

CITADEL REINSURANCE COMPANY LIMITED

Consolidated Financial Statements
(With Independent Auditor's Report Thereon)

Years Ended December 31, 2020 and 2019



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

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

INDEPENDENT AUDITOR'S REPORT

To the Shareholder and Board of Directors of Citadel Reinsurance Company Limited

We have audited the accompanying consolidated financial statements of Citadel Reinsurance Company Limited and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations, changes in shareholder's equity and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Citadel Reinsurance Company Limited and its subsidiaries as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Other matter

U.S. generally accepted accounting principles require that certain disclosures related to short-duration contracts in Note 3 to the basic financial statements be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Financial Accounting Standards Board who consider it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
August 27, 2021

CITADEL REINSURANCE COMPANY LIMITED

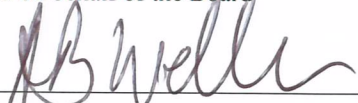
Consolidated Balance Sheets

December 31, 2020 and 2019
(Expressed in United States Dollars)

	Note	As at December 31,	
		2020	2019
ASSETS			
Cash and cash equivalents		\$ 28,106,684	\$ 19,257,095
Investments	4	23,816,792	28,765,897
Accounts receivable and accrued interest		7,576,217	7,750,183
Insurance balances receivable		13,111,902	9,300,564
Reinsurance balances receivable		10,731,054	14,537,452
Reinsurance recoverable	3	65,789,652	51,773,441
Prepaid reinsurance premiums		18,829,932	21,469,390
Deferred policy acquisition costs		7,601,871	6,494,034
Property and equipment		298,663	413,585
Goodwill	5	1,633,739	2,180,667
Total assets		<u>177,496,506</u>	<u>161,942,308</u>
LIABILITIES			
Loss and loss adjustment expense reserves	3	104,477,612	80,630,813
Unearned premiums		32,839,204	30,985,175
Deferred ceding commission income		4,965,964	6,167,719
Insurance and reinsurance balances payable		14,981,624	16,743,362
Accounts payable and accrued expense		2,752,281	2,486,315
Total liabilities		<u>160,016,685</u>	<u>137,013,384</u>
EQUITY			
Share capital	7	20,000,000	20,000,000
(Accumulated losses) / Retained earnings		(2,385,351)	4,877,169
Equity attributable to shareholder of Citadel Reinsurance Company Limited		17,614,649	24,877,169
Non-controlling interests in subsidiaries		(134,828)	51,755
Total equity		<u>17,479,821</u>	<u>24,928,924</u>
Total equity and liabilities		<u>\$ 177,496,506</u>	<u>\$ 161,942,308</u>

See accompanying notes to consolidated financial statements

Signed on behalf of the Board

 Director

 Director

CITADEL REINSURANCE COMPANY LIMITED

Consolidated Statements of Operations

December 31, 2020 and 2019

(Expressed in United States Dollars)

	Note	For the years ended December 31,	
		2020	2019
REVENUES			
Gross premiums written		\$ 63,017,705	\$ 62,611,398
Premiums ceded		<u>(34,270,199)</u>	<u>(40,825,937)</u>
Net premiums written		28,747,506	21,785,461
Change in net unearned premiums		<u>(4,401,434)</u>	<u>(2,708,574)</u>
Net premiums earned		24,346,072	19,076,887
Net investment income		894,991	1,646,941
Net realized and unrealized gains on investments		426,441	148,392
Other income		<u>5,178,009</u>	<u>8,200,104</u>
Total revenues		<u>30,845,513</u>	<u>29,072,324</u>
EXPENSES			
Loss and loss adjustment expenses		25,392,044	16,126,866
Net acquisition costs (income)		2,800,618	(222,891)
General and administrative expenses		10,661,797	12,340,120
Net foreign exchange (gains) / losses		<u>(113,726)</u>	<u>74,320</u>
Total expenses		<u>38,740,733</u>	<u>28,318,415</u>
(Loss) Profit before income tax		(7,895,220)	753,909
Income tax benefit	9	<u>623,535</u>	<u>506,093</u>
Net (Loss) Profit		<u>(7,271,685)</u>	<u>1,260,002</u>
(Loss) Profit attributable to non-controlling interests		<u>(9,165)</u>	<u>18,416</u>
Net (loss) profit attributable to shareholder of Citadel Reinsurance Company Limited		<u>\$ (7,262,520)</u>	<u>\$ 1,241,586</u>

See accompanying notes to consolidated financial statements

CITADEL REINSURANCE COMPANY LIMITED

Consolidated Statements of Changes in Shareholder's Equity

December 31, 2020 and 2019

(Expressed in United States Dollars)

	Shareholder's equity			
	<u>Total equity</u>	Retained earnings / (accumulated losses)	Share capital (Note 7)	Non- controlling interest in subsidiaries (Note 12)
Balance at December 31, 2018	\$ 24,183,623	\$ 4,135,583	\$ 20,000,000	\$ 48,040
Net Profit	1,260,002	1,241,586	–	18,416
Dividend	<u>(514,701)</u>	<u>(500,000)</u>	–	<u>(14,701)</u>
Balance at December 31, 2019	24,928,924	4,877,169	20,000,000	51,755
Net Loss	(7,271,685)	(7,262,520)	–	(9,165)
Other movements	<u>(177,418)</u>	–	–	<u>(177,418)</u>
Balance at December 31, 2020	<u>\$ 17,479,821</u>	<u>\$ (2,385,351)</u>	<u>\$ 20,000,000</u>	<u>\$ (134,828)</u>

See accompanying notes to consolidated financial statements

CITADEL REINSURANCE COMPANY LIMITED

Consolidated Statements of Cash Flows

December 31, 2020 and 2019

(Expressed in United States Dollars)

	For the years ended December 31,	
	2020	2019
Cash flows from operating activities:		
Net Profit	\$ (7,271,685)	\$ 1,260,002
Adjustments for:		
Net realized and unrealized gains on investments	(426,441)	(711,799)
Net unrealized foreign exchange losses	123,704	29,008
Depreciation expense	125,271	195,713
Profit on disposal of subsidiaries	(978,435)	-
Changes in assets and liabilities:		
Accounts receivable and accrued interest	173,966	538,009
Insurance balances receivable	(3,811,338)	(3,598,897)
Reinsurance balances receivable	3,806,398	(8,835,024)
Reinsurance recoverable on loss and loss adjustment expense reserves	(14,016,211)	1,081,623
Loss and loss adjustment expense reserves	23,846,800	682,396
Unearned premiums	1,854,029	6,122,110
Deferred ceding commission income	(1,201,755)	793,058
Prepaid reinsurance premiums	2,639,458	(3,402,454)
Deferred policy acquisition costs	(1,107,837)	(864,104)
Insurance and reinsurance balances payable	(1,761,738)	5,216,465
Accounts payable and accrued expenses	265,966	137,078
Net cash provided by (used in) operating activities	2,260,152	(1,356,816)
Cash flows from investing activities:		
Proceeds on disposal of investments	15,458,498	14,468,346
Purchases of investments	(10,206,656)	(13,047,714)
Proceeds on disposal of subsidiaries, net of cash disposed of	1,347,945	-
Purchases of property, plant and equipment	(10,350)	(332,652)
Net cash provided by investing activities	6,589,437	1,087,980
Cash flows from financing activities:		
Dividends paid	-	(500,000)
Dividends to non-controlling interests	-	(14,700)
Net cash used in financing activities	-	(514,700)
Increase (decrease) in cash and cash equivalents	8,849,589	(783,536)
Cash and cash equivalents - beginning of year	19,257,095	20,040,631
Cash and cash equivalents - end of year	\$ 28,106,684	\$ 19,257,095
Comprised of:		
Unrestricted cash and cash equivalents	19,934,052	18,466,842
Restricted cash and cash equivalents	8,172,632	790,253
Supplementary notes:		
Consolidated net income tax payments	70,888	47,697

