Cavello Bay Reinsurance Limited
Consolidated Financial Statements
For the years ended December 31, 2020 and 2019

Cavello Bay Reinsurance Limited

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder and Board of Directors of Cavello Bay Reinsurance Limited

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

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

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

Other matter

U.S. generally accepted accounting principles require that certain disclosures related to short-duration contracts in Note 9 to the basic financial statements be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Financial Accounting Standards Board who consider it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
April 30, 2021

Cavello Bay Reinsurance Limited
CONSOLIDATED BALANCE SHEETS
As at December 31, 2020 and 2019

	2020		2019	
	(expressed in thousands of U.S. dollars, except share data)			
ASSETS				
Short-term investments, trading, at fair value	$	4,349	$	30,868
Short-term investments, available-for-sale, at fair value (amortized cost: 2020 - $243,919; 2019 - $71,581)		244,148		71,580
Fixed maturities, trading, at fair value		1,262,959		1,237,776
Fixed maturities, available-for-sale, at fair value (amortized cost: 2020 - $1,588,744; 2019 - $1,022,636)		1,638,171		1,020,879
Funds held - directly managed		192,909		273,212
Equities, at fair value		479,887		330,032
Other investments, at fair value		3,691,868		1,733,759
Equity method investments		577,027		234,598
Total investments		8,091,319		4,932,704
Cash and cash equivalents		94,883		77,595
Restricted cash and cash equivalents		167,537		57,163
Premiums receivable		24,056		25,649
Reinsurance balances recoverable on paid and unpaid losses		208,342		214,654
Reinsurance balances recoverable on paid and unpaid losses, fair value		191,270		326,502
Funds held by reinsured companies		1,134,099		1,268,376
Deferred acquisition costs		17,297		34,930
Amounts due from related parties		50,555		113,000
Other assets		211,434		226,077
TOTAL ASSETS	$	10,190,792	$	7,276,650
LIABILITIES				
Losses and loss adjustment expenses	$	3,660,268	$	2,989,587
Losses and loss adjustment expenses, at fair value		1,156,713		1,218,543
Unearned premiums		13,812		17,998
Amounts due to related parties		146,267		189,867
Other liabilities		91,983		88,452
TOTAL LIABILITIES		5,069,043		4,504,447
SHAREHOLDER'S EQUITY				
Share capital - 120,000 common shares, par value of $1 each				
issued, fully paid and outstanding		120		120
Shares in ultimate holding company		(200,689)		(200,689)
Additional paid-in capital		2,745,652		2,213,168
Accumulated other comprehensive income (loss)		47,368		(1,891)
Retained earnings		2,529,298		761,495
TOTAL SHAREHOLDER'S EQUITY		5,121,749		2,772,203
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	$	10,190,792	$	7,276,650

See accompanying notes to the consolidated financial statements

Cavello Bay Reinsurance Limited
CONSOLIDATED STATEMENTS OF EARNINGS
For the Years Ended December 31, 2020 and 2019

	2020	2019
	(expressed in thousands of U.S. dollars)	
INCOME		
Net premiums earned	$ 68,776	$ 124,110
Net investment income	149,165	97,567
Net realized and unrealized investment gains (losses)	1,495,099	482,101
Other income	220	36,218
TOTAL INCOME	1,713,259	739,996
EXPENSES		
Net incurred losses and loss adjustment expenses	(21,442)	217,292
Acquisition costs	41,303	61,004
General and administrative expenses	82,152	59,150
Net foreign exchange losses (gains)	14,682	(4,604)
TOTAL EXPENSES	116,695	332,842
NET EARNINGS BEFORE NET EARNINGS FROM EQUITY METHOD INVESTMENTS	1,596,564	407,154
NET EARNINGS FROM EQUITY METHOD INVESTMENTS	174,094	31,649
NET EARNINGS	$ 1,770,658	$ 438,803

See accompanying notes to the consolidated financial statements

Cavello Bay Reinsurance Limited
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2020 and 2019

	2020	2019
	(expressed in thousands of U.S. dollars)	
NET EARNINGS	$ 1,770,658	$ 438,803
Other comprehensive income (loss):		
Unrealized gains (losses) on fixed income available-for-sale investments arising during the year	$ 49,068	$ (1,891)
Change in currency translation adjustment	191	—
Total other comprehensive income (loss)	49,259	(1,891)
TOTAL COMPREHENSIVE INCOME	$ 1,819,917	$ 436,912

Cavello Bay Reinsurance Limited
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY
For the Years Ended December 31, 2020 and 2019

	2020		2019	
	(expressed in thousands of U.S. dollars)			
SHARE CAPITAL - COMMON SHARES				
Balance, beginning and end of year	$	120	$	120
SHARES IN ULTIMATE PARENT COMPANY				
Balance, beginning and end of year	$	(200,689)	$	(200,689)
ADDITIONAL PAID-IN CAPITAL				
Balance, beginning of year	$	2,213,168	$	1,790,271
Contribution of capital		532,484		422,897
Balance, end of year	$	2,745,652	$	2,213,168
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)				
Unrealized gains (losses) on available-for-sale investments				
Balance, beginning of year	$	(1,891)	$	—
Change in unrealized gains (losses) on available-for-sale investments		49,068		(1,891)
Balance, end of year		47,177		(1,891)
Change in currency translation adjustment		191		—
Balance, end of year		191		—
Balance, end of year	$	47,368	$	(1,891)
RETAINED EARNINGS				
Balance, beginning of year	$	761,495	$	322,692
Net earnings		1,770,658		438,803
Cumulative effect of change in accounting principle		(2,855)		—
Balance, end of year	$	2,529,298	$	761,495
TOTAL SHAREHOLDER'S EQUITY	$	5,121,749	$	2,772,203

See accompanying notes to the consolidated financial statements

Cavello Bay Reinsurance Limited
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2020 and 2019

	2020	2019
	(expressed in thousands of U.S. dollars)	
OPERATING ACTIVITIES:		
Net earnings	$ 1,770,658	$ 438,803
Adjustments to reconcile net earnings to cash flows provided by operating activities:		
Realized (gains) losses on sale of investments	(50,909)	(30,006)
Unrealized (gains) losses on investments	(1,436,580)	(452,095)
Sales and maturities of trading securities	850,434	1,459,273
Purchases of trading securities	(804,480)	(916,274)
Amortization	16,888	11,393
Net (earnings) of equity method investments	(174,094)	(31,649)
Changes in:		
Funds held by reinsurance companies	134,277	(721,254)
Reinsurance recoverable	141,544	(17,220)
Losses and loss adjustment expenses	608,851	1,526,081
Unearned premiums	(4,186)	(2,011)
Premiums receivable	1,593	(6,873)
Amounts due from related parties	18,845	(69,431)
Other operating assets and liabilities	35,807	(134,584)
Net cash flows provided by operating activities	1,108,648	1,054,153
INVESTING ACTIVITIES:		
Purchase of equity method investment	(168,335)	(57,337)
Sale and maturities of available-for-sale securities	1,051,013	135,261
Purchase of available-for-sale securities	(1,790,593)	(1,231,285)
Purchase of other investments	(898,356)	(473,440)
Proceeds from other investments	292,801	212,195
Net cash flows (used in) investing activities	(1,513,470)	(1,414,606)
FINANCING ACTIVITIES:		
Contribution of capital	532,484	422,897
Net cash flows provided by financing activities	532,484	422,897
NET INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	127,662	62,444
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING OF YEAR	134,758	72,314
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, END OF YEAR	$ 262,420	$ 134,758
Reconciliation to Consolidated Balance Sheets:		
Cash and cash equivalents	$ 94,883	$ 77,595
Restricted cash and cash equivalents	167,537	57,163
Cash, cash equivalents and restricted cash	$ 262,420	$ 134,758

See accompanying notes to the consolidated financial statements

1. DESCRIPTION OF BUSINESS

Cavello Bay Reinsurance Limited (“Cavello Bay”, “we”, “us”, “our” or the “Company”) was incorporated under the laws of Bermuda on April 8, 2015. It is a wholly-owned subsidiary of Kenmare Holdings Ltd., ("Kenmare" or the "Parent"), a company incorporated in Bermuda, on August 16, 2001. The ultimate parent company of Cavello Bay is Enstar Group Limited (“Enstar”), a company incorporated under the laws of Bermuda.

The Company is registered as a Class 3B reinsurer under the Insurance Act 1978 of Bermuda, amendments thereto and related regulations (the “Insurance Act”).

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Basis of Consolidation

The consolidated financial statements include our assets and liabilities as of December 31, 2020 and 2019 and our results of operations for the years ended December 31, 2020 and 2019. The Company is the sole shareholder of Inter Ocean Reinsurance (Ireland) Limited and owns 97% of the equity interest in Global Legacy Acquisition L.P. All intercompany transactions and balances have been eliminated on consolidation.

Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amount 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. Our actual results may differ materially from these estimates. The impact of changes in estimates are reflected in earnings in the period during which the estimate is changed. Accounting policies that we believe are most dependent on assumptions and estimates are considered to be our critical accounting policies and are related to the determination of:

- liability for losses and loss adjustment expenses ("LAE");
- reinsurance balances recoverable on paid and unpaid losses;
- valuation allowances on reinsurance balances recoverable;
- impairment charges, including credit allowances on investment securities classified as available-for-sale ("AFS"), and impairments on deferred charge assets;
- gross and net premiums written and net premiums earned;
- fair value measurements of investments; and
- fair value estimates associated with loss portfolio transfer reinsurance agreements for which we have elected the fair value option.

We expect that uncertainty and volatility in financial markets relating to the coronavirus pandemic ("COVID-19") will continue to impact the value of our investments. The scope, duration and magnitude of the direct and indirect effects of the COVID-19 pandemic are changing rapidly and are difficult to anticipate. Similar to other entities in the (re)insurance industry, we are subject to economic factors such as interest rates, foreign exchange rates, regulation, political risks and other market risks that can impact our strategy, operations, and results.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant Accounting Policies

a. Investments, Cash and cash equivalents

Cash and cash equivalents

Cash equivalents include money market funds, fixed interest deposits and all highly liquid debt instruments purchased with an original maturity of three months or less.

Short-term investments and fixed maturity investments

Short-term investments comprise investments with a maturity greater than three months up to one year from the date of purchase. Fixed maturities comprise investments with a maturity of greater than one year from the date of purchase.

Short-term and fixed maturity investments classified as trading are carried at fair value, with realized and unrealized holding gains and losses included in net earnings and reported as net realized and unrealized gains and losses.

Short-term and fixed maturity investments classified as AFS are carried at fair value, with unrealized gains and losses excluded from net earnings and reported as a separate component of accumulated other comprehensive income (loss) ("AOCI"). Realized gains and losses on sales of investments classified as AFS are recognized in the consolidated statements of earnings.

The costs of short-term and fixed maturity investments are adjusted for amortization of premiums and accretion of discounts, recognized using the effective yield method and included in net investment income. For mortgage-backed and asset-backed investments, and any other holdings for which there is a prepayment risk, prepayment assumptions are evaluated and reviewed on a regular basis.

Investment purchases and sales are recorded on a trade-date basis. Realized gains and losses on the sale of investments are based upon specific identification of the cost of investments.

Allowance for Credit Losses

We perform a detailed analysis every reporting period to identify any credit losses on our investment portfolios not measured at fair value through net earnings.

Some of the factors that we consider when assessing whether an allowance for credit losses is required on our debt securities include: (1) the extent to which the fair value has been less than the amortized cost; (2) the financial condition, near-term and long-term prospects of the issuer, including the relevant industry conditions and trends, and implications of rating agency actions and offering prices; (3) the likelihood of the recoverability of principal and interest; and (4) whether it is more likely than not that we will be required to sell the security prior to an anticipated recovery in value.

With effect from January 1, 2020, credit losses on our AFS debt securities are recognized through an allowance account which is deducted from the amortized cost basis of the security, with the net carrying value of the security presented on the consolidated balance sheet at the amount expected to be collected. To calculate the amount of the credit loss, we compare the present value of the expected future cash flows with the amortized cost basis of the AFS debt security, with the amount of the credit loss recognized being limited to the excess of the amortized cost basis over the fair value of the AFS debt security, effectively creating a “fair value floor”. See *"New Accounting Standards Adopted in 2020"* below for the discussion on our adoption of the credit losses standard.

For our AFS debt securities that we do not intend to sell or for which it is more likely than not that we will not be required to sell before an anticipated recovery in value, we separate the credit loss component of any unrealized losses from the amount related to all other factors and report the credit loss component in net realized investment gains (losses) in our consolidated statements of earnings. The unrealized losses related to non-credit factors is reported in other comprehensive income. The allowance for credit losses account is adjusted for any additional credit losses, write-offs and subsequent recoveries and is reflected in earnings.

For our AFS debt securities where we record a credit loss, a determination is made as to the cause of the credit loss and whether we expect a recovery in the fair value of the security. For our AFS debt securities where we expect a recovery in fair value, the constant effective yield method is utilized, and the investment is amortized to par.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

For our AFS debt securities that we intend to sell or for which it is more likely than not that we will be required to sell before an anticipated recovery in fair value, the full amount of the unrealized loss is included in net realized investment gains (losses). The new cost basis of the investment is the previous amortized cost basis less the credit loss recognized in net realized investment gains (losses). The new cost basis is not adjusted for any subsequent recoveries in fair value.

We report the investment income accrued on our AFS debt securities within other assets and therefore separately from the underlying AFS debt securities. In addition, due to the short-term period during which accrued investment income remains unpaid, which is typically six months or less, since the coupon on our AFS debt securities is paid semi-annually or more frequently, we have elected not to establish an allowance for credit losses on our accrued investment income balances. Accrued investment income is written off through net realized investment gains (losses) at the time the issuer of the debt security defaults or is expected to default on payments.

Uncollectible debt securities are written off when we determine that no additional payments of principal or interest will be received.

Other-Than-Temporary Impairments ("OTTI")

As discussed above and below, with effect from January 1, 2020, we adopted the new credit losses standard which replaced the OTTI model that was previously applicable to our AFS debt securities. The new approach now requires the recognition of impairment charges relating to credit losses through an allowance account and limits the amount of credit loss to the difference between a security's amortized cost basis and its fair value. A description of our historical OTTI process which was in place prior to our adoption of the new credit losses standard and which applied to our comparative financial statements is provided below.

Fixed maturity investments classified as AFS were reviewed quarterly to determine if they had sustained an impairment in value that was, based on our judgment, considered to be other than temporary. The process included reviewing each fixed maturity investment whose fair value was below amortized cost and: (1) determining if we had the intent to sell the fixed maturity investment; (2) determining if it is more likely than not that we would be required to sell the fixed maturity investment before its anticipated recovery; and (3) assessing whether a credit loss existed, that is, whether we anticipated if the present value of the cash flows expected to be collected from the fixed maturity investment would be less than the amortized cost basis of the investment.

In assessing whether it was more likely than not that we would be required to sell a fixed maturity investment before its anticipated recovery, we considered various factors including our future cash flow requirements, legal and regulatory requirements, the level of our cash, cash equivalents, short-term investments and fixed maturity investments classified as AFS in an unrealized gain position, and other relevant factors.

In evaluating credit losses, we considered a variety of factors in the assessment of a fixed maturity investment including: (1) the time period during which there had been a significant decline below cost; (2) the extent of the decline below cost and par; (3) the potential for the investment to recover in value; (4) an analysis of the financial condition of the issuer; (5) the rating of the issuer; and (6) failure of the issuer of the investment to make scheduled interest or principal payments. If we concluded that an investment was other-than-temporarily impaired, then the difference between the fair value and the amortized cost of the investment was presented as an OTTI charge in the consolidated statements of earnings, with an offset for any non-credit related loss component of the OTTI charge recognized in other comprehensive income. Accordingly, only the credit loss component of the OTTI amount would have an impact on our earnings.

Equities

We hold investments in publicly traded equities and exchange-traded funds as well as in privately held equities. Our equity investments are carried at fair value with realized and unrealized gains and losses included in net earnings and reported as net realized and unrealized gains and losses.

Other investments, at fair value

Other investments include investments in limited partnerships and limited liability companies (collectively "private equities"), fixed income funds, hedge funds, equity funds, private credit funds and collateralized loan obligation ("CLO") equity funds that carry their investments at fair value, as well as direct investments in CLO equities. These other investments are stated at fair value, which ordinarily will be the most recently reported net asset value as advised by the fund

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

manager or administrator. Many of our fund investments publish net asset values on a daily basis and provide daily liquidity while others report on a monthly basis. The change in fair value is included in net realized and unrealized gains and losses on investments and recognized in net earnings.

Equity method investments

Investments in which the Company has significant influence over the operating and financial policies of the investee are classified as equity method investments and are accounted for using the equity method of accounting. In applying the equity method of accounting, investments are initially recorded at cost and are subsequently adjusted based on the Company's proportionate share of net income or loss of the investee, net of any distributions received from the investee. We typically record our proportionate share of an investee's net income or loss on a quarter lag in line with the timing of when they report their financial information to us. Any adjustments made to the carrying value of our equity method investees are based on the most recently available financial information from the investees. Changes in the carrying value of such investments are recorded in our consolidated statements of earnings as earnings (losses) from equity method investments. Any decline in the value of our equity method investments considered by management to be other-than-temporary is reflected in our consolidated statements of earnings in the period in which it is determined.

Variable interest entities

We have investments in certain limited partnership funds which are deemed to be variable interest entities (“VIEs”) and which are included in other investments at the reported net asset value (“NAV”). Determining whether to consolidate a VIE may require judgment in assessing (i) whether an entity is a VIE, and (ii) if we are the entity’s primary beneficiary and thus required to consolidate the entity. To determine if we are the primary beneficiary of a VIE, we evaluate whether we have (i) the power to direct the activities that most significantly impact the VIE’s economic performance, and (ii) the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. Our evaluation includes identification of the activities that most significantly impact the VIE’s economic performance and an assessment of our ability to direct those activities based on governance provisions, contractual arrangements to provide or receive certain services, funding commitments and other applicable agreements and circumstances. Our assessment of whether we are the primary beneficiary of our VIEs requires significant assumptions and judgment.

b. Premiums

Premiums written

Reinsurance premiums written are earned on a pro-rata basis over the period the coverage is provided. Where prospective and retroactive provisions are included within a single reinsurance contract, where practicable, these provisions are accounted for separately. Practicability requires a reasonable basis for allocating the reinsurance premiums to the risks covered by the prospective and retroactive portions of the contract, considering all amounts paid or deemed to have been paid regardless of the timing of payment. If separate accounting for prospective and retroactive provisions included within a single reinsurance contract is impracticable, the contract is accounted for as a retroactive contract provided the conditions for reinsurance accounting are met.

For assumed reinsurance contracts, written premium is recognized based on estimates of ultimate premiums provided by the ceding companies. Initial estimates of written premium are recognized in the period in which the risks incept. Changes in reinsurance premium estimates are expected and may result in adjustments in future periods. Any subsequent changes arising on such estimates are recorded as premiums written in the period in which they are determined.

Unearned Premium Reserves and Premium Receivable

Unearned premiums represent the portion of premiums written that relate to the unexpired terms of policies in force. Premiums ceded are similarly pro-rated over the period the coverage is provided with the unearned portion being deferred as prepaid reinsurance premiums.

Premium balances receivable are reported net of an allowance for expected credit losses as appropriate. The allowance is based upon our ongoing review of amounts outstanding, historical loss data, including delinquencies and write-offs, current and forecasted economic conditions and other relevant factors. However, the credit risk on our premiums receivable balances is substantially reduced where we have the ability to cancel the underlying policy if the policyholder does not pay the related premium.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

c. Acquisition costs

Acquisition costs, consisting principally of commissions and brokerage expenses and certain premium taxes and fees incurred at the time a contract or policy is issued and that vary with and are directly related to the successful efforts of acquiring new insurance contracts or renewing existing insurance contracts, are deferred and amortized over the period in which the related premiums are earned. Deferred acquisition costs are limited to their estimated realizable value by line of business based on the related unearned premiums, anticipated losses and LAE and anticipated investment income.

