CATALINA GENERAL INSURANCE LTD.

CONSOLIDATED FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT AUDITORS

FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019

CATALINA GENERAL INSURANCE LTD.

FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of Catalina General Insurance Ltd.

We have audited the accompanying consolidated financial statements of Catalina General Insurance Ltd. and its subsidiaries (the "Company"), which comprise the consolidated balance sheet as of December 31, 2020, and the related consolidated statement of operations, comprehensive income, changes in shareholders' equity and cashflows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Catalina General Insurance Ltd. and its subsidiaries as of December 31, 2020, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT (cont'd)

Other Matter

The financial statements of Catalina General Insurance Ltd. and its subsidiaries (the "Company") for the year ended December 31, 2019, were audited by another auditor, who expressed an unmodified opinion on those statements on May 1, 2020.

Management has omitted disclosure of short-duration contracts that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Deloitte Ltd.

April 29, 2020

CATALINA GENERAL INSURANCE LTD.
CONSOLIDATED BALANCE SHEETS
December 31, 2020 and 2019
(Expressed in thousands of U.S. dollars)

	2020	2019
Assets		
Investments,trading, at fair value	$ 756,593	$ 1,451,685
Investments, available-for-sale, at fair value (cost: $1,046,631; 2019: $704,524)	1,144,011	704,524
Cash and cash equivalents	79,231	44,711
Restricted cash and cash equivalents	130,705	65,932
Accrued investment income	12,657	16,366
Investment in affiliates	7,285	5,871
Investment in real estate	70,912	277,557
Outstanding losses and loss expenses recoverable	1,273,726	1,347,535
Funds held by cedants and claims administrators	126,302	139,090
Insurance and reinsurance balances receivable	83,324	107,791
Other assets	350,592	115,645
Total assets	$ 4,035,338	$ 4,276,707
Liabilities		
Outstanding losses and loss expenses	$ 2,903,363	$ 3,135,309
Insurance and reinsurance balances payable	72,234	33,838
Accounts payable, accrued expenses and other liabilities	22,888	12,656
Payable for investments purchased	-	8,517
Long term subordinated debt	70,500	70,500
Loans payable	9,811	80,465
Due to affiliates	25,393	26,719
Total liabilities	3,104,189	3,368,004
Shareholder's equity		
Ordinary shares *($60 par value; 50,000 shares authorized; 50,000 issued and outstanding)*	3,000	3,000
Additional paid-in capital	519,679	519,679
Retained earnings	248,700	322,195
Accumulated other comprehensive income (loss)	101,929	17,214
Total Catalina General Insurance Ltd. shareholder's equity	873,308	862,088
Non-controlling interest	57,841	46,615
Total shareholder's equity	931,149	908,703
Total liabilities and shareholder's equity	$ 4,035,338	$ 4,276,707

The accompanying notes are an integral part of these consolidated financial statements

CATALINA GENERAL INSURANCE LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS
For the years ended December 31, 2020 and 2019
(Expressed in thousands of U.S. dollars)

	2020	2019
Revenues		
Net premiums earned	$ 351	$ 1,345
Net losses and loss expenses	(32,776)	7,242
Commissions	(51)	(235)
Net run-off (loss) income	(32,476)	8,352
Net investment income	52,270	46,922
Net (losses) gains on investments	(41,650)	49,329
Rental income	21,135	10,271
Net foreign exchange losses	(33,187)	(9,252)
Gains on sale of real estate	45,995	3,465
General and administrative expenses	(23,898)	(18,298)
Interest expense	(11,151)	(10,986)
(Loss) income before income taxes	(22,962)	79,803
Income tax (expense) credit	(5,039)	117
Net (loss) income	$ (28,001)	$ 79,920
Net income attributable to non-controlling interest	(10,494)	(1,178)
Net (loss) income attributable to Catalina General Insurance Ltd.	$ (38,495)	$ 78,742

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the years ended December 31, 2020 and 2019
(Expressed in thousands of U.S. dollars)

	2020	2019
Net (loss) income attributable to Catalina General Insurance Ltd.	$ (38,495)	$ 78,742
Other comprehensive income before and net of tax:		
Foreign currency translation adjustments	12,235	1,475
Unrealized gains on available for sale securities	72,480	15,887
Other comprehensive income, before and net of tax	84,715	17,362
Comprehensive income	$ 46,220	$ 96,104

The accompanying notes are an integral part of these consolidated financial statements

CATALINA GENERAL INSURANCE LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY
For the years ended December 31, 2020 and 2019

(Expressed in thousands of U.S. dollars except for share and per share amounts)

	2020	2019
Share capital – Ordinary shares of par value $60 each		
Balance at beginning and end of year	$ 3,000	$ 3,000
Additional paid-in capital		
Balance at beginning of year	519,679	314,679
Contribution during the year	-	205,000
Balance at end of year	519,679	519,679
Retained earnings		
Balance at beginning of year	322,195	244,803
Impact of consolidating Catalina Oxenwood European Investment Ltd	-	(1,350)
Distributions	(35,000)	-
Net (loss) income attributable to Catalina General Insurance Ltd	(38,495)	78,742
Balance at end of year	248,700	322,195
Accumulated other comprehensive (loss) income		
Balance at beginning of year	17,214	(148)
Other comprehensive gain	84,715	17,362
Balance at end of year	101,929	17,214
Non-controlling interest		
Balance at beginning of year	46,615	22,196
(Decrease) Increase in non-controlling interest	(1,732)	22,978
Net income attributable to non-controlling interest	10,494	1,178
Foreign currency translation adjustment	2,464	263
Balance at end of year	57,841	46,615
Total shareholder's equity	$ 931,149	$ 908,703

The accompanying notes are an integral part of these consolidated financial statements

CATALINA GENERAL INSURANCE LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2020 and 2019
(Expressed in thousands of U.S. dollars)

	2020	2019
Cash flows (used in) provided by operating activities		
Net (loss) income	$ (28,001)	$ 79,920
Adjustments to reconcile net income to net cash (used in) provided by operating activities		
Net gains on sale of real estate	(45,995)	(3,465)
Depreciation of property and equipment	126	2,305
Amortization of net discounts on investments	(6,111)	1,826
Net losses (gains) on investments	41,650	(49,311)
Premiums received through loss portfolio transfer	-	777,401
Changes in assets and liabilities:		
Accrued investment income	3,709	(6,162)
Funds held by cedants and claims administrator	12,787	(650)
Outstanding losses and loss expenses recoverable	73,809	(211,706)
Insurance and reinsurance balances receivable	24,467	(77,438)
Other assets (Note 6)	47,202	(31,378)
Outstanding losses and loss expenses	(231,947)	121,415
Insurance and reinsurance balances payable	38,396	(28,145)
Accounts payable, accrued expenses and other liabilities	1,715	1,201
Due to affiliates	(1,325)	7,991
Net cash (used in) provided by operating activities	(69,518)	583,804
Cash flows provided by (used in) investing activities		
Purchases of investments	(1,113,262)	(2,704,946)
Proceeds from sale or maturity of investments	1,424,243	1,956,046
Investment in affiliates	(1,415)	(2,985)
Proceeds from sale of investment in affiliates	-	500
Investment in real estate	(130,531)	(156,460)
Proceeds from sale of real estate	-	14,080
Net cash provided by (used in) investing activities	179,035	(893,765)
Cash flows provided by financing activities		
Distributions to parent	(35,000)	-
Capital contribution from parent	-	205,000
Proceeds from loans and other borrowings	53,365	31,791
Net cash provided by financing activities	18,365	236,791
Effect of exchange rate changes	(28,589)	(36,698)
Increase (decrease) in cash, cash equivalents, restricted cash, and restricted cash equivalents	99,293	(109,868)
Cash, cash equivalents, restricted cash, and restricted cash equivalents at beginning of year	110,643	220,511
Cash, cash equivalents, restricted cash, and restricted cash equivalents at end of year	$ 209,936	$ 110,643
Supplemental information:		
Interest paid	$ 6,783	$ 10,672
Taxes paid	$ 74	$ 9
Reconciliation to consolidated balance sheet:		
Cash and cash equivalents	79,231	44,711
Restricted cash and cash equivalents	130,705	65,932
Cash, cash equivalents and restricted cash	$ 209,936	$ 110,643

The accompanying notes are an integral part of these consolidated financial statements

1. Description of business

Catalina General Insurance Ltd. (“CatGen” or the “Company”), is a wholly owned subsidiary of Catalina Alpha Ltd. (“Catalina Alpha”), licensed as a Class 3B general business insurer and Class C long-term insurer. The Company’s ultimate parent is Catalina Holdings (Bermuda) Ltd. (“CHBL”), a company incorporated in Bermuda.

CatGen reinsures related parties and third parties through quota share, facultative and excess of loss reinsurance agreements and loss portfolio transfer agreements covering property, casualty, motor, aviation, marine and other risks. The Company also has reinsurance arrangements that limit its exposure to certain contracts on a per occurrence and aggregate basis. The Company (via Alea (Bermuda) Ltd (“Alea”)) also wrote life insurance policies in Europe and structured settlement contracts in Canada. The Company’s current license issued by the BMA precludes it from writing any new business without permission from the BMA.

From 2015, CHBL restructured its subsidiaries to create capital and administrative efficiencies across the group, which resulted in the following changes:

The four regulated entities in Bermuda, Quanta Reinsurance Ltd. (“Quanta”), Catalina Safety Reinsurance Ltd. (“Catalina Safety”), Alea and CatGen were amalgamated with CatGen being the surviving entity retaining its Class 3A license and assuming the class C long-term license from Alea. Quanta, Catalina Safety and CatGen were amalgamated effective September 30, 2015. Alea and CatGen were amalgamated effective December 15, 2015.

On August 6, 2016, the Company assumed by way of a 65% Quota-Share Reinsurance Agreement, a portfolio reinsurance business in run-off from Catalina Insurance Ireland dac (“CII”), an indirect wholly owned subsidiary of CHBL. CatGen assumed gross reserves of £120.3 million ($156.8 million) for consideration of the same amount.

