Fitzwilliam Insurance Limited
Condensed General Purpose Financial Statements
For the years ended December 31, 2023 and 2022

INDEX TO FINANCIAL STATEMENTS AND SCHEDULES

April 30, 2024

Report of Independent Auditors

To the Board of Directors of Fitzwilliam Insurance Limited

Opinions

We have audited the accompanying condensed financial statements of Fitzwilliam Insurance Limited (the "Company"), which comprise the condensed balance sheets and condensed statements of capital and surplus as of December 31, 2023, and 2022, and the related condensed statements of income for the years then ended, including the related notes (collectively referred to as the "condensed financial statements").

Unmodified opinion on regulatory basis of accounting

In our opinion, the accompanying condensed financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023, and 2022, and the results of its operations for the years then ended in accordance with the financial reporting provisions of the Insurance Act 1978, amendments thereto and the Insurance Account Rules 2016 with respect to condensed general purpose financial statements (the "Legislation").

Adverse opinion on U.S. generally accepted accounting principles

In our opinion, because of the significance of the matter discussed in the *Basis for adverse opinion on U.S. generally accepted accounting principles* section of our report, the accompanying condensed financial statements do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2023, and 2022, or the results of its operations for the years then ended.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the condensed financial statements* section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for adverse opinion on U.S. generally accepted accounting principles

As described in Note 3 to the condensed financial statements, the condensed financial statements are prepared by the Company on the basis of the financial reporting provisions of the Legislation, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the Bermuda Monetary Authority.

The effects on the condensed financial statements of the variances between the regulatory basis of accounting described in Note 3 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

Responsibilities of management for the condensed financial statements

Management is responsible for the preparation and fair presentation of the condensed financial statements in accordance with the financial reporting provisions of the Legislation. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the condensed financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the condensed financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date the condensed financial statements are available to be issued.

Auditors' responsibilities for the audit of the condensed financial statements

Our objectives are to obtain reasonable assurance about whether the condensed financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the condensed financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the condensed financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the condensed financial statements.
- Obtain an understanding of internal controls relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the condensed financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

PricewaterhouseCoopers Ltd.

Chartered Professional Accountants

FITZWILLIAM INSURANCE LIMITED
CONDENSED BALANCE SHEET
AS AT DECEMBER 31, 2023 and 2022

BMA Ref		2023 USD '000	2022 USD '000
1.	**CASH AND CASH EQUIVALENTS**	$ 44,815	$ 60,204
2.	**QUOTED INVESTMENTS:**		
(a)	Bonds and Debentures		
	i. Held to maturity	—	—
	ii. Other	169,519	298,137
(b)	Total Bonds and Debentures	169,519	298,137
(c)	Equities		
	i. Common stocks	6,007	6,120
	ii. Preferred stocks	—	—
	iii. Mutual funds	—	—
(d)	Total equities	6,007	6,120
(e)	Other quoted investments		
(f)	Total quoted investments	175,526	304,257
3.	**UNQUOTED INVESTMENTS:**		
(e)	Other unquoted investments	69,452	85,949
(f)	Total unquoted investments	69,452	85,949
4.	**INVESTMENTS IN AND ADVANCES TO AFFILIATES**		
(g)	Advances to affiliates	—	—
(h)	Total investments in and advances to affiliates	—	—
9.	**INVESTMENT INCOME DUE AND ACCRUED**	1,520	2,422
10.	**ACCOUNTS AND PREMIUMS RECEIVABLE:**		
(a)	In course of collection	754	204
(b)	Deferred - not yet due	—	—
(c)	Receivables from retrocessional contracts	—	—
(d)	Total accounts and premiums receivable	754	204
11.	**REINSURANCE BALANCES RECEIVABLE:**		
(d)	All other insurers	2,820	2,998
(e)	Total reinsurance balance receivable	2,820	2,998
12.	**FUNDS HELD BY CEDING REINSURERS**	151,576	190,288
13.	**SUNDRY ASSETS:**		
(f)	Deferred acquisition costs	2	2
(g)	Net receivables for investments sold	250	255
(i)	Deferred tax asset	2,309	—
(j)	Deferred charge asset	158,119	169,649
(k)	Total sundry assets	160,680	169,906
(c)	Other instruments	—	—
(e)	Total letters of credit, guarantees and other instruments	—	—
		—	—
15.	**TOTAL**	**$ 607,143**	**$ 816,227**

FITZWILLIAM INSURANCE LIMITED
CONDENSED BALANCE SHEET
AS AT DECEMBER 31, 2023 and 2022

BMA Ref		2023 USD '000	2022 USD '000
	TOTAL INSURANCE RESERVES, OTHER LIABILITIES AND STATUTORY CAPITAL AND SURPLUS		
16.	UNEARNED PREMIUM RESERVE		
(a)	Gross unearned premium reserves	$ —	$ 6
(b)	Less: Ceded unearned premium reserve	—	—
(c)	Total ceded unearned premium reserve	—	—
(d)	Net unearned premium reserve	—	6
17.	LOSS AND LOSS EXPENSE PROVISIONS:		
(a)	Gross loss and loss expense provisions	272,118	350,412
(b)	Less: Reinsurance recoverable balance		
	iv. All other reinsurers	2,763	3,099
(c)	Total reinsurance recoverable balance	2,763	3,099
(d)	Net loss and loss expense provisions	269,355	347,313
18.	OTHER GENERAL BUSINESS INSURANCE RESERVES	—	—
19.	TOTAL GENERAL BUSINESS INSURANCE RESERVES	269,355	347,319
	OTHER LIABILITIES		
28.	INSURANCE AND REINSURANCE BALANCES PAYABLE	—	2,432
29.	COMMISSIONS, EXPENSES, FEES AND TAXES PAYABLE	—	—
30.	LOANS AND NOTES PAYABLE	—	—
31.	(a) INCOME TAXES PAYABLE	—	—
	(b) DEFERRED INCOME TAXES	—	—
32.	AMOUNTS DUE TO AFFILIATES	2,093	4,034
33.	ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	129	299
34.	FUNDS HELD UNDER REINSURANCE CONTRACTS:	160	153
35.	DIVIDENDS PAYABLE	—	135,800
36.	SUNDRY LIABILITIES:		
(a)	Derivative instruments	—	—
(d)	Net payable for investments purchased	—	—
(h)	Total sundry liabilities	—	—
38.	TOTAL OTHER LIABILITIES	2,382	142,718
39.	TOTAL INSURANCE RESERVES AND OTHER LIABILITIES	271,737	490,037
	CAPITAL AND SURPLUS		
40.	TOTAL CAPITAL AND SURPLUS	335,406	326,190
41.	**TOTAL**	**$ 607,143**	**$ 816,227**

FITZWILLIAM INSURANCE LIMITED
CONDENSED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2023 and 2022