A premium deficiency occurs if the sum of anticipated losses and loss adjustment expenses exceed unearned premiums, deferred acquisition costs and anticipated investment income. A premium deficiency is initially recognized by charging any deferred acquisition costs to expense to the extent required in order to eliminate the deficiency. If the premium deficiency exceeds the deferred acquisition costs then a liability is accrued for the excess deficiency.

Acquisition costs also include profit commissions that are expensed when incurred. Profit commissions are calculated and accrued based on the expected loss experience for contracts and recorded when the current loss estimates indicates that a profit commission is probable under the contract terms.

d. Reinsurance Balances Recoverable on Paid and Unpaid Losses

Amounts recoverable from reinsurers are estimated in a manner consistent with the underlying liability for losses and loss adjustment expenses. The Company reports it's reinsurance balances recoverable on paid and unpaid losses net of an allowance for estimated uncollectible amounts. The allowance is based upon our ongoing review of the outstanding balances and reflects factors such as the duration of the collection period, credit quality, changes in reinsurer credit standing, default rates specific to the individual reinsurer, the geographical location of the reinsurer, contractual disputes with reinsurers over individual contentious claims, contract language or coverage issues, industry analyst reports and consensus economic forecasts.

A probability-of-default methodology that reflects current and forecasted economic conditions is used to estimate the allowance for uncollectible reinsurance due to credit-related factors. See *"New Accounting Standards Adopted in 2020"* below for the discussion on our adoption of the credit losses standard.

The allowance also includes estimated uncollectible amounts related to dispute risk with reinsurers. Amounts deemed to be uncollectible, including amounts due from known insolvent reinsurers, are written off against the allowance.

Changes in the allowance, as well as any subsequent collections of amounts previously written off, are reported as part of the net incurred losses and loss adjustment expenses in our consolidated statements of earnings.

On an ongoing basis, we also evaluate and monitor the financial condition of our reinsurers under voluntary schemes of arrangement to minimize our exposure to significant losses from potential insolvencies.

e. Retroactive reinsurance

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

Deferred Charge Assets and Deferred Gain Liabilities

If, at the inception of a retroactive reinsurance contract, the estimated undiscounted ultimate losses payable are in excess of the premiums received, a deferred charge asset is recorded for the excess; whereas, if the premiums received are in excess of the estimated undiscounted ultimate losses payable, a deferred gain liability is recorded for the excess, such that we don't record any gain or loss at the inception of these retroactive reinsurance contracts. In addition, for retrocessions of losses and LAE reserves that we have assumed through retroactive reinsurance contracts where the retroceded liabilities exceed the retrocession premiums paid, we record the excess as a deferred gain liability which is amortized to earnings over the estimated period during which the losses paid on the assumed retroceded liabilities are recovered from the retrocessionaire.

The premium consideration that we charge the ceding companies may be lower than the undiscounted estimated ultimate losses payable due to the time value of money. After receiving the premium consideration in full from our cedents at the inception of the contract, we invest the premium received over an extended period of time, thereby generating investment income. We expect to generate profits from these retroactive reinsurance policies when taking into account the premium received and expected investment income, less contractual obligations and expenses.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred charge assets, recorded in other assets, and deferred gain liabilities, recorded in other liabilities, are amortized over the estimated claim payment period of the related contract with the periodic amortization reflected in earnings as a component of losses and LAE. The amortization of deferred charge assets and deferred gain liabilities is adjusted at each reporting period to reflect new estimates of the amount and timing of the remaining loss and LAE payments. Changes in the estimated amount and the timing of payments of unpaid losses may have an effect on the unamortized deferred charge assets and deferred gain liabilities and the amount of periodic amortization. When liabilities for losses and LAE are extinguished through commutations and policy buybacks, they are removed from our estimates for the remaining loss and LAE payments, and this will generally result in an acceleration of the amortization of the deferred charge assets and deferred gain liabilities. Deferred charge assets are assessed at each reporting period for impairment. If the asset is determined to be impaired, it is written down in the period in which the determination is made with that write down reflected in earnings as a component of net incurred losses and LAE.

Fair Value Option

We have elected to apply the fair value option for certain LPT reinsurance transactions. This is an irrevocable election that applies to all balances under the insurance contract, including funds held assets, reinsurance balances recoverable on paid and unpaid losses, and the liability for losses and LAE.

An internal model is used to calculate the fair value of the liability for losses and LAE and the reinsurance balances recoverable on paid and unpaid losses. The nominal amounts related to the funds held assets, reinsurance balances recoverable on paid and unpaid losses, and the liability for losses and loss adjustment expenses, are inputs in our internal model. Note 5 - "Fair Value Measurements" describes the internal model, including the observable and unobservable inputs used in the model.

f. Losses and loss adjustment expenses

The liability for losses and LAE includes an amount determined from reported claims and an amount, based on historical loss experience and industry statistics, for losses incurred but not reported ("IBNR") determined using a variety of actuarial methods. These estimates are continually reviewed and are necessarily subject to the impact of future changes in factors such as claim severity and frequency, changes in economic conditions including the impact of inflation, legal and judicial developments, and medical cost trends. Our estimates, at inception and on an ongoing basis, do not include an estimate for potential future commutations and policy buybacks. Commutations and policy buybacks are often unique, and each commutation or policy buyback is separately negotiated. Therefore, the successful execution of one commutation or policy buyback does not necessarily impact the likelihood of other commutations or policy buybacks occurring in the future. We therefore exclude the impact of potential future commutations and policy buybacks in determining the liability for losses and LAE. While we believe that the liability for losses and LAE is adequate, the ultimate amount may be in excess of, or less than, the amounts provided. Adjustments will be reflected as part of the net increase or reduction in losses and LAE liabilities in the periods in which they become known. Premium and commission adjustments may be triggered by incurred losses, and any amounts are recorded in the same period that the related incurred loss is recognized.

Commutations of acquired companies' exposures have the effect of accelerating the payout of claims compared to the probability-weighted ranges of actuarially projected cash flows that we applied when estimating the fair values of assets and liabilities at the time of acquisition. Commutations and policy buybacks provide an opportunity for us to exit exposures to certain policies and insureds generally at a discount to our estimate of the ultimate liability and provide us with the ability to eliminate exposure to further losses. Commutations and policy buybacks can be beneficial to us as they legally extinguish liabilities in full, reduce the potential for future adverse loss development, and reduce future claims handling costs. Any material acceleration of payout together with the impact of any material loss reserve savings in any period will also accelerate the amortization of fair value adjustments and deferred charge assets and gain liabilities in that period. Commutations are only executed directly with insureds or reinsureds and any gains realized or losses incurred on the settlement of losses and LAE liabilities through commutations or policy buybacks are recognized upon the execution of a commutation or policy buyback with the insured or reinsured.

Included in the liability for losses and LAE is an assumed provision for LAE relating to run-off costs projected to be incurred over the estimated duration of the run-off of certain assumed risks. This provision is assessed at each reporting date and provisions relating to future periods are adjusted to reflect any changes in estimates, including the impact of any acceleration of the run-off period that may be caused by commutations. Provisions relating to the current period together with any adjustment to future run-off provisions are included in net incurred losses and LAE in the consolidated statements of earnings.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

g. Funds held by reinsured companies

Under funds held arrangements, the reinsured companies have retained funds that would otherwise have been remitted to the Company. The funds held balance is credited with investment income and losses payable are deducted. Funds held are shown under two categories on the consolidated balance sheets, where funds held upon which we receive the underlying portfolio economics are shown as "Funds held - directly managed", and funds held where we receive a fixed crediting rate are shown as "Funds held by reinsured companies". Funds held by reinsured companies are carried at cost while funds held - directly managed are carried at fair value, representing the aggregate of funds held at cost and the value of an embedded derivative. The embedded derivative relates to our contractual right to receive the return on the underlying investment portfolio economics. The investment returns on both categories of funds held are recognized in net investment income and net realized and unrealized gains (losses). The revaluation of the embedded derivative is included in net unrealized gains (losses).

h. Foreign Exchange

The Company’s reporting currency is the U.S. dollar. Assets and liabilities of certain of the Company's equity method investees whose functional currency is not the U.S. dollar are translated at period end exchange rates. Revenues and expenses of such foreign entities are translated at average exchange rates during the year. The effect of the currency translation adjustments for these foreign entities is included in accumulated other comprehensive income (loss).

Monetary assets and liabilities denominated in foreign currencies are revalued at the exchange rate in effect at the balance sheet date with the resulting foreign exchange gains and losses included in earnings in the consolidated statements of earnings. Non-monetary assets and liabilities are not revalued. Foreign currency revenues and expenses are translated at transaction date exchange rates.

i. Derivative Instruments

We utilize derivative instruments in our foreign currency risk management strategy and recognize all derivatives as either assets or liabilities in the consolidated balance sheets and carry them at the fair value of the specific instruments utilized. Changes in the fair value as well as realized gains or losses on derivative instruments are recognized in net earnings if they are not designated as qualifying hedging instruments or if the criteria for establishing a perfectly effective designated hedging relationship for any net investment hedges utilized, has not been met. However, if a designated net investment hedge is deemed to be perfectly effective, then we recognize the changes in the fair value of the underlying hedging instrument in accumulated other comprehensive income (loss) until the application of hedge accounting is discontinued. Any cumulative gains or losses arising on designated net investment hedges are deferred in accumulated other comprehensive income (loss) until the cumulative translation adjustment ("CTA") from the underlying hedged net investment is recognized in net earnings due to a disposal, deconsolidation or substantial liquidation.

Certain of our funds held arrangements also contain embedded derivatives as described above, which are carried at fair value. In addition, we may also hold equity call options and other derivatives carried at fair value, as part of our investment strategy.

New Accounting Standards Adopted in 2020

Accounting Standards Update ("ASU") 2020-10 – Codification Improvements

In October 2020, the Financial Accounting Standards Board ("FASB") issued ASU 2020-10, which (1) removes references to various FASB Concepts Statements, (2) situates all disclosure guidance in the appropriate disclosure section of the Codification, and (3) makes other improvements and technical corrections to the Codification, with these amendments being applied retrospectively. We early adopted this guidance and that adoption did not have a material impact on our consolidated financial statements and disclosures.

ASU 2020-04 and ASU 2021-01– Reference Rate Reform

In March 2020, the FASB issued ASU 2020-04, which is codified in Accounting Standards Codification ("ASC") 848 and which provides entities with temporary optional expedients and exceptions to the existing US GAAP guidance on contract modifications and hedge accounting to ease the financial reporting burdens related to the expected market transition from the London Inter-bank Offered Rate ("LIBOR") and other inter-bank offered rates to alternative reference rates, such as the Secured Overnight Financing Rate ("SOFR").

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Under the provisions of ASU 2020-04, entities can elect not to apply certain modification accounting requirements to contracts affected by reference rate reform, if certain criteria are met. An entity that makes this election would not have to remeasure the contracts at the modification date or reassess a previous accounting determination. Entities can also elect various optional expedients for hedging relationships affected by reference rate reform, if certain criteria are met. Once elected, the amendments in this guidance must be applied prospectively for all eligible contract modifications.

Subsequently in January 2021, the FASB issued ASU 2021-01 to refine the scope of ASC 848 and clarify that certain optional expedients and exceptions in ASC 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. Specifically, the ASU clarified that certain provisions in ASC 848, if elected by an entity, apply to derivative instruments that use an interest rate for margining, discounting, or contract price alignment that is modified as a result of reference rate reform. The amendments in ASU 2021-01 are effective immediately for all entities and can be applied either on a full retrospective or prospective basis depending on the facts and circumstances.

ASU 2020-04 was effective upon issuance and can be applied through to December 31, 2022. We adopted the ASU upon its issuance and as we transition from LIBOR to alternative reference rates, we have elected the temporary optional expedients and exceptions to the existing US GAAP guidance on contract modifications and hedge accounting permitted by the ASU, as appropriate. The adoption of this standard did not have any impact on our consolidated financial statements and disclosures.

ASU 2020-03 – Codification Improvements to Financial Instruments

In March 2020, the FASB issued ASU 2020-03, which makes narrow-scope improvements to various topics within the codification relating to financial instruments, including the new credit losses standard. The amendments related to certain specific issues covered by the ASU were effective immediately upon the issuance of the ASU, while certain specific issues covered by the ASU and affecting the credit losses standard in ASU 2016-13 were effective in 2020 for those entities that have already adopted ASU 2016-13. We adopted the amendments in this ASU upon its issuance and that adoption did not have a material impact on our consolidated financial statements and the related disclosures.

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

In June 2016, the FASB issued ASU 2016-13, which is codified in ASC 326 - *Financial Instruments - Credit Losses*, amending the guidance on the impairment of financial instruments and significantly changing how entities measure credit losses for most financial assets and certain other financial instruments, including reinsurance balances recoverable on paid and unpaid losses that are not measured at fair value through net earnings. The ASU replaced the *"incurred loss"* approach that was previously applied to determine credit losses with an *"expected loss"* model for financial instruments measured at amortized cost. Under the *"expected loss"* model, the estimate of expected credit losses should consider historical information, current information, as well as reasonable and supportable forecasts, including estimates of prepayments. The expected credit losses and subsequent adjustments to such losses are recorded through an allowance account that is deducted from the amortized cost basis of the financial asset, with the net carrying value of the financial asset presented on the consolidated balance sheet at the amount expected to be collected.

ASU 2016-13 also amends the OTTI model that was previously applicable to AFS debt securities, with the new approach now requiring the recognition of impairments relating to credit losses through an allowance account and limiting the amount of credit loss to the difference between a security's amortized cost basis and its fair value. This revised approach records the full effect of reversals of any credit losses in current period earnings, compared to previous guidance where this reversal was amortized over the lifetime of the security. Under this revised approach, the length of time a security has been in an unrealized loss position will no longer be considered in determining whether to record a credit loss. In addition, the historical and implied volatility of the fair value of a security and recoveries or declines in fair value after the balance sheet date will no longer be considered when making a determination of whether a credit loss exists.

We adopted ASU 2016-13 and all the related amendments on January 1, 2020 using the modified retrospective approach and recorded a cumulative effect adjustment of $0.5 million to reduce opening retained earnings with respect to our financial assets carried at amortized cost, which primarily relate to our reinsurance balances recoverable. As disclosed in Note 7 - "Reinsurance Balances Recoverable on Paids and Unpaid Losses", as of the adoption date on January 1, 2020, we already carried specific provisions for bad debts amounting to $9.4 million on our reinsurance balances recoverable asset, therefore, the adoption of ASU 2016-13 and the related amendments did not have a material quantitative impact on the overall credit allowance established against our reinsurance balances recoverable.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

As a result of adopting ASU 2016-13 and the related amendments, we also recorded a credit allowance of approximately $2.3 million related to our AFS debt securities whose fair values were less than their amortized cost basis.

Recently Issued Accounting Pronouncements Not Yet Adopted

ASU 2020-08 – Codification Improvements to Subtopic 310-20 - Receivables - Nonrefundable Fees and Other Costs

In October 2020, the FASB issued ASU 2020-08 to clarify that an entity should re-evaluate whether a callable debt security is within the scope of ASC 310-20-35-33 during each reporting period. All entities are required to apply the amendments in this

ASU on a prospective basis as of the beginning of the period of adoption for existing or newly purchased callable debt securities.

The amendments in this ASU are effective for interim and annual reporting periods beginning after December 15, 2020, and early adoption is not permitted. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements and the related disclosures.

ASU 2020-01 - Clarifying the Interactions between ASC 321, ASC 323 and ASC 815

In January 2020, the FASB issued ASU 2020-01 to clarify the interaction of the accounting for equity securities under ASC 321 and investments accounted for under the equity method of accounting in ASC 323 and the accounting for certain forward contracts and purchased options accounted for under ASC 815. With respect to the interactions between ASC 321 and ASC 323, the amendments clarify that an entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting when applying the measurement alternative in ASC 321, immediately before applying or upon discontinuing the equity method of accounting. With respect to forward contracts or purchased options to purchase securities, the amendments clarify that when applying the guidance in ASC 815-10-15-141(a), an entity should not consider whether upon the settlement of the forward contract or exercise of the purchased option, individually or with existing investments, the underlying securities would be accounted for under the equity method in ASC 323 or the fair value option in accordance with ASC 825. The ASU is effective for interim and annual reporting periods beginning after December 15, 2021, although early adoption is permitted, including adoption in any interim period. We do not expect the adoption of this standard to have a material impact on our consolidated financial statements and disclosures.

(Expressed in thousands of U.S. dollars, except share data)

3. MERGERS, ACQUISITIONS AND SIGNIFICANT NEW BUSINESS

The table below sets forth a summary of significant new business that we have completed between January 1, 2019 and December 31, 2020:

Transaction	Date Completed	Total Assets Assumed	Deferred Charge Asset (1)	Total Liabilities Assumed	Net Fair Value Adjustment (2)	Primary Nature of Business
Hannover Re	August 6, 2020	$ 182,498	N/A	$ 209,713	$ (27,215)	U.S. asbestos, environmental and workers' compensation liabilities
Munich Re (4)	July 1, 2020	$ 100,956	N/A	$ 100,956	N/A	Australian public liability, professional liability and builders' warranty liabilities
AXA Group (3)	June 1, 2020	$ 179,681	N/A	$ 179,681	N/A	U.S. construction general liability
Aspen ADC	June 1, 2020	$ 770,000	$ 11,746	$ 781,746	N/A	Diversified mix of property, liability and specialty lines of business across the U.S., U.K. and Europe
StarStone LPT (4)	December 23, 2019	$ 189,400	N/A	$ 189,400	N/A	Diversified mix of property, liability and specialty lines of business (2018 and prior underwriting years) and Construction (2019 and prior underwriting years)
Syndicate 2008 (4)	December 18, 2019	$ 810,900	N/A	$ 810,900	N/A	Lloyd's property, professional, marine, non-marine, affinity annual, extended warranty and political
Zurich (3)	October 1, 2019	$ 507,061	$ 115,815	$ 622,876	N/A	U.S. asbestos and environmental liability
Maiden Re Bermuda ADC	August 5, 2019	$ 445,000	$ 85,183	$ 530,183	N/A	U.S. workers' compensation and General Casualty
Amerisure	April 11, 2019	$ 45,463	$ 2,873	$ 48,336	N/A	U.S. construction defect

The table below sets forth a summary of significant new business that we have either signed or completed between January 1, 2021 and April 30, 2021:

Transaction	Date Announced or Completed	Total Assets Assumed	Deferred Charge Asset (1)	Total Liabilities Assumed	Net Fair Value Adjustment (2)	Primary Nature of Business
AXA Group (5)	Announced on February 25, 2021	$ 1,395,000	N/A	$ 1,395,000	N/A	Diversified mix of global casualty and professional lines
ProSight (5)	Announced on January 15, 2021	$ 500,000	N/A	$ 500,000	N/A	U.S. discontinued workers' compensation and excess workers' compensation lines of business and adverse development cover on a diversified mix of general liability classes of business
CNA (5)	February 5, 2021	$ 690,000	N/A	$ 690,000	N/A	U.S. excess workers' compensation
Liberty Mutual (5)	January 8, 2021	$ 420,000	N/A	$ 420,000	N/A	U.S. energy liability, construction liability and homebuilders liability

(1) Where the estimated ultimate losses payable exceed the premium consideration received at the inception of the agreement, a deferred charge asset is recorded.

(2) When the fair value option is elected for any retroactive reinsurance agreement, an initial net fair value adjustment is recorded at the inception of the agreement.

(3) Effective October 1, 2020 and 2019, we ceded 10% of the AXA Group and Zurich transactions, respectively, to Enhanzed Reinsurance Ltd. ("Enhanzed Re"), in which we have an investment, on the same terms and conditions as those received by us.

(4) Represents an LPT transaction with an affiliate

(5) The retroactive reinsurance agreements with AXA Group, ProSight, CNA and Liberty Mutual either closed or are expected to close in 2021 and therefore the related balances are not included in our consolidated financial statements as of December 31, 2020.

