

FIDELIS INSURANCE BERMUDA LIMITED

Consolidated Financial Statements

For the Years Ended December 31, 2020 and 2019



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

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

INDEPENDENT AUDITOR'S REPORT

To the Shareholder and Board of Directors of Fidelis Insurance Bermuda Limited

We have audited the accompanying consolidated financial statements of Fidelis Insurance Bermuda Limited and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of income and comprehensive income, changes in 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 financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on 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 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 Fidelis Insurance Bermuda Limited and its subsidiaries as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Other matter

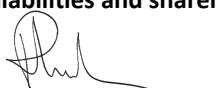
U.S. generally accepted accounting principles require that certain disclosures related to short-duration contracts in Note 10 to the basic financial statements be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Financial Accounting Standards Board who consider it to be an essential part of financial reporting for placing the basic 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 responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit 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.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
April 28, 2021

FIDELIS INSURANCE BERMUDA LIMITED
Consolidated Balance Sheets
As at December 31, 2020 and December 31, 2019
(Expressed in Millions of U.S. Dollars)

	<u>2020</u>	<u>2019</u>
Assets		
Short-term investments, available-for-sale (cost: \$7.7, 2019: \$49.2)	\$ 7.7	\$ 49.2
Fixed income securities, trading at fair value (cost: \$63.3, 2019: \$147.7)	64.2	147.9
Fixed income securities, available-for-sale (cost: \$1,075.8, 2019: \$635.8)	1,092.6	644.1
Other investments, at fair value (cost: \$103.6, 2019: \$5.1)	115.1	5.3
Total investments	1,279.6	846.5
Cash and cash equivalents	593.5	113.3
Restricted cash and cash equivalents	254.5	253.9
Derivative assets, at fair value	0.2	–
Accrued investment income	6.4	5.5
Investments pending settlement	0.4	25.1
Premiums and other receivables	707.9	471.8
Deferred reinsurance premiums	231.9	91.2
Reinsurance balances recoverable on paid losses	197.1	120.7
Reinsurance balances recoverable on unpaid losses	332.3	421.6
Deferred policy acquisition costs	220.7	160.1
Amounts due from affiliates	19.0	10.1
Deferred tax asset	0.8	0.5
Other assets	9.5	13.0
Total assets	\$ 3,853.8	\$ 2,533.3
Liabilities and shareholder's equity		
Liabilities		
Derivative liabilities, at fair value	5.4	0.8
Investments pending settlement	1.3	6.3
Reserves for losses and loss expenses	693.9	671.6
Unearned premiums	885.7	649.8
Reinsurance balances payable	404.6	162.3
Amounts due to affiliates	18.4	8.8
Other liabilities	17.7	8.3
Total liabilities	\$ 2,027.0	\$ 1,507.9
Shareholders' equity		
Common shares, \$1 par value, 1,000,000 authorized, issued and fully paid	1.0	1.0
Additional paid-in capital	1,569.2	932.2
Accumulated other comprehensive income, net of tax	16.7	8.2
Retained earnings	239.9	84.0
Shareholder's equity	\$ 1,826.8	\$ 1,025.4
Total liabilities and shareholder's equity	\$ 3,853.8	\$ 2,533.3



Director



Director

See accompanying notes to the consolidated financial statements.

FIDELIS INSURANCE BERMUDA LIMITED
Consolidated Statements of Income and Comprehensive Income
For the Years Ended December 31, 2020 and December 31, 2019
(Expressed in Millions of U.S. Dollars)

	<u>2020</u>	<u>2019</u>
Revenues		
Gross premiums written	\$ 1,075.1	\$ 631.4
Reinsurance premiums ceded	(423.5)	(243.5)
Net premiums written	651.6	387.9
Change in net unearned premiums	(95.1)	(138.7)
Net premiums earned	556.5	249.2
Net investment return	34.3	34.8
Other income	8.7	6.9
Total revenues	\$ 599.5	\$ 290.9
Expenses		
Losses and loss expenses	(250.6)	(105.3)
Policy acquisition expenses	(150.0)	(70.1)
General and administrative expenses	(41.7)	(29.6)
Net foreign exchange gains/(losses)	1.6	(1.7)
Financing & other costs	(3.2)	(3.4)
Total expenses	\$ (443.9)	\$ (210.1)
Net profit before tax	\$ 155.6	\$ 80.8
Income tax benefit	0.3	0.4
Net profit after tax	\$ 155.9	\$ 81.2
Other comprehensive income		
Unrealised gains on available for sale financial instruments, net of tax	8.5	8.0
Total other comprehensive income	\$ 8.5	\$ 8.0
Total comprehensive income	\$ 164.4	\$ 89.2

See accompanying notes to the consolidated financial statements.

FIDELIS INSURANCE BERMUDA LIMITED
Consolidated Statements of Changes in Shareholder's Equity
For the Years Ended December 31, 2020 and December 31, 2019
(Expressed in Millions of U.S. Dollars)

	<u>2020</u>	<u>2019</u>
Common shares		
Balance - beginning and end of year	\$ 1.0	\$ 1.0
Additional paid-in capital		
Balance - beginning of year	\$ 932.2	\$ 986.1
Distribution paid to parent	(50.0)	(126.0)
Capital contribution from parent	687.0	72.1
Balance - end of year	\$ 1,569.2	\$ 932.2
Accumulated other comprehensive income, net of tax		
Balance – beginning of year	\$ 8.2	\$ 0.2
Unrealised gains on available-for-sale securities, net of tax		
Unrealised gains arising during the year	11.6	9.9
Realised gains transferred to net income	(3.1)	(1.9)
Balance – end of year	\$ 16.7	\$ 8.2
Retained earnings		
Balance - beginning of year	\$ 84.0	\$ 2.8
Net profit after tax	155.9	81.2
Balance - end of year	\$ 239.9	\$ 84.0
Shareholder's equity	\$ 1,826.8	\$ 1,025.4

See accompanying notes to the consolidated financial statements.

FIDELIS INSURANCE BERMUDA LIMITED
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2020 and December 31, 2019
(Expressed in Millions of U.S. Dollars)

	<u>2020</u>	<u>2019</u>
Operating activities		
Net profit after tax	\$ 155.9	\$ 81.2
Adjustments to reconcile net profit after tax to net cash provided by operating activities:		
Depreciation	0.6	0.9
Net unrealised (gain)/loss on investments and derivatives	(7.3)	3.1
Net realised gain on investments and derivatives	(2.2)	(14.3)
Net changes in assets and liabilities:		
Accrued investment income	(0.9)	(0.4)
Premiums and other receivables	(236.1)	(124.7)
Deferred reinsurance premiums	(140.7)	(60.7)
Reinsurance balances recoverable on paid claims	(76.4)	(70.7)
Reinsurance balances recoverable on unpaid claims	89.3	12.5
Deferred policy acquisition costs	(60.6)	(61.1)
Deferred tax asset	(0.3)	(0.4)
Amounts due from affiliates	(9.0)	0.7
Other assets	3.5	(3.3)
Reserves for losses and loss expenses	22.3	73.3
Unearned premiums	235.9	215.0
Reinsurance balances payable	242.3	98.9
Amounts due to affiliates	9.6	3.1
Other liabilities	9.4	9.2
Net cash provided by operating activities	<u>\$ 235.3</u>	<u>\$ 162.3</u>
Investing activities		
Purchase of investments, trading	(0.1)	(0.7)
Proceeds from the sale of investments, trading	88.1	104.1
Purchase of available-for-sale securities	(819.2)	(467.4)
Proceeds from sale of available-for-sale securities	422.1	301.9
Purchase of other investments	(100.0)	-
Purchase of investments to cover short sales	(2.9)	(1.4)
Proceeds from short sales of investments	-	0.2
Proceeds from the sales of other investments	1.4	113.7
Change in investments pending settlement - assets	24.7	(21.7)
Change in investments pending settlement - liabilities	(5.0)	3.3
Purchase of fixed assets	(0.6)	(0.6)
Net cash (used in)/provided by investing activities	<u>\$ (391.5)</u>	<u>\$ 31.4</u>
Financing activities		
Capital contribution from parent	687.0	72.1
Distribution paid to parent	(50.0)	(126.0)
Net cash provided by / (used in) financing activities	<u>\$ 637.0</u>	<u>\$ (53.9)</u>
Net increase in cash, restricted cash, and cash equivalents	480.8	139.8
Cash, restricted cash, and cash equivalents, beginning of year	367.2	227.4
Cash, restricted cash, and cash equivalents, end of year	<u>\$ 848.0</u>	<u>\$ 367.2</u>
Cash and cash equivalents comprise the following:		
Cash and cash equivalents at bank	593.5	113.3
Restricted cash and cash equivalents	254.5	253.9
Cash, restricted cash and cash equivalents	<u>\$ 848.0</u>	<u>\$ 367.2</u>

See accompanying notes to the consolidated financial statements.

FIDELIS INSURANCE BERMUDA LIMITED
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2020 and December 31, 2019
(Expressed in Millions of U.S. Dollars)

1. Nature of Operation

Fidelis Insurance Bermuda Limited (the “Company”, or “FIBL”) was incorporated as an exempted company under the laws of Bermuda on February 26, 2015 and writes insurance and reinsurance on a global basis. The Company is registered as a Class 4 insurer under the Insurance Act of 1978 and related regulations of Bermuda (the “Insurance Act”) and commenced (re)insurance operations in June 2015. The Company is a wholly owned subsidiary of Fidelis Insurance Holdings Limited (“Fidelis”, or “FIHL”) which was incorporated under the laws of Bermuda on August 22, 2014.

During 2018, the Company established the following wholly owned subsidiaries: Fidelis Insurance Ireland DAC (“FIID”) and Fidelis European Holdings Limited (“FEHL”).

- FIID is an indirect, wholly owned subsidiary of FIBL and was incorporated under the laws of Republic of Ireland (“ROI”) on December 27, 2017 and writes bespoke and specialty non-U.K. European business. FIID was licensed in the ROI by the Central Bank of Ireland (“CBI”) on October 22, 2018. FIID commenced writing business from January 1, 2019 and accepted non-UK European Economic Area (“EEA”) insurance policies from Fidelis Underwriting Limited (“FUL”) through a Part VII transfer under the Financial Services and Market Act of 2000 during 2019. The Part VII transfer was completed on March 29, 2019.
- FEHL was incorporated under the laws of England and Wales on January 11, 2018 to act as a holding company within the Group.

