform (Topic 848), Scope* (“ASU 2021-01”) and ASU 2022-06, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date*. These ASUs provide practical expedients and exceptions for applying GAAP to contracts and transactions affected by reference rate reform if such contracts or transactions reference LIBOR or another reference rate expected to be discontinued. Amendments in this ASU for contract modifications may be applied as of March 12, 2020 through December 31, 2024. Once adopted, this ASU must be applied prospectively for all eligible contract modifications. The Company is currently assessing the impact the implementation of the ASUs will have on its consolidated financial statements and disclosures, and does not believe that such impact will be material.

3. Business combinations

Greysbridge Holdings Ltd.

On July 1, 2021, the Company merged with and into Greysbridge Ltd. pursuant to which it became a wholly-owned subsidiary of Greysbridge. The consideration for 100% of the Company's common shares was $697.3 million.

The Company elected pushdown accounting applicable to certain fair value and other adjustments, as follows:

		($ in thousands)
Deferred acquisition costs	$	(64,835)
Intangible assets (VOBA)		16,000
Premium receivable (1)		(349)
Reinsurance recoverable (1)		(650)
Assumed liabilities (2)		(16,030)
Reinsurance balances payable		(1,918)
Deferred taxes		(697)
Contingently redeemable preference shares		(1,186)

(1) See Note 7, "Allowance for expected credit losses" for additional information.

(2) Assumed liabilities include banking fees, share-based compensation awards and other compensation costs contingent on the consummation of the merger were recognized on the "Black Line" and excluded from both the predecessor and successor income statement periods.

In addition, the Company has conformed the accounting policies from the acquisition date for fixed maturities, fair value option securities to fixed maturities, available for sale, and equities, fair value option to equities, fair value through net income, to the Parent, and as result of conforming the significant accounting policies, the results of operations, cash flows, and other financial information are not comparable to prior periods. The accounting policies, where different, have been disclosed and noted in the consolidated financial statements.

Axeria IARD

On April 9, 2021, the Company completed its acquisition of Axeria, a property and casualty insurance company based in France. Axeria is headquartered in Lyon, France, with branch offices in Lille and Bordeaux and is active in the French and European Union commercial property and casualty insurance market. The acquisition of Axeria is expected to benefit the Company through expanded underwriting capabilities, geographic footprint and product offerings.

The Company acquired 100% of the capital stock of Axeria from the APRIL Group. Axeria was purchased for approximately €45.1 million in cash. The cash consideration was funded from available cash resources.

Purchase Price

The components of the Company's total purchase price for Axeria at April 9, 2021 were as follows:

		(€ and $ in thousands, except share and per share data)
Axeria shares acquired for cash:		
Common shares issued by Axeria		3,800,000
Price per share	€	11.87
Total purchase price	€	45,100
Total purchase price	$	53,663

Fair Value of Net Assets Acquired and Liabilities Assumed

The following table summarizes the estimated fair values of major classes of identifiable assets acquired and liabilities assumed of Axeria as of April 9, 2021, the date the transaction closed:

		($ in thousands)
Identifiable net assets:		
Reinsurance recoverable on unpaid and paid losses and loss adjustment expenses	$	169,976
Cash and cash equivalents		100,832
Premiums receivable		71,900
Fixed-maturities, available for sale		59,890
Prepaid reinsurance premiums		21,931
Other assets		22,530
Equity securities, fair value through net income		11,292
Value of business acquired		3,567
Short-term investments, fair value option		2,110
Accrued investment income		927
Reserves for losses and loss adjustment expenses		(234,754)
Reinsurance balances payable		(68,359)
Unearned premiums		(59,094)
Losses payable		(17,155)
Other liabilities		(12,808)
Total identifiable net assets acquired	$	72,785
Total purchase price		53,663
Bargain purchase gain	$	19,122

Included within the other assets balance is an indemnification asset of $11.6 million. This asset relates primarily to COVID-19 losses incurred on insurance business written by Axeria and is an estimate based on losses reported. The estimate is assessed quarterly and reflects the current status of the indemnified events and reported losses. The maximum indemnification asset recoverable from the seller at December 31, 2022 and 2021 was $38.4 million and $46.5 million, respectively.

The bargain purchase gain represents the excess of the fair value of the underlying net assets acquired and liabilities assumed over the purchase price. The gain from bargain purchase is included in "gain on bargain purchase, net of transaction costs" in the Company's consolidated statements of income (loss). The bargain purchase reflects the fact that Axeria's shares were purchased at a discount to the fair value of the total identifiable net assets acquired.

Explanations of the significant fair value adjustments are as follows:

- Deferred acquisition costs - to eliminate Axeria's deferred acquisition costs asset;
- Value of business acquired - the expected future losses and expenses associated with the policies that were in-force as of the closing date of the transaction were estimated and compared to the future premium remaining expected to be earned. The difference between the risk-adjusted future loss and expenses, discounted to present value and the unearned premium reserve, was estimated to be the value of business acquired.
- Deferred tax - to reflect adjustments to net deferred tax assets and liabilities related to the fair value adjustments above.

4. Reinsurance

Through reinsurance agreements with Arch Reinsurance Ltd. ("ARL"), Arch Reinsurance Company ("ARC") and Arch Reinsurance Europe Underwriting Designated Activity Company ("ARE"), which are subsidiaries of ACGL, as well as through other third-party reinsurance agreements, the Company cedes a portion of its premiums. The effects of reinsurance on the Company's written and earned premiums, losses and loss adjustment expenses were as follows:

	(Successor) Year Ended December 31, 2022	(Successor) Period From July 1, 2021 through December 31, 2021	(Predecessor) Period From January 1, 2021 through June 30, 2021
	($ in thousands)		($ in thousands)
Premiums written			
Direct	$ 602,092	$ 241,496	$ 251,105
Assumed	1,018,894	576,404	206,360
Ceded	(445,481)	(168,050)	(102,763)
Net	$ 1,175,505	$ 649,850	$ 354,702
Premiums earned			
Direct	$ 552,350	$ 293,565	$ 246,665
Assumed	976,471	392,235	209,861
Ceded	(357,011)	(172,695)	(124,557)
Net	$ 1,171,810	$ 513,105	$ 331,969
Losses and loss adjustment expenses			
Direct	$ 433,548	$ 200,933	$ 220,206
Assumed	661,408	309,955	163,185
Ceded	(237,451)	(105,592)	(124,349)
Net	$ 857,505	$ 405,296	$ 259,042

The Company monitors the financial condition of its reinsurers and attempts to place coverages only with financially sound carriers. At December 31, 2022 and 2021, 100% of ceded losses and loss adjustment reserves were due from carriers which had an A.M. Best, Standard & Poor or Fitch rating of “A-” or better.

At December 31, 2022 and 2021, approximately 42% and 35%, respectively, of the Company’s reinsurance recoverables on paid and unpaid losses (not including prepaid reinsurance premiums) were due from ARL, ARC and ARE, each of which have ratings of “A+” from A.M. Best. Although the Company has not experienced any material credit losses to date, an inability of its reinsurers to meet their obligations to it over the relevant exposure periods for any reason could have a material adverse effect on its financial condition and results of operations.

5. Reserve for losses and loss adjustment expenses

The following table represents an analysis of losses and loss adjustment expenses and a reconciliation of the beginning and ending reserve for losses and loss adjustment expenses for the year ended December 31, 2022, the period from January 1, 2021 through June 30, 2021 and the period from July 1, 2021 through December 31, 2021.

	(Successor) Year Ended December 31, 2022	(Successor) Period From July 1, 2021 through December 31, 2021	(Predecessor) Period From January 1, 2021 through June 30, 2021
	($ in thousands)		($ in thousands)
Gross reserve for losses and loss adjustment expenses at beginning of period	$ 2,134,495	$ 1,916,742	$ 1,519,583
Unpaid losses and loss adjustment expenses recoverable	463,134	456,132	269,902
Net reserve for losses and loss adjustment expenses at beginning of period	1,671,361	1,460,610	1,249,681
Net losses and loss adjustment expense reserves of acquired business (1)	—	—	112,873
Net incurred losses and loss adjustment expenses relating to losses occurring in:			
Current period	844,907	$ 393,193	250,596
Prior years	12,598	12,103	8,446
Total net losses and loss adjustment expenses	857,505	405,296	259,042
Foreign exchange losses (gains)	(95,135)	(23,349)	(1,261)
Net paid losses and loss adjustment expenses relating to losses occurring in:			
Current period	(171,127)	(78,518)	(41,526)
Prior years	(313,711)	(92,678)	(118,199)
Total paid losses and loss adjustment expenses	(484,838)	(171,196)	(159,725)
Net reserve for losses and loss adjustment expenses at end of period	1,948,893	1,671,361	1,460,610
Unpaid losses and loss adjustment expenses recoverable	496,405	463,134	456,132
Gross reserve for losses and loss adjustment expenses at end of period	$ 2,445,298	$ 2,134,495	$ 1,916,742

(1) Net losses and loss adjustment expense reserves of Axeria as of the April 9, 2021 acquisition date.

During 2022, the Company recorded net unfavorable development on prior year loss reserves of $12.6 million. Net unfavorable development was experienced on casualty reinsurance losses of $21.1 million and insurance programs and coinsurance losses of $10.6 million. This unfavorable development was partially offset by favorable development on other specialty reinsurance losses of $15.4 million and property catastrophe reinsurance losses of $3.7 million.

During the period from July 1, 2021 through December 31, 2021, the Company recorded net unfavorable development on prior year loss reserves of $12.1 million. Net unfavorable development was experienced on insurance programs and coinsurance losses of $9.2 million and casualty reinsurance losses of $7.6 million, offset by favorable development on other specialty reinsurance losses of $3.8 million and property catastrophe reinsurance losses of $0.9 million.

During the period from January 1, 2021 through June 30, 2021, the Company recorded net unfavorable development on prior year loss reserves of $8.4 million. Net unfavorable development was experienced on insurance programs and coinsurance losses of $4.9 million, casualty reinsurance losses of $4.3 million, and property catastrophe reinsurance losses of $3.6 million offset by favorable development on other specialty reinsurance losses of $4.4 million.

6. Short duration contracts

The Company is required by applicable insurance laws and regulations and U.S. GAAP to establish reserves for losses and loss adjustment expenses ("loss reserves") that arise from the business it underwrites. Loss reserves are balance sheet liabilities representing estimates of future amounts required to pay losses and loss adjustment expenses for insured or reinsured events which have occurred at or before the balance sheet date. Loss reserves do not reflect contingency reserve allowances to account for future loss occurrences. Losses arising from future events will be estimated and recognized at the time the losses are incurred and could be substantial.

Loss reserves are comprised of (1) case reserves for claims reported, (2) additional case reserves, or ACRs, and (3) IBNR reserves. Loss reserves are established to provide for loss adjustment expenses and represent the estimated expense of settling claims, including legal and other fees and the general expenses of administering the claims adjustment process. Periodically, adjustments to the reported or case reserves may be made as additional information regarding the claims is reported or payments are made.

IBNR reserves are established to provide for incurred claims which have not yet been reported at the balance sheet date as well as to adjust for any projected variance in case reserving. Actuaries estimate ultimate losses and loss adjustment expenses using various generally accepted actuarial methods applied to known losses and other relevant information. Like case reserves, IBNR reserves are adjusted as additional information becomes known or payments are made. The process of estimating reserves involves a considerable degree of judgment by management and, as of any given date, is inherently uncertain.

Ultimate losses and loss adjustment expenses are generally determined by extrapolation of claim emergence and settlement patterns observed in the past that can reasonably be expected to persist into the future. In forecasting ultimate losses and loss adjustment expenses with respect to any line of business, past experience with respect to that line of business is the primary resource, developed through both industry and company experience, but cannot be relied upon in isolation. Uncertainties in estimating ultimate losses and loss adjustment expenses are magnified by the time lag between when a claim actually occurs and when it is reported and settled. This time lag is sometimes referred to as the "claim-tail." The claim-tail for most property coverages is typically short (usually several months up to a few years). The claim-tail for certain professional liability, executive assurance and health care coverages, which are generally written on a claims-made basis, is typically longer than property coverages but shorter than casualty lines. The claim-tail for liability/casualty coverages, such as general liability, products liability, multiple peril coverage and workers' compensation, may be especially long as claims are often reported and ultimately paid or settled years, or even decades, after the related loss events occur. During the claims reporting and settlement period, additional facts regarding coverages written in prior accident years, as well as about actual claims and trends, may become known and, as a result, management may adjust its reserves. If management determines that an adjustment is appropriate, the adjustment is recorded in the accounting period in which such determination is made in accordance with U.S. GAAP. Accordingly, if loss reserves need to be increased or decreased in the future from amounts currently established, future results of operations would be negatively or positively impacted, respectively.

In addition, the inherent uncertainties of estimating such reserves are even greater for our reinsurance lines of business, due primarily to the following factors: (1) the claim-tail for reinsurers is generally longer because claims are first reported to the ceding company and then to the reinsurer through one or more intermediaries, (2) the reliance on premium estimates, where reports have not been received from the ceding company, in the reserving process, (3) the potential for writing a number of reinsurance contracts with different ceding companies with the same exposure to a single loss event, (4) the diversity of loss development patterns among different types of reinsurance contracts, (5) the necessary reliance on the ceding companies for information regarding reported claims and (6) the differing reserving practices among ceding companies.

In determining ultimate losses and loss adjustment expenses, the cost to indemnify claimants, provide needed legal defense and other services for insureds and administer the investigation and adjustment of claims are considered. These claim costs are influenced by many factors that change over time, such as expanded coverage definitions as a result of new court decisions, inflation in costs to repair or replace damaged property, inflation in the cost of medical services and legislated changes in statutory benefits, as well as by the particular, unique facts that pertain to each claim. As a result, the rate at which claims arose in the past and the costs to settle them may not always be representative of what will occur in the future. The factors influencing changes in claim costs are often difficult to isolate or quantify and developments in paid and incurred losses are frequently subject to multiple and conflicting interpretations. Changes in coverage terms or claims handling practices may also cause future experience and/or development patterns to vary from the past. A key objective of actuaries in developing estimates of ultimate losses and loss adjustment expenses, and resulting IBNR reserves, is to identify aberrations and systemic changes occurring within historical experience and accurately adjust for them so that the future can be projected reliably. Pricing actuaries devote considerable effort to understanding and analyzing a ceding company and program administrator’s operations and loss history during the underwriting of the business, using a combination of ceding company, program administrator, and industry statistics. Such statistics normally include historical premium and loss data by class of business, individual claim information for larger claims, distributions of insurance limits provided, loss reporting and payment patterns, and rate change history. Because of the factors previously discussed, this process requires the substantial use of informed judgment and is inherently uncertain.