BMA Ref		2023 USD '000	2022 USD '000
	GENERAL BUSINESS UNDERWRITING INCOME		
1.	**GROSS PREMIUMS WRITTEN**		
	(a) Direct gross premiums written	$ (416)	$ (502)
	(b) Assumed gross premiums written	(1,270)	196
	(c) Total gross premiums written	(1,686)	(306)
2.	REINSURANCE PREMIUMS CEDED	—	—
3.	NET PREMIUMS WRITTEN	(1,686)	(306)
4.	INCREASE (DECREASE) IN UNEARNED PREMIUMS	5	93
5.	NET PREMIUMS EARNED	(1,681)	(213)
6.	OTHER INSURANCE INCOME	—	—
7.	TOTAL GENERAL BUSINESS UNDERWRITING INCOME	(1,681)	(213)
	GENERAL BUSINESS UNDERWRITING EXPENSES		
8.	NET LOSSES INCURRED AND NET LOSS EXPENSES INCURRED	(3,440)	7,509
9.	COMMISSIONS AND BROKERAGE	595	1,427
10.	TOTAL GENERAL BUSINESS UNDERWRITING EXPENSES	(2,845)	8,936
11.	**NET UNDERWRITING PROFIT (LOSS) - GENERAL BUSINESS**	**1,164**	**(9,149)**
29.	**COMBINED NET UNDERWRITING RESULTS BEFORE THE UNDERNOTED ITEMS**	**1,164**	**(9,149)**
	UNDERNOTED ITEMS		
30.	COMBINED OPERATING EXPENSE		
	(a) General and administration	5,857	6,835
	(c) Other	—	—
	(d) Total combined operating expenses	5,857	6,835
31.	COMBINED INVESTMENT INCOME - NET	21,127	28,478
32.	COMBINED OTHER INCOME	222	383
33.	COMBINED INCOME BEFORE TAXES	16,656	12,877
34.	COMBINED INCOME TAXES (IF APPLICABLE):		
	(a) Current	—	—
	(b) Deferred	(2,309)	—
	(c) Total	(2,309)	—
35.	COMBINED INCOME BEFORE REALIZED GAINS (LOSSES)	18,965	12,877
36.	COMBINED REALIZED GAINS (LOSSES)	6,695	(163,269)
37.	COMBINED INTEREST CHARGES	—	—
38.	**NET INCOME (LOSS)**	**$ 25,660**	**$ (150,392)**

FITZWILLIAM INSURANCE LIMITED
CONDENSED STATEMENTS OF CAPITAL AND SURPLUS
AS AT DECEMBER 31, 2023 and 2022

BMA Ref				**2023**	**2022**
				expressed in thousands of USD except share and per share amounts	
1.	**CAPITAL:**				
(a)	Capital Stock				
	(i) Common Shares			$ 1,000	$ 1,000
	authorized	1,000,000	shares of par		
	value	$1	each issued and		
	fully paid	1,000,000	shares		
	(ii)				
	(A) Preferred shares:			33	34
	authorized	50,000,000	shares of par		
	value	$1	each issued and		
	fully paid	33,002	shares		
(b)	Contributed surplus			303,787	316,480
(d)	Total Capital			304,820	317,514
2.	**SURPLUS:**				
(a)	Surplus - Beginning of Year			8,676	287,965
(b)	Add: Income (Loss) for the year			25,660	(150,392)
(c)	Less: Dividends paid and payable			(15,132)	(101,923)
(d)	Add (Deduct) change in unrealized appreciation (depreciation) of investments			11,382	(26,974)
(e)	Add (Deduct) change in any other surplus			—	—
(f)	Surplus - End of Year			30,586	8,676
4.	**TOTAL CAPITAL AND SURPLUS**			**$ 335,406**	**$ 326,190**

1. GENERAL

Fitzwilliam Insurance Limited (the “Company”, “Fitzwilliam”, “we”, “our” or “us”) was incorporated under the laws of Bermuda on March 21, 2002 and is a wholly-owned subsidiary of Kenmare Holdings Ltd. (“Kenmare”), a company incorporated under the laws of Bermuda. The ultimate parent company is Enstar Group Limited (“Enstar”), a company incorporated under the laws of Bermuda.

The Company provides reinsurance coverage to both related and unrelated companies. The exposures reinsured by the Company include property and casualty, accident and health, professional indemnity, marine and political risks. The Company is licensed as a Class 3A Insurer under the Bermuda Insurance Act, 1978 and Related Regulations as amended (the “Insurance Act”) and is also registered under the Segregated Accounts Companies Act, 2000 (“SAC Act”) as amended. Under the provisions of the SAC Act, the Company may establish Segregated Accounts where directed by the related shareholder agreement, insurance policy or reinsurance agreement. For each Segregated Account, the Company has a subscription and shareholders’ agreement with the preferred shareholder. These agreements describe the terms and conditions of establishing the Segregated Account including an agreement by the preferred shareholder to fund any deficiency of Segregated Account assets over Segregated Account liabilities. Creditors of Segregated Accounts have no claim on the assets of other Segregated Accounts or upon the Company’s general assets.

2. BUSINESS UNDERWRITTEN

Specific activity within individual Fitzwilliam Segregated Accounts during the years ended December 31, 2023 and 2022 was as follows:

- **Segregated Account ILU (“FW#ILU”)** and **Segregated Account NILU (“FW#NILU”**) – The exposures assumed through these two Segregated Accounts from River Thames Insurance Company Limited ("River Thames"), a wholly owned subsidiary of Cavello Bay Reinsurance Limited ('Cavello") which is a wholly owned subsidiary of Enstar, were commuted effective April 1, 2020. These Segregated Accounts were closed during 2023.
- **Segregated Account No.9 (“FW#9”)** – The Adverse Development Cover ("ADC") reinsurance agreement with Munich Re was commuted effective September 15, 2021 and replaced with an Excess of Loss ("XoL") reinsurance agreement with AXA XL. Segregated Account FW#9 will be closed during 2024.
- **Segregated Account No.24 (“FW#24”)** – The Clarendon reinsurance agreement was novated to Cavello and the XoL reinsurance agreement with Cavello was commuted effective June 30, 2021. Segregated Account FW#24 was closed in July 2022.
- **Segregated Account No. 30 (“FW#30”)** – The Yosemite Insurance Company (ex Providence Washington Insurance Company) reinsurance agreement was novated to Cavello and the XoL reinsurance agreement with Cavello was commuted effective June 30, 2021. Segregated Account FW#30 was closed in July 2022.
- **Segregated Account No. 36 (“FW#36”)** – The reinsurance agreement was novated to Cavello effective September 30, 2022. Segregated Account FW#36 was closed in 2023.

