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Validus Reinsurance, Ltd.

Incorporated in Bermuda

Consolidated financial statements

As at and for the years ended December 31, 2020 and 2019

Expressed in thousands of U.S. dollars, except share amounts

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April 27, 2021

Report of Independent Auditors

To the Board of Directors and Shareholder of Validus Reinsurance, Ltd.

We have audited the accompanying consolidated financial statements of Validus Reinsurance, Ltd. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of income and comprehensive income, of shareholder's equity and of cash flows for the years then ended.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of the 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 the 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 our 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, we consider 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 Validus Reinsurance, Ltd. 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 accounting principles generally accepted in the United States of America.

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Other Matter

Accounting principles generally accepted in the United States of America require that the required supplemental information under Accounting Standards Update 2015-09*, Disclosure about Short-Duration Contracts* labelled as Unaudited within Note 10 on pages 35 to 37 be presented to supplement the basic financial statements. Such 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. 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 financial statements, and other knowledge we obtained during our audit of the basic 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.

PricewaterhouseCoopers Ltd.

Chartered Professional Accountants

Consolidated Balance Sheets
As at December 31, 2020 and 2019
Expressed in thousands of U.S. dollars, except share amounts

	2020 $	2019 $
Assets		
Fixed maturity investments trading, at fair value (amortized cost: 2020 - $3,115,587; 2019 - $2,754,199)	3,204,643	2,791,814
Short-term investments trading, at fair value	92,213	62,794
Other investments, at fair value	240,630	282,398
Cash and cash equivalents	376,821	386,676
Restricted cash	121,164	57,739
Total investments and cash	4,035,471	3,581,421
Investments in operating affiliates, equity method	118,356	123,972
Structured notes receivable from AlphaCat ILS fund	10,365	10,909
Premiums receivable	886,647	717,526
Deferred acquisition costs	195,623	151,228
Prepaid reinsurance premiums	57,082	62,308
Loss reserves recoverable	1,074,617	1,119,707
Paid losses recoverable	23,282	92,921
Income taxes recoverable	6,175	5,356
Deferred tax asset	68,010	61,005
Receivable for investments sold	54	738
Balances due from affiliates	1,006,507	1,094,261
Accrued investment income	14,786	15,814
Funds withheld	134,678	44,247
Other assets	21,193	22,357
Total assets	**7,652,846**	**7,103,770**
Liabilities		
Reserve for losses and loss expenses	3,211,396	2,724,823
Unearned premiums	855,093	679,964
Reinsurance balances payable	39,449	99,183
Income taxes payable	3,740	1,578
Deferred tax liability	625	3,857
Payable for investments purchased	1,739	99
Balances due to affiliates	71,278	139,219
Funds withheld liability	2,019	161
Accounts payable and accrued expenses	28,457	7,633
Total liabilities	**4,213,796**	**3,656,517**
Shareholder's equity		
Common shares, 1,000,000 authorized, par value $1.00 Issued and outstanding (2020 and 2019 - 1,000,000)	1,000	1,000
Additional paid-in capital	2,960,939	2,960,939
Accumulated other comprehensive income	173	173
Retained earnings	476,938	485,141
Total shareholder's equity	**3,439,050**	**3,447,253**
Total liabilities and shareholder's equity	**7,652,846**	**7,103,770**

Approved by the Board of Directors

Christopher Schaper
Director

Patrick Boisvert
Director

Consolidated Statements of Income and Comprehensive Income

For the years ended December 31, 2020 and 2019

Expressed in thousands of U.S. dollars

	2020 $	2019 $
Revenues		
Gross premiums written	2,409,467	2,806,989
Reinsurance premiums ceded	(586,263)	(694,867)
Net premiums written	1,823,204	2,112,122
Change in unearned premiums	(180,355)	(230,251)
Net premiums earned	1,642,849	1,881,871
Net investment income	110,589	126,553
Net realized gains on investments	699	2,458
Net change in unrealized gains on investments	58,874	91,403
Other insurance-related income and other income	12,750	62,599
Foreign exchange (losses) gains	(18,517)	4,037
Total revenues	**1,807,244**	**2,168,921**
Expenses		
Losses and loss expenses	1,271,712	1,154,027
Policy acquisition costs	354,757	531,679
General and administrative expenses	100,760	118,334
Share compensation expenses	1,686	1,799
Finance expenses	3,290	3,855
Transaction expenses	504	470
Total expenses	**1,732,709**	**1,810,164**
Income before taxes and income from operating affiliates and structured notes	**74,535**	**358,757**
Tax benefit	8,437	26,303
Income from operating affiliates	8,245	8,708
Income from structured notes receivable from AlphaCat ILS fund	580	1,044
Net income and comprehensive income	**91,797**	**394,812**

Consolidated Statements of Shareholder’s Equity
For the years ended December 31, 2020 and 2019
Expressed in thousands of U.S. dollars

	2020 $	2019 $
Common shares		
Balance, beginning and end of year	1,000	1,000
Additional paid-in capital		
Balance, beginning of year	2,960,939	2,887,498
Contributions from parent company	-	73,441
Balance, end of year	2,960,939	2,960,939
Accumulated other comprehensive income		
Balance, beginning and end of year	173	173
Retained earnings		
Balance, beginning of year	485,141	370,329
Dividends declared	(100,000)	(280,000)
Net income	91,797	394,812
Balance, end of year	476,938	485,141
Total shareholder’s equity	**3,439,050**	**3,447,253**

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 provided by (used in) operating activities		
Net income	91,797	394,812
Adjustments to reconcile net income and comprehensive income to net cash provided by (used in) operating activities:		
Share compensation expenses	1,686	1,799
Change in net realized and unrealized gains on investments	(59,573)	(93,861)
Income from operating affiliates	(8,245)	(8,708)
Foreign exchange losses (gains) included in net income	18,517	(946)
Amortization of premium on fixed maturity investments	14,147	3,222
Transaction expenses	504	470
Change in operational balance sheet items:		
Premiums receivable	(153,580)	(171,982)
Deferred acquisition costs	(44,395)	28,377
Prepaid reinsurance premiums	5,226	14,592
Loss reserves recoverable	45,090	172,184
Paid losses recoverable	69,624	(74,512)
Reserve for losses and loss expenses	452,445	(1,402,537)
Unearned premiums	175,129	(261,105)
Reinsurance balances payable	(59,385)	(73,414)
Funds withheld	(90,431)	1,750,405
Other operational balance sheet items, net	21,573	(370,136)
Net cash provided by (used in) operating activities	**480,129**	**(91,340)**
Cash flows (used in) provided by investing activities		
Proceeds on sales of investments	100,159	517,861
Proceeds on maturities of investments	757,158	320,523
Purchase of fixed maturity investments	(1,228,488)	(1,207,514)
(Purchases) sales of short-term investments, net	(29,410)	86,234
Sales of other investments, net	47,850	90,029
Purchase of shares in operating affiliates	(15,000)	(15,000)
Redemption of shares / distributions from operating affiliates	28,861	41,167
Redemptions of structured notes from AlphaCat ILS fund	10,544	10,701
Purchases of structured notes from AlphaCat ILS fund	(10,000)	(3,000)
Investments made in advance with AlphaCat ILS fund, net	-	(5,000)
Net cash used in investment activities	**(338,326)**	**(163,999)**
Cash flow used in financing activity		
Dividends paid	(100,000)	(191,630)
Cash flow used in financing activity	**(100,000)**	**(191,630)**
Effect of foreign currency rate changes on cash and cash equivalents and restricted cash	**11,767**	**946**
Net increase (decrease) in cash and cash equivalents and restricted cash	**53,570**	**(446,023)**
Cash and cash equivalents and restricted cash - beginning of year	444,415	890,438
Cash and cash equivalents and restricted cash - end of year	**497,985**	**444,415**
Supplemental information		
Taxes paid during the year	151	16

Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

Expressed in thousands of U.S. dollars, except share amounts

1. Nature of the business

Validus Reinsurance, Ltd. (the "Company" or "Validus Re") was incorporated under the laws of Bermuda on October 19, 2005. The Company is 100% owned by Validus Holdings, Ltd. (the "parent company" or "Validus Holdings") which was also incorporated under the laws of Bermuda on October 19, 2005. Validus Re is registered as a Class 4 insurer under The Insurance Act 1978 of Bermuda, amendments thereto and the Insurance Account Rules 2016 (the "Legislation"). The Company primarily offers treaty reinsurance coverage on a global basis in the Property and Specialty lines markets.

The Company's Canada branch office commenced writing underwriting business on January 1, 2020. The Canada branch office is subject to regulation by the Office of the Superintendent of Financial Institutions Canada ("OSFI"). Under regulations and guidelines prescribed by OSFI, the Canada branch office is required to maintain prescribed levels of capital, which are dependent on the type and amount of insurance policies in force and the nature of the Canada branch office's assets.

Most recent capital transactions

On June 15, 2018, the Bermuda Monetary Authority ("BMA") approved the merger of IPC Re Limited with the Company, with the Company being the surviving entity, in accordance with the provisions of Section108 of the Companies Act, 1981.

On July 18, 2018, Validus Holdings completed its previously announced definitive agreement and plan of merger (the "Merger Agreement") with American International Group, Inc. ("AIG") in accordance with Section 105 of the Bermuda Companies Act 1981. Pursuant to the Merger Agreement, Validus Holdings merged with an existing AIG subsidiary, with Validus Holdings continuing as the surviving corporation and as a wholly-owned subsidiary of AIG.

On September 1, 2018, in order to align Validus Re's U.S. entities (i.e. Validus Specialty, Inc. and all of its subsidiaries including Western World Insurance Group and Crop Risk Services, Inc. ("Validus Specialty Group") under AIG's U.S. consolidated tax group, the Company sold its interest in Validus Specialty Group to AIG Property Casualty Inc. in exchange for a note receivable from AIG International Holdings GmbH.

2. Basis of preparation and consolidation

These Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The Company consolidates in these Consolidated Financial Statements the results of operations and financial position of all voting interest entities ("VOE") in which the Company has a controlling financial interest and all variable interest entities ("VIE") in which the Company is considered to be the primary beneficiary. The consolidation assessment, including the determination as to whether an entity qualifies as a VIE or VOE, depends on the facts and circumstances surrounding each entity.

All significant intercompany accounts and transactions have been eliminated.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2020 and 2019
Expressed in thousands of U.S. dollars, except share amounts

2. Basis of preparation and consolidation (continued)

The preparation of these Consolidated Financial Statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. While the amounts included in the Consolidated Financial Statements reflect management's best estimates and assumptions, actual results could differ from those estimates. The Company's principal estimates include:

- the reserve for losses and loss expenses;
- the premium written on a line slip or proportional basis;
- the loss reserves recoverable, including the provision for uncollectible amounts; and
- the valuation of invested assets and other financial instruments.

The term "ASC" used in these notes refers to Accounting Standard Codification issued by the United States Financial Accounting Standards Board (the "FASB").

3. Significant accounting policies

The following is a summary of significant accounting policies adopted by the Company:

Premiums

Reinsurance contracts can be written on a risks attaching or losses occurring basis. Under risks attaching reinsurance contracts, all claims from cedants' underlying policies incepting and attaching during the reinsurance contract period are covered, even if they occur after the expiration date of the reinsurance contract and before the expiration date of the attaching policy. In contrast, losses occurring reinsurance contracts cover all claims occurring during the coverage period of the reinsurance contract, regardless of the inception dates of the underlying policies. Any claims occurring after the expiration of the losses occurring contract are not covered.

Reinsurance premiums written are recorded at the inception of the policy. Premiums are estimated based on information received from brokers, ceding companies and reinsureds, and any subsequent differences arising on such estimates are recorded in the periods in which they are determined.