Effective June 30, 2019, the quota share agreement was amended, increasing the 65% to 100% for the long term liabilities only. The long-term liabilities comprise of Periodic Payment Orders (“PPO”) assumed via the Quinn Insurance Ltd. portfolio and annuity claims assumed via a Germany Medical Malpractice portfolio from Zurich Insurance Plc (“Zurich”). The additional consideration for this transaction was €40.7 million ($45.5 million). This amendment was approved by the BMA on December 20, 2019.

On December 17, 2018, the Company, together with affiliated company Catalina London Limited (“Catalina London”), signed a definitive agreement with Zurich under which the majority of Zurich’s UK employers liability policies for 2006 and prior underwriting years were reinsured by the Company. The transaction comprises of two stages. Initially a reinsurance of relevant policies from Zurich to the Company followed by an Irish Section 13 insurance business transfer of liabilities to Catalina London. The first stage of the transaction closed on June 25, 2019. The Regulatory approval for this stage of the transaction was obtained from the BMA on April 18, 2019.

On May 10, 2017, an affiliated company, Catalina Worthing Insurance Limited (“CWIL”) entered into a 100% Quota-Share Reinsurance Agreement with the Company to reinsure its entire book of business, net of any inuring reinsurance. CatGen assumed gross reserves of £550.9 million ($713.4 million), net reserves of £420.6 million ($544.6 million), and receivables of £13.5 million ($17.5 million), payables of £30.6 million ($39.7 million) for a total consideration of £449.1 million ($581.5 million). The transaction was approved by the Prudential Regulation Authority and the BMA.

On December 29, 2017, the Company signed a definitive agreement with Arch Reinsurance Ltd., to reinsure a portfolio of U.S. construction defect and general liabilities through a loss portfolio transfer agreement (“Arch LPT”). CatGen assumed net reserves of $305.5 million inclusive of ULAE of $16.6 million for a total net consideration of $268.7 million. Regulatory approval for this transaction was obtained from the BMA on April 9, 2018 and the transaction closed on April 20, 2018.

On November 6, 2017, CII signed a definitive agreement with Zurich under which a portfolio of German legacy medical malpractice liabilities in run-off was transferred to CII. CII transferred 65% of these liabilities amounting to €192.4 million ($237.0 million) for a consideration of €194.0 million ($239.0 million) via the Quota-Share Reinsurance Agreement between CII and CatGen. The BMA approved this transaction on February 28, 2018 and the transaction closed in March 2018.

2. Significant accounting policies

Basis of presentation

The accompanying consolidated financial statements have been prepared on a going concern basis and in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities reported at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the year. While management believes the amounts included in the consolidated financial statements reflect management's best estimates and assumptions, the actual results could ultimately be materially different from the amounts currently provided for in the consolidated financial statements. The Company's principal estimates relate to the development or determination of the following:

- reserves for outstanding losses and loss expenses liabilities;
- reinsurance recoverable on unpaid losses and loss adjustment expenses;
- valuation of investments and determination of hierarchical inputs used to measure fair value of investments;
- provisions for litigation and other contingent liabilities;
- impairment charges for reinsurance balances recoverable; and
- allowances on insurance and reinsurance balances receivable.

The Company's consolidated financial statements include the financial statements of the Company and all of its subsidiaries in which it owns, directly or indirectly through subsidiaries, over fifty percent of the voting rights or is in a position to govern the financial and operating policies of the entity. All significant balances and transactions among related companies have been eliminated on consolidation. The results of subsidiaries acquired are included from the dates of their acquisition by the Company.

Premiums

The Company wrote insurance policies and reinsurance contracts prior to entering into run-off. With the exception of retroactive reinsurance agreements, the Company no longer writes new policies or contracts but premiums continue to be earned over the terms of the associated insurance policies and reinsurance contracts in proportion to the amount of insurance protection provided. The term of the insurance or reinsurance coverage provided may be cancelled by the insured or ceding company resulting in a return of written premium.

Profit commission accruals are recorded as commission expenses and are adjusted at the end of each year based on the experience of the underlying contract.

Ceded reinsurance or retrocessional coverage is used to limit the Company's individual and aggregate exposures to risks of losses arising from contracts of insurance or reinsurance. Reinsurance premiums ceded to reinsurers are recorded and earned in a manner consistent with that of the original contracts or policies written and the terms of the reinsurance agreements.

Assumed premiums on life insurance contracts are recognized as revenue when payable by the policyholder on underlying reinsurance policies. Premiums collected by intermediaries but not yet received are assessed based on estimates from underwriting or past experience and are included in premium revenue.

2. Significant accounting policies (continued)

Retroactive reinsurance

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

Consideration received in excess of estimated liabilities assumed with respect to retroactive reinsurance contracts is recognized as deferred gain at inception of such contracts. Deferred gains are subsequently amortized using the interest method over the expected claims settlement period. Changes to the estimated timing or amount of loss payments produce changes in periodic amortization. Changes in such estimates are applied retrospectively and are included within net income in the year in which such changes are made. Deferred gains are reported within outstanding losses and loss expenses in the consolidated balance sheets and deferred gain amortization is recognized within net losses and loss expenses in the consolidated statements of operations.

A deferred charge is recognized at the inception of such contracts where the estimated liabilities assumed exceed the consideration received. Deferred charges are subsequently amortized using the interest method over the expected claims settlement period. Changes to the estimated timing or amount of the loss payments produce changes in periodic amortization. Changes in such estimates are applied retrospectively and are included within net income in the year in which such changes are made. Deferred charges are reported within outstanding losses and loss expenses in the consolidated balance sheets and deferred charge amortization is recognized within net losses and loss expense in the consolidated statements of operations.

Deferred charges are assessed at each year end for impairment. If the asset is impaired, it is written down in the year in which the determination is made.

Outstanding losses and loss expenses

The Company establishes reserves for outstanding losses and loss expenses for estimates of future amounts to be paid in settlement of its ultimate liabilities for claims arising under its contracts of insurance and reinsurance that have occurred at or before the consolidated balance sheet date. The estimation of ultimate loss and loss expense liabilities is a significant judgment made by management and is inherently subject to significant uncertainties.

The Company's loss reserves fall into two categories; case reserves for reported losses and loss expenses (“case reserves”) and reserves for losses and loss expenses incurred but not reported (“IBNR reserves”). Case reserves are based initially on claim reports received from insureds, brokers or ceding companies, and may be supplemented by the Company's claims professionals with estimates of additional ultimate settlement costs. IBNR reserves are estimated by management using generally accepted statistical and actuarial techniques and are reviewed by independent actuaries. In applying these techniques, management uses estimates as to ultimate loss emergence, severity, frequency, settlement periods and settlement costs. In making these estimates, the Company relies on the most recent information available, including industry information, and on its own historical loss and loss expense experience.

Management believes the Company’s reserving techniques represent a reasonable basis for estimating ultimate claim costs and that the outstanding losses and loss expenses are sufficient to cover claims from losses occurring up to the consolidated balance sheet date; however, ultimate losses and loss expenses may be subject to significant volatility as a result of significant uncertainties. These uncertainties are driven by many variables that are difficult to quantify. These uncertainties
include for example, the period of time between the occurrence of an insured loss and actual settlement, fluctuations in inflation, prevailing economic, social and judicial trends, legislative changes, internal and third party claims handling procedures and the lack of complete historical data on which to base loss expectations. Accordingly, ultimate liabilities may differ materially from the amounts recorded in the consolidated financial statements.

2. Significant accounting policies (continued)

The Company regularly reviews and adjusts its reserve estimates and reserving methodologies taking into account current information. Outstanding losses and loss expenses are adjusted as claim experience develops and new information becomes available. Any adjustments to previously established reserves may significantly impact net income and will be recorded in the period in which they are determined.

Reinsurance recoverable

The Company estimates outstanding loss and loss expenses recoverable using methodologies and assumptions consistent with those used in estimating reserves for losses and loss expenses. The estimation of outstanding loss and loss expenses recoverable is a significant judgment made by management and is inherently subject to significant uncertainties. The Company establishes allowances for amounts recoverable that are considered potentially uncollectible from its reinsurers. The valuation of this allowance for uncollectible reinsurance recoverable includes a review of the credit ratings of the reinsurance recoverables by reinsurer, an analysis of default probabilities as well as identifying whether or not coverage issues exist. These factors require management judgment and the impact of any adjustments to those factors is reflected in net income in the year that the adjustment is determined. The Company is subject to credit risk with respect to the reinsurance ceded because the ceding of risk does not relieve the Company from its original obligations to its insureds.

Commutations

As the Company actively runs off it seeks to mitigate its exposures through early settlement of its obligations to policyholders or ceding companies by entering into commutations or other arrangements.

These negotiated commutation agreements eliminate the risk of adverse claim experience as they provide for full and final settlement of all current and future policy obligations with respect to the transaction to which they relate. Gains and losses on commutations are recorded as either a decrease or an increase in incurred claims in the consolidated statements of operations.

The Company also enters into commutations with its reinsurers, assuming the reinsurers share of the obligations when the economic benefits are in excess of the additional exposures assumed.

Life contracts

Life contracts comprise of traditional life savings business assumed through coinsurance and modified coinsurance reinsurance contracts. They have all been in run-off for several years although many have recurring premiums. Liabilities for life reinsurance contracts are booked at the amounts reported by the ceding companies. The Company estimates the policy benefits for the life and annuity contracts using standard actuarial techniques and cash flow models. Policy benefits are reviewed annually and the Company performs a liability adequacy test based on cash flow projections. Since estimating the policy benefits depends on cash flow projection, the Company makes assumptions based on experience and industry mortality tables, longevity, morbidity rates, lapse rates, expenses and investment experience including provision for adverse deviation. The assumptions used are locked in throughout the life of the contract unless a premium deficiency develops. The assumptions are reviewed annually and unlocked if it results in material adverse development. The estimates are established based on information provided by the ceding companies, contract specific historical experience and industry experience.

The policy benefits are maintained at a level that, when taken together with future premium payments and investment income, are expected to be sufficient to cover policyholder obligations as they fall due. Provision is made where current best estimates of future contractual cash flows arising from the contracts are expected to exceed the policy obligations net of premiums receivable. Investment income from the assets supporting the liabilities is taken into account when calculating such provision. The assessment of whether an additional provision needs to be booked is based on information available after offsetting the surpluses and deficits arising on contracts within the life portfolio. Any deficiency is charged to the statement of operations by establishing a provision for losses arising from the liability adequacy test for the unexpired risk portion. The amount of the provision depends on the risk adjusted returns available on assets designated to support life contract liabilities.