As mentioned above, there can be a considerable time lag from the time a claim is reported to a ceding company to the time it is reported to the reinsurer. The lag can be several years in some cases and may be attributed to a number of reasons; including the time it takes to investigate a claim, delays associated with the litigation process, the deterioration in a claimant’s physical condition many years after an accident occurs, the case reserving approach of the ceding company, etc. In the reserving process, the Company assumes that such lags are predictable, on average, over time and therefore the lags are contemplated in the loss reporting patterns used in their actuarial methods. This means that reserves for our reinsurance lines of business must rely on estimates for a longer period of time than for our insurance lines of business. Backlogs in the recording of assumed reinsurance can also complicate the accuracy of loss reserve estimation. As of December 31, 2022, management is not aware of any significant backlogs related to the processing of assumed reinsurance information for our reinsurance lines of business.

Although loss reserves are initially determined based on underwriting and pricing analysis, we apply several generally accepted actuarial methods, as discussed below, on a quarterly basis. Each quarter, as part of the reserving process, actuaries at our operations reaffirm that the assumptions used in the reserving process continue to form a sound basis for projection of liabilities. If actual loss activity differs substantially from expectations based on historical information, an adjustment to loss reserves may be supported. Estimated loss reserves for more mature underwriting years are based more on actual loss activity and historical patterns than on the initial assumptions based on pricing indications. More recent underwriting years rely more heavily on internal pricing assumptions. We place more or less reliance on a particular actuarial method based on the facts and circumstances at the time the estimates of loss reserves are made.

These methods generally fall into one of the following categories or are hybrids of one or more of the following categories:

- *Expected loss methods:* these methods are based on the assumption that ultimate losses vary proportionately with premiums. Expected losses and loss adjustment expense ratios are typically developed based upon the information derived by underwriters and actuaries during the initial pricing of the business, supplemented by industry data available from organizations, such as statistical bureaus and consulting firms, where appropriate. These ratios consider, among other things, rate changes and changes in terms and conditions that have been observed in the market. Expected loss methods are useful for estimating ultimate losses and loss adjustment expenses in the early years of long-tailed lines of business, when little or no paid or incurred loss information is available, and is commonly applied when limited loss experience exists for a company.

- *Historical incurred loss development methods:* these methods assume that the ratio of losses in one period to losses in an earlier period will remain constant in the future. These methods use incurred losses (i.e., the sum of cumulative historical loss payments plus outstanding case reserves) over discrete periods of time to estimate future losses. Historical incurred loss development methods may be preferable to historical paid loss development methods because they explicitly take into account open cases and the claims adjusters' evaluations of the cost to settle all known claims. However, historical incurred loss development methods necessarily assume that case reserving practices are consistently applied over time. Therefore, when there have been significant changes in how case reserves are established, using incurred loss data to project ultimate losses may be less reliable than other methods.

- *Historical paid loss development methods:* these methods, like historical incurred loss development methods, assume that the ratio of losses in one period to losses in an earlier period will remain constant. These methods use historical loss payments over discrete periods of time to estimate future losses and necessarily assume that factors that have affected paid losses in the past, such as inflation or the effects of litigation, will remain constant in the future. Because historical paid loss development methods do not use incurred losses to estimate ultimate losses, they may be more reliable than the other methods that use incurred losses in situations where there are significant changes in how incurred losses are established by a company's claims adjusters. However, historical paid loss development methods are more leveraged (meaning that small changes in payments have a larger impact on estimates of ultimate losses) than actuarial methods that use incurred losses because cumulative loss payments take much longer to equal the expected ultimate losses than cumulative incurred amounts. In addition, and for similar reasons, historical paid loss development methods are often slow to react to situations when new or different factors arise than those that have affected paid losses in the past.

- *Adjusted historical paid and incurred loss development methods:* these methods take traditional historical paid and incurred loss development methods and adjust them for the estimated impact of changes from the past in factors such as inflation, the speed of claim payments or the adequacy of case reserves. Adjusted historical paid and incurred loss development methods are often more reliable methods of predicting ultimate losses in periods of significant change, provided the actuaries can develop methods to reasonably quantify the impact of changes. As such, these methods utilize more judgment than historical paid and incurred loss development methods.

- *Bornhuetter-Ferguson, or B-F, paid and incurred loss methods:* these methods utilize actual paid and incurred losses and expected patterns of paid and incurred losses, taking the initial expected ultimate losses into account to determine an estimate of expected ultimate losses. The B-F paid and incurred loss methods are useful when there are few reported claims and a relatively less stable pattern of reported losses.

- *Additional analysis:* other methodologies are often used in the reserving process for specific types of claims or events, such as catastrophic or other specific major events. These include vendor catastrophe models, which are typically used in the estimation of loss reserves at the early stage of known catastrophic events before information has been reported to an insurer or reinsurer, and analysis of specific industry events, such as large lawsuits or claims.

In the initial reserving process for short-tail lines, consisting of property catastrophe and other exposures, we rely on a combination of the reserving methods discussed above. For known catastrophic events, our reserving process also includes the usage of catastrophe models and a heavy reliance on analysis which includes ceding company inquiries and management judgment. The development of property losses may be unstable, especially where there is high catastrophic exposure, may be characterized by high severity, low frequency losses for excess and catastrophe-exposed business and may be highly correlated across contracts. As time passes, for a given underwriting year, additional weight is given to the paid and incurred B-F loss development methods and historical paid and incurred loss development methods in the reserving process. We make a number of key assumptions in reserving for short-tail lines, including that historical paid and reported development patterns are stable, catastrophe models provide useful information about our exposure to catastrophic events that have occurred and our underwriters' judgment and guidance received from ceding companies as to potential loss exposures may be relied on. The expected loss ratios used in the initial reserving process for our property exposures will vary over time due to changes in pricing, reinsurance structure, estimates of catastrophe losses, terms and conditions and geographical distribution. As losses in property lines are reported relatively quickly, expected loss ratios are selected for the current underwriting year incorporating the experience for earlier underwriting years, adjusted for rate changes, inflation, changes in reinsurance programs, expectations about present and future market conditions and expected attritional losses based on modeling. Due to the short-tail nature of property business, reported loss experience emerges quickly and ultimate losses are known in a comparatively short period of time.

In the initial reserving process for medium-tail and long-tail lines, consisting of casualty, other specialty, and other exposures, we primarily rely on the expected loss method. The development of medium-tail and long-tail business may be unstable, especially if there are high severity major events, with business written on an excess of loss basis typically having a longer tail than business written on a pro rata basis. As time passes, for a given exposure, additional weight is given to the paid and incurred B-F loss development methods and historical paid and incurred loss development methods in the reserving process. We make a number of key assumptions in reserving for medium-tail and long-tail lines, including that the pricing loss ratio is the best estimate of the ultimate loss ratio at the time the contract is entered into, historical paid and reported development patterns are stable and our claims personnel and underwriters analysis of our exposure to major events are assumed to be our best estimate of our exposure to the known claims on those events. The expected loss ratios used in initial reserving process for medium-tail and long-tail contracts will vary over time due to changes in pricing, terms and conditions and reinsurance structure. As the credibility of historical experience for earlier underwriting year's increases, the experience from these underwriting years will be used in the actuarial analysis to determine future underwriting year expected loss ratios, adjusted for changes in pricing, loss trends, terms and conditions and reinsurance structure.

Our reinsurance business receives reports of claims notices from ceding companies and record case reserves based upon the amount of reserves recommended by the ceding company. Case reserves on known events may be supplemented by ACRs, which are often estimated by our reinsurance operations' claims personnel ahead of official notification from the ceding company, or when our reinsurance operations' judgment regarding the size or severity of the known event differs from the ceding company. In certain instances, our reinsurance operations establish ACRs even when the ceding company does not report any liability on a known event. In addition, specific claim information reported by ceding companies or obtained through claim audits can alert our reinsurance operations to emerging trends such as changing legal interpretations of coverage and liability, claims from unexpected sources or classes of business, and significant changes in the frequency or severity of individual claims.

Our reinsurance business relies heavily on information reported by ceding companies, as discussed above. In order to determine the accuracy and completeness of such information, underwriters, actuaries, and claims personnel at our reinsurance operations often perform audits of ceding companies and regularly review information received from ceding companies for unusual or unexpected results. Material findings are usually discussed with the ceding companies. Our reinsurance operations sometimes encounter situations where they determine that a claim presentation from a ceding company is not in accordance with contract terms. In these situations, our reinsurance operations attempt to resolve the dispute with the ceding company. Most situations are resolved amicably and without the need for litigation or arbitration. However, in the infrequent situations where a resolution is not possible, our reinsurance operations will vigorously defend their position in such disputes.

For our insurance programs and coinsurance line of business, claim personnel, including those under our service arrangements, determine whether to establish a case reserve for the estimated amount of the ultimate settlement of individual claims. The estimate reflects the judgment of claims personnel based on general corporate reserving practices, the experience and knowledge of such personnel regarding the nature and value of the specific type of claim and, where appropriate, advice of counsel. We contract with a number of outside third-party administrators in the claims process who, in certain cases, have limited authority to establish case reserves. The work of these administrators is reviewed and monitored by such claims personnel.

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

Level of disaggregation	Included product lines
Casualty reinsurance - pro rata	Executive assurance, medical malpractice liability, other professional liability, workers' compensation, excess and umbrella liability and excess auto liability all written primarily on a treaty pro rata basis
Casualty reinsurance - excess of loss	Executive assurance, medical malpractice liability, other professional liability, workers' compensation, excess and umbrella liability and excess auto liability all written primarily on a treaty excess of loss basis
Other specialty reinsurance	Personal and commercial auto (other than excess auto liability), surety, accident and health, and workers compensation catastrophe written primarily on a treaty basis
Property catastrophe reinsurance	Property catastrophe reinsurance
Insurance programs and coinsurance	Primary and excess general liability, umbrella liability, professional liability, workers' compensation, personal and commercial automobile, inland marine and property business with minimal catastrophe exposure written on a direct basis

We have determined the following product lines to be insignificant for disclosure purposes: (i) mortgage reinsurance, (ii) marine and aviation reinsurance; (iii) other property reinsurance; and (iv) agriculture reinsurance. Such amounts are included as reconciling items.

We do not include claim count information in our short duration triangles for reinsurance. A significant percentage of our reinsurance business is written on a proportional basis, for which individual loss information is typically unavailable.

For our insurance programs and coinsurance line of business, we generally consider a reported claim to be per claimant, and we include claims with nil or nominal payments and/or case reserves.

We write the majority of our reinsurance contracts on an underwriting year basis and therefore may involve multiple accident years. Pursuant to customary cedant/reinsurer reporting requirements, the cedant reports premium for a given contract to us in total for the contract period, not separated by accident year. Similarly, for certain contract structures, the paid and outstanding losses will also be reported in total for the contract period, not by accident year. The short duration disclosure requires us to separately disclose paid losses, case reserves and IBNR losses by accident year, which necessitates an allocation of the underwriting year data between each of the applicable accident years. To separate reported losses by accident year we employ certain assumptions, which can lead to anomalies in the presentation of individual accident year results.

The following tables present information on the short-duration contracts by line of business:

Casualty reinsurance - Pro Rata ($000's)

Incurred losses and allocated loss adjustment expenses, net of reinsurance										December 31, 2022
	Year ended December 31,									Total of IBNR liabilities plus expected development on reported claims
Accident year	2014 unaudited	2015 unaudited	2016 unaudited	2017 unaudited	2018 unaudited	2019 unaudited	2020 unaudited	2021 unaudited	2022	
2014	$ 44,414	$ 43,213	$ 44,600	$ 46,222	$ 48,653	$ 50,329	$ 50,338	$ 51,957	$ 52,908	$ 3,834
2015		162,174	164,561	178,911	177,566	185,469	187,441	190,281	194,047	17,256
2016			168,055	187,149	187,872	196,864	202,513	205,989	209,099	22,183
2017				178,874	179,942	192,347	193,050	197,210	200,393	28,080
2018					147,940	143,088	144,042	149,163	154,354	28,140
2019						115,842	113,351	112,796	114,814	26,525
2020							73,814	67,615	65,950	20,180
2021								51,660	46,334	20,686
2022									65,010	47,397
								Total	$ 1,102,909	

Cumulative paid losses and allocated loss adjustment expenses, net of reinsurance									
2014	$ 938	$ 6,875	$ 14,017	$ 20,805	$ 25,617	$ 32,172	$ 35,969	$ 40,434	$ 43,201
2015		13,061	37,880	70,943	86,837	114,577	131,956	145,308	156,592
2016			11,409	45,361	68,833	111,257	134,074	148,588	163,536
2017				15,372	40,615	82,150	108,765	125,146	144,198
2018					11,131	35,899	60,451	80,319	100,377
2019						16,594	36,821	53,002	67,421
2020							11,282	24,051	33,419
2021								5,563	13,337
2022									6,280
								Total	728,361
Liabilities for losses and loss adjustment expenses, net of reinsurance									$ 374,548

Casualty reinsurance - Excess of Loss ($000's)

