

# NEIL



## 2021

### ANNUAL REPORT

**Nuclear Electric Insurance Limited**

*Consolidated Financial Statements*

## ***Nuclear Electric Insurance Limited and Subsidiaries***

*Consolidated Financial Statements*

*As of and for the Years Ended*

*December 31, 2021 and 2020,*

*Supplemental Schedule for the Year Ended*

*December 31, 2021, and Independent Auditor's Report*

## NUCLEAR ELECTRIC INSURANCE LIMITED AND SUBSIDIARIES

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## INDEPENDENT AUDITOR'S REPORT

To the Policyholders of  
Nuclear Electric Insurance Limited  
Hamilton, Bermuda

### Opinion

We have audited the consolidated financial statements of Nuclear Electric Insurance Limited and Subsidiaries (the "Company"), which comprise of the consolidated balance sheets as of December 31, 2021 and 2020, the related consolidated statements of operations and comprehensive (loss) earnings, cash flows, changes in policyholders' surplus for the years then ended, and the related notes to the consolidated financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the 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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 that the financial statements are available to be issued.

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 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 judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 financial statements.
- Obtain an understanding of internal control 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 financial statements.
- Conclude whether, in our judgment, 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.

### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the disclosure of short-duration contracts included in Note 9 to the financial statements be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for

consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Deloitte Touche LLP*

March 29, 2022

NUCLEAR ELECTRIC INSURANCE LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

YEARS ENDED DECEMBER 31, 2021 AND 2020

(In thousands of U.S. Dollars)

	<u>2021</u>	<u>2020</u>
<u>ASSETS</u>		
Investments:		
Fixed maturities, at fair value	\$ 1,524,732	\$ 1,858,804
Equity securities, at fair value	2,622,728	2,269,879
Derivatives Options, at fair value	16,659	-
Short-term investments	553,881	426,240
Alternative investments	802,133	766,289
Total investments	<u>5,520,133</u>	<u>5,321,212</u>
Cash	24,310	19,513
Accrued interest and distribution receivable	8,984	12,362
Amounts due from policyholders	27,147	18,517
Reinsurance receivable	8,168	-
Income taxes receivable	133,900	159,111
Foreign currency forward contracts receivable, at fair value	77,151	70,605
Prepaid reinsurance premiums	13,821	16,926
Put spread collar contracts collateral	-	68,810
Prepaid expenses and other assets	15,450	8,863
Total assets	<u>5,829,064</u>	<u>5,695,919</u>
<u>LIABILITIES AND POLICYHOLDERS' SURPLUS</u>		
Liabilities:		
Unpaid losses and loss adjustment expenses	\$ 438,621	\$ 398,022
Unearned premiums	121,978	117,902
Ceded premiums payable	2,074	4,118
Amounts due to policyholders	78	78
Deferred income taxes, net	206,566	233,033
Distribution payable to policyholders	600,000	400,000
Foreign currency forward contracts payable, at fair value	77,519	69,588
Put spread collar contracts, at fair value	-	68,200
Accounts payable, accrued expenses and other liabilities	73,437	89,662
Total liabilities	<u>1,520,273</u>	<u>1,380,603</u>
Policyholders' surplus:		
Reserve fund	\$ 250	\$ 250
Accumulated other comprehensive earnings (loss)	(7,453)	23,190
Surplus	<u>4,315,994</u>	<u>4,291,876</u>
Total policyholders' surplus	<u>4,308,791</u>	<u>4,315,316</u>
Total liabilities and policyholders' surplus	<u>\$ 5,829,064</u>	<u>\$ 5,695,919</u>

See notes to Consolidated Financial Statements.



NUCLEAR ELECTRIC INSURANCE LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE EARNINGS (LOSS)

YEARS ENDED DECEMBER 31, 2021 AND 2020

(In thousands of U.S. Dollars)

	<u>2021</u>	<u>2020</u>
Direct premiums earned	\$ 243,213	\$ 241,797
Reinsurance premiums assumed	108,954	89,435
Reinsurance premiums ceded, net	(48,783)	(55,402)
<b>Net Premiums Earned</b>	<u>303,384</u>	<u>275,830</u>
Losses and loss adjustment expenses	159,522	276,607
Administrative expenses	35,515	33,254
Commissions expense	10,803	5,705
Total underwriting expenses	<u>205,840</u>	<u>315,566</u>
<b>Earnings (Losses) From Underwriting Operations</b>	97,544	(39,736)
Investment income, net	68,039	78,679
Losses on derivative instruments	(92,202)	(126,737)
Gains on alternative investments, net	137,649	9,218
Net realized investment gains	434,915	291,160
Investment expenses	(13,478)	(14,285)
<b>Earnings From Investments</b>	<u>534,923</u>	<u>238,035</u>
<b>Earnings Before Distribution To Policyholders And Income Taxes</b>	<u>632,467</u>	<u>198,299</u>
Distribution to policyholders	<u>600,000</u>	<u>400,000</u>
<b>Earnings (Losses) Before Income Taxes</b>	32,467	(201,701)
Income tax (benefit) expense	8,349	(96,795)
<b>Net Earnings (Losses)</b>	<u>24,118</u>	<u>(104,906)</u>
<b>Other Comprehensive Earnings (Losses), Net Of Income Taxes</b>		
Foreign currency translation adjustment (net of income taxes of \$(5,431) in 2021 and \$7,520 in 2020)	<u>(20,430)</u>	<u>28,288</u>
Total net unrealized gain arising during the period (net of income taxes of \$7,231 in 2021 and \$9,593 in 2020)	27,203	36,090
Less: Reclassification adjustments for net investment gains included in net earnings (net of income taxes of \$9,946 in 2021 and \$10,268 in 2020)	37,416	38,629
Total net unrealized losses arising during the period	<u>(10,213)</u>	<u>(2,539)</u>
<b>Other Comprehensive Earnings, Net Of Income Taxes</b>	<u>(30,643)</u>	<u>25,749</u>
<b>Comprehensive Earnings (Losses)</b>	<u>\$ (6,525)</u>	<u>\$ (79,157)</u>

*See notes to Consolidated Financial Statements.*

NUCLEAR ELECTRIC INSURANCE LIMITED AND SUBSIDIARIES

YEARS ENDED DECEMBER 31, 2021 AND 2020  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of U.S. Dollars)

	<u>2021</u>	<u>2020</u>
OPERATING ACTIVITIES:		
Net (loss) earnings	\$ 24,118	\$ (104,906)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Net realized investment gains	(366,175)	(291,160)
Amortization/accretion of premiums and discounts on investments	11,739	8,730
(Income) loss from put spread collar	-	68,200
Equity in earnings of alternative investments, net of expenses	(140,180)	(11,075)
Alternative investments return on capital distributions	64,638	19,323
Decrease in deferred income taxes, net	(18,442)	24,272
Distribution to policyholders - declared	600,000	400,000
Payment of policyholders' distribution	(400,000)	(700,000)
Changes in assets and liabilities which provided (used) cash:		
Accrued Interest and distribution receivable	3,378	2,045
Amounts due from policyholders	(8,630)	5,622
Reinsurance receivable	(8,109)	-
Income taxes receivable	25,211	(91,978)
Foreign currency contract receivable	(6,546)	(26,098)
Prepaid reinsurance	3,105	210
Prepaid expenses and other assets	66,609	(804)
Unpaid losses and loss adjustment expenses	40,599	159,569
Unearned premiums	4,076	11,214
Ceded premiums payable	(2,044)	(6,009)
Amounts due to policyholders'	-	12
Foreign currency contract payable	7,932	25,595
Accounts payable and accrued expenses	(63,242)	2,756
Net cash (used) by operating activities	<u>(161,963)</u>	<u>(504,482)</u>
INVESTING ACTIVITIES:		
Proceeds from sales and distributions of investments:		
Fixed maturities	2,402,738	2,450,851
Equity securities	858,652	764,285
Alternative investments	127,591	45,905
Short-term investments	1,694,609	1,422,253
Maturities of investment - fixed maturities	248,724	286,848
Maturities of investments - short-term	215,264	418,836
Purchases of investments:		
Fixed maturities	(2,408,699)	(2,667,344)
Equity securities	(907,579)	(555,229)
Alternative investments	(95,316)	(92,691)
Short-term investments	(1,969,224)	(1,563,645)
Net cash provided in investing activities	<u>166,760</u>	<u>510,069</u>
NET INCREASE IN CASH	4,797	5,587
CASH:		
Beginning of year	19,513	13,926
End of year	<u>\$ 24,310</u>	<u>\$ 19,513</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Net cash received (paid) during the year for income tax	<u>\$ (1,889)</u>	<u>\$ (29,302)</u>

See notes to Consolidated Financial Statements.

NUCLEAR ELECTRIC INSURANCE LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN POLICYHOLDERS' SURPLUS  
YEARS ENDED DECEMBER 31, 2021 AND 2020  
(In thousands of U.S. Dollars)

	Accumulated Other Comprehensive Earnings (Loss)				
	Total	Surplus	Foreign Currency Translation	Unrealized Gains (Losses) and Benefit Obligations	Reserve Fund
Balance, January 1, 2020	\$ 4,394,473	\$ 4,396,782	\$ (5,392)	\$ 2,833	\$ 250
<b>Comprehensive Earnings (Loss):</b>					
Net Earnings (Loss)	(104,906)	(104,906)	-	-	-
Other comprehensive earnings (loss), (net of income taxes)	25,749	-	28,288	(2,539)	-
<b>Comprehensive Earnings (Loss):</b>	<u>(79,157)</u>	<u>(104,906)</u>	<u>28,288</u>	<u>(2,539)</u>	<u>-</u>
Balance, December 31, 2020	<u>\$ 4,315,316</u>	<u>\$ 4,291,876</u>	<u>\$ 22,896</u>	<u>\$ 294</u>	<u>\$ 250</u>
<b>Comprehensive Earnings (Loss):</b>					
Net (Loss)	24,118	24,118	-	-	-
Other comprehensive earnings (loss), (net of income taxes)	(30,643)	-	(20,430)	(10,213)	-
<b>Comprehensive (Loss):</b>	<u>(6,525)</u>	<u>24,118</u>	<u>(20,430)</u>	<u>(10,213)</u>	<u>-</u>
Balance, December 31, 2021	<u>\$ 4,308,791</u>	<u>\$ 4,315,994</u>	<u>\$ 2,466</u>	<u>\$ (9,919)</u>	<u>\$ 250</u>

See notes to Consolidated Financial Statements.

