Harrington

HARRINGTON RE LTD.

Consolidated Financial Statements and Independent Auditors' Report

For the Years Ended December 31, 2020 and 2019

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholder of
Harrington Re Ltd.

We have audited the accompanying consolidated financial statements of Harrington Re Ltd. (the "Company"), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of (loss) income, changes in shareholder's 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 Harrington Re Ltd. 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.

Deloitte Ltd.

May 27, 2021

HARRINGTON RE LTD.
CONSOLIDATED BALANCE SHEETS
As of December 31, 2020 and 2019
(U.S. dollars in thousands, except share and per share amounts)

	2020	2019
Assets		
Investments *(Cost 2020: $948,289; 2019: $909,987)*	$ 1,079,791	$ 1,025,051
Cash and cash equivalents	119,798	87,208
Reinsurance balances receivable	158,383	131,375
Deferred acquisition costs	45,513	43,929
Prepaid expenses	4,946	3,833
Other assets	38,025	40,046
Total assets	$ 1,446,456	$ 1,331,442
Liabilities		
Reserve for losses and loss expenses	$ 604,469	$ 498,801
Unearned premiums reserve	164,634	151,726
Credit facility loan payable	70,000	70,000
Accounts payable and accrued expenses	20,353	18,705
Other liabilities	5,281	1,879
Total liabilities	864,737	741,111
Shareholder's equity		
Common shares *($1.00 par; 1,000,000 shares authorized, issued and outstanding)*	1,000	1,000
Contributed surplus	532,771	532,446
Retained earnings	47,948	56,885
Total shareholder's equity	581,719	590,331
Total liabilities and shareholder's equity	$ 1,446,456	$ 1,331,442

See Notes to the Consolidated Financial Statements

HARRINGTON RE LTD.
CONSOLIDATED STATEMENTS OF (LOSS) INCOME
For the Years Ended December 31, 2020 and 2019
(U.S. dollars in thousands)

	2020	2019
Revenues		
Gross premiums written	$ 260,705	$ 305,010
Change in unearned premiums reserve	(12,908)	(28,857)
Net premiums earned	247,797	276,153
Net investment income	17,741	60,155
Total revenues	265,538	336,308
Expenses		
Losses and loss expenses	197,779	209,115
Acquisition costs	65,095	64,862
General and administrative expenses	6,123	6,105
Corporate expenses	3,665	3,505
Financing costs	224	213
Foreign exchange loss	1,589	2,541
Total expenses	274,475	286,341
Net (loss) income	$ (8,937)	$ 49,967

See Notes to the Consolidated Financial Statements

HARRINGTON RE LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY
For the Years Ended December 31, 2020 and 2019
(U.S. dollars in thousands)

	2020	2019
Common shares		
Balance at beginning and end of year	$ 1,000	$ 1,000
Contributed surplus		
Balance at beginning of year	532,446	532,225
Share-based compensation expense	325	221
Balance at the end of year	532,771	532,446
Retained earnings		
Balance at beginning of year	56,885	6,918
Net (loss) income	(8,937)	49,967
Balance at the end of year	47,948	56,885
Total shareholder's equity	$ 581,719	$ 590,331

See Notes to the Consolidated Financial Statements

HARRINGTON RE LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2020 and 2019
(U.S. dollars in thousands)

		2020		2019
Operating activities:				
Net (loss) income	$	(8,937)	$	49,967
Adjustments to reconcile net (loss) income to net cash provided by operating activities:				
Net realized gains and change in unrealized gains and losses on investments		(26,199)		(72,027)
Net accretion of discount on fixed maturities		(201)		(71)
Share-based compensation expense		325		221
Changes in:				
Reinsurance balances receivable		(27,009)		(31,980)
Deferred acquisition costs		(1,584)		(3,556)
Prepaid expenses		(1,113)		(52)
Reserve for losses and loss expenses		105,668		146,285
Unearned premiums reserve		12,908		28,857
Other items		13,657		494
Net cash provided by operating activities		67,515		118,138
Investing activities:				
Purchases of investments		(297,978)		(270,830)
Sales of investments		269,575		194,187
Net cash used in investing activities		(28,403)		(76,643)
Financing activities:				
Proceeds from credit facility borrowings		-		15,000
Payments for redemptions from general partner of the fund		(7,448)		-
Net cash (used in) provided by financing activities		(7,448)		15,000
Effect of exchange rate changes on foreign currency cash and cash equivalents		926		33
Net increase in cash and cash equivalents		32,590		56,528
Cash and cash equivalents, beginning of year		87,208		30,680
Cash and cash equivalents, end of year	$	119,798	$	87,208
Interest paid	$	2,174	$	3,189

See Notes to the Consolidated Financial Statements

1. General

Harrington Re Ltd. ("Harrington Re") was incorporated under the laws of Bermuda on March 16, 2016, and is a wholly-owned subsidiary of Harrington Reinsurance Holdings Limited (the "Parent"). The Parent was incorporated under the laws of Bermuda on March 15, 2016.

Harrington Re is licensed as a Class 4 multi-line insurer under the Insurance Act 1978, amendments thereto and Related Regulations of Bermuda (the "Insurance Act") and is licensed to underwrite general business on an insurance and reinsurance basis. Harrington Re was licensed by the Bermuda Monetary Authority (the "BMA") effective June 22, 2016, and commenced its operations subsequently. Harrington Re provides a broad range of reinsurance products on a worldwide basis.

During the second quarter of 2016, the Parent raised approximately $542.0 million in net proceeds through the issuance of its common shares.

AXIS Capital Holdings Limited ("AXIS Capital") through a wholly-owned subsidiary, AXIS Ventures Limited, invested $100.0 million and acquired 18.1% of the Parent's common equity. The investment was subsequently increased to 19.0% of the Parent's common equity. The Blackstone Group Inc. ("Blackstone Group"), through a wholly-owned subsidiary, together with investment entities formed for certain senior professionals and employees of the Blackstone Group, have in total acquired 9.9% of the Parent's common equity.

Harrington Re has engaged AXIS Reinsurance Managers Limited ("ARM" or the "Liability Manager"), a company incorporated in Bermuda and a wholly-owned subsidiary of AXIS Capital, to act as its liability manager pursuant to a services agreement dated July 1, 2016 (the "Services Agreement"). The Liability Manager manages the day-to-day underwriting activities of Harrington Re subject to the provisions of the Services Agreement and the oversight of Harrington Re's management and Board of Directors (the "Board"). See Note 13, *"Related party transactions"* for further details.

Pursuant to an investment management agreement dated July 1, 2016 (the "Investment Management Agreement") between Blackstone Harrington Partners L.P., a Cayman Islands exempted limited partnership (the "Fund") and Blackstone Multi-Asset Advisors L.L.C., a Delaware limited liability company and an affiliate of the Blackstone Group ("BMAA"), which was assigned by BMAA to Blackstone ISG-II Advisors L.L.C., a Delaware limited liability company and an affiliate of the Blackstone Group ("BISA-II" or the "Investment Manager"), as of October 1, 2017, BISA-II serves as the investment manager of the assets of Harrington Re that are invested in the Fund. Blackstone Harrington Associates L.L.C., a Delaware limited liability company (the "General Partner"), serves as the general partner of the Fund. Harrington Re is the sole limited partner of the Fund. The Fund seeks to achieve attractive risk-adjusted returns through a portfolio of diversified, primarily alternative, investments. See Note 13, *"Related party transactions"* for further details.

