Ascot Bermuda Limited

Consolidated Audited Financial Statements

December 31, 2020 and 2019

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholder of Ascot Bermuda Limited

We have audited the accompanying consolidated financial statements of Ascot Bermuda Limited (the "Company"), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of income and comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ascot Bermuda Limited as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Accounting principles generally accepted in the United States of America require that the disclosure of short-duration contracts included in Note 6 be presented to supplement the basic financial statements. Such information, although not part of basic financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires with management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Deloitte Ltd.

March 12, 2021

ASCOT BERMUDA LIMITED
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2020 AND 2019

	2020	2019
	(in thousands U.S. dollars)	
ASSETS		
Fixed maturities, at fair value (amortized cost: 2020 - $2,284,390; 2019 - $1,739,978)	$ 2,340,602	$ 1,761,679
Other fixed income investments, at fair value	69,191	51,028
Short term investments, at cost and fair value	54,204	98,766
Total investments	**2,463,997**	**1,911,473**
Cash and cash equivalents	516,265	183,895
Accrued investment income	10,982	10,313
Premiums receivable	556,801	341,706
Deferred tax assets	20,267	29,369
Prepaid reinsurance premiums	197,334	85,911
Reinsurance recoverable on paid losses	33,663	20,391
Reinsurance recoverable on unpaid losses	336,751	384,244
Deferred acquisition costs	153,840	94,608
Amounts receivable from affiliates	—	18,896
Goodwill	69,551	69,551
Intangible assets	170,457	176,924
Other assets	72,063	62,842
TOTAL ASSETS	**4,601,971**	**3,390,123**
LIABILITIES		
Reserve for loss and loss adjustment expenses	1,270,139	1,082,498
Unearned premiums	885,486	498,860
Insurance and reinsurance balances payable	142,983	82,388
Deferred tax liabilities	47,484	49,381
Payable for securities purchased	16,000	—
Amounts payable to affiliates	17,677	—
Other liabilities	119,247	66,891
TOTAL LIABILITIES	**2,499,016**	**1,780,018**
SHAREHOLDER'S EQUITY		
Common shares	120	120
Additional paid-in capital	2,045,759	1,715,759
Accumulated other comprehensive income	4,611	4,808
Retained earnings (deficit)	52,465	(110,582)
TOTAL SHAREHOLDER'S EQUITY	**2,102,955**	**1,610,105**
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	**$ 4,601,971**	**$ 3,390,123**

See accompanying notes to the consolidated financial statements.

ASCOT BERMUDA LIMITED
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
	(in thousands U.S. dollars)	
REVENUES		
Gross premiums written	$ 1,818,862	$ 1,162,050
Reinsurance premiums ceded	(519,048)	(350,865)
Net premiums written	1,299,814	811,185
Earned premiums	1,432,238	1,026,664
Earned premiums ceded	(407,857)	(313,125)
Net premiums earned	1,024,381	713,539
Net investment income	45,106	48,480
Net realized and unrealized gains on investments	43,941	40,499
Other income	21,562	21,771
TOTAL REVENUES	**1,134,990**	**824,289**
LOSSES AND EXPENSES		
Net incurred losses and loss adjustment expenses	550,782	367,778
Acquisition costs	221,791	190,526
General and administrative expenses	196,733	169,808
Amortization of intangible assets	6,467	7,247
Net foreign exchange gains	(9,447)	(31)
TOTAL LOSSES AND EXPENSES	**966,326**	**735,328**
INCOME BEFORE TAXES	**168,664**	**88,961**
Income tax expense	(5,617)	(2,960)
NET INCOME	**$ 163,047**	**$ 86,001**
Other comprehensive income (loss), net of tax		
Foreign currency translation adjustment	(197)	1,738
Total other comprehensive income (loss), net of tax	**(197)**	**1,738**
COMPREHENSIVE INCOME	**$ 162,850**	**$ 87,739**

See accompanying notes to the consolidated financial statements.

ASCOT BERMUDA LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
	(in thousands U.S. dollars)	
COMMON SHARES		
Balance at beginning of year	$ 120	$ 120
Common shares issued	—	—
Balance at end of year	120	120
ADDITIONAL PAID IN CAPITAL		
Balance at beginning of year	1,715,759	1,911,742
Capital distribution to parent	(45,000)	(250,000)
Capital contribution from parent	375,000	54,017
Balance at end of year	2,045,759	1,715,759
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Balance at beginning of year	4,808	3,070
Foreign currency translation adjustment	(197)	1,738
Balance at end of year	4,611	4,808
RETAINED EARNINGS (DEFICIT)		
Balance at beginning of year	(110,582)	(196,583)
Net income	163,047	86,001
Balance at end of year	52,465	(110,582)
TOTAL SHAREHOLDER'S EQUITY	$ 2,102,955	$ 1,610,105

See accompanying notes to the consolidated financial statements.

ASCOT BERMUDA LIMITED
CONSOLIDATED STATEMENTS OF CASHFLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
	(in thousands U.S. dollars)	
CASHFLOWS FROM OPERATING ACTIVITIES		
Net income	$ 163,047	$ 86,001
Adjustments to reconcile net income to net cash provided by operating activities		
Net realized and unrealized gains on investments	(43,941)	(40,499)
Amortization of fixed maturities	3,097	983
Amortization of intangible assets	6,467	7,247
Depreciation of fixed assets	3,567	2,994
Changes in:		
Accrued investment income	(669)	(409)
Premiums receivable	(215,095)	(75,955)
Reinsurance recoverable balance	34,221	193,098
Deferred acquisition costs	(59,232)	(12,716)
Prepaid reinsurance premiums	(111,423)	(37,752)
Reserve for loss and loss expenses	187,641	(134,676)
Unearned premiums	386,626	135,391
Insurance and reinsurance balances payable	60,594	17,036
Other items, net	79,999	(31,325)
Net cash provided by operating activities	494,899	109,418
CASHFLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed maturities	(1,177,923)	(750,943)
Proceeds from sale of fixed maturities	348,567	491,600
Proceeds from maturities and redemptions of fixed maturities	285,411	105,814
Purchases of short term investments	(4,914)	(55,036)
Proceeds from sale and redemption of short term investments	59,979	—
Purchases of other fixed income investments	(16,000)	(50,000)
Purchases of other investments	—	(4,077)
Net cash used in investing activities	(504,880)	(262,642)
CASHFLOW FROM FINANCING ACTIVITIES		
Distribution of capital to parent	(45,000)	(250,000)
Capital contribution from parent	375,000	—
Repayment of affiliate loan	7,000	—
Net cash provided by (used in) financing activities	337,000	(250,000)
Effect of exchange rate changes on foreign currency cash and cash equivalents	5,351	(4,608)
Increase (decrease) in cash and cash equivalents	332,370	(407,832)
Cash and cash equivalents - beginning of year	183,895	591,727
Cash and cash equivalents - end of year	**$ 516,265**	**$ 183,895**
Supplemental disclosures of cash flow information:		
Income taxes paid	4,095	5,035
Interest paid	640	—

See accompanying notes to the consolidated financial statements

1. History and principal operations

Ascot Bermuda Limited ("Ascot Bermuda" or "the Company") (formerly Ascot Reinsurance Company Limited) was incorporated in Bermuda on September 8, 2016. Ascot Bermuda was registered by the Bermuda Monetary Authority on November 20, 2017 as a Class 3B insurance and reinsurance company and received an A rating from A.M. Best on November 27, 2017. The Company commenced underwriting operations in 2018.