2. Significant accounting policies (continued)

Structured settlements

Included within outstanding losses and loss expenses and outstanding losses and loss expenses recoverable in the consolidated balance sheets are amounts related to structured settlements. The Company, through its Canadian branch, has assumed ownership of certain structured settlements and has purchased annuities from life insurance companies to provide fixed and recurring payments to the claimants. The Company remains responsible to the claimants in the case of non-performance by the life insurance companies. The assets and liabilities related to the structured settlement contracts are booked at the amounts reported by the life insurance companies as management believes this to be the best available estimate of the obligations under these contracts.

Investments, cash and cash equivalents

Cash and cash equivalents

Cash equivalents include highly liquid instruments such as liquidity funds, money market funds and other time deposits with commercial banks and financial institutions which have original maturities of less than three months. See Note 9(b) in relation to concentrations of credit risk. Restricted cash and cash equivalents are separately reported in the consolidated balance sheets at December 31, 2020 and 2019.

Investments

The Company holds trading portfolios of fixed maturities, other investments and equities which are recorded at fair value.

Fixed maturity investments

The Company also holds available-for-sale portfolios. As at December 31, 2020, the available for sale portfolio consists of fixed maturities. These securities are recorded at fair value, adjusted for any impairment in fixed maturities, deemed “other than temporary”.

Subsequent changes to the fair value of trading securities are recorded within net gains (losses) on investments in the consolidated statements of operations. Subsequent changes in the fair value of fixed maturity securities held as available for sale are included as a component of accumulated other comprehensive income.

Purchases and sales of investments are recorded on a trade date basis. Realized and unrealized gains and losses on sales of investments are determined on a first-in, first-out basis and are shown within net gains (losses) on investments in the consolidated statements of operations. Net investment income is recognized when earned, includes interest and dividend income, together with amortization of market premiums and discounts using the effective yield method, and is presented net of investment management fees.

Mortgage loans

The Company invests in mortgage loans, which are primarily mezzanine loans, and has one senior loan as of December 31, 2020. Mortgage loans are classified within other assets on the consolidated balance sheets and carried at amortized cost. The loans are subject to impairment testing. If it is determined impairment is necessary, the amount between carrying value and fair value is recorded within the consolidated statement of operations.

Derivatives

The Company’s derivative instruments are recorded at fair value within accounts payable, accrued expenses and other liabilities (or other assets if positive) in the consolidated balance sheets. Changes in the fair value of derivatives are recognized in the consolidated statements of operations, apart from changes in fair value of derivatives designated as cash flow hedging instruments which are reflected in the consolidated statements of comprehensive income.

2. Significant accounting policies (continued)

Derivative financial instruments derive their value from the underlying instrument and are subject to the same risks as that underlying instrument, including liquidity, credit, and market risk. Derivative financial instrument transactions which are not designated as hedging instruments are recorded on the trade date and are reported at fair value with the resulting unrealized gains and losses reflected in the consolidated statements of operations during the year. Derivative financial instrument transactions which are designated as hedging instruments are recorded on the trade date and are reported at fair value with the resulting unrealized gains and losses reflected in the consolidated statements of comprehensive income during the year. Open futures contracts are valued using the settlement value on the relevant exchange and open foreign exchange contracts are valued using exchange rates quoted by a third-party pricing service and are classified as Level 2.

Derivative financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheets only to the extent there is a legally enforceable right-of-offset and there is an intention to settle on a net basis, or to realize the assets and liabilities simultaneously. Derivative financial assets and liabilities are derecognized when the Company has transferred substantially all of the risks and rewards of ownership or the liability is discharged, cancelled, or expired.

Equity securities

Equity securities include exchange traded funds, mutual funds, common stocks and preferred stocks. Exchange traded debt and equity funds, common stocks and preferred stocks are classified within Level 1 as the fair values are based on quoted market prices in active markets. Certain convertible bond and multi-asset funds with daily liquidity and redemption values based on the net asset value of the fund are classified within Level 2. The policy for all equity securities classified within Level 3 has been described under other investments below.

Other investments

Other investments consist of non-traditional, not readily marketable investments, some of which may be structured as offshore limited partnerships, hedge funds, private equity, private equity funds, private debt, corporate debt, debt funds, commercial real estate funds, common trust funds, and venture capital funds. The underlying investments of such funds, whether invested in stock or other securities, are carried at their estimated fair value, however they are generally not currently traded in a public market and typically are subject to restrictions on resale. Such fair values are estimated by investment managers and general partners of underlying securities that are thinly traded or not traded in an active market may be based on historical cost, appraisals, a review of the investees' financial results, financial condition and prospects, together with comparisons to similar companies for which quoted market prices are available or other estimates that require varying degrees of judgment.

The fair values of hedge funds, limited partnerships, private equity, private equity funds, debt funds and certain commercial real estate funds have been estimated using the Net Asset Value ("NAV") of the funds reported by the entities responsible for administering the funds, where possible. In the absence of such information the assets are valued based on management's review and judgement of such assets. As a result of the inherent uncertainty of valuation, the estimated fair value may differ materially from the value that would have been used had a ready market existed for these investments. The actual value at which these securities could be sold or settled with a willing buyer or seller may differ from the Company's estimated fair values depending on a number of factors including, but not limited to, current and future economic conditions, the quantity sold or settled, the presence of an active market and the availability of a willing buyer or seller.

The Company adopted ASU 2015-07, "Disclosures for Investments in Certain Entities that Calculate Net Asset Value or its Equivalent" for investments in investment funds where fair value is measured using NAV as a practical expedient, by removing the presentation of these investments from the fair value hierarchy.

Other investments such as private debt, corporate debt and certain commercial real estate funds are reported at the lower of NAV or fair value. The carrying value of these investments approximate their fair values given the short duration and low credit risk.

2. Significant accounting policies (continued)

Investments pending settlement include receivables and payables from unsettled trades due from/to counterparties. 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. Receivables from unsettled trades are included in other assets, and payables from unsettled trades are included in accounts payable, accrued expenses and other liabilities, in the consolidated balance sheets.

Investments classified as available-for-sale are reviewed monthly to identify if there are indications that a valuation below cost is believed to be other than temporarily impaired. In order to establish indicators for review, information specific to each security is analyzed from market sources with input from management and specialists. The process performed using the securities data includes, but is not limited to, distressed market process, near or actual default, bankruptcy filings, ratings changes and agency outlooks for the security issuer. Results are summarized on a watchlist and reviewed each month. The results of the review are agreed on and any actions or mitigation strategies are to be undertaken which can include, but is not limited to, increased monitoring, selling of the asset or marking down the asset to a revised fair value.

Recognition of these impairment actions are included within the consolidated statement of operations. In the case of material market volatility or other significant events, the watchlist may be updated on a more frequent basis than monthly. Upon adoption of the current expected credit losses methodology in future periods, only the credit component of impairment will be recognized in earnings, while the non-credit aspect will be included within other comprehensive income.

Fair Value Measurements

Fair value is defined as the price to sell an asset or transfer a liability (i.e. the “exit price”) in an orderly transaction between market participants. Assets and liabilities recorded at fair value in the consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair value. An asset or a liability’s categorization within the fair value hierarchy is based on the lowest level of input that is significant to its valuation. The hierarchy is broken down into three levels as follows:

- Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these assets and liabilities does not entail a significant degree of judgment.

- Level 2 – Valuations based on quoted prices in active markets for similar assets or liabilities, quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.

- Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement. These are generally company generated inputs and are not market based inputs.

Investment in affiliates

The Company considers the percentage of voting rights as well as factors such as Board representation and participation in the decision making process in determining the method of accounting for an investment in another entity. As a general rule, if the Company holds 20% or greater but less than 50% of the shares, unless there is evidence to the contrary, it is assumed to have significant influence over the operating activities of that entity. These companies are accounted for under the equity method of accounting and presented under the “Investment in Affiliates” caption in the balance sheet. As a general rule, if the Company holds 50% or more of the shares of another entity, it is deemed to have control over the operating activities of that entity, and is therefore consolidated.

As at December 31, 2020, the Company held 46.1% of the shares in Catalina ORE Ltd. (“CORE”), which was set up as an intermediate holding company for CHBL and its subsidiaries to invest in commercial real estate via Oxenwood Capital LP and Oxenwood Real Estate Capital LP. During the year, the Company increased its ownership in CORE to 46.1% from 41.6% in the prior year. The investment is carried at its equity value and is presented under investment in affiliates.

2. Significant accounting policies (continued)

Investments in real estate

As at December 31, 2020, the Company held 85.5% of Catalina Oxenwood Investments Ltd. ("COIL") which was set up as an intermediate holding company for CHBL and its subsidiaries to invest in commercial real estate, via Oxenwood Catalina Limited ("Oxenwood I"), Oxenwood Catalina II Limited ("Oxenwood II"), and OXW Catalina UK Limited ("Oxenwood UK"), Guernsey incorporated companies, to generate returns from rental income and capital appreciation. COIL owned 95% of the shares of Oxenwood I and Oxenwood II, and 98.5% of the shares of Oxenwood UK.

During the year, the Company increased its ownership of COIL to 85.5% from 79.9% in the prior year. This has resulted in the Company increasing its indirect shareholding to 84.3% in Oxenwood UK.

As at December 31, 2020, the Company held 69.6% of the shares in Catalina Oxenwood European Investments Ltd. ("COEIL"), which was set up as an intermediate holding company for CHBL and its subsidiaries to invest in commercial real estate via Oxenwood Catalina III Limited ("Oxenwood III") to generate returns from rental income and capital appreciation. The Company's indirect shareholding in Oxenwood III via COEIL was 68.5%.

As at December 31, 2020, the Company held 99.3% of the shares in Catalina Oxenwood Real Estate II Ltd. ("CORE II"), which was set up as an intermediate holding company for CHBL and its subsidiaries to invest in commercial real estate via OXW Capital LP, Oxenwood Real Estate LLP (purchased from CORE) and OXW Partners LP. CORE II owns 67% of each of these three entities. CORE II is consolidated by the Company.