Incurred losses and allocated loss adjustment expenses, net of reinsurance

Accident year	Year ended December 31, 2014 unaudited	2015 unaudited	2016 unaudited	2017 unaudited	2018 unaudited	2019 unaudited	2020 unaudited	2021 unaudited	2022	December 31, 2022 Total of IBNR liabilities plus expected development on reported claims
2014	$ 4,339	$ 5,245	$ 4,836	$ 10,580	$ 9,698	$ 9,471	$ 10,416	$ 11,112	$ 11,278	$ 543
2015		25,793	26,925	34,038	35,467	35,846	36,936	35,300	40,056	3,546
2016			35,669	39,330	45,588	46,224	44,578	45,058	47,082	6,886
2017				54,163	33,740	37,060	45,685	48,200	62,222	8,765
2018					65,621	63,190	55,768	59,728	63,403	9,369
2019						73,371	63,451	68,509	76,509	15,776
2020							91,746	82,846	42,789	(2,204)
2021								125,809	141,993	108,658
2022									147,554	133,894
								Total	$ 632,886	

Cumulative paid losses and allocated loss adjustment expenses, net of reinsurance

Accident year	2014	2015	2016	2017	2018	2019	2020	2021	2022
2014	$ —	$ 2	$ 65	$ 609	$ 1,224	$ 3,059	$ 3,811	$ 5,089	$ 5,403
2015		91	595	1,902	6,651	8,293	14,569	19,206	23,959
2016			207	763	2,499	5,237	10,272	13,783	18,229
2017				107	965	2,424	7,998	15,020	21,495
2018					155	2,413	13,744	17,682	22,505
2019						298	2,791	4,618	7,935
2020							224	1,189	5,678
2021								224	2,078
2022									525
								Total	107,807
Liabilities for losses and loss adjustment expenses, net of reinsurance									$ 525,079

Other specialty reinsurance ($000's)

Incurred losses and allocated loss adjustment expenses, net of reinsurance

Accident year	Year ended December 31, 2014 unaudited	2015 unaudited	2016 unaudited	2017 unaudited	2018 unaudited	2019 unaudited	2020 unaudited	2021 unaudited	2022	December 31, 2022 Total of IBNR liabilities plus expected development on reported claims
2014	$ 16,623	$ 16,983	$ 16,884	$ 17,285	$ 17,722	$ 17,707	$ 18,200	$ 18,556	$ 19,762	$ 1,379
2015		71,164	72,557	70,751	73,373	75,817	77,950	78,303	80,586	2,270
2016			67,171	57,661	57,435	55,002	60,068	58,444	58,738	235
2017				74,780	64,961	71,050	72,762	73,046	72,974	(181)
2018					67,392	69,167	67,879	69,284	69,520	884
2019						76,439	72,561	68,938	68,009	9,073
2020							65,975	68,047	67,658	17,145
2021								105,146	105,364	32,764
2022									213,287	135,652
								Total	$ 755,898	

Cumulative paid losses and allocated loss adjustment expenses, net of reinsurance

Accident year	2014	2015	2016	2017	2018	2019	2020	2021	2022
2014	$ 4,832	$ 12,409	$ 14,266	$ 15,340	$ 16,671	$ 16,947	$ 17,129	$ 17,055	$ 18,102
2015		29,964	48,951	57,852	66,727	69,566	72,355	72,980	75,756
2016			25,171	38,483	44,940	49,198	53,385	54,777	55,750
2017				29,780	50,173	56,065	60,389	63,287	65,807
2018					14,556	42,042	54,606	60,105	63,397
2019						18,974	27,903	41,797	47,882
2020							9,768	20,673	28,868
2021								12,639	35,596
2022									31,433
								Total	422,591
Liabilities for losses and loss adjustment expenses, net of reinsurance									$ 333,307

Property Catastrophe Reinsurance ($000's)

Incurred losses and allocated loss adjustment expenses, net of reinsurance

Accident year	Year ended December 31, 2014 unaudited	2015 unaudited	2016 unaudited	2017 unaudited	2018 unaudited	2019 unaudited	2020 unaudited	2021 unaudited	2022	December 31, 2022 Total of IBNR liabilities plus expected development on reported claims
2014	$ 1,494	$ 1,106	$ 798	$ 764	$ 643	$ 598	$ 563	$ 563	$ 539	$ 25
2015		4,594	3,496	2,703	2,008	1,927	1,885	1,841	1,816	(13)
2016			5,048	4,051	3,363	2,921	2,840	2,804	2,711	(1)
2017				22,482	18,143	17,371	16,512	15,462	15,190	(1)
2018					16,418	14,345	12,590	11,496	10,897	177
2019						9,272	8,832	7,825	7,782	191
2020							20,847	26,481	26,598	1,211
2021								74,456	71,656	4,818
2022									71,788	24,533
								Total	$ 208,977	

Cumulative paid losses and allocated loss adjustment expenses, net of reinsurance

Accident year	2014	2015	2016	2017	2018	2019	2020	2021	2022
2014	$ —	$ 215	$ 530	$ 560	$ 582	$ 589	$ 614	$ 618	$ 622
2015		372	799	1,330	1,409	1,446	1,491	1,499	1,505
2016			1,003	1,902	2,260	2,536	2,580	2,619	2,636
2017				6,609	12,075	13,222	14,242	14,556	14,753
2018					2,758	7,180	9,266	9,381	9,531
2019						537	3,506	4,591	4,994
2020							2,784	11,543	15,874
2021								5,402	32,565
2022									13,411
								Total	95,891
Liabilities for losses and loss adjustment expenses, net of reinsurance									$ 113,086

Insurance programs and coinsurance ($000's except claim count)

Incurred losses and allocated loss adjustment expenses, net of reinsurance										December 31, 2022	
	Year ended December 31,									Total of IBNR liabilities plus expected development on reported claims (2)	Cumulative number of reported claims
Accident year	2014 unaudited	2015 unaudited	2016 unaudited	2017 unaudited	2018 unaudited	2019 unaudited	2020 unaudited	2021 unaudited	2022 (1)		
2014	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	—
2015		938	938	1,054	1,062	1,062	1,023	1,043	1,069	25	775
2016			23,972	23,693	25,190	25,599	26,223	24,917	25,123	606	31,601
2017				54,945	53,997	57,322	57,881	58,442	59,218	4,488	55,273
2018					93,981	93,758	102,336	112,037	115,664	9,936	51,189
2019						120,621	125,267	136,667	140,759	15,836	62,936
2020							148,430	142,152	150,022	28,267	57,013
2021								208,079	206,689	28,699	87,487
2022									207,512	100,504	77,934
								Total	$906,056		
Cumulative paid losses and allocated loss adjustment expenses, net of reinsurance											
2014	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —		
2015		8	366	667	778	837	1,135	1,165	1,051		
2016			5,483	14,299	19,213	21,120	23,459	23,627	24,228		
2017				16,861	34,495	41,161	46,380	50,339	54,029		
2018					28,987	61,801	71,591	82,427	94,951		
2019						29,179	71,361	79,042	97,181		
2020							24,624	58,830	82,630		
2021								54,367	116,026		
2022									56,231		
								Total	526,327		
Liabilities for losses and loss adjustment expenses, net of reinsurance									$379,729		

(1) Following the acquisition of Axeria, a prospective approach has been adopted to include losses from 2021 Accident Year onwards within the table above. The incurred losses and allocated loss adjustment expenses, net of reinsurance relating to prior accident years are excluded from the table and included within Other short duration lines in the reconciliation below.

The following table presents the average annual percentage payout of incurred losses and allocated loss adjustment expenses by age, net of reinsurance, as of December 31, 2022:

	Average annual percentage payout of incurred losses and loss adjustment expenses by age, net of reinsurance								
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9
Casualty reinsurance - pro rata	10.0%	15.9%	15.5%	13.4%	11.6%	8.5%	7.0%	5.8%	5.2%
Casualty reinsurance - excess of loss	0.3%	2.0%	6.7%	7.4%	8.4%	11.2%	10.5%	11.9%	2.8%
Other specialty reinsurance	26.4%	23.5%	13.5%	8.2%	4.8%	3.1%	1.2%	3.4%	5.3%
Property catastrophe reinsurance	21.2%	34.6%	16.6%	5.5%	1.8%	1.7%	0.5%	0.3%	0.8%
Insurance programs and coinsurance	20.8%	29.9%	14.8%	9.8%	8.1%	11.6%	2.6%	(10.7)%	—%

For the year ended December 31, 2022, the Company did not make any significant changes in its methodologies or assumptions.

The following table represents a reconciliation of the disclosures of net incurred and paid loss development tables to the reserve for losses and loss adjustment expenses at December 31, 2022:

	December 31, 2022
	($ in thousands)
Net outstanding liabilities:	
Casualty reinsurance - excess of loss	$ 525,079
Insurance programs and coinsurance	379,729
Casualty reinsurance - pro rata	374,548
Other specialty reinsurance	333,307
Property catastrophe reinsurance	113,086
Other short duration lines not included in disclosures	220,269
Total for short duration lines	1,946,018
Unpaid losses and loss adjustment expenses recoverable:	
Insurance programs and coinsurance	271,004
Casualty reinsurance - excess of loss	73,031
Other specialty reinsurance	19,641
Property catastrophe reinsurance	18,325
Casualty reinsurance - pro rata	3,607
Other short duration lines not included in disclosures (1)	110,797
Total for short duration lines	496,405
Unallocated claims adjustment expenses	2,875
Reserve for losses and loss adjustment expenses	$ 2,445,298

(1) Other short duration lines includes liabilities acquired in the purchase of WIC, which are 100% reinsured pursuant to a 100% quota share agreement, Axeria liabilities for accident years 2020 and prior, and other miscellaneous items.

7. Allowance for expected credit losses

Premiums Receivable

The following table presents the balances of premiums receivable, net of the allowance for expected credit losses at December 31, 2022 and 2021, and changes in the allowance for expected credit losses for the year ended December 31, 2022, the period from July 1, 2021 through December 31, 2021 and the period from January 1, 2021 through June 30, 2021.

	(Successor) Year Ended December 31, 2022		(Successor) Period from July 1, 2021 through Dec 31, 2021		(Predecessor) Period from January 1, 2021 through June 30, 2021	
	Premiums Receivable, Net of Allowance	Allowance for Expected Credit Losses	Premiums Receivable, Net of Allowance	Allowance for Expected Credit Losses	Premiums Receivable, Net of Allowance	Allowance for Expected Credit Losses
	($ in thousands)				*($ in thousands)*	
Balance at beginning of period (1)	$ 410,677	$ 505	$ 305,026	$ 505	$ 224,377	$ 156
Current period change for expected credit losses		(2)		—		—
Write-offs charged against the allowance		—		—		—
Balance at end of period	$ 632,318	$ 503	$ 410,677	$ 505	$ 305,026	$ 156

(1) The balance at July 1, 2021 includes an adjustment of $349 thousand as a result of a fair value adjustment due to pushdown accounting.

Reinsurance Recoverables

The following table presents the balances of reinsurance recoverables, net of the allowance for expected credit losses, at December 31, 2022 and 2021, and changes in the allowance for expected credit losses for the year ended December 31, 2022, the period from July 1, 2021 through December 31, 2021 and the period from January 1, 2021 through June 30, 2021.

	(Successor) Year Ended December 31, 2022		(Successor) Period from July 1, 2021 through Dec 31, 2021		(Predecessor) Period from January 1, 2021 through June 30, 2021	
	Reinsurance Recoverables, Net of Allowance	Allowance for Expected Credit Losses	Reinsurance Recoverables, Net of Allowance	Allowance for Expected Credit Losses	Reinsurance Recoverables, Net of Allowance	Allowance for Expected Credit Losses
	($ in thousands)				*($ in thousands)*	
Balance at beginning of period (1)	$ 562,537	$ 943	$ 520,531	$ 957	$ 286,590	$ 305
Current period change for expected credit losses		824		(14)		2
Write-offs charged against the allowance		—		—		—
Balance at end of period	$ 606,286	$ 1,767	$ 562,537	$ 943	$ 520,531	$ 307

(1) The balance at July 1, 2021 includes an adjustment of $650 thousand as a result of a fair value adjustment due to pushdown accounting.

8. Investments

Available for Sale Investments

The following tables summarize the fair value of the Company's securities classified as available for sale as of December 31, 2022 and 2021:

	(Successor) December 31, 2022				
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Expected Credit Losses	Fair Value
	($ in thousands)				
Fixed maturities:					
Corporate bonds	$ 780,120	$ 725	$ (64,423)	$ (32,196)	$ 684,226
U.S. government and government agency bonds	243,094	—	(8,904)	—	234,190
Non-U.S. government and government agency bonds	219,227	—	(43,862)	(240)	175,125
Asset-backed securities	51,699	191	(3,079)	(10,788)	38,023
Mortgage-backed securities	9,632	1	(329)	—	9,304
Municipal government and government agency bonds	1,570	—	(47)	(2)	1,521
Total investments, available for sale	$1,305,342	$ 917	$ (120,644)	$ (43,226)	$1,142,389

	(Successor) December 31, 2021				
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Expected Credit Losses	Fair Value
	($ in thousands)				
Fixed maturities:					
Corporate bonds	$ 634,971	$ 1,899	$ (1,697)	$ (4,007)	$ 631,166
U.S. government and government agency bonds	247,598	—	(1,827)	—	245,771
Non-U.S. government and government agency bonds	230,023	1,689	(5,302)	(312)	226,098
Asset-backed securities	161,412	2,623	(1,105)	(142)	162,788
Mortgage-backed securities	12,177	32	(38)	—	12,171
Municipal government and government agency bonds	1,685	—	(7)	(5)	1,673
Total investments, available for sale	$1,287,866	$ 6,243	$ (9,976)	$ (4,466)	$1,279,667

The following table summarizes, for all available for sale securities in an unrealized loss position, the fair value and gross unrealized losses by length of time the security has been in a continual unrealized loss position:

	(Successor) December 31, 2022					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	($ in thousands)					
Fixed maturities:						
Corporate bonds	$ 503,543	$ (68,261)	$ 122,899	$ (28,358)	$ 626,442	$ (96,619)
U.S. government and government agency bonds	89,671	(1,545)	144,518	(7,359)	234,189	(8,904)
Non-U.S. government and government agency bonds	3,907	(140)	171,200	(43,962)	175,107	(44,102)
Asset-backed securities	34,129	(12,212)	3,376	(1,655)	37,505	(13,867)
Mortgage-backed securities	5,937	(262)	3,121	(67)	9,058	(329)
Municipal government and government agency bonds	—	—	1,521	(49)	1,521	(49)
Total	$ 637,187	$ (82,420)	$ 446,635	$ (81,450)	$1,083,822	$ (163,870)

	(Successor) December 31, 2021					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	($ in thousands)					
Fixed maturities:						
Corporate bonds	$ 370,907	$ (5,704)	$ —	$ —	$ 370,907	$ (5,704)
U.S. government and government agency bonds	245,771	(1,827)	—	—	245,771	(1,827)
Non-U.S. government and government agency bonds	225,385	(5,614)	—	—	225,385	(5,614)
Asset-backed securities	65,357	(1,247)	—	—	65,357	(1,247)
Mortgage-backed securities	9,027	(38)	—	—	9,027	(38)
Municipal government and government agency bonds	1,673	(12)	—	—	1,673	(12)
Total	$ 918,120	$ (14,442)	$ —	$ —	$ 918,120	$ (14,442)

At December 31, 2022, 797 positions out of a total of 863 positions were in an unrealized loss position with the largest unrealized loss position being $44.1 million. The increase in gross unrealized losses on fixed maturities can be attributed to rising interest rates and the movement in foreign exchange rates for the non-U.S. government agency bonds since purchase. The Company believes that such securities were temporarily impaired at December 31, 2022. At December 31, 2021, 230 positions out of a total of 432 positions were in an unrealized loss position with the largest unrealized loss position being $5.6 million.