A description of the significant business within specific individual Fitzwilliam Segregated Accounts not already discussed above is summarized below:

- **Segregated Account No. 31 (“FW#31”)** – Effective January 1, 2014, FW#31 entered into retrospective and prospective quota share reinsurance agreements in respect of all of StarStone Insurance Bermuda Limited’s ("SIBL") discontinued lines of business (SIBL is a wholly owned subsidiary of Enstar). A premium consideration equal to the loss reserves of $357.6 million ceded to FW#31 and which was retained by SIBL under a funds held arrangement, was agreed to with SIBL with respect to the retrospective business covered by the terms of the reinsurance agreement. Segregated Account FW#31 expected to be closed during 2024.
- **Segregated Account No. 41 (“FW#41”)** – Effective October 1, 2018, FW#41 entered into a Loss Portfolio Transfer reinsurance contract ("LPT") with SIBL for specific lines of business in respect of all loses occurring on or prior to October 1, 2018. FW#41 assumed $208.0 million of loss reserves in excess of an attachment point of $97.0 million. Segregated Account FW#41 expected to be closed during 2024.

- **Segregated Account No. 42 ("FW#42")** – On August 6, 2019, FW#42 entered into an LPT with SIBL for (i) Bermuda Cat Retro business in respect of all losses occurring on or prior to January 1, 2019, and (ii) specific lines of business in respect of all loses occurring on or prior to April 1, 2019. FW#42 assumed $164.7 million of loss reserves in excess of an attachment point of $116.7 million. Segregated Account FW#42 expected to be closed during 2024.

3. BASIS OF PREPARATION

These condensed general purpose financial statements are prepared in accordance with financial reporting provisions of the Insurance Act 1978, amendments thereto and the Insurance Accounts Rules 2016 with respect to condensed general purpose financial statements (the "Legislation"). The recognition and measurement principles applied are in line with accounting principles generally accepted in the United States of America ("US GAAP"). The presentation of these financial statements in accordance with the guidance prescribed under the legislation differs from US GAAP in certain respects as follows:

- The presentation and classification of financial statement line items is in accordance with Schedules IX and XI of the Insurance Account Rules 2016 differ from the expected presentation and classification under US GAAP.
- Statement of Cash Flows or equivalent is not included.
- Comprehensive income and its components are not presented in the condensed statements of income.
- The notes included in the condensed general purpose financial statements have been prepared in accordance with Schedule X of the Insurance Account Rules 2016 and exclude certain information required under US GAAP.

The effects of the foregoing variances from US GAAP on the accompanying condensed general purpose financial statements have not been determined but are presumed to be material.

The condensed general purpose financial statements include the accounts of the Company and its Segregated Accounts. All transactions between Segregated Accounts have been eliminated.

4. SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in accordance with the Legislation requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, 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. Actual results could differ materially from our estimates.

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 (re)insurance company and the ultimate payment of the claim on the loss event. 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 claim experience.

We expect that uncertainty and volatility in financial markets relating to macroeconomic and geopolitical conditions will continue to impact the value of our investments. The scope, duration and magnitude of the direct and indirect effects of the macroeconomic and geopolitical conditions are changing rapidly and are difficult to anticipate.

Furthermore, we are subject to economic factors such as interest rates, inflation, foreign exchange rates, adverse reserve developments, regulation, tax policy changes, political risks and other market risks that can impact our strategy, operations, and results.

Significant Accounting Policies

(a) Retroactive Reinsurance Contracts

Retroactive reinsurance policies provide indemnification of losses and loss adjustment expenses ("LAE") with respect to past loss events. We do not record any income or expense on recognition of the contracts assets and liabilities. Any subsequent remeasurement of the value of liabilities is recorded to net losses incurred and loss expenses incurred within the condensed statements of income.

(b) Deferred Charge Assets

If, at the inception of a retroactive reinsurance contract, the estimated liabilities for losses and LAE exceed the premiums received, a deferred charge asset ("DCA") is recorded for this difference. The DCA is recorded in Other Sundry Assets in the condensed balance sheet.

The premium consideration that we charge the ceding companies under retroactive reinsurance contracts may be lower than our estimate of losses and LAE liabilities as these liabilities may not be settled for many years. Our contractual counterparties (cedants) settle the premium consideration upon inception of the contract and we invest the premium received over an extended period of time, thereby generating investment income. As a result, we expect to generate profits from these retroactive reinsurance contracts when taking into account the premium received and expected investment income, less contractual obligations and expenses.

Effective December 31, 2022, we voluntarily changed our accounting policy for calculating the amortization of our DCAs . Previously, any change in ultimate losses on the contracts with a recognized DCA would result in the recognition of an adjustment to the DCA , as if the adjusted reserves had existed upon inception of the contract. We will no longer adjust the DCAs for these events.

We continue to amortize the originating DCA balances over the estimated claim payment period of the related contracts with the amortization adjusted at each reporting period to reflect new estimates of the pattern and timing of remaining loss and LAE payments. Previously, the amortization of our DCAs was included in net incurred losses and LAE. We now present the amortization of our DCAs as a separate line item in our condensed statement of income.

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 DCAs.

DCAs are assessed at each reporting period for impairment and if the asset is determined to be impaired, then it is written down in the period in which the determination is made with that write down reflected in the condensed statement of income as a component of net losses incurred and net loss expenses incurred.

For each reinsurance contact where a DCA has been recorded we assess for impairment at each reporting period by determining the rate of return that we are required to earn on the invested assets to ensure that all cashflows arising from the assumed liabilities are met in full over the projected remaining payout period. This required rate of return is compared against the modeled rate of return, the weighted average portfolio yield and the actual annualized rate of return in order to identify indicators that would lead us to record an impairment of the DCA.

Deferred charge asset

The following table presents a reconciliation of the deferred charge asset for the years ended December 31, 2023 and 2022:

	2023	2022
	USD '000	USD '000
Beginning carrying value	$ 169,649	$ 181,757
Amortization	(11,530)	(12,108)
Ending carrying value	$ 158,119	$ 169,649

For the years ended December 31, 2023 and 2022, we completed our assessment for impairment of deferred charge assets and concluded that there had been no impairment of our carried deferred charge asset balances.

(c) Short-duration Insurance Contracts

Premiums written

Premiums written related to prospective risk policies are earned on a pro-rata basis over the period of the related coverage. Reinsurance premiums on prospective risks are recorded at the inception of the policy, are based upon contractual terms and, for certain business, are estimated based on underlying contracts or from information provided by insureds and/or brokers.

Changes in reinsurance premium estimates for prospective risks are recorded as premiums written in the period in which they are determined.

Certain contracts are retrospectively rated and provide for a final adjustment to the premium based on the final settlement of all losses. Premiums on such contracts are adjusted based upon contractual terms, and management judgment is involved with respect to the estimate of the amount of losses that we expect to incur. These adjustments to the premium are recognized at the time loss thresholds specified in the contract are exceeded and are earned over the coverage period, or are earned immediately if the period of risk coverage has passed.

