StarStone Insurance Bermuda Limited
Condensed Consolidated General
Purpose Financial Statements
For the years ended December 31, 2020 and 2019

KPMG Audit Limited
Crown House
4 Par-la-Ville Road
Hamilton
HM 08
Bermuda

Telephone +1 441 295 5063
Fax +1 441 295 9132
Internet www.kpmg.bm

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of StarStone Insurance Bermuda Limited

We have audited the accompanying condensed consolidated financial statements of StarStone Insurance Bermuda Limited and its subsidiaries (the "Company"), which comprise the condensed consolidated balance sheets and condensed consolidated statements of capital and surplus as of December 31, 2020 and 2019, and the related condensed consolidated statements of income for the years then ended, and the related notes to the condensed consolidated financial statements.

Management's responsibility for the condensed consolidated financial statements

Management is responsible for the preparation and fair presentation of the condensed consolidated financial statements in accordance with the financial reporting provisions of the Insurance Act 1978, amendments thereto and the Insurance Account Rules 2016 with respect to condensed general purpose financial statements (the "Legislation"). Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of condensed consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the condensed consolidated financial statements based on our audits. We conducted our audits 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 condensed consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the condensed consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the condensed 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 condensed 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 condensed consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for adverse opinion on U.S. generally accepted accounting principles

As described in Note 3 of the condensed consolidated financial statements, the condensed consolidated financial statements are prepared by the Company on the basis of the financial reporting provisions of the Legislation, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the condensed consolidated financial statements of the variances between the regulatory basis of accounting described in Note 3 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

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Adverse opinion on U.S. generally accepted accounting principles

In our opinion, because of the significance of the matter discussed in the "Basis for adverse opinion on U.S. generally accepted accounting principles" paragraph, the condensed consolidated financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company and its subsidiaries as of December 31, 2020 and 2019, or the results of their operations or their cash flows for the years then ended.

Opinion on regulatory basis of accounting

In our opinion, the condensed consolidated financial statements referred to above present fairly, in all material respects, the financial position of StarStone Insurance Bermuda Limited and its subsidiaries as of December 31, 2020 and 2019, and the results of their operations for the years then ended in accordance with the financial reporting provisions of the Legislation described in Note 3.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
April 30, 2021

STARSTONE INSURANCE BERMUDA LIMITED
CONDENSED CONSOLIDATED BALANCE SHEET
AS AT DECEMBER 31, 2020 and 2019

BMA Ref		2020	2019
		USD '000	USD '000
1.	**CASH AND CASH EQUIVALENTS**	97,461	92,627
2.	**QUOTED INVESTMENTS:**		
(a)	Bonds and Debentures	-	
	i. Held to maturity	-	
	ii. Other	443,320	493,039
(b)	Total Bonds and Debentures	443,320	493,039
(c)	Equities		
	i. Common stocks	68,461	123,343
	ii. Preferred stocks	-	-
	iii. Mutual funds	-	-
(d)	Total equities	68,461	123,343
(e)	Other quoted investments	27,147	26,307
(f)	Total quoted investments	538,928	642,689
3.	**UNQUOTED INVESTMENTS:**		
(a)	Bonds and Debentures		
	i. Held to maturity	-	-
	ii. Other	-	-
(b)	Total Bonds and Debentures	-	-
(c)	Equities		
	i. Common stocks	-	-
	ii. Preferred stocks	-	-
	iii . Mutual funds	-	-
(d)	Total equities	-	-
(e)	Other unquoted investments	44,837	99,289
(f)	Total unquoted investments	44,837	99,289
4.	**INVESTMENTS IN AND ADVANCES TO AFFILIATES**		
(a)	Unregulated entities that conduct ancillary services		
(b)	Unregulated non-financial operating entities		
(c)	Unregulated financial operating entities		
(d)	Regulated non-insurance financial operating entities		
(e)	Regulated insurance financial operating entities		
(f)	Total investments in affiliates		
(g)	Advances to affiliates	238,337	238,359
(h)	Total investments in and advances to affiliates	238,337	238,359
5.	**INVESTMENTS IN MORTGAGE LOANS ON REAL ESTATE:**		
(a)	First liens		
(b)	Other than first liens		
(c)	Total investments in mortgage loans on real estate	-	-
6.	**POLICY LOANS**		
(a)	Occupied by the company (less encumbrances)		
(b)	Other properties (less encumbrances)	-	-
(c)	Total real estate	-	-
8.	**COLLATERAL LOANS**	-	-
9.	**INVESTMENT INCOME DUE AND ACCRUED**	2,055	2,717
10.	**ACCOUNTS AND PREMIUMS RECEIVABLE:**		
(a)	In course of collection	59,617	198,330
(b)	Deferred - not yet due	-	-
(c)	Receivables from retrocessional contracts	-	-
(d)	Total accounts and premiums receivable	59,617	198,330
11.	**REINSURANCE BALANCES RECEIVABLE:**		
(a)	Foreign affiliates	-	-
(b)	Domestic affiliates	-	-
(c)	Pools & associations	-	-
(d)	All other insurers	34,411	21,188
(e)	Total reinsurance balance receivable	34,411	21,188
12.	**FUNDS HELD BY CEDING REINSURERS**	258,942	234,870
13.	**SUNDRY ASSETS:**		
(a)	Derivative instruments	-	-
(b)	Segregated accounts companies - long-term business - variable annuities		
(c)	Segregated accounts companies - long-term business - other		
(d)	Segregated accounts companies - general business		
(e)	Deposit assets	-	-
(f)	Deferred acquisition costs	18,024	41,607
(g)	Net receivables for investments sold	-	-
(h)	Other Sundry Assets (Leasehold and software development assets)	3,887	14,339
(i)	Other Sundry Assets (Intangible assets)	-	24,849
(j)	Other Sundry Assets (Others – see note 13)	32,792	1,534,919
(k)	Total sundry assets	54,703	1,615,714
14.	**LETTERS OF CREDIT, GUARANTEES AND OTHER INSTRUMENTS**		
(a)	Letters of credit		
(b)	Guarantees	-	-
(c)	Other instruments	-	-
(e)	Total letters of credit, guarantees and other instruments	-	-
		-	-
15.	**TOTAL**	**1,329,291**	3,145,783

STARSTONE INSURANCE BERMUDA LIMITED
CONDENSED CONSOLIDATED BALANCE SHEET
AS AT DECEMBER 31, 2020 and 2019

BMA Ref		2020	2019
		USD '000	USD '000
	TOTAL INSURANCE RESERVES, OTHER LIABILITIES AND STATUTORY CAPITAL AND SURPLUS		
16.	UNEARNED PREMIUM RESERVE		
(a)	Gross unearned premium reserves	176,890	280,092
(b)	Less: Ceded unearned premium reserve		
	i. Foreign affiliates	-	-
	ii. Domestic affiliates	29,978	48,889
	iii. Pools & associations	-	-
	iv. All other insurers	36,956	57,418
(c)	Total ceded unearned premium reserve	66,934	106,307
(d)	Net unearned premium reserve	109,956	173,785
17.	LOSS AND LOSS EXPENSE PROVISIONS:		
(a)	Gross loss and loss expense provisions	1,196,235	1,156,949
(b)	Less: Reinsurance recoverable balance		
	i. Foreign affiliates	-	-
	ii. Domestic affiliates	549,386	648,094
	iii. Pools & associations	-	-
	iv. All other reinsurers	296,641	270,084
(c)	Total reinsurance recoverable balance	846,027	918,178
(d)	Net loss and loss expense provisions	350,208	238,771
18.	OTHER GENERAL BUSINESS INSURANCE RESERVES	-	-
19.	TOTAL GENERAL BUSINESS INSURANCE RESERVES	460,164	412,556
	LONG-TERM BUSINESS INSURANCE RESERVES		
20.	RESERVE FOR REPORTED CLAIMS	-	-
21.	RESERVE FOR UNREPORTED CLAIMS	-	-
22.	POLICY RESERVES - LIFE	-	-
23.	POLICY RESERVES - ACCIDENT AND HEALTH	-	-
24.	POLICYHOLDERS' FUNDS ON DEPOSIT	-	-
25.	LIABILITY FOR FUTURE POLICYHOLDERS' DIVIDENDS	-	-
26.	OTHER LONG-TERM BUSINESS INSURANCE RESERVES	-	-
27.	TOTAL LONG-TERM BUSINESS INSURANCE RESERVES		
(a)	Total Gross Long-Term Business Insurance Reserves		
(b)	Less: Reinsurance recoverable balance on long-term business		
	(i) Foreign Affiliates	-	-
	(ii) Domestic Affiliates	-	-
	(iii) Pools and Associations	-	-
	(iv) All Other Insurers	-	-
(c)	Total Reinsurance Recoverable Balance	-	
(d)	**Total Net Long-Term Business Insurance Reserves**	-	-
	OTHER LIABILITIES		
28.	INSURANCE AND REINSURANCE BALANCES PAYABLE	186,385	275,712
29.	COMMISSIONS, EXPENSES, FEES AND TAXES PAYABLE		
30.	LOANS AND NOTES PAYABLE		
31.	(a) INCOME TAXES PAYABLE	1,372	(2,089)
	(b) DEFERRED INCOME TAXES		
32.	AMOUNTS DUE TO AFFILIATES	8,285	14,569
33.	ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	19,569	15,076
34.	FUNDS HELD UNDER REINSURANCE CONTRACTS:	345,138	559,597
35.	DIVIDENDS PAYABLE	7,000	-
36.	SUNDRY LIABILITIES:		
(a)	Derivative instruments	-	-
(b)	Segregated accounts companies	-	-
(c)	Deposit liabilities	-	-
(d)	Net payable for investments purchased	-	-
(e)	Other sundry liabilities (Liabilities held-for-sale – see Note 36)	3,925	1,247,611
(f)	Other sundry liabilities (specify)	-	-
(g)	Other sundry liabilities (specify)	-	-
(h)	Total sundry liabilities	3,925	1,247,611
37.	LETTERS OF CREDIT, GUARANTEES AND OTHER INSTRUMENTS:		
(a)	Letters of credit		
(b)	Guarantees		
(c)	Other instruments		
(d)	Total letters of credit, guarantees and other instruments		
38.	TOTAL OTHER LIABILITIES	571,674	2,110,476
39.	TOTAL INSURANCE RESERVES AND OTHER LIABILITIES	1,031,838	2,523,032
	CAPITAL AND SURPLUS		
40.	TOTAL CAPITAL AND SURPLUS	297,453	622,751
41.	**TOTAL**	**1,329,291**	**3,145,783**

STARSTONE INSURANCE BERMUDA LIMITED
CONDENSED CONSOLIDATED STATEMENT OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019