(Expressed in thousands of U.S. dollars, except share data)

3. MERGERS, ACQUISITIONS AND SIGNIFICANT NEW BUSINESS (Continued)

Merger with Kayla

Effective September 30, 2019, KaylaRe Ltd Holdings, Ltd. ("Kayla"), whose ultimate parent company was Enstar, and it's fully owned subsidiary KaylaRe Ltd., merged with and into the Company, with the Company continuing as the sole surviving entity. Since Kayla and the Company were both entities under common control from May 14, 2018 until prior to their merger, the pooling of interest method was used from that date, and therefore the comparative balances included in our prior year financial statements were presented as if the merger became effective at the beginning of the earliest period presented.

The table below summarizes the impact of the merger with Kayla on the Company's total assets, liabilities and shareholder's equity balances:

	Year ended December 31, 2018		
	As Previously Presented	Effect of Merger	Revised
Total assets	$ 4,052,635	$ 857,816	$ 4,910,451
Total liabilities	2,447,492	550,565	2,998,057
Shareholder's equity	1,605,143	307,251	1,912,394
Net Earnings	71,176	(37,411)	33,765

Acquisition of Erieview

On April 26, 2019 the Company purchased Erieview Insurance Company Limited ("Erieview") and immediately merged with Erieview, with the Company continuing as the sole surviving entity. The acquisition increased the Company's total assets, total liabilities and net earnings by $1.2 million, $1.1 million and $0.1 million, respectively.

4. INVESTMENTS

We hold: (i) trading portfolios of fixed maturity investments, short-term investments and equities, carried at fair value; (ii) AFS portfolios of fixed maturity and short-term investments, carried at fair value; (iii) other investments carried at fair value; (iv) funds held - directly managed, carried at fair value; and (v) equity method investments.

Fixed Maturity Investments

Asset Types

The fair values of the underlying asset types comprising our short-term investments and fixed maturity investments, classified as trading and AFS and the fixed maturity investments included within our funds held - directly managed balance were as follows as at December 31, 2020 and 2019:

(Expressed in thousands of U.S. dollars, except share data)

4. INVESTMENTS (Continued)

	2020					
	Short-term investments - Trading	**Short-term investments - AFS**	**Fixed maturity investments - Trading**	**Fixed maturity investments - AFS**	**Funds Held - Directly Managed**	**Total**
U.S. government and agency	$ —	$ 237,688	$ 38,665	$ 84,131	$ 36,671	$ 397,155
U.K. government	—	—	12,634	—	—	12,634
Other government	3,424	—	104,412	34,586	2,013	144,435
Corporate	925	6,460	931,253	1,149,550	103,242	2,191,430
Municipal	—	—	20,383	2,560	6,551	29,494
Residential mortgage-backed	—	—	9,737	136,067	4,166	149,970
Commercial mortgage-backed	—	—	56,854	105,262	29,300	191,416
Asset backed	—	—	89,021	126,015	6,247	221,283
Total fixed maturity and short-term investments	$ 4,349	$ 244,148	$ 1,262,959	$ 1,638,171	$ 188,190	$ 3,337,817

	2019					
	Short-term investments - Trading	**Short-term investments - AFS**	**Fixed maturity investments - Trading**	**Fixed maturity investments - AFS**	**Funds Held - Directly Managed**	**Total**
U.S. government and agency	$ —	$ 68,768	$ 5,046	$ 116,863	$ 55,454	$ 246,131
U.K. government	24,210	—	18,802	—	—	43,012
Other government	6,658	—	103,868	—	1,068	111,594
Corporate	—	1,431	872,692	696,232	165,370	1,735,725
Municipal	—	1,381	12,233	—	5,907	19,521
Residential mortgage-backed	—	—	10,837	61,024	4,845	76,706
Commercial mortgage-backed	—	—	112,846	26,151	29,423	168,420
Asset backed	—	—	101,452	120,609	6,379	228,440
Total fixed maturity and short-term investments	$ 30,868	$ 71,580	$ 1,237,776	$ 1,020,879	$ 268,446	$ 2,629,549

Included within residential and commercial mortgage-backed securities as at December 31, 2020 were securities issued by U.S. governmental agencies with a fair value of $147.0 million (as of December 31, 2019: $79.0 million).

(Expressed in thousands of U.S. dollars, except share data)

4. INVESTMENTS (Continued)

Contractual Maturities

The contractual maturities of our short-term investments and fixed maturity investments, classified as trading and AFS, and the fixed maturity investments included within our funds held - directly managed balance are shown below. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

As at December 31, 2020	Amortized Cost	Fair Value	% of Total Fair Value
One year or less	$ 295,404	$ 297,781	8.9 %
More than one year through two years	205,846	209,887	6.3 %
More than two years through five years	671,774	703,062	21.1 %
More than five years through ten years	729,433	784,219	23.5 %
More than ten years	694,153	780,199	23.4 %
Residential mortgage-backed	147,860	149,970	4.5 %
Commercial mortgage-backed	184,842	191,416	5.7 %
Asset-backed	220,673	221,283	6.6 %
	$ 3,149,985	$ 3,337,817	100.0 %

Credit Ratings

The following table sets forth the credit ratings of our short-term investments, fixed maturity investments, and the fixed maturity investments included within our funds held - directly managed balance as at December 31, 2020:

	Amortized Cost	Fair Value	% of Total Investments	AAA Rated	AA Rated	A Rated	BBB Rated	Not Rated	Non-Investment Grade
U.S. government and agency	$ 394,482	$ 397,155	11.9 %	$397,155	$ —	$ —	$ —	$ —	$ —
U.K. government	11,195	12,634	0.4 %	—	8,034	4,600	—	—	—
Other government	129,862	144,435	4.3 %	84,521	57,802	799	345	—	968
Corporate	2,033,872	2,191,430	65.7 %	81,711	218,450	996,929	738,780	—	155,560
Municipal	27,199	29,494	0.9 %	2,176	17,863	6,827	2,628	—	—
Residential mortgage-backed	147,860	149,970	4.5 %	149,861	—	—	—	—	109
Commercial mortgage-backed	184,842	191,416	5.7 %	165,325	17,316	4,771	3,840	164	—
Asset-backed	220,673	221,283	6.6 %	111,544	33,570	45,743	25,121	2,593	2,712
	$ 3,149,985	$3,337,817	100.0 %	$992,293	$353,035	$1,059,669	$770,714	$ 2,757	$ 159,349
% of total fair value				29.7 %	10.6 %	31.7 %	23.1 %	0.1 %	4.8 %

(Expressed in thousands of U.S. dollars, except share data)

4. INVESTMENTS (Continued)

Unrealized Gains and Losses on AFS Short-Term and Fixed Maturity Investments

The amortized cost, unrealized gains and losses, allowance for credit losses and fair values of our short-term and fixed maturity investments classified as AFS as of December 31, 2020 were as follows:

			Gross Unrealized Losses		
2020	**Amortized Cost**	**Gross Unrealized Gains**	**Non-Credit Related Losses**	**Allowance for Credit Losses[1]**	**Fair Value**
U.S. government and agency	$ 321,061	$ 762	$ (4)	$ —	$ 321,819
Other government	31,331	3,255	—	—	34,586
Corporate	1,114,305	42,319	(591)	(23)	1,156,010
Municipal	2,425	135	—	—	2,560
Residential mortgage-backed	134,096	2,136	(165)	—	136,067
Commercial mortgage-backed	103,343	2,359	(440)	—	105,262
Asset-backed	126,102	229	(316)	—	126,015
	$ 1,832,663	$ 51,195	$ (1,516)	$ (23)	$ 1,882,319

[1] The Company adopted ASU 2016-13 and the related amendments on January 1, 2020. Refer to Note 1 - "Significant Accounting Policies" for further details.

The amortized cost, unrealized gains and losses and fair values of our short-term and fixed maturity investments classified as AFS as of December 31, 2019 were as follows:

2019	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses Non-OTTI**	**Fair Value**
U.S. government and agency	$ 185,663	$ 21	$ (53)	$ 185,631
Corporate	698,890	2,236	(3,463)	697,663
Municipal	1,380	1	—	1,381
Residential mortgage-backed	61,434	118	(528)	61,024
Commercial mortgage-backed	26,245	6	(100)	26,151
Asset-backed	120,605	94	(90)	120,609
	$ 1,094,217	$ 2,476	$ (4,234)	$ 1,092,459

(Expressed in thousands of U.S. dollars, except share data)

4. INVESTMENTS (Continued)

Gross Unrealized Losses on AFS Short-term and Fixed Maturity Investments

The following table summarizes our short-term and fixed maturity investments classified as AFS that were in a gross unrealized loss position, for which an allowance for credit losses has not been recorded, as of December 31, 2020:

	12 Months or Greater		Less Than 12 Months		Total	
2020	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**
U.S. government and agency	$ —	$ —	$ 15,870	$ (4)	$ 15,870	$ (4)
Corporate	1,844	(14)	103,955	(563)	105,799	(577)
Residential mortgage-backed	4,626	(125)	16,226	(40)	20,852	(165)
Commercial mortgage-backed	—	—	27,749	(440)	27,749	(440)
Asset-backed	—	—	84,321	(316)	84,321	(316)
Total short-term and fixed maturity investments	$ 6,470	$ (139)	$ 248,121	$ (1,363)	$ 254,591	$ (1,502)

The following table summarizes our short-term and fixed maturity investments classified as AFS that were in a gross unrealized loss position as of December 31, 2019, aggregated by major security type and length of time in continuous unrealized loss position:

	12 Months or Greater		Less Than 12 Months		Total	
2019	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**
U.S. government and agency	$ —	$ —	$ 94,674	$ (53)	$ 94,674	$ (53)
Corporate	—	—	300,377	(3,463)	300,377	(3,463)
Residential mortgage-backed	—	—	21,389	(528)	21,389	(528)
Commercial mortgage-backed	—	—	23,406	(100)	23,406	(100)
Asset-backed	—	—	82,993	(90)	82,993	(90)
Total short-term and fixed maturity investments	$ —	$ —	$ 522,839	$ (4,234)	$ 522,839	$ (4,234)

As of December 31, 2020 and 2019, the number of securities classified as AFS in an unrealized loss position for which an allowance for credit loss is not recorded was 160 and 324, respectively. Of these securities, the number of securities that had been in an unrealized loss position for twelve months or longer was 7 and 0, respectively.

The contractual terms of a majority of these investments do not permit the issuers to settle the securities at a price less than the amortized cost basis of the security. While credit spreads have increased, and in certain cases credit ratings were downgraded, we currently do not expect the issuers of these fixed income securities to settle them at a price less than their amortized cost basis and therefore it is expected that we will recover the entire amortized cost basis of each security. Furthermore, we do not intend to sell the securities that are currently in an unrealized loss position, and it is also not more likely than not that we will be required to sell the securities before the recovery of their amortized cost bases.

Allowance for Credit Losses on AFS Fixed Maturity Investments

We adopted ASU 2016-13 and the related amendments on January 1, 2020 prospectively, and recognized an allowance for credit losses of $2.3 million on initial adoption of the guidance. Our allowance for credit losses is derived based on various data sources, multiple key inputs and forecast scenarios. These include default rates specific to the individual security, vintage of the security, geography of the issuer of the security, industry analyst reports, credit ratings and consensus economic forecasts.

(Expressed in thousands of U.S. dollars, except share data)

4. INVESTMENTS (Continued)

To determine the credit losses on our AFS securities, we use the probability of default ("PD") and loss given default ("LGD") methodology through a third-party proprietary tool which calculates the expected credit losses based on a discounted cash flow method. The tool uses effective interest rates to discount the expected cash flows associated with each AFS security to determine its fair value, which is then compared with its amortized cost basis to derive the credit loss on the security.
The methodology and inputs used to determine the credit loss by security type are as follows:

- *Corporate and Government:* Expected cashflows are derived that are specific to each security. The PD is based on a quantitative model that converts agency ratings to term structures that vary by country, industry and the state of the credit cycle. This is used along with macroeconomic forecasts to produce scenario conditioned PDs. The LGD is based on default studies provided by a third party which we use along with macroeconomic forecasts to produce scenario conditioned LGDs.
- *Municipals*: Expected cash flows are derived that are specific to each security. The PD model produces scenario conditioned PD output over the lifetime of the municipal security. These PDs are based on key macroeconomic and instrument specific risk factors. The LGD is derived based on a model which uses assumptions specific to the municipal securities.

For corporate, government and municipal securities, we use an explicit reversion and a three year forecast period, which we consider to be a reasonable duration during which an economic forecast could continue to be reliable.

- *Asset backed, Commercial and Residential mortgaged-backed:* Expected cash flows are derived that are specific to each security. The PD and LGD for each security is based on a quantitative model that generates scenario conditioned PD and LGD term structures based on the underlying collateral type, waterfall and other trustee information. This model also considers prepayments. For these security types, there is no explicit reversion and the forecasts are deemed reasonable and supportable over the life of the portfolio.

Due to the short-term period during which accrued investment income remains unpaid, which is typically six months or less since the coupon on our debt securities is paid semi-annually or more frequently, we elected not to establish an allowance for credit losses on our accrued investment income balances. Accrued investment income is written off through net realized investment gains (losses) at the time the issuer of the debt security defaults or is expected to default on payments.

The following table provides a reconciliation of the beginning and ending allowance for credit losses on our AFS debt securities:

	December 31, 2020
	Corporate
Allowance for credit losses, beginning of year	$ —
Cumulative effect of change in accounting principle	(2,347)
Allowances for credit losses on securities for which credit losses were not previously recorded	(46)
Additions to the allowance for credit losses arising from purchases of securities accounted for as PCD assets	—
Reductions for securities sold during the year	321
Reductions in the allowance for credit losses on securities we either intend to sell or more likely than not, we will be required to sell before the recovery of their amortized cost basis	—
(Increase) decrease to the allowance for credit losses on securities that had an allowance recorded in the previous period	2,049
Allowance for credit losses, end of year	$ (23)

During the year ended December 31, 2020, we did not have any write-offs charged against the allowance for credit losses or any recoveries of amounts previously written-off.

Other-Than-Temporary Impairment on AFS Short-term and Fixed Maturity Investments
For the year ended December 31, 2019, we did not recognize any OTTI losses on our AFS securities. We determined that no other-than-temporary credit losses existed as of December 31, 2019. A description of our historical OTTI process is included in Note 2 - "Significant Accounting Policies".

(Expressed in thousands of U.S. dollars, except share data)

4. INVESTMENTS (Continued)

As discussed in detail in Note 2 - "Significant Accounting Policies", we adopted ASU 2016-13 and the related amendments on January 1, 2020 with this new guidance replacing the OTTI model that was previously applicable to our AFS debt securities. The new approach now requires the recognition of impairments relating to credit losses through an allowance account and limits the amount of credit loss to the difference between a security's amortized cost basis and its fair value.

Equity Investments

The following table summarizes our equity investments classified as trading as of December 31, 2020 and 2019:

	2020	2019
Publicly traded equity investments in common and preferred stocks	$ 192,683	$ 118,988
Exchange traded funds	23,034	—
Privately held equity investments in common and preferred stocks	264,170	211,044
	$ 479,887	$ 330,032

Equity investments include publicly traded common and preferred stocks, exchange-traded funds and privately held common and preferred stocks. Our publicly traded equity investments in common and preferred stocks predominantly trade on major exchanges and are managed by our external advisors. Our investments in exchange-traded funds also trade on major exchanges.

Our privately held equity investments in common and preferred stocks are direct investments in companies that we believe offer attractive risk adjusted returns and/or offer other strategic advantages. Each investment may have its own unique terms and conditions and there may be restrictions imposed on disposals. There is no active market for these investments. Included within the above balance as of December 31, 2020 and 2019 is an investment in the parent company of AmTrust Financial Services, Inc. ("AmTrust"), with a fair value of $222.3 million and $186.0 million, respectively. Refer to Note 12 - "Related Party Transactions" for further information.

Other Investments, at fair value

The following table summarizes our other investments carried at fair value as at December 31, 2020 and 2019:

	2020	2019
Private equity funds	$ 194,844	$ 156,094
Fixed income fund	309,101	136,425
Hedge funds	2,621,480	1,085,777
Equity funds	185,694	168,367
CLO equities	125,779	85,587
CLO equity funds	144,215	76,946
Balanced fund	73,068	24,529
Private credit funds	37,687	—
Others	—	34
	$ 3,691,868	$ 1,733,759

The valuation of our other investments is described in Note 5 - "Fair Value Measurements". Due to a lag in the valuations of certain funds reported by the managers, we may record changes in valuation with up to a three-month lag. We regularly review and discuss fund performance with the fund managers to corroborate the reasonableness of the reported net asset values and to assess whether any events have occurred within the lag period that would affect the valuation of the investments. The following is a description of the nature of each of these investment categories:

(Expressed in thousands of U.S. dollars, except share data)

4. INVESTMENTS (Continued)

- *Private equity funds* invest primarily in the financial services industry.
- *Hedge funds* may invest in a wide range of instruments, including debt and equity securities, and utilize various sophisticated strategies to achieve their objectives. We invest in a mixture of fixed income, equity and multi-strategy hedge funds.
- *Equity funds* invest in a diversified portfolio of U.S. and non-US publicly-traded equity securities.
- *CLO equities* comprise investments in the equity tranches of term-financed securitizations of diversified pools of corporate bank loans. CLO equities denote direct investments by the Company in these securities.
- *CLO equity funds* invest primarily in the equity tranches of term-financed securitizations of diversified pools of corporate bank loans and is currently eligible for redemption.
- The *Fixed income fund* and *Balanced fund,* all of whose investors are Enstar subsidiaries and affiliates, comprises a number of positions in diversified fixed income and equity funds, and also direct holdings in fixed income and equity securities.
- *Private credit funds* invest in direct senior or collateralized loans.
- *Others* comprise of call options on equity securities.

As at December 31, 2020 we had unfunded commitments of $687.8 million to private equity funds.

Certain of our other investments are subject to restrictions on redemptions and sales that are determined by the governing documents, which limits our ability to liquidate those investments. These restrictions may include lock-ups, redemption gates, restricted share classes or side pockets, restrictions on the frequency of redemption and notice periods. A gate is the ability to deny or delay a redemption request, whereas a side-pocket is a designated account for which the investor loses its redemption rights. Certain other investments may not have any restrictions governing their sale, but there is no active market and no guarantee that we will be able to execute a sale in a timely manner. In addition, even if certain other investments are not eligible for redemption or sales are restricted, we may still receive income distributions from those other investments. The table below details the estimated date by which proceeds would be received if we had provided notice of our intent to redeem or initiated a sales process as of December 31, 2020:

	Less than 1 Year	1-2 years	2-3 years	More than 3 years	Not Eligible/ Restricted	Total	Redemption Frequency
Private equity funds	$ —	$ —	$ —	$ —	$ 194,844	$ 194,844	N/A
Fixed income fund	297,022	—	—	—	12,079	309,101	Daily to Quarterly
Hedge funds	2,573,305	—	—	—	48,175	2,621,480	Monthly to Bi-annually
Equity funds	185,694	—	—	—	—	185,694	Daily to Quarterly
CLO equities	125,779	—	—	—	—	125,779	N/A
CLO equity funds	83,640	60,575	—	—	—	144,215	Quarterly to Bi-annually
Balanced fund	73,068	—	—	—	—	73,068	Daily
Private credit funds	—	—	—	—	37,687	37,687	N/A
	$ 3,338,508	$ 60,575	$ —	$ —	$ 292,785	$ 3,691,868	

(Expressed in thousands of U.S. dollars, except share data)

4. INVESTMENTS (Continued)

Equity Method Investments

The table below summarizes our equity method investments as of December 31, 2020 and 2019:

	2020			2019		
	Investment	Ownership %	Carrying Value	Investment	Ownership %	Carrying Value
Enhanzed Reinsurance Ltd.	$ 154,050	47.4 %	$ 330,289	$ 154,050	47.4 %	$ 182,856
Monument Re	161,994	20.0 %	193,716	—	— %	—
HH CTCO Holdings Limited	50,000	31.9 %	53,022	50,000	31.9 %	51,742
	$ 366,044		$ 577,027	$ 204,050		$ 234,598

Refer to Note 12 - "Related party Transactions" for further disclosures regarding our investments in Enhanzed Re, Monument Re and Citco III Limited ("Citco").

