As confidentially submitted to the Securities and Exchange Commission on June 8, 2022. This draft registration statement has not been publicly filed with the Securities and Exchange Commission and all information herein remains strictly confidential.

Registration No. 333-

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 1
TO

FORM S-1

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

SKYWARD SPECIALTY INSURANCE GROUP, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**6331**	**14-1957288**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

800 Gessner Road, Suite 600
Houston, TX 77024-4284
(713) 935-4800

(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

Andrew Robinson
Chief Executive Officer
Skyward Specialty Insurance Group, Inc.
800 Gessner Road, Suite 600
Houston, TX 77024-4284
(713) 935-4800

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Michael Murphy **Patrick J. O'Malley** **DLA Piper LLP (US)** **1251 Avenue of the Americas** **New York, NY 10020-1104** **(212) 335-4500**	**Marc D. Jaffe** **Erika L. Weinberg** **Adam V. Johnson** **Latham & Watkins LLP** **1271 Avenue of the Americas** **New York, NY 10020** **(212) 906-1200**

Approximate date of commencement of proposed sale to the public:
As soon as practicable after this registration statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box: ☐

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer ☐	Accelerated filer ☐	Non-accelerated filer ☒	Smaller reporting company ☐
			Emerging growth company ☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	**Proposed Maximum Aggregate Offering Price(1)(2)**	**Amount of Registration Fee**
Common Stock, par value $0.01 per share	$	$

(1) Includes offering price of any additional shares that the underwriters have the option to purchase.

(2) Estimated solely for the purpose of calculating the registration fee in accordance with Rule 457(o) under the Securities Act of 1933, as amended.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

Subject to Completion, Dated June 8, 2022

Shares

SKYWARD SPECIALTY INSURANCE

Skyward Specialty Insurance Group, Inc.

Common Stock

This is an initial public offering of shares of common stock of Skyward Specialty Insurance Group, Inc. We are offering shares of common stock. The selling stockholders identified in this prospectus are offering an additional shares of our common stock. We will not receive any proceeds from the sale of shares of our common stock by the selling stockholders.

Prior to this offering, there has been no public market for our common stock. It is currently estimated that the initial public offering price per share will be between $ and $. We have applied to list our common stock on the Nasdaq Global Select Market ("Nasdaq") under the symbol "SKWD."

We are an "emerging growth company" as defined under the federal securities laws, and as such, we have elected to comply with certain reduced reporting requirements for this prospectus and may elect to do so in future filings.

See "Risk Factors" beginning on page 21 to read about factors you should consider before buying shares of our common stock.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

	Per Share	Total
Initial public offering price	$	$
Underwriting discount[(1)]	$	$
Proceeds, before expenses, to Skyward Specialty Insurance Group, Inc.[(1)]	$	$
Proceeds, before expenses, to the selling stockholders	$	$

(1) See the section entitled "Underwriting" for additional information regarding compensation payable to the underwriters.

To the extent that the underwriters sell more than shares of common stock, the underwriters have the option to purchase up to an additional shares of common stock from us at the initial public offering price less the underwriting discount.

The underwriters expect to deliver the shares against payment in New York, New York on , 2022.

Barclays **Keefe, Bruyette & Woods**
A Stifel Company

Prospectus dated , 2022.

TABLE OF CONTENTS

You should rely only on the information contained in this prospectus and any free writing prospectus that we may provide to you in connection with this offering. We, the selling stockholders and the underwriters have not authorized anyone to provide you with different information or to make any other representations, and we, the selling stockholders and the underwriters take no responsibility for, and can provide no assurance as to the reliability of, any other information others may give you. We and the selling stockholders are offering to sell, and seeking offers to buy, shares of our common stock only under circumstances and in jurisdictions where it is lawful to do so. Neither we, the selling stockholders nor any of the underwriters are making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should not assume that the information contained in this prospectus is accurate as of any date other than its date. Our business, financial condition, results of operations and prospects may have changed since that date.

For investors outside the United States: Neither we, the selling stockholders nor any of the underwriters have done anything that would permit this offering or the possession or distribution of this prospectus in any jurisdiction where action for those purposes is required, other than in the United States. Persons outside of the United States who come into possession of this prospectus must inform themselves about, and observe any restrictions relating to, the offering of the shares of our common stock and the distribution of this prospectus outside of the United States.

TRADEMARKS

Our material registered and unregistered trademarks include: Skyward Specialty Insurance Group, Inc.™, SkyDrive™ and SkyHigh™. All other trademarks, trade names and service marks appearing in this prospectus or the documents incorporated by reference herein are the property of their respective owners. Use or display by us of other parties' trademarks, trade dress or products is not intended to and does not imply a relationship with, or endorsements or sponsorship of, us by the trademark or trade dress owner. Solely for convenience, trademarks and tradenames referred to in this prospectus appear without the ® and ™ symbols, but those references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights or that the applicable owner will not assert its rights, to these trademarks and tradenames.

MARKET, INDUSTRY AND OTHER DATA

We use market and industry data, forecasts and projections throughout this prospectus. We have obtained certain market and industry data from publicly available industry publications. These sources generally state that the information they provide has been obtained from sources believed to be reliable, but that the accuracy and completeness of the information are not guaranteed. Notwithstanding the foregoing, we believe the market and industry data, forecasts and projections used throughout this prospectus to be reliable as of the date hereof. The forecasts and projections are based on historical market data, and there is no assurance that any of the forecasts or projected amounts will be achieved. The market and industry data used in this prospectus involve risks and uncertainties that are subject to change based on various factors, including those discussed in the section entitled "Risk Factors." These and other factors could cause results to differ materially from those expressed in, or implied by, the estimates made by independent parties and by us. Furthermore, we cannot assure you that a third party using different methods to assemble, analyze or compute industry and market data would obtain the same results.

The source of certain statistical data, estimates and forecasts contained in this prospectus are the following independent industry publications or reports:

A.M. Best, *Expanding Opportunities Boost Surplus Lines Growth and Spur Improved Operating Profits*, dated September 16, 2021.

USE OF NON-GAAP FINANCIAL INFORMATION

This prospectus contains certain financial measures and ratios that are not required by, or presented in accordance with, generally accepted accounting principles in the United States ("GAAP"). We refer to these measures as "non-GAAP financial measures." We use these non-GAAP financial measures when planning, monitoring and evaluating our performance. We have chosen to exclude the net impact of the Loss Portfolio Transfer ("LPT"), all development on reserves fully or partially covered by the LPT, and reinsurance recoveries under the LPT in certain non-GAAP metrics, where noted below, as the business subject to the LPT is not representative of our continuing business strategy. The business subject to the LPT is related to policy years 2017 and prior, was generated and managed under prior leadership, and has either been exited or substantially repositioned during the reevaluation of our portfolio. See the section entitled "Business — Our Business" for more details. We consider these non-GAAP financial measures to be useful metrics for our management and investors to facilitate operating performance comparisons from period to period.

The non-GAAP financial measures we use herein are defined by us as follows:

Underwriting income (loss). We define underwriting income (loss) as income (loss) before income taxes excluding net investment income, net realized and unrealized gains and losses on investments, impairment charges, interest expense, amortization expense and other income and expenses.

Adjusted loss ratio. We define adjusted loss ratio as the ratio of losses and loss adjustment expenses ("LAE"), excluding losses and LAE related to the LPT agreement and all development on reserves fully or partially covered by the LPT agreement, to net earned premiums.

Adjusted combined ratio. We define adjusted combined ratio as the sum of the adjusted loss ratio and the expense ratio.

Adjusted operating income (loss). We define adjusted operating income (loss) as net income excluding the impact of the LPT and all development on reserves fully or partially covered by the LPT and reinsurance recoveries under the LPT, net realized and unrealized gains or losses on investments, goodwill impairment charges and other income and expenses.

Adjusted return on equity. We define adjusted return on equity as adjusted operating income as a percentage of average beginning and ending stockholders' equity, plus any temporary equity, during the applicable period.

Tangible stockholders' equity. We define tangible stockholders' equity as stockholders' equity, plus any temporary equity, during the applicable period less goodwill and intangible assets.

Return on tangible equity. We define return on tangible equity as net income as a percentage of average beginning and ending tangible stockholders' equity during the applicable period.

Adjusted return on tangible equity. We define adjusted return on tangible equity as adjusted operating income as a percentage of average beginning and ending tangible stockholders' equity during the applicable period.

While we believe that these non-GAAP financial measures are useful in evaluating our business, this information should be considered supplemental in nature and is not meant to be a substitute for revenue or net income, in each case as recognized in accordance with GAAP. In addition, other companies, including companies in our industry, may calculate such measures differently, which reduces their usefulness as comparative measures. For more information regarding these non-GAAP financial measures and a reconciliation of such measures to comparable GAAP financial measures, see the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations — Reconciliation of Non-GAAP Financial Measures."

In addition to the non-GAAP financial measures defined above, we also refer to the following metrics throughout this prospectus, as defined below:

Net retention, expressed as a percentage, is the ratio of net written premiums to gross written premiums.

Loss ratio, expressed as a percentage, is the ratio of losses and LAE to net earned premiums.

Expense ratio, expressed as a percentage, is the ratio of underwriting, acquisition and insurance expenses less commission and fee income to net earned premiums. In certain instances, fee income relates to business placed with other insurers as part of our packaged solution.

Combined ratio is the sum of loss ratio and expense ratio. A combined ratio under 100% indicates an underwriting profit. A combined ratio over 100% indicates an underwriting loss.

Return on equity is net income as a percentage of average beginning and ending stockholders' equity, plus any temporary equity, during the applicable period.

PROSPECTUS SUMMARY

This summary highlights selected information that is presented in greater detail elsewhere in this prospectus. This summary does not contain all of the information you should consider before investing in our common stock. You should read this entire prospectus carefully, including the sections titled "Risk Factors," "Special Note Regarding Forward-Looking Statements" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," and our consolidated financial statements and the related notes included elsewhere in this prospectus before making an investment decision. Unless the context otherwise requires, the terms "Skyward Specialty," "we," "us" and "our" refer to Skyward Specialty Insurance Group, Inc. together with its consolidated subsidiaries. References to the "selling stockholders" refer to the selling stockholders named in this prospectus.

Skyward Specialty Insurance Group, Inc.

Who We Are

We are a growing specialty insurance company delivering commercial property and casualty ("P&C") products and solutions on a non-admitted (or excess and surplus ("E&S")) and admitted basis, predominantly in the United States. We focus our business on markets that are underserved, dislocated and/or for which standard insurance coverages are insufficient or inadequate to meet the needs of businesses, including our customers and prospective customers operating in these markets. Our customers typically require highly specialized, customized underwriting solutions and claims capabilities. As such, we develop and deliver tailored insurance products and services to address each of the niche markets we serve.

Our portfolio of insured risks is highly diversified — we insure customers operating in a wide variety of industries; we distribute through multiple channels; we write multiple lines of business, including general liability, excess liability, professional liability, commercial auto, group accident and health, property, surety and workers' compensation; we insure both short and medium duration liabilities; and our business mix is balanced between E&S and admitted markets. All of these factors enable us to respond to market opportunities and dislocations by deploying capital where we believe we can consistently earn attractive risk-adjusted returns. We believe this diversification, combined with our underwriting and claims expertise, will produce strong growth and consistent profitability across P&C insurance pricing cycles.

We seek to lead in our chosen market niches and establish sustainable competitive positions in these markets. The following key elements underpin our strategy and approach to our business:

1. Providing differentiated products, services and solutions that meet the unique needs of our target markets;
2. Attracting and retaining exceptional underwriting and claims talent and incentivizing our professionals in a manner that aligns with our organization and corporate goals;
3. Amplifying the expertise of our people with advanced technology and analytics that enable superior risk selection, pricing and claims management;
4. Empowering our underwriting and claims teams with considerable authority to make decisions and apply their expertise; and
5. Fostering a culture that promotes nimbleness and responsiveness to market opportunities and dislocation.

We refer to this strategy as "Rule Our Niche" and it forms the basis of our approach to building a strong defensible market position, creating a competitive moat, and winning in our chosen markets. We believe that the principles underlying our strategy are key to achieving and sustaining best-in-class underwriting results through P&C insurance pricing cycles. We consistently strive for excellence in risk selection, pricing, and claims outcomes, and to amplify these critical functions with the use of advanced technology and analytics.

We are led by an entrepreneurial executive management team with decades of insurance leadership experience spanning multiple aspects of the global P&C industry. Our leadership is supported by an experienced team with a broad skillset and aligned around our strategy. We believe our high-quality leadership and underwriting and claims teams, technology DNA, advanced analytics capabilities, diversified book of business, and strong competitive position in each of our chosen market niches position us to continue to profitably grow our business. We aim to deliver long-term value for our shareholders by generating best-in-class underwriting profitability and book value per share growth across P&C market cycles.

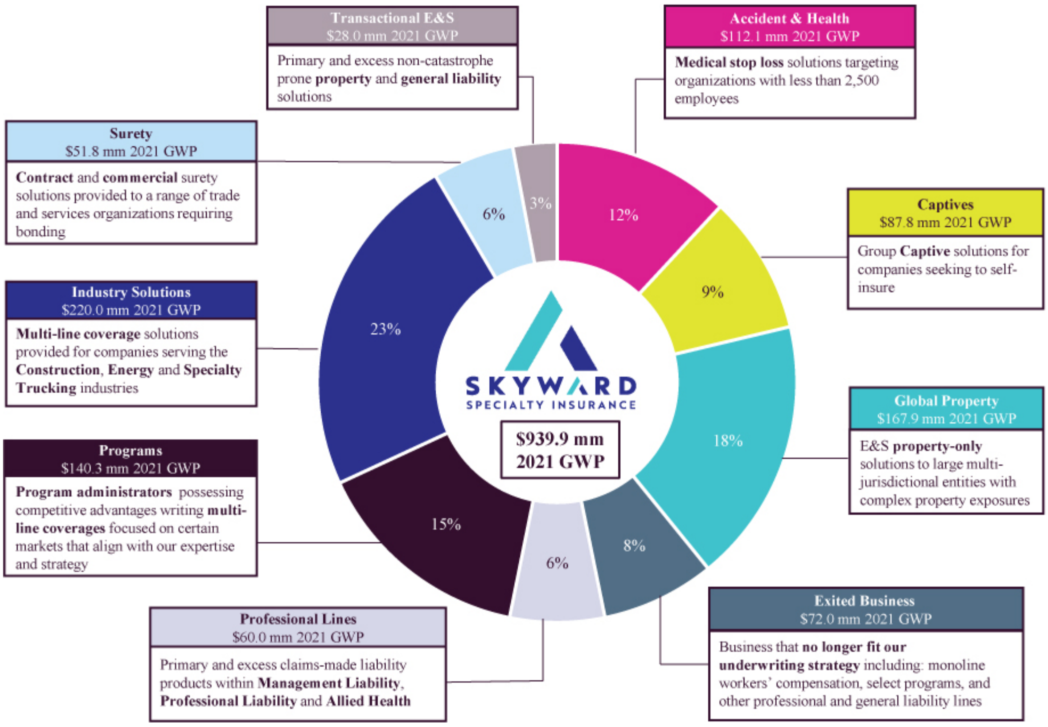
For the three months ended March 31, 2022, we wrote $282.6 million in gross written premiums and had a combined ratio and an adjusted combined ratio of 91.9%. At March 31, 2022, our stockholders' equity was $428.6 million. For the three months ended March 31, 2022, we generated $16.3 million and $19.8 million of net income and adjusted operating income, respectively, a 15.3% and 18.5% annualized return on equity and annualized adjusted return on equity, respectively and a 19.4% and 23.6% annualized return on tangible equity and annualized adjusted return on tangible equity, respectively.

For the year ended December 31, 2021, we wrote $939.9 million in gross written premiums, had a combined ratio of 97.8% and an adjusted combined ratio of 94.6%, and our stockholders' equity was $426.1 million at year end, an increase of 8.3% compared to the prior year period. For the year ended December 31, 2021, we generated $38.3 million and $36.1 million of net income and adjusted operating income, respectively, a 9.4% and 8.8% return on equity and adjusted return on equity, respectively and a 11.9% and 11.2% return on tangible equity and adjusted return on tangible equity, respectively. For a reconciliation of adjusted combined ratio to combined ratio, adjusted operating income to net income, adjusted return on equity to return on equity, return on tangible equity to return on equity, and adjusted return on tangible equity to return on equity, see the section entitled "Management's Discussion and Analysis of Financial Conditions and Results of Operations — Reconciliation of Non-GAAP Financial Metrics."

Our Business

We have one reportable segment through which we offer a broad array of insurance coverages to a number of market niches. In order to provide a clear overview of this segment, we provide a presentation of our eight distinct underwriting divisions. Each of the underwriting divisions has dedicated underwriting leadership supported by high-quality technical staff with deep experience in their respective niches. We believe this structure and expertise allow us to serve the needs of our customers effectively and be a value-add partner to our distributors, while earning attractive risk-adjusted returns.

The following chart represents our gross written premiums by underwriting division for the year ended December 31, 2021.



Accident & Health: Our Accident & Health ("A&H") underwriting division provides medical stop loss solutions targeting organizations with less than 2,500 employees that are actively seeking to take control of their healthcare costs by self-insuring a portion of their healthcare insurance. We write these products on an admitted basis and distribute primarily through retail brokers and wholesale broker partners.

Captives: Our Captives underwriting division provides group captive solutions by drawing on our underwriting and claims expertise from other underwriting divisions to create group captives for companies seeking to self-insure. Our Captive underwriting division writes property, general liability, commercial auto, excess liability, and workers' compensation lines of business on an E&S and an admitted basis. We often administer this business through partnerships with third-party captive managers.

Global Property: Our Global Property underwriting division provides property-only solutions to large multi-jurisdictional entities with complex property exposures. The business is written entirely on an E&S basis. We distribute this product through retail brokers and select wholesale brokers.

Professional Lines: Our Professional Lines underwriting division includes three underwriting units: Management Liability, Professional Liability, and Allied Health. Professional Liability and Allied Health provide E&S primary and excess claims-made liability products distributed exclusively through wholesale brokers, while our Management Liability unit provides both E&S and admitted products distributed through both wholesale and retail brokers.

Programs: Our Programs underwriting division partners with program administrators who typically possess a competitive advantage (owing to their scale in a particular market niche and/or proprietary technology) that we believe would be difficult for us to replicate on our own. The combination of our underwriting and claims expertise with their scale and/or technology creates a more powerful partnership than either party could present to the market on its own. Our Programs underwriting division writes property, general liability, commercial auto, excess liability, and workers' compensation lines of business on an E&S and an admitted basis.

Industry Solutions: Our Industry Solutions underwriting division includes three underwriting units that each provide multiple coverages to the businesses they serve: Construction, Energy and Specialty Trucking. Coverages include general liability, excess liability, commercial auto, workers' compensation, and inland marine. Our Construction and Energy underwriting units write principally on an admitted basis, while our Specialty Trucking unit writes on an E&S basis. We distribute these products through retail agents and brokers and a select network of wholesalers.

Surety: Our Surety underwriting division provides contract and commercial surety solutions to a range of trade and services organizations requiring bonding. We principally focus on small-to medium-sized enterprises with aggregate bond programs up to $50 million. Within our Surety underwriting division, we distribute admitted-only products through retail agents and brokers.

Transactional E&S: Our Transactional E&S underwriting division provides primary and excess non-catastrophe prone property and general liability solutions, with particular emphasis on risks that are considered hard to place because of the complexity of the underlying exposure, loss history, and/or limited operating history (i.e., start up and newer businesses). We access the market in this division exclusively through wholesale brokers.

