Fitzwilliam Insurance Limited
Financial Statements
For the years ended December 31, 2020 and 2019

FITZWILLIAM INSURANCE LIMITED

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder and Board of Directors of Fitzwilliam Insurance Limited

We have audited the accompanying financial statements of Fitzwilliam Insurance Limited (the "Company"), which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of earnings, changes in shareholder's equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fitzwilliam Insurance Limited as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other matter

U.S. generally accepted accounting principles require that certain disclosures related to short-duration contracts in Note 4 to the basic financial statements be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board who consider it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
April 30, 2021

FITZWILLIAM INSURANCE LIMITED
BALANCE SHEETS
As of December 31, 2020 and 2019

	2020	2019
	(Expressed in thousands of U.S. dollars, except share data)	
ASSETS		
Cash and cash equivalents	$ 688	$ 1,909
Other investments, at fair value	1,835	2,842
Other assets	374	3,257
Assets held in Segregated accounts	2,183,695	2,595,422
TOTAL ASSETS	**$ 2,186,592**	**$ 2,603,430**
LIABILITIES		
Liabilities and capital held in Segregated accounts	$ 2,183,695	$ 2,595,422
Other liabilities	503	1,341
TOTAL LIABILITIES	2,184,198	2,596,763
SHAREHOLDER'S EQUITY		
Common shares - 1,000,000 shares, par value of $1.00	1,000	1,000
Additional paid-in capital	5,894	10,900
Accumulated deficit	(4,500)	(5,233)
TOTAL SHAREHOLDER'S EQUITY	**2,394**	**6,667**
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	**$ 2,186,592**	**$ 2,603,430**

See accompanying notes to the financial statements

FITZWILLIAM INSURANCE LIMITED
STATEMENTS OF EARNINGS
For the Years Ended December 31, 2020 and 2019

	2020	2019
	(Expressed in thousands of U.S. dollars)	
INCOME		
Net investment income	$ 13	$ 94
Net unrealized investment gains	349	141
Management fees	1,344	1,525
	1,706	1,760
EXPENSES		
General and administrative expenses	(973)	(1,743)
NET EARNINGS	**$ 733**	**$ 17**

See accompanying notes to the financial statements

FITZWILLIAM INSURANCE LIMITED
STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY
For the Years Ended December 31, 2020 and 2019

	2020	2019
	(Expressed in thousands of U.S. dollars)	
SHARE CAPITAL - COMMON SHARES		
Balance, beginning and end of year	$ 1,000	$ 1,000
ADDITIONAL PAID-IN CAPITAL		
Balance, beginning and end of year	10,900	10,900
Return of capital	(5,006)	—
Balance, end of year	5,894	10,900
ACCUMULATED DEFICIT		
Balance, beginning of year	(5,233)	(5,250)
Net Earnings	733	17
Balance, end of year	(4,500)	(5,233)
TOTAL SHAREHOLDER'S EQUITY	**$ 2,394**	**$ 6,667**

See accompanying notes to the financial statements

FITZWILLIAM INSURANCE LIMITED
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2020 and 2019

	2020	2019
	(Expressed in thousands of U.S. dollars)	
OPERATING ACTIVITIES:		
Net earnings	$ 733	$ 17
Adjustments to reconcile net earnings to cash flows provided by (used in) operating activities:		
Net unrealized gains on investments	(349)	(141)
Changes in other assets	2,883	5,997
Changes in other liabilities	(838)	(53,328)
Net cash flows provided by (used in) operating activities	2,429	(47,455)
INVESTING ACTIVITIES		
Purchase of other investments	(3,644)	(2,701)
Proceeds from other investments	5,000	—
Net cash flows provided by (used in) investing activities	1,356	(2,701)
FINANCING ACTIVITIES		
Return of capital	(5,006)	—
Net cash flows used in financing activities	(5,006)	—
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,221)	(50,156)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,909	52,065
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 688**	**$ 1,909**

See accompanying notes to the financial statements

1. DESCRIPTION OF BUSINESS

Fitzwilliam Insurance Limited (the "Company", "Fitzwilliam", "we", "our" or "us") was incorporated under the laws of Bermuda on March 21, 2002 and is a wholly-owned subsidiary of Kenmare Holdings Ltd. ("Kenmare"), a company incorporated under the laws of Bermuda. The ultimate parent company is Enstar Group Limited ("Enstar"), a company incorporated under the laws of Bermuda.

The Company provides reinsurance coverage to both related and unrelated companies. The exposures reinsured by the Company include property and casualty, accident and health, professional indemnity, marine and political risks. The Company is licensed as a Class 3A Insurer under the Bermuda Insurance Act, 1978 and Related Regulations as amended (the "Insurance Act") and is also registered under the Segregated Accounts Companies Act, 2000 ("SAC Act") as amended. Under the provisions of the SAC Act, the Company may establish Segregated accounts where directed by the related shareholder agreement, insurance policy or reinsurance agreement. For each Segregated account, the Company has a subscription and shareholders' agreement with the preferred shareholder. These agreements describe the terms and conditions of establishing the Segregated account including an agreement by the preferred shareholder to fund any deficiency of Segregated account assets over Segregated account liabilities. Creditors of Segregated accounts have no claim on the assets of other Segregated accounts or upon the Company's general assets. Segregated account assets and liabilities are shown separately on the balance sheet as assets held in and liabilities related to Segregated accounts. A summary of these balances is presented in Note 4 to the financial statements.

Specific activity within individual Fitzwilliam Segregated accounts during the years ended December 31, 2020 and 2019 was as follows:

- **Segregated Account No.11 ("FW#11"), Segregated Account No.17 ("FW#17"), Segregated Account No.18 ("FW#18"), Segregated Account No.21 ("FW#21"), Segregated Account No.29 ("FW#29"), Segregated Account ILU ("FW#ILU")** and **Segregated Account NILU ("FW#NILU") -** The exposures assumed through these seven Segregated accounts from River Thames Insurance Company Limited, a wholly owned subsidiary of Enstar, were commuted effective April 1, 2020.

- **Segregated Account No.22 ("FW#22")** – The exposures assumed through this Segregated account were commuted effective May 12, 2020 and FW#22 subsequently closed in September 2020.

- **Segregated Account No.39 ("FW#39")** – The exposures assumed through this Segregated account were commuted effective December 9, 2020 and FW#39 subsequently closed in December 2020.

- **Segregated Account No. 42 ("FW#42")** – The Company entered into a Loss Portfolio Transfer ("LPT") reinsurance contract with StarStone Insurance Bermuda Limited ("SIBL") for specific lines of business for various underwriting years with an effective date of April 1, 2019 for all subject business, except for Bermuda CAT retro exposures which had an effective date of January 1, 2019. The Company assumed loss reserves of $116.7 million in exchange for a premium consideration of an equal amount in connection with the transaction, subject to a policy limit of $164.7 million.

- **Segregated Account No. 40 ("FW#40")** – Effective October 1, 2018, FW#40 entered into a novation agreement with Cavello Bay Reinsurance Limited ("Cavello Bay"), an affiliated company, pursuant to which the Allianz reserves were novated to Cavello Bay at their carrying value. As a result of the novation, all the investments supporting the Allianz reserves were also transferred to Cavello Bay at their carrying values. FW#40 was subsequently closed in June 2019.

- **Segregated Account No. 26 ("FW#26")** - The exposures assumed through this Segregated account were commuted effective April 12, 2019 and FW#26 subsequently closed in June 2019.

- **Segregated Account No. 12 ("FW#12")** - The exposures assumed through this Segregated account were commuted effective May 13, 2019 and FW#12 subsequently closed in June 2019.

- **Segregated Account No. 10 ("FW#10")** – Through certain quota share reinsurance agreements that took effect from 2008, FW#10 has reinsured SGL No.1 Ltd ("SGL1"), an affiliated Lloyd's corporate member, in relation to its participation on Syndicate 2008's various years of account at Lloyd's. In 2018, FW#10 entered into a 2018 Year of Account reinsurance to close transaction with SGL1 through a 70% quota share reinsurance agreement. In 2019, FW#10 entered into a 2019 Year of Account reinsurance to close transaction with SGL1 through a 70% quota share

1. DESCRIPTION OF BUSINESS (Continued)

reinsurance agreement. Exposures assumed by FW#10 from SGL1 under the 2018 and 2019 Year of Account reinsurance to close transaction amounting to $1.1 billion were commuted effective September 30, 2019. FW#10 subsequently closed in September 2020.

A description of the significant business within specific individual Fitzwilliam Segregated accounts not already discussed above is summarized below:

- **Segregated Account No. 41 ("FW#41")** – Effective October 1, 2018, FW#41 entered into a Loss Portfolio Transfer reinsurance contract ("LPT") with Starstone Insurance Bermuda Limited ("SIBL"), for specific lines of business in respect of all loses occurring on or prior to October 1, 2018. The Company assumed $208.0 million of loss reserves, in excess of an attachment point of $97.0 million.

- **Segregated Account No. 24 ("FW#24")** – Effective January 1, 2015 FW#24 entered into an Adverse Development Cover ("ADC") reinsurance agreement with Clarendon National Insurance Company ("Clarendon"), a wholly owned subsidiary of Enstar, that attached below Clarendon's workers compensation loss reserves and provided $287 million excess of $100 million reinsurance cover in exchange for a premium consideration equal to the loss reserves ceded. Premium of $228 million was assumed by FW#24 on a funds withheld basis. The agreement was amended in 2015 to cede additional losses through the ADC reinsurance agreement resulting into additional loss reserves of $275 million being ceded by Clarendon to FW#24 in exchange for a premium consideration of $277 million.

  Effective October 1, 2016, FW#24 entered into an excess of loss ("XoL") reinsurance agreement with KaylaRe Ltd. ("KaylaRe"). KaylaRe was partly owned by Enstar until May 2018 when it became a wholly-owned subsidiary of Enstar. Kayla was licensed as a Class 4 reinsurer under the Insurance Act until it merged with Cavello Bay as of September 30, 2019 with Cavello Bay remaining as the sole surviving entity. The premium consideration on this XoL reinsurance agreement was $115.9 million and was retained by FW#24 on a funds withheld basis. The attachment point and the limit on this XoL reinsurance agreement was set at $24.9 million and $140.8 million, respectively.

- **Segregated Account No. 31 ("FW#31")** – Effective January 1, 2014, FW#31 entered into retrospective and prospective quota share reinsurance agreements in respect of all of StarStone Insurance Bermuda Limited's ("SIBL") discontinued lines of business. A premium consideration equal to the loss reserves of $357.6 million ceded to FW#31 and which was retained by SIBL under a funds held arrangement, was agreed to with SIBL with respect to the retrospective business covered by the terms of the reinsurance agreement.

- **Segregated Account No. 30 ("FW#30")** – Effective January 15, 2015 FW#30 entered into a 100% quota share reinsurance agreement with Providence Washington ("PWIC"), a wholly owned subsidiary of Enstar, in respect of PWIC's assumed liability for certain insurance and reinsurance business. This transaction resulted in $148 million of loss reserves being ceded to FW#30. In 2016 the agreement was amended to cede additional losses to FW#30 which resulted in an increase of $40.1 million in loss reserves ceded by PWIC to FW#30.

  Effective October 1, 2016, FW#30 also entered into an XoL reinsurance agreement with KaylaRe (prior to its merger with Cavello Bay as discussed above). The premium on the reinsurance agreement was $61.3 million and was retained by FW#30 on a funds withheld basis. The attachment point and the limit on the reinsurance agreement was set at $13.1 million and $74.4 million, respectively.

- **Segregated Account No. 36 ("FW#36")** – Effective February 17, 2016 FW#36 entered into a 50% quota share reinsurance agreement with Allianz SE ("Allianz"), in respect of Allianz's discontinued lines of business, originally held by Fireman's Fund Insurance Company, an indirect wholly owned subsidiary of Allianz. This transaction resulted in FW#36 assuming $1.1 billion of loss reserves in exchange for a reinsurance premium consideration of an equal amount which was however retained by Allianz under a funds held arrangement.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The financial statements include our assets and liabilities as of December 31, 2020 and 2019 and results of our operations for the years ended December 31, 2020 and 2019.

The accounting policies covering investments, premiums, losses and loss adjustment expenses and reinsurance balances are related to the Segregated accounts.

Use of Estimates

The preparation of these financial statements in accordance with U.S. GAAP 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 considered to be 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;
- fair value measurements of investments.

We expect that uncertainty and volatility in financial markets relating to the COVID-19 pandemic will continue to impact the value of our investments. The scope, duration and magnitude of the direct and indirect effects of the COVID-19 pandemic are changing rapidly and are difficult to anticipate. As with others in our industry, we are subject to economic factors such as interest rates, foreign exchange rates, regulation, political risks and other market risks that can impact our strategy, operations, and results.

Significant Accounting Policies

a. Investments, Cash and cash equivalents

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

ii. *Short-term and fixed maturity investments* - 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.