## 1. NATURE OF BUSINESS

Nuclear Electric Insurance Limited (the "Company" or "NEIL") is incorporated under the laws of Bermuda, has its place of business in Delaware, and is a registered insurer under the Bermuda Insurance Act of 1978 and the Captive Insurance Companies Act of Delaware. The Company traces its roots to 1973 and the formation of Nuclear Mutual Limited ("NML") in Bermuda, as a mutual insurance company. NML and the Company, which was formed as a mutual insurance company in 1980, were formed by groups of U.S. electric utilities as alternatives to the commercial nuclear insurance market. NML was merged into the Company in 1997. Each utility and energy company that is a Member of the Company today has, or had at the time of becoming a Member, an insurable interest in a commercial nuclear power generation plant. NEIL organized a subsidiary named NEIL Specialty Insurance Company ("NSIC"), a Delaware Corporation, which is licensed in Delaware as an industrial insured captive insurer.

The Company insures nuclear plants and their generating units, owned by electric utilities and independent power producers (the "Members"). The Company currently provides property insurance coverage to all of the commercial nuclear power generating facilities in the United States, Belgium, and Spain. The European coverage is offered through NEIL's wholly owned subsidiary NEIL Overseas dac ("NEIL Overseas"). NEIL Overseas is an Irish designated activities company based in Dublin, Ireland. It is licensed in Ireland and thus able to conduct business in European Union countries. NEIL provides reinsurance to NEIL Overseas to support the insurance provided to the Insureds in Belgium and Spain, and the NEIL Overseas Insureds are Members of NEIL.

The coverage for the plants in United States and Europe includes: 1) the costs associated with certain long-term interruptions of electric generation, due to accidental physical damage under the Accidental Outage programs, 2) decontamination expenses incurred at such sites arising from accidental nuclear contamination under the Primary and Excess programs, 3) other risks of direct physical loss at such sites, including certain premature decommissioning costs under the Primary and Excess programs, and 4) risks associated with the construction of new nuclear power plants through the Company's Builders' Risk program.

The Accidental Outage program pays a maximum weekly indemnity limit of \$4.5 million resulting from an accidental outage at any one unit. The Company's loss exposure on any single incident caused by nuclear perils at a unit is limited to 100% of the weekly indemnity for 52 weeks and 80% for the subsequent 110 weeks, up to a maximum of \$490 million. For a single incident caused by non-nuclear perils, the Company's loss exposure is limited to 100% of the weekly indemnity for 52 weeks and 80% for the subsequent 52 weeks, up to a maximum of \$327.6 million. Deductibles of 8, 12, 20, or 26 weeks are available as part of this program.

The Primary Property program provides property insurance coverage (nuclear and non-nuclear perils) of \$1.5 billion per occurrence. The Excess program provides property insurance coverage (nuclear peril only) of up to \$1.25 billion in excess of \$1.5 billion per occurrence. The Excess program features an optional blanket limit structure that allows for multiple nuclear sites to share limits at reduced rates. NSIC's captive coverage provides property insurance coverage (non-nuclear peril only) of up to \$750 million in excess of \$1.5 billion per occurrence.

The Builders' Risk program provides property insurance coverage of up to \$2.75 billion with a sublimit for delay in start-up, natural hazards, and other perils. Policy period vary as a result of the complexity and uniqueness of each project.

Since 2000, the Company also provides certain non-nuclear property, cyber, and liability coverage to existing Members. This coverage is provided in conformity with specialty property and liability programs, following the terms and conditions underwritten by the program's lead underwriter(s), initially on a reinsurance basis, but as of recently, on a direct basis, post the formation of a new subsidiary.

In 2020, NEIL formed a new subsidiary, Cedar Hamilton Limited ("CHL"), under the laws of Bermuda, with a purpose of providing a direct source of industrial property and excess liability capacity for risks related to or arising out of Member's business operations (Non-Nuclear Property, Builders' Risk, Excess Liability, and Cyber insurance coverages). NEIL participation in the line of business transitioned to CHL to be able to directly write the non-nuclear insurance programs covered by the Company that were previously written on a reinsurance basis. CHL started writing specialty insurance business in the second quarter of 2021.

In 2021, NEIL formed Cedar Hamilton Insurance Services LLC (CH Insurance Services) to provide underwriting services to CHL and act as a Producer on behalf of CHL. CH Insurance Services will be staffed by NEIL's Specialty Underwriting team under a service agreement between NEIL and CH Insurance Services. CH Insurance Services expects to secure the appropriate licenses in February 2022 and will begin providing services to CHL at that time.

CHL has executed an underwriting agreement with CH Insurance Services to manage the underwriting of CHL's accounts and a service agreement with NEIL for all other administrative services.

NEIL, NEIL Overseas, and CHL also provide insurance coverage for Non- Members on a direct basis. The coverages provided by these direct placements are similar in nature to that which is provided to its Members via the programs noted above. The capacity offered to Non-Members is significantly lower than what is offered to its Members and follows the risk profile of the Company. The number of direct Non-Member programs written are limited in comparison to the direct Member business written.

## **2. SIGNIFICANT ACCOUNTING POLICIES**

### Principles of Consolidation & Basis of Presentation

The Consolidated Financial Statements include the Company, its wholly owned subsidiaries, NEIL Services Inc. ("NSI"), Delaware Risk Management, Inc., Nuclear Electric (Cayman) Limited, NEIL Overseas dac ("NEIL Overseas"), NSIC, CHL, CHIS LLC, and variable interest entities ("VIE") for which the Company is the primary beneficiary. All intercompany transactions have been eliminated in consolidation. The financial statements have been prepared in conformity with the accounting principles generally accepted in the United States of America ("US GAAP").

### Premiums Written/Unearned Premiums

Net premiums written reflect the premiums the Company retains after purchasing reinsurance protection. Net premiums earned reflect the portion of net premiums written that were recorded as revenues for the period as the exposure period expires, net of discounts. Premiums written and reinsurance premiums assumed and ceded are reflected in earnings on a pro-rata basis over the term of each policy, or in the case of Builders' Risk, written premiums and reinsurance premiums ceded are recognized over the contract period in proportion to the amount of insurance protection provided. Unearned premiums represent the portion of premiums written, which are applicable to the unexpired terms of policies in force. Unearned premiums are recorded at cost, which approximates fair value. The Company records advance payments of reinsurance premiums as Prepaid reinsurance premiums. Premiums ceded under reinsurance agreements are recorded as Ceded premiums payable, to the extent there is no right to offset with Prepaid reinsurance amounts.

### Policyholders' Distribution

The Company insures nuclear plants and their generating units owned by the Members, primarily in the United States. The Company provides catastrophic insurance covering low frequency, high severity events and as such requires significant resources to satisfy potential catastrophic claims. To the extent that the full amount of these resources is not required during a given year, distributions to Members may be utilized as a method of sharing favorable financial results. Distributions are determined on an annual basis at the discretion of the Board of Directors, based on the authority approved by the Membership, and allocated to the Members in accordance with NEIL's Bye-Laws. If, for any reason, a Member ceases to maintain an insurance relationship with NEIL, the Member will lose its Membership status. The Member would remain eligible, for the ensuing five-year period only, to participate in future distributions. The Member would not be eligible to participate in any liquidation distributions, even if such distributions occur within the eligibility period. The Board of Directors declared an annual Distribution of \$600 and \$400 million on December 10, 2021, payable to the Members by March 25, 2022 and on December 11, 2020 and paid on March 26, 2021, respectively.

### Investments

The Company applies the Fair Value Option for Financial Assets and Liabilities (embodied in Accounting Standards Codification ("ASC") Topic 825, "*Financial Instruments*"), which allows companies to make an election on an individual instrument basis to report financial assets and liabilities at fair value. The election must be made at the inception of a transaction and may not be reversed. The Company has made the election for fixed maturity purchased on or after January 1, 2010. These securities are included in Fixed maturities at fair value on the Consolidated Balance Sheet, and changes in the fair value of the securities are reported in Net realized investment gains on the Statements of Operations and Comprehensive Earnings (Losses). Dividends on equity securities are recorded when declared, and interest on fixed income securities is recorded on an accrual basis. The Company believes that making the election for its portfolio of investment securities is consistent with its operating principle to manage investments for total return.

Both dividends and interest are reported in Investment income, net on the Statements of Operations and Comprehensive (Loss) Earnings. Amortization and accretion of premiums and discounts on marketable securities are included in Investment income, net. Realized investment gains and losses on sales of equity and fixed maturity securities are computed using the specific identification cost method and are reported in Net realized investment gains on the Statements of Operations and Comprehensive (Loss) Earnings.

The Company has categorized its investments in marketable fixed maturity securities as available for sale. Excluding those securities accounted for under the Fair Value Option, the Company has reported the portfolio at fair value with unrealized gains and losses, which included unrealized gains and losses due to foreign currency translation, net of tax, as a component of Accumulated Other Comprehensive (Loss) Earnings, which is a separate component of Policyholders' Surplus.