BMA Ref		2020 USD '000	2019 USD '000
	GENERAL BUSINESS UNDERWRITING INCOME		
1.	**GROSS PREMIUMS WRITTEN**		
	(a) Direct gross premiums written	129,680	188,013
	(b) Assumed gross premiums written	166,253	240,210
	(c) Total gross premiums written	295,933	428,223
2.	REINSURANCE PREMIUMS CEDED	63,913	111,878
3.	NET PREMIUMS WRITTEN	232,020	316,345
4.	INCREASE (DECREASE) IN UNEARNED PREMIUMS	63,836	41,029
5.	NET PREMIUMS EARNED	295,856	357,374
6.	OTHER INSURANCE INCOME	-	-
7.	TOTAL GENERAL BUSINESS UNDERWRITING INCOME	295,856	357,374
	GENERAL BUSINESS UNDERWRITING EXPENSES		
8.	NET LOSSES INCURRED AND NET LOSS EXPENSES INCURRED	206,654	307,943
9.	COMMISSIONS AND BROKERAGE	78,666	73,562
10.	TOTAL GENERAL BUSINESS UNDERWRITING EXPENSES	285,320	381,505
11.	**NET UNDERWRITING PROFIT (LOSS) - GENERAL BUSINESS**	**10,536**	**(24,131)**
	LONG-TERM BUSINESS INCOME		
12.	GROSS PREMIUMS AND OTHER CONSIDERATIONS:	-	-
	(a) Direct gross premiums and other considerations	-	-
	(b) Assumed gross premiums and other considerations	-	-
	(c) Total gross premiums and other considerations	-	-
13.	PREMIUMS CEDED	-	-
14.	NET PREMIUMS AND OTHER CONSIDERATIONS:		
	(a) Life	-	-
	(b) Annuities	-	-
	(c) Accident and health	-	-
	(d) Total net premiums and other considerations	-	-
15.	OTHER INSURANCE INCOME	-	-
16.	TOTAL LONG-TERM BUSINESS INCOME	-	-
	LONG-TERM BUSINESS DEDUCTIONS AND EXPENSES		
17.	CLAIMS - LIFE		
18.	POLICYHOLDERS' DIVIDENDS	-	-
19.	SURRENDERS	-	-
20.	MATURITIES	-	-
21.	ANNUITIES	-	-
22.	ACCIDENT AND HEALTH BENEFITS	-	-
23.	COMMISSIONS	-	-
24.	OTHER	-	-
25.	TOTAL LONG-TERM BUSINESS DEDUCTIONS AND EXPENSES	-	-
26.	INCREASE (DECREASE) IN POLICY RESERVES (ACTUARIAL LIABILITIES):		
	(a) Life	-	-
	(b) Annuities	-	-
	(c) Accident and health	-	-
	(d) Total increase (decrease) in policy reserves	-	-
27.	TOTAL LONG-TERM BUSINESS EXPENSES	-	-
28	**NET UNDERWRITING PROFIT (LOSS) - LONG-TERM BUSINESS**	-	-
29.	**COMBINED NET UNDERWRITING RESULTS BEFORE THE UNDERNOTED ITEMS**	**10,536**	**(24,131)**
	UNDERNOTED ITEMS		
30.	COMBINED OPERATING EXPENSE		
	(a) General and administration	124,390	101,020
	(b) Personnel cost	-	-
	(c) Other	11,212	1,129
	(d) Total combined operating expenses	135,602	102,149
31.	COMBINED INVESTMENT INCOME - NET	21,748	26,534
32.	COMBINED OTHER INCOME (DEDUCTIONS)	24,674	7,389
33.	COMBINED INCOME BEFORE TAXES	(78,644)	(92,357)
34.	COMBINED INCOME TAXES (IF APPLICABLE):		
	(a) Current	1,271	3,072
	(b) Deferred	(2,172)	(4,076)
	(c) Total	(901)	(1,004)
35	COMBINED INCOME BEFORE REALIZED GAINS (LOSSES)	(79,545)	(93,361)
36.	COMBINED REALIZED GAINS (LOSSES)	(1,299)	29,141
37.	COMBINED INTEREST CHARGES	6,670	13,537
38.	**NET INCOME**	**(87,514)**	**(77,757)**

STARSTONE INSURANCE BERMUDA LIMITED
CONDENSED CONSOLIDATED STATEMENT OF CAPITAL AND SURPLUS
AS AT DECEMBER 31, 2020 and 2019

BMA Ref				2020	2019
				expressed in thousands of USD except share and per share amounts	
1.	**CAPITAL:**				
(a)	Capital Stock				
	(i) Common Shares			1,000	1,000
	authorized	1,000,000	shares of par		
	value	$1	each issued and		
	fully paid	1,000,000	shares		
	(ii)				
	(A) Preferred shares:				
	authorized		shares of par		
	value		each issued and		
	fully paid		shares		
	aggregate liquidation value for —				
	2020				
	2019				
	(B) Preferred shares issued by a subsidiary:				
	authorized		shares of par		
	value		each issued and		
	fully paid		shares		
	aggregate liquidation value for —				
	2020				
	2019				
	(iii) Treasury Shares				
	repurchased		shares of par		
	value		each issued		
(b)	Contributed surplus			1,114,631	1,114,631
(c)	Any other fixed capital				
	(i) Hybrid capital instruments			-	-
	(ii) Guarantees and others			-	-
	(iii) Total any other fixed capital			-	-
(d)	Total Capital			1,115,631	1,115,631
2.	**SURPLUS:**				
(a)	Surplus - Beginning of Year			(492,880)	(414,129)
(b)	Add: Income for the year			(87,514)	(77,757)
(c)	Less: Dividends paid and payable			(242,000)	-
(d)	Add (Deduct) change in unrealized appreciation (depreciation) of investments			4,216	(994)
(e)	Add (Deduct) change in any other surplus				
(f)	Surplus - End of Year			(818,178)	(492,880)
3.	**MINORITY INTEREST**			-	-
4.	**TOTAL CAPITAL AND SURPLUS**			**297,453**	**622,751**

Schedule X
STARSTONE INSURANCE BERMUDA LIMITED
NOTES TO THE CONDENSED CONSOLIDATED GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019
GENERAL NOTES
(Tabular information expressed in thousands of U.S. dollars except share and per share data)

1. GENERAL

StarStone Insurance Bermuda Limited (“SIBL” or the “Company”) was incorporated on November 21, 2007 under the laws of Bermuda. The Company is a wholly owned subsidiary of StarStone Specialty Holdings Limited ("SSHL") which is, in turn, wholly owned by North Bay Holdings Limited ("North Bay").

Enstar Group Limited ("Enstar") has a 58.98% equity interest, Trident V funds ("Trident V") managed by Stone Point Capital LLC ("Stone Point") and also a shareholder of Enstar had a 39.32% equity interest and Dowling Capital Partners ("Dowling") had a 1.7% equity interest in North Bay.

As at December 31, 2020, the Company was registered as a Class 4 insurer under the Insurance Act 1978, amendments thereto and related regulations (the “Insurance Act”). On January 8, 2021, the Bermudan Monetary Authority (‘BMA’) approved the Company's application to re-register as a Class 3A insurer with the requirement to report using the Class 3B BSCR (capital requirement) model for solvency purposes for the year ended December 31, 2020 onwards.

Details of the affiliates consolidated in these financial statements and their country of incorporation is shown in the table below. Affiliates are included in the consolidated financial statements up to the date of disposal or merger.

Name	Country of incorporation	Date of disposal / Merger
StarStone Corporate Capital Limited	Ireland	-
StarStone Corporate Capital 1 Limited	UK	-
StarStone Bermuda Intermediaries Limited	Bermuda	December 1, 2020
StarStone Insurance SE	Liechtenstein	-
StarStone Underwriting Limited	UK	Change of control completed March 15, 2021
StarStone Insurance Services Limited	UK	-
StarStone Finance Limited	UK	-
StarStone US Holdings Inc	US	November 30, 2020
StarStone Specialty Insurance Company	US	November 30, 2020
StarStone Specialty Insurance Company	Brazil	November 30, 2020
StarStone National Insurance Company	US	November 30, 2020
StarStone US Intermediaries Inc	US	November 30, 2020
StarStone Underwriting Services BV	Netherlands	-
Vander Haeghen & Co SA	Belgium	October 14, 2020
Arena SA	Belgium	February 10, 2021
Torus Business Solutions Private Limited	India	-

Covid-19

The World Health Organization (WHO), on March 11, 2020, declared the coronavirus (COVID-19) outbreak as a global pandemic. In response to the ongoing Coronavirus pandemic (COVID-19), the Company has successfully continued with its Business Continuity Plan with all staff working from home with minimal disruption to its day-to-day operations for customers. The COVID-19 is a pandemic event that is not clearly timebound nor limited to direct consequences that are easily quantifiable due to the unprecedented nature. As a result, the exposure estimates continue to be assessed on an ongoing basis and remains judgmental. The directors continue to closely monitor the COVID-19 outbreak and actively assess the potential impact to all stakeholders.

Like many other companies, most of our employees are working remotely, and we are therefore more dependent on our information technology systems and the continued access by our employees and service providers to reliable internet and telecommunications systems. Increased cyber risk is, in part, mitigated through regular phishing tests and additional training. Any staff member failing the test are enrolled onto mandatory cyber-awareness training with follow up training to increase awareness and mitigate a real cyber-attack resulting in fraud.

2. BUSINESS UNDERWRITTEN

The business of the Company and its subsidiaries was written in Bermuda, Liechtenstein, the UK and the US and is largely managed and reported through five lines of business: Marine, Aerospace, Property, Casualty and Workers' Compensation.

The company and its subsidiaries previously operated through four operating platforms in Bermuda (StarStone Insurance Bermuda), the UK (reinsurer to Lloyd's Syndicate 1301), Liechtenstein (StarStone Insurance SE) and the US (StarStone Specialty Insurance Company and StarStone National Insurance Company).

A decision was taken to cease writing new and renewal business from June 10, 2020 from the Bermuda, UK and Liechtenstein platforms.

The following corporate transactions were executed during the year:

European Financial Lines
On October 2, 2020, StarStone completed the sale of renewal rights of the European Financial Lines portfolio, previously written by SISE and S1301 to Partner Re and Applied Underwriters, Inc. for a minimum consideration of $0.1 million. .

Vander Haeghen & co. SA
On October 14, 2020, the Company's UK subsidiary, StarStone Finance Limited ("SFL"), completed the sale of a majority owned s subsidiary, Vander Haeghen & Co. SA ("VdH"), a Belgium-based insurance agency, for consideration of €4 million ($4 million). A gain on the sale of $3 million was recognized in the fourth quarter of 2020.

StarStone US
On November 30, 2020, the Company's UK subsidiary, SFL (intermediate parent of StarStone US Holdings) completed on the sale of StarStone US Holdings Inc (including its US and Brazilian subsidiaries listed above) to Core Specialty Holdings Inc ("Core Specialty") in exchange for consideration of $282 million (cash of $47 million and a 25.3% shareholding in Core Specialty (valued at $235 million)). A gain on the sale of $10 million was recognized in SIBL's year ended December 31, 2020 consolidated financial statements.

Following surrender of its insurance agency license, StarStone Bermuda Intermediaries Limited (a wholly owned subsidiary of SIBL) merged with SIBL with effect from December 1, 2020.