Allowance for expected credit losses

The following table summarizes the allowance for expected credit losses and the changes in allowance. There were no write-offs charged against the allowance. The change in allowance is recognized in "net investment income (loss)" in the Company's consolidated statements of income (loss). There were no impairments of securities which the Company intends to sell or more likely than not will be required to sell.

	(Successor) Year Ended December 31, 2022	(Successor) Period From July 1, 2021 through December 31, 2021	(Predecessor) Period From January 1, 2021 through June 30, 2021
	($ in thousands)		($ in thousands)
Balance at beginning of period	$ 4,466	$ —	$ 196
Changes in credit loss allowance	38,760	4,466	56
Balance at end of period	$ 43,226	$ 4,466	$ 252

The amortized cost and fair value of our fixed maturities classified as available for sale, summarized by contractual maturity are shown in the following tables.

	(Successor) December 31, 2022		
	Amortized Cost	Estimated Fair Value	% of Fair Value
		($ in thousands)	
Due in one year or less	$ 89,102	$ 85,006	7.4 %
Due after one year through five years	680,103	612,377	53.6 %
Due after five years through ten years	440,343	369,564	32.4 %
Due after ten years	34,463	28,115	2.5 %
Asset-backed securities	51,699	38,023	3.3 %
Mortgage-backed securities	9,632	9,304	0.8 %
Total investments, available for sale	$ 1,305,342	$ 1,142,389	100.0 %

	(Successor) December 31, 2021		
	Amortized Cost	Estimated Fair Value	% of Fair Value
		($ in thousands)	
Due in one year or less	$ 33,813	$ 33,620	2.6 %
Due after one year through five years	611,477	605,913	47.3 %
Due after five years through ten years	417,690	413,979	32.4 %
Due after ten years	51,297	51,196	4.0 %
Asset-backed securities	161,412	162,788	12.7 %
Mortgage-backed securities	12,177	12,171	1.0 %
Total investments, available for sale	$ 1,287,866	$ 1,279,667	100.0 %

Fair Value Option and Fair Value Through Net Income

The following tables summarize the fair value of the Company's securities classified as fair value through net income or for which the fair value option was elected:

	(Successor) December 31, 2022			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	($ in thousands)			
Term loan investments	$ 471,477	$ 475	$ (46,828)	$ 425,124
Short-term investments	929,524	7,244	(3,194)	933,574
Investments, fair value option	$ 1,401,001	$ 7,719	$ (50,022)	$ 1,358,698
Fair Value Through Net Income:				
Equities, fair value through net income	$ 30,743	$ 6,344	$ (7,540)	$ 29,547

	(Successor) December 31, 2021			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	($ in thousands)			
Term loan investments	$ 573,404	$ 5,323	$ (7,658)	$ 571,069
Short-term investments	549,069	5,571	(167)	554,473
Investments, fair value option	$ 1,122,473	$ 10,894	$ (7,825)	$ 1,125,542
Fair Value Through Net Income:				
Equities, fair value through net income	$ 110,749	$ 8,246	$ (3,680)	$ 115,315

The amortized cost and fair value of our term loans and short-term investments, summarized by contractual maturity are shown in the following tables.

	(Successor)		
	December 31, 2022		
	Amortized Cost	Estimated Fair Value	% of Fair Value
		($ in thousands)	
Due in one year or less	$ 938,891	$ 937,309	69.0 %
Due after one year through five years	267,704	239,428	17.6 %
Due after five years through ten years	184,925	172,702	12.7 %
Due after ten years	9,481	9,259	0.7 %
Total	$ 1,401,001	$ 1,358,698	100.0 %

	(Successor)		
	December 31, 2021		
	Amortized Cost	Estimated Fair Value	% of Fair Value
		($ in thousands)	
Due in one year or less	$ 549,069	$ 554,473	49.2 %
Due after one year through five years	345,880	344,994	30.7 %
Due after five years through ten years	227,524	226,075	20.1 %
Total	$ 1,122,473	$ 1,125,542	100.0 %

The tables below summarize the credit quality of our total investments as rated by Standard & Poor's Financial Services, LLC, or Standard & Poor's, Moody's Investors Service, or Moody's, Fitch Ratings Inc., or Fitch, Kroll Bond Rating Agency, or KBRA, or DBRS Morningstar, or DBRS, as applicable:

	(Successor) December 31, 2022									
		Credit Rating (1)								
	Fair Value	AAA	AA	A	BBB	BB	B	CCC	CC	Not Rated
	($ in thousands)									
Term loan investments	$ 425,124	$ —	$ —	$ —	$ 29,542	$ 89,522	$ 259,673	$ 29,644	$ —	$ 16,743
Fixed maturities:										
Corporate bonds	684,226	—	9,318	15,972	86,822	270,511	271,790	21,855	—	7,958
U.S. government and government agency bonds	234,190	—	234,190	—	—	—	—	—	—	—
Asset-backed securities	38,023	2,375	—	486	—	7,829	8,533	529	424	17,847
Mortgage-backed securities	9,304	954	1,973	4,265	2,112	—	—	—	—	—
Non-U.S. government and government agency bonds	175,125	—	173,437	640	1,048	—	—	—	—	—
Municipal government and government agency bonds	1,521	734	550	237	—	—	—	—	—	—
Total fixed income instruments	1,567,513	4,063	419,468	21,600	119,524	367,862	539,996	52,028	424	42,548
Short-term investments	933,574	615,589	112,650	121,004	79,780	3,802	749	—	—	—
Total fixed income instruments and short-term investments	2,501,087	619,652	532,118	142,604	199,304	371,664	540,745	52,028	424	42,548
Equities	29,547									
Total	$ 2,530,634	$ 619,652	$ 532,118	$ 142,604	$ 199,304	$ 371,664	$ 540,745	$ 52,028	$ 424	$ 42,548

(1) For individual fixed maturity investments, Standard & Poor's ratings are used. In the absence of a Standard & Poor's rating, ratings from Moody's are used, followed by ratings from Fitch, followed by ratings from KBRA, followed by ratings from DBRS.

	(Successor) December 31, 2021									
		Credit Rating (1)								
	Fair Value	AAA	AA	A	BBB	BB	B	CCC	CC	Not Rated
	($ in thousands)									
Term loan investments	$ 571,069	$ —	$ —	$ —	$ 16,049	$ 68,391	$ 363,372	$ 87,989	$ 5,128	$ 30,140
Fixed maturities:										
Corporate bonds	631,166	—	22,486	53,697	101,426	170,648	243,523	25,722	—	13,664
U.S. government and government agency bonds	245,771	—	245,771	—	—	—	—	—	—	—
Asset-backed securities	162,788	—	—	8,231	72,103	41,904	11,135	258	454	28,703
Mortgage-backed securities	12,171	—	92	1,188	10,891	—	—	—	—	—
Non-U.S. government and government agency bonds	226,098	—	224,231	713	1,154	—	—	—	—	—
Municipal government and government agency bonds	1,673	764	574	335	—	—	—	—	—	—
Total fixed income instruments	1,850,736	764	493,154	64,164	201,623	280,943	618,030	113,969	5,582	72,507
Short-term investments	554,473	183,239	212,121	97,452	60,437	—	1,224	—	—	—
Total fixed income instruments and short-term investments	2,405,209	184,003	705,275	161,616	262,060	280,943	619,254	113,969	5,582	72,507
Equities	115,315									
Total	$ 2,520,524	$ 184,003	$ 705,275	$ 161,616	$ 262,060	$ 280,943	$ 619,254	$ 113,969	$ 5,582	$ 72,507

(1) For individual fixed maturity investments, Standard & Poor’s ratings are used. In the absence of a Standard & Poor’s rating, ratings from Moody’s are used, followed by ratings from Fitch, followed by ratings from KBRA, followed by ratings from DBRS.

Fair value option

The Company elected to carry term loans and short term investments at fair value under the fair value option afforded by accounting guidance regarding the fair value option for financial assets and liabilities. Changes in fair value of investments accounted for using the fair value option are included in "net investment income (loss)" in the Company's consolidated statements of income (loss). The Company elected to use this option as investments are not necessarily held to maturity, and in order to address simplification and cost-benefit considerations.

Net investment income (loss)

The components of net investment income (loss) were derived from the following sources:

	(Successor) Year Ended December 31, 2022			
	Net Interest Income	Net Unrealized Gains (Losses)	Net Realized Gains (Losses)	Net Investment Income (Loss)
	($ in thousands)			
Net investment income (loss) by asset class:				
Term loan investments	$ 39,615	$ (44,069)	$ (11,982)	$ (16,436)
Fixed maturities - available for sale (1)	55,597	—	(86,809)	(31,212)
Short-term investments	3,676	192	224	4,092
Equities, fair value through net income	2,890	(5,697)	4,765	1,958
Other (2)	—	(9,572)	3,006	(6,566)
Management fees and other investment expenses	(10,039)	—	—	(10,039)
	$ 91,739	$ (59,146)	$ (90,796)	$ (58,203)

(1) Net realized gains (losses) from the fixed maturities available for sale portfolio consists of realized gains and realized losses of $3.1 million and $89.9 million, respectively. Realized losses include an allowance for expected credit losses on available for sale securities of $38.8 million for the year ended December 31, 2022.

(2) Other includes unrealized gains and unrealized losses for total return swaps.

	(Successor) Period From July 1, 2021 through December 31, 2021			
	Net Interest Income	Net Unrealized Gains (Losses)	Net Realized Gains (Losses)	Net Investment Income (Loss)
	($ in thousands)			
Net investment income (loss) by asset class:				
Term loan investments	$ 20,776	$ (2,378)	$ (174)	$ 18,224
Fixed maturities - available for sale (1)	20,355	—	(7,122)	13,233
Short-term investments	15	1	505	521
Equities, fair value through net income (2)	395	5,545	(4,963)	977
Other (3)	—	(358)	1,600	1,242
Management fees and other investment expenses	(7,368)	—	—	(7,368)
	$ 33,987	$ 2,810	$ (10,154)	$ 26,829

(1) Net realized gains (losses) from the fixed maturities available for sale portfolio consists of realized gains and realized losses of $1.2 million and $8.3 million, respectively. Realized losses include an allowance for expected credit losses on available for sale securities of $4.5 million for the period from July 1, 2021 through December 31, 2021.

(2) Net interest income includes dividends for securities held in long and short positions.

(3) Other includes unrealized gains and unrealized losses for total return swaps.

	(Predecessor) Period From January 1, 2021 through June 30, 2021			
	Net Interest Income	Net Unrealized Gains (Losses)	Net Realized Gains (Losses)	Net Investment Income (Loss)
	($ in thousands)			
Net investment income (loss) by asset class:				
Term loan investments	$ 29,278	$ 35,168	$ (16,412)	$ 48,034
Fixed maturities - Fair value option	18,599	20,318	9,435	48,352
Fixed maturities - Available for sale (1)	5,191	—	2,614	7,805
Short-term investments	299	(100)	(71)	128
Equities (2)	236	4,800	110	5,146
Equities, fair value through net income (2)	66	19,846	(8,110)	11,802
Other (3)	—	1,637	1,826	3,463
Management fees and other investment expenses	(13,810)	—	—	(13,810)
Investment performance fees - related parties	—	—	—	(10,530)
	$ 39,859	$ 81,669	$ (10,608)	$ 100,390

(1) Net realized gains (losses) from the fixed maturities available for sale portfolio consists of realized gains and realized losses of $3.8 million and $1.2 million, respectively. Realized losses include an allowance for expected credit losses on available for sale securities of $0.1 million for the period from January 1, 2021 through June 30, 2021.

(2) Net interest income includes dividends for securities held in long and short positions.

(3) Other includes unrealized gains and unrealized losses for total return swaps.

Pledged and restricted assets

For the benefit of certain Arch entities and other third parties that cede business to the Company, the Company is required to post and maintain collateral to support its potential obligations under reinsurance contracts written. This collateral can be in the form of either investment assets held in collateral trust accounts or letters of credit. Under its secured credit facilities, in order for the Company to have the bank issue a letter of credit to the Company’s reinsurance contract counterparty, the Company must post investment assets or cash as collateral to the bank. In either case, the amounts remain restricted for the duration of the term of the trust or letter of credit, as applicable.

At December 31, 2022 and 2021, the Company held $1.2 billion and $1.1 billion, respectively, in pledged assets in support of insurance and reinsurance liabilities as well as to collateralize the Company’s secured credit facilities and investment derivatives. Included within total pledged assets, the Company held $7.4 million and $7.6 million, respectively, in deposits with U.S. regulatory authorities.

Non-cash investing activities

During the year ended December 31, 2022, there were no investments converted or exchanged in non-cash transactions.

During the period from July 1, 2021 through December 31, 2021, $11.4 million of common stock equity positions were converted or exchanged in non-cash transactions, as presented on the consolidated statements of cash flows.

