National General Insurance, Ltd.

Consolidated Financial Statements

Years Ended December 31, 2020

National General Insurance, Ltd.

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Ernst & Young LLP
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Report of Independent Auditors

The Board of Directors
National General Insurance, Ltd.

We have audited the accompanying consolidated financial statements of National General Insurance, Ltd. (the Company), which comprise the consolidated balance sheet as of December 31, 2020, and the related consolidated statements of income and comprehensive income, changes in shareholder's equity and cash flows for the year 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 financial statements in conformity 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 financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity'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 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of National General Insurance, Ltd. at December 31, 2020, and the consolidated results of their operations and their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

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Required Supplementary Information

Accounting principles generally accepted in the United States require that the incurred and paid claims development prior to the most recent year and the average annual percentage payout of incurred claims disclosed in Footnote 6 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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, 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 financial statements, and other knowledge we obtained during our audit of the 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.

Ernst + Young LLP

April 23, 2021

NATIONAL GENERAL INSURANCE, LTD.
CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Shares and Per Share Data)

		December 31, 2020
ASSETS		
Investments:		
Debt securities, available-for-sale, at fair value (amortized cost of $59,172) (allowance for expected credit losses $0 -2020)	$	59,962
Equity securities, at fair value		2,656
Short-term investments		200
Other investments (related parties - $175,631)		180,122
Total investments		242,940
Cash and cash equivalents		11,603
Deferred acquisition costs		10,853
Premiums and other receivables (related parties - $23,994) (allowance for expected credit losses $0 - 2020)		79,889
Accrued interest receivable (related parties - $2,730)		2,779
Prepaid and other assets		502
Total assets	$	348,566
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Unpaid loss and loss adjustment expense reserves - related parties	$	13,348
Reinsurance payable - related parties		11,058
Unearned premiums - related parties		33,395
Accounts payable and accrued expenses (related parties - $23,994)		25,069
Other liabilities		295
Total liabilities	$	83,165
Commitments and contingencies (Note 10)		
Shareholders' Equity:		
Common stock, $1 par value, 120,000 shares authorized, issued and outstanding	$	120
Additional paid-in capital		184,068
Accumulated other comprehensive income		625
Retained earnings		80,588
Total shareholders' equity	$	265,401
Total liabilities and shareholders' equity	$	348,566

NATIONAL GENERAL INSURANCE, LTD.
CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME
(In Thousands)

	Year Ended December 31, 2020
Revenues:	
Net earned premium	$ 40,434
Net loss on investments	(897)
Net investment expense	(79)
Service and fee income	23,273
Total revenues	62,731
Expenses:	
Loss and loss adjustment expense	24,405
Commission and other acquisition expenses	13,141
General and administrative expenses	1,800
Total expenses	39,346
Income before income taxes	23,385
Income tax expense	—
Net income	$ 23,385
Other comprehensive income	
Unrealized gain on investments, net of tax expense of $166	396
Total other comprehensive income	396
Comprehensive income	$ 23,781

See accompanying notes to consolidated financial statements

NATIONAL GENERAL INSURANCE, LTD.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(In Thousands)

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Noncontrolling Interest	Total
Balance January 1, 2020	$ 10	$ 184,068	$ 229	$ 57,313	—	$ 241,620
Net income	—	—	—	23,385	—	23,385
Net change in unrealized gains, net of tax expense of $166	—	—	396	—	—	396
Share purchase	110	—	—	—	—	110
Dividends to parent company	—	—	—	(110)	—	(110)
Balance December 31, 2020	$ 120	$ 184,068	$ 625	$ 80,588	$ —	$ 265,401

See accompanying notes to consolidated financial statements

NATIONAL GENERAL INSURANCE, LTD.
CONSOLIDATED STATEMENT OF CASH FLOWS
(In Thousands)

	Year Ended December 31, 2020
Cash flows from operating activities:	
Net income	$ 23,385
Adjustments to reconcile net income to net cash provided by (used in) operating activities:	
Equity in earnings of other investments	5,407
Net loss on investments	327
Amortization	331
Accruals for interest earned but not received	(1,555)
Changes in assets and liabilities:	
Accrued investment income	(160)
Premiums and other receivables	(79,889)
Deferred acquisition costs	(10,853)
Prepaid expenses and other assets	769
Unpaid loss and loss adjustment expense reserves	13,348
Unearned premiums and other revenue	33,395
Reinsurance payable	11,058
Accounts payable and accrued expenses	22,028
Other liabilities	1,439
Net cash provided by operating activities	19,030
Cash flows from investing activities:	
Purchases of:	
Debt securities, available-for-sale	(62,206)
Short-term investments	(41,889)
Other investments	(1,000)
Proceeds from:	
Sale of debt securities, available-for-sale	37,426
Maturity of debt securities, available-for-sale	2,824
Sale of short-term investments	7,398
Maturity of short-term investments	36,233
Sale and return of other investments	202
Net cash used in investing activities	$ (21,012)

NATIONAL GENERAL INSURANCE, LTD.
CONSOLIDATED STATEMENT OF CASH FLOWS
(In Thousands)

	Year Ended December 31, 2020
Cash flows from financing activities:	
Dividends paid to parent company	$ (110)
Purchase of common stock	110
Debt	8,263
Net cash used in financing activities	8,262
Net increase in cash, cash equivalents and restricted cash	6,280
Cash, cash equivalents, and restricted cash at the beginning of year	5,323
Cash, cash equivalents, and restricted cash at the end of year	$ 11,603
Supplemental disclosures of cash flow information:	
Cash paid for income taxes	$ —

See accompanying notes to consolidated financial statements

(In Thousands, Except Shares and Per Share Data)

1. Organization and Acquisition

National General Insurance, Ltd. (the "Company") (formerly: National General Insurance Holdings, Ltd.) was incorporated under the laws of Bermuda on December 11, 2018, as a Bermuda exempt Company limited by shares. Effective May 18, 2020 the Company was registered as a Class 3A insurer under the Bermuda Assurance Act, 1978 and related regulations as amended.