Premiums written are earned on a pro-rated basis over the term of the related policy or contract. For losses occurring reinsurance contracts, the earnings period is generally the same as the term of the related contract or policy. For reinsurance contracts written on a risks attaching basis, the earnings period is based on the terms of the underlying contracts and policies and is generally 24 months. The portion of the premiums written applicable to the unexpired terms of the underlying contracts and policies in force is recorded as unearned premiums.

Reinstatement premiums are recorded at the time a loss event occurs and coverage limits for the remaining life of the contract are reinstated under predefined contract terms. The accrual of reinstatement premiums is based on our estimate of losses and loss expenses, which reflects management's judgment, as described in "*Reserve for losses and loss expenses*" below.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

Expressed in thousands of U.S. dollars, except share amounts

3. Significant accounting policies (continued)

Policy acquisition costs

Policy acquisition costs are costs that vary with, and are directly related to, the successful production of new and renewal business, and consist principally of commissions and brokerage expenses. These costs are deferred and amortized over the period in which the related premiums are earned. Acquisition costs are shown net of commissions earned on reinsurance ceded. However, if the sum of a contract's expected losses and loss expenses and deferred acquisition costs exceeds related unearned premiums, a premium deficiency is determined to exist. In this event, deferred acquisition costs are immediately expensed to the extent necessary to eliminate the premium deficiency. If the premium deficiency exceeds deferred acquisition costs then a liability is accrued for the excess deficiency. There were no premium deficiency adjustments recognized during the periods presented herein.

Policy acquisition costs also include profit commissions, which are recognized on a basis consistent with our estimate of losses and loss expenses.

Reserve for losses and loss expenses

The reserve for losses and loss expenses includes reserves for unpaid reported losses ("case reserves") and for losses incurred but not reported ("IBNR"). Case reserves are established by management based on reports from brokers, ceding companies and insureds and represents the unpaid portion of the estimated ultimate cost of events or conditions that have been reported to, or specifically identified by, the Company. IBNR reserves are established by management based on actuarially determined estimates of ultimate losses and loss expenses. Inherent in the estimate of ultimate losses and loss expenses are expected trends in claim severity and frequency and other factors which may vary significantly as claims are settled.

The period of time from the occurrence of a loss to the reporting of a loss to the Company and to the settlement of the Company's liability may be several months or years. During this period, additional facts and trends may be revealed. Accordingly, losses and loss expenses ultimately paid may differ materially from the amounts recorded in the Consolidated Financial Statements. These estimates are reviewed regularly and, as experience develops and new information becomes known, the reserves are adjusted as necessary. These adjustments sometimes lead to an increase or decrease in ultimate losses, and at other times lead to a reallocation between IBNR and specific case reserves. Adjustments to ultimate loss estimates, if any, are recorded in earnings in the period in which they become known. Prior period development arises from changes to these estimates recognized in the current year that relate to losses and loss expenses that were incurred in previous calendar years.

Although there is normally a lag in receiving reinsurance data from cedants, the Company currently has adequate procedures in place regarding the timeliness related to the processing of assumed reinsurance information and there is no significant backlog. The Company actively manages its relationships with brokers and clients and considers existing disputes with counterparties to be in the normal course of business.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

Expressed in thousands of U.S. dollars, except share amounts

3. Significant accounting policies (continued)

Reinsurance

The Company enters into retrocession agreements in order to mitigate its accumulation of loss, reduce its liability on individual risks, enable it to underwrite policies with higher limits and increase its aggregate capacity. Ceded reinsurance premiums are accounted for on bases consistent with those used in accounting for the underlying premiums assumed. Prepaid reinsurance premiums represent the portion of premiums ceded applicable to the unexpired term of policies in force.

Loss reserves recoverable on unpaid losses represent amounts that will be collectible from reinsurers once the losses are paid. Reinsurance recoverable on paid losses represents amounts currently due from reinsurers. The recognition of reinsurance recoverable requires two key judgments. In determining the Company's ceded IBNR, the first judgment involves the estimation of the amount of gross IBNR to be ceded to reinsurers. Ceded IBNR is developed as part of the Company's loss reserving process and consequently, its estimation is subject to risks and uncertainties similar to the estimation of gross IBNR.

Funds withheld

The Company writes and cedes certain business on a funds withheld basis. Under these contractual arrangements, the cedants withhold premiums for the purpose of paying claims. The remaining net funds will be remitted to or paid by the Company after all policies have expired and all claims have been settled.

Investments

The Company classifies its fixed maturity and short-term investments as trading and accounts for its other investments in accordance with ASC Topic 825, *"Financial Instruments".* As such, all investments are carried at fair value with interest and dividend income included in net investment income and realized and unrealized gains and losses included in net income.

Realized gains and losses on the sale of investments are determined on the basis of amortized cost. Interest on fixed maturity securities is recorded in net investment income when earned and includes amortization of premium or accretion of discount.

For mortgage-backed securities, and any other holdings which carry the risk of prepayment, prepayment assumptions are evaluated and revised as necessary. Any adjustments required due to the resultant change in effective yields and maturities are recognized retrospectively. Prepayment fees or call premiums that are only payable to the Company when a security is called prior to its maturity are earned when received and reflected in net investment income.

Short-term investments primarily comprise investments with a remaining maturity of less than one year at time of purchase and money market funds held at the Company's investment managers.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

Expressed in thousands of U.S. dollars, except share amounts

3. Significant accounting policies (continued)

Investments (continued)

The fair value of other investments is generally recorded on the basis of the net asset valuation criteria established by the managers of the investments, normally based upon the governing documents of such investments. In addition, due to a lag in reporting, some of the fund managers, fund administrators, or both, are unable to provide final fund valuations as of the Company's reporting date. In these circumstances, the Company estimates the fair value of these funds by starting with the prior month's or prior quarter's fund valuation, adjusting these valuations for capital calls, returns of capital or distributions, and then estimating the return for the current period. In circumstances in which the Company estimates the return for the current period, it uses all credible information available. This includes utilizing preliminary estimates reported by its fund managers, obtaining the valuation of underlying portfolio investments where such underlying investments are publicly traded and therefore have a readily observable price, using information that is available to the Company with respect to the underlying investments, reviewing various indices for similar investments or asset classes, as well as estimating returns based on the results of similar types of investments for which the Company has reported results, or other valuation methods, as necessary. Actual final fund valuations may differ, perhaps materially so, from the Company's estimates and these differences are recorded in the period they become known as a change in estimate.

Investments in operating affiliates in which the Company has significant influence over the operating and financial policies of the investee are accounted for under the equity method of accounting. Under this method, the Company records its proportionate share of income or loss from such investments in its results for the period. Due to a lag in reporting, the fund managers are unable to provide final investment statements as of the Company's reporting date. In these circumstances, the Company estimates its proportionate share of income or loss from such investments by starting with the prior month's investment statement, adjusting for capital calls, redemptions or distributions, and then estimating the return for the current period. In circumstances in which the Company estimates the return for the current period, it applies the same methodology as for other investments.

Fair value of financial instruments

Fair value is defined as the price received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820, *"Fair Value Measurement and Disclosure"*, provides a framework for measuring fair value by creating a hierarchy of fair value measurements that distinguishes market data between observable independent market inputs and unobservable market assumptions by the reporting entity. The guidance further expands disclosures about such fair value measurements. The guidance applies broadly to most existing accounting pronouncements that require or permit fair value measurements (including both financial and non-financial assets and liabilities) but does not require any new fair value measurements. The Company has adopted all authoritative guidance in effect as of the balance sheet date regarding certain market conditions that allow for fair value measurements that incorporate unobservable inputs where active market transaction based measurements are unavailable.

Derivative instruments

The Company enters into various derivative instruments in the form of foreign currency forward exchange contracts. These derivative instruments are used to manage exposures to currency risk. All of the Company's outstanding derivative financial instruments are recognized in the Consolidated Balance Sheets at their fair values. The effect on earnings from recognizing the fair values of these derivative financial instruments depends on their intended use, their hedge designation, and their effectiveness in offsetting changes in the fair values of the exposures they are hedging.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

Expressed in thousands of U.S. dollars, except share amounts

3. Significant accounting policies (continued)

Derivative instruments (continued)

Derivatives not designated as hedging instruments

Changes in the fair values of derivative instruments that are not designated as hedges are reported currently in earnings. Refer to Note 8, *"Derivative instruments"*, for further details.

Cash and cash equivalents

The Company considers time deposits and money market funds with an original maturity of one month or less as equivalent to cash.

Restricted cash

Restricted cash primarily relates to funds held in trust in support of collateralized reinsurance transactions.

Foreign exchange

The U.S. dollar is the functional currency of the Company and its subsidiaries. For these companies, monetary assets and liabilities denominated in foreign currencies are revalued at the exchange rates in effect at the balance sheet date and revenues and expenses denominated in foreign currencies are translated at the prevailing exchange rate on the transaction date with the resulting foreign exchange gains and losses included in earnings. Non-monetary assets and liabilities denominated in foreign currencies are revalued at the exchange rate in effect at the time of the underlying transaction.

Stock plans

AIG accounts for their stock plans in accordance with the ASC Topic 718, *"Compensation - Stock Compensation".* Accordingly, AIG recognizes the compensation expense for stock option grants, restricted share grants and performance share grants based on the fair value of the award on the date of grant over the requisite service period, and allocates the expense to its subsidiaries, including the Company, based on the location of employees. Under the AIG stock plan, the expense allocated to each subsidiary, including the Company, is settled in cash, payable to AIG upon the date of vest.

For the awards granted under the AIG stock plan, no forfeiture rate is applied, and the compensation expense for forfeited awards is reversed on occurrence.

Income taxes and uncertain tax provisions

Deferred tax assets and liabilities are recorded in accordance with ASC Topic 740, *"Income Taxes".* Consistent with ASC 740, the Company records deferred income taxes which reflect operating losses and tax credits carried forward and the tax effect of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases.

The Company and its Bermuda domiciled subsidiaries are not subject to any income, withholding or capital gains taxes under current Bermuda law. The Company has operating subsidiaries and branch offices in various other jurisdictions around the world, including but not limited to Luxembourg, Switzerland, Singapore and Canada that are subject to relevant taxes in those jurisdictions.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2020 and 2019
Expressed in thousands of U.S. dollars, except share amounts

3. Significant accounting policies (continued)

Income taxes and uncertain tax provisions (continued)

The Company recognizes the tax benefits of uncertain tax positions only where the position is more likely than not to be sustained upon examination by tax authorities based upon the technical merits of the position. Based on the more-likely-than-not recognition threshold, we must presume that the tax position will be subject to examination by a taxing authority with full knowledge of all relevant information. If the recognition threshold is met, then the tax position is measured at the largest amount of benefit that is more than 50% likely of being realized upon ultimate settlement. The Company classifies all interest and penalties related to uncertain tax positions in income tax expenses.

Variable interest entities

The Company determines whether it has relationships with entities defined as VIEs in accordance with ASC Topic 810, *"Consolidation".* A VIE is consolidated by the variable interest holder that is determined to be the primary beneficiary.

An entity in which the Company holds a variable interest is a VIE if any of the following conditions exist: (a) the total equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support, (b) as a group, the holders of equity investment at risk lack either the direct or indirect ability through voting rights or similar rights to make decisions about an entity's activities that most significantly impact the entity's economic performance or the obligation to absorb the expected losses or right to receive the expected residual returns, or (c) the voting rights of some investors are disproportionate to their obligation to absorb the expected losses of the entity, their rights to receive the expected residual returns of the entity, or both and substantially all of the entity's activities either involve or are conducted on behalf of an investor with disproportionately few voting rights.

The primary beneficiary is defined as the variable interest holder that is determined to have both (a) the power to direct the activities of a VIE that most significantly impact the economic performance of the VIE and (b) the obligation to absorb losses or right to receive benefits from the VIE that could potentially be significant to the VIE. At inception of the VIE, as well as following an event that requires reassessment, the Company determines whether it is the primary beneficiary based on the facts and circumstances surrounding each entity.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2020 and 2019
Expressed in thousands of U.S. dollars, except share amounts

4. Recent accounting pronouncements

Accounting standard adopted in 2020

Disclosure framework for fair value measurements

In August 2018, the FASB issued ASU 2018-13, *"Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement"*. The amendments in this update modify the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement, based on the concepts in the Concepts Statement, including the consideration of costs and benefits.