The Company and its subsidiaries are collectively referred to as the “Group” in these financial statements.

In May 2018, the Group sponsored Socium Re Limited (“Socium”), a Bermuda domiciled special purpose insurance company formed to provide additional collateralised capacity to support the Group’s business. The Group accounts for its interest in Socium at fair value based on net asset value and includes it within other assets in the Consolidated Balance Sheets.

2. Significant Accounting Policies

Basis of presentation

The accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States (“U.S. GAAP”) and include the results of Fidelis Insurance Bermuda Limited and its subsidiaries. All intercompany balances and transactions have been eliminated on consolidation.

Reporting currency

The financial information is reported in United States dollars (“U.S. dollars” or “\$”), expressed in millions.

FIDELIS INSURANCE BERMUDA LIMITED
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2020 and December 31, 2019
(Expressed in Millions of U.S. Dollars)

2. Significant Accounting Policies (continued)

Use of estimates

The preparation of these financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported and disclosed amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The most significant estimates reflected in the financial statements include, but are not limited to, gross and net reserves for losses and loss expenses, estimates of written and earned premiums, and fair value estimates.

Cash and cash equivalents

Cash and cash equivalents consist of cash held in banks and other short-term, highly liquid investments with original maturity dates of ninety days or less.

Restricted cash and cash equivalents

Restricted cash and cash equivalents consist of cash held in segregated or trust accounts, which is unavailable for immediate use by the Group, primarily to provide collateral for letters of credit and to support the current value of any amounts that may be due to counterparties based on the value of underlying financial instruments.

Investments

During 2018, the Group amended the accounting policy such that all fixed income securities acquired from January 1, 2018 are classified as available for sale. Fixed income securities acquired prior to January 1, 2018 are classified as trading. The fixed income securities portfolio comprises securities issued by governments and government agencies, corporate bonds, and asset-backed securities. Investments in fixed income securities have been classified as available for sale or trading and are reported at estimated fair value in the Consolidated Balance sheets.

The Group's other investments consist of a residual investment in a hedge fund and an investment in structured notes (refer to note 3 for further details). These are carried at fair value through profit and loss based on the net asset value as reported by the investment manager and fair value based on observable market prices, respectively.

Investments with a maturity of greater than three months up to one year from date of purchase are classified as short-term investments.

For all fixed income securities and other investments, any realised and unrealised gains or losses are determined on the basis of first-in-first-out method. For all fixed income securities classified as "available for sale", realised gains and losses in the Consolidated Statements of Income and Comprehensive Income include adjustments to the cost basis of investments for declines in value that are considered to be other-than-temporary. Unrealised gains and losses represent the difference between the cost, or the cost as adjusted by amortisation of any difference between its cost and its redemption value ("amortised cost"), of the security and its fair value at the reporting date and are included within other comprehensive income for securities classified as "available for sale". For securities classified as "trading", realised and unrealised gains or losses are included in the Consolidated Statements of Income and Comprehensive Income within net investment return.

FIDELIS INSURANCE BERMUDA LIMITED
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2020 and December 31, 2019
(Expressed in Millions of U.S. Dollars)

2. Significant Accounting Policies (continued)

Other-than-temporary impairment of investments

A security is impaired when its fair value is below its cost or amortised cost. The Group reviews its investment portfolio each quarter on an individual security basis for potential other-than-temporary impairment (“OTTI”) based on criteria including issuer-specific circumstances, credit ratings actions and general macro-economic conditions.

OTTI is deemed to occur when there is no objective evidence to support recovery in value of a security and (i) the Group intends to sell the security or it is more likely than not that it will be required to sell the security before recovery of its cost or adjusted amortised cost basis or (ii) it is deemed probable that the Group will be unable to collect all amounts due according to the contractual terms of the individual security. In the first case, the entire unrealised loss position is taken as an OTTI charge to realised losses in earnings. In the second case, the unrealised loss is separated into the amount related to credit loss and the amount related to all other factors.

The OTTI charge related to credit loss is recognised in realised losses in earnings and the amount related to all other factors is recognised in other comprehensive income. The cost basis of the investment is reduced accordingly and no adjustments to the cost basis are made for subsequent recoveries in value. Although the Group reviews each security on a case by case basis, it has also established parameters focusing on the extent and duration of impairment to help identify securities in an unrealised loss position which are other-than-temporarily impaired. For fixed income securities in the available for sale portfolio, the Group considers securities which have been in an unrealised loss position for 12 months and the credit rating has deteriorated below investment grade should be other-than-temporarily impaired.

Net investment return

Net investment return includes amounts received and accrued in respect of periodic interest (“coupons”) payable to the Group by the issuer of fixed income securities and interest credited on cash and cash equivalents. It also includes amortisation of premium and accretion of discount in respect of fixed income securities. Investment management, custody, and investment administration fees are charged against net investment return reported in the Consolidated Statements of Income and Comprehensive Income. Investment transactions are recorded on a trade date basis.

Derivative financial instruments

All derivatives are recognised in the Consolidated Balance Sheets at fair value on a gross basis and not offset against any collateral pledged or received. Unrealised gains and losses resulting from changes in fair value are included in net investment return or net foreign exchange gains and losses in the Consolidated Statements of Income and Comprehensive Income. The Group’s derivative financial instrument assets are included in derivative assets and derivative financial instrument liabilities are included in derivative liabilities in the Consolidated Balance Sheets. None of the Group’s derivatives are designated as accounting hedges for financial reporting purposes. Pursuant to the International Swaps and Derivatives Association (“ISDA”) master agreements and other derivative agreements, the Group and its counterparties typically have the ability to settle on a net basis. In addition, in the event a party to one of the ISDA master agreements or other derivative agreements defaults, or a transaction is otherwise subject to termination, the non-defaulting party generally has the right to set off against payments owed to the defaulting party or collateral held by the defaulting party.

The Group enters into derivative transactions to manage duration risk, currency exchange risk, or other exposure risks. The Group also sometimes enters catastrophe swap derivatives to manage its exposure to catastrophe events. Derivative transactions typically include futures, options, swaps and forwards. Derivative assets represent financial contracts whereby, based upon the contract’s current fair value, the Group will be entitled to receive payments upon settlement. Derivative liabilities represent financial contracts whereby, based upon the contract’s current fair value, the Group will be obligated to make payments upon settlement.

FIDELIS INSURANCE BERMUDA LIMITED
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2020 and December 31, 2019
(Expressed in Millions of U.S. Dollars)

2. Significant Accounting Policies (continued)

Derivative financial instruments (continued)

The Group looks to manage foreign currency exposure by substantively balancing assets with liabilities for certain major non-U.S. dollar currencies, or by entering into currency forward contracts. However, there is no guarantee that this will effectively mitigate exposure to foreign exchange gains and losses.

Where a contract includes an embedded derivative, the embedded derivative is recognised separately only if the contract is not recognised at fair value, or the economic characteristics and risks of the embedded derivative are not clearly and closely related to those of the contract.

Investments pending settlement

Investments pending settlement include receivables and payables from unsettled trades due from/to prime brokers. Receivables and payables from unsettled trades are carried at fair value based on quoted prices in active markets for identical assets or derived based on inputs that are observable.

Premiums and acquisition costs

Premiums written are recorded on inception of the policy. Premiums written include estimates based on information received from insureds, brokers and cedants, and any subsequent differences arising on such estimates are recorded as premiums written in the period they are determined. Premiums written are earned on a basis consistent with risks covered over the period the coverage is provided. The portion of the premiums written applicable to the unexpired terms of the underlying contracts and policies are recorded as unearned premium.

Reinstatement premiums are recognised as written and earned after the occurrence of a loss and are recorded in accordance with the contract terms based upon management's estimate of losses and loss expenses.

Acquisition costs are directly related to the acquisition of insurance premiums and are deferred and amortised over the related policy period. The Group only defers acquisition costs incurred that are directly related to the successful acquisition of new or renewal insurance contracts, including commissions to agents, brokers and premium taxes. All other acquisition related expenses including indirect costs are expensed as incurred. To the extent that future policy revenues on existing policies are not adequate to cover related costs and expenses, deferred policy acquisition costs are charged to earnings.

The Group evaluates premium deficiency and the recoverability of deferred acquisition costs by determining if the sum of future earned premiums and anticipated investment return is greater than expected future loss and loss adjustment expenses and acquisition costs.

General and administrative expenses are shown net of commissions, other fees and expense allowances associated with and earned on ceded business. These costs are deferred and amortized over the periods in which the related premiums are earned.

Reinsurance

The Group seeks to reduce the risk of net losses on business written by reinsuring certain risks and exposures with other reinsurers. Ceded reinsurance contracts do not relieve the Group of its primary obligation to insureds. Ceded premiums are recognised when the coverage period incepts and are expensed over the contract period in proportion to the coverage. Premiums relating to the unexpired portion of reinsurance ceded are recorded as deferred reinsurance premiums.

FIDELIS INSURANCE BERMUDA LIMITED
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2020 and December 31, 2019
(Expressed in Millions of U.S. Dollars)

2. Significant Accounting Policies (continued)

Losses and loss expenses

The liability for losses and loss expenses includes reserves for unpaid reported losses and for losses incurred but not reported. The reserve for losses and loss expenses is established by management based on reports from insureds, brokers, and ceding companies and the application of generally accepted actuarial techniques and represents the estimated ultimate cost of events or conditions that have been reported to or specifically identified by the Group as incurred.

Inherent in the estimates of ultimate losses and loss expenses are expected trends in claim severity and frequency which may vary significantly as claims are settled. The Group estimates ultimate losses using various actuarial methods as well as the Group's own growing loss experience, historical insurance industry loss experience, estimates of pricing adequacy trends and management's professional judgement. Ultimate losses and loss expenses may differ significantly from the amount recorded in the financial statements. These estimates are reviewed regularly and as experience develops and new information becomes known, the reserves are adjusted as necessary. Such adjustments, if any, are recorded in losses and loss expenses in the periods in which they are determined.