On January 25, 2019, the Company amalgamated with Ascot Holdings Limited, an affiliated company, with the Company continuing as the surviving entity. As a result of this amalgamation, the Company became the direct holding company of Ascot Underwriting Group Limited ("AUGL"). AUGL operates as a holding company for a number of entities including Ascot Corporate Name Limited, which is a UK based company providing underwriting capacity as the corporate member for Syndicate 1414 at Lloyd's.

Following the amalgamation, Ascot Group Limited ("AGL"), Ascot Bermuda's parent company, contributed its shareholding in Ascot Insurance Holdings Limited ("AIHL") to the Company, such that the Company is the sole shareholder of AIHL. AIHL operates as a holding company for Ethos Specialty Insurance Services LLC, a managing general agency and Ascot Insurance Company ("AIC") and Ascot Specialty Insurance Company ("ASIC") which write both admitted and non-admitted business in the United States.

The restructuring referenced above legally took place on January 25, 2019, however, for accounting purposes, and in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic, *Business Combinations*, it was effective September 8, 2016, the initial date in which the entities involved were under common control, or, with respect to AIC and ASIC, effective October 4, 2018, the date the entities were acquired.

2. Significant accounting policies

Basis of Presentation and Consolidation

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

Use of Estimates

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

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

Significant accounting policies are as follows:

Investments and investment income

Fixed maturity securities

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

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

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

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

Other fixed income investments

The Company's investments in other fixed income investments principally include an investment in a senior secured credit fund. The investment is recorded at fair value with changes in fair value included in net investment income.

Short term investments

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

Equity method investments

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

Net investment income

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

Cash and Cash Equivalents

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

Premiums

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

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

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

Acquisition costs

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

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

Losses and loss adjustment expenses

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

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

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

Reinsurance

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

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

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

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

Foreign exchange

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

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

Goodwill and other intangible assets

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

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

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

Income taxes

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

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

Recently adopted accounting standards

Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement
In August 2018, the FASB issued ASU No. 2018-13, Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement ("ASU 2018-13"). The ASU 2018-13 modifies the disclosure requirements of fair value measurements as part of the disclosure framework project with the objective to improve the effectiveness of disclosures in the notes to the financial statements. ASU 2018-13 allows for removal of the amount and reasons for transfer between Level 1 and Level 2 of the fair value hierarchy; the policy for transfers between levels; and the valuation processes for Level 3 fair value measurements. ASU 2018-13 is effective for all entities for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. The Company adopted ASU 2018-13 and it did not have a material impact on the Company's consolidated financial statements disclosures.

Goodwill Impairment
In January 2017, the FASB issued ASU No. 2017-04, Simplifying the Test for Goodwill Impairment ("ASU 2017-04"). Among other things, ASU 2017-04 requires the following: (1) the elimination of step two of the goodwill impairment test; entities will no longer utilize the implied fair value of their assets and liabilities for purposes of testing goodwill for impairment, (2) the quantitative portion of the goodwill impairment test will be performed by comparing the fair value of a reporting unit with its carrying amount; an impairment charge is to be recognized for the excess of carrying amount over fair value, but only to the extent of the amount of goodwill allocated to that reporting unit, and (3) foreign currency translation adjustments are not to be allocated to a reporting unit from an entity's accumulated other comprehensive income (loss); the reporting unit's carrying amount should include only the currently translated balances of the assets and liabilities assigned to the reporting unit. The Company adopted ASU 2017-04 effective January 1, 2020. The adoption of ASU 2017-04 did not have a material impact on the Company's consolidated statements of income and comprehensive income and balance sheet.

Recently issued accounting standards not yet adopted

Leases
In February 2016, the FASB issued ASU No. 2016-02, Leases ("ASU 2016-02"). ASU 2016-02 requires lessees to recognize lease assets and lease liabilities on the balance sheet for those leases classified as operating leases under previous guidance. The effective date of ASU 2016-02 has been delayed by the issuance of ASU 2020-05 and is now effective for non-public companies for annual periods beginning after December 15, 2021. Early application is permitted. The Company is currently evaluating the impact of this guidance; however, it is not expected to have a material impact on the Company's consolidated statements of income and comprehensive income and balance sheet.

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

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

Simplifying the Accounting for Income Taxes
In December 2019, the FASB issued ASU No. 2019-12, Simplifying the Accounting for Income Taxes (”ASU 2019-12”). Among other things, ASU 2019-12 eliminates certain exceptions for recognizing deferred taxes for investments and performing intra-period tax allocation. ASU 2019-12 also clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. ASU 2019-12 is effective for non-public entities for fiscal years beginning after December 15, 2021. Early adoption is permitted. The Company is currently evaluating the impact of this guidance; however, it is not expected to have a material impact on the Company’s consolidated statements of income and comprehensive income and balance sheet.

3. Investments

The amortized cost, gross unrealized gains and losses and fair value of fixed maturity investments as of December 31, 2020 are as follows:

	Amortized Cost	Unrealized gains	Unrealized losses	Fair value
U.S. government and government agency securities	$ 150,188	$ 2,647	$ (5)	$ 152,830
Non-U.S. government and government agency securities	99,681	2,256	(47)	101,890
Municipal securities	146,130	5,779	(4)	151,905
Corporate securities	1,277,116	37,108	(352)	1,313,872
Asset-backed securities	219,445	3,495	(871)	222,069
Mortgage-backed securities	22,263	1,139	(253)	23,149
Residential mortgage-backed securities	369,567	5,431	(111)	374,887
Total fixed maturity securities	2,284,390	57,855	(1,643)	2,340,602
Short term investments	54,204	—	—	54,204
	$ 2,338,594	$ 57,855	$ (1,643)	$ 2,394,806

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

The amortized cost, gross unrealized gains and losses and fair value of fixed maturity investments as of December 31, 2019 are as follows:

	Amortized Cost	Unrealized gains	Unrealized losses	Fair value
U.S. government and government agency securities	$ 151,412	$ 1,195	$ (182)	$ 152,425
Non-U.S. government and government agency securities	94,771	1,213	(275)	95,709
Municipal securities	90,173	1,405	(383)	91,195
Corporate securities	1,071,658	16,871	(504)	1,088,025
Asset-backed securities	146,663	737	(975)	146,425
Mortgage-backed securities	18,128	276	(33)	18,371
Residential mortgage-backed securities	167,173	2,531	(175)	169,529
Total fixed maturity securities	1,739,978	24,228	(2,527)	1,761,679
Short term investments	98,766	—	—	98,766
	$ 1,838,744	$ 24,228	$ (2,527)	$ 1,860,445

The contractual maturities of fixed maturities are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	December 31, 2020	
	Amortized cost	Fair value
Due in one year or less	$ 228,205	$ 229,855
Due after one year through five years	1,071,280	1,104,496
Due after five years through ten years	358,338	370,560
Due after ten years	15,292	15,586
Asset-backed securities	219,445	222,069
Mortgage-backed securities	22,263	23,149
Residential mortgage-backed securities	369,567	374,887
Total fixed maturity securities	$ 2,284,390	$ 2,340,602

Realized and unrealized investment gains (losses)

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

	December 31, 2020		
	Realized gains	Realized losses	Net realized gains (losses)
Fixed maturity securities	$ 7,261	$ (115)	$ 7,146
Short term investments	323	—	323
	7,584	(115)	7,469
Net unrealized gains			36,472
			$ 43,941

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

	December 31, 2019		
	Realized gains	Realized losses	Net realized gains (losses)
Fixed maturity securities	$ 2,998	$ (994)	$ 2,004
Short term investments	543	(2)	541
	3,541	(996)	2,545
Net unrealized gains			37,954
			$ 40,499

Net Investment Income

Net investment income for the years ended December 31, 2020 and 2019 was derived from the following sources:

	2020	2019
Fixed maturity securities	$ 42,392	$ 43,475
Other fixed income investments	2,163	1,028
Short term investments	1,490	662
Cash and cash equivalents	1,046	5,113
Total gross investment income	47,091	50,278
Investment expenses	(1,985)	(1,798)
Net investment income	$ 45,106	$ 48,480

Restricted cash and investments

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

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

The restricted cash and fixed maturities held on the Company's consolidated balance sheet as of December 31, 2020 and 2019 were as follows:

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

	December 31, 2020			
	Cash	Short term investments	Fixed maturities	Other fixed income investments
Deposited at Lloyd's for FAL	$ 24,206	$ —	$ 392,004	$ 69,191
Other Lloyd's requirements	22,484	46,983	554,185	—
Deposits for U.S. Insurance regulators	309	—	5,781	—
Collateral pledged for letters of credit	168	—	43,183	—
Collateral pledged for insurance and reinsurance transactions	3,014	—	26,233	—
Fiduciary cash	29,092	—	—	—
	$ 79,273	$ 46,983	$ 1,021,386	$ 69,191

	December 31, 2019			
	Cash	Short term investments	Fixed maturities	Other fixed income investments
Deposited at Lloyd's for FAL	$ 1,718	$ —	$ 306,086	$ 51,028
Other Lloyd's requirements	10,231	48,762	533,558	—
Deposits for U.S insurance regulators	5,762	—	3,743	—
Collateral pledged for letters of credit	152	—	13,630	—
Collateral pledged for insurance and reinsurance transactions	—	—	6,895	—
Fiducuary cash	19,106	—	—	—
	$ 36,969	$ 48,762	$ 863,912	$ 51,028

4. Fair value measurement

Fair value hierarchy

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

- Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.
- Level 2 - Valuations based on quoted prices in active markets for similar assets or liabilities, quoted prices for identical assets or liabilities in inactive markets, or for which significant inputs are observable (e.g. interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.
- Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement. The unobservable inputs reflect the Company's own judgments about assumptions that market participants might use.

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

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

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

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

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

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

Municipal securities
Municipals comprise revenue and general obligation bonds issued by U.S. domiciled state and municipal entities. The fair values of these securities are determined using spreads obtained from the new issue

market, trade prices and broker-dealers quotes. As the significant inputs used to price these securities are observable market inputs, the fair values of municipals are generally classified as Level 2.

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

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

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

Short-Term Investments
Short-term investments primarily comprise highly liquid securities with maturities greater than three months but less than one year from the date of purchase. These securities are generally classified as Level 2 as these securities are not typically actively traded due to their approaching maturity, and, as such, their amortized cost approximates fair value.

Measuring fair value using Net Asset Valuations
At December 31, 2020, the Company had $69,191 ($51,028 as of December 31, 2019) invested in a senior secured credit fund which is measured at fair value using a Net Asset Valuation ("NAV") as advised by the external fund manager. For this fund, NAV is based on the manager's valuation of the underlying holdings in accordance with the funds governing documents and in accordance with U.S. GAAP. The Company can redeem its investment in the senior secured credit fund on a monthly basis.

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

The tables below present the financial instruments measured at fair value on a recurring basis at December 31, 2020 and 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 practical expedient	Total
2020					
U.S. government and government agency securities	$ 134,925	$ 17,905	$ —	$ —	$ 152,830
Non-U.S. government and government agency securities	—	101,890	—	—	101,890
Municipal securities	—	151,905	—	—	151,905
Corporate securities	—	1,298,763	15,109	—	1,313,872
Asset-backed securities	—	222,069	—	—	222,069
Mortgage-backed securities	—	23,149	—	—	23,149
Residential mortgage-backed securities	—	374,887	—	—	374,887
Total fixed maturity securities	134,925	2,190,568	15,109	—	2,340,602
Short term investments	—	54,204	—	—	54,204
Other fixed income investments	—	—	—	69,191	69,191
	$ 134,925	$ 2,244,772	$ 15,109	$ 69,191	$ 2,463,997

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair value based on NAV practical expedient	Total
2019					
U.S. government and government agency securities	$ 142,481	$ 9,944	$ —	$ —	$ 152,425
Non-U.S. government and government agency securities	—	95,709	—	—	95,709
Municipal securities	—	91,195	—	—	91,195
Corporate securities	—	1,088,025	—	—	1,088,025
Asset-backed securities	—	146,425	—	—	146,425
Mortgage-backed securities	—	18,371	—	—	18,371
Residential mortgage-backed securities	—	169,529	—	—	169,529
Total fixed maturity securities	142,481	1,619,198	—	—	1,761,679
Short term investments	—	98,766	—	—	98,766
Other fixed income investments	—	—	—	51,028	51,028
	$ 142,481	$ 1,717,964	$ —	$ 51,028	$ 1,911,473

Financial instruments disclosed, but not carried, at fair value

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

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

The carrying values of cash and cash equivalents and accrued investment income approximated their fair values at December 31, 2020 and 2019, due to their respective short maturities. As these financial instruments are not actively traded, their fair values are classified as Level 2.