The amendments in this update were effective for all entities for fiscal years beginning after December 15, 2019. The Company adopted the standard with an effective date of January 1, 2020. Adoption of this did not have a material impact on the Company's consolidated financial statements.

Accounting standards not yet adopted

Financial instruments - Credit losses

In June 2016, the FASB issued ASU 2016-13, *"Financial Instruments - Credit Losses (Topic 326)"*, which will change how entities account for credit losses for most financial assets, trade receivables and reinsurance receivables. The standard will replace the existing incurred loss impairment model with a new "current expected credit loss model" that generally will result in earlier recognition of credit losses. The standard will apply to financial assets subject to credit losses, including loans measured at amortized cost, reinsurance receivables and certain off-balance sheet credit exposures. During 2018, 2019 and 2020, the FASB issued a number of amendments and targeted improvements to ease with the application of the standard. These updates are effective in line with the effective date of ASU 2016-13.

This standard is effective for non-public entities for fiscal years beginning after December 15, 2021. The Company is currently assessing the impact of this guidance and whether early adoption will be applied. Although the Company does not anticipate the adoption of this standard to have a material impact on the Consolidated Financial Statements, the quantitative impact of any change will be dependent on the Company's portfolio at the adoption date, as well as economic conditions and other factors at that time.

Codification Improvements

In October 2020, the FASB issued ASU 2020-10, *"Codification Improvements"*. The amendments in this update improve the Codification by ensuring that all guidance that requires or provides an option for an entity to provide information in the notes to financial statements is codified in the Disclosure Section of the Codification.

This standard is effective for non-public entities for fiscal years beginning after December 15, 2021. The Company does not anticipate the adoption of this standard to have a material impact on the Consolidated Financial Statements.

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5. Investments

Fixed maturity investments
The amortized cost and fair value of the Company's fixed maturity investments as at December 31, 2020 and 2019 were as follows:

	2020		2019	
	Amortized cost $	Fair value $	Amortized cost $	Fair value $
U.S. government and government agency	200,823	207,674	283,358	286,962
Non-U.S. government and government agency	85,891	88,550	120,228	121,954
U.S. states, municipalities and political subdivisions	90,780	93,537	84,503	85,723
Agency residential mortgage-backed securities	871,138	890,734	507,259	514,153
Non-agency residential mortgage-backed securities	83,854	85,962	133,393	134,450
U.S. corporate	893,795	933,801	776,433	793,700
Non-U.S. corporate	17,386	18,501	182,066	186,360
Bank loans	5,143	4,651	5,056	4,652
Asset-backed securities	361,804	365,312	426,462	427,225
Commercial mortgage-backed securities	504,973	515,921	235,441	236,635
Total fixed maturities	**3,115,587**	**3,204,643**	**2,754,199**	**2,791,814**

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5. Investments (continued)

Fixed maturity investments (continued)
The following table summarizes the fair value of the Company's fixed maturity investments by credit rating as issued by a recognized rating agency, such as Standard & Poor's, AM Best or another recognized rating agency as at December 31, 2020 and 2019:

	2020		2019	
	Fair value $	Percentage of total %	Fair value $	Percentage of total %
AAA	1,844,436	57.6	1,385,098	49.6
AA	328,566	10.3	291,051	10.4
A	586,731	18.3	620,946	22.3
BBB	372,743	11.6	412,252	14.8
Total investment grade fixed maturities	**3,132,476**	**97.8**	**2,709,347**	**97.1**
BB	22,089	0.7	23,641	0.8
B	6,800	0.2	3,284	0.1
CCC	97	0.0	121	0.0
C	10,163	0.3	-	0.0
NR	33,018	1.0	55,421	2.0
Total non-investment grade fixed maturities	**72,167**	**2.2**	**82,467**	**2.9**
Total fixed maturities	**3,204,643**	**100.0**	**2,791,814**	**100.0**

The amortized cost and fair values for the Company's fixed maturity investments held at December 31, 2020 and 2019 are shown below by contractual maturity. Actual maturity may differ from contractual maturity due to prepayment rights associated with certain investments.

	2020		2019	
	Amortized cost $	Fair value $	Amortized cost $	Fair value $
Due in one year or less	324,504	327,158	197,860	198,368
Due after one year through five years	857,659	895,164	1,035,041	1,051,880
Due after five years through ten years	96,233	108,399	123,515	129,521
Due after ten years	15,422	15,993	95,228	99,581
	1,293,818	1,346,714	1,451,644	1,479,350
Asset-backed and mortgage-backed securities	1,821,769	1,857,929	1,302,555	1,312,464
Total fixed maturities	**3,115,587**	**3,204,643**	**2,754,199**	**2,791,814**

Notes to the Consolidated Financial Statements

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5. Investments (continued)

Other investments

The following table set forth certain information regarding the Company's other investment portfolio as at December 31, 2020 and 2019:

	2020		2019	
	Fair value	Investments with redemption restrictions	Fair value	Investments with redemption restrictions
	$	$	$	$
Hedge funds	8,341	8,341	11,492	11,492
Private equity investments	217,470	217,470	221,200	221,200
Fixed income investment funds	14,819	14,819	49,706	49,706
Total other investments	**240,630**	**240,630**	**282,398**	**282,398**

Certain debt-like investments were $nil as at December 31, 2020 (December 31, 2019: $35,776) and are either rated or consist of underlying securities or instruments which carry credit ratings issued by nationally recognized statistical rating organizations. Other equity-like investments totalling $240,630 (December 31, 2019: $246,622) are unrated given the nature of their underlying assets, such as private equity investments, and as such do not carry credit ratings.

The Company's other investments are subject to redemption restrictions. Distributions from these funds will be received as the underlying investments of the funds are liquidated. Currently, it is not known to the Company when these underlying assets will be sold by their investment managers. However, it is estimated that the majority of the underlying assets of the investments will liquidate over five to ten-year periods from inception of the funds.

The Company's maximum exposure to any of its other investments is limited to the invested amounts and any remaining capital commitments. Refer to Note 15, *"Commitments and contingencies"*, for further details. As at December 31, 2020, the Company does not have any plans to sell any of the other investments listed above.

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5. Investments (continued)

Net investment income
Net investment income during the years ended December 31, 2020 and 2019 was derived from the following sources:

	2020 $	2019 $
Fixed maturities and short-term investments	114,759	115,082
Cash and cash equivalents	1,592	10,359
Other investments	(1,627)	4,046
Investment income	114,724	129,487
Investment expenses	(4,135)	(2,934)
Total net investment income	**110,589**	**126,553**

Net investment income from other investments includes distributed and undistributed net income (loss) from certain private equity investments and fixed income investment funds.

Net realized and change in net unrealized gains on investments
The following represents an analysis of net realized and change in net unrealized gains on investments for the years ended December 31, 2020 and 2019:

	2020		
	Fixed maturities $	Other investments $	Total $
Gross realized gains	2,423	-	2,423
Gross realized losses	(1,724)	-	(1,724)
Net realized gain on investments	699	-	699
Change in net unrealized gains on investments	49,405	9,469	58,874
Total net realized and unrealized gains on investments	**50,104**	**9,469**	**59,573**

	2019		
	Fixed maturities $	Other investments $	Total $
Gross realized gains	4,357	-	4,357
Gross realized losses	(1,899)	-	(1,899)
Net realized gains on investments	2,458	-	2,458
Change in net unrealized gains on investments	71,309	20,094	91,403
Total net realized and unrealized gains on investments	**73,767**	**20,094**	**93,861**

Pledged investments
As at December 31, 2020, the Company had $1,535,470 (December 31, 2019: $1,683,429) of cash and cash equivalents and fixed maturity investments that were pledged and held in trust during the normal course of business. Pledged assets are generally for the benefit of the Company’s cedants and policyholders and to facilitate the accreditation of the Company and its operating subsidiary, Validus Reinsurance (Switzerland) Ltd (“Validus Re Swiss”), as alien reinsurers by certain regulators.

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6. Fair value investments

Classification within the fair value hierarchy

Fair value is defined as the price to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. Under U.S. GAAP, a company must determine the appropriate level in the fair value hierarchy for each fair value measurement. The fair value hierarchy prioritizes the inputs, which refer broadly to assumptions market participants would use in pricing an asset or liability, into three levels. It gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The level in the fair value hierarchy within which a fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

The three levels of the fair value hierarchy are described below:

Level 1 - Fair values are measured based on unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access.

Level 2 - Fair values are measured based on quoted prices in active markets for similar assets or liabilities, quoted prices for identical assets or liabilities in inactive markets, or for which significant inputs are observable (e.g., interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.

Level 3 - Fair values are measured based on unobservable inputs that reflect the Company's own judgments about assumptions where there is little, if any, market activity for that asset or liability that market participants might use.

The availability of observable inputs can vary from financial instrument to financial instrument and is affected by a wide variety of factors including, for example, the type of financial instrument, whether the financial instrument is new and not yet established in the marketplace, and other characteristics particular to the instrument. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires significantly more judgment.

Accordingly, the degree of judgment exercised by management in determining fair value is greatest for instruments categorized in Level 3. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This may lead the Company to change the selection of the valuation technique (for example, from market to cash flow approach) or to use multiple valuation techniques to estimate the fair value of a financial instrument. These circumstances could cause an instrument to be reclassified between levels within the fair value hierarchy.

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6. Fair value investments (continued)

Classification within the fair value hierarchy (continued)

At December 31, 2020, the Company's investments were allocated between Levels 1, 2 and 3 as follows:

	2020				
	Level 1 $	Level 2 $	Level 3 $	Fair value based on NAV practical expedient [(a)] $	Total $
U.S. government and government agency	-	207,674	-	-	207,674
Non-U.S. government and government agency	-	88,550	-	-	88,550
U.S. states, municipalities and political subdivisions	-	93,537	-	-	93,537
Agency residential mortgage-backed securities	-	890,734	-	-	890,734
Non-agency residential mortgage-backed securities	-	50,886	35,076	-	85,962
U.S. corporate	-	933,801	-	-	933,801
Non-U.S. corporate	-	18,501	-	-	18,501
Bank loans	-	4,651	-	-	4,651
Asset-backed securities	-	323,419	41,893	-	365,312
Commercial mortgage-backed securities	-	515,921	-	-	515,921
Total fixed maturities	**-**	**3,127,674**	**76,969**	**-**	**3,204,643**
Short-term investments	**92,213**	**-**	**-**	**-**	**92,213**
Other investments					
Hedge funds	-	-	-	8,341	8,341
Private equity investments	-	-	-	217,470	217,470
Fixed income investment funds	-	-	-	14,819	14,819
Total other investments	**-**	**-**	**-**	**240,630**	**240,630**
Total investments	**92,213**	**3,127,674**	**76,969**	**240,630**	**3,537,486**

[(a)] In accordance with ASC Topic 820 *"Fair Value Measurements,"* investments measured at fair value using the net asset value ("NAV") per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

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6. Fair value investments (continued)

Classification within the fair value hierarchy (continued)

At December 31, 2019, the Company's investments were allocated between Levels 1, 2 and 3 as follows:

	2019				
	Level 1 $	Level 2 $	Level 3 $	Fair value based on NAV practical expedient [(a)] $	Total $
U.S. government and government agency	-	286,962	-	-	286,962
Non-U.S. government and government agency	-	121,954	-	-	121,954
U.S. states, municipalities and political subdivisions	-	85,723	-	-	85,723
Agency residential mortgage-backed securities	-	514,153	-	-	514,153
Non-agency residential mortgage-backed securities	-	134,450	-	-	134,450
U.S. corporate	-	793,700	-	-	793,700
Non-U.S. corporate	-	186,360	-	-	186,360
Bank loans	-	-	4,652	-	4,652
Asset-backed securities	-	427,225	-	-	427,225
Commercial mortgage-backed securities	-	236,635	-	-	236,635
Total fixed maturities	**-**	**2,787,162**	**4,652**	**-**	**2,791,814**
Short-term investments	**62,794**	**-**	**-**	**-**	**62,794**
Other investments					
Hedge funds	-	-	-	11,492	11,492
Private equity investments	-	-	-	221,200	221,200
Fixed income investment funds	-	-	-	49,706	49,706
Total other investments	**-**	**-**	**-**	**282,398**	**282,398**
Total investments	**62,794**	**2,787,162**	**4,652**	**282,398**	**3,137,006**

[(a)] In accordance with ASC Topic 820 *"Fair Value Measurements,"* investments measured at fair value using the net asset value ("NAV") per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy.