Excluding those securities accounted for under the Fair Value Option, declines in the fair value of fixed maturity securities are evaluated by management for Other Than Temporary Impairment ("OTTI"). When an OTTI related to a fixed maturity security has occurred, if the Company intends to either sell the security or determines that it is more likely than not that it will be required to sell a security before recovery of the entire amortized cost basis or maturity of the security, the Company recognizes the entire impairment in net earnings. If the Company does not intend to sell the fixed maturity security, and it determines that it is more likely than not that it will not be required to sell the security, and it does not expect to recover the entire amortized cost basis, the impairment is bifurcated into the amount attributed to the credit loss, which is recognized in net earnings, and all other causes, which are recognized in Other Comprehensive (Loss) Earnings.

Short-term investments consist of income generating funds with maturities of less than one year in duration held within various externally managed portfolios. The income generated in these funds is included in Investment income, net. These investments are primarily recorded at cost, which approximates fair value.

The Company purchases a variety of derivative financial instruments for risk management and investment purposes. The Company recognizes all derivatives as either assets or liabilities at fair value as prescribed in ASC Topic 815, "*Derivatives and Hedging*." Gains and losses on derivatives are recorded in Investment income, net on the Statements of Operations and Comprehensive (Loss) Earnings.

Alternative investments consist of investments in real estate, private equity, and hedge funds that are either carried on the equity method of accounting as prescribed in ASC Topic 323, "*Investments, Equity Method and Joint Ventures*," or in limited instances are consolidated variable interest entities ("VIEs"), as prescribed in ASC Topic 810, "*Consolidation*." The Company follows ASC Topic 970, "*Real Estate, General*," in accounting for its real estate investments. For investments in private equity and hedge funds, the Company follows accounting as prescribed in ASC Topic 323, "*Investments, Equity Method and Joint Ventures*." The Company records the activity of its private equity and real estate investments on a one-quarter lag or less and hedge fund investments on a one-month lag or less, based upon the availability of fund financial information. At December 31, the Company's alternative

investments are generally reported at the Company's proportional interest per the reporting lag on a fair value basis, consistent with the underlying fund's method of accounting, and adjusted for contributions and distributions through December 31.

The Company also considers fund transactions during the last three months of the year that may indicate a significant change in fair value has occurred. Due to the inherent uncertainty of valuation, the values determined by management may differ significantly from values that would have been used had a ready market for these investments existed, and the differences could be material.

### Variable Interest Entities

In the normal course of investment activities, the Company enters into relationships with entities that could be considered VIEs. For most VIEs, the entity that has both the ability to direct the most significant activities of the VIE and the obligation to absorb losses or receive benefits that could be significant to the VIE, is considered the primary beneficiary. The Company's policy is to consolidate those VIEs for which it is deemed to be the primary beneficiary. The accounting guidance for the determination of when an entity is a VIE and when to consolidate a VIE is complex and requires significant management judgment. The determination of the VIEs primary beneficiary requires an evaluation of the contractual and implied rights and obligations associated with each party's relationship with, or involvement in, the entity, an estimate of the entity's expected losses, and expected residual returns and the allocation of such estimates to each party involved in the entity. The Company generally uses a qualitative approach to determine whether it is the primary beneficiary.

The Company's VIEs consist of certain interests in hedge funds, real estate funds and private equity limited partnerships. The Company enters into the VIEs purely to diversify its investment portfolio. The VIEs are primarily financed by capital contributions from equity holders. The Company's involvement in financing the VIE is limited to its equity interest. The Company performed an economic analysis of the rights and obligations of its assets, liabilities, equity, and other contracts to identify its variable interests. On a subsequent basis, and at least annually, the Company has also performed an assessment of reconsideration events. The Company is a limited partner in its partnership investments and, as such, does not participate in the management of the entities. The limited partner agreement and the partnership entity's most current financial statements were also reviewed, to determine if the investment entity required subordinate financial support to permit it to finance its activities, whether there is an obligation to absorb expected losses or receive expected residual returns, and whether there are guaranteed returns on its interest, or its returns are capped.

The following tables are the carrying amount, unfunded commitment, and maximum exposure to loss relating to VIEs for which the Company is not the primary beneficiary, and which have not been consolidated:

December 31, 2021

*(In thousands of U.S. Dollars)*

	<b>Carrying Value</b>	<b>Remaining Commitment</b>	<b>Maximum Exposure to Loss<sup>1</sup></b>
Hedge Funds	\$ 322	\$ -	\$ 322
Real Estate Partnerships	145,139	96,862	242,001
Private Equity Partnerships	71,986	92,652	164,638
	<b>\$ 217,447</b>	<b>\$ 189,514</b>	<b>\$ 406,961</b>

<sup>1)</sup> The maximum exposure to loss is equal to the carrying amount plus any unfunded commitments of the Company.

December 31, 2020

	<b>Carrying Value</b>	<b>Remaining Commitment</b>	<b>Maximum Exposure to Loss<sup>1</sup></b>
Hedge Funds	\$ 28,831	\$ -	\$ 28,831
Real Estate Partnerships	126,277	78,902	205,179
Private Equity Partnerships	52,967	37,683	90,650
	<b>\$ 208,075</b>	<b>\$ 116,585</b>	<b>\$ 324,660</b>

<sup>1)</sup> The maximum exposure to loss is equal to the carrying amount plus any unfunded commitments of the Company.

### Unpaid Losses and Loss Adjustment Expenses

As an insurance and reinsurance company, the Company is required, by applicable laws and regulations, and by US GAAP, contained in ASC Topic 944, "Financial Services- Insurance," to establish loss and loss expense reserves for the estimated unpaid portion of the ultimate liability for losses and loss expenses, under the terms of policies and agreements with its insured and reinsured Members. The estimate of liabilities includes provision for claims that have been reported but unpaid at the balance sheet date and for future obligations from claims that have been incurred but not reported ("IBNR") at the balance sheet date. The provision for unpaid losses and loss expenses is determined on the basis of management estimates based, where appropriate, on information from claims adjustors, independent consultants, and other evaluations, including estimates for IBNR. The process for establishing loss reserves can be complex and subject to considerable uncertainty and requires the use of informed estimates and judgments based on circumstances known at the date of the accrual. The methods of making such estimates and establishing resulting liabilities are continually reviewed and updated, and any resultant adjustments are reflected in operations currently.

## Contingencies

ASC Topic 450, "Contingencies," defines a contingency as any material condition that involves a degree of uncertainty that will ultimately be resolved. Under US GAAP, the Company is required to establish reserves for contingencies when a loss is both probable and can be reasonably estimated. The Company determines the amount of reserves required for contingencies, if any, after carefully analyzing each issue using internal estimates, case level reviews by both inside and outside legal, technical, and claims experts, and other relevant information. In cases where the loss is not both probable and estimable, the Company has not established an accrual at this time. Appropriate disclosures are made in accordance with the requirements of ASC Topic 450. The required reserves may change due to new developments in information, or changes in approach to claim or loss resolution. Any such revision could result in future changes in estimates of losses or reinsurance recoverable and would be reflected in the Company's financial statements in the period in which the estimates are changed.

## Income Taxes

The Company accounts for income taxes under the asset and liability method as prescribed by ASC Topic 740, "Income Taxes," which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in earnings in the period that includes the enactment date.

The Company records net deferred tax assets, to the extent it believes these assets will more likely than not be realized. In making such a determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies, and recent financial operations. In the event the Company was to determine that it would be able to realize its deferred income tax assets in the future in excess of their net recorded amount, the Company would make an adjustment to the valuation allowance, which would reduce the provision for income taxes.

The Company accounts for its uncertain tax positions in accordance with ASC Topic 740. ASC Topic 740 provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. Income tax positions must meet a more likely than not recognition threshold to be recognized. ASC Topic 740 also provides guidance on measurement, derecognition, classification, interest and penalties, and disclosure. The Company would recognize interest and penalties (if any) related to unrecognized tax benefits within the income tax expense line in the accompanying Statements of Operations and Comprehensive (Loss) Earnings. Accrued interest and penalties (if any) would be included within the related tax liability line in the Consolidated Balance Sheet. There are no material uncertain tax positions reflected in the Company's Consolidated Financial Statements as of December 31, 2021 and 2020.

## Cash

Cash includes short-term securities with maturities of three months or less at the time of purchase, primarily deposits with banks, which are generally considered part of the Company's cash management activities rather than the Company's investing activities.

## New Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The purpose of this update is to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The guidance is effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. The Company will implement ASU 2016-02, *Leases (Topic 842)* on January 1, 2022. The impact to the Consolidated Financial Statements is not material.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*, and subsequently issues 2018-19, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*. The purpose of this update is to introduce a new approach to estimate credit losses on certain types of financial instruments based on expected losses. It also modifies the impairment model for available-for-sale debt securities and provided for a simplified accounting model for purchased financial assets with credit deterioration since their origination. The guidance is effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2021. Earlier application is permitted only for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the potential impacts that this new standard could have on its Consolidated Financial Statements.

