

Starr Insurance & Reinsurance Limited and Subsidiaries

Consolidated Financial Statements

December 31, 2020 and 2019

Starr Insurance & Reinsurance Limited and Subsidiaries

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Independent Auditors' Report

To the Board of Directors of
Starr Insurance & Reinsurance Limited and Subsidiaries

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Starr Insurance & Reinsurance Limited and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations and comprehensive 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 entity'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 entity'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 Starr Insurance & Reinsurance Limited and Subsidiaries 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.

Report on Supplemental Financial Information

Accounting principles generally accepted in the United States of America require that certain information for years preceding 2020 related to Starr Insurance & Reinsurance Limited and Subsidiaries liability for loss and loss adjustment expense reserves, included within Note 4 on pages 17 through 21, supplement the consolidated financial statements. Such information is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audits of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Baker Tilly US, LLP

Milwaukee, Wisconsin
April 23, 2021

Starr Insurance & Reinsurance Limited and Subsidiaries

Consolidated Balance Sheets

December 31, 2020 and 2019

(Expressed in Thousands of U.S. Dollars, Except for Number of Shares and Par Value Data)

	<u>2020</u>	<u>2019</u>
Assets		
Cash and cash equivalents	\$ 437,961	\$ 425,894
Investments at fair value:		
Fixed maturity securities, available-for-sale	2,363,388	2,222,071
Equity securities	63,985	13,730
Other investments	609,652	638,489
Real estate investment	102,744	105,299
Equity method investments	70,840	78,015
Accrued investment income	18,507	20,610
Insurance and reinsurance balances receivable	770,101	620,182
Funds withheld	10,380	9,787
Reinsurance balances recoverable	888,784	833,066
Prepaid reinsurance premiums	650,444	496,790
Deferred acquisition costs	106,605	97,627
Net deferred tax asset	-	991
Other assets	17,766	17,133
	<u>6,111,157</u>	<u>5,579,684</u>
Total assets	<u>\$ 6,111,157</u>	<u>\$ 5,579,684</u>
Liabilities and Shareholder's Equity		
Liabilities		
Loss and loss adjustment expense reserves	\$ 1,991,148	\$ 1,837,468
Insurance and reinsurance balances payable	604,236	471,067
Unearned premiums	1,078,508	831,980
Accounts payable and accrued liabilities	26,122	29,546
Unearned commissions	55,830	37,590
Net deferred tax liability	1,108	-
Due to related parties, net	14,888	1,215
Income taxes payable	12,490	12,966
	<u>3,784,330</u>	<u>3,221,832</u>
Total liabilities	<u>3,784,330</u>	<u>3,221,832</u>
Shareholder's Equity		
Share capital, par value \$1.00, authorized and issued 1,000,000 shares in 2020 and 2019	1,000	1,000
Contributed capital	1,852,720	1,852,720
Retained earnings	305,077	431,266
Accumulated other comprehensive income	168,030	72,866
	<u>2,326,827</u>	<u>2,357,852</u>
Total shareholder's equity	<u>2,326,827</u>	<u>2,357,852</u>
Total liabilities and shareholder's equity	<u>\$ 6,111,157</u>	<u>\$ 5,579,684</u>

See notes to consolidated financial statements

Starr Insurance & Reinsurance Limited and Subsidiaries

Consolidated Statements of Operations and Comprehensive Income

Years Ended December 31, 2020 and 2019

(Expressed in Thousands of U.S. Dollars)

	<u>2020</u>	<u>2019</u>
Underwriting Income		
Net premiums written	\$ 696,180	\$ 497,345
Change in unearned premiums	(233,601)	(92,214)
Change in prepaid reinsurance premiums	142,577	97,110
	<u>605,156</u>	<u>502,241</u>
Net premiums earned	<u>605,156</u>	<u>502,241</u>
Underwriting Expenses		
Losses and loss adjustment expenses	564,623	448,394
Commissions and brokerage	108,495	73,784
Change in deferred acquisition costs	4,209	11,096
Commission income	(42,856)	(27,383)
	<u>634,471</u>	<u>505,891</u>
Total underwriting expenses	<u>634,471</u>	<u>505,891</u>
Net underwriting loss	(29,315)	(3,650)
Net Investment Income	151,618	99,722
General and Administrative Expenses	<u>29,797</u>	<u>30,721</u>
Income before tax expense	92,506	65,351
Tax Expense	<u>18,695</u>	<u>10,818</u>
Net income	<u>73,811</u>	<u>54,533</u>
Other Comprehensive Income		
Other comprehensive income from equity method investees	3,568	1,177
Unrealized holding gains on fixed maturity securities, available-for-sale	48,438	162,280
Reclassification adjustment for realized losses (gains) on fixed maturity securities, available-for-sale included in net investment income	43,158	(63,189)
	<u>95,164</u>	<u>100,268</u>
Total other comprehensive income	<u>95,164</u>	<u>100,268</u>
Total comprehensive income	<u>\$ 168,975</u>	<u>\$ 154,801</u>

See notes to consolidated financial statements

Starr Insurance & Reinsurance Limited and Subsidiaries

Consolidated Statements of Changes in Shareholder's Equity
Years Ended December 31, 2020 and 2019
(Expressed in Thousands of U.S. Dollars)

	<u>Share Capital</u>	<u>Contributed Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total Shareholder's Equity</u>
Balance, January 1, 2019	\$ 1,000	\$ 1,852,720	\$ 346,115	\$ 3,216	\$ 2,203,051
Cumulative effect of new accounting principle in period of adoption, net of tax (FN 2)	-	-	30,618	(30,618)	-
Net income	-	-	54,533	-	54,533
Other comprehensive income, net	-	-	-	100,268	100,268
Balance, December 31, 2019	1,000	1,852,720	431,266	72,866	2,357,852
Net income	-	-	73,811	-	73,811
Dividends	-	-	(200,000)	-	(200,000)
Other comprehensive income, net	-	-	-	95,164	95,164
Balance, December 31, 2020	<u>\$ 1,000</u>	<u>\$ 1,852,720</u>	<u>\$ 305,077</u>	<u>\$ 168,030</u>	<u>\$ 2,326,827</u>

See notes to consolidated financial statements

Starr Insurance & Reinsurance Limited and Subsidiaries

Consolidated Statements of Cash Flows
 Years Ended December 31, 2020 and 2019
 (Expressed in Thousands of U.S. Dollars)