Our gross written premiums for each of our underwriting divisions for the years ending December 31, 2021 and 2020 are as follows:

	Total Gross Written Premiums For the years ended December 31,			
($ in thousands)	2021	% of Total	2020	% of Total
Industry Solutions	$ 219,973	23.4%	$ 176,177	20.2%
Global Property	167,887	17.9%	155,027	17.7%
Programs	140,283	14.9%	119,479	13.7%
Accident & Health	112,146	11.9%	94,616	10.8%
Captives	87,836	9.3%	58,722	6.7%
Professional Lines	59,992	6.4%	28,816	3.3%
Surety	51,792	5.5%	13,176	1.5%
Transactional E&S	27,997	3.0%	2,318	0.3%
Total continuing business	**$ 867,906**	**92.3%**	**$ 648,331**	**74.2%**
Exited business	71,953	7.7%	225,282	25.8%
Total gross written premiums	**$ 939,859**	**100.0%**	**$ 873,613**	**100.0%**

Within every underwriting division, our actions are intentional to "Rule Our Niche." We aim to innovate constantly, and our actions are specific to each of our divisions and the markets we serve. Some notable highlights are:

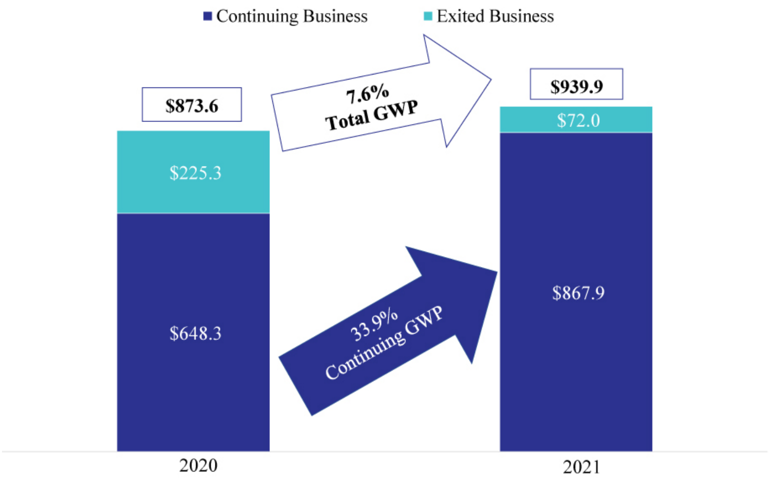
- ***SkyDrive***: Within our Specialty Trucking underwriting unit, we developed the award-winning, proprietary SkyDrive underwriting and risk management portal for our underwriters, brokers, and insureds to address a market that has been disrupted for some time due to the loss experience of certain incumbent carriers operating in the market. Our portal synthesizes real-time intelligence on driver and fleet history, safety, and performance, utilizing telematics and other data from a variety of sources. We believe the portal significantly increases the power of our risk selection, underwriting, risk management and claims decision-making. Given the success of SkyDrive, we have started to deploy components of SkyDrive across our commercial auto exposures in other underwriting divisions as well.
- ***Quick-Strike***: Across all of our commercial auto lines, we utilize an innovative "quick strike" response to claims events. We seek to have an experienced investigator at the scene of an accident within two hours of the event, regardless of the location, to access, and if appropriate, to resolve quickly any third-party claims.
- ***Accident & Health Artificial Intelligence***: Within our Accident & Health underwriting division, we have deployed the use of big data to circumvent or augment data collection and account profiling, particularly for smaller accounts (those with less than 250 lives) for which we believe efficient data capture and data fidelity is critical to the underwriting process. We utilize artificial intelligence to facilitate risk scoring to augment underwriter analysis for risk selection and pricing.
- ***Cannabis Industry***: As part of our focus on underserved markets, we identified the cannabis industry as a market niche not sufficiently served by the P&C insurance industry. In property and general liability lines, we elected to partner with a technology-forward program administrator with specific capabilities for the cannabis industry. We subsequently developed and launched cannabis specific professional and executive liability products we offer directly to our wholesale partners, and then further developed and launched cannabis specific commercial surety products. We identified, evaluated, and launched products across these underwriting divisions in less than six months. We believe we have one of the market leading product offerings for cannabis, one of the fastest growing industries in the United States as measured by sales and job creation.
- ***Construction Captive***: Together with our distribution partners for our Construction underwriting unit, we identified an opportunity to leverage our market leading experience and capabilities in a particular specialty contractor segment. We subsequently developed and launched an innovative captive solution for this segment which is offered side-by-side with our traditional guaranteed cost product. As

a result, we have significantly broadened the portion of this market we can serve while leveraging our existing underwriting, claims and analytic expertise.

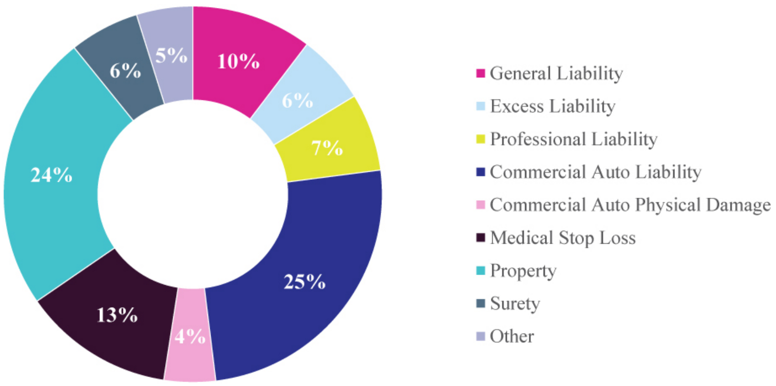
- ***Commercial Flood***: Within our Programs underwriting division, and in partnership with an insurance technology company, we introduced an innovative commercial flood product that we believe is unique in the market. The partnership brings together Skyward Specialty's deep expertise analyzing and underwriting the property risks with the advanced high definition data and technology capabilities of our partner, to address the growing risks and coverage need of commercial property owners.

In addition to the underwriting divisions listed above (which we refer to as our "continuing business"), in the year ended December 31, 2021, and prior, we wrote premiums in certain markets and lines of business that we have since exited and placed into run-off following a determination that they did not fit our "Rule Our Niche" strategy. For example, in the year ended December 31, 2020, we initiated a review of our business lines leading to our exiting specialty workers' compensation, lawyers' professional liability, automobile dealers programs, insurance agents and brokers professional liability, title agents professional liability, commercial auto for the timber industry and liability solutions for the hospitality industry. We refer to these lines and businesses, along with others we previously exited, as our "exited business." Gross written premiums in "exited business" was $2.8 million and $37.8 million for the three months ended March 31, 2022 and 2021, respectively, representing 1.0% and 15.9% of our total gross written premiums for each of these periods. Gross written premiums in "exited business" was $72.0 million and $225.3 million for the years ended December 31, 2021 and 2020, respectively, representing 7.7% and 25.8% of our total gross written premiums for each of these years.

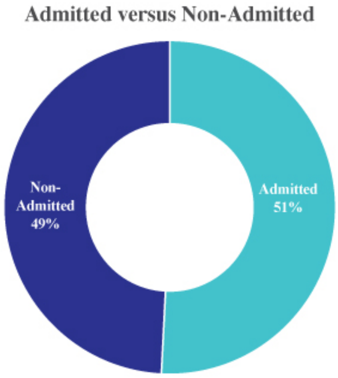
The distribution and growth of gross written premiums between exited business and continuing business for the years ended December 31, 2020 and December 31, 2021 are shown below *($ in millions)*.

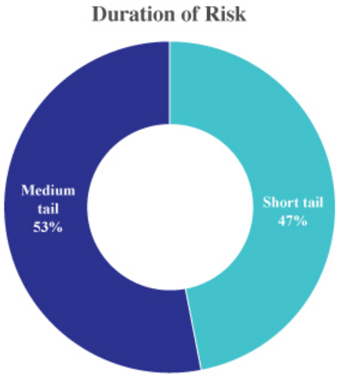


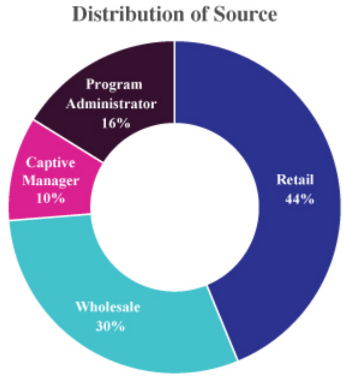
The following graphic depicts the percentage distribution of gross written premiums for continuing business by line of business for the year ended December 31, 2021.



The following charts outline the percentage of gross written premiums for continuing business on an admitted and non-admitted basis, by duration of risk (Short Tail, which is generally less than two years versus Medium Tail, which is generally greater than two years), and by distribution source for the year ended December 31, 2021.







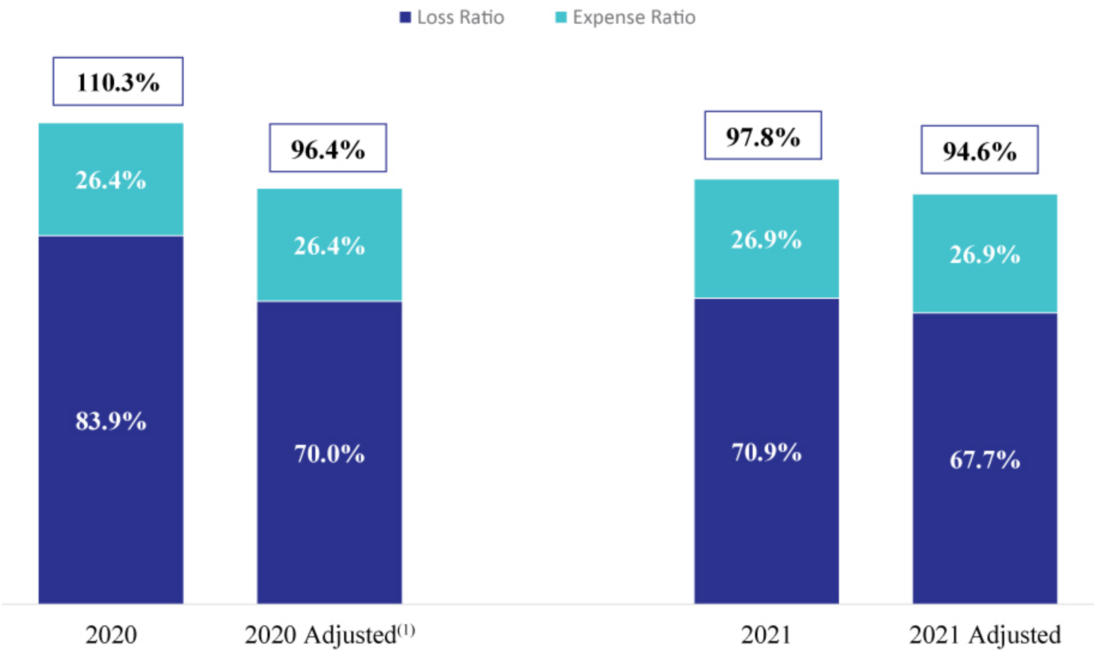
We believe that our claims operations are a key competitive differentiator. Aligning with our focus on specific customer segments and niches, our claims management teams are highly specialized to ensure that they can apply their expertise in handling claims for each niche we serve. Our claims operations are primarily staffed by Skyward Specialty employees, allowing us to maintain full control of the claims-handling process, meet our high-quality standards, and manage our losses and LAE. During the year ended December 31, 2021, we handled 75.9% of our claims in-house, measured as a percentage of gross reported losses. In the limited instances where we do not handle claims in-house, we utilize claims adjusters through a third-party administrator ("TPA"). Specifically, we utilize these TPAs for a select set of captives and programs for which the TPA possesses specific expertise that we would not seek to replicate. We also utilize these TPAs for the workers' compensation line of business, given the specific geographical knowledge that is required to adjudicate these claims.

We strategically purchase reinsurance from third parties which enhances our business by protecting capital from severity events (either large single event losses or catastrophes) and volatility in our earnings. As of March 31, 2022, 98.6% of our reinsurance recoverables were either derived from reinsurers rated "A-" (Excellent) by A.M. Best, or better, or were collateralized for our reinsurance recoverable by the reinsurer, with an additional 0.4% of the March 31, 2022 balance collateralized in April 2022. We treat our reinsurers as long-term partners. As such, we target underwriting profitability on a gross basis before utilization of reinsurance to ensure consistent support from our reinsurance partners and to protect ourselves from changes in the reinsurance market. Our reinsurance includes quota share, facultative, and excess of loss coverages. Based upon our modeling, it would take an event beyond our 1 in 250-year Probable Maximum Loss ("PML") to exhaust our $32.0 million property catastrophe coverage. Additionally, we seek to expose no more than 3.0% of our stockholders' equity to a catastrophic loss that is less than a 1 in 250-year event.

We believe a strong balance sheet is foundational to our ability to deliver superior financial performance and returns as it underpins our distribution partners' and customers' confidence in our business. Our insurance liabilities consist of losses and LAE reserves including cost of claims reported to us ("case reserves") and estimates of cost of claims that have been incurred but not yet reported ("IBNR"). To illustrate our reserve strength, our net IBNR reserves as a percentage of total net losses and LAE reserves was 60.0% as of December 31, 2021, up from 57.3% as of December 31, 2020. A centerpiece of our strong balance sheet is our rigorous reserving practices designed and overseen by experienced claims professionals and actuaries. Since 2020, we have focused on materially strengthening both the quality of our claims team and the processes and guidelines by which case reserves are set and managed. In this regard, our entire claims team works diligently to identify and recognize loss exposures as early as possible in the claims-handling process. For example, our reserving guidelines direct our adjusters to use their best estimate to set liability reserves to an expected ultimate loss within 90 days of first notice of loss.

Similarly, we have invested considerably in our actuarial team, increasing the number of members of our actuarial team by fifty percent (50%) since January 1, 2020. The actuarial team has monthly meetings with each of the underwriting divisions and our claims professionals, to discuss trends inclusive of, loss frequency, severity, rate and retention by class and line of business. Additionally, we put in place rigorous risk oversight measures including the formation of a reserve committee that meets twice a quarter. We measure each of the key loss metrics by policy year against prior policy years at the same development ages to ensure the business is performing as expected.

Additionally, in 2020, we entered into a LPT agreement covering policy years 2017 and prior to limit our exposure to potential loss reserve development on the covered business produced during those years. The LPT agreement covers the majority of our exited business. This protection has allowed our management team to focus on our continuing business which we believe provides the best path for continued profitable growth. The following graphic depicts the Loss Ratios, Expense Ratios and Combined Ratios for the year ended December 31, 2021 versus December 31, 2020 on a reported and adjusted basis. See the section entitled "Business — Reserves" for additional information on the LPT agreement.



(1) Non-GAAP financial measure. See the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations — Reconciliation of Non-GAAP Financial Measures" for a reconciliation of the non-GAAP financial measures in accordance with GAAP.

We believe our recent underwriting results begin to highlight the impact these initiatives have had on our business and positioning us to deliver consistently attractive underwriting results across P&C market cycles.

We complement our strong reserve position with a conservative investment portfolio overseen by our Investment Committee. Our portfolio is mainly comprised of cash and cash equivalents and investment-grade fixed-maturity securities, supplemented by additional investments that fit our risk appetite, principally higher yielding direct lending strategies and equities. Other investments, while typically not rated securities, are generally lower volatility fixed income loans and securities that we believe provide us with risk-adjusted returns above what is achievable in liquid investment grade markets. We call this part of our investment portfolio Opportunistic Fixed Income. Our fixed maturity securities, including both fixed income and opportunistic fixed income, together comprising 61.3% of our total investments and cash as of March 31, 2022, had a weighted average effective duration of 2.7 years as of March 31, 2022, and an average fixed income credit rating of "AA" (Standard & Poor's) as of March 31, 2022.

We seek to maintain an "A-" (Excellent) or better financial strength rating with A.M. Best, which we carry today with a stable outlook. This is the fourth highest of 16 ratings assigned by A.M. Best to insurance companies. Maintaining a strong rating from A.M. Best helps us demonstrate our financial strength to policyholders and distribution partners, which we believe is a critical factor in the decision to purchase insurance.

Our Competitive Strengths

We believe that our competitive strengths include:

Focus on profitable niches of the market that require technical underwriting and claims management as barriers to entry.

We believe that the niche areas of the commercial lines P&C markets we have selected are a highly attractive subset of the P&C insurance market and present an opportunity to generate attractive risk-adjusted returns. We actively target markets that are underserved, dislocated or for which standard, commoditized products are insufficient or inadequate to meet the needs of our customers. The unique characteristics of the risks within our core markets require each account to be efficiently and individually underwritten, in order for us to generate an acceptable, sustainable underwriting profit. Many carriers have chosen to reject businesses that they deem to be too complex, or that requires thoughtful individual underwriting; or, alternatively, have focused on simple small account risks for which more automated underwriting can be effective. Instead, we have chosen to build our underwriting divisions around deeply experienced underwriters who we empower with appropriate authority to make underwriting decisions. This structure enables us to offer innovative and unique products and solutions to our distribution partners and customers, regardless of how challenging or complex a risk may be. Further, we augment our underwriters' experience with data and predictive analytics that are intended to differentiate risk selection and pricing decision-making while enhancing efficiency.

Highly skilled underwriters.

We focus on hiring underwriting and technical staff who help differentiate our company through their expertise and experience. Our underwriting teams are knowledgeable, experienced, and empowered — characteristics which are critical to operate successfully in the markets we serve, especially since many of the risks we underwrite are particularly difficult to automate. We do not impose strict underwriting rules (i.e., we are not "box" underwriters), but rather allow our professionals the freedom to use their expertise and judgment when evaluating and pricing risks. Simply put, we give our people the tools and appropriate authority to make decisions and do what they do best — profitably underwrite complex risks.

Superior claims staff and operations.

We have cultivated a best-in-class and highly specialized team of claims professionals who are highly knowledgeable about the niches we serve and lines of business we write. Our claims professionals systematically address first party claims with fair and equitable solutions and third-party claims with holistic and comprehensive responses, in each case seeking to ensure consistent and early loss recognition of indemnity and LAE.

When a claim is reported, we respond quickly, with specialized adjusters, who are armed with expertise, advanced technology and analytics, to assist them in the claims resolution process. We embed technology deeply into our claims process and leverage our technology-enabled platform and tools from first notice of loss to investigation to settlement. Our analytics capabilities used by our senior leadership and claims teams include real-time, detailed information on open claims and benchmarks against closed claims. We believe that our industry expertise, nimble culture, and technology-embedded claims processes enables us to reach fair and appropriate claims outcomes for our customers.

Superior business intelligence platform.

SkyBI, our business intelligence platform, focuses on providing our senior leadership, as well as our technical teams, with real-time intelligence to drive superior decision making. SkyBI reflects the best practices our management team has learned from its extensive experience across the P&C insurance and technology sectors. We developed SkyBI, our single, comprehensive enterprise-wide data repository, as our foundation for reporting, business intelligence, analytics, and other advanced data capabilities. It provides our organization information and performance metrics across the Company in an easy-to-consume visualized format. The data can be filtered by many categories, including distributor, customer segment, line of business, specific industry, individual underwriter, and specific risk feature among others. SkyBI aids in establishing clear line of sight to objectives as well as facilitating our decision-making processes.

Advanced technology and new risk data for underwriting and claims.

We fundamentally believe that every underwriting and claims decision can be augmented with the use of new types of risk data and advanced technology. While our underwriting decisions are backed by reliable historical data and in-depth evaluation of risks resulting from intentional investment in data collection and processing capabilities, we amplify our underwriting and claims prowess by combining this data with new forms of risk data and predictive analytics. Examples of our utilization of technology include our use of SkyDrive in our Specialty Trucking unit and deployment of data collection and analytics in our A&H line described in the section entitled “Business — Our Business.”

Diversified business that allows us to respond to, and capitalize on, changes in market conditions across P&C cycles.

We have been successful in building a diversified group of underwriting divisions. We aim to evolve with, and adapt to, ever-changing market conditions. For the year ended December 31, 2021, (i) we wrote premiums spanning eight underwriting divisions, including four with more than $100 million of gross written premiums, (ii) our mix of gross written premiums by line for continuing business was 47% short tail and 53% medium tail, and (iii) our gross written premiums for continuing business were 51% admitted lines and 49% non-admitted lines. We believe the diversity of our book allows us to respond to — and capitalize on — market opportunities and dislocations across P&C insurance market and pricing cycles resulting in a durable insurance franchise.

Attractive and winning culture.

As evidenced by our internal surveys and public information such as that available on Glassdoor and LinkedIn, we have built a distinctive winning culture. Key to our culture and operating approach is a flat structure of communication and decision-making. We trust our staff to make decisions that produce or exceed our desired financial results, and we support our staff with a clear system of measurement to gauge performance. Our use of advanced technology to enhance, but not replace, our underwriting and claims team’s decision-making is both practical and a source of value to our professionals. We pride ourselves on maintaining an entrepreneurial environment that encourages and rewards a proactive approach to capitalize on market disruption. This environment is not only consistent with our identity as a specialty insurer but also a foundation for our success in attracting great talent and our objective of delivering best-in-class results.

High-quality, experienced leadership team that is aligned with our shareholders.

Led by our CEO, Andrew Robinson, we have an experienced, innovative and entrepreneurial executive leadership team with a track record of success in senior management roles at industry leading property and casualty companies as well as in starting and building new businesses in our industry. Our team has an average of 27 years of experience in nearly all facets of the P&C insurance sector including underwriting, claims, technology, investment management, risk management, finance, actuarial and operations.