### **3. INVESTMENTS**

The amortized cost, gross unrealized gains and losses, and estimated fair value of available-for-sale fixed maturity securities, excluding those securities accounted for under the Fair Value Option, at December 31, 2021 and 2020 are as follows:

December 31, 2021

(In thousands of U.S. Dollars)

	<b>Cost or</b>	<b>Gross</b>	<b>Gross</b>	<b>Estimated</b>	<b>OTTI</b>
	<b>Amortized Cost</b>	<b>Unrealized Gains</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	
<b>Fixed Maturities:</b>					
Foreign government obligations	\$ 231	\$ 102	\$ -	\$ 333	\$ -
Obligations of state and political subdivisions	305	181	-	486	-
Corporate debt securities	1,477	960	-	2,437	-
Mortgage-backed securities	3,196	405	-	3,601	-
Other debt securities	145	278	-	423	-
	<b>\$ 5,354</b>	<b>\$ 1,926</b>	<b>\$ -</b>	<b>\$ 7,280</b>	<b>\$ -</b>

December 31, 2020

(In thousands of U.S. Dollars)

	<b>Cost or</b>	<b>Gross</b>	<b>Gross</b>	<b>Estimated</b>	<b>OTTI</b>
	<b>Amortized Cost</b>	<b>Unrealized Gains</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	
<b>Fixed Maturities:</b>					
Foreign government obligations	\$ 572	\$ 335	\$ -	\$ 907	\$ -
Obligations of state and political subdivisions	356	253	-	609	-
Corporate debt securities	2,417	1,705	-	4,122	-
Mortgage-backed securities	4,901	1,136	-	6,037	-
Other debt securities	-	-	-	-	-
	<b>\$ 8,245</b>	<b>\$ 3,430</b>	<b>\$ -</b>	<b>\$ 11,675</b>	<b>\$ -</b>

The fixed maturity securities accounted for under the Fair Value Option had an amortized cost of \$1,505,819,000 and \$1,768,561,000 and an estimated fair value of \$1,517,452,000 and \$1,847,129,000, at December 31, 2021 and 2020, respectively.

The Company was required to hold \$65,000,000 and \$44,000,000 of equity securities in trust as collateral for a reinsurance agreement, at December 31, 2021 and 2020, respectively.

Gross realized gains and losses for available-for-sale securities, including fixed income securities accounted for under the Fair Value Option and equity securities accounted for at fair value in accordance with ASU 2016-01, were as follows:

*(In thousands of U.S. Dollars)*

	<b>2021</b>	<b>2020</b>
Realized gains	\$ 398,121	\$ 330,351
Realized loss	(63,415)	(113,532)
Net gain on fair value option securities	100,209	74,341
	<b>\$ 434,915</b>	<b>\$ 291,160</b>

Components of Investment income, net for the years ended December 31, 2021 and 2020 are as follows:

*(In thousands of U.S. Dollars)*

		<b>2021</b>		<b>2020</b>
Interest and dividends	\$	80,137	\$	85,274
Derivative (losses), net		(92,202)		(126,737)
Accretion and amortization		(11,740)		(8,731)
Other (losses) income		(358)		2,133
	\$	(24,163)	\$	(48,061)

The amortized cost and estimated fair value of fixed maturity securities by maturity date, at December 31, 2021 are as follows:

*(In thousands of U.S. Dollars)*

		<b>Cost or Amortized Cost</b>		<b>Estimated Fair Value</b>
Due in one year or less	\$	71,710	\$	72,198
Due after one year through five years		720,251		720,482
Due after five years through ten years		230,790		234,004
Due after ten years		488,420		498,049
	\$	1,511,171	\$	1,524,733

The Net change in unrealized investment gains (losses) arising during the period, excluding the net change in benefit obligation of \$2,326,000 and \$2,640,000 for the years ended December 31, 2021 and 2020, respectively, is as follows:

*(In thousands of U.S. Dollars)*

		<b>2021</b>		<b>2020</b>
Fixed maturities	\$	(2,007)	\$	(21)
Foreign currency translation		(39,676)		35,956
Deferred income taxes		8,713		(7,546)
	\$	(32,970)	\$	28,389

The Company maintains specific restrictions on its investment portfolio based on policy guidelines as approved by the Board of Directors. These guidelines include restrictions with respect to diversification and credit quality. For equity and fixed maturity investments, exposure to a single issuer, with the exception of the U.S. Treasury and Government agencies, may not exceed 1.5% of the fair value of the aggregate NEIL portfolio or 1.5 times the weight of the entity in the Policy Benchmark. Asset-backed Securities, where the credit quality/rating is primarily based on specified collateral and not the issuer, are not subject to these limits. The policy guidelines also require that no less than 90% of the fixed maturity portfolio must be rated investment grade by Fitch, Standard & Poor's, or Moody's bond rating services. As of December 31, 2021, the Company's fixed maturity securities included U.S. Government obligations, Foreign Government obligations, Corporate Debt Securities, Mortgage-backed Securities and Other Debt Securities. Mortgage-backed Securities included Residential Mortgage-backed Securities ("RMBS"), Commercial Mortgage-backed Securities ("CMBS"), and Collateralized Mortgage Obligations ("CMOs"). Other debt securities included Federal Agency debt issues from the Federal National Mortgage Association ("FNMA"), Federal Home Loan Mortgage Corporation ("FHLMC") and Federal Home Loan Bank ("FHLB"). 97.1% and 97.7% of the Company's fixed maturity portfolio was rated as investment grade, at December 31, 2021 and 2020, respectively.

## **Impairment Evaluation for Fixed Maturity Securities**

### Government Obligations

Government obligations include U.S. Treasury and agency obligations, Foreign Government obligations, and state and municipality subdivision obligations, which were in an unrealized loss position. These securities are evaluated for credit loss using a combination of quantitative and qualitative assessments of the likelihood of credit loss considering the credit ratings of the issuers and issuer specific information. The quantitative methodology is similar in approach to that described below for Corporate Debt Securities. The Company's holdings in this category are generally investment grade securities.

### Corporate Debt Securities

The Company determines its best estimate of projected cash flows and develops these estimates on a security-by-security basis using information based on market observable data, issuer specific information, and available cash flow information. The Company develops its default assumption by using credit rating data and average historical spreads obtained from observable indices.

The Company uses credit ratings as an indicator of the credit quality of fixed maturity issuers, the relative likelihood that the issue may default, and issuer specific current news and other information available in the public domain. The Company identifies the securities that are investment grade, and the Company generally expects to recover the entire amortized cost basis of all securities that are investment grade.

The Company generally considers any fixed maturity security with an AAA to BAA rating for Moody's and with an AAA to BBB rating for Standards & Poor's as investment grade.

### Mortgage-Backed and Asset-Backed Securities

For Mortgage-backed securities, credit impairment is assessed using a similar approach to corporate debt securities. The Company identifies the securities that are investment grade, and the Company generally expects to recover the entire amortized cost basis of all securities that are investment grade, in the absence of any issuer specific negative information. The securities that fall below investment grade are analyzed further to calculate the credit and non-credit loss components. The Company determines its best estimate of projected cash flows and develops these estimates on a security-by-security basis.

### Other Investments

Within the Company's fixed maturity portfolio, the exposure to subprime and Alt-A Mortgage-backed securities as of December 31, 2021 and 2020 was \$422,000 and \$470,000, respectively.

The Company participates in a securities lending program managed by Northern Trust. The Company receives a fee from Northern Trust for the lending of securities that is shown in the Investment income, net component of the Statements of Operations and Comprehensive (Loss) Earnings. As a requirement of the lending program, the borrower of securities must pledge collateral in excess of 100% of the value of the loaned securities to Northern Trust. The loaned securities are reclassified to securities pledged to creditors. Cash received as collateral is invested in high-quality, short-term instruments and recorded in the Consolidated Balance Sheet as an investment at estimated fair value. Non-cash collateral is not recorded on the Consolidated Balance Sheet, since "effective control" criteria are not met. A rate of interest termed the "rebate" is guaranteed to the securities borrower for the cash collateral, and the Company earns a profit through the retention of any investment returns earned on the cash collateral in excess of the rebate guarantees. While the securities lending activities are fully collateralized, market risk arises from the possibility that a borrower of securities may be unable to return the securities if a sudden material change in the market occurs. There is minimal credit risk from the failure of counterparties to perform, since the Company receives collateral in excess of 100% of the value of the loaned securities, and losses stemming from the borrower's failure to return securities are fully indemnified by Northern Trust. There were securities with a market value of \$0 on loan under the program, at December 31, 2021 and 2020, as the Company actively works to close the securities lending program at the end of each year. Income earned for securities lending was \$281,000 and \$361,000, at December 31, 2021 and 2020, respectively.

## **4. FAIR VALUE MEASUREMENTS AND DERIVATIVES**

The Company follows ASC Topic 820, "Fair Value Measurements," for financial assets and financial liabilities measured at fair value. The Standard defines fair value, establishes a consistent framework for measuring fair value, and expands disclosure requirements about fair value. The Standard also established a hierarchy that prioritizes the input used to measure fair value into three levels.

In accordance with ASC Topic 820, assets and liabilities recorded at fair value are categorized based upon a fair value hierarchy:

Level 1 – inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 – inputs utilize other than quoted prices included in Level 1 that are observable for similar assets, either directly or indirectly.

Level 3 – inputs are unobservable for the asset, and include situations where there is little, if any, market activity for the asset.