2. Significant accounting policies

(a) Basis of Presentation

These consolidated financial statements have been prepared in accordance with accounting policies generally accepted in the United States of America ("U.S. GAAP") and include the accounts of Harrington Re and Blackstone Harrington Partners L.P., a variable interest entity ("VIE") in which Harrington Re is considered to be the primary beneficiary (all together referred to as the "Company" or "we").

The Company is the primary beneficiary of a VIE if it has a controlling financial interest in the VIE, if it has both (a) the power to direct the activities of the VIE that most significantly impact the performance of the VIE, and (b) the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE.

All inter-company accounts and transactions have been eliminated.

All amounts are reported in U.S. dollars. Tabular data are in thousands.

The preparation of the 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. To facilitate year-to-year comparisons, certain reclassifications have been made to prior year consolidated financial statement amounts to conform to the current year presentation. There was no effect on net income from this change in presentation.

COVID-19 and Global Economic Market Conditions

The ongoing novel coronavirus ("COVID-19") pandemic and restrictions on certain non-essential businesses have caused disruption in the U.S. and global economies. Although an economic recovery is partially underway, it continues to be gradual, uneven, and characterized by meaningful dispersion across sectors and regions. The estimates and assumptions underlying these consolidated financial statements are based on the information available as of December 31, 2020, including judgments about the financial market and economic conditions which may change over time.

(b) Premiums and Acquisition Costs

Premiums

Reinsurance premiums written are recorded in accordance with the terms of the underlying policies. Reinsurance premiums are recorded at the inception of the contract and are estimated based upon information received from ceding companies. For multi-year contracts where reinsurance premiums are payable in annual installments, premiums are recorded at the inception of the contract based on management's best estimate of total premiums to be received. However, premiums are normally recognized on an annual basis for multi-year contracts where the cedant has the ability to unilaterally commute or cancel coverage within the term of the policy. The remaining annual premiums are included as written at each successive anniversary date within the multi-year term. Any subsequent differences arising on reinsurance premium estimates are recorded in the period they are determined.

2. Significant accounting policies (cont.)

Reinsurance premiums are generally earned based on information received from ceding companies over the period during which we are exposed to the underlying risk, which is usually one to two years with the exception of multi-year contracts. Unearned premiums represent the portion of premiums written which is applicable to the unexpired risks under contracts in force.

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. The accrual of reinstatement premiums is based on our estimate of losses and loss expenses, which reflects management's judgment, as described in Note 2(c) *"Losses and Loss Expenses"* below.

Treatment of retroactive reinsurance contracts is described in Note 2(d) *"Retroactive reinsurance accounting"*.

Premiums receivable balances are reviewed for impairment at least quarterly and an allowance is established for amounts considered uncollectible. The need for charge-off of any amounts previously reserved as uncollectible is assessed on a quarterly basis.

Acquisition Costs

Acquisition costs vary with and are directly related to the acquisition of reinsurance contracts and consist primarily of fees and commissions paid to brokers, underwriting fees paid to our Liability Manager and premium taxes. Premiums receivable are presented net of applicable acquisition costs when contract terms provide for the right of offset.

Total acquisition costs are deferred and charged to expense as the related premium is earned. Anticipated losses and loss expenses, other costs and investment income related to these premiums are considered in assessing the recoverability of our deferred acquisition costs. If deferred amounts are estimated to be unrecoverable, they are expensed.

(c) Losses and Loss Expenses

Our reserve for losses and loss expenses represents an estimate of the unpaid portion of our ultimate liability for losses and loss expenses for reinsured events that have occurred at or before the balance sheet date. The balance reflects both claims that have been reported to us ("case reserves") and claims that have been incurred but not yet reported to us ("IBNR"). IBNR includes an estimate for expected increases in case reserves which have not yet been allocated to case reserves. These amounts are reduced for estimated amounts of salvage and subrogation recoveries.

Management reviews our reserve for losses and loss expenses on a quarterly basis. Case reserves are primarily established based on amounts reported by the ceding companies. 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, Bornhuetter-Ferguson and Chain Ladder methods. The reserve estimate is highly dependent on judgment as to which method(s) are most appropriate for a particular accident year and class of business. Our historical claims data is often supplemented with industry benchmarks when applying these methodologies.

2. Significant accounting policies (cont.)

Any adjustments to our previous reserve for losses and loss expenses estimates are recognized in the period they are determined. While we believe that our 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.

Treatment of retroactive reinsurance contracts is described in Note 2(d) *"Retroactive reinsurance accounting"*.

(d) Retroactive reinsurance accounting

Retroactive reinsurance reimburses a ceding company for liabilities incurred as a result of past insurable events covered by the underlying policies reinsured. Written premiums are fully earned and corresponding losses and loss expenses are recognized at inception. In the years that these type of contracts are written, significant variances may occur in gross premiums written, net premiums earned and losses and loss expenses.

Underwriting income (loss) generated in connection with retroactive reinsurance contracts is recorded in the Consolidated Balance Sheets as an Other Liability (Asset) and amortized using the interest method over the expected claims settlement period. This amortization is recognized within losses and loss expenses in the Consolidated Statements of (Loss) Income. Subsequent changes in estimated or actual cash flows under such retroactive reinsurance contracts are accounted for by adjusting the previously deferred amount to the balance that would have existed had the revised estimate been available at the inception of the reinsurance transaction, with a corresponding charge or credit to income.

(e) Investments

The Company has elected the fair value option for its other investments in accordance with Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("ASC") 825 "*Financial Instruments"*. As a result, the Company's other investments are reported at fair value with changes in fair value included in earnings in the Consolidated Statements of (Loss) Income.

Investments in fixed maturities are classified as trading in accordance with ASC 320 *"Investments – Debt and Equity Securities"*. Fixed maturity investments are reported at fair value in the Consolidated Balance Sheets with changes in fair value included in earnings in the Consolidated Statements of (Loss) Income.

The fair value of investments in investment funds is generally determined using the reported Net Asset Value ("NAV") per share of the investment fund, or its equivalent, as a practical expedient for fair value, if the reported NAV of the investment fund is calculated in a manner consistent with the measurement principles applied to investment companies. In order to use the practical expedient, the Company has internal processes to independently evaluate the fair value measurement process utilized by the underlying investment fund to calculate the investment fund's NAV. Such internal processes include the evaluation of the investment fund's process and related internal controls in place to estimate the fair value of its underlying investments that are included in the NAV calculation, performing ongoing operational due diligence, review of the investment fund's audited financial statements, and ongoing monitoring of other relevant qualitative and quantitative factors.

2. Significant accounting policies (cont.)

The Investment Manager values investments according to U.S. GAAP which defines fair value, establishes a framework for measuring fair value, and requires enhanced disclosures regarding fair value measurements. Fair value is the amount that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date (i.e., the exit price) under current market conditions.

Valuation Techniques

Described below are valuation techniques employed by the Investment Manager to determine investment valuations.

The Investment Manager receives market and investment specific data ("Market Data"), including quotations from market participants and pricing services that is used to determine investment fair values. The Investment Manager evaluates Market Data received from market participants and pricing services for investments that are publicly traded as well as private assets that are not traded on an exchange and may require significant judgment when determining the valuation. Investments in open ended registered investment companies and Liquid Multi-Strategy Funds ("UCITS") are valued at the published daily quotation of their net asset value.

When selecting price sources, the Investment Manager generally prioritizes fair value price sources that are most observable for each investment. Below is a listing of the valuation techniques used by the Investment Manager to determine the fair value of the Company's investments as of the measurement date. See Note 5, "*Fair value measurements*", for further discussion relating to the valuation of the Company's investments.