During the period from January 1, 2021 through June 30, 2021, $15.3 million of investments were converted or exchanged in non-cash transactions from fixed maturities or listed common stock equity positions to fixed maturities or unlisted common stock equity positions, as presented on the consolidated statements of cash flows.

9. Fair value

Fair value hierarchy

Accounting guidance regarding fair value measurements addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under GAAP and provides a common definition of fair value to be used throughout GAAP. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In addition, it establishes a three-level valuation hierarchy for the disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. 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 (Level 1 being the highest priority and Level 3 being the lowest priority).

The levels in the hierarchy are defined as follows:

- *Level 1:* Inputs to the valuation methodology are observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets;

- *Level 2:* Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument; and

- *Level 3:* Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The availability of observable inputs can vary by 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. The degree of judgment exercised by the Company in determining fair value is greatest for financial instruments categorized in Level 3. In periods of market dislocation, the observability of prices and inputs may be reduced for many financial instruments. This may lead to a change in the valuation techniques used to estimate the fair value measurement and cause an instrument to be reclassified between levels within the fair value hierarchy.

Fair value measurements on a recurring basis

The following is a description of the valuation methodologies used for securities measured at fair value, as well as the general classification of such securities pursuant to the valuation hierarchy.

The Company determines the existence of an active market based on its judgment as to whether transactions for the financial instrument occur in such market with sufficient frequency and volume to provide reliable pricing information. The independent pricing sources obtain market quotations and actual transaction prices for securities that have quoted prices in active markets. The Company uses quoted values and other data provided by nationally recognized independent pricing sources as inputs into its process for determining fair values of its fixed maturity investments. Each price source has its own proprietary method for determining the fair value of securities that are not actively traded. In general, these methods involve the use of “matrix pricing” in which the independent pricing source uses observable market inputs including, but not limited to, investment yields, credit risks and spreads, benchmarking of like securities, broker-dealer quotes, reported trades and sector groupings to determine a reasonable fair value.

Where multiple quotes or prices are obtained, a price source hierarchy is maintained in order to determine which price source would be used (*i.e.,* a price obtained from a pricing service with more seniority in the hierarchy will be used over a less senior one in all cases). The hierarchy prioritizes pricing services based on availability and reliability and assigns the highest priority to index providers. Based on the above review, the Company will challenge any prices for a security or portfolio which are considered not to be representative of fair value.

In certain circumstances, when fair values are unavailable from these independent pricing sources, quotes are obtained directly from broker-dealers who are active in the corresponding markets. Such quotes are subject to the validation procedures noted above. Where quotes are unavailable, fair value is determined by using quantitative and qualitative assessments such as internally modeled values.

Of the $2.5 billion of net financial assets and liabilities measured at fair value at December 31, 2022, approximately $44.6 million, or 1.8%, were priced using non-binding broker-dealer quotes or modeled valuations. Of the $2.5 billion of net financial assets and liabilities measured at fair value at December 31, 2021, approximately $118.4 million, or 4.7%, were priced using non-binding broker-dealer quotes or modeled valuations.

The Company reviews its securities measured at fair value and discusses the proper classification of such investments with its Investment Managers and others. A discussion of the general classification of the Company's financial instruments follows:

Fixed Maturities. The Company uses the market approach valuation technique to estimate the fair value of its fixed maturity securities, when possible. The market approach includes obtaining prices from independent pricing services, such as index providers and pricing vendors, as well as to a lesser extent quotes from broker-dealers. The independent pricing sources obtain market quotations and actual transaction prices for securities that have quoted prices in active markets. Each source has its own proprietary method for determining the fair value of securities that are not actively traded. In general, these methods involve the use of "matrix pricing" in which the independent pricing source uses observable market inputs including, but not limited to, investment yields, credit risks and spreads, benchmarking of like securities, broker-dealer quotes, reported trades and sector groupings to determine a reasonable fair value.

The following describes the significant inputs generally used to determine the fair value of the Company's investment securities by asset class:

Term Loans. Fair values are estimated by using quoted prices obtained from independent pricing services for term loan investments with similar characteristics, pricing models or matrix pricing. Such investments are generally classified within Level 2. The fair values for certain of the Company's term loans are determined by using quantitative and qualitative assessments such as internally modeled values. The modeled values are based on peer loans and comparison to industry-specific market data. Significant unobservable inputs used to price these securities may include changes in peer and/or comparable credit spreads, accretion of any original issue discount and changes in the issuer's debt leverage since issue. Changes in peer credit spreads, comparable credits spreads and issuer debt leverage are negatively correlated with the modeled fair value measurement. Such investments are generally classified within Level 3.

Corporate Bonds. Valuations are provided by independent pricing services, substantially all through index providers and pricing vendors, with a small amount through broker-dealers. 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 from broker-dealers who trade in the relevant security market. As the significant inputs used in the pricing process for corporate bonds are observable market inputs, the fair value of the majority of these securities are classified within Level 2. The fair values for certain of the Company's corporate bonds are determined by using quantitative and qualitative assessments such as internally modeled values. The modeled values are based on peer bonds and comparison to industry-specific market data. In addition, the Company assesses the fair value based on the valuation of the underlying holdings in accordance with the bonds' governing documents. Significant unobservable inputs used to price these securities may include changes in peer and/or comparable credit spreads, accretion of any original issue discount and changes in the issuer's debt leverage since issue. Changes in peer credit spreads, comparable credits spreads, and issuer debt leverage are negatively correlated with the modeled fair value measurement. Such investments are generally classified within Level 3.

Asset-Backed Securities. Valuations are provided by independent pricing services, substantially all through index providers and pricing vendors, with a small amount through broker-dealers. The fair values of these securities are generally determined through the use of pricing models (including option adjusted spread) which use spreads to determine the appropriate average life of the securities. These spreads are generally obtained from the new issue market, secondary trading and from broker-dealers who trade in the relevant security market. The pricing services also review prepayment speeds and other indicators, when applicable. As the significant inputs used in the pricing process for asset-backed securities are observable market inputs, the fair value of these securities are classified within Level 2.

Mortgage-Backed Securities. Valuations are provided by independent pricing services, substantially all through pricing vendors and index providers with a small amount through broker-dealers. The fair values of these securities are generally determined through the use of pricing models (including option adjusted spread) which use spreads to determine the expected average life of the securities. These spreads are generally obtained from the new issue market, secondary trading and from broker-dealers who trade in the relevant security market. The pricing services also review prepayment speeds and other indicators, when applicable. As the significant inputs used in the pricing process for mortgage-backed securities are observable market inputs, the fair value of these securities are classified within Level 2.

U.S. Government and Government Agencies. Valuations are provided by independent pricing services, with all prices provided through index providers and pricing vendors. The Company determined that all U.S. Treasuries would be classified as Level 1 securities due to observed levels of trading activity, the high number of strongly correlated pricing quotes received on U.S. Treasuries and other factors. The fair values of U.S. government agency securities are generally determined using the spread above the risk-free yield curve. As the yields for the risk-free yield curve and the spreads for these securities are observable market inputs, the fair values of U.S. government agency securities are classified within Level 2.

Non-U.S. Government Securities. Valuations are provided by independent pricing services, with all prices provided through index providers and pricing vendors. The fair values of these securities are generally based on international indices or valuation models which include daily observed yield curves, cross-currency basis index spreads and country credit spreads. As the significant inputs used in the pricing process for non-U.S. government securities are observable market inputs, the fair value of these securities are classified within Level 2.

Municipal Government Bonds. Valuations are provided by independent pricing services, with all prices provided through index providers and pricing vendors. The fair values of these securities are generally determined using spreads obtained from broker-dealers who trade in the relevant security market, trade prices and the new issue market. As the significant inputs used in the pricing process for municipal bonds are observable market inputs, the fair value of these securities are classified within Level 2.

Short-Term Investments. The Company determined that certain of its short-term investments, held in highly liquid money market-type funds, and equities would be included in Level 1 as their fair values are based on quoted market prices in active markets. The fair values of other short-term investments are generally determined using the spread above the risk-free yield curve and are classified within Level 2.

Equity Securities. The Company determined that exchange-traded equity securities are included in Level 1 as their values are based on quoted market prices in active markets. Other equity securities are initially valued at cost which approximates fair value. In subsequent measurement periods, the fair values of these securities are determined using non-binding broker-dealer quotes. These equity securities are included in Level 2 of the valuation hierarchy. Where such quotes are unavailable, fair value is determined by using quantitative and qualitative assessments such as internally modeled values. As the significant inputs used to price these securities are unobservable, the fair value of these securities are classified as Level 3. Significant unobservable inputs used to price preferred stock may include changes in peer and/or comparable credit spreads, accretion of any original issue discount and changes in the issuer's debt leverage since issue. Changes in peer credit spreads, comparable credit spreads, and issuer debt leverage are negatively correlated with the modeled fair value measurement.

Underwriting Derivative Instruments. The Company values the government-sponsored enterprise credit-risk sharing transactions using a valuation methodology based on observable inputs from non-binding broker-dealer quotes and/or recent trading activity. As the inputs used in the valuation process are observable market inputs, the fair value of these securities are classified within Level 2. Refer to Note 10, "Derivative instruments" for more information.

Investment Derivative Instruments. The Company values the investment derivatives, including total return swaps and options, at fair value. As the underlying investments have observable inputs, the fair value of these securities are classified within Level 2. Refer to Note 10, "Derivative instruments" for more information.

The following tables present the Company's financial assets and liabilities measured at fair value by level as of December 31, 2022 and 2021:

	(Successor) December 31, 2022			
		Fair Value Measurement Using:		
	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	($ in thousands)			
Assets measured at fair value:				
Term loans	$ 425,124	$ —	$ 410,163	$ 14,961
Fixed maturities:				
Corporate bonds	684,226	—	683,322	904
U.S. government and government agency bonds	234,190	234,090	100	—
Asset-backed securities	38,023	—	38,023	—
Mortgage-backed securities	9,304	—	9,304	—
Non-U.S. government and government agency bonds	175,125	—	175,125	—
Municipal government and government agency bonds	1,521	—	1,521	—
Short-term investments	933,574	912,934	20,640	—
Equities	29,547	—	1,387	28,160
Other underwriting derivative assets	9	—	9	—
Investment derivative assets (1)	50	—	50	—
Total assets measured at fair value	$ 2,530,693	$ 1,147,024	$ 1,339,644	$ 44,025
Liabilities measured at fair value:				
Investment derivative liabilities (1)	$ 9,219	$ —	$ 9,219	$ —
Total liabilities measured at fair value	$ 9,219	$ —	$ 9,219	$ —

(1) Investment derivative assets and liabilities represent the fair value of total return swaps, which are recorded in "other assets" and "other liabilities," respectively, in the consolidated balance sheets.

	(Successor) December 31, 2021			
		Fair Value Measurement Using:		
December 31, 2021	**Estimated Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
		($ in thousands)		
Assets measured at fair value:				
Term loans	$ 571,069	$ —	$ 555,549	$ 15,520
Fixed maturities:				
Corporate bonds	631,166	—	630,262	904
U.S. government and government agency bonds	245,771	245,666	105	—
Asset-backed securities	162,788	—	162,788	—
Mortgage-backed securities	12,171	—	12,171	—
Non-U.S. government and government agency bonds	226,098	—	226,098	—
Municipal government and government agency bonds	1,673	—	1,673	—
Short-term investments	554,473	554,473	—	—
Equities	115,315	11,304	2,070	101,941
Other underwriting derivative assets	15	—	15	—
Investment derivative assets (1)	768	—	768	—
Total assets measured at fair value	$ 2,521,307	$ 811,443	$ 1,591,499	$ 118,365
Liabilities measured at fair value:				
Investment derivative liabilities (1)	$ 141	$ —	$ 141	$ —
Total liabilities measured at fair value	$ 141	$ —	$ 141	$ —

(1) Investment derivative assets and liabilities represent the fair value of total return swaps, which are recorded in other assets and other liabilities, respectively, in the consolidated balance sheets.

When the fair value of financial assets and financial liabilities cannot be derived from active markets, the fair value is determined using a variety of valuation techniques that include the use of models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required to establish fair values. Changes in assumptions about these factors could affect the reported fair value of financial instruments and the level where the instruments are disclosed in the fair value hierarchy.

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

The following tables present a reconciliation of the beginning and ending balances for all the financial assets measured at fair value on a recurring basis using Level 3 inputs:

	(Successor) Year Ended December 31, 2022			
	Beginning Balance	Net Purchases (Sales)(1)	Net Unrealized Gains (Losses)(4)	Ending Balance
Term loans	$ 15,520	$ (157)	$ (402)	$ 14,961
Corporate bonds	904	—	—	904
Equities	101,941	(69,182)	(4,599)	28,160
Total	$ 118,365	$ (69,339)	$ (5,001)	$ 44,025

	(Successor) Period From July 1, 2021 through December 31, 2021			
	Beginning Balance	Net Purchases (Sales)(2)	Net Unrealized Gains (Losses)(4)	Ending Balance
Term loans	$ 43,579	$ (26,764)	$ (1,295)	$ 15,520
Corporate bonds	998	(94)	—	904
Equities	116,518	(20,216)	5,639	101,941
Total	$ 161,095	$ (47,074)	$ 4,344	$ 118,365

	(Predecessor) Period From January 1, 2021 through June 30, 2021			
	Beginning Balance	Net Purchases (Sales)(3)	Net Unrealized Gains (Losses)(4)	Ending Balance
Term loans	$ 49,879	$ (6,897)	$ 597	$ 43,579
Corporate bonds	985	—	13	998
Equities	104,552	5,464	6,502	116,518
Total	$ 155,416	$ (1,433)	$ 7,112	$ 161,095

(1) For the year ended December 31, 2022, the net purchases (sales) consisted of redemptions of term loans of $0.2 million and sales of equities of $69.2 million.

(2) For the period from July 1, 2021 through December 31, 2021, the net purchases (sales) consisted of calls and redemptions of term loans of $26.8 million, sales of equities of $25.4 million and calls and redemptions of corporate bonds of $0.1 million, offset in part by purchases of equities of $5.2 million.