The Company was already capitalized with a) $10 of paid up share capital, b) $198,090 of contributed surplus and c) $43,405 of retained earnings. The contributed surplus was made up of the transfer of the Luxembourg subsidiaries as well as a transfer of loan from National General Holdings Luxembourg S.a.r.l ("NGHL"). The retained earnings was made up of NGHL and National General Holdings Bermuda, Ltd.'s investment in subsidiary revaluation. The company increased the paid up share capital to $120 as required for a class 3A insurer pursuant to section 7(1)(a) of the Insurance Act.

The company's license authorizing it to write insurance business was issued by the Bermuda Monetary Authority on May 18, 2020. The Company is an indirect wholly-owned subsidiary of National General Holdings Corp ("NGHC"). The Company's direct holding company is National General Re Ltd. ("NGRE") a class 3A affiliated insurer. The Company has a 6% auto physical damage, no-fault, personal injury protection and liability quota share reinsurance contract of NGRE.

As of December 31, 2020 the Company had four subsidiaries:

Entity Name	Jurisdiction of Incorporation or Formation
American Capital Acquisition Investments S.A	Luxembourg
National General Holdings Bermuda, Ltd.	Bermuda
National General Holdings Luxembourg S.a.r.l.	Luxembourg
National General Insurance Management Ltd.	Bermuda

Effective January 4, 2021, NGHC was acquired by The Allstate Corporation ("Allstate"), pursuant to the Agreement and Plan of Merger ("Merger"), dated as of July 7, 2020, by and among NGHC, Allstate and Bluebird Acquisition Corp., an indirect wholly owned subsidiary of Allstate. See Note 14, "Subsequent Events" for additional information.

In March 2020, the outbreak of COVID-19 caused by a novel strain of the coronavirus was recognized as a pandemic by the World Health Organization. The pandemic outbreak has caused an economic downturn on a global scale. The Company did not experience a material adverse impact due to COVID-19 for the year ended December 31, 2020.

2. Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries. All significant intercompany transactions and accounts have been eliminated in consolidation.

Use of Estimates and Assumptions

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company's principal estimates include unpaid losses and loss adjustment expense reserves; deferred acquisition costs; reinsurance recoverable, including the provision for uncollectible amounts; determining the fair value of investments and income taxes. In developing the estimates and assumptions, management uses all available evidence. Because of uncertainties associated with estimating the amounts, timing and likelihood of possible outcomes, actual results could differ from estimates.

Other Significant Accounting Policies

Premiums and Other Receivables

The Company recognizes earned premium on a pro rata basis over the terms of the policies, generally periods of six or twelve months. Unearned premiums represent the portion of premiums written applicable to the unexpired terms of the policies. Net premiums receivable represent affiliated premiums earned and not yet collected, received quarterly in arrears.

Premiums and other receivables are with entities under control and are exempt from allowance for credit loss evaluation.

Cash and Cash Equivalents

The Company's cash and cash equivalents include cash on hand, money market instruments and other debt instruments with a maturity of 90 days or less when purchased. Certain securities with original maturities of 90 days or less that are held as a portion of fixed maturity portfolios are classified as short-term investments.

Short-term Investments

Short-term investments include commercial paper, U.S.Treasury bills and money market funds with maturities between 91 days and less than one year at the date of acquisition.

Deferred Acquisition Costs

Deferred acquisition costs represent incremental direct costs related to the successful acquisition of new or renewal insurance contracts. The balances of such costs are capitalized as an asset and amortized over the expected lives of the underlying insurance contracts.

Loss and Loss Adjustment Expense

Loss and Loss Adjustment Expense ("LAE") represent the estimated ultimate net costs of all reported and unreported losses incurred through the period end. The reserves for unpaid losses and LAE represent the accumulation of estimates for both reported losses and those incurred but not reported relating to assumed reinsurance agreements. Estimates for salvage and subrogation recoverables are recognized at the time losses are incurred and netted against the provision for losses. Loss and LAE are based on estimates, and the ultimate liability may vary from such estimates. These estimates are regularly reviewed and adjustments are included in the period in which adjustments are determined.

Investments

The Company has classified its debt securities as available for sale measured at fair value with unrealized gains and losses reported as a separate component of comprehensive income. Equity investments (except those accounted for under the equity method, and those that result in consolidation of the investee and certain other investments) are measured at fair value with all gains and losses reported in net income. The Company may sell its available-for-sale and equity securities in response to changes in interest rates, risk/reward characteristics, liquidity needs or other factors. Available-for-sale and equity securities are reported at their estimated fair values based on quoted market prices or recognized pricing services.

Purchases and sales of investments are recorded on a trade date basis. Realized gains and losses are determined based on the specific identification method. Net investment income is recognized when earned and includes interest and dividend income together with amortization of market premiums and discounts using the effective yield method and is net of investment management fees and other expenses. For mortgage-backed securities and any other holdings for which there is a prepayment risk, prepayment assumptions are evaluated and revised as necessary. Any adjustments required due to the change in effective yields and maturities are recognized on a retrospective basis through yield adjustments.