See accompanying notes to consolidated financial statements

CITADEL REINSURANCE COMPANY LIMITED

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(Expressed in United States Dollars)

1. NATURE OF BUSINESS

Citadel Reinsurance Company Limited (the “Company” or the “Group”), which underwrites insurance and reinsurance, was incorporated under the laws of Bermuda on January 4, 1984 and is registered as a Class 3A insurer under The Insurance Act 1978, amendments thereto and related regulations (“The Act”). The Company is managed and has its principal place of business in Bermuda. The Company’s ultimate parent company is Sirius International Limited, a company incorporated in Bermuda.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of financial statements in accordance with generally accepted accounting principles, requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the balance sheet date. Estimates also affect the reported amounts of income and expenses for the reporting period. Actual results could differ from those estimates. The Company’s principal estimates relate to the development or determination of the following:

- Valuation of investments and determination of hierarchical inputs used to measure fair value of investments
- Loss and loss adjustment expense reserves
- Insurance and reinsurance balances recoverable
- Recoverability of deferred tax assets
- Recoverability of goodwill.

Certain reclassifications have been made to prior year amounts to conform to the 2020 presentation. There is no impact of these reclassifications on net profit or shareholder’s equity.

Consolidation

These financial statements include the operations of the Company and its wholly-owned subsidiaries, (collectively, the “Group”) namely Citadel International Reinsurance Company Limited (“CIRCL”), Citadel Risk Services UK Limited, Citadel Group Representatives, Inc, Citadel Risk Management, Inc, (“CRMI”), Citadel Risk Services, Inc. (“CRS”), American Millennium Insurance Company (“AMIC”), Green Park (US) Incorporated and Citadel Tennessee Captive Insurance Company.

CIRCL is a segregated account company, incorporated in Bermuda. There are seventeen segregated cells (2019 - fifteen) within CIRCL, two of which (2019 - two) have been consolidated into these financial statements on the basis that the Company owns 100% of the preferred shares in one of the cells and 65% of the preferred shares in the other. The remaining 35% of the latter cell’s income is recognised as a minority interest. To the extent that the cell has a deficiency in excess of its share capital, the full amount of the deficiency is consolidated into these financial statements. To the extent that the cell’s retained earnings exceed its share capital the non-controlling 35% interest is accrued on the balance sheet.

At December 31, 2020, the Company and CRS jointly owned 81.62% (2019 - 81.62%) of Great Falls Holding Company (“GFH”), a company incorporated in Delaware, U.S.A. GFH has a wholly owned subsidiary, Great Falls Insurance Company (“GFI”), which wrote workers compensation insurance and employment practices liability insurance in the states of Maine and New Hampshire, U.S.A. The operations of GFH and GFI have been consolidated in these financial statements on the basis that the Company owns 81.62% of the issued capital. The remaining 18.38% (2019 - 18.38%) is recognised as a non-controlling interest (Note 12). GFI has been in run-off since 2018.

On July 23, 2020, the Company sold the 51.0% ownership share in Citadel Management Bermuda Limited and CRMI sold its 51.0% of the interests held in Cedar Consulting, LLC, to affiliates of the Davies Group. The results of the two partially owned affiliates were consolidated to the date of sale, with the remaining 49.0% ownership shares recognized as a non-controlling interest (Note 12).

CITADEL REINSURANCE COMPANY LIMITED

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(Expressed in United States Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Consolidation (continued)

On November 16, 2016, Citadel Tennessee Captive Insurance Company (“CTCIC”) was incorporated in Tennessee, U.S.A. This company was capitalized by CRMI in March 2017, and on April 5, 2017 became licensed to conduct business as a protected cell captive insurance company in Tennessee effective January 1, 2017. CTCIC commenced trading during 2018.

Premiums and Acquisition Costs

Written premiums comprise the premiums on insurance contracts entered into during the accounting period and are disclosed gross of commission payable to intermediaries and exclude taxes and duties levied on premiums. Premiums are recognised when receivable and are earned on either a daily or monthly pro-rata basis over the term of the related policies.

The Group assumes and cedes reinsurance in the normal course of business, with retention limits varying by line of business. Premiums on reinsurance business are recognised in the same manner as they would be if the reinsurance were considered direct business.

Premiums written and ceded, and commissions payable on certain policies are subject to adjustment based upon actual loss experience. Since actual loss experience may differ from expected amounts, ultimate net premiums earned, or the commissions expense may differ materially from the amounts recorded in the financial statements. Any resulting premium or commission adjustments are reflected in the operating results of the period in which the adjustment is determined.

The provision for unearned premiums represents that portion of the premiums written in respect of the current and prior years, which is attributable to the unexpired term of the corresponding policy in force.

Acquisition costs are comprised of ceding commissions, brokerage, premium taxes, profit commissions and other expenses that relate directly to the writing of insurance and reinsurance contracts. Acquisition costs that are incremental and directly attributable to new and renewal business that has been secured are deferred and amortized over the underlying term of the related policy.

Loss and Loss Adjustment Expense Reserves

Loss and loss adjustment expenses include all claims for losses incurred during the year, whether reported or not, related handling costs, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years. Estimates for loss and loss adjustment expense reserves are established based on undiscounted estimates of the ultimate cost of all claims incurred but not settled at the balance sheet date, whether reported or not, together with related claims handling costs. The estimated provisions established for the Group’s reinsurance business is determined in a similar manner to direct business and is based on reports received from the company ceding the insurance business.

The Group’s loss and loss adjustment expense provisions are mainly derived from standard actuarial methods. As the provisions are based upon known facts and interpretation of circumstances, the provision setting process is a complex and dynamic process influenced by a large variety of factors. In establishing a provision for unpaid claims and claims expenses, management considers facts currently known, the current state of laws and litigation and current estimates of reported losses and loss expenses. Liabilities are recognized for known claims when sufficient information has been developed to indicate the involvement of a specific policy and management can reasonably estimate the Company’s liability. In addition, a provision for adverse development for reported notifications and incurred but not reported claims is recorded based on the recommendations of an independent actuary.