(3) For the period from January 1, 2021 through June 30, 2021, the net purchases (sales) consisted of calls and redemptions of $6.9 million of term loans, offset in part by purchases of $5.5 million of equities.

(4) Realized and unrealized gains or losses on Level 3 investments are included in "net investment income (loss)" in the Company's consolidated statements of income (loss).

Financial instruments not carried at fair value

The Company uses various financial instruments in the normal course of its business. The carrying values of cash and cash equivalents, accrued investment income, certain other assets and other liabilities 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 respective fair values are classified within Level 2.

At December 31, 2022, the Company's 6.5% senior notes were carried at cost, net of debt issuance costs, of $173.2 million and had a fair value of $162.9 million. At December 31, 2022, the Company's 6.5% subordinated notes were carried at cost, net of debt issuance costs, of $62.5 million and had a fair value of $52.2 million. The fair value of the senior and subordinated notes was obtained from a third party pricing service and was based on observable market inputs. As such, the fair values of the senior and subordinated notes are classified within Level 2.

Intangible Assets

The Company assesses intangible assets for impairment annually and whenever events or changes in circumstances indicate the carrying amount may not be recoverable. When the Company determines intangible assets may be impaired, the Company uses techniques including discounted expected future cash flows, to measure fair value. There were no such triggering events or changes in circumstances as of December 31, 2022 and 2021.

10. Derivative instruments

Underwriting Derivatives

The Company's underwriting strategy allows it to enter into government-sponsored enterprise credit-risk sharing transactions. These transactions are accounted for as derivatives. The derivative assets and derivative liabilities relating to these transactions are included in "other assets" and "other liabilities," respectively, in the Company's consolidated balance sheets. Realized and unrealized gains and losses from other derivatives are included in "other underwriting income (loss)" in the Company's consolidated statements of income (loss). The risk in force of these transactions is considered to be the notional amount.

As of December 31, 2022 and 2021, the Company posted $3.5 million and $4.7 million, respectively, in assets as collateral. These assets are included in "fixed maturities," which are recorded at fair value in the Company's consolidated balance sheets.

Investment Derivatives

The Company's investment strategy allows for the limited use of derivative securities. The Company invests in call options to manage specific market risks; such derivative instruments are recorded at fair value, and shown as part of "other liabilities" on its consolidated balance sheets. Additionally, the Company invests in put options to manage specific market risks; such derivative instruments are recorded at fair value, and are included in "equity securities" in the Company's consolidated balance sheets.

The Company invests in total return swaps ("swaps") through a Master Confirmation of Total Return Swap Transactions agreement, and recognizes the swap derivatives at fair value. The derivative assets and derivative liabilities relating to these transactions are included in "other assets" and "other liabilities," respectively, in the Company's consolidated balance sheets. At December 31, 2022 and 2021, the Company had collateral funds held by the counterparty of $44.4 million and $72.3 million, respectively, included in "short-term investments" in the Company's consolidated balance sheets.

The fair value of such options and swaps are based on observable inputs and classified in Level 2 of the valuation hierarchy. Realized and unrealized gains and losses from investment derivatives are included in "net investment income (loss)" in the Company's consolidated statements of income (loss). The Company did not hold any derivatives designated as hedging instruments at December 31, 2022 and 2021.

The following table summarizes information on the fair values and notional amounts of the Company's derivative instruments at December 31, 2022 and 2021:

	(Successor) December 31, 2022			
	Estimated Fair Value			
	Asset Derivatives	Liability Derivatives	Net Derivatives	Notional Amount
	($ in thousands)			
Other underwriting derivatives	$ 9	$ —	$ 9	$ 14,657
Total return swaps	50	9,219	(9,169)	77,879
Total	$ 59	$ 9,219	$ (9,160)	$ 92,536
	(Successor) December 31, 2021			
	Estimated Fair Value			
	Asset Derivatives	Liability Derivatives	Net Derivatives	Notional Amount
	($ in thousands)			
Other underwriting derivatives	$ 15	$ —	$ 15	$ 20,150
Total return swaps	768	141	627	110,398
Total	$ 783	$ 141	$ 642	$ 130,548

The realized and unrealized gains and losses on the Company's derivative instruments are reflected in the consolidated statements of income (loss), as summarized in the following table:

	(Successor) Year Ended December 31, 2022	(Successor) Period From July 1, 2021 through December 31, 2021	(Predecessor) Period From January 1, 2021 through June 30, 2021
	($ in thousands)	*($ in thousands)*	*($ in thousands)*
Underwriting derivatives:			
Other underwriting income (loss)	$ 647	$ 656	$ 739
Investment derivatives:			
Net investment income (loss)			
Options	—	(38)	(3,858)
Total return swaps	(6,566)	1,242	3,463

11. Income taxes

Somers and Somers Re are incorporated under the laws of Bermuda and, under current law, are not obligated to pay taxes in Bermuda based upon income or capital gains. In the event that any legislation is enacted in Bermuda imposing such taxes, a written undertaking has been received from the Bermuda Minister of Finance under the Exempted Undertakings Tax Protection Act 1966 that such taxes will not be applicable to Somers and Somers Re until March 31, 2035.

WICE is incorporated under the laws of Gibraltar and regulated by the Gibraltar Financial Services Commission (the "FSC") under the Financial Services (Insurance Company) Act (the "Gibraltar Act").

In addition to its operations in Gibraltar, WICE operates a branch in Romania. The Romanian branch ceased accepting new business from September 1, 2020. The current rates of tax on applicable profits in Gibraltar and Romania are 12.5% and 16%, respectively. The open tax years that are potentially subject to examination are 2021 and 2022 in Gibraltar and 2018 through 2022 in Romania.

Watford Holdings (U.K.) Limited is incorporated in the United Kingdom and is subject to U.K. corporate income tax. The current U.K. corporate income tax rate is 19%. Beginning April 2023, the U.K. corporate income tax rate will increase to 25%. The open tax years that are potentially subject to examination by U.K. tax authorities are 2021 and 2022.

Watford Holdings (U.S.) Inc. is incorporated in the United States and files a consolidated U.S. federal tax return with its subsidiaries, WSIC, WIC and Watford Services Inc. The U.S. federal tax rate is 21%. The open tax years that are potentially subject to examination by U.S. tax authorities are 2019 through 2022.

Watford France Holdings SAS and Axeria are incorporated in France. In addition to its operations in France, Axeria operates a branch in Romania. The current rates of tax on applicable profits in France and Romania is 25% and 16%, respectively. The open tax years that are potentially subject to examination are 2019 through 2022 in France and 2022 in Romania.

The components of income taxes attributable to operations were as follows:

	(Successor)	(Successor)	(Predecessor)
	Year Ended December 31, 2022	Period From July 1, 2021 through December 31, 2021	Period From January 1, 2021 through June 30, 2021
	($ in thousands)		*($ in thousands)*
Current income tax expense (benefit):			
France	$ 419	$ 584	$ (354)
Romania	115	—	—
United States	2	(679)	266
Gibraltar	—	(8)	8
	536	(103)	(80)
Deferred income tax expense (benefit):			
France	1,314	669	(25)
Romania	37	—	—
United States	—	126	(248)
	1,351	795	(273)
Total income tax expense (benefit)	$ 1,887	$ 692	$ (353)

The Company's income or loss after preferred dividends and before income taxes was earned in the following jurisdictions:

	(Successor) Year Ended December 31, 2022	(Successor) Period From July 1, 2021 through December 31, 2021	(Predecessor) Period From January 1, 2021 through June 30, 2021
	($ in thousands)		*($ in thousands)*
Income (loss) before income taxes:			
France	$ 8,531	$ 4,454	$ 17,801
Romania	664	—	—
Gibraltar	215	870	243
United Kingdom	6	(44)	(30)
United States	(2,562)	(3,926)	431
Bermuda	(57,751)	9,680	69,038
Total income (loss) before income taxes	$ (50,897)	$ 11,034	$ 87,483

The reconciliation between the Company's income tax expense and the expected income tax expense at the Bermuda statutory income tax rate is as follows:

	(Successor) Year Ended December 31, 2022	(Successor) Period From July 1, 2021 through December 31, 2021	(Predecessor) Period From January 1, 2021 through June 30, 2021
	($ in thousands)		*($ in thousands)*
Expected income tax expense (benefit) at Bermuda statutory rate	$ —	$ —	$ —
Addition (reduction) in income tax expense (benefit) resulting from:			
Foreign taxes at local expected rates	1,681	367	4,579
Change in valuation allowance	210	580	39
Gain on bargain purchase, net of transaction costs	—	—	(5,234)
Other	(4)	(255)	263
Total income tax expense (benefit)	$ 1,887	$ 692	$ (353)

Deferred income tax assets and liabilities reflect temporary differences based on enacted tax rates between the carrying amounts of assets and liabilities for financial reporting and income tax purposes. Significant components of the Company's deferred income tax assets and liabilities were as follows:

	(Successor) December 31, 2022	(Successor) December 31, 2021
	($ in thousands)	*($ in thousands)*
Deferred income tax assets:		
Net operating loss	$ 3,346	$ 4,398
Loss reserves	7,195	3,201
Other accruals	3,193	391
Ceding commissions	1,317	1,669
Investment basis differences	746	—
Capitalized expenses	67	75
Net capital loss	265	46
Deferred tax assets before valuation allowance	16,129	9,780
Valuation allowance	(2,992)	(2,302)
Deferred tax assets net of valuation allowance	13,137	7,478
Deferred income tax liabilities:		
Unearned premium reserve	(9,180)	(1,350)
Intangible assets	(591)	(492)
Investment basis differences	—	(494)
Total deferred tax liabilities	(9,771)	(2,336)
Net deferred income tax assets (liabilities)	$ 3,366	$ 5,142

The Company provides a valuation allowance to reduce certain deferred tax assets to an amount which management expects to more likely than not be realized. As of December 31, 2022 and 2021, the Company's valuation allowance was $3.0 million and $2.3 million, respectively. After consideration of the valuation allowance, the Company had net deferred tax assets of $3.4 million and $5.1 million as of December 31, 2022 and 2021, respectively.

The Company recognizes a tax benefit where it concludes that it is more likely than not that the tax benefit will be sustained on audit by the taxing authority based solely on the technical merits of the associated tax position. The Company records interest and penalties related to unrecognized tax benefits in the provision for income taxes. As of December 31, 2022 and 2021, the Company's total unrecognized tax benefits, including interest and penalties, were $Nil.

The United States also imposes an excise tax on insurance and reinsurance premiums paid to non-U.S. insurers or reinsurers with respect to risks located in the United States. The rate of tax, unless reduced by an applicable U.S. tax treaty, is 1% for all reinsurance premiums. The Company incurs federal excise taxes on certain of its reinsurance transactions.

12. Transactions with related parties

Overview of Related Party Transactions

Arch Underwriters Ltd. ("AUL") acts as the insurance and reinsurance manager for Somers Re and WICE, Arch Underwriters Inc. ("AUI") acts as the insurance and reinsurance manager for WSIC and WIC, and Arch Underwriters Europe Limited ("AUEL") acts as the insurance and reinsurance manager for Axeria, all under separate long-term services agreements. Highbridge Investment

Partners, LLC ("HPS") manages a portion of the Company's investment portfolios as Investment Manager and Arch Investment Management Ltd.("AIM") manages a portion of the Company's investment grade portfolio as Investment Manager, each under separate long-term services agreements. The services agreements with AUL, AUI, AUEL and the investment management agreement with AIM provide for services for an extended period of time with limited termination rights by the Company. In addition, prior to July 1, 2021, these agreements allowed for AUL, AUI and HPS to participate in the favorable results of the Company in the form of performance fees. Subsequent to the merger on July 1, 2021, HPS is no longer considered a related party.

ACGL and affiliates

At December 31, 2022, affiliates of ACGL held approximately 40% of the common shares of Greysbridge. In recognition of its ownership interest, three senior executives of ACGL were appointed to the Company's board of directors. Prior to the redemption of the preference shares on July 13, 2022, affiliates of ACGL held approximately 6.6% of the Company's preference shares. In addition, affiliates of ACGL held $35 million in aggregate principal amount of the Company's 6.5% senior notes.

The related balances presented in the consolidated statements of income (loss) were as follows:

	(Successor) Year Ended December 31, 2022	(Successor) Period From July 1, 2021 through December 31, 2021	(Predecessor) Period From January 1, 2021 through June 30, 2021
	($ in thousands)		($ in thousands)
Consolidated statements of income (loss) items:			
Interest expense	$ 2,323	$ 1,166	$ 1,165
Preference dividends	146	137	138

AUL, AUI and AUEL

Somers Re and WICE entered into services agreements with AUL. WSIC and WIC entered into services agreements with AUI. AUL and AUI provide services related to the management of the underwriting portfolio for a term ending in December 2025. The services agreements perpetually renew automatically in five-year increments unless either the Company or Arch gives notice to not renew at least 24 months before the end of the then-current term.

Somers Re entered into a service agreement with AUEL to provide services related to the management of the underwriting portfolio of Axeria. This agreement is in place until it is terminated by mutual agreement.

As part of the services agreements, AUL, AUEL and AUI make available to the Companies, on a non-exclusive basis, certain designated employees who serve as officers of the Companies and underwrite business on behalf of the Companies (the "Designated Employees"). AUL and AUI also provide portfolio management, Designated Employee supervision, exposure modeling, loss reserve recommendations, claims-handling, accounting and other related services as part of the services agreements.

In return for their services, AUL and AUI receive fees from the Companies, including an underwriting fee and profit commission, as well as reimbursement for the services of the Designated Employees and reimbursements for an allocated portion of the expenses related to seconded employees, plus other expenses incurred on behalf of the Company. A profit commission is earned for each underwriting year where the performance meets defined thresholds within the service agreements. AUEL receive fees including an underwriting fee plus other expenses incurred on behalf of the Company.