3. BASIS OF PREPARATON

These condensed consolidated general purpose financial statements are prepared in accordance with financial reporting provisions of the Insurance Act 1978, amendments thereto and the Insurance Accounts Rules 2016 with respect to condensed general purpose financial statements (the "Legislation"). The recognition and measurement principles applied are in line with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The presentation of these financial statements in accordance with the guidance prescribed under the legislation differs from U.S. GAAP in certain respects as follows:

- The format of the financial statements is prescribed by schedules IX and X of the Insurance Accounts Rules 2016.
- Statement of Cash Flows or equivalent is not included.
- Certain disclosures required by US GAAP are not included.
- Comprehensive income and its components are not presented in the condensed consolidated statement of income.
- Reserves for loss and loss adjustment expenses and unearned premiums are reported net of reinsured amounts.

The effects of the foregoing variances from US GAAP on the accompanying condensed consolidated general purpose financial statements have not been determined but are presumed to be material.

The condensed consolidated general purpose financial statements are the Company's first financial statements prepared in accordance with the Legislation. The Company's financial statements for the year ended 31 December 2019 and prior were

3. BASIS OF PREPARATON (continued)

prepared in conformity with U.S. GAAP. As the recognition and measurement principles of the Legislation are in line with US GAAP, the changes to the condensed consolidated balance sheet, condensed consolidated statement of income and condensed consolidated statement of capital and surplus line items are presentational only. There is no impact on net income or capital and surplus compared to that reported as total comprehensive loss and total shareholders' equity in the US GAAP financial statements for the year ended December 31, 2019.

The condensed consolidated general purpose financial statements include the accounts of the Company and its wholly owned subsidiaries. Subsidiaries are included up to the date of disposal or merger. All intercompany transactions have been eliminated.

Effective January 1, 2017, SCC1 allocated its capacity in Syndicate 1301 to Shelbourne Group Limited No. 1 Ltd. ("SGL 1"), an affiliated corporate member, on the basis of a capacity lease agreement (the "SGL 1 Lease Agreement"). SGL 1 has100% of the participation in Syndicate 1301 on the years of account from 2017 through 2020 which it reinsures on a quota share and stop loss basis (the "SGL 1 Reinsurance Agreement") to the Company. The combined effect of the SGL 1 Lease Agreement and the SGL 1 Reinsurance Agreement is that the net result of SGL 1's participation in Syndicate 1301 capacity is allocated to the Company.

4. SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in accordance with the Legislation requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Our actual results could differ materially from our estimates. Accounting policies that we believe are most dependent on assumptions and estimates are our critical accounting policies and are related to the determination of:

- liability for losses and loss adjustment expenses ("LAE");
- reinsurance balances recoverable on paid and unpaid losses;
- valuation allowances on reinsurance balances recoverable;
- gross and net premiums written and net premiums earned;
- impairment charges, including other-than-temporary impairments on investment securities classified as available-for- sale and impairments on goodwill and intangible assets; and
- fair value measurements of investments.

Significant Accounting Policies

(a) Premiums

Premiums written

Premiums are recorded as written on inception date of a policy. Premiums written are earned proportionally over the coverage period. Written and earned premiums and the related costs include estimates for premiums which have not been finally determined. These relate mainly to contractual provisions for the payment of adjustment or additional premiums, premiums payable under proportional treaties and delegated underwriting authorities. Adjustment and additional premiums are premiums charged which relate to experience during the policy term. Any subsequent differences arising on such estimates are recorded as premiums written in the period in which they are determined.

Outward reinsurance premiums are recognized in the same accounting period as the related inwards premiums and are expensed over the period under which the coverage is provided. For contracts written on a "losses occurring during basis", the outward reinsurance premiums are earned on a pro-rata basis over the term of the contract. For contracts written on a "risk attaching basis", the outward reinsurance premiums are earned based on the terms of the underlying contracts.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant Accounting Policies (continued)

(a) Premiums (continued)

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

Certain contracts are retrospectively rated and provide for a final adjustment to the premium based on the final settlement of all losses. Premiums on such contracts are adjusted based upon contractual terms, and management judgment is involved with respect to the estimate of the amount of losses that we expect to incur. Additional premiums are recognized at the time loss thresholds specified in the contract are exceeded and are earned over the coverage period or are earned immediately if the period of risk coverage has passed.

Accounts and premiums receivable and reinsurance balances receivable

Accounts and premiums receivable and reinsurance balances receivable represent amounts currently due and amounts not yet due on insurance and reinsurance policies. Premiums for insurance policies are generally due at inception. Premiums for reinsurance policies generally become due over the period of coverage based on the policy terms. We monitor the credit risk associated with premiums receivable, taking into consideration the impact of our contractual right to offset loss obligations or unearned premiums against premiums receivable. Amounts deemed uncollectible are charged to net earnings in the period they are determined. Changes in the estimates of premiums written will result in an adjustment to premiums receivable in the period they are determined.

Unearned premium reserve

Gross unearned premium reserve represents the portion of premiums written that relate to the unexpired terms of policies in force. Premiums ceded are similarly earned pro-rated over the period the coverage is provided with the unearned portion being deferred as ceded unearned premium reserve.

(b) Commissions and brokerage

Commissions and brokerage expenses which also include certain premium taxes and fees incurred at the time a contract or policy is issued and that vary with and are directly related to the successful efforts of acquiring new insurance contracts or renewing existing insurance contracts. With exception of profit commissions, these are deferred and amortized over the period in which the related premiums are earned. Profit commissions are estimated based on the related performance criteria evaluated at the balance sheet date, with subsequent changes to those estimates recognized when they occur. Deferred acquisition costs are limited to their estimated realizable value by line of business based on the related unearned premiums, anticipated claims and claim expenses and anticipated investment income.

A premium deficiency occurs if the sum of anticipated losses and loss adjustment expenses, deferred acquisition costs and anticipated investment income exceed unearned premiums. A premium deficiency is recorded by charging any deferred acquisition costs to expense to the extent required in order to eliminate the deficiency. If the premium deficiency exceeds deferred acquisition costs, then a liability is accrued for the excess deficiency.

(c) Loss and loss expense provisions

Losses represent the amount paid or expected to be paid to claimants in respect of events that have occurred on or before the balance sheet date. The costs of investigating, resolving and processing these claims are known as loss adjustment expenses ("LAE").

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant Accounting Policies (continued)

(c) Loss and loss expense provisions (continued)

LAE reserves include allocated loss adjustment expenses ("ALAE") and unallocated loss adjustment expenses ("ULAE"). ALAE are linked to the settlement of an individual claim or loss, whereas ULAE are based on our estimates of future costs to administer the claims.

The reserves for unpaid reported losses and loss expenses are established by management based on reports from brokers, ceding companies and insureds and represent the estimated ultimate cost of events or conditions that have been reported to or specifically identified by us. The reserve for losses incurred but not reported ("IBNR") is determined using a variety of actuarial methods. Inherent in the estimate of ultimate losses and loss expenses are expected trends in claim severity and frequency and other factors which may vary significantly as claims are settled. Accordingly, ultimate losses and loss expenses may differ from the amounts recorded in the consolidated financial statements. These estimates are reviewed regularly and, as experience develops and new information becomes known, the reserves are adjusted as necessary. Such adjustments, if any, will be recorded in earnings in the period in which they become known. Prior period development arises from changes to loss estimates recognized in the current year that relate to loss reserves established in previous calendar years.

Included within net losses incurred and net loss expenses incurred on our condensed consolidated statement of income are the following items:

- Net losses paid: paid losses and LAE, net of related reinsurance recoveries.

- Net change in case and LAE reserves: the change in case reserves and associated LAE, net of related reinsurance recoveries.

- Net change in IBNR reserves: the change in IBNR reserves, net of related reinsurance recoveries.

- Increase (reduction) in provisions for unallocated LAE: the net change in our provision for unallocated LAE.

- Amortization of deferred retroactive reinsurance gains: the amortization of the deferred retroactive reinsurance gains associated with retroactive reinsurance contracts, where the estimated ultimate losses ceded at the inception of the contracts is greater than the premium consideration paid.

(d) Reinsurance recoverable balance

Amounts billed to, and due from, reinsurers resulting from paid claim movements in the underlying business are calculated in accordance with the terms of the individual reinsurance contracts. Similarly, reinsurance balances recoverable related to our case reserves are calculated by applying the terms of any applicable reinsurance coverage to movements in the underlying case reserves. Our estimate of reinsurance balances recoverable related to IBNR reserves is recognized on a basis consistent with the underlying IBNR reserves.

Our reinsurance recoverable balances are presented net of a provision for uncollectible amounts, reflecting the amount deemed not collectible due to credit quality, collection problems due to the location of the reinsurer, contractual disputes with reinsurers over individual contentious claims, contract language or coverage issues.

(e) Investments, Cash and Cash Equivalents

Bonds and debentures

Short-term investments comprise investments with a maturity greater than three months up to one year from the date of purchase. Fixed maturity investments comprise investments with a maturity of greater than one year from the date of purchase.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant Accounting Policies (continued)

(e) Investments, Cash and Cash Equivalents (continued)

Short-term and fixed maturity investments classified as trading are carried at fair value, with realized and unrealized holding gains and losses included in the condensed consolidated statement of income.

Short-term and fixed maturity investments classified as available-for-sale are carried at fair value, with unrealized gains and losses excluded from net earnings and reported as a separate component of surplus. Realized gains and losses on sales of investments classified as available-for-sale are recognized in the condensed consolidated statement of income.

The costs of short-term and fixed maturity investments are adjusted for amortization of premiums and accretion of discounts, recognized using the effective yield method and included in net investment income. For mortgage-backed and asset-backed investments, and any other holdings for which there is a prepayment risk, prepayment assumptions are evaluated and reviewed on a regular basis.

Investment purchases and sales are recorded on a trade-date basis. Realized gains and losses on the sale of investments are based upon specific identification of the cost of investments.

Allowance for Credit Losses

A detailed analysis is performed every reporting period to identify any credit losses on our investment portfolios not measured at fair value through net earnings.

Some of the factors that we consider when assessing whether an allowance for credit losses is required on our debt securities include: (1) the extent to which the fair value has been less than the amortized cost; (2) the financial condition, near-term and long-term prospects of the issuer, including the relevant industry conditions and trends, and implications of rating agency actions and offering prices; (3) the likelihood of the recoverability of principal and interest; and (4) whether it is more likely than not that we will be required to sell the security prior to an anticipated recovery in value.

With effect from January 1, 2020, credit losses on our AFS debt securities are recognized through an allowance account which is deducted from the amortized cost basis of the security, with the net carrying value of the security presented on the consolidated balance sheet at the amount expected to be collected. To calculate the amount of the credit loss, we compare the present value of the expected future cash flows with the amortized cost basis of the AFS debt security, with the amount of the credit loss recognized being limited to the excess of the amortized cost basis over the fair value of the AFS debt security, effectively creating a “fair value floor”.

For our AFS debt securities that we do not intend to sell or for which it is more likely than not that we will not be required to sell before an anticipated recovery in value, we separate the credit loss component of any unrealized losses from the amount related to all other factors and report the credit loss component in net realized investment gains (losses) in our consolidated statements of earnings. The unrealized losses related to non-credit factors is reported in other comprehensive income. The allowance for credit losses account is adjusted for any additional credit losses, write-offs and subsequent recoveries and is reflected in earnings.