	<u>2020</u>	<u>2019</u>
Cash Flows From Operating Activities		
Net income	\$ 73,811	\$ 54,533
Net realized loss (gain) on investments	43,158	(63,189)
Net unrealized (gain) loss on investments	(102,548)	59,010
Income from equity method investments	(1,182)	(1,177)
Depreciation of fixed assets	1,484	1,542
Deferred taxes	1,397	(674)
Net amortization of premiums on fixed maturity investments	2,699	(4,166)
Foreign exchange (loss) gain in income	124	(50)
Change in:		
Accrued investment income	2,103	703
Insurance and reinsurance balances receivable	(149,919)	(95,567)
Funds withheld	(593)	2,422
Reinsurance balances recoverable	(55,718)	(89,153)
Prepaid reinsurance premiums	(153,654)	(124,506)
Deferred acquisition costs	(8,978)	(7,285)
Due to related parties, net	13,673	(8,214)
Other assets	(2,117)	(10,557)
Loss and loss adjustment expense reserves	153,680	48,652
Insurance and reinsurance balances payable	133,169	92,970
Unearned premiums	246,528	114,495
Accounts payable and accrued liabilities	(3,424)	5,836
Unearned commissions	18,240	24,449
Income taxes payable	(476)	1,351
Net cash provided by operating activities	<u>211,457</u>	<u>1,425</u>
Cash Flows From Investing Activities		
Fixed maturity securities available-for-sale:		
Purchases	(926,957)	(538,144)
Sales, maturities and calls	877,606	603,461
Other investments:		
Purchases and contributions	(62,580)	(65,985)
Sales and distributions	115,612	180,822
Distributions from investment in real estate	2,555	6,335
Net cash provided by investing activities	<u>6,236</u>	<u>186,489</u>
Cash Flows From Financing Activities		
Dividends paid	(200,000)	-
Net cash used in financing activities	<u>(200,000)</u>	<u>-</u>
Effect of Foreign Exchange Rate Changes on Cash	<u>(5,626)</u>	<u>(7,951)</u>
Net increase in cash and cash equivalents	12,067	179,963
Cash and Cash Equivalents, Beginning	<u>425,894</u>	<u>245,931</u>
Cash and Cash Equivalents, Ending	<u>\$ 437,961</u>	<u>\$ 425,894</u>
Supplementary Disclosure of Cash Flow Information		
Taxes paid	<u>\$ 17,755</u>	<u>\$ 10,687</u>

See notes to consolidated financial statements

Starr Insurance & Reinsurance Limited and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(Expressed in Thousands of U.S. Dollars)

1. The Company and Its Activities

Starr Insurance & Reinsurance Limited was incorporated under the laws of Bermuda on April 12, 2007. Starr Insurance & Reinsurance Limited and its subsidiaries (the Company) is a wholly owned subsidiary of Starr Global Holdings, AG (Starr Global) a Switzerland registered company which in turn is wholly owned by Starr International Company, Inc. (SICO), a Swiss company incorporated in 1943. The registered office of the Company is 19 Par-la-Ville Road, Hamilton, Bermuda.

The Company reinsures affiliated and unaffiliated insurance companies, under quota share, excess of loss and aggregate stop loss reinsurance agreements. The Company assumes business from affiliates, including Starr Indemnity & Liability Company (SILC), Starr Surplus Lines Insurance Company (SSLIC), Starr Syndicate Limited and Starr Europe International Limited (SEIL). The business reinsured from unaffiliated insurance companies is generally produced by the divisions of SILC (the Starr Agencies), a related party. The Company writes, through its subsidiaries Starr International (Europe) Limited, Starr International Insurance (Singapore) Pte., Ltd., Starr International Insurance (Asia) Limited and Starr International Seguros Generales S.A., and reinsures the following lines of business - aviation, energy, excess casualty, property, accident and health, professional liability, marine, residential construction, contractors' pollution and political financial risk. The Company uses quota share and excess of loss retrocessional and reinsurance agreements to limit its exposure on direct business written and on reinsurance assumed.

One of the Company's wholly owned subsidiaries is a Cayman-domiciled investment holding company that invests primarily in limited partnerships, real estate investments and private equity funds.

The Company evaluated subsequent events for recognition or disclosure through April 23, 2021, the date the consolidated financial statements were available to be issued.

2. Significant Accounting Policies

Estimates

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The preparation of consolidated financial statements in conformity with GAAP requires management to make certain 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 period. While management believes that the amounts included in the consolidated financial statements reflect the Company's best estimates and assumptions, actual results could differ from these estimates. Significant estimates made by the Company include fair value of investments, other-than-temporary impairment of investments, reinsurance balances recoverable and loss and loss adjustment expense reserves.

Principles of Consolidation

The consolidated financial statements include all accounts, after significant intercompany eliminations, between the Company and its subsidiaries.

Foreign Currency

The functional currency of the Company is the United States (U.S.) Dollar, while the accounts of foreign-based subsidiaries and branches are measured, in most instances, using the local currency of the subsidiary as the functional currency. Revenues and expenses of these businesses are generally translated into U.S. Dollars at the average exchange rate for the period. Assets and liabilities are translated at the exchange rate as of the end of the reporting period.

Starr Insurance & Reinsurance Limited and Subsidiaries

Notes to Consolidated Financial Statements

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(Expressed in Thousands of U.S. Dollars)

Gains or losses from translating the financial statements of foreign-based operations are included in equity as a component of accumulated other comprehensive income (AOCI). Gains and losses arising from transactions denominated in a currency other than the functional currency of the Company or the applicable subsidiary of the Company are included in the consolidated statements of operations and comprehensive income.

Other Comprehensive Income

Certain changes in assets and liabilities, such as unrealized gains and losses on fixed maturity available-for-sale investments, are reported as a separate component in the equity section of the consolidated balance sheets. Such items, along with net income, are components of other comprehensive income and are reflected in the consolidated statements of operations and comprehensive income.

Premiums

Gross premiums written are recognized as revenue on a pro rata basis over the term of the insurance and reinsurance contracts to which they relate. The portion of premiums that will be earned in the future are deferred and reported as unearned premiums. Premiums written for which the ceding company's reports are not available until after the balance sheet date are estimated.

Insurance and Reinsurance Balances Receivable and Payable

Insurance and reinsurance balances receivable and payable are comprised of premium amounts due from ceding insurers and due to reinsurers net of acquisition costs, funds withheld and losses paid. Insurance balances receivable also includes amounts due from policyholders on direct written business. All amounts are due within one year of the balance sheet date.

Insurance balances receivable are periodically evaluated for collectability based on the credit history of insureds and reinsureds and their current financial condition. Provisions for uncollectible insurance and reinsurance balances receivable are charged against an allowance account when such balances are deemed to be uncollectible. The Company had no valuation allowance recorded as of December 31, 2020 and 2019.

Reinsurance Ceded

Reinsurance premiums ceded are recognized over the policy term in the same manner as the related premiums are earned on the underlying insurance contracts. The portion of premiums that will be recognized in the future are deferred and reported as prepaid reinsurance premiums in the accompanying consolidated balance sheets.

The Company uses quota share and excess of loss reinsurance arrangements to mitigate risk and reduce the risk of catastrophic loss from reinsurance assumed and direct insurance written. The ceding of risks to reinsurers does not relieve the Company of its obligations to its insureds or its ceding companies. The Company remains liable for the risks insured or reinsured to the extent that any reinsurer does not meet the obligations it assumed under the reinsurance arrangement or direct insurance written. To minimize its exposure to significant losses from reinsurer insolvencies, the Company evaluates the financial condition of its reinsurers. It is the opinion of management that the financial strength of the Company's reinsurers is such that any potential exposure to the Company for nonpayment is minimal, and therefore no valuation allowance has been recorded as of December 31, 2020 and 2019.

Starr Insurance & Reinsurance Limited and Subsidiaries

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(Expressed in Thousands of U.S. Dollars)

Investment Income

Investment income includes interest income and distributions from investments which are recognized as revenue in the period earned. Dividend income from equity securities is recognized on the ex-dividend rate. For equity securities owned by foreign subsidiaries, income is recorded net of withholding taxes

Deferred Acquisition Costs

Acquisition costs represent commissions and other costs of successfully acquiring new insurance and reinsurance contracts and the renewal of existing contracts. Acquisition costs are deferred and amortized over the term of the contracts to which they relate. Proceeds from retrocessional reinsurance transactions that represent recovery of acquisition costs reduce applicable unamortized acquisition costs in such a manner that net acquisition costs are capitalized and charged to expense in proportion to net premium earned.