As of December 31, 2020, the Company had the following major types of investments:

(i) Debt securities are classified as available-for-sale and are carried at fair value. Unrealized gains or losses on available-for-sale debt securities are reported as a component of accumulated other comprehensive income.
(ii) Mortgage and structured securities are carried at fair value. The Company recognizes income using the retrospective adjustment method based on prepayments and the estimated economic lives of the securities. The effective yield reflects actual payments to date plus anticipated future payments. These investments are recorded as debt securities, available-for-sale in the consolidated balance sheets.
(iii) Short-term investments are carried at amortized cost, which approximates fair value, and includes investments with maturities between 91 days and less than one year at the date of acquisition. Income from short-term investments is reported within net investment income.
(iv) Other investments consisted of equity method investments, in which the company has the power to influence the operating or financial decisions but does not require consolidation; common stock carried at fair value (equity securities); notes receivable; long-term certificates of deposits; and other instruments carried at fair value and at cost or amortized cost. Income from other investments is reported within net investment income. Gains or losses on equity securities are reported within net gain (loss) on investments.

Beginning on January 1, 2020, credit losses on available-for-sale debt securities are recognized through an allowance account. The Company reports accrued investment income separately from debt securities in the consolidated balance sheets, and has elected not to measure an allowance for credit losses. Accrued investment income is written off by reversing interest income through net investment income at the time the issuer of the bond defaults or is expected to default on payments. Uncollectible debt securities are written off to net gain (loss) on investments when the Company determines that no additional payments of principal or interest will be received.

Fair Value of Financial Instruments

The Company’s estimates of fair value for financial assets and financial liabilities are based on the inputs used in valuation and gives the highest priority to quoted prices in active markets and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the hierarchy is based on whether the significant inputs into the valuation are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect the Company’s significant market assumptions. Additionally, valuation of debt securities investments is more subjective when markets are less liquid due to lack of market-based inputs, which may increase the potential that the estimated fair value of an investment is not reflective of the price at which an actual transaction could occur. Fair values of other financial instruments which are short-term in nature approximate their carrying values.

Equity Method Investments

The Company uses the equity method of accounting for investments in which its ownership interest enables the Company to influence operating or financial decisions of the investee, but the Company's interest does not require consolidation. In applying the equity method, the Company records its investment at cost, and subsequently increases or decreases the carrying amount of the investment by its proportionate share of the net earnings or losses and other comprehensive income of the investee. Any dividends or distributions received are recorded as a decrease in the carrying value of the investment. The Company's proportionate share of net income is reported in net investment income.

Income Taxes

The Company and NGHC file consolidated income tax returns. The Company accounts for income taxes using the asset and liability method. Deferred income tax assets and liabilities are recorded as temporary differences between the carrying values of assets and liabilities for financial reporting purposes and tax purposes. Deferred tax assets and liabilities are recognized in the financial statements or tax returns, based upon enacted tax laws and rates. Deferred tax assets are recognized subject to management's judgment that realization is more likely than not.

Deferred income taxes reflect the impact of temporary differences between the amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws and regulations. The deferred tax asset and liability primarily consists of book versus tax differences for earned premiums, loss and LAE reserve discounting, deferred acquisition costs, earned but unbilled premiums, and unrealized gains and losses on debt securities. Changes in deferred income tax assets and liabilities that are associated with components of other comprehensive income, primarily unrealized investment gains and losses, are recorded directly to other comprehensive income. Otherwise, changes in deferred income tax assets and liabilities are included as a component of income tax expense. In assessing the recoverability of deferred tax assets, management considers whether it is more likely than not that the Company will generate future taxable income during the periods in which those temporary differences become deductible. The Company considers the scheduled reversal of deferred tax liabilities, tax planning strategies and projected future taxable income in making this assessment. If necessary, the Company establishes a valuation allowance to reduce the deferred tax assets to the amounts more likely than not to be realized.

The Company recognizes tax benefits for tax positions that are more likely than not to be sustained upon examination by taxing authorities. The Company's policy is to prospectively classify accrued interest and penalties related to any unrecognized tax benefits in its income tax provision.

Variable Interest Entities

A variable interest entity ("VIE") is a legal entity that does not have sufficient equity at risk to finance its activities without additional subordinated financial support or is structured such that equity investors lack the ability to make significant decisions relating to the entity's operations through voting rights or do not substantively participate in the gains and losses of the entity. The Company's consolidation principles require the inclusion of VIEs in which the Company is deemed the primary beneficiary. The primary beneficiary is the entity that has both (1) the power to direct the activities of the VIE that most significantly affect that entity's economic performance and (2) the obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk are primarily cash and cash equivalents, investments and premiums and other receivables. Investments are diversified through many industries and geographic regions through the use of an investment manager who employs different investment strategies. The Company limits the amount of credit exposure with any one financial institution and believes that no significant concentration of credit risk exists with respect to cash and investments. As the premiums and other receivable balance is due from an affiliated entity there is no significant credit risk.

(In Thousands of Dollars, Except Shares and Per Share Data)

Accounting Standards

Recent Accounting Standards, Adopted

Standard	Description	Date of Adoption	Effect on the Company
ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.	This standard changed the impairment model to a new forward-looking expected loss model for most financial assets and certain other instruments. The standard requires immediate recognition of estimated credit losses expected to occur over the remaining life of many financial assets, which generally results in earlier recognition of allowances for credit losses on loans and other financial instruments. Many of the loss estimation techniques applied prior the adoption of the standard are still permitted, although the inputs to those techniques changed to reflect the full amount of expected credit losses. The Company continues to use judgement to determine which loss estimation method is appropriate for its circumstances. The standard became effective for interim and annual reporting periods beginning after December 15, 2019 and requires using a modified retrospective approach, recognizing a cumulative-effect adjustment as of the beginning of the first reporting period in which the standard is effective.	January 1, 2020	The adoption of the standard did not have a material impact on the Company's consolidated financial statements.