Unearned Premium Reserves and Premium Receivable

Unearned premium reserves, included within other liabilities on the condensed balance sheets, represent the unexpired portion of policy premiums. For retrospectively rated contracts as well as those contracts whose written premium amounts are recorded based on premium estimates at inception, changes to accrued premiums arising from changes to these estimates are reflected as changes in premium balances receivable where appropriate.

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.

(d) Acquisition Costs

Acquisition costs, consisting principally of incremental costs including commissions and brokerage expenses and certain premium taxes and fees incurred at the time a contract or policy is issued and which 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 ("DAC"), included within other assets on the condensed balance sheets, are limited to their estimated realizable value by line of business based on the related unearned premiums, anticipated claims and claim expenses and anticipated investment income.

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

(e) Loss and LAE

The liability for losses and LAE includes reserves for unpaid reported losses and losses incurred but not reported ("IBNR").

We establish reserves for unpaid reported losses and LAE based on reports from brokers, ceding companies and insureds and these represent the estimated ultimate cost of events or conditions that have been reported to or specifically identified by us.

The reserves for IBNR losses are established by us based on actuarially determined estimates of ultimate losses and LAE. Inherent in the estimate of ultimate losses and LAE are expected trends in claim severity and frequency, historical loss experience, industry statistics and other factors which may vary significantly as claims are settled.

These estimates are reviewed regularly and are subject to the impact of future changes in the factors noted above as well as economic conditions including the impact of inflation, legal and judicial developments, and medical cost trends.

Any subsequent remeasurement of our reserves will be recorded in earnings in the period in which they become known and reflected as part of the net increase or reduction in the estimates of ultimate losses included within net losses incurred and net loss expenses incurred in the condensed statements of income.

Prior period development ("PPD") arises from changes to loss estimates recognized in the current calendar year that relate to loss reserves established in previous calendar years.

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 circumstance-based, 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.

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 which can be beneficial to us as they legally extinguish liabilities in full, reducing the potential for future adverse loss development and future claims handling costs.

Commutations are only executed directly with (re)insureds and any changes in ultimate losses are recognized upon the execution of a commutation or policy buyback with the (re)insured.

Any material acceleration of payout together with the impact of any material loss reserve savings in any period will also accelerate the amortization of any associated fair value adjustments or DCAs in that period.

The Company also establishes provisions for unallocated loss adjustment expenses ("ULAE") for LAE relating to run-off costs for the estimated duration of the run-off, such as internal claim management or associated operational support costs, which are included in the liability for losses and LAE. These provisions are assessed at each reporting date, and provisions relating to future periods are adjusted to reflect any changes in estimates of the periodic run-off costs or the duration of the run-off, 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 losses incurred and losses expenses incurred in the condensed statements of income.

(f) 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 LAE. We report our reinsurance balances recoverable on paid and unpaid losses net of an allowance for estimated uncollectible amounts.

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 probability of default ("PD") and loss given default ("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.

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 LAE in our condensed statement of income.

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

(g) Investments, Cash and Cash Equivalents

Cash and cash equivalents

Cash equivalents includes 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 gains and losses included in net income and reported as net realized and unrealized gains and losses, respectively.

Short-term and fixed maturity investments classified as available-for-sale ("AFS") are carried at fair value, with unrealized gains and losses excluded from net income and reported as a separate component of surplus. Realized gains and losses on sales of investments classified as AFS are recognized in the condensed statements of income.

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 income. Credit losses on our AFS fixed maturity 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 condensed balance sheets 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 fixed maturity 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 fixed maturity security, effectively creating a “fair value floor”.

For our AFS fixed maturity 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 record the credit loss component in net realized investment gains (losses) in our condensed statements of income. The unrealized losses related to non-credit factors is recorded in unrealized appreciation/(depreciation) of investments in the condensed statements of capital and surplus. The allowance for credit losses account is adjusted for any additional credit losses, write-offs and subsequent recoveries and is reflected in net income.

For our AFS fixed maturity 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 fixed maturity securities where we expect a recovery in fair value, the constant effective yield method is utilized, and the investment is amortized to par.

For our AFS fixed maturity 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 combined realized gains (losses). The new cost basis is not adjusted for any subsequent recoveries in fair value.

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.

To determine the credit losses on our AFS securities, we use the PD and 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 securities:** 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.
- **Municipal securities**: 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 securities**: 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.

We report the investment income accrued on our AFS fixed maturity securities within investment income due and accrued and therefore separately from the underlying AFS fixed maturity securities. 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 combined realized gains (losses) at the time the issuer of the debt security defaults or is expected to default on payments.

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

Equities

We hold investments in exchange-traded funds. Our equity investments are carried at fair value with realized and unrealized gains and losses included in net income and recorded as combined investment income and combined realized gains (losses), respectively.

Unquoted investments, at fair value

Unquoted investments include investments in limited partnerships and limited liability companies (collectively "private equity funds"), fixed income funds, hedge funds, balanced fund and collateralized loan obligation ("CLO") equity funds that carry their investments at fair value, as well as direct investments in CLO equities.

We have elected the fair value option for certain of our unquoted investments that would otherwise be accounted for as an equity method investment. The primary reason for electing the fair value option is because we believe this measurement basis is consistent with the applicable accounting guidance used by the investment funds themselves.

Our unquoted investments are stated at fair value, which ordinarily will be the most recently reported net asset value ("NAV") as advised by the fund manager or administrator. The NAV is based on the fund manager's or administrator's valuation of the underlying holdings in accordance with the fund's governing documents. Many of our fund investments publish NAVs on a daily basis and provide daily liquidity while others report on a monthly or quarterly basis. Unrealized gains and losses on other investments are included in net income and reported as net combined investment income - net.

(h) Funds held by ceding reinsurers

Under funds held arrangements, certain reinsured companies have retained funds that would otherwise have been remitted to us. The funds balances are carried at cost and, where applicable, are credited with investment income and losses paid are deducted.

Funds held by reinsured companies are carried at cost.

The investment returns of funds held are recognized in net investment income and net realized and unrealized gains (losses), respectively.

(i) Foreign Exchange

Our reporting currency is the U.S. dollar. Foreign currency assets and liabilities that are considered monetary items are translated at exchange rates in effect at the condensed balance sheet date. Foreign currency revenues and expenses are translated either at transaction date exchange rates or using an appropriately weighted average exchange rate for the reporting period. These exchange gains and losses are recognized in net income.

(j) Derivative Instruments

Enstar uses derivative instruments in the group's risk management strategies and investment operations. Intercompany hedging instruments are recorded with its subsidiaries to hedge any foreign exchange exposure within each company. Derivatives are recorded on a trade-date basis and carried at fair value within line 10 - accounts and premiums receivable and line 33 - accounts payable and accrued liabilities in the condensed balance sheet.

Changes in the fair value as well as realized gains or losses on derivative instruments are recognized in net income.