CITADEL REINSURANCE COMPANY LIMITED

Notes to Consolidated Financial Statements

December 31, 2020 and 2019
(Expressed in United States Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Loss and Loss Adjustment Expense Reserves (continued)

The actuary has utilized the Loss Development, Bornhuetter-Ferguson and Modified Berquist-Sherman methods using the paid and the reported loss and loss adjustment expense history of the Company and industry data. These methods create estimates for each business segment and the actuary's indicated loss and expenses reserve range is based upon a selective weighting of these methods.

Management believes that the provision for losses and loss adjustment expenses at December 31, 2020 is reasonable to cover the ultimate net cost of losses incurred on a gross and net basis, however, such liability is necessarily based on estimates and no representation is made that the ultimate liability may not exceed such estimates. Subsequent revisions to estimated ultimate losses will be reflected in operations in the period in which they are determined.

Disclosures about Short-Duration Contracts

The Company adopted FASB Accounting Standards Update (ASU) 2015-09 which requires insurance entities that issue short-duration contracts to provide detailed disclosures relative to the reserve for losses and loss adjustment expenses. This information includes incurred and paid claims development information by accident year on a net basis after risk mitigation through reinsurance. The disclosures are provided in Note 3 Loss and Loss adjustment expenses reserves.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired by the Company. Goodwill is recorded as an asset and is not amortized. In accordance with the Intangibles – Goodwill and Other Topic of the FASB ASC, the Company performs, at a minimum, an annual valuation of its goodwill to test for impairment or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. For purposes of annual impairment evaluation, goodwill is assigned to the applicable reporting unit of the acquired entities giving rise to the goodwill.

It is the Company's policy to conduct impairment testing based on the Company's current business strategy in light of present industry and economic conditions, as well as the Company's future expectations. If, as a result of the assessment, the Company determines that the value of its goodwill and intangible assets are impaired, the Company will record an impairment charge in the period in which the determination is made.

Cash and Cash Equivalents

Cash and cash equivalents consist of short-term, highly liquid investments maturing in less than 90 days that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Investments

In accordance with the Financial Instruments Topic of the FASB ASC, the Company differentiates between held-to-maturity investments, which are recognized at amortized cost, and held-for-trading investments, which are recognized at fair value with unrealized gains and losses being reported as investment income in the consolidated statement of operations.

CITADEL REINSURANCE COMPANY LIMITED

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(Expressed in United States Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value of Financial Instruments

Fair values of financial instruments are disclosed in the notes to the financial statements when they differ from the carrying values. Where amounts receivable and payable are subject to normal credit terms, their carrying values are used as an approximation of their fair values.

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 significant input 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 products 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 technique 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:

At each valuation date, the Company uses a market approach technique to estimate the fair value of our fixed maturities portfolios, when 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. The pricing services use market quotations for securities that have quoted prices in active markets. When quoted market prices are unavailable, the pricing services prepare estimates of fair value measurements using observable market inputs such as yield curves, credit risks and spreads, measures of volatility, expected cash flows including prepayment speeds, reported trades and broker/dealer quotes.

A review of fair value hierarchy classifications is conducted on an annual basis. Changes in the observability of valuation inputs may result in a reclassification for certain financial assets and liabilities. Reclassifications between Level 1, 2 and 3 of the fair value hierarchy are reported as transfers in and/or out as of the beginning of the period in which the reclassifications occur.

Foreign Currency Translation

Monetary assets and liabilities are translated into U.S. dollars at year-end exchange rates and non-monetary assets and liabilities at the exchange rates prevailing when the assets were acquired, or liabilities incurred. Income and expenses are translated at the rate of exchange prevailing at the transaction date. Translation gains and losses are included in foreign exchange gains or losses unless the gain or loss is a result of trading foreign currency as part of the Company’s overall investment strategy, in which case the income is recognized as other income.

CITADEL REINSURANCE COMPANY LIMITED

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(Expressed in United States Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

The Company's subsidiaries that are based in Bermuda, the United States of America and the United Kingdom are subject to the tax laws of those jurisdictions and the jurisdictions in which they operate.

Income taxes have been recognized in accordance with current standards on those operations that are subject to income taxes. Deferred tax assets and liabilities result from net operating loss carryforwards and temporary differences between the carrying amounts of existing assets and liabilities recorded in the consolidated financial statements and their respective tax bases. A valuation allowance for a portion or all of deferred tax assets is recorded as a reduction to deferred tax assets if it is more likely than not that such portion or all of such deferred tax assets will not be realized.

Other revenue recognition

Revenues are derived by the Company's subsidiaries from segregated account rental and management fees and third-party administration services. Contracts govern each source of revenue and set out the performance obligations of the subsidiaries. Income is recognized evenly during the financial year, except where a new management agreement is entered into, or an existing management agreement is terminated during a financial year, in which case the fee income is recognized on a pro-rata basis in the year of inception/termination. The even spread of income recognition is intended to match the performance obligations which are typically spread evenly across the duration of the contract.

New Accounting Standards adopted during the year

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

New Accounting Standards to be adopted

In February 2016, the FASB issued ASU 2016-02, Leases, and, in July 2018, the FASB issued ASU 2018-10, Codification Improvements to Topic 842, Leases and ASU 2018-11, Leases. ASU 2016-02 requires lessees to recognise operating leases on balance sheet through a lease asset and a related financial liability. The standard update is effective for annual periods beginning after December 15, 2021. The Group does not expect the ASU to have a material impact on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments, which requires loans, receivables and available-for-sale debt securities to record credit losses through an allowance for credit losses account. The update introduces a new impairment model, known as the current expected credit loss model, which is based on expected losses rather than incurred losses. Under the new credit loss model, the Group will be required to recognise an allowance for its expected credit losses on certain financial assets including trade receivables, debt instruments not measured at fair value, and reinsurance receivables. Available-for-sale debt securities will record credit losses through an allowance for credit losses, which will be limited to the amount by which fair value is below amortised cost. The Group is currently assessing the impact of the standard on the consolidated financial statements. The standard update is effective for annual periods beginning after January 2023.

The Company has determined that all other recently issued pronouncements do not apply to its operations.