Over-the-counter market prices

Certain investments that trade on over-the-counter markets may also utilize published transaction prices when it is both readily available and representative of fair value.

Market Participant and Pricing Service quotations

Certain investments that trade on over-the-counter markets, where published transaction prices are not utilized are generally valued with indications of fair value from market participants and pricing services.

To determine the fair value of an investment, market participants and pricing services may consider observable market transactions for identical or similar investments, quotations by other market participants, pricing matrices or pricing relationships between investments with similar characteristics.

When evaluating quotations from a pricing service, the Investment Manager may consider the number of indications of fair value from market participants, the ability to transact at such prices based on recent trading activity, reviews of quotations and prices for similar assets, as well as other Market Data.

2. Significant accounting policies (cont.)

Modeled values

Investments that are privately held or thinly traded are generally characterized by few or no quotations and often rely on significant unobservable inputs. The General Partner performs an analysis of these investments incorporating current market conditions, investment terms, capital structure and comparable investments at the measurement date. The General Partner may consider one or more valuation techniques discussed below to derive fair value and may apply a significant degree of judgment regarding technique weighting, internal and external assumptions that may be quantitative or qualitative in nature. Under certain circumstances recent transaction prices may be the best indicator of fair value given the proximity of the investment acquisition date to the measurement date.

Discounted cash flow – equity investments

For certain equity investments the General Partner will use projected unlevered free cash flows of the portfolio company. The terminal value is projected using an assumed exit multiple, which is generally based on the performance multiple methodology. All cash flows and the terminal value are discounted back to the valuation date using a discount rate which represents the return a market participant would require for a similar investment and risk profile. The calculation results in an enterprise value which is then reduced by the amount of the net debt outstanding to arrive at the equity value.

Valuation Process

On a quarterly basis, the General Partner validates its valuations of Level 3 investments through back testing of sales of certain material investments by comparing the amounts realized against the most recent fair values reported, and if necessary, uses any findings to recalibrate its valuation procedures.

Net investment income

Net investment income in the Consolidated Statements of (Loss) Income includes the interest income generated by our cash and cash equivalents, the change in the value of investments managed in the Fund, and is net of investment related expenses. The change in the value of investments managed in the Fund includes the interest and dividend income received by the Fund, realized and unrealized investment gains and losses together with amortization of market premiums and discounts and is net of investment management fees, borrowing costs relating to the credit facilities loans payable and other investment related expenses.

Investment gains or losses realized on the sale of investments are determined on a first-in, first-out basis. See Note 4, *"Investments"* for further details.

(f) Derivative instruments

The Company may enter into derivative instruments such as futures, options, interest rate swaps and foreign currency forward contracts as part of its overall foreign currency risk management strategy, to obtain exposure to a particular financial market or for yield enhancement. The Company measures all derivative instruments at fair value and recognizes them as either assets or liabilities in the Consolidated Balance Sheets. Subsequent changes in fair value and any realized gains or losses are recognized in the Consolidated Statements of (Loss) Income.

2. Significant accounting policies (cont.)

(g) Cash and cash equivalents

Cash and cash equivalents include cash and investments with original maturities of three months or less.

Cash and cash equivalents are recorded at amortized cost, which approximates fair value due to the short-term, liquid nature of these securities.

(h) Share-Based Compensation

The Parent is authorized to issue stock options and restricted share units to the Company's eligible employees. The fair value of the compensation cost relating to service-based awards is measured at the grant date and expensed on a straight-line basis over the period for which the employee is required to provide services in exchange for the award. The fair value of performance-based awards is measured at the grant date based on pre-established targets relating to certain performance based measures, with the associated expense recognized on a straight-line basis over the applicable performance and vesting period. Forfeiture benefits are estimated at the time of grant and incorporated in the determination of share-based compensation.

(i) Foreign Exchange

The Company's functional currency is the U.S. dollar. Revenues and expenses denominated in foreign currencies are revalued at the prevailing exchange rate at the transaction date. Monetary assets and liabilities denominated in foreign currencies are re-measured at exchange rates in effect at the balance sheet date, which may result in the recognition of foreign exchange gains or losses which are included in the determination of net (loss) income.

(j) Recent Accounting Pronouncements

Accounting Standards Adopted in 2020

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, *"Leases (Topic 842)"* which provides a new comprehensive model for lease accounting. Topic 842 requires a lessee to recognize a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. The amendments in this ASU became effective for the Company on January 1, 2020. Adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08, *"Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities"*. The amendments in this ASU shortened the amortization period for certain purchased callable debt securities held at a premium to the earliest call date. Management has implemented the applicable changes, and they did not have a material impact on the Company's consolidated financial statements.

2. Significant accounting policies (cont.)

Recently issued accounting standards not yet adopted

In October 2020, ASU 2017-08 was amended by the FASB's issuance of ASU 2020-08, *"Codification Improvements to Subtopic 310-20, Receivables-Nonrefundable Fees and Other Costs"*. This amendment requires that entities re-evaluate whether callable debt securities fall within the scope of ASU 2017-08 for each reporting period. The amendments in this ASU also require premiums to be amortized to the "next call date" rather than the "earliest call date" and further clarifies the definition of "next call date."

For non-public business entities, ASU 2020-08 is effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early adoption is permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Management is currently evaluating the impact, if any, of applying ASU 2020-08.

In March 2020, the FASB issued guidance providing optional temporary financial reporting relief from the effect of certain types of contract modifications due to the planned discontinuation of the London Interbank Offered Rate ("LIBOR") or other interbank-offered based reference rates as of the end of December 2021. Management continues to evaluate the impact of the guidance and may apply other elections, as applicable, as the expected market transition to alternative reference rates evolves.

(U.S. dollars in thousands, except share and per share amounts)

3. Reserve for losses and loss expenses

Our reserve for losses and loss expenses comprise the following as of December 31, 2020 and 2019:

	2020	2019
Reserve for reported losses and loss expenses	$ 203,271	$ 160,978
Reserve for losses incurred but not reported	401,198	337,823
Reserve for losses and loss expenses	**$ 604,469**	**$ 498,801**

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

	2020	2019
Reserve for losses and loss expenses at beginning of year	$ 498,801	$ 352,516
Incurred losses and loss expenses relating to losses occurring in:		
Current year	175,670	203,301
Prior years	22,109	5,814
Total incurred losses and loss expenses	197,779	209,115
Paid losses and loss expenses relating to losses occurring in:		
Current year	(18,284)	(20,461)
Prior years	(73,911)	(48,183)
Total paid losses and loss expenses	(92,195)	(68,644)
Foreign exchange movements	5,265	4,205
Change in other assets and liabilities	(5,181)	1,609
Reserve for losses and loss expenses at end of year	**$ 604,469**	**$ 498,801**

3. Reserve for losses and loss expenses (cont.)

In 2019, the Company entered into a retroactive reinsurance contract. The Company has recognized premiums written and earned of $58.5 million in relation to this contract. The Company also recognized a reserve for losses and loss expenses of $59.5 million, acquisition costs of $1.5 million, losses and loss expenses in the Consolidated Statements of (Loss) Income of $57.0 million and an unamortized deferred charge asset of $2.5 million. During 2020, subsequent changes in estimated cash flows under this reinsurance contract resulted in a reduction to the reserve for losses and loss expenses. This was accounted for by adjusting the deferred charge asset to the balance that would have existed had the revised estimate been available at the inception of the reinsurance transaction. This resulted in the Company writing off the deferred charge asset and recognizing an other liability of $2.7m on the balance sheet. For the year ended December 31, 2020 the amortization of the other liability resulted in a reduction in loss and loss expenses of $0.2m (December 31, 2019: $nil).