Prior to assuming the role as our CEO in May 2020, Mr. Robinson was the President of Specialty, EVP Corporate Development and Chief Risk Officer at The Hanover Insurance Group, Inc. During his 10 plus year tenure at The Hanover Insurance Group, Inc., Mr. Robinson established its specialty business segment, building it into a business with more than three quarters of a billion dollars in gross written premiums. Immediately prior to joining Skyward Specialty, Mr. Robinson served as executive-in-residence for venture and growth equity firm Oak HC/FT Partners, giving him significant exposure to numerous fintech and technology companies and related investment opportunities, including a period as Chairman and Co-CEO of one portfolio company and Chairman of another portfolio company. Earlier in Mr. Robinson's career, he spent twenty years in strategy consulting including as the global insurance practice head for Diamond (now PwC) Consulting.

Our CFO, Mark Haushill, has more than 25 years of experience in the insurance industry including as a public company CFO at Argo Group International Holdings, Ltd. and American Safety Insurance Holdings, Ltd. Mr. Haushill is a certified public accountant and spent the first part of his career at KPMG. Kirby Hill, our President of Industry Solutions, Captives and Programs underwriting divisions, has more than 30 years of experience spanning multiple facets of the insurance business. Prior to joining Skyward Specialty, Mr. Hill was CEO and Co-Founder of Norwich Holding Co., a company specializing in the development, implementation and administration of commercial specialty insurance products and programs, and prior to that in various multiline underwriting positions at PMA Insurance Corporation and American International Group, Inc. (AIG). John Burkhart, our President of Specialty Lines overseeing the Professional Lines, Surety, Transactional E&S and A&H underwriting divisions, has approximately 30 years of underwriting experience, previously as SVP & Head of Professional Lines & Industry Verticals at QBE Insurance Group Limited and Global Product Manager, Specialty Underwriting at Chubb Limited. Sean Duffy, our Chief Claims Officer and Executive Vice President, has more than 27 years of claims experience in large commercial and specialty insurance claims departments. Prior to joining Skyward Specialty, Mr. Duffy was Senior Vice President, Chief Claims Officer at OneBeacon Insurance, and also held senior claims roles at insurers Great American Insurance and Travelers. In addition, the remaining members of our senior leadership team have significant experience in their respective fields of expertise.

Our entire senior leadership's compensation is directly aligned with our shareholders. Each of our leaders have a material portion of their compensation in the form of long-term and short-term incentives tied to delivering sustainable, best-in-class underwriting returns. Select members of our executive leadership team have additional long term incentive targets tied directly to growth in book value per share. See the section entitled "Executive Compensation" for additional details.

Our Strategy in Action

With everything we do — from recruiting to marketing to underwriting to loss adjusting and claims resolution — we seek to follow the core tenets of our "Rule Our Niche" strategy. This strategy is based on (i) selecting underserved market niches with attractive risk-adjusted returns for which commoditized products are inadequate to meet the needs of customers; and (ii) building sustainable defensible competitive positions in these markets with talent and technology. We believe our "Rule Our Niche" strategy will help us achieve our goal of generating best-in-class underwriting profitability for our niches while creating superior long-term shareholder value through growth in book value per share. The core tenets of our "Rule Our Niche" strategy include:

Attract and retain blue-chip underwriting and claims talent to expand and enhance our market position.

We seek to hire the most talented technical underwriting professionals who have long-standing industry relationships with distribution partners and claims professionals with expertise in the niches we write. We believe that we have become a company of choice for the best talent in our industry and, as such, we will continue to grow our market position by bringing on world-class talent in our chosen markets.

Leverage our technology DNA to further distance ourselves from the competition.

We have demonstrated a differentiated ability to utilize new forms of risk data and advanced technology within the more complex, higher severity risk categories of the specialty P&C insurance market. SkyBI gives us the ability to promptly sense and quickly respond to market changes, while our core operating platforms allow us to move into new markets efficiently and without the complexity of burdensome systems.

Profitably grow existing lines of business and expand with new underwriting divisions.

We believe we are well-positioned to take advantage of several trends impacting our customers in the United States and globally. One such trend is the continued rise in demand for specialized insurance solutions because of increasing risks, as well as the complexity of risks, due to climate change/increased frequency of severe weather events, supply chain uncertainty, financial inflation risk, cyber risk, emergence of novel health risks (including the COVID-19 pandemic), increased level of litigation, attorney involvement and jury awards, and healthcare delivery and cost. Another such noticeable market trend is the emergence of a variety of “micro cycles and micro dislocations” where different pockets of the P&C insurance market experience hardening and softening at different times. During the year ended December 31, 2021, we demonstrated our ability to react quickly in response to these trends by launching our Allied Health professional lines underwriting unit, entering the cannabis industry in three of our underwriting divisions, completing the acquisition of Aegis Surety, announcing program administration technology partnerships in cargo and commercial flood, launching two new captive solutions and adding an excess liability capability in our E&S business. We executed these expansions as part of growing gross written premiums of our continuing business from $648.3 million for the year ended December 31, 2020 to $867.9 million for the year ended December 31, 2021, a 33.9% year-over-year increase.

Differentiate on daily excellence to drive best-in-class underwriting performance.

We believe that our ability to meet our long-term goals, including achieving best-in-class underwriting returns and growth in book value per share, relies on how well we execute our day-to-day operations across all of our functional departments. SkyBI provides the foundation by which our senior management can monitor our performance, whether it is renewal rates, new business pricing and portfolio performance for an individual underwriter, or claims ageing and reserving practices and outcomes by claims adjusters. Our focus on the fundamentals that drive underwriting excellence is at the center of our strategy.

Use our balance sheet to capture a larger part of the market we serve.

We are committed to establishing and maintaining a strong balance sheet, starting with conservative loss reserves and strong capitalization ratios. We believe this is imperative to maintain the confidence of customers, distribution partners, reinsurers, regulators, rating agencies and shareholders.

Since 2019, in addition to executing the previously noted LPT to limit our exposure to potential loss reserve development primarily associated with certain exited business, we have materially strengthened our claims case reserves practices with the aim to reserve to the expected ultimate loss within 90 days of first notice of loss. In addition, we have intentionally increased the level of IBNR reserves held above our claims case reserves to a more conservative position. Our net IBNR as a percentage of total net losses and LAE reserves was 60.0% as of December 31, 2021, up from 57.3% as of December 31, 2020. We believe our reserve position is now the strongest it has been in our history and positions us well for consistently strong underwriting profitability in the future.

Following this offering, we intend to contribute capital into our operating insurance companies to progress towards the size category X as set by A.M. Best, which is defined as companies having between $500 million and $750 million of adjusted policyholders’ surplus. We believe this A.M. Best designation will provide us with further opportunities to expand in the markets we serve, as well as provide us with options to increase our net retentions on business we currently write.

Our History

Skyward Specialty was formed as a Delaware corporation on January 3, 2006 as an insurance holding company. We operated under the name Houston International Insurance Group, Ltd. until we re-branded as

Skyward Specialty in November 2020. We were founded for the purpose of underwriting commercial property and casualty insurance coverages for specialized customer niches and industries.

Our founding shareholders and management set out to build a leading specialty insurance provider underwriting across the United States and select niche global markets. The foundation for the company was established — and its business and geographic footprint widened — in part, through a series of acquisitions of insurance carriers and other insurance service providers beginning in 2007. In July 2014, to provide liquidity for certain of our then-shareholders as well as capital for the continued expansion of the business, we sold an interest in the company to an investment consortium led by The Westaim Corporation ("Westaim"), our largest shareholder as of the time of this offering. In the years following Westaim's investment, we continued to pursue organic growth in specialty P&C markets, supplemented by various strategic investments and acquisitions to enhance existing capabilities or enter new markets.

In 2020, we embarked upon a series of changes to refocus our strategy and position us for emerging opportunities in our chosen markets:

- In April 2020, we entered into the previously noted LPT reinsurance transaction covering certain business written during policy years 2017 and prior, to limit our exposure to potential loss reserve development primarily associated with certain exited business and to allow our management team to focus on the continuing business which we believe provides the best path for continued profitable growth.
- In April 2020, we raised approximately $100 million of capital from our existing investors to (i) provide capital to grow in the hardening pricing environment, (ii) position us for growth during a period of market dislocation, and (iii) strengthen our balance sheet.
- In May 2020, we appointed Andrew Robinson as our Chief Executive Officer. Under Mr. Robinson's leadership, we developed and implemented our "Rule Our Niche" strategy. As part of this strategy, we implemented additional changes that further transformed our business. These changes have included (i) substantial strengthening of our underwriting, claims and actuarial teams and support functions, (ii) improving the company culture with particular focus on attracting, retaining and developing top talent, (iii) considerable investment in our business intelligence technology capabilities and use of advanced technology for underwriting and claims decision-making, and (iv) a disciplined approach to focus only on the niches in which we believe we can earn an attractive underwriting profit and build sustainable and defensible positions.

As part of this strategy, we have taken several steps including, but not limited to, the following:

- Made multiple key hires across the organization — including underwriting, claims and technology — bringing us a diversity of world-class leadership and underwriting and claims expertise in select specialty lines;
- Launched select underwriting divisions, units and product lines where we believe we have — or can establish — defensible positions in high-profit niches to deliver consistent, best-in-class returns. Examples include Transactional E&S Lines, Allied Health Professional Liability and a range of insurance solutions for the cannabis industry;
- Acquired Aegis Surety, substantially increasing our scale in surety, deepening our surety underwriting and leadership team, and positioning the business line for profitable growth;
- Exited underperforming classes and divisions that did not fit with our "Rule Our Niche" strategy, including specialty workers' compensation, lawyers' professional liability, automobile dealers programs, insurance agents and brokers professional liability, title agents liability, commercial auto for the timber industry and liability solutions for the hospitality industry;
- Invested significantly in our technology to amplify the capabilities and expertise of our people, using advance data and analytics to improve our decision-making, and facilitate our expansion into new business lines; and
- Implemented our name change and rebranding to Skyward Specialty, aligning with our repositioned business and culture.

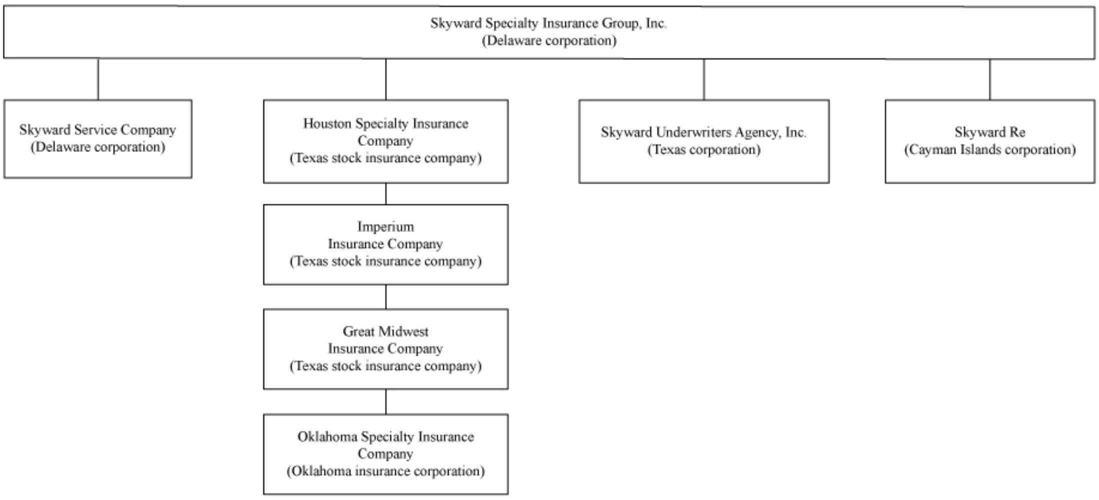
We believe our strategy and actions are positioning us for long-term, sustainable growth and profitability that is among the best in the specialty P&C marketplace. Our momentum is strong and accelerating and we believe we are well-situated to continue our growth trajectory and consistently achieve best-in-class underwriting returns and return on equity.

Our Structure

We conduct our operations principally through four insurance companies. Houston Specialty Insurance Company ("HSIC"), which is our largest insurance subsidiary, underwrites multiple lines of insurance on a surplus lines basis in 50 states and the District of Columbia. Imperium Insurance Company ("IIC"), a subsidiary of HSIC, underwrites on an admitted basis in all 50 states and the District of Columbia. Great Midwest Insurance Company ("GMIC"), a subsidiary of IIC, underwrites multiple lines of insurance on an admitted basis in all 50 states and the District of Columbia. Oklahoma Specialty Insurance Company ("OSIC"), a subsidiary of GMIC, is an approved surplus lines carrier in 47 states and the District of Columbia.

In addition to our primary insurance companies, we also own Skyward Re, a wholly-owned captive reinsurance company domiciled in the Cayman Islands that was incorporated on January 7, 2020. Skyward Re was established to facilitate the LPT. We also operate two non-insurance companies: Skyward Underwriters Agency, Inc., a licensed agent, managing general agent and reinsurance broker, and Skyward Service Company, which provides various administrative services to our subsidiaries.

Our organizational structure is set forth below. Each entity is wholly-owned by its immediate parent.



Our Corporate Information

Skyward Specialty Insurance Group, Inc. is an insurance holding company incorporated in Delaware that was organized in 2006. Our principal executive office is located at 800 Gessner Road, Suite 600, Houston, TX 77024 and our telephone number is (713) 935-4800. Our website address is www.skywardinsurance.com. Information contained on, or that can be accessed through, our website is not part of and is not incorporated by reference into this prospectus, and you should not consider information on our website to be part of this prospectus.

Risk Factors

Investing in our common stock involves risks, which are discussed more fully under "Risk Factors." You should carefully consider all the information in this prospectus, including under "Risk Factors," before making an investment decision. These risks include, but are not limited to, the following:

- our financial condition and results of operations could be materially adversely affected if we do not accurately assess our underwriting risk;
- competition for business in our industry is intense;
- because our business depends on insurance retail agents and brokers, wholesalers and program administrators, we are exposed to certain risks arising out of our reliance on these distribution channels that could adversely affect our results;
- we may be unable to purchase third-party reinsurance in amounts we desire on commercially acceptable terms or on terms that adequately protect us, and this inability may materially adversely affect our business, financial condition and results of operations;
- our losses and loss expense reserves may be inadequate to cover our actual losses, which could have a material adverse effect on our financial condition, results of operations and cash flows;
- a decline in our financial strength rating may adversely affect the amount of business we write;
- unexpected changes in the interpretation of our coverage or provisions, including loss limitations and exclusions, in our policies could have a material adverse effect on our financial condition and results of operations;
- our reinsurers may not reimburse us for claims on a timely basis, or at all, which may materially adversely affect our business, financial condition and results of operations;
- our failure to accurately and timely pay claims could materially and adversely affect our business, financial condition, results of operations, and prospects;
- adverse economic factors, including recession, inflation, periods of high unemployment or lower economic activity could result in the sale of fewer policies than expected or an increase in the frequency of claims and premium defaults, and even the falsification of claims, or a combination of these effects, which, in turn, could affect our growth and profitability;
- the insurance business is historically cyclical in nature and we believe we are currently experiencing a relatively hard market cycle, which may affect our financial performance and cause our operating results to vary from quarter to quarter and may not be indicative of future performance;
- we are subject to extensive regulation, which may adversely affect our ability to achieve our business objectives; failure to comply with these regulations could subject us to penalties, including fines and suspensions, which may adversely affect our financial condition and results of operations;
- we could be adversely affected by the loss of one or more key personnel or by an inability to attract and retain qualified personnel;
- we have identified a material weakness in our internal controls over financial reporting, and if we are unable to remediate this material weakness, if we experience additional material weaknesses, or fail to achieve and maintain effective internal controls, our operating results and financial condition could be impacted and the market price of our common stock may be negatively affected; and
- our costs will increase significantly as a result of operating as a public company, and our management will be required to devote substantial time to complying with public company regulations.

Implications of Being an Emerging Growth Company

We qualify as an "emerging growth company" as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. An emerging growth company may take advantage of relief from certain reporting requirements and other burdens that are otherwise applicable generally to public companies. These provisions include:

- reduced obligations with respect to financial data, including presenting only two years of audited financial statements;
- an exemption from compliance with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act;
- reduced disclosure about our executive compensation arrangements in our periodic reports, proxy statements, and registration statements; and
- exemptions from the requirements of holding non-binding advisory votes on executive compensation or golden parachute arrangements.

In addition, under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have elected to avail ourselves of this extended transition period and, as a result, we will not be required to adopt new or revised accounting standards on the relevant dates on which adoption of such standards is required for other public companies.

We will remain an emerging growth company until the earliest of (i) the last day of the fiscal year in which we have total annual gross revenues of $1.07 billion or more; (ii) the last day of our fiscal year following the fifth anniversary of the date of the completion of this offering; (iii) the date on which we have issued more than $1 billion in nonconvertible debt during the previous three years; and (iv) the date on which we are deemed to be a large accelerated filer under the rules of the SEC. We may choose to take advantage of some but not all of these reduced reporting requirements and other burdens that are otherwise applicable generally to public companies.

The Offering

Common stock offered by us	shares
Common stock offered by the selling stockholders	shares
Common stock outstanding after this offering	shares
Option to purchase additional shares of common stock offered in this offering	We have granted the underwriters an option, exercisable for 30 days from the date of this prospectus, to purchase up to an additional shares.
Use of proceeds	We estimate that the net proceeds to us from the sale of shares of our common stock in this offering will be approximately $ million (or approximately $ million if the underwriters' option to purchase additional shares is exercised in full) based upon the assumed initial public offering price of $ per share, which is the midpoint of the estimated offering price range set forth on the cover page of this prospectus, and after deducting the estimated underwriting discounts and estimated offering expenses payable by us. We will not receive any of the proceeds from the sale of our common stock in this offering by the selling stockholders. The principal purposes of this offering are to increase our capitalization and financial flexibility, create a public market for our common stock and thereby enable access to the public equity markets for us and our stockholders. We intend to use approximately $ of the net proceeds to us from this offering to make capital contributions to our insurance company subsidiaries in order to grow our business and the remainder for general corporate purposes. See "Use of Proceeds" for a more complete description of the intended use of proceeds from this offering.
Proposed Nasdaq trading symbol	"SKWD"
Risk factors	You should read the section entitled "Risk Factors" and the other information included elsewhere in this prospectus for a discussion of some of the risks and uncertainties you should carefully consider before deciding to invest in our common stock.
Dividend policy	We currently do not intend to declare any dividends on our common stock in the foreseeable future. Our ability to pay dividends on our common stock may be limited by the terms of any future debt or preferred securities we may issue or any future credit facilities we may enter into. See the section entitled "Dividend Policy."

The total number of shares of our common stock that will be outstanding after this offering includes shares and excludes, as of , 2022:

- shares of common stock reserved for future issuance under our 2022 Long-Term Incentive Plan, or the 2022 Plan including options to purchase shares of common stock and restricted stock unit awards representing an aggregate amount of shares of common stock, that our Compensation

Committee granted to employees and non-employee directors following the effectiveness of the registration statement on Form S-1 of which this prospectus forms a part and pricing of this offering; and

- shares of common stock reserved for future issuance under our 2022 Employee Stock Purchase Plan, or the ESPP, which will become effective in connection with this offering.

Unless otherwise indicated, this prospectus assumes or gives effect to the following:

- the filing and effectiveness of our amended and restated certificate of incorporation to be effective immediately prior to the closing of this offering, or our Certificate of Incorporation, and the adoption of our amended and restated bylaws to be effective immediately prior to the closing of this offering, or our Bylaws;
- a for reverse stock split of our common stock effected on , 2022;
- the automatic conversion of all outstanding shares of our convertible preferred stock into shares of our common stock immediately prior to the closing of this offering; and
- no exercise by the underwriters of their option to purchase additional shares of our common stock.

Summary Consolidated Financial and Other Data

The following tables present our summary consolidated financial and other data as of and for the periods indicated.

The summary consolidated statements of operations data for the three months ended March 31, 2022 and 2021, and the summary consolidated balance sheet data as of March 31, 2022 are derived from our unaudited consolidated financial statements included elsewhere in this prospectus. In the opinion of management, the unaudited consolidated financial data for the interim periods included in this prospectus include all normal and recurring adjustments that we consider necessary for the fair presentation of such data for the respective interim period.

The summary consolidated statements of operations data for the fiscal years ended December 31, 2021 and 2020, and the summary consolidated balance sheet data as of December 31, 2021 and 2020 are derived from our annual consolidated financial statements included elsewhere in this prospectus. Our historical results are not necessarily indicative of the results that should be expected in any future period.

You should read this data together with our audited consolidated financial statements and related notes, as well as the information under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” included elsewhere in this prospectus.