The following table summarizes the Company's financial assets and financial liabilities measured at fair value, at December 31, 2021:

	Fair Value Measurements at December 31, 2021				Changes in Fair Values for the Year Ended December 31, 2021, for Items Measured at Fair Value Pursuant to Election of the Fair Value Option		
	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Investments Valued at NAV <sup>2</sup>	Total Assets/Liabilities Measured at Fair Value	Other net investment gains (losses)	Investment Income (Loss)
<b>Assets:</b>							
Fixed Maturities:							
U.S. Government Obligations		\$ 361,424			\$ 361,424	\$ (8,386)	\$ (1,417)
Foreign Governments Obligations		43,495			43,495	(2,483)	(706)
Obligations of State and Political Subdivisions		5,716			5,716	(660)	(16)
Corporate Debt Securities		720,304			720,304	(45,885)	(3,596)
Mortgage-backed securities		283,557			283,557	(9,071)	(6,137)
Other debt securities		110,237			110,237	(450)	-
Total debt securities	\$ -	\$ 1,524,733	\$ -	\$ -	\$ 1,524,733	\$ (66,935)	\$ (11,872)
Equities	\$ 2,550,921			\$ 71,805	\$ 2,622,726	\$ -	\$ -
Short-term securities <sup>1</sup>		364,795			364,795	(232)	(462)
Alternative investments							
Hedge Funds				256,408	256,408		
Real Estate				296,009	296,009		
Private Equity				249,715	249,715		
Warrants	14,032		6	2,622	16,660		
Foreign currency forward contracts		77,151			77,151		
Futures	42				42		
Total Assets	\$ 2,564,995	\$ 1,966,679	\$ 6	\$ 876,559	\$ 5,408,239	\$ (67,167)	\$ (12,334)
<b>Liabilities:</b>							
Futures		62			62		
Foreign currency forward contracts		77,520			77,520		
Total Liabilities	\$ 62	\$ 77,520	\$ -	\$ -	\$ 77,582	\$ -	\$ -

1) Short-term securities presented in the table above exclude short-term investments (e.g., time deposits, certain money market funds) of \$47,060, which are not measured at fair value

2) Investments valued using Net Asset Value (NAV) as a practical expedient are listed in a separate column

The following table summarizes the Company's financial assets and financial liabilities measured at fair value, at December 31, 2020:

Changes in Fair Values for the Year  
Ended December 31, 2020, for Items  
Measured at Fair Value Pursuant to  
Election of the Fair Value Option

(In thousands of U.S. Dollars)

Fair Value Measurements at December 31, 2020

	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Investments Valued at NAV <sup>2</sup>	Total Assets/Liabilities Measured at Fair Value	Other net realized investment gains (losses)	Investment Income (Loss)
<b>Assets:</b>							
Fixed Maturities:							
U.S. Government Obligations		\$ 379,393		\$	379,393	\$ 312	\$ (1,303)
Foreign Governments Obligations		46,375			46,375	789	(808)
Obligations of State and Political Subdivisions		7,808			7,808	438	(23)
Corporate Debt Securities		1,015,864			1,015,864	26,164	(2,768)
Mortgage-backed securities		388,968			388,968	5,095	(3,924)
Other debt securities		20,395			20,395	374	(51)
Total debt securities	\$ -	\$ 1,858,804	\$ -	\$ -	\$ 1,858,804	\$ 33,172	\$ (8,876)
Equities	\$ 2,211,108	\$ (0)	\$ 182	\$ 58,589	\$ 2,269,879	\$ -	\$ -
Short-term securities <sup>1</sup>		224,004			224,004	(57)	
Alternative investments							
Hedge Funds				272,664	272,664		
Real Estate				265,985	265,985		
Private Equity				227,639	227,639		
Foreign currency forward contracts		70,605			70,605		
Put spread collar contracts collateral		68,810			68,810		
Futures	(70,375)				(70,375)		
Total Assets	\$ 2,140,733	\$ 2,222,222	\$ 182	\$ 824,878	\$ 5,188,015	\$ 33,115	\$ (8,876)
<b>Liabilities:</b>							
Futures	172	(139)		(21)	12		
Foreign currency forward contracts		69,588			69,588		
Put spread collar		(68,200)			(68,200)		
Foreign currency forward contracts							
Total Liabilities	\$ 172	\$ 1,249	\$ -	\$ (21)	\$ 1,400	\$ -	\$ -

1) Short-term securities presented in the table above exclude short-term investments (e.g., time deposits, certain money market funds) of \$202,236, which are not measured at fair value

2) Investments valued using Net Asset Value (NAV) as a practical expedient are listed in a separate column

For marketable securities, the Company utilizes the services of its custodian to assist in the pricing of securities for the purposes of assessing fair value. The custodian collects various price types from its pricing providers. Price types include close of business, last traded, and mid-price. The prices are typically on a close of business basis, preferred price types are based on market convention. In most markets, this translates to a "last trade" price. In the event an asset does not receive its preferred price type, the custodian will consider the next highest price type received that exists in the price type hierarchy.

As is the case with all of the Company's held assets, the custodian strives to independently price as many assets as possible. For listed securities, their pricing providers deliver exchange closing prices each day. For those securities that trade over the counter, their pricing providers deliver evaluations (good faith opinion as to what a buyer in the marketplace would pay for a security – typically in an institutional round lot – in a current sale), based on broker quotes. Depending on the type of asset, those quotes or models may include inputs as supplied by the custodian for the individual issues.

Securities classified as Level 1 consist of actively traded, exchange listed U.S. and international equities, "Futures" and "Corporate Debt Securities." Valuation is based on unadjusted quoted prices for identical assets in active markets.

Securities classified as Level 2 consist of Fixed Maturity Securities, Short-Term Securities, Foreign Currency Forward Contracts, and Put Spread Collar Contracts. The market approach is used to price the Company's U.S. and foreign government obligations, and the primary inputs include bid and offer quotes from market makers or inter-dealer brokers. The Company's Obligation of State and Political Subdivision securities are priced using the matrix market approach where market information is used to derive a price based on similar securities. The primary inputs are spread benchmark curves, prepayment spreads, or spreads and quotes. The Company's Corporate Debt Securities are generally priced using the market approach and the primary inputs include U.S. Treasury curve, benchmark issues and spreads above benchmarks from market sources. Mortgage- and Asset-backed Securities and Other Debt Securities prices are derived using a combination of matrix market approach and discounted cash flow income approach. The primary inputs include discount rates obtained from benchmark yield curves and discount margins, dealer quotes, spreads and prepayment speeds from market participants and benchmark quotes from dealers. The Short-Term Securities consist of U.S. government and corporate debt securities. The Foreign Currency Forward Contracts are priced by the foreign exchange forward rate. Discounts and premiums are taken from various sources to calculate the foreign exchange forward rate, which are added directly to the spot rate.

The valuation of the hedge funds, real estate funds and private equity funds are based on the Company's proportionate interest in the underlying funds' net asset value, which approximates fair value. Private real estate funds are not subject to redemption, and it is estimated that the investments will be liquidated in approximately one to ten years, up to twelve years with extensions, unless specifically structured as an evergreen fund. The investments in hedge funds and open-end real estate funds are redeemable at quarter end or annually with notification periods between 30 days to 6 months. The investment in the private equity funds is not subject to redemption and typically returned through distributions. It is estimated that the investments will be liquidated in approximately one to ten years, up to 15 years with extensions.

If the inputs used to measure the financial instrument fall within different levels of the hierarchy, the categorization is based on the lowest level that is significant to the fair value measurement of the instrument. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and consideration of factors specific to the asset.

Certain short-term investments do not qualify as securities and are recognized at amortized cost in the Consolidated Balance Sheet. For these instruments, the Company believes that there is minimal risk of material changes in interest rates or credit of the issuer such that estimated fair value approximates carrying value. The Company monitors its short-term investments to ensure there is sufficient demand and issuer credit quality has been maintained. Short-term investments that meet the definition of a security are recognized at estimated fair value in the Consolidated Balance Sheet in the same manner described above for similar instruments that are classified within captions of other major investment classes.

## Derivative Instruments

The Company uses derivatives in the normal course of business, primarily in an attempt to reduce its exposure to market risks (principally interest rate risk, equity stock price risk, and foreign currency risk) stemming from various assets and liabilities, or as a temporary balancing tool to gain target market exposure. The Company's principle objective under such risk strategies is to achieve the desired reduction in economic risk. The Company does not apply hedge accounting treatment for any of its derivative instruments.

Gains and losses on derivatives are recorded in Investment income, net as follows:

*(In thousands of U.S. Dollars)*

		<b>2021</b>		<b>2020</b>
Futures	\$	(1,990)	\$	(86,380)
Options		307		-
Foreign exchange forwards		(1,386)		143
Put spread collar		(89,134)		(40,500)
	\$	(92,202)	\$	(126,737)

The Company uses foreign currency forward contracts to limit the impact of currency fluctuations and exchange rate exposure of future sales and purchases of foreign securities. Foreign currency forward contracts are not used to leverage portfolios or for any speculative purpose.

The Company uses futures contracts to manage equity and U.S. Treasury security exposures pursuant to the Company's Investment Policy. Futures contracts are not used to leverage portfolios or for any speculative purpose. Total notional exposure to U.S. Treasury securities and equity indices through futures contracts totaled \$129,386,000 and \$49,206,000, at December 31, 2021 and 2020, respectively. The Company recorded a payable of approximately (\$20,695) and receivable of \$171,665 at December 31, 2021 and 2020, respectively, as accrued derivatives on the balance sheet.

In 2020, the Company utilized derivative strategies to provide stability to the Company's surplus by hedging against significant equity market declines. The Company used this strategy to minimize its exposure to volatility in the equities markets. There were three sets of options contracts, with two expired in 2020 and one expired in 2021. The contracts were not linked to specific assets that appear on the Consolidated Balance Sheet or to a forecasted transaction.

The Company uses deferred settlement mortgages as a cost-efficient way to invest in mortgage-backed securities. In this approach, the investor accepts delayed settlement on the purchase of mortgage-backed securities in return for a modest reduction in the price paid for those mortgage-backed securities. The price differential is directly related to the fact that the investor does not enjoy the higher yield typically offered by mortgagebacked securities relative to the interest rate earned on cash equivalents held for the period between normal settlement and the agreed upon deferred settlement. At December 31, 2021 and 2020, these securities had an amortized cost of \$27,961,147 and \$85,890,556, respectively. At December 31, 2021 and 2020,

these securities had a fair value of \$27,961,147 and \$85,890,556, respectively. The net of these amounts is included in fixed maturities on the Company's Consolidated Balance Sheet. Gains (losses) on deferred settlement mortgages in the financial statements were (\$1,406,351) for the year ended 2021 and \$2,584,269 for 2020.