In 2018, the Company entered into a retroactive reinsurance contract. The Company has recognized premiums written and earned of $75.1 million in relation to this contract. The Company also recognized a reserve for losses and loss expenses of $107.9 million and an unamortized deferred charge asset of $32.8 million, with the net amount recognized in losses and loss expenses in the Consolidated Statements of (Loss) Income. The deferred charge asset which is shown as part of other assets is being amortized over the expected remaining loss settlement period using the interest method, and the periodic amortization is being charged to earnings as a component of losses and loss expenses. For the year ended December 31, 2020, $0.9 million (December 31, 2019: $0.9 million) of amortization relating to this contract has been charged to losses and loss expenses.

In the preceding table, the classifications of both incurred losses and loss expenses, and paid losses and loss expenses, are based on the inception date of the retroactive reinsurance contract. As such, incurred and paid losses related to the 2020 and 2019 retroactive reinsurance contracts have been classified as "current year" and "prior year", respectively.

During 2020, the Company recorded net unfavorable prior year loss reserve development of $21.4 million arising from changes to prior year losses and loss expense reserve estimates. This includes $22.6 million related to unfavorable prior year loss reserve development in its longer-tail lines, primarily in the liability and professional lines of business. This was offset by approximately $1.2 million of favorable development in the shorter-tail lines of business and the catastrophe book of business.

During 2019, the Company recorded net unfavorable prior year loss reserve development of $4.9 million arising from changes to prior year losses and loss expense reserve estimates. This included $7.1 million related to unfavorable prior year loss reserve development in its longer-tail lines, primarily in the professional and liability lines of business and $1.1 million related to its catastrophe book of business. This was offset by $3.3 million of favorable development in the shorter-tail lines of business.

Loss development tables

The Company has disaggregated its loss reserve information below by its major lines of business. The Company has presented the below development tables for all accident years shown using exchange rates as of December 31, 2020. All accident years prior to the current year have also been presented using the current year exchange rates.

(U.S. dollars in thousands, except share and per share amounts)

3. Reserve for losses and loss expenses (cont.)

Liability

Incurred Losses and Loss Expenses
Years Ended December 31,

Accident Year	2016 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2020	December 31, 2020 Total of IBNR Reserves Plus Expected Development on Reported Losses
2016	$ 24,883	$ 25,986	$ 26,770	$ 25,216	$ 30,050	$ 8,957
2017		53,715	53,558	56,133	59,189	20,980
2018			50,661	52,570	54,989	27,137
2019				53,602	55,922	38,148
2020					78,028	68,339
				Total	$ 278,178	

Cumulative Paid Losses and Loss Expenses
Years Ended December 31,

Accident Year	2016 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2020
2016	$ 1,303	$ 4,783	$ 7,071	$ 11,058	$ 13,784
2017		1,200	7,757	15,097	24,499
2018			2,849	7,833	15,740
2019				2,510	7,878
2020					3,514
				Total	$ 65,415
				Reserve for losses and loss expenses	**$ 212,763**

Professional

Incurred Losses and Loss Expenses
Years Ended December 31,

Accident Year	2016 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2020	December 31, 2020 Total of IBNR Reserves Plus Expected Development on Reported Losses
2016	$ 14,342	$ 14,767	$ 15,772	$ 15,856	$ 16,736	$ 4,786
2017		40,578	41,556	45,061	48,938	17,658
2018			43,645	44,263	47,185	24,100
2019				29,526	30,677	20,928
2020					30,403	26,002
				Total	$ 173,939	

Cumulative Paid Losses and Loss Expenses
Years Ended December 31,

Accident Year	2016 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2020
2016	$ 18	$ 879	$ 2,391	$ 4,624	$ 6,630
2017		689	4,297	10,233	17,142
2018			1,622	6,507	13,000
2019				1,015	3,747
202					740
				Total	$ 41,259
				Reserve for losses and loss expenses	**$ 132,680**

(U.S. dollars in thousands, except share and per share amounts)

3. Reserve for losses and loss expenses (cont.)

Motor

Incurred Losses and Loss Expenses Years Ended December 31,

Accident Year	2017 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2020	December 31, 2020 Total of IBNR Reserves Plus Expected Development on Reported Losses
2017	$ 3,673	$ 4,060	$ 3,883	$ 3,598	$ 260
2018		11,843	11,520	12,161	3,128
2019			21,347	20,262	7,324
2020				23,414	17,895
			Total	$ 59,435	

Cumulative Paid Losses and Loss Expenses Years Ended December 31,

Accident Year	2017 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2020
2017	$ 3	$ 13	$ 37	$ 289
2018		1	31	114
2019			520	1,720
2020				1,771
			Total	$ 3,894
			Reserve for losses and loss expenses	**$ 55,541**

Other

Incurred Losses and Loss Expenses Years Ended December 31,

Accident Year	2017 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2020	December 31, 2020 Total of IBNR Reserves Plus Expected Development on Reported Losses
2017	$ 20,914	$ 23,501	$ 22,823	$ 23,130	$ 994
2018		35,796	34,820	37,291	1,328
2019			41,850	39,761	5,864
2020				43,822	27,405
			Total	$ 144,004	

Cumulative Paid Losses and Loss Expenses Years Ended December 31,

Accident Year	2017 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2020
2017	$ 2,681	$ 13,993	$ 19,035	$ 20,166
2018		11,393	24,063	32,561
2019			16,416	28,740
2020				12,258
			Total	$ 93,725
			Reserve for losses and loss expenses	**$ 50,279**

The reporting of cumulative claims frequency is deemed to be impracticable as the information necessary to provide cumulative claims frequency for these reserve classes is not available to the Company.

(U.S. dollars in thousands, except share and per share amounts)

3. Reserve for losses and loss expenses (cont.)

Reconciliation of loss development information to the Reserve for Losses and Loss Expenses

The following table reconciles the loss development information to the Company's reserves for losses and loss expenses as of December 31, 2020:

		2020
Reserve for losses and loss expenses		
Liability	$	212,763
Professional		132,680
Motor		55,541
Other		50,279
Total		451,263
Foreign exchange and other[1]		208
Assumed reserves related to retroactive transactions[2]		152,998
Total reserve for losses and loss expenses	**$**	**604,469**

[1] 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 foreign 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.
[2] For retroactive insurance contracts we do not believe that analysis of losses incurred and paid by accident year of the underlying event is relevant or meaningful given that our exposure to losses incepts when the contract incepts. Further, in this instance, we believe that the classifications of reported claims and case development liabilities to have no practical analytical value.

Historical loss duration

The following table summarizes the historic average annual percentage payout of incurred losses by age by major line of business as of December 31, 2020:

	Average Annual Percentage Payout of Incurred Losses by Age				
	2020 (Unaudited)				
	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**
Professional	2.1%	7.9%	11.6%	13.7%	12.0%
Liability	4.1%	10.3%	11.5%	14.6%	9.1%
Motor	2.6%	2.2%	0.7%	7.0%	N/A
Other	27.8%	38.0%	22.3%	4.9%	N/A

N/A – Not applicable

(U.S. dollars in thousands, except share and per share amounts)

4. Investments

The Company's investments are comprised of fixed maturities, investments in funds, and other securities managed by BISA-II in the Fund. The Fund is a Cayman Islands exempted limited partnership that was formed on August 20, 2015 and commenced operations on July 5, 2016. Blackstone Harrington Associates L.L.C., a Delaware limited liability company, serves as the general partner of the Fund. Harrington Re is the sole limited partner of the Fund.