Premiums receivable

Premiums receivable includes amounts receivable from insureds, net of brokerage costs, which represent premiums that are both currently due and amounts not yet due on insurance and reinsurance policies. Premiums for insurance policies are generally due at inception. Premiums for reinsurance policies generally become due over the period of coverage based on the policy terms. Contract periods can be several years in length with premiums received in annual or quarterly instalments.

The Group monitors the credit risk associated with premiums receivable, taking into consideration the fact that in certain instances credit risk may be reduced by the Group's right to offset loss obligations against premiums receivable. Amounts deemed uncollectible are charged to net profit in the period they are determined. Changes in the estimate of (re)insurance premiums written will also result in an adjustment to premiums receivable in the period they are determined.

Reinsurance balances recoverable

Amounts recoverable from reinsurers are estimated based on the terms and conditions of the reinsurance contracts in a manner consistent with the underlying liability reinsured. If the Group determines that adjustments to earlier estimates are appropriate, such adjustments are recorded in the periods in which they are determined within losses and loss expenses in the Consolidated Statements of Income and Comprehensive Income.

Allowances are established for amounts deemed uncollectible and reinsurance recoverables are recorded net of these allowances. The Group evaluates the financial condition of its reinsurers and monitors concentration risk to minimise its exposure to significant unrecoverables from individual reinsurers.

Income taxes

Income taxes have been provided for those operations that are subject to income taxes based on enacted tax laws and rates enacted in those jurisdictions. Current and deferred taxes are charged or credited to income tax (charge)/benefit. Deferred tax assets and liabilities result from temporary differences between the amounts recorded in the consolidated financial statements and the tax basis of the Group's assets and liabilities. The effect on deferred tax assets and liabilities of a change in tax rates is recognised in the income tax (charge)/benefit in the Consolidated Statements of Income and Comprehensive Income in the period that includes the enactment date.

FIDELIS INSURANCE BERMUDA LIMITED
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2020 and December 31, 2019
(Expressed in Millions of U.S. Dollars)

2. Significant Accounting Policies (continued)

Income taxes (continued)

Uncertain tax positions are recognised when deemed more likely than not of being sustained upon examination by tax authorities. Changes in recognition or measurement are recognised in the period in which the change in judgment occurs.

A valuation allowance against deferred tax assets is recorded if management deem it is more likely than not that all or some portion of the benefits related to the deferred tax assets will not be realised.

Foreign exchange

The functional currency of all Group entities is the U.S Dollar. Transactions in foreign currencies are translated in U.S. dollars at the exchange rate in effect on the transaction date. Monetary assets and liabilities in foreign currencies are re-measured at the exchange rates in effect at the reporting date. Foreign exchange gains and losses are included in the Consolidated Statements of Income and Comprehensive Income.

Variable Interest Entities

Variable Interest Entities (“VIE”) are entities that have either a total equity investment that is insufficient to permit the entity to finance its activities without additional subordinated financial support, or whose equity investors lack the characteristic of a controlling financial interest.

The Group would be deemed to have a controlling financial interest and be the primary beneficiary if it has both of the following characteristics:

- power to direct the activities of the VIE that most significantly impact the entity’s economic performance; and
- an obligation to absorb losses of the entity that could potentially be significant to the VIE, or a right to receive benefits from the entity that could potentially be significant to the VIE.

The determination of whether an entity is a VIE requires judgment and depends on facts and circumstances specific to that entity.

VIEs for which the Group is deemed to have a controlling financial interest and be the primary beneficiary are consolidated and all significant inter-company transactions are eliminated.

If the Group is not deemed to have a controlling financial interest or be the primary beneficiary, then the investment is not consolidated and is recognised according to the facts and circumstances of the relationship. For further information see Note 12.

The Group determines on an ongoing basis whether an entity is a VIE or if the Group is the primary beneficiary based on an analysis of the Group’s level of involvement in the VIE, the contractual terms, the overall structure of the VIE and funding requirements. Entities no longer considered to be a VIE will be consolidated under the Voting Interest Entities method (“VOE”).

FIDELIS INSURANCE BERMUDA LIMITED
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2020 and December 31, 2019
(Expressed in Millions of U.S. Dollars)

2. Significant Accounting Policies (continued)

Recent accounting pronouncements

Recently adopted

In August 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2018-13, Fair Value Measurement, which updated disclosures about fair value measurements. The standard update is effective for annual periods beginning after December 15, 2019. The amendment did not have a material impact on the Group’s consolidated financial statements.

Recently issued but not yet adopted

In February 2016, the FASB issued ASU 2016-02, Leases, and, in July 2018, the FASB issued ASU 2018-10, Codification Improvements to Topic 842, Leases and ASU 2018-11, Leases. ASU 2016-02 requires lessees to recognise operating leases on balance sheet through a lease asset and a related financial liability. The standard update is effective for annual periods beginning after December 15, 2021. The Group expects a lease asset and related liability to be presented on the Consolidated Balance Sheets, however the Consolidated Statements of Income and Comprehensive Income and Statements of Cashflows expect to remain unchanged.

In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments, which requires loans, receivables and available-for-sale debt securities to record credit losses through an allowance for credit losses account. The update introduces a new impairment model, known as the current expected credit loss model, which is based on expected losses rather than incurred losses. Under the new credit loss model, the Group will be required to recognise an allowance for its expected credit losses on certain financial assets including trade receivables, debt instruments not measured at fair value, and reinsurance receivables. Available-for-sale debt securities will record credit losses through an allowance for credit losses, which will be limited to the amount by which fair value is below amortised cost. The Group is currently assessing the impact of the standard on the consolidated financial statements. The standard update is effective for annual periods beginning after December 15, 2022.

In August 2018, the FASB issued ASU 2018-12, Financial Services—Insurance, which amends the scope of Topic 944 via improvements to the accounting for long-duration contracts. The standard update is effective for annual periods beginning after December 15, 2024. The Group does not expect the ASU to have a material impact on the Group’s consolidated financial statements.

FIDELIS INSURANCE BERMUDA LIMITED
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3. Investments

As at December 31, 2020, the Group's investments are managed by external investment managers through individual investment management agreements. The Group monitors activity and performance of the external managers on a monthly basis.

a) Fixed income securities

The following table summarises the fair value of fixed maturity investments managed by external investment managers:

	As at December 31, 2020			
	Cost	Unrealised gains	Unrealised losses	Fair value
Trading				
U.S. Treasuries	\$ 15.6	\$ 0.2	\$ –	\$ 15.8
Corporate bonds	18.4	0.4	–	18.8
Asset-backed securities	24.1	0.1	–	24.2
Agency asset-backed securities	5.2	0.2	–	5.4
Total fixed income securities, trading	\$ 63.3	\$ 0.9	\$ –	\$ 64.2
Available-for-sale				
U.S. Treasuries	\$ 351.3	\$ 6.9	\$ –	\$ 358.2
Agencies	14.8	0.1	–	14.9
Non-U.S. government	42.8	1.0	–	43.8
Corporate bonds	544.2	8.2	(0.2)	552.2
Asset-backed securities	101.7	0.4	(0.1)	102.0
Agency asset-backed securities	21.0	0.5	–	21.5
Total fixed income securities, available-for-sale	\$ 1,075.8	\$ 17.1	\$ (0.3)	\$ 1,092.6
Total fixed income securities	\$ 1,139.1	\$ 18.0	\$ (0.3)	\$ 1,156.8

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3. Investments (continued)

a) Fixed income securities (continued)

	As at December 31, 2019			
	Cost	Unrealised gains	Unrealised losses	Fair value
Trading				
U.S. Treasuries	\$ 45.5	\$ 0.1	\$ –	\$ 45.6
Non-U.S. government	13.0	–	–	13.0
Corporate bonds	41.6	0.2	–	41.8
Asset-backed securities	40.6	–	–	40.6
Agency asset-backed securities	7.0	–	(0.1)	6.9
Total fixed income securities, trading	\$ 147.7	\$ 0.3	\$ (0.1)	\$ 147.9
Available-for-sale				
U.S. Treasuries	\$ 243.5	\$ 3.8	\$ (0.1)	\$ 247.2
Agencies	7.6	0.1	–	7.7
Non-U.S. government	43.0	0.1	–	43.1
Corporate bonds	261.6	4.3	(0.1)	265.8
Asset-backed securities	70.5	0.1	(0.1)	70.5
Agency asset-backed securities	9.6	0.2	–	9.8
Total fixed income securities, available-for-sale	\$ 635.8	\$ 8.6	\$ (0.3)	\$ 644.1
Total fixed income securities	\$ 783.5	\$ 8.9	\$ (0.4)	\$ 792.0

Review of the fixed income securities is performed on a regular basis to consider concentration, credit quality and compliance with established guidelines. For individual fixed income securities, nationally recognized statistical rating organizations (“NRSROs”) are used and the lower of two, middle of three ratings is taken. The composition of the fair values of fixed income securities by credit rating is as follows:

	2020		2019	
	Fair value	%	Fair value	%
Trading				
AAA	\$ 46.7	73%	\$ 107.4	73%
AA	1.6	2%	3.5	2%
A	13.8	22%	30.2	20%
BBB	2.1	3%	6.8	5%
Total fixed income securities, trading	\$ 64.2	100%	\$ 147.9	100%

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3. Investments (continued)

a) Fixed income securities (continued)

	2020		2019	
	Fair value	%	Fair value	%
Available-for-sale				
AAA	\$ 513.9	47%	\$ 366.2	57%
AA	93.5	9%	45.0	7%
A	334.3	31%	146.3	23%
BBB	147.6	13%	86.6	13%
BB	3.3	–	–	–
Total fixed income securities, available-for-sale	\$ 1,092.6	100%	\$ 644.1	100%

The contractual maturities of fixed income securities are listed in the following table:

	2020		2019	
	Cost	Fair value	Cost	Fair value
Trading				
Due in one year or less	\$ 20.9	\$ 21.1	\$ 63.8	\$ 63.8
Due after one year through five years	19.6	20.1	46.6	46.8
Due after five years through ten years	15.2	15.2	26.1	26.1
Due after ten years	7.6	7.8	11.2	11.2
Total fixed income securities, trading	\$ 63.3	\$ 64.2	\$ 147.7	\$ 147.9

	2020		2019	
	Cost	Fair value	Cost	Fair value
Available-for-sale				
Due in one year or less	\$ 221.9	\$ 223.6	\$ 10.7	\$ 10.8
Due after one year through five years	761.5	776.1	556.8	564.9
Due after five years through ten years	57.6	57.7	45.7	45.7
Due after ten years	34.8	35.2	22.6	22.7
Total fixed income securities, available-for-sale	\$ 1,075.8	\$ 1,092.6	\$ 635.8	\$ 644.1

Expected maturities may differ from contractual maturities as borrowers may have the right to call or repay obligations with or without call or prepayment penalties. Additionally, lenders may have the right to put the securities back to the borrower.