## **5. LINE OF CREDIT**

The Company has an uncommitted line of credit with its investment custodian for 2021 and 2020. The Company can borrow up to \$125 million during the period March 1 through May 31 in any given year, while up to \$50 million is available for the remainder of the year. Under the arrangement, the investment custodian has agreed to review the Company's Consolidated Financial Statements on a regular basis, so that the Company may borrow funds for general corporate purposes or place letters of credit without the normal lengthy credit review process. The uncommitted nature of the line provides the investment custodian the flexibility to deny use of this line if it is so inclined. In 2021 and 2020, the Company borrowed \$125 million in each respective year against the line of credit.

## **6. RESERVE FUND, ESCROW DEPOSIT, AND TRUST ASSETS**

The Company is required to maintain assets on deposit with various regulatory authorities to support insurance and reinsurance operations. These requirements are generally promulgated in the statutory regulations of the individual jurisdictions. The assets on deposit are available to settle insurance and reinsurance liabilities. Under the Incorporating Act of Bermuda, the Company must, at all times, maintain a reserve fund. At December 31, 2021 and 2020, the reserve fund was \$250,000. The Company established a trust held by its custodian, Northern Trust, with certain investments, in the event of default of its reinsurance obligation with Energy Insurance Mutual Limited (EIM). The Company is required to maintain sufficient funds to cover 102% of reserves for claims including reported claim loss and loss expense, and unearned premium under its reinsurance agreement with EIM. At December 31, 2021 and 2020, assets held in trust that are required to satisfy claim liabilities with EIM were approximately \$65 million and \$44 million, respectively, and are included in equity securities, at fair value on the Consolidated Balance Sheet.

At year-end 2020, the Company established a trust fund, on behalf of CHL, in order to provide additional assurance that U.S. policyholders are secure in accordance with the NAIC's requirements for Alien Insurers. The trust fund is held by its custodian, Northern Trust. At establishment, the trust fund minimum amount of \$5.4 million was funded. Going forward, the required funding amount will be determined no less than annually and will be based on the U.S. gross surplus lines liabilities or the direct non-admitted U.S. liabilities, excluding liabilities arising from aviation, ocean marine and transportation insurance, and direct placements on a sliding scale basis.

## **7. RETROSPECTIVE PREMIUM ADJUSTMENT**

Upon the sole discretion of the Board of Directors, the Company can call upon the Members for payment of proportionate retrospective premium adjustments, in whole or in part, to cover losses and the related costs incurred by the Company with respect to a policy year to which they have subscribed.

Each Member insured is contingently liable to the Company for retrospective premium adjustments based on losses occurring in each year. Under the Primary, Accidental Outage, and Excess programs, and inclusive of Builders' Risk, the maximum adjustment is equal to ten times the annualized policy premiums.

The liability of the Members for the retrospective premium adjustment for any policy year ceases six years after the end of that policy year unless prior demand has been made. If a Member terminates its relationship with NEIL, it will still retain its obligation to respond to a retrospective premium call by the Company pursuant to the terms of any nuclear insurance policy that Member had with NEIL or NEIL Overseas prior to termination.

The maximum potential retrospective premiums, which could be demanded by the Company as of December 31, from the Members of each program, with respect to the current policy year, comprise:

<i>(In thousands of U.S. Dollars)</i>	<b>2021</b>	<b>2020</b>
Primary	\$1,424,707	\$1,631,392
Accidental Outage	511,494	516,314
Excess	189,630	199,534
	<u>\$ 2,125,831</u>	<u>\$ 2,347,239</u>

The Company requires its Members to maintain an investment grade credit rating or to take certain specified actions to ensure collectability of their retrospective premiums. All non-investment grade and unrated Members are required to provide security for their retrospective premium obligations in the form of one of the following mechanisms: Financial Guarantee, Letter of Credit, Deposit Premium, or Retrospective Premium Insurance. In 2021 and 2020, the retrospective premiums for non-investment grade Members represented 8.23% and 12.62% of the total, respectively. Management believes that it is unlikely that any retrospective premium adjustments will be required for policies whose terms have expired. No retrospective premium adjustments were required for the years ended December 31, 2021 and 2020.

## **8. REINSURANCE**

In the normal course of business, the Company seeks to reduce its exposure to losses that may arise by reinsuring certain levels of risk with other insurance enterprises or reinsurers. Such reinsurance does not relieve the Company from its obligations to policyholders.

In 2021, reinsurance coverage for nuclear events applying to the Primary and Excess programs consists of \$1.45 billion attaching excess of \$750 million. Reinsurance coverage for non-nuclear events applying to the Primary and Excess Non-Nuclear programs (including NSIC) consists of \$1.5 billion attaching excess of \$750 million. Additionally, starting in 2021, separate reinsurance coverage was procured for specialty property programs, consisting of \$18.75 million part of \$75

million attaching excess of \$50 million. This reinsurance coverage is focused on the coverage provided by the Specialties underwriting group via CHL.

Coverage for Builders' Risk programs consists of both facultative and treaty reinsurance participation at various attachment points, with or without the nuclear exposure.

In addition to writing Non-Member business on a direct basis, the Company assumed reinsurance from non-affiliated entities for both Nuclear and Specialties coverages for a maximum limit of up to \$150,000,000 per occurrence at December 31, 2021 and December 31, 2020. The risks are primarily property damage and third-party liability for facilities involved in the nuclear industry as well as risks that are similar to the Company's direct business. Premiums written in connection with these assumed agreements in 2021 and 2020 were \$37,973,000 and \$42,726,000, respectively. Premiums earned in connection with these assumed agreements were \$43,527,000 in 2021 and \$40,077,000 in 2020.

While the Company is transitioning to writing the Specialty programs of its Members on a direct basis, eliminating the quarter lag recording, the Company continues to assume reinsurance in support of the same programs. Such assumed reinsurance was written on a quota share basis or excess of loss basis and the maximum limit was approximately \$300,000,000 per occurrence, similar in nature to the direct business written. Premiums written in connection with these assumed agreements in 2021 and 2020 were \$54,214,000 and \$65,462,000, respectively. Premiums earned in connection with these assumed agreements were \$65,427,000 in 2021 and \$49,358,000 in 2020.

A breakdown of premiums earned by method of acquisition and program as of December 31, 2021 and 2020 is as follows:

<i>(In thousands of U.S. Dollars)</i>	<b>2021</b>	<b>2020</b>
<b>Direct Earned Premiums</b>		
Core Nuclear	\$ 219,480	\$ 238,476
Member Conventional	19,343	41
Non-Member	4,390	3,280
	<u>\$ 243,213</u>	<u>\$ 241,797</u>
<b>Assumed Earned Premiums</b>		
Core Nuclear	\$ -	\$ -
Member Conventional	65,427	49,358
Non-Member	43,527	40,077
	<u>\$ 108,954</u>	<u>\$ 89,435</u>
<b>Ceded Earned Premiums</b>		
Core Nuclear	\$ (47,976)	\$ (55,402)
Member Conventional	(807)	-
Non-Member	-	-
	<u>\$ (48,783)</u>	<u>\$ (55,402)</u>
<b>Net Earned Premiums</b>	<u>\$ 303,384</u>	<u>\$ 275,830</u>

## 9. UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

Activity in unpaid losses and loss adjustment expenses is summarized as follows:

<i>(In thousands of U.S. Dollars)</i>	<b>2021</b>	<b>2020</b>
Gross Balance at January 1	\$ 398,022	\$ 238,453
Less: reinsurance recoverables	59	59
Net Balance at January 1	<u>397,963</u>	<u>238,394</u>
Incurred related to:		
Current year	191,026	318,243
Prior years	(31,504)	(41,636)
Total incurred	<u>159,522</u>	<u>276,607</u>
Paid related to:		
Current year	(4,147)	(28,500)
Prior years	(122,886)	(88,538)
Total paid	<u>(127,033)</u>	<u>(117,038)</u>
Effects of foreign exchange rates	-	-
Net Balance at December 31	\$ 430,453	\$ 397,963
Plus: ceded case and reinsurance recoverables	8,168	59
Gross Balance at December 31	<u>\$ 438,621</u>	<u>\$ 398,022</u>

The loss and loss adjustment expenses above include losses on both direct insured and assumed reinsurance business. Based on the Company's current loss reserve position, no material losses were ceded to reinsurers during the 2021 and 2020 calendar years, with respect to any claims for which coverage and reserve determinations have been made. Loss and loss adjustment expenses for the current year were \$191,026,000 as compared with \$318,243,000 in 2020. For the years ended December 31, 2021 and 2020, claims and claim adjustment expenses incurred included favorable development of \$31,504,000 and \$41,636,000, respectively. The favorable prior-year development experienced in 2021 and 2020 was the result of settlements of large claim liabilities that were less than was reserved in the prior year and a re-estimation of Incurred But Not Reported (IBNR) on prior-year claims after receiving additional information. Loss payments were \$127,033,000 and \$117,038,000 for 2021 and 2020, respectively.

The following information is presented by significant product lines of business. The lines are aggregated by Member Nuclear, Member Specialty, and Non-Member.

When a Member Nuclear claim is reported, the claim is assigned to NEIL Services for investigation and adjustment. The Company may engage an outside adjuster to assist in the analysis of the claim. In certain instances, involving complex technical issues, outside experts may be retained to help evaluate the extent and value of the loss. Once a claim has been evaluated and believed to be a covered loss, a specific loss reserve based on the best information currently available is booked

for the likely loss to be incurred. As new information becomes available or payments are made on a claim, the case reserve is adjusted to reflect the revised estimate of the ultimate amount to be paid out. Estimates and assumptions pertaining to individual claims are based on complex and subjective judgments and subject to change at any time as new information becomes available.