For our AFS debt securities where we record a credit loss, a determination is made as to the cause of the credit loss and whether we expect a recovery in the fair value of the security. For our AFS debt securities where we expect a recovery in fair value, the constant effective yield method is utilized, and the investment is amortized to par.

For our AFS debt securities that we intend to sell or for which it is more likely than not that we will be required to sell before an anticipated recovery in fair value, the full amount of the unrealized loss is included in net realized investment gains (losses). The new cost basis of the investment is the previous amortized cost basis less the credit loss recognized in net realized investment gains (losses). The new cost basis is not adjusted for any subsequent recoveries in fair value.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant Accounting Policies (continued)

(e) Investments, Cash and Cash Equivalents (continued)

We report the investment income accrued on our AFS debt securities within other assets and therefore separately from the underlying AFS debt securities. In addition, due to the short-term period during which accrued investment income remains unpaid, which is typically six months or less, since the coupon on our AFS debt securities is paid semi-annually or more frequently, we have elected not to establish an allowance for credit losses on our accrued investment income balances. Accrued investment income is written off through net realized investment gains (losses) at the time the issuer of the debt security defaults or is expected to default on payments.

Uncollectible debt securities are written off when we determine that no additional payments of principal or interest will be received.

Equities

Investments in equities include publicly traded equities and exchange-traded funds as well as in privately held equities. Equity investments are carried at fair value with realized and unrealized holding gains and losses included in combined investment income (net) and combined realized gains (losses) as applicable in the condensed consolidated statement of income.

Other quoted and unquoted investments

Other investments include private equity funds which comprise investments in senior secured bank loans and collateralized commercial and residential mortgage backed securities, fixed income funds and a balanced fund. These other investments are stated at fair value, which ordinarily will be the most recently reported net asset value as advised by the fund manager or administrator. Many of the fund investments publish net asset values on a daily or weekly basis and provide liquidity on a daily, weekly or monthly basis. Private equities typically report quarterly. The change in fair value is included in net realized and unrealized gains and losses on investments and recognized in combined investment income (net) and combined realized gains (losses) as applicable in the condensed consolidated statement of income.

Cash and cash equivalents

Cash equivalents includes money market funds, fixed interest deposits and all highly liquid debt instruments purchased with an original maturity of three months or less.

(f) Funds held by ceding reinsurers

Under funds held arrangements, the reinsured companies have retained funds that would otherwise have been remitted to the Company. The funds held balance is carried at cost within other assets on the consolidated balance sheet and is credited with premiums and investment income, with losses payable and acquisition costs being deducted. The investment returns on the funds held balance are recognized in net investment income or combined realized gains (losses) as applicable in the condensed consolidated statement of income, to the extent such investment income accrues to the Company. The funds held balance represents the aggregate of funds held at.

(g) Foreign Exchange

Assets and liabilities of entities whose functional currency is not the U.S. dollar are translated at period end exchange rates. Income and expenses of such foreign entities are translated at average exchange rates during the year. The effect of the currency translation adjustments for these foreign entities is included in item 30(c) – Other on the condensed consolidated statement of income.

Other foreign currency assets and liabilities that are considered monetary items are translated at exchange rates in effect at the balance sheet date. Foreign currency revenues and expenses are translated either at transaction date exchange rates or using an appropriately weighted average exchange rate for the reporting period. These exchange gains and losses are recognized in the condensed consolidated statement of income.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant Accounting Policies (continued)

(h) Combined income taxes

Certain of our subsidiaries operate in jurisdictions where they are subject to taxation. Current and deferred income taxes are charged or credited to net income in the condensed consolidated statement of income, based upon enacted tax laws and rates applicable in the relevant jurisdiction in the period in which the tax becomes accruable or realizable. Deferred income taxes are provided for all temporary differences between the carrying of assets and liabilities used in the condensed consolidated financial statements and the tax bases used in the various jurisdictional tax returns. When our assessment indicates that it is more likely than not that all or some portion of deferred income tax assets will not be realized, a valuation allowance is recorded against the deferred tax assets to reduce the assets to the amount more likely than not to be realized.

We recognize a tax benefit relating to uncertain tax positions only where the position is more likely than not to be sustained assuming examination by tax authorities. A liability or other adjustment is recognized for any tax benefit (along with any interest and penalty, if applicable) claimed in a tax return in excess of the amount allowed to be recognized in the condensed consolidated financial statements under the Legislation. Any changes in amounts recognized are recorded in the period in which they are determined.

(i) Goodwill and intangible assets

Goodwill and intangible assets are included in sundry assets

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired. We perform an initial valuation of our goodwill assets and assess goodwill for impairment on an annual basis. If, as a result of the assessment, we determine the value of our goodwill asset is impaired, goodwill is written down in the period in which the determination is made.

Intangible assets represent the fair values of Lloyd's syndicate capacity, customer relationships and U.S. insurance licenses. Definite-lived intangible assets are amortized over their estimated useful lives. We recognize the amortization of all intangible assets in our condensed consolidated statement of income. Indefinite-lived intangible assets are not subject to amortization. The carrying values of intangible assets are reviewed for indicators of impairment at least annually or sooner whenever events or changes in circumstances indicate that the assets may be impaired. Impairment is recognized if the carrying values of the intangible assets are not recoverable from their undiscounted cash flows and is measured as the difference between the carrying value and the fair value.

All amounts previously recognized under goodwill and intangible assets were written down to nil in the December 31, 2020 financial statements following the decision to cease writing new and renewal business from June 10, 2020 from the Bermuda, UK and Liechtenstein platforms.

(j) Retroactive Reinsurance

Retroactive reinsurance policies provide indemnification of losses and LAE with respect to past loss events. We use the balance sheet accounting approach for assumed and ceded loss portfolio transfers, whereby at the inception of the contract there are no premiums or losses recorded in earnings. The initial gain, if applicable, is deferred and amortized into earnings over the settlement period using the recovery method. Subsequent gains are deferred and amortized into earnings over the settlement period using the recovery method while subsequent losses are charged to earnings immediately. Amounts deferred are included in reinsurance balances payable in the balance sheet.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant Accounting Policies (continued)

(k) Software Development Costs

Direct internal and external costs to acquire or develop internal-use software are capitalized and included under sundry asset in the balance sheet only after the preliminary project stage has been completed, management has authorized and committed to funding the project, it is probable that the project will be completed and the software will be used to perform the functions intended. Capitalized costs related to internal-use software are amortized on a straight-line basis over their estimated useful lives. These capitalized costs are also assessed for impairment when impairment indicators exist.

(l) Leases

We adopted the new US GAAP leasing standard ASC 842 and the related amendments on January 1, 2019 using the modified retrospective transition method as required by the standard, and based on the detailed analysis of our operating lease arrangements we have recognized a right-of-use asset (in sundry assets) and an offsetting lease liability (in accounts payable and accrued liabilities) on our condensed consolidated balance sheet, relating primarily to office space and facilities that we have leased to conduct our business operations. On an ongoing basis we determine whether an arrangement is a lease or contains a lease at inception and also complete an assessment to determine the classification of each lease as either a finance lease or an operating lease. Our leases are all currently classified as operating leases.

Our leases have remaining lease terms of one year to 36 years, some of which include options to extend the lease term for up to five years and some of which include options to terminate the lease within one year. We consider these options in determining the lease term used to establish our right-of-use assets and lease liabilities. Only those renewal options that we believe we are reasonably certain to exercise are taken into account when determining lease terms. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

5. BASIS OF RECOGNITION OF PREMIUM, COMMISSION AND INVESTMENT INCOME

See Notes 4 (a), (b) and (e).

6. FOREIGN EXCHANGE TRANSLATION

See note 4(g).

7. EXCHANGE CONTROL RESTRICTIONS

Not applicable.

(Tabular information expressed in thousands of U.S. dollars except share and per share data)

8. MATERIAL CONTINGENCIES AND COMMITMENTS

8(a) Leases

The table below provides a summary of the components of our lease cost including the gross sublease income received under sublease arrangements related to certain office spaces that we have leased for the year ended December 31, 2020 and 2019:

	2020	**2019**
Operating lease cost	1,188	1,620
Sublease income	(200)	(200)
Total lease cost	988	1,420

The table below provides a summary of the leases recorded on our condensed consolidated balance sheet for the year ended December 31, 2020 and 2019:

	Balance sheet classification	**2020**	**2019**
Right-of-use assets	Other assets	3,746	4,883
Current lease liabilities	Accrued expenses and other payables	135	787
Non-current lease liabilities	Accrued expenses and other payables	691	920

Weighted-average remaining lease term and discount rate used for our operating leases are as follows for the year ended December 31, 2020 and 2019:

	2020	**2019**
Weighted-average remaining lease term	33.3	21.4
Weighted-average discount rate	7.37%	6.60%

The table below provides a summary of the maturity of the operating lease liabilities including the gross sublease income received under the sublease arrangement related to the Company's Bermuda office space for the year ended December 31, 2020 and 2019:

	2020	**2019**
2020	-	862
2021	135	267
2022	(116)	(125)
2023	8	8
2024	74	74
2025	74	74
2026 and beyond	2,318	2,318
Total lease payments	2,493	3,478
Less: Imputed interest	(1,667)	(1,771)
Present value of lease liabilities	826	1,707

8(b) Concentration of Credit Risk and Restricted assets

We believe that there are no significant concentrations of credit risk associated with our cash and cash equivalents, fixed maturity investments, or other investments. Cash, cash equivalents and fixed maturity investments are managed pursuant to guidelines that follow prudent standards of diversification and limit the allowable holdings of a single issue and issuers. Other investments are managed pursuant to guidelines that emphasize diversification and liquidity. Pursuant to these guidelines, we manage and monitor risk across a variety of investment funds and vehicles, markets and counterparties.

8. MATERIAL CONTINGENCIES AND COMMITMENTS (continued)

8(b) Concentration of Credit Risk and Restricted assets (continued)

We are also subject to custodial credit risk on our fixed maturity and equity investments, which we manage by diversifying our holdings amongst large financial institutions that are highly regulated.

We limit the amount of credit exposure to any one counterparty and none of our counterparty credit exposures, excluding U.S. government instruments, exceeded 10% of shareholders' equity as of December 31, 2020. Our credit exposure to the U.S. government was $115 million as at December 31, 2020 (2019: $179 million).

Credit risk exists in relation to our insurance and reinsurance balances recoverable on paid and unpaid losses. We remain liable to the extent that counterparties do not meet their contractual obligations and, therefore, we evaluate and monitor concentration of credit risk among our insurers and reinsurers. Amounts recoverable from reinsurers are disclosed under items 16(c) and 17(c) of the condensed consolidated balance sheets.

We have exposure to credit risk on certain of our assets pledged to ceding companies under insurance contracts. In addition, we are potentially exposed should any insurance intermediaries be unable to fulfill their contractual obligations with respect to payments of balances owed to and by us.

We are required to maintain investments and cash and cash equivalents on deposit to support our insurance and reinsurance operations. The investments and cash and cash equivalents on deposit are available to settle insurance and reinsurance liabilities. We also utilize trust accounts to collateralize business with our insurance and reinsurance counterparties. These trust accounts generally take the place of letter of credit requirements. The assets in trusts as collateral are primarily highly rated fixed maturity securities. We pledge assets with the Society of Lloyd's in respect of 2020 and prior years of account to support its capital requirements with respect to SCC1's participation in Syndicate 1301's capacity which has since been assigned to SGL 1.