Short-term and fixed maturity investments classified as trading are carried at fair value, with realized and unrealized holding gains and losses included in net earnings and reported as net realized and unrealized gains and losses within the statements of operations for the Segregated accounts. Short-term and fixed maturity investments classified as AFS are carried at fair value, with unrealized gains and losses excluded from net earnings and reported as a separate component of accumulated other comprehensive income (loss) ("AOCI") as detailed in Note 4 to the financial statements. Realized gains and losses on sales of investments classified as AFS are recognized in the statements of comprehensive income (loss) as detailed in Note 4 to the financial statements.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

iii. *Allowance for Credit Losses* **-** We perform a detailed analysis 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 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". See "New Accounting Standards Adopted in 2020" below for the discussion on our adoption of the credit losses standard.

Other-Than-Temporary Impairments ("OTTI") - As discussed above and below, with effect from January 1, 2020, we adopted the new credit losses standard which replaced the OTTI model that was previously applicable to our AFS debt securities. The new approach now requires the recognition of impairment charges relating to credit losses through an allowance account and limits the amount of credit loss to the difference between a security's amortized cost basis and its fair value. A description of our historical OTTI process which was in place prior to our adoption of the new credit losses standard and which applied to our comparative financial statements is provided below.

Fixed maturity investments classified as AFS were reviewed quarterly to determine if they had sustained an impairment in value that was, based on our judgment, considered to be other than temporary. The process included reviewing each fixed maturity investment whose fair value was below amortized cost and: (1) determining if we had the intent to sell the fixed maturity investment; (2) determining if it was more likely than not that we would be required to sell the fixed maturity investment before its anticipated recovery; and (3) assessing whether a credit loss existed, that is, whether we anticipated if the present value of the cash flows expected to be collected from the fixed maturity investment would be less than the amortized cost basis of the investment.

In assessing whether it was more likely than not that we would be required to sell a fixed maturity investment before its anticipated recovery, we considered various factors including our future cash flow requirements, legal and regulatory requirements, the level of our cash, cash equivalents, short-term investments and fixed maturity investments classified as AFS in an unrealized gain position, and other relevant factors.

In evaluating credit losses, we considered a variety of factors in the assessment of a fixed maturity investment including: (1) the time period during which there had been a significant decline below cost; (2) the extent of the decline below cost and par; (3) the potential for the investment to recover in value; (4) an analysis of the financial condition of the issuer; (5) the rating of the issuer; and (6) failure of the issuer of the investment to make scheduled interest or principal payments.

If we concluded that an investment was other-than-temporarily impaired, then the difference between the fair value and the amortized cost of the investment was presented as an OTTI charge within the statements of operations of the Segregated accounts, with an offset for any non-credit related loss component of the OTTI charge recognized in other comprehensive income (loss). Accordingly, only the credit loss component of the OTTI amount would have an impact on the earnings of the Segregated accounts.

iv. *Equities* - Equities are carried at fair value with realized and unrealized holding gains and losses included within the statements of operations of the Segregated accounts and reported as net realized and unrealized gains as detailed in Note 4 to the financial statements.

v. *Other Investments* - Other investments include investments in limited partnerships and limited liability companies (collectively "private equities"), fixed income funds, hedge funds, balanced fund and collateralized loan obligation ("CLO") equity funds that carry their investments at fair value, as well as direct investments in CLO equities. 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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 net earnings.

The Company believes the reported net asset value represents the fair value market participants would apply to an interest in the various private equities or funds. The change in fair value is included within the Statements of Earnings and the statements of operations of the Segregated accounts and reported as net realized and unrealized gains as detailed in Notes 3 and 4 to the financial statements.

b. Premiums

Premiums written and earned
Premiums written are earned on a pro-rata basis over the period the coverage is provided. Reinsurance premiums are recorded at the inception of the policy, are based upon contractual terms and, for certain business, are estimated based on underlying contracts or from information provided by insureds and/or brokers. Changes in reinsurance premium estimates are expected and may result in adjustments in future periods. Any subsequent changes arising on such estimates are recorded as premiums written in the period in which they are determined.

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.

Premiums receivable
Premiums receivable, disclosed within Other receivables, 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 premiums
Unearned premiums represent the portion of premiums written that relate to the unexpired terms of policies in force.

c. Acquisition costs

Acquisition costs, consisting principally of commissions and brokerage expenses and 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, are deferred and amortized over the period in which the related premiums are earned. Deferred acquisition costs are limited to their estimated realizable value by line of business based on the related unearned premiums, anticipated losses and LAE and anticipated investment income.

Acquisition costs also include profit commissions that are expensed when incurred. Profit commissions are calculated and accrued based on the expected loss experience for contracts and recorded when the current loss estimates indicates that a profit commission is probable under the contract terms.

d. Retroactive reinsurance and Deferred charge assets

Retroactive reinsurance policies provide indemnification of losses and LAE with respect to past loss events. We use the balance sheet accounting approach for assumed LPTs, whereby at the inception of the contract there are no premiums or losses recorded in earnings.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Charge Assets

If, at the inception of a retroactive reinsurance contract, the estimated undiscounted ultimate losses payable are in excess of the premiums received by our Segregated accounts, a deferred charge asset is recorded for the excess. The premium consideration that our Segregated accounts charge their cedents may be lower than the undiscounted estimated ultimate losses payable due to the time value of money. After receiving the premium consideration in full from their cedents at the inception of the contract, our Segregated accounts invest the premium received over an extended period of time, thereby generating investment income. Our Segregated accounts expect to generate profits from these retroactive reinsurance policies when taking into account the premium received and expected investment income, less contractual obligations and expenses. Deferred charge assets, recorded in other assets in the balance sheets related to our Segregated accounts, are amortized over the estimated claim payment period of the related contract with the periodic amortization reflected in earnings as a component of losses and LAE within the statements of operations related to our Segregated accounts. The amortization of deferred charge assets is adjusted at each reporting period to reflect new estimates of the amount and timing of the remaining loss payments. Changes in the estimated amount and the timing of payments of unpaid losses may have an effect on the unamortized deferred charge assets and the amount of periodic amortization. Deferred charge assets are assessed at each reporting period for impairment. If the asset is determined to be impaired, it is written down in the period in which the determination is made.

e. Management fee income

Management fee income earned by the Company’s general account for providing management services to its Segregated accounts is earned on a pro-rata basis over the period to which it relates.

f. Losses and loss adjustment expenses

Within liabilities held in Segregated accounts, the liability for losses and LAE includes an amount determined from reported claims and an amount, based on historical loss experience and industry statistics, for losses incurred but not reported (“IBNR”) determined using a variety of actuarial methods. These estimates are continually reviewed and are necessarily subject to the impact of future changes in factors such as claim severity and frequency, changes in economic conditions including the impact of inflation, legal and judicial developments and medical cost trends. While we believe that the amount is adequate, the ultimate liability may be in excess of, or less than, the amounts provided. Adjustments will be reflected as part of net increase or reduction in losses and LAE liabilities in the periods in which they become known. Premium and commission adjustments may be triggered by incurred losses and any amounts are recorded in the same period that the related incurred loss is recognized.

Our Segregated accounts also establish a provision for LAE relating to run-off costs for the estimated duration of the run-off of assumed liabilities within the Segregated accounts, which is included in losses and LAE. These provisions are assessed at each reporting date and provisions relating to future periods are adjusted to reflect any changes in estimates of the periodic run-off costs or the duration of the run-off, including the impact of any acceleration, of the run-off period that may be caused by commutations. Provisions relating to the current period together with any adjustment to future run-off provisions are included in net incurred losses and LAE in the statements of operations of the Segregated accounts.

Commutations have the effect of accelerating the payout of claims related to the liabilities assumed by the Segregated accounts. Any material acceleration of payouts together with the impact of any material loss reserve savings in any period will also accelerate the amortization of any fair value adjustments recorded on the assumption of these liabilities, in the period that acceleration occurs.

Gains or losses on settlement of losses and LAE liabilities by way of commutations or policy buy-backs are recognized upon execution of a commutation or policy buyback with the insured or reinsured.

g. Reinsurance

Reinsurance premiums ceded are accounted for on a pro-rata basis over the terms of the respective contracts of reinsurance. Commissions on reinsurance ceded are deferred and amortized over the terms of the contracts of reinsurance to which they relate.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

h. Reinsurance balances recoverable

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

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

i. Funds Held

Under funds held arrangements, the reinsured companies have retained funds that would otherwise have been remitted to the Segregated accounts. The funds balance is carried at cost 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 and net unrealized gains and losses in the Segregated accounts' statements of operations, to the extent such investment income accrues to the Segregated accounts.

Funds held are shown under two categories on the Segregated accounts' balance sheets, where funds held upon which the Segregated accounts receive the underlying portfolio economics are shown as "Funds held - directly managed", and funds held where they receive a fixed crediting rate are shown as "Funds held by reinsured companies". Funds held by reinsured companies are carried at cost. Funds held - directly managed, carried at fair value, represents the aggregate of funds held at cost and the fair value of an embedded derivative. The embedded derivative relates to our contractual right to receive the return on the underlying investment portfolio economics. The investment returns on both categories of funds held are recognized in net investment income and net realized and unrealized gains (losses) within the Segregated account's statements of operations. The revaluation of the embedded derivative is included within net unrealized gains (losses).

j. Foreign Exchange

Our reporting currency is the U.S. dollar. 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 at transaction date exchange rates. These exchange gains and losses are recognized in net earnings as Other income.

k. Derivative Instruments

Some of the Segregated accounts utilize derivative instruments in their foreign currency risk management strategy and recognize all derivatives as either assets or liabilities in the balance sheets and carry them at the fair value of the specific instruments utilized. Changes in the fair value as well as realized gains or losses on derivative instruments are recognized in net earnings if they are not designated as qualifying hedging instruments or if the criteria for establishing a perfectly effective designated hedging relationship for any net investment hedges utilized, has not been met.

New Accounting Standards Adopted in 2020

ASUs 2016-13, 2018-19, 2019-04, 2019-05, 2019-10 and 2019-11, Financial Instruments – Credit Losses – Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued ASU 2016-13, which is codified in ASC 326 - Financial Instruments - Credit Losses, amending the guidance on the impairment of financial instruments and significantly changing how entities measure credit losses for most financial assets and certain other financial instruments, including reinsurance balances recoverable on paid and unpaid losses that are not measured at fair value through net earnings. The ASU replaced the "incurred loss" approach that was previously applied to determine credit losses with an "expected loss" model for financial instruments measured at amortized cost. Under the "expected loss" model, the estimate of expected credit losses should consider historical information, current information, as

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

well as reasonable and supportable forecasts, including estimates of prepayments. The expected credit losses and subsequent adjustments to such losses are recorded through an allowance account that is deducted from the amortized cost basis of the financial asset, with the net carrying value of the financial asset presented on the balance sheet at the amount expected to be collected.

ASU 2016-13 also amends the OTTI model that was previously applicable to AFS debt securities, with the new approach now requiring the recognition of impairments relating to credit losses through an allowance account and limiting the amount of credit loss to the difference between a security's amortized cost basis and its fair value. This revised approach records the full effect of reversals of any credit losses in current period earnings, compared to previous guidance where this reversal was amortized over the lifetime of the security. Under this revised approach, the length of time a security has been in an unrealized loss position will no longer be considered in determining whether to record a credit loss. In addition, the historical and implied volatility of the fair value of a security and recoveries or declines in fair value after the balance sheet date will no longer be considered when making a determination of whether a credit loss exists.

We adopted ASU 2016-13 and all the related amendments on January 1, 2020 using the modified retrospective approach and recorded a cumulative effect adjustment of approximately $1.8 million to decrease opening retained earnings with respect to our financial instruments carried at amortized cost, which primarily relate to our reinsurance balances recoverable. As a result of adopting ASU 2016-13 and the related amendments, we also recorded a credit allowance of approximately related to our AFS debt securities whose fair values were less than their amortized cost basis.

In addition to the estimated quantitative impact of adopting ASU 2016-13 and the related amendments, as illustrated above, the guidance will also require us to amend and in certain cases, significantly enhance the qualitative disclosures included in our financial statements around the following specific items: (1) the credit risk inherent within our portfolios of financial assets and how we monitor credit quality, (2) how we determine the estimation of expected credit losses, (3) changes in the estimate of expected credit losses that have occurred during each reporting period, and (4) providing a roll-forward analysis of our allowance for credit losses.

Accounting Standards Update ("ASU") 2020-10 – Codification Improvements

In October 2020, the Financial Accounting Standards Board ("FASB") issued ASU 2020-10, which (1) removes references to various FASB Concepts Statements, (2) situates all disclosure guidance in the appropriate disclosure section of the Codification, and (3) makes other improvements and technical corrections to the Codification, with these amendments being applied retrospectively. We early adopted this guidance and that adoption did not have a material impact on our financial statements and disclosures.