At December 31, 2020, Level 3 investments totalled $76,969 (December 31, 2019: $4,652), representing 2.2% (December 31, 2019: 0.1%) of total investments.

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6. Fair value investments (continued)

Valuation techniques

There have been no material changes in the Company's valuation techniques during the periods presented in these Consolidated Financial Statements. The following methods and assumptions were used in estimating the fair value of each class of financial instrument recorded in the Consolidated Balance Sheets.

Fixed maturity investments

In general, valuation of the Company's fixed maturity investment portfolio is provided by independent third party pricing services, such as index providers and pricing vendors, as well as broker quotations. The pricing vendors provide valuations for a high volume of liquid securities that are actively traded. For securities that do not trade on an exchange, the pricing services generally utilize market data and other observable inputs in matrix pricing models to determine month end prices. Prices are generally verified using third party data. Index providers generally utilize centralized trade reporting networks, available market makers and statistical techniques.

In general, broker-dealers value securities through their trading desks based on observable inputs. The methodologies include mapping securities based on trade data, bids or offers, observed spreads, and performance on newly issued securities. Broker-dealers also determine valuations by observing secondary trading of similar securities. Prices obtained from broker quotations are considered non-binding, however, they are based on observable inputs and by observing secondary trading of similar securities obtained from active, non-distressed markets. The Company generally considers these Level 2 inputs as they are corroborated with other market observable inputs. The techniques generally used to determine the fair value of the Company's fixed maturity investments are detailed below by asset class.

U.S. government and government agency

U.S. government and government agency securities consist primarily of debt securities issued by the U.S. Treasury and certain mortgage pass-through agencies. Fixed maturity investments included in U.S. government and government agency securities are primarily priced by pricing services. When evaluating these securities, the pricing services gather information from market sources and integrate other observations from markets and sector news. Evaluations are updated by obtaining broker dealer quotes and other market information including actual trade volumes, when available. The fair value of each security is individually computed using analytical models which incorporate option adjusted spreads and other daily interest rate data. As the significant inputs used to price these securities are observable, the fair value of these investments are classified as Level 2.

Non-U.S. government and government agency

Non-U.S. government and government agency securities consist of debt securities issued by non-U.S. governments and their agencies along with supranational organizations (also known as sovereign debt securities). Securities held in these sectors are primarily priced by pricing services who employ proprietary discounted cash flow models to value the securities. Key quantitative inputs for these models are daily observed benchmark curves for treasury, swap and high issuance credits. The pricing services then apply a credit spread for each security which is developed by in-depth and real time market analysis. For securities in which trade volume is low, the pricing services utilize data from more frequently traded securities with similar attributes. These models may also be supplemented by daily market and credit research for international markets. As the significant inputs used to price these securities are observable, the fair value of these investments are classified as Level 2.

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6. Fair value investments (continued)

Valuation techniques (continued)

U.S. states, municipalities and political subdivisions

The Company's U.S. states, municipalities and political subdivisions portfolio contains debt securities issued by U.S. domiciled state and municipal entities. These securities are generally priced by independent pricing services using the techniques described for U.S. government and government agency securities described above. As the significant inputs used to price these securities are observable, the fair value of these investments are classified as Level 2.

Agency residential mortgage-backed securities

The Company's agency residential mortgage-backed investments consist primarily of debt securities issued by mortgage-pass through agencies. These securities are primarily priced by pricing services using a mortgage pool specific model which utilizes daily inputs from the active to be announced market which is very liquid, as well as the U.S. treasury market. The model also utilizes additional information, such as the weighted average maturity, weighted average coupon and other available pool level data which is provided by the sponsoring agency. Valuations are also corroborated with daily active market quotes. As the significant inputs used to price these securities are observable, the fair value of these investments are classified as Level 2.

Non-agency residential mortgage-backed securities

The Company's non-agency mortgage-backed investments include non-agency prime and sub-prime residential mortgage-backed fixed maturity investments. Securities held in these sectors are primarily priced by pricing services using an option adjusted spread model or discounted cash flow model, which principally utilize inputs including benchmark yields, available trade information or broker quotes, issuer spreads, historical prepayment and default projections. The pricing services also review collateral prepayment speeds, loss severity and delinquencies among other collateral performance indicators for the securities valuation, when applicable. Where significant inputs used to price the securities are observable, the fair value of these investments are classified as Level 2. Where such information is unavailable, significant unobservable inputs are used to price these securities, which include constant prepayment rates, loss severity, default rates and yield, resulting in certain securities classified as Level 3.

U.S. corporate

U.S. corporate debt securities consist primarily of investment-grade debt of a wide variety of U.S. corporate issuers and industries. The Company's corporate fixed maturity investments are primarily priced by pricing services. When evaluating these securities, the pricing services gather information from market sources regarding the issuer of the security and obtain credit data, as well as other observations, from markets and sector news. Evaluations are updated by obtaining broker dealer quotes and other market information including actual trade volumes, when available. The pricing services also consider the specific terms and conditions of the securities, including any specific features which may influence risk. In certain instances, securities are individually evaluated using a spread which is added to the U.S. treasury curve or a security specific swap curve as appropriate. As the significant inputs used to price these securities are observable, the fair value of these investments are classified as Level 2.

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6. Fair value investments (continued)

Valuation techniques (continued)

Non-U.S. corporate

Non-U.S. corporate debt securities consist primarily of investment-grade debt of a wide variety of non-U.S. corporate issuers and industries. The Company's non-U.S. corporate fixed maturity investments are primarily priced by pricing services. When evaluating these securities, the pricing services gather information from market sources regarding the issuer of the security and obtain credit data, as well as other observations, from markets and sector news. Evaluations are updated by obtaining broker dealer quotes and other market information including actual trade volumes, when available. The pricing services also consider the specific terms and conditions of the securities, including any specific features which may influence risk. As the significant inputs used to price these securities are observable, the fair value of these investments are classified as Level 2.

Bank loans

Included in the bank loan portfolio is a collection of loan participations held through an intermediary. A third party pricing service provides monthly valuation reports for each loan and participation using a combination of quotations from loan pricing services, leveraged loan indices or market price quotes obtained directly from the intermediary. Where an independent third party vendor prices securities in the portfolio, they are classified as Level 2. Where such information is unavailable, significant unobservable inputs are used to price these securities, which include credit spreads and default rates. In this instance, these would be categorized as Level 3.

Asset-backed securities

Asset backed securities include mostly investment-grade debt securities backed by pools of loans with a variety of underlying collateral, including automobile loan receivables, student loans, credit card receivables, and collateralized loan obligations originated by a variety of financial institutions. Securities held in these sectors are primarily priced by pricing services. The pricing services apply dealer quotes and other available trade information such as bids and offers, prepayment speeds which may be adjusted for the underlying collateral or current price data, the U.S. treasury curve and swap curve as well as cash settlement. The pricing services determine the expected cash flows for each security held in this sector using historical prepayment and default projections for the underlying collateral and current market data. In addition, a spread is applied to the relevant benchmark and used to discount the cash flows noted above to determine the fair value of the securities held in this sector. The fair value classification of asset-backed securities is based on a combination of collateral type, tranche type and rating, in addition to observable pricing inputs. As the significant inputs used to price the majority of these securities are observable, the fair value of these investments are classified as Level 2. Where such information is available or the security meets specific criteria, significant unobservable inputs are used to price these securities, which includes yield, resulting in certain securities classified as Level 3.

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6. Fair value investments (continued)

Valuation techniques (continued)

Commercial mortgage-backed securities

Commercial mortgage backed securities are investment-grade debt primarily priced by pricing services. The pricing services apply dealer quotes and other available trade information such as bids and offers, prepayment speeds which may be adjusted for the underlying collateral or current price data, the U.S. treasury curve and swap curve as well as cash settlement. The pricing services determine the expected cash flows for each security held in this sector using historical prepayment and default projections for the underlying collateral and current market data. In addition, a spread is applied to the relevant benchmark and used to discount the cash flows noted above to determine the fair value of the securities held in this sector. As the significant inputs used to price these securities are observable, the fair value of these investments are classified as Level 2.

Short-term investments

Short-term investments consist primarily of highly liquid securities, all with maturities of less than one year from the date of purchase. The fair value of the portfolio is generally determined using amortized cost which approximates fair value. As the highly liquid money market-type funds are actively traded, the fair value of these investments are classified as Level 1.

Other investments

Hedge funds

The hedge fund's administrator provides quarterly NAVs with a three-month delay in valuation. The fair value of this investment is measured using the NAV practical expedient and therefore has not been categorized within the fair value hierarchy.

Private equity investments

The private equity funds provide quarterly partnership capital statements with a three to six-month delay which are used as a basis for valuation. These private equity investments vary in investment strategies and are not actively traded in any open markets. The fair value of these investments are measured using the NAV practical expedient and therefore have not been categorized within the fair value hierarchy.

Fixed income investment funds

The fair value of the Company's investment funds is based on the NAV of the funds as reported by the independent fund administrators. The fund's administrators provide a quarterly reported NAV with a three-month delay in their valuation. The fair value of these investments are measured using the NAV practical expedient and therefore have not been categorized within the fair value hierarchy. None of these investments are probable of being sold at amounts different than their NAVs.

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6. Fair value investments (continued)

Level 3 investments

The following table presents a summary of the transfers into and out of Level 3 and purchases, sales, settlements and gains (losses) of Level 3 investments measured at fair value on a recurring basis using significant unobservable inputs during the years ended December 31, 2020 and 2019:

	2020 $	2019 $
Level 3 investments, beginning of year	4,652	5,083
Transfers into Level 3 investments	102,739	-
Transfers out of Level 3 investments	(38,757)	-
Purchases	26,044	2,130
Sales	(2,640)	-
Settlements	(16,821)	(2,179)
Realized (losses) gains, net	(27)	22
Change in net unrealized gains (losses), net	1,779	(404)
Level 3 investments, end of year	**76,969**	**4,652**

Details of transfers into / (out of) Level 3 investments and purchases of Level 3 investments are as follows:

	Bank loans $	Non-agency residential mortgage-backed securities $	Asset-backed securities $	Total $
During the year ended December 31, 2020				
Transfers into Level 3 investments	-	41,327	61,412	102,739
Transfers out of Level 3 investments	(4,652)	(21,933)	(12,172)	(38,757)
Purchases	-	23,694	2,350	26,044
During the year ended December 31, 2019				
Purchases	2,130	-	-	2,130

During the year ended December 31, 2020, transfers into Level 3 investments primarily included certain investments in non-agency residential mortgage backed securities and asset-backed securities. These transfers were primarily the result of limited market pricing information that required us to determine fair value for these securities based on unobservable inputs.

During the year ended December 31, 2020, transfers out of Level 3 investments primarily included certain investments in bank loans, non-agency residential mortgage backed securities and asset-backed securities. Transfers of bank loans were primarily the result of using observable pricing information that reflects the fair value of those securities. Transfers of non-agency residential mortgage backed securities and asset-backed securities were based on consideration of market liquidity as well as related transparency of pricing and associated observable inputs for these investments.