The Company conducts a premium deficiency analysis whereby deferred acquisition costs are reviewed to determine if they are recoverable from future income. If such costs are estimated to be unrecoverable they are written off. The Company considers investment income in its determination of premium deficiency. The Company determined no such premium deficiency existed as of December 31, 2020 and 2019.

Losses and Loss Adjustment Expenses

Losses and loss adjustment expenses (LAE) include amounts paid and recovered, net of reinsurance, in the period and changes in the outstanding loss reserves, incurred but not reported (IBNR) reserves, reinsurance balances recoverable and accretion of loss reserve discount. LAE are charged to income as they are incurred and consist mainly of external costs relating to the negotiation and settlement of claims.

Loss and LAE Reserves and Reinsurance Balances Recoverable

The Company's loss and LAE reserves are comprised of outstanding loss and LAE reserves and IBNR loss and LAE reserves. The outstanding loss reserves comprise estimated losses based on reports provided by the ceding companies and direct loss notifications received from insureds. The IBNR reserves are based upon management's best estimate of the ultimate cost of settlement of losses that may be incurred by the Company, in accordance with the recommendations of an actuary.

Outstanding loss and LAE reserves and IBNR loss and LAE reserves reflect management's best estimate of future amounts needed to pay claims and related settlement costs with respect to insured events which have occurred, including events that have not been reported to the Company. In many cases, significant periods of time, ranging up to several years or more, may elapse between the occurrence of an insured loss, the reporting of the loss to the Company and the Company's payment of that loss. As part of the process in determining the Company's outstanding loss and LAE reserves and IBNR loss and LAE reserves, actuarial models are used that analyze industry data and consider the impact of current developments and trends, such as trends in claims severity and frequency and claims settlement trends. Also considered are legal developments, regulatory trends, legislative developments, and changes in social attitudes and economic conditions. Management believes that its outstanding loss reserves and IBNR loss and LAE reserves are fairly stated as of December 31, 2020 and 2019. However, estimating the ultimate claims liability is necessarily a complex and judgmental process inasmuch as the amounts are based on management's informed estimates, assumptions and judgments using data currently available. As additional experience and data becomes available regarding claims payment and reporting patterns, legal and legislative developments, judicial theories of liability, the impact of regulatory trends, changes in social attitudes and economic conditions, the estimates are revised accordingly. If the Company's ultimate losses prove to differ substantially from the amounts recorded at December 31, 2020 and 2019, the related adjustments could have a material adverse effect on the Company's financial condition, results of operations and liquidity.

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Reinsurance balances recoverable are estimated in a manner consistent with the reserving methodology adopted in the estimation of the outstanding loss reserves and the IBNR reserves and the related reinsurance arrangements.

Future adjustments to the amounts recorded resulting from the continual review process, as well as differences between estimates and ultimate settlements, will be recorded in the consolidated statements of operations and comprehensive income when such adjustments become known and are estimable.

Cash and Cash Equivalents

Cash and cash equivalents include short-term, highly liquid investments with maturities of three months or less at the date of acquisition.

Fixed Maturity Securities

Fixed maturity securities have been classified as available-for-sale and are reported at fair value, with unrealized holding gains and losses reported in AOCI, net of income taxes. Realized gains and losses are determined using the specific identification basis, and are recognized in the consolidated statement of operations and comprehensive income. See Note 9 for further information regarding determination of fair value.

The Company reviews fixed maturity securities in its investment portfolio on a periodic basis to specifically identify individual securities that have incurred an other-than-temporary decline in fair value below cost or amortized cost. This review encompasses, among other things, recent issuer activities, such as defaults, quarterly earnings announcements, and other pertinent financial news for the issuer, recent developments and economic outlooks for particular industries, rating agency actions, and the length of time and extent to which fair value has been less than cost or amortized cost. When management's review identifies an other-than-temporary impairment, it compares its projected discounted cash flows to the amortized cost in order to determine the credit related portion of the impairment, which is recognized in the consolidated statements of operations and comprehensive income. The noncredit portion of the other-than-temporary impairment relative to all other factors is recorded as a component of AOCI in the consolidated balance sheets. In addition, management also considers whether it has the intent to sell a particular security or whether it is more-likely-than-not the Company has the ability to hold the security to recovery.

Equity Securities and Other Investments

All equity securities and other investments, which include hedge, private equity, private debt and real estate funds, are carried at fair value with net unrealized holding gains or losses reported in net income. Prior to January 1, 2019, changes in fair value were recorded as a separate component of AOCI, net of income taxes. SIH funds are investments held in funds established and managed by Starr Private Equity Partners, LLC (SPEP), a wholly owned subsidiary of C.V. Starr & Co., Inc. (C.V. Starr), a related party of the Company. See Note 3 for further details. Realized gains and losses on other investments are determined on a specific identification basis and are recognized in the consolidated statement of operations and comprehensive income. See Note 9 for further information regarding determination of fair value.

The various funds included within other investments record their underlying investments at fair value policies established by management of the underlying fund, typically the fund's Net Asset Value (NAV). Fair value policies at the underlying fund generally require the fund to utilize pricing/valuation information, including independent appraisals, from third party sources, however, in some instances current valuation information, for illiquid securities or securities in markets that are not active, may not be available from any third party source or fund management may conclude that the valuations that are available from third party sources are not reliable. In these instances fund management may perform model-based analytical valuations that may be used to value these investments.

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(Expressed in Thousands of U.S. Dollars)

The Company uses NAV per share (or its equivalent), as a practical expedient to estimate the fair value of certain alternative investments including hedge, real estate and private equity funds, if NAV is calculated consistent with GAAP and sale of the investment at an amount different than NAV is not probable. The Company considers the nature, risk and probability for the sale of the investment (at amounts different from NAV). The Company's considerations include (but are not limited to):

- Unfunded commitments (for additional investment)
- Redemption eligibility and frequency
- Required redemption notice

Based upon these considerations, the Company concluded that NAV for the alternative investments is calculated consistent with GAAP.

The Company uses cost as a basis for the fair value of its investments in various private investments during the early stages of the investment. This basis is then updated as the investments mature and other financial information becomes available.

The Company reviews these investments in its investment portfolio on a periodic basis to specifically identify individual securities that have incurred an other-than-temporary decline in fair value below cost. This review encompasses, among other things, recent issuer activities, such as defaults, quarterly earnings announcements, and other pertinent financial news for the issuer, recent developments and economic outlooks for particular industries, rating agency actions, and the length of time and extent to which fair value has been less than cost. When management's review identifies an other-than-temporary impairment in the valuation of a security, the loss is recognized in the consolidated statements of operations and comprehensive income.