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3. Investments (continued)

b) Short-term investments

The following investments were included in short-term investments managed by external investment managers and are classified as available-for-sale:

	As at December 31, 2020			
	Cost	Unrealised gains	Unrealised losses	Fair value
Corporate bonds	\$ 7.7	\$ –	\$ –	\$ 7.7
Total short-term investments	\$ 7.7	\$ –	\$ –	\$ 7.7

	As at December 31, 2019			
	Cost	Unrealised gains	Unrealised losses	Fair value
Non-U.S. government	\$ 48.7	\$ –	\$ –	\$ 48.7
Asset-backed securities	0.5	–	–	0.5
Total short-term investments	\$ 49.2	\$ –	\$ –	\$ 49.2

The composition of the fair values of short-term investments by credit rating is as follows:

	2020		2019	
	Fair value	%	Fair value	%
Available-for-sale				
AAA	\$ –	–	\$ 48.7	99%
A	6.5	84%	–	–
BBB	1.2	16%	0.5	1%
Total short-term fixed income securities, available-for-sale	\$ 7.7	100%	\$ 49.2	100%

c) Available-for-sale – net loss position

The following table summarises, by type of security, the aggregate fair value and gross unrealised loss by length of time the security has been in an unrealised loss position for the Group's available-for-sale portfolio as at December 31, 2020 and 2019:

	As at December 31, 2020			
	Fair value	0-12 months Gross unrealised losses	> 12 months Gross unrealised losses	Number of securities
Corporate bonds	\$ 110.9	(0.2)	–	76
Asset-backed securities	\$ 50.7	(0.1)	–	25
Total	\$ 161.6	(0.3)	–	101

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3. Investments (continued)

c) Available-for-sale – net loss position (continued)

	As at December 31, 2019			
	Fair value	0-12 months	> 12 months	
		Gross unrealised losses	Gross unrealised losses	Number of securities
U.S. Treasuries	\$ 30.9	\$ (0.1)	\$ –	18
Corporate bonds	48.5	(0.1)	–	34
Total	\$ 79.4	\$ (0.2)	\$ –	52

A security is potentially impaired when its fair value is below its cost or amortised cost. The Group analyses its available for sale fixed income portfolios on an individual security basis for potential OTTI each quarter based on criteria including issuer-specific circumstances, changes in credit ratings to below investment grade and general macro-economic conditions. The total OTTI expense for the twelve months ended December 31, 2020 was \$nil (2019: \$nil).

d) Other investments, at fair value

As at December 31, 2020, other investments consist of investments in structured notes and a residual balance left invested in a hedge fund. During the year, the limited partnership formed for the purposes of holding the Group's investments managed by York Capital Management ("York") made a dividend in kind of its remaining investment (being a holding in a credit hedge fund managed by York) to the Group. As such, the Group's residual investment in the York credit hedge fund is now held directly, and the limited partnership was dissolved. Redemptions in the credit hedge fund have been suspended while York liquidates the fund's underlying assets. The fair value of the investment in the credit hedge fund at December 31, 2020 was \$2.1 million (cost: \$3.6 million) compared to the prior year of \$5.3 million (cost: \$5.1 million) at December 31, 2019. The Group has recorded its investment in the York Fund at reported net asset value. There are currently no outstanding commitments to the York Fund. During 2020, the Group redeemed \$1.4 million (2019: \$113.7 million) of distributions.

During 2020, the Group invested in two tranches of a two-year, equity index linked structured note. The ultimate return on the notes will be determined based on the relative level of the S&P 500 index on maturity of the note compared to each individual notes' index entry points. The potential upside return on the notes is subject to a cap and the notes include a buffer protecting them from principal loss for a certain level of negative index performance relative to the entry point. If the buffer is breached the notes will experience a principal loss only for the amount of negative performance which is in excess of the buffer. The fair value of the structured notes as at December 31, 2020 was \$113.0 million (cost: \$100 million). The Group has recorded its investment in the structured notes at fair value using a market valuation approach.

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3. Investments (continued)

e) Net investment return

The components of net investment return are as follows:

	2020	2019
Net interest and dividend income	\$ 19.8	\$ 24.7
Net realised losses on fixed income securities, trading	–	(0.3)
Net realised gains on fixed income securities, available for sale	3.1	1.9
Net realised (losses)/gains on other investments	(0.2)	1.1
Net realised gains on derivatives	0.9	8.9
Change in net unrealised gains-on fixed income securities, trading	0.6	3.3
Change in net unrealised gains-on other investments	11.3	4.2
Change in net unrealised gains/(losses) on derivatives	0.3	(7.8)
Investment expenses	(1.5)	(1.2)
Net investment return	<u>\$ 34.3</u>	<u>\$ 34.8</u>

4. Fair Value Measurements

FASB ASC 820-10, Fair Value Measurements and Disclosures, defines fair value, establishes a consistent framework for measuring fair value and requires disclosures about fair value measurements. The standard requires the Group to maximise the use of observable inputs and minimise the use of unobservable inputs when measuring fair value.

Fair value hierarchy

FASB ASC 820-10 specifies a hierarchy of inputs based on whether the inputs are observable or unobservable. Observable inputs are developed using market data and reflect market participant assumptions, while unobservable inputs reflect the Group's market assumptions. The fair value hierarchy is as follows:

- Level 1: Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities traded in active markets. The fair value is determined by multiplying the quoted price by the quantity held by the Group.
- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices (e.g. interest rates, yield curves, prepayment spreads, default rate, etc.) for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability or can be corroborated by observable market data.
- Level 3: Inputs to the valuation methodology are unobservable for the asset or liability and are significant to the fair value measurement. Significant management assumptions can be used to establish management's best estimate of the assumptions used by other market participants in determining the fair value of the asset or liability.

As required under the fair value hierarchy, the Group considers relevant and observable market inputs in its valuations where possible. The frequency of transactions, the size of the bid-ask spread and the amount of adjustment necessary when comparing similar transactions are all factors in determining the liquidity of markets and the relevance of observable prices in those markets.

The Group's policy with respect to transfer between levels of the fair value hierarchy is to recognise transfers into and out of each level as of the end of the reporting period.

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4. Fair Value Measurements (continued)

Determination of fair value

The following section describes the valuation methodologies used by the Group to measure assets and liabilities at fair value, including an indication of the level within the fair value hierarchy in which each asset or liability is generally classified.

Fixed income securities

The Group's fixed income securities portfolio is managed by external investment managers with oversight from the Group's Chief Investment Officer, the Group's Chief Financial Officer, and the Company's Board of Directors. Fair values for all securities in the fixed income investments portfolio are independently provided by the investment administrator, investment custodians, and investment managers, each of which utilise internationally recognised independent pricing services. Refinitiv is, however, the main pricing service utilised to estimate the fair value measurements for the Group's fixed income securities for asset backed fixed income securities, and corporate and government bonds.

For determining the fair value of securities that are not actively traded, in general, pricing services use "matrix pricing" in which the independent pricing service uses observable market inputs including, but not limited to, reported trades, benchmark yields, broker-dealer quotes, interest rates, prepayment spreads, default rates and such other inputs as are available from market sources to determine a reasonable fair value.

The following describes the techniques generally used to determine the fair value of the Group's fixed income securities by asset class.

- U.S. Treasuries are bonds issued by the U.S. government. The significant inputs used to determine the fair value of these securities are based on quoted prices in active markets for identical assets and are therefore classified within Level 1.
- Agency securities consists of securities issued by U.S. and non-U.S. government sponsored agencies such as the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, government development banks and other agencies which are not mortgage pass-through. The fair values of these securities are classified as Level 2
- Non-U.S. government securities consist of bonds issued by non-U.S. governments and supranationals. The significant inputs used to determine the fair value of these securities include the spread above the risk-free yield curve, reported trades and broker-dealer quotes. These are considered to be observable market inputs and, therefore, the fair values of these securities are classified within Level 2.
- Corporate bonds consist primarily of investment-grade debt of a wide variety of corporate issuers and industries. When available, significant inputs are used to determine the fair value of these securities and are based on quoted prices in active markets for similar assets. When not available, the fair values of these securities are determined using the spread above the risk-free yield curve, reported trades, broker-dealer quotes, benchmark yields, and industry and market indicators. The fair values of these securities are classified as Level 2.
- Asset-backed securities consist of only investment-grade bonds backed by pools of loans with a variety of underlying collateral. The significant inputs used to determine the fair value of these securities include the spread above the risk-free yield curve, reported trades, benchmark yields, broker-dealer quotes, prepayment spreads and default rates. These are considered observable market inputs and, therefore, the fair values of these securities are classified within Level 2.
- Agency asset-backed securities consist of securities issued by mortgage pass-through agencies such as the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and other agencies. These are considered to be observable market inputs and, therefore, the fair values of these securities are classified within Level 2.

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4. Fair Value Measurements (continued)

Short-term investments

The Group's short-term investments consist of commercial paper and bonds with maturities of less than one year at the time of purchase. The significant inputs used to determine the fair value of these securities include the spread above the risk-free yield curve, reported trades and broker-dealer quotes. These are considered to be observable market inputs and, therefore, the fair values of these securities are classified within Level 2.

Derivative financial instruments

Exchange-traded derivatives, measured at fair value using quoted prices in active markets, where available are classified as Level 1 of the fair value hierarchy.