There were no transfers into or out of Level 3 during the year ended December 31, 2019.

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6. Fair value investments (continued)

Level 3 investments (continued)

Quantitative information about Level 3 investments

The following table presents information about the significant unobservable inputs used for fair value measurements for certain Level 3 instruments at December 31, 2020:

	Valuation technique	Unobservable inputs	Range	Weighted average
Non-agency residential mortgage-backed securities (fair value of $35,076)				
	Discounted cash flow	Constant prepayment rate	3.2% to 14.3%	8.7%
	Discounted cash flow	Loss severity	0.0% to 74.7%	35.7%
	Discounted cash flow	Constant default rate	0.1% to 4.8%	2.5%
	Discounted cash flow	Yield	1.2% to 2.0%	1.6%
Asset-backed securities (fair value of $36,763)				
	Discounted cash flow	Yield	0.7% to 4.4%	1.5%

The weighted averaging for fixed maturity securities is based on the estimated fair value of the securities.

The table above includes only those instruments for which information about the inputs is reasonably available to the Company, such as data from independent third party valuation service providers and from internal valuation models. Because input information from third parties with respect to certain Level 3 instruments (primarily, asset-backed securities) may not be completely available, balances shown in the table above may not equal total amounts reported for such Level 3 assets.

Comparative figures are not presented as the Company only held one category of Level 3 investments at December 31, 2019.

7. Investments in operating affiliates and structured notes receivable from AlphaCat ILS fund

Investments in operating affiliates

AlphaCat sidecars

Beginning on May 25, 2011, the Company joined with other investors in capitalizing a series of reinsurance and investment entities, referred to as “sidecars” for the purpose of investing in collateralized reinsurance and retrocessional contracts. Certain of these sidecars deployed their capital through transactions entered into by AlphaCat Reinsurance Ltd. (“AlphaCat Re”). Each of these entities returns capital once the risk period expires and all losses have been paid out. The AlphaCat sidecars are VIEs and the Company is not the primary beneficiary. Therefore, the Company’s investments in the sidecars have been treated as equity method investments. The Company’s maximum exposure to any of the sidecars is the amount of capital invested at any given time and any remaining capital commitments.

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7. Investments in operating affiliates and structured notes receivable from AlphaCat ILS fund (continued)

Investments in operating affiliates (continued)

AlphaCat ILS funds

Beginning on December 17, 2012, the Company joined with other investors in capitalizing the AlphaCat ILS funds for the purpose of investing in instruments with returns linked to property catastrophe reinsurance, retrocession and insurance linked securities ("ILS") contracts. The AlphaCat ILS funds have varying risk profiles and are categorized by the maximum permitted portfolio expected loss of the fund. The maximum permitted portfolio expected loss represents the average annual loss over the set of simulation scenarios divided by the total limit. Lower risk ILS funds are defined as having a maximum permitted portfolio expected loss of less than 7%, whereas higher risk ILS funds have a maximum permitted portfolio expected loss of 7% or greater. The AlphaCat ILS funds primarily deploy their capital through transactions entered into by AlphaCat Re or OmegaCat Reinsurance, Ltd. and AlphaCat Master Fund Ltd. The AlphaCat ILS funds are VIEs and the Company is not the primary beneficiary. Therefore, the Company's investments in the funds have been treated as equity method investments.

The Company's maximum exposure to any of the AlphaCat ILS funds is the amount of capital invested at any given time and any remaining capital commitments. Refer to Note 15, *"Commitments and contingencies"*, for further details.

BetaCat ILS fund

In 2019 and prior, the BetaCat ILS fund followed a passive buy-and-hold investment strategy, and invested exclusively in catastrophe bonds (principal-at-risk variable rate notes and other event-linked securities, referred to collectively as "Cat Bonds") focused on property and casualty risks and issued under Rule 144A of the Securities Act of 1933, as amended. The fund was a VIE and the Company was not the primary beneficiary. Therefore, the Company's investments in this fund have been treated as equity method investments. The Company's maximum exposure to any of the BetaCat ILS fund was the amount of capital invested at any given time. During the year ended December 31, 2019, the Company's investments in BetaCat ILS fund were fully redeemed.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

Expressed in thousands of U.S. dollars, except share amounts

7. Investments in operating affiliates and structured notes receivable from AlphaCat ILS fund (continued)

Investments in operating affiliates (continued)

During the year ended December 31, 2020, the Company saw changes to the maximum permitted portfolio expected loss of a number of AlphaCat ILS Funds. As a result of these risk profile changes, certain AlphaCat ILS Funds have transferred from lower risk to higher risk and vice versa. The following tables present a reconciliation of the beginning and ending investments in operating affiliates for the years ended December 31, 2020 and 2019:

	2020			
	AlphaCat sidecars $	AlphaCat ILS Funds - Lower Risk $	AlphaCat ILS Funds - Higher Risk $	Total $
Balance, beginning of year	2,236	55,952	65,784	123,972
Risk profile change, net	-	13,369	(13,369)	-
Purchase of shares	-	-	15,000	15,000
Redemption of shares / distributions	(737)	(9,500)	(18,624)	(28,861)
Income from operating affiliates	85	1,880	6,280	8,245
Balance, end of year	**1,584**	**61,701**	**55,071**	**118,356**

	2019				
	AlphaCat sidecars $	AlphaCat ILS Funds - Lower Risk $	AlphaCat ILS Funds - Higher Risk $	BetaCat ILS Fund $	Total $
Balance, beginning of year	4,242	64,865	47,061	25,263	141,431
Purchase of shares	-	-	15,000	-	15,000
Redemption of shares / distributions	(523)	(16,500)	(963)	(23,181)	(41,167)
(Loss) income from operating affiliates	(1,483)	7,587	4,686	(2,082)	8,708
Balance, end of year	**2,236**	**55,952**	**65,784**	**-**	**123,972**

The following table presents the Company's investments in operating affiliates as at December 31, 2020:

	2020		
	Voting ownership %	Equity ownership %	Carrying value $
AlphaCat sidecars	40.0	20.0	1,584
AlphaCat ILS Funds - Lower Risk	n/a	(a)	61,701
AlphaCat ILS Funds - Higher Risk	n/a	(b)	55,071
Total			**118,356**

(a) Equity ownerships in the lower risk AlphaCat ILS funds were between 7.0% and 9.8%.
(b) Equity ownerships in the higher risk AlphaCat ILS funds were between 1.8% and 4.4%.

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7. Investments in operating affiliates and structured notes receivable from AlphaCat ILS fund (continued)

Investments in operating affiliates (continued)

The following table presents the Company's investments in operating affiliates as at December 31, 2019:

	2019		
	Voting ownership	**Equity ownership**	**Carrying value**
	%	%	$
AlphaCat sidecars	(a)	(b)	2,236
AlphaCat ILS Funds - Lower Risk	n/a	(c)	55,952
AlphaCat ILS Funds - Higher Risk	n/a	(d)	65,784
Total			**123,972**

(a) Voting ownerships in the AlphaCat sidecars were between 40.0% and 43.7%.
(b) Equity ownerships in the AlphaCat sidecars were between 20.0% and 22.3%.
(c) Equity ownerships in the lower risk AlphaCat ILS funds were between 2.4% and 9.9%.
(d) Equity ownerships in the higher risk AlphaCat ILS funds were between 3.6% and 6.7%.

Structured notes receivable from AlphaCat ILS fund

During 2020 and 2019, one of the AlphaCat ILS funds (the "Fund") issued both common shares and structured notes to the Company in order to capitalize the Fund. The structured notes do not have a stated maturity date since repayment is dependent on the settlement and income or loss of the underlying transactions. The structured notes rank senior to the common shares of the Fund and earn an interest rate of 4.75% plus the 3-month London Inter-Bank Offer Rate (2019: fixed rate of 6.25%) per annum, payable on a cumulative basis in arrears.

The following table presents a reconciliation of the beginning and ending structured notes receivable from the Fund as at December 31, 2020 and 2019:

	2020	2019
	$	$
Structured notes receivable from the Fund, beginning of year	10,909	11,610
Issuance of structured notes receivable	10,000	10,000
Redemptions of structured notes receivable	(10,544)	(10,701)
Structured notes receivable from the Fund, end of year	**10,365**	**10,909**

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8. Derivative instruments

Derivatives not designated as hedging instruments

The following tables summarize information on the classification and amount of the fair value of derivatives not designated as hedging instruments within the Company's Consolidated Balance Sheets as at December 31, 2020 and 2019:

	2020		
	Notional exposure $	Asset derivative at fair value [(a)] $	Liability derivative at fair value [(a)] $
Foreign currency forward contracts	292,059	4,923	5,038

	2019		
	Notional exposure $	Asset derivative at fair value [(a)] $	Liability derivative at fair value [(a)] $
Foreign currency forward contracts	106,741	604	630

(a) Asset and liability derivatives are classified within Other assets and Accounts payable and accrued expenses, respectively, on the Consolidated Balance Sheets.

The foreign currency forward contracts are valued on the basis of standard industry valuation models. The inputs to these models are based on observable market inputs, and as such the fair values of these contracts are classified as Level 2.

The following table summarizes information on the classification and net impact on earnings, recognized in the Company's Consolidated Statements of Income and Comprehensive Income relating to derivatives that were not designated as hedging instruments during the years ended December 31, 2020 and 2019:

Derivatives not designated as hedging instruments	Classification of gains recognized in earnings	2020 $	2019 $
Foreign currency forward contracts	Foreign exchange (losses) gains	(9,721)	1,602

Balance sheet offsetting

There was no balance sheet offsetting activity as at December 31, 2020 and 2019.

Commencing in 2019, the Company engaged in the above noted derivative transactions with an affiliated AIG entity under International Swaps and Derivatives Association, Inc. master agreements, which establish terms that apply to all transactions. As part of the agreements, collateral is provided as security for the foreign currency forward contracts. As at December 31, 2020, collateral held as security for foreign currency forward contracts amounted to $2,810 (December 31, 2019: $460). On a periodic basis, the amounts receivable from or payable to the counterparties are settled in cash on a net basis.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

Expressed in thousands of U.S. dollars, except share amounts

9. Premiums receivable and funds withheld

Premiums receivable

Premiums receivable is composed of premiums in the course of collection and premiums accrued but unbilled, both of which are presented net of commissions and brokerage. It is common practice in the reinsurance industry for premiums to be paid on an installment basis, therefore significant amounts will be considered unbilled and will not become due until a future date, which is typically no later than expiration of the underlying coverage period. The following is a breakdown of the components of premiums receivable as at December 31, 2020 and 2019:

	2020		
	Premiums in course of collection $	**Premiums accrued but unbilled** $	**Total** $
Premiums receivable, beginning of year	20,118	697,408	717,526
Change during the year	5,381	163,740	169,121
Premiums receivable, end of year	**25,499**	**861,148**	**886,647**

	2019		
	Premiums in course of collection $	**Premiums accrued but unbilled** $	**Total** $
Premiums receivable, beginning of year	29,758	515,786	545,544
Change during the year	(9,640)	181,622	171,982
Premiums receivable, end of year	**20,118**	**697,408**	**717,526**

Funds withheld

The Company writes and cedes certain business on a funds withheld basis. Under these contractual arrangements, the cedants withhold premiums for the purpose of paying claims. The remaining net funds will be remitted after all policies have expired and all claims have been settled.

Funds withheld assumed and ceded as at December 31, 2020 were $134,678 and $2,019, respectively (December 31, 2019: $44,247 and $161, respectively). On December 31, 2019, the Company commuted certain reinsurance agreements assumed from its affiliate, Talbot 2002 Underwriting Capital Ltd. Refer to Note 16, *"Related party transactions"*, for further information.