Real Estate Investment

The Company's investment in real estate is considered to be a joint venture. The Company owns 70 percent of Avalange Commercial Corp. an entity incorporated in the British Virgin Islands. Joint ventures are entities whereby the Company and other parties undertake an economic activity which is subject to joint control. The Company records its investment in the real estate joint venture at cost, adjusted for other-than-temporary impairments, in a manner consistent with SICO and its subsidiaries' accounting policy for those investments in real estate in which SICO and its subsidiaries have a controlling interest. The carrying amount of the Company's investment in the real estate joint venture is \$102,744 and \$105,299 as of December 31, 2020 and 2019, respectively, and is included in real estate investment in the consolidated balance sheets.

Investments in real estate are evaluated for impairment when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable or the assets meet the criteria of held for sale. Upon the occurrence of a triggering event, the asset is reviewed to assess whether the estimated undiscounted cash flows expected from the use of the asset plus residual value from the ultimate disposal, or appraised value, exceeds the carrying value of the asset. If the carrying value exceeds the estimated recoverable amounts, the asset is reduced to the estimated discounted present value of the expected future cash flows from using the asset, or appraised value.

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(Expressed in Thousands of U.S. Dollars)

Equity Method Investments

The Company utilizes the equity method of accounting with respect to investments where it possesses the ability to exercise significant influence, but not control, over the operating and financial policies of the investee. The ability to exercise significant influence is presumed when an investor possesses more than 20 percent but less than 50 percent of the voting interests of the investee. This presumption may be overcome based on specific facts and circumstances that demonstrate the ability to exercise significant influence is restricted.

In applying the equity method, the Company records its investment at cost in the consolidated balance sheets as equity method investments. Any increase or decrease in the carrying amount subsequent to acquisition is the result of the Company's share of the net income or losses and comprehensive income of the investee as well as distributions received from or contributions to the investee net of insurance transactions between the Company and the investee. The Company's share of earnings or loss and comprehensive income are recorded in the Company's consolidated statements of operations and comprehensive income.

The Company reviews its equity method investments for possible impairment taking into account events and circumstances that may have occurred since the prior review, and any impairment is recorded in the Company's consolidated statements of operations and comprehensive income. No impairment was recorded for the years ended December 31, 2020 and 2019.

Funds Withheld

Funds withheld comprise amounts held by a ceding insurer pursuant to the terms of a quota share reinsurance agreement.

Concentration of Risks

Financial instruments that potentially subject the Company to concentrations of risk consist principally of cash and cash equivalents.

The Company holds investments with a fair value of \$187,808 and \$287,609 as of December 31, 2020 and 2019, respectively, in funds established and managed by SPEP.

Certain subsidiaries of the Company, from time to time, maintain cash balances which exceed the federal depository insurance coverage limit. Management performs periodic reviews of the relative credit rating of its banks to lower its risk. In addition, at various times throughout the year, the Company's balances in a number of its accounts at financial institutions exceeded the \$250 limit which is insured by the Federal Deposit Insurance Corporation. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Interest Rate Risk

Fluctuations in interest rates will have a direct impact of the interest earned on the Company's cash and cash equivalents.

Variable Interest Entities

The Company consolidates variable interest entities (VIE) where it is the primary beneficiary. The primary beneficiary is the entity that has both (1) the power to direct the activities of the VIE that most significantly affect the entity's economic performance and (2) the obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE. See Note 13 for further details.

Starr Insurance & Reinsurance Limited and Subsidiaries

Notes to Consolidated Financial Statements

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(Expressed in Thousands of U.S. Dollars)

Recently Issued Accounting Pronouncements

Accounting Standards Updates Adopted by the Company

During October 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-17, *Targeted Improvements to Related Party Guidance for Variable Interest Entities*. ASU No. 2018-17 allows a private company to elect to not apply VIE guidance to legal entities under common control (including common control leasing arrangements) if both the parent and the legal entity being evaluated for consolidation are not public business entities. This alternative provides an accounting policy election that a private company must apply to all current and future legal entities under common control that meet the criteria for applying this alternative. The amendments of this update expand the private company alternative provided in ASU No. 2014-07, *Consolidation (Topic 810): Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements*, to not apply the VIE guidance to qualifying common control leasing arrangements, and therefore, the amendments in ASU No. 2014-07 are superseded by the amendments in this update. Additionally, indirect interests held through related parties in common control arrangements should be considered on a proportional basis for determining whether fees paid to decision makers and service providers are variable interests. ASU No. 2018-17 is effective for fiscal years beginning after December 15, 2020. Early adoption is permitted. The Company is currently assessing the effect that ASU No. 2018-17 will have on its results of operations, financial position and cash flows.

Pending Accounting Standards Updates

During June 2016, the FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*. ASU No. 2016-13 requires financial assets measured at amortized cost to be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. 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. During November 2018, the FASB also issued ASU No. 2018-19, *Codification Improvements to Topic 326, Financial Instruments - Credit Losses*, which clarifies the effective date for nonpublic entities and clarifies that receivables arising from operating leases are not within the scope of Subtopic 326-20. ASU No. 2016-13 is effective for fiscal years beginning after December 15, 2022, and interim periods within fiscal years beginning after December 15, 2022. Early adoption is permitted. The Company is currently assessing the effect that ASU No. 2016-13 will have on its results of operations, financial position or cash flows.

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3. Investments

a. Fixed Maturity Securities

The cost or amortized cost and fair value of the Company's fixed maturity securities at December 31 were as follows:

	2020			
	Amortized Cost/Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed maturity securities:				
U.S. Treasury securities and obligations of U.S. government agencies	\$ 91,768	\$ 227	\$ (485)	\$ 91,510
States, political subdivisions and foreign government securities	141,776	10,643	(599)	151,820
Corporate debt securities	1,658,973	167,554	(215)	1,826,312
Asset-backed securities	169,431	2,289	(1,687)	170,033
Other	119,055	4,913	(255)	123,713
	<u>\$ 2,181,003</u>	<u>\$ 185,626</u>	<u>\$ (3,241)</u>	<u>\$ 2,363,388</u>
Total fixed maturity securities				
	<u>\$ 2,181,003</u>	<u>\$ 185,626</u>	<u>\$ (3,241)</u>	<u>\$ 2,363,388</u>
	2019			
	Amortized Cost/Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed maturity securities:				
U.S. Treasury securities and obligations of U.S. government agencies	\$ 3,118	\$ 91	\$ -	\$ 3,209
States, political subdivisions and foreign government securities	128,028	2,393	(5,517)	124,904
Corporate debt securities	1,745,436	88,154	(2,237)	1,831,353
Asset-backed securities	181,024	1,239	(1,952)	180,311
Other	79,496	2,810	(12)	82,294
	<u>\$ 2,137,102</u>	<u>\$ 94,687</u>	<u>\$ (9,718)</u>	<u>\$ 2,222,071</u>
Total fixed maturity securities				
	<u>\$ 2,137,102</u>	<u>\$ 94,687</u>	<u>\$ (9,718)</u>	<u>\$ 2,222,071</u>

Certain fixed maturity securities available-for-sale with an aggregate fair value of \$1,252,079 and \$1,272,084 as of December 31, 2020 and 2019, respectively, have been placed in trust accounts to secure the Company's obligations to ceding companies. Interest earned on the securities placed in the trust accounts amounted to \$44,106 and \$48,983 as of December 31, 2020 and 2019, respectively, and is included in net investment income in the consolidated statements of operations and comprehensive income. The Company may not reduce, close, terminate or draw from the trust accounts without the express permission of the respective ceding companies.