The related AUL, AUI and AUEL fees and reimbursements incurred in the consolidated statements of income (loss) were as follows:

	(Successor) Year Ended December 31, 2022	(Successor) Period From July 1, 2021 through December 31, 2021	(Predecessor) Period From January 1, 2021 through June 30, 2021
	($ in thousands)		*($ in thousands)*
Consolidated statements of income (loss) items:			
Acquisition expenses	$ 24,273	$ 14,894	$ 15,704
General and administrative expenses	2,252	(137)	2,486
Total	$ 26,525	$ 14,757	$ 18,190

(1) For the year ended December 31, 2022, the period from July 1, 2021 through December 31, 2021 and the period from January 1, 2021 through June 30, 2021, the Company incurred profit commission fees due to Arch of $1.7 million, $(0.7) million and $ 0.8 million, respectively, included within acquisition expenses above.

Reinsurance transactions with ACGL affiliates

The Company reinsures ARL and other ACGL subsidiaries and affiliates for property and casualty risks on a quota share basis. ACGL cedes business to the Company pursuant to inward retrocession and reinsurance agreements the Company's operating subsidiaries have entered into with ACGL. Pursuant to these inward agreements, the Company pays a ceding fee based on the business ceded and the terms of the applicable retrocession or reinsurance agreement. Such fees, in addition to origination fees, are reflected in "acquisition expenses" on the Company's consolidated statements of income (loss).

The related consolidated statements of income (loss) were as follows:

	(Successor) Year Ended December 31, 2022	(Successor) Period From July 1, 2021 through December 31, 2021	(Predecessor) Period From January 1, 2021 through June 30, 2021
	($ in thousands)		*($ in thousands)*
Consolidated statements of income (loss) items:			
Gross premiums written	$ 873,733	$ 548,608	$ 117,754
Gross premiums earned	849,073	327,925	115,297
Losses and loss adjustment expenses	554,152	264,275	87,790
Acquisition expenses (1)	232,937	82,218	29,590

(1) Acquisition expenses relating to the ACGL inward quota share agreements referred to above. For the year ended December 31, 2022, the period from July 1, 2021 through December 31, 2021 and the period from January 1, 2021 through June 30, 2021, the Company incurred ceding fees to Arch, in aggregate, of $38.6 million, $26.1 million and $8.4 million, respectively, under these inward agreements.

Separately, the Company's operating subsidiaries have entered into outward quota share retrocession or reinsurance agreements with ACGL subsidiaries. Specifically, each of Somers Re and WICE has entered into a separate outward quota share retrocession or reinsurance agreement with ARL, and each of WSIC and WIC has entered into a separate outward quota share reinsurance agreement with ARC. Additionally, Axeria has outward quota share and excess of loss reinsurance agreements with ARE.

The related consolidated statements of income (loss) for the outward retrocession and reinsurance transactions were as follows:

	(Successor) Year Ended December 31, 2022	(Successor) Period From July 1, 2021 through December 31, 2021	(Predecessor) Period From January 1, 2021 through June 30, 2021
	($ in thousands)		($ in thousands)
Consolidated statements of income (loss) items:			
Gross premiums ceded	$ (284,503)	$ (130,745)	$ (56,829)
Net premiums earned	(228,401)	(110,771)	(51,923)
Losses and loss adjustment expenses	(117,871)	(71,194)	(38,303)
Acquisition expenses (1)	(44,050)	(13,100)	(11,839)

(1) Acquisition expenses relating to the ACGL outward quota share agreements referred to above.

The related consolidated balance sheet account balances were as follows:

	(Successor) December 31, 2022	(Successor) December 31, 2021
	($ in thousands)	
Consolidated balance sheet items:		
Total investments	$ 995,532	$ 648,592
Premiums receivable	461,123	277,204
Reinsurance recoverable on unpaid and paid losses and loss adjustment expenses	257,074	198,922
Prepaid reinsurance premiums	144,249	91,744
Deferred acquisition costs, net	87,279	70,276
Other assets	55,934	40,146
Reserve for losses and loss adjustment expenses	1,150,609	878,068
Unearned premiums	357,508	332,847
Losses payable	97,493	47,919
Reinsurance balances payable	101,883	62,908
Long-term debt	34,647	34,592
Other liabilities	155,240	14,535
Contingently redeemable preference shares	—	3,550

AIM

Somers Re, WSIC, WICE and WIC entered into investment management agreements with AIM pursuant to which AIM manages a portion of the Company's investment grade portfolio. Each of the Somers Re, WICE, WSIC and WIC investment management agreements with AIM has a one-year term, with the terms ending annually on March 31, July 31, January 31 and July 31, respectively. The terms will continue to renew for successive one-year periods; provided, however, that either party may terminate any of the investment management agreements with AIM at any time upon 45 days prior written notice. To date, there has been no such notice filed under such agreements.

In return for its investment management services, AIM receives a monthly management fee. The management fee is based on a percentage of the aggregate asset value of the AIM managed portfolio. For the purposes of calculating the management fees, asset value is determined by AIM in accordance with the investment management agreements and is measured before deduction of any management fees or expense reimbursement. The Company has also agreed to reimburse AIM for additional services related to investment consulting and oversight services, administrative operations and risk analytic support services related to the management of the Company's portfolio, as set forth in the investment management agreements. Such fees are reflected in "net investment income (loss)" on the Company's consolidated statements of income (loss).

The related consolidated statements of income (loss) were as follows:

	(Successor) Year Ended December 31, 2022	(Successor) Period From July 1, 2021 through December 31, 2021	(Predecessor) Period From January 1, 2021 through June 30, 2021
	($ in thousands)		*($ in thousands)*
Investment management fees	$ 1,033	$ 463	$ 457

HPS

As noted above, subsequent to the merger on July 1, 2021, HPS is no longer considered a related party.

In return for its investment services, HPS receives a management fee and allocated operating expenses. Prior to July 1, 2021, the management fee was calculated at an annual rate of 1.0% of the aggregate net asset value of the assets that are managed by HPS for the first $1.5 billion in net asset value, and 0.75% of the aggregate net value of assets exceeding $1.5 billion, payable quarterly in arrears. For purposes of calculating the management fees, net asset value is determined by HPS in accordance with the investment management agreements and is measured before reduction for any management fees, performance fees or any expense reimbursement and is adjusted for any non-routine intra-month withdrawals. The Company has also agreed to reimburse HPS for certain expenses related to the management of the Company's investment portfolios as set forth in the investment management agreements. Such fees are reflected in "net investment income (loss)" on the Company's consolidated statements of income (loss), and "other liabilities" on the Company's consolidated balance sheets.

Prior to July 1, 2021, HPS received a base performance fee equal to 10% of the Income (as defined in the investment management agreements relating to Watford Re, WICE and Watford Trust) or Aggregate Income (as defined in the investment management agreements relating to WSIC and WIC), as applicable, if any, on the assets managed by HPS, calculated and payable as of each fiscal year-end and the date on which the investment management agreements are terminated and not renewed, and HPS was eligible to earn an additional performance fee equal to 25% of any Excess Income (as defined in the investment management agreements) in excess of a net 10% return to Somers after deduction for paid and accrued management fees and base performance fees, with the total performance fees not to exceed 17.5% of the Income or Aggregate Income, as applicable. No performance fees were paid to HPS if the high water mark (as described in the investment management agreements with HPS) was not met. Such fees were reflected in "net investment income (loss)" on the Company's consolidated statements of income (loss), and "other liabilities" on the Company's consolidated balance sheets. Subsequent to July 1, 2021, there is no performance fee paid to HPS.

The related consolidated statements of income (loss) and consolidated balance sheet account balances for HPS management fees and performance fees were as follows:

	(Predecessor) Period From January 1, 2021 through June 30, 2021
	($ in thousands)
Investment management fees	$ 8,579
Investment performance fees	10,530
	$ 19,109

13. Commitments and contingencies

Concentrations of credit risk

For reinsurance agreements, the creditworthiness of a counterparty is evaluated by the Company, taking into account credit ratings assigned by independent agencies. The credit approval process involves an assessment of factors, including, among others, the counterparty country and industry exposures. Collateral may be required, at the discretion of the Company, on certain transactions based on the creditworthiness of the counterparty.

The areas where significant concentrations of credit risk may exist include unpaid losses and loss adjustment expenses recoverable, prepaid reinsurance premiums and paid losses and loss adjustment expenses recoverable net of reinsurance balances payable (collectively, “net reinsurance recoverables”), investments and cash and cash equivalent balances.

The Company’s reinsurance recoverables, and prepaid reinsurance premiums, net of reinsurance balances payable, resulting from reinsurance agreements entered into with ARL, ARC and ARE as of December 31, 2022 and 2021 amounted to $299.4 million and $227.8 million, respectively. ARL, ARC and ARE have “A+” credit ratings from A.M. Best.

A credit exposure exists with respect to reinsurance recoverables as they may become uncollectible. The Company manages its credit risk in its reinsurance relationships by transacting with reinsurers that it considers financially sound and, if necessary, the Company may hold collateral in the form of funds, trust accounts and/or irrevocable letters of credit. This collateral can be drawn on for amounts that remain unpaid beyond specified time periods on an individual reinsurer basis.

In addition, the Company underwrites a significant amount of its business through brokers and a credit risk exists should any of these brokers be unable to fulfill their contractual obligations with respect to the payments of insurance and reinsurance balances owed to the Company. The Company’s investment portfolios are managed in accordance with investment guidelines that include standards of diversification, which limit the allowable holdings of any single issuer.

Employment and other arrangements

The Company has employment agreements with certain of its executive officers. Such employment arrangements provide for compensation in the form of base salary, annual bonus, participation in the Company’s employee benefit programs and the reimbursements of expenses.

14. Leases

The Company enters into lease agreements for real estate that is used for office space in the ordinary course of business. These leases are accounted for as operating leases, whereby the lease expense is recognized on a straight-line basis over the term of the lease.

The leases include an option to extend or renew the lease term. The exercise of the renewal options are at the Company's discretion. The operating lease liability includes lease payments related to options to extend or renew the lease term if the Company is reasonably certain of exercising those options. Such options relating to the extension or renewal of the lease term are not included in the operating lease liability at this time.

Lease expense is included in "general and administrative expenses" in the Company's consolidated statements of income (loss). Additional information regarding the Company's real estate operating lease is as follows.

	(Successor) Year Ended December 31, 2022	(Successor) Period From July 1, 2021 through December 31, 2021	(Predecessor) Period From January 1, 2021 through June 30, 2021
	($ in thousands)		($ in thousands)
Lease cost:			
Operating lease	$ 1,132	$ 485	$ 364
Other information on operating lease:			
Cash payments included in the measurement of lease liability reported in operating cash flows	606	306	227
Right-of-use assets (1)	4,630	1,690	2,018
Operating lease liability (2)	4,630	1,690	2,018
Weighted average discount rate	3.9 %	3.9 %	3.9 %
Weighted average remaining lease term in years	3.84 years	3.39 years	3.84 years

(1) Included in "other assets" on the Company's consolidated balance sheets.

(2) Included in "other liabilities" on the Company's consolidated balance sheets.

The following tables present the contractual maturity of the Company's lease liability:

	(Successor) December 31, 2022
	($ in thousands)
2023	$ 448
2024	448
2025	455
2026 and thereafter	2,545
Total undiscounted lease payments	3,896
Less: present value adjustment	734
Operating lease liability	$ 4,630

	(Successor) December 31, 2021
	($ in thousands)
2022	$ 615
2023	525
2024	339
2025	342
Total undiscounted lease payments	1,821
Less: present value adjustment	(131)
Operating lease liability	$ 1,690

15. Contingently redeemable preference shares

The Company had issued 2,145,202 of the 30 million authorized 8½% Cumulative Redeemable Preference Shares (the "preference shares"). The preference shares had a par value of $0.01 per share and a liquidation preference of $25.00 per share. Holders of the preference shares were entitled to receive, if declared by the board of directors, quarterly cash dividends on the last day of March, June, September and December of each year. Dividends accrued at a floating rate per annum (the "Floating Rate") equal to three-month U.S. dollar LIBOR *plus* a margin of 667.85 basis points; provided, that, if, at any time, the three-month U.S. dollar LIBOR shall be less than 1%, then the three-month U.S. dollar LIBOR for purposes of calculating the Floating Rate at the time of such calculation shall be 1%. The preference shares were redeemable by the Company at any time, or at the option of the preference shareholders at any time on or after June 30, 2034 at the liquidation price of $25.00 per share. Because the redemption features were not solely within the control of the Company, the preference shares were recorded as mezzanine equity on the Company's consolidated balance sheets in accordance with applicable accounting guidance. Preference share dividends, including the accretion of the discount and issuance costs, were included in "preference dividends" in the Company's consolidated statements of income (loss). On July 1, 2021, the Company voluntarily delisted the preference shares from the Nasdaq Global Select Market.

On July 13, 2022, the Company redeemed its outstanding preference shares. Dividends declared and unpaid to the redemption date, with the accumulation of any undeclared dividends on or after June 30, 2022 were paid to shareholders on the date of redemption.

For the year ended December 31, 2022, the period from July 1, 2021 through December 31, 2021 and the period from January 1, 2021 through June 30, 2021, dividends paid on the preference shares totaled $2.2 million, $2.1 million and $2.0 million, respectively.

16. Debt and financing arrangements

Senior notes

On July 2, 2019, the Company completed a private offering of $175.0 million in aggregate principal amount of its 6.5% senior notes due July 2, 2029. Interest on the senior notes is fixed, and is paid semi-annually in arrears on each January 2 and July 2, which commenced on January 2, 2020. The $172.3 million net proceeds from the offering were used to redeem a portion of the Company's outstanding preference shares. Affiliates of ACGL purchased $35 million in aggregate principal amount of the senior notes.

The senior notes are the Parent's senior unsecured and unsubordinated obligations and rank senior to the subordinated notes and equally with all of the other existing and future obligations of the Parent that are unsecured and unsubordinated. The senior notes may be redeemed by the Company at any time, in whole or in part, prior to July 2, 2024, at "make-whole" redemption price, subject to the Bermuda Monetary Authority ("BMA") redemption requirements. After July 2, 2024, the senior notes are redeemable, in whole or in part, at a redemption price equal to 100% of the principal amount, subject to the BMA redemption requirements.