Pursuant to the Investment Management Agreement, the Fund is managed by the Investment Manager. The Investment Manager provides certain administrative and investment management services to the Fund, including the investigation, evaluation, selection, allocation, negotiation, structuring, commitment to, monitoring of and disposition of the Fund's investments (including allocation of the Fund's assets among investment strategies). The General Partner and the Investment Manager are affiliates of the Blackstone Group.

Pursuant to a letter agreement dated as of November 2, 2016 (the "Letter Agreement") between BMAA, which was assigned by BMAA to the Investment Manager as of October 1, 2017, and the Parent, the Investment Manager provides (i) certain reporting on the Fund's investment portfolio to the Company's management and the Board and (ii) assistance and support to the Company's management in connection with the Investment Manager's management of the Fund's portfolio by providing certain supplemental reporting, data, analyses and other support (as mutually agreed) with respect to the Fund.

The Fund seeks to achieve attractive risk-adjusted returns through a portfolio of diversified, primarily alternative, investments.

The following table summarizes the fair value of the Fund's securities grouped by investment strategy held as of December 31, 2020 and 2019:

	2020	2019
Strategy		
Investment Grade[(1)]	$ 132,281	$ 84,945
Liquid Multi-Strategy Funds[(2)]	99,686	121,932
Long Credit[(3)]	89,441	115,619
Liquid Credit Alternative[(4)]	143,027	158,695
Private Credit Alternative[(5)]	62,101	50,781
Real Estate Liquid Credit[(6)]	112,659	114,860
Private Equity[(7)]	208,634	155,808
Private Real Estate[(8)]	173,998	177,680
Tactical Opportunities[(9)]	57,964	44,731
Total invested assets	1,079,791	1,025,051
Senior Secured Facility Borrowings[(10)]	(70,000)	(70,000)
Other Balances[(11)]	91,625	63,940
Limited Partner Net Asset Value at year end	**$ 1,101,416**	**$ 1,018,991**

4. Investments (cont.)

(1) Investment Grade - This strategy focuses on capital preservation, liquidity, and current income by investing primarily in investment grade fixed income securities while maintaining minimal levels of interest rate risk.

(2) Liquid Multi-Strategy Funds - This strategy seeks capital appreciation by allocating its assets among a variety of discretionary sub-advisers with experience managing non-traditional or "alternative" investment strategies.

(3) Long Credit - The primary objective of this strategy is to protect principal and generate superior risk-adjusted returns by investing in various forms of senior secured debt obligations, including senior secured loans, senior secured floating-rate notes, and senior secured notes and bonds.

(4) Liquid Credit Alternative - The primary objective of this strategy is to generate superior risk-adjusted returns by investing in public and private opportunities, primarily in North America and Western Europe.

(5) Private Credit Alternative – This strategy primarily focuses on making privately negotiated mezzanine investments. The strategy focuses on providing capital to upper middle market companies and private equity sponsors in connection with leveraged buyouts, mergers and acquisitions, recapitalizations, growth financings and other corporate transactions.

(6) Real Estate Liquid Credit – This strategy focuses primarily on high yield lending on commercial real estate through new loan originations and purchases of legacy loans and securities, but may otherwise pursue a broad range of real estate related debt and non-controlling equity investments.

(7) Private Equity - This strategy can include investments in funds investing directly in energy, healthcare, industrial, financial services or retail / consumer and other private equity related investments.

(8) Private Real Estate – This strategy primarily invests in funds that invest directly in real estate, real estate investment trusts and other real estate related investments.

(9) Tactical Opportunities - This strategy generally includes investing in assets focused on time-sensitive or other tactical investment ideas across asset classes and geographies. This strategy can also include investing opportunistically in a broad range of private or public securities and instruments, which may be equity or debt or similar thereto.

(10) Senior Secured Facility Borrowings – Relates to the Fund's borrowings under the Company's facility described in Note 8, "*Financing arrangements*".

(11) Other Balances – Includes but is not limited to management fees accruals, performance based allocation to and ownership interest of the General Partner, cash, other interest, and general and administrative expense accruals.

(U.S. dollars in thousands, except share and per share amounts)

4. Investments (cont.)

There are no restrictions on the Company's ability to withdraw from the Fund, however, (i) the General Partner of the Fund may limit withdrawals as of any withdrawal date for legal, regulatory or contractual reasons, (ii) the ability to withdraw capital from Harrington Re's capital account relating to any Fund investment that is illiquid by its terms will be limited and (iii) the ability to withdraw will be subject to the limitations on withdrawals imposed pursuant to the terms of the governing agreements of the underlying investments that the Fund holds.

See also Note 8, "*Financing arrangements*" for restrictions on the Company's investments imposed by the terms of the Company's credit facilities.

Net Investment Income

The components of net investment income for the years ended December 31, 2020, and 2019, were as follows:

	2020	2019
Realized and unrealized net gains on investments	$ 26,199	$ 72,027
Fund interest and dividend income	5,491	7,103
Fund interest and other expenses	(6,154)	(7,218)
Fund net investment income	25,536	71,912
Amounts attributable to the General Partner of the Fund	(3,611)	(7,593)
Net investment income attributable to the limited partner of the Fund	21,925	64,319
Investment related general and administrative expenses	(4,232)	(4,408)
Other interest income	48	244
Net investment income	**$ 17,741**	**$ 60,155**

5. Fair value measurements

U.S. GAAP establishes a hierarchal disclosure framework which prioritizes and ranks the level of market price observability used in measuring financial instruments at fair value. Market price observability is affected by a number of factors, including the type of financial instrument, the characteristics specific to the financial instrument and the state of the marketplace, including the existence and transparency of transactions between market participants. Financial instruments with readily available quoted prices in active markets generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Financial instruments measured and reported at fair value are classified and disclosed based on the observability of inputs used in the determination of fair values, as follows:

- Level 1 – Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in active markets (and actively traded) that the Company has the ability to access. The Company does not adjust the quoted price for these investments.

- Level 2 – Pricing inputs and other than quoted prices in active markets (and not actively traded) which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Financial instruments which are generally included in this category include corporate bonds and bank loans where the fair value is based on observable inputs or quotations from market participants and pricing service provider with higher levels of liquid market observability than Level 3 assets or liabilities.

- Level 3 – Pricing inputs are unobservable for the financial instruments and include situations where there is little, if any, market activity for the financial instrument. Fair value is determined through the use of models or other valuation methodologies such as quotations from market participants and pricing service provider. The inputs into determination of fair value require significant management judgment of estimation. Some of the factors considered for Level 2 or Level 3 determination include number of observable quotes, and obtained standard deviation of quotes, among other things.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given financial instrument is based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument.

Changes in the observability of valuation inputs may result in a reclassification for certain financial assets or liabilities.