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The following table presents gross unrealized losses and fair value of investments with unrealized loss positions that are not deemed to be other-than-temporarily impaired, aggregated by length of time that individual securities have been in a continuous unrealized loss position at December 31, 2020 and 2019:

	2020					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturity securities:						
U.S. Treasury securities and obligations of U.S. government agencies	\$ 32,375	\$ 485	\$ -	\$ -	\$ 32,375	\$ 485
States, political subdivisions and foreign government securities	3,965	599	-	-	3,965	599
Corporate debt securities	7,683	215	-	-	7,683	215
Asset-backed securities	92,875	1,685	398	2	93,273	1,687
Other	16,460	226	724	29	17,184	255
Total fixed maturity securities	<u>\$ 153,358</u>	<u>\$ 3,210</u>	<u>\$ 1,122</u>	<u>\$ 31</u>	<u>\$ 154,480</u>	<u>\$ 3,241</u>
	2019					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturity securities:						
U.S. Treasury securities and obligations of U.S. government agencies	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
States, political subdivisions and foreign government securities	32,210	(5,517)	-	-	32,210	(5,517)
Corporate debt securities	35,812	(2,235)	1,901	(2)	37,713	(2,237)
Asset-backed securities	106,924	(1,948)	813	(4)	107,737	(1,952)
Other	2,063	(12)	-	-	2,063	(12)
Total fixed maturity securities	<u>\$ 177,009</u>	<u>\$ (9,712)</u>	<u>\$ 2,714</u>	<u>\$ (6)</u>	<u>\$ 179,723</u>	<u>\$ (9,718)</u>

The Company's investments are managed in accordance with its investment guidelines established by its Executive Committee and approved by its Board of Directors. The Company's investments potentially expose it to credit risk. The Company's portfolio comprises a diversified holding of debt securities and therefore does not contain significant holdings with any one single issuer. All debt securities are in accordance with the investment guidelines. Management has received Board approval to hold below investment grade securities and will continue to monitor these investments for potential impairment. Market risk exists in that the recorded fair value will fluctuate with changes in fair value. Management has considered the nature of investments in an unrealized loss position, the cause of their impairment, the severity and duration of their impairment and other relevant information available and believes that impairments are temporary in nature. In the opinion of management, the risk of exposure due to market risk is low due to the diversified portfolio.

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The amortized cost and fair value of securities with fixed maturities at December 31, 2020 are summarized below by contractual maturity dates. Actual maturities will differ from contractual maturities because the issuers may have the right to call or prepay certain obligations.

	<u>Amortized Cost/ Cost</u>	<u>Fair Value</u>
Due in one year or less	\$ 186,935	\$ 188,413
Due after one year through five years	763,871	818,573
Due after 5 years through ten years	928,034	1,045,364
Due after ten years	132,732	141,005
Asset-backed securities	169,431	170,033
	<u>\$ 2,181,003</u>	<u>\$ 2,363,388</u>

b. Equity Securities

The cost, gross unrealized gains and losses and the fair value of the Company's equity securities at December 31 were as follows:

	<u>2020</u>	<u>2019</u>
Cost	\$ 58,335	\$ 13,590
Gross unrealized gain	5,650	140
Fair value	<u>\$ 63,985</u>	<u>\$ 13,730</u>

c. Other Investments

The cost and fair value of the Company's other investments at December 31 are as follows:

	<u>2020</u>		<u>2019</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Hedge funds	\$ 48,693	\$ 64,831	\$ 68,095	\$ 82,004
Private equity funds	98,165	147,106	103,769	124,836
SIH funds	237,878	187,808	348,449	287,609
Real estate funds	15,508	9,738	18,368	14,885
Private debt funds	140,903	139,169	128,339	129,155
Other direct investments	-	61,000	-	-
Total	<u>\$ 541,147</u>	<u>\$ 609,652</u>	<u>\$ 667,020</u>	<u>\$ 638,489</u>

The hedge, private equity, real estate and private debt funds, and other investments of the Company are managed under an investment management agreement with SPEP, a wholly owned subsidiary of C.V. Starr & Co, which is a registered investment advisor.

In previous years, the Company transferred a number of investments into funds managed by SPEP, and it continues to make further investments into those managed funds. The investment funds are accounted for as limited partnerships by the Company and are carried at fair value with unrealized gains and losses recorded in the statements of operations and comprehensive income.

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d. Net Realized (Losses) Gains

Net realized (losses) gains on available-for-sale securities included in net investment income are summarized below for the years ended December 31:

	<u>2020</u>	<u>2019</u>
Fixed maturity securities:		
Gross gains from sales and other disposals	\$ 3,644	\$ 4,145
Gross losses from sales and other disposals	(7,354)	(2,227)
Other investments:		
Gross gains from sales and other disposals	73,018	64,489
Gross losses from sales	(112,466)	(3,218)
Net realized (losses) gains	<u>\$ (43,158)</u>	<u>\$ 63,189</u>

e. Other Than Temporary Impairment

The Company performs quarterly reviews of its investments in order to determine whether declines in fair value below the cost or amortized cost basis were considered other-than-temporary. The Company recorded other-than-temporary impairments on its investments during 2020 and 2019 of \$0.

4. Loss and Loss Adjustment Expense Reserves

The reserving process for the unpaid losses and LAE provides for the Company's best estimate at a particular point in time of the ultimate unpaid cost of all losses and LAE incurred, including settlement and administration of losses, and is based on facts and circumstances known and includes losses that have been incurred but not yet reported. The process includes using actuarial methodologies to assist in establishing these estimates, judgments relative to estimates of future ultimate loss expectancy, the length of time before losses will develop to their ultimate level and the possible changes in the law and other external factors that are often beyond the Company's control. The methods used to select the estimated loss reserves include the initial expected loss ratio projection, incurred loss projection, and the Bornhuetter-Ferguson (B-F) method. The process produces indicated reserve estimates and an acceptable range. The indicated reserve estimate is the result of numerous best estimates made by line of business, accident year, and broken out between losses and LAE. The amount of loss and LAE reserves for reported losses is based primarily upon a case-by-case evaluation of coverage, liability, injury severity, and any other information considered pertinent to estimating the exposure presented by the loss. The amounts of loss and LAE reserves for unreported losses are determined using historical information by line of business as adjusted to current conditions.

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Due to the inherent uncertainty associated with the reserving process, the ultimate liability may differ, perhaps substantially, from the original estimate. Such estimates are regularly reviewed and updated and any resulting adjustments are included in the current year's results. These liabilities are closely monitored and are recomputed periodically using the most recent information on reported losses and a variety of statistical techniques. Specifically, on at least a quarterly basis, the Company reviews, by line of business, existing revenues, new losses, changes to existing case reserves and paid losses with respect to the current and prior years.