As at December 31, 2020, the Company held 100% of the shares of Propco (Newport) Limited ("Newport"). This company owns a building which generates returns through rental income and capital appreciation. It is consolidated by the Company.

The Company invests in commercial real estate through Newport, COIL and COEIL to generate returns via rental income and capital appreciation.

The income from operating leases is recognized as rental income as per the terms of the leases.

The real estate acquired is recorded at cost less accumulated depreciation for the depreciable assets. The cost includes all acquisition costs directly identifiable with the purchase of the real estate. The Company splits the acquisition cost of each real estate asset between land and buildings based on management's judgement. The buildings are comprised primarily of warehouses used to store goods. These buildings are depreciated over an estimated useful life of 40 years on a straight-line basis. The Company will assess its real estate for impairment when circumstances indicate the carrying value of the property may not be recoverable. The review will be based on the estimate of future undiscounted cash flows, excluding interest charges expected to result from the use and eventual disposal.

Other assets and liabilities

The fair value of investment purchases and sales pending settlement, funds held by cedants and claim administrators, insurance and reinsurance balances receivable, insurance and reinsurance balances payable, accounts payable, accrued expenses and other liabilities and loans payable approximate their carrying value due to the immediate or short-term maturity of these financial instruments.

Long term subordinated debt

Long term subordinated debt instruments issued by the Company are carried at amortized cost. Debt issuance costs are presented as a direct deduction from the related liability in the consolidated balance sheets. Amortization of debt issuance costs is included in interest expense in the consolidated statements of operations. Please refer to Note 8.

Oxenwood III has issued mezzanine debt to its affiliates. Please refer to Notes 8 and 13.

2. Significant accounting policies (continued)

Foreign currency translation

The U.S. dollar is the functional currency of the Company. All foreign currency asset and liability amounts are translated into U.S. dollars at end-of-year exchange rates. Foreign currency income and expenses are translated at average exchange rates in effect during the year. Exchange gains and losses arising from the translation of foreign currency-denominated monetary assets and liabilities are included in the consolidated statements of operations. Available-for-sale securities are recorded at fair value with resulting gains and losses, including the portion attributable to movements in exchange rates, included in the change in net unrealized gains on available-for-sale investments, net of taxes within other comprehensive income. The effects of the currency translation adjustments for entities whose functional currency is not the U.S. dollar are included within foreign currency translation adjustments in the consolidated statements of comprehensive income.

Legal expenses

In the event of a dispute in the ordinary course of business, the Company expenses legal costs on an accrual basis. In the event of a specific litigation, when it is reasonably probable that the legal costs are going to be incurred, the Company accrues legal costs in line with the estimated incurred expenses.

New accounting standards adopted

ASU 2018-13, Fair Value Measurement

In August 2018, the FASB issued ASU 2018-13, which amends the fair value measurement disclosure framework in Subtopic 820. This ASU is effective for years beginning after December 15, 2019, however the amendment allows for early adoption and a retrospective transition is required. The ASU has had an impact on the Company's disclosures but not on the consolidated statement of operations, consolidated balance sheets or cash flows.

ASU 2017-12 and ASU 2018-16, Derivatives and Hedging

In August 2017, the FASB issued ASU 2017-12, and ASU 2018-16 in October 2018, which amends the hedge accounting recognition and presentation requirements in ASC 815 Derivatives and Hedging. The guidance enables entities to better portray the economics of risk management activities in the financial statements and enhance the transparency and understandability of hedge results. The guidance also reduces the complexity of the application of hedge accounting. The standard update is effective for annual periods beginning after December 15, 2019. This ASU did not have a material impact on the Company's consolidated financial statements.

ASU 2017-11, Earnings Per Share, Distinguishing Liabilities from Equity, Derivatives and Hedging

In November 2017, the FASB issued ASU 2017-11, which amends the accounting for certain financial instruments with down round features. The amendments in the update change the classification of certain equity-linked financial instruments (or embedded features) with down round features. The amendments also clarify existing disclosure requirements for equity-classified instruments. For freestanding equity-classified financial instruments, the amendments require entities that present earnings per share (EPS) in accordance with Topic 260, Earnings Per Share, to recognize the effect of the down round feature when it is triggered. That effect is treated as a dividend and as a reduction of income available to common shareholders in basic EPS. The accounting for down round features is effective for annual periods beginning after December 15, 2019. This ASU did not have an impact on the Company's consolidated financial statements.

ASU 2017-08, Premium Amortisation on Purchased Callable Debt Securities

In March 2017, the FASB issued ASU 2017-08, which shortens the amortization period for certain purchased callable debt securities held at a premium as the new guidance requires that the premium on callable debt securities be amortized through the earliest call date rather than through the maturity date. The standard update is effective for annual periods beginning after December 15, 2019. The adoption of this guidance has not had a material impact on the consolidated financial statements and disclosures.

2. Significant accounting policies (continued)

Recently issued accounting standards not yet adopted

ASU 2019-12, Simplifying the Accounting for Income Taxes

In December 2019, the FASB issued ASU 2019-12, which amends the scope of Topic 740 via simplication to the accounting for income taxes. The standard is effective for annual periods beginning after December 15, 2021. The Company does not expect the ASU to have a material impact on the consolidated financial statements and disclosures.

ASU 2019-08, Stock Compensation and Revenue from Contracts with Customers

In December 2019, the FASB issued ASU 2019-08, which amends the scope of Topic 718 via clarification to the accounting for share-based payments issued as consideration payable to a customer in accordance with ASC 606. Under the ASU, entities apply the guidance in ASC 718 to measure share-based payments issued to a customer that are not in exchange for a distinct good or service (i.e., share-based sales incentives). The standard is effective for annual periods beginning after December 15, 2020. The Company does not expect the ASU to have a material impact on the consolidated financial statements and disclosures.

ASU 2018-12, and ASU 2019-09, Financial Services - Insurance

In August 2018, the FASB issued ASU 2018-12, 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, 2023. The Company does not expect the ASU to have a material impact on the consolidated financial statements and disclosures.

ASU 2018-17, Targeted Improvements to Related Party Guidance for Variable Interest Entities

In October 2018, the FASB issued ASU 2010-17, which amends Topic 810 via improvements to variable interest entity guidance to private companies under common control. The standard update is effective for annual periods beginning after December 15, 2020. The ASU may have an impact on the Company’s disclosures but not on the consolidated statement of operations, consolidated balance sheets or cash flows.

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

In June 2016, the FASB issued ASU 2016-13, in November 2018 the FASB issued ASU 2018-19, in April 2019 the FASB issued ASU 2019-04, in May 2019 the FASB issued ASU 2019-05, in October 2019 the FASB issued ASU 2019-10, and in November 2019 the FASB issued 2019-11. These standards require 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 recognize 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 standard update is effective for annual periods beginning after December 15, 2022. The Company does not expect the ASU to have a material impact on the consolidated financial statements and disclosures.

ASU 2016-02, ASU 2018-01, ASU 2018-10, ASU 2018-11, ASU 2018-20, and ASU 2019-01 Leases

In February 2016, the FASB issued ASU 2016-02, in January 2018 the FASB issued ASU 2018-01, in December 2018 the FASB issued ASU 2018-20, and in July 2018 the FASB issued ASU 2018-10, Codification Improvements to Topic 842, Leases, ASU 2018-11, Leases, and in March 2019 the FASB issued ASU 2019-01. ASU 2016-02 requires lessees to recognize operating leases on balance sheet through a lease asset and a related financial liability. It is effective for annual periods beginning after December 15, 2020. The Company expects a lease asset and related liability to be presented on the consolidated balance sheets; however, the consolidated statements of operations and cash flows will remain unchanged.

(Expressed in thousands of U.S dollars except for share amounts, or as otherwise stated)

3. Investments

Trading Securities

The fair value of fixed maturity, equity and other investments as of December 31, 2020 and 2019 are as follows:

	2020	2019
Fixed maturities:		
Corporate	$ 217,408	$ 373,770
Asset-backed securities	171,210	316,001
Mortgage-backed securities	33,467	118,349
U.S. government and agency	7,660	110,717
Non-U.S. governments	65,822	86,150
Municipals	1,939	3,733
Total fixed maturities	497,506	1,008,720
Equity securities:		
Preferrred & common stocks	6,388	63,691
Total equities	6,388	63,691
Other Investments:		
Hedge funds	7,764	26,162
Private equity	53,397	100,555
Corporate debt	-	30,458
Commercial real estate debt funds	14,536	207,310
Debt funds	177,002	14,789
Total other investments	252,699	379,274
Total investments	$ 756,593	$ 1,451,685

Contractual maturities of the Company's fixed maturities as of December 31, 2020 are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Contractual maturities	2020
Fixed maturities:	
Due in one year or less	$ 26,591
Due after one year through five years	112,770
Due after five years through 10 years	113,494
Due after 10 years	39,974
Total	292,829
Mortgage and asset-backed securities	204,677
Total fixed maturities	$ 497,506

(Expressed in thousands of U.S dollars except for share amounts, or as otherwise stated)

3. Investments (continued)

Available-for-Sale Securities

The amortized cost, gross unrealized gains and losses, and the estimated fair value of securities classified as available-for-sale securities as of December 31, 2020 and 2019 are as follows:

At December 31, 2020	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed maturities:				
Corporate	$ 497,063	$ 63,629	$ (279)	$ 560,413
Asset-backed securities	196,243	12,587	(2,441)	206,389
Mortgage-backed securities	37,105	1,172	(835)	37,442
U.S. government and agency	68,429	29	(1,428)	67,030
Non-U.S. government	246,910	27,058	(2,179)	271,789
Municipals	881	67	-	948
Total fixed maturities	1,046,631	104,542	(7,162)	1,144,011
Total investments	$ 1,046,631	$ 104,542	$ (7,162)	$ 1,144,011

At December 31, 2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed maturities:				
Corporate	$ 380,807	$ 21,352	$ (972)	$ 401,187
Asset-backed securities	109,467	1,839	(572)	110,734
Non-U.S. government	193,347	1,726	(2,470)	192,603
Total fixed maturities	683,621	24,917	(4,014)	704,524
Total investments	$ 683,621	$ 24,917	$ (4,014)	$ 704,524

Proceeds from the sale of investments in available-for-sale securities during the year ended December 31, 2020 were $1,162 million (2019: $650.7 million).