ASU 2020-04 and ASU 2021-01– Reference Rate Reform

In March 2020, the FASB issued ASU 2020-04, which is codified in Accounting Standards Codification ("ASC") 848 and which provides entities with temporary optional expedients and exceptions to the existing US GAAP guidance on contract modifications and hedge accounting to ease the financial reporting burdens related to the expected market transition from the London Inter-bank Offered Rate ("LIBOR") and other inter-bank offered rates to alternative reference rates, such as the Secured Overnight Financing Rate ("SOFR").

Under the provisions of ASU 2020-04, entities can elect not to apply certain modification accounting requirements to contracts affected by reference rate reform, if certain criteria are met. An entity that makes this election would not have to remeasure the contracts at the modification date or reassess a previous accounting determination. Entities can also elect various optional expedients for hedging relationships affected by reference rate reform, if certain criteria are met. Once elected, the amendments in this guidance must be applied prospectively for all eligible contract modifications.

Subsequently in January 2021, the FASB issued ASU 2021-01 to refine the scope of ASC 848 and clarify that certain optional expedients and exceptions in ASC 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. Specifically, the ASU clarified that certain provisions in ASC 848, if elected by an entity, apply to derivative instruments that use an interest rate for margining, discounting, or contract price alignment that is modified as a result of reference rate reform. The amendments in ASU 2021-01 are effective immediately for all entities and can be applied either on a full retrospective or prospective basis depending on the facts and circumstances.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASU 2020-04 was effective upon issuance and can be applied through to December 31, 2022. We adopted the ASU upon its issuance and as we transition from LIBOR to alternative reference rates, we have elected the temporary optional expedients and exceptions to the existing US GAAP guidance on contract modifications and hedge accounting permitted by the ASU, as appropriate. The adoption of this standard did not have any impact on our financial statements and disclosures.

ASU 2020-03 – Codification Improvements to Financial Instruments

In March 2020, the FASB issued ASU 2020-03, which makes narrow-scope improvements to various topics within the codification relating to financial instruments, including the new credit losses standard. The amendments related to certain specific issues covered by the ASU were effective immediately upon the issuance of the ASU, while certain specific issues covered by the ASU and affecting the credit losses standard in ASU 2016-13 were effective in 2020 for those entities that have already adopted ASU 2016-13. We adopted the amendments in this ASU upon its issuance and that adoption did not have a material impact on our financial statements and the related disclosures.

Recently Issued Accounting Pronouncements Not Yet Adopted

ASU 2020-08 – Codification Improvements to Subtopic 310-20 - Receivables - Nonrefundable Fees and Other Costs

In October 2020, the FASB issued ASU 2020-08 to clarify that an entity should re-evaluate whether a callable debt security is within the scope of ASC 310-20-35-33 during each reporting period. All entities are required to apply the amendments in this ASU on a prospective basis as of the beginning of the period of adoption for existing or newly purchased callable debt securities.

The amendments in this ASU are effective for interim and annual reporting periods beginning after December 15, 2020, and early adoption is not permitted. We do not expect the adoption of this guidance to have a material impact on our financial statements and the related disclosures.

3. INVESTMENTS

Other investments, at fair value

As of December 31, 2020, the Company's General account had $1.8 million (December 31, 2019: $2.8 million) of other investments, at fair value comprising of holdings in a fixed income fund, all of whose investors are Enstar subsidiaries and affiliates. The fixed income fund is a diversified fund managed by a third-party manager with the underlying investments ranging from high-grade corporate bonds to non-investment grade senior secured loans and bonds, but are generally invested in liquid fixed income markets. This fund has regularly published prices and is redeemable weekly.

For the year ended December 31, 2020, the Company's General account recognized $0.3 million (December 31, 2019: $0.1 million) in net unrealized investment gains in respect of its investment in this fixed income fund.

Fair value measurements

The general account's investment in the fixed income fund is valued based on a combination of prices from independent pricing services, external fund managers or third-party administrators. These prices are publicly available and therefore the investment was classified as Level 2 within the fair value hierarchy. Refer to Note 4 - "Assets held in, and liabilities related to, segregated accounts" for a full description of the Company's fair value measurements.

4. ASSETS HELD IN, AND LIABILITIES RELATED TO, SEGREGATED ACCOUNTS

The Company maintained 18 Segregated accounts during the year ended December 31, 2020 (2019 - 21), which includes 14 (2019 - 17) affiliated Segregated accounts. Refer to Note 6 - "Related Party Transactions", for a summary analysis of the balances arising from reinsurance transactions with affiliated entities. The classes of business written through the Segregated accounts include workers compensation, marine and aviation, general liability, property, auto liability and directors' and officers' insurance.

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

4. ASSETS HELD IN, AND LIABILITIES RELATED TO, SEGREGATED ACCOUNTS (Continued)

Segregated accounts' assets and liabilities are shown separately on the balance sheets as assets held in, and liabilities related to, Segregated accounts. A summary of these balances as at December 31, 2020 and 2019 is presented below:

	2020	2019
ASSETS		
Short-term investments, trading, at fair value	$ —	$ 200
Short-term investments, available-for-sale, at fair value (amortized cost: 2020 - $nil; 2019 - $6,811)	—	6,812
Fixed maturities, trading, at fair value	228,740	402,793
Fixed maturities, available-for-sale, at fair value (amortized cost: 2020 - $138,852; 2019 - $35,188)	143,734	35,227
Funds held - directly managed	881,980	914,341
Equities, at fair value	6,545	8,727
Other investments, at fair value	172,471	244,626
Total investments	1,433,470	1,612,726
Cash and cash equivalents	24,884	11,551
Restricted cash and cash equivalents	30,122	55,617
Reinsurance balances recoverable	120,856	158,182
Funds held by reinsured companies	462,834	649,848
Other receivables	64,358	47,438
Other assets	47,171	56,401
Amounts due from affiliates	—	3,659
ASSETS HELD IN SEGREGATED ACCOUNTS	**$ 2,183,695**	**$ 2,595,422**
LIABILITIES		
Losses and loss adjustment expenses	$ 1,479,797	$ 1,836,182
Insurance balances payable	36,521	44,119
Funds held from reinsurers	671	671
Other liabilities	464	2,207
Amounts due to affiliates	2,736	30,844
Unearned premiums	—	1,166
LIABILITIES HELD IN SEGREGATED ACCOUNTS	1,520,189	1,915,189
SHAREHOLDERS' EQUITY		
Preferred shares	34	36
Additional paid-in capital	477,888	511,440
Accumulated other comprehensive income	4,882	39
Retained earnings	180,702	168,718
TOTAL SHAREHOLDERS' EQUITY	663,506	680,233
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY IN SEGREGATED ACCOUNTS	**$ 2,183,695**	**$ 2,595,422**

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

4. ASSETS HELD IN, AND LIABILITIES RELATED TO, SEGREGATED ACCOUNTS (Continued)

The operations of the various Segregated accounts for the years ended December 31, 2020 and 2019 were as follows:

	2020	2019
Premiums written	$ (1,976)	$ (2,931)
Change in unearned premiums	1,166	59,111
Net premiums earned	(810)	56,180
Net acquisition costs	(899)	(26,411)
Net incurred losses and loss adjustment expenses	38,989	(10,359)
Net underwriting income	37,280	19,410
Fees and commission income	18,741	7,369
Net investment income	49,557	83,438
Net realized and unrealized gains (losses)	73,054	194,029
Other income	2,029	4,668
General and administrative expenses	(22,690)	(42,613)
Net income attributable to Segregated accounts	**$ 157,971**	**$ 266,301**

The statements of comprehensive income of the various Segregated accounts for the years ended December 31, 2020 and 2019 were as follows:

	2020	2019
Net income	$ 157,971	$ 266,301
Other comprehensive gain:		
Unrealized holding gains on investments arising during the year	4,843	39
Currency translation adjustments	—	7
Total other comprehensive gain	4,843	46
Comprehensive income attributable to Segregated accounts	**$ 162,814**	**$ 266,347**

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

4. ASSETS HELD IN, AND LIABILITIES RELATED TO, SEGREGATED ACCOUNTS (Continued)

The statements of changes in shareholders' equity of the various Segregated accounts for the years ended December 31, 2020 and 2019 were as follows:

	2020	2019
PREFERRED SHARES		
Balance, beginning of year	$ 36	$ 27
Redemptions	(2)	(1)
Issue of shares	—	10
Balance, end of year	$ 34	$ 36
ADDITIONAL PAID-IN CAPITAL		
Balance, beginning of year	$ 511,440	$ 580,326
Capital contributions	—	48,000
Return of capital	(33,552)	(116,886)
Balance, end of year	$ 477,888	$ 511,440
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)		
Balance, beginning of year	$ 39	$ (7)
Currency translation adjustments	—	7
Net movement in unrealized holding gains/losses on investments	4,843	39
Balance, end of year	$ 4,882	$ 39
RETAINED EARNINGS		
Balance, beginning of year	$ 168,718	$ 225,868
Net income attributable to Segregated accounts	157,971	266,301
Cumulative effect of change in accounting principle	(1,803)	—
Dividends paid	(144,184)	(323,451)
Balance, end of year	$ 180,702	$ 168,718

Investments

We hold: (i) trading portfolios of fixed maturity investments, short-term investments and equities, carried at fair value; (ii) AFS portfolios of fixed maturity and short-term investments, carried at fair value; (iii) other investments carried at fair value; and (iv) funds held - directly managed, carried at fair value.

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

4. ASSETS HELD IN, AND LIABILITIES RELATED TO, SEGREGATED ACCOUNTS (Continued)

Fixed Maturity Investments

Asset Types

The fair values of the underlying asset types comprising our short-term investments and fixed maturity investments classified as trading and AFS, and the fixed maturity investments included within our funds held - directly managed balance were as follows as at December 31, 2020 and 2019:

	2020					
	Short-term investments, trading	Short-term investments-AFS	Fixed maturities, trading	Fixed maturities-AFS	Funds Held - Directly Managed	Total
U.S. government and agency	$ —	$ —	$ 456	$ 11,382	$ 72,504	$ 84,342
Other government	—	—	913	928	19,153	20,994
Corporate	—	—	145,779	82,325	416,711	644,815
Municipal	—	—	216	5,787	46,126	52,129
Residential mortgage-backed	—	—	2,474	6,275	66,436	75,185
Commercial mortgage-backed	—	—	45,306	26,688	201,078	273,072
Asset backed	—	—	33,596	10,349	50,065	94,010
Total fixed maturity and short-term investments	$ —	$ —	$ 228,740	$ 143,734	$ 872,073	$ 1,244,547

	2019					
	Short-term investments, trading	Short-term investments-AFS	Fixed maturities, trading	Fixed maturities-AFS	Funds Held - Directly Managed	Total
U.S. government and agency	$ —	$ 6,812	$ 17,781	$ 5,321	$ 51,083	$ 80,997
U.K. government	200	—	1,035	1,051	—	2,286
Other government	—	—	3,865	—	19,667	23,532
Corporate	—	—	262,561	18,984	438,017	719,562
Municipal	—	—	206	—	43,549	43,755
Residential mortgage-backed	—	—	5,686	—	81,361	87,047
Commercial mortgage-backed	—	—	59,919	7,330	200,920	268,169
Asset backed	—	—	51,740	2,541	70,303	124,584
Total fixed maturity and short-term investments	$ 200	$ 6,812	$ 402,793	$ 35,227	$ 904,900	$ 1,349,932

Included within residential and commercial mortgaged-backed securities as at December 31, 2020 are securities issued by U.S. governmental agencies with a fair value of $52.9 million (2019 - $62.8 million).