Activity in loss and LAE reserves is summarized as follows:

	<u>2020</u>	<u>2019</u>
Gross balance as of January 1	\$ 1,837,468	\$ 1,788,816
Less reinsurance balance recoverable	833,066	743,913
Net balance as of January 1	<u>1,004,402</u>	<u>1,044,903</u>
Incurred related to:		
Current year	546,468	446,319
Prior years	18,155	2,075
Total incurred losses and LAE	<u>564,623</u>	<u>448,394</u>
Paid related to:		
Current year	161,109	146,661
Prior years	283,113	348,867
Total paid losses and LAE	<u>444,222</u>	<u>495,528</u>
Part VII Portfolio Transfer Premium	(27,133)	-
Foreign exchange translation	4,694	6,633
Net balance as of December 31	1,102,364	1,004,402
Plus reinsurance balance recoverable	<u>888,784</u>	<u>833,066</u>
Gross balance as of December 31	<u>\$ 1,991,148</u>	<u>\$ 1,837,468</u>

For the years ended December 31, 2020 and 2019, losses and LAE incurred included adverse development of \$18,155 and \$2,075, respectively. The \$18,155 of prior year development in 2020 was mainly attributable to the excess casualty line of business.

The following information about incurred and paid loss development is as of December 31, 2020, net of reinsurance, and the total of IBNR liabilities, plus expected development on reported losses included within the net incurred loss amounts. These tables include unaudited information about incurred and paid losses development for years preceding 2020, which is presented as required supplemental information.

The following factors are relevant to the loss development information included in the tables below:

- 1) Table Organization - The tables are organized by Accident Year. The majority of the casualty lines and property lines are written on an occurrence basis.
- 2) Groupings - The Company believes our two groupings have homogenous risk characteristics with similar development patterns and would generally be subject to similar trends.
- 3) Reinsurance - Our reinsurance program varies by exposure type and may change year to year, which may affect the comparability of the data presented in our tables.
- 4) IBNR - We include development from past reported losses in IBNR.
- 5) Data excluded from tables - Information with respect to accident years older than ten years is excluded from the development tables. Unallocated LAE are also excluded.
- 6) Loss Counts - Reported losses for the Company are not shown as a significant amount is assumed business and loss counts are not available.

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For each method, losses are projected to the ultimate amount to be paid. The Company analyzes the results and may emphasize or de-emphasize some or all of the outcomes to reflect actuarial judgement regarding the reasonableness in relation to supplementary information and operational and industry changes. These outcomes are then aggregated to produce a single selected point estimate that is the basis for the internal actuary point estimate for the loss reserves. In recent years the Company has relied more heavily on the Company's own reported loss development pattern. These Company patterns continue to gain more credibility as the data matures. The segments are assumed reinsurance and the Company does not have access to claim frequency. For this reason, it is impracticable to disclose this information on these segments as it is not utilized in internal estimates of ultimate reserve amounts or timing of payments.

Property

Incurred Losses and Allocated LAE, Net of Reinsurance (2011-2019, Unaudited)

Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	As of
											December 31, 2020
											Total of Incurred-but-Not-Reported Liabilities Plus Expected Development on Reported Losses
2011	\$ 87,152	\$ 120,065	\$ 122,937	\$ 123,560	\$ 123,664	\$ 125,054	\$ 125,743	\$ 125,868	\$ 125,740	\$ 134,017	\$ 307
2012		139,263	141,911	146,253	148,513	152,445	150,886	151,012	151,988	150,370	2,139
2013			185,181	203,444	205,718	204,348	195,222	194,505	194,572	191,046	4,431
2014				184,253	175,579	183,323	176,800	174,352	171,346	174,539	7,279
2015					157,158	124,099	128,167	121,908	120,336	127,968	9,367
2016						144,277	104,364	119,316	116,873	121,063	8,787
2017							185,643	142,940	143,911	147,229	5,563
2018								221,523	203,091	194,224	12,121
2019									212,508	200,194	27,276
2020										243,944	99,129
									Total	<u>\$ 1,684,594</u>	

Cumulative Paid Losses and Allocated LAE, Net of Reinsurance (2011-2019, Unaudited)

Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	
2011	\$ 36,860	\$ 82,952	\$ 101,778	\$ 112,764	\$ 115,663	\$ 119,940	\$ 122,150	\$ 121,175	\$ 122,151	\$ 131,136	
2012		69,086	95,440	117,910	130,525	138,778	142,152	143,093	144,817	145,213	
2013			77,666	98,019	144,468	166,131	175,365	177,799	181,153	181,400	
2014				41,060	94,940	124,809	143,822	149,964	155,169	167,108	
2015					24,599	56,847	100,524	102,586	104,823	119,685	
2016						30,262	64,454	86,129	92,658	100,609	
2017							34,140	77,618	111,362	124,029	
2018								63,469	120,310	147,429	
2019									83,917	118,571	
2020										59,799	
										1,294,979	
										All outstanding liabilities before 2011, net of reinsurance	545
										Liabilities for losses and loss adjustment expenses, net of reinsurance	<u>\$ 390,160</u>

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Casualty

Incurred Losses and Allocated LAE, Net of Reinsurance (2011-2019, Unaudited)

Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	As of
											December 31, 2020
											Total of Incurred-but-Not-Reported Liabilities Plus Expected Development on Reported Losses
2011	\$ 76,990	\$ 157,672	\$ 122,468	\$ 126,657	\$ 130,551	\$ 136,830	\$ 149,869	\$ 146,771	\$ 145,375	\$ 138,099	\$ 6,448
2012		121,632	160,122	168,570	176,703	187,691	194,786	194,152	201,383	205,313	7,727
2013			167,554	175,968	174,414	174,936	181,274	205,289	211,893	224,985	8,616
2014				227,678	212,718	204,399	208,988	225,197	229,781	239,868	12,029
2015					180,905	195,814	207,410	217,705	230,374	256,548	12,622
2016						205,145	218,946	213,189	212,929	205,621	22,366
2017							297,798	295,676	296,737	294,923	32,946
2018								237,848	224,597	206,896	49,310
2019									231,618	225,996	59,051
2020										302,449	121,852
Total										\$ 2,300,698	

Cumulative Paid Losses and Allocated LAE, Net of Reinsurance (2011-2019, Unaudited)

Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
2011	\$ 15,824	\$ 24,365	\$ 39,274	\$ 53,524	\$ 75,253	\$ 94,548	\$ 108,156	\$ 116,607	\$ 124,659	\$ 123,630
2012		4,786	42,064	74,949	103,753	127,142	145,003	161,032	173,502	183,679
2013			19,401	41,505	59,732	96,093	115,491	155,434	176,553	192,621
2014				21,157	57,398	81,891	116,086	144,957	169,325	197,634
2015					20,399	77,656	108,838	142,824	167,940	186,477
2016						35,920	100,738	134,679	158,420	154,170
2017							49,448	143,091	192,900	221,634
2018								47,046	109,330	129,058
2019									62,849	105,455
2020										100,394
All outstanding liabilities before 2011, net of reinsurance										1,594,752
Liabilities for losses and loss adjustment expenses, net of reinsurance										26,196
										\$ 732,142

The reconciliation of the net incurred and paid loss development tables to loss and LAE reserves in the consolidated balance sheets is as follows as of December 31, 2020:

Net outstanding liabilities:	
Property:	\$ 390,160
Casualty	732,142
Other short-duration insurance lines	(19,938)
Loss and LAE reserves, net of reinsurance	<u>1,102,364</u>
Reinsurance recoverable on unpaid claims:	
All segments	<u>888,784</u>
Total reinsurance recoverable on unpaid losses	<u>888,784</u>
Total gross loss and LAE reserves	<u>\$ 1,991,148</u>

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Four predominant methods were used to project the portion of liabilities which is incurred but not reported as of December 31, 2020 for each line. The first is Expected Loss Ratio Method. All expected loss ratio methods calculate ultimate loss, and the IBNR component of that loss, using the same formula. Ultimate loss equals earned premium multiplied by the expected loss ratio. IBNR is the difference of the ultimate and reported losses. The second is the Bornhuetter-Ferguson (BF) method. The BF approach involves two assumptions: an expected loss ratio and an expected reporting pattern used to determine the percent of liabilities unreported as of the valuation date. The ultimate loss is determined by calculating an IBNR and adding it to the reported loss. IBNR loss equals the earned premium multiplied by the unreported percentile multiplied by the expected loss ratio. The third method is the IBNR to Earned Premium method. The IBNR to Earned Premium method assumes that IBNR reserves are only required to provide for claims in the process of adjustment. This amount of IBNR reserve depends on the earned premium. IBNR is earned premium multiplied by the IBNR to Earned Premium factor. The final method is the Loss Development Factor Method. Loss development factors are applied to reported losses to calculate ultimate loss indications.