A summary of the Company's available-for-sale securities as of December 31, 2020, by contractual maturity, is shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	2020	
Fixed maturities:	Amortized Cost	Fair Value
Due in one year or less	$ 7,157	$ 7,709
Due after one year through five years	106,984	114,914
Due after five years through 10 years	280,433	314,003
Due after 10 years	418,709	463,554
Total	813,283	900,180
Mortgage and asset backed securities	233,348	243,831
Total fixed maturities	$ 1,046,631	$ 1,144,011

(Expressed in thousands of U.S dollars except for share amounts, or as otherwise stated)

3. Investments (continued)

There were $Nil in OTTI charges related to the Company's fixed maturity securities for the year ended December 31, 2020 (2019: $Nil).

The table below summarizes the aggregate unrealized losses of the Company's available-for-sale securities by length of time the security has continuously been in an unrealized loss position as of December 31, 2020 and 2019.

At December 31, 2020	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed maturities:						
Corporate	$ 260,648	$ (41)	$ 299,765	$ (238)	$ 560,413	$ (279)
Asset-backed securities	92,542	(2,027)	113,847	(414)	206,389	(2,441)
Mortgage-backed securities	35,960	(835)	1,482	-	37,442	(835)
U.S. government and agency	67,030	(1,428)	-	-	67,030	(1,428)
Non-U.S. government	195,064	(2,179)	76,725	-	271,789	(2,179)
Municipals	948	-	-	-	948	-
Total fixed maturities	652,192	(6,510)	491,819	(652)	1,144,011	(7,162)
Total investments	$ 652,192	$ (6,510)	$ 491,819	$ (652)	$ 1,144,011	$ (7,162)

At December 31, 2019	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed maturities:						
Corporate	$ 401,187	$ (972)	-	-	$ 401,187	$ (972)
Asset-backed securities	110,734	(572)	-	-	110,734	(572)
Non-U.S. government	192,603	(2,470)	-	-	192,603	(2,470)
Municipals	-	-	-	-	-	-
Total fixed maturities	704,524	(4,014)	-	-	704,524	(4,014)
Total investments	$ 704,524	$ (4,014)	$ -	$ -	$ 704,524	$ (4,014)

There were 127 securities as at December 31, 2020 (2019: 247) that account for the gross unrealized loss, none of which is deemed by the Company to be OTTI. All unrealized loss positions are less than 12 months. As at December 31, 2020, the Company has determined that the unrealized losses on fixed maturity securities were primarily due to market interest rate movements since their date of purchase and no impairments were deemed necessary.

(Expressed in thousands of U.S dollars except for share amounts, or as otherwise stated)

3. Investments (continued)

Net Investment Income

The components of net investment income for the years ended December 31, 2020 and 2019 are derived from the following sources:

	2020	2019
Fixed maturities, including mortgage and asset-backed securities	$ 40,865	$ 39,605
Equities	146	1,705
Other investments	14,189	8,270
Cash and cash equivalents	416	1,543
Gross investment income	55,616	51,123
Investment expenses	(3,346)	(4,201)
Net investment income	$ 52,270	$ 46,922

Net Gains (Losses)

Net gains (losses) on investments within the consolidated statements of operations for the years ended December 31, 2020 and 2019 consisted of the following:

	2020	2019
Net realized (losses) gains on investments	$ (34,377)	$ 9,190
Net change in fair market value of investments	(7,273)	40,139
Net (losses) gains on investments	$ (41,650)	$ 49,329

4. Fair Value Measurements

Fair value is defined as the price to sell an asset or transfer a liability (i.e. the "exit price") in an orderly transaction between market participants. Assets and liabilities recorded at fair value in the consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair value. An asset or a liability's categorization within the fair value hierarchy is based on the lowest level of input that is significant to its valuation. The hierarchy is broken down into three levels as follows:

- Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these assets and liabilities does not entail a significant degree of judgment.

- Level 2 – Valuations based on quoted prices in active markets for similar assets or liabilities, quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.

- Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement. These are generally company generated inputs and are not market based inputs.

The Company used the following valuation techniques and assumptions in estimating the fair value of financial instruments as well as the general classification of such financial instruments pursuant to the above fair value hierarchy:

4. Fair Value Measurements (continued)

Fixed maturities

At each valuation date, the Company uses a market approach technique to estimate the fair value of the fixed maturities portfolios, where possible. This market approach includes, but is not limited to, prices obtained from third party pricing services and broker-dealers for identical or comparable securities.

When quoted market prices are unavailable, the pricing service prepares estimates of fair value measurements with its proprietary pricing applications, using observable market inputs such as yield curves, credit risks and spreads, measures of volatility, and expected cash flows, including prepayment speeds.

The following describes the significant inputs generally used to determine the fair value of fixed maturities by asset class:

- Corporate securities consist primarily of investment-grade debt of a wide variety of corporate issuers and industries. The fair values of these securities are determined using the spread above the risk-free yield curve, reported trades, broker-dealer quotes, benchmark yields, and industry and market indicators. These are considered observable market inputs and, therefore, the fair values of these securities are classified within Level 2. Private debt securities have been classified in Level 3 as the inputs used to determine their fair values are not considered to be observable. Where inputs are not observable, the Company uses an internal model and inputs include quotations from third party investment specialists, public comparisons and price-to-book ratios.

- Asset-backed securities consist primarily of investment-grade bonds backed by pools of loans with a variety of underlying collateral. The significant inputs used to determine the fair values of these securities includes the spread above the risk-free yield curve, reported trades, benchmark yields, broker-dealer quotes, expected cash flows including prepayment speeds, and default rates. These are considered observable market inputs and, therefore, the fair values of these securities are classified within Level 2. Privately placed asset-backed securities have been classified in Level 3 as the inputs used to determine the fair values of these securities are not considered to be observable. Where inputs are not observable, the Company uses an internal model and inputs include quotations from third party investment specialists, public comparisons and price-to-book ratios.

- Mortgage-backed securities include both agency and non-agency originated securities. The significant inputs used to determine the fair values of these securities include the spread above the risk-free yield curve, reported trades, benchmark yields, broker-dealer quotes, expected cash flows including prepayment speeds, and default rates. These are considered observable market inputs and, therefore, the fair values of these securities are classified within Level 2.

- U.S. government and agency securities consist of securities issued by the U.S. Treasury and mortgage pass through agencies such as the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and other agencies. The significant inputs 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

- Non-U.S. government securities consist of bonds issued by non-U.S. governments and agencies along with supranational organizations. The significant inputs 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.

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

(Expressed in thousands of U.S dollars except for share amounts, or as otherwise stated)

4. Fair Value Measurements (continued)

At December 31, 2020 and 2019, the Company's financial instruments measured at fair value were categorized between Levels 1, 2 and 3, with the exception of alternative investments that use NAV as a practical expedient. Alternative investments measured at NAV have been disclosed as a separate line item:

At December 31, 2020	Level 1	Level 2	Level 3	NAV	Total Fair Value
Assets					
Fixed maturities:					
Corporate	$ -	$ 777,821	$ -	$ -	$ 777,821
Asset-backed securities	-	370,748	6,851	-	377,599
Mortgage-backed securities	-	70,909	-	-	70,909
U.S. government and agency	-	74,690	-	-	74,690
Non U.S. government	-	337,611	-	-	337,611
Municipals	-	2,887	-	-	2,887
Total fixed maturities	-	1,634,666	6,851	-	1,641,517
Equity securities:					
Preferred and common stocks	5,277	1,111	-	-	6,388
Total equity securities	5,277	1,111	-	-	6,388
Other investments:					
Hedge funds	-	-	-	7,764	7,764
Private equity	-	-	2,328	51,069	53,397
Commercial real estate debt funds	-	-	-	14,536	14,536
Debt funds	-	8,965	-	168,037	177,002
Total other investments	-	8,965	2,328	241,406	252,699
Total assets	$ 5,277	$ 1,644,742	$ 9,179	$ 241,406	$ 1,900,604

At December 31, 2019	Level 1	Level 2	Level 3	NAV	Total Fair Value
Fixed maturities:					
Corporate	$ -	$ 766,286	$ 8,670	$ -	$ 774,956
Asset-backed securities	-	426,735	-	-	426,735
Mortgage-backed securities	-	118,349	-	-	118,349
U.S. government and agency	-	110,717	-	-	110,717
Non U.S. government	-	278,753	-	-	278,753
Municipals	-	3,733	-	-	3,733
Total fixed maturities	-	1,704,573	8,670	-	1,713,243
Equity securities:					
Common stocks	63,691	-	-	-	63,691
Total equity securities	63,691	-	-	-	63,691
Other investments:					
Hedge funds	-	-	-	26,162	26,162
Private equity	-	-	-	100,555	100,555
Corporate debt	-	-	30,458	-	30,458
Commercial real estate debt funds	-	-	218	14,572	14,790
Debt funds	-	-	-	207,310	207,310
Total other investments	-	-	30,676	348,599	379,275
Total assets	$ 63,691	$ 1,704,573	$ 39,346	$ 348,599	$ 2,156,209

(Expressed in thousands of U.S dollars except for share amounts, or as otherwise stated)

4. Fair Value Measurements (continued)

The following table presents a reconciliation of the beginning and ending balances for all financial instruments measured at fair value on a recurring basis using Level 3 inputs for the year ended December 31, 2020 and 2019.

		Other investments
Balance at beginning of year, January 1, 2019	$	41,139
Purchases		86,089
Sales		(8,882)
Net lossess		(155)
Transfers		(80,502)
Foreign exchange gains		1,657
Balance at end of year, December 31, 2019	$	39,346
Purchases		5,680
Sales		(20,728)
Net losses		(38,793)
Transfers		22,993
Foreign exchange gains		681
Balance at end of year, December 31, 2020	$	9,179

Transfers into and out of level 3 are recorded as of the end of the year consistent with the date of determination of fair value. For assets and liabilities that were transferred into Level 3 during the year, gains (losses) are presented as if the assets or liabilities had been transferred into Level 3 at the beginning of the year, similarly, for assets and liabilities that were transferred out of Level 3 during the year, gains (losses) are presented as if the assets or liabilities had been transferred out of Level 3 at the beginning of the year.