(k) Bermuda Corporate Income Tax

In December 2023, legislation implementing a Corporate Income Tax Act 2023 (“the Act”) in Bermuda was enacted. The Bermuda income tax regulations aim to closely align with the global anti-base erosion rules of the Organization for Economic Co-operation and Development to ensure consistent and predictable tax outcomes. The Act includes a provision referred to as the Economic Transition Adjustment ("ETA"), which is intended to provide a framework for transition into the tax regime.

The ETA allows Bermuda subject entities to establish tax basis in the assets and liabilities of such Bermuda entities (as of September 30, 2023 (the “Basis Valuation Date”)) using fair values which results in deductible and taxable temporary differences which are reflected as deferred income tax assets and liabilities in the financial statements. For each asset and liability subject to the adjustment, the amount of the adjustment would generally be the difference, as of the Basis Valuation Date, between each asset/liability’s fair market value and the carrying value of the item in the condensed financial statements. As the ETA is assessed based on fair value only as of the Basis Valuation Date, it is not subsequently reassessed and therefore, not subject to any sensitivities to changes in fair value.

Following an analysis of the Act and ETA provision, management have elected not to apply the Bermuda CIT Economic Transition Adjustment (ETA) for the Company.

We may be required to change our provision for income taxes when estimates used in determining valuation allowances on deferred tax assets change, or when receipt of new information indicates the need for adjustment in valuation allowances, however, such changes would need to be significant to establish a valuation allowance. Additionally, future events, such as changes in Bermuda tax laws and tax regulations, or interpretations of such laws or regulations, could have an impact on the provision for income tax and the effective tax rate. Any such changes could significantly affect the amounts reported on the financial statements in the year these changes occur.

5. BASIS OF RECOGNITION OF PREMIUM, COMMISSION AND INVESTMENT INCOME

See Notes 4 (c) and (g). The Company does not have commission income.

6. FOREIGN EXCHANGE TRANSLATION

See note 4(i).

7. EXCHANGE CONTROL RESTRICTIONS

Not applicable.

8. CONTINGENCIES AND COMMITMENTS

8(b) Concentration of Credit Risk and Restricted assets

We believe that there are no significant concentrations of credit risk associated with our cash and cash equivalents, fixed maturity investments, or unquoted 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. Unquoted 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 4 (f) - "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 our Segregated Accounts. 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 limit the amount of credit exposure to any one counterparty and none of our counterparty credit exposures, excluding U.S. government instruments, exceeded 10% of capital and surplus as of December 31, 2023. Our credit exposure to the U.S. government was $8.9 million and $25.6 million as at December 31, 2023 and 2022, respectively.

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 loss and loss expense provisions in our condensed 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.

The carrying value of our restricted assets as of December 31, 2023 and 2022, respectively, was as detailed below:

	2023	2022
	USD '000	USD '000
Collateral in trust for third party agreements	$ 192,634	$ 239,477
Collateral for secured letter of credit facilities	964	937
	$ 193,598	$ 240,414

8(c) Guarantees and Indemnifications

Enstar has provided guarantees and indemnifications to its policyholders with respect to the obligations and liabilities of its insurance segregated accounts arising from the reinsurance operations. The maximum exposure with respect to such contractual guarantees are deemed to be minimal.

9. DEFAULT BY THE INSURER IN RELATION TO SECURITIES ISSUED OR ANY CREDIT ARRANGEMENT

Not applicable.

10. ARREARS OF DIVIDENDS ON PREFERRED CUMULATIVE SHARES

Not applicable.

11. LOANS MADE DURING THE YEAR TO DIRECTORS OR OFFICERS

Not applicable.

12. RETIREMENT BENEFIT OBLIGATIONS TO EMPLOYEES ARISING FROM PRE-YEAR END SERVICE NOT CHARGED IN THE FINANCIAL STATEMENTS

Not applicable.

13. FAIR VALUE OF INVESTMENTS

We hold: (i) Bonds and Debentures held at fair value; (ii) Common stocks held at fair value; and (iii) other investments, both quoted and unquoted, carried at fair value.

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 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 are not classified within the three levels of the fair value hierarchy described above.

We have categorized our investments 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:

	December 31, 2023			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Fair Value Based on NAV as Practical Expedient	Total Fair Value
	USD '000	USD '000	USD '000	USD '000
Investments:				
Fixed maturity investments:				
U.S. government and agency	$ —	$ 8,009	$ —	$ 8,009
U.K. government	—		—	—
Other government	—	2,308	—	2,308
Corporate	—	94,991	—	94,991
Municipal	—	4,666	—	4,666
Residential mortgage-backed	—	1,022	—	1,022
Commercial mortgage-backed	—	47,327	—	47,327
Asset-backed	—	11,196	—	11,196
	—	169,519	—	169,519
Equities:				
Exchange traded-fund		6,007	—	6,007
	—	6,007	—	6,007
Other investments:				
Private equity fund		—	829	829
Patcham fixed income fund		40,592		40,592
Hedge fund			13,927	13,927
CLO equities		3,304		3,304
CLO equity funds	—	—	10,800	10,800
Patcham balanced fund	—		—	—
	—	43,896	25,556	69,452
Total investments	$ —	$ 219,422	$ 25,556	$ 244,978

	December 31, 2022			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Fair Value Based on NAV as Practical Expedient	Total Fair Value
	USD '000	USD '000	USD '000	USD '000
Investments:				
Fixed maturity investments:				
U.S. government and agency	$ —	$ 20,948	$ —	$ 20,948
U.K. government	—	326	—	326
Other government	—	2,273	—	2,273
Corporate	—	177,848	—	177,848
Municipal	—	4,892	—	4,892
Residential mortgage-backed	—	6,468	—	6,468
Commercial mortgage-backed	—	51,411	—	51,411
Asset-backed	—	33,971	—	33,971
	—	298,137	—	298,137
Equities:				
Exchanged traded-fund		6,120	—	6,120
	—	6,120	—	6,120
Other investments:				
Private equity fund	—		1,111	1,111
Patcham fixed income fund	—	27,475	—	27,475
Hedge funds	—	—	13,415	13,415
CLO equities	—	2,509	—	2,509
CLO equity funds	—	—	10,189	10,189
Patcham balanced fund	—	31,250	—	31,250
	—	61,234	24,715	85,949
Total investments	—	$ 365,491	$ 24,715	$ 390,206

14. CONTRACTUAL MATURITY PROFILE OF FIXED MATURITY AND SHORT-TERM INVESTMENTS

The contractual maturities of our short-term investments and fixed maturity investments 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 of December 31, 2023		**Fair value** USD in '000
One year or less	$	4,510
More than one year through two years		8,192
More than two years through five years		24,085
More than five years through ten years		19,023
More than ten years		54,164
		109,974
Residential mortgage-backed		1,022
Commercial mortgage-backed		47,327
Asset-backed		11,196
Total bonds and debentures	$	169,519