Derivatives without quoted prices in an active market and derivatives executed over the counter are valued using internal valuations techniques that consider the time value of money, volatility, the current market and contractual prices of underlying financial instruments. These derivative instruments are classified as either Level 2 or Level 3 depending upon the observability of the significant inputs to the model. The valuation techniques and key inputs depend on the type of derivative and the nature of the underlying instrument.

Other investments

The Group values its investment in the residual hedge fund at fair value, which is estimated based on the Group's share of the net asset value (NAV) as provided by the investment manager of the underlying investment fund. The Group has elected to use the practical expedient method to record the fair value of the investment at net asset value and has therefore not assigned levels to these investments in the fair value hierarchy.

The Group measures the fair value of its structured notes investments using a market valuation approach which is based entirely on observable inputs. The structured notes are comprised of a package of 'embedded derivatives' (call and put options) which will determine the note's redemption value at maturity, and a zero coupon bond (the 'host contract') which will mature at par. The Company has elected to account for the entire contract at fair value. The fair value of the note is a combination of the present value of the underlying options and the discounted present value of the zero-coupon bond. The present value of the embedded derivatives is calculated using an option valuation technique that incorporates the characteristics of the underlying options and current market conditions specifically; the current index level, the individual option strike prices, market volatility and the time left to maturity. The present value of the underlying options is provided by a third-party, market-leading financial system which adjusts daily for changes in the observable inputs. The zero-coupon bond is valued by discounting back the expected future cash flows associated with the note to present value using an observable discount rate. This discount rate is calculated by adding a risk premium (a spread) to the risk-free interest rate observable in publicly traded debt markets for a risk-free (US Government) debt security of an equivalent term to maturity as the structured notes. The risk premium is derived from yields currently observable in publicly traded debt markets for debt of similar terms to companies with a comparable credit risk to the issuer of the notes. The discount rate encompasses all the risks associated with the expected cash flows that are not considered in deriving the expected future cash flows themselves.

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4. Fair Value Measurements (continued)

The following table presents the financial instruments measured at fair value on a recurring basis as at December 31, 2020 and 2019:

Assets	As at December 31, 2020			
	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ 530.3	\$ —	\$ —	\$ 530.3
Investments pending settlement	0.4	—	—	0.4
Fixed income securities				
U.S. Treasuries	374.0	—	—	374.0
Agencies	—	14.9	—	14.9
Non-U.S. government	—	43.8	—	43.8
Corporate bonds	—	571.0	—	571.0
Asset-backed securities	—	126.2	—	126.2
Agency asset-backed securities	—	26.9	—	26.9
Total fixed income securities	374.0	782.8	—	1,156.8
Short-term investments				
Corporate bonds	—	7.7	—	7.7
Total short-term investments	—	7.7	—	7.7
Structured notes	—	113.0	—	113.0
Derivative assets	0.2	—	—	0.2
Total Assets	\$ 904.9	\$ 903.5	\$ —	\$ 1,808.4

Liabilities	As at December 31, 2020			
	Level 1	Level 2	Level 3	Total
Derivative liabilities	\$ —	\$ (5.4)	\$ —	\$ (5.4)
Investments pending settlement	(1.3)	—	—	(1.3)
Total Liabilities	\$ (1.3)	\$ (5.4)	\$ —	\$ (6.7)

There were no transfers into or out of Level 1 and Level 2 during 2020.

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4. Fair Value Measurements (continued)

Assets	As at December 31, 2019			
	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ 60.2	\$ —	\$ —	\$ 60.2
Investments pending settlement	25.1	—	—	25.1
Fixed income securities				
U.S. Treasuries	292.8	—	—	292.8
Agencies	—	7.7	—	7.7
Non-U.S. government	—	56.1	—	56.1
Corporate bonds	—	307.6	—	307.6
Asset-backed securities	—	111.1	—	111.1
Agency asset-backed securities	—	16.7	—	16.7
Total fixed income securities	292.8	499.2	—	792.0
Short-term investments				
U.S Treasuries	48.7	—	—	48.7
Corporate bonds	—	0.5	—	0.5
Total short-term investments	48.7	0.5	—	49.2
Total Assets	\$ 426.8	\$ 499.7	\$ —	\$ 926.5

Liabilities	As at December 31, 2019			
	Level 1	Level 2	Level 3	Total
Derivative liabilities	\$ (0.2)	\$ (0.6)	\$ —	\$ (0.8)
Investments pending settlement	(6.3)	—	—	(6.3)
Total Liabilities	\$ (6.5)	\$ (0.6)	\$ —	\$ (7.1)

There were no transfers into or out of Level 1 and Level 2 during 2019.

5. Investments Pending Settlement

The Group has receivables and payables from financials instruments sold and purchased from prime brokers and external managers which arise in the ordinary course of business. The Group is exposed to risk of loss from the inability of brokers to pay for purchases or to deliver the financial instruments pending transfer, in which case the Group would have to sell or purchase the financial instruments at prevailing market prices. Credit risk is reduced to the extent that an exchange or clearing organization acts as a counterparty to the transaction and replaces the prime broker. As of December 31, 2020, the Group recognised a receivable of \$0.4 million (2019: \$25.1 million) and a payable of \$1.3 million (2019: \$6.3 million) for trades pending settlement.

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6. Cash and Cash Equivalents

	2020	2019
Cash at bank	\$ 286.2	\$ 259.3
Cash held with brokers/custodians	31.5	47.7
Cash held in money market funds	530.3	59.4
Short term deposits	—	0.8
Total cash and cash equivalents	<u>\$ 848.0</u>	<u>\$ 367.2</u>

Due to the short-term nature of cash and cash equivalents, management believes the above noted carrying values approximate their fair value.

7. Restricted Cash and Cash Equivalents

The Group is required to maintain certain levels of cash in segregated accounts with prime brokers and derivative counterparties. The amount of restricted cash held by derivative counterparties is cash collateral to support the current value of any amounts that may be due to the counterparty based on the value of the underlying financial instrument.

The Group has investments in segregated portfolios primarily to provide collateral for Letters of Credit, which support its (re)insurance business. In addition, the Group also has cash in trust funds which support the insurance business written on certain lines of business with reinsurers and insurers.

The following table presents the restricted cash and cash equivalents as at December 31, 2020 and 2019:

	2020	2019
Restricted cash held by prime brokers	\$ 12.0	\$ 20.4
Letters of Credit collateral	210.4	214.4
Cash held in trust	32.1	19.1
Total restricted cash and cash equivalents	<u>\$ 254.5</u>	<u>\$ 253.9</u>

8. Pledged Investments

At December 31, 2020, \$37.3 million (2019: \$79.9 million) of trading fixed income securities and \$508.3 million (2019: \$303.7 million) of available-for-sale fixed income securities were on deposit with a custodian in respect to the Group's letter of credit facilities and trust accounts.

9. Derivative Financial Instruments

The Group enters into derivative instruments such as futures and forward contracts primarily for duration, interest rate and foreign currency exposure management. From time to time the Group also enters into insurance linked securities to manage its exposure to catastrophe risk. The Group's derivative instruments are generally traded under International Swaps and Derivatives Association master agreements, which establish the terms of the transactions entered into with the Group's derivative counterparties. In the event one party becomes insolvent or otherwise defaults on its obligations, a master agreement generally permits the non-defaulting party to accelerate and terminate all outstanding transactions and net the transactions' marked-to-market values so that a single sum in a single currency will be owed by, or owed to, the non-defaulting party. Effectively, this contractual close-out netting reduces credit exposure from gross to net exposure.

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9. Derivative Financial Instruments (continued)

The following tables identify the listing currency, fair value and notional amounts of derivative instruments included in the Consolidated Balance Sheets, categorised by primary underlying risk. Balances are presented on a gross basis:

	As at December 31, 2020		
	Listing currency ⁽¹⁾	Notional amount of underlying instruments ⁽²⁾	Fair value of net assets on derivatives
Derivative assets by primary underlying risk			
Interest rate contracts			
Futures	USD	\$ 162.0	\$ 0.2
Total derivatives assets		<u>\$ 162.0</u>	<u>\$ 0.2</u>

	As at December 31, 2020		
	Listing currency ⁽¹⁾	Notional amount of underlying instruments ⁽²⁾	Fair value of net liabilities on derivatives
Derivative liabilities by primary underlying risk			
Interest rate contracts			
Futures	USD	\$ 4.0	\$ –
Foreign exchange contracts			
Forwards ⁽³⁾	AUD/CAD/EUR/GBP/JPY	79.4	(5.4)
Total derivative liabilities		<u>\$ 83.4</u>	<u>\$ (5.4)</u>

(1) AUD = Australian Dollar, CAD = Canadian Dollar, EUR = Euro, GBP = British Pound, JPY = Japanese Yen and USD = US Dollar

(2) The absolute notional exposure represents the Group's derivative activity as of December 31, 2020, which is representative of the volume of derivatives held during the period.

(3) Contracts used to manage foreign currency risks in underwriting and non-investment operations.

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9. Derivative Financial Instruments (continued)

	As at December 31, 2019		
	Listing currency ⁽¹⁾	Notional amount of underlying instruments ⁽²⁾	Fair value of net assets on derivatives
Derivative assets by primary underlying risk			
Interest rate contracts			
Futures	USD	\$ 3.9	\$ —
Total derivatives assets		<u>\$ 3.9</u>	<u>\$ —</u>

	As at December 31, 2019		
	Listing currency ⁽¹⁾	Notional amount of underlying instruments ⁽²⁾	Fair value of net liabilities on derivatives
Derivative liabilities by primary underlying risk			
Interest rate contracts			
Futures	USD	\$ 51.6	\$ (0.2)
Foreign exchange contracts			
Forwards ⁽³⁾	AUD/CAD/EUR/GBP/JPY	40.0	(0.6)
Total derivative liabilities		<u>\$ 91.6</u>	<u>\$ (0.8)</u>

(1) AUD = Australian Dollar, CAD = Canadian Dollar, EUR = Euro, GBP = British Pound, JPY = Japanese Yen and USD = US Dollar

(2) The absolute notional exposure represents the Group's derivative activity as of December 31, 2019, which is representative of the volume of derivatives held during the period.

(3) Contracts used to manage foreign currency risks in underwriting and non-investment operations.