CITADEL REINSURANCE COMPANY LIMITED

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(Expressed in United States Dollars)

3. LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

(i) Gross loss and loss adjustment expense reserves and reinsurance recoverable comprise:

	<u>2020</u>	<u>2019</u>
Gross loss and loss adjustment expenses	\$ 104,477,612	\$ 80,630,813
Reinsurance recoverable	<u>(65,789,652)</u>	<u>(51,773,441)</u>
Net loss and loss adjustment expense reserves	<u>\$ 38,687,960</u>	<u>\$ 28,857,372</u>

(ii) Loss development table

The following changes have occurred in the loss and loss adjustment reserves:

	<u>2020</u>	<u>2019</u>
Net loss and loss adjustment expense reserves: beginning of year	\$ 28,857,372	\$ 27,093,354
Loss and loss expenses incurred related to losses occurring in:		
Current year	12,679,878	12,114,353
Prior years	<u>12,712,166</u>	<u>4,012,513</u>
Total loss and loss expenses incurred	<u>25,392,044</u>	<u>16,126,866</u>
Losses and loss expenses paid related to losses occurring in:		
Current year	1,302,057	1,518,467
Prior years	<u>14,259,399</u>	<u>12,844,381</u>
Total loss and loss expenses paid	<u>15,561,456</u>	<u>14,362,848</u>
Net loss and loss adjustment expense reserves: end of year	<u>\$ 38,687,960</u>	<u>\$ 28,857,372</u>

During 2020, loss and loss expenses incurred attributable to insured events in prior years totaled \$12,712,166 (2019: \$4,012,513). These losses principally represent the impact of continued strengthening of provisions for outstanding claims in respect of USA commercial automobile liability policies written by American Millennium Insurance Company. (2019: USA commercial automobile liability policies written by American Millennium Insurance Company in 2017 and prior years.). AMIC has entered into an aggregate stop loss effective from April 1, 2021 which significantly reduces the likelihood of future possible adverse development on business produced for it by Texas managing general agents. See Note 15. Subsequent Events.

(iii) Short Duration Contract Disclosures

The following is 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. Some of the information provided in the following tables, is Required Supplementary Information (RSI) under US GAAP, and therefore it does not form part of these consolidated audited financial statements. Claims development information for all periods except the current reporting period and any information derived from it – including average annual percentage payout of claims incurred – is considered RSI and is identified as RSI in the tables presented.

CITADEL REINSURANCE COMPANY LIMITED

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(Expressed in United States Dollars)

3. LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES (continued)

(iii) Short Duration Contract Disclosures (continued)

The Company has provided nine years claims development history in its initial application of ASU 2015-09, covering the accident years 2012 to 2020. In late 2011, the Citadel group of companies acquired its affiliate, American Millennium Insurance Company (“AMIC”) which fundamentally changed the nature and scale of the group’s operations. The following tables encompass the first full year of claims development of the three principal classes of the group’s insurance and reinsurance operations following the acquisition of AMIC. Management consider the determination of complete and accurate information prior to 2012 as impracticable.

The first table presents the estimated ultimate cost of claims and the development of claim payments for the accident years 2012 to 2020 for the US Workers Compensation Insurance business. For example, as reflected in the upper section of the table, the original estimated ultimate cost of claims of \$454,000 with respect to the accident year 2012 was re-estimated to be \$404,000 at December 31, 2020. The bottom half of the table shows the cumulative amounts paid during successive years related to each accident year, and with respect to the accident year 2012, by the end of 2020 \$403,000 had actually been paid in settlement of claims.

The original estimates will be increased or decreased, as more information becomes known about the individual claims and overall claim frequency and severity. The Group aims to maintain reserves in respect of its general insurance and reinsurance business that protect against adverse future claims experience and development. The Group establishes reserves in respect of the current accident year (2020), where the development of claims is less mature, that allow for the greater uncertainty attaching to the ultimate cost of current accident year claims.

As claims develop and the ultimate cost of claims become more certain, the absence of adverse claims experience will result in a release of reserves from earlier accident years, or in the case of adverse claims experience a strengthening of reserves, as shown in the loss development table and movement tables above.

Management believes that the assumptions used when establishing its provision for loss and loss adjustment expenses represent a realistic and appropriate basis for estimating those reserves. However, these assumptions are subject to change and the Company continually reviews and adjusts its reserve estimates taking into account all currently known information and updated assumptions related to unknown information. The claims provisions established in 2020 and 2019 are reviewed by professional and independent actuaries and are consistent with the mid-range of ultimate loss ratios as determined by the actuaries.

CITADEL REINSURANCE COMPANY LIMITED

Notes to Consolidated Financial Statements

December 31, 2020 and 2019
(Expressed in United States Dollars)

3. LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES (continued)

(iii) Short Duration Contract Disclosures (continued)

Liability for Unpaid Claims and Claims Adjustment Expenses

US Workers Compensation Insurance

Incurred Losses and Loss Adjustment Expenses, Net of Reinsurance (\$'000)											
Years ended December, 31											
	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total of IBNR, net of reinsurance	Cumulative Claim Count
	note (i)	note (i)	note (i)	note (i)	note (i)	note (i)	note (i)	note (i)		2020	2020
Accident											
Year											
2012	454	414	444	420	419	410	403	404	404	-	200
2013		885	983	1,064	1,023	951	936	914	915	-	454
2014			1,132	1,115	1,113	1,193	1,257	1,345	1,721	21	632
2015				1,590	1,515	1,574	1,589	1,703	1,671	73	767
2016					1,905	1,846	1,639	1,650	1,638	134	829
2017						2,807	2,925	2,718	2,484	374	997
2018							778	678	590	142	213
2019									-	-	-
2020									-	-	-
Total	454	1,299	2,559	4,189	5,975	8,781	9,527	9,412	9,423	744	4,092

Cumulative Paid Losses and Loss Adjustment Expenses, Net of Reinsurance (\$'000)
Years ended December, 31

	2012	2013	2014	2015	2016	2017	2018	2019	2020
	note (i)	note (i)	note (i)	note (i)	note (i)	note (i)	note (i)	note (i)	
Accident									
Year									
2012	119	280	335	375	404	403	403	403	403
2013		292	604	785	871	914	913	913	913
2014			335	648	788	946	1,023	1,065	1,223
2015				606	1,002	1,181	1,387	1,495	1,533
2016					639	1,150	1,322	1,395	1,451
2017						1,035	1,892	2,050	2,056
2018							281	363	417
2019									-
2020									-
									7,996
Reserves for losses and losses expenses, 2012 to 2020, net of reinsurance									1,427
Reserves for losses and losses expenses, before 2012, net of reinsurance									0
Reserves for losses and losses expenses, net of reinsurance									1,427

Note (i) Years ended December 31, 2012 to 2019 are Required Supplementary Information and are unaudited.