As of December 31, 2022		**Fair value** USD in '000
One year or less	$	25,096
More than one year through two years		18,644
More than two years through five years		74,136
More than five years through ten years		30,024
More than ten years		58,387
		206,287
Residential mortgage-backed		6,468
Commercial mortgage-backed		51,411
Asset-backed		33,971
Total bonds and debentures	$	298,137

15. RELATED PARTY TRANSACTIONS

The following tables summarize our related party balances and transactions. Additional details about the nature of our relationships and transactions are included further below:

	2023			2022		
	Cavello Bay	**SGL**	**Starstone**	**Cavello Bay**	**SGL**	**Starstone**
	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000
Balance Sheet						
Funds held by ceding reinsurers	$ —	$ 20,533	$ 125,861	$ —	$ 22,379	$ 162,691
Accounts Payable and accrued liabilities		—	—	(1,102)	—	—
Accounts receivable	509					
Deferred acquisition costs	—	—	2	—	—	2
Unearned premium reserve	—	—		—	—	(6)
Loss and loss expense provisions	—	(14,221)	(115,303)	—	(14,574)	(163,002)
Income statement						
Net premiums written	—	(419)	(1,270)	—	(480)	290
Net losses incurred and net loss expenses incurred	—	818	(4,209)	—	2,501	831
Commissions and brokerage	—		2	—	—	823
Combined investment income	—	889	7,930	—	(431)	1,153
General and administrative expense	—	1,705		—	(286)	—

a. Enstar Affiliates

The Company incurs costs related to administrative services provided by affiliated companies. Our condensed statements of income and balance sheets for the years ended December 31, 2023 and December 31, 2022 respectively, included the following amounts in respect of these administrative services:

	2023	2022
	USD '000	USD '000
Administrative services costs:		
Enstar Limited	$ (3,365)	$ (5,646)

	2023	2022
Outstanding balances	USD '000	USD '000
Enstar (EU) Limited	—	(1,408)
Enstar (US) Inc.	(107)	(26)
Enstar Limited	(1,378)	(1,335)
Enstar Group Limited	(479)	(1,408)

b. Cranmore Affiliates

	2023	2022
	USD '000	USD '000
Administrative services costs:		
Cranmore (US) Inc	$ (124)	$ (533)
Cranmore Europe Limited	(41)	(9)

	2023	2022
Outstanding balances - administrative services:	USD '000	USD '000
Cranmore (US) Inc	(62)	(140)
Cranmore Europe Limited	(66)	(23)

c. Patcham Funds

The Company invests in the 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 unquoted investments at fair value.

The table below summarizes the investments in the Patcham Funds carried on the Company's condensed balance sheets as at December 31, 2023 and 2022 as well as the net realized and unrealized gains (losses) included in the condensed statements of income for the years ended December 31, 2023 and 2022:

	2023	2022
	USD '000	USD '000
Patcham Fixed Income Funds	$ 28,192	$ 27,475
Patcham Balanced Fund	12,400	31,250
Net realized and unrealized gains (losses) on the Patcham Funds	(3,913)	9,448

d. Stone Point Capital LLC (“Stone Point”)

As at December 31, 2023, the Company had investments in funds, which are included within unquoted investments and in a registered investment company affiliated with entities owned by Trident V funds ("Trident") or otherwise affiliated with Stone Point, a shareholder of Enstar.

The table below summarizes the investments with Stone Point and its affiliated entities carried on the condensed balance sheet as at December 31, 2023 and 2022 as well as the net realized and unrealized gains (losses) and interest income included in the condensed statements of income for the years ended December 31, 2023 and 2022:

	2023	2022
	USD '000	USD '000
Fixed maturities, trading, at fair value	$ 11,306	$ 20,534
Fixed maturities, AFS, at fair value	25,977	22,095
Equities, at fair value	—	6,120
Other investments, at fair value:		
Private equity funds	—	1,111
CLO equity funds	10,800	10,189
Total investments	48,083	60,049
Cash and cash equivalents	474	331
Other assets	1	—
Net investments	$ 48,558	$ 60,380

The following table presents the amounts included in net income related to our related party transactions with Stone Point and its affiliated entities:

	2023	2022
	USD '000	USD '000
Net investment income/(expense)	$ (21)	$ 1,033
Net realized and unrealized gains (losses)	1,558	(2,535)
Total net earnings/(loss)	$ 1,537	$ (1,502)

16. SUBSEQUENT EVENTS

The following subsequent events took place after the of the 2023 financial year:

- Approval received from the BMA during December 2023 to commute the reinsurance agreement in FW#9. The commutation agreement was executed on 23 April 2024. FW#9 will be subsequently closed during 2024.
- Approval received from the BMA during December 2023 to novate the reinsurance agreement in FW#19 to Cavello. FW#19 will be subsequently closed during 2024.
- Approval received from the BMA during February 2024 to novate the reinsurance agreement in FW#33 to Cavello. FW#33 will be subsequently closed during 2024.
- Approval received from the BMA during April 2024 to commute the reinsurance agreements in FW#31, FW#41 and FW#42 to Starstone. The cells will be subsequently be closed during 2024.
- The board approved a dividend distribution of $2.4 million and capital distribution of $3.8 million in FW#23 on 25 April 2024.

17. OTHER INFORMATION

Not applicable.

1(a) SHARE CAPITAL / CAPITAL STOCK

The information in this note is not presented in thousands of US Dollars.

As of December 31, 2023 and 2022 the authorized common share capital was 1,000,000 common shares of par value $1.00 per share, all of which are issued and outstanding.

	2023	2022
Share Capital		
Authorized share capital		
Par value $1.00 each	1,000,000	1,000,000
Issued and fully paid		
1,000,000 common shares	1,000,000	1,000,000
Total common shares	$ 1,000,000	$ 1,000,000

As of December 31, 2023 and 2022 the authorized preference share capital was 50,000,000 preference shares of $1.00 each.

The issued preference shares are shown in the following table:

	2023	2022
Preferred Shares in Segregated Accounts		
Issued		
1 Class A, non-voting preferred share	—	1
1 Class B, non-voting preferred share	—	1
1,000 Class 9, non-voting preferred shares	1,000	1,000
1 Class 19, non-voting preferred share	1	1
1 Class 23, non-voting preferred share	1	1
10,000 Class 31, non-voting preferred shares	10,000	10,000
1,000 Class 33, non-voting preferred share	1,000	1,000
1,000 Class 35, non-voting preferred shares	1,000	1,000
1,000 Class 36, non-voting preferred shares	—	1,000
10,000 Class 41, non-voting preferred shares	10,000	10,000
10,000 Class 42, non-voting preferred shares	10,000	10,000
Total preferred shares	$ 33,002	$ 34,004

In most circumstances, preference shares of par value $1 each are issued upon the establishment of a Segregated Account, the class of shares being different for each Segregated Account established. These preference shares hold no voting rights, are not interest bearing and participate only in the earnings of their respective Segregated Accounts.