The following is supplementary information about average historical losses duration as of December 31, 2020:

Average Annual Percentage Payout of Incurred Losses by Age, Net of Reinsurance, (Unaudited years 2-10)

Years	1	2	3	4	5	6	7	8	9	10
Property	30.4%	24.8%	19.9%	7.8%	4.1%	4.3%	2.7%	0.2%	0.1%	0.0%
Casualty	15.7%	20.4%	12.5%	12.8%	9.3%	11.6%	9.7%	6.4%	2.5%	0.0%

The following is a summary of the liabilities for unpaid loss and loss adjustment expenses that are recorded at present value on the balance sheets as of December 31:

	2020	2019
Carrying amount of the loss and LAE reserves presented at present value	\$ -	\$ 118,559
Amount of interest accretion recognized in income	-	1,880
Range of interest rates used to discount	0.0%	3.5%

Interest accretion is recorded in the expense item: Losses and LAE. In 2020 and 2019, the aggregate discount decreased by \$0 and \$1,880 which caused an increase in the losses and LAE of that same amount.

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5. Reinsurance

The components of net premiums written and earned, and losses and LAE incurred were as follows for the years ended December 31:

	<u>2020</u>	<u>2019</u>
Premiums written:		
Direct	\$ 674,793	\$ 577,954
Assumed	1,074,116	750,108
Ceded	<u>(1,052,729)</u>	<u>(830,717)</u>
Net	<u>\$ 696,180</u>	<u>\$ 497,345</u>
Premiums earned:		
Direct	\$ 550,701	\$ 450,754
Assumed	1,008,244	830,753
Ceded	<u>(953,789)</u>	<u>(779,266)</u>
Net	<u>\$ 605,156</u>	<u>\$ 502,241</u>
Losses and LAE:		
Direct	\$ 216,295	\$ 274,442
Assumed	860,799	645,716
Ceded	<u>(512,471)</u>	<u>(471,764)</u>
Net	<u>\$ 564,623</u>	<u>\$ 448,394</u>

The Company did not have any reinsurance balances recoverable greater than 3 percent of shareholder's equity as of December 31, 2020 or 2019.

6. Related-Party Transactions and Balances

During 2012, the Company entered an investment management agreement with SIH, who manages certain of the Company's investments. SIH charges fees directly to the Company, a limited partner. The expenses paid in 2020 and 2019 were \$5,788 and \$5,457, respectively.

The Company has entered into various contracts of reinsurance ceded by affiliated companies. The total gross written premium assumed from affiliated companies during the years ended 2020 and 2019 was \$358,882 and \$223,854, respectively. The Company also cedes to various affiliated companies. The gross premium ceded was \$46,310 and \$5,088 for 2020 and 2019, respectively. The Company recorded in insurance and reinsurance balances receivable, net reinsurance (payables) receivables from affiliated companies of \$69,958 and \$(13,868), respectively, as of December 31, 2020 and 2019. Included in loss and LAE reserves are affiliated balances in the amount of \$742,737 and \$881,141, respectively, as of December 31, 2020 and 2019.

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7. Income Taxes

The Company has received an undertaking from the Bermuda government exempting it from all local income, withholding and capital gains taxes until March 31, 2035. At the present time no such taxes are levied in Bermuda.

Certain of the Company's subsidiaries are subject to federal, state or local taxes based upon their countries of incorporation or where they conduct business. Such amounts are immaterial to the consolidated financial statements.

8. Dividend Restrictions and Statutory Financial Information

Dividend Restrictions

Under Bermuda law, the Company is prohibited from declaring or making payment of a dividend if it fails to meet its minimum solvency margin or minimum liquidity ratio. Prior approval of the Bermuda Monetary Authority is required if the Company's dividend payments would reduce its prior year-end total statutory capital and surplus by 25 percent or more.

Statutory Financial Information

The Company prepares its statutory financial statements in conformity with accounting principles set forth in Bermuda in The Insurance Act 1978, amendments thereto and related regulations.

The statutory capital and surplus of the Company was \$2,313,198 and \$2,376,233 at December 31, 2020 and 2019, respectively. The statutory net income of the Company was \$73,811 and \$54,533 for the years ended December 31, 2020 and 2019, respectively.

Capital Restrictions

The Company is subject to the Bermuda Solvency Capital Requirement (BSCR) administered by the Bermuda Monetary Authority (BMA). No regulatory action is taken if an insurer's capital and surplus is equal to or in excess of their enhanced capital requirement determined by the BSCR model. In addition, the BMA has established a target capital level for each insurer, which is 120 percent of the enhanced capital requirement. The regulatory targeted capital and the actual statutory capital for the Company was as follows as of December 31:

	<u>2020</u>	<u>2019</u>
Regulatory targeted capital	\$ 865,891	\$ 613,753
Actual capital	\$ 2,313,198	\$ 2,376,233

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9. Fair Value Measurements

The Company considers fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e. the exit price) in an orderly transaction between market participants at the measurement date.

In determining fair value, the Company uses various valuation approaches. GAAP establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs reflect the Company's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 - Fair value measures are based on unadjusted quoted market prices in active markets for identical securities. The fair value of securities included in this category was based on quoted prices that are readily and regularly available in an active market. Level 1 assets include equities and certain debt securities.

Level 2 - Fair value measures are based on observable inputs, such as quoted prices for similar assets at the measurement date; quoted prices in markets that are not active; or other inputs that are observable, either directly or indirectly. Assets which generally are included in this category may include states, municipalities and political subdivisions fixed maturities, corporate bonds and redeemable preferred stocks, mortgage backed securities and asset backed securities and other.

Level 3 - Fair value measures are based on inputs that are unobservable and significant to the overall fair value measurement, and may involve management judgment. Assets included in this category generally include private equity placements. Fair value is based upon independent appraisals, from third party sources, however, in some instances current valuation information, for illiquid securities or securities in markets that are not active, may not be available from any third party source or fund management may conclude that the valuations that are available from third party sources are not reliable. In these instances fund management may perform model-based analytical valuations that may be used to value these investments. Based upon the fact that the investments carried at NAV may be adjusted based upon management's assumptions, these investments are classified as level 3 investments.

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.