As of December 31, 2020, we had unfunded commitments of $68.7 million relating to our investment in Enhanzed Re.

Funds Held

Under funds held arrangements, the reinsured company has retained funds that would otherwise have been remitted to the Company and its reinsurance subsidiaries. We either have (i) funds held by reinsured companies, which are carried at amortized cost and on which we receive a fixed crediting rate, or (ii) funds held - directly managed, which are carried at fair value and on which we receive the underlying return on the portfolio. The investment returns on funds held by reinsured companies are recognized in net investment income and the investment returns on funds held - directly managed are recognized in net investment income and net realized and unrealized gains (losses). The funds held balance is credited with investment income and losses payable are deducted.

Funds held - Directly Managed

Funds held - directly managed, where we receive the underlying return on the investment portfolio, are carried at fair value, either because we elected the fair value option at the inception of the reinsurance contract, or because it represents the aggregate of funds held at amortized cost and the fair value of an embedded derivative. The embedded derivative relates to our contractual right to receive the return on the underlying investment portfolio supporting the reinsurance contract. We include the estimated fair value of these embedded derivatives in our consolidated balance sheets with the host contract in order to reflect the expected settlement of these features with the host contract. The change in the fair value of the embedded derivative is included in net unrealized gains (losses). The following table summarizes the components of the funds held - directly managed as of December 31, 2020 and 2019:

	2020	2019
Fixed maturity investments, trading	$ 188,190	$ 268,446
Other assets	4,719	4,766
	$ 192,909	$ 273,212

(Expressed in thousands of U.S. dollars, except share data)

4. INVESTMENTS (Continued)

The following table summarizes the fixed maturity investment components of funds held - directly managed as of December 31, 2020 and 2019:

	2020			2019		
	Funds held - Directly Managed - Fair Value Option	Funds held - Directly Managed - Variable Return	Total	Funds held - Directly Managed - Fair Value Option	Funds held - Directly Managed - Variable Return	Total
Fixed maturity investments, at amortized cost	$ 106,938	$ 64,401	$ 171,339	$ 185,859	$ 72,950	$ 258,809
Net unrealized gains (losses):						
Change in fair value - fair value option accounting	9,693	—	9,693	5,438	—	5,438
Change in fair value - embedded derivative accounting	—	7,158	7,158	—	4,199	4,199
Fixed maturity investments within funds held - directly managed, at fair value	$ 116,631	$ 71,559	$ 188,190	$ 191,297	$ 77,149	$ 268,446

Funds Held by Reinsured Companies

Funds held by reinsured companies, where we receive a fixed crediting rate, are carried at cost on our consolidated balance sheets. As of December 31, 2020 and 2019, we had funds held by reinsured companies of $1,134.1 million and $1,268.4 million, respectively.

Net Investment Income

Major categories of net investment income for the years ended December 31, 2020 and 2019 are summarized as follows:

	2020	2019
Fixed maturity investments	$ 56,944	$ 50,380
Short-term investments and cash and cash equivalents	1,330	2,361
Funds held - directly managed	35,965	20,208
Equity investments	7,413	6,404
Other investments	25,820	10,958
Interest income from affiliate	26,495	12,328
Gross investment income	153,967	102,639
Investment expenses	(4,802)	(5,072)
Net investment income	$ 149,165	$ 97,567

(Expressed in thousands of U.S. dollars, except share data)

4. INVESTMENTS (Continued)

Net Realized and Unrealized Gains (Losses)

Components of net realized and unrealized gains (losses) for the years ended December 31, 2020 and 2019 were as follows:

	2020	2019
Net realized gains (losses) on sale:		
Gross realized gains on fixed maturity securities, AFS	$ 12,352	$ 129
Gross realized losses on fixed maturity securities, AFS	(6,422)	(268)
Decrease in allowance for expected credit losses on fixed maturity securities, AFS	2,004	—
Net realized gains (losses) on fixed maturity securities, trading	37,410	33,910
Net realized gains (losses) on fixed maturity securities in funds held - directly managed	994	294
Net realized gains (losses) on equity investments	4,571	(4,314)
Total net realized gains (losses) on sale	50,909	29,751
Net unrealized gains (losses):		
Fixed maturity securities, trading	42,266	90,915
Fixed maturity securities in funds held - directly managed	11,421	13,809
Equity investments	35,906	10,710
Other investments	1,346,181	337,010
Investment derivatives	806	(349)
Total net unrealized gains (losses)	1,436,580	452,095
Net realized gains and change in fair value of embedded derivative:		
Net realized (losses) gain on fixed maturities	587	678
Change in fair value of embedded derivative	7,022	(423)
Net realized gains and change in fair value of embedded derivative	7,609	255
Net realized and unrealized gains (losses)	$ 1,495,098	$ 482,101

The gross realized gains and losses on AFS investments included in the table above resulted from investment sales of $924.1 million and $119.5 million for the years ended December 31, 2020 and 2019, respectively.

The unrealized gains for 2020 primarily comprised unrealized gains of $1.2 billion in the hedge fund managed by AnglePoint. These unrealized gains were driven by strong performance in equity markets across multiple sectors, including consumer discretionary, communication services, information technology and consumer staples.

The net realized gains and change in the fair value of the embedded derivative relates to the total return on the assets retained by Syndicate 2008 under the terms of its 50% Quota Share reinsurance agreement with the Company as noted in Note 3 - "Mergers, Acquisitions and Significant New Business".

(Expressed in thousands of U.S. dollars, except share data)

4. INVESTMENTS (Continued)

As of December 31, 2020 and 2019, the following funds were withheld by affiliated companies and included within "Funds held by reinsurance companies" within the Company's consolidated balance sheets:

	2020	2019
Syndicate 2008	$ 735,649	$ 847,202
StarStone Group	54,603	247,280
Enstar (US) Inc	5,177	7,109
Fletcher Reinsurance Company ("Fletcher")	—	51,288
Clarendon National Insurance Company ("Clarendon")	—	22,371
	$ 795,429	$ 1,175,250

StarStone Group includes StarStone Insurance Bermuda Limited ("SIBL"), Starstone Insurance SE ("SISE"), Syndicate 1301, StarStone National Insurance Company ("StarStone National"), StarStone Specialty Insurance Company ("SSIC") and StarStone Corporate Capital 1 Limited ("SCC1").

Enstar (US) Inc maintains a funds held balance that is used to settle claims on behalf of the Company.

Restricted Assets

We utilize trust accounts to collateralize business with our insurance and reinsurance counterparties. The investments and cash and cash equivalents on deposit are available to settle insurance and reinsurance liabilities. Collateral generally takes the form of assets held in trust, letters of credit or funds held. The assets used as collateral are primarily highly rated fixed maturity securities. The carrying value of our restricted assets, including restricted cash of $167.5 million and $57.2 million as of December 31, 2020 and 2019, respectively, was as follows:

	2020	2019
Collateral in trust for third party agreements	$ 2,788,827	$ 1,844,703
Collateral for secured letter of credit facilities	18,859	19,340
	$ 2,807,686	$ 1,864,043

5. FAIR VALUE MEASUREMENTS

Fair value is defined as the price at which to sell an asset or transfer a liability (i.e. the "exit price") in an orderly transaction between market participants. We use a fair value hierarchy that gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. The hierarchy is broken down into three levels as follows:

- Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments.
- Level 2 - Valuations 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 - Valuations based on unobservable inputs where there is little or no market activity. Unadjusted third party pricing sources or management's assumptions and internal valuation models may be used to determine the fair values.

In addition, certain of our other investments are measured at fair value using net asset value ("NAV") per share (or its equivalent) as a practical expedient and have not been classified within the fair value hierarchy above. We have categorized our assets and liabilities that are recorded at fair value on a recurring basis among levels based on the observability of inputs, or at fair value using NAV per share (or its equivalent) as follows:

(Expressed in thousands of U.S. dollars, except share data)

5. FAIR VALUE MEASUREMENTS (Continued)

	December 31, 2020				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value Based on NAV as Practical Expedient	Total Fair Value
Investments:					
Fixed maturity investments:					
U.S. government and agency	$ —	$ 397,155	$ —	$ —	$ 397,155
U.K. government	—	12,634	—	—	12,634
Other government	—	144,435	—	—	144,435
Corporate	—	2,191,430	—	—	2,191,430
Municipal	—	29,494	—	—	29,494
Residential mortgage-backed	—	149,970	—	—	149,970
Commercial mortgage-backed	—	191,416	—	—	191,416
Asset-backed	—	221,283	—	—	221,283
	—	3,337,817	—	—	3,337,817
Other assets included within funds held-directly managed	—	4,719	—	—	4,719
Equities:					
Publicly traded equity investments	178,279	14,404	—	—	192,683
Exchange-traded funds	23,034	—	—	—	23,034
Privately held equity investments	—	—	264,170	—	264,170
	201,313	14,404	264,170	—	479,887
Other investments:					
Private equity funds	—	—	—	194,844	194,844
Fixed income funds	—	163,497	—	145,604	309,101
Hedge funds	—	—	—	2,621,480	2,621,480
Equity funds	—	—	—	185,694	185,694
CLO equities	—	125,779	—	—	125,779
CLO equity funds	—	—	—	144,215	144,215
Balanced Fund	—	73,068	—	—	73,068
Private credit funds	—	—	—	37,687	37,687
Other	—	—	—	—	—
	—	362,344	—	3,329,524	3,691,868
Total Investments	$ 201,313	$ 3,719,284	$ 264,170	$ 3,329,524	$ 7,514,291
Cash and cash equivalents	$ 83,938	$ 83,342	$ —	$ —	$ 167,280
Reinsurance balances recoverable:	$ —	$ —	$ 191,270	$ —	$ 191,270
Other Assets:					
Derivative Instruments	$ —	$ 2,335	$ —	$ —	$ 2,335
	$ —	$ 2,335	$ —	$ —	$ 2,335
Losses and LAE:	$ —	$ —	$ 1,156,713	$ —	$ 1,156,713
Other Liabilities:					
Derivative Instruments	$ —	$ 13,802	$ —	$ —	$ 13,802
	$ —	$ 13,802	$ —	$ —	$ 13,802

(Expressed in thousands of U.S. dollars, except share data)

5. FAIR VALUE MEASUREMENTS (Continued)

	December 31, 2019				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value Based on NAV as Practical Expedient	Total Fair Value
Investments:					
Fixed maturity investments:					
U.S. government and agency	$ —	$ 246,131	$ —	$ —	$ 246,131
U.K Government		43,012			43,012
Other government	—	111,594	—	—	111,594
Corporate	—	1,735,725	—	—	1,735,725
Municipal	—	19,521	—	—	19,521
Residential mortgage-backed	—	76,706	—	—	76,706
Commercial mortgage-backed	—	168,420	—	—	168,420
Asset-backed	—	228,440	—	—	228,440
	—	2,629,549	—	—	2,629,549
Other assets included within funds held-directly managed	—	4,766	—	—	4,766
Equities:					
Publicly traded equity investments	118,981	7	—	—	118,988
Privately held equity investments	—	—	211,044	—	211,044
	118,981	7	211,044	—	330,032
Other investments:					
Private equity funds	—	—	—	156,094	156,094
Fixed income fund	—	136,425	—	—	136,425
Hedge funds	—	—	—	1,085,777	1,085,777
Equity funds	—	—	—	168,367	168,367
CLO equities	—	—	85,587	—	85,587
CLO equity funds	—	—	—	76,946	76,946
Balanced fund	—	24,529	—	—	24,529
Private credit funds	—	—	—	—	—
Other	—	34	—	—	34
	—	160,988	85,587	1,487,184	1,733,759
Total Investments	$ 118,981	$ 2,795,310	$ 296,631	$ 1,487,184	$ 4,698,106
Cash and cash equivalents	$ 11,197	$ 83,555	$ —	$ —	$ 94,752
Reinsurance balances recoverable:	$ —	$ —	$ 326,502	$ —	$ 326,502
Other Assets:					
Derivative Instruments	$ —	$ 258	$ —	$ —	$ 258
	$ —	$ 258	$ —	$ —	$ 258
Losses and LAE:	$ —	$ —	$ 1,218,543	$ —	$ 1,218,543
Other Liabilities:					
Derivative Instruments	$ —	$ 1,441	$ —	$ —	$ 1,441
	$ —	$ 1,441	$ —	$ —	$ 1,441

5. FAIR VALUE MEASUREMENTS (Continued)

Valuation Methodologies of Financial Instruments Measured at Fair Value

Short-term and Fixed Maturity Investments

The fair values for all securities in the short-term and fixed maturity investments and funds held - directly managed portfolios are independently provided by the investment accounting service providers, investment managers and investment custodians, each of which utilize internationally recognized independent pricing services. We record the unadjusted price provided by the investment accounting service providers, investment managers or investment custodians and validate this price through a process that includes, but is not limited to: (i) comparison of prices against alternative pricing sources; (ii) quantitative analysis (e.g. comparing the quarterly return for each managed portfolio to its target benchmark); (iii) evaluation of methodologies used by external parties to estimate fair value, including a review of the inputs used for pricing; and (iv) comparing the price to our knowledge of the current investment market. Our internal price validation procedures and review of fair value methodology documentation provided by independent pricing services have not historically resulted in adjustments in the prices obtained from the pricing services.

The independent pricing services used by the investment accounting service providers, investment managers and investment custodians obtain actual transaction prices for securities that have quoted prices in active markets. Where we utilize single unadjusted broker-dealer quotes, they are generally provided by market makers or broker-dealers who are recognized as market participants in the markets in which they are providing the quotes. For determining the fair value of securities that are not actively traded, in general, pricing services use "matrix pricing" in which the independent pricing service uses observable market inputs including, but not limited to, reported trades, benchmark yields, broker-dealer quotes, interest rates, prepayment speeds, default rates and other such inputs as are available from market sources to determine a reasonable fair value.

The following describes the techniques generally used to determine the fair value of our short-term and fixed maturity investments by asset class, including the investments underlying the funds held - directly managed:

- U.S. government and agency securities consist of securities issued by the U.S. Treasury and mortgage pass-through agencies such as the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and other agencies. Non-U.S. government securities consist of bonds issued by non-U.S. governments and agencies along with supranational organizations. The significant inputs used to determine the fair value of these securities include the spread above the risk-free yield curve, reported trades and broker-dealer quotes. These are considered to be observable market inputs and, therefore, the fair values of these securities are classified as Level 2.
- Corporate securities consist primarily of investment-grade debt of a wide variety of corporate issuers and industries. The fair values of these securities are determined using the spread above the risk-free yield curve, reported trades, broker-dealer quotes, benchmark yields, and industry and market indicators. These are considered observable market inputs and, therefore, the fair values of these securities are classified as Level 2. Where pricing is unavailable from pricing services, such as in periods of low trading activity or when transactions are not orderly, we obtain non-binding quotes from broker-dealers. Where significant inputs are unable to be corroborated with market observable information, we classify the securities as Level 3.
- Municipal securities consist primarily of bonds issued by U.S.-domiciled state and municipal entities. The fair values of these securities are determined using the spread above the risk-free yield curve, reported trades, broker-dealer quotes and benchmark yields. These are considered observable market inputs and, therefore, the fair values of these securities are classified as Level 2.
- Asset-backed securities consist primarily of investment-grade bonds backed by pools of loans with a variety of underlying collateral. Residential and commercial mortgage-backed securities include both agency and non-agency originated securities. Where pricing is unavailable from pricing services, we obtain non-binding quotes from broker-dealers. This is generally the case when there is a low volume of trading activity and current transactions are not orderly. The significant inputs used to determine the fair value of these securities include the spread above the risk-free yield curve, reported trades, benchmark yields, prepayment speeds and default rates. The fair values of these securities are classified as Level 2 if the significant inputs are market observable. Where significant inputs are unable to be corroborated with market observable information, we classify the securities as Level 3.

5. FAIR VALUE MEASUREMENTS (Continued)

Equities

Our investments in equities consist of a combination of publicly and privately traded equity investments. Our publicly traded equity investments in common and preferred stocks predominantly trade on major exchanges and are managed by our external advisors. Our exchange-traded funds also trade on major exchanges. Our publicly traded equities are widely diversified and there is no significant concentration in any specific industry. We use an internationally recognized pricing service to estimate the fair value of our publicly traded equities and exchange-traded funds. We have categorized our exchange-traded funds as well as the majority of our publicly traded equity investments other than preferred stock, as Level 1 investments because the fair values of these investments are based on unadjusted quoted prices in active markets for identical assets. One equity security is trading in an inactive market and, as a result has been classified as Level 2. The fair value estimates of our investments in publicly traded preferred stock are based on observable market data and, as a result, have been categorized as Level 2.

Our privately held equity investments in common and preferred stocks are direct investments in companies that we believe offer attractive risk adjusted returns and/or offer other strategic advantages. Each investment may have its own unique terms and conditions and there may be restrictions on disposal. The market for these investments is illiquid and there is no active market. We use a combination of cost, internal models, reported values from co-investors/managers and observable inputs, such as capital raises and capital transactions between new and existing shareholders to calculate the fair value of the privately held equity investments. The fair value estimates of our investments in privately held equities are based on unobservable market data and, as a result, have been categorized as Level 3.

Other investments, at fair value

We have ongoing due diligence processes with respect to the other investments carried at fair value in which we invest, including active discussions with managers of the investments. These processes are designed to assist us in assessing the quality of information provided by, or on behalf of, each fund and in determining whether such information continues to be reliable or whether further review is warranted. Certain funds do not provide full transparency of their underlying holdings; however, we obtain the audited financial statements for funds annually and review the audited results relative to the net asset values ("NAV") provided by the managers, and regularly review and discuss the fund performance with the fund managers to corroborate the reasonableness of the reported NAV.

The use of NAV as an estimate of the fair value for investments in certain entities that calculate NAV is a permitted practical expedient. Due to the time lag in the NAV reported by certain fund managers, we adjust the valuation for capital calls and distributions. Other investments measured at fair value using NAV as a practical expedient have not been classified in the fair value hierarchy. Other investments for which we do not use NAV as a practical expedient have been valued using prices from independent pricing services, investment managers and broker-dealers.

The following describes the techniques generally used to determine the fair value of our other investments:

- For our investments in private equity funds, we measure fair value by obtaining the most recently available NAV from the external fund manager or third-party administrator. The fair values of these investments are measured using the NAV as a practical expedient and therefore have not been categorized within the fair value hierarchy.
- Our investments in fixed income funds, equity funds and balanced fund are valued based on a combination of prices from independent pricing services, external fund managers or third-party administrators. For the publicly available prices we have classified the investments as Level 2. For the non-publicly available prices we are using NAV as a practical expedient and therefore these have not been categorized within the fair value hierarchy.
- For our investments in hedge funds, we measure fair value by obtaining the most recently available NAV as advised by the external fund manager or third-party administrator. The fair values of these investments are measured using the NAV as a practical expedient and therefore have not been categorized within the fair value hierarchy.
- We measure the fair value of our direct investment in CLO equities based on valuations provided by independent pricing services, our external CLO equity manager, and valuations provided by the broker or lead underwriter of the investment (the "broker"). The fair values determined using prices provided by independent pricing services have been classified as Level 2 while the fair values based on prices from brokers have been classified as Level 3 due to the use of unobservable inputs in the valuation process and the limited number of relevant trades in secondary markets.

5. FAIR VALUE MEASUREMENTS (Continued)

- For our investments in the CLO equity funds, we measure fair value by obtaining the most recently available NAV as advised by the external fund manager or third party administrator. The fair value of these investments is measured using the NAV as a practical expedient and therefore has not been categorized within the fair value hierarchy.
- For our investments in private credit funds, we measure fair value by obtaining the most recently available NAV from the external fund manager or third-party administrator. The fair value of these investments are measured using the NAV as a practical expedient and therefore have not been categorized within the fair value hierarchy

Cash and Cash Equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are very close to maturity that they present insignificant risk of changes in value due to changes in interest rates. Included within cash and cash equivalents are money market funds, fixed interest deposits and highly liquid fixed maturity investments purchased with an original maturity of three months or less.