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

4. ASSETS HELD IN, AND LIABILITIES RELATED TO, SEGREGATED ACCOUNTS (Continued)

Contractual Maturities

The contractual maturities of the Company's short-term and fixed maturity investments classified as trading and AFS, and the fixed maturity investments included within our funds held - directly managed balance are shown below. Actual maturities may differ from contractual maturities because borrowers 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	$ 41,968	$ 42,555	3.4 %
More than one year through two years	39,487	40,622	3.3 %
More than two years through five years	129,299	137,815	11.1 %
More than five years through ten years	224,241	246,705	19.8 %
More than ten years	282,559	334,583	26.9 %
	717,554	802,280	64.5 %
Residential mortgage-backed	74,091	75,185	6.0 %
Commercial mortgage-backed	260,127	273,072	21.9 %
Asset-backed	93,731	94,010	7.6 %
	$ 1,145,503	$ 1,244,547	100.0 %

Credit Ratings

The following table sets forth the credit ratings of our short-term investments and fixed maturity investments, classified as trading and AFS, and the fixed maturity investments included within our funds held - directly managed balance as of December 31, 2020:

	Amortized cost	Fair value	% of total investments	AAA rated	AA rated	A rated	BBB rated	Non-investment grade
U.S. government and agency	$ 77,149	$ 84,342	6.8%	$ 84,342	$ —	$ —	$ —	$ —
Other government	18,896	20,994	1.7%	—	7,770	9,359	3,409	456
Corporate	575,890	644,815	51.8%	2,471	29,362	282,796	300,046	30,140
Municipal	45,619	52,129	4.2%	140	14,758	29,617	7,614	—
Residential mortgage-backed	74,091	75,185	6.0%	72,842	—	181	1,774	388
Commercial mortgage-backed	260,127	273,072	21.9%	218,672	42,542	11,858	—	—
Asset-backed	93,731	94,010	7.6%	59,325	24,063	7,039	3,583	—
Total	$ 1,145,503	$ 1,244,547	100.0%	$ 437,792	$ 118,495	$ 340,850	$ 316,426	$ 30,984
% of total fair value				35.2 %	9.5 %	27.4 %	25.4 %	2.5 %

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

4. ASSETS HELD IN, AND LIABILITIES RELATED TO, SEGREGATED ACCOUNTS (Continued)

Fixed Maturity Investments

Unrealized Gains and Losses on Available-for-Sale Fixed Maturity Investments

The amortized cost and fair values of our fixed maturity investments classified as available-for-sale were as follows as at December 31, 2020 and 2019:

			Gross Unrealized Losses		
2020	**Amortized Cost**	**Gross Unrealized Gains**	**Non- Credit Related Losses**	**Allowance for Credit Losses [1]**	**Fair Value**
U.S. government and agency	$ 11,636	$ 96	$ (350)	$ —	$ 11,382
Other government	891	37	—	—	928
Corporate	78,422	3,917	(14)	—	82,325
Municipal	5,530	257	—	—	5,787
Residential mortgage-backed	6,242	35	(2)	—	6,275
Commercial mortgage-backed	25,833	868	(13)	—	26,688
Asset-backed	10,298	55	(4)	—	10,349
	$ 138,852	$ 5,265	$ (383)	$ —	$ 143,734

[1] The Company adopted ASU 2016-13 and the related amendments on January 1, 2020. Refer to Note 1 - "Significant Accounting Policies" for further details.

	2019			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses Non-OTTI**	**Fair Value**
U.S. government and agency	$ 12,160	$ 1	$ (28)	$ 12,133
U.K. government	1,050	1	—	1,051
Corporate	18,836	183	(35)	18,984
Commercial mortgage-backed	7,409	—	(79)	7,330
Asset-backed	2,544	—	(3)	2,541
	$ 41,999	$ 185	$ (145)	$ 42,039

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

4. ASSETS HELD IN, AND LIABILITIES RELATED TO, SEGREGATED ACCOUNTS (Continued)

Gross Unrealized Losses on Available-for-Sale Fixed Maturity Investments

The following tables summarize our fixed maturity and short-term investments classified as AFS in a gross unrealized loss position, as at December 31, 2020 and 2019:

	2020					
	12 Months or Greater		Less Than 12 Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturity investments, at fair value						
U.S. government and agency	$ —	$ —	$ 6,266	$ (350)	$ 6,266	$ (350)
Corporate	—	—	5,851	(14)	5,851	(14)
Residential mortgage-backed	—	—	2,308	(2)	2,308	(2)
Commercial mortgage-backed	—	—	2,134	(13)	2,134	(13)
Asset-backed	—	—	1,286	(4)	1,286	(4)
Total fixed maturity investments	$ —	$ —	$ 17,845	$ (383)	$ 17,845	$ (383)

	2019					
	12 Months or Greater		Less Than 12 Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturity investments, at fair value						
U.S. government and agency	$ —	$ —	$ 6,976	$ (28)	$ 6,976	$ (28)
Corporate	—	—	6,424	(35)	6,424	(35)
Commercial mortgage-backed	—	—	7,330	(79)	7,330	(79)
Asset-backed	—	—	2,541	(3)	2,541	(3)
Total fixed maturity investments	$ —	$ —	$ 23,271	$ (145)	$ 23,271	$ (145)

As at December 31, 2020 and 2019, the number of securities classified as AFS in an unrealized loss position was 44 and 45, respectively. Of these securities, none had been in an unrealized loss position for twelve months or longer.

Allowance for Credit Losses on AFS Fixed Maturity Investments

We adopted ASU 2016-13 and the related amendments on January 1, 2020 prospectively, and recognized an allowance for credit losses of $0.1m on initial adoption of the guidance. Our allowance for credit losses is derived based on various data sources, multiple key inputs and forecast scenarios. These include default rates specific to the individual security, vintage of the security, geography of the issuer of the security, industry analyst reports, credit ratings and consensus economic forecasts.

To determine the credit losses on our AFS securities, we use the probability of default ("PD") and loss given default ("LGD") methodology through a third-party proprietary tool which calculates the expected credit losses based on a discounted cash flow method. The tool uses effective interest rates to discount the expected cash flows associated with each AFS security to determine its fair value, which is then compared with its amortized cost basis to derive the credit loss on the security.

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

4. ASSETS HELD IN, AND LIABILITIES RELATED TO, SEGREGATED ACCOUNTS (Continued)

The methodology and inputs used to determine the credit loss by security type are as follows:

- *Corporate and Government:* Expected cashflows are derived that are specific to each security. The PD is based on a quantitative model that converts agency ratings to term structures that vary by country, industry and the state of the credit cycle. This is used along with macroeconomic forecasts to produce scenario conditioned PDs. The LGD is based on default studies provided by a third party which we use along with macroeconomic forecasts to produce scenario conditioned LGDs.

- *Municipals:* Expected cash flows are derived that are specific to each security. The PD model produces scenario conditioned PD output over the lifetime of the municipal security. These PDs are based on key macroeconomic and instrument specific risk factors. The LGD is derived based on a model which uses assumptions specific to the municipal securities.

For corporate, government and municipal securities, we use an explicit reversion and a three year forecast period, which we consider to be a reasonable duration during which an economic forecast could continue to be reliable.

- *Asset backed, Commercial and Residential mortgaged-backed:* Expected cash flows are derived that are specific to each security. The PD and LGD for each security is based on a quantitative model that generates scenario conditioned PD and LGD term structures based on the underlying collateral type, waterfall and other trustee information. This model also considers prepayments. For these security types, there is no explicit reversion and the forecasts are deemed reasonable and supportable over the life of the portfolio.

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 debt securities is paid semi-annually or more frequently, we 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.

The following table provides a reconciliation of the beginning and ending allowance for credit losses on our AFS debt securities:

	December 31, 2020					
	Other government	Corporate	Residential mortgage-backed	Commercial mortgage backed	Asset-backed	Total
Allowance for credit losses, beginning of year	$ —	$ —	$ —	$ —	$ —	$ —
Cumulative effect of change in accounting principle	—	(32)	—	(46)	—	(78)
Allowances for credit losses on securities for which credit losses were not previously recorded	—	(408)	—	—	—	(408)
Reductions for securities sold during the year	—	60	—	—	—	60
(Increase) decrease to the allowance for credit losses on securities that had an allowance recorded in the previous period	—	380	—	46	—	426
Allowance for credit losses, end of year	$ —	$ —	$ —	$ —	$ —	$ —

Other-Than-Temporary Impairment on AFS Fixed Maturity Investments

For the year ended December 31, 2019, we did not recognize any OTTI losses on our AFS securities. We determined that no credit losses existed as at December 31, 2019. A description of our historical OTTI process is included in Note 2 - "Significant Accounting Policies".

Equity Investments

Our publicly traded equity investments in common and preferred stocks predominantly trade on the major stock exchanges and are managed by our external advisors.

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

4. ASSETS HELD IN, AND LIABILITIES RELATED TO, SEGREGATED ACCOUNTS (Continued)

The following table summarizes our equity investments carried at fair value as of December 31, 2020 and 2019:

	2020	2019
Publicly traded equity investments in common and preferred stocks	$ 6,545	$ 8,727

Other Investments, at fair value

The following table summarizes our other investments carried at fair value as of December 31, 2020 and 2019:

	2020	2019
Private equity funds	$ 27,389	$ 40,817
Patcham Fixed Income fund	100,500	154,173
Hedge fund	11,579	11,604
CLO equities	2,304	1,968
CLO equity fund	10,672	9,713
Patcham Balanced fund	20,027	26,351
	$ 172,471	$ 244,626

Due to a lag in the valuations of certain funds reported by the managers, we may record changes in valuation with up to a three-month lag. We regularly review and discuss fund performance with the fund managers to corroborate the reasonableness of the reported net asset values and to assess whether any events have occurred within the lag period that would affect the valuation of the investments. The following is a description of the nature of each of these investment categories:

- *Private equity funds* invest primarily in the financial services industry. All of our investments in private equities and private equity funds are subject to restrictions on redemptions and sales that are determined by the governing documents and limit our ability to liquidate those investments. These restrictions have been in place since the inception of the investments.

- The *Patcham Fixed Income fund,* all of whose investors are Enstar subsidiaries and affiliates, is an investment in a diversified fixed income fund that is managed by a third-party manager. Underlying investments vary from high-grade corporate bonds to non-investment grade senior secured loans and bonds, but are generally invested in liquid fixed income markets. This fund has regularly published prices and is redeemable weekly.

- The *hedge fund* invests in a diversified portfolio of debt securities and is currently eligible for redemption.

- *CLO equities* comprise investments in the equity tranches of term-financed securitizations of diversified pools of corporate bank loans. CLO equities denote direct investments by the Segregated accounts in these securities.

- The *CLO equity fund* invests primarily in the equity tranches of term-financed securitizations of diversified pools of corporate bank loans and is currently eligible for redemption.

- The *Patcham Balanced fund,* all of whose investors are Enstar subsidiaries and affiliates, comprises a number of positions in diversified fixed income, equity funds and also direct holdings in fixed income and equity securities. The fund has regularly published prices and is redeemable weekly.

As at December 31, 2020, the Segregated accounts had unfunded commitments to private equity funds of $26.5 million (2019 - $43.1 million).

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

4. ASSETS HELD IN, AND LIABILITIES RELATED TO, SEGREGATED ACCOUNTS (Continued)

Funds Held

Under the funds held arrangements, the reinsured company has retained funds that would otherwise have been remitted to our Segregated accounts. We either have (i) funds held - directly managed, which are carried at fair value and on which our Segregated accounts receive the underlying return on the portfolio, or (ii) funds held by reinsured companies, which are carried at amortized cost and on which our Segregated accounts receive a fixed crediting rate. The investment returns on both categories of funds held are recognized in net investment income and net realized and unrealized gains (losses). The funds held balance is credited with investment income and losses payable are deducted.

Funds Held - Directly Managed

Funds held - directly managed, where we receive the underlying return on the investment portfolio, are carried at fair value, because it represents the aggregate of funds held at amortized cost and the fair value of an embedded derivative. The embedded derivative relates to our contractual right to receive the return on the underlying investment portfolio supporting the reinsurance contract. We include the estimated fair value of these embedded derivatives on our balance sheets with the host contract in order to reflect the expected settlement of these features with the host contract. The change in the fair value of the embedded derivative is included in net unrealized gains (losses). The following table summarizes the components of the funds held - directly managed as of December 31, 2020 and 2019:

	2020	2019
Fixed maturity investments, trading	$ 872,073	$ 904,900
Other assets	9,907	9,441
	$ 881,980	$ 914,341

The following table summarizes the fixed maturity investment components of funds held - directly managed as of December 31, 2020 and 2019:

	Funds Held - Directly Managed - Variable Return	
	2020	2019
Fixed maturity investments, at amortized cost	$ 795,002	$ 867,245
Net unrealized gains (losses):		
Change in fair value - embedded derivative accounting	77,071	37,655
Fixed maturity investments within funds held - directly managed, at fair value	$ 872,073	$ 904,900

Funds Held by Reinsured Companies

Funds held by reinsured companies, where we receive a fixed crediting rate, are carried at cost on our balance sheets. As of December 31, 2020 and 2019, we had funds held by reinsured companies of $462.8 million and $649.8 million, respectively.