(U.S. dollars in thousands, except share and per share amounts)

5. Fair value measurements (cont.)

The following tables summarize the valuation of the Company's financial instruments measured at fair value on a recurring basis by the fair value hierarchy as of December 31, 2020 and 2019:

2020

Description	Level 1	Level 2	Level 3	NAV as Fair Value	Total
Assets					
Investments					
Fixed maturities	$ -	$ 84,726	$ 1,706	$ -	$ 86,432
Bonds	-	3,010	-	-	3,010
Common equity	-	-	9,793	-	9,793
Money market funds[1]	104,663	-	-	-	104,663
Affiliated Funds					
UCITS	99,686	-	-	-	99,686
Investment funds	-	-	-	880,871	880,871
Derivative instruments[2]	-	3,574	-	-	3,574
Total assets	**$** 204,349	**$** 91,310	**$** 11,499	**$** 880,871	**$** 1,188,029

2019

Description	Level 1	Level 2	Level 3	NAV as Fair Value	Total
Assets					
Investments					
Fixed maturities	$ -	$ 110,593	$ 4,435	$ -	$ 115,028
Bonds	-	590	-	-	590
Money market funds[1]	84,551	-	-	-	84,551
Affiliated Funds					
UCITS	121,932	-	-	-	121,932
Investment funds	-	-	-	787,501	787,501
Derivative instruments[2]	-	1,550	-	-	1,550
Total assets	**$ 206,483**	**$ 112,733**	**$ 4,435**	**$ 787,501**	**$ 1,111,152**

(1) Money market funds are included in cash and cash equivalents.
(2) See Note 6, "Derivatives".

(U.S. dollars in thousands, except share and per share amounts)

5. Fair value measurements (cont.)

Significant Unobservable Inputs Used in Level 3 Measurements

The following table discloses the valuation techniques, significant unobservable inputs, and range of values used for those significant unobservable inputs for assets recognized at fair value and classified as Level 3 under the fair value hierarchy as of December 31, 2020:

	Fair value	Valuation technique	Significant unobservable inputs	Ranges	Weighted average
Investments					
Fixed Maturities	$ 1,706	Third Party Pricing quotes[1]	N/A	N/A	N/A
Common equity	9,793	Discounted Cash Flow	Weighted Average Cost of Capital EBITDA[2] Exit Multiple	15.0% 16.0x	N/A N/A
Total	**$ 11,499**				

(1) Third party pricing quotes are generally determined on the basis of prices between market participants provided by reputable dealers or service providers.
(2) "EBITDA" is defined as earnings before interest, tax, depreciation and amortization.

N/A – Not applicable

Fair Value of Other Financial Instruments

The changes in fair value of investments for which the Company has used Level 3 inputs to determine fair value are presented in the following table:

	Fixed Maturities and Common Equity
Purchases	$ 790
Transfers in[1]	$ 10,278
Transfers out[1]	$ (1,775)

[1] Transfers occurred between Level 2 and Level 3 because of changes in observability of market data due to increase or decrease in market activity and information for these investments.

The fair value of financial instruments accounting guidance also applies to financial instruments disclosed, but not carried, at fair value, except for certain financial instruments, including insurance contracts. The fair value of the Company's other assets and liabilities, which qualify as financial instruments under ASC Topic 825, Financial Instruments, approximate the carrying amounts presented in the consolidated financial statements. As these financial instruments are not actively traded, their fair values are classified as Level 2.

(U.S. dollars in thousands, except share and per share amounts)

6. Derivatives

The Company holds assets and liabilities in foreign currencies and thus is exposed to foreign currency risk. The Company may enter into foreign currency forward exchange contracts to manage the exposure to this foreign currency risk. These foreign currency forward exchange contracts are used as economic hedges and are not designated as hedging instruments for financial reporting purposes.

The following table summarizes information on the classification and amount of the fair value of derivatives within the Company's Consolidated Balance Sheets as of December 31, 2020 and 2019:

	December 31, 2020			December 31, 2019		
Derivative Instrument	Notional Amount	Asset Derivative at Fair Value [1]	Liability Derivative at Fair Value [1]	Notional Amount	Asset Derivative at Fair Value [1]	Liability Derivative at Fair Value [1]
Foreign currency forward contracts	$ 134,291	$ 3,574	$ -	$ 108,551	$ 1,550	$ -

[1] Asset and liability derivatives are classified within Other Assets and Other Liabilities, respectively, within the Company's Consolidated Balance Sheets.

The following table summarizes information on the classification and net impact on earnings, recognized in the Company's Consolidated Statements of (Loss) Income, relating to derivative instruments during the years ended December 31, 2020 and 2019:

		Years Ended December 31,	
Derivative Instrument	Classification of gains/ losses recognized in earnings	2020	2019
Foreign currency forward contracts	Foreign exchange gain	$ 3,866	$ 1,499

There was no balance sheet offsetting activity as of December 31, 2020 or 2019.

The Company provides collateral for the above derivative positions in the form of a reduction in the aggregate commitment available amount under its credit facility arrangement with Societe Generale S.A., New York branch (the "Bank"). See Note 8, *"Financing arrangements"* for more details.

7. Commitments and contingencies

(a) Concentrations of Credit Risk

Credit Risk Aggregation

The Company monitors and manages the aggregation of credit risk on a Group-wide basis allowing us to consider exposure management strategies for individual countries, regions, sectors and any other relevant inter-dependencies. The creditworthiness of each counterparty is evaluated by the Company, taking into account credit ratings assigned by independent agencies.

Credit risk aggregation is also managed through monitoring of overlaps in underwriting, financing and investing activities.

The assets that potentially subject us to concentrations of credit risk consist principally of cash and cash equivalents, our investments portfolio and reinsurance premiums receivable balances, as described below.

Cash and Cash Equivalents

In order to mitigate concentration and operational risks related to cash and cash equivalents, we utilize only well-established highly-rated financial institutions and money-market funds.

Investments

Our investment portfolio is managed by our Investment Manager in accordance with the investment guidelines set-out in the Investment Management Agreement. The Investment Management Agreement provides for the limitation of the credit risk through specific investment portfolio diversification requirements, investment concentration limitations as well as detailed liquidity provisions. As of December 31, 2020, the Fund was in compliance with the requirements of the Investment Management Agreement.

Premiums Receivable Balances

The Company manages its credit risk in its reinsurance relationships by transacting with counterparties that it considers financially sound. For all of our reinsurance contracts the Company has the contractual right to offset premiums receivable with corresponding payments for losses and loss expenses. These contractual rights contribute to the mitigation of credit risk, as does our monitoring of aged receivable balances. In light of these mitigating factors, and considering that a significant portion of our premiums receivable are not currently due based on the terms of the underlying contracts, we do not utilize specific credit quality indicators to monitor our premiums receivable balance. We did not record any bad debts expense charge in the years ended December 31, 2020 or 2019.

7. Commitments and contingencies (cont.)

(b) Legal Proceedings

From time to time, as is common in the insurance industry, the Company may be subject to routine legal proceedings, including arbitrations, arising in the ordinary course of business. These legal proceedings generally relate to claims asserted by or against us in the ordinary course of reinsurance operations; estimated amounts payable under such proceedings are included in the reserve for losses and loss expenses in our Consolidated Balance Sheets. As of December 31, 2020, the Company was not party to any legal proceedings.

(c) Employment and Other Arrangements

As of December 31, 2020, the Company has entered into employment agreements with its executive officers. Such employment arrangements provide for compensation in the form of base salary, annual bonus, participation in the Company's employee benefit programs and the reimbursements of expenses.

(d) Other Commitments

Please see Note 13, *"Related party transactions"* for details on the commitments under the Services Agreement and the Investment Management Agreement.