Recent Accounting Standards, Not Yet Adopted

Standard	Description	Effective Date	Effect on the Company
ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes	This standard simplifies the accounting for income taxes by eliminating some exceptions to the general approach in Accounting Standards Codification ("ASC") 740, Income Taxes. It also clarifies certain aspects of the existing guidance to promote more consistent application, among other things.	January 1, 2021	The Company is currently evaluating the impact this guidance will have on its consolidated financial condition, results of operations, cash flows and disclosures.

(In Thousands, Except Shares and Per Share Data)

3. Investments

(a) Debt Securities, Available-For-Sale

The following tables summarize the unrealized positions for available-for-sale debt securities, disaggregated by major security type.

December 31, 2020	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
States and political subdivision bonds	$ 3,457	$ 77	$ —	$ 3,534
Corporate bonds	38,935	630	(6)	39,559
Residential mortgage-backed securities	13,446	82	—	13,528
Commercial mortgage-backed securities	2,094	2	(3)	2,093
Structured securities	1,240	8	—	1,248
Total	$ 59,172	$ 799	$ (9)	$ 59,962

The amortized cost and fair value of available-for-sale debt securities held as of December 31, 2020, by contractual maturity, are shown in the table below. Actual maturities may differ from contractual maturities because some borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

December 31, 2020	Amortized Cost	Fair Value
Due after one year through five years	$ 18,461	$ 18,809
Due after five years through ten years	23,587	23,922
Due after ten years	1,584	1,610
Mortgage-backed securities	15,540	15,621
Total	$ 59,172	$ 59,962

(b) Gross Unrealized Losses

The tables below summarize the gross unrealized losses on debt securities classified as available-for-sale, by length of time the security has continuously been in an unrealized loss position.

December 31, 2020	Less Than 12 Months Fair Value	Less Than 12 Months Unrealized Losses	Total Fair Value	Total Unrealized Losses
Corporate bonds	$ 2,513	$ (6)	$ 2,513	$ (6)
Commercial mortgage-backed securities	698	(3)	698	(3)
Total	$ 3,211	$ (9)	$ 3,211	$ (9)

The Company's debt securities portfolio is sensitive to interest rate fluctuations, which impact the fair value of individual securities. There were 13 individual security lots at December 31, 2020, respectively, that accounted for the gross unrealized loss. The Company did not have a credit allowance as of December 31, 2020. Some of the factors considered in assessing credit loss and the need for an allowance of fixed maturities due to credit-related factors include: (1) the magnitude of the unrealized loss in relation to the amortized cost; (2) the credit rating of the issuing entity and market or issuer events that could impact the issuer's ability to repay the debt security; (3) the likelihood of the recoverability of principal and interest; and (4) whether it is more likely than not that the Company will be required to sell the investment prior to an anticipated recovery in value.

(In Thousands, Except Shares and Per Share Data)

The Company considers different factors to determine the amount of projected future cash flows and discounting methods for corporate bonds and residential and commercial mortgage-backed or structured securities. For corporate bond securities, the split between the credit and non-credit losses is driven by assumptions regarding the amount and timing of projected future cash flows. The net present value is calculated by discounting the Company's best estimate of projected future cash flows at the effective interest rate implicit in the security at the date of acquisition. For residential and commercial mortgage-backed and structured securities, cash flow estimates, including prepayment assumptions, are based on data from third-party data sources or internal estimates. In addition to prepayment assumptions, cash flow estimates vary based on assumptions regarding the underlying collateral including default rates, recoveries and changes in value. The net present value is calculated by discounting the Company's best estimate of projected future cash flows at the effective interest rate implicit in the debt security prior to impairment at the balance sheet date. The discounted cash flows become the new amortized cost basis of the debt security.

(c) Net Investment Expense

The components of net investment income consisted of the following:

	Year Ended December 31, 2020
Cash and short-term investments	$ 14
Debt securities, available-for-sale	766
Other, net (related parties - $(805))	(574)
Investment income	206
Investment expenses	(285)
Net investment expense	$ (79)

(d) Net Gain (Loss) on Investments

The table below indicates realized gains and losses on investments. Purchases and sales of investments are recorded on a trade date basis. Realized gains and losses are determined based on the specific identification method.

	Year Ended December 31, 2020
Debt securities, available-for-sale:	
Gross gains	$ 1,875
Gross losses	(22)
Net realized gain on debt securities, available-for-sale	1,853
Equity securities	(2,182)
Other, net [(1)]	(568)
Net realized loss on investments	$ (897)

[(1)] Includes gains and losses on other investments and foreign currency.

(e) Credit Quality of Investments

The table below summarizes the credit quality of debt securities, as rated by Standard & Poor's ("S&P"). If a security is not rated by S&P, an S&P equivalent is determined based on ratings from similar rating agencies. Securities that are not rated are included in the "BB+ and lower" category.

(In Thousands, Except Shares and Per Share Data)

	December 31, 2020		
	Amortized Cost	Fair Value	Percentage
AAA	$ 4,610	$ 4,631	7.7 %
AA, AA+, AA-	16,511	16,657	27.8 %
A, A+, A-	16,057	16,160	26.9 %
BBB, BBB+, BBB-	21,843	22,354	37.3 %
BB+ and lower	151	160	0.3 %
Total	$ 59,172	$ 59,962	100.0 %

(g) Restricted Investments

The Company utilizes trust accounts to collateralize business with its reinsurance counterparties. These assets are held primarily in the form of cash or certain high grade securities.