The majority of our cash and cash equivalents included within the fair value hierarchy are comprised of money market and liquid reserve funds which have been categorized as Level 1. Fixed interest deposits and highly liquid fixed maturity investments with an original maturity of three months or less have been categorized as Level 2. Operating cash balances are not subject to the recurring fair value measurement guidance and are therefore excluded from the fair value hierarchy.

Insurance Contracts - Fair Value Option

The Company uses an internal model to calculate the fair value of the liability for losses and LAE and reinsurance balances recoverable assets for certain retroactive reinsurance contracts where we have elected the fair value option. The fair value was calculated as the aggregate of discounted cash flows plus a risk margin. The discounted cash flow approach uses (i) estimated nominal cash flows based upon an appropriate payment pattern developed in accordance with standard actuarial techniques and (ii) a discount rate based upon a high quality rated corporate bond plus a credit spread for non-performance risk. The model uses corporate bond rates across the yield curve depending on the estimated timing of the future cash flows and specific to the currency of the risk. The risk margin was calculated using the present value of the cost of capital. The cost of capital approach uses (i) projected capital requirements, (ii) multiplied by the risk cost of capital representing the return required for non-hedgeable risk based upon the weighted average cost of capital less investment income, and (iii) discounted using the weighted average cost of capital.

Derivative Instruments

The fair values of our foreign currency exchange contracts, as described in Note 6 - "Derivative Instruments" are classified as Level 2. The fair values are based upon prices in active markets for identical contracts.

Level 3 Measurements and Changes in Leveling

Transfers into or out of the different levels within the fair value hierarchy are recorded at their fair values as of the end of the reporting period, consistent with the date of determination of fair value.

Investments

The following tables present a reconciliation of the beginning and ending balances for all investments measured at fair value on a recurring basis using Level 3 inputs during the years ended December 31, 2020 and 2019:

5. FAIR VALUE MEASUREMENTS (Continued)

	2020		
	Privately-held Equities	Other Investments	Total
Beginning fair value	$ 211,044	$ 85,587	$ 296,631
Purchases	72,337	—	72,337
Sales	—	—	—
Total realized and unrealized (losses) gains	(19,211)	—	(19,211)
Transfer into Level 3 from Level 2	—	—	—
Transfer out of Level 3 into Level 2	—	(85,587)	(85,587)
Ending fair value	$ 264,170	$ —	$ 264,170

	2019				
	Corporate	Asset-backed	Privately-held Equities	Other Investments	Total
Beginning fair value	$ 1,209	$ 561	$ 184,673	$ 37,128	$ 223,571
Purchases	—	—	19,995	55,912	75,907
Sales	(45)	(13)	(2,016)	—	(2,074)
Total realized and unrealized losses	1	(1)	8,392	(7,453)	939
Transfer into Level 3 from Level 2	—	—	—	—	—
Transfer out of Level 3 into Level 2	(1,165)	(547)	—	—	(1,712)
Ending fair value	$ —	$ —	$ 211,044	$ 85,587	$ 296,631

Net realized and unrealized gains related to the Level 3 securities summarized on the table above are included in net realized and unrealized gains (losses) in our consolidated statements of earnings.

The securities transferred from Level 2 to Level 3 were transferred due to insufficient market observable inputs to support the valuation of the specific securities. The transfers from Level 3 to Level 2 were based upon us obtaining market observable information to support the valuations of the specific securities.

Valuation Techniques and Inputs

The table below presents the quantitative information related to the fair value measurements for investments measured at fair value on a recurring basis using Level 3 inputs for the year ended December 31, 2020:

Quantitative Information about Level 3 Fair Value Measurements

Fair Value as of December 31, 2020	Valuation Techniques	Unobservable Input	Average [1]
(in millions of U.S. dollars)			
$ 222.3	Guideline company methodology	Distribution waterfall	12.98
41.9	Cost as approximation of fair value	Cost as approximation of fair value	
$ 264.2			

(1) The average represents the arithmetic average of the inputs and is not weighted by the relative fair value.

(Expressed in thousands of U.S. dollars, except share data)

5. FAIR VALUE MEASUREMENTS (Continued)

Insurance Contracts - Fair Value Option

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

	For the Year Ended December 31, 2020			For the Year Ended December 31, 2019		
	Liability for losses and LAE	Reinsurance balances recoverable	Net	Liability for losses and LAE	Reinsurance balances recoverable	Net
Beginning fair value	$ 1,218,543	$ 326,502	$ 892,041	$ 1,616,076	$ 456,158	$ 1,159,918
Assumed business	1,526	(180,972)	182,498	650,671	—	650,671
Incurred losses and LAE:						
Reduction in estimates of ultimate losses	(74,603)	40,437	(115,040)	(54,484)	(32,476)	(22,008)
Reduction in unallocated LAE	(10,178)	—	(10,178)	(10,040)	—	(10,040)
Changes in fair value:	97,120	21,184	75,936	116,995	34,034	82,961
Total incurred losses and LAE	12,339	61,621	(49,282)	52,471	1,558	50,913
Paid losses	(101,107)	(14,481)	(86,626)	(158,527)	(21,253)	(137,274)
Novation	—	—	—	(964,819)	(109,548)	(855,271)
Effect of exchange rate movements	25,412	(1,400)	26,812	22,671	(413)	23,084
Ending fair value	$ 1,156,713	$ 191,270	$ 965,443	$ 1,218,543	$ 326,502	$ 892,041

The net assumed business of $182.5 million during the year ended December 31, 2020 relates to the Hannover Re novation transaction disclosed in Note 3 - "Mergers, Acquisitions and Significant New Business." Changes in fair value in the table above are included in net incurred losses and LAE in our consolidated statements of earnings.

The following table presents the components of the net change in fair value for the years December 31, 2020 and 2019:

	2020	2019
Changes in fair value due to changes in:		
Duration	$ 16,437	$ 14,376
Corporate bond yield	58,353	68,585
Weighted cost of capital	(3,063)	—
Risk cost of capital	4,209	—
Change in fair value	$ 75,936	$ 82,961

Changes in fair value related to Level 3 assets and liabilities summarized on the table above are included in net incurred losses and LAE in our consolidated statements of earnings.

Below is a summary of the quantitative information regarding the significant observable and unobservable inputs used in the internal model to determine fair value on a recurring basis as at December 31, 2020 and 2019:

Valuation Technique	Unobservable (U) and Observable (O) Inputs	2020	2019
		Weighted Average	Weighted Average
Internal model	Corporate bond yield (O)	A rated	A rated
Internal model	Credit spread for non-performance risk (U)	0.2%	0.2%
Internal model	Risk cost of capital	5.1%	5.1%
Internal model	Weighted average cost of capital (U)	8.25%	8.5%
Internal model	Duration - liability for losses and LAE (U)	10.69 years	10.17 years
Internal model	Duration - reinsurance balances recoverable (U)	10.72 years	11.28 years

(Expressed in thousands of U.S. dollars, except share data)

5. FAIR VALUE MEASUREMENTS (Continued)

The fair value of the liability for losses and LAE and reinsurance balances recoverable may increase or decrease due to changes in the corporate bond rate, the credit spread for non-performance risk, the risk cost of capital, the weighted average cost of capital and the estimated payment pattern as described below:

- An increase in the corporate bond rate or credit spread for non-performance risk would result in a decrease in the fair value of the liability for losses and LAE and reinsurance balances recoverable. Conversely, a decrease in the corporate bond rate or credit spread for non-performance risk would result in an increase in the fair value of the liability for losses and LAE and reinsurance balances recoverable.
- An increase in the weighted average cost of capital would result in an increase in the fair value of the liability for losses and LAE and reinsurance balances recoverable. Conversely, a decrease in the weighted average cost of capital would result in a decrease in the fair value of the liability for losses and LAE and reinsurance balances recoverable.
- An increase in the risk cost of capital would result in an increase in the fair value of the liability for losses and LAE and reinsurance balances recoverable. Conversely, a decrease in the risk cost of capital would result in a decrease in the fair value of the liability for losses and LAE and reinsurance balances recoverable.
- The duration of the liability for losses and LAE and the reinsurance balances recoverable is adjusted every period to reflect actual net payments during the period and expected future payments. An acceleration of the estimated payment pattern (or a decrease in duration) would result in an increase in the fair value of the liability for losses and LAE and reinsurance balances recoverable. Conversely, a deceleration of the estimated payment pattern (or an increase in duration) would result in a decrease in the fair value of the liability for losses and LAE and reinsurance balances recoverable.

In addition, the estimate of the capital required to support the liabilities is based upon current industry standards for capital adequacy. If the required capital per unit of risk increases, then the fair value of the liability for losses and LAE and reinsurance balances recoverable would increase. Conversely, a decrease in required capital would result in a decrease in the fair value of the liability for losses and LAE and reinsurance balances recoverable.

6. DERIVATIVE INSTRUMENTS

Foreign Currency Hedging of Net Investments in Foreign Operations

We use foreign currency forward exchange rate contracts in qualifying hedging relationships to hedge the foreign currency exchange rate risk associated with certain of our net investments in foreign operations. As of December 31, 2020, we had one foreign currency forward exchange rate contract in place which we had designated as a hedge of our net investment in an equity method investee whose functional currency was denominated in Euros.

The gross notional amount, the estimated fair values recorded within other assets and liabilities as well as the losses deferred in the cumulative translation adjustment ("CTA") account, which is a component of accumulated other comprehensive income ("AOCI"), in shareholder's equity, relating to this foreign currency forward exchange rate contract are all summarized on the table below:

	December 31, 2020			
		Fair Value		
	Gross Notional Amount	Assets	Liabilities	Losses on qualifying hedges deferred in CTA
Foreign currency forward - EUR	168,990	159	6,917	(6,917)

We did not have any foreign currency forward exchange rate contracts in place which had been designated as hedges of any net investments in foreign operations as of December 31, 2019.

(Expressed in thousands of U.S. dollars, except share data)

6. DERIVATIVE INSTRUMENTS (Continued)

Derivatives Not Designated or Not Qualifying as Hedging Instruments

From time to time, we may utilize foreign currency forward contracts as part of our overall foreign currency risk management strategy or to obtain exposure to a particular financial market, as well as for yield enhancement in non-qualifying hedging relationships.

The following table presents the gross notional amounts, estimated fair values recorded within other assets and liabilities and the amounts included in net earnings related to our non-qualifying foreign currency forward exchange rate hedging relationships as at December 31, 2020 and 2019:

	December 31, 2020			
		Fair Value		
	Gross Notional Amount	Assets	Liabilities	Net gains (losses) on non-qualifying hedges included in earnings
Foreign currency forward - AUD	$ 41,619	$ 7	$ 2,845	$ (3,583)
Foreign currency forward - GBP	93,392	25	3,928	(4,357)
Foreign currency forward - EUR	44,021	1,802	110	2,603
Foreign currency forward - CAD	12,453	342	2	493
Total non-qualifying hedges	$ 191,484	$ 2,176	$ 6,885	$ (4,844)

	December 31, 2019			
		Fair Value		
	Gross Notional Amount	Assets	Liabilities	Net gains (losses) on non-qualifying hedges included in earnings
Foreign currency forward - AUD	$ 26,902	$ 22	$ 871	$ 182
Foreign currency forward - GBP	22,022	24	538	12,695
Foreign currency forward - EUR	14,597	213	32	97
Total non-qualifying hedges	$ 63,520	$ 258	$ 1,441	$ 12,974

7. REINSURANCE BALANCES RECOVERABLE

Our assumed portfolios of insurance and reinsurance run-off liabilities, prior to their acquisition by the Company, as well as the entities under common control prior to their mergers with and into the Company, used retrocessional agreements to reduce their exposure to the risk of insurance and reinsurance assumed.

The fair value adjustments relating to the retroactive reinsurance contracts for which we have elected the fair value option, are based on the estimated timing of collecting the reinsurance balances recoverable and an assumed interest rate equivalent to a risk free rate for securities with similar duration to the assumed reinsurance balances recoverable plus a spread to reflect credit risk, and are amortized over the estimated recovery period, as adjusted for accelerations in timing of payments as a result of commutation settlements. The process for determining the fair value adjustments on the retroactive reinsurance contracts for which we have elected the fair value option is described in Note 5 - "Fair Value Measurements".

(Expressed in thousands of U.S. dollars, except share data)

7. REINSURANCE BALANCES RECOVERABLE (Continued)

The following table provides the total reinsurance balances recoverable on paid and unpaid losses as of December 31, 2020 and 2019:

	2020	2019
Recoverable from reinsurers on unpaid:		
Outstanding losses	$ 223,955	$ 330,961
IBNR	86,505	157,328
Fair value adjustments - fair value option	(20,707)	(68,925)
Total reinsurance reserves recoverable	289,753	419,364
Paid losses recoverable	109,859	121,792
	$ 399,612	$ 541,156
Reconciliation to consolidated balance sheet:		
Reinsurance balances recoverable	$ 208,342	$ 214,654
Reinsurance balances recoverable - fair value option	191,270	326,502
Total	$ 399,612	$ 541,156

The overall decrease of $141.5 million in reinsurance balances recoverable on paid and unpaid losses was primarily as a result of the novation with Hannover Re during the year ended December 31, 2020.

Provision for Uncollected Reinsurance Recoverables

We evaluate and monitor concentration of credit risk among our reinsurers, and an allowance for estimated uncollectible reinsurance balances recoverable on paid and unpaid losses ("allowance for estimated uncollectible reinsurance") is established for amounts considered potentially uncollectible.

With respect to our process for determining the allowances for estimated uncollectible reinsurance, we adopted ASU 2016-13 and the related amendments on January 1, 2020 and recorded a cumulative effect adjustment of $0.5 million to reduce the opening retained earnings on the initial adoption of the guidance. Our allowance for estimated uncollectible reinsurance is derived based on various data sources, multiple key inputs and forecast scenarios. These include the duration of the collection period, credit quality, changes in reinsurer credit standing, default rates specific to the individual reinsurer, the geographical location of the reinsurer, contractual disputes with reinsurers over individual contentious claims, contract language or coverage issues, industry analyst reports and consensus economic forecasts.

To determine the allowance for estimated uncollectible reinsurance, we use the PD and LGD methodology whereby each reinsurer is allocated an appropriate PD percentage based on the expected payout duration by portfolio. This PD percentage is then multiplied by an appropriate LGD percentage to arrive at an overall credit allowance percentage which is then applied to the reinsurance balance recoverable for each reinsurer, net of any specific bad debt provisions, collateral or other contract related offsets, to arrive at the overall allowance for estimated uncollectible reinsurance by reinsurer.

The following tables show our gross and net balances recoverable from our reinsurers as well as the related allowance for estimated uncollectible reinsurance broken down by the credit ratings of our reinsurers as at December 31, 2020 and 2019:

	2020			
	Gross	Allowance for estimated uncollectible reinsurance	Net	Allowance as a % of Gross
Reinsurers rated A- or above	$ 172,167	$ (8,072)	$ 164,095	4.7 %
Reinsurers rated below A-, secured	211,214	—	211,214	— %
Reinsurers rated below A-, unsecured	27,457	(3,154)	24,303	11.5 %
Total	$ 410,838	$ (11,226)	$ 399,612	2.7 %

(Expressed in thousands of U.S. dollars, except share data)

7. REINSURANCE BALANCES RECOVERABLE (Continued)

	2019			
	Gross	Allowance for estimated uncollectible reinsurance	Net	Allowance as a % of Gross
Reinsurers rated A- or above	$ 345,731	$ (7,147)	$ 338,584	2.1 %
Reinsurers rated below A-, secured	185,806	—	185,806	— %
Reinsurers rated below A-, unsecured	19,010	(2,244)	16,766	11.8 %
Total	$ 550,547	$ (9,391)	$ 541,156	1.7 %

The table below provides a reconciliation of the beginning and ending allowance for estimated uncollectible reinsurance balances for the years ended December 31, 2020 and 2019:

	2020	2019
Allowance for estimated uncollectible reinsurance, beginning of year	$ 9,391	$ 21,225
Cumulative effect of change in accounting principle	508	—
Effect of exchange rate movement	—	—
Current period change in the allowance	455	9,342
Write-offs charged against the allowance	872	(21,176)
Recoveries collected	—	—
Allowance for estimated uncollectible reinsurance, end of year	$ 11,226	$ 9,391

8. OTHER ASSETS

The following table summarizes our other assets as at December 31, 2020 and 2019:

	2020	2019
Deferred charge	$ 178,692	$ 195,721
Investment in insolvent debts	1,132	1,056
Pre-funding to third party administrators	639	—
Receivables for unsettled trades	2,315	2,541
LOC Fees recoverable	3,029	—
Accrued interest receivable	23,861	24,380
Other	1,766	2,379
Total	$ 211,434	$ 226,077

(Expressed in thousands of U.S. dollars, except share data)

9. LOSS AND LOSS ADJUSTMENT EXPENSES

The liability for losses and LAE, also referred to as loss reserves, represents our gross estimates before reinsurance for unpaid reported losses and IBNR. We recognize an asset for the portion of the liability that we expect to recover from reinsurers. LAE reserves include allocated loss adjustment expenses ("ALAE"), and unallocated loss adjustment expenses ("ULAE"). ALAE are linked to the settlement of an individual claim or loss, whereas ULAE are based on our estimates of future costs to administer the claims. IBNR represents reserves for loss and LAE that have been incurred but not yet reported to us. This includes amounts for unreported claims, development on known claims and reopened claims.

The following table summarizes the liability for losses and LAE as at December 31, 2020 and 2019:

	2020	2019
Outstanding losses	$ 1,847,449	$ 1,893,552
IBNR	2,848,351	2,304,450
Fair value adjustments - fair value option	(52,802)	(153,415)
ULAE	173,983	163,543
Total	$ 4,816,981	$ 4,208,130
Reconciliation to Consolidated Balance Sheet:		
Losses and loss adjustment expenses	$ 3,660,268	$ 2,989,587
Losses and loss adjustment expenses at fair value	1,156,713	1,218,543
Total	$ 4,816,981	$ 4,208,130

The overall increase in the liability for losses and LAE in 2020 was primarily attributable to the exposures assumed from Aspen, AXA Group, Munich Re, and Hannover Re as described in Note 3 - "Mergers, Acquisitions and Significant New Business".

(Expressed in thousands of U.S. dollars, except share data)

9. LOSS AND LOSS ADJUSTMENT EXPENSES (Continued)

The table below provides a consolidated reconciliation of the beginning and ending liability for losses and LAE for the years ended December 31, 2020 and 2019:

	2020	2019
Balance as at January 1	$ 4,208,130	$ 2,682,049
Less: reinsurance reserves recoverable	419,364	458,839
Less: deferred charges on retroactive reinsurance	195,721	6,014
Add: deferred gain on retroactive reinsurance	(12,875)	(2,118)
Net balance as at January 1	3,605,920	2,219,314
Net incurred losses and LAE:		
Current year	17,980	67,798
Prior periods	(39,421)	149,494
Total net incurred losses and LAE	(21,441)	217,292
Net losses paid:		
Current year	(1,444)	(20,070)
Prior periods	(509,634)	(466,615)
Total net paid losses	(511,078)	(486,685)
Effect of exchange rate movement	56,609	16,139
Assumed business	1,229,651	1,639,860
Net balance as at December 31	4,359,661	3,605,920
Plus: reinsurance reserves recoverable	289,752	419,364
Plus: deferred charges on retroactive reinsurance	178,692	195,721
Less: deferred gain on retroactive reinsurance	(11,124)	(12,875)
Balance as at December 31	$ 4,816,981	$ 4,208,130

Net change in incurred losses and LAE reserves comprises of (1) the movement during the year in specific case reserve liabilities as a result of claims settlements or changes advised to us by our policyholders and attorneys, less changes in case reserves recoverable advised by us to our reinsurers as a result of the settlement or movement of assumed claims, and (2) the net change in IBNR which represents the gross change in our actuarial estimates of IBNR, less amounts recoverable from our reinsurers.