	For the three months ended March 31,		For the years ended December 31,	
($ in thousands, except per share amounts)	**2022**	**2021**	**2021**	**2020**
Revenues:				
Gross written premiums	$ 282,642	$ 237,848	$ 939,859	$ 873,613
Ceded written premiums	(147,241)	(123,079)	(410,716)	(412,090)
Net written premiums	**$ 135,401**	**$ 114,769**	**$ 529,143**	**$ 461,523**
Net earned premiums	$ 141,726	$ 117,195	$ 499,823	$ 431,911
Commission and fee income	230	686	3,973	5,664
Net investment income	15,149	5,610	24,646	14,130
Net unrealized gains (losses)	(5,369)	5,613	15,251	(928)
Net realized investment gains	931	763	1,856	1,067
Other income and expenses	—	3,453	4,632	128
Total revenues	**$ 152,667**	**$ 133,320**	**$ 550,181**	**$ 451,972**
Expenses:				
Losses and LAE	89,989	81,020	354,411	362,182
Underwriting, acquisition and insurance expenses	40,534	31,029	138,498	119,818
Impairment charges	—	882	2,821	57,582
Interest expense	1,177	1,155	4,622	5,532
Amortization expense	387	348	1,520	1,390
Total expenses	**$ 132,087**	**$ 114,434**	**$ 501,872**	**$ 546,504**
Income (loss) before federal income tax	**20,580**	**18,886**	**48,309**	**(94,532)**
Federal income tax expense (benefit)	4,269	3,966	9,992	(19,890)
Net income (loss)	**$ 16,311**	**$ 14,920**	**$ 38,317**	**$ (74,642)**
Adjusted operating income[(1)]	**$ 19,817**	**$ 7,852**	**$ 36,062**	**$ 17,876**

($ in thousands, except per share amounts)	For the three months ended March 31, 2022	For the three months ended March 31, 2021	For the years ended December 31, 2021	For the years ended December 31, 2020
Share and Per Share Data:				
Basic earnings per share[2]	$ 0.13	$ 0.12	$ 0.30	$ (1.15)
Diluted earnings per share	$ 0.13	$ 0.12	$ 0.30	$ (1.15)
Basic adjusted earnings per share[3]	$ 0.15	$ 0.06	$ 0.29	$ 0.28
Diluted adjusted earnings per share	$ 0.15	$ 0.06	$ 0.28	$ 0.28
Weighted average basic shares	65,400,219	64,830,064	65,235,002	64,855,972
Weighted average diluted shares	129,649,462	129,050,819	129,873,596	64,855,972
Shares outstanding[4]	66,134,634	66,226,899	66,134,634	65,646,007
Fully diluted shares outstanding[4]	133,204,416	133,410,625	132,331,010	131,965,109
Book value[5] per share	$ 6.48	$ 6.12	$ 6.44	$ 5.99
Fully diluted book value[5] per share	$ 3.22	$ 3.04	$ 3.22	$ 2.98
Tangible book value[5] per share	$ 5.11	$ 4.66	$ 5.06	$ 4.71
Fully diluted tangible book value[5] per share	$ 2.53	$ 2.31	$ 2.53	$ 2.35
Underwriting and Other Ratios:				
Loss ratio	63.5%	69.1%	70.9%	83.9%
Expense ratio	28.4%	25.9%	26.9%	26.4%
Combined ratio	**91.9%**	**95.0%**	**97.8%**	**110.3%**
Adjusted loss ratio[1]	63.5%	69.1%	67.7%	70.0%
Expense ratio	28.4%	25.9%	26.9%	26.4%
Adjusted combined ratio[1]	**91.9%**	**95.0%**	**94.6%**	**96.4%**
Return on equity[6]	15.3%	14.9%	9.4%	-19.5%
Adjusted return on equity[1][6]	18.5%	7.9%	8.8%	4.7%
Return on tangible equity[1][6]	19.4%	19.3%	11.9%	-27.7%
Adjusted return on tangible equity[1][6]	23.6%	10.2%	11.2%	6.6%

($ in thousands, except per share amounts)	For the three months ending March 31,2022 Actual	Pro Forma (unaudited)	Pro Forma as Adjusted (unaudited)
Balance sheet data:			
Investments and cash	$1,023,350		
Restricted cash	71,573		
Premiums receivable	135,684		
Reinsurance recoverables	543,828		
Ceded unearned premium	177,708		
Goodwill and intangible assets	90,970		
Other assets	192,446		
Total assets	**$2,235,559**		
Loss and LAE reserves	$ 999,782		
Unearned premiums	396,697		
Reinsurance premiums payable	181,025		
Notes payable	50,000		
Subordinated debt	78,549		
Other liabilities	100,887		
Total liabilities	$1,806,940		
Total temporary equity	$ —		
Total stockholders' equity	$ 428,619		

($ in thousands, except per share amounts)	For the three months ending March 31,2022 Actual	Pro Forma (unaudited)	Pro Forma as Adjusted (unaudited)
Total liabilities, temporary equity and stockholders' equity	**$2,235,559**		
Other Data:			
Statutory capital and surplus[(7)]	**379,363**		
Debt to total capitalization ratio[(8)]	23.1%		
Tangible stockholders' equity[(1)]	$ 337,649		

(1) Non-GAAP financial measure. See the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations — Reconciliation of Non-GAAP Financial Measures" for a reconciliation of the non-GAAP financial measures in accordance with GAAP.

(2) Basic earnings per share for 2021 is calculated by dividing net income attributable to common shareholders of $19.8 million by basic weighted average of common shares of 65,235,002. For a more detailed description see Note 2 titled "Summary of Significant Accounting Policies – Earnings (loss) per share" and Note 21 titled "Earnings (Loss) Per Share" to our audited consolidated financial statements included in this prospectus.

(3) Basic adjusted earnings per share for 2021 is calculated by dividing $18.6 million by weighted-average common shares of 65,235,002. The $18.6 million numerator is derived by multiplying adjusted operating income of $36.1 million by the same allocation percentage (51.7%) used to calculate net income attributable to common shareholders under the Basic Earnings Per Share calculation. For a more detailed description, see footnotes 2 and 21 of the Notes to Consolidated Financial statements included in this prospectus.

(4) Includes conversion of 1,970,124 preferred shares to 65,235,876 common shares for 2020 as a result of the conversion rate becoming fixed and the preferred shares becoming convertible into a fixed number of shares of common stock as of December 31, 2021.

(5) Book value includes temporary equity in 2020.

(6) This quarterly ratio is calculated on an annualized basis by multiplying the quarterly result by a factor of four. For more detailed explanation relating to these non-GAAP financial measures, see the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations — Reconciliation of Non-GAAP Financial Measures."

(7) For our insurance subsidiaries, statutory capital and surplus represents the excess of assets over liabilities as determined in accordance with statutory accounting principles as determined by the National Association of Insurance Commissioners ("NAIC").

(8) Debt to total capitalization ratio is the ratio, expressed as a percentage, of total indebtedness for borrowed money to the sum of total indebtedness for borrowed money, temporary equity and stockholders' equity.

RISK FACTORS

An investment in our common stock involves a certain degree of risk. In deciding whether to invest, you should carefully consider the following risk factors, as well as the financial and other information contained in this prospectus, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes. Any of the following risks could have an adverse or material effect on our business, financial condition, results of operations or prospects and cause the value of our stock to decline, which could cause you to lose all or part of your investment. Additional risks and uncertainties of which we are unaware, or that we currently deem immaterial also may become important factors that affect us.

Risks Related to Our Business and Industry

Our financial condition and results of operations could be materially adversely affected if we do not accurately assess our underwriting risk.

Our underwriting success is dependent on our ability to accurately assess the risks associated with the business we write and retain. We rely on the experience of our underwriting staff in assessing those risks. If we misunderstand the nature or extent of the risks, we may fail to establish appropriate premium rates which could adversely affect our financial results. In addition, our employees, including members of management and underwriters, make decisions and choices in the ordinary course of business that involve exposing us to risk.

Competition for business in our industry is intense.

We face competition from other specialty insurance companies, standard insurance companies and underwriting agencies. In particular, competition in the insurance industry is based on many factors, including price of coverage, the general reputation and perceived financial strength of the company, relationships with distribution partners, terms and conditions of products offered, ratings assigned by independent rating agencies, speed of claims payment and reputation, and the experience and reputation of the members of our underwriting team in the particular lines of insurance and reinsurance we seek to underwrite. In recent years, the insurance industry has undergone increasing consolidation, which may further increase competition. In addition, some of our competitors are larger and have greater financial, marketing, and other resources than we do, in addition to being able to absorb large losses more easily. Other competitors have longer operating history and more market recognition than we do in certain lines of business.

A number of new, proposed or potential industry or legislative developments could further increase competition in our industry. For example, there has been an increase in capital-raising by companies with whom we compete, which could result in new entrants to our markets and an excess of capital in the industry. Additionally, the possibility of federal regulatory reform of the insurance industry could increase competition from standard carriers.

We may not be able to continue to compete successfully in the insurance markets. Increased competition in these markets could result in a change in the supply and demand for insurance, affect our ability to price our products at risk-adequate rates and retain existing business, or underwrite new business on favorable terms. If this increased competition so limits our ability to transact business, our operating results could be adversely affected.

Because our business depends on insurance retail agents, brokers, wholesalers and program administrators, we are exposed to certain risks arising out of our reliance on these distribution channels that could adversely affect our results.

Substantially all of our products are ultimately distributed through independent retail agents and brokers who have the principal relationships with policyholders. Retail agents and brokers generally own the "renewal rights," and thus our business model is dependent on our relationships with, and the success of, the retail agents and brokers with whom we do business. Further, we are also dependent on the relationships our wholesalers and program administrators maintain with the agents and brokers from whom they source their business.

Our relationship with our retail agents, brokers, wholesalers and program administrators may be discontinued at any time. Even if the relationships do continue, they may not be on terms that are profitable for us. For example, as insurance distribution firms continue to consolidate, their ability to influence commission rates may increase as may the concentration of business we have with a particular broker. Further, certain premiums from policyholders, where the business is produced by brokers, are collected directly by the brokers and remitted to us. In certain jurisdictions, when the insured pays its policy premium to its broker for payment on behalf of our insurance subsidiary, the premium might be considered to have been paid under applicable insurance laws and regulations. Accordingly, the insured would no longer be liable to us for those amounts, whether or not we have actually received the premium from that broker. Consequently, we assume a degree of credit risk associated with the brokers with which we work. Although the failure by any of our brokers to remit premiums to us has not been material to date, there may be instances where our brokers collect premiums but do not remit them to us and we may be required under applicable law to provide the coverage set forth in the policy despite the related premiums not being paid to us. Similarly, if we are limited in our ability to cancel policies for non-payment, our underwriting profits may decline and our financial condition and results of operations could be materially and adversely affected.

We review the financial condition of potential new brokers before we agree to transact business with them, and we periodically review the agencies, brokers, wholesalers and program administrators with whom we do business to identify those that do not meet our profitability standards or are not aligned with our business objectives. Following these periodic reviews, we may restrict such distributors' access to certain types of products or terminate our relationship with them, subject to applicable contractual and regulatory requirements that limit our ability to terminate agents or require us to renew policies. Even through the utilization of these measures, we may not achieve the desired results.

Because we rely on these distributors as our sales channel, any deterioration in the relationships with our distributors or failure to provide competitive compensation could lead our distributors to place more premium with other carriers and less premium with us. In addition, we could be adversely affected if the distributors with whom we do business exceed their granted authority, fail to transfer collected premium to us or breach the obligations that they owe to us. Although we routinely monitor our distribution relationships, such actions could expose us to liability.

Also, if insurance distribution firm consolidation continues at its current pace or increases in the future, our sales channels could be materially affected in a number of ways, including loss of market access or market share in certain geographic areas. Specifically, we could be negatively affected due to loss of talent as the people most knowledgeable about our products and with whom we have developed strong working relationships exit the business following an acquisition, or, increases in our commission costs as larger distributors acquire more negotiating leverage over their fees. Any such disruption that materially affects our sales channel could have a negative impact on our results of operations and financial condition.

As the speed of digitization accelerates, we are subject to risks associated with both our distributors and their ability to keep pace. In an increasingly digital world, distributors who cannot provide a digital or technology-driven experience risk losing customers who demand such an experience, and such customers may choose to utilize more technology-driven distributors.

We may be unable to purchase third-party reinsurance in amounts we desire on commercially acceptable terms or on terms that adequately protect us, and this inability may materially adversely affect our business, financial condition and results of operations.

We strategically purchase reinsurance from third parties which enhances our business by protecting capital from severity events (either large single event losses or catastrophes) and reducing volatility in our earnings. Reinsurance involves transferring, or ceding, a portion of our risk exposure on policies that we write to another insurer, the reinsurer, in exchange for a cost. If we are unable to renew our expiring contracts, enter into new reinsurance arrangements on acceptable terms or expand our coverage, our loss exposure could increase, which would increase our potential losses related to loss events. If we are unwilling to bear an increase in loss exposure, we may need to reduce the level of our underwriting commitments, both of which could materially adversely affect our business, financial condition and results of operations.

There are situations in which reinsurers may exclude certain coverages from, or alter terms in, the reinsurance contracts we enter into with them. As a result, we, like other insurance companies, write insurance policies which to some extent do not have the benefit of reinsurance protection. These gaps in reinsurance protection expose us to greater risk and greater potential losses.

Our losses and loss expense reserves may be inadequate to cover our actual losses, which could have a material adverse effect on our financial condition, results of operations and cash flows.

Our success depends on our ability to accurately assess the risks related to the businesses and people that we insure. We establish losses and LAE reserves for the best estimate of the ultimate payment of all claims that have been incurred, or could be incurred in the future, and the related costs of adjusting those claims, as of the date of our financial statements. Reserves do not represent an exact calculation of liability. Rather, reserves represent an estimate of what we expect the ultimate settlement and administration of claims will cost us, and our ultimate liability may be greater or less than our estimate.

As part of the reserving process, we review historical data and consider the impact of such factors as:

- claims inflation, which is the sustained increase in cost of raw materials, labor, medical services and other components of claims cost;
- claims development patterns by line of business, as well as frequency and severity trends;
- pricing for our products;
- legislative activity;
- social and economic patterns; and
- litigation, judicial and regulatory trends.

These variables are affected by both internal and external events that could increase our exposure to losses, and we continually monitor our loss reserves using new information on reported claims and a variety of statistical techniques and modeling simulations. This process assumes that past experience, adjusted for the effects of current developments, anticipated trends and market conditions, is an appropriate basis for predicting future events. There is, however, no precise method for evaluating the impact of any specific factor on the adequacy of loss reserves, and actual results may deviate, perhaps substantially, from our reserve estimates. For instance, the following uncertainties may have an impact on the adequacy of our reserves:

- When a claim is received, it may take considerable time to appreciate fully the extent of the covered loss suffered by the insured and, consequently, estimates of loss associated with specific claims can increase over time. Consequently, estimates of loss associated with specified claims can change as new information emerges, which could cause the reserves for the claim to become inadequate.
- New theories of liability are enforced retroactively from time to time by courts. See also "— The failure of any of the loss limitations or exclusions we employ, or changes in other claims or coverage issues, could have a material adverse effect on our financial condition or results of operations."
- Volatility in the financial markets, economic events and other external factors may result in an increase in the number of claims and/or severity of the claims reported. In addition, elevated inflationary conditions would, among other things, cause loss costs to increase. See also "— Adverse economic factors, including recession, inflation, periods of high unemployment or lower economic activity could result in the sale of fewer policies than expected or an increase in frequency or severity of claims and premium defaults or both, which, in turn, could affect our growth and profitability."
- If claims were to become more frequent, even if we had no liability for those claims, the cost of evaluating such potential claims could escalate beyond the amount of the reserves we have established. As we enter new lines of business, or as a result of new theories of claims, we may encounter an increase in claims frequency and greater claims handling costs than we had anticipated.

If any of our reserves should prove to be inadequate, we will be required to increase our reserves resulting in a reduction in our net income and stockholders' equity in the period in which the deficiency is identified.

Future loss experience substantially in excess of established reserves could also have a material adverse effect on our future earnings and liquidity and our financial rating.

A decline in our financial strength rating may adversely affect the amount of business we write.

Participants in the insurance industry use ratings from independent ratings agencies, such as A.M. Best, as an important means of assessing the financial strength and quality of insurers. In setting its ratings, A.M. Best performs quantitative and qualitative analysis of a company's balance sheet strength, operating performance and business profile. A.M. Best financial strength ratings range from "A++" (Superior) to "F" for insurance companies that have been publicly placed in liquidation. As of the date of this prospectus, A.M. Best has assigned a financial strength rating of "A-" (Excellent) with a stable outlook to us. A.M. Best assigns ratings that are intended to provide an independent opinion of an insurance company's ability to meet its obligations to policyholders and is not an evaluation directed to investors and is not a recommendation to buy, sell or hold our common stock or any other securities we may issue. A.M. Best's analysis includes comparisons to peers and industry standards as well as assessments of operating plans, philosophy and management. A.M. Best periodically reviews our financial strength rating and may revise it downward at their discretion based primarily on its analyses of our balance sheet strength, operating performance and business profile. There are specific building blocks A.M. Best reviews, including capital adequacy, operating performance, operating profile and Enterprise Risk Management, as well as other factors that could affect their analyses such as:

- If we change our business practices from our organizational business plan in a manner that no longer supports A.M. Best's rating;
- If unfavorable financial, regulatory or market trends affect us, including excess market capacity;
- If our losses exceed our loss reserves;
- If we have unresolved issues with government regulators;
- If we are unable to retain our senior management or other key personnel;
- If our investment portfolio incurs significant losses or our liquidity is limited; or
- If A.M. Best alters its capital adequacy assessment methodology in a manner that would adversely affect our rating.

These and other factors could result in a downgrade of our financial strength rating. A downgrade or withdrawal of our rating could result in any of the following consequences, among others:

- Causing our current and future distribution partners and insureds to choose other, more highly-rated competitors;
- Increasing the cost or reducing the availability of reinsurance to us; or
- Severely limiting or preventing us from writing new and renewal insurance contracts.

In addition, in view of the earnings and capital pressures experienced by many financial institutions, including insurance companies, it is possible that rating organizations will heighten the level of scrutiny that they apply to such institutions, will increase the frequency and scope of their credit reviews, will request additional information from the companies that they rate or will increase the capital and other requirements employed in the rating organizations' models for maintenance of certain ratings levels. We can offer no assurance that our rating will remain at its current level. It is possible that such reviews of us may result in adverse ratings consequences, which could have a material adverse effect on our financial condition and results of operations.

Unexpected changes in the interpretation of our coverage or provisions, including loss limitations and exclusions, in our policies could have a material adverse effect on our financial condition and results of operations.

There can be no assurances that loss limitations or exclusions in our policies will be enforceable in the manner we intend. As industry practices and legal, judicial, social, and other conditions change, unexpected and unintended issues related to claims and coverage may emerge. For example, many of our policies limit the period during which a policyholder may bring a claim, which may be shorter than the statutory period under which such claims can be brought against our policyholders. While these limitations and exclusions help us assess and mitigate our loss exposure, it is possible that a court or regulatory authority could nullify or void a limitation or exclusion or legislation could be enacted modifying or barring the use of such limitations or exclusions. These types of governmental actions could result in higher than anticipated losses and LAE, which could have a material adverse effect on our financial condition or results of operations. In addition, court decisions, such as the 1995 Montrose decision in California could read policy exclusions narrowly so as to expand coverage, thereby requiring insurers to create and write new exclusions.

These issues may adversely affect our business by either broadening coverage beyond our underwriting intent or by increasing the frequency or severity of claims. In some instances, these changes may not become apparent until sometime after we have issued insurance contracts that are affected by the changes. As a result, the full extent of liability under our insurance contracts may not be known for many years after a contract is issued.

Our reinsurers may not reimburse us for claims on a timely basis, or at all, which may materially adversely affect our business, financial condition and results of operations.

The reinsurance contracts that we enter into to help manage our risks require us to pay premiums to the reinsurance carriers who will in turn reimburse us for a portion of covered policy claims. In many cases, a reinsurer will be called upon to reimburse us for policy claims many years after we paid insurance premiums to the insurer. Although reinsurance makes the reinsurer liable to us to the extent the risk is transferred or ceded to the reinsurer, it does not relieve us (the ceding insurer) of our primary liability to our policyholders. Our current reinsurance program is designed to limit our financial risk. However, our reinsurers may not pay claims we incur on a timely basis, or they may not pay some or all of these claims. For example, reinsurers may default in their financial obligations to us as the result of insolvency, lack of liquidity, operational failure, political and/or regulatory prohibitions, fraud, asserted defenses based on agreement wordings or the principle of utmost good faith, asserted deficiencies in the documentation of agreements or other reasons. Any disputes with reinsurers regarding coverage under reinsurance contracts could be time consuming, costly, and uncertain of success. These risks could cause us to incur increased net losses, and, therefore, adversely affect our financial condition. As of March 31, 2022, we had $543.8 million of aggregate reinsurance recoverables.