10. Reserves for losses and loss expenses

The following table summarizes the Company's reserve for losses and loss expenses as at December 31, 2020 and 2019:

	2020 $	**2019** $
Case reserves	942,757	913,954
IBNR	2,268,639	1,810,869
Reserve for losses and loss expenses	**3,211,396**	**2,724,823**

Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

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10. Reserves for losses and loss expenses (continued)

The following table represents an analysis of paid and unpaid losses and loss expenses incurred and a reconciliation of the beginning and ending unpaid losses and loss expenses for the years ended December 31, 2020 and 2019:

	2020 $	2019 $
Reserve for losses and loss expenses, beginning of year	2,724,823	4,127,360
Loss reserves recoverable, beginning of year	(1,119,707)	(1,291,891)
Net reserves for losses and loss expenses, beginning of year	1,605,116	2,835,469
Loss reserves commuted during the year [a]	-	(1,113,644)
Increase (decrease) in net reserves for losses and loss expenses in respect of losses occurring in:		
Current year	1,316,354	1,276,172
Prior years	(44,642)	(122,145)
Total incurred losses and loss expenses	1,271,712	1,154,027
Foreign exchange losses	34,128	9,470
Less net losses and loss expenses paid in respect of losses occurring in:		
Current year	(374,837)	(216,317)
Prior years	(399,340)	(1,063,889)
Total net paid losses	(774,177)	(1,280,206)
Net reserve for losses and loss expenses, end of year	2,136,779	1,605,116
Loss reserves recoverable, end of year	1,074,617	1,119,707
Reserve for losses and loss expenses, end of year	**3,211,396**	**2,724,823**

[a] On December 31, 2019, the Company commuted certain reinsurance agreements assumed from its affiliate, Talbot 2002 Underwriting Capital Ltd. Refer to Note 16, *"Related party transactions"*, for further information.

Incurred losses and loss expenses comprise:

	2020 $	2019 $
Gross losses and loss expenses	1,477,480	1,489,467
Reinsurance recoveries	(205,768)	(335,440)
Net incurred losses and loss expenses	**1,271,712**	**1,154,027**

Notes to the Consolidated Financial Statements
For the years ended December 31, 2020 and 2019
Expressed in thousands of U.S. dollars, except share amounts

10. Reserves for losses and loss expenses (continued)

The net favourable development on prior accident years by line of business is as follows:

	Line of business			
	Property	**Specialty - Short-tail**	**Specialty - Other**	**Total**
	$	$	$	$
Year ended December 31, 2020	11,086	(57,894)	2,166	(44,642)
Year ended December 31, 2019	(5,614)	(75,590)	(40,941)	(122,145)

The net favourable development on prior accident years for the years ended December 31, 2020 and 2019 were primarily driven by favourable development on attritional losses.

Short Duration Contract Disclosures

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

Loss development tables

The loss development tables have been produced by lines of business for accident years 2012 through to 2020. The Company determined that it was impracticable to produce IBNR by accident year by lines of business for years prior to 2012 as the necessary data in original currency was not readily available. In addition, the Company provides treaty reinsurance products on a global basis for all of its lines of business and does not receive or maintain claims count information associated with its reserved claims. As such, the Company has determined that it is impracticable to provide this information.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2020 and 2019
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10. Reserves for losses and loss expenses (continued)

Short Duration Contract Disclosures (continued)

Loss development tables - Property

Accident Year	Incurred losses and loss expenses, net of reinsurance — Years ended December 31, 2012 $	2013 $	2014 $	2015 $	2016 $	2017 $	2018 $	2019 $	2020 $	December 31, 2020 Total of IBNR reserves plus expected development on reported losses $
	/---- Unaudited							----/		
2012	399,369	321,694	311,167	284,284	282,129	280,401	274,179	268,598	267,968	9,638
2013	-	181,141	165,706	150,857	141,936	136,854	135,248	132,833	132,754	1,125
2014	-	-	113,216	108,136	99,507	100,561	106,480	104,908	102,507	6,275
2015	-	-	-	158,257	123,974	103,155	96,029	89,199	87,742	1,867
2016	-	-	-	-	157,798	164,521	146,827	133,970	126,552	7,129
2017	-	-	-	-	-	398,022	391,677	366,354	369,713	44,462
2018	-	-	-	-	-	-	463,446	519,624	504,485	88,941
2019	-	-	-	-	-	-	-	334,428	378,039	58,083
2020	-	-	-	-	-	-	-	-	347,153	257,016
							Total		2,316,913	

Accident Year	Cumulative paid losses and loss expenses, net of reinsurance — Years ended December 31, 2012 $	2013 $	2014 $	2015 $	2016 $	2017 $	2018 $	2019 $	2020 $
	/---- Unaudited							----/	
2012	67,729	151,019	203,668	227,099	235,919	240,782	242,829	249,162	250,368
2013	-	20,237	69,266	108,695	122,530	127,560	128,860	129,567	129,937
2014	-	-	26,159	66,473	82,640	89,467	92,057	94,016	94,711
2015	-	-	-	16,057	60,287	75,859	81,143	82,610	84,005
2016	-	-	-	-	27,145	82,970	101,349	112,212	114,953
2017	-	-	-	-	-	128,119	287,742	320,917	309,110
2018	-	-	-	-	-	-	24,123	360,034	389,066
2019	-	-	-	-	-	-	-	11,133	168,526
2020	-	-	-	-	-	-	-	-	23,689
							Total		1,564,365
Reserves for losses and loss expenses, before 2012, net of reinsurance [a]									77,923
Reserves for losses and loss expenses, net of reinsurance									**830,471**

[a] Includes reserves for losses and loss expense, net of reinsurance, of $49,469 and $7,852 related to Flagstone Reinsurance Holdings, S.A. ("Flagstone") and IPC Holdings Ltd. ("IPC"), respectively.

Notes to the Consolidated Financial Statements

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10. Reserves for losses and loss expenses (continued)

Short Duration Contract Disclosures (continued)

Loss development tables - Specialty - Short-tail

	Incurred losses and loss expenses, net of reinsurance									December 31, 2020
	Years ended December 31,									Total of IBNR reserves plus expected development on reported losses
Accident Year	2012 $	2013 $	2014 $	2015 $	2016 $	2017 $	2018 $	2019 $	2020 $	$
	I---- Unaudited ----I									
2012	251,972	279,925	281,145	272,439	269,772	268,379	269,541	269,438	269,288	13,672
2013	-	259,717	266,998	244,705	237,640	237,492	235,659	233,574	233,332	52
2014	-	-	275,657	251,565	236,149	229,710	227,058	225,065	225,434	2,207
2015	-	-	-	420,710	392,828	358,293	348,264	337,460	328,770	2,522
2016	-	-	-	-	331,359	282,527	269,036	262,679	257,285	18,445
2017	-	-	-	-	-	316,188	286,581	256,065	231,493	6,769
2018	-	-	-	-	-	-	290,908	290,946	256,237	34,008
2019	-	-	-	-	-	-	-	318,452	344,576	93,031
2020	-	-	-	-	-	-	-	-	742,534	310,640
							Total		2,888,949	

	Cumulative paid losses and loss expenses, net of reinsurance								
	Years ended December 31,								
Accident Year	2012 $	2013 $	2014 $	2015 $	2016 $	2017 $	2018 $	2019 $	2020 $
	I---- Unaudited ----I								
2012	31,436	140,010	198,562	220,382	229,639	237,909	245,968	247,638	248,128
2013	-	111,578	188,468	205,717	213,391	225,198	228,130	228,883	230,319
2014	-	-	101,838	173,215	192,435	198,150	202,603	207,091	209,148
2015	-	-	-	181,217	248,560	302,918	312,566	319,027	320,370
2016	-	-	-	-	155,770	207,581	198,031	219,644	233,378
2017	-	-	-	-	-	96,864	166,952	201,994	211,894
2018	-	-	-	-	-	-	59,093	161,948	188,728
2019	-	-	-	-	-	-	-	90,606	207,479
2020	-	-	-	-	-	-	-	-	317,959
							Total		2,167,403
	Reserves for losses and loss expenses, before 2012, net of reinsurance [(a)]								63,823
	Reserves for losses and loss expenses, net of reinsurance								**785,369**

[(a)] Includes reserves for losses and loss expense, net of reinsurance, of $27,583 and $5,170 related to Flagstone and IPC, respectively.

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10. Reserves for losses and loss expenses (continued)

Short Duration Contract Disclosures (continued)

Loss development tables - Specialty - Other

	Incurred losses and loss expenses, net of reinsurance									December 31, 2019
	Years ended December 31,									Total of IBNR reserves plus expected development on reported losses
Accident Year	2012 $	2013 $	2014 $	2015 $	2016 $	2017 $	2018 $	2019 $	2020 $	$
	I---- Unaudited ----I									
2012	46	24	839	268	28	231	232	-	-	-
2013	-	152	95	48	53	36	24	22	22	-
2014	-	-	2,103	1,359	489	797	348	196	437	50
2015	-	-	-	5,646	7,131	4,323	4,435	4,537	3,805	769
2016	-	-	-	-	30,280	36,615	41,558	45,043	29,279	6,699
2017	-	-	-	-	-	73,583	71,292	76,709	78,190	32,043
2018	-	-	-	-	-	-	130,112	119,931	124,475	76,776
2019	-	-	-	-	-	-	-	147,830	159,787	120,343
2020	-	-	-	-	-	-	-	-	223,697	207,120
							Total		619,692	

	Cumulative paid losses and loss expenses, net of reinsurance								
	Years ended December 31,								
Accident Year	2012 $	2013 $	2014 $	2015 $	2016 $	2017 $	2018 $	2019 $	2020 $
	I---- Unaudited ----I								
2012	-	-	-	-	-	-	-	-	-
2013	-	-	-	-	18	18	22	22	22
2014	-	-	-	1	4	48	68	69	375
2015	-	-	-	18	1,689	2,082	2,477	2,717	2,904
2016	-	-	-	-	2,561	2,439	6,476	12,604	17,992
2017	-	-	-	-	-	1,006	5,373	13,966	28,727
2018	-	-	-	-	-	-	3,015	14,693	30,529
2019	-	-	-	-	-	-	-	5,138	22,042
2020	-	-	-	-	-	-	-	-	8,937
							Total		111,528
	Reserves for losses and loss expenses, before 2012, net of reinsurance [(a)]								3,852
	Reserves for losses and loss expenses, net of reinsurance								**512,016**

[(a)] Includes reserves for losses and loss expense, net of reinsurance, of $3,700 related to Flagstone.

Notes to the Consolidated Financial Statements

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10. Reserves for losses and loss expenses (continued)

Reconciliation of loss development information to the reserve for losses and loss expenses

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

	2020 $
Reserves for losses and loss expenses, net of reinsurance	
Property	830,471
Specialty - Short-tail	785,369
Specialty - Other	512,016
Total reserves for losses and loss expenses, net of reinsurance	2,127,856
Loss reserves recoverable	
Property	963,753
Specialty - Short-tail	80,334
Specialty - Other	30,530
Total loss reserves recoverable	1,074,617
Unallocated loss expenses	7,500
Other	1,423
Total reserves for losses and loss expenses	**3,211,396**

Historical loss duration

The following table summarizes the historic average annual percentage pay-out of incurred losses by age, net of reinsurance, as of December 31, 2020:

Average annual percentage pay-out of incurred losses by age, net of reinsurance (unaudited)

	December 31, 2020									
	Year 1 %	Year 2 %	Year 3 %	Year 4 %	Year 5 %	Year 6 %	Year 7 %	Year 8 %	Year 9 %	Year 10 %
Property	17.2	44.2	16.0	6.2	2.7	1.6	0.7	1.3	0.5	n/a
Specialty - Short-tail	39.4	31.2	10.9	4.9	3.6	1.7	1.4	0.6	0.2	n/a
Specialty - Other	2.2	8.7	7.2	22.9	5.9	6.5	23.3	0.0	0.0	n/a

Coronavirus (COVID-19) pandemic

Given the uncertainties around the impact from the COVID-19 crisis, including the significant global economic slowdown and general market decline, the full impact of COVID-19 and how it may ultimately impact the results of the Company's reinsurance operations remain uncertain. In addition, in response to the crisis, new governmental, legislative and regulatory initiatives have been put in place and continue to be developed that could result in additional restrictions and requirements relating to management's policies that may have a negative impact on the Company's business operations. However, management has recorded the Company's estimate of the ultimate liability for claims that have occurred as of the balance sheet date associated with COVID-19, which reflects management's expectations given the current facts and circumstances. Management will continue to monitor and review the impact.