5. Goodwill and intangible assets

Goodwill and intangible assets as of December 31, 2020 and 2019 are as follows:

	Goodwill	Intangible assets			Goodwill & Intangible assets
	Gross	Gross	Amortization	Total	Total
Balances as of December 31, 2018	$ 69,551	$ 238,218	$ (54,047)	$ 184,171	$ 253,722
Acquired during year	—	—	—	—	—
Amortization	—	—	(7,247)	(7,247)	(7,247)
Balance as of December 31, 2019	69,551	238,218	(61,294)	176,924	246,475
Acquired during year	—	—	—	—	—
Amortization	—	—	(6,467)	(6,467)	(6,467)
Balance as of December 31, 2020	$ 69,551	$ 238,218	$ (67,761)	$ 170,457	$ 240,008

The gross carrying value and accumulated amortization by major category of intangible assets as of December 31, 2020 is shown below:

	Gross carrying value	Accumulated amortization	Total
Lloyd's Syndicate capacity	$ 94,000	$ —	$ 94,000
U.S. licenses	8,402	—	8,402
Indefinite life	**102,402**	—	**102,402**
Distribution network	95,000	(26,945)	68,055
VOBA	40,816	(40,816)	—
Definite life	**135,816**	**(67,761)**	**68,055**
Total intangible assets	**$ 238,218**	**$ (67,761)**	**$ 170,457**

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

The gross carrying value and accumulated amortization by major category of other intangible assets as of December 31, 2019 is shown below:

	Gross carrying value	Accumulated amortization	Total
Lloyd's Syndicate capacity	$ 94,000	$ —	$ 94,000
U.S. licenses	8,402	—	8,402
Indefinite life	**102,402**	—	**102,402**
Distribution network	95,000	(20,478)	74,522
VOBA	40,816	(40,816)	—
Definite life	**135,816**	**(61,294)**	**74,522**
Total intangible assets	**$ 238,218**	**$ (61,294)**	**$ 176,924**

The remaining useful life of intangible assets with finite lives ranges from 8 to 11 years with a weighted average remaining amortization period of 10.6 years.

Expected amortization of the intangible assets is shown below:

	Other intangible assets
2021	$ 6,467
2022	6,467
2023	6,467
2024	6,467
2025 and thereafter	42,187
Total remaining amortization expense - definite life	68,055
Indefinite life	102,402
Total	$ 170,457

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

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

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

6. Reserves for loss and loss adjustment expenses

Reserving Methodology

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Catastrophe bulletins published by various independent statistical reporting agencies.

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

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

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

IBNR reserves have also been established for exposure to claims associated with the COVID-19 pandemic which have not yet been reported to the Company. Similar to the loss reserves estimated for other known catastrophe events, the loss reserves are estimated by management in collaboration with actuaries, claim handlers and underwriters. The judgment required in determining these reserves is increased due to the uncertainly associated with the potential extent and duration of the pandemic. The analysis is based on several sources of information including:

- the nature and duration of the pandemic;
- the response of government bodies including legislative, regulatory or judicial actions and social influences that could alter the interpretation of the Company's contracts;
- the coverage provided under the Company's contracts;
- the coverage provided by the Company's ceded reinsurance; and
- the evaluation of the loss and impact of loss mitigation actions.

The Company continues to monitor the appropriateness of its assumptions as new information comes to light and adjustments are made to the estimate of ultimate losses related to the COVID-19 pandemic if there are developments that are different from previous expectations. Adjustments are recorded in the period in which they are identified.

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

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

Reserve Roll-Forward

The following table presents a reconciliation of the beginning and ending gross reserve for losses and loss expenses and net reserve for losses and loss expenses for the years ended December 31, 2020 and 2019:

	2020	2019
Gross reserves for losses and loss adjustment expenses, beginning of year	$ 1,082,498	$ 1,217,174
Less: reinsurance recoverable balances, beginning of year	384,244	563,691
Net reserves for losses and loss adjustment expenses, beginning of year	698,254	653,483
Increase (decrease) in net losses and loss adjustment expenses incurred in respect of losses occurring in:		
Current year	491,780	321,203
Prior years	59,002	46,575
Total incurred losses and loss adjustment expenses	550,782	367,778
Less: net losses and loss adjustment expenses paid in respect of losses occurring in:		
Current year	84,847	64,889
Prior years	236,120	260,394
Total net paid losses	320,967	325,283
Net foreign currency on loss and loss adjustment expenses	5,319	2,276
Net reserve for losses and loss adjustment expenses, end of year	933,388	698,254
Plus reinsurance recoverable balances, end of year	336,751	384,244
Gross reserve for losses and loss adjustment expenses, end of year	$ 1,270,139	$ 1,082,498

For the year ended December 31, 2020, the Company recorded net unfavorable prior years reserve development primarily related to 2018 accident year wildfire catastrophe events.

For the year ended December 31, 2019, the Company recorded net unfavorable prior years reserve development primarily related to 2017 and 2018 accident year catastrophe events as a result of updated information received from cedents during the year.

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

Net incurred and paid claims development tables by accident year

The following information presents the incurred and paid claims information as of December 31, 2020, net of reinsurance, as well as cumulative claim frequency and total IBNR reserves by accident year. The information about incurred and paid claims development presented for the years ended December 31, 2011 to December 31, 2019 is presented as supplementary information.

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

Consolidated

Incurred claims and allocated loss adjustment expenses, net of reinsurance

	Unaudited										As of December 31, 2020	
Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total IBNR	Cum. No. of Reported Claims
2011	437,605	461,702	461,049	452,556	442,806	437,070	437,747	438,011	437,560	435,032	(1,131)	9,788
2012		210,583	251,527	238,109	234,100	236,055	228,642	223,829	219,148	217,675	(307)	10,932
2013			249,081	279,225	280,817	273,900	268,176	262,682	260,566	259,340	171	12,531
2014				244,427	271,205	270,519	261,536	258,166	250,739	250,621	2,050	14,106
2015					265,678	306,210	305,124	296,931	289,987	288,101	6,029	15,264
2016						262,577	297,868	287,738	291,693	298,408	10,294	19,281
2017							404,151	373,266	357,730	364,376	17,373	24,482
2018								362,526	436,742	482,359	57,701	20,030
2019									323,490	329,662	101,536	11,767
2020										486,680	296,831	6,715
										$3,412,254	$490,547	