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

4. ASSETS HELD IN, AND LIABILITIES RELATED TO, SEGREGATED ACCOUNTS (Continued)

Net Investment Income

Major categories of net investment income for the years ended December 31, 2020 and 2019 are summarized as follows:

	2020	2019
Fixed maturity investments	$ 12,843	$ 19,629
Short-term investments and cash and cash equivalents	438	2,206
Funds held	4	11,462
Funds held – directly managed	27,763	30,212
Equity securities	737	936
Other investments	373	346
Interest income from affiliate	8,112	19,149
Gross investment income	50,270	83,940
Investment expenses	(713)	(502)
Net investment income	$ 49,557	$ 83,438

Net Realized and Unrealized Gains (Losses)

Components of net realized and unrealized gains (losses) for the years ended December 31, 2020 and 2019 were as follows:

	2020	2019
Net realized gains (losses) on sale:		
Gross realized gains on fixed maturity securities, available-for-sale	$ 2,131	$ 32
Gross realized losses on fixed maturity securities, available-for-sale	(696)	(63)
Decrease in allowance for expected credit losses on fixed maturity securities, available-for-sale	18	—
Net realized investment gains (losses) on fixed maturity securities, trading	9,165	4,881
Net realized investment gains (losses) on equity securities	—	(30)
Net realized investment gains (losses) on funds held - directly managed	7,719	(1,154)
Total net realized gains (losses) on sale	18,337	3,666
Net unrealized gains (losses):		
Fixed maturity securities, trading	517	24,691
Equity securities	(2,182)	(1,961)
Other investments	16,221	37,007
Change in fair value of funds held - directly managed	39,416	74,243
Total net unrealized gains (losses)	53,972	133,980
Net realized gains and change in fair value of embedded derivative:		
Net realized gains on fixed maturities	—	10,300
Change in fair value of embedded derivative	745	46,083
Net realized gains and change in fair value of embedded derivative	745	56,383
Net realized and unrealized gains (losses)	$ 73,054	$ 194,029

The net realized gains (losses) and change in the fair value of the embedded derivative relate to the total return on the assets retained by SIBL and Clarendon under the terms of their reinsurance agreements with the Company's Segregated accounts. As

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

4. ASSETS HELD IN, AND LIABILITIES RELATED TO, SEGREGATED ACCOUNTS (Continued)

of December 31, 2020 and 2019, the following funds were withheld from the Company's Segregated accounts by affiliated companies and included within "Funds held by reinsured companies" within the balance sheets.

	2020	2019
Clarendon	$ 129,610	$ 177,483
SIBL	83,073	90,096
	$ 212,683	$ 267,579

Restricted Assets

We are required to maintain investments and cash and cash equivalents on deposit to support the insurance and reinsurance operations of our Segregated accounts. The investments and cash and cash equivalents on deposit are available to settle insurance and reinsurance liabilities of our Segregated accounts. 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 held in trust as collateral are primarily highly rated fixed maturity securities. The carrying value of our restricted assets, including restricted cash of $30.1 million and $55.6 million, as of December 31, 2020 and 2019, respectively, was as follows:

	2020	2019
Collateral in trust for third party agreements	$ 340,332	$ 383,066
Collateral for secured letter of credit facilities	595	26,593
	$ 340,927	$ 409,659

Fair Value Measurements

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 the lowest priority to unobservable data. The hierarchy is broken down into three levels as follows:

- Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that 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.

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

4. ASSETS HELD IN, AND LIABILITIES RELATED TO, SEGREGATED ACCOUNTS (Continued)

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 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)	Significant Unobservable Inputs (Level 3)	Fair Value Based on NAV as Practical Expedient	Total Fair Value
Investments:					
Fixed maturity investments:					
U.S. government and agency	$ —	$ 84,342	$ —	$ —	$ 84,342
U.K. government	—	—	—	—	—
Other government	—	20,994	—	—	20,994
Corporate	—	644,815	—	—	644,815
Municipal	—	52,129	—	—	52,129
Residential mortgage-backed	—	75,185	—	—	75,185
Commercial mortgage-backed	—	273,072	—	—	273,072
Asset-backed	—	94,010	—	—	94,010
	—	1,244,547	—	—	1,244,547
Other assets included within funds held - directly managed	—	9,907	—	—	9,907
Equities:					
Publicly traded equity investments	—	6,545	—	—	6,545
	—	6,545	—	—	6,545
Other investments:					
Private equity funds	—	—	—	27,389	27,389
Patcham Fixed income fund	—	100,500	—	—	100,500
Hedge funds	—	—	—	11,579	11,579
CLO equities	—	2,304	—	—	2,304
CLO equity funds	—	—	—	10,672	10,672
Patcham Balanced fund	—	20,027	—	—	20,027
	—	122,831	—	49,640	172,471
Total Investments	$ —	$ 1,383,830	$ —	$ 49,640	$ 1,433,470
Cash and cash equivalents	$ 19,246	$ —	$ —	$ —	$ 19,246
Other Assets:					
Derivative Instruments	$ —	$ 11	$ —	$ —	$ 11
	$ —	$ 11	$ —	$ —	$ 11
Other Liabilities:					
Derivative Instruments	$ —	$ 685	$ —	$ —	$ 685
	$ —	$ 685	$ —	$ —	$ 685

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

4. ASSETS HELD IN, AND LIABILITIES RELATED TO, SEGREGATED ACCOUNTS (Continued)

	December 31, 2019				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value Based on NAV as Practical Expedient	Total Fair Value
Investments:					
Fixed maturity investments:					
U.S. government and agency	$ —	$ 80,997	$ —	$ —	$ 80,997
U.K. government	—	2,286	—	—	2,286
Other government	—	23,532	—	—	23,532
Corporate	—	719,562	—	—	719,562
Municipal	—	43,755	—	—	43,755
Residential mortgage-backed	—	87,047	—	—	87,047
Commercial mortgage-backed	—	268,169	—	—	268,169
Asset-backed	—	124,584	—	—	124,584
	—	1,349,932	—	—	1,349,932
Other assets included within funds held - directly managed	—	9,441	—	—	9,441
Equities:					
Publicly traded equity investments	—	8,727	—	—	8,727
	—	8,727	—	—	8,727
Other investments:					
Private equity funds	—	—	—	40,817	40,817
Patcham Fixed income funds	—	154,173	—	—	154,173
Hedge funds	—	—	—	11,604	11,604
CLO equities	—	—	1,968	—	1,968
CLO equity funds	—	—	—	9,713	9,713
Patcham Balanced fund	—	26,351	—	—	26,351
	—	180,524	1,968	62,134	244,626
Total Investments	$ —	$ 1,548,624	$ 1,968	$ 62,134	$ 1,612,726
Cash and cash equivalents	$ 13,209	$ 19,415	$ —	$ —	$ 32,624
Other Assets:					
Derivative Instruments	—	918	—	—	918
	$ —	$ 918	$ —	$ —	$ 918
Other Liabilities:					
Derivative Instruments	—	2,081	—	—	2,081
	$ —	$ 2,081	$ —	$ —	$ 2,081

4. ASSETS HELD IN, AND LIABILITIES RELATED TO, SEGREGATED ACCOUNTS (Continued)

Valuation Methodologies of Financial Instruments Measured at Fair Value

Fixed Maturity Investments

The fair values for all securities in the fixed maturity investments and funds held - directly managed portfolios are independently provided by the investment accounting service providers, investment managers and investment custodians, each of which utilize internationally recognized independent pricing services. We record the unadjusted price provided by the investment accounting service providers, investment managers or investment custodians and validate this price through a process that includes, but is not limited to: (i) comparison of prices against alternative pricing sources; (ii) quantitative analysis (e.g. comparing the quarterly return for each managed portfolio to its target benchmark); (iii) evaluation of methodologies used by external parties to estimate fair value, including a review of the inputs used for pricing; and (iv) comparing the price to our knowledge of the current investment market. Our internal price validation procedures and review of fair value methodology documentation provided by independent pricing services have not historically resulted in the adjustment of the prices obtained from the pricing services.

The independent pricing services used by the investment accounting service providers, investment managers and investment custodians obtain actual transaction prices for securities that have quoted prices in active markets. Where we utilize single unadjusted broker-dealer quotes, they are generally provided by market makers or broker-dealers who are recognized as market participants in the markets in which they are providing the quotes.

For determining the fair value of securities that are not actively traded, in general, pricing services use "matrix pricing" in which the independent pricing service uses observable market inputs including, but not limited to, reported trades, benchmark yields, broker-dealer quotes, interest rates, prepayment speeds, default rates and other such inputs as are available from market sources to determine a reasonable fair value. In addition, pricing services use valuation models, using observable data, such as an Option Adjusted Spread model, to develop prepayment and interest rate scenarios. The Option Adjusted Spread model is commonly used to estimate fair value for securities such as mortgage-backed and asset-backed securities.

The following describes the techniques generally used to determine the fair value of our fixed maturity investments by asset class, including the investments underlying the funds held - directly managed:

- U.S. government and agency securities consist of securities issued by the U.S. Treasury and mortgage pass-through agencies such as the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and other agencies. Non-U.S. government securities consist of bonds issued by non-U.S. governments and agencies along with supranational organizations. The significant inputs used to determine the fair value of these securities include the spread above the risk-free yield curve, reported trades and broker-dealer quotes. These are considered to be observable market inputs and, therefore, the fair values of these securities are classified as Level 2.

- Corporate securities consist primarily of investment-grade debt of a wide variety of corporate issuers and industries. The fair values of these securities are determined using the spread above the risk-free yield curve, reported trades, broker-dealer quotes, benchmark yields, and industry and market indicators. These are considered observable market inputs and, therefore, the fair values of these securities are classified as Level 2. Where pricing is unavailable from pricing services, such as in periods of low trading activity or when transactions are not orderly, we obtain non-binding quotes from broker-dealers. Where significant inputs are unable to be corroborated with market observable information, we classify the securities as Level 3.

- Municipal securities consist primarily of bonds issued by U.S.-domiciled state and municipal entities. The fair values of these securities are determined using the spread above the risk-free yield curve, reported trades, broker-dealer quotes and benchmark yields. These are considered observable market inputs and, therefore, the fair values of these securities are classified as Level 2.

- Asset-backed securities consist primarily of investment-grade bonds backed by pools of loans with a variety of underlying collateral. Residential and commercial mortgage-backed securities include both agency and non-agency originated securities. Where pricing is unavailable from pricing services, we obtain non-binding quotes from broker-dealers. This is generally the case when there is a low volume of trading activity and current transactions are not orderly. The significant inputs used to determine the fair value of these securities include the spread above the risk-free yield curve, reported trades, benchmark yields, prepayment speeds and default rates. The fair values of these

4. ASSETS HELD IN, AND LIABILITIES RELATED TO, SEGREGATED ACCOUNTS (Continued)

securities are classified as Level 2 if the significant inputs are market observable. Where significant inputs are unable to be corroborated with market observable information, we classify the securities as Level 3.

Equities

We use internationally recognized pricing services to estimate the fair value of our publicly traded equities. Our equity securities trade in an inactive market and, as a result have been classified as Level 2. The fair value estimates of our investments in publicly traded preferred stock are based on observable market data and, as a result, have been categorized as Level 2.

Other investments, at fair value

We have ongoing due diligence processes with respect to the other investments carried at fair value in which we invest and their managers. These processes are designed to assist us in assessing the quality of information provided by, or on behalf of, each fund and in determining whether such information continues to be reliable or whether further review is warranted. Certain funds do not provide full transparency of their underlying holdings; however, we obtain the audited financial statements for funds annually, and regularly review and discuss the fund performance with the fund managers to corroborate the reasonableness of the reported net asset values.

The use of NAV as an estimate of the fair value for investments in certain entities that calculate NAV is a permitted practical expedient. Due to the time lag in the NAV reported by certain fund managers we adjust the valuation for capital calls and distributions. Other investments measured at fair value using NAV as a practical expedient have not been classified in the fair value hierarchy. Other investments for which we do not use NAV as a practical expedient have been valued using prices from independent pricing services, investment managers and broker-dealers.

The following describes the techniques generally used to determine the fair value of our other investments:

- For our investments in private equity funds, we measure fair value by obtaining the most recently available NAV from the external fund manager or third-party administrator. The fair values of these investments are measured using the NAV as a practical expedient and therefore have not been categorized within the fair value hierarchy.
- Our investments in the fixed income and balanced funds are valued based on a combination of prices from independent pricing services, external fund managers or third-party administrators. These are publicly available prices so therefore we have classified the investments as Level 2.
- For our investments in hedge funds, we measure fair value by obtaining the most recently available NAV as advised by the external fund manager or third-party administrator. The fair value of the investment is measured using the NAV as a practical expedient and therefore has not been categorized within the fair value hierarchy.
- We measure the fair value of our direct investment in CLO equities based on valuations provided by independent pricing services, our external CLO equity manager, and valuations provided by the broker or lead underwriter of the investment (the "broker"). The fair values measured using prices provided by independent pricing services have been classified as Level 2 and fair values using prices from brokers have been classified as Level 3 due to the use of unobservable inputs in the valuation and the limited number of relevant trades in secondary markets.
- For our investment in the CLO equity fund, we measure fair value by obtaining the most recently available NAV as advised by the external fund manager or third party administrator. The fair value of the investment is measured using the NAV as a practical expedient and therefore has not been categorized within the fair value hierarchy.

Level 3 Measurements and Changes in Leveling

Transfers into or out of the different levels within the fair value hierarchy are recorded at their fair values as of the end of the reporting period, consistent with the date of determination of fair value.

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

4. ASSETS HELD IN, AND LIABILITIES RELATED TO, SEGREGATED ACCOUNTS (Continued)

Investments

The following tables present a reconciliation of the beginning and ending balances for all investments measured at fair value on a recurring basis using Level 3 inputs during the years ended December 31, 2020 and 2019:

	December 31, 2020	
	Other Investments	Total
Beginning fair value	$ 1,968	$ 1,968
Transfer out of Level 3 into Level 2	(1,968)	(1,968)
Ending fair value	$ —	$ —

	December 31, 2019		
	Corporate	Other Investments	Total
Beginning fair value	$ 1,878	$ 1,923	$ 3,801
Purchases	—	997	997
Sales	(64)	(590)	(654)
Total realized and unrealized gains (losses)	(27)	(362)	(389)
Transfer out of Level 3 into Level 2	(1,787)	—	(1,787)
Ending fair value	$ —	$ 1,968	$ 1,968

Net realized and unrealized gains related to the Level 3 securities summarized on the table above are included in net realized and unrealized gains (losses) in the statements of operations related to the Segregated accounts.