For the year ended December 31, 2020, the Company recorded an overall net decrease in ultimate losses and loss adjustment expense liabilities of $21.4 million. This overall net decrease was primarily attributable to favorable development of $39.4 million related to prior year estimates comprised of the following - (1) a decrease in net ultimate losses of $48.7 million, and (2) a reduction in the provision for ULAE of $20.0 million, partially offset by the following - (1) an unfavorable change in fair value of $85.7 million relating to our assumed retroactive reinsurance agreements with Zurich Australian Insurance Limited ("Zurich Australia"), QBE Insurance Group Limited ("QBE") and Mercantile Indemnity Company Limited ("Mercantile") with respect to the loss reserves assumed from RSA Insurance Group Plc ("RSA"), for which we have elected the fair value option, and (2) an increase in provisions for bad debt of $1.3 million. The current year net increase of $18.0 million in net incurred losses and LAE was attributable to the Quota Share contract with Professional Employer Organization ("PEO").

For the year ended December 31, 2019, the Company recorded an overall net increase in ultimate losses and loss adjustment expense liabilities of $217.3 million. This overall net increase was primarily attributable to adverse loss development of $149.5 million related to prior year estimates comprised of the following - (1) an increase in net ultimate losses of $106.4 million, (2) an unfavorable change in fair value of $121.5 million relating to retroactive reinsurance agreements with Zurich Australia, QBE and Mercantile (with respect to the RSA loss reserves), for which we have elected the fair value option, and (3) an increase in provisions for bad debt of $0.6 million, partially offset by a reduction in the provision for ULAE of $21.2 million. The current

9. LOSS AND LOSS ADJUSTMENT EXPENSES (Continued)

year net increase of $67.8 million in net incurred losses and LAE was attributable to the 50% Quota Share reinsurance agreement with Syndicate 2008 and the LPT with SIBL. Refer to Note 3 - "Mergers,

Acquisitions and Significant New Business" for a description of the business assumed by the Company in 2019.

Loss Development Information

Methodology for Establishing Reserves

The liability for losses and LAE includes an amount determined from reported claims and an amount based on historical loss experience and industry statistics for IBNR using a variety of actuarial methods. Our loss reserves cover multiple lines of business, which include workers' compensation, general casualty, and asbestos. Management, through our loss reserving committee, considers the reasonableness of loss reserves recommended by our actuaries, including actual loss development during the year.

Case reserves are recognized for known claims (including the cost of related litigation) when sufficient information has been reported to us to indicate the involvement of a specific insurance policy. We use considerable judgment in estimating losses for reported claims on an individual claim basis based upon our knowledge of the circumstances surrounding the claim, the severity of the injury or damage, the jurisdiction of the occurrence, the potential for ultimate exposure, the type of loss, and our experience with the line of business and policy provisions relating to the particular type of claim. The reserves for unpaid reported losses and LAE are established by management based on reports from brokers, ceding companies and insureds and represent the estimated ultimate cost of events or conditions that have been reported to, or specifically identified, by us. We also consider facts currently known and the current state of the law and coverage litigation.

IBNR reserves are established by management based on actuarially determined estimates of ultimate losses and loss expenses. We use generally accepted actuarial methodologies to estimate ultimate losses and LAE and those estimates are reviewed by our management. In addition, the routine settlement of claims, at either below or above the carried advised loss reserve, updates historical loss development information to which actuarial methodologies are applied often, resulting in revised estimates of ultimate liabilities. On an annual basis, independent actuarial firms are retained by management to provide their estimates of ultimate losses and to review the estimates developed by our actuaries.

Within the annual loss reserve studies produced by either our actuaries or independent actuaries, our assumed exposures are separated into homogeneous reserving categories for the purpose of estimating IBNR. Each reserving category contains either direct insurance or assumed reinsurance reserves and groups relatively similar types of risks and exposures (for example, asbestos, casualty) and lines of business written (for example, general casualty and workers compensation). Based on the exposure characteristics and the nature of available data for each individual reserving category, a number of methodologies are applied. Recorded reserves for each category are selected from the actuarial indications produced by the various methodologies after consideration of exposure characteristics, data limitations and strengths and weaknesses of each method applied. This approach to estimating IBNR has been consistently adopted in the annual loss reserve studies for each period presented.

The estimation of unpaid claim liabilities at any given point in time is subject to a high degree of uncertainty for a number of reasons. A significant amount of time can lapse between the assumption of risk, the occurrence of a loss event, the reporting of the event to an insurance or reinsurance company and the ultimate payment of the claim on the loss event. Our actuarial methodologies include industry benchmarking which, under certain methodologies, compares the trend of our loss development to that of the industry. To the extent that the trend of our loss development compared to the industry changes in any period, it is likely to have an impact on the estimate of ultimate liabilities. Unpaid claim liabilities for casualty exposures in general are impacted by changes in the legal environment, jury awards, medical cost trends and general inflation. Certain estimates for unpaid claim liabilities involve considerable uncertainty due to significant coverage litigation, and it can be unclear whether past claim experience will be representative of future experience. Ultimate values for such claims cannot be estimated using reserving techniques that extrapolate losses to an ultimate basis using loss development factors, and the uncertainties surrounding the estimation of unpaid claim liabilities are not likely to be resolved in the near future. In addition, reserves are established to cover loss development related to both known and unasserted claims. Consequently, our subsequent estimates of ultimate losses and LAE, and our liability for losses and LAE, may differ materially from the amounts recorded in the consolidated financial statements.

9. LOSS AND LOSS ADJUSTMENT EXPENSES (Continued)

These estimates are reviewed regularly and, as experience develops and new information becomes known, the reserves are adjusted as necessary. Such adjustments, if any, will be recorded in earnings in the period in which they become known. Prior period development arises from changes to loss estimates recognized in the current year that relate to loss reserves established in previous calendar years

Disclosures of Incurred and Paid Loss Development, IBNR, Claims Counts and Payout Percentages

The loss development tables disclosed below, sets forth our historic incurred and paid loss development by accident year through December 31, 2020, net of reinsurance, as well as the cumulative number of reported claims, IBNR balances, and other supplementary information. The loss development disclosures included within the tables below are presented by acquisition year as well as by line of business within each acquisition year with only the acquisition years and lines of business with material closing net losses and LAE reserves as of December 31, 2020 being included for disclosure.

With respect to acquisition years, only the 2017, 2018, 2019 and 2020 acquisition year loss development tables were considered material for disclosure below. With respect to lines of business, only the exposures assumed or acquired by the Company in 2020 related to General Casualty and in 2019 related to General Casualty, Workers' Compensation and Professional Indemnity/ Directors & Officers ("PI/D&O") were considered material for disclosure within the loss development tables below. No other lines of business within any of the other acquisition years were considered material for separate disclosure within the loss development tables below. Also excluded from separate disclosure within the loss development tables below were those lines of business such as asbestos and environmental with accident year exposures that were all older than 10 years and hence outside the scope for separate disclosure.

For each acquisition year and/or line of business for which loss development tables have been provided below, the disclosure approach and format adopted reflects the following:

- The incurred loss development tables include both reported case reserves and IBNR liabilities, as well as cumulative paid losses;
- Both the incurred and cumulative paid loss development tables include allocated LAE (i.e. claims handling costs allocated to specific individual claims) but exclude unallocated LAE (i.e. the costs associated with internal claims staff and third party administrators as well as external consultants that cannot be allocated to specific individual claims);
- The fair value adjustments related to business acquisitions are excluded from the loss development tables, however the undiscounted incurred losses, cumulative paid losses and allocated LAE related to business acquisitions are included in the loss development tables;
- The fair value adjustments related to retroactive reinsurance agreements for which we have elected the fair value option are excluded from the loss development tables, however the undiscounted incurred losses, cumulative paid losses and allocated LAE related to retroactive reinsurance agreements for which we have elected the fair value option are included in the loss development tables;
- The amounts relating to the amortization of deferred charge assets are excluded from the loss development tables;
- The amounts relating to the increase (reduction) in provisions for unallocated LAE are excluded from the loss development tables;
- The amounts included within the loss development tables for the years ended December 31, 2011 through to December 31, 2019, as well as the historical average annual percentage payout ratios as of December 31, 2020, are presented as supplementary information and are therefore unaudited;
- All data presented within the loss development tables is net of reinsurance recoveries, excluding provisions for uncollectible reinsurance recoverables;
- The IBNR reserves included within each incurred loss development table by accident year, reflect the net IBNR recorded as of December 31, 2020, including expected development on reported losses; and
- All information for both acquisitions and retroactive reinsurance agreements is presented prospectively. As the reserves are effectively re-underwritten at the date the reserves are acquired or assumed, we believe that the historical pre-acquisition loss development is not relevant to the subsequent loss experience arising on these acquired or assumed reserves under our management. In addition, the information required to prepare the loss development disclosures on a retrospective basis is not always available to us due to data limitation issues and therefore a mixed approach would

9. LOSS AND LOSS ADJUSTMENT EXPENSES (Continued)

result in loss development tables that are not entirely reflective of the actual loss development of our acquired or assumed loss reserves.

The historical amounts disclosed within the loss development tables for all lines of business presented below are on a constant-currency basis, which is achieved by using constant foreign exchange rates between periods in the loss development tables, and translating prior period amounts denominated in currencies other than the U.S. dollar, which is our reporting currency, using the closing exchange rates as at December 31, 2020.

The impact of this exchange rate conversion is to show the change between periods exclusive of the effect of exchange rate fluctuations, which would otherwise distort the change in incurred losses and the cash flow patterns associated with those incurred losses shown within the loss development tables. The change in net incurred losses shown within the loss development tables will, however, differ from other U.S. GAAP disclosures of incurred current and prior period reserve development amounts, which include the effect of exchange rate fluctuations.

Establishing an estimate for loss reserves involves various assumptions and judgments, therefore, the information contained within the loss development disclosures only allows readers or users of our consolidated financial statements to understand, at the summary level presented in the development tables, the change over time in our reported incurred loss estimates as well as the nature and patterns of the cash flows associated with those estimates. We, therefore, believe that the information provided within the loss development tables disclosed below is of limited use for independent analysis or application of standard actuarial estimations, and any results obtained from doing so should be interpreted with caution.

Cumulative Number of Reported Claims

Reported claim counts, on a cumulative basis, are provided as supplemental information to each incurred loss development table by accident year. The claim frequency information for the exposures included within our general casualty, workers' compensation and PI D&O lines of business includes direct and assumed open and closed claims by accident year at the claimant level. Reported claims that are closed without a payment are included within our cumulative number of reported claims because we typically incur claim adjustment expenses on them prior to their closure. The claim count numbers exclude counts related to claims within policy deductibles where the insured is responsible for the payment of losses within the deductible layer. Individual claim counts related to certain assumed reinsurance contracts such as excess-of-loss and quota share treaties are not available to us, and the losses arising from these treaties have been treated as single claims for the purposes of determining claim counts. Therefore, each treaty year within the reinsurance contract is deemed a single claim because the detailed underlying individual claim information is generally not reported to us by our cedents.

(Expressed in thousands of U.S. dollars, except share data)

9. LOSS AND LOSS ADJUSTMENT EXPENSES (Continued)

The following table provides a breakdown of the gross and net losses and LAE reserves, consisting of Outstanding Loss Reserves ("OLR") and IBNR by line of business, and fair value adjustments and ULAE as at December 31, 2020 and 2019:

	2020					
	Gross			Net		
	OLR	IBNR	Total	OLR	IBNR	Total
Asbestos	$ 231,211	$ 693,296	$ 924,507	$ 198,593	$ 671,903	$ 870,496
Environmental	77,307	54,578	131,885	68,891	50,744	119,635
General casualty	267,054	943,163	1,210,217	256,433	934,361	1,190,794
Workers' compensation/personal accident	394,452	620,707	1,015,159	337,335	578,396	915,731
Marine, aviation and transit	191,052	56,653	247,705	191,052	56,653	247,705
Construction defect	13,132	42,429	55,561	13,130	42,415	55,545
Motor	199,544	38,275	237,819	93,840	36,910	130,750
Professional indemnity/Directors & Officers	241,123	241,385	482,508	241,123	241,385	482,508
Property	91,787	57,109	148,896	91,478	56,542	148,020
Other Latent	86,027	54,050	140,077	78,890	51,836	130,726
Catastrophe - All Other	361	3,023	3,384	361	3,023	3,384
Catastrophe - WTC	2,314	(1,819)	495	2,314	(1,819)	495
Energy	3,896	1,180	5,076	3,896	1,180	5,076
Engineering	30,659	2,543	33,202	30,659	2,543	33,202
Fronted	(682)	222	(460)	(682)	222	(460)
All Other	18,210	41,559	59,769	16,181	38,312	54,493
Total	$ 1,847,447	$ 2,848,353	$ 4,695,800	$ 1,623,494	$ 2,764,606	$ 4,388,100
Fair value adjustments - fair value option			(52,802)			(32,094)
Deferred charge on retroactive reinsurance			—			(167,568)
ULAE			173,983			171,223
Total			**$ 4,816,981**			**$ 4,359,661**

(Expressed in thousands of U.S. dollars, except share data)

9. LOSS AND LOSS ADJUSTMENT EXPENSES (Continued)

	2019					
	Gross			Net		
	OLR	IBNR	Total	OLR	IBNR	Total
Asbestos	$ 228,282	$ 748,411	$ 976,693	$ 195,709	$ 718,685	$ 914,394
Environmental	85,060	72,240	157,300	75,500	66,973	142,473
General Casualty	184,173	285,444	469,617	182,145	282,088	464,233
Workers Compensation/Personal Accident	473,087	655,319	1,128,406	308,196	544,246	852,442
Marine, Aviation and Transit	207,363	117,178	324,541	207,363	117,178	324,541
Construction Defect	16,740	41,432	58,172	16,760	41,411	58,171
Catastrophe - WTC	2,967	(2,747)	220	2,967	(2,747)	220
Energy	24,120	16,011	40,131	24,120	16,011	40,131
Engineering	4,977	35	5,012	4,977	35	5,012
Motor	255,851	69,933	325,784	144,238	67,886	212,124
PI/D&O	227,582	113,314	340,896	227,582	113,314	340,896
Property	64,730	91,825	156,555	64,419	91,633	156,052
Fronted	1,656	3,134	4,790	1,656	3,134	4,790
Other	116,964	92,921	209,885	106,959	87,275	194,234
Total	$ 1,893,552	$ 2,304,450	$ 4,198,002	$ 1,562,591	$ 2,147,122	$ 3,709,713
Fair value adjustments - fair value option			(153,415)			(84,490)
Deferred charge on retroactive reinsurance			—			(182,846)
ULAE			163,543			163,543
Total			**$ 4,208,130**			**$ 3,605,920**

In addition to the breakdown of our reserves by line of business we also monitor our reserves by acquisition year. The acquisition year is the year in which the net reserves were acquired via a business acquisition or assumed via a retroactive reinsurance agreement. By analyzing the loss development tables by acquisition year on a prospective basis, the impact of the take-on positions from year to year does not distort the loss development tables.

(Expressed in thousands of U.S. dollars, except share data)

9. LOSS AND LOSS ADJUSTMENT EXPENSES (Continued)

The following table provides a summary of our net loss reserves, prior to provisions for bad debt, fair value adjustments, deferred charge assets and ULAE as of December 31, 2020, by year of acquisition and by line of business:

	Acquisition Year											
Line of Business	**2010 and Prior**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**Total**
Asbestos	$ 3,635	$ —	$ —	$ —	$ —	$ —	$ 4,041	$ 553,937	$ 26,501	$ 277,947	$ —	$ 866,062
Environmental	159	—	—	—	—	—	—	(751)	24,320	95,073	—	118,802
General casualty	90	—	—	—	—	—	21	34,255	35,862	249,068	826,211	1,145,507
Workers' compensation/ personal accident	8,548	—	—	—	—	17,784	126,979	42,679	165,390	387,039	119,252	867,670
Marine, aviation and transit	853	—	—	—	—	—	—	50,131	—	84,392	—	135,377
Construction defect	—	—	—	—	—	—	—	18,836	—	36,708	—	55,545
Motor	—	—	—	—	—	—	—	1,434	86,950	42,366	—	130,750
Professional indemnity/ Directors & Officers	—	—	—	—	—	—	—	—	—	269,583	154,000	423,583
Property	—	—	—	—	—	—	—	(114)	3,632	40,575	—	44,094
Other Latent	24	—	—	—	—	3,021	—	59,311	5,478	61,928	—	129,761
Catastrophe - All Other	700	—	—	—	—	—	—	—	2,685	—	—	3,385
Catastrophe - WTC	—	—	—	—	—	—	—	—	—	494	—	494
Energy	—	—	—	—	—	—	—	—	—	5,076	—	5,076
Engineering	—	—	—	—	—	—	—	—	—	5,483	—	5,483
Fronted	—	—	—	—	—	—	—	(428)	—	(32)	—	(460)
All Other	1,272	—	—	—	—	—	—	—	25,950	26,606	—	53,828
Total	$ 15,281	$ —	$ —	$ —	$ —	$ 20,805	$ 131,041	$ 759,290	$376,768	$1,582,306	$1,099,463	$3,984,957

(Expressed in thousands of U.S. dollars, except share data)

9. LOSS AND LOSS ADJUSTMENT EXPENSES (Continued)

The table below reconciles the net loss reserves, prior to provisions for bad debt, fair value adjustments, deferred charge assets and ULAE as of December 31, 2020, by line of business to the line of business table presented above:

	2020		
	Total Net Reserves per all Acquisition Years	Provision for Bad Debt	Total Net Reserves
Asbestos	$ 866,062	$ 4,435	$ 870,497
Environmental	118,802	833	119,635
General casualty	1,145,507	—	1,145,507
Workers' compensation/personal accident	867,670	—	867,670
Marine, aviation and transit	135,377	—	135,377
Construction defect	55,545	—	55,545
Motor	130,750	—	130,750
Professional indemnity/Directors & Officers	423,583	—	423,583
Property	44,094	—	44,094
Other Latent	129,761	964	130,725
Catastrophe - All Other	3,385	—	3,385
Catastrophe - WTC	494	—	494
Energy	5,076	—	5,076
Engineering	5,483	—	5,483
Fronted	(460)	—	(460)
All Other	53,828	664	54,492
Total	3,984,957	6,896	3,991,853
Starstone QS/LPT & Live Business	396,247	—	396,247
Total	$ 4,381,204	$ 6,896	$ 4,388,100

The exposures included within the StarStone QS/LPT & Live Business category included on the summary table above relate to the liabilities associated with, (1) the Company's 35% Quota Share treaty (or the "Starstone QS") and LPT reinsurance agreement with the entities that make up the StarStone Group, and (2) the Company's liabilities related to its live underwriting activities which primarily cover the PEO Quota Share contract.

Combined loss development tables have been provided below for businesses acquired and reinsurance contracts incepting during the years ended December 31, 2017, 2018, 2019 and 2020, which were the acquisition years with material losses and LAE reserve balances as of December 31, 2020. In addition, for the acquisition years presented, we have also provided additional loss development tables for lines of business within those acquisition years which had net loss reserve balances that were deemed to be significant as of December 31, 2020 as follows:

- Workers' compensation - 2019 acquisition year;
- General casualty - 2019 and 2020 acquisition years; and
- Professional indemnity and directors and officers ("PI/D&O") - 2019 acquisition year.

Our run-off business is unique within the (re)insurance industry in that we are continuously acquiring legacy reserves primarily through retroactive reinsurance agreements or through business acquisitions, and adding them to our existing exposures. Accordingly, it would not be appropriate to extrapolate redundancies or deficiencies into the future from the loss development tables provided below. Acquired and assumed reserves arising from business acquisitions and retroactive reinsurance agreements are presented on a full prospective basis.