The following table presents additional information with respect to investments that are measured at fair value using NAV as a practical expedient as of 2020.

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge funds	$ 7,764	$ -	See below	See below
Private equity (*)	51,069	15,451	See below	See below
Debt funds	168,037	-	See below	See below
Commercial real estate debt funds	14,536	8,059	See below	See below
	$ 241,406	$ 23,510		

Hedge funds – This relates largely to two investments. One is an open-ended fund incorporated in Ireland. The fund strategy is to establish synthetic credit exposure through sales of liquid, standardized exchange traded index contracts with daily observable prices via an internationally regulated clearing house. The program is expected to substantially narrow bid/offer costs and allow more efficient portfolio management, particularly in times of credit stress. The other is a fund whose strategy is to hold derivatives as hedge positions in order to protect the Catalina investment portfolio from negative market shocks in either equities or credit markets. The funds' NAV is calculated daily and both funds can be redeemed on a daily basis with a redemption notice period of one day.

Private equity – The Company's investments in private equity include investments in private equities and private equity funds. Private equity funds investments include funds involved in buyout strategies in the U.S., Canada, and Europe, and a fund that focuses on small capital and growth opportunities in high-yield products in the global food supply chain. These funds provide net asset values on a quarterly basis. Investments in private equities include equity interest in entities involved in the acquisition, development and production of unconventional oil and gas reserves located in the Permian basin in west Texas, US. The Company generally has no right to redeem its interest in these private equities in advance of dissolution. Instead, the nature of these investments is that distributions are received by the Company in connection with the liquidation of the underlying assets of the respective private equities. It is estimated that the majority of the underlying assets of the private equities would liquidate over four to twelve years from inception. Quarterly valuations are provided by the sponsor.

(Expressed in thousands of U.S dollars except for share amounts, or as otherwise stated)

4. Fair Value Measurements (continued)

Debt funds – This includes a fund that principally invests in a diversified portfolio of leveraged loans, collateralized debt obligations, high-yield bonds, commercial mortgage-backed securities, consumer and commercial asset-backed securities, credit default swaps, bank debt, options and synthetic securities and indices. This also includes an Alternative Investment Fund Manages Directive compliant Irish Collective Asset-management Vehicle that acquires individual loans and securities. The majority of these funds can be redeemed on a quarterly basis with 65 days of notice period prior to redemption. Other debt funds have a lock-up period of eight to ten years. Quarterly valuations are provided by the sponsor.

Commercial real estate debt funds – This includes funds that originate mezzanine debt secured on commercial real estate to earn interest income and fees. These funds record their real estate debt at fair value. Prices are determined using observable prevailing market conditions, performance and other similar transactions in the marketplace. It also includes a fund that provides mezzanine financing in Ireland for single-asset and portfolio acquisitions, as well as for restructuring existing loan portfolios. This fund provides net asset valuation on a quarterly basis. It is estimated that the majority of the underlying assets in this funds would liquidate over eight years from inception of the applicable fund.

5. Derivatives

The Company entered into foreign exchange forward contracts to mitigate the foreign exchange rate risk of fluctuation in the U.S. Dollar against certain foreign currencies. The fair value of the derivative instruments as at December 31, 2020 of $(2.2) million is included in accounts payable, accrued expenses and other liabilities (2019: $6.9 million included in other assets). The loss on derivative instruments of $9.1 million (2019: gains of $7.2 million) for the years ended December 31, 2020 and 2019 are included in net foreign exchange gains in the statements of operations.

Foreign Exchange Forward Contracts		Contract Amount		Settlement Amount	Fair Value as at December 31, 2020	
Euro	EUR	66,123	USD	78,233	$	(2,567)
Euro	EUR	112,141	GBP	101,936		2,339
U.S. dollars	USD	93,466	GBP	70,994		3,636
U.S. dollars	USD	13,043	EUR	10,856		229
Canadian dollars	CAD	9,455	USD	7,372		(64)
Swedish krona	SEK	6,764	GBP	214,000		(40)
British pound	GBP	133,354	USD	176,742		(5,642)
British pound	GBP	12,202	EUR	3,566		(120)
British pound	GBP	62,912	SEK	3,566		54
Total					**$**	**(2,175)**

Foreign Exchange Forward Contracts		Contract Amount		Settlement Amount	Fair Value as at December 31, 2019	
Euro	EUR	65,914	USD	73,005	$	(1,224)
Euro	EUR	126,720	GBP	111,979		6,279
U.S. dollars	USD	49,129	GBP	38,571		2,030
U.S. dollars	USD	20,893	EUR	18,881		340
Canadian dollars	CAD	9,275	USD	7,051		(96)
Swedish krona	SEK	33,819	USD	3,155		(72)
British pound	GBP	28,604	USD	37,633		(331)
British pound	GBP	2,960	EUR	3,450		(45)
Total					**$**	**6,881**

(Expressed in thousands of U.S dollars except for share amounts, or as otherwise stated)

5. Derivatives (continued)

During 2020 and 2019, the Company entered into a rolling forward exchange contract to hedge the pound against the US dollar. This has been designated as a hedging instrument for financial reporting purposes. The fair value of this forward exchange contract as at December 31, 2020 was $(9.4) million (2019: ($5.0) million) and is included within accounts payable, accrued expenses and other liabilities in the consolidated balance sheet. The realized and unrealized foreign exchange losses on the hedging instrument of $5.2 million for the year ended December 31, 2020 (2019: $5.0 million) are included within other comprehensive income in the consolidated statement of operations.

Foreign Exchange Forward Contracts		Contract Amount		Settlement Amount	Fair Value as at December 31, 2020	
British pound	GBP	141,056	USD	183,572	$	(9,351)

Foreign Exchange Forward Contracts		Contract Amount		Settlement Amount	Fair Value as at December 31, 2019	
British pound	GBP	156,238	USD	202,256	$	(5,016)

6. Investment in real estate

The Company acquires properties through its subsidiaries, Oxenwood UK and Oxenwood III, both Guernsey incorporated companies and their subsidiaries, to generate returns via rental income and capital appreciation.

During 2020, the Company acquired six properties in the United Kingdom,. The details of the acquired properties are as follows:

Property Name	Date Acquired	Location	Acquiring Company	Cost		Acquisition Expenses	
Southall	January 30, 2020	Southall, UK	OXW Catalina UK Limited	$	22,355	$	1,444
Manchester	January 17, 2020	Manchester,UK	OXW Catalina UK Limited		19,979		1,302
Eastleigh North	January 17, 2020	Eastleigh, UK	OXW Catalina UK Limited		7,427		518
Eastleigh South	January 17, 2020	Eastleigh, UK	OXW Catalina UK Limited		8,057		603
Basildon	December 10, 2020	Basildon, UK	OXW Catalina UK Limited		46,625		3,852
Newport	March 24, 2020	Newport, UK	Propco (Newport) Limited		20,108		1,062

During 2019, the Company acquired seven properties in the United Kingdom, one in Dublin and one in Poland. The details of the acquired properties are as follows:

Property Name	Date Acquired	Location	Acquiring Company	Cost		Acquisition Expenses	
Irlam	March 26, 2019	Manchester,UK	OXW Catalina UK Limited	$	20,087	$	1,420
Leicester	March 26, 2019	Leicester,UK	OXW Catalina UK Limited		11,734		788
Coventry (Penso)	April 18, 2019	Coventry,UK	OXW Catalina UK Limited		12,596		1,578
Weybridge	July 8, 2019	Weybridge,UK	OXW Catalina UK Limited		21,745		2,144
Trafford Park	December 9, 2019	Manchester,UK	OXW Catalina UK Limited		9,281		850
Barking	December 4, 2019	Barking,UK	OXW Catalina UK Limited		14,253		1,170
Redhill	December 20, 2019	Redhill,UK	OXW Catalina UK Limited		22,872		1,701
DHL Warsaw North	October 10, 2019	Warsaw, Poland	Oxenwood Catalina III Limited		14,546		659
Dublin	January 11, 2019	Dublin, Ireland	Oxenwood Catalina III Limited		29,370		2,368

(Expressed in thousands of U.S dollars except for share amounts, or as otherwise stated)

6. Investment in real estate (continued)

In December 2020, the portfolio of Oxenwood properties were disposed of through a sale transaction. The proceeds of the sale were £141.8 million ($193.9 million) for the properties within Oxenwood UK and €47.6 million ($59.0 million) for the properties within Oxenwood III. The gain on the sale of properties within Oxenwood UK was £21.4 million ($27.4 million), and the gain on sale of properties within Oxenwood III was €16.3 million ($18.6 million). The gain on sale has been recorded within gain on real estate in the consolidated statement of operations. Operating cash flows have been adjusted for non-cash activities related to this sale of properties.

During June 2019, a property in Warrington, UK was sold for a consideration of £11.0 million ($14.1 million), net of selling costs. The carrying value of this property as at the date of sale was £8.3 million ($11.0 million). The gain on sale of £2.7 million ($3.5 million) is included in gain on sale of real estate in the consolidated statement of operations.

The cost of each property is split between land and buildings. The cost of the buildings is depreciated over a period of 40 years on a straight-line basis. Income from these real estate investments is recognized as per the terms of the lease agreements.

	2020	2019
Land, at cost	$ 26,921	$ 140,404
Buildings, at cost	44,522	140,404
Accumulated depreciation	(531)	(3,252)
Buildings, net of accumulated depreciation	43,991	137,152
Total	$ 70,912	$ 277,556

The total estimated market value of the real estate properties as at December 31, 2020 is $70.9 million (2019: $287.6 million).

7. Outstanding losses and loss expenses

Outstanding losses and loss expenses as of December 31, 2020 and 2019 are as follows:

	2020	2019
Case reserves	$ 843,835	$ 880,235
Incurred but not reported	1,722,167	1,912,385
Structured settlements	288,590	271,621
Life reinsurance	10,606	21,426
Deferred gain	38,165	49,642
	$ 2,903,363	$ 3,135,309

Outstanding losses and loss expenses recoverable as of December 31, 2020 and 2019 are as follows:

	2020	2019
Case reserves	$ 202,239	$ 217,506
Incurred but not reported	782,897	858,408
Structured settlements	288,590	271,621
	$ 1,273,726	$ 1,347,535

In 2020, the net deferred gain relates to the Zurich Employers Liability LPT. This was offset by the deferred charge on the Arch LPT and the 65% Quota-Share Reinsurance Agreement of CII.