8. Financing arrangements

Credit Facilities

On July 6, 2016, the Company entered into an aggregate credit facility arrangement with Societe Generale S.A., New York branch (the "Credit Facility"). The Credit Facility expires on December 31, 2021, but may be extended with the Bank's consent to December 31 of the following calendar year by giving notice to the Bank prior to July 1 of each calendar year. The Bank may elect to terminate the Credit Facility by providing an irrevocable written notice to the Company not less than 365 days prior to the proposed date of termination. No such notice was received as of December 31, 2020. The aggregate commitment available under the Credit Facility was $400.0 million available from December 31, 2018, and increased to $420.0 million available from December 28, 2010. The purpose of the Credit Facility is to provide senior secured borrowing facilities to the Fund, to provide a revolving loan facility to the Company and to provide a secured letter of credit facility for use by the Company to support its reinsurance obligations. The Credit Facility is also used to provide collateral to support any initial amounts and variation margins payable relating to the foreign exchange forward contracts described under Note 6, *"Derivatives"*. As of December 31, 2020 the related amount due was $3.9 million (December 31, 2019: $2.6 million) and reduced the aggregate commitment amount available under the Credit Facility as of that date. The Credit Facility is secured by the Company's investments managed by BISA-II in the Fund and is subject to certain covenants. These covenants include certain liquidity requirements with regards to the Fund's investments, credit limits based on the fair value of the Fund and certain restrictions on the composition of the Fund's investment portfolio.

8. Financing arrangements (cont.)

As of December 31, 2020, the letters of credit outstanding under the Credit Facility totaled $328.3 million (December 31, 2019: $235.1 million). In addition, the Fund directly borrowed $70.0 million under the terms of the Credit Facility (December 31, 2019: $70.0 million). The Fund pays interest on amounts outstanding on the first business day of each month at a rate of 3-month US Dollar LIBOR, plus 1.90% per annum (2.23% as of December 31, 2020, and 3.71% as of December 31, 2019). The interest rate resets monthly two business days prior to the first calendar day of the month and any outstanding accrued but unpaid interest will capitalize into the principal. For the year ended December 31, 2020, the Fund incurred $1.9 million (2019: $3.0 million) in interest expense relating to the Credit Facility, at a weighted-average rate of 2.62% (2019: 4.21%), which is shown as part of "Net investment income" in the Consolidated Statements of (Loss) Income.

The Company has deferred initial set-up costs relating to the Credit Facility of $1.0 million and has subsequently amortized the deferred costs over the term of the borrowing arrangements. During the year ended December 31, 2020, the total expense incurred by the Company including the Company's revolving loan facility interest costs, costs relating to the letter of credit facilities and the amortization of the initial set-up costs was $3.5 million (2019: $3.6 million).

9. Shareholder's equity

Common Shares

The authorized, issued and outstanding share capital of the Company as of December 31, 2020 and 2019 consisted of 1,000,000 common shares with a par value of $1.00 per share.

10. Share-based compensation

Under our Board approved share-based compensation plan, the Parent grants stock options and restricted share awards to eligible employees of the Company.

During 2016, 579,725 stock options were granted to employees of the Company. Half of the stock options were granted with service period vesting conditions only. The vesting of the other half of the stock option grants was dependent on the meeting of a requisite service period and of specified performance conditions. All stock options expire ten years from the date of the grant. During the year ended December 31, 2019, the Company recognized $0.2 million as an expense relating to share-based compensation and 96,621 of the stock options vested. All stock option awards were fully vested and expensed as of December 31, 2019, and as such no stock options vested and no expense was incurred in relation to stock options during the year ended December 31, 2020.

During 2020, 117,329 restricted share units ("RSUs") were granted to employees of the Company. These RSUs were granted with a requisite service period of 3 years, with 33% of the grants vesting annually. During the year ended December 31, 2020, the Company recognized $0.3 million as an expense relating to share-based compensation and none of the RSUs have vested as of December 31, 2020.

11. Retirement plans

For purposes of providing employees with retirement benefits, the Company maintains self-directed defined contribution retirement plans. Contributions are based on the participants' eligible compensation. For the year ended December 31, 2020, the Company expensed $0.1 million (2019: $0.1 million) related to this retirement plan.

12. Income taxes

Harrington Re is incorporated under the laws of Bermuda and, under current Bermuda law, are not required to pay any taxes in Bermuda on income or capital gains. We have received an assurance from the Minister of Finance in Bermuda that, in the event that any legislation is enacted in Bermuda imposing any tax computed on profits, income, gain or appreciation on any capital asset, or any tax in the nature of estate duty or inheritance tax, such tax will not be applicable to the Company until March 31, 2035.

The Fund is an exempted limited partnership registered in the Cayman Islands, and under the current law in the Cayman Islands no income taxes are imposed on the Fund.

The Company does not consider itself to be engaged in trade or business in the United States and intends to conduct its operations in a manner that will not cause it to be treated as engaged in a trade or business in the United States and, therefore, does not expect to be required to pay U.S. federal income taxes other than the U.S. excise tax on reinsurance premiums.

The United States imposes an excise tax on insurance and reinsurance premiums paid to non-U.S. insurers or reinsurers with respect to risks located in the United States. The rate of tax, unless reduced by an applicable U.S. tax treaty, is one percent for all reinsurance premiums. The Company incurs federal excise taxes on certain of its reinsurance transactions. Such amounts are reflected as acquisition costs in the Company’s Consolidated Statements of (Loss) Income.

FASB guidance regarding the accounting for uncertainty in income taxes prescribes a "more likely than not" threshold for the financial statement recognition of a tax position taken or expected to be taken in a tax return, assuming the relevant tax authority has full knowledge of all relevant information. The amount recognized represents the largest amount of tax benefit that is greater than 50% likely of being ultimately realized. A liability is recognized for any benefit claimed, or expected to be claimed, in a tax return in excess of the benefit recorded in the consolidated financial statements, along with any interest and penalty (if applicable) on the excess. The Company recognizes interest and penalties relating to unrecognized tax benefits in the provision for income taxes. Changes in recognition or measurement are reflected in the period in which the change in judgement occurs.

As of December 31, 2020, the Company's total unrecognized tax benefits, including interest and penalties, were $nil (as of December 31, 2019: $nil).

13. Related party transactions

In June 2016, AXIS Capital Holdings Limited through its wholly-owned subsidiary, AXIS Ventures Limited, invested $100.0 million and acquired 18.1% of the Parent's common equity. The investment was subsequently increased to 19.0% of the Parent’s common equity. Under the shareholders’ agreement dated July 1, 2016 (the “Shareholders’ Agreement”) as long as the Services Agreement is in effect and AXIS Capital retains a shareholding in the Parent, AXIS Capital has the right to appoint a director to the Group’s Board of Directors.

The Company has engaged AXIS Reinsurance Managers Limited (“ARM” or the “Liability Manager”), a wholly-owned subsidiary of AXIS Capital, to act as its liability manager pursuant to a long term services agreement dated July 1, 2016. The Liability Manager manages the day-to-day underwriting activities of the Company subject to the provisions of the Services Agreement and the oversight of management and Board of Directors of the Company. The Services Agreement also provides for ARM to provide certain other services to the Company, including claims handling, actuarial, risk management and information technology support as specified in the agreement. The Services Agreement has limited termination provisions and is set to initially expire on June 30, 2025, provided, however, that the term is set to automatically renew for successive three-year periods following such initial term unless the Company or the Liability Manager gives written notice of cancellation at least two years prior to the end of the then current term.

In return for its services, ARM receives fees from the Company, which include underwriting fees and profit commissions, as well as a reinsurance services fee as a reimbursement for the additional services provided to the Company.