Our failure to accurately and timely pay claims could materially and adversely affect our business, financial condition, results of operations, and prospects.

We must accurately and timely evaluate and pay claims that are made under our policies. Many factors affect our ability to pay claims accurately and timely, including the training and experience of our claims representatives, including our TPAs, the effectiveness of our management, and our ability to develop or select and implement appropriate procedures and systems to support our claims functions and other factors. Our failure to pay claims accurately and timely could lead to regulatory and administrative actions or material litigation, undermine our reputation in the marketplace and materially and adversely affect our business, financial condition, results of operations, and prospects.

In addition, if we do not manage our TPAs effectively, or if our TPAs are unable to effectively handle our volume of claims, our ability to handle an increasing workload could be adversely affected. In addition to potentially requiring that growth be slowed in the affected markets, our business could suffer from decreased quality of claims work which, in turn, could adversely affect our operating margins.

Severe weather conditions, including the effects of climate change, catastrophes, pandemic, as well as man-made event events may adversely affect our business, results of operations and financial condition.

Our business is exposed to the risk of severe weather conditions, earthquakes and man-made catastrophes. Catastrophes can be caused by various events, including natural events such as severe winter weather, tornadoes, windstorms, earthquakes, hailstorms, severe thunderstorms and fires, or man-made events such as explosions, war, terrorist attacks and riots. Over the past several years, changing weather patterns and climatic conditions, such as global warming, have added to the unpredictability and frequency of natural disasters in certain parts of the world, including the markets in which we operate. Climate change may increase the frequency and severity of extreme weather events. This effect has led to conditions in the ocean and atmosphere, including warmer-than-average sea-surface temperatures and low wind shear that increase hurricane activity. The occurrence of a natural disaster or other catastrophe loss could materially adversely affect our business, financial condition, and results of operations. Additionally, any increased frequency and severity of such weather events, including hurricanes, could have a material adverse effect on our ability to predict, quantify, reinsure and manage catastrophe risk and may materially increase our losses resulting from such catastrophe events.

The extent of losses from catastrophes is a function of both the frequency and severity of the insured events and the total amount of insured exposure in the areas affected. The incidence and severity of catastrophes and severe weather conditions are inherently unpredictable. We manage our exposure to losses by analyzing the probability and severity of the occurrence of loss events and the impact of such events on our overall underwriting and investment portfolio. In addition, our inability to obtain reinsurance coverage at reasonable rates and in amounts adequate to mitigate the risks associated with severe weather conditions and other catastrophes could have a material adverse effect on our business and results of operations.

Our business is also exposed to the risk of pandemics, outbreaks, public health crises, and geopolitical and social events, and their related effects. While to date we have not seen a meaningful decrease in the growth rate of our gross written premiums since the beginning of the COVID-19 pandemic, this pandemic situation remains fluid and continues to evolve, and at this time we are unable to determine the ultimate impact of this pandemic on our business, financial condition, results of operations and cash flows. While policy terms and conditions in the lines of business written by us would be expected to preclude coverage for virus-related claims, court decisions and governmental actions may challenge the validity of any exclusions or our interpretation of how such terms and conditions operate. If pandemics, outbreaks and other events occur or re-occur, our business, financial condition, results of operations and cash flows may be materially adversely affected.

Because we provide our program administrators with specific quoting and binding authority, if any of them fail to comply with pre-established guidelines, our results of operations could be adversely affected.

We market and distribute certain of our insurance products through program administrators that have limited quoting and binding authority, and they in turn, sell our insurance products to insureds through retail agents and brokers. These program administrators can bind certain risks without our initial approval. If any of these program administrators fail to comply with our underwriting guidelines and the terms of their appointments, we could be bound on a particular risk or number of risks that were not anticipated when we developed the insurance products or estimated losses and LAE. Such actions could adversely affect our results of operations.

If actual renewals of our existing contracts do not meet expectations, our written premium in future years and our future results of operations could be materially adversely affected.

Most of our contracts are written for a one-year term. In our financial forecasting process, we make assumptions about the rates of renewal of our prior year’s contracts. The insurance and reinsurance industries have historically been cyclical businesses with intense competition, often based on price. If actual renewals do not meet expectations or if we choose not to write renewals because of pricing conditions, our written premium in future years and our future operations would be materially adversely affected.

Increased public attention to environmental, social and governance matters may expose us to negative public perception, cause reputational harm, impose additional costs on our business or impact our stock price.

Recently, more attention is being directed towards publicly traded companies regarding environmental, social and governance (“ESG”) matters. A failure, or perceived failure, to respond to investor or customer expectations related to ESG concerns could cause harm to our business and reputation. For example, our insureds include a wide variety of industries, including potentially controversial industries. Damage to our reputation as a result of our provision of policies to certain insureds could result in decreased demand for our insurance products and could have a material adverse effect on our business, operational results and financial results, as well as require additional resources to rebuild our reputation, competitive position and brand strength.

Changes in accounting practices and future pronouncements may materially affect our reported financial results.

Developments in accounting practices may require us to incur considerable additional expenses to comply, particularly if we are required to prepare information relating to prior periods for comparative purposes or to apply the new requirements retroactively. The impact of changes in current accounting practices and future pronouncements cannot be predicted but may affect the calculation of net income, shareholder's equity and other relevant financial statement line items.

Our insurance subsidiaries are required to comply with statutory accounting principles, or SAP. SAP and various components of SAP are subject to constant review by the National Association of Insurance Commissioners ("NAIC") and its task forces and committees, as well as state insurance departments, in an effort to address emerging issues and otherwise improve financial reporting. Various proposals are pending before committees and task forces of the NAIC, some of which, if enacted and adopted on a state level, could have negative effects on insurance industry participants. The NAIC continuously examines existing laws and regulations. We cannot predict whether or in what form such reforms will be enacted and, if so, whether the enacted reforms will positively or negatively affect us.

Risks Related to the Market and Economic Conditions

Adverse economic factors, including recession, inflation, periods of high unemployment or lower economic activity could result in the sale of fewer policies than expected or an increase in the frequency of claims and premium defaults, and even the falsification of claims, or a combination of these effects, which, in turn, could affect our growth and profitability.

Factors, such as business revenue, economic conditions, the volatility and strength of the capital markets, and inflation can affect the business and economic environment. These same factors affect our ability to generate revenue and profits. In an economic downturn that is characterized by higher unemployment, declining spending, and reduced corporate revenue, the demand for insurance products is generally adversely affected, which directly affects our premium levels and profitability. Negative economic factors may also affect our ability to receive the appropriate rate for the risk we insure with our policyholders and may adversely affect the number of policies we can write, and our opportunities to underwrite profitable business. In an economic downturn, our customers may have less need for insurance coverage, cancel existing insurance policies, modify their coverage or not renew the policies they hold with us. Existing policyholders may exaggerate or even falsify claims to obtain higher claims payments. In addition, if certain segments of the economy, such as the construction or energy production and servicing segments (which would affect several of our underwriting divisions at one time) were to significantly collapse, it could adversely affect our results. These outcomes would reduce our underwriting profit to the extent these factors are not reflected in the rates we charge.

The insurance business is historically cyclical in nature and we believe we are currently experiencing a relatively hard market cycle, which may affect our financial performance and cause our operating results to vary from quarter to quarter and may not be indicative of future performance.

Historically, insurance carriers have experienced significant fluctuations in operating results due to competition, frequency and severity of catastrophic events, levels of capacity, adverse litigation trends, regulatory constraints, general economic conditions, and other factors. The supply of insurance is related to prevailing prices, the level of insured losses and the level of capital available to the industry that, in turn, may fluctuate in response to changes in rates of return on investments being earned in the insurance industry. As a result, the insurance business historically has been a cyclical industry characterized by periods of intense price competition due to excessive underwriting capacity (soft market cycle) as well as periods when shortages of capacity increased premium levels (hard market cycle). Demand for insurance depends on numerous factors, including the frequency and severity of catastrophic events, levels of capacity, the introduction of new capital providers and general economic conditions. All of these factors fluctuate and may contribute to price declines generally in the insurance industry.

Although an individual insurance company's financial performance depends on its own specific business characteristics, the profitability of most P&C insurance companies tends to follow this cyclical market pattern with higher gross written premium growth and improved profitability during hard market cycles. Further, this cyclical market pattern can be more pronounced in the E&S market than in the standard insurance market. When the standard insurance market hardens, the E&S market typically hardens, and growth in the E&S market can be significantly more rapid than growth in the standard insurance market. Similarly, when conditions begin to soften, many customers that were previously driven into the E&S market may return to the admitted market, exacerbating the effects of rate decreases on our financial results. At present, we believe we are experiencing a relatively hard market cycle, however, we cannot predict the timing or duration of changes in the market cycle because the cyclicality is due in large part to the actions of our competitors and general economic factors. As a result, our operating results are subject to fluctuation and have historically varied from quarter to quarter. We expect our quarterly results will continue to fluctuate in the future due to a number of factors, including the general economic conditions in the markets where we operate, the frequency of occurrence or severity of catastrophe or other insured events, fluctuating interest rates, claims exceeding our loss reserves, competition in our industry, deviations from expected premium retention rates of our existing policies and contracts, adverse investment performance, and the cost of reinsurance coverage.

Performance of our investment portfolio is subject to a variety of investment risks that may adversely affect our financial results.

Our results of operations depend, in part, on the performance of our investment portfolio. We seek to hold a diversified portfolio of investments that is managed by professional investment advisory management firms in accordance with our investment policy and routinely reviewed by our Investment Committee. However, our investments are subject to general economic conditions and market risks as well as risks inherent to specific securities. Our primary market risk exposures are to changes in interest rates and equity prices. See the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations — Quantitative and Qualitative Disclosures About Market Risk."

A significant amount of our investment portfolio is invested in fixed maturity securities, or separately managed accounts and limited partnerships invested primarily in fixed maturity securities. In recent years, interest rates have been at or near historic lows, however, in the first quarter of 2022, interest rates have steadily risen. Should the recent rate increases cease or decline, a low interest rate environment would continue to place pressure on our net investment income, particularly as it relates to these securities and short-term investments, which, in turn, may adversely affect our operating results. Recent and future increases in interest rates could cause the values of our fixed income securities portfolios to decline, with the magnitude of the decline depending on the duration of securities included in our portfolio and the amount by which interest rates increase. Some fixed income securities have call or prepayment options, which create possible reinvestment risk in declining rate environments. Other fixed income securities, such as mortgage-backed and asset-backed securities, carry prepayment risk or, in a rising interest rate environment, may not prepay as quickly as expected.

All of our fixed maturity securities, including those held in separately managed accounts and limited partnerships, are subject to credit risk. Credit risk is the risk that certain investments may default or become impaired due to deterioration in the financial condition of one or more issuers of the securities we hold, or due to deterioration in the financial condition of an insurer that guarantees an issuer's payments on such investments. Downgrades in the credit ratings of fixed maturity securities (where rated) could also have a significant negative effect on the market valuation of such securities.

We also invest in marketable preferred and common equity securities and exchange traded funds. These securities are carried on the balance sheet at fair market value and are subject to potential losses and declines in market value. Our equity invested assets totaled $166.8 million as of March 31, 2022.

The above market and credit risks could reduce our net investment income and result in realized investment losses. Our investment portfolio is subject to increased valuation uncertainties when investment markets are illiquid, as is the case with our fixed maturity securities held to maturity, separately managed accounts, and limited partnership investments. The valuation of investments is more subjective when markets are illiquid, thereby increasing the risk that the estimated fair value (i.e., the carrying amount) of the securities we hold in our portfolio does not reflect prices at which actual transactions would occur.

Risks for all types of securities are managed through the application of our investment policy, which establishes investment parameters that include but are not limited to, maximum percentages of investment in certain types of securities and minimum levels of credit quality, which we believe are within applicable guidelines established by the NAIC, the Texas Department of Insurance, and the Oklahoma Department of Insurance. In addition, our Investment Committee periodically reviews our Enterprise Based Asset Allocation models to assist in overall risk management.

Although we seek to preserve our capital, we cannot be certain that our investment objectives will be achieved, and results may vary substantially over time. In addition, although we seek to employ investment strategies that are not correlated with our insurance and reinsurance exposures, losses in our investment portfolio may occur at the same time as underwriting losses and, therefore, exacerbate the adverse effect of the losses on us.

We could be forced to sell investments to meet our liquidity requirements.

We invest the premiums we receive from our insureds until they are needed to pay policyholder claims. Consequently, we seek to manage the duration of our investment portfolio based on the duration of our losses and LAE reserves to provide sufficient liquidity and avoid having to liquidate investments to fund claims. Risks such as inadequate losses and LAE reserves or unfavorable trends in litigation could potentially result in the need to sell investments to fund these liabilities. We may not be able to sell our investments at favorable prices or at all. Sales could result in significant realized losses depending on the conditions of the general market, interest rates and credit issues with individual securities.

Risks Related to the Regulatory Environment

We are subject to extensive regulation, which may adversely affect our ability to achieve our business objectives. In addition, if we fail to comply with these regulations, we may be subject to penalties, including fines and suspensions, which may adversely affect our financial condition and results of operations.

Our primary insurance subsidiaries, HSIC, IIC, and GMIC, are subject to extensive regulation in Texas, their state of domicile, and to a lesser degree, the other states in which they operate. Most insurance regulations are designed to protect the interests of insurance policyholders, as opposed to the interests of investors or stockholders. These regulations generally are administered by a department of insurance in each state and relate to, among other things, capital and surplus requirements, investment and underwriting limitations, affiliate transactions, dividend limitations, changes in control, solvency and a variety of other financial and non-financial aspects of our business. Significant changes in these laws and regulations could further limit our discretion or make it more expensive to conduct our business. State insurance regulators also conduct periodic examinations of the affairs of insurance and reinsurance companies and require the filing of annual and other reports relating to financial condition, holding company issues and other matters. These regulatory requirements may impose timing and expense constraints that could adversely affect our ability to achieve some or all of our business objectives.

Our insurance subsidiaries are part of an “insurance holding company system” within the meaning of applicable Texas statutes and regulations. As a result of such status, certain transactions between our insurance subsidiaries and one or more of their affiliates may not be effected unless the insurer has provided notice of that transaction to the Texas Department of Insurance. These prior notification requirements may result in business delays and additional business expenses. If our insurance subsidiaries fail to file a required notification or fail to comply with other applicable insurance regulations in Texas, we may be subject to significant fines and penalties and our working relationship with the Texas Department of Insurance may be impaired.

In addition, state insurance regulators have broad discretion to deny or revoke licenses for various reasons, including the violation of regulations. In some instances, where there is uncertainty as to applicability, we follow practices based on our interpretations of regulations or practices that we believe generally to be followed by the industry. These practices may turn out to be different from the interpretations of regulatory authorities. If we do not have the requisite licenses and approvals or do not comply with applicable regulatory requirements, state insurance regulators could preclude or temporarily suspend us from carrying on some or all of our activities in their state or could otherwise penalize us. This could adversely affect our ability to operate our business. Further, changes in the level of regulation of the insurance industry or changes in laws or regulations themselves or interpretations by regulatory authorities could interfere with our operations and require us to bear additional costs of compliance, which could adversely affect our ability to operate our business.

Our insurance subsidiaries are subject to risk-based capital requirements, based upon the “risk based capital model” adopted by the NAIC, and other minimum capital and surplus restrictions imposed under Texas law. These requirements establish the minimum amount of risk-based capital necessary for a company to support its overall business operations. It identifies property and casualty insurers that may be inadequately capitalized by looking at certain inherent risks of each insurer’s assets and liabilities and its mix of net written premium. Insurers falling below a calculated threshold may be subject to varying degrees of regulatory action, including supervision, rehabilitation or liquidation. Failure to maintain our risk-based capital at the required levels could adversely affect the ability of our insurance subsidiary to maintain regulatory authority to conduct our business and our A.M. Best Rating.

We may become subject to additional government or market regulation, which may have a material adverse impact on our business.

Our business could be adversely affected by changes in state laws, including those relating to asset and reserve valuation requirements, surplus requirements, limitations on investments and dividends, enterprise risk and risk-based capital requirements, and, at the federal level, by laws and regulations that may affect certain aspects of the insurance industry, including proposals for preemptive federal regulation. The U.S. federal government generally has not directly regulated the insurance industry except for certain areas of the market, such as insurance for flood, nuclear and terrorism risks. However, the federal government has undertaken initiatives or considered legislation in several areas that may affect the insurance industry, including tort reform, corporate governance and the taxation of reinsurance companies.

Additionally, we currently derive revenues from customers in the cannabis industry. As such, any risks related to the cannabis industry, including but not limited to cannabis being deemed a controlled substance under federal laws, may adversely impact our clients, and potential clients, which may in turn, impact our services. The legality of cannabis could be reversed in one or more states, which might force businesses, including our customers, to cease operations in one or more states entirely. A change in the legal status of, or the enforcement of federal laws related to, the cannabis industry could negatively impact us and lead to a decrease in our revenue through the loss of current and potential customers.

Our ability to utilize our net operating loss carryforwards and certain other tax attributes may be limited.

As of March 31, 2022, we had gross federal income tax net operating losses, or NOLs, of approximately $117.9 million available to offset our future taxable income, if any, prior to consideration of annual limitations that may be imposed under Section 382 of the Internal Revenue Code of 1986, as amended, or the Code, or otherwise. Of our NOLs, $32.9 million of losses will begin to expire in 2033 and $39.5 million of losses can be carried forward indefinitely.

Under Section 382 of the Code, if a corporation undergoes an “ownership change” (very generally defined as a greater than 50% change, by value, in the corporation’s equity ownership by certain stockholders or groups of stockholders over a rolling three-year period), the corporation’s ability to use its pre-ownership change NOLs to offset its post-ownership change income may be limited. We may experience ownership changes in the future as a result of subsequent shifts in our stock ownership, some of which may be outside of our control. Future regulatory changes could also limit our ability to utilize our NOLs. To the extent we are not able to offset future taxable income with our NOLs, our net income and cash flows may be adversely affected.

Because we are a holding company and substantially all of our operations are conducted by our insurance subsidiaries, our ability to achieve liquidity at the holding company, including the ability to pay dividends and service our debt obligations, depends on our ability to obtain cash dividends or other permitted payments from our insurance subsidiaries.

The continued operation and growth of our business will require substantial capital. Accordingly, after the completion of this offering, we do not intend to declare and pay cash dividends on shares of our common stock in the foreseeable future. See the section entitled "Dividend Policy." Because we are a holding company with no business operations of our own, our ability to pay dividends to stockholders and meet our debt payment obligations largely depends on dividends and other distributions from our primary insurance subsidiaries, HSIC, IIC and GMIC. State insurance laws, including the laws of Texas restrict the ability of HSIC, IIC and GMIC, to determine how we declare stockholder dividends. State insurance regulators require insurance companies to maintain specified levels of statutory capital and surplus. Dividend payments are further limited to that part of available policyholder surplus that is derived from net profits on our business. State insurance regulators have broad powers to prevent the reduction of statutory surplus to inadequate levels, and there is no assurance that dividends up to the maximum amounts calculated under any applicable formula would be permitted. Moreover, state insurance regulators that have jurisdiction over the payment of dividends by our insurance subsidiaries may in the future adopt statutory provisions more restrictive than those currently in effect.

Any determination to pay dividends in the future will be at the discretion of our Board of Directors and will depend upon results of operations, financial condition, contractual restrictions pursuant to our debt agreements, our indebtedness, restrictions imposed by applicable law and other factors our Board of Directors deems relevant. Consequently, investors may need to sell all or part of their holdings of our common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment. Investors seeking immediate cash dividends should not purchase our common stock.

Applicable insurance laws may make it difficult to effect a change of control.

Under applicable Texas insurance laws and regulations, no person may acquire control of a domestic insurer until written approval is obtained from the state insurance commissioner on the proposed acquisition. Such approval would be contingent upon the state insurance commissioner's consideration of a number of factors including, among others, the financial strength of the proposed acquiror, the acquiror's plans for the future operations of the domestic insurer and any anti-competitive results that may arise from the consummation of the acquisition of control. Texas insurance laws and regulations pertaining to changes of control apply to both the direct and indirect acquisition of ten percent or more of the voting stock of a Texas-domiciled insurer. Accordingly, the acquisition of ten percent or more of our common stock would be considered an indirect change of control of Skyward Specialty and would trigger the applicable change of control filing requirements under Texas insurance laws and regulations, absent a disclaimer of control filing and its acceptance by the Texas Insurance Department. These requirements may discourage potential acquisition proposals and may delay, deter or prevent a change of control of Skyward Specialty, including through transactions that some or all of the stockholders of Skyward Specialty might consider to be desirable.