The securities transferred from Level 3 to Level 2 were transferred based upon obtaining market observable information to support the valuations of the specific securities.

Derivatives Not Designated or Not Qualifying as Hedging Instruments

From time to time, we may also utilize foreign currency forward contracts as part of our overall foreign currency risk management strategy or to obtain exposure to a particular financial market, as well as for yield enhancement in non-qualifying hedging relationships.

Foreign Currency Forward Contracts

The following tables present the gross notional amounts and the estimated fair values recorded within other assets and liabilities as of December 31, 2020 and 2019 and the net gains and losses included in earnings during the years ended December 31, 2020 and 2019, on the non-qualifying foreign currency forward exchange rate hedging relationships related to our Segregated accounts:

	December 31, 2020			
		Fair Value		
	Gross Notional Amount	Assets	Liabilities	Net gains (losses) on non-qualifying hedges included in earnings
Foreign exchange forward - CAD	$ 8,380	$ 1	$ 230	$ 703
Foreign exchange forward - AUD	—	—	—	(240)
Foreign exchange forward - GBP	—	—	—	191
Foreign exchange forward - EUR	11,127	10	455	685
Total non-qualifying hedges	**$ 19,507**	**$ 11**	**$ 685**	**$ 1,339**

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

4. ASSETS HELD IN, AND LIABILITIES RELATED TO, SEGREGATED ACCOUNTS (Continued)

	December 31, 2019			
		Fair Value		
	Gross Notional Amount	Assets	Liabilities	qualifying hedges included in earnings
Foreign exchange forward - CAD	$ 40,839	$ 6	$ 913	$ (2,524)
Foreign exchange forward - AUD	3,582	113	3	334
Foreign exchange forward - GBP	24,438	734	733	(515)
Foreign exchange forward - EUR	29,643	65	432	(114)
Total non-qualifying hedges	**$ 98,502**	**$ 918**	**$ 2,081**	**$ (2,819)**

Reinsurance balances recoverable

The following table provides the total reinsurance balances recoverable on paid and unpaid losses as of December 31, 2020 and 2019:

	2020	2019
Recoverable from reinsurers on:		
Outstanding losses	$ 108,264	$ 132,988
Losses incurred but not reported (IBNR)	3,644	5,279
ULAE	5,353	6,637
Total reinsurance reserves recoverable	117,261	144,904
Recoverable on paid losses	3,595	13,278
	$ 120,856	$ 158,182

The following table presents the reinsurance balances recoverable by reinsurer related to the Segregated accounts as of December 31, 2020 and 2019:

	2020		2019	
	Reinsurance Recoverable	% of total	Reinsurance Recoverable	% of total
Top 2 reinsurer (2019 - 2)	$ 106,132	87.8 %	$ 131,584	83.2 %
Other reinsurers > $1 million	10,848	9.0 %	23,715	15.0 %
Other reinsurers < $1million	3,876	3.2 %	2,883	1.8 %
Total	$ 120,856	100.0 %	$ 158,182	100.0 %

For the year ended December 31, 2020, the top 2 reinsurers accounted for 87.8% (December 31, 2019 - 83.2%) of the reinsurance balances recoverable related to the Segregated accounts. Security in the form of letters of credit totaling $121.0 million (2019 - $121.0 million) have been provided as collateral to certain Segregated accounts through an affiliated reinsurer.

In the event that all or any of the reinsuring companies are unable to meet their obligations under existing reinsurance agreements, the Company's Segregated accounts will be liable for such defaulted amounts.

We evaluate and monitor the credit risk related to our reinsurers, and an allowance for estimated uncollectible reinsurance balances recoverable on paid and unpaid losses ("allowance for estimated uncollectible reinsurance") is established for amounts considered potentially uncollectible.

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

4. ASSETS HELD IN, AND LIABILITIES RELATED TO, SEGREGATED ACCOUNTS (Continued)

With respect to our process for determining the allowances for estimated uncollectible reinsurance, we adopted ASU 2016-13 and the related amendments on January 1, 2020 and recorded a cumulative effect adjustment of $1.8 million to decrease the opening retained earnings on the initial adoption of the guidance. Our allowance for estimated uncollectible reinsurance is derived based on various data sources, multiple key inputs and forecast scenarios. These include the duration of the collection period, credit quality, changes in reinsurer credit standing, default rates specific to the individual reinsurer, the geographical location of the reinsurer, contractual disputes with reinsurers over individual contentious claims, contract language or coverage issues, industry analyst reports and consensus economic forecasts.

To determine the allowance for estimated uncollectible reinsurance, we use the PD and LGD methodology whereby each reinsurer is allocated an appropriate PD percentage based on the expected payout duration by portfolio. This PD percentage is then multiplied by an appropriate LGD percentage to arrive at an overall credit allowance percentage which is then applied to the reinsurance balance recoverable for each reinsurer, net of any specific bad debt provisions, collateral or other contract related offsets, to arrive at the overall allowance for estimated uncollectible reinsurance by reinsurer.

At December 31, 2020, the provision for uncollectible reinsurance relating to losses recoverable was $0.8 million (2019 - $0.2 million).

Loss and Loss Adjustment Expenses

The liability for losses and LAE, also referred to as loss reserves, represents our gross estimates before reinsurance for unpaid reported losses and IBNR reserves. We recognize an asset for the portion of the liability that we expect to recover from reinsurers. 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. IBNR represents reserves for loss and LAE that have been incurred but not yet reported to us. This includes amounts for unreported claims, development on known claims and reopened claims.

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

	2020	2019
Outstanding losses	$ 1,005,742	$ 1,195,054
IBNR	429,133	585,242
ULAE	44,922	55,886
Total	$ 1,479,797	$ 1,836,182

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

4. ASSETS HELD IN, AND LIABILITIES RELATED TO, SEGREGATED ACCOUNTS (Continued)

The table below provides a reconciliation of the beginning and ending liability for losses and LAE for the years ended December 31, 2020 and 2019. Losses incurred and paid are reflected net of reinsurance recoverables.

	2020	2019
Balance as at January 1	$ 1,836,182	$ 2,945,503
Less: reinsurance reserves recoverable	(144,904)	(168,399)
Less: deferred charges	(51,886)	(64,905)
Net balance as at January 1	1,639,392	2,712,199
Net incurred losses and LAE:		
Current year	—	34,638
Prior periods	(38,989)	(24,279)
Total net incurred losses and LAE	(38,989)	10,359
Net paid losses and LAE:		
Current year	—	(14,534)
Prior periods	(281,410)	(474,832)
Total net paid losses and LAE	(281,410)	(489,366)
Effect of exchange rate movement and other	946	(25,769)
Assumed business	—	564,228
Novated business	—	(1,132,259)
Net balance as at December 31	1,319,939	1,639,392
Plus: reinsurance reserves recoverable	117,261	144,904
Plus: deferred charges	42,597	51,886
Balance as at December 31	$ 1,479,797	$ 1,836,182

The components of net incurred losses and LAE liabilities for the years ended December 31, 2020 and 2019 are summarized in the table below:

	2020	2019
Net losses paid	$ 281,410	$ 489,366
Net change in case and LAE reserves	(190,621)	(136,338)
Net change in IBNR reserves	(126,244)	(345,691)
(Increase)/reduction in estimates of net ultimate losses	(35,455)	7,337
Reduction in allowance for estimated uncollectible reinsurance	(3,171)	(617)
Reduction in provisions for unallocated LAE	(9,652)	(9,380)
Amortization of deferred charge asset	9,289	13,019
Net incurred losses and LAE	$ (38,989)	$ 10,359

The total net change in incurred losses and LAE reserves is comprised 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 of or movement in assumed claims, and (2) the net change in IBNR which represents the gross change in the Company's actuarial estimates of the IBNR held within the Segregated accounts, less amounts recoverable from reinsurers.

For the year ended December 31, 2020 the Segregated accounts recorded an overall decrease in ultimate losses and LAE liabilities of $39.0 million. The favorable incurred loss development of $39.0 million relates primarily to the resetting of loss

4. ASSETS HELD IN, AND LIABILITIES RELATED TO, SEGREGATED ACCOUNTS (Continued)

ultimates based on actuarial studies.

For the year ended December 31, 2019 the Segregated accounts recorded an overall increase in ultimate losses and LAE liabilities of $10.4 million. The favorable incurred loss development in the prior year of $24.3 million related primarily to the resetting of loss ultimates based on actuarial studies.

<u>Loss Development Information</u>

Methodology for Establishing Loss Reserves

The liability for losses and LAE includes an amount determined from reported claims and an amount based on historical loss experience and industry statistics for IBNR using a variety of actuarial methods. Our loss reserves cover multiple lines of business, which include workers' compensation, general casualty, asbestos and environmental, marine, aviation and transit, construction defects, professional indemnity/Directors & Officers ("PI/D&O") and other non-life lines of business. Management, through our loss reserving committee, considers the reasonableness of loss reserves recommended by our actuaries, including actual loss development during the year.

Case reserves are recognized for known claims (including the cost of related litigation) when sufficient information has been reported to us to indicate the involvement of a specific insurance policy. We use considerable judgment in estimating losses for reported claims on an individual claim basis based upon our knowledge of the circumstances surrounding the claim, the severity of the injury or damage, the jurisdiction of the occurrence, the potential for ultimate exposure, the type of loss, and our experience with the line of business and policy provisions relating to the particular type of claim. The reserves for unpaid reported losses and LAE 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. We also consider facts currently known and the current state of the law and coverage litigation.

IBNR reserves are established by management based on actuarially determined estimates of ultimate losses and loss expenses. We use generally accepted actuarial methodologies to estimate ultimate losses and LAE and those estimates are reviewed by our management. In addition, the routine settlement of claims, at either below or above the carried advised loss reserve, updates historical loss development information to which actuarial methodologies are applied, often resulting in revised estimates of ultimate liabilities. On an annual basis, independent actuarial firms are retained by management to provide their estimates of ultimate losses and to review the estimates developed by our actuaries, for reasonableness.

Within the annual loss reserve studies produced by either our actuaries or independent actuaries, our assumed exposures are separated into homogeneous reserving categories for the purpose of estimating IBNR. Each reserving category groups relatively similar types of risks and exposures (for example, asbestos, casualty) and lines of business written (for example, general casualty and workers compensation). Based on the exposure characteristics and the nature of available data for each individual reserving category, a number of methodologies are applied. Recorded reserves for each category are selected from the actuarial indications produced by the various methodologies after consideration of exposure characteristics, data limitations and strengths and weaknesses of each method applied. This approach to estimating IBNR has been consistently adopted in the annual loss reserve studies for each period presented.

The estimation of unpaid claim liabilities at any given point in time is subject to a high degree of uncertainty for a number of reasons. A significant amount of time can lapse between the assumption of risk, the occurrence of a loss event, the reporting of the event to an insurance or reinsurance company and the ultimate payment of the claim on the loss event. Our actuarial methodologies include industry benchmarking which, under certain methodologies, compares the trend of our loss development to that of the industry. To the extent that the trend of our loss development compared to the industry changes in any period, it is likely to have an impact on the estimate of ultimate liabilities. Unpaid claim liabilities for casualty exposures in general are impacted by changes in the legal environment, jury awards, medical cost trends and general inflation. Certain estimates for unpaid claim liabilities involve considerable uncertainty due to significant coverage litigation, and it can be unclear whether past claim experience will be representative of future experience. Ultimate values for such claims cannot be estimated using reserving techniques that extrapolate losses to an ultimate basis using loss development factors, and the uncertainties surrounding the estimation of unpaid claim liabilities are not likely to be resolved in the near future.

4. ASSETS HELD IN, AND LIABILITIES RELATED TO, SEGREGATED ACCOUNTS (Continued)

In addition, reserves are established to cover loss development related to both known and unasserted claims. Consequently, our subsequent estimates of ultimate losses and LAE, and our liability for losses and LAE, may differ materially from the amounts recorded in the financial statements.

These estimates are reviewed regularly and, as experience develops and new information becomes known, the reserves are adjusted as necessary. Such adjustments, if any, 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.

Asbestos and Environmental

In establishing the reserves for losses and LAE related to asbestos and environmental claims, the Company considers facts currently known and the current state of the law and coverage litigation. Liabilities are recognized for known claims (including the cost of related litigation) when sufficient information has been developed to indicate the involvement of a specific insurance policy, and management can reasonably estimate its liability. In addition, reserves have been established to cover additional exposures on both known and unreported claims. Estimates of the reserves are reviewed and updated continually. Developed case law and adequate claims history are still evolving for such claims, especially because significant uncertainty exists about the outcome of coverage litigation and whether past claim experience will be representative of future experience.