Restricted investments are as follows:

	December 31, 2020
Restricted investments to trusts in certain reinsurance transactions	$ 10,178
Total	$ 10,178

(h) Other Investments

The table below summarizes the composition of other investments:

	December 31, 2020
Equity method investments (related parties - $44,847)	$ 46,338
Note receivable - related party. See Note 9	130,784
Investments, at cost or amortized cost	3,000
Total	$ 180,122

Equity method investments represent limited liability companies and limited partnership investments in real estate. Investments at fair value include publicly traded equity securities and the Company’s right to receive the excess servicing spread related to servicing rights, for which the Company has elected the fair value option with changes in fair value recorded in net investment income. Investments at cost or amortized cost, represent limited partnerships, loans and trusts. The Company believes its exposure to risks associated with these investments is generally limited to the investment carrying amounts.

Equity Method Investments - Related Parties

The significant shareholder of the Ultimate Parent Company has an ownership interest in AmTrust Financial Services, Inc. (“AmTrust”) and ACP Re Holdings LLC. (“ACP Re”).

Limited Liability Companies and Limited Partnerships

The Company holds a variable interest in the following entities but is not the primary beneficiary of such VIE’s. The Company accounts for these entities using the equity method of accounting. The Company believes its exposure to risk associated with these investments is generally limited to the investment carrying amounts.

LSC Entity

The Company has a 50% ownership interest in an entity (the "LSC Entity") initially formed to acquire life settlement contracts, with AmTrust owning the remaining 50%. The LSC Entity used the contributed capital to pay premiums and purchase policies. A life settlement contract is a contract between the owner of a life insurance policy and a third party who obtains the ownership and beneficiary rights of the underlying life insurance policy. The LSC Entity has a 30% non-controlling equity interest in the limited partnership managed by a third party. As of December 31, 2020, the LSC Entity directly held one life settlement contract. The life settlement contract is accounted for using the fair value method.

The Company's equity interest in the LSC Entity as of December 31, 2020, was $44,847. For the year ended December 31, 2020, the Company recorded equity in losses from the LSC Entity of $(5,630), made contributions of $1,000, and received distributions of $0.

4. Fair Value of Financial Instruments

The Company carries certain financial instruments at fair value. Assets and liabilities recorded at fair value in the Consolidated Balance Sheets are measured and classified in accordance with a fair value hierarchy consisting of three "levels" based on the observability of valuation inputs:

Level 1 - Inputs are quoted prices in active markets for identical assets or liabilities as of the measurement date. Additionally, the entity must have the ability to access the active market and the quoted prices cannot be adjusted by the entity.

Level 2 - Inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices in active markets for similar assets or liabilities; quoted prices in inactive markets for identical or similar assets or liabilities; or inputs that are observable or can be corroborated by observable market data by correlation or other means for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs are supported by little or no market activity. The unobservable inputs represent management's best assumptions of how market participants would price the assets or liabilities. Generally, Level 3 assets and liabilities are valued using pricing models, discounted cash flow methodologies, or similar techniques that require significant judgment or estimation.

The following describes the valuation techniques used by the Company to determine the fair value measurements on a recurring basis of financial instruments held as of December 31, 2020. The Company utilizes a pricing service ("pricing service") to estimate fair value measurements for all its debt and equity securities.

Level 1 measurements:

- *U.S. Treasury and federal agencies.* The fair values of U.S. government securities are based on quoted market prices in active markets. The Company believes the market for U.S. government securities is an actively traded market given the high level of daily trading volume.
- *Short-term investments.* Comprised of money market funds that are traded in active markets and fair values are based on quoted market prices.
- *Other Investments, at fair value.* Common and preferred equity securities. The pricing service utilizes market quotations for equity securities that have quoted market prices in active markets and their respective quoted prices are provided at fair value.

Level 2 measurements:

- *States and political subdivision bonds, and foreign government.* The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active.

(In Thousands, Except Shares and Per Share Data)

- *Corporate bonds.* Comprised of bonds issued by corporations, public and privately placed. The fair values of short-term corporate bonds are priced using the spread above the London Interbank Offering Rate ("LIBOR") yield curve, and the fair value of long-term corporate bonds are priced using the spread above the risk-free yield curve. The spreads are sourced from broker dealers, trade prices and the new issue market. Where pricing is unavailable from pricing services, the Company obtains non-binding quotes from broker-dealers. The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active.
- *Residential and commercial mortgage-backed securities, asset-backed securities and structured securities.* The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields, prepayment speeds, collateral performance and credit spreads.

Level 3 measurements:

- *Corporate bonds.* The Company holds certain structured notes and term loans that do not have an active market. These bonds are valued based on non-binding broker quotes where the inputs have not been corroborated to be market observable.
- *Other investments, at fair value.* Comprised of the Company's right to receive the Excess Servicing Spread ("ESS") related to servicing rights. The Company uses a discounted cash flow method to estimate the fair value of the ESS. The key inputs used in the estimation of ESS include prepayment speed and discount rate. Changes in the fair value of the ESS are recorded in net investment income.
- *Other Investments, at cost or amortized cost.* From time to time, the Company also holds certain equity securities that are issued by privately-held entities or direct equity investments that do not have an active market. The Company estimates the fair value of these securities primarily based on inputs such as third-party broker quotes, issuers' book value, market multiples, and other inputs. These bonds are valued based on non-binding broker quotes where the inputs have not been corroborated to be market observable.