CITADEL REINSURANCE COMPANY LIMITED

Notes to Consolidated Financial Statements

December 31, 2020 and 2019
(Expressed in United States Dollars)

3. LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES (continued)

(iii) Short Duration Contract Disclosures (continued)

Liability for Unpaid Claims and Claims Adjustment Expenses

US Commercial Auto Liability Insurance

Incurred Losses and Loss Adjustment Expenses, Net of Reinsurance (\$'000)
Years ended December, 31

	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total of IBNR, net of reinsurance	Cumulative Claim Count
	note (i)	note (i)	note (i)	note (i)	note (i)	note (i)	note (i)	note (i)		2020	2020
Accident Year											
2012	2,308	2,793	2,649	3,091	3,099	3,044	3,078	3,078	3,078	-	675
2013		1,856	1,991	2,049	2,300	2,322	2,322	2,310	2,317	1	1,125
2014			2,253	2,248	3,064	3,336	3,188	3,428	3,588	51	1,331
2015				3,173	3,523	4,493	5,418	5,474	5,790	33	1,424
2016					7,894	7,867	8,477	9,711	10,359	366	2,383
2017						7,322	7,572	8,966	10,468	896	2,327
2018							7,597	8,752	12,748	2,190	2,212
2019								5,812	7,424	2,411	1,472
2020									3,512	1,952	808
Total	2,308	4,649	6,893	10,561	19,880	28,384	37,652	47,531	59,284	7,900	13,757

Cumulative Paid Losses and Loss Adjustment Expenses, Net of Reinsurance (\$'000)
Years ended December, 31

	2012	2013	2014	2015	2016	2017	2018	2019	2020
	note (i)	note (i)	note (i)	note (i)	note (i)	note (i)	note (i)	note (i)	
Accident Year									
2012	990	1,444	1,901	2,701	2,985	3,019	3,077	3,078	3,078
2013		688	1,051	1,483	2,071	2,274	2,309	2,308	2,313
2014			529	1,031	1,712	2,962	2,970	3,158	3,362
2015				648	1,587	3,449	4,553	5,164	5,731
2016					1,381	3,581	5,579	7,972	9,257
2017						1,396	3,356	6,357	8,327
2018							1,188	4,413	8,219
2019								1,065	3,071
2020									975
									44,333
Reserves for losses and losses expenses, 2012 to 2020, net of reinsurance									14,951
Reserves for losses and losses expenses, before 2012, net of reinsurance									3
Reserves for losses and losses expenses, net of reinsurance									14,954

Note (i) Years ended December 31, 2012 to 2019 are Required Supplementary Information and are unaudited.

CITADEL REINSURANCE COMPANY LIMITED

Notes to Consolidated Financial Statements

December 31, 2020 and 2019
(Expressed in United States Dollars)

3. LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES (continued)

(iii) Short Duration Contract Disclosures (continued)

Liability for Unpaid Claims and Claims Adjustment Expenses

Reinsurance Assumed

Incurred Losses and Loss Adjustment Expenses, Net of Reinsurance (\$'000)										Total of IBNR, net of reinsurance 2020
Years ended December, 31										
	2012 note (i)	2013 note (i)	2014 note (i)	2015 note (i)	2016 note (i)	2017 note (i)	2018 note (i)	2019 note (i)	2020	
Accident Year										
2012	5,977	6,300	6,185	6,099	6,109	6,072	6,001	6,220	6,239	24
2013		8,576	8,383	13,588	18,741	19,600	19,664	19,822	19,842	48
2014			10,010	11,877	14,233	15,239	16,344	16,466	18,161	595
2015				5,558	5,506	5,455	5,761	6,070	6,066	132
2016					4,037	4,026	3,586	3,292	3,232	225
2017						5,928	6,469	6,040	5,940	1,164
2018							5,159	5,175	6,743	1,600
2019								6,251	7,572	2,659
2020									9,167	8,022
Total	5,977	14,876	24,578	37,122	48,626	56,320	62,984	69,336	82,962	14,469

Cumulative Paid Losses and Loss Adjustment Expenses, Net of Reinsurance (\$'000)
Years ended December, 31

	2012 note (i)	2013 note (i)	2014 note (i)	2015 note (i)	2016 note (i)	2017 note (i)	2018 note (i)	2019 note (i)	2020
Accident Year									
2012	1,096	2,957	3,969	4,878	5,382	5,537	5,799	6,020	6,031
2013		1,080	43	4,889	13,295	18,114	19,430	19,807	19,812
2014			1,401	3,207	8,703	12,590	14,306	14,531	15,457
2015				3,331	4,084	4,558	5,307	5,647	5,812
2016					1,030	2,038	2,580	2,798	2,856
2017						1,800	3,817	4,421	4,751
2018							1,581	2,564	4,267
2019								438	1,345
2020									327
									<u>60,658</u>
Reserves for losses and losses expenses, 2012 to 2020, net of reinsurance									22,304
Reserves for losses and losses expenses, before 2012, net of reinsurance									3
Reserves for losses and losses expenses, net of reinsurance									<u>22,307</u>

Note (i) Years ended December 31, 2012 to 2019 are Required Supplementary Information and are unaudited.

CITADEL REINSURANCE COMPANY LIMITED

Notes to Consolidated Financial Statements

December 31, 2020 and 2019
(Expressed in United States Dollars)

3. LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES (continued)

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

The reconciliation of the net incurred and paid claims development tables to the liability for claims and claim adjustment expenses in the consolidated statement of financial position is as follows:

At December 31, 2020
(\$'000s)

	Net outstanding losses and loss expenses	Loss reserves recoverable	Gross outstanding losses and loss expenses
US Workers Compensation	1,427	372	1,799
US Commercial Auto Liability	14,954	57,533	72,487
Reinsurance Assumed	22,307	7,885	30,192
Total outstanding losses and losses expenses	38,688	65,790	104,478

At December 31, 2019
(\$'000s)

	Net outstanding losses and loss expenses	Loss reserves recoverable	Gross outstanding losses and loss expenses
US Workers Compensation	1,728	372	2,100
US Commercial Auto Liability	14,016	48,117	62,133
Reinsurance Assumed	13,113	3,284	16,397
Total outstanding losses and losses expenses	28,857	51,773	80,630

(v) Claims Duration

The following table presents unaudited supplementary information about average historical claims duration as of December 31, 2020 based on cumulative incurred and historical paid losses and allocated loss adjustment expense patterns presented above.

	Average Annual Percentage Payout of Incurred Losses by Age (in Years)							
	1	2	3	4	5	6	7	8
US Workers Compensation	35.4%	27.8%	9.8%	6.6%	3.7%	0.0%	0.4%	16.3%
US Commercial Auto Liability	15.0%	20.1%	24.3%	20.9%	9.8%	6.1%	1.1%	2.7%
Reinsurance	14.6%	12.6%	23.3%	22.9%	13.1%	3.6%	2.7%	7.2%

(vi) Reinsurance credit risk

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

CITADEL REINSURANCE COMPANY LIMITED

Notes to Consolidated Financial Statements

December 31, 2020 and 2019
(Expressed in United States Dollars)

3. LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES (continued)

(vi) Reinsurance credit risk (continued)

A credit risk exists with ceded reinsurance to the extent that any reinsurer is unable to meet the obligations assumed under the reinsurance or retrocessional contracts. Allowances of \$292,697 have been established for amounts deemed uncollectible at December 31, 2020 (2019: \$147,000).

The Company evaluates the financial condition of its reinsurers on a regular basis and also monitors concentrations of credit risk with reinsurers. As at December 31, 2020, the reinsurance balance recoverable on unpaid losses and loss expenses was \$65,789,652 (2019: \$51,773,441) and the reinsurance balance recoverable on paid losses was \$10,731,054 (2019: \$14,537,452).