The Company's policy is to record transfers of assets among levels at their fair values at the end of each reporting period consistent with the date of the determination of fair value. Transfers from Level 1 are recorded when the investment is no longer transacted with sufficient frequency or volume in an active market, and vice-versa. Investments are transferred into Level 3 when a significant input cannot be corroborated with observable market data or when market activity has dramatically decreased and underlying inputs cannot be observed, current prices are not available or substantial differences exist between quotes from market participants. There were no such transfers in or out of level 3 during the years ended December 31, 2020 and December 31, 2019.

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The following table provides the fair value measurements of applicable Company financial assets by level within the fair value hierarchy as of December 31, 2020 and 2019. These financial assets are measured on a recurring basis:

	2020			
	Level 1	Level 2	Level 3	Total
Fixed maturity securities:				
U.S. Treasury securities and obligations of U.S. government agencies	\$ 91,510	\$ -	\$ -	\$ 91,510
States, political subdivision and foreign government securities	-	151,820	-	151,820
Corporate debt securities	-	1,826,312	-	1,826,312
Asset-backed securities	-	170,033	-	170,033
Other	-	123,713	-	123,713
Total fixed maturity securities	91,510	2,271,878	-	2,363,388
Equity securities	63,985	-	-	63,985
Other direct investments	-	-	61,000	61,000
Total assets measured at fair value	\$ 155,495	\$ 2,271,878	\$ 61,000	\$ 2,488,373
	2019			
	Level 1	Level 2	Level 3	Total
Fixed maturity securities:				
U.S. Treasury securities and obligations of U.S. government agencies	\$ 3,209	\$ -	\$ -	\$ 3,209
States, political subdivision and foreign government securities	-	124,904	-	124,904
Corporate debt securities	-	1,831,353	-	1,831,353
Asset-backed securities	-	180,311	-	180,311
Other	-	82,294	-	82,294
Total fixed maturity securities	3,209	2,218,862	-	2,222,071
Equity securities	13,730	-	-	13,730
Total assets measured at fair value	\$ 16,939	\$ 2,218,862	\$ -	\$ 2,235,801

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The following table includes information related to the Company's investments in certain other invested assets, including private equity funds, hedge funds and other alternative investments that calculate net asset value per share (or its equivalent). For these investments, which are measured at fair value on a recurring or nonrecurring basis at December 31, 2020, the Company uses the net asset value per share as a practical expedient for fair value.

	2020	
	Fair Value Using Net Asset Value	Unfunded Commitments
Investment category includes:		
Hedge funds	\$ 64,831	\$ 3,547
Private equity funds	147,106	10,363
SIH funds	187,808	42,710
Real estate funds	9,738	6,459
Private debt funds	139,169	44,607
	<u>\$ 548,652</u>	<u>\$ 107,686</u>

Private equity and SIH fund investments included above are not redeemable during the lives of the funds, and have expected remaining lives that extend in some cases to ten years. Expected lives are based upon legal maturity, which can be extended at the general manager's discretion, typically in one year increments.

In general, the hedge fund investments included above are redeemable, quarterly, with redemption notices ranging from 1 day to 180 days.

10. Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, investments at fair value and accrued investment income.

Fair Values

The carrying value of cash and cash equivalents, accrued investment income, funds withheld, accounts payable and accrued liabilities and due to related party approximate fair value due to their short term nature. Insurance assets and liabilities are excluded from the fair value disclosures.

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11. Equity Method Investments

On May 31, 2011, the Company purchased a 20 percent equity interest in Starr Property & Casualty Insurance (China) Company, Limited (Starr China). As a result, the Company acquired Board representation and participation in the policy making process of Starr China.

On August 13, 2012, the Company purchased a 49 percent equity interest in Dubai Starr Sigorta (Dubai Starr) formerly known as Dubai Group Sigorta A.S. During July 2020, the Company sold its 49 percent equity interest in Dubai Starr Sigorta to an unrelated third party. Sale proceeds of \$5,719 were received and a realized loss of \$5,633 was recorded.

The investments are considered equity method investments by the Company and are recorded under the equity method. Details of the investments at the date of acquisition are as follows:

	<u>Starr China</u>	<u>Dubai Starr</u>
Cash including acquisition expenses and capital expenditures	\$ 62,448	\$ -
Net equity at date of acquisition	<u>27,092</u>	<u>(6,955)</u>
Goodwill	<u>\$ 35,356</u>	<u>\$ (6,955)</u>

The following is the aggregated summary financial information of Starr China and Dubai Starr as of and for the years ended December 31, 2020 and 2019:

	<u>Starr China</u>		<u>Dubai Starr</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Balance sheet information:				
Total assets	\$ 870,274	\$ 695,618	\$ -	\$ 41,455
Total liabilities	<u>692,865</u>	<u>535,276</u>	<u>-</u>	<u>32,067</u>
Net equity	<u>\$ 177,409</u>	<u>\$ 160,342</u>	<u>\$ -</u>	<u>\$ 9,388</u>
Statements of operations information:				
Total revenue	\$ 105,194	\$ 88,104	\$ -	\$ 18,767
Total expenses	<u>99,246</u>	<u>80,208</u>	<u>-</u>	<u>18,017</u>
Net income	<u>\$ 5,948</u>	<u>\$ 7,896</u>	<u>\$ -</u>	<u>\$ 750</u>

12. Commitments and Contingencies

The Company may be involved in various legal proceedings and claims which arise in the ordinary course of its business. While any litigation contains an element of uncertainty, management and counsel believe that the outcome of such litigation will not have a material adverse effect on the Company's financial position or results of operations.

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13. Variable Interest Entities

A variable interest entity (VIE) is a legal entity that does not have sufficient equity at risk to finance its activities without additional subordinated financial support or is structured such that equity investors lack the ability to make significant decisions relating to the entity's operations through voting rights or do not substantively participate in the gains and losses of the entity.

The primary beneficiary of a VIE is required to consolidate the entity. The primary beneficiary is the entity that has both (1) the power to direct the activities of the VIE that most significantly affect the entity's economic performance and (2) the obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE.

The Company's exposure to VIE's primarily relates to ownership of limited partner interests in investment partnerships. Many investment partnerships are VIE's under ASU No. 2015-02, *Consolidation (Topic 810)* because the limited partners as a group lack kick-out or participating rights. The Company is not involved in the design or establishment of the investment partnerships, nor does it hold the general partner interest in the investment partnerships or otherwise actively participate in the management of the partnerships, and therefore does not direct investment activities of the VIE's. Therefore, the Company lacks power over the relevant activities of the vehicles and consequently does not qualify as the primary beneficiary. The Company is exposed to losses when the values of the investments held by the investment partnerships decrease. The Company's maximum exposure to loss equals the Company's share of the investment partnerships.

As of December 31, 2020 and 2019, the Company's total VIE assets and maximum exposure to loss from investment partnerships is \$609,652 and \$638,489, respectively.

The Company is also a passive investor in commercial mortgage-backed securities (CMBS), collateralized loan obligations (CLO) and other asset-backed securities (ABS). By design, CMBS, CLO, and ABS securitization entities are not adequately capitalized and therefore considered VIE's. The Company's investments in these securities are passive in nature and do not obligate the Company to provide any financial or other support to the issuer entities. Based on passive involvement in these types of securities, management has determined that the Company is not the primary beneficiary of these entities. These investments have been accounted for as available-for-sale securities which are disclosed in Note 3 and are not included in the total VIE assets or maximum exposure to loss figures presented above.