Assets measured at fair value on a recurring basis are as follows:

	December 31, 2020			
	Level 1	Level 2	Level 3	Total
Debt securities, available-for-sale:				
States and political subdivision bonds	$ —	$ 3,534	$ —	$ 3,534
Corporate bonds	—	39,559	—	39,559
Residential mortgage-backed securities	—	13,528	—	13,528
Commercial mortgage-backed securities	—	2,093	—	2,093
Structured securities	—	1,248	—	1,248
Total debt securities, available-for-sale	—	59,962	—	59,962
Equity securities - Common stock	2,656	—	—	2,656
Short-term investments	200	—	—	200
Total	$ 2,856	$ 59,962	$ —	$ 62,818

(In Thousands, Except Shares and Per Share Data)

The following tables provide a reconciliation of recurring fair value measurements of the Level 3 financial assets:

	Corporate bonds	Common Stock	Total
Balance as of January 1, 2020	$ —	$ 375	$ 375
Total losses for the period:			
Included in other comprehensive income	—	(375)	(375)
Balance as of December 31, 2020	$ —	$ —	$ —
Change in unrealized (losses) for the period included in net income for assets held at the end of the reporting period	$ —	$ (375)	$ (375)
Change in unrealized gains (losses) for the period included in other comprehensive income for assets held at the end of the reporting period	$ —	$ —	$ —

At December 31, 2020, the carrying values of the Company’s cash and cash equivalents, premiums and other receivables, and accounts payable and accrued expenses approximate the fair value given their short-term nature and were classified as Level 1.

5. Deferred Acquisition Costs

The following table reflects the activity of policy acquisition costs deferred and amortized:

	Year Ended December 31, 2020
Balance, beginning of the year	$ —
Additions	23,994
Amortization	(13,141)
Change in DAC	10,853
Balance, end of the year	$ 10,853

(In Thousands of Dollars, Except Shares and Per Share Data)

6. Unpaid Losses and Loss Adjustment Expense Reserves

The unpaid losses and Loss Adjustment Expense ("LAE") reserves are an estimate of the Company's liability from incurred claims at the end of the reporting period. The unpaid losses and LAE reserves are the result of an ongoing analysis of recent loss development trends and emerging historical experience. Original estimates are increased or decreased as additional information becomes known regarding individual claims. In setting its reserves, the Company reviews its loss data to estimate expected loss development. Management believes that its use of standard actuarial methodology applied to its analyses of its historical experience provides a reasonable estimate of future losses. However, actual future losses may differ from the Company's estimate, and may be affected by future events beyond the control of management, including inflation, which may favorably or unfavorably impact the ultimate settlement of the Company's losses and LAE, as well as changes in the law and judicial interpretations.

The anticipated effect of inflation is implicitly considered when estimating liabilities for losses and LAE. In addition to inflation, the average severity of claims is affected by a number of factors that may vary by types and features of policies written. Future average severities are projected from historical trends, adjusted for implemented changes in underwriting standards and policy provisions, as well as general economic trends. These estimated trends are monitored and revised as necessary based on actual development.

The following tables present a reconciliation of beginning and ending balances for unpaid losses and LAE:

	Year Ended December 31, 2020	
	Total	
Gross balance at beginning of the year	$	—
Incurred losses and LAE related to:		
Current year		24,405
Prior year		—
Total incurred		24,405
Paid losses and LAE related to:		
Current year		(11,057)
Prior year		—
Total paid		(11,057)
Gross balance at end of the year	$	13,348

Prior year loss development

The company began writing insurance business in 2020 so there is no prior year development.

Short-duration contracts

The following is information about incurred and paid claims development as of December 31, 2020, net of reinsurance, as well as cumulative claim frequency and the total of incurred-but-not-reported liabilities ("IBNR") plus expected development on reported claims included within the net incurred claims amounts. The information about incurred and paid claims development for the years ended prior to December 31, 2020, is presented as unaudited supplementary information.

(In Thousands of Dollars, Except Shares and Per Share Data)

Property and Casualty

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

	Year Ended December 31,										December 31, 2020	
Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total of IBNR Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
	(unaudited)											
2015					$ —	$ —	$ —	$ —	$ —	$ —	$ —	—
2016						—	—	—	—	—	—	—
2017							—	—	—	—	—	—
2018								—	—	—	—	—
2019									—	—	—	—
2020										24,405	8,509	8,039
Total (A)										$ 24,405		

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

	Year Ended December 31,									
Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	(unaudited)									
2015					$ —	$ —	$ —	$ —	$ —	$ —
2016						—	—	—	—	—
2017							—	—	—	—
2018								—	—	—
2019									—	—
2020										11,058
Total (B)										$ 11,058
Unpaid loss and allocated loss adjustment expense reserves before 2011, net of reinsurance (C)										$ —
Unpaid loss and allocated loss adjustment expense reserves, net of reinsurance (A) - (B) + (C)										$ 13,347

Average Annual Percentage Payout of Accident Year Incurred Claims by Age, Net of Reinsurance

Years	1	2	3	4	5	6	7	8	9	10
	(unaudited)									
Property and Casualty	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %

Methodology for Estimating Incurred-But-Not-Reported Reserves

Loss and LAE reserves represent management's estimate of the ultimate liability for claims that have been reported and claims that have been incurred but not yet reported as of the balance sheet date. Because the establishment of loss and LAE reserves is a process involving estimates and judgment, currently estimated reserves may change. The Company reflects changes to the reserves in the results of operations for the period during which the estimates are changed.

Incurred-but-not-reported reserve estimates are generally calculated by first projecting the ultimate cost of all claims that have occurred and then subtracting reported losses and loss expenses. Reported losses include cumulative paid losses and loss expenses plus case reserves. Therefore, the IBNR also includes provision for expected development on reported claims.