We are also subject to credit risk in relation to funds held by reinsured companies. Under funds held arrangements, the reinsured company has retained funds that would otherwise have been remitted to our subsidiaries. The funds may be placed into trust or subject to other security arrangements. The funds balance is credited with investment income and losses payable are deducted.

We are subject to credit risk if the reinsured company is unable to honor the value of the funds held balances, such as in the event of insolvency. However, we generally have the contractual ability to offset any shortfall in the payment of the funds held balances with amounts owed by us to the reinsured for losses payable and other amounts contractually due. We routinely monitor the creditworthiness of reinsured companies with whom we have funds held arrangements.

In July 2009, the Company entered into a multi-currency revolving Letter of Credit facility with Barclays Bank Plc. to be applied in the issuance of Letters of Credit to support its reinsurance business. The commitment under the facility is for $36 million (2019: $35 million) and as at the end of the year, Letters of Credit with a value of $27 million (2019: $28 million) have been issued. This facility is collateralized by eligible assets of the Company in the form of cash and investments held in a trust account. The terms of the facility require that certain financial covenants be met through the filing of compliance certificates. The Company is in the process of replacing the Letter of Credit facility with Citibank and is expected to complete in 2021.

(Tabular information expressed in thousands of U.S. dollars except share and per share data)

8. MATERIAL CONTINGENCIES AND COMMITMENTS (continued)

8(b) Concentration of Credit Risk and Restricted assets (continued)

The carrying value of our restricted assets as of December 31, 2020 and 2019, respectively, was as detailed below:

	2020	2019
Collateral in trust for third party agreements	337,245	370,369
Collateral for secured letter of credit facilities	36,500	35,514
Funds at Lloyd's	69,448	107,401
Others	3,172	91,945
	446,365	605,229

8(c) Guarantees and Indemnifications

The Company has provided a variety of guarantees and indemnifications to its policyholders with respect to the obligations and liabilities of its insurance subsidiaries arising from the reinsurance operations. The maximum exposure with respect to such contractual guarantees are deemed to be minimal.

As part of VdH sale, SIBL issued a guarantee, capped at €0.5 million ($0.6 million) aggregate, to the purchaser as protection against future claims. The full €0.5 million was recognized on item 36(e) - Other on the condensed consolidated balance sheet and item 32 - Combined Other Income on the condensed consolidated statement of income.

9. DEFAULT BY THE INSURER IN RELATION TO SECURITIES ISSUED OR ANY CREDIT ARRANGEMENT

Not applicable.

10. ARREARS OF DIVIDENDS ON PREFERRED CUMULATIVE SHARES

Not applicable.

11. LOANS MADE DURING THE YEAR TO DIRECTORS OR OFFICERS

Not applicable

12. RETIREMENT BENEFIT OBLIGATIONS TO EMPLOYEES ARISING FROM PRE-YEAR END SERVICE NOT CHARGED IN THE FINANICAL STATEMENTS

Not applicable.

13. FAIR VALUE OF INVESTMENTS

We hold: (i) trading portfolios of fixed maturity, short-term investments and equities, carried at fair value; (ii) available-for-sale portfolios of fixed maturity and short-term investments, carried at fair value; and (iii) other investments carried at fair value.

Fair value is defined as the price at which to sell an asset or transfer a liability (i.e. the “exit price”) in an orderly transaction between market participants. We use a fair value hierarchy that gives the highest priority to quoted prices in active markets and lowest priority to unobservable data. The hierarchy is broken down into three levels as follows:

(Tabular information expressed in thousands of U.S. dollars except share and per share data)

13. FAIR VALUE OF INVESTMENTS (continued)

- Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments.
- Level 2 - Valuations based on quoted prices in active markets for similar assets or liabilities, quoted prices for identical assets or liabilities in inactive markets, or for which significant inputs are observable (e.g. interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.
- Level 3 - Valuations based on unobservable inputs where there is little or no market activity. Unadjusted third-party pricing sources or management's assumptions and internal valuation models may be used to determine the fair values.

In addition, certain of our other investments are measured at fair value using net asset value (“NAV”) per share (or its equivalent) as a practical expedient and are not classified within the three levels of the fair value hierarchy described above. We have categorized our investments that are recorded at fair value on a recurring basis among levels based on the observability of inputs, or at fair value using NAV per share (or its equivalent) as follows:

	December 31, 2020			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Fair Value Based on NAV as Practical Expedient	Total Fair Value
Investments:				
Fixed maturity investments:				
U.S. government and agency	-	77,410	-	77,410
U.K. government	-	14,004	-	14,004
Other government	-	5,117	-	5,117
Corporate	-	122,977	-	122,977
Residential mortgage-backed	-	57,686	-	57,686
Commercial mortgage-backed	-	82,021	-	82,021
Asset-backed	-	84,105	-	84,105
	-	443,320	-	443,320
Equities:				
Publicly traded equity investments	-	-	-	-
Exchanged traded-fund	68,461	-	-	68,461
	68,461	-	-	68,461
Other investments:				
Euro-fund	-	44,836	-	44,836
High yield fixed income fund	-	-	-	-
Private equity fund	-	-	27,147	27,147
Hedge fund	-	-	-	-
	-	44,836	27,147	71,983
Total investments	**68,461**	**488,156**	**27,147**	**583,764**

(Tabular information expressed in thousands of U.S. dollars except share and per share data)

13. FAIR VALUE OF INVESTMENTS (continued)

	December 31, 2019			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Fair Value Based on NAV as Practical Expedient	Total Fair Value
Investments:				
Fixed maturity investments:				
U.S. government and agency	-	75,272	-	75,272
U.K. government	-	19,277	-	19,277
Other government	-	688	-	688
Corporate	-	144,334	-	144,334
Residential mortgage-backed	-	74,856	-	74,856
Commercial mortgage-backed	-	76,913	-	76,913
Asset-backed	-	101,699	-	101,699
	-	493,039	-	493,039
Equities:				
Publicly traded equity investments	-	17,455	-	17,455
Exchanged traded-fund	105,888	-	-	105,888
	105,888	17,455	-	123,343
Other investments:				
Euro-fund	-	29,938	-	29,938
High yield fixed income fund	-	50,358	-	50,358
Private equity fund	-	-	26,307	26,307
Hedge fund	-	-	18,992	18,992
	-	80,296	45,299	125,595
Total investments	**105,888**	**590,790**	**45,299**	**741,977**

14. CONTRACTUAL MATURITY PROFILE OF FIXED MATURITY AND SHORT-TERM INVESTMENTS

The contractual maturities of our short-term investments and fixed maturity investments, classified as trading and available-for-sale, are shown below. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

As of December 31, 2020	**Amortized cost**	**Fair value**	**% of Total Fair Value**
One year or less	16,612	16,915	3.82%
More than one year through two years	44,690	46,225	10.43%
More than two years through five years	138,761	144,671	32.63%
More than five years through ten years	66,949	61,692	13.92%
More than ten years	173,876	173,817	39.21%
Total bonds and debentures	440,888	443,320	100%

(Tabular information expressed in thousands of U.S. dollars except share and per share data)

14. CONTRACTUAL MATURITY PROFILE OF FIXED MATURITY AND SHORT-TERM INVESTMENTS (continued)

As of December 31, 2019	Amortized cost	Fair value	% of Total Fair Value
One year or less	27,413	27,271	5.53%
More than one year through two years	50,875	51,691	10.48%
More than two years through five years	117,268	119,882	24.31%
More than five years through ten years	120,200	121,635	24.67%
More than ten years	169,930	172,560	35.00%
Total bonds and debentures	485,686	493,039	100%

15. RELATED PARTY TRANSACTIONS

The Company has entered into certain reinsurance transactions with affiliated companies and also earns fees or incurs costs related to various administrative services that are either provided to or obtained from entities related through common control. Some of the Company's investment portfolios are also managed by affiliated entities as described further below.

Fitzwilliam Insurance Limited

The Company entered into LPT agreements with Fitzwilliam 31, Fitzwilliam #41 and Fitzwilliam #42 in 2014, 2018 and 2019, respectively. Each of these counterparties are segregated account entities whose preferred shares are held by North Bay, the sole shareholder of SSHL and are managed by Fitzwilliam, a wholly owned subsidiary of Enstar. On 1 January 2021 North Bay transferred its shares in SSHL to its shareholders (Trident V, Enstar and Dowling) who then became direct shareholders in SSHL in the same proportions as their previous shareholdings in North Bay.

Our condensed consolidated statements of income for the years ended December 31, 2020 and 2019 included the following amounts:

Amounts under Fitzwilliam #31 LPT:	2020	2019
Ceded premium earned	298	(674)
Net incurred losses and LAE	8,995	(9,198)
Acquisition costs	272	(1,349)
Interest charges on assets supporting the LPT	(1,777)	-

Our condensed consolidated balance sheet as at December 31, 2020 and 2019 include the following balances in relation to Fitzwilliam#31:

Amounts under Fitzwilliam #31 LPT:	2020	2019
Reinsurance recoverable	91,049	89,288
Ceded unearned premium	(70)	1,165
Ceded deferred acquisition costs	(567)	(833)
Funds held	(83,073)	(90,096)

(Tabular information expressed in thousands of U.S. dollars except share and per share data)

15. RELATED PARTY TRANSACTIONS (continued)

Our condensed consolidated statements of income for the years ended December 31, 2020 and 2019 included the following amounts in relation to Fitzwilliam #41:

Amounts under Fitzwilliam #41 LPT:	2020	2019
Net incurred losses and LAE	(221)	22,366
Interest charges on assets supporting the LPT	(3,091)	(6,823)

Our condensed consolidated balance sheet as at December 31, 2020 and 2019 include the following balances in relation to Fitzwilliam #41:

Amounts under Fitzwilliam #41 LPT:	2020	2019
Reinsurance recoverable	123,184	200,348
Funds held	(126,496)	(197,171)

Our condensed consolidated statements of income for the years ended December 31, 2020 and 2019 included the following amounts in relation to Fitzwilliam #42:

Amounts under Fitzwilliam #42 LPT:	2020	2019
Net incurred losses and LAE	73	42,948
Interest charges on assets supporting the LPT	(1,782)	(2,616)

Our condensed consolidated balance sheet as at December 31, 2020 and 2019 include the following balances in relation to Fitzwilliam#42:

Amounts under Fitzwilliam #42 LPT:	2020	2019
Reinsurance recoverable	79,256	113,248
Funds held	(80,965)	(98,915)

Cavello Bay

The Company has a continuous 35% quota share reinsurance contract with KaylaRe. Effective September 30, 2019, KaylaRe merged with Cavello Bay with Cavello Bay as the surviving company. The Company has investment assets to support the quota share agreement on a funds withheld basis. Cavello Bay pays Enstar Limited, a wholly owned subsidiary of Enstar, 3% of the net written premiums assumed under this continuous quota share contract as a servicing fee, 75% of which is then paid to the Company.