1(b) ADDITIONAL PAID IN CAPITAL / CONTRIBUTED SURPLUS

As at December 31, 2023, the Company had contributed surplus of $304 million (2022: $317 million).

In June 2023, the Company's Board of Directors approved the declaration of a return of capital from the contributed surplus of FW ILU of $5.2 million and FW Non-ILU of $1.5 million.

In September 2023, the Company's Board of Directors approved the declaration of a return of capital from the contributed surplus of FW#23 of $6 million.

No additional paid-in capital was contributed to the Company during the year ended December 31, 2023 and 2022.

In December 2022, the Company's Board of Directors approved the declaration of a return of capital from the contributed surplus of FW#36 of $135.8 million.

2(c) DIVIDENDS PAID AND PAYABLE

In June 2023 and September 2023, the Company's Board of Directors approved the declaration of dividends in the amount of $11 million and $4 million for the year ended December 31, 2023.

ADDITIONAL NOTES

(a) There were no changes in the Company’s authorized share capital during the year.

(b) The Company has not contracted to issue or reissue shares or given options to purchase shares.

(c) There were no share transactions during the year in relation to the common shares in the Company.

1. ENCUMBRANCE ON CASH AND CASH EQUIVALENTS

Restricted assets are discussed in Note 8(b) of the General Notes to the condensed financial statements and the position at the year-end is shown in a table in that note. Cash at December 31, 2023 of $10 million (2022: $15 million) is restricted.

2-3 VALUATION OF INVESTMENTS

The valuation methodology applied to investments is explained in note 4(g) of the General Notes to the condensed financial statements.

Restricted assets are discussed in Note 8(b) of the General Notes to the condensed financial statements and the position at the year-end is shown in a table in that note. Investments at December 31, 2023 of $183 million (2022: $226 million) are restricted.

4. INVESTMENTS IN AND ADVANCES TO AFFILIATED ENTITIES

There are no investments in affiliated entities for year ended December 31, 2023.

Details of transactions and balances with affiliated entities are provided in Note 15 of the General Notes to the condensed financial statements.

Derivatives and embedded derivatives

From time to time, Enstar may utilize foreign currency forward contracts as part of our overall foreign currency risk management strategy.

Foreign Currency Forward Contracts

The following tables present the gross notional amounts and the estimated fair values recorded within line 10 - accounts and premiums receivable and line 33 - accounts payable and accrued liabilities as of December 31, 2023 and 2022, on the foreign currency forward exchange rate hedging relationships related to our Segregated Accounts:

	December 31, 2023		
	Gross Notional Amount	Fair Value Assets	Fair Value Liabilities
	(in thousands of U.S. dollars)		
Foreign exchange forward - CAD	$ 7,799	$ 4	$ 252
Foreign exchange forward - GBP	2,936	1	36
Foreign exchange forward - EUR	9,626	14	119
Total foreign currency non-qualifying hedges	**$ 20,361**	**$ 19**	**$ 407**

	December 31, 2022		
	Gross Notional Amount	Fair Value Assets	Fair Value Liabilities
	(in thousands of U.S. dollars)		
Foreign exchange forward - CAD	$ 7,613	$ 114	$ —
Foreign exchange forward - GBP	3,388	4	49
Foreign exchange forward - EUR	9,318	30	309
Total foreign currency non-qualifying hedges	**$ 20,319**	**$ 148**	**$ 358**

There are no embedded derivatives.

5. INVESTMENTS IN MORTGAGE LOANS ON REAL ESTATE

Not applicable.

6. POLICY LOANS

Not applicable.

7. INVESTMENTS IN REAL ESTATE

Not applicable.

8. COLLATERAL LOANS

Not applicable.

9. INVESTMENT INCOME DUE AND ACCRUED

Investment income due and accrued amounted to $2 million (2022: $2 million) as at year end.

10. ACCOUNTS AND PREMIUMS RECEIVABLE

(a) Accounts and premiums receivable are not collateralized.

(b) Accounts and premiums receivable due from affiliates are $0.5 million (2022: $nil).

11. REINSURANCE BALANCES RECOVERABLE

The following table provides the total reinsurance balances recoverable on paid and unpaid losses as of December 31, 2023 and 2022:

	2023	2022
	USD '000	USD '000
Outstanding losses	$ 2,389	$ 2,463
Losses incurred but not reported (IBNR)	374	636
	2,763	3,099
Recoverable on paid losses	2,820	2,998
Total reinsurance balances recoverable	$ 5,583	$ 6,097

In the event that all or any of the reinsuring companies are unable to meet their obligations under existing reinsurance agreements, the Company's Segregated Accounts will be liable for such defaulted amounts.

We evaluate and monitor the credit risk related to 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.

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 reinsures credit standing, default rates specific to the individual reinsurer, the geographical location of the reinsure, contractual disputes with reinsures 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.

At December 31, 2023, the provision for uncollectible reinsurance relating to losses recoverable was $0.8 million (2022 - $0.5 million).

12. FUNDS HELD BY CEDING REINSURERS

As at December 31, 2023, funds held by ceding reinsurer affiliates are $146.4 million (2022: $185.1 million)

13. SUNDRY ASSETS

The following table summarizes the Other Sundry assets as of December 31, 2023 and 2022:

	2023	2022
	USD '000	USD '000
Deferred acquisition costs	$ 2	$ 2
Net receivables for investments sold	250	255
Deferred tax asset	2,309	—
Deferred charge	158,119	169,649
Total Other Sundry Assets	$ 160,680	$ 169,906

14. LETTERS OF CREDIT GUARANTEES AND OTHER ASSETS

There are no letters of credit, guarantees and other assets which have not been considered in points 1 to 13 above.

16. UNEARNED PREMIUM RESERVE

The method of calculating the unearned premium reserve is set out in note 4(c) of the General Note to the condensed financial statements.

17. LOSS AND LOSS EXPENSE PROVISIONS

(a) Movements in loss and loss expense provisions for the current and previous year

The table below provides a reconciliation of the beginning and ending liability for losses and LAE for the years ended December 31, 2023 and 2022

	2023 USD '000	2022 USD '000
Balance as at January 1	$ 350,412	$ 1,055,935
Less: reinsurance reserves recoverable	(3,099)	(3,260)
Less: deferred charge asset [(1)]	(169,649)	(181,757)
Net balance as at January 1	177,664	870,918
Net incurred losses and LAE:		
Current period	—	—
Prior periods:		
Reduction in estimates of net ultimate losses	(12,216)	(1,670)
Reduction in provisions for ULAE	(2,684)	653
Amortizations of DCAs	11,529	12,108
Total net incurred losses and LAE	(3,371)	11,091
Net paid losses and LAE:		
Current period	—	—
Prior periods	(62,207)	(121,668)
Total net paid losses and LAE	(62,207)	(121,668)
Effect of exchange rate movement and other	244	70
Other adjustments	(1,094)	(438)
Novated business	—	(582,309)
Net balance as at December 31	111,236	177,664
Plus: reinsurance reserves recoverable	2,763	3,099
Plus: deferred charge asset [(1)]	158,119	169,649
Balance as at December 31	$ 272,118	$ 350,412

[(1)] Deferred charge asset balance included in Note 13 Sundry Assets of the Balance Sheet Note to the condensed financial statements.