Cumulative paid claims and loss adjustment expenses, net of reinsurance

	Unaudited									
Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
2011	129,222	298,986	368,728	400,265	419,917	425,835	431,486	433,014	433,497	432,633
2012		51,095	119,482	145,553	169,593	188,713	199,768	207,737	211,854	211,974
2013			61,683	159,752	220,437	238,688	248,422	251,857	254,757	255,053
2014				76,329	162,827	203,759	221,183	230,186	238,570	241,491
2015					61,655	175,122	219,906	238,946	255,430	265,060
2016						67,054	170,068	221,891	234,733	255,896
2017							(14,723)	197,553	262,196	303,286
2018								68,611	234,686	329,566
2019									59,738	126,218
2020										85,821
										$ 2,506,998

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

The following table reconciles the net reserve for losses and loss expenses derived from the incurred and paid loss development triangles to the reserve for losses and loss expenses in the consolidated balance sheet as of December 31, 2020:

	December 31, 2020
Total incurred claims and allocated loss and loss adjustment expenses, net of reinsurance	$ 3,412,254
Less: Cumulative paid claims and loss adjustment expenses, net of reinsurance	(2,506,998)
All outstanding liabilities before 2011, net of reinsurance	17,182
Unallocated claims adjustment expenses	10,950
	$ 933,388

Property Treaty

Incurred claims and allocated loss adjustment expenses, net of reinsurance

	Unaudited										As of December 31, 2020	
Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total IBNR	Cum. No. of Reported Claims
2011	211,506	228,840	221,128	221,527	216,055	211,881	214,448	213,627	214,084	214,119	4	510
2012		88,697	59,459	54,264	36,557	42,263	38,775	35,100	29,873	29,471	5,057	432
2013			46,294	44,872	49,159	46,179	44,907	43,134	42,776	42,647	27	213
2014				38,033	34,412	31,608	31,452	31,971	31,986	32,027	25	261
2015					26,858	27,580	31,069	29,357	27,647	26,684	10	158
2016						27,627	29,245	24,200	23,661	23,467	(281)	225
2017							104,172	89,850	70,490	73,679	7,624	449
2018								83,349	152,023	193,533	(12,354)	370
2019									42,333	31,217	8,878	132
2020										118,162	62,472	74
										$ 785,006	$ 71,462	

Cumulative paid claims and loss adjustment expenses, net of reinsurance

	Unaudited									
Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
2011	77,250	145,989	175,071	192,179	207,164	209,315	212,918	213,501	212,368	212,431
2012		21,383	31,967	27,205	18,223	21,573	18,636	23,326	24,999	24,820
2013			2,577	18,263	39,773	43,308	43,011	42,330	42,351	42,301
2014				16,109	24,942	27,234	28,083	29,422	30,337	30,317
2015					2,569	8,136	13,480	16,728	19,018	23,163
2016						1,951	13,216	21,877	25,212	26,359
2017							(67,752)	36,567	51,779	73,983
2018								29,972	71,096	117,353
2019									3,801	10,407
2020										31,029
										$592,163

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

Property

Incurred claims and allocated loss adjustment expenses, net of reinsurance

	Unaudited										As of December 31, 2020	
Accident Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total IBNR	Cum. No. of Reported Claims
2010	130,913	135,035	140,371	137,156	135,311	135,407	133,784	134,222	133,657	131,500	(1,168)	4,733
2011		70,400	67,637	89,501	93,297	90,425	91,168	89,968	90,477	89,814	(3,836)	5,958
2012			80,722	104,209	103,456	104,531	102,463	99,984	98,701	98,074	(52)	7,126
2013				95,968	122,250	122,183	121,043	120,591	117,630	118,206	281	6,528
2014					97,350	118,452	117,275	114,494	114,747	113,946	286	6,077
2015						103,159	122,611	114,159	115,968	119,837	(638)	8,261
2016							116,749	106,514	106,770	105,990	(7,174)	8,168
2017								51,169	61,014	60,729	5,467	6,160
2018									57,651	62,390	5,858	3,908
2019										95,933	26,954	3,090
										$ 996,419	$ 25,978	

Cumulative paid claims and loss adjustment expenses, net of reinsurance

	Unaudited									
Accident Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
2010	25,714	86,986	115,583	125,415	127,715	128,987	130,463	131,192	132,148	131,213
2011		17,486	43,991	58,017	70,598	78,149	87,287	87,571	88,404	88,532
2012			18,669	54,483	77,752	85,702	92,675	94,777	95,482	95,791
2013				33,183	76,699	100,026	109,680	112,840	116,559	117,642
2014					32,903	82,608	99,888	106,687	112,771	113,844
2015						28,631	83,892	98,813	106,422	114,388
2016							17,851	82,972	102,265	102,170
2017								7,831	61,481	71,368
2018									12,522	28,558
2019										24,993
										$ 888,499

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

Marine & Energy

Incurred claims and allocated loss adjustment expenses, net of reinsurance

	Unaudited										As of December 31, 2020	
Accident Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total IBNR	Cum. No. of Reported Claims
2010	93,028	95,952	96,321	92,995	90,609	89,424	89,157	89,804	89,525	89,108	32	4,357
2011		49,180	100,328	90,199	100,170	101,230	96,564	96,632	96,688	96,280	(1,529)	4,503
2012			115,214	127,156	125,916	121,106	119,333	118,301	117,668	117,284	(7)	4,946
2013				95,901	98,766	99,346	94,554	93,217	89,376	88,835	(63)	5,880
2014					119,826	131,368	125,948	124,614	120,840	118,551	129	6,326
2015						94,423	100,101	98,762	98,875	97,609	1,240	6,988
2016							125,892	111,599	113,430	114,141	(1,851)	9,742
2017								121,782	111,846	114,334	5,362	8,106
2018									118,794	126,674	15,790	4,586
2019										114,384	61,056	2,217
										$1,077,200	$ 80,159	

Cumulative paid claims and loss adjustment expenses, net of reinsurance

	Unaudited									
Accident Year	2010	2012	2013	2014	2015	2016	2017	2018	2019	2020
2010	26,252	65,859	77,881	82,432	84,772	87,266	87,838	88,054	88,716	88,713
2011		12,125	43,301	60,030	80,406	86,840	91,679	94,677	96,288	96,459
2012			40,398	86,924	102,495	109,251	112,223	114,169	116,002	115,993
2013				26,979	58,919	72,847	79,306	82,977	85,009	85,632
2014					25,670	81,723	100,889	107,799	111,756	113,234
2015						35,656	65,796	86,675	79,206	83,003
2016							32,441	67,629	87,565	93,858
2017								28,174	82,149	105,864
2018									39,621	69,923
2019										23,407
										$876,086