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11. Reinsurance
The Company's reinsurance balances recoverable as at December 31, 2020 and 2019 were as follows:

	2020 $	2019 $
Loss reserves recoverable on unpaid		
Case reserves	295,263	390,280
IBNR	779,354	729,427
Total loss reserves recoverable	1,074,617	1,119,707
Paid losses recoverable	23,282	92,921
Total reinsurance recoverable	**1,097,899**	**1,212,628**

Effects of reinsurance on premiums written and earned
The effects of reinsurance on net premiums written and earned, and on losses and loss expenses for the years ended December 31, 2020 and 2019 were as follows:

	2020 $	2019 $
Premiums written		
Assumed	2,409,467	2,806,989
Ceded	(586,263)	(694,867)
Net premiums written	1,823,204	2,112,122
Premiums earned		
Assumed	2,234,338	2,605,074
Ceded	(591,489)	(723,203)
Net premiums earned	1,642,849	1,881,871
Losses and loss expenses		
Assumed	1,477,480	1,489,467
Ceded	(205,768)	(335,440)
Net losses and loss expenses	1,271,712	1,154,027

Credit risk
The cession of reinsurance does not legally discharge the Company from its primary liability for the full amount of the reinsurance policies it writes, and the Company is required to pay the loss and bear collection risk regarding reinsurers' obligations under reinsurance and retrocession agreements. The Company records provisions for uncollectible reinsurance recoverable when collection becomes unlikely due to the reinsurer's inability to pay.

To the extent the creditworthiness of the Company's reinsurers were to deteriorate due to adverse events affecting the reinsurance industry, such as a large number of major catastrophes, actual uncollectible amounts could be significantly greater than the Company's provision. Amounts recoverable from reinsurers are estimated in a manner consistent with the underlying loss reserves.

Notes to the Consolidated Financial Statements

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11. Reinsurance (continued)

Credit risk (continued)

The Company evaluates the financial condition of its reinsurers and monitors concentration of credit risk arising from its exposure to individual reinsurers. The reinsurance program is generally placed with reinsurers whose rating, at the time of placement, was A- or better as rated by Standard & Poor's or the equivalent with other rating agencies. Exposure to a single reinsurer is also controlled with restrictions dependent on rating. As at December 31, 2020, $1,097,739 or 99.99% (December 31, 2019: $1,211,364 or 99.90%) of the Company's reinsurance balances recoverable were either fully collateralized or recoverable from reinsurers rated A- or better.

Information regarding the Company's concentration of credit risk arising from its exposure to individual reinsurers as at December 31, 2020 and 2019 were as follows:

	2020		2019	
	Reinsurance recoverable $	Percentage of total %	Reinsurance recoverable $	Percentage of total %
Top 10 reinsurers	1,081,718	98.5	1,183,248	97.6
Other reinsurers' balances > $1,000	13,353	1.2	23,529	1.9
Other reinsurers' balances < $1,000	2,828	0.3	5,851	0.5
Total	**1,097,899**	**100.0**	**1,212,628**	**100.0**

		2020	
Top 10 reinsurers	**Rating**	**Reinsurance recoverable** $	**Percentage of total** %
Fully collateralized reinsurers	NR	908,426	82.7
Everest Re	A+	42,901	3.9
Third Point Reinsurance Company Ltd	A-	31,711	2.9
Markel	A	27,483	2.5
Fidelis	A-	16,866	1.5
Chubb	AA	13,740	1.3
Axis Capital Holdings	A+	13,740	1.3
Manufacturers P&C Limited	A-	11,803	1.1
Lloyd's Syndicates	A+	9,054	0.8
BMO Reinsurance Limited	A+	5,994	0.5
Total		**1,081,718**	**98.5**

NR: Not rated

Notes to the Consolidated Financial Statements

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11. Reinsurance (continued)

Credit risk (continued)

		2019	
Top 10 reinsurers	Rating	Reinsurance recoverable $	Percentage of total %
Fully collateralized reinsurers	NR	978,960	80.7
Everest Re	A+	53,604	4.5
Third Point Reinsurance Company Ltd	A-	32,529	2.7
Markel	A	32,455	2.7
Fidelis	A-	18,020	1.5
Chubb	AA	16,227	1.3
Axis Capital Holdings	A+	16,227	1.3
Lloyd’s Syndicates	A+	14,673	1.2
Manufacturers P&C Limited	A-	13,847	1.1
BMO Reinsurance Limited	A+	6,706	0.6
Total		**1,183,248**	**97.6**

NR: Not rated

12. Share capital

Authorized and issued

The Company’s authorized share capital is 1,000,000 common shares with a par value of $1.00 each.

On October 19, 2005, the Company issued 1,000,000 common shares at a price of $1,000.00 each. Proceeds from this issuance were $1,000,000.

Capital contributions and distributions

The Company did not receive any capital contributions from Validus Holdings during the year ended December 31, 2020 (2019: $73,441). There were no capital distributions made to Validus Holdings during the years ended December 31, 2020 and 2019.

Dividends

The Company declared dividends to Validus Holdings of $100,000 during the year ended December 31, 2020 (2019: $280,000).

13. Pension plans

The Company provides pension benefits to eligible employees through various plans which are managed externally and sponsored by the Company. The Company’s contributions are expensed as incurred. The Company’s expenses for its defined contribution plans for the year ended December 31, 2020 were $978 (2019: $942).

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14. Debt and financing arrangements

Letters of credit

The Company's financing structure is comprised of letters of credit held with Citibank which are ultimately supported by AIG. As at December 31, 2020, total outstanding letters of credit amounted to $342,109 (2019: $291,804). There were no cash or investments pledged as collateral relating to these letters of credit as at December 31, 2020 and 2019.

Finance expenses

The following table summarizes the Company's finance expenses for the years ended December 31, 2020 and 2019.

	2020 $	2019 $
Fees on letters of credit	2,936	3,481
Bank and other charges	354	374
Total finance expenses	**3,290**	**3,855**

15. Commitments and contingencies

Concentrations of credit risk

The Company underwrites a significant amount of its reinsurance business through three brokers as set out below. There is credit risk associated with payments of reinsurance balances to the Company in regards to these brokers' ability to fulfil their contractual obligations. These brokerage companies are large and well established, and there are no indications they are financially distressed. There was no other broker or reinsured party that accounted for more than 10% of gross premiums written for the periods mentioned.

The following table shows the percentage of gross premiums written through each of these three brokers for the years ended December 31, 2020 and 2019:

Broker	2020 %	2019 %
Marsh & McLennan Companies, Inc.	51.3	32.3
Aon Benfield Group Ltd.	24.0	26.9
Willis Towers Watson Plc	12.2	13.4

Employment agreements

The Company has entered into employment agreements with certain individuals that provide for executive benefits and severance payments under certain circumstances.

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15. Commitments and contingencies (continued)

Lease commitments

The Company leases office space and equipment in various locations across jurisdictions in which the Company operates. As of December 31, 2020, the lease liability and corresponding right of use asset reflected in Accounts payable and accrued expenses and Other assets were $1,587 and $1,625, respectively, (December 31, 2019: $1,037 and $1,029, respectively) and the Company made cash payments of $873 in 2020 in connection with these leases (2019: $770). The liability includes non-lease components, such as property taxes and insurance. Some of these leases contain options to renew after a specified period of time at the prevailing market rate. However, renewal options that have not been exercised as of December 31, 2020 and 2019 are excluded until management attains a reasonable level of certainty. Some leases also include termination options at specified times and term. However, termination options are not reflected in the lease asset and liability balances until they have been exercised.

The weighted average discount rate and lease term assumptions used in determining the liability at December 31, 2020 are 3.1% and 6.8 years, respectively (December 31, 2019: 3.3% and 3.0 years, respectively). The primary assumption used to determine the discount rate is the cost of funding for the Company, which is based on the secured borrowing rate for terms similar to the lease term, and for the major financial markets in which AIG operates.

Rent expense for the year ended December 31, 2020 was $829 (2019: $846).

The following table presents the future undiscounted cash flows under lease commitments at December 31, 2020. The primary difference between our undiscounted cash flows and the recognized lease liability is interest expense.

	2020
	$
2021	565
2022	420
2023	246
2024	65
Total	1,296

Notes to the Consolidated Financial Statements

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15. Commitments and contingencies (continued)

Funds at Lloyd's

Lloyd's Syndicate 1183 ("Talbot Syndicate"), an affiliate, operates in Lloyd's through a corporate member, Talbot 2002 Underwriting Capital Ltd ("T02"), which is the sole participant in the Syndicate 1183. Lloyd's sets T02's Economic Capital Assessment ("ECA") annually based on the Talbot Syndicate's business plan, rating environment and reserving environment together with input arising from Lloyd's discussions with regulatory and rating agencies, and other parties. This ECA is satisfied by syndicate net assets determined on a basis consistent with Solvency II, an EU directive covering capital adequacy, risk management and regulatory reporting for insurers and additional funds, known as Funds at Lloyd's ("FAL"). Any syndicate net liabilities on a Solvency II basis are required to be funded in addition to the ECA. During 2019, the Company provided FAL comprising cash and investments in the amount of $454,425 to support the Lloyd's underwriting of fellow AIG subsidiary T02. In addition to the FAL from the Company, AIG provided FAL by way of letter of credit in the amount of $120,000 during 2019.

The amounts, which were provided as FAL in 2019, were not available for distribution to Validus Holdings for the payment of dividends or distributions to AIG.

On December 31, 2019, the reinsurance agreements of the Company assumed from T02 were commuted. Refer to Note 16, "*Related party transactions*", for further information. The commutation effectively ended the Company's commitment to provide FAL in 2020 and future years.

Investments in operating affiliates

The Company entered into an agreement with an AlphaCat ILS fund whereby it has an assumed capital commitment of $25,000 for the year ended December 31, 2020 (2019: $25,000). For each of the years ended December 31, 2020 and 2019, the total $25,000 capital commitment was called and funded.

Fixed maturity commitments

At December 31, 2020, the Company had an outstanding commitment to participate in certain secured loan facilities through participation agreements with an established loan originator. The undrawn amount under the revolver facility participations as at December 31, 2020 was $1,203 (December 31, 2019: $1,203).

Other investment commitments

At December 31, 2020, the Company had capital commitments in certain other investments of $318,641 (December 31, 2019: $418,641). The Company's remaining unfunded capital commitment to these investments as at December 31, 2020 was $49,416 (December 31, 2019: $62,037).

Notes to the Consolidated Financial Statements
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16. Related party transactions

The following significant transactions are classified as related party transactions as principals and/or directors of each counterparty are members of the Company's or AIG's board of directors.