(Expressed in thousands of U.S. dollars, except share data)

9. LOSS AND LOSS ADJUSTMENT EXPENSES (Continued)

The following tables set forth information about incurred and paid loss development, total IBNR reserves and cumulative loss frequency for businesses acquired and reinsurance contracts incepting during the years ended December 31, 2020 and 2019. In addition, we have also presented loss development tables for the significant lines of business within those acquisition years. The accident year information related to incurred and paid loss development for the years ended December 31, 2011 through December 31, 2019 as well as the historical average annual percentage payout ratios as of December 31, 2020 is presented within the loss development tables below as supplementary information and is therefore unaudited.

2017 Acquisition Year

Business Acquired and Contracts Incepting in the Year Ended December 31, 2017

Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

		For the Years Ended December 31,				As of December 31, 2020	
Accident Year	**Total Net Reserves Acquired**	**2017 (unaudited)**	**2018 (unaudited)**	**2019 (unaudited)**	**2020**	**IBNR**	**Cumulative Number of Claims**
2010 and Prior	$ 1,416,355	$ 1,057,184	$ 994,706	$ 1,003,900	$ 989,614	$ 533,666	30,049
2011	40,247	29,029	25,206	27,205	26,815	5,807	1
2012	41,834	33,651	30,368	28,865	27,788	3,544	1
2013	34,860	29,527	27,570	24,010	29,067	1,552	1
2014	31,244	18,701	15,391	14,418	14,794	2,080	1
2015	7,592	5,278	5,479	5,519	5,278	203	1
2016	267	(99)	(78)	(144)	(66)	—	1
2017	—	174	—	—	—	—	1
2018	—		174	—	—	—	—
2019	—			—	—	—	—
2020	—				—	—	—
	$ 1,572,399				$ 1,093,290	$ 546,852	30,056

Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

	For the Years Ended December 31,			
Accident Year	**2017 (unaudited)**	**2018 (unaudited)**	**2019 (unaudited)**	**2020**
2010 and Prior	$ 75,691	$ 144,004	$ 206,310	$ 256,011
2011	4,125	9,237	12,937	15,356
2012	10,348	15,320	18,530	20,872
2013	9,509	15,616	21,046	25,516
2014	6,482	8,721	10,476	11,410
2015	1,361	3,313	4,049	4,899
2016	(56)	(62)	(67)	(66)
2017	4	—	—	—
2018		—	—	—
2019			—	—
2020				—
				$ 333,999
Total outstanding liabilities for unpaid losses and LAE, net of reinsurance				$ 759,290

(Expressed in thousands of U.S. dollars, except share data)

9. LOSS AND LOSS ADJUSTMENT EXPENSES (Continued)

2018 Acquisition Year

Business Acquired and Contracts Incepting in the Year Ended December 31, 2018

Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

		For the Year Ended December 31,			As of December 31, 2020	
Accident Year	**Total Net Reserves Acquired**	**2018 (unaudited)**	**2019 (unaudited)**	**2020**	**IBNR**	**Cumulative Number of Claims**
2010 and Prior	$ 225,761	$ 223,114	$ 226,342	$ 233,769	$ 90,736	5,761
2011	31,395	29,261	29,230	27,035	5,528	588
2012	47,146	44,935	48,396	44,425	11,301	704
2013	63,504	58,167	52,768	46,158	6,908	1,127
2014	96,518	90,135	79,539	66,240	6,474	1,520
2015	119,579	116,633	113,547	100,017	15,614	1,723
2016	90,011	92,130	93,412	112,660	40,800	2,026
2017	65,836	65,986	67,478	71,471	19,874	4,163
2018	10,403	10,403	9,451	5,049	129	4,929
2019	—		311	187	—	—
2020	—			—	—	—
	$ 750,153			$ 707,011	$ 197,364	22,541

Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

	For the Year Ended December 31,		
Accident Year	**2018 (unaudited)**	**2019 (unaudited)**	**2020**
2010 and Prior	$ 13,030	$ 34,470	$ 54,181
2011	4,142	12,152	14,634
2012	8,636	22,920	27,825
2013	9,470	22,200	27,426
2014	18,729	38,697	45,567
2015	21,157	51,639	65,929
2016	6,854	34,726	51,237
2017	56	23,459	38,477
2018	—	4,699	4,780
2019		187	187
2020			—
			$ 330,243
Total outstanding liabilities for unpaid losses and LAE, net of reinsurance			$ 376,768

(Expressed in thousands of U.S. dollars, except share data)

9. LOSS AND LOSS ADJUSTMENT EXPENSES (Continued)

2019 Acquisition Year

Business Acquired and Contracts Incepting in the Year Ended December 31, 2019

Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

		For the Year Ended December 31,		As of December 31, 2020	
Accident Year	**Total Net Reserves Acquired**	**2019 (unaudited)**	**2020**	**IBNR**	**Cumulative Number of Claims**
2010 and Prior	$ 740,098	$ 788,912	$ 787,692	$ 286,340	51,607
2011	46,651	54,216	46,074	9,757	5,048
2012	58,351	73,323	78,108	12,736	4,668
2013	78,448	104,830	88,459	30,044	4,703
2014	115,581	157,402	150,053	55,406	4,809
2015	158,842	204,645	209,911	89,402	5,934
2016	134,589	183,883	193,765	115,323	11,780
2017	116,386	116,386	116,386	116,386	2
2018	162,744	162,744	162,744	162,744	2
2019	—	—	—	—	—
2020	—			—	—
	$ 1,611,690		$ 1,833,192	$ 878,138	88,553

Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

	For the Year Ended December 31,	
Accident Year	**2019 (unaudited)**	**2020**
2010 and Prior	$ 30,365	$ 107,985
2011	271	271
2012	2,242	13,949
2013	5,470	14,696
2014	3,449	30,329
2015	5,393	39,123
2016	8,430	44,533
2017	—	—
2018	—	—
2019	—	—
2020		
		$ 250,886
Total outstanding liabilities for unpaid losses and LAE, net of reinsurance		$ 1,582,306

(Expressed in thousands of U.S. dollars, except share data)

9. LOSS AND LOSS ADJUSTMENT EXPENSES (Continued)

General Casualty

Business Acquired and Contracts Incepting in the Year Ended December 31, 2019 - General Casualty

Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

Accident Year	Total Net Reserves Acquired	For the Years Ended December 31, 2019 (unaudited)	For the Years Ended December 31, 2020	As of December 31, 2020 IBNR	As of December 31, 2020 Cumulative Number of Claims
2010 and Prior	$ 28,394	$ 41,209	$ 39,304	$ 5,401	1,146
2011	7,440	9,966	9,676	1,982	644
2012	11,165	15,733	15,220	3,806	218
2013	15,072	19,084	19,718	7,581	213
2014	29,863	39,188	35,327	14,780	132
2015	40,834	58,880	55,693	24,221	63
2016	33,504	44,458	41,867	31,363	102
2017	32,188	32,188	32,188	32,188	1
2018	45,010	45,010	45,010	45,010	1
2019	—	—		—	—
2020	—			—	—
	$ 243,470		$ 294,003	$ 166,332	2,520

Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

Accident Year	For the Years Ended December 31, 2019 (unaudited)	For the Years Ended December 31, 2020
2010 and Prior	$ 4,183	$ 7,701
2011	932	3,653
2012	2,212	5,284
2013	1,735	4,285
2014	2,175	8,178
2015	4,855	10,672
2016	2,219	5,162
2017	—	
2018	—	
2019	—	
2020		
		$ 44,935
Total outstanding liabilities for unpaid losses and LAE, net of reinsurance		$ 249,068

(Expressed in thousands of U.S. dollars, except share data)

9. LOSS AND LOSS ADJUSTMENT EXPENSES (Continued)

Workers' Compensation

Business Acquired and Contracts Incepting in the Year Ended December 31, 2019 - Workers' Compensation

Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

		Ended December 31,		As of December 31, 2020	
Accident Year	**Total Net Reserves Acquired**	**2019 (unaudited)**	**2020**	**IBNR**	**Cumulative Number of Claims**
2010 and Prior	$ 4,465	$ 7,137	$ 6,082	$ 1,899	9,609
2011	2,431	2,449	2,441	2,366	994
2012	6,265	6,297	9,297	6,517	1,133
2013	15,945	16,634	16,479	15,117	1,331
2014	32,424	33,322	33,435	31,694	1,312
2015	51,163	51,939	54,858	48,939	1,530
2016	73,134	75,216	76,104	70,853	1,466
2017	84,197	84,197	84,197	84,197	1
2018	117,734	117,734	117,734	117,734	1
2019		—	—	—	
2020	—		—	—	
	$ 387,758		$ 400,627	$ 379,316	17,377

Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

	For the Year Ended December 31,	
Accident Year	**2019 (unaudited)**	**2020**
2010 and Prior	$ 1,510	$ 939
2011	23	16
2012	12	3,078
2013	217	301
2014	1,153	1,383
2015	777	4,725
2016	985	3,146
2017	—	—
2018	—	—
2019	—	—
2020		—
		$ 13,588
Total outstanding liabilities for unpaid losses and LAE, net of reinsurance		$ 387,039

(Expressed in thousands of U.S. dollars, except share data)

9. LOSS AND LOSS ADJUSTMENT EXPENSES (Continued)

PI/D&O

Business Acquired and Contracts Incepting in the Year Ended December 31, 2019 - PI/D&O

Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

		For the Year Ended December 31,		As of December 31, 2020	
Accident Year	**Total Net Reserves Acquired**	**2019 (unaudited)**	**2020**	**IBNR**	**Cumulative Number of Claims**
2010 and Prior	$ 99,720	$ 112,339	$ 110,318	$ 1,999	351
2011	15,243	18,097	17,012	2,236	166
2012	20,474	30,738	34,902	2,673	206
2013	32,606	44,826	39,403	6,656	774
2014	29,968	47,831	52,280	8,042	961
2015	25,918	39,351	35,688	9,151	500
2016	7,904	23,404	27,994	8,898	334
2017	—	—		—	176
2018	—	—	—	—	
2019	—	—	—	—	
2020	—			—	
	$ 231,833		$ 317,597	$ 39,655	3,468

Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

	For the Year Ended December 31,	
Accident Year	**2019 (unaudited)**	**2020**
2010 and Prior	$ 3,970	$ 2,738
2011	120	926
2012	1,618	8,285
2013	1,777	9,819
2014	532	15,695
2015	310	4,240
2016	1,289	6,311
2017	—	
2018	—	
2019	—	—
2020		
		$ 48,014
Total outstanding liabilities for unpaid losses and LAE, net of reinsurance		$ 269,583

(Expressed in thousands of U.S. dollars, except share data)

9. LOSS AND LOSS ADJUSTMENT EXPENSES (Continued)

2020 Acquisition Year

Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

		For the Year Ended December 31,	As of December 31, 2020	
Accident Year	**Total Net Reserves Acquired**	**2020**	**IBNR**	**Cumulative Number of Claims**
2010 and Prior	$ 256,036	$ 169,409	$ 91,546	30
2011	25,271	25,765	24,700	16
2012	56,678	56,791	52,442	40
2013	65,521	60,760	47,014	58
2014	93,809	96,371	79,956	135
2015	151,039	150,403	108,246	190
2016	154,383	155,275	116,378	273
2017	152,430	146,698	125,567	266
2018	111,757	108,413	105,373	140
2019	166,119	164,772	164,016	120
2020	1,483	943	934	49
	$ 1,234,526	$ 1,135,600	$ 916,172	1,317

Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

	For the Year Ended December 31,
Accident Year	**2020**
2010 and Prior	$ 2,310
2011	54
2012	598
2013	3,236
2014	5,952
2015	10,827
2016	8,855
2017	3,964
2018	337
2019	4
2020	—
	$ 36,137
Total outstanding liabilities for unpaid losses and LAE, net of reinsurance	$ 1,099,463

(Expressed in thousands of U.S. dollars, except share data)

9. LOSS AND LOSS ADJUSTMENT EXPENSES (Continued)

General Casualty

Business Acquired and Contracts Incepting in the Year Ended December 31, 2020 - General Casualty

Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

Accident Year	Total Net Reserves Acquired	For the Year Ended December 31, 2020	As of December 31, 2020 IBNR	As of December 31, 2020 Cumulative Number of Claims
2010 and Prior	$ 43,350	$ 43,689	$ 36,340	22
2011	25,255	25,749	24,684	16
2012	54,188	54,301	49,952	40
2013	58,890	54,129	40,383	58
2014	82,000	84,562	68,147	135
2015	135,429	134,793	92,636	190
2016	138,350	139,242	100,345	273
2017	136,043	130,311	109,180	266
2018	99,069	95,725	92,685	140
2019	98,463	97,116	96,360	120
2020	1,483	943	934	49
	$ 872,520	$ 860,560	$ 711,646	1,309

Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

Accident Year	For the Year Ended December 31, 2020
2010 and Prior	$ 522
2011	54
2012	598
2013	3,236
2014	5,952
2015	10,827
2016	8,855
2017	3,964
2018	338
2019	3
2020	—
	$ 34,349
Total outstanding liabilities for unpaid losses and LAE, net of reinsurance	$ 826,211

(Expressed in thousands of U.S. dollars, except share data)

9. LOSS AND LOSS ADJUSTMENT EXPENSES (Continued)

Annual Historical Duration of Claims

The following is unaudited supplementary information, which presents the annual percentage payout since the year of acquisition, by year of acquisition and by significant line of business within each acquisition year:

	Annual Percentage Payout of Incurred Losses since Year of Acquisition, Net of Reinsurance			
Year of Acquisition	**Year 1**	**Year 2**	**Year 3**	**Year 4**
2017 - All lines of business	9.8 %	8.1 %	7.1 %	5.6 %
2018 - All lines of business	11.6 %	23.1 %	12.0 %	
2019 - All lines of business	3.0 %	10.7 %		
2019 - General Casualty	6.2 %	9.1 %		
2019 - Workers Compensation	1.2 %	2.2 %		
2019 - PI/ D&O	3.0 %	12.1 %		
2020 - All lines of business	3.2 %			
2020 - General Casualty	4.0 %			

10. PREMIUMS WRITTEN AND EARNED

The following table provide a summary of net premiums written and earned for the year ended December 31, 2020 and 2019:

	2020		2019	
	Premiums Written	**Premiums Earned**	**Premiums Written**	**Premiums Earned**
Gross	$ 14,253	$ 70,638	$ 89,690	$ 122,262
Ceded	1,767	(1,862)	1,797	1,848
Net	$ 16,020	$ 68,776	$ 91,487	$ 124,110

11. SHAREHOLDER'S EQUITY

Share Capital

The authorized share capital of the Company at December 31, 2020 consisted of 120,000 voting common shares, of par value $1 per share, all of which are issued, fully paid and outstanding.

Shares in Ultimate Parent Company

During the year ended December 31, 2020 and 2019, the Company held $200.7 million in Preferred Shares in Enstar, the Company's ultimate parent.

Additional paid-in capital

As at December 31, 2020 and 2019 the Company had additional paid-in capital of $2,745.7 million and $2,213.2 million respectively.

During the year the Company received additional paid-in capital of $532.5 million.

(Expressed in thousands of U.S. dollars, except share data)

12. RELATED PARTY TRANSACTIONS

Transactions with Enstar's Subsidiaries

Reinsurance Agreements with affiliates

The table below summarizes the outstanding liabilities under reinsurance agreements between the Company and its affiliates as of December 31, 2020 and 2019:

	2020	2019
Outstanding liabilities under reinsurance agreements:		
Syndicate 2008	$ 865,582	$ 1,047,517
Mercantile	696,449	638,471
StarStone Group	354,795	493,041
Fletcher	189,874	247,310
Gordian Run-off Limited ("Gordian")	139,516	87,559
FW#24 - Clarendon WC ADC	93,480	103,253
Fitzwilliam #30 – PWIC Reciprocal	52,676	57,436
Clarendon	20,967	28,394
Yosemite Insurance	11,386	12,392
River Thames Insurance Company	—	25,009

Loans

The tables below summarize the outstanding principal and accrued interest balances between the Company and its affiliates as of December 31, 2020 and 2019:

December 31, 2020	Relationship	Interest Rate	Principal	Accrued Interest	Total
Loans Receivable:					
BH Acquisition	Affiliate	3.00 %	$ 25,849	$ 778	$ 26,627
Enstar Group Limited	Ultimate Parent	4.61 %	3,255	3	3,258

December 31, 2019	Relationship	Interest Rate	Principal	Accrued Interest	Total
Loans Receivable:					
BH Acquisition	Affiliate	3.00 %	$ 25,097	$ 753	$ 25,850
Enstar Group Limited	Ultimate Parent	4.61 %	3,138	38	3,176

Investments

The Company invests in Patcham Investment Funds Plc ("Patcham Funds"), as part of a group investment pool with other companies related through common control. These funds are managed by a wholly-owned subsidiary of Enstar and are included in other investments at fair value.

The table below summarizes the Company's investments in the Patcham Funds carried on its consolidated balance sheets as at December 31, 2020 and 2019 as well as the net unrealized gains (losses) included in its consolidated statements of earnings for the years ended December 31, 2020 and 2019:

(Expressed in thousands of U.S. dollars, except share data)

12. RELATED PARTY TRANSACTIONS (Continued)

	2020	2019
Patcham fixed income fund	$ 161,960	$ 136,425
Patcham balanced fund	73,068	24,529
Net unrealized gains (losses)	$ (13,512)	$ (6,200)

AmTrust

In November 2018, pursuant to a Subscription Agreement with Evergreen Parent L.P. ("Evergreen"), K-Z Evergreen, LLC and Trident Pine Acquisition LP ("Trident Pine"), Enstar purchased equity in Evergreen in the aggregate amount of $200.0 million, of which the Company's share was $156.0 million. Evergreen is an entity formed by private equity funds managed by Stone Point and the Karfunkel-Zyskind family that acquired approximately 45% of the issued and outstanding shares of common stock of AmTrust that the Karfunkel-Zyskind Family and certain of its affiliates and related parties did not already own or control. The equity interest was in the form of three separate classes of equity securities issued at the same price and in the same proportion as the equity interest purchased by Trident Pine. In a second transaction in December 2019, Enstar acquired an additional $25.9 million of Evergreen securities from another investor, of which the Company's share was $20.0 million. Following the closing of the second transaction, Enstar owns approximately 8.5% of the equity interest in Evergreen and Trident Pine owns approximately 21.8%. Evergreen owns all of the equity interest in AmTrust. During the year ended December 31, 2020, an additional $57.3 million of equity in Evergreen was transferred to the Company from an Enstar affiliate.

Our indirect investment in the shares of AmTrust, carried in equities on our consolidated balance sheets, as of December 31, 2020 and 2019 was as follows:

	2020	2019
Investment in AmTrust	$ 222,296	$ 186,044

Investments in and Transactions with Equity Method Investees

The table below shows our equity method investments carried on the consolidated balance sheet, as at December 31, 2020 and 2019:

	2020	2019
Investment in Enhanzed Re	$ 330,289	$ 182,856
Investment in Monument	193,716	—
Investment in Citco	53,022	51,742

Enhanzed Re

Enhanzed Re is a joint venture between Enstar, Allianz SE and Hillhouse Capital Management, Ltd. ("Hillhouse Capital") that was capitalized in December 2018. Enhanzed Re is a Bermuda-based Class 4 and Class E reinsurer of life, non-life run-off, and property and casualty insurance business, initially sourced from Allianz SE and Enstar. Enstar, Allianz and Hillhouse Capital affiliates have made equity investment commitments in aggregate of $470.0 million to Enhanzed Re. The Company owns 47.4% of the entity, while Allianz owns 24.9%, and an affiliate of Hillhouse owns 27.7%. As of December 31, 2020, Enstar had contributed $154.1 million of its total capital commitment to Enhanzed Re with $68.7 million of the commitment yet to be called. We have accounted for our equity interest in Enhanzed Re as an equity method investment as we have significant influence over its operating and financial policies.