In view of the changes in the legal and tort environment that affect the development of such claims, the uncertainties inherent in valuing asbestos and environmental claims are not likely to be resolved in the near future. Ultimate values for such claims cannot be estimated using traditional reserving techniques and there are significant uncertainties in estimating the amount of the Company's potential losses for these claims.

There can be no assurance that the reserves established by the Segregated accounts will be adequate or will not be adversely affected by the development of other latent exposures.

Cumulative Number of Reported Claims

Reported claim counts, on a cumulative basis, are provided as supplemental information to each incurred loss development table by accident year. The claim frequency information for the exposures included within the loss development tables disclosed below includes assumed open and closed claims by accident year at the claimant level. Reported claims that are closed without a payment are included within the cumulative number of reported claims because we typically incur claim adjustment expenses on them prior to their closure. The claim count numbers exclude counts related to claims within policy deductibles where the reinsured is responsible for the payment of losses within the deductible layer. Individual claim counts related to certain assumed reinsurance contracts such as excess-of-loss and quota share treaties are not available to us, and the losses arising from these treaties have been treated as single claims for purposes of determining claim counts. Therefore, each treaty year within the reinsurance contract is deemed a single claim because the detailed underlying individual claim information is generally not reported to the Segregated accounts by their cedents.

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

4. ASSETS HELD IN, AND LIABILITIES RELATED TO, SEGREGATED ACCOUNTS (Continued)

Disclosures of Incurred and Paid Loss Development, IBNR, Claims Counts and Payout Percentages

The following table provides a breakdown of the gross and net losses and LAE reserves, consisting of Outstanding Loss Reserves ("OLR") and IBNR by line of business, and ULAE, as of December 31, 2020 and 2019:

	2020					
	Gross			Net		
	OLR	IBNR	Total	OLR	IBNR	Total
General casualty	$ 61,467	$ 64,368	$ 125,835	$ 49,908	$ 64,368	$ 114,276
Workers' compensation	559,819	66,057	625,876	463,114	62,413	525,527
PI/D&O	24,043	10,946	34,989	24,043	10,946	34,989
Asbestos	169,030	234,887	403,917	169,030	234,887	403,917
Environmental	73,952	21,445	95,397	73,952	21,445	95,397
Marine, Aviation and Transit	49,610	5,358	54,968	49,610	5,358	54,968
Property	50,700	15,914	66,614	50,700	15,914	66,614
Other	17,121	10,158	27,279	17,121	10,158	27,279
Total	$ 1,005,742	$ 429,133	1,434,875	$ 897,478	$ 425,489	1,322,967
ULAE			44,922			39,569
Deferred charge on retroactive reinsurance			—			(42,597)
Total			$ 1,479,797			$ 1,319,939

	2019					
	Gross			Net		
	OLR	IBNR	Total	OLR	IBNR	Total
General casualty	$ 85,941	$ 88,992	$ 174,933	$ 71,612	$ 88,992	$ 160,604
Workers' compensation	657,140	91,623	748,763	538,481	86,344	624,825
PI/D&O	22,422	33,318	55,740	22,422	33,318	55,740
Asbestos	188,716	278,972	467,688	188,716	278,972	467,688
Environmental	72,192	39,909	112,101	72,192	39,909	112,101
Marine, Aviation and Transit	67,470	25,283	92,753	67,470	25,283	92,753
Property	65,986	14,056	80,042	65,986	14,056	80,042
Other	35,187	13,089	48,276	35,187	13,089	48,276
Total	$ 1,195,054	$ 585,242	1,780,296	$ 1,062,066	$ 579,963	1,642,029
ULAE			55,886			49,249
Deferred charge on retroactive reinsurance			—			(51,886)
Total			$ 1,836,182			$ 1,639,392

In addition to the breakdown of our reserves by line of business we also monitor our reserves by acquisition year. The acquisition year is the year in which the net reserves were assumed via a retroactive reinsurance agreement. By analyzing the loss development tables by acquisition year on a prospective basis, the impact of the take-on positions from year to year does not distort the loss development tables presented.

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

4. ASSETS HELD IN, AND LIABILITIES RELATED TO, SEGREGATED ACCOUNTS (Continued)

The following table provides a summary of our net loss reserves, prior to provisions for bad debt, deferred charge assets and ULAE as of December 31, 2020, by year of acquisition and by significant line of business:

	Acquisition Year												
	2010 and Prior	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**Total**	**Bad Debt**	**Total**
Asbestos	$ —	$ —	$ —	$ —	$ —	$ —	$403,917	$ —	$ —	$ —	$ —	$ 403,917	$ —	$ 403,917
Environmental	—	—	—	—	—	—	89,865	—	5,532	—	—	95,397	—	95,397
General casualty	1,107	—	—	—	30,779	—	—	—	18,182	64,209	—	114,277	—	114,277
Workers' compensation/ personal accident	27,033	—	—	—	—	309,628	181,420	—	448	6,530	—	525,059	469	525,528
Marine, aviation and transit	—	—	—	—	10,721	—	—	—	42,059	2,188	—	54,968	—	54,968
Construction defect	—	—	—	—	—	—	14,289	—	—	—	—	14,289	—	14,289
Motor	—	—	—	—	1,465	—	—	—	—	—	—	1,465	—	1,465
PI/D&O	—	—	—	—	20,942	—	—	—	14,046	—	—	34,988	—	34,988
Property	—	—	—	—	16,544	—	—	—	49,862	208	—	66,614	—	66,614
All Other	—	—	—	—	6,816	—	—	—	(1,413)	6,121	—	11,524	—	11,524
Total	$ 28,140	$ —	$ —	$ —	$ 87,267	$309,628	$689,491	$ —	$128,716	$ 79,256	$ —	$1,322,498	$ 469	$1,322,967

The following tables set forth information about incurred and paid loss development, total IBNR reserves and cumulative loss frequency for reinsurance contracts assumed by the Segregated accounts incepting during the years ended December 2015 and 2016, which were the inception years with material net losses and LAE reserves balances as of December 31, 2020. With respect to lines of business, only the loss development tables relating to the Workers' Compensation exposures whose reinsurance contracts incepted during the years ended December 2015 and 2016 were considered material for disclosure. No other lines of business within any of the other acquisition years were considered material for separate disclosure within the loss development tables below. Also excluded from separate disclosure within the loss development tables below were those lines of business such as asbestos and environmental with accident year exposures that were all older than 10 years and hence outside the scope for separate disclosure. The information related to the incurred losses and ALAE and cumulative paid losses and ALAE as of December 31, 2020 is presented net of reinsurance.

The accident year information related to incurred and paid loss development for the prior years through to December 31, 2019 as well as the historical average annual percentage payout ratios as of December 31, 2020 is presented within the loss development tables below as supplementary information and is therefore unaudited.

The historical amounts disclosed within the loss development tables presented below are on a constant-currency basis, which is achieved by using constant foreign exchange rates between periods in the loss development tables, and translating prior period amounts denominated in currencies other than the U.S. dollar, which is our reporting currency, using the closing exchange rates as at December 31, 2020.

The impact of this exchange rate conversion is to show the change between periods exclusive of the effect of exchange rate fluctuations, which would otherwise distort the change in incurred losses and the cash flow patterns associated with those incurred losses shown within the loss development tables. The change in net incurred losses shown within the loss development tables will, however, differ from other U.S. GAAP disclosures of incurred current and prior period reserve development amounts, which include the effect of exchange rate fluctuations.

In view of the run-off nature of our business, our Segregated accounts are continuously assuming new legacy reserves through retroactive reinsurance agreements and adding them to their existing exposures. The loss development tables below therefore include actual loss development on the existing legacy exposures as well as the effects of integrating newly assumed reserves.

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

Accordingly, it would not be appropriate to extrapolate redundancies or deficiencies into the future or to infer actual historical accident year development information from the loss development tables provided below.

4. ASSETS HELD IN, AND LIABILITIES RELATED TO, SEGREGATED ACCOUNTS (Continued)

Business Assumed through Contracts Incepting in the Year Ended December 31, 2015 (all Workers' Compensation)

Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

		For the Year Ended December 31,						As of December 31, 2020	
Accident Year	Total Net Reserves Acquired	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018 (unaudited)	2019 (unaudited)	2020	IBNR	Cumulative Number of Claims
Prior to 2010	$ 1,015,984	$1,118,288	$ 704,260	$ 639,191	$ 586,559	$ 531,027	$ 512,117	$ 41,509	71,028
2011	27,750	30,462	25,649	21,497	21,471	20,980	16,835	1,251	11,119
2012	47,942	48,190	40,863	38,086	36,909	37,150	34,924	1,351	10,427
2013	41,870	42,556	35,706	34,046	32,622	32,529	31,976	866	5,671
2014	2,343	2,293	1,787	1,740	1,284	1,363	1,330	55	186
2015	3	110	107	106	106	144	127	2	2
2016	—		19	8	7	6	6	1	3
2017	—			—	—	—	—	—	3
2018	—				—	8	—	—	2
2019	—					—	—	—	2
2020	—						—	—	2
	$ 1,135,892						$ 597,315	$ 45,035	98,445

Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

	For the Year Ended December 31,					
Accident Year	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018 (unaudited)	2019 (unaudited)	2020
Prior to 2010	$ 48,991	$ 118,474	$ 144,524	$ 163,133	$ 189,152	$ 218,394
2011	4,607	10,793	13,954	15,936	17,527	11,393
2012	5,847	17,584	23,110	27,419	30,178	28,408
2013	6,723	16,959	22,950	25,539	28,346	28,143
2014	334	805	913	1,020	1,184	1,225
2015	77	88	91	94	119	120
2016		—	1	2	3	4
2017			—	—	—	—
2018				—	—	—
2019					—	—
2020						—
						$ 287,687
Total outstanding liabilities for unpaid losses and LAE, net of reinsurance						$ 309,628

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

4. ASSETS HELD IN, AND LIABILITIES RELATED TO, SEGREGATED ACCOUNTS (Continued)

Business Assumed through Contracts Incepting in the Year Ended December 31, 2016

Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

Accident Year	Total Net Reserves Acquired	For the Year Ended December 31, 2016 (unaudited)	2017 (unaudited)	2018 (unaudited)	2019 (unaudited)	2020	As of December 31, 2020 IBNR	Cumulative Number of Claims
Prior	$ 1,034,753	$ 1,034,753	$ 1,066,444	$ 1,064,096	$ 1,080,995	$ 1,124,842	$ 263,503	19,032
2011	17,291	17,291	19,920	19,754	18,829	18,609	2,266	861
2012	13,717	13,717	17,020	14,765	12,717	13,037	1,829	809
2013	373	373	1,312	1,237	1,120	914	603	127
2014	391	391	1,380	1,056	869	817	310	57
	$ 1,066,525					$ 1,158,219	$ 268,511	20,886

Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

Accident Year	For the Year Ended December 31, 2016 (unaudited)	2017 (unaudited)	2018 (unaudited)	2019 (unaudited)	2020
Prior	$ 78,595	$ 178,563	$ 268,157	$ 372,090	$ 446,374
2011	2,758	6,647	8,218	9,691	13,098
2012	2,734	5,206	6,461	7,587	8,492
2013	145	191	278	285	301
2014	178	207	284	366	463
					$ 468,728
Total outstanding liabilities for unpaid losses and LAE, net of reinsurance					$ 689,491

Business Assumed through Contracts Incepting in the Year Ended December 31, 2016 - Workers Compensation

Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

Accident Year	Total Net Reserves Acquired	For the Year Ended December 31, 2016 (unaudited)	2017 (unaudited)	2018 (unaudited)	2019 (unaudited)	2020	As of December 31, 2020 IBNR	Cumulative Number of Claims
Prior	$ 330,500	$ 330,500	$ 306,035	$ 304,492	$ 298,316	$ 282,072	$ 5,716	8,780
2011	15,376	15,376	16,399	16,501	16,327	16,472	1,374	469
2012	13,074	13,074	15,465	13,276	11,379	11,256	1,020	612
2013	—	—	—	—	—	—	—	—
	$ 358,950					$ 309,800	$ 8,110	9,861

Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

Accident Year	For the Year Ended December 31, 2016 (unaudited)	2017 (unaudited)	2018 (unaudited)	2019 (unaudited)	2020
Prior	$ 32,470	$ 52,102	$ 65,552	$ 89,190	$ 108,133
2011	2,631	5,871	7,305	8,756	12,130
2012	2,638	5,028	6,247	7,382	8,117
2013	—	—	—	—	—
					$ 128,380
Total outstanding liabilities for unpaid losses and LAE, net of reinsurance					$ 181,420

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

4. ASSETS HELD IN, AND LIABILITIES RELATED TO, SEGREGATED ACCOUNTS (Continued)

Annual Historical Duration of Claims

The following is unaudited supplementary information, which presents the annual percentage payout relating to the Segregated accounts' incurred losses since the year of inception of the related reinsurance agreements as well as for the significant lines of business within each of those inception years:

	Annual Percentage Payout of Incurred Losses since Year of Acquisition, Net of Reinsurance					
Year of Acquisition	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**
2015 - All Workers' compensation	11.1 %	16.4 %	6.8 %	4.6 %	5.6 %	3.5 %
2016 - All lines of business	7.3 %	9.2 %	8.0 %	9.2 %	6.8 %	
2016 - Workers' compensation	12.2 %	8.2 %	5.2 %	8.5 %	7.4 %	

5. SHAREHOLDERS' EQUITY

Share Capital

As of December 31, 2020 and 2019 the authorized share capital was 1,000,000 common shares of par value $1.00 per share, all of which are issued and outstanding.