Risks Related to Our Liquidity and Access to Capital

We may require additional capital in the future, which may not be available or may only be available on unfavorable terms.

Our future capital requirements depend on many factors, including our ability to write new business successfully and to establish premium rates and reserves at levels sufficient to cover losses. To the extent that the funds generated by this offering are insufficient to fund future operating requirements and cover claim losses, we may need to raise additional funds through financings or curtail our growth. Many factors will affect the amount and timing of our capital needs, including our growth rate and profitability, our claims experience, and the availability of reinsurance, market disruptions, and other unforeseeable developments. If we need to raise additional capital, equity or debt financing may not be available at all or may be available only on terms that are not favorable to us. In the case of equity financings, dilution to our stockholders could result. In the case of debt financings, we may be subject to covenants that restrict our ability to freely operate our business. In any case, such securities may have rights, preferences and privileges that are senior to those of the shares of common stock offered hereby. If we cannot obtain adequate capital on favorable terms or at all, we may not have sufficient funds to implement our operating plans and our business, financial condition or results of operations could be materially adversely affected.

Our debt obligations could impair our financial condition and limit our operating flexibility.

Our indebtedness under our credit agreement, ("Credit Agreement"), and our other financial obligations (including Trust Preferred, as defined later in this prospectus, and subordinated debt) could:

- impair our ability to obtain financing or additional debt in the future for working capital, capital expenditures, acquisitions or general corporate purposes;
- impair our ability to access capital and credit markets on terms that are favorable to us;
- have a material adverse effect on us if we fail to comply with financial and affirmative and restrictive covenants in our Credit Agreement and an event of default occurs as a result of a failure that is not cured or waived;
- require us to dedicate a portion of our cash flow for interest payments on our indebtedness and other financial obligations, thereby reducing the availability of our cash flow to fund working capital and capital expenditures; and
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate.

Our financial covenants in the Credit Agreement require us to maintain certain minimum fixed charges coverage ratio and total adjusted capital of our subsidiaries. If we breach these covenants, the lender will have the right to accelerate repayment of the outstanding amounts. In the event that the lender accelerates the repayment of our indebtedness, there can be no assurance that we will have sufficient cash on hand to satisfy such obligations and our business operations may be materially harmed.

Furthermore, there is no guarantee that we will be able to pay the principal and interest under the Credit Agreement or that future working capital, borrowings or equity financing will be available to repay or refinance any amounts outstanding under the Credit Agreement. Our obligations under the Credit Agreement are secured by a perfected security interest in all of our tangible and intangible assets (including our intellectual property assets), except for certain customary excluded property, and all of our and our subsidiaries' capital stock, with certain limited exceptions. In addition, we may enter into debt agreements in the future that may contain similar or more burdensome terms and covenants, including financial covenants.

Risks Related to Our Operations

We could be adversely affected by the loss of one or more key personnel or by an inability to attract and retain qualified personnel.

We depend on our ability to attract and retain experienced and seasoned personnel who are knowledgeable about our business. The pool of talent from which we actively recruit is limited and may fluctuate based on market dynamics specific to our industry and independent of overall economic conditions. As such, higher demand for employees having the desired skills and expertise could lead to increased compensation expectations for existing and prospective personnel, making it difficult for us to retain and recruit key personnel and maintain labor costs at desired levels. Should any of our key personnel terminate their employment with us, or if we are unable to retain and attract talented personnel, we may be unable to maintain our current competitive position in the specialized markets in which we operate, which could adversely affect our results of operations.

Security breaches, loss of data, cyberattacks, and other information technology failures could disrupt our operations, damage our reputation, and adversely affect our business, operations, and financial results.

Our business is highly dependent upon our information technology and telecommunications systems, including our underwriting systems. We rely on these systems to interact with brokers and insureds, to underwrite business, to prepare policies and process premiums, to perform actuarial and other modeling functions, to process claims and make claims payments, and to prepare internal and external financial statements. Some of these systems may include or rely on third-party systems not located on our premises or under our control. Events such as natural catastrophes, terrorist attacks, industrial accidents, computer viruses and other cyber-attacks may cause our systems to fail or be inaccessible for extended periods of time. While we have implemented business contingency plans and other reasonable plans to protect our systems, whether housed internally or through third-party cloud services, sustained or repeated system failures or service denials could severely limit our ability to write and process new and renewal business, provide customer service, pay claims in a timely manner or otherwise operate in the ordinary course of business.

Computer viruses, hackers, employee misconduct, and other external hazards could expose our systems to security breaches, cyber-attacks or other disruptions. While we have implemented security measures designed to protect against breaches of security and other interference with our systems and networks, our systems and networks may be subject to breaches or interference and we, and our third-party service providers, will likely continue to experience cybersecurity incidents of varying degrees. Any such event may result in operational disruptions as well as unauthorized access to, the disclosure of, or loss of our proprietary information or our customers' data and information, which in turn may result in legal claims, regulatory scrutiny and liability, reputational damage, the incurrence of costs to eliminate or mitigate further exposure, the loss of customers or affiliated advisors, or other damage to our business. In addition, the trend toward general public notification of such incidents could exacerbate the harm to our business, financial condition and results of operations. Even if we successfully protect our technology infrastructure and the confidentiality of sensitive data, we could suffer harm to our business and reputation if attempted security breaches are publicized. We cannot be certain that advances in criminal capabilities, discovery of new vulnerabilities, attempts to exploit vulnerabilities in our systems, data thefts, physical system or network break-ins or inappropriate access, or other developments will not compromise or breach the technology or other security measures protecting the networks and systems used in connection with our business.

Third parties to whom we outsource certain of our functions are also subject to these risks. While we review and assess our third-party providers' cybersecurity controls, as appropriate, and make changes to our business processes to manage these risks, we cannot ensure that our attempts to keep such information confidential will always be successful. Moreover, our increased use of third-party services (e.g. cloud technology and software as a service) can make it more difficult to identify and respond to cyberattacks in any of the above situations due to the dynamic nature of these technologies. These risks could increase as vendors adopt and use more cloud-based software services rather than software services which can be run within our data centers.

We may not be able to manage our growth effectively.

We intend to grow our business in the future, which could require additional capital, systems development and skilled personnel. However, we must be able to meet our capital needs, expand our systems and our internal controls effectively, allocate our human resources optimally, identify, hire, train and develop qualified employees and effectively incorporate the components of any business we may acquire in our effort to achieve growth. The failure to manage our growth effectively could have a material adverse effect on our business, financial condition and results of operations.

The effects of litigation on our business are uncertain and could have an adverse effect on our business.

As is typical in our industry, we continually face risks associated with litigation of various types, including disputes relating to insurance claims under our policies as well as other general commercial and corporate litigation. Although we are not currently involved in any out-of-the-ordinary litigation with our customers, other members of the insurance industry are the target of class action lawsuits and other types of litigation, some of which involve claims for substantial or indeterminate amounts, and the outcomes of which are unpredictable. This litigation is based on a variety of issues, including insurance and claim settlement practices. We cannot predict with any certainty whether we will be involved in such litigation in the future or what impact such litigation would have on our business.

Loss of key vendor relationships or failure of a vendor to protect our data, confidential and proprietary information could affect our operations.

We rely on services and products provided by many vendors in the United States and abroad. These include, for example, vendors of computer hardware and software, and vendors and/or outsourcing of services such as claim adjustment services, human resource benefits management services and investment management services. In the event that any vendor suffers a bankruptcy or otherwise becomes unable to continue to provide products or services, or fails to protect our confidential, proprietary, and other information, we may suffer operational impairments and financial losses. In addition, while we generally monitor vendor risk, including the security and stability of our critical vendors, we may fail to properly assess and understand the risks and costs involved in the third-party relationships, and our financial condition and results of operations could be materially and adversely affected.

We anticipate that we will continue to rely on third-party software in the future. Although we believe that there are commercially reasonable alternatives to the third-party software we currently license, this may not always be the case, or it may be difficult or costly to replace. In addition, integration of new third-party software may require significant work and require substantial investment of our time and resources. Our use of additional or alternative third-party software would require us to enter into license agreements with third parties, which may not be available on commercially reasonable terms or at all. Many of the risks associated with the use of third-party software cannot be eliminated, and these risks could negatively affect our business.

We may fail or be unable to protect our intellectual property rights for our proprietary technology platform and brand, or we may be sued by third parties for alleged infringement of their proprietary rights.

Our success and ability to compete depend in part on our intellectual property, which includes our rights in our brand and our proprietary technology used in certain of our product lines. We primarily rely on copyright and trade secret laws, and confidentiality agreements with our employees, customers, service providers, partners and others to protect our intellectual property rights. However, the steps we take to protect our intellectual property may be inadequate. Our efforts to enforce our intellectual property rights may be met with defenses, counterclaims and countersuits attacking the validity and enforceability and scope of our intellectual property rights. Our failure to secure, protect and enforce our intellectual property rights could adversely affect our brand and adversely impact our business.

Our success depends also in part on our not infringing on the intellectual property rights of others. Our competitors, as well as a number of other entities and individuals, may own or claim to own intellectual property relating to our industry or the Company. In the future, third parties may claim that we are infringing on their intellectual property rights, and we may be found to be infringing on such rights. Any claims or litigation could cause us to incur significant expenses and, if successfully asserted against us, could require that we pay substantial damages or ongoing royalty payments, prevent us from offering our services, or require that we comply with other unfavorable terms. Even if we were to prevail in such a dispute, any litigation could be costly and time-consuming and divert the attention of our management and key personnel from our business operations.

Risks Related to This Offering and Ownership of Our Common Stock

Our costs will increase significantly as a result of operating as a public company, and our management will be required to devote substantial time to complying with public company regulations.

As a public company, we expect to incur significant legal, accounting and other expenses that we did not incur as a private company. After completion of this offering, we will be subject to the reporting requirements of the Exchange Act, which will require, among other things, that we file with the SEC annual, quarterly and current reports with respect to our business and financial condition and therefore we will need to have the ability to prepare financial statements that comply with all SEC reporting requirements on a timely basis. In addition, we will be subject to other reporting and corporate governance requirements, including certain requirements of and certain provisions of the Sarbanes-Oxley Act and the regulations promulgated thereunder, which will impose significant compliance obligations upon us. In particular, we must perform system and process evaluation and testing of our internal control over financial reporting to allow management and, to the extent that we are no longer an "emerging growth company" as defined in the JOBS Act, our independent registered public accounting firm to report on the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. Our compliance with Section 404 will require that we incur substantial accounting expense and expend significant management efforts.

The Sarbanes-Oxley Act and the Dodd-Frank Act, as well as related rules subsequently implemented by the SEC and   , have increased regulation of, and imposed enhanced disclosure and corporate governance requirements on, public companies. Our efforts to comply with these evolving laws, regulations and standards will increase our operating costs and divert management's time and attention from revenue-generating activities.   Further, if these laws, regulations are rules were to change substantially in the future, we might be unable to meet new requirements.

These changes will also place significant additional demands on our finance and accounting staff and on our financial accounting and information systems. We may need to hire additional accounting and financial staff with appropriate public company reporting experience and technical accounting knowledge. Other expenses associated with being a public company include increases in auditing, accounting and legal fees and expenses, investor relations expenses, increased directors' fees and director and officer liability insurance costs, registrar and transfer agent fees and listing fees, as well as other expenses. As a public company, we will be required, among other things, to:

- prepare and file periodic reports and distribute other stockholder communications, in compliance with the federal securities laws and requirements of ;
- define and expand the roles and the duties of our Board of Directors and its committees;
- institute more comprehensive compliance and investor relations functions; and
- evaluate and maintain our system of internal control over financial reporting, and report on management's assessment thereof, in compliance with rules and regulations of the SEC and the Public Company Accounting Oversight Board.

We may not be successful in implementing these requirements, and implementing them could materially adversely affect our business. The increased costs will decrease our net income and may require us to reduce costs in other areas of our business or increase the prices of our products or services. For example, we expect these rules and regulations to make it more difficult and more expensive for us to obtain director and officer liability insurance and we may be required to incur substantial costs to maintain the same or similar coverage. We cannot predict or estimate the amount or timing of additional costs we may incur to respond to these requirements. The impact of these requirements could also make it more difficult for us to attract and retain qualified persons to serve on our Board of Directors, our Board committees or as executive officers.

In addition, if we fail to implement the required controls with respect to our internal accounting and audit functions, our ability to report our results of operations on a timely and accurate basis could be impaired. If we do not implement the required controls in a timely manner or with adequate compliance, we may be subject to sanctions or investigation by regulatory authorities, such as the SEC or . Any such action could harm our reputation and the confidence of investors in, and clients of, our Company and could negatively affect our business and cause the price of our shares of common stock to decline.

We will be required by Section 404 of the Sarbanes-Oxley Act to evaluate the effectiveness of our internal control over financial reporting. We have identified a material weakness in our internal controls over financial reporting. If we are unable to remediate this material weakness, if we experience additional material weaknesses, or fail to achieve and maintain effective internal controls, our operating results and financial condition could be impacted and the market price of our common stock may be negatively affected.

As a public company with SEC reporting obligations, we will be required to document and test our internal control procedures to satisfy the requirements of Section 404(a) of the Sarbanes-Oxley Act, which will require annual assessments by management of the effectiveness of our internal control over financial reporting beginning with the annual report for our fiscal year ended December 31, 2023. We are an emerging growth company, and thus we are exempt from the auditor attestation requirement of Section 404(b) of Sarbanes-Oxley until such time as we no longer qualify as an emerging growth company. See also "— We qualify as an emerging growth company, and any decision on our part to comply with reduced reporting and disclosure requirements applicable to emerging growth companies could make our common stock less attractive to investors" for further discussion of these exemptions. Regardless of whether we qualify as an emerging growth company, we will still need to implement substantial internal control systems and procedures in order to satisfy the reporting requirements under the Exchange Act and applicable requirements.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. In the course of preparing the consolidated financial statements for the year ended December 31, 2021, our management identified a material weakness in our internal control over financial reporting as we had not designed or maintained an effective control environment and associated control activities to meet our accounting and reporting requirements. This material weakness contributed to additional deficiencies in the control infrastructure within specific functions of the organization resulting in a failure to evaluate, account for and disclose complex transactions in an accurate and timely manner, resulting in a restatement of the financial statements for the year ended December 31, 2020 and late adjustments to the financial statements for the year ended December 31, 2021.

We have concluded that these material weaknesses arose because, as a private company, we did not have the necessary business processes, systems, personnel and related internal controls. We have begun to remediate the material weakness and strengthen our internal control over financial reporting. Specifically, we have consolidated subject matter experts from reinsurance purchasing and financial reporting under one unit, implemented processes at contract inception and on a quarterly basis as to each outstanding reinsurance contract with variable features including management's conclusion as to risk transfer and the financial statement impact. In addition, for purchase and divestiture of business transactions, we have implemented a policy whereby the transactions are summarized and the accounting is documented and provided to designated experts for review and conclusion. We have and will continue to strengthen our finance team and implement further policies, processes and documentation procedures relating to our financial reporting, including detailed review of specified accounts that require formal sign-off on a quarterly basis.

Neither we nor our independent registered public accounting firm have tested the effectiveness of our internal control over financial reporting, and we cannot assure you that we will be able to successfully remediate the material weakness described above or to avoid the identification of additional material weaknesses in the future. In addition, we may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404(a) of Sarbanes-Oxley. If we conclude that our internal control over financial reporting is not effective, we cannot be certain as to the timing of completion of our evaluation, testing and remediation actions or their effect on our operations. Even if we conclude that our internal control over financial reporting is effective, our independent registered public accounting firm may conclude that there are material weaknesses with respect to our internal control over financial reporting. Moreover, any material weaknesses or other deficiencies in our internal control over financial reporting may impede our ability to file timely and accurate reports with the SEC. Any of the above could cause investors to lose confidence in our reported financial information, we could become subject to litigation or investigations by Nasdaq, the SEC or other regulatory authorities, or our common stock listed on Nasdaq to be suspended or terminated, which could require additional financial and management resources, and could have a negative effect on the trading price of our common stock.

We qualify as an emerging growth company, and any decision on our part to comply with reduced reporting and disclosure requirements applicable to emerging growth companies could make our common stock less attractive to investors.

We are an "emerging growth company," and, for as long as we continue to be an emerging growth company, we currently intend to take advantage of exemptions from various reporting requirements applicable to other public companies but not to "emerging growth companies," including, but not limited to, not being required to have our independent registered public accounting firm audit our internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our registration statements, periodic reports and proxy statements and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We will cease to be an emerging growth company upon the earliest of: (i) the last day of the fiscal year in which we have total annual gross revenues of $1.07 billion or more; (ii) the last day of our fiscal year following the fifth anniversary of the date of the completion of this offering; (iii) the date on which we have issued more than $1 billion in nonconvertible debt during the previous three years; and (iv) the date on which we are deemed to be a large accelerated filer under the rules of the SEC.

We cannot predict whether investors will find our common stock less attractive if we choose to rely on these exemptions while we are an emerging growth company. If some investors find our common stock less attractive as a result of any choices to reduce future disclosure, there may be a less active trading market for our common stock and the price of our common stock may be more volatile.

Under the JOBS Act, emerging growth companies can also delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have elected to avail ourselves of this extended transition period and, as a result, we will not be required to adopt new or revised accounting standards on the relevant dates on which adoption of such standards is required for other public companies.

There is no existing market for our common stock, and you cannot be certain that an active trading market will develop or a specific share price will be established.

Prior to this offering, there has been no public market for shares of our common stock. We have applied to list our common stock on Nasdaq under the symbol “SKWD.” We cannot predict the extent to which investor interest in our Company will lead to the development of a trading market on such exchange or otherwise or how liquid that market might become. If an active and liquid trading market does not develop, you may have difficulty selling your shares of common stock at an attractive price, or at all. The initial public offering price for the shares of our common stock will be determined by negotiations among us, the selling stockholders and the underwriters, and may not be indicative of the price that will prevail in the trading market following this offering. The market price for our common stock may decline below the initial public offering price, and our stock price is likely to be volatile.

Our operating results and stock price may be volatile, or may decline regardless of our operating performance, and you could lose all or part of your investment.

Our quarterly operating results are likely to fluctuate in the future as a publicly-traded company. In addition, securities markets worldwide have experienced, and are likely to continue to experience, significant price and volume fluctuations. This market volatility, as well as general economic, market or political conditions, could subject the market price of our shares to wide price fluctuations regardless of our operating performance. You should consider an investment in our common stock to be risky, and you should invest in our common stock only if you can withstand a significant loss and wide fluctuation in the market value of your investment. The market price of our common stock could be subject to significant fluctuations after this offering in response to the factors described in this “Risk Factors” section and other factors, many of which are beyond our control. Among the factors that could affect our stock price are:

- market conditions in the broader stock market;
- actual or anticipated fluctuations in our quarterly financial and operating results;
- introduction of new products or services by us or our competitors;
- issuance of new or changed securities analysts’ reports or recommendations;
- results of operations that vary from expectations of securities analysts and investors;
- short sales, hedging and other derivative transactions in our common stock;
- guidance, if any, that we provide to the public, any changes in this guidance or our failure to meet this guidance;
- strategic actions by us or our competitors;
- announcement by us, our competitors or our acquisition targets;
- sales, or anticipated sales, of large blocks of our stock, including by our directors, executive officers and principal stockholders;
- additions or departures in our Board or Directors, senior management or other key personnel;
- regulatory, legal or political developments;
- public response to press releases or other public announcements by us or third parties, including our filings with the SEC;
- litigation and governmental investigations;
- changing economic conditions;
- changes in accounting principles;

- any indebtedness we may incur or securities we may issue in the future;
- default under agreements governing our indebtedness;
- exposure to capital and credit market risks that adversely affect our investment portfolio or our capital resources;
- changes in our credit ratings; and
- other events or factors, including those from natural disasters, war, actors of terrorism or responses to these events.

The securities markets have from time to time experienced extreme price and volume fluctuations that often have been unrelated or disproportionate to the operating performance of particular companies. As a result of these factors, investors in our common stock may not be able to resell their shares at or above the initial offering price. These broad market fluctuations, as well as general market, economic and political conditions, such as recessions, loss of investor confidence or interest rate changes, may negatively affect the market price of our common stock.

In addition, the stock markets, including , have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. If any of the foregoing occurs, it could cause our stock price to fall and may expose us to securities class action litigation that, even if unsuccessful, could be costly to defend, divert management's attention and resources or harm our business.

Sales of outstanding shares of our common stock into the market in the future could cause the market price of our common stock to drop significantly, even if our business is doing well.