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

Casualty

Incurred claims and allocated loss adjustment expenses, net of reinsurance

	Unaudited										As of December 31, 2020	
Accident Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total IBNR	Cum. No. of Reported Claims
2010	—	—	—	—	—	—	—	—	—	—	—	—
2011		—	—	—	—	—	—	—	—	—	—	—
2012			17	2,210	1,940	1,754	1,159	960	1,121	1,032	199	226
2013				12,047	13,769	15,615	12,755	10,681	10,062	9,878	1,793	1,417
2014					20,279	27,196	29,154	27,109	25,423	27,604	5,551	2,675
2015						34,648	40,434	44,790	47,101	51,257	9,868	3,295
2016							49,425	55,255	55,183	56,576	17,988	5,223
2017								96,292	104,480	104,182	61,237	4,425
2018									94,457	97,149	66,623	2,450
2019										146,996	138,719	839
										$ 494,674	$301,978	

Cumulative paid claims and loss adjustment expenses, net of reinsurance

	Unaudited									
Accident Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
2010	—	—	—	—	—	—	—	—	—	—
2011		—	—	—	—	—	—	—	—	—
2012			—	19	80	88	174	242	583	629
2013				58	646	2,013	2,475	3,288	4,999	6,232
2014					340	2,321	4,387	6,470	10,601	13,532
2015						456	5,135	11,124	19,200	26,874
2016							1,672	6,053	13,860	23,312
2017								1,223	13,565	24,757
2018									2,372	12,511
2019										3,581
										$111,428

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

Political Risk, Terror and Personal Accident

Incurred claims and allocated loss adjustment expenses, net of reinsurance

	Unaudited										As of December 31, 2020	
Accident Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total IBNR	Cum. No. of Reported Claims
2010	2,158	1,875	3,229	878	831	358	358	358	294	305	1	188
2011		2,306	24,103	4,145	4,076	2,137	2,135	2,129	2,110	2,110	1	39
2012			6,834	778	346	330	314	303	300	303	4	20
2013				2,478	2,008	1,767	1,732	1,706	1,685	1,675	14	20
2014					1,365	1,614	1,678	1,357	1,330	1,316	53	28
2015						2,720	5,477	5,827	6,088	6,238	105	512
2016							7,913	10,048	11,857	13,990	786	900
2017								9,934	7,379	9,581	(2,011)	969
2018									10,255	12,232	4,387	691
2019										11,205	7,630	495
										$ 58,955	$ 10,970	

Cumulative paid claims and loss adjustment expenses, net of reinsurance

	Unaudited									
Accident Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
2010	6	152	193	239	266	267	267	267	265	276
2011		101	223	301	366	2,151	2,166	2,163	2,163	2,163
2012			39	63	337	339	339	339	339	339
2013				—	1,621	1,639	1,639	1,659	1,666	1,668
2014					173	334	1,262	1,262	1,284	1,287
2015							2,029	3,402	4,693	5,272
2016							1,065	4,332	6,727	9,963
2017								1,411	6,395	10,224
2018									1,422	4,819
2019										2,811
										$ 38,822

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

7. Reinsurance

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

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

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

(a) Effects of reinsurance on premiums written and earned

The effects of reinsurance on premiums written and earned and on losses and loss adjustment expenses is as follows for the years ended December 31, 2020 and 2019:

	2020	2019
Net premiums written		
Direct	$ 1,110,861	$ 674,855
Assumed	708,001	487,195
Ceded	(519,048)	(350,865)
Net premiums written	1,299,814	811,185
Net premiums earned		
Direct	857,040	610,008
Assumed	575,198	416,656
Ceded	(407,857)	(313,125)
Net premiums earned	1,024,381	713,539
Losses and loss adjustment expenses		
Gross losses and loss adjustment expenses incurred	663,318	373,370
Losses and loss adjustment expense recoveries	(112,536)	(5,592)
Net losses and loss adjustment expenses	$ 550,782	$ 367,778

(b) Credit risk

The Company evaluates the financial condition of its reinsurers and monitors concentration of credit risk arising from its exposure to individual reinsurers. As of December 31, 2020, 81.5% of reinsurance recoverables were from reinsurers rated A- or better, 18.2% from unrated reinsurers all of which is collateralized and 0.3% from unrated reinsurers on an uncollateralized basis.

As of December 31, 2019, 53.7% of reinsurance recoverables were from reinsurers rated A- or better, 45.4% from unrated reinsurers all of which is collateralized and 0.9% from unrated reinsurers on an uncollateralized basis.

Reserves for reinsurance recoverables deemed uncollectible are based on an estimate of the amount of the reinsurance recoverable balance that will ultimately not be recovered due to reinsurer insolvency, contractual dispute or some other reason. The valuation of the reserve for uncollectible reinsurance includes a review of the credit ratings of the reinsurance recoverable by reinsurer on a continuous basis with any resulting adjustments recorded in earnings in the period that collection issues are identified. As of December 31, 2020 and 2019, the reserves for reinsurance recoverables deemed uncollectible was $1,380 and $1,838, respectively.

8. Financing arrangements

Letter of Credit Facilities

On November 4, 2020, the Company and AGL (as Guarantor) entered into an unsecured $250,000 letter of credit facility (the "FAL LOC Facility") with ING Bank N.V. London Branch and The Bank of Nova Scotia, London Branch. The facility may be collateralized at the option of the Company. Under the terms of the FAL LOC Facility, letters of credit to a maximum aggregate amount of $250,000 are available for issuance. These letters of credit will be used to provide Funds at Lloyd's to support the underwriting capacity provided by ACNL to the Syndicate for the 2021 and 2022 years of account and any prior open years of account for the Syndicate. The FAL LOC Facility is subject to certain covenants, including the requirement to maintain a minimum consolidated tangible net worth and a maximum leverage ratio, as defined in the FAL LOC Facility Documents. Obligations under the FAL LOC Facility include contingent reimbursement obligations for outstanding letters of credit and fees. In the event of default, the Banks may exercise certain remedies, including the exercise of control over pledged collateral and the termination of the availability of the FAL LOC Facility. This facility replaced the unsecured $250,000 letter of credit facility entered into on November 2, 2018 by the Company and AGL (as Guarantor) with Lloyds Bank plc, ING Bank N.V. London Branch and The Bank of Nova Scotia, London Branch.

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

At December 31, 2020, the Company had $250,000 letters of credit outstanding under the FAL LOC Facility and $32,883 outstanding under the Wells Fargo LOC Facility. The Company was in compliance with all covenants for both facilities at December 31, 2020.

9. Commitments and contingencies

a) Concentrations of credit risk

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

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

Cash and investments

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

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

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

At December 31, 2020, the Company was in compliance with these limits.