The Company’s internal actuarial analysis of the historical data provides the factors the Company uses in its actuarial analysis in estimating its loss and LAE reserves. These factors are implicit measures over time of claims reported, average case incurred amounts, case development, severity and payment patterns. However, these factors cannot be directly used as they do not take into consideration changes in business mix, claims management, regulatory issues, medical trends, and other subjective factors. In accordance with Actuarial Standards of Practice, the Company generally uses multiple traditional methods in determining our estimates of the ultimate unpaid claim liabilities. Each of these methods require actuarial judgment and assumptions. The techniques can include, but are not limited to:

- Paid Development Method - uses historical, cumulative paid losses by accident year and develops those actual losses to estimated ultimate losses based upon the assumption that each accident year will develop to estimated ultimate cost in a manner that is analogous to prior years.
- Paid Generalized Cape Cod Method - combines the Paid Development Method with the expected loss method, where the expected loss ratios are estimated from exposure and claims experience weighted across multiple accident periods. The selected expected loss ratio for a given accident year is derived by giving some weight to all of the accident years in the experience history rather than treating each accident year independently.
- Paid Bornhuetter-Ferguson Method - a combination of the Paid Development Method and the Expected Loss Method, the Paid Bornhuetter-Ferguson Method estimates ultimate losses by adding actual paid losses and projected future unpaid losses. The amounts produced are then added to cumulative paid losses to produce the final estimates of ultimate incurred losses.
- Incurred Development Method - uses historical, cumulative incurred losses by accident year and develops those actual losses to estimated ultimate losses based upon the assumption that each accident year will develop to estimated ultimate cost in a manner that is analogous to prior years.
- Incurred Generalized Cape Cod Method - combines the Incurred Development Method with the expected loss method, where the expected loss ratios are estimated from exposure and claims experience weighted across multiple accident periods. The selected expected loss ratio for a given accident year is derived by giving some weight to all of the accident years in the experience history rather than treating each accident year independently.
- Incurred Bornhuetter - Ferguson Method - a combination of the Incurred Development Method and the Expected Loss Method, the Incurred Bornhuetter-Ferguson Method estimates ultimate losses by adding actual incurred losses and projected future unreported losses. The amounts produced are then added to cumulative incurred losses to produce an estimate of ultimate incurred losses.
- Expected Loss Method - utilizes an expected ultimate loss ratio based on historical experience adjusted for trends multiplied by earned premium to project ultimate losses.

For each method, losses are projected to the ultimate amount to be paid. The Company then analyzes the results and may emphasize or deemphasize some or all of the outcomes to reflect actuarial judgment regarding their reasonableness in relation to supplementary information and operational and industry changes. These outcomes are then aggregated to produce a single selected point estimate that is the basis for the internal actuary’s point estimate for loss reserves.

Methodology for Determining Cumulative Number of Reported Claims

When the Company is notified of an incident of potential liability that may lead to demand for payment(s), a claim file is created. Methods used to summarize claim counts have not changed significantly over the time periods reported in the tables above. The methodology of counting claims for each of the Company’s segments may be summarized as follows:

The Company's P&C claims are counted by claim number assigned to each claimant per insured event. However, if an insured event occurs and demand for payment is made with respect to more than one coverage (e.g., an automobile claim arising from the same incident demanding separate payment for liability and physical damage), there would be one claim counted for each coverage for which a demand for payment was made. Claims closed without payment are included in the cumulative number of reported P&C claims.

(In Thousands of Dollars, Except Shares and Per Share Data)

7. Reinsurance

The following is the effect of reinsurance on premiums and loss and LAE:

	Year Ended December 31, 2020	
Premium:	Written	Earned
Assumed	$ 73,829	$ 40,434
Total Gross Premium	73,829	40,434
Net Premium	$ 73,829	$ 40,434

	Year Ended December 31, 2020	
	Assumed	Direct
Loss and LAE	$ 24,405	$ —

8. Income Taxes

The Company provides for income tax expense or benefit based upon pre-tax income or loss reported in the consolidated financial statements and the provisions of currently enacted tax laws. The Company is incorporated under the laws of Bermuda and is subject to Bermuda law with respect to taxation. Under current Bermuda law, the Company is not subject to any income or capital gains taxes in Bermuda. In the event that such taxes are imposed, the Company would be exempted from any such taxes until March 2035 under the Tax Assurance Certificates issued to such entities pursuant to the Bermuda Exempted Undertakings Tax Protection Act of 1966 as amended.

9. Related Party Transactions

Reinsurance

Effective July 1, 2020, the Company assumes 6% of the net premiums of NGRE's auto physical damage, no-fault, personal injury protection and liability business, pursuant to a quota share reinsurance agreement.

Assumed activity and balances related to this reinsurance treaty are as follows:

	Year Ended December 31, 2020
Premiums earned	$ 40,434
Commission expenses	13,141
Losses and loss adjustment expense	24,405
Premium receivable	$ 23,994
Commission and losses payable	11,058
Losses and loss expense reserves	13,348
Unearned premium	33,395

Services Agreement

In 2016, National General Insurance Management Limited (the “Manager”) entered into a services agreement with ACP Re, Ltd. whereby the Manager provides accounting and administrative services and investment services, in connection with the operations of the Company. Effective January 1, 2020, this agreement was amended. Under the amended terms of the services agreement, the Company shall pay the Manager $20 per year as compensation for accounting and administrative services. The Company incurred charges of $10 related to these services for the year ended December 31, 2020. The amount payable for these services as of December 31, 2020 was $0. Effective June 30, 2020, this agreement was terminated.

Management Agreement

Effective January 1, 2014, the Manager entered into a management agreement with NGRE, in which the Manager provides certain investment management, accounting and administrative services in connection with the operations of NGRE. Effective January 1, 2018 this agreement was amended. NGRE's fee is an amount equal to the Manager's actual costs incurred plus 5%. NGRE incurred charges of $828 related to these services for the year ended December 31, 2020.

Reinsurance Brokerage Management Agreement

Effective January 1, 2014, the Manager entered into a reinsurance brokerage agreement with NGRE, in which the NGRE appoints the Manager as its exclusive broker for the negotiation, procurement and/or placement of reinsurance by NGRE. Effective November 15, 2018 this agreement was amended. NGRE's fee is an amount equal to 1.25% of Net Earned premium assumed by NGRE. NGRE incurred charges of $23,273 related to these services for the year ended December 31, 2020.