As of December 31, 2020 and 2019, 99% of the total credit risk exposure from reinsurance premiums ceded and reinsurance recoverable was either fully collateralized or placed with reinsurers that are rated A- or greater by A.M. Best.

4. INVESTMENTS

	2020	2019
Held-for-trading, at fair value	\$ 3,660,327	\$ 4,782,421
Held-to-maturity, at amortized cost	20,156,465	23,983,476
	<u>\$ 23,816,792</u>	<u>\$ 28,765,897</u>

Held-for-trading

	2020	2019
	<u>Fair value</u>	<u>Fair value</u>
Ordinary shares	\$ 2,179,475	\$ 1,889,268
Preferred shares	1,072,684	1,405,581
Corporate and Municipal Bonds	403,126	1,297,604
Treasury notes	5,042	189,968
	<u>\$ 3,660,327</u>	<u>\$ 4,782,421</u>

Held-to-maturity

The amortized cost, gross unrealized gains and losses and estimated fair value of held-to-maturity investments as of December 31, 2020 and 2019, are as follows:

	2020			
	<u>Amortized cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Fair Value</u>
Preferred shares	\$ 846,838	\$ 67,299	\$ -	\$ 914,137
Corporate bonds	15,199,759	547,870	(256,907)	15,490,722
Treasury notes	4,109,868	119,888	(19,094)	4,210,662
	<u>\$ 20,156,465</u>	<u>\$ 735,057</u>	<u>\$ (276,001)</u>	<u>\$ 20,615,521</u>

CITADEL REINSURANCE COMPANY LIMITED

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(Expressed in United States Dollars)

4. INVESTMENTS (continued)

	2019			Fair Value
	Amortized cost	Gross unrealized gains	Gross unrealized losses	
Preferred shares	\$ 1,028,325	\$ 111,690	\$ (3,809)	\$ 1,136,206
Floating notes	906,656	-	-	906,656
Corporate bonds	15,511,350	296,773	(207,475)	15,600,648
Treasury notes	6,537,145	83,344	(35,867)	6,584,622
	<u>\$ 23,983,476</u>	<u>\$ 491,807</u>	<u>\$ (247,151)</u>	<u>\$ 24,228,132</u>

The investment portfolio is managed following prudent standards of diversification across counterparties, issuers, asset classes and geographical regions. Investment guidelines are designed to limit the holdings of a single issue and issuer, control non-US dollar currency exposure and minimize sovereign risk. At December 31, 2020, 93% (2019 - 91%) of the fair value of the held-for-trading and held-to-maturity fixed and floating income portfolio was rated investment grade (considered equivalent to Standard & Poor's credit rating of BBB or above).

Fair value hierarchy – Held-for-trading

The following table represents the fair value hierarchy for the Company's Held-for-trading investments measured at fair value as at December 31, 2020:

	2020			
	Level 1	Level 2	Level 3	Total
Ordinary shares	\$ 2,179,475	\$ -	\$ -	\$ 2,179,475
Preferred shares	1,072,684	-	-	1,072,684
Corporate and Municipal bonds	-	403,126	-	403,126
Treasury funds	-	5,042	-	5,042
	<u>\$ 3,252,159</u>	<u>\$ 408,168</u>	<u>\$ -</u>	<u>\$ 3,660,327</u>

The following table represents the fair value hierarchy for the Company's Held-for-trading investments measured at fair value as at December 31, 2019:

	2019			
	Level 1	Level 2	Level 3	Total
Ordinary shares	\$ 1,889,268	\$ -	\$ -	\$ 1,889,268
Preferred shares	1,405,581	-	-	1,405,581
Corporate and Municipal bonds	-	1,297,604	-	1,297,604
Treasury funds	-	189,968	-	189,968
	<u>\$ 3,294,849</u>	<u>\$ 1,487,572</u>	<u>\$ -</u>	<u>\$ 4,782,421</u>

CITADEL REINSURANCE COMPANY LIMITED

Notes to Consolidated Financial Statements

December 31, 2020 and 2019
(Expressed in United States Dollars)

4. INVESTMENTS (continued)

Fair value hierarchy – Held-to-maturity

The following table represents the fair value hierarchy for the Company’s Held-to-maturity investments measured at fair value as at December 31, 2020:

	2020			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Preferred shares	\$ 914,137	\$ –	\$ –	\$ 914,137
Floating notes	–	–	–	–
Corporate and Municipal bonds	–	15,490,722	–	15,490,722
Treasury funds	–	4,210,662	–	4,210,662
	<u>\$ 914,137</u>	<u>\$ 19,701,384</u>	<u>\$ –</u>	<u>\$ 20,615,521</u>

The following table represents the fair value hierarchy for the Company’s Held-to-maturity investments measured at fair value as at December 31, 2019:

	2019			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Preferred shares	\$ 1,136,206	\$ –	\$ –	\$ 1,136,206
Floating notes	–	906,656	–	906,656
Corporate and Municipal bonds	–	15,600,648	–	15,600,648
Treasury funds	–	6,584,622	–	6,584,622
	<u>\$ 1,136,206</u>	<u>\$ 23,091,926</u>	<u>\$ –</u>	<u>\$ 24,228,132</u>

Investments:

The Company did not impair its investment in the Held-to-maturity portfolio in 2020 or 2019. The Company considers impairment as other than temporary if evidence indicating that an investment’s cost is recoverable within a reasonable period of time is outweighed by evidence to the contrary. The Company also considers its ability and intent to hold an investment until such recovery of the security’s fair value. Recognition of impairment losses for declines in the value of securities attributable to issuer-specific events are based upon all relevant facts and circumstances for each investment. Factors considered by management include, but are not limited to, the impact of issuer-specific events, dividend flow, industry-specific events, current and expected future market and economic conditions, the nature of the investment, the severity and duration of the impairment and the volatility of the security’s market price.

The amortized cost and estimated fair value amounts for preferred shares and corporate bonds held at December 31, 2020 and December 31, 2019 are shown by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

There were no securities transferred between Level 1, Level 2 or Level 3 during the years ended December 31, 2020 and 2019.

Cash and cash equivalents:

The carrying amounts reported in the Consolidated Balance Sheets for Cash and cash equivalents represent their estimated fair values.