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9. Derivative Financial Instruments (continued)

The following table presents derivative instruments by major risk type, the Group's net realised gains/(losses) and change in net unrealised gains/(losses) relating to derivative trading activities for the years ended December 31, 2020 and 2019. Net realised gains/(losses) and net unrealised gains/(losses) related to derivatives are included in net investment return and net foreign exchange gains and losses in the Consolidated Statement of Income and Comprehensive Income.

Derivatives	2020		2019	
	Net realised gains/(losses)	Change in net unrealised gains/(losses)	Net realised gains	Change in net unrealised gains/(losses)
Interest rate contracts				
Futures	\$ 0.9	\$ 0.3	\$ 1.0	\$ 0.1
Total interest rate contracts	0.9	0.3	1.0	0.1
Foreign exchange contracts				
Forwards ⁽¹⁾	(0.8)	(4.8)	0.4	(1.8)
Total foreign exchange contracts	(0.8)	(4.8)	0.4	(1.8)
Insurance linked securities				
Catastrophe swap contracts	—	—	7.9	(7.9)
	\$ 0.1	\$ (4.5)	\$ 9.3	\$ (9.6)

(1) Contracts used to manage foreign currency risks in underwriting and non-investment operations.

The Group obtains/provides collateral from/to counterparties for OTC derivative financial instruments in accordance with bilateral credit facilities.

The Group does not offset its derivative instruments and presents all amounts in the Consolidated Balance Sheets on a gross basis. The Group has pledged cash collateral to counterparties to support the current value of amounts due to the counterparties based on the value of the underlying security.

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10. Reserves for Losses and Loss Expenses

The reserves for losses and loss expenses include an amount determined from reported claims and estimates based on historical loss experience and industry statistics for losses incurred but not reported using a variety of actuarial methods.

The unpaid reported reserves for losses and loss expenses are established by management based on reports from brokers, ceding companies and insureds and represents the estimated ultimate cost of events or conditions that have been reported to, or specifically identified by the Group.

The reserves for IBNR losses and loss expenses are established by management based on actuarially determined estimates of ultimate losses and loss expenses. Inherent in the estimate of ultimate losses and loss expenses are expected trends in claim severity and frequency and other factors which may vary significantly as claims are settled. Accordingly, ultimate losses and loss expenses may differ materially from the amounts recorded in the consolidated financial statements.

These estimates are reviewed regularly and, as experience develops and new information becomes known, the reserves are adjusted as necessary. Such adjustments, if any, will be recorded in losses and loss expenses in the period in which they become known. IBNR reserves are calculated on a best estimate basis and are estimated by management using various actuarial methods as well as the Group's own growing loss experience, historical insurance industry loss experience, estimates of pricing adequacy trends and management's professional judgement. Due to the limited historical data available, reliance is placed upon industry data and a review of individual policies. Estimates are calculated at the lowest level line of business, separately for gross and ceded, and for attritional, extreme and catastrophic claims.

The reserve estimates contain an inherent level of uncertainty and actual results may vary, potentially significantly, from the estimates the Group has made. Reserves are reviewed on a quarterly basis and estimates are adjusted to reflect emerging claims experience.

The Group estimates reserves for unallocated loss adjustment expenses ('ULAE') based on a percentage of loss reserves as determined by management however this may be overridden in exceptional circumstances where this approach is not deemed appropriate. There were no material changes made to the Group's methodology for calculating reserves for unallocated claims adjustment expenses for the year ended December 31, 2020.

The principal actuarial methods, and associated key assumptions, used to perform the Group's loss reserve analysis include:

Initial expected loss ratio

To estimate ultimate losses, the Group multiplies earned premiums by an expected loss ratio. The expected loss ratio is determined using a combination of benchmark data, the business plan, and expert judgement.

Paid and incurred chain ladder

This method estimates ultimate losses by calculating past paid and incurred loss development factors and applying them to exposure periods with further expected paid loss development. The main underlying assumption of this method is that historical loss development patterns are indicative of future loss development patterns.

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10. Reserves for Losses and Loss Expenses (continued)

Paid and incurred Bornhuetter-Ferguson (“BF”)

This method combines features of the chain ladder and initial expected loss ratio method by using both reported and paid losses as well as an a priori expected loss ratio to arrive at an ultimate loss estimate. The weighting between these two methods depends on the maturity of the business. This means that for more recent years a greater weight is placed on the initial expected loss ratio, while for more mature years a greater weight is placed on the loss development patterns.

Benktander: Credible claims reserves

The Benktander method is similar to the Bornhuetter-Ferguson, but replaces the initial loss ratio used within the BF method with the loss estimate from the BF method. The credibility factor is increased as claims develop. It gives more weight to:

- Emerged losses than the BF; and
- Initial expected loss ratio rather than the chain ladder.

Case-by case

Given the nature of the business written, some of the lines of business may consist of a small number of policies. Where appropriate, the loss reserves will be calculated explicitly for a particular contract using expert judgement and documented appropriately. It is the responsibility of the actuarial function to apply the relevant actuarial methodologies and judgements to the calculation of loss reserves. The Chief Actuary presents the recommendations of the actuarial review of the reserves to the Reserving Committee for review, challenges and recommendations, the results of which are included in the Chief Actuary’s Reserving Report for approval by the Company’s Board of Directors.

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10. Reserves for Losses and Loss Expenses (continued)

The following table presents a reconciliation of unpaid losses and loss expenses for the years ended December 31, 2020 and 2019.

	2020	2019
Gross unpaid losses and loss expenses, beginning of year	\$ 671.6	\$ 598.2
Reinsurance recoverable on unpaid losses	(421.6)	(434.1)
Net unpaid losses and loss expenses, beginning of year	250.0	164.1
Net losses and loss expenses incurred in respect of losses occurring in		
Current year	274.4	111.7
Prior year	(23.8)	(6.4)
Total incurred	250.6	105.3
Net losses and loss expenses paid in respect of losses occurring in:		
Current year	(56.4)	(6.5)
Prior period	(89.5)	(20.0)
Total paid	(145.9)	(26.5)
Foreign exchange	6.9	1.9
Part VII transfer ⁽¹⁾	—	5.2
Net unpaid losses and loss expenses, end of year	361.6	250.0
Reinsurance recoverable on unpaid losses	332.3	421.6
Gross unpaid losses and loss expenses, end of year	\$ 693.9	\$ 671.6

⁽¹⁾ This balance represents the amount not previously assumed through the intragroup reinsurance arrangement with FUL. Post Part VII transfer this balance is now consolidated by the Group.

As a result of the changes in estimates of insured events in prior years, the 2020 reserves for losses and loss expenses net of reinsurance recoveries decreased by \$23.8 million (2019: \$6.4 million). Reserve releases in 2020 have resulted from changes in reserving estimates across the bespoke, specialty and reinsurance pillars. The releases in 2019 have resulted from changes in reserve estimates across the bespoke pillar which was partially offset by deterioration in the reinsurance pillar as a result of reserving estimate increases for the 2018 loss event, Typhoon Jebi.

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10. Reserves for losses and loss expenses (continued)

a) Incurred and paid loss development tables by accident year

The Company's loss reserve analysis is based primarily on underwriting year data. The preparation of the below accident year development tables required an allocation of underwriting year data to the corresponding accident year.

Allocations are performed using accident year loss payment and reporting patterns, which are derived from company specific loss data. Ultimate reserves are allocated based on reserve movement splits between prior and current year and reflects the movement in earned premium by underwriting year. The Company considers its allocations to be reasonable, based on the principal of proportionality.

The following tables present the Group's total loss and loss adjustment expenses incurred, net of reinsurance and paid losses and loss adjustment expenses by accident year, net of reinsurance. The information has been provided separately for each of bespoke, specialty and reinsurance lines in line with how the Group manages the business. No data has been omitted in providing this information on a segment basis.

Bespoke

Incurred losses and loss adjustment expenses – net of reinsurance

Accident year	For the years ended December 31, 2020						As of December 31, 2020	
	2015 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2020	Total of IBNR plus expected development on reported losses	Cumulative number of reported losses
2015	\$ 0.4	\$ 0.4	\$ 0.2	\$ 0.1	\$ -	\$ 0.1	\$ 0.1	-
2016		6.2	4.0	2.7	3.8	5.0	1.4	12
2017			11.5	8.4	6.5	6.8	3.3	47
2018				19.9	13.3	9.9	7.6	84
2019					22.6	16.3	9.3	733
2020						52.8	32.3	1,573
Total						\$ 90.9	\$ 54.0	

Cumulative paid losses and loss adjustments expenses, net of reinsurance

Accident year	For the years ended December 31, 2020					
	2015 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2020
2015	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2016		-	0.6	1.3	1.4	0.9
2017			1.8	1.8	2.6	3.3
2018				0.1	1.2	1.4
2019					1.0	2.7
2020						6.3
						\$ 14.6
Reserve FX						10.1
ULAE						0.4
Liabilities for losses and loss adjustment expenses, net of reinsurance						\$ 86.8

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10. Reserves for losses and loss expenses (continued)

a) Incurred and paid loss development tables by accident year (continued)

Specialty

Incurred losses and loss adjustment expenses - net of reinsurance

Accident year	For the years ended December 31, 2020						As of December 31, 2020	
	2015 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2020	Total of IBNR plus expected development on reported losses	Cumulative number of reported losses
2015	\$ 2.2	\$ 1.0	\$ 0.2	\$ -	\$ -	\$ -	\$ -	1
2016		8.5	3.4	2.7	2.5	1.8	0.2	33
2017			7.2	5.2	1.8	1.8	0.2	43
2018				6.8	9.1	6.7	0.4	72
2019					17.8	14.1	1.3	363
2020						45.5	26.3	907
Total						\$ 69.9	\$ 28.4	

Cumulative paid losses and loss adjustments expenses, net of reinsurance

Accident year	For the years ended December 31, 2020					
	2015 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2020
2015	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 0.0
2016		-	-	1.5	1.5	1.6
2017			-	0.2	0.3	1.2
2018				-	1.8	5.4
2019					2.6	12.5
2020						3.4
						\$ 24.1
Reserve FX						1.2
ULAE						0.7
Liabilities for losses and loss adjustment expenses, net of reinsurance						\$ 47.7

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10. Reserves for losses and loss expenses (continued)

a) Incurred and paid loss development tables by accident year (continued)