Our condensed consolidated statements of income for the years ended December 31, 2020 and 2019 included the following amounts:

Amounts under Cavello Bay quota share:	2020	2019
Ceded premium earned	(1,598)	(38,807)
Net incurred losses and LAE	9,517	42,224
Acquisition costs	4,814	12,225
Interest charges supporting the quota share	-	(496)

(Tabular information expressed in thousands of U.S. dollars except share and per share data)

15. RELATED PARTY TRANSACTIONS (continued)

Our condensed consolidated balance sheet as at December 31, 2020 and 2019 includes the following balances, inclusive of the amounts ceded via the Cavello Bay quota share agreement:

Amounts under Cavello Bay quota share:	2020	2019
Reinsurance recoverable	57,208	67,586
Ceded prepaid reinsurance premiums	8,789	8,448
Ceded deferred acquisition costs	(1,136)	(5,626)
Funds held	(52,854)	(61,021)

The Company entered into an LPT agreement with Cavello Bay in 2020. Our condensed consolidated statements of income for the years ended December 31, 2020 and 2019 included the following amounts:

Amounts under Cavello Bay LPT:	2020	2019
Ceded premium earned	(15,036)	(5,688)
Net incurred losses and LAE	30,670	18,759
Acquisition costs	(152)	1,457
Interest charges on assets supporting LPT	862	(1,794)

Our condensed consolidated balance sheet as at December 31, 2020 and 2019 includes the following balances in relation to Cavello Bay:

Amounts under Cavello Bay LPT:	2020	2019
Reinsurance recoverable	198,688	168,018
Ceded unearned premiums	21,259	38,815
Ceded deferred acquisition costs	(1,803)	(1,251)
Funds held	(1,750)	(101,848)

SGL 1

SGL 1 has reinsured its participation in Syndicate 1301 through the SGL 1 Reinsurance Agreement with the Company. Our condensed consolidated statements of income for the years ended December 31, 2020 and 2019 included the following amounts:

Amounts under SGL 1 assuming Reinsurance Agreement:	2020	2019
Net premiums earned	173,325	183,472
Net incurred losses and LAE	(111,156)	(167,941)
Net acquisition costs	(41,149)	(48,227)
Other income/(expense)	(8,559)	5,724

Our condensed consolidated balance sheet as at December 31, 2020 and 2019 include the following balances:

Amounts under SGL 1 assuming Reinsurance Agreement:	2020	2019
Premiums receivable	1,426	(30,096)
Deferred acquisition costs	16,200	22,952
Net unearned premiums	(64,506)	(85,297)
Net losses and loss adjustment expenses	(300,355)	(319,798)
Funds held	255,399	235,662

(Tabular information expressed in thousands of U.S. dollars except share and per share data)

15. RELATED PARTY TRANSACTIONS (continued)

Core Specialty

On November 30, 2020, we completed the sale and recapitalization of StarStone U.S. to Core Specialty. There is existing reinsurance agreement with Core Specialty where SIBL provides reinsurance protection to Core Specialty. Our condensed consolidated statements of income for the years ended December 31, 2020 and 2019 included the following amounts:

Amounts under Core Specialty:	**2020**	**2019**
Net premiums earned	(5,729)	10,492
Net incurred losses and LAE	6,217	(46,836)
Net acquisition costs	(200)	(442)
Other income/(expense)	81	(10)

Our condensed consolidated balance sheet as at December 31, 2020 and 2019 include the following balances:

Amounts under Core Specialty:	**2020**	**2019**
Premiums receivable	-	768
Deferred acquisition costs	1	(29)
Net unearned premiums	(2,744)	(2,791)
Net losses and loss adjustment expenses	(145,480)	(196,065)
Insurance and reinsurance balances payable	(9,343)	(46,479)
Other assets	(3)	(5)

Kenmare Holdings Ltd.

Kenmare Holdings Limited ("Kenmare"), an affiliated company which is wholly owned by Enstar, pledged cash and investments to Lloyd's of London to collateralize the Company's exposure to the business it assumes from SGL 1 under the SGL 1 Reinsurance and Leasing Agreements as described in Note 3 "Basis of Preparation". The Company in turn loaned funds to Kenmare equal to the cash and investments pledged to Lloyd's of London to collateralize the Company's exposure to the business it assumes from SGL 1 as described above. As at December 31, 2020, the balance owed by Kenmare to the Company under this funding agreement was $238 million (2019: $238 million).

Enstar Affiliates

The Company incurs costs related to administrative services provided by Enstar (EU) Limited., which is an affiliated company. Our condensed consolidated statements of income and consolidated balance sheets for the years ended December 31, 2020 and 2019 and as at December 31, 2020 and 2019 respectively, included the following amounts in respect of these administrative services:

Administrative services costs:	**2020**	**2019**
Enstar (EU) Limited	9,722	10,216
Enstar (US) Inc.	1	15,600

Outstanding balances - administrative services:	**2020**	**2019**
Enstar (EU) Limited	6,660	11,133
Enstar (US) Inc.	10	5,345

(Tabular information expressed in thousands of U.S. dollars except share and per share data)

15. RELATED PARTY TRANSACTIONS (continued)

Stone Point

In 2019, The Company had investments in funds, which are included within other investments that are either affiliated with entities owned by the Trident V funds or with Stone Point. Our condensed consolidated statements of income and condensed consolidated balance sheets for the years ended December 31, 2020 and 2019 included the following amounts in respect of these investments:

	2020	2019
Other investments, at fair value	-	53,591
Net unrealized gains	-	4,553

The Company also had a separate account managed by Eagle Point Credit Management, which is an affiliate of entities owned by the Trident V funds. Our condensed consolidated statements of income and condensed consolidated balance sheets for the years ended December 31, 2020 and 2019 included the following amounts in respect of these investments:

	2020	2019
Other investments, at fair value	34,573	39,386
Management fees	80	99

The Company also had an investment in a registered investment company affiliated with entities owned by Trident. Our condensed consolidated statement of income and condensed consolidated balance sheets for the years ended December 31, 2020 and 2019 included the following amounts in respect of these investments:

	2020	2019
Other investments, at fair value	-	17,455
Net unrealized (losses)	-	(4,080)

In addition, the Company has invested in a fund, which is included within other investments, that is managed by Sound Point Capital, an entity in which Mr. James D. Carey, who is a director of Enstar, has an indirect minority ownership interest and serves as a director. Our condensed consolidated statements of income and condensed consolidated balance sheets for the years ended December 31, 2020 and 2019 included the following amounts in respect of these investments:

	2020	2019
Other investments, at fair value	-	18,993
Net unrealized (losses)	-	(542)

Patcham Investment Funds Plc (“Patcham Funds”)

The Company also invests in Patcham Funds, as part of a group investment pool with other companies related through common control. These funds are managed by a wholly-owned subsidiary of Enstar. Our condensed consolidated statements of income and condensed consolidated balance sheets for the years ended December 31, 2020 and 2019 included the following amounts in respect of these investments:

	2020	2019
Patcham euro fund	44,836	29,939
Net unrealized gains	1,798	14,097

16. SUBSEQUENT EVENTS

Change of BMA License from Class 4 to Class 3A Insurer

On January 8, 2021 the BMA approved SIBL's application for re-registration from a Class 4 to a Class 3A Insurer which took effect from January 1, 2021. In addition, the BMA have confirmed that the Class 3B BSCR model can be used from Q4 2020 reporting and a Class 4 model is not required. There are minimal differences between the BSCR models for Class 4 and Class 3B.

Disposal of subsidiaries

StarStone Underwriting Limited ("SUL")
An agreement was signed on November 17, 2020 to sell the Company's wholly owned subsidiary, SUL (Lloyd's managing agent of Syndicate 1301) to Inigo (a new specialty re/insurance holding company). The sale was completed on March 15, 2021. On closing, the Company received $30 million of consideration from the sale of SUL in the form of Inigo shares. On completion, the Company distributed its $30 million shareholdings in Inigo Limited to its parent SSHL in the form of an in specie dividend, which SSHL subsequently distributed to its shareholders.

The Company will retain the economics of Syndicate 1301's 2020 and prior years underwriting portfolios as this business runs off. The net result of the Corporate Member (SGL No. 1) with respect to these years is ceded to the Company. The Company will continue to provide Funds at Lloyd's ("FAL") on behalf of SGL No.1 as collateral for this contract.

Arena N.V.
On February 10, 2021 the Company's UK subsidiaries (StarStone Insurance Services Limited ("SISL") and SFL) completed the sale of their shareholdings in Arena N.V., a Belgium-based specialist accident and health managing general agent subsidiary of the group, to Castel Underwriting Europe BV for a total consideration of $0.9 million, an initial consideration of $0.7 million and a conditional deferred consideration capped at $0.2 million.

The post year end disposals of SUL and Arena were not reported as discontinued operations in the condensed consolidated income statement of income for the year ended 31 December 31, 2020 as they are not considered to represent a strategic shift that will have a material effect on the Company's operations and financial results. The assets and liabilities of SUL and Arena are reported as assets and liabilities held for sale.

Arden Re Loss Portfolio Transfer Retrocession Agreement

Effective January 1, 2021 the Company entered into a reinsurance contract with Arden Reinsurance Company Ltd. ("Arden Re.2) to reinsure 100% of Arden Re's non-life reinsurance business via a loss portfolio transfer with the premium consideration of $19 million being equal to the net loss reserves reinsured.

Capital injection of $4.8m in StarStone Finance Limited ("SFL")

The Company made a capital injection to SFL through issuance of 1 share at 5 million for a nominal value of $1 in March 2021.

The capital injection does not have a significant impact on SIBL's solvency and liquidity position.

17. OTHER INFORMATION

Sale of US Operations

On November 30, 2020 the Company's wholly owned subsidiary SFL (intermediate parent of StarStone US Holdings) completed on the sale of StarStone US Holdings Inc (including its US subsidiaries) to Core Specialty in exchange for consideration of $282 million (cash of $47 million and a 25.3% shareholding in Core Specialty (valued at $235 million)). A gain on the sale of $10 million was recognized in SIBL's year ended December 31, 2020 condensed consolidated financial statements. The payable to Core Specialty of $4 million was settled in March 2021 with the remaining $1 million credited against earnings. Initial sales proceed of $52 million were received from Core Specialty from the sale of US Operations. The sales proceeds were reduced to $47 million based on the closing balance sheet. The$5 million excess sale proceeds were recognized as a payable to Core Specialty in SIBL's year ended December 31, 2020 condensed consolidated financial statements. The repayment of the excess sale proceeds to Core Specialty of $ 4million was made in March 2021, with the remaining $1 million credited against earnings.

On the same day SFL paid a dividend of $286.5 million to the Company consisting of a cash dividend of $52 million and an in specie dividend of $235 million (25.3% shareholding in Core Specialty) and the Company paid a dividend of $242 million to its parent SSHL consisting of a cash dividend of $7 million and an in specie dividend of $235 million (25.3% shareholding in Core Specialty).

Further details of transactions on the sale of the US operations are provided in Note 13 of the condensed consolidated balance sheet and Note 32 to the condensed consolidated statement of income.