CITADEL REINSURANCE COMPANY LIMITED

Notes to Consolidated Financial Statements

December 31, 2020 and 2019
(Expressed in United States Dollars)

4. INVESTMENTS (continued)

The maturity distribution for fixed maturities held as of December 31, 2020 was:

	Held-to-maturity		Held-for-trading
	Amortized cost 2020	Fair value 2020	Fair value 2020
Due within one year	\$ 3,255,717	\$ 3,195,723	\$ 493,663
Due after one year through five years	10,644,558	11,080,035	916,498
Due after five years	<u>6,256,190</u>	<u>6,339,763</u>	<u>70,691</u>
	\$ <u>20,156,465</u>	\$ <u>20,615,521</u>	\$ <u>1,480,852</u>

The maturity distribution for fixed maturities held as of December 31, 2019 was:

	Held-to-maturity		Held-for-trading
	Amortized cost 2019	Fair value 2019	Fair value 2019
Due within one year	\$ 3,673,551	\$ 3,678,820	\$ 374,782
Due after one year through five years	10,821,062	11,080,094	2,410,315
Due after five years	<u>8,582,208</u>	<u>8,562,561</u>	<u>108,056</u>
	\$ <u>23,076,821</u>	\$ <u>23,321,475</u>	\$ <u>2,893,153</u>

Excluded from the above table are floating rate note securities Held-to maturity, with a fair value of \$0 as of December 31, 2020 (2019 - \$906,656). The interest rates are reset quarterly, based on a margin over the Australian 90-day bank bill benchmark rate. Most of these securities have passed early redemption dates and can be redeemed at any time by the issuer of the securities. In such cases, this would be taken as the maturity date.

Concentration of Credit Risk

As at December 31, 2020 Cash and cash equivalents are held with 19 financial institutions (2019 – 20).

As at December 31, 2020, the Investment portfolios are held with 6 financial institutions (2019 – 7).

CITADEL REINSURANCE COMPANY LIMITED

Notes to Consolidated Financial Statements

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(Expressed in United States Dollars)

5. ACQUISITIONS AND GOODWILL

The Company accounts for acquisitions using the acquisition method of accounting, which requires that the acquirer recognize and measure the identifiable assets acquired and liabilities assumed at their acquisition-date fair values.

During the year ended December 31, 2011, the Company recorded \$1,633,739 of goodwill on the determination of the final purchase price of the acquisition of American Millennium Insurance Company.

During the year ended December 31, 2016, the Company recorded goodwill of \$504,145 for the acquisition of Citadel Management Bermuda Limited (formerly Cedar Management Limited) and \$42,783 for the acquisition of Cedar Consulting, LLC. Both subsidiaries were sold effective July 23, 2020 and the goodwill was extinguished as a result.

The Company has determined that no impairment of the remaining goodwill exists as of December 31, 2020 and 2019.

In July 2020, the Company sold its 51.0% ownership share in Citadel Management Bermuda Limited and CRMI sold its 51.0% of the interests held in Cedar Consulting, LLC, to affiliates of the Davies Group.

6. UNEARNED PREMIUMS AND DEFERRED ACQUISITION COSTS

	<u>2020</u>	<u>2019</u>
Gross unearned premiums	\$ (32,839,204)	\$ (30,985,175)
Prepaid reinsurance premiums	<u>18,829,932</u>	<u>21,469,390</u>
Net unearned premiums	(14,009,272)	(9,515,785)
Deferred policy acquisition costs	7,601,871	6,494,034
Deferred ceding commission income	<u>(4,965,964)</u>	<u>(6,167,719)</u>
Net deferred acquisition costs	2,635,907	326,315

7. SHARE CAPITAL

Share capital is comprised of the following authorized, issued and fully paid shares of the par value \$1 each:

	<u>2020</u>	<u>2019</u>
Common shares (20,000,000 shares in 2020 and 2019)	\$ <u>20,000,000</u>	\$ <u>20,000,000</u>

A dividend of \$0 was declared and paid during 2020 (2019 - \$500,000).

8. PLEDGED ASSETS

Pursuant to its assumed reinsurance arrangements, the Company is required to provide its ceding companies with collateral to secure its obligations to them. The Company has provided its ceding companies with insurance trusts with cash and cash equivalents amounting to \$7,345,213 at December 31, 2020 (2019 - \$411,927) and with investments with a carrying value of \$2,965,211 at December 31, 2020 (2019 - \$3,512,216).

In addition, pledged but unmatched cash and cash equivalents at December 31, 2020 of \$827,419 (2019: \$378,326) and investments with a carrying value at December 31, 2020 of \$1,023,403 (2019: \$1,446,120) have been deposited with US financial institutions to meet licensing requirements of USA states in which the Group is licensed to operate.

CITADEL REINSURANCE COMPANY LIMITED

Notes to Consolidated Financial Statements

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(Expressed in United States Dollars)

9. TAXATION

The Company is incorporated in Bermuda, and under current Bermuda law, is not required to pay any taxes in Bermuda on either income or capital gains. The Company has received an undertaking from the Minister of Finance in Bermuda that in the event of such taxes being imposed the Company will be exempted from taxation until the year 2035. The Company is subject to withholding tax on investment income from foreign securities.

The Company's subsidiaries that are based in the United States and the United Kingdom are subject to the tax laws of those jurisdictions and the jurisdictions in which they operate.

The components of income tax credit were as follows:

	<u>2020</u>	<u>2019</u>
Current tax benefit	\$ (203,774)	\$ (375,883)
Deferred tax benefit	(419,761)	(130,210)
Total tax benefit	<u>\$ (623,535)</u>	<u>\$ (506,093)</u>

At December 31, 2020, the Company had recorded:

- total tax receivables of \$2,416,200 within accounts receivable and accrued interest (2019 - \$1,792,925) including total deferred tax assets of \$1,438,365 (2019 - \$1,018,602), and
- total tax payables of \$173,963 in accounts payable and accruals (2019 - \$420,367).

The Company has not recorded any interest or penalties during the years ended December 31, 2020 and 2019.

Deferred income taxes reflect net operating loss carry forwards and the tax impact of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and those for income tax purposes. The significant components of the net deferred tax assets and liabilities as of December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Outstanding losses and loss expenses	\$ 158,066	\$ 160,150
Unearned premiums	292,917	350,277
Net operating loss carry forwards	1,886,715	452,436
Unrealized losses	36,371	30,200
Other	399,397	149,578
Total deferred tax assets	<u>2,773,466</u>	<u>1,142,641</u>
Valuation allowance	<u>(1,335,101)</u>	<u>(124,039)</u>
Total deferred tax assets net of valuation allowance	<u>\$ 1,438,365</u>	<u>\$ 1,018,602</u>

As of December 31, 2020, the Company has a gross deferred tax asset of \$1,886,715 (2019 - \$452,436) generated by net operating loss carry forwards ("NOLs") of approximately \$8,485,894 (2019 - \$1,810,318) relating to Federal and State NOLs in the United States. The assets are recognized at the relevant Federal and State tax rates.

Realization of deferred tax assets associated with the NOLs is dependent upon generating sufficient taxable income prior to their expiration. Although realization is not assured, management believes it is more likely than not that the results of future operations will generate sufficient taxable income to realize the net balance of deferred tax assets carried forward. A valuation allowance of \$1,335,101 has been established at December 31, 2020 to reflect management's estimate of the temporary deductible differences that may expire prior to their utilization. The total deferred tax assets net of valuation allowance are included within accounts receivable and accrued interest.