Reinsurance

Incurred losses and loss adjustment expenses - net of reinsurance

Accident year	For the years ended December 31, 2020						As of December 31, 2020	
	2015 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2020	Total of IBNR plus expected development on reported losses	Cumulative number of reported losses
2015	\$ 9.0	\$ 7.5	\$ 7.2	\$ 4.3	\$ 4.2	\$ 4.2	\$ 1.6	2
2016		71.8	58.6	50.5	48.2	45.2	25.7	108
2017			90.4	59.1	56.4	60.1	12.3	490
2018				93.8	101.1	98.5	2.3	518
2019					70.8	63.8	9.8	296
2020						175.5	113.5	390
Total						\$ 447.3	\$ 165.2	

Cumulative paid losses and loss adjustments expenses, net of reinsurance

Accident year	For the years ended December 31, 2020					
	2015 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2020
2015	\$ -	\$ 0.5	\$ 2.7	\$ 2.8	\$ 2.8	\$ 2.7
2016		2.3	9.4	18.4	19.7	19.1
2017			27.8	45.2	47.5	50.1
2018				24.7	37.1	63.5
2019					3.0	47.6
2020						46.7
						\$ 229.7
Reserve FX						4.8
ULAE						4.7
Liabilities for losses and loss adjustment expenses, net of reinsurance						\$ 227.1

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10. Reserves for losses and loss expenses (continued)

b) Reconciliation of loss development information to the reserves for losses and loss expenses

The table below reconciles the loss development information to the Group's reserves for losses and loss expenses as at December 31, 2020 and 2019:

	2020	2019
Reserves for losses and loss expenses, net of reinsurance		
Bespoke	\$ 86.4	\$ 45.7
Specialty	47.0	25.6
Reinsurance	222.4	172.1
Total reserves for losses and loss expenses, net of reinsurance	\$ 355.8	\$ 243.4
Reinsurance recoverable on unpaid losses		
Bespoke	\$ 5.2	\$ 0.4
Specialty	52.4	42.0
Reinsurance	274.7	379.2
Total reinsurance recoverable on unpaid losses	\$ 332.3	\$ 421.6
Unallocated loss adjustment expenses	5.8	6.6
Total gross liability for unpaid losses and loss adjustment expenses	\$ 693.9	\$ 671.6

c) Historical loss duration

The following table presents the Group's historical average annual percentage payout of losses and loss adjustment expenses incurred, net of reinsurance by age as of December 31, 2020.

The Group was incorporated on February 26, 2015, commenced underwriting in 2015. As a result, the Group has limited historical data and is unable to present a full cycle of loss payments.

Years	December 31, 2020 (Unaudited)				
	1	2	3	4	5
All lines	20%	29%	19%	5%	0%

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11. Reinsurance

The Group uses reinsurance and retrocessional reinsurance from time to time to manage its net retention on individual risks as well as overall exposure to losses while providing it with the ability to offer policies with sufficient limits to meet policyholder needs. In a reinsurance transaction, an insurance company transfers, or cedes, all or part of its exposure in return for a portion of the premium. In a retrocessional reinsurance transaction, a reinsurance company transfers, or cedes, all or part of its exposure in return for a portion of the premium. The ceding of insurance does not legally discharge the Group from its primary liability for the full amount of the policies, and the Group will be required to pay the loss and bear collection risk if the reinsurer fails to meet its obligations under the reinsurance or retrocessional agreement.

A credit risk exists with ceded reinsurance to the extent that any reinsurer is unable to meet the obligations assumed under the reinsurance or retrocessional contracts. Allowances are established for amounts deemed uncollectible. No allowances have been made at December 31, 2020 (2019: \$nil).

The following table summarises the effect of reinsurance and retrocessional reinsurance on premiums written and earned and on net loss and loss expenses for the years ended December 31, 2020 and 2019:

2020	Premiums written	Premiums earned	Losses incurred
Direct	\$ 244.4	\$ 89.6	\$ 21.3
Assumed	830.7	749.7	344.7
Ceded	(423.5)	(282.8)	(115.4)
Net	\$ 651.6	\$ 556.5	\$ 250.6
2019	Premiums written	Premiums earned	Losses incurred
Direct	\$ 148.4	\$ 31.4	\$ 6.5
Assumed	483.0	401.2	293.5
Ceded	(243.5)	(183.4)	(194.7)
Net	\$ 387.9	\$ 249.2	\$ 105.3

The Group evaluates the financial condition of its reinsurers on a regular basis and monitors concentrations of credit risk with reinsurers. As at December 31, 2020, the reinsurance balance recoverable on unpaid losses and loss expenses was \$332.3 million (2019: \$421.6 million) and the reinsurance balance recoverable on paid losses was \$197.1 million (2019: \$120.7 million). All reinsurance premiums ceded and reinsurance recoverables are either fully collateralised or placed with reinsurers that are rated A- or greater by A.M. Best, other than two reinsurers which are rated BBB+.

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12. Variable Interest Entities

Effective May 2018, Socium Re Limited (“Socium”), a Bermuda domiciled special purpose insurer, was formed to provide additional collateralised capacity to support the Group’s business through retrocession agreements which are collateralised and funded by Socium. Socium meets the definition of a VIE, as it does not have sufficient equity capital to finance its own activities. The Group concluded that it is not the primary beneficiary of the segregated account of Socium and therefore the Group does not consolidate Socium and records its investment at reported net asset value within other assets in the Consolidated Balance Sheets. At December 31, 2020, the carrying value of the Group’s investment in Socium is \$0.7 million (2019: \$3.3 million), which is the maximum loss exposure to the Group.

13. Commitments and contingencies

a) Lease commitments

The following table presents the Group’s future minimum annual lease commitments under various non-cancellable operating leases for the Group’s facilities:

Years Ended December 31:	
2021	1.1
2022	1.1
2023	0.7
Thereafter	—
Total	<u>\$ 2.9</u>

Operating lease expense was \$1.3 million for the year ended December 31, 2020 (2019: \$1.7 million).

b) Letter of credit facilities

As at December 31, 2020, the Group had the following letter of credit facilities:

- A Standby Letter of Credit Facility Agreement with Lloyds Bank plc (“Lloyds”), under which Lloyds committed to make available to the Group a letter of credit facility in the amount of \$200.0 million. The letter of credit facility was renewed on September 26, 2019 and is available until December 31, 2021. The renewal was amended to include an unsecured tranche of \$50.0 million and secured tranche of \$150.0 million. Letters of credit can be issued under the facility for the purposes of: 1) the provision of Funds at Lloyds and 2) supporting insurance and reinsurance obligations. As of December 31, 2020, there were letters of credit outstanding under this facility totaling \$119.6 million (2019: \$117.8 million), secured by collateral in the amount of \$85.5 million (2019: \$89.2million).
- A Master Agreement for the Issuance of Payment Instruments with Citibank NA London Branch (“Citibank”), under which Citibank committed to make available a letter of credit facility in the amount of \$250.0 million. The letter of credit facility was renewed on November 12, 2020, and the facility is available until December 31, 2021. As of December 31, 2020, there were letters of credit outstanding under this facility totaling \$141.8 million (2019: \$167.4 million), secured by collateral in the amount of \$185.1 million (2019: \$177.3 million).
- On August 14, 2020, the Letter of Credit Facility with Barclays Bank plc was extended until August 15, 2021. The secured facility remained at \$50 million as did the \$50 million unsecured tranche. As at December 31, 2020 there were letters of credit outstanding under this facility totaling \$97.6 million (2019: \$97.6 million), secured by collateral in the amount of \$55.0 million (2019: \$54.0 million).

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13. Commitments and contingencies (continued)

b) Letter of credit facilities (continued)

- On September 17, 2019 a new letter of credit facility with Bank of Montreal was established. It is a \$60 million facility, with a \$30 million secured tranche and a \$30 million unsecured tranche. As at December 31, 2020 there were letters of credit outstanding under this facility totaling \$13.5 million (2019: \$nil), secured by collateral in the amount of \$nil (2019: \$nil).

c) Legal proceedings

From time to time in the normal course of business, the Group may be involved in formal and informal dispute resolution procedures, which may include arbitration or litigation, the outcomes of which determine the rights and obligations of the Group under the Group's (re)insurance contracts, and other contractual agreements, or other matters as the case may be. In some disputes, the Group may seek to enforce its rights under an agreement or to collect funds owing to it. In other matters, the Group may resist attempts by others to collect funds or enforce alleged rights. While the final outcome of legal disputes that may arise cannot be predicted with certainty, the Group do not believe that the eventual outcome of any specific litigation, arbitration or alternative dispute resolution proceedings to which the Group are currently a party will have a material adverse effect on the financial condition of the Group's business as a whole.

d) Concentration of credit risk

Credit risk arises out of the failure of a counterparty to perform according to the terms of the contract. The Group underwrites all of its (re)insurance business through brokers and as a result credit risk exists should any of these brokers be unable to fulfil their contractual obligations with respect to the payments of premium or failure to pass on claims, if there is risk transfer, to the Group. During the years ended December 31, 2020 and December 31, 2019, gross premiums written generated from or placed by the below companies individually accounted for more than 10% of the Group's consolidated gross premiums written, as follows:

(Percentage of gross premiums written)	2020	2019
Aon plc	30%	35%
Marsh & McLennan Companies	16%	22%
TigerRisk	10%	4%
Others	44%	39%

The Group has policies and standards in place to manage and monitor the credit risk of intermediaries with a focus on quarterly monitoring of the largest positions. Note 11 describes the credit risk related to the Group's reinsurance recoverables.

14. Related Party Transactions

For the year ended December 31, 2020, the Group ceded reinsurance premiums of \$2.5 million (2019: \$10.7 million), of which \$6.4 million was earned in the year (2019: \$10.8 million) and ceded losses of \$6.7 million (2019: \$11.4 million) to Socium. In addition, Socium paid commissions of \$0.4 million (2019: \$0.6 million) to the Group during 2020. At December 31, 2020, the amount of reinsurance recoverable on unpaid and paid losses was \$13.0 million (2019: \$17.9 million) and the amount of ceded reinsurance payable included in insurance and reinsurance balances payable was \$0.4 million (2019: \$4.5 million) in the Consolidated Balance Sheets.