The Company, through its Canadian branch, has assumed ownership of certain structured settlements and has purchased annuities from life insurance companies to provide fixed and recurring payments to the claimants. The gross liability for the structured settlements is fully recoverable from the life insurance companies resulting in no net liability to the Company. These annuities are fully funded and were purchased from Canadian life insurance companies with a Standard and Poor's Financial Strength Rating of A+ and higher. In the event of the life insurance companies being unable to meet their obligations under the structured settlements to the Company, 85% of the total exposure is recoverable from the Compensation Corporation of Canada leaving a net credit risk exposure of approximately $43.3 million.

(Expressed in thousands of U.S dollars except for share amounts, or as otherwise stated)

7. Outstanding losses and loss expenses (continued)

The following table represents the activity in outstanding losses and loss expenses for the years ended December 31, 2020 and 2019:

		2020	2019
Gross outstanding losses and loss expenses, beginning of year	$	3,135,309	1,459,092
Less reinsurance recoverable, beginning of year		(1,347,535)	(358,427)
Net losses and loss expenses, beginning of year		1,787,774	1,100,665
Net losses and loss expenses assumed during the year		-	848,975
Net incurred (losses) gains related to prior years		32,776	(7,242)
Net paid losses related to prior years		(239,839)	(191,002)
Foreign exchange losses		48,599	36,378
Net losses and loss expenses, end of year		1,629,310	1,787,774
Reinsurance recoverable, end of year		1,274,053	1,347,535
Gross outstanding losses and loss expenses, end of year		2,903,363	3,135,309

During the year ended December 31, 2020, the Company experienced net unfavourable loss development of $32.8 million. This is primarily due to a $17.9 million of adverse development in the Zurich Medical Malpractice LTP, assumed by way of the 65% Quota-Share Reinsurance Agreement of CII. There was also $9.7m of adverse development in the 100% quota share with CWIL and $6.5 million of adverse development through the Arch LPT. This was offset by $8.6 million of favourable loss development in the UK Employers' Liability book, acquired through the Loss Portfolio Transfer from Zurich.

During the year ended December 31, 2019, the Company experienced net favourable loss development of $7.2 million. This is primarily due to a $5.4 million release of deferred income in the UK Employers' Liability book, acquired through the Loss Portfolio Transfer from Zurich and a $5.0 million release of deferred gain on the residential construction liabilities, acquired through the Loss Portfolio Transfer from NBIC. The Company experienced favourable development of $13.5 million through the reinsurance of CII. These favourable developments were offset by a $9.0 million release of deferred charge and $7.6 million of adverse development through the Arch LPT.

Management believes that the assumptions used represent a realistic and appropriate basis for estimating the outstanding losses and loss expenses as of December 31, 2020 and 2019. However, these assumptions are subject to change and the Company regularly reviews and adjusts its reserve estimates and reserving methodologies taking into account all currently known information and updated assumptions related to unknown information.

Short Duration Contracts Disclosure

The Company has disaggregated its claims information presented in the tables below by run-off book of business acquired through either acquisitions or loss portfolio transfers. The Company's legacy book of business consists mainly of portfolios that were in run-off before 2014 and do not have incurred losses for accident years 2014 through 2020. The books of business presented in the table below are for Catalina Safety and the Arch LPT.

The following information about incurred and paid claims development as of December 31, 2020, net of reinsurance, as well as cumulative claim frequency and the total of incurred-but-not-reported liabilities plus expected development on reported claims included within the net incurred claims amounts.

(Expressed in thousands of U.S dollars except for share amounts, or as otherwise stated)

7. Outstanding losses and loss expenses (continued)

The following table shows the incurred and paid claims development relating to Catalina Safety as of December 31, 2020.

Catalina Safety

Incurred Losses and Loss Expenses, and IBNR, Net of Reinsurance

	For the year ended December 31,		December 31, 2020	
Accident Year	2019	2020	Total IBNR Reserve, net of	Cumulative Claim Count
2014	$ 5,731	$ 5,511	$ 546	232
2015	1,829	1,733	150	35
2016	-	-	-	-
2017	-	-	-	-
2018	-	-	-	-
2019	-			
2020	-	-	-	-
Total		$ 7,244	$ 696	

Cumulative Paid Losses and Loss Expenses, Net of Reinsurance

	For the year ended December 31,	
Accident Year	2019	2020
2014		
2015	$ 3,955	$ 4,359
2016	1,223	1,223
2017	-	-
2018	-	-
2019	-	-
2020		-
Total		$ 5,582
Net losses and loss expenses, before 2014 accident year		$ 23,551
Net reserve for losses and loss expenses		$ 25,213

The following table shows the incurred and paid claims development relating to the Arch LPT as of December 31, 2020.

Arch LPT

Incurred Losses and Loss Expenses, and IBNR, Net of Reinsurance

	For the year ended December 31,		December 31, 2020	
Accident Year	2019	2020	Total IBNR Reserve, net of reinsurance	Cumulative Claim Count
2014	$ 194,345	$ 198,677	$ 4,223	14,265
2015	151,448	149,231	4,653	8,477
2016	56,811	59,971	5,823	2,906
2017	18,143	20,377	4,741	981
2018	4,658	5,990	1,982	249
2019	9	761	752	3
2020		-	-	-
Total		$ 435,007	$ 22,174	

Cumulative Paid Losses and Loss Expenses, Net of Reinsurance

	For the year ended December 31, 2019	
Accident Year		
2014	$ 174,061	$ 184,796
2015	$ 126,604	$ 137,161
2016	42,953	48,627
2017	12,379	14,824
2018	1,891	2,643
2019	9	10
2020		-
Total		$ 388,061
Net losses and loss expenses, before 2014 accident year		$ 56,387
Net reserve for losses and loss expenses		$ 103,333

(Expressed in thousands of U.S dollars except for share amounts, or as otherwise stated)

7. Outstanding losses and loss expenses (continued)

Reconciliation of Loss Development Information to the Reserves for Losses and Loss Expenses

		December 31, 2020
Net losses and loss expenses		
Arch LPT	$	103,333
Catalina Safety		25,213
Total net outstanding losses and loss expenses	$	128,546
Loss reserves recoverable		
Arch LPT	$	-
Catalina Safety		-
Total loss reserves recoverable	$	-
Unallocated loss adjustment expenses		53,745
Deferred gain		38,165
Outstanding losses and loss expenses - other books		2,682,907
Total gross outstanding losses and loss expenses	$	2,903,363

8. Debt Obligations

Our debt obligations as of December 31, 2020 and 2019 were as follows.

Facility	Issuing Entity		December 31, 2020		December 31, 2019
Real Estate Invetment Term Loan Facilities	Oxenwood/Newport	$	9,811	$	80,465
Subordinated Notes due 2027	CatGen		45,500		45,500
Subordinated Notes due 2028	CatGen		25,000		25,000
Total debt obligations		$	80,311	$	70,500

We utilize proceeds from our debt obligations for acquisitions, new business, purchase real estate investments and general corporate purposes.

Real Estate Investment Term Loan Facilities

In 2019, the Company's Oxenwood subsidiaries entered into Term Loan Facility Agreements with National Westminster Bank plc ("NatWest") and Wurttemberg ("LBBW"), in order to partially fund the purchase of real estate investments. These were due to mature on December 20, 22 and March 25, 2022 respectively. During 2020, as part of the sale of the Oxenwood properties, both of these Term Loan Facility Agreements were assigned to the purchaser.

In 2020, the Company's Newport subsidiary entered into a Term Loan Facility Agreement with Allied Irish Bank ("AIB"), in order to fund their purchase of real estate investments. These term loans mature in 2024 and 2025 and are secured by a first ranking legal charge over the properties.

Each of the Real Estate Investment Term Loan Facility Agreements has financial covenants in relation to net rental income interest cover and loan to value. During 2019 and 2020, each of the Oxenwood and Newport subsidiaries was in compliance with all covenants under their respective Term Loan Facility Agreements.

For the year ended December 31, 2020, interest expense on these loans was $2.5 million (2019: $1.7 million) and is included within interest expense in the consolidated statements of operations.

CatGen Subordinated Notes due 2027 and 2028

On May 5, 2017, CatGen issued $45.5 million principal amount of floating rate unsecured subordinated notes due on May 5, 2027. The notes bear interest based on LIBOR (or agreed replacement benchmark) plus a margin of 7.55%, with interest payable quarterly. The notes may be redeemed in whole but not in part by CatGen prior to maturity on any interest payment date on or after June 30, 2022, subject to certain conditions. The notes rank subordinated to all direct, unconditional, secured or unsecured and unsubordinated obligations, pari passu without any preference among themselves, and in priority to holders of any undated subordinated obligations of CatGen.

8. Debt Obligations (continued)

On March 16, 2018, CatGen issued $25.0 million principal amount of floating rate unsecured subordinated notes due on March 16, 2028. The notes bear interest based on LIBOR (or agreed replacement benchmark) plus a margin of 7.10%, with interest payable each quarter. The notes may be redeemed in whole but not in part by CatGen prior to maturity on any payment interest date on or after March 16, 2023, subject to certain conditions. The notes rank subordinated to all direct, unconditional, secured or unsecured and unsubordinated obligations, pari passu without any preference among themselves, and in priority to holders of any undated subordinated obligations of of CatGen.

Interest expense on CatGen's 2027 and 2028 notes for the year ended December 31, 2020 was $6.0 million (2019: $7.0 million) and is included within interest expense in the consolidated statements of operations.

9. Concentrations, commitments and contingencies

a) Concentrations of credit risk

As of December 31, 2020 substantially all of the Company's cash and cash equivalents, and investments were held by eight custodians. Management monitors the credit ratings of these custodians and believes them to be of high credit quality.

The Company's investment portfolio is managed primarily by external investment advisors in accordance with the Company's investment guidelines. The Company limits its exposure to any single issuer to 5% or less of the total portfolio's market value at the time of purchase, with the exception of government and agency securities of G-7 countries. Additionally, the 5% limit does not include funds comprised of investments, provided that no single underlying investment in the fund can exceed the relevant limitation set by the Board, or as expressly approved by the Board prior to investment. As of December 31, 2020, the largest single issuer, not including the above, accounted for 1.9% (2019: 1.9%) of the aggregate fair value of the Company's invested assets. As of December 31, 2020, the Company's fixed maturity investments had a weighted average Standard & Poor's credit rating of BBB+ (2019: BBB+).