Enstar acts as the (re)insurance manager for Enhanzed Re, for which it receives fee income recorded within other income, while an affiliate of Hillhouse Capital acts as the primary investment manager, and an affiliate of Allianz SE provides investment management services. Enhanzed Re intends to write business from affiliates of its operating sponsors, Allianz SE and Enstar. It will seek to underwrite business to maximize diversification by risk and geography.

(Expressed in thousands of U.S. dollars, except share data)

12. RELATED PARTY TRANSACTIONS (Continued)

Our investment in the common shares of Enhanzed Re, which is included within equity method investments on our consolidated balance sheets, as of December 31, 2020 and 2019 was as follows:

	2020	2019
Investment in Enhanzed Re	$ 330,289	$ 182,856

During the twelve months ended December 31, 2020 and 2019 the Company's share of net earnings on our investment in Enhanzed Re was $147.3 million and $28.9 million, respectively.

The Company entered into a 10% quota share retrocession agreement with Enhanzed Re to retrocede some of the exposures assumed from Axa and Zurich to Enhanzed Re on the same terms and conditions as those assumed by the Company as noted in Note 3 - "Mergers, Acquisitions and Significant New Business" above.

The Company's consolidated balance sheets and income statements as of December 31, 2020 and 2019 included the following balances with Enhanzed Re:

	2020	2019
Balances under 10% Quota Share Retrocession Agreement:		
Insurance balances payable	$ 1,276	$ 1,443
Reinsurance balances recoverable	67,353	59,601
Funds held	61,331	50,089
Other assets	185	1,033

	2020	2019
Amounts under 10% Quota Share Retrocession Agreement:		
Ceded Premium earned	$ (138)	$ —
Net incurred losses and LAE	(188)	—
Acquisition costs	(18)	73
Net investment income	(1,743)	—
Net realized and unrealized gains	(740)	—
Fees and commission income	185	749
Total net earnings	$ (2,642)	$ 822
Change in unrealized gains (losses) on AFS investments	$ (2,729)	$ —

Citco

In June 2018, we made a $50.0 million indirect investment in the shares of Citco III Limited ("Citco"), a fund administrator with global operations. Pursuant to an investment agreement and in consideration for our participation therein, a related party of Hillhouse Capital provided us with investment support. In a private transaction that preceded our co-investment opportunity, certain Citco shareholders, including the Trident Funds ("Trident"), managed by Stone Point Capital LLC ("Stone Point"), agreed to sell all or a portion of their interests in Citco. As of December 31, 2020, Trident owned approximately 3.4% of the equity interest in Citco. Mr. James D. Carey who serves on the board of Enstar, our ultimate parent, in relation to Stone Point's investment in Enstar which is discussed further below, currently serves as an observer to the board of directors of Citco in connection with Trident's investment therein.

(Expressed in thousands of U.S. dollars, except share data)

12. RELATED PARTY TRANSACTIONS (Continued)

Our indirect investment in the shares of Citco, which is included within equity method investments on our consolidated balance sheets, as of December 31, 2020 and 2019 was as follows:

	2020	2019
Investment in Citco	$ 53,022	$ 51,742

During the twelve months endeDecember 31, 2020 and 2019 Enstar's share of net earnings on our indirect investment in Citco was $2.2 million and $2.7 million, respectively.

Clear Spring Property and Casualty Company ("Clear Spring")

Effective January 1, 2017, Enstar sold SeaBright Insurance Company ("SeaBright Insurance") and its licenses to Delaware Life Insurance Company ("Delaware Life"), a subsidiary of Guggenheim Partners, LLC. Following the sale, SeaBright Insurance was renamed Clear Spring and subsequently capitalized with $56.0 million of equity, with Enstar retaining a 20% indirect equity interest in Clear Spring. Effective December 30, 2020, Enstar sold its indirect equity interest in Clear Spring to Delaware Life for $12.2 million and recorded a gain on sale of $0.6 million in the fourth quarter of 2020. As a result, Clear Spring was not a related party as of December 31, 2020.

Effective January 1, 2017, StarStone National entered into a quota share treaty with Clear Spring pursuant to which Clear Spring reinsures 33.3% of core Workers Compensation business written by StarStone National. The treaty was terminated as of December 31, 2018.

Clear Spring in turn entered into a quota share treaty with the Company also effective January 1, 2017, pursuant to which the Company reinsures 25.0% of all Workers Compensation business that Clear Spring assumes from StarStone National. During the years ended December 31, 2020 and 2019, Clear Spring ceded to the Company $nil and $3.7 million of premium earned, $1.0 million and $2.2 million of net incurred losses and LAE, and $nil and $0.1 million of acquisition costs, respectively, under the quota share agreement.

Monument Re

Monument Insurance Group Limited ("Monument Re") was established in October 2016 and Enstar has invested a total of $59.6 million in the common and preferred shares of Monument Re as of December 31, 2020 (December 31, 2019: $26.6 million). Enstar owns 20% of the common shares of Monument Re, as well as different classes of preferred shares which have fixed dividend yields, and which collectively represented a total economic interest of 23.0% as of December 31, 2020 (December 31, 2019: 23.5%). In connection with Enstar's investment in Monument Re, Enstar entered into a Shareholders Agreement with the other shareholders and also accounted for its equity interest in Monument Re as an equity method investment since Enstar has significant influence over its operating and financial policies.

On May 31, 2019, Enstar completed the transfer of its remaining life assurance policies written by its wholly-owned subsidiary Alpha Insurance SA to a subsidiary of Monument Re. In this transaction, Enstar transferred policy benefits for life and annuity contracts with a carrying value of €88.8 million (or $99.1 million) and total assets with a fair value of €91.1 million (or $101.6 million) to a subsidiary of Monument Re.

Effective September 29, 2020, Enstar transferred its investment in Monument Re to the Company with this investment being accounted for as an equity method investment in the Company's consolidated balance sheet. As of December 31, 2020, the investment in Monument Re had a carrying value of $193.7 million.

During the twelve months ended December 31, 2020 and 2019 Enstar's share of net earnings on its investment in Monument Re was $88.3 million and $19.8 million, respectively. Following the transfer of the investment in Monument Re to the Company by Enstar effective September 29, 2020, $24.7 million of the share of net earnings attributable to Monument Re during the year ended December 31, 2020 was recorded in the Company's consolidated statement of earnings. In addition, Enstar received director's fees from Monument Re of less than $0.1 million in connection with one of Enstar's representatives serving on Monument Re's board of directors during the twelve months ended December 31, 2020.

(Expressed in thousands of U.S. dollars, except share data)

12. RELATED PARTY TRANSACTIONS (Continued)

Stone Point

Through several private transactions occurring from May 2012 to July 2012 and an additional private transaction that closed on May 2018, investment funds managed by Stone Point have acquired an aggregate of 1,635,986 of the Voting Ordinary Shares, constituting approximately 9.1% of the outstanding Voting Ordinary Shares of Enstar, our ultimate parent.

As of December 31, 2020, the Company had the following relationships with Stone Point and its affiliates:

- Investments in funds (carried within other investments) managed by Stone Point, with respect to which we recognized net unrealized gains (losses);
- Investments in registered investment companies affiliated with entities owned by Trident or otherwise affiliated with Stone Point, with respect to which we recognized net unrealized gains (losses) and interest income;
- Separate accounts managed by Eagle Point Credit Management, PRIMA Capital Advisors and SKY Harbor Capital Management, which are affiliates of entities owned by Trident, with respect to which we incurred management fees;
- Investments in funds (carried within other investments) managed by Sound Point Capital, an entity in which Mr. Carey has an indirect minority ownership interest and serves as a director, with respect to which we recognized net unrealized gains (losses);
- Sound Point Capital has acted as collateral manager for certain of our direct investments in CLO debt and equity securities, with respect to which we recognized net unrealized gains (losses) and interest income;
- Marble Point Capital, which is an affiliate of an entity owned by Trident, has acted as collateral manager for certain of our direct investments in CLO debt and equity securities, with respect to which we recognized net unrealized gains (losses) and interest income;
- A separate account managed by Sound Point Capital, with respect to which we incurred management fees in prior periods; and
- In the fourth quarter of 2018, we invested $25.0 million in Mitchell TopCo Holdings, the parent company of Mitchell International and Genex Services, as a co-investor alongside certain Trident funds

The table below summarizes the related party balances with Stone Point and its affiliated entities included in our consolidated balance sheets as of December 31, 2020 and 2019:

	2020	2019
Short-term investments, available-for-sale, at fair value investments	$ 675	$ 1,431
Fixed maturities, trading, at fair value	60,777	73,331
Fixed maturities, available-for-sale, at fair value	149,571	142,552
Equities, at fair value	41,481	95,612
Private equity funds	3,022	—
Fixed income fund	1,538	—
CLO equities	38,658	36,560
CLO equity funds	144,216	76,946
Hedge funds	19,844	—
Other investments	—	—
Cash and cash equivalents	5,272	9,263
Other assets	160	7
Other liabilities	(558)	(4,710)

(Expressed in thousands of U.S. dollars, except share data)

12. RELATED PARTY TRANSACTIONS (Continued)

The table below presents the amounts included in our statements of earnings for the years ended December 31, 2020 and 2019 relating to our related party transactions with Stone Point and its affiliated entities:

	2020	2019
Net investment income	$ 12,614	$ 6,136
Net realized and unrealized gains (losses)	20,195	(4,312)
Total net earnings	$ 32,809	$ 1,824

Hillhouse Capital

Investment funds managed by Hillhouse Capital collectively own approximately 9.4% of Enstar's voting ordinary shares. These funds also own non-voting ordinary shares and warrants to purchase additional non-voting ordinary shares, which together with their voting ordinary shares, represents approximately a 16.5% economic interest in Enstar. From February 2017 to February 2021, Jie Liu, a partner of AnglePoint (defined below), served on the Board of Enstar, our ultimate parent.

We have direct investments in funds managed by Hillhouse Capital and its affiliate, AnglePoint Asset Management Ltd. ("AnglePoint"), (together with such parties' affiliates, "Hillhouse"). As of December 31, 2020, the carrying value of our direct investment in the InRe Fund, L.P. (the "InRe Fund"), which is managed by AnglePoint, was $2.4 billion with the fund's assets being invested in approximately (5)% in net short fixed income securities, 20% in North American equities, 67% in international equities and 18% in financing, derivatives and other items. The InRe Fund also utilizes prime brokerage borrowing facilities and has also securitized certain letters of credit relating to intragroup reinsurances. We do not provide any financial support to the InRe Fund. Funds that employ leverage through borrowings and derivatives can generate outsized returns but can also experience greater levels of volatility. The InRe Fund qualifies as a variable interest entity and our maximum exposure to loss is the amount of our investment in the fund, as disclosed in the table below.

As of December 31, 2020 and 2019, our equity method investee, Enhanzed Re, had investments in a fund managed by AnglePoint, as set forth in the table below.

Our consolidated balance sheet as of December 31, 2020 and 2019 included the following balances related to transactions with Hillhouse Capital and AnglePoint (as applicable):

	2020	2019
Investments in funds managed by AnglePoint, held by Enhanzed Re	$ 851,435	$ 327,799
Our ownership percentage of Enhanzed Re	47.4 %	47.4 %
Our share of Enhanzed Re's funds managed by AnglePoint	$ 403,580	$ 155,377
Investment in other funds managed by Hillhouse:		
InRe Fund	$ 2,365,158	$ 918,633
Other funds	369,508	232,968
	$ 2,734,666	$ 1,151,601

We incurred management and performance fees of $489.0 million, which is deducted from the Hillhouse funds' reported NAV, for the year ended December 31, 2020 in relation to the investment in funds managed by Hillhouse Capital and AnglePoint as described above.

12. RELATED PARTY TRANSACTIONS (Continued)

On February 21, 2021, Enstar entered into a Termination and Release Agreement (the "TRA") with the InRe Fund, Hillhouse Capital, AnglePoint Cayman, AnglePoint Asset Management Limited ("AnglePoint HK"), and InRe Fund GP, Ltd. ("InRe GP") pursuant to which Enstar agreed to terminate certain relationships with Hillhouse and its affiliates, primarily with respect to the InRe Fund. In connection with AnglePoint Cayman ceasing to serve as investment manager of the InRe Fund, affiliates of Hillhouse Capital agreed to a deduction of $100.0 million from amounts due to them from the InRe Fund and to waive their right to receive any performance fees that could have been earned for 2021. The Company also redeemed its investments in the other Hillhouse Funds at their carrying value plus an implied interim return and received $381.3 million of additional NAV in the InRe Fund.

AnglePoint Cayman previously received sub-advisory services with respect to InRe Fund from its affiliate, AnglePoint HK, an investment advisory company licensed by the Securities and Futures Commission in Hong Kong. Pursuant to the TRA, Enstar acquired an option to buy AnglePoint HK, which it also had the right to assign to a third-party. On April 1, 2021, Enstar entered into a Designation Agreement with Jie Liu (the "Designation Agreement"), pursuant to which it designated Mr. Liu, an AnglePoint HK partner, as the purchaser of AnglePoint HK, and he acquired the company from an affiliate of Hillhouse Capital on the same day. AnglePoint Cayman simultaneously assigned its investment management agreement with InRe Fund to AnglePoint HK. The Designation Agreement requires Enstar and AnglePoint HK to amend the InRe Fund investment management agreement and limited partnership agreement to incorporate a revised fee structure for AnglePoint HK and certain other agreed changes.

As a result of the Termination and Release Agreement, we will re-evaluate our conclusions with regard to the consolidation of the InRe Fund in 2021 in accordance with the accounting guidance for variable interest entities.

13. TAXATION

The company is incorporated under the laws of Bermuda and is therefore subject to Bermuda law with respect to taxation. Under the current Bermuda law, the Company is not required to pay taxes in Bermuda on either income or capital gains. The Company has received an undertaking from the Bermuda government that, in the event of income or capital gains taxes being imposed, the Company will be exempted from such taxes until the year 2035.

14. STATUTORY REQUIREMENTS

The Company is registered as a Class 3B reinsurer under the Insurance Act which imposes certain solvency and liquidity standards, auditing and reporting requirements and grants the Bermuda Monetary Authority ("BMA") powers to supervise, investigate, require information and the production of documents and intervene in the affairs of insurance companies.

Under the Insurance Act, the Company is either required to or is prohibited from doing the following:

- Required to maintain certain solvency and liquidity standards which includes maintaining a minimum liquidity ratio whereby the value of relevant assets must not be less than 75% of the amount of relevant liabilities. The minimum solvency margin is determined as a percentage of either net reserves for losses and LAE or premiums.
- Required to maintain a minimum statutory capital and surplus (Enhanced Capital Requirement or "ECR") at least equal to the greater of a minimum solvency margin or the Bermuda Solvency Capital Requirement ("BSCR"). The BSCR is calculated based on a standardized risk-based capital model used to measure the risk associated with assets, liabilities and premiums.
- Prohibited from declaring or paying any dividends if it were in breach of its minimum solvency margin or liquidity ratio or if the declaration or payment of such dividends would cause it to fail to meet such margin or ratio.
- Prohibited, without the prior approval of the BMA, from reducing by 15% or more its total statutory capital as set out in its prior year's statutory financial statements.
- Prohibited, without obtaining the prior written approval of the BMA, from writing any "long-term business", as such expression is understood in the Insurance Act.

As of December 31, 2020, the Company met all the requirements that it is subject to under the Insurance Act.

15. COMMITMENTS AND CONTINGENCIES

Concentration of Credit Risk

We believe that there are no significant concentrations of credit risk associated with our cash and cash equivalents, fixed maturity investments, or other investments. Cash, cash equivalents and fixed maturity investments are managed pursuant to guidelines that follow prudent standards of diversification and limit the allowable holdings of a single issue and issuers. Other investments are managed pursuant to guidelines that emphasize diversification and liquidity. Pursuant to these guidelines, we manage and monitor risk across a variety of investment funds and vehicles, markets and counterparties. We are also subject to custodial credit risk on our fixed maturity and equity investments, which we manage by diversifying our holdings amongst large financial institutions that are highly regulated.

We have exposure to credit risk on certain of our assets pledged to ceding companies under insurance contracts. In addition, we are potentially exposed should any insurance intermediaries be unable to fulfill their contractual obligations with respect to payments of balances owed to and by us.

Credit risk exists in relation to our insurance and reinsurance balances recoverable. We remain liable to the extent that counterparties do not meet their contractual obligations and, therefore, we evaluate and monitor concentration of credit risk among our insurers and reinsurers. Amounts recoverable from reinsurers are described in Note 7 - "Reinsurance Balances Recoverable".

We are also subject to credit risk in relation to funds held by reinsured companies. Under funds held arrangements, the reinsured company has retained funds that would otherwise have been remitted to the Company. The funds may be placed into trust or be subject to other security arrangements. The funds held balance is credited with investment income and losses payable are deducted. We are subject to credit risk if the reinsured company is unable to honor the value of the funds held balances, such as in the event of insolvency. However, we generally have the contractual ability to offset any shortfall in the payment of the funds held balances with amounts owed by us to the reinsured for losses payable and other amounts contractually due. We routinely monitor the creditworthiness of reinsured companies with whom we have funds held arrangements. We have a significant funds held concentration of $735.6 million to an Enstar affiliate.

We limit the amount of credit exposure to any one counterparty and none of our counterparty credit exposures, excluding U.S. Government instruments and the counterparties noted above, exceeded 10% of shareholders’ equity as of December 31, 2020. Our credit exposure to the U.S. government was $544.2 million as at December 31, 2020.

Legal Proceedings

We are, from time to time, involved in various legal proceedings in the ordinary course of business, including litigation and arbitration regarding claims. Estimated losses relating to claims arising in the ordinary course of business, including the anticipated outcome of any pending arbitration or litigation are included in the liability for losses and LAE in our consolidated balance sheets. In addition to claims litigation, we may be subject to other lawsuits and regulatory actions in the normal course of business, which may involve, among other things, allegations of underwriting errors or omissions, employment claims or regulatory activity. We do not believe that the resolution of any currently pending legal proceedings, either individually or taken as a whole, will have a material effect on our business, results of operations or financial condition. We anticipate that, similar to the rest of the insurance and reinsurance industry, we will continue to be subject to litigation and arbitration proceedings in the ordinary course of business, including litigation generally related to the scope of coverage with respect to asbestos and environmental and other claims.

Unfunded Investment Commitments

As at December 31, 2020, we had unfunded commitments of $687.8 million and $68.7 million to private equity funds and to one of our equity method investees, respectively.

Significant New Business

We have entered into certain reinsurance agreements that are expected to become effective subsequent to December 31, 2020 as detailed in Note 3 - "Mergers, Acquisitions and Significant New Business" above.

15. COMMITMENTS AND CONTINGENCIES (Continued)

Unsecured Letters of Credit

$800.0 million Syndicated Letter of Credit Facility

On August 4, 2020, we increased the total commitments available under this facility by an aggregate amount of $40.0 million, bringing the total size of the facility to $800.0 million. We use this facility to collateralize certain reinsurance obligations. As of December 31, 2020 and December 31, 2019, the aggregate amount of letters of credit issued under the facility was $587.1 million and $608.0 million, respectively.

16. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through April 30, 2021, which is the date that the financial statements were available to be issued. As part of this evaluation, the following should be noted:

- ***Coronavirus:***
  The World Health Organisation ("WHO"), on March 11 2020, declared the COVID-19 outbreak a global pandemic. The Company continues to closely monitor the COVID-19 outbreak and to actively assess the potential impact to all stakeholders. The Company has a formal business continuity plan which is being continually reviewed in light of current developments and is being actively deployed as events require, which includes office closures where required. As the situation continues to evolve the Company is regularly assessing the impact of COVID-19 on its solvency capital in line with its established risk metrics and in compliance with its risk appetite, including the assessment of the ongoing impact of COVID-19 on its investment portfolio arising from volatility in the financial markets.

- On February 28, 2021 the Company merged with Harper Insurance Limited, a wholly-owned subsidiary of Kenmare and a Bermuda Class 3A Insurer, with the Company continuing as the sole surviving entity.