For claims involving the Member Specialty and Non-Member insurance programs, NEIL establishes reserves based on the loss amount determined by the lead insurer and NEIL's participation percentage on the policy.

In addition to case reserves, IBNR reserves are established to provide for claims which have not been reported to the Company as of the reporting date as well as potential adverse development on known case reserves. In general, IBNR reserve estimates are derived through a number of analytical techniques. Actuarial data is analyzed by line of business, coverage, and accident year. Qualitative factors are also considered in determining IBNR reserves and include such factors as changes in policy forms and underwriting changes. Reserves are reviewed biannually, and any indicated adjustments are made. While the Company has used its best judgment and the most current information available in recording the reserves, there is significant uncertainty in estimation of the ultimate claims.

Due to the inherent uncertainties in establishing both case and IBNR reserves, ultimate loss experience may prove better or worse than indicated by the combined claim reserves. Adjustments to claim reserves are reflected in the period recognized and could increase or decrease earnings for the period.

The following tables present incurred and paid claims development as of December 31, 2021, net of reinsurance, as well as cumulative claim frequency and the total IBNR liabilities, 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 December 31, 2011 to 2021, is presented as supplementary information and is unaudited. For all significant lines, the number of claims presented below equals the number of occurrences reported to the Company. The number of claims reported during a given year corresponds to the number of claims records opened during the year. Frequency information is maintained on a cumulative basis by line of business.

Member Nuclear

Incurring Claims and Loss Adjustment Expenses, Net of Reinsurance

As of December 31, 2021

(In thousands of U.S. Dollars)

Accident Year	2011 and Prior	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	IBNR Reserves	Cumulative Number of Reported Claims
2011 and Prior	2,109,686	522,322	(31,344)	(3,983)	3,513	(8,773)	(588)	-	-	-	-	-	-
2012	-	68,828	(20,499)	198,411	208,590	(12,897)	(5,544)	-	-	-	-	-	7
2013	-	-	168,334	(41,915)	(9,773)	(6,111)	723	12,228	(462)	-	-	-	10
2014	-	-	-	109,810	(40,972)	(2,205)	(4,951)	(375)	-	-	-	-	7
2015	-	-	-	-	52,505	(14,009)	(9,225)	(2,009)	(195)	(34)	(3,579)	20	9
2016	-	-	-	-	-	81,616	(31,194)	(6,855)	(2,012)	-	-	-	7
2017	-	-	-	-	-	-	138,953	(20,324)	(13,882)	(2,996)	(2,178)	-	7
2018	-	-	-	-	-	-	-	50,021	(37,644)	(3,232)	(9,111)	19	1
2019	-	-	-	-	-	-	-	-	44,835	(38,767)	(3,368)	1,181	1
2020	-	-	-	-	-	-	-	-	-	246,944	(30,678)	23,591	5
2021	-	-	-	-	-	-	-	-	-	-	105,864	32,884	7
Total											\$ 56,950		

Member Nuclear

Cumulative Paid Claims and Loss Adjustment Expenses, Net of Reinsurance

(In thousands of U.S. Dollars)

Accident Year	2011 and Prior	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
2011 and Prior	1,838,749	106,721	643,579	581	329	791	81	-	-	-	-
2012	-	26	1,813	19,651	401,651	10,884	2,863	-	-	-	-
2013	-	-	17,460	66,543	10,193	15,838	216	12,492	281	-	-
2014	-	-	-	100	23,211	17,817	20,161	18	-	-	-
2015	-	-	-	-	70	6,903	12,512	-	8	4	-
2016	-	-	-	-	-	1	16,051	25,456	47	-	-
2017	-	-	-	-	-	-	46	62,363	29,685	20	7,459
2018	-	-	-	-	-	-	-	-	30	28	15
2019	-	-	-	-	-	-	-	-	1,488	26	5
2020	-	-	-	-	-	-	-	-	-	20,849	91,195
2021	-	-	-	-	-	-	-	-	-	-	1,189
Total											\$ 99,862

All outstanding liabilities relating to prior years, net of reinsurance 256,910

Liabilities for claims and claim adjustment expenses, net of reinsurance 213,998

**Member Specialty**  
**Incurred Claims and Loss Adjustment Expenses, Net of Reinsurance**  
*(In thousands of U.S. Dollars)*

As of December 31, 2021

Accident Year	2011 and Prior	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	IBNR Reserves	Cumulative Number of Reported Claims
2011 and Prior	230,808	461	9,254	(1,431)	(671)	480	(209)	-	316	208	-	-	-
2012	-	51,848	12,002	8,754	(1,417)	(6,950)	(4,299)	(788)	(101)	-	-	-	37
2013	-	-	14,667	(3,946)	(3,240)	(1,131)	(705)	485	(91)	(16)	-	-	16
2014	-	-	-	11,890	(3,752)	(4,067)	(906)	(167)	(131)	(47)	(3)	-	19
2015	-	-	-	-	14,399	(8,964)	(2,536)	(993)	(26)	(103)	(82)	3	17
2016	-	-	-	-	-	15,115	(1,113)	(2,728)	(468)	(313)	(124)	24	40
2017	-	-	-	-	-	-	14,472	(2,857)	(2,036)	(1,403)	(342)	372	41
2018	-	-	-	-	-	-	-	30,465	(5,199)	(2,645)	6,681	684	34
2019	-	-	-	-	-	-	-	-	12,035	2,215	(2,716)	2,994	49
2020	-	-	-	-	-	-	-	-	-	40,935	7,941	11,607	70
2021	-	-	-	-	-	-	-	-	-	-	67,742	39,960	31
Total											\$ 79,096		

**Member Specialty**  
**Cumulative Paid Claims and Loss Adjustment Expenses, Net of Reinsurance**  
*(In thousands of U.S. Dollars)*

Accident Year	2011 and Prior	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
2011 and Prior	167,920	25,667	26,574	10,266	5,327	2,256	681	-	316	208	-
2012	-	16	20,170	9,807	25,065	2,928	1,099	(36)	-	-	-
2013	-	-	3,004	1,066	877	11	524	520	19	0	-
2014	-	-	-	660	1,457	475	208	2	0	0	0
2015	-	-	-	-	206	540	129	373	73	51	322
2016	-	-	-	-	-	17	3,748	5,039	1,375	129	0
2017	-	-	-	-	-	-	213	1,869	1,989	1,731	518
2018	-	-	-	-	-	-	-	2,665	1,735	11,182	2,252
2019	-	-	-	-	-	-	-	-	120	4,991	2,494
2020	-	-	-	-	-	-	-	-	-	4,629	3,938
2021	-	-	-	-	-	-	-	-	-	-	524
Total											\$ 10,049

All outstanding liabilities relating to prior years, net of reinsurance 55,467

Liabilities for claims and claim adjustment expenses, net of reinsurance 124,516

**Non-Member  
Incurred Claims and Loss Adjustment Expenses, Net of Reinsurance**  
(In thousands of U.S. Dollars)

As of December 31, 2021

Accident Year	2011 and Prior	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	IBNR Reserves	Cumulative Number of Reported Claims
2011 and Prior	140,977	(4,106)	7,940	581	(1,640)	(661)	(16,147)	(5,399)	(781)	(639)	159	950	
2012	-	7,063	8,532	3,542	1,424	(2,251)	(1,128)	(589)	(1,923)	(255)	(145)	861	20
2013	-	-	12,401	2,171	13,901	(263)	(6,519)	(4,107)	(1,321)	(600)	(457)	681	22
2014	-	-	-	15,078	5,652	(4,028)	(7,989)	(1,769)	(1,125)	(529)	(6)	1,217	22
2015	-	-	-	-	31,349	332	(20,207)	2,102	16,118	(659)	1,588	1,661	42
2016	-	-	-	-	-	31,440	(9,666)	190	941	31	(199)	2,535	57
2017	-	-	-	-	-	-	24,580	3,648	18,367	6,292	6,544	3,899	98
2018	-	-	-	-	-	-	-	17,218	4,743	644	1,831	3,027	106
2019	-	-	-	-	-	-	-	-	18,847	1,212	2,404	5,656	87
2020	-	-	-	-	-	-	-	-	-	30,364	(5,662)	13,466	112
2021	-	-	-	-	-	-	-	-	-	-	17,420	12,826	42
Total											\$ 23,476		

**Non-Member  
Cumulative Paid Claims and Loss Adjustment Expenses, Net of Reinsurance**  
(In thousands of U.S. Dollars)

Accident Year	2011 and Prior	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
2011 and Prior	86,885	1,736	5,796	9,996	2,216	8,186	2,499	1,633	52	8	9
2012	-	-	250	219	2,727	3,368	1,180	4,109	770	193	11
2013	-	-	-	1,078	2,348	2,684	6,617	-	-	-	-
2014	-	-	-	-	1,418	325	1	-	-	-	-
2015	-	-	-	-	0	753	1,623	159	536	20,196	1,551
2016	-	-	-	-	-	19	2,750	4,512	3,058	4,701	2,592
2017	-	-	-	-	-	-	5	5,477	4,683	31,459	153
2018	-	-	-	-	-	-	-	1,340	3,398	9,647	1,013
2019	-	-	-	-	-	-	-	-	196	3,963	4,492
2020	-	-	-	-	-	-	-	-	-	3,023	4,869
2021	-	-	-	-	-	-	-	-	-	-	2,434
Total											\$ 17,122

All outstanding liabilities relating to prior years, net of reinsurance 85,585

Liabilities for claims and claim adjustment expenses, net of reinsurance 91,939

The reconciliation of the net incurred and paid claims development tables to the liability for loss and loss adjustment expenses in the Consolidated Balance Sheet is as follows:

	<i>(In thousands of U.S. Dollars)</i>	
	<b>December 31, 2021</b>	<b>December 31, 2020</b>
<b>Net outstanding liabilities</b>		
Member Nuclear	\$ 213,998	\$ 256,911
Member Specialty	124,516	55,467
Non-Member	91,939	85,585
Liabilities for unpaid claims and claim adjustment expenses, net of reinsurance	430,454	397,964
<b>Ceded Case and Reinsurance recoverable on unpaid claims</b>		
Member Nuclear	8,168	59
Member Specialty	-	-
Non-Member	-	-
Total ceded case and reinsurance recoverable on unpaid claims	8,168	59
<b>Total gross liability for unpaid claims and claim adjustment expenses</b>	<b>\$ 438,621</b>	<b>\$ 398,022</b>

The following is supplementary information to the Consolidated Financial Statements about average historical claims duration as of December 31, 2021:

Years	1	2	3	4	5	6	7	8	9	10
Member Nuclear	8.1%	39.3%	33.6%	26.0%	1.7%	2.2%	0.1%	0.0%	0.0%	0.0%
Member Specialty	10.9%	28.1%	23.7%	16.4%	4.3%	2.7%	4.8%	0.0%	0.0%	0.0%
Non-Member	3.3%	12.3%	14.5%	15.4%	15.0%	17.1%	8.5%	1.8%	0.7%	0.1%

## 10. INCOME TAXES

Bermuda presently imposes no income, withholding or capital gains taxes, and the Company is exempted until March 2035 from any such taxes pursuant to the Bermuda Exempted Undertakings Tax Protection Act 1966, Amendment Act 1973. The Company made an election pursuant to Internal Revenue Code Section 953(d) to be taxed as a U.S domestic corporation. CHL will timely file a 953(d) election for the 2021 tax year to treat the company as a 1120-PC insurance company for US tax purposes.

The expense (benefit) for U.S. federal income tax is comprised of the following:

(In thousands of U.S. Dollars)

	<b>2021</b>	<b>2020</b>
Current	\$ 26,939	\$ (121,431)
Deferred	(18,591)	24,636
	\$ 8,348	\$ (96,795)

The components of the net deferred tax liability as of December 31, 2021 and 2020 are as follows:

(In thousands of U.S. Dollars)

	<b>2021</b>	<b>2020</b>
Unearned premium reserve	\$ 4,279	\$ 4,025
Loss Reserve discount	4,244	3,956
Investment impairments	3,861	4,161
U/R Derivative Income	2,084	(930)
Deferred expenses	8,468	9,813
Foreign Tax Credit	31,052	14,458
NEIL & NEILO operating loss and Other, net	17,963	1,394
Total Deferred Tax Assets	\$ 71,950	\$ 36,877
Deferred acquisition costs	(336)	(282)
Alternative investments	(20,889)	(20,151)
Bond Amortization	5,003	(1,004)
Other investments	1,957	(6,807)
Gain/losses on fair value option securities	(264,349)	(241,703)
Other, net	98	37
Total Deferred Tax Liabilities	\$ (278,516)	\$ (269,910)
Net Deferred Tax Liability	\$ (206,566)	\$ (233,033)

There was no valuation allowance recorded against the deferred tax assets, at December 31, 2021 and 2020, as the Company believes it is more likely than not that the deferred tax assets would be realized. The company has approximately \$75 million of NOL that will begin to expire in 2041.

A roll forward of the income tax receivable (payable) for the year ended December 31, 2021 and 2020 are as follows:dated Financial Statements as of December 31, 2021 and 2020.

(In thousands of U.S. Dollars)

	2021		2020	
Current tax receivable, January 1	\$	159,111	\$	67,133
Current federal tax benefit (expense)		(26,939)		121,281
Current state tax benefit (expense)		(164)		121,281
Estimated payments		1,885		638
Refunds received and other		7		(29,941)
<b>Current Tax Receivable</b>	<b>\$</b>	<b>133,900</b>	<b>\$</b>	<b>280,392</b>

The provision for income taxes was determined by applying the 21% U.S. statutory federal tax rate to pre-tax net income (loss) adjusted as follows:

(In thousands of U.S. Dollars)

	2021		ETR	2020		ETR
(Loss) Earnings before income taxes	\$	32,467		\$	(201,701)	
Statutory Tax Rate		21%			21%	
Statutory Tax/(Benefit)		6,818	21%		(42,357)	21%
Dividend received deduction		(1,518)	-5%		(1,801)	1%
Foreign tax credits		(429)	-1%		(2,056)	1%
Net operating losses		2,655	8%		(48,894)	24%
Other		822	3%		(1,687)	1%
<b>Income tax expense (benefit)</b>	<b>\$</b>	<b>8,348</b>	<b>26%</b>	<b>\$</b>	<b>(96,795)</b>	<b>48%</b>

The Company determined that all tax positions have been accounted for within these Consolidated Financial Statements, and that all tax positions are more likely than not to be sustained in the event the Company was audited by the federal, state, and international tax authorities, and therefore, the Company does not have any unrecognized tax benefits as of December 31, 2021 and 2020.

The Company is subject to taxation in the U.S. and various states and foreign jurisdictions. The Internal Revenue Service ("IRS") audit for the 2005 through 2009 tax years has been finalized and closed. The results of this examination had no material effect on the Company's financial condition, results of operations, or cash flows. IRS statutes have expired for years 2017 and prior. As a result of a NOL carryback filing the 2017 and 2018 tax years are currently under IRS review.

## 11. COMMITMENTS AND CONTINGENCIES

As of December 31, 2021, the Company has committed to 38 private equity limited partnerships in the amount of \$736,358,000. The unfunded portion of these commitments as of December 31, 2021, is \$208,880,000 and is payable over the funds' life. The Company has committed to 18 real estate partnerships in the amount of \$482,502,000. The unfunded portion of these commitments as of December 31, 2021, is \$123,813,000 payable over the funds' life.

The Company leases office space under an operating lease and is in the process of relocating to a different building in 2023. Future non-cancellable minimum rental commitments under the lease are as follows:

<b>Year</b>	<i>(In thousands of U.S. Dollars)</i>
2022	1,950
2023	887
2024	-
2025	-
2026	-
Years thereafter	-
<b>Total</b>	<b>\$2,837</b>

The Company is subject to certain legal proceedings and claims that arise in the normal course of business. In the opinion of management, the ultimate outcome of those actions will not have a material impact on the Company's Consolidated Financial Statements.

## 12. STATUTORY ACCOUNTING INFORMATION

Policyholders' Surplus and Earnings calculated in accordance with statutory accounting practices prescribed or permitted by the Insurance Department of the State of Delaware, differs from US GAAP in the reporting of investments, unsecured reinsurance recoverable amounts, fixed assets, deferred taxes, and certain other items. These differences include, but are not limited to, the investments in bonds, which the Company holds as available-for-sale and carries at amortized cost for statutory purposes, rather than at fair value, investments in common stocks, which are valued as prescribed by the Securities Valuation Office ("SVO") of the National Association of Insurance Commissioners ("the NAIC"), unsecured reinsurance amounts recoverable from unauthorized and certain authorized reinsurers, which are excluded from net assets by a direct charge to unassigned surplus, certain assets designated as non-admitted, which are excluded from the statutory statements of assets, liabilities, capital, and surplus by direct charge to unassigned surplus; and changes in deferred tax balances, which are recognized as a direct benefit or charge to unassigned surplus.

Differences in statutory Policyholders' Surplus from that shown on the Consolidated Balance Sheet, at December 31, 2021 and 2020 are as follows:

		(In thousands of U.S. Dollars)	
		<b>2021</b>	<b>2020</b>
Statutory Policyholders' Surplus	\$	4,175,603	\$ 4,209,023
Valuation of fixed maturities		114,596	91,489
Provision for Schedule F		11,825	11,351
Non-admitted assets		6,370	5,036
Miscellaneous		397	(1,583)
<b>Total Policyholders' Surplus</b>	<b>\$</b>	<b>4,308,791</b>	<b>\$ 4,315,316</b>

Differences in statutory Net Earnings from that shown on the Consolidated Statements of Operations and Comprehensive (Loss) Earnings for the years ended December 31, 2021 and 2020 are as follows:

		(In thousands of U.S. Dollars)	
		<b>2021</b>	<b>2020</b>
Statutory net earnings	\$	(194,501)	\$ (139,424)
Deferred income taxes		17,503	(24,685)
Underwriting income		(520)	8,309
Investment income		200,268	41,344
Miscellaneous		1,368	9,550
<b>Net Earnings</b>	<b>\$</b>	<b>24,118</b>	<b>\$ (104,906)</b>

### 13. SUBSEQUENT EVENTS

Following the invasion of Ukraine by Russia, the Company completed a review of its exposure, sanctions compliance, investment portfolio, and impact on global reinsurance markets where it participates. This review confirmed no meaningful impact, and the Company continues to monitor sanctions compliance.

There were no other subsequent events to note through March 29, 2022, which is the date the Consolidated Financial Statements were available to be issued.

Nuclear Electric Insurance Limited (NEIL), located in Wilmington, Delaware, insures domestic and international nuclear utilities for the costs associated with accidental interruptions, damages, contamination and related nuclear risks. NEIL was founded in 1973 with the formation of Nuclear Mutual Limited (NML) in Bermuda. NML was formed by a group of U.S. electric utilities as an alternative to the commercial nuclear insurance market. NEIL was formed in 1980 to issue excess property and accidental outage policies to complement the policies being issued by NML. In 1988, both companies moved their operations from Bermuda to Wilmington, Delaware, and, in 1997, NML was merged into NEIL.

In 1999, the Company expanded operations by launching NEIL Overseas dac in Dublin, Ireland.



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