CITADEL REINSURANCE COMPANY LIMITED

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10. RELATED PARTY TRANSACTIONS

Included in accounts payable and accruals are advances made by affiliated companies totaling \$30,505 (2019 - \$38,057). Included in accounts receivable and accrued interest are advances made to the parent company and affiliates totaling \$4,219,913 (2019 - \$3,694,860). The advances are non-interest bearing and repayable on demand. Sums paid to third parties for Director fees totaled \$3,000 (2019 - \$0).

11. CONTINGENCIES AND COMMITMENTS

The Company is liable on reinsurance ceded to the extent that the companies to which the business is ceded do not meet their contractual obligations.

12. NON-CONTROLLING INTEREST

In connection with the Company's co-investments in Great Falls Insurance Company, Great Falls Holding Company has issued ordinary shares to a non-controlling interest. These shares represent an 18.38% (2019 - 18.38%) ownership interest in Great Falls Holding Company and the carrying value of that interest is presented in Equity.

In connection with the Company's acquisition of Citadel Management Bermuda Limited (formerly Cedar Management Limited) on February 29, 2016, non-controlling interests also owned shares in this company. These shares represented a 49.0% (2019 - 49.0%) ownership interest and the carrying value of that interest was presented in Equity until the date of the Company's sale of its controlling interest on July 23, 2020.

In connection with CRMI's acquisition of Cedar Consulting, LLC on February 29, 2016, non-controlling interests also held interests in this company. These interests represented a 49.0% (2019 - 49.0%) ownership interest and the carrying value of that interest was presented in Equity until the date of the Company's sale of its controlling interest on July 23, 2020.

13. STATUTORY REQUIREMENTS

As a registered insurance company under the Bermuda Insurance Act 1978 Act ("the Act"), the Company is required to prepare Statutory Financial Statements and to file a Statutory Financial Return each year. The Act also requires the Company to meet certain minimum capital and surplus requirements. To satisfy these requirements, the Company was required to maintain a minimum level of statutory capital and surplus of \$3,697,799 at December 31, 2020 (2019 - \$2,805,530). The Company's statutory capital and surplus was \$15,551,735 at December 31, 2020 (2019 - \$22,544,057). The Company is also required to maintain a minimum liquidity ratio whereby the value of its relevant assets is not less than 75% of the amount of its relevant liabilities. At December 31, 2020 the Company's relevant assets of \$37,390,323 exceed 75% of the relevant liabilities of \$40,702,048 which is \$30,526,536 and the minimum liquidity ratio is therefore met.

For Commercial insurers, payments of dividends exceeding 25% of total statutory capital and surplus in previous year's financial statements, require a directors' affidavit to be filed with the Registrar at least 7 days before payment stating the company would comply with requirements for solvency margins laid down per Section 31B of Insurance Act 1978.

The National Association of Insurance Commissioners (NAIC) requires the Company's two affiliates, American Millennium Insurance Company and Great Falls Insurance Company to submit annual risk-based capital filings. The filings are intended to help the regulators identify insurers that are in financial difficulty by establishing minimum capital needs based upon risks applicable to the operations of the specific insurer. At December 31, 2020 and December 2019, the capital and surplus of Great Falls Insurance was in excess of their respective risk based capital and minimum capital and surplus requirements.

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13. STATUTORY REQUIREMENTS (continued)

American Millennium Insurance Company's (AMIC) 2020 filing indicates that it is at company action level. AMIC's immediate parent entity, Citadel Risk Holdings, Inc, provided AMIC with an additional \$6,200,000 capital in two instalments during June and August 2021, and at which point AMIC exceeded the minimum risk-based capital requirement of 300% as determined by the NAIC. (See Note 15. Subsequent Events)

AMIC's 2019 filing indicates that it exceeded the minimum capital requirements as determined by the NAIC.

Under a consent order issued by the New Jersey Banking and Insurance Department dated August 31, 1991, payment of dividends by AMIC requires the prior approval of the New Jersey Department of Banking and Insurance. There have been no dividends declared or paid by the Company during 2020 and 2019.

Under the laws of the State of Maine, USA, Great Falls Insurance Company may not pay dividends to stockholders from any source other than statutory unassigned surplus. At December 31, 2020 and 2019 the Company has unassigned surplus of \$1,515,200 and \$1,573,764 respectively. There have been no dividends declared or paid by the Company during 2020 and 2019.

14. MARKET RISK

Since December 31, 2019 many countries have experienced an outbreak of the Covid-19 virus and on March 11, 2020, the World Health Organization declared the disease to be a global pandemic. The Covid-19 pandemic developed rapidly, causing disruption to global supply chains and adversely impacting many industries. The outbreak caused a material adverse impact on economic and market conditions and triggered a period of global economic slowdown. The Company mainly writes US Commercial Automobile Liability, General Third-Party Liability business and Surety business through the US subsidiaries and parent company, which may be adversely affected by the pandemic. Citadel's management is monitoring the developments closely. Areas within the financial statements that could be materially impacted include the Loss and loss adjustment expense reserves, amounts recoverable from reinsurers and the fair market value of investments, all of which could change meaningfully. Although the Company cannot estimate the length or gravity of the impact of the Covid-19 outbreak at this time, if the pandemic continues, it may have an adverse impact on the Company's results of future operations and financial position.

15. SUBSEQUENT EVENTS

Subsequent events have been evaluated through August 27, 2021, which is the date the December 31, 2020 financial statements were available to be issued.

Effective April 1, 2021, AMIC entered into an Aggregate Stop Loss reinsurance agreement ("Agreement") with a third-party reinsurer. The Reinsurer shall be liable to indemnify and reinsure AMIC for 100% of its net retention of any losses in excess of claims paid at April 1, 2021 on USA commercial automobile liability policies produced for AMIC by three managing general agents based in Texas. The effect of the Agreement is to reinsure any future adverse claims development that might occur on the business covered beyond March 31, 2021.

During June and August 2021, Citadel Reinsurance Company Limited increased its investment in its affiliate, Citadel Risk Holdings, Inc by \$6,200,000. Citadel Risk Holdings, Inc has provided additional \$6,200,000 surplus to its affiliate AMIC, enabling AMIC to achieve a Risk Based Capital ratio that exceeds the minimum capital requirements.

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15. SUBSEQUENT EVENTS (continued)

On August 20, 2021, AMIC's immediate parent entity, Citadel Risk Holdings, Inc agreed to sell 45,000 Class A Common Stock to an investor. The full purchase price of \$10,000,000 shall be payable in ten annual instalments of \$1,000,000 over ten years commencing at or before December 31, 2021. The investor will receive one tenth (4,500) of the purchased shares in exchange for each payment of \$1,000,000 made.

On August 20, 2021, Citadel Risk Holdings, Inc issued and agreed to sell 10,000,000 Class B Stock without par value, to the same investor for \$10,000,000 issued in the form of promissory notes fully collateralized by US Treasury Bills. If mutually agreed by both parties, the holder of the Class B Stock may redeem a portion of the Class B Stock any time after August 20, 2031, at a redemption price equal to the purchase price or a pro-rated equivalent if a smaller number of Class B Stock is sold.