As of December 31, 2022, the carrying amount of the senior notes was $173.2 million, presented net of unamortized debt issuance costs of $1.8 million. As of December 31, 2021, the carrying amount of the senior notes was $173.0 million, presented net of unamortized debt issuance costs of $2.0 million.

Subordinated notes

On June 15, 2022, the Company completed a private offering of $63.5 million in aggregate principal amount of its 6.5% subordinated notes due June 15, 2032. Interest on the subordinated notes is paid semi-annually in arrears on each June 15 and December 15, which commenced on December 15, 2022. On June 15, 2027, the interest rates on the subordinated notes will reset to a level equal to the then-current 5-year constant maturity U.S. treasury rate, plus a margin. The $63.5 million net proceeds from the offering were used to redeem a portion of the Company's outstanding preference shares, as described in Note 15, "Contingently redeemable preference shares".

The subordinated notes are the Parent's unsecured and subordinated obligations and rank below all of the other existing and future obligations of the Parent that are unsecured and unsubordinated. The subordinated notes may be redeemed by the Company at any time, in whole or in part, prior to June 15, 2027, at "make-whole" redemption price, subject to the BMA redemption requirements. After June 15, 2027, the subordinated notes are redeemable, in whole or in part, at a redemption price equal to 100% of the principal amount, subject to the BMA redemption requirements. Payment of interest and principal on the subordinated notes is subject to the Company maintaining compliance with its Group Enhanced Capital Requirement, including after giving effect to such payment.

As of December 31, 2022, the carrying amount of the subordinated notes was $62.5 million, presented net of unamortized debt issuance costs of $1.0 million.

Lloyds letter of credit facility

On May 13, 2022, Somers Re renewed its letter of credit facility with Lloyds Bank Corporate Markets Plc, New York Branch (the "Lloyds Facility"). The Lloyds Facility amount is $100.0 million and was renewed through to May 13, 2023. Under the renewed Lloyds Facility, the Company may request an increase in the facility amount, up to an aggregate of $50.0 million. The principal purpose of the Lloyds Facility is to issue, as required, evergreen standby letters of credit in favor of primary insurance or reinsurance counterparties with which the Company has entered into reinsurance arrangements to ensure that such counterparties are permitted to take credit for reinsurance obtained from the Company as required under insurance regulations in the United States. The amount of letters of credit issued is driven by, among other things, the timing and payment of catastrophe losses, loss development of existing reserves, the payment pattern of such reserves, the further expansion of the Company's business and the loss experience of such business. When issued, the letters of credit are secured by certificates of deposit or cash. In addition, the Lloyds Facility also requires the maintenance of certain covenants, with which the Company was in compliance at December 31, 2022 and 2021. At such dates, the Company had $77.0 million and $60.4 million, respectively, in restricted assets as collateral for outstanding letters of credit issued from the Lloyds Facility, which were secured by certificates of deposit. These collateral amounts are reflected as short-term investments in the Company's consolidated balance sheets.

Unsecured letter of credit facility

On September 16, 2022, Somers Re renewed and amended its 364-day letter of credit agreement with Lloyds Bank Corporate Markets Plc and BMO Capital Markets Corp. (the "Unsecured Facility").

The Unsecured Facility amount is $50.0 million and will effective for a period of one year, with the option to request a one-year extension 30 days prior to expiration, subject to approval of each lender. Under the renewed Unsecured Facility, the Company may request an increase in the facility amount, up to an aggregate of $50.0 million. The principal purpose of the Unsecured Facility is to issue, as required, evergreen standby letters of credit in favor of primary insurance or reinsurance counterparties with which the Company has entered into reinsurance arrangements to ensure that such counterparties are permitted to take credit for reinsurance obtained from the Company as required under insurance regulations in the United States. The amount of letters of credit issued is driven by, among other things, the timing and payment of catastrophe losses, loss development of existing reserves, the payment pattern of such reserves, the further expansion of the Company's business and the loss experience of such business. The Unsecured Facility requires the maintenance of certain covenants, as well as the making of certain representations and warranties that are customary for facilities of this type. At December 31, 2022 and 2021, the Company had $43.8 million and $49.9 million, respectively, in outstanding letters of credit issued from the Unsecured Facility, and was in compliance with all covenants contained in the Unsecured Facility requirements.

Bank of America secured credit facility

On October 29, 2021, Somers Re terminated its $440.0 million secured credit facility with Bank of America, N.A. ("Bank of America") through Watford Asset Trust I, ("Watford Trust") Somers Re owned all of the beneficial interests of Watford Trust. The secured credit facility was terminated following the full repayment of the outstanding borrowings during the third quarter of 2021.

Borrowings on the facility were made at LIBOR or an alternative base rate at our option, in either case plus an applicable margin. The applicable margin varied based on the applicable base rate and, in the case of LIBOR rate borrowings, the currency in which the borrowing is denominated. In addition, the facility allowed for us to issue up to $220.0 million in evergreen standby letters of credit in favor of primary insurance or reinsurance counterparties with which we have entered into reinsurance arrangements. The Company paid a fee on each letter of credit equal to the amount available to be drawn under such letter of credit multiplied by an applicable percentage. The applicable percentage varied based on the currency in which the letter of credit is denominated.

Custodian bank facilities

As of December 31, 2022 and 2021, the Company had borrowed $Nil from the Company's custodian banks to purchase U.S. dollar denominated securities. The Company pays interest based on LIBOR or the Overnight Bank Funding Rate ("OBFR"), plus a margin and the borrowed amount is payable upon demand.

The custodian banks require the Company to hold cash and investments in deposit with, or in an investment account with respect to the borrowed funds. As of December 31, 2022 and 2021, the Company was required to hold $Nil million in such deposits and investment accounts.

Borrowings

As of December 31, 2022 and 2021, the Company had total borrowings of $Nil.

For the year ended December 31, 2022, the period from July 1, 2021 through December 31, 2021 and the period from January 1, 2021 through June 30, 2021, interest expense incurred on the secured credit facility and the custodian bank facilities was $Nil, $2.4 million and $3.7 million, respectively. The interest expense incurred is included as a component of net investment income (loss) in the Company's consolidated statements of income (loss).

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

17. Shareholder's equity

Common shares

The authorized share capital of the Company at December 31, 2022 and 2021 was 120 million common shares and at December 31, 2021, 30 million of preference shares. The following table presents a roll-forward of changes in the Company's issued and outstanding common shares:

	(Successor) Year Ended December 31, 2022	(Successor) Period From July 1, 2021 through December 31, 2021	(Predecessor) Period From January 1, 2021 through June 30, 2021
Common shares:			
Shares issued, beginning of period	100	100	22,804,128
Shares issued (1)	—	—	37,241
Shares issued, end of period	100	100	22,841,369
Common shares in treasury, end of period (2)	—	—	(2,917,149)
Shares outstanding, end of period (3)(4)	100	100	19,924,220

(1 Includes shares issued from the share-based compensation plans. Refer to Note 18, "Share transactions".

(2) Common shares held in treasury were canceled upon completion of the merger on July 1, 2021.

(3) At the closing of the merger on July 1, 2021, the Company's common shares (other than 100 common shares originally issued by Greysbridge Ltd.) were canceled.

(4) Shares outstanding as of June 30, 2021 excludes unissued vested shares of 2,536 common shares. Such shares were settled with cash on upon completion of the merger on July 1, 2021. Refer to Note 18, "Share transactions".

18. Share transactions

Share-based compensation

Prior to the completion of the merger on July 1, 2021, the Company used share-based compensation plans for officers, other employees and directors of the Parent and its subsidiaries to provide competitive compensation opportunities, to encourage long-term service, to recognize individual contributions and reward achievement of performance goals and to promote the creation of long-term value for shareholders by aligning the interests of such persons with those of shareholders.

The 2018 Stock Incentive Plan (the "2018 Plan") became effective as of March 28, 2019 following approval by the Board of Directors of the Company and the listing of the Company's common shares on the Nasdaq Global Select Market. The 2018 Plan provided for the issuance of restricted share units, performance units, restricted shares, performance shares, share options and share appreciation rights and other equity-based awards to the Company's employees and directors. The 2018 Plan authorized the issuance of 907,315 common shares.

During 2021, the Company issued 37,241 common shares related to the restricted share units granted in 2020 and 2019. Upon completion of the merger on July 1, the Company settled with cash the equivalent of 70,384 common shares. At this time the 2018 Stock Incentive Plan was terminated and the remaining 678,437 common shares authorized under the plan expired unissued. There were no forfeitures or expired awards during 2021.

The effect of compensation cost arising from share-based payment awards on the Company's consolidated statements of income (loss), within "general and administrative expenses", for the year ended December 31, 2022, the period from July 1, 2021 through December 31, 2021 and from January 1, 2021 through June 30, 2021 was $Nil, $Nil and $0.5 million, respectively.

19. Legal proceedings

The Company, in common with the insurance industry in general, is subject to litigation and arbitration in the normal course of its business. As of December 31, 2022, the Company was not a party to any other litigation or arbitration, which is expected by management to have a material adverse effect on the Company's results of operations or financial condition and liquidity.

20. Statutory information

The Company's subsidiaries are subject to insurance and/or reinsurance laws and regulations in the jurisdictions in which they operate. These regulations include certain restrictions on the amount of dividends or other distributions available to shareholders without prior approval of the regulatory authorities.

The actual and required statutory capital and surplus for the Company's significant regulatory jurisdictions at December 31, 2022 and 2021 was as follows:

	December 31, 2022		December 31, 2021	
	Actual	Required	Actual	Required
	($ in thousands)		($ in thousands)	
Statutory capital and surplus:				
Bermuda (1)	$ 1,002,206	$ 875,000	$ 1,192,785	$ 854,503
Watford Specialty Insurance Company	58,846	5,297	60,632	7,332
Watford Insurance Company	27,242	2,307	27,735	3,130
United States	86,088	7,604	88,367	10,462
France	71,719	34,259	63,797	32,183
Gibraltar	33,521	21,188	38,906	24,666

(1) The Company is currently completing its 2022 group Bermuda Solvency Capital Requirement Model ("BSCR Model"), which must be filed with the BMA on or before April 30, 2023. The December 31, 2022 required statutory capital and surplus presented is the estimate of the enhanced capital requirement. At this time, the Company believes it will exceed the target level of required statutory economic capital and surplus.

There were no state-prescribed or permitted regulatory accounting practices for any of the Company's subsidiaries that resulted in reported statutory surplus that differed from that which would have been reported under the prescribed practices of the respective regulatory authorities, including the National Association of Insurance Commissioners. The differences between statutory financial statements and statements prepared in accordance with GAAP vary by jurisdiction, however, with the primary differences being that statutory financial statements may not reflect deferred acquisition costs, certain net deferred tax assets, intangible assets, unrealized appreciation or depreciation on debt securities and certain unauthorized reinsurance recoverables and include contingency reserves.

The statutory net income (loss) for the Company's significant regulatory jurisdictions was as follows:

	Year Ended December 31, 2022	Year Ended December 31, 2021
	($ in thousands)	
Statutory net income (loss):		
Bermuda	$ (36,380)	$ 115,908
Watford Specialty Insurance Company	(1,352)	1,512
Watford Insurance Company	886	(581)
United States	(466)	931
France	6,467	4,180
Gibraltar	29	1,112

Bermuda

Under the Insurance Act, Somers Re, the Company's reinsurance subsidiary, is registered as a Class 4 insurer and is required to maintain minimum statutory capital and surplus equal to the greater of a minimum solvency margin and the enhanced capital requirement as determined by the Bermuda Monetary Authority ("BMA").

The enhanced capital requirement is calculated based on the BSCR Model, a risk-based model that takes into account the risk characteristics of different aspects of the Company's business. At December 31, 2022 and 2021, all such requirements were met.

The ability to pay dividends is limited under Bermuda laws and regulations. Under the Insurance Act, Somers Re is restricted with respect to the payment of dividends. Somers Re is prohibited from declaring or paying in any financial year dividends of more than 25% of its total statutory capital and surplus (as shown on its previous financial year's statutory balance sheet) unless it files, at least 7 days before payment of such dividends, with the BMA, an affidavit stating that it will continue to meet the required margins following the declaration of those dividends. Accordingly, Somers Re can pay dividends or return capital of approximately $127.2 million during 2023 without providing an affidavit to the BMA.

United States

The Company's U.S. subsidiaries are subject to insurance laws and regulations in the jurisdictions in which they operate. The ability of the Company's regulated U.S. subsidiaries to pay dividends or make distributions is dependent on their ability to meet applicable regulatory standards. These regulations include restrictions that limit the amount of dividends or other distributions, such as loans or cash advances, available to common shareholders without prior approval of the insurance regulatory authorities.

Any dividends or distributions made by WSIC or WIC would result in an increase in available capital at Watford Holdings (U.S.) Inc. During 2023, WSIC and WIC cannot declare dividends without prior approval from the New Jersey Commissioner of Insurance.

Gibraltar

WICE is licensed by the Gibraltar Financial Services Commission ("GFSC") under the Gibraltar Financial Services (Insurance Companies) Act ("the Gibraltar Act") to underwrite various insurance businesses across Europe. Under the Gibraltar Act, WICE is subject to capital requirements and is required to prepare and submit annual financial statements to the GFSC as outlined in the Gibraltar Act and in accordance with Gibraltar Generally Accepted Accounting Practice.

WICE shall notify the GFSC of any proposals to declare or pay a dividend on any of its share capital. WICE shall not declare or pay any dividend within 14 days of the date of notification. As of December 31, 2022 and 2021, WICE was in compliance with the GFSC dividend requirement.

France

Axeria is licensed by the French Prudential Supervisory and Resolution Authority ("ACPR") and is regulated by the French Insurance Code to underwrite various non-life insurance businesses across Europe. Axeria operates exclusively on broker distribution in France and under freedom of services in European countries. As a French insurance company, Axeria is required to maintain capital in accordance with the Solvency 2 European directive.

In accordance with the European directives, a capital management policy is determined and approved by the board of directors. Any dividends paid by Axeria must follow the French Commerce Code (Article L232-11) and require board approval.

21. 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 10, 2023, the date the consolidated financial statements were available to be issued, and concluded that there are no subsequent events requiring recognition or disclosure.