Reinsurance agreements

The Company has various reinsurance agreements with its affiliates. The following tables summarize the significant balances resulting from these reinsurance agreements:

Reinsurance agreements with AlphaCat Re (a non-consolidated affiliate)	**2020** $	**2019** $
Balances during the years ended December 31		
Ceded net premiums earned	25,933	144,440
Recovered losses and loss expenses	111,719	13,615
Earned commissions	2,672	16,903
Balances outstanding as at December 31		
Deferred acquisition costs	87	2,896
Paid losses recoverable	20,873	69,556
Prepaid reinsurance	416	26,645
Loss reserves recoverable	482,270	480,880
Reinsurance balances payable	3,718	35,231

Reinsurance agreements with Talbot Syndicate	**2020** $	**2019** $
Balances during the years ended December 31		
Net premiums earned	8,129	791,248
Incurred losses and loss expenses	8,074	432,929
Policy acquisition costs	1,518	301,722
Balances outstanding as at December 31		
Premiums receivable	33,703	44,570
Deferred acquisition costs	191	2,396
Reserves for losses and loss expenses	33,738	43,800
Unearned premiums	2,584	10,933
Reinsurance balances payable	18,017	16,656

On December 31, 2019, the reinsurance agreements of the Company assumed from T02 in relation to the FAL were commuted. Under the commutation agreement, the Company has been released and discharged from all liabilities arising under these reinsurance agreements. The final settlement from T02 occurred in June 2020 upon completion of the 2019 annual accounts of T02. The settlement did not have a significant impact on the Company's Consolidated Financial Statements. Other reinsurance agreements in place with Talbot Syndicate remain effective as of December 31, 2020 and 2019.

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16. Related party transactions (continued)

Reinsurance agreements (continued)

Reinsurance agreements with Western World	2020 $	2019 $
Balances during the years ended December 31		
Assumed net premiums earned	-	165
Incurred losses and loss expenses	-	(6,372)
Policy acquisition costs	-	61

On December 16, 2019, the Company's reinsurance agreements with Western World were commuted. Under the commutation agreement, Western World agreed to accept in full satisfaction of the Company's present and future liability under these reinsurance agreements. The Company paid $90,716 as the settlement amount to Western World, resulting in a gain of $9,699 which was accounted as a reduction of loss and loss expenses during the year ended December 31, 2019.

Reinsurance agreements with affiliated subsidiaries of AIG	2020 $	2019 $
Balances during the years ended December 31		
Assumed net premiums earned	29	3,191
Recoveries of losses and loss expenses	91,152	72,771
Policy acquisition costs	227	1,239
Balances outstanding as at December 31		
Premiums receivable	2,026	4,895
Deferred acquisition costs	330	984
Funds withheld	49	79
Reserves for losses and loss expenses	94,131	197,044
Unearned premiums	1,986	2,702
Reinsurance balances payable	(2,170)	(5,852)

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For the years ended December 31, 2020 and 2019

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16. Related party transactions (continued)

Derivatives, investments and loans

Derivative agreement
The Company has a derivative agreement in place with an affiliated AIG entity. Refer to Note 8, *"Derivative instruments"* for further details.

Investment management agreement
On January 1, 2019, the Company entered into an investment management agreement with AIG, whereby AIG would assume overall management of the Company's investment portfolio. As part of this agreement, the Company paid $2,644 of investment management expenses to AIG during the year ended December 31, 2020 (2019: $2,142).

Loan receivables
On September 26, 2014, Validus Specialty, Inc., an affiliate, obtained a loan from Flagstone Reinsurance (Luxembourg), SARL, a subsidiary of the Company, with a principal amount of $400,000 bearing an annual interest rate of 5.8% and maturing on September 23, 2024. The outstanding balance as at December 31, 2018 was $405,848. On April 1, 2019, the Company settled this loan with Validus Specialty, Inc. and entered into a new loan agreement with AIG. The new loan receivable has a principal amount of $400,000 bearing an annual interest rate of 5.09% and maturing on April 1, 2033. The outstanding balance as at December 31, 2020 was $401,664 (December 31, 2019: $401,720). The related interest income earned during the year ended December 31, 2020 amounted to $20,360 (2019: $15,340).

On September 1, 2018, the Company acquired a note receivable from AIG International Holdings GmbH with a principal amount of $327,729 bearing an annual interest rate of 3.6% and maturing on August 31, 2022. The outstanding balance as at December 31, 2020 was $331,760 (December 31, 2019: $331,793). The related interest income earned during the year ended December 31, 2020 amounted to $11,995 (2019: $11,962).

On April 1, 2019, the Company acquired an additional AIG loan receivable from Validus Holdings with a principal amount of $250,000 in exchange for a capital contribution of $73,441 and the settlement of intercompany receivables from Validus Holdings of $176,559. This loan bears an annual interest rate of 3.9% and matures on August 31, 2022. The outstanding balance as at December 31, 2020 was $253,331 (December 31, 2019: $253,358). The related interest income earned during the year amounted to $9,913 (2019: $7,448).

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16. Related party transactions (continued)

Service level agreements

In accordance with service level agreements, the Company participates in centralized services wherein expenses are incurred by service and other affiliated entities and allocated to, or recharged from, the Validus Holdings group of companies. Services provided across the group include managerial services, underwriting services, actuarial services, claims services, accounting services, information technology services and others. The following table summarizes the revenue and expenses incurred by the Company for services provided to or received from the Validus Holdings group of companies:

	2020	2019
	$	$
Other insurance-related income and other income	12,630	16,239
General and administrative expenses	67,815	75,921

Other

Certain shareholders of AIG and their affiliates, as well as employees of entities associated with directors and officers may have purchased insurance and/or reinsurance from the Company in the ordinary course of business. The Company does not believe these transactions to be material.

17. Statutory and regulatory requirements

The Company has operations that are subject to laws and regulations in the jurisdictions in which they operate, the most significant of which are Bermuda and Switzerland.

The Company's reinsurance subsidiaries prepare their statutory financial statements in conformity with statutory accounting practices prescribed or permitted by the applicable local laws and relevant regulatory authority. The statutory financial statements may vary materially from statements prepared in accordance with U.S. GAAP.

The Company and its subsidiaries are required to maintain certain measures of solvency and liquidity that provide restrictions on declaring dividends and distributions. Statutory capital and surplus as at December 31, 2020 and 2019 and statutory net income for the years ended December 31, 2020 and 2019 for our reinsurance subsidiaries based in our most significant regulatory jurisdictions were as follows:

	Statutory capital and surplus					
	Required		Actual		Statutory net income (loss)	
	2020	2019	2020	2019	2020	2019
	$	$	$	$	$	$
Bermuda	1,036,557	866,018	3,784,457	3,646,426	91,797	394,812
Switzerland	454,000	324,000	1,269,694	1,309,826	(43,543)	87,453

During the year ended December 31, 2020, the Company declared dividends to Validus Holdings of $100,000 (2019: $280,000).

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17. Statutory and regulatory requirements (continued)

Bermuda
The Company is a Class 4 insurer and has the following Bermuda-based insurance subsidiaries at December 31, 2020 and 2019:

- Validus Reinsurance (Switzerland) Ltd. (Bermuda Branch) - Class 4 insurer
- Mont Fort Re Ltd. - Class 3 insurer

On December 27, 2018, the Company secured a non-assignable, non-transferrable unsecured standby letter of credit from Standard Chartered Bank for a sum not exceeding the aggregate amount of $200,000 effective December 31, 2018, expiring on December 31, 2021. This standby letter of credit is recorded as Other Fixed Capital on the Statutory Statement of Capital and Surplus and as a Tier 3 Ancillary Capital as at December 31, 2020 and 2019, subject to certain conditions.

On May 27, 2020, the Company secured a non-assignable, non-transferrable unsecured standby letter of credit from Société Générale for a sum not exceeding the aggregate amount of $150,000 effective May 27, 2020, expiring on May 27, 2025. This standby letter of credit is recorded as Other Fixed Capital on the Statutory Statement of Capital and Surplus and as a Tier 2 Ancillary Capital as at December 31, 2020, subject to certain conditions.

Bermuda-based insurers are required to maintain minimum statutory capital and surplus equal to the greater of a minimum solvency margin (“MSM”) and the Enhanced Capital Requirement (“ECR”) where applicable. The ECR is equal to the higher of the MSM or the Bermuda Solvency Capital Requirement (“BSCR”) model or approved internal capital model. The BSCR for the relevant insurers for the year ended December 31, 2020 will not be filed with the BMA until end of April 2021. As a result, the required statutory capital and surplus as at December 31, 2020 of $1,036,557 is primarily based on the latest draft BSCR. The revised required statutory capital and surplus as at December 31, 2019 of $866,018 is based primarily on the actual December 31, 2019 ECR, which exceeded the December 31, 2019 MSM of $788,235.

At December 31, 2020 and 2019, the actual statutory capital and surplus of the Company and the Bermuda-based insurance subsidiaries exceeded the relevant regulatory requirements.

The ability of the Company’s Bermuda-based subsidiaries to pay dividends to the Company is limited under Bermuda law and regulations. The Insurance Act provides that Class 4 insurers may not declare or pay, in any financial year, dividends of more than 25% of its total statutory capital and surplus (as shown on its statutory balance sheet in relation to the previous financial year) unless it files with the BMA at least seven days prior to the payment, an affidavit signed by at least two directors and such insurance subsidiary’s principal representative, stating that in their opinion, such subsidiary will continue to satisfy the required margins following declaration of those dividends, however, there is no additional requirement for BMA approval.

In addition, before reducing its total statutory capital by 15% or more (as set out in its previous year’s statutory financial statements) Class 4 Bermuda insurers must make application to the BMA for permission to do so. Such application shall consist of an affidavit signed by at least two directors and such insurance subsidiary’s principal representative stating that in their opinion, the proposed reduction in capital will not cause such subsidiaries to fail to meet its relevant margins, and such other information as the BMA may require. A Class 3 insurer, before reducing by 15% or more of its total statutory capital, as set out in its previous year’s financial statements, is required to apply to the BMA for its approval and provide such information as the BMA may require.

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17. Statutory and regulatory requirements (continued)

Bermuda (continued)

As at December 31, 2020, the Company has the ability to distribute up to $969,309 (December 31, 2019: $958,778) of unrestricted net assets as dividend payments and/or return of capital to Validus Holdings without prior regulatory approval.

The Company's primary restrictions on net assets of insurance subsidiaries consist of regulatory requirements placed upon the regulated insurance subsidiaries to hold minimum amounts of total statutory capital and surplus. There were no other material restrictions on net assets in place as of December 31, 2020.

The Company maintains branch office in Singapore and Canada. As the branch offices are not considered separate entities for regulatory purposes, the required and actual statutory capital and surplus amount includes amounts, as set out above, related to the applicable branch offices. The Company's Singapore branch office is subject to capital adequacy requirement of SGD 5,000. The Company's Canada branch office is required to maintain a margin of net assets in respect of risks insured in Canada. At December 31, 2020, the margin of net assets required is CAD 303. At December 31, 2020 and 2019, the actual capital and assets for the branch offices exceeded the relevant local regulatory requirements.

Switzerland
Validus Re Swiss is a société anonyme headquartered in Zurich, Switzerland. The conduct of reinsurance business by a company headquartered in Switzerland requires a license granted by the Swiss Financial Market Supervisory Authority ("FINMA"). Validus Re Swiss maintains a branch office in Bermuda, Validus Reinsurance (Switzerland) Ltd. (Bermuda Branch), a Class 4 insurer.

Required statutory capital and surplus is based on the Target Capital requirements calculated under the Swiss Solvency Test ("SST") and includes both Validus Re Swiss and its Bermuda branch. At December 31, 2020 and 2019, the actual capital and assets exceeded the relevant local regulatory requirements.

Validus Re Swiss is funded by equity in the form of paid in capital by shares and in share premium. Under Swiss corporate law as modified by insurance supervisory law, a non-life insurance company is obliged to contribute to statutory legal reserves a minimum of 20% of any annual profit up to 50% of statutory capital, being paid in share capital. Validus Re Swiss has been substantially funded by share premium. Share premium can be distributed to shareholders without being subject to withholding tax. However, the distribution of any special dividend to shareholders remains subject to the approval of FINMA which considers the maintenance of solvency and the interests of reinsureds and creditors.

Validus Reinsurance (Switzerland) Ltd. (Bermuda Branch) is exempt from filing an Annual Statutory Financial Return and Annual Capital and Solvency Return but is subject to the minimum required statutory capital and surplus requirements for Class 4 insurers and the SST. At December 31, 2020 and 2019, the branch was in compliance with all relevant regulatory requirements.

VALIDUS RE