Schedule X
STARSTONE INSURANCE BERMUDA LIMITED
NOTES TO THE CONDENSED CONSOLIDATED GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019
NOTES TO THE CONSOLIDATED STATEMENT OF CAPITAL AND SURPLUS
(Tabular information expressed in thousands of U.S. dollars except share and per share data)

1(a) SHARE CAPITAL / CAPITAL STOCK

As at December 31, 2020 and 2019 the authorized share capital was 1,000,000 ordinary shares of par value $1 per share, all of which are issued and outstanding.

1(b) ADDITIONAL PAID IN CAPITAL / CONTRIBUTED SURPLUS

As at December 31, 2020 and 2019, the Company had contributed surplus of $1,115 million.

No additional paid-in capital was contributed to the Company during the year ended December 31, 2020 and 2019.

2(c) DIVIDENDS PAID AND PAYABLE

On November 30, 2020 the Company paid a dividend of $242 million (2019: nil) to its parent SSHL consisting of a cash dividend of $7 million and an in specie dividend of $235 million (25.3% shareholding in Core Specialty).

There are no further dividends proposed with respect to the year ended December 31, 2020.

ADDITIONAL NOTES

(a) There were no changes in the Company’s authorized share capital during the year.
(b) The Company has not contracted to issue or reissue shares or given options to purchase shares.
(c) There were no share transactions during the year in relation to shares in the Company.

NOTES TO THE CONSOLIDATED BALANCE SHEET

(Tabular information expressed in thousands of U.S. dollars except share and per share data)

1. ENCUMBRANCE ON CASH AND CASH EQUIVALENTS

Restricted assets are discussed in Note 8(b) of the General Notes to the condensed consolidated financial statements and the position at the year-end is shown in a table in that note. Cash at December 31, 2020 of $24 million (2019: $25 million) is restricted.

2-3 VALUATION OF INVESTMENTS

The valuation methodology applied to investments is explained in note 4(e) of the General Notes to the condensed consolidated financial statements.

Restricted assets are discussed in Note 8(b) of the General Notes to the condensed consolidated financial statements and the position at the year-end is shown in a table in that note. Investments at December 31, 2020 of $422 million (2019: $580 million) are restricted.

4. INVESTMENTS IN AND ADVANCES TO AFFILIATED ENTITIES

There are no investments in affiliated entities. Affiliate balances included under point 4 in the condensed consolidated balance sheet relate to non-interest bearing inter-company loans which are repayable on demand.

Details of transactions and balances with affiliated entities are provided in Note 15 of the General Notes to the condensed consolidated financial statements.

5. INVESTMENTS IN MORTGAGE LOANS ON REAL ESTATE

The Company does not provide direct mortgages on real estate. The amounts of the Company's investments in residential and commercial mortgage-backed securities are shown in Note 13 of the General Note to the condensed consolidated financial statements.

6. POLICY LOANS

The Company does not provide policy loans.

7. INVESTMENTS IN REAL ESTATE

The Company does not invest in real estate.

8. COLLATERAL LOANS

The company does not hold any assets classified as collateral loans in the condensed consolidated balance sheet.

9. INVESTMENT INCOME DUE AND ACCRUED

Investment income due and accrued amounted to $2 million (2019: $3 million) as at year end.

NOTES TO THE CONSOLIDATED BALANCE SHEET

(Tabular information expressed in thousands of U.S. dollars except share and per share data)

10. ACCOUNTS AND PREMIUMS RECEIVABLE

(a) Accounts and premiums receivable are not collateralized.
(b) Accounts and premiums receivable due from affiliates are $1 million (2019: $30 million)

11. REINSURANCE BALANCES RECEIVABLE

Reinsurance balances receivable include reinsurance balances receivable on paid losses. Reinsurance balances receivable are not collateralized.

12. FUNDS HELD BY CEDING REINSURERS

As at December 31, 2020, funds held by ceding reinsurer affiliates are $259 million (2019: $ 235 million)

13. SUNDRY ASSETS

The following table summarizes the Other Sundry assets as of December 31, 2020 and 2019:

	2020	**2019**
Deferred tax assets (see balance sheet note 31)	32	2,061
Corporation tax assets	4,112	212
Due from affiliates	8,751	4,892
Prepayments and other assets	7,812	7,389
Assets held for sale - StarStone U.S.	-	1,496,505
Assets held for sale - VdH	-	7,522
Assets held for sale - Arena	4,389	4,073
Assets held for sale - SUL	7,696	12,265
Total Other Sundry Assets	32,792	1,534,919

Assets and liabilities held for sale - StarStone U.S.

On November 30, 2020, the Company's UK subsidiary, SFL completed on the sale of StarStone US Holdings Inc and its subsidiaries to Core Specialty. The assets and liabilities of StarStone US Holdings Inc and its subsidiaries as of December 31, 2019, have been reclassified to held-for-sale in the condensed consolidated balance sheet. The following table summarizes the components of assets and liabilities held for sale as of December 31, 2019.

(Tabular information expressed in thousands of U.S. dollars except share and per share data)

14. SUNDRY ASSETS (continued)

Assets and liabilities held for sale - StarStone U.S. (continued)

	2019
Assets	
Fixed maturities	578,331
Equities	3,000
Other investments, at fair value	6,389
Total investments	587,720
Cash and cash equivalents	78,613
Restricted cash and cash equivalents	5,815
Premiums receivable	99,367
Prepaid reinsurance premiums	51,965
Reinsurance balances recoverable on paid and unpaid losses	530,604
Funds held by reinsured companies	20,629
Deferred acquisition cost	36,992
Due from affiliates	27,709
Goodwill and intangible assets	19,810
Other assets	37,281
Total Assets Held for Sale	1,496,505
Liabilities	
Losses and loss adjustment expenses	836,761
Unearned premiums	218,166
Insurance and Reinsurance Payables	157,855
Due to affiliates	8,858
Other liabilities	13,836
Total Liabilities Held for Sale	1,235,476
Net Assets Held for Sale	261,029

Assets and liabilities held for sale - VDH

On October 14, 2020, the Company’s UK subsidiary, SFL, completed the sale of a majority owned subsidiary, VdH, a Belgium-based insurance agency.

The assets and liabilities of VdH as of December 31, 2019 have been reclassified to held-for-sale in the condensed consolidated balance sheet. The following table summarizes the components of assets and liabilities held for sale as of December 31, 2019.

(Tabular information expressed in thousands of U.S. dollars except share and per share data)

14. SUNDRY ASSETS (continued)

Assets and liabilities held for sale – VDH (continued)

	2019
Assets	
Cash and cash equivalents	4,941
Trade receivable	2,408
Other assets	173
Total Assets Held for Sale	7,522
Liabilities	
Trade payable	2,786
Due to affiliates	105
Other liabilities	825
Total Liabilities Held for Sale	3,716
Net Assets Held for Sale	3,806

Assets and liabilities held for sale - Arena

During the third quarter of 2020, the Company's UK subsidiaries SISL and SFL entered into a negotiation for a share purchase agreement with Castel Underwriting Europe BV to sell their shareholdings in Arena, a Belgium-based specialist accident and health managing general agent subsidiary of the group. The sale was completed on February 10, 2021.

The assets and liabilities of Arena as of December 31, 2020 and December 31, 2019 have been reclassified to held-for-sale in the condensed consolidated balance sheet. The following table summarizes the components of assets and liabilities held for sale as of December 31, 2020 and 2019.

	2020	2019
Assets		
Cash and cash equivalents	1,773	2,029
Trade receivable	1,438	1,140
Other assets	1,178	904
Total Assets Held for Sale	4,389	4,073
Liabilities		
Trade payable	2,769	2,617
Other liabilities	273	341
Total Liabilities Held for Sale	3,042	2,958
Net Assets Held for Sale	1,347	1,115

Assets and liabilities held for sale – SUL

An agreement was signed on November 17, 2020 to sell the Company's wholly owned subsidiary SUL (Lloyd's managing agent of Syndicate 1301) to Inigo Limited (a new specialty re/insurance holding company). The sale was completed on March, 15 2021.

(Tabular information expressed in thousands of U.S. dollars except share and per share data)

14. SUNDRY ASSETS (continued)

Assets and liabilities held for sale – SUL (continued)

The assets and liabilities of SUL as of December 31, 2020 and December 31, 2019 have been reclassified to held-for-sale in the condensed consolidated balance sheet. The following table summarizes the components of assets and liabilities held for sale as of December 31, 2020 and 2019.

	2020	2019
Assets		
Cash and cash equivalents	8,175	9,644
Trade receivable	-	139
Due from affiliates	(479)	2,413
Other assets	-	69
Total Assets Held for Sale	7,696	12,265
Liabilities		
Trade payable	831	4,026
Due to affiliates	11	1,418
Other liabilities	41	17
Total Liabilities Held for Sale	883	5,461
Net Assets Held for Sale	6,813	6,804

Derivatives and embedded derivatives

The Company has not entered into any derivative contracts. There are no embedded derivatives

15. LETTERS OF CREDIT GUARANTEES AND OTHER ASSETS

There are no letters of credit, guarantees and other assets which have not been considered in points 1 to 13 above.

16. UNEARNED PREMIUM RESERVE

The method of calculating the unearned premium reserve is set out in note 4(a) of the General Note to the condensed consolidated financial statements.

(Tabular information expressed in thousands of U.S. dollars except share and per share data)

17. LOSS AND LOSS EXPENSE PROVISIONS

(a) Movements in loss and loss expense provisions for the current and previous year

The following table summarizes the liability for gross losses and LAE as of December 31, 2020 and 2019:

	2020	2019
Outstanding losses	631,097	671,584
IBNR	529,855	465,610
ULAE	35,283	19,755
Losses and loss adjustment expenses	1,196,235	1,156,949

The table below provides a consolidated reconciliation of the beginning and ending liability for losses and LAE for the years ended December 31, 2020 and 2019:

	2020	2019
Loss and loss adjustment expenses	1,156,949	1,273,476
Less: reinsurance recoverable on unpaid losses	(918,178)	(836,111)
Deferred gain on retroactive reinsurance	110,478	69,914
Net balance as at January 1	349,249	507,279
Net incurred losses and LAE:		
Current year	237,454	247,851
Prior periods	(11,347)	19,503
Movement in the deferred gain on retroactive reinsurance contracts	(19,453)	40,589
Total net incurred losses and LAE	206,654	307,943
Net losses paid:		
Current year	(45,798)	(60,996)
Prior periods	(89,067)	(139,304)
Total net paid losses	(134,865)	(200,300)
Ceded business	-	(265,870)
Effect of exchange rate movement	20,195	223
Net unpaid losses and LAE reserves as at December 31	350,208	238,771
Plus: reinsurance recoverable on unpaid losses as at December 31	846,027	918,178
Gross losses and loss adjustment expenses as at December 31	1,196,235	1,156,949
Deferred gain on retroactive reinsurance as at December 31	91,025	110,478
Total losses and LAE and deferred retroactive reinsurance gain as at December 31	1,287,260	1,267,427

(b) Reasons for the change in the net losses incurred and net loss expenses incurred related to prior years and indicate whether additional premiums or return premiums have been accrued as a result of the prior year effects

Net change in incurred losses and LAE reserves comprises of, (1) the movement during the year in specific case reserve liabilities as a result of claims settlements or changes advised to us by our policyholders and attorneys, less changes in case reserves recoverable advised by us to our reinsurers as a result of the settlement or movement of assumed claims, and (2) the net change in IBNR which represents the gross change in our actuarial estimates of IBNR, less amounts recoverable.