Credit Agreement

The Company is party to a credit agreement (the “ACP Re Credit Agreement”) by and among AmTrust, as administrative agent, ACP Re Holdings, LLC, a Delaware limited liability company owned by a related party trust, the Michael Karfunkel Family 2005 Trust (the “Trust”), as borrower, and AmTrust and the Company, as lenders of $250,000 ($125,000 each lender). The amounts borrowed are secured by equity interests, cash and, other investments held by ACP Re Holdings, LLC in an amount equal to 115% of the value of the then outstanding loan balance. The maturity date of the loan is September 20, 2036. The interest rate on the outstanding principal balance is a fixed annual rate of 3.7%, provided that up to 1.2% thereof may be paid in kind. The Trust is required to cause ACP Re Holdings, LLC to maintain assets having a value greater than 115% of the value of the then outstanding loan balance, and if there is a shortfall, the Trust will make a contribution to ACP Re Holdings, LLC of assets having a market value of at least the shortfall (the “Maintenance Covenant”). Commencing on September 20, 2026, and for each year thereafter, two of the then outstanding principal balance of the loan (inclusive of any amounts previously paid in kind) is due and payable. A change of control of greater than 50% and an uncured breach of the Maintenance Covenant are included as events of default.

As of December 31, 2020, the Company had a receivable related to the ACP Re Credit Agreement of $130,784. The Company recorded interest income of $4,825 for the year ended December 31, 2020, under the ACP Re Credit Agreement. Management determined no impairment reserve was needed for the carrying value of the loan at December 31, 2020, based on the collateral levels maintained.

10. Commitments and Contingencies

There are no commitments and contingencies identified during the year.

11. Shareholders' Equity

Capital

For the year ended December 31, 2020, the Company paid a dividend of $110.

(In Thousands of Dollars, Except Shares and Per Share Data)

Accumulated Other Comprehensive Income

The following table sets forth the changes in the components of accumulated other comprehensive income:

	Year Ended December 31, 2020
Net unrealized gain on debt securities, available-for-sale	$ 791
Tax expense	(166)
Net unrealized gain on debt securities, available-for-sale, net of tax	625
Accumulated other comprehensive income	$ 625

12. Statutory Capital and Surplus

In 2015, the Bermuda Monetary Authority implemented the Economic Balance Sheet ("EBS") framework which will now be used as the basis to determine the Insurer's Enhanced Capital Requirement ("ECR"). The Authority also revised the basis in which Statutory Financial Statements ("SFS") for commercial insurers are prepared. Before the changes, commercial insurers were required to prepare SFS under Section 15 of the Act as prescribed under the Insurance Accounts Regulations 1980 (the "Accounts Regulations") as well as additional GAAP financial statements under Section 17 of the Act. Under the new changes financial statements prepared under Section 17A will act as the basis on which SFS will now be prepared subject to application of certain prudential filters. These financial statements will in turn, form the starting basis for the preparation of the EBS. The SFS will have statements both on a consolidated and unconsolidated basis. The unconsolidated information will form the basis for assessing the Insurer's liquidity position, Minimum Solvency Margin ("MSM"), and class of registration while the consolidated information will form the starting point for the EBS. The EBS, will be the basis to calculate the Insurer's ECR.

Under the Act, the Company will be required to file a statutory income statement and statutory statement of capital and surplus on an unconsolidated basis ("unconsolidated SFS") reflecting the entity's unconsolidated financial position for the year ended December 31, 2020. The information contained in the unconsolidated SFS will be used as one of the basis for computation of the MSM with the other consideration being 25% of ECR which is computed from the EBS.

The statutory capital and surplus of the Company for the year ended December 31, 2020, was $265,399, and the amount required to be maintained under Bermuda law, the minimum solvency margin, was $17,870 at December 31, 2020. The Company was also required to maintain a minimum liquidity ratio. All requirements were met by the Company throughout the period. In addition, the Company is subject to statutory and regulatory restrictions under the Act.

The Company is registered as a Class 3A insurer under the Act and, therefore, must maintain capital at a level equal to its enhanced capital requirement ("ECR"). The Company is currently completing the 2020 Bermuda Solvency Capital Requirement ("BSCR"), SFS and EBS and believes that it meets the target level of required capital as of December 31, 2020.

The statutory basis financial statements differ from financial statements prepared in accordance with U.S. GAAP with the principal difference relating to non-admitted assets under the Insurance Account Rules 2016 ("Rules"). Non-admitted assets under the Rules are identified as prepaids, deferred expenses and goodwill. The following tables present and reconcile statutory net income of the Company as a standalone entity for the year ended December 31, 2020, and the statutory capital and surplus as per statutory basis financial returns as of December 31, 2020, to U.S. GAAP net income and equity:

(In Thousands of Dollars, Except Shares and Per Share Data)

	Year Ended December 31, 2020
Statutory net income	$ 23,385
Unrealized gain (loss) on subsidiaries	—
U.S. GAAP net income	$ 23,385
Statutory surplus and capital	$ 265,400
Non - admitted assets	1
U.S. GAAP shareholders' equity	$ 265,401

13. Subsequent Events

The Company has evaluated subsequent events through April 23, 2021, the date on which the Consolidated Financial Statements were available to be issued.

Effective January 4, 2021, NGHC was acquired by Allstate pursuant to the Agreement and Plan of Merger ('Merger"), dated as of July 7, 2020, by and among the Company, Allstate, and Bluebird Acquisition Corp., an indirect wholly owned subsidiary of Allstate. As a result of the Merger, the Company became a wholly owned indirect subsidiary of Allstate.

Effective March 17, 2021, the ACP Re Credit Agreement was repaid in full in an amount of $132,610.