Upon completion of this offering, we will have outstanding an aggregate of approximately shares of our common stock, assuming no exercise of the underwriters' option to purchase additional shares. Of these shares, shares to be sold in this offering will be freely tradable without restriction or further registration under the Securities Act, unless such shares are held by our directors, executive officers or any of our affiliates, as that term is defined in Rule 144 under the Securities Act. All remaining shares of common stock outstanding following this offering will be "restricted securities" within the meaning of Rule 144 under the Securities Act. Restricted securities may not be sold in the public market unless the sale is registered under the Securities Act or an exemption from registration is available. We have granted registration rights to certain holders of our common stock pursuant to our Amended and Restated Stockholders' Agreement. Any shares registered pursuant to the registration rights agreement that we expect to amend and restate in connection with this offering described in "Certain Relationships and Related Party Transactions" will be freely tradable in the public market following a 180-day lock-up period as described below. Sales of our common stock in the public market after this offering, or the perception that these sales could occur, could cause the market price of our common stock to decline and may make it more difficult for us to sell equity or equity-linked securities in the future at a time and at a price that we deem necessary or appropriate.

In connection with this offering, our directors, executive officers, and certain of our stockholders have each agreed to enter into "lock-up" agreements with the underwriters and thereby be subject to a lock-up period, meaning that they and their permitted transferees will not be permitted to sell any shares of our common stock for 180 days after the date of this prospectus, subject to certain customary exceptions without the prior consent of the representatives of the underwriters. Although we have been advised that there is no present intention to do so, the representatives may, in their sole discretion, release all or any portion of the shares from the restrictions in any of the lock-up agreements described above. See the section entitled "Underwriting" for more information. Possible sales of these shares in the market following the waiver or expiration of such agreements could exert significant downward pressure on our stock price.

We expect that upon the consummation of this offering, our Board of Directors and our stockholders will have approved the 2022 Plan and the ESPP that will permit us to issue, among other things, stock options, restricted stock units and restricted stock to eligible employees (including our Named Executive Officers), directors and advisors, as determined by the compensation committee of the Board of Directors. We intend to file a registration statement under the Securities Act, as soon as practicable after the consummation of this offering, to cover the issuance of shares upon the exercise of awards granted, and of shares granted, under our existing plans, the 2022 Plan and the ESPP. As a result, any shares issued under the 2022 Plan and the ESPP after the consummation of this offering also will be freely tradable in the public market. If equity securities are granted under the 2022 Plan and the ESPP and it is perceived that they will be sold in the public market, then the price of our common stock could decline.

Also, in the future, we may issue our securities in connection with investments or acquisitions. The amount of shares of our common stock issued in connection with an investment or acquisition could constitute a material portion of our then outstanding shares of our common stock.

Our management will have broad discretion over the use of the proceeds we receive in this offering and might not apply the proceeds in ways that increase the value of your investment.

Our management will have broad discretion in the application of the net proceeds from the sale of shares by us in this offering, including for any of the purposes described in the section entitled "Use of Proceeds," and you will not have the opportunity as part of your investment decision to assess whether the net proceeds are being used appropriately. Because of the number and variability of factors that will determine our use of the net proceeds from the sale of shares by us in this offering, their ultimate use may vary substantially from their currently intended use. Our management may not apply our net proceeds in ways that ultimately increase the value of your investment. The failure by our management to apply these funds effectively could harm our business. If we do not invest or apply the net proceeds from the sale of shares by us in this offering in ways that enhance stockholder value, we may fail to achieve expected financial results, which could cause our stock price to decline.

We may change our underwriting guidelines or our strategy without stockholder approval.

Our management has the authority to change our underwriting guidelines or our strategy without notice to our stockholders and without stockholder approval. As a result, we may make fundamental changes to our operations without stockholder approval, which could result in our pursuing a strategy or implementing underwriting guidelines that may be materially different from the strategy or underwriting guidelines described in the section entitled "Business" or elsewhere in this prospectus.

Investors in this offering will suffer immediate and substantial dilution.

The initial public offering price is higher than the net stockholders' tangible book value per share of our common stock based on the total value of our tangible assets less our total liabilities divided by our shares of common stock outstanding immediately following this offering. Therefore, if you purchase common stock in this offering, you will experience immediate and substantial dilution in net tangible book value per share after consummation of this offering. You may experience additional dilution upon future equity issuances. See the section entitled "Dilution."

The issuance of additional stock, our stock incentive plans or otherwise will dilute all other stockholdings.

After this offering, based upon the initial public offering price of $ per share, we will have an aggregate of shares of common stock authorized but unissued and not reserved for issuance under our equity incentive plans, options granted to our directors, employees and consultants, or otherwise, assuming no exercise of the underwriters' option to purchase additional shares. We may issue all of these shares without any action or approval by our stockholders. The issuance of additional shares could be dilutive to existing holders.

Anti-takeover provisions in our organizational documents could delay a change in management and limit our share price.

Provisions of our certificate of incorporation and bylaws could make it more difficult for a third party to acquire control of us even if such a change in control would increase the value of our common stock and prevent attempts by our stockholders to replace or remove our current Board of Directors or management.

We will have a number of anti-takeover devices that will be in place prior to the completion of this offering that will hinder takeover attempts and could reduce the market value of our common stock or prevent sale at a premium. Our anti-takeover provisions:

- will permit the Board of Directors to establish the number of directors and fill any vacancies and newly created directorships;
- will provide that our Board of Directors will be classified into three classes with staggered, three-year terms and that directors may only be removed for cause;
- will require super-majority voting to amend provisions in our certificate of incorporation and bylaws;
- will include blank-check preferred stock, the preference rights and other terms of which may be set by the Board of Directors and could delay or prevent a transaction or a change in control that might involve a premium price for our common stock or otherwise benefit our stockholders;
- will eliminate the ability of our stockholders to call special meetings of stockholders;
- will specify that special meetings of our stockholders can be called only by our Board of Directors, the chairman of our Board of Directors, or our chief executive officer;
- will prohibit stockholder consent action by other than unanimous written consent;
- will provide that vacancies on our Board of Directors may be filled only by a majority of directors then in office, even though less than a quorum;
- will prohibit cumulative voting in the election of directors; and
- will establish advance notice requirements for nominations for election to our Board of Directors or for proposing matters that can be acted upon by stockholders at annual stockholder meetings.

In addition, as a Delaware corporation, we will be subject to Section 203 of the Delaware General Corporation Law. These provisions may prohibit large stockholders, in particular those owning 15% or more of our outstanding voting stock, from merging or combining with us for a period of time.

Our certificate of incorporation and bylaws provide that the Court of Chancery of the State of Delaware will be the exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.

Our certificate of incorporation and bylaws provide that the Court of Chancery of the State of Delaware is the exclusive forum for the following civil actions:

- any derivative action or proceeding brought on our behalf;
- any action asserting a claim of breach of a fiduciary duty by any of our directors, officers, employees or agents or our stockholders;
- any action asserting a claim arising pursuant to any provision of the DGCL or our certificate of incorporation or bylaws or as to which the DGCL confers jurisdiction on the Court of Chancery of the State of Delaware;
- any action to interpret, apply, enforce or determine the validity of our certificate of incorporation or our bylaws; or
- any action asserting a claim governed by the internal affairs doctrine.

However, this provision would not apply to suits brought to enforce a duty or liability created by the Exchange Act. Furthermore, this provision applies to Securities Act claims and Section 22 of the Securities Act creates concurrent jurisdiction for federal and state courts over all suits brought to enforce any duty or liability created by the Securities Act or the rules and regulations thereunder. Accordingly, there is uncertainty as to whether a court would enforce such provision, and our stockholders will not be deemed to have waived our compliance with the federal securities laws and the rules and regulations thereunder. This choice of forum provision, if enforced, may limit a shareholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage such lawsuits against us and our directors, officers and other employees, although our stockholders will not be deemed to have waived our compliance with federal securities laws and the rules and regulations thereunder. Alternatively, if a court were to find the choice of forum provision contained in our certificate of incorporation and bylaws to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could have a material adverse effect on our business, financial condition or results of operations.

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our common stock will depend, in part, on the research and reports that securities or industry analysts publish about us or our business and our industry. We do not currently have, and may never obtain, research coverage by securities and industry analysts. If no securities or industry analysts commence coverage of our Company, the trading price for our common stock would likely be negatively impacted. If we obtain securities or industry analyst coverage and if one or more of the analysts who cover us downgrades our common stock or publishes inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts ceases coverage of us or fails to publish reports on us regularly, demand for our common stock could decrease, which could cause our stock price and trading volume to decline.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements within the meaning of the federal securities laws that involve substantial risks and uncertainties. All statements other than statements of historical facts contained in this prospectus, including statements regarding our future results of operations or financial condition, business strategy and plans, and objectives of management for future operations are forward-looking statements. In some cases, you can identify forward-looking statements because they contain words such as "may," "will," "should," "expects," "plans," "anticipates," "could," "intends," "target," "projects," "contemplates," "believes," "estimates," "predicts," "would," "potential" or "continue" or the negative of these words or other similar terms or expressions that concern our expectations, strategy, plans or intentions. These forward-looking statements include, among others, statements relating to our future financial performance, our business prospects and strategy, our market opportunity and the potential growth of that market, our anticipated financial position, our liquidity and capital needs and other similar matters. These forward-looking statements are based on management's current expectations and assumptions about future events, which are inherently subject to uncertainties, risks and changes in circumstances that are difficult to predict.

Our actual results may differ materially from those expressed in, or implied by, the forward-looking statements included in this prospectus as a result of various factors, including, among others:

- our inability to accurately assess our underwriting risk;
- considerable competition for business in our industry;
- exposure to certain risks arising out of our reliance on insurance retail agents and brokers, wholesalers and program administrators as certain of our distribution channels;
- inability to purchase third-party reinsurance in amounts we desire on commercially acceptable terms or on terms that adequately protect us;
- inadequate losses and loss expense reserves to cover our actual losses;
- a decline in our financial strength rating;
- unexpected changes in the interpretation of our coverage or provisions, including loss limitations and exclusions, in our policies;
- our reinsurers failure reimburse us for claims on a timely basis, or at all;
- failure to accurately and timely pay claims;
- changes in accounting practices;
- increased costs as a result of being a public company; and
- the failure to maintain effective internal controls in accordance with Sarbanes-Oxley.

We have based the forward-looking statements contained in this prospectus primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, results of operations, prospects, business strategy and financial needs. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties, assumptions and other factors described in the section captioned "Risk Factors" and elsewhere in this prospectus. These risks are not exhaustive. Other sections of this prospectus include additional factors that could adversely impact our business and financial performance. Furthermore, new risks and uncertainties emerge from time to time and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this prospectus. We cannot assure you that the results, events and circumstances reflected in the forward-looking statements will be achieved or occur, and actual results, events or circumstances could differ materially from those described in the forward-looking statements.

In addition, statements that "we believe" and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based upon information available to us as of the date of this prospectus, and while we believe such information forms a reasonable basis for such statements, such information may be limited or incomplete, and our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all potentially available relevant information. These statements are inherently uncertain and investors are cautioned not to unduly rely upon these statements.

You should read this prospectus and the documents that we reference in this prospectus and have filed as exhibits to the registration statement of which this prospectus forms a part with the understanding that our actual future results, levels of activity, performance and achievements may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements.

The forward-looking statements made in this prospectus relate only to events as of the date on which such statements are made. We undertake no obligation to update any forward-looking statements after the date of this prospectus or to conform such statements to actual results or revised expectations, except as required by law.

USE OF PROCEEDS

We estimate that the net proceeds to us from the sale of shares of our common stock in this offering will be approximately $ million, based upon the assumed initial public offering price of $ per share, which is the midpoint of the estimated offering price range set forth on the cover page of this prospectus, and after deducting the estimated underwriting discounts and estimated offering expenses payable by us. If the underwriters' option to purchase additional shares is exercised in full, we estimate that the net proceeds to be received by us will be approximately $ million, after deducting the estimated underwriting discounts and estimated offering expenses payable by us. We will not receive any of the proceeds from the sale of our common stock in this offering by the selling stockholders.

A $1.00 increase (decrease) in the assumed initial public offering price of $ per share would increase (decrease) the net proceeds that we receive from this offering by approximately $ million, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discounts and estimated offering expenses payable by us. Similarly, each increase (decrease) of 1.0 million in the number of shares offered by us would increase (decrease) the net proceeds that we receive from this offering by approximately $ million, assuming that the assumed initial public offering price remains the same and after deducting the estimated underwriting discounts and estimated offering expenses payable by us.

The principal purposes of this offering are to increase our capitalization and financial flexibility, create a public market for our common stock and thereby enable access to the public equity markets for us and our stockholders. We intend to use the net proceeds to us from this offering to make capital contributions of up to $ to our insurance company subsidiaries in order to grow our business and the remainder for general corporate purposes. Pending the use of the proceeds from this offering as described above, we intend to invest the net proceeds from the offering in accordance with our investment policy as determined by our Investment Committee.

This expected use of net proceeds from this offering represents our intentions based on our current plans and business conditions, which could change in the future as our plans and business conditions evolve. As a result, our management will have broad discretion over the uses of the net proceeds from this offering and investors will be relying on the judgement of our management regarding the application of the net proceeds from this offering.

DIVIDEND POLICY

While we have paid dividends in the past, we currently intend to retain any future earnings for use in the operation of our business and do not intend to declare or pay any cash dividends in the foreseeable future. Any further determination to pay dividends on our capital stock will be at the discretion of our board of directors, subject to applicable laws, and will depend on our financial condition, results of operations, capital requirements, general business conditions, and other factors that our board of directors considers relevant. Our future ability to pay cash dividends on our common stock may also be limited by the terms of any future debt securities, preferred stock or credit facility.

CAPITALIZATION

The following table sets forth our cash and cash equivalents and our capitalization as of December 31, 2021 as follows:

- on an actual basis;
- on a pro forma basis to reflect (1) the automatic conversion of all outstanding shares of our convertible preferred stock as of December 31, 2021 into shares of common stock immediately prior to the closing of this offering, (2) the one for reverse stock split effected on , 2022, and (3) the filing of our Certificate of Incorporation immediately prior to the closing of this offering; and
- on a pro forma as adjusted basis to give effect to (1) the pro forma items described immediately above, and (2) our issuance and sale of shares of common stock in this offering at an assumed initial public offering price of $ per share, the midpoint of the price range set forth on the cover page of this prospectus, after deducting the estimated underwriting discounts and estimated offering expenses payable by us.

The pro forma and pro forma as adjusted information below is illustrative only, and our capitalization following the closing of this offering will be adjusted based on the actual initial public offering price and other terms of this offering determined at pricing. You should read this information in conjunction with our consolidated financial statements and the related notes included elsewhere in this prospectus, the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and other financial information contained in this prospectus.

	As of March 31, 2022	
($ in thousands, except per share amounts)	**Actual**	**Pro Forma**
Notes payable	$ 50,000	$ —
Subordinated debt	78,549	—
Total debt	128,549	—
Stockholders’ equity:		
Series A preferred stock, $0.01 par value, 2,000,000 shares authorized, 1,970,124 shares issued and outstanding, actual	20	—
Common stock, $0.01 par value, 168,000,000 shares authorized, 67,052,434 shares issued and outstanding	671	—
Treasury stock, at par value, 917,800 shares	(9)	—
Additional paid-in capital	575,165	—
Stock notes receivable	(6,962)	—
Accumulated other comprehensive income	(11,764)	—
Accumulated deficit	(128,502)	—
Total stockholders’ equity	428,619	—
Total Capitalization	$ 557,168	$ —

If the underwriters’ option to purchase additional shares is exercised in full, pro forma as adjusted cash, cash equivalents and short-term investments, additional paid-in capital, total stockholders’ (deficit) equity and total capitalization and shares of common stock outstanding would be $ million, $ million, $ million, $ million and shares, respectively.

The outstanding share information in the table above is based on shares of our common stock outstanding as of , 2022 and excludes:

- shares of common stock reserved for future issuance under our 2022 Plan including options to purchase shares of common stock and restricted stock unit awards representing an aggregate amount of shares of common stock, that our Compensation Committee granted to employees and non-employee directors following the effectiveness of the registration statement on Form S-1 of which this prospectus forms a part and pricing of this offering; and
- shares of common stock reserved for future issuance under our 2022 ESPP, which will become effective in connection with this offering.

DILUTION

If you invest in our common stock in this offering, your interest will be immediately diluted to the extent of the difference between the initial public offering price per share of our common stock in this offering and the pro forma as adjusted net tangible book value per share of our common stock after this offering. As of March 31, 2022, we had a historical net tangible book value of million, or $ per share of common stock. Our net tangible book value represents total tangible assets less total liabilities, all divided by the number of shares of common stock outstanding on such date. Our pro forma net tangible book value (deficit) as of was $ million, or $ per share.

Pro forma net tangible book value per share represents the amount of our net tangible book value divided by the number of shares of our common stock outstanding as of , after giving effect to (1) the automatic conversion of all outstanding shares of our convertible preferred stock as of into shares of common stock immediately prior to the closing of this offering, (2) the one for reverse stock split effected on , 2022 and (3) the filing of our Certificate of Incorporation immediately prior to the closing of this offering.

After giving further effect to the sale of shares of common stock in this offering at an assumed initial public offering price of $ per share, the midpoint of the price range set forth on the cover page of this prospectus and after deducting the estimated underwriting discounts and estimated offering expenses payable by us, our pro forma as adjusted net tangible book value as of would have been approximately $ million, or approximately $ per share. This represents an immediate increase in pro forma net tangible book value of $ per share to existing stockholders and an immediate dilution in pro forma net tangible book value of $ per share to new investors purchasing shares of common stock in this offering. Dilution per share to new investors is determined by subtracting pro forma as adjusted net tangible book value per share after this offering from the initial public offering price per share paid by new investors. The following table illustrates this per share dilution:

Assumed initial public offering price per share		$
Historical net tangible book value per share as of December 31, 2021	$	
Increase per share attributable to the pro forma adjustments described above		
Pro forma net tangible book value per share as of December 31, 2021		
Increase in pro forma net tangible book value per share attributable to this offering		
Pro forma as adjusted net tangible book value per share after this offering		
Dilution in net tangible book value per share to new investors in this offering		$

A $1.00 increase (decrease) in the assumed initial public offering price of $ per share, the midpoint of the price range set forth on the cover page of this prospectus, would increase (decrease), our pro forma as adjusted net tangible book value per share after this offering by $, and would increase (decrease) dilution per share to new investors in this offering by $, in each case assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discounts and estimated offering expenses payable by us. Similarly, each increase (decrease) of 1.0 million shares in the number of shares offered by us would increase (decrease) our pro forma as adjusted net tangible book value per share after this offering by approximately $ per share and decrease (increase) the dilution to new investors by approximately $ per share, in each case assuming that the assumed initial public offering price remains the same, and after deducting the estimated underwriting discounts and estimated offering expenses payable by us.

Except as otherwise indicated, the above discussion and tables assume no exercise of the underwriters' option to purchase additional shares. If the underwriters' option to purchase additional is exercised in full, pro forma as adjusted net tangible book value after this offering would be approximately $ per share, the increase in pro forma net tangible book value per share to existing stockholders would be $ per share and the dilution per share to new investors would be $ per share, in each case assuming an initial public offering price of $ per share, the midpoint of the price range set forth on the cover page of this prospectus, and after deducting the estimated underwriting discounts and estimated offering expenses payable by us.

The following table summarizes, on a pro forma as adjusted basis as of March 31, 2022, the differences between the number of shares of common stock purchased from us, the total consideration paid and the average price per share paid by existing stockholders and to be paid by the new investors purchasing shares of common stock in this offering, at the assumed initial public offering price of common stock of $ per share, the midpoint of the price range set forth on the cover page of this prospectus, before deducting the estimated underwriting discounts and estimated offering expenses payable by us.

	Shares purchased		Total consideration		Average price per share
	Number	Percent	Amount	Percent	
Existing investors		%	$	%	$
New investors in this offering					$
Total		%	$	%	

Sales by the selling stockholders in this offering will reduce the number of shares held by existing stockholders to , or approximately % of the total shares of common stock outstanding after this offering, and will increase the number of shares held by new investors to , or approximately % of the total shares of common stock outstanding after this offering.

The table above assumes no exercise of the underwriters' option to purchase additional shares in this offering. If the underwriters' option to purchase additional shares is exercised in full, the number of shares of our common stock held by existing stockholders would be reduced to % of the total number of shares of our common stock outstanding after this offering, and the number of shares of common stock held by new investors purchasing common stock in this offering would be increased to % of the total number of shares of our common stock outstanding after this offering.