Reinsurance assets due from reinsurers include outstanding losses and loss expenses recoverable. The Company is subject to credit risk with respect to reinsurance ceded because the ceding of risk does not relieve the Company from its primary obligations to its policyholders. The concentration of credit risk relating to the structured settlements is explained in Note 7. Failure of the Company's reinsurers to honor their obligations could result in credit losses. As of December 31, 2020 the Company has recorded a provision for credit losses relating to losses and loss expenses recoverable of $21.3 million (2019: $23.3 million). Nil was written off during the year (2019: $0.4 million).

An unrated domestic affiliated reinsurer accounts for 57% of the outstanding losses and loss expenses recoverable balance as of December 31, 2020. This recoverable is fully collateralized. For more information, refer to Note 13 – Related Parties. Excluding this unrated reinsurer, one reinsurer accounted for 13% of the outstanding losses and loss expenses recoverable balance as of December 31, 2020. This reinsurer was rated AA- by S&P as at December 31, 2020.

b) Restricted assets

The Company's bankers have issued letters of credit ("LOC") under the Company's credit agreements (for which cash and cash equivalents and investments are pledged as security) and in favor of certain ceding companies to collateralize the Company's obligations under contracts of insurance and reinsurance (see Note 10).

The Company also utilizes trust funds where the trust funds are set up for the benefit of the ceding companies, and generally take the place of LOC requirements.

(Expressed in thousands of U.S dollars except for share amounts, or as otherwise stated)

9. Concentrations, commitments and contingencies (continued)

The fair values of these restricted assets by category at December 31, 2020 and 2019 are as follows:

	2020		2019	
	Cash and cash equivalents	Investments	Cash and cash equivalents	Investments
LOC pledged assets	$ 16,220	$ 25,232	$ 13,924	$ 34,118
Trust funds	114,485	1,968,715	52,008	1,976,510
Total	$ 130,705	$ 1,993,947	$ 65,932	$ 2,010,628

c) *Fund commitments*

As of December 31, 2020, the Company has unfunded capital commitments for fund investments of $23.5 million (2019: $49.1 million).

d) *Lease commitments*

The Company leases office space, and furniture and equipment under operating lease agreements. Rent expenses are being recognized on a straight-line basis over the respective lease terms. Future annual minimum payments under non-cancelable operating leases are as follows:

Year ending December 31,	
2021	$ 276
2022	276
2023	276
2024	161
2025	-
Later years	-
Total	$ 989
Rent Expense	443

Total rent expense under operating leases for the year ended December 31, 2020 was approximately $0.4 million (2019: $0.4 million).

10. Credit agreements

CatGen has a discretionary collateralized letter of credit agreement ("LOC") with Comerica Bank. The aggregate commitment under this agreement is up to $50 million. The availability for issuances of LOCs on account of any borrower is based on the amount of eligible investments pledged by the applicable borrower(s). The agreements contain financial and other covenants, among them a requirement to maintain a minimum statutory capital and surplus value. At December 31, 2020, the outstanding LOCs issued under the facility were $27.1 million (2019: $33.4 million). During the years ended December 31, 2020 and 2019, the Company was in compliance with the covenants under the facility.

The Company has a discretionary collateralized LOC with Citibank N.A. The availability for issuances of LOC is based on the amount of eligible investments pledged. At December 31, 2020, the outstanding LOCs issued under the facility were $2.6 million (2019: $2.9 million).

11. Taxation

Under current Bermuda law, the Company is not required to pay any taxes in Bermuda on income or realized capital gains. The Company has received an undertaking from the Minister of Finance of Bermuda that, in the event of any taxes being imposed, the Company will be exempt from taxation in Bermuda until March 2035.

The Company has operating subsidiaries in Guernsey and is subject to relevant taxes in that jurisdiction. The Company is not subject to taxation other than as stated above. There can be no assurance that there will not be changes in applicable laws, regulations or treaties, which might require the Company to become subject to additional taxation.

During 2020, tax of $5.0 million (2019: $Nil) was paid by the Company's property subsidiaries operating in taxable jurisdictions.

12. Shareholder's Equity

During the years ended December 31, 2020 and 2019, the Company received capital contributions from the parent for $Nil and $205.0 million, respectively.

13. Related party transactions

Funds affiliated with Apollo Global Management LLC ("Apollo") are the majority shareholders of CHBL. The Company has investments in Apollo Credit Allocation Fund II Class A, Apollo Credit Allocation Fund III, Apollo Accord 3, Apollo AP Highlands fund, Apollo Management Holdings, and Apollo Offshore Credit Fund Limited Class S-1, which are managed by an affiliate of Apollo. The total fair value of the Company's investments in the funds as of December 31, 2020 is $188.8 million (2019: $228.9 million) or 15.0% (2019: 10.3%) of investments at fair value.

As at December 31, 2020, the current investment in CORE is $2.7 million (2019: $2.4 million) while dividends included in investment income are $Nil (2019: $Nil). The Company's current share in CORE is 46.1%.

Funds held by cedants and claims administrators include $93.4 million (2019: $93.8 million) of funds held by CWIL as part of the quota share agreement.

The insurance and reinsurance balances receivable includes technical balances receivable from affiliates amounting to $20.6 million (2019: $44.5 million). This is related to receivables due from CII of $10.1 million (2019: $36.0 million), and CWIL of $10.4 million (2019: $8.5 million).

The reinsurance balances payable and other reinsurance liabilities includes technical balances payable to affiliates amounting to $44.5 million (2019: $19.7 million). The technical balances are owed to Catalina London of $3.0 million (2019: $4.7 million), and $31.0 million (2019: $13.4 million) to CWIL. (2019: $1.1 million), $0.1 million to National Home Insurance Company (2019: $0.3 million), $10.1 million to Catalina Ireland (2019: $Nil), and $0.3 million to Alea North America Insurance Company ("ANAIC") (2019: $0.2 million).

As at December 31, 2020, outstanding mezzanine debt issued by Oxenwood III to its affiliates amounted to $26.8 million. This was due to CII ($16.0 million), CWIL ($10.1 million), Oxenwood Partners LP ($0.4 million) and the remainder to certain members of Catalina management. This is included within the due to affiliates balance.

As of December 31, 2020, the Company carried net losses and loss adjustment expenses of $744.2 million (2019: $702.8 million) relating to the Quota-Share Reinsurance Agreements as described in Note 1. This comprises of $5.3 million (2019: $6.4 million) on Catalina London, $233.6 million (2019: $227.7 million) on CII, $18.5 million (2019: $20.8 million) for ANAIC and $487.6 million (2019: $447.9 million) on CWIL.

13. Related party transactions (continued)

On December 14, 2018, CatGen entered into a retrocession agreement with Elbow Re Ltd. ("Elbow Re" formerly known as Acra Re Ltd.). Elbow Re is an affiliated company as it is owned by funds affiliated with Apollo. Elbow Re reinsured 50% of the liabilities assumed by CatGen under the reinsurance and transfer deed with Zurich. As at December 31, 2020, the total reserves ceded to Elbow Re are $901.9 million (2019: $786.0 million) and total insurance receivable from Elbow Re is $35.2 million (2019: $36.4 million).

During 2019, the Company sold Alea Services AG to Catalina Echo Limited, an affiliated company. The proceeds of the sale were $0.7 million.

Certain members of management co-invested with the Company in investments in real estate. The management ownership of these investments is less than 1% of the cost of the investment properties.

14. Statutory financial information and dividend restrictions

CatGen is registered under the Insurance Act of 1978 of Bermuda (the "Insurance Act"), and licensed as a Class 3B general business insurer, and Class C long-term insurer. The Insurance Act grants the BMA powers to supervise the insurance companies. The Insurance Act requires CatGen to hold minimum statutory capital and surplus (Enhanced Capital Requirement or "ECR") at least equal to the greater of a minimum solvency margin or the Bermuda Solvency & Capital Requirement ("BSCR"). The BSCR is calculated using the standard risk-based capital model developed by the BMA. The BSCR model follows a standard formula framework and capital attributed to each risk is calculated by applying capital factors to the assets and liabilities. The BMA sets a Target Capital equivalent to 120% of the ECR. CatGen's licenses preclude it from effecting any new contracts without the permission of the BMA.

On March 24, 2016, Bermuda's enhanced commercial insurance regime was approved as being fully equivalent to regulatory standards applied under Solvency II by the European Parliament. Solvency II sets out new capital adequacy and risk management requirements for insurers across the European Union with the aim to further enhance policyholder protection while instilling greater risk awareness. The equivalence was granted retroactive from January 1, 2016.

The BMA also acts as the Group Supervisor with the Company as Designated Insurer. The Company is required to file the audited GAAP financial statements, the Capital and Solvency Return and the Commercial Insurer's Solvency Self-Assessment on an annual basis.

On April 25, 2017, the BMA approved the $45.5 million long term subordinated notes as "Other Fixed Capital" and has deemed the note as Tier 2 eligible capital. On March 8, 2018, the BMA approved the additional $25.0 million long term subordinated notes as "Other Fixed Capital" and Tier 2 eligible capital.

Effective June 25, 2019, the Company can pay dividends without prior BMA approval, provided the Company maintains an ECR of a minimum of 150% following the distribution.

At December 31, 2020, the Company met the minimum levels of solvency and liquidity in Bermuda.

15. Comparative Information

Certain balances in the 2019 consolidated financial statements have been reclassified to conform to 2020 consolidated financial statement presentation. The impact of these reclassifications are not qualitatively material for the users of the financial statements.

16. Subsequent events

In preparing the consolidated financial statements, the Company has evaluated subsequent events through April 29, 2021, which is the date that these financial statements were issued, and has concluded that the following matter requires disclosure.

In April 2021, the Company signed two retroactive reinsurance agreements, which are subject to regulatory approval. The agreements have net liabilities assumed totaling $631.0 million in aggregate. These liabilities relate to U.S. and international property and casualty business.