For the year ended December 31, 2020, the Company recorded an overall net increase in ultimate losses and loss adjustment expense liabilities of $207 million after considering the impact of foreign exchange. Current year loss activity was $237 million in 2020, driven by COVID-19 losses impacting a number of our lines. The Company recorded a positive net prior period reserve development of $11 million mainly due to the U.S. Directors and Officers and U.S. Workers Compensation.

17. LOSS AND LOSS EXPENSE PROVISIONS (continued)

(b) Reasons for the change in the net losses incurred and net loss expenses incurred related to prior years and indicate whether additional premiums or return premiums have been accrued as a result of the prior year effects (continued)

For the year ended December 31, 2019, the Company recorded an overall net increase in ultimate losses and loss adjustment expense liabilities of $308 million after considering the impact of foreign exchange. Current year loss activity was $245 million in 2019, driven by large losses construction, airlines and marine). The Company recorded net adverse prior period reserve development of $25 million primarily due to U.S. excess casualty. The ceded business of $266 million represents the initial cessions with Fitzwilliam #42 and Cavello Bay which have been accounted for on a retroactive basis.

(c) Secured and unsecured policyholder liabilities

Restricted assets are discussed in Note 8(b) of the General Note to the condensed consolidated financial statements and the position at the year-end is shown in a table in that note. As at December 31, 2020 the total restricted assets of $446 million (2019: $605 million) are deposited as security for policyholder liabilities. The total restricted assets include $69 million (2019: $107 million) FAL deposits made to Lloyd’s which can be called to protect policyholders in case any underwriting member should be unable to meet his or her liabilities.

As at December 31, 2020, the amount of unsecured policyholder liabilities was $1,030 million (2019 $827 million).

20. RESERVES FOR REPORTED CLAIMS – LONG TERM BUSINESS

The Company has not written any long term business and consequently there is no reserve for reported claims for long term business in the condensed consolidated balance sheet.

21. RESERVES FOR UNREPORTED CLAIMS – LONG TERM BUSINESS

The Company has not written any long term business and consequently there is no reserve for unreported claims for long term business in the condensed consolidated balance sheet.

22. POLICY RESERVES – LONG TERM BUSINESS - LIFE

The Company has not written any life business and consequently there are no life policy reserves in the condensed consolidated balance sheet.

23. POLICY RESERVES – LONG TERM BUSINESS - ACCIDENT AND HEALTH

The Company has not written any accident and health business which falls under the definition of long term business and consequently there are no policy reserves for accident and health included under long term business in the condensed consolidated balance sheet.

24. POLICYHOLDERS’ FUNDS ON DEPOSIT – LONG TERM BUSINESS

The Company has not written any long term insurance business and consequently there are no policyholder funds on deposit included under long-term business in the condensed consolidated balance sheet.

25. LIABILITY FOR FUTURE POLICYHOLDERS' DIVIDENDS

The Company has not written any long term business and consequently there are no liabilities for policyholder dividends included in the condensed consolidated balance sheet

26. OTHER RESERVES – LONG TERM

The Company has not written any long-term business and consequently there are no other reserves for long term business included in the condensed consolidated balance sheet.

27. TOTAL LONG TERM BUSINESS INSURANCE RESERVES

The Company has not written any long term business and consequently there are no reserves for long term business included in the condensed consolidated balance sheet.

28. INSURANCE AND REINSURACE BALANCES PAYABLE

Details of transactions and balances with affiliated entities are provided in Note 15 of the General Note to the condensed consolidated financial statements.

Balances with affiliates relate primarily to reinsurance contracts and therefore there are no repayment terms and rates to interest to disclose.

29. COMMISSION, EXPENSES, FEES AND TAXES PAYABLE

The method of recognizing commission is set out in note 4(b) of the General Note to the condensed consolidated financial statements.

30. LOANS AND NOTES PAYABLE

There are no loans and notes payable.

31. INCOME TAX PAYABLE AND DEFERRED TAXATION

The Company is incorporated under the laws of Bermuda and is therefore subject to Bermuda law with respect to taxation. Under current law, the Company is not taxed on any Bermuda income or capital gains and has received an undertaking from the Bermuda Minister of Finance that, in the event of any Bermuda income or capital gains taxes being imposed, it will be exempt from those taxes until 2035.

The Company has foreign operating subsidiaries and branch operations principally located in the United States, United Kingdom, and Continental Europe that are subject to federal, foreign state and local taxes in those jurisdictions. The income tax receivable was $3 million as at December 31, 2020 (2019: $3 million).

Deferred tax assets and liabilities reflect the tax effect of the differences between the financial reporting and income tax bases of assets and liabilities. Significant components of the deferred tax assets and deferred tax liabilities relating to our operations were as follows:

(Tabular information expressed in thousands of U.S. dollars except share and per share data)

31. INCOME TAX PAYABLE AND DEFERRED TAXATION (continued)

	2020	**2019**
Net operating loss carryforwards	10,570	14,507
Other deferred tax assets	2,798	1,393
Gross deferred tax assets	13,368	15,900
Less valuation allowance	(13,336)	(13,839)
Deferred tax assets	32	2,061
Deferred tax liabilities	-	-
	32	2,061

Assessment of Valuation Allowance on Deferred Tax Assets

As of December 31, 2020, we had deferred tax asset valuation allowances of $13 million (2019: $14 million) related to foreign subsidiaries.

The realization of deferred tax assets is dependent on generating sufficient taxable income in future periods in which the tax benefits are deductible or creditable. The amount of the deferred tax asset considered realizable, however, could be revised in the future if estimates of future taxable income change. Taxes are determined and assessed jurisdictionally by legal entity or by filing group. Certain jurisdictions require or allow combined or consolidated tax filings. We have estimated future taxable income of our foreign subsidiaries and provided a valuation allowance in respect of those assets where we do not expect to realize a benefit. We have considered all available evidence using a “more likely than not” standard in determining the amount of the valuation allowance. We considered the following evidence: (i) net earnings or losses in recent years; (ii) the future sustainability and likelihood of positive net earnings of our subsidiaries; (iii) the carryforward periods of tax losses including the effect of reversing temporary differences; and (iv) tax planning strategies, in making our determination. The assumptions used in determining future taxable income require significant judgment and any changes in these assumptions could have an impact on earnings.

The Company classifies all interest and penalties related to uncertain tax positions as income tax expense. As of December 31, 2020 and 2019, the Company recognized no expenses or liabilities for tax related interest and penalties in its condensed consolidated statement of income and consolidated balance sheet, respectively. The Company had no unrecognized tax benefits relating to uncertain tax positions as of December 31, 2020 and 2019.

Our operating subsidiaries may be subject to audit by various tax authorities and may have different statutes of limitations expiration dates. Tax authorities may propose adjustments to our income taxes. Listed below are the tax years that remain subject to examination by major tax jurisdiction as of December 31, 2020:

Major Tax Jurisdiction	**Open Tax Years**
United Kingdom	2018-2020

32. AMOUNTS DUE TO AFFILIATES

Affiliate balances included under item 32 of the condensed consolidated balance sheet do not relate to insurance or reinsurance contracts and are non-interest bearing and repayable on demand.

Details of transactions and balances with affiliated entities are provided in Note 15 of the General Notes to the condensed consolidated financial statements.

33. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

At December 31, 2020, the Company had accrued liabilities of $20 million (2019: $15 million) in relation to expenses incurred.

(Tabular information expressed in thousands of U.S. dollars except share and per share data)

34. FUNDS HELD UNDER REINSURANCE CONTRACTS

The company had liabilities to affiliate reinsurers for funds held under reinsurance contracts of $345 million as at December 31, 2020 (2019: $560 million).

Details of transactions and balances with affiliated entities are provided in Note 15 of the General Notes to the condensed consolidated financial statements.

35. DIVIDENDS PAYABLE

At December 31, 2020, the Company had a liability for dividends payable of $7 million (2019: nil).

This relates to sale of US operations as set out in Note 17 of the of the General Notes to the condensed consolidated financial statements.

36. SUNDRY LIABILITIES

The following table summarizes the Other Sundry Liabilities as of December 31, 2020 and 2019:

	2020	2019
Liabilities held for sale - Starstone US	-	1,235,476
Liabilities held for sale - VdH	-	3,716
Liabilities held for sale - Arena	3,042	2,958
Liabilities held for sale - SUL	883	5,461
Total Other Sundry Liabilities	3,925	1,247,611

Liabilities held for sale for each entity as of December 31,2020 and December 31, 2019 are analyzed in Note 13 of the notes to the condensed consolidated balance sheet.

Derivatives and embedded derivatives

The Company has not entered into any derivative contracts. There are no embedded derivatives.

37. LETTERS OF CREDIT GUARANTEES AND OTHER ASSETS

There are no letters of credit, guarantees and other assets provided by the Company which have been included as liabilities on the condensed consolidated balance sheet.

Details of assets provided as collateral for letters of credit are shown in Note 8(b) of the General Notes to the condensed consolidated financial statements.

(Tabular information expressed in thousands of U.S. dollars except share and per share data)

6. OTHER INSURANCE INCOME GENERAL BUSINESS

There is no other insurance income on general business.

15. OTHER INSURANCE INCOME LONG TERM BUSINESS

The Company does not write long term business.

32. COMBINED OTHER INCOME

	2020	**2019**
Net earnings from discontinued operations, net of income taxes	11,391	7,279
Gain/(loss) on sale of subsidiary	12,931	(174)
Rental Income	200	200
Other income/(expense)	152	84
	24,674	7,389

The gain on sale of subsidiary is comprised of gain on sale of StarStone US amounting to $10 million, gain on VdH sale amounting to $3 million including loss from the minority interest on net income.

The following table summarizes the components of net earnings (loss) from discontinued operations, net of income taxes, related to StarStone U.S., on the consolidated statements of income for the years ended December 31, 2020 and 2019:

	2020	**2019**
Income		
Net premiums earned	291,326	350,814
Net investment income	12,353	15,606
Net realized and unrealized investment gains/(losses)	1,921	19,385
Other income	17,848	9
Total Income	323,448	385,814
Expenses		
Net incurred losses and loss adjustment expenses	194,089	258,395
Acquisition costs	57,640	65,342
General and administrative expenses	57,496	60,099
Interest expense	2,066	2,600
Net foreign exchange losses (gains)	21	34
Total Expenses	311,312	386,470
Income before income taxes	12,136	(656)
Income taxes	(745)	7,935
Net profit	11,391	7,279

The disposal of VdH on October 14, 2020 and the post year end disposals of SUL and Arena have not been reported as discontinued operations in the condensed consolidated financial statements as they are not considered to represent a strategic shift that will have a material effect on the Company's operations and financial results.

33. COMBINED REALIZED GAINS (LOSS)

This relates to realized gains on investments as set out in Note 4(e) of the of the General Notes to the condensed consolidated financial statements.