In June 2016, the Blackstone Group, through its wholly-owned subsidiary, together with investment entities formed for certain senior professionals and employees of the Blackstone Group, have in total acquired 9.9% of the Parent’s common equity. Pursuant to the Shareholders Agreement, as long as the Investment Management Agreement is in effect and the Blackstone Group retains a shareholding in the Parent, the Blackstone Group has the right to appoint a director to the Group’s Board of Directors.

Pursuant to the Investment Management Agreement, BISA-II serves as the investment manager (the “Investment Manager”) of the assets of the Company that are invested in the Fund. Harrington Re is the sole limited partner of the Fund. The Fund seeks to achieve attractive risk-adjusted returns through a portfolio of diversified, primarily alternative, investments.

Pursuant to the Investment Management Agreement, the Investment Manager provides certain administrative and investment management services to the Fund, including the investigation, evaluation, selection, allocation, negotiation, structuring, commitment to, monitoring of and disposition of investments (including allocation of the Fund’s assets among investment strategies). The Investment Management Agreement has limited termination provisions and is set to initially expire on the earlier of (i) the liquidation of the Fund and (ii) June 30, 2025, provided, however, that the term is set to automatically renew for successive three-year periods following such initial term unless the Company or the Investment Manager gives written notice of cancellation at least two years prior to the end of the then current term.

(U.S. dollars in thousands, except share and per share amounts)

13. Related party transactions (cont.)

Pursuant to the Letter Agreement, the Investment Manager provides (i) certain reporting on the Fund's investment portfolio to the Company's management and the Board and (ii) assistance and support to the Company's management in connection with the Investment Manager's management of the Fund's portfolio by providing certain supplemental reporting, data, analysis and other support (as mutually agreed) with respect to the Fund.

In return for its investment services, the Investment Manager receives a management fee from the Fund and the General Partner receives a performance fee from the Fund.

Certain executive officers of AXIS Capital and certain management and senior professionals of the Blackstone Group own common shares of the Parent.

During the years ended December 31, 2020 and 2019, the Company exclusively wrote reinsurance business with various entities in the AXIS Capital group for property and casualty risks on a quota share basis.

The related Consolidated Statement of (Loss) Income and Consolidated Balance Sheet account balances for these transactions, including the related ARM fees, for the years ended December 31, 2020 and 2019 were as follows:

	2020	2019
Consolidated Statement of (Loss) Income items:		
Gross premiums written	$ 260,705	$ 305,010
Net premiums earned	247,797	276,153
Losses and loss expenses	197,779	209,115
Acquisition costs	65,095	64,862
General and administrative expenses	1,154	1,186
Corporate expenses	485	495
Consolidated Balance Sheet items:		
Reinsurance balances receivable	158,383	131,375
Deferred acquisition costs	45,513	43,929
Prepaid expenses	954	759
Reserve for losses and loss expenses	604,469	498,801
Unearned premiums reserve	$ 164,634	$ 151,726

14. Statutory financial information

Harrington Re is registered as a Class 4 insurer under the Insurance Act 1978, amendments thereto and Related Regulations of Bermuda (the "Insurance Act"). Under the Insurance Act, the Company is required to annually prepare and file with the Bermuda Monetary Authority a statutory financial return which includes statutory financial statements, a capital and solvency return and audited financial statements.

(U.S. dollars in thousands, except share and per share amounts)

14. Statutory financial information (cont.)

At the time of filing its statutory financial statements, Harrington Re is also required to deliver to the BMA a declaration of compliance, in such form and with such content as may be prescribed by the BMA, declaring whether or not Harrington Re has, with respect to the 2020 financial year (i) complied with all requirements of the minimum criteria applicable to it; (ii) complied with the minimum margin of solvency as of its financial year end; (iii) complied with the applicable enhanced capital requirements as of its financial year end; and (iv) observed any limitations, restrictions or conditions imposed upon issuance of its license, if applicable.

The Insurance Act provides that the value of the statutory assets of an insurer must exceed the value of its statutory liabilities by an amount greater than its prescribed minimum solvency margin ("MSM").

The MSM that must be maintained by Harrington Re with respect to its general business is the greater of (i) $100 million, or (ii) 50% of net premiums written (with a credit for reinsurance ceded not exceeding 25% of gross premiums) or (iii) 15% of net loss and loss expense provisions and other insurance reserves or (iv) 25% of the ECR (as defined below) as reported at the end of the relevant year.

Harrington Re is also required to maintain available statutory economic capital and surplus at a level equal to or in excess of its enhanced capital requirement ("ECR") which is established by reference to either the Bermuda Solvency Capital Requirement ("BSCR") model or an approved internal capital model, provided that the ECR shall at all times be an amount equal to, or exceeding the margin of solvency. The BSCR model is a standardized statutory risk-based capital model developed by the BMA which is used to measure the risk associated with Harrington Re's assets, liabilities and premiums. In 2016, the BMA implemented an Economic Balance Sheet ("EBS") framework which was used as the basis to determine the ECR.

The required and available statutory economic capital and surplus as of December 31, 2020 and 2019, in the table below are based on this EBS framework:

	2020	2019
Required statutory capital and surplus	$ 381,246	$ 344,230
Available statutory capital and surplus	$ 556,236	$ 594,578

Harrington Re is required to calculate and submit the ECR to the BMA annually. Following receipt of the submission of Harrington Re's ECR, the BMA has the authority to impose additional capital requirements or capital add-ons, if it deems necessary. If an insurer fails to maintain or meet its ECR, the BMA may take various degrees of regulatory action. As of December 31, 2020, the Company was in compliance with all solvency requirements of the Insurance Act.

Harrington Re is also required under the Insurance Act to maintain a minimum liquidity ratio whereby the value of its relevant assets is not less than 75% of the amount of its relevant liabilities for general business. As of December 31, 2020, Harrington Re met the minimum liquidity ratio requirement.

14. Statutory financial information (cont.)

Harrington Re’s statutory net loss for the year ended December 31, 2020 was $8.9 million (2019 net income: $50.0 million). Statutory accounting differs from U.S. GAAP in the reporting of certain items such as intangible assets and prepaid expenses.

Harrington Re is prohibited from declaring or paying a dividend if it is in breach of its MSM, ECR or minimum liquidity ratio or if the declaration or payment of such dividend would cause such a breach. Where an insurer fails to meet its MSM or minimum liquidity ratio on the last day of any financial year, it will be prohibited from declaring or paying any dividends during the next financial year without the approval of the BMA.

In addition, Harrington Re is also prohibited from declaring or paying in any financial year dividends of more than 25% of its total statutory capital and surplus (as shown on its previous financial year’s statutory balance sheet) unless it files (at least seven days before payment of such dividends) with the BMA an affidavit signed by at least two directors (one of whom must be a Bermuda resident director if any of the insurer’s directors are resident in Bermuda) and the principal representative stating that it will continue to meet its solvency margin and minimum liquidity ratio. Furthermore, Harrington Re must obtain the BMA’s prior approval for a reduction by 15% or more of the total statutory capital as set forth in its previous year’s financial statements.

The Bermuda Companies Act 1981 further limits Harrington Re's ability to pay dividends and make distributions from contributed surplus to its Parent if there are reasonable grounds for believing that: (a) Harrington Re is, or would after the payment be, unable to pay its liabilities as they become due; or (b) the realizable value of Harrington Re's assets would thereby be less than the aggregate of its liabilities. Harrington Re did not pay any dividends or make any distributions to its Parent during the years ended December 31, 2020 and 2019.

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 May 27, 2021, the date these financial statements were available to be issued, and concluded that there are no subsequent events requiring recognition or disclosure.