	2020	2019
Share Capital		
Authorized share capital		
Par value $1.00 each	$ 1,000,000	$ 1,000,000
Issued and fully paid		
1,000,000 common shares	$ 1,000,000	$ 1,000,000
Total common shares	$ 1,000,000	$ 1,000,000

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

5. SHAREHOLDERS' EQUITY (Continued)

	2020	2019
Preferred Shares in Segregated accounts		
Issued		
1 Class A, non-voting preferred share	1	1
1 Class B, non-voting preferred share	1	1
1,000 Class 9, non-voting preferred shares	1,000	1,000
1,000 Class 10, non-voting preferred shares	—	1,000
1 Class 11, non-voting preferred share	1	1
1 Class 17, non-voting preferred share	1	1
100 Class 18, non-voting preferred share	100	100
1 Class 19, non-voting preferred share	1	1
1 Class 21, non-voting preferred share	1	1
1 Class 22, non-voting preferred share	—	1
1 Class 23, non-voting preferred share	1	1
1 Class 24, non-voting preferred share	1	1
1 Class 29, non-voting preferred share	1	1
1 Class 30, non-voting preferred share	1	1
10,000 Class 31, non-voting preferred shares	10,000	10,000
1,000 Class 33, non-voting preferred share	1,000	1,000
1,000 Class 35, non-voting preferred shares	1,000	1,000
1,000 Class 36, non-voting preferred shares	1,000	1,000
1,000 Class 39, non-voting preferred shares	—	1,000
10,000 Class 41, non-voting preferred shares	10,000	10,000
10,000 Class 42, non-voting preferred shares	10,000	10,000
Total preferred shares	$ 34,110	$ 36,111

In most circumstances, preference shares of par value $1 each are issued upon the establishment of a Segregated account, the class of shares being different for each Segregated account established. These preference shares hold no voting rights, are not interest bearing and participate only in the earnings of their respective Segregated accounts.

6. RELATED PARTY TRANSACTIONS

General account

a. Management fees
The Company's General account receives an annual management fee from each of the Segregated accounts as determined by the shareholders' and subscription agreements. The management fee income earned by the General account from the Segregated accounts during the year ended December 31, 2020 was $1.3 million (2019 - $1.5 million).

b. Other assets and liabilities
As of December 31, 2020, a net balance of $0.3 million (2019 - $2.2 million) was due from the Segregated accounts to the General account, relating mainly to expenses paid on behalf of the Segregated accounts by the General account. These amounts are non-interest bearing and have no fixed date of repayment.

As of December 31, 2020, the General account had a net balance due from Enstar and its subsidiaries amounting to $0.1 million compared to a net balance due from Enstar and its subsidiaries of $0.2 million as of December 31, 2019. These amounts are non-interest bearing and have no fixed date of repayment.

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

6. RELATED PARTY TRANSACTIONS (Continued)

c. Patcham Investment Funds Plc ("Patcham Funds")

The Company's General account has invested in one of the 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 and are included in other investments at fair value.

The table below summarizes the investment in the Patcham Funds carried on the balance sheet of the Company's General account as at December 31, 2020 and 2019 as well as the net realized and unrealized gains included in the statement of earnings of the General account for the years ended December 31, 2020 and 2019:

	2020	2019
Patcham fixed income fund	$ 1,835	$ 2,842
Net unrealized gains on the fixed income fund	349	141

<u>Segregated accounts</u>

d. Balances due from or due to Related Parties

The table below summarizes the significant related party balances, included within the balance sheets of the Company's Segregated accounts as at December 31, 2020 and 2019.

	2020	2019
Losses & LAE reserves	$ 549,829	$ 777,453
Funds held by reinsured companies	457,425	644,380
Reinsurance balances recoverable	94,573	117,255
Dividend payable	—	20,444
Other receivables	71,533	14,980
Accounts payable	2,736	5,999
Loan payable	—	4,400
Insurance balances payable	2,293	3,626
Unearned premiums	—	1,166

All payable and receivable balances due from or due to affiliates are non-interest bearing and have no fixed repayment dates.

The table below summarizes the significant related party balances included in the statements of operations of the Segregated accounts as at December 31, 2020 and 2019:

	2020	2019
Premiums written	$ (2,061)	$ (2,924)
Change in unearned premiums	1,236	59,111
Net acquisition costs	(571)	(26,095)
Net incurred losses and loss adjustment expenses	(15,635)	(21,377)
Fees and commission income	18,741	7,369
General and administrative expenses	(21,383)	(41,361)

Investment income earned by the Segregated accounts on the funds held by related reinsured companies and which is included within investment income was $8.9 million during the year ended December 31, 2020 (2019 - $20.8 million).

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

6. RELATED PARTY TRANSACTIONS (Continued)

e. Management fees

The Segregated accounts pay annual management fees to the Company's General account as determined by the shareholders' and subscription agreements. The management fee expense incurred by the Segregated accounts during the year ended December 31, 2020 included in General and administrative expenses was $1.3 million (2019 - $1.5 million).

The Segregated accounts pay annual management fees to Enstar and its subsidiaries on a quarterly basis. The management fee expense incurred by the Segregated accounts to Enstar and its subsidiaries during the year ended December 31, 2020 included in General and administrative expenses was $8.7 million (2019 - $8.9 million).

f. Patcham Funds

The Company's Segregated accounts invest in the 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 and are included in other investments at fair value.

The table below summarizes the investments in the Patcham Funds carried on the balance sheets of the Company's Segregated accounts as at December 31, 2020 and 2019 as well as the net realized and unrealized gains (losses) included in the statements of operations of the Segregated accounts for the years ended December 31, 2020 and 2019:

	2020	2019
Patcham fixed income fund	$ 100,500	$ 154,173
Patcham balanced fund	20,027	26,351
Net realized and unrealized gains (losses) on the Patcham Funds	5,007	16,833

g. Stone Point Capital LLC ("Stone Point")

As at December 31, 2020, the Segregated accounts had investments in funds, which are included within other investments and in a registered investment company affiliated with entities owned by Trident V funds ("Trident") or otherwise affiliated with Stone Point, a shareholder of Enstar.

The table below summarizes the investments with Stone Point and its affiliated entities carried on the balance sheets of the Company's Segregated accounts as at December 31, 2020 and 2019 as well as the net realized and unrealized gains (losses) and interest income included in the statements of operations of the Segregated accounts for the years ended December 31, 2020 and 2019:

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

6. RELATED PARTY TRANSACTIONS (Continued)

	2020	2019
Fixed maturities, trading, at fair value	$ 48,204	$ 63,073
Fixed maturities, AFS, at fair value	10,364	7,330
Equities, at fair value	6,545	8,727
Other investments, at fair value:		
Private equity funds	1,511	1,617
CLO equity funds	10,672	9,713
Total investments	77,296	90,460
Cash and cash equivalents	5,732	1,967
Other assets	—	2
Net investments	$ 83,028	$ 92,430

The following table presents the amounts included in net earnings related to our related party transactions with Stone Point and its affiliated entities:

	2020	2019
Net investment income	$ 738	$ (103)
Net realized and unrealized gains (losses)	(620)	(1,723)
Total net earnings	$ 118	$ (1,826)

h. Cavello Bay

In relation to the XoL reinsurance agreements assumed by Cavello Bay following its merger with KaylaRe which took effect from September 30, 2019, the table below summarizes the significant balances related to these XoL agreements which are included within the balance sheets and statements of operations of the Company's Segregated accounts as at December 31, 2020 and 2019:

	2020	2019
Reinsurance balances recoverable	$ 94,573	$ 117,255
Other receivables	62,174	43,434
Fees and commission income	18,741	7,369
Net incurred losses and loss adjustment expenses	(22,048)	8,669

The investment income earned on the premiums retained by FW#24 and FW#30 on a funds withheld basis as described in Note 1 – “Description of Business” above, accrues to the benefit of FW#24 and FW#30 under the terms of the XoL agreements.

7. 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 taxes and has received an undertaking from the Bermuda government that, in the event of any income or capital gains taxes being imposed, it will be exempt from such taxes until the year 2035.

8. STATUTORY REQUIREMENTS

The Company is registered as a Class 3A reinsurer under the Insurance Act which imposes certain solvency and liquidity standards, auditing and reporting requirements and grants the Bermuda Monetary Authority ("BMA") powers to supervise, investigate, require information and the production of documents and intervene in the affairs of insurance companies.

8. STATUTORY REQUIREMENTS (Continued)

Under the Insurance Act, the Company is either required to or is prohibited from doing the following:

- Required to maintain certain solvency and liquidity standards which includes maintaining a minimum liquidity ratio whereby the value of relevant assets must not be less than 75% of the amount of relevant liabilities. The minimum solvency margin is determined as a percentage of either net reserves for losses and LAE or premiums.
- Required to maintain a minimum statutory capital and surplus (Enhanced Capital Requirement or "ECR") at least equal to the greater of a minimum solvency margin or the Bermuda Solvency Capital Requirement ("BSCR"). The BSCR is calculated based on a standardized risk-based capital model used to measure the risk associated with assets, liabilities and premiums.
- Prohibited from declaring or paying any dividends if it were in breach of its minimum solvency margin or liquidity ratio or if the declaration or payment of such dividends would cause it to fail to meet such margin or ratio.
- Prohibited, without the prior approval of the BMA, from reducing by 15% or more its total statutory capital as set out in its previous year's statutory financial statements.
- Prohibited, without obtaining the prior written approval of the BMA, from writing any "long-term business", as such expression is understood in the Insurance Act.
- Prohibited, without obtaining the prior written approval of the BMA, from writing any "insurance business", as such expression is understood in the Insurance Act, as a direct insurer.
- Prohibited, without obtaining the prior written approval of the BMA, from writing any "insurance business", as such expression is understood in the Insurance Act.

As of December 31, 2020, the Company met all the requirements that it is subject to under the Insurance Act.

9. COMMITMENTS AND CONTINGENCIES

Concentration of Credit Risk

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

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.

Credit risk exists in relation to our insurance and reinsurance balances recoverable. 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 described in Note 4 - "Reinsurance Balances Recoverable".

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 Segregated accounts. The funds may be placed into trust or be subject to other security arrangements. The funds held 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

9. COMMITMENTS AND CONTINGENCIES (Continued)

arrangements. As of December 31, 2020 we have a significant concentration of $882 million with one reinsured company, which has financial strength ratings of A+ from A.M. Best and AA from Standard & Poor's.

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 $137.2 million and $143.8 million as at December 31, 2020 and 2019, respectively.

Legal Proceedings

We are, from time to time, involved in various legal proceedings in the ordinary course of business, including litigation and arbitration regarding claims. Estimated losses relating to claims arising in the ordinary course of business, including the anticipated outcome of any pending arbitration or litigation are included in the liability for losses and LAE in our balance sheets. In addition to claims litigation, we may be subject to other lawsuits and regulatory actions in the normal course of business, which may involve, among other things, allegations of underwriting errors or omissions, employment claims or regulatory activity. We do not believe that the resolution of any currently pending legal proceedings, either individually or taken as a whole, will have a material effect on our business, results of operations or financial condition. We anticipate that, similar to the rest of the insurance and reinsurance industry, we will continue to be subject to litigation and arbitration proceedings in the ordinary course of business, including litigation generally related to the scope of coverage with respect to asbestos and environmental and other claims.

10. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through to April 30th, 2021, which is the date that the financial statements were available to be issued. As part of this evaluation, the following should be noted:

- **COVID - 19 Pandemic** - The World Health Organisation ("WHO"), on 11 March 2020, declared the coronavirus (or "COVID-19") outbreak a global pandemic. The Company continues to closely monitor the COVID-19 outbreak and to actively assess its potential impact on all stakeholders. The Company has a formal business continuity plan which is being continually reviewed in light of current developments and is being actively deployed as events require, which includes office closures where required. As the situation continues to evolve the Company is regularly assessing the impact of COVID-19 on its solvency capital in line with its established risk metrics and in compliance with its risk appetite, including the assessment of the ongoing impact of COVID-19 on its investment portfolio arising from volatility in the financial markets.

- **Dividend Declaration** - In February 2021 the Company's Board of Directors approved the declaration of dividends and capital distributions in the amount of $90 million.