Reinsurance recoverable balances

See Note 7. Reinsurance for information with respect to reinsurance recoverables.

Premiums receivable balances

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

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

These contractual rights contribute to the mitigation of credit risk, as does the monitoring of aged receivable balances. In light of these mitigating factors, and considering that a significant portion of premium balances receivable are not currently due based on the terms of the underlying contracts, the Company does not utilize specific credit quality indicators to monitor its premium balances receivable balance. At December 31, 2020 and 2019, the Company had determined that no allowance for uncollectible premium balances receivable was needed.

a) Brokers

The Company produces its business through brokers and direct relationships with insurance companies. During the years ended December 31, 2020 and 2019, the following brokers were used to generate greater than 10% of the Company’s consolidated gross premiums written:

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

	% of Gross Premiums Written	
Broker	**2020**	**2019**
Aon plc	20.5 %	20.4 %
Marsh & McLennan Companies	18.7 %	15.2 %
Willis Towers Watson	12.1 %	14.8 %

c) Lease commitments

The Company leases office space under operating leases which expire at various dates. The Company renews and enters into new leases in the ordinary course of business, as required. The rent expense with respect to these operating leases for the years ended December 31, 2020 and 2019 was $5,561 and $6,067, respectively.

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

2021	$	6,627
2022		6,650
2023		6,000
2024		6,033
2025		6,089
Later years		17,665
Total minimum future lease commitments	$	49,064

d) Litigation

The Company is subject to litigation and arbitration in the normal course of its business. These lawsuits and arbitrations principally involve claims on policies of insurance and contracts of reinsurance and are typical for the Company and for the property and casualty insurance and reinsurance industry in general. Such legal proceedings are considered in connection with the Company's loss and loss expense reserves. In addition to litigation relating to insurance and reinsurance claims, the Company and its subsidiaries are subject to lawsuits in the normal course of business. The status of any such legal actions is actively monitored by management. If management believed, based on available information, that an adverse outcome upon resolution of a given legal action was probable and the amount of that adverse outcome was reasonable to estimate, a loss would be recognized and a related liability recorded. No such liabilities were recorded by the Company as of December 31, 2020 and 2019.

10. Share capital

Authorized and issued

The issued shares as of December 31, 2020 by each class of ordinary share capital was as follows:

	Authorized	**Nominal value (US$)**	**Authorised (US$)**	**Issued**	**Issued and Paid (US$)**
Director Voting Shares	100	1	$ 100	100	$ 100
Non Director Voting Shares	119,900	1	119,900	119,900	119,900
	120,000		$ 120,000	120,000	$ 120,000

The Company did not issue any shares during the years ended December 31, 2020 and 2019 .

On May 21, 2020, the Company returned $45,000 to its parent through a capital distribution. On December 15, 2020, the Company received a $375,000 capital contribution from its parent.

On March 29, 2019, the Company returned $250,000 of capital to its parent through a capital distribution.

Dividends

The Company did not declare any dividends during the years ended December 31, 2020 and 2019.

11. Retirement plans

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

For the years ended December 31, 2020 and 2019, the Company's total pension expenses were $6,235 and $3,958 respectively, for the above retirement benefits.

12. Related party transactions

Transactions with affiliates

The Company purchases operating services and support from its parent company and also provides certain services and support to its parent company. As of December 31, 2020, the Company had an outstanding payable of $17,677 included under amounts payable from affiliates related to these services. As of December 31, 2019, the Company had an outstanding receivable of $11,362 included under amounts receivable from affiliates related to these services. These amounts are unsecured, non-interest bearing and payable upon demand.

On March 22, 2018, the Company entered into a loan agreement with AGL, an affiliated company, where the Company loaned AGL $7,000. The term of the loan was 2 years and interest payable at a rate of LIBOR plus 1.75% per annum. Interest income of $95 and $236 was recorded in other income during the years ended December 31, 2020 and 2019, respectively. The loan was repaid on May 21, 2020.

During 2017, AUGL entered in to a loan agreement with AGL, an affiliated company, whereby AGL loaned AUGL $54,017. During 2019, AGL contributed the loan to the Company and it was settled.

Canro Re Limited

Canro Re Limited ("Canro Re"), a Bermuda-domiciled special purpose insurer ("SPI") was formed to provide reinsurance capacity to the Company and Syndicate 1414, through reinsurance agreements which will be collateralized and funded by Canro Re through the issuance of non-voting redeemable preference shares to investors. As of December 31, 2019 and 2020, the sole investor of the preference shares issued by Canro Re was CPP Investment Board PMI-2 Inc, CPP Investment Board PMI-2 Inc. is a related party of the Company.

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

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

Canro Re commenced underwriting operations on January 1, 2020. For the year ended December 31, 2020, the Company recorded $33,053 of ceded premiums written to Canro Re. As of December 31, 2020, the Company had a reinsurance balances payable of $9,672 due to Canro Re.

13. Taxation

(a) Bermuda

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

(b) United Kingdom

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

The Company's U.K. operating companies are taxed at the U.K. corporate tax rate of 19%.

(c) United States

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

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

(d) Others

The Company is subject to income taxation in other jurisdictions than those stated above, but the impact of the other jurisdictions is not material to the provision for income taxes for the years ended December 31, 2020 and 2019.

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

The components of the provision for income taxes attributable to operations consist of the following for the years ended December 31, 2020 and 2019:

	2020	2019
Current tax expense (benefit):		
United Kingdom	$ (5,079)	$ 7,675
U.S. Federal	(88)	—
U.S. State & local	3,561	27
Other	17	198
Total	(1,589)	7,900
Deferred tax expense (benefit):		
United Kingdom	7,211	(4,554)
U.S. Federal	—	—
U.S. State & local	—	—
Other	(5)	(386)
Total	7,206	(4,940)
Income tax expense	$ 5,617	$ 2,960

Deferred income taxes reflect the tax impact of temporary differences between the carrying amounts of assets and liabilities for financial reporting and income tax purposes. Significant components of the net deferred tax liabilities as of December 31, 2020 and 2019 were as follows:

	2020	2019
Deferred tax assets:		
Loss carryforwards	$ 18,965	$ 13,557
Deferred underwriting loss	10,800	23,174
Accrued expenses	4,651	2,506
Unearned premium reserve	3,525	824
Stock based compensation	1,333	580
Other temporary differences	1,787	458
Total deferred tax assets	41,061	41,099
Valuation allowance	(20,794)	(11,730)
Deferred tax assets, net of valuation allowance	**20,267**	**29,369**
Deferred tax liabilities:		
Intangible assets	(32,555)	(32,358)
Equalization provision reserves	(5,808)	(12,064)
Profit commission	(5,540)	(4,070)
Deferred acquisition costs	(1,581)	—
Investments	(1,062)	(620)
Other temporary differences	(938)	(269)
Total deferred tax liabilities	**(47,484)**	**(49,381)**
Net deferred tax liabilities	**$ (27,217)**	**$ (20,012)**

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

As of December 31, 2020, the Company had net operating losses of $59,135 that can be used to offset future taxable income in the Company's U.S subsidiaries. The Company's ability to use the majority of these losses expires between the years 2024 and 2040. As of December 31, 2020, the Company had net operating losses of $34,490 that can be used indefinitely to offset future taxable income in the Company's U.K. subsidiaries.