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14. Related party transactions (continued)

The Company has a quota share intragroup reinsurance arrangement with FUL, under which FUL cedes 50% of net premiums retained after third party and Socium cessions to the Company. For the year ended December 31, 2020, FUL ceded reinsurance premiums of \$228.4 million (2019: \$89.4 million), of which \$161.0 million was earned in the year (2019: \$68.9 million) and ceded losses of \$79.8 million (2019: \$23.3 million) to the Company. At December 31, 2020, the Consolidated Balance Sheets includes \$180.1 million (2019: \$136.5 million) of premiums and other receivables, \$104.5 million (2019: \$80.8 million) of deferred policy acquisition costs, \$107.9 million (2019: \$41.7 million) of reserves for losses and loss expenses and \$298.1 million (2019: \$230.7 million) of unearned premiums.

With effect from 29 March 2019, the transfer of the ongoing operations of FUL's non-UK EEA direct insurance policies to FIID, pursuant to Part VII of the Financial Services and Markets Act 2000, was completed. The assets and liabilities at the date of transfer are disclosed below:

	2019
Cash and cash equivalents	9.6
Premium and other receivables	8.6
Unearned premium ceded	16.3
Deferred policy acquisition costs	6.8
Reinsurance recoverable on unpaid and unpaid losses	5.4
Total assets	46.7
Reserves for losses and loss expenses	10.5
Unearned premium	31.9
Reinsurance premiums payable	4.3
Total liabilities	46.7

During the year, the Group received income for various marketing and administrative services provided to companies under common control. Fees received for these services were \$8.7 million (2019: \$6.9 million). The amount due from affiliates at December 31, 2020 is \$19.0 million (2019: \$10.1 million).

During the year, the Group incurred expenses for various marketing and administrative services received from companies under common control. Fees incurred for these services were \$22.5 million (2019: \$12.5 million). The amount due to affiliates at December 31, 2020 is \$18.4 million (2019: \$8.8 million).

Related party balances are due on demand and carry no interest.

During 2019, the Company made interest free loans to management of \$4.5 million and is recorded within other assets in the Consolidated Balance Sheets. The current balance outstanding is \$4.5 million (2019: \$4.5 million).

15. Statutory Requirements and Dividend Restrictions

The Company's ability to pay dividends is subject to certain regulatory restrictions on the payment of dividends by its subsidiaries. The payment of such dividends is limited by applicable laws and statutory requirements of the jurisdictions in which the Company and its subsidiaries operate, detailed further below. The minimum required statutory capital and surplus is the amount of statutory capital and surplus necessary to satisfy regulatory requirements based on the Company's current operations.

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15. Statutory Requirements and Dividend Restrictions (continued)

The estimated statutory capital and surplus and minimum required statutory capital and surplus for the Group's regulatory jurisdictions is as follows:

	2020	
	Bermuda ⁽¹⁾	ROI ⁽²⁾
Minimum statutory capital and surplus	\$ 445.0	\$ 45.0
Statutory capital and surplus	1,860.0	100.0
	2019	
	Bermuda ⁽¹⁾	ROI ⁽²⁾
Minimum statutory capital and surplus	\$ 350.0	\$ 25.0
Statutory capital and surplus	1,120.0	40.0

(1) Required statutory capital and surplus represents 100% of the Bermuda Solvency Capital Requirement ("BSCR").

(2) Required statutory capital and surplus represents the Solvency II Solvency Capital Requirement ("SCR").

Bermuda operations

Under the Insurance Act 1978, amendments thereto and Related Regulations of Bermuda (the Insurance Act), the Company is required to prepare and submit annual audited GAAP financial statements and statutory financial statements and to file with the Bermuda Monetary Authority ("BMA") a statutory financial return and a capital and solvency return. The BMA acts as group supervisor of the Group and has designated FIBL as the 'designated insurer' of the Group. In accordance with the Group supervision and insurance group solvency rules, the Company is required to prepare and submit annual audited Group GAAP financial statements, annual Group statutory financial statements, an annual Group statutory financial return, an annual Group capital and solvency return and quarterly Group unaudited GAAP financial statements.

As a Class 4 (re)insurer, the Company must maintain available statutory economic capital at a level equal to its enhanced capital requirement ("ECR"), which is established by reference to the Bermuda Solvency Capital Requirement ("BSCR") model. The BSCR model is a risk-based capital model that provides a method for determining a (re)insurer's capital requirements (statutory capital and surplus) by taking into account the risk characteristics of different aspects of the (re)insurer's business. In addition, the Company is required to maintain available statutory economic capital and surplus at a level equal to or in excess of the group ECR which is established by reference to the Group BSCR model.

Under the Insurance Act, the Company is prohibited from declaring or paying a dividend if it is in breach of its minimum solvency margin, ECR or minimum liquidity ratio or if the declaration or payment of such dividend would cause such a breach. In addition, the Company is 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 with the BMA an affidavit stating that it will continue to meet the relevant solvency and liquidity margins. Without the approval of the BMA, the Company is prohibited from reducing by 15% or more its total statutory capital as set out in its previous year's financial statements and any application for such approval must include an affidavit stating that it will continue to meet the required solvency and liquidity margins. In addition, under the Companies Act 1981, the Company would be prohibited from making a distribution out of contributed surplus if there are reasonable grounds for believing that (a) the Company is, or would after the payment be, unable to pay its liabilities as they become due or (b) the realisable value of the Company's assets would thereby be less than its liabilities.

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15. Statutory Requirements and Dividend Restrictions (continued)

Republic of Ireland operations

The CBI regulatory requirements impose no explicit restrictions on FIID's ability to pay a dividend, but FIID would have to notify the CBI prior to any proposed dividend payment. Under Irish Company law dividends may only be distributed from profits available for distribution, which consist of accumulated realised profits less accumulated realised losses.

16. Taxation

Bermuda

Under current Bermuda law, FIBL, is not required to pay any taxes in Bermuda on its income or capital gains. FIBL has received undertakings from the Minister of Finance in Bermuda that, in the event of any taxes being imposed, they will be exempt from taxation in Bermuda until March 2035 under the Tax Assurance Certificates issued to such entities pursuant to the Bermuda Exempted Undertakings Tax Protection Act of 1966, as amended. The impact of this is included within income not subject to income taxes in the reconciliation of taxes below.

Republic of Ireland

FIID is tax resident in the Republic of Ireland and is subject to Irish corporation tax on trading profits at a rate of 12.5%. 2019 to 2020 are open tax years in Ireland for those relevant entities that are either within the statutory time for examination or subject to open examinations by local tax authorities.

The Group income tax benefit for the years ended December 31, 2020 and 2019, is as follows:

	2020		2019
Corporation tax charge	\$ —	\$	—
Deferred tax benefit	0.3		0.4
Income tax benefit	\$ 0.3	\$	0.4

The effective tax rate for the Group is negative 0.2% (2019: negative 0.5%).

The components of the Group's net non-current deferred tax asset as at December 31, 2020 and 2019 are as follows:

	2020		2019
Operating losses	\$ 0.8	\$	0.5
Deferred tax asset	\$ 0.8	\$	0.5

There is no expiry date for the losses.

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16. Taxation (continued)

FIID is the taxpayer within the group and as such a reconciliation is shown below based on the Irish tax rate of 12.5%.

	2020	2019
Profit on ordinary activities before tax	\$ 155.6	\$ 80.8
Tax charge at 12.50% (2019: 12.50%)	(19.5)	(10.1)
Tax charge at 12.50% (2019: 12.50%)	\$ (19.5)	\$ (10.1)
Effects of:		
Income not subject to income taxes	19.8	10.5
Tax credit for the year	\$ 0.3	\$ 0.4

The Group did not pay or accrue any interest or penalties during the years ended December 31, 2020 and December 31, 2019.

17. COVID-19

Since the start of 2020, many countries have experienced an outbreak of the COVID-19 virus and on March 11, 2020, the World Health Organization declared the disease to be a global pandemic. The situation continues to develop, and the long-term impact of this pandemic is unclear at this time. Management is monitoring the developments closely and has recognised the impacts in these financial statements as appropriate. Areas within the financial statements that have a potential to be impacted include valuation of the Company's investment portfolio and net reserves for losses and loss expenses. The potential for losses arising from COVID-19 have been and will continue to be monitored and discussed by management.

In June 2020, the FCA issued proceedings against a group of insurers in a test case designed to clarify the interpretation and application of commonly used insurance coverage extensions under business interruption insurance policy wordings, in the context of losses arising from the COVID-19 pandemic, and in September 2020, the High Court delivered judgment in this case. The test case was not intended to encompass all possible disputes, but to resolve some key contractual uncertainties and causation issues to provide clarity for policyholders and insurers. However, each policyholder's claim is different and the ultimate outcome from this case will depend on the relevant policy and underlying circumstances. The Group is not a party to this case and writes a limited amount of policies that could be directly impacted by the test case. In late September, the parties to this test case appealed to the U.K. Supreme Court.

The Supreme Court judgment was given in January 2021 and there were two key findings. First, it was held that the majority of the test case policies were triggered by the government lockdowns in 2020. This is of little direct relevance to the Group as it writes a limited amount of these policies. Second, and of relevance to the entire Insurance Market, the Supreme Court held that the basis of assessing the quantum of business interruption losses should be altered; over-ruling the Orient Express case. The effect of over-ruling this established case will be to increase the quantum of Business Interruption losses in the insurance market generally, the Group will be affected by this, as will the rest of the insurance and reinsurance market.

The Group has performed an analysis to estimate potential exposure to Property Business Interruption losses from COVID-19. In general, the Group's portfolio is more focused on residential exposure and the vast majority of cedants have strong exclusions in place. This reduces the potential for losses through Property Business Interruption. There are currently no notifications for which a material incurred loss is booked.

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18. Subsequent Events

On February 25, 2021, the Board approved the distribution of \$75.0m to Fidelis Insurance Holdings Limited.

During the first quarter of 2021, the United States experienced winter storms which will have an impact upon the Group's financial results for 2021. The Group does not believe that these events will have a material impact upon its capital position.

Subsequent events have been evaluated up to and including April 28, 2021, the date of issuance of these consolidated financial statements.