(b) Reasons for the change in the net losses incurred and net loss expenses incurred related to prior years and indicate whether additional premiums or return premiums have been accrued as a result of the prior year effects

The total net change in incurred losses and LAE reserves is comprised 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 of or movement in assumed claims, and (2) the net change in IBNR which represents the gross change in the Company's actuarial estimates of the IBNR , less amounts recoverable from reinsurers.

For the year ended December 31, 2023 the Company recorded an overall decrease in ultimate losses and LAE liabilities of $3.4 million (2022 - increase $11.1 million). The incurred loss developments in both years relate primarily to the resetting of loss ultimates based on actuarial studies.

The Novated business of $582.0 million in 2022 reflects the novation of assumed reserves in FW#36 to Cavello.

18- 27. NOT APPLICABLE

28. INSURANCE AND REINSURANCE BALANCES PAYABLE

Details of transactions and balances with affiliated entities, if any are provided in Note 15 of the General Note to the condensed financial statements.

Balances with affiliates relate primarily to reinsurance contracts and therefore there are no repayment terms and rates to interest to disclose.

29. COMMISSION, EXPENSES, FEES AND TAXES PAYABLE

The method of recognizing commission is set out in note 4(d) of the General Note to the condensed financial statements.

30. LOANS AND NOTES PAYABLE

There are no loans and notes payable.

31. INCOME TAX PAYABLE AND DEFERRED TAXATION

In December 2023, the Government of Bermuda enacted the Corporate Income Tax Act 2023 (the “Act”).The Act introduces a 15% corporate income tax on Bermuda businesses that are part of an In Scope Multinational Enterprise Group (“MNE Group”), effective for tax years beginning on or after January 1, 2025. An MNE Group is an In Scope MNE Group if, with respect to any fiscal year beginning on or after January 1, 2025, the MNE Group had annual revenue of €750 million or more in the consolidated financial statements for at least two of the four fiscal years immediately preceding such fiscal year. Based on annual revenue in the ultimate parent company consolidated financial statements, the Company will be part of an In Scope MNE Group commencing with the tax year beginning on January 1, 2025.

In accordance with ASC 740, effects of changes in tax laws are required to be recognized in the period in which the law is enacted, regardless of the effective date. Furthermore, due to the enactment of the Act, we have recognized a deferred tax benefit related to the remeasurement of deferred taxes on unrealized losses on AFS securities recorded in OCI, due to the change in income tax rate.

The incremental financial statement impact related to accounting for the enactment of the Act was as follows:

		2023 USD in '000
Provision for income tax (benefit) expense	$	—
Effect of change in income tax rate on the net change in unrealized gains (losses) on AFS securities recorded in OCI since the Basis Valuation Date		(2,309)
Total provision for income tax (benefit) expense	$	(2,309)

Income tax expense

The following table presents income (loss) before income taxes for the years ended December 31, 2023, and 2022:

	2023 USD in '000	2022 USD in '000
Deferred :		
Domestic (Bermuda)	$ 23,351	$ (150,392)
	—	—
Total income tax expense attributable to continuing operation	$ 23,351	$ (150,392)

The following table presents our current and deferred income tax (benefit) expense attributable to continuing operations for the years ended December 31, 2023 and 2022:

	2023 USD in '000	2022 USD in '000
Current:		
Domestic (Bermuda)	—	—
Foreign	—	—
	—	—

	2023 USD in '000	2022 USD in '000
Deferred :		
Domestic (Bermuda)	(2,309)	—
Foreign	—	—
	$ (2,309)	$ —

Assessment of Valuation Allowance on Deferred Tax Assets

During the year ended December 31, 2023, the Company had no valuation allowance against its Deferred Tax Assets.

The realization of deferred tax assets is dependent on generating sufficient taxable income in future periods in which the tax benefits are deductible or creditable. The amount of the deferred tax asset considered realizable, however, could be adjusted in the future if estimates of future taxable income change. We have considered all available evidence using a “more likely than not” standard in determining the amount of the valuation allowance.

We considered the following evidence:

i. net income or losses in recent years;

ii. the future sustainability and likelihood of positive net income of our segregated accounts;

iii. the carryforward periods of tax losses including the effect of reversing temporary differences.

In making our determination, the assumptions used in determining future taxable income require significant judgment and any changes in these assumptions could have an impact on earnings.

32. AMOUNTS DUE TO AFFILIATES

Details of transactions and balances with affiliated entities are provided in Note 15 of the General Notes to the condensed financial statements.

Foreign currency forward contracts with affiliates are disclosed in Note 4 of the notes to the condensed balance sheet.

33. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

At December 31, 2023, the Company had accounts payable and accrued liabilities of $0.1 million (2022: $0.3 million) in relation to expenses incurred.

34. FUNDS HELD UNDER REINSURANCE CONTRACTS

The company had no liabilities to affiliate reinsurers for funds held under reinsurance contracts at year end.

Details of transactions and balances with affiliated entities are provided in Note 15 of the General Notes to the condensed financial statements.

35. DIVIDENDS PAYABLE

At December 31, 2023, the Company had a liability for dividends payable of $nil (2022: $135.8 million) in respect of the declared return of capital from the contributed surplus of Segregated Account FW#36.

36. SUNDRY LIABILITIES

There are no sundry liabilities held at year end.

37. LETTERS OF CREDIT GUARANTEES AND OTHER ASSETS

There are no letters of credit, guarantees and other assets provided by the Company which have been included as liabilities on the condensed balance sheets.

Details of assets provided as collateral for letters of credit are shown in Note 8(b) of the General Notes to the condensed financial statements.

6. OTHER INSURANCE INCOME GENERAL BUSINESS

Not applicable.

15. OTHER INSURANCE INCOME LONG TERM BUSINESS

Not applicable.

32. COMBINED OTHER INCOME

	2023	2022
	USD '000	USD '000
FX on cash and cash equivalents	222	383
Total	$ 222	$ 383

36. COMBINED REALIZED GAINS (LOSS)

	2023	2022
	USD '000	USD '000
Gains/ (loss) on cash and cash equivalents	—	(83)
Gains/ (loss) on investments	6,695	(163,186)
Total	$ 6,695	$ (163,269)