As of December 31, 2020, the Company has provided a valuation allowance of $20,794 ($11,730 as at December 31, 2019) to reduce certain deferred tax assets in the Company's U.S. operations to an amount that management expects will more likely than not be realized.

The expected tax provision computed on pre-tax income at the weighted average tax rate has been calculated as the sum of the pre-tax income in each jurisdiction multiplied by that jurisdiction's applicable statutory tax rate. A reconciliation of income before tax expense by taxing jurisdiction to the expected income tax provision by taxing jurisdiction and consolidated weighted average effective income tax rate is as follows for the years ended December 31, 2020 and 2019:

	2020	2019
Income (loss) before tax expense by taxing jurisdiction		
Bermuda	$ 201,980	$ 107,176
United Kingdom	7,019	5,070
United States	(40,243)	(28,424)
Singapore	(92)	(616)
Consolidated income before tax	$ 168,664	$ 83,206
Statutory tax rates		
Bermuda	— %	— %
United Kingdom	19 %	19 %
United States	21 %	21 %
Singapore	17 %	17 %
Expected income tax expense (benefit) by taxing jurisdiction		
Bermuda	$ —	$ —
United Kingdom	1,334	963
United States	(8,451)	(5,969)
Singapore	(16)	(105)
Consolidated	$ (7,134)	$ (5,111)
Consolidated weighted average effective income tax rate	(4.2)%	(6.1)%

A reconciliation of the difference between the provision for income taxes and the expected tax provision at the weighted average tax rate is as follows for the years ended December 31, 2020 and 2019:

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

	2020	%	2019	%
Expected income tax benefit at weighted average rate	$ (7,134)	(4.2)%	$ (5,111)	(6.1)%
Change in valuation allowance	8,993	5.3 %	5,767	6.5 %
Non-taxable disposition of subsidiary	—	— %	(1,162)	(1.3)%
Prior year adjustments	(1,939)	(1.1)%	659	0.7 %
Foreign tax	1,556	0.9 %	1,252	1.4 %
Disallowed deductions	190	0.1 %	1,077	1.2 %
State and local taxes	2,882	1.7 %	—	— %
Other	1,069	0.6 %	478	0.5 %
Income tax expense	$ 5,617	3.3 %	$ 2,960	3.3 %

During the years ended December 31, 2020 and 2019, the Company had no unrecognized benefits from uncertain tax positions. The Company does not anticipate any significant changes in the amount of unrecognized tax benefits during the next 12 months. Interest and penalties related to unrecognized tax benefits will be included in income tax expense.

The Company's U.K. corporation tax returns for certain subsidiaries for fiscal years 2019 and 2020 are open for examination by the U.K. tax authorities.

The U.S. corporation tax returns for fiscal years 2017 to 2020 are open for examination by the U.S. tax authorities.

14. Statutory financial information

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

Bermuda

Under the Insurance Act 1978, amendments thereto and Related Regulations of Bermuda (the "Act"), Ascot Bermuda is required to maintain minimum statutory capital and surplus equal to the greater of a minimum solvency margin ("MSM") and the Enhanced Capital Requirement ("ECR"). The MSM is the greater of $100 million, 50% of net premiums written,15% of the net reserve for losses and loss expenses or 25% of the ECR. The ECR is calculated based on either an internally developed risk-based capital model or a standard risk-based capital model developed by the BMA. Under the Act, Ascot Bermuda is restricted as to the payment of dividends for amounts greater than 25% of the prior year's statutory capital and surplus, whereby an affidavit signed by at least two members of the Board of Directors is required, attesting that any dividend in excess of this amount would not cause the company to fail to meet its relevant margins. In addition, Ascot Bermuda is restricted from reducing by 15% or more its prior years's total statutory capital without approval from the BMA.

As of December 31, 2020, the required statutory capital and surplus was $741,264 and the available statutory capital and surplus was $1,972,764. As of December 31, 2019, the required statutory capital and surplus was $471,735 and the available statutory capital and surplus was $1,488,618. As of December 31, 2020, the Company is restricted from paying a dividend due to availability of statutory surplus. As of December 31, 2020 the maximum capital distribution the Company could pay without regulatory approval is $306,000 ($257,364 as of December 31, 2019).

United States

The required statutory capital and surplus of the Company’s U.S. insurance subsidiaries, AIC and ASIC, is determined using the risk-based capital formula ("RBC"), which is the National Association of Insurance Commissioners' ("NAIC") method of measuring the minimum capital appropriate for a U.S. reporting entity to support its overall business operations in consideration of its size and risk profile. If a company falls below the authorized control level as determined under the RBC, the NAIC is authorized to take whatever regulatory actions may be considered necessary to protect policyholders and creditors. The maximum dividend that may be paid by the Company's U.S. insurance subsidiaries is restricted by the regulatory requirements of the domiciliary states. Generally, the maximum dividend that may be paid by each of the Company's U.S. insurance subsidiaries is limited to unassigned surplus (statutory equivalent of retained earnings) and may also be limited to statutory net income, net investment income or 10% of total statutory capital and surplus. At December 31, 2020, for AIC (which owns ASIC) the required statutory capital and surplus was $28,619 and the actual statutory capital and surplus was $107,271. At December 31, 2019, the required statutory capital and surplus was $17,486 and the actual statutory capital and surplus was $66,201. As of December 31, 2020 and 2019 the maximum dividend that could be paid without regulatory approval was $nil.

Lloyd's of London

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

FAL may be satisfied by cash, certain investments and letters of credit provided by approved banks. As of December 31, 2020 fixed maturities and other fixed income investments with a fair value of $461,195 (2019: $357,114) and cash of $24,206 (2019: $1,718), respectively, were restricted to satisfy FAL requirements. In addition, as of December 31, 2020 a letter of credit facility of $250,000 supported the FAL requirements (2019: $250,000).

15. Subsequent events

The Company has completed its subsequent events evaluation for the period subsequent to the balance sheet date of December 31, 2020 through March 12, 2021, the date the financial statements were available to be issued, and concluded that there are no subsequent events requiring recognition or disclosure.