The number of shares of our common stock that will be outstanding after this offering is based on shares of our common stock (including shares of preferred stock on an as-converted basis) outstanding as of , 2022, and excludes:

- shares of common stock reserved for future issuance under our 2022 Long-Term Incentive Plan, or the 2022 Plan including options to purchase shares of common stock and restricted stock unit awards representing an aggregate amount of shares of common stock, that our Compensation Committee granted to employees and non-employee directors following the effectiveness of the registration statement on Form S-1 of which this prospectus forms a part and pricing of this offering; and
- shares of common stock reserved for future issuance under our 2022 Employee Stock Purchase Plan, or the ESPP, which will become effective in connection with this offering.

To the extent any of the outstanding options are exercised or new options or other securities are issued under our equity incentive plans, you will experience further dilution as a new investor in this offering. In addition, we may choose to raise additional capital due to market conditions or strategic considerations even if we believe we have sufficient funds for our current or future operating plans. Furthermore, we may choose to issue common stock as part or all of the consideration in acquisitions as part of our planned growth strategy. To the extent that we raise additional capital through the sale of equity or convertible debt securities, the issuance of these securities could result in further dilution to our stockholders.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our historical results of operations and our liquidity and capital resources should be read together with the section entitled "Prospectus Summary — Summary Historical Consolidated Financial and Other Data" and the consolidated financial statements and related notes that appear elsewhere in this prospectus. In addition to historical financial information, this prospectus contains "forward-looking statements." You should review the "Special Note Regarding Forward-Looking Statements" and "Risk Factors" sections of this prospectus for factors and uncertainties that may cause our actual future results to be materially different from those in our forward-looking statements. Forward-looking statements in this prospectus are based on information available to us as of the date hereof, and we assume no obligation to update any such forward-looking statements.

Overview

We are a growing specialty insurance company delivering commercial P&C products and solutions on a non-admitted (or E&S) and admitted basis, predominantly in the United States. We focus our business on markets that are underserved, dislocated and/or for which standard insurance coverages are insufficient or inadequate to meet the needs of businesses, including our customers and prospective customers operating in these markets. Our customers typically require highly specialized, customized underwriting solutions and claims capabilities. As such, we develop and deliver tailored insurance products and services to address each of the niche markets we serve.

Our portfolio of insured risks is highly diversified — we insure customers operating in a wide variety of industries; we distribute through multiple channels; we write multiple lines of business, including general liability, excess liability, professional liability, commercial auto, group accident and health, property, surety and workers' compensation; we insure both short and medium duration liabilities; and our business mix is balanced between E&S and admitted markets. All of these factors enable us to respond to market opportunities and dislocations by deploying capital with attractive risk-adjusted returns. We believe this diversification, combined with our underwriting and claims expertise, will produce strong growth and consistent profitability across P&C insurance pricing cycles.

We seek to lead in our chosen market niches and establish sustainable competitive positions in these markets. We refer to this strategy as "Rule Our Niche" and it forms the basis of our approach to building a strong defensible market position, creating a competitive moat, and winning our chosen markets. We believe that the principles underlying our strategy are key to achieving and sustaining best-in-class underwriting results through P&C insurance pricing cycles. We consistently strive for excellence in risk selection, pricing, and claims outcomes, and to amplify these critical functions with the use of advanced technology and analytics.

All of our insurance company subsidiaries are group rated and have financial strength ratings of "A-" (Excellent) from A.M. Best with a stable outlook, which was affirmed as of August 2021.

Factors Affecting Our Results of Operations

Beginning in 2020, we embarked upon a series of changes to refocus our strategy and position us for emerging opportunities in our chosen markets. In April 2020, we entered into the previously noted LPT reinsurance transaction covering policy years 2017 and prior to limit our exposure to loss reserve development primarily associated with certain exited businesses and to allow our management team to focus resources on profitably growing our continuing business. We present additional details regarding the financial impact of the LPT below.

In May 2020, we appointed Andrew Robinson as our Chief Executive Officer. Under Mr. Robinson's leadership we made several organizational and strategic changes, multiple key hires across the organization, significant investment in technology and implementation of our name change and rebranding to Skyward Specialty. We also launched select new underwriting divisions and units and product lines, and substantially increased our Surety operations while exiting underperforming classes and divisions that did not fit within our "Rule Our Niche" strategy. The exited classes and divisions include specialty workers' compensation, lawyers' professional liability, automobile dealers programs, insurance agents and brokers professional liability, title agents professional liability, commercial auto for the timber industry and liability solutions for the hospitality industry.

In order to present our results of operations in a manner that aligns to the organizational and strategic changes which we have made, we present adjusted metrics which exclude the cost of entering into the LPT, the development of reserves subject to the LPT, and reinsurance recoveries under the LPT, which we refer to as “excluding the net impact of the LPT.” We have chosen to exclude the net impact of the LPT in certain non-GAAP metrics as the business subject to the LPT is not representative of our continuing business strategy. The business subject to the LPT is related to policy years 2017 and prior, was generated and managed under prior leadership, and has been predominantly exited during the re-positioning of our portfolio. See “— Reconciliation of Non-GAAP Financial Measures” for a reconciliation of the Non-GAAP metrics we present in this prospectus.

Loss Portfolio Transfer

On April 1, 2020 (the “Inception Date”), we entered into a LPT retroactive reinsurance agreement with R&Q Bermuda (SAC) Limited, a third party reinsurer, with a valuation date of June 30, 2019 (the “Valuation Date”). As of the Valuation Date, we agreed to cede $153.1 million of net losses and LAE reserves (the “Net LPT Reserves”) for certain lines of business, primarily related to 2017 and prior policy years, subject to an aggregate cash deductible of $105 million which was withheld from the reinsurer. Subsequent to the Valuation Date but prior to the Inception Date, we strengthened the Net LPT Reserves by $5.5 million. This development resulted in an increase in the Net LPT Reserves of $158.6 million. As part of the agreement, net cash remitted to the third party reinsurer for the cession of the Net LPT Reserves was $53.6 million (reflecting the $158.6 million of Net LPT Reserves less the $105 million cash deductible).

As of the Inception Date, the LPT provided reinsurance protection of approximately $127.4 million above the Net LPT Reserves, subject to co-participations at specified amounts, detailed below. We paid $43.5 million in premium to the reinsurer for this reinsurance protection.

This premium payment combined with the $53.6 million remitted to the reinsurer resulted in a total cash transfer of $97.1 million on the Inception Date. See the sections entitled “Business — Reinsurance” and “Business — Reserves” for further details.

Subsequent to entering into the LPT, and during the year ended December 31, 2020, we strengthened the Net LPT Reserves by $49.0 million, resulting in an increase in the amount ceded under this agreement. The impact of the increase in the amount ceded was partially offset by $32.7 million of reinsurance recoveries. In total, we recognized $59.8 million of pre-tax net impact of the LPT, which was recorded in losses and LAE for the year ended December 31, 2020.

During the year ended December 31, 2021, we further strengthened the reserves for certain business subject to the LPT by $28.0 million, resulting in an increase in the amount ceded under this agreement. The increase in the amount ceded was partially offset by $11.9 million of reinsurance recoveries and $2.1 million of deferred gain. The deferred gain is recorded on our balance sheet in Other Liabilities and will earn through our income statement through loss and LAE over approximately two years, which represents the estimated time period in which we expect to receive recoveries of losses paid subject to the LPT. In total, we recognized $16.1 million of pre-tax net LPT expense, which was recorded in losses and LAE for the year ended December 31, 2021.

The following table presents the financial impact of entering into the LPT and subsequent strengthening of the of the reserves subject to the LPT on the statements of operations for the years ended December 31, 2021 and 2020:

	For the years ended December 31,	
($ in thousands)	**2021**	**2020**
Expense to enter the LPT	—	(43,476)
Strengthening of LPT reserves	(28,000)	(49,013)
Reinsurance recoveries from the LPT	11,937	32,692
Net impact of the LPT (pre-tax)	**$(16,063)**	**$ (59,797)**

Components of Our Results of Operations

Gross written premiums

Gross written premiums are the amounts received, or to be received, for insurance policies written or assumed by us during a specific period of time without reduction for policy acquisition costs, reinsurance costs or other deductions. The volume of our gross written premiums in any given period is generally influenced by new business submissions, binding of new business submissions into policies, renewals of existing policies, and average size and premium rate of bound policies.

Ceded written premiums

Ceded written premiums are the amount of gross written premiums ceded to reinsurers. We enter into reinsurance contracts to limit our exposure to potential large losses. Ceded written premiums are earned over the reinsurance contract period in proportion to the period of risk covered. The volume of our ceded written premiums is impacted by the level of our gross written premiums and any decision we make to increase or decrease retention levels, policy limits and co-participations.

Net written premiums

Net written premiums are gross written premiums less ceded written premiums.

Net earned premiums

Net earned premiums represent the earned portion of our net written premiums. Our insurance policies generally have a term of one year and premiums are earned pro rata over the term of the policy.

Commission and fee income

Commission and fee income consists of commissions and fees earned on policies placed with third party insurance companies. In certain instances, the fee income relates to placement of business which is part of our packaged solutions. We recognize commission and fee income on the effective date of the policies.

Net investment income

We earn investment income on our portfolio of cash and invested assets, which includes cash and short-term investments, fixed maturity securities, equity securities, and private equity investments.

Net unrealized gains (losses)

Net unrealized gains (losses) represent the increase or decrease in the fair value of equity securities and loans held as investments during the period.

Net realized investment gains (losses)

Net realized investment gains (losses) are a function of the difference between the amount received by us on the sale of a security and the security's amortized cost, as well as any credit impairments recognized in earnings.

Losses and LAE

Losses and LAE represent the costs incurred for insured losses, such as losses under a policy, whether paid or unpaid, as well as expenses of settling claims, including settlements, attorneys' fees, investigation, appraisal, adjustment, defense costs, and the portion of general expenses allocated to claim resolution. Losses and LAE include a provision for claims that have occurred but have not yet been reported to the insurer. These expenses are a function of the amount and type of insurance contracts we write, and the loss experience associated with the underlying coverage. In general, our losses and LAE are affected by:

- the occurrence, frequency and severity of claims associated with the particular types of insurance contracts that we write;
- the reinsurance agreements we have in place at the time of a loss;
- the mix of business written by us;
- changes in the legal or regulatory environment related to the business we write;
- trends in legal defense costs; and
- inflation in the cost of claims including inflation related to wages, medical costs, building materials and automobile repairs.

Losses and LAE are based on actual paid losses and expenses, as well as an actuarial analysis of the estimated losses, including losses incurred during the period and changes in estimates from prior periods. Losses and LAE may be paid out over a period of years.

Underwriting, acquisition and insurance expenses

Underwriting, acquisition and insurance expenses include policy acquisition costs and other underwriting and insurance expenses. Policy acquisition costs consist of commissions we pay retail agents and brokers, program administrators, captive managers and third-party administrators, net of ceding commissions we receive from reinsurers on business ceded under certain of our reinsurance contracts. In addition, acquisition expenses include premium-related taxes and other fees. Our policy acquisition costs vary with, and are directly related to, the successful production of new or renewal business. Acquisition expenses related to each policy we write are deferred and amortized to expense in proportion to the premium earned over the term of the policy. Other underwriting and insurance expenses represent the general and administrative expenses of our insurance operations including employee compensation and benefits, and corporate functions such as technology costs, office rent, depreciation and professional service fees including legal, accounting, and actuarial.

Impairment charges

Impairment charges represent reductions in the carrying value of goodwill and intangible assets.

Other income and expenses

Other income and expenses includes gain (loss) on sale of a business and miscellaneous income and expenses.

Interest expense

Interest expense consists of interest incurred during the period related to our term loan, Trust Preferred, and subordinated notes, as well as on our revolving line of credit when applicable.

Amortization expense

Amortization expense consists of the amortization of intangible assets incurred during the period.

Income tax expense (benefit)

Income tax expense primarily relates to federal income taxes. The amount of income tax expense or benefit recorded in future periods will depend on the jurisdictions in which we operate and the tax laws and regulations in effect.

Key Operating and Financial Metrics

We discuss certain key metrics, described below, which provide useful information about our business and the operational factors underlying our financial performance. These metrics are generally standard among insurance companies and help to provide comparability with our peers.

Net retention, expressed as a percentage, is the ratio of net written premiums to gross written premiums.

Underwriting income (loss) is a non-GAAP financial measure defined as income (loss) before income taxes excluding net investment income, net realized and unrealized gains and losses on investments, impairment charges, interest expense, amortization expense and other income and expenses. See "— Reconciliation of Non-GAAP Financial Measures" for a reconciliation of underwriting income (loss) to net income, which is the most directly comparable financial metric prepared in accordance with GAAP.

Loss ratio, expressed as a percentage, is the ratio of losses and LAE to net earned premiums.

Expense ratio, expressed as a percentage, is the ratio of underwriting, acquisition and insurance expenses less commission and fee income to net earned premiums. In certain instances, fee income relates to business placed with other insurers as part of our packaged solution.

Combined ratio is the sum of loss ratio and expense ratio. A combined ratio under 100% indicates an underwriting profit. A combined ratio over 100% indicates an underwriting loss.

Adjusted loss ratio, expressed as a percentage, is a non-GAAP financial measure defined as the ratio of losses and LAE, excluding losses and LAE related to the LPT and all development on reserves fully or partially covered by the LPT, to net earned premiums. See "— Reconciliation of Non-GAAP Financial Measures" for a reconciliation of adjusted loss ratio to loss ratio, which is the most directly comparable financial metric prepared in accordance with GAAP.

Adjusted combined ratio is a non-GAAP financial measure defined as the sum of the adjusted loss ratio and the expense ratio. See "— Reconciliation of Non-GAAP Financial Measures" for a reconciliation of adjusted combined ratio to combined ratio, which is the most directly comparable financial metric prepared in accordance with GAAP.

Adjusted operating income (loss) is a non-GAAP financial measure defined as net income excluding the net impact of the LPT, net realized and unrealized gains or losses on investments, goodwill impairment charges and other income and expenses. See "— Reconciliation of Non-GAAP Financial Measures" for a reconciliation of adjusted operating income (loss) to net income (loss), which is the most directly comparable financial metric prepared in accordance with GAAP.

Return on equity is net income as a percentage of average beginning and ending stockholders' equity, plus any temporary equity, during the applicable period.

Adjusted return on equity is a non-GAAP financial measure defined as adjusted operating income as a percentage of average beginning and ending stockholders' equity, plus any temporary equity, during the applicable period. See "— Reconciliation of Non-GAAP Financial Measures" for a reconciliation of adjusted return on equity to return on equity, which is the most directly comparable financial metric prepared in accordance with GAAP.

Tangible stockholders' equity is a non-GAAP financial measure defined as stockholders' equity, plus any temporary equity, during the applicable period less goodwill and intangible assets. See "— Reconciliation of Non-GAAP Financial Measures" for a reconciliation of tangible stockholders' equity to stockholders' equity, which is the most directly comparable financial metric prepared in accordance with GAAP.

Return on tangible equity is a non-GAAP financial measure defined as net income as a percentage of average beginning and ending tangible stockholders' equity during the applicable period. See "— Reconciliation of Non-GAAP Financial Measures" for a reconciliation of return on tangible equity to return on equity, which is the most comparable financial metric prepared in accordance with GAAP.

Adjusted return on tangible equity is a non-GAAP financial measure defined as adjusted operating income as a percentage of average beginning and ending tangible stockholders' equity during the applicable period.

See "— Reconciliation of Non-GAAP Financial Measures" for a reconciliation of adjusted return on tangible equity to return on equity, which is the most comparable financial metric prepared in accordance with GAAP.

Results of Operations

Three months ended March 31, 2022 compared to three months ended March 31, 2021

The following table summarizes our results of operations for the three months ended March 31, 2022 and 2021:

	For the three months ended March 31,			
	2022	2021	Change	% Change
Gross written premiums	$ 282,642	$ 237,848	$ 44,794	18.8%
Ceded written premiums	(147,241)	(123,079)	(24,162)	-19.6%
Net written premiums	**$ 135,401**	**$ 114,769**	**$ 20,632**	**18.0%**
Net earned premiums	$ 141,726	$ 117,195	$ 24,531	20.9%
Commission and fee income	230	686	(456)	-66.5%
Losses and LAE	89,989	81,020	8,969	11.1%
Underwriting, acquisition and insurance expenses	40,534	31,029	9,505	30.6%
Policy acquisition costs	13,421	9,907	3,514	35.5%
Other operating and general expenses	27,113	21,122	5,991	28.4%
Underwriting income (loss)[(1)]	**11,433**	**5,832**	**$ 5,601**	**96.0%**
Net investment income	15,149	5,610	$ 9,539	170.0%
Net unrealized gains (losses)	(5,369)	5,613	$(10,982)	NM
Net realized investment gains	931	763	$ 168	22.0%
Impairment charges	—	(882)	$ 882	100.0%
Other income and (expenses)	—	3,453	$ (3,453)	NM
Interest expense	1,177	1,155	$ 22	1.9%
Amortization expense	387	348	$ 39	11.2%
Income (loss) before federal income tax	**20,580**	**18,886**	**$ 1,694**	**9.0%**
Income tax expense (benefit)	4,269	3,966	$ 303	7.6%
Net income (loss)	**$ 16,311**	**$ 14,920**	**$ 1,391**	**9.3%**
Adjusted operating income[(1)]	**$ 19,817**	**$ 7,852**	**$ 11,965**	**152.4%**
Loss ratio	63.5%	69.1%		
Expense ratio	28.4%	25.9%		
Combined ratio	**91.9%**	**95.0%**		
Annualized return on equity	15.3%	14.9%		
Annualized return on tangible equity[(1)]	19.4%	19.3%		
Adjusted loss ratio[(1)]	63.5%	69.1%		
Expense ratio	28.4%	25.9%		
Adjusted combined ratio[(1)]	**91.9%**	**95.0%**		
Annualized adjusted return on equity[(1)]	18.5%	7.9%		
Annualized adjusted return on tangible equity[(1)]	23.6%	10.2%		

(1) Non-GAAP financial measure. See the section entitled "— Reconciliation of Non-GAAP Financial Measures" for a reconciliation of the Non-GAAP financial measures in accordance with their most applicable GAAP measure.

Premiums

The following table presents gross written premiums by underwriting division for the three months ended March 31, 2022 and 2021:

	For the three months ended March 31,					
($ in thousands)	**2022**	**% of Total**	**2021**	**% of Total**	**Change**	**% Change**
Industry Solutions	$ 63,530	22.5%	$ 40,403	17.0%	$ 23,127	57.2%
Global Property	53,192	18.8%	41,413	17.4%	11,779	28.4%
Programs	47,510	16.8%	35,686	15.0%	11,824	33.1%
Accident & Health	32,583	11.5%	26,235	11.0%	6,348	24.2%
Captives	38,045	13.5%	31,209	13.1%	6,836	21.9%
Professional Lines	16,867	6.0%	12,807	5.4%	4,060	31.7%
Surety	16,252	5.8%	7,416	3.1%	8,836	119.1%
Transactional E&S	11,870	4.2%	4,839	2.0%	7,031	145.3%
Total continuing business	**$279,849**	**99.0%**	**$200,008**	**84.1%**	**$ 79,841**	**39.9%**
Exited business	2,793	1.0%	37,840	15.9%	(35,047)	-92.6%
Total gross written premiums	**$282,642**	**100.0%**	**$237,848**	**100.0%**	**$ 44,794**	**18.8%**

Gross written premiums were $282.6 million for the three months ended March 31, 2022, compared to $237.8 million for the three months ended March 31, 2021, an increase of $44.8 million, or 18.8%. Growth in gross written premiums was achieved by growth in our continuing business, which increased by a total of $79.8 million or 39.9% compared to the prior year. This growth was partially offset by a $35.0 million, or 92.6%, decline within exited business.

Gross written premium growth within continuing business was driven by organic growth through strong policy retention, achievement of premium rate increases and new business production, particularly within our Industry Solutions, Global Property and Accident & Health divisions. Growth was also driven by the addition of new Programs and Captives during the second half of 2021, as well as continued production from newly-hired underwriting talent, primarily within the Professional Lines, Surety and Transactional E&S divisions.

Net written premiums were $135.4 million for the three months ended March 31, 2022, compared to $114.8 million for the three months ended March 31, 2021, an increase of $20.6 million, or 18.0%. The growth in net written premiums was driven by the growth in gross written premiums. See the section entitled "Business — Our Business" for more information regarding gross written premiums for each underwriting division.

Net earned premiums were $141.7 million for the three months ended March 31, 2022, compared to $117.2 million for the three months ended March 31, 2021, an increase of $24.5 million, or 20.9%. Growth in net written premiums in 2021 and in the first quarter of 2022 drove the growth in net earned premiums year over year. See the section entitled "Business — Our Business — Reinsurance" for additional information on our reinsurance programs.

Loss ratio

The loss ratio was 63.5% for the three months ended March 31, 2022, compared to 69.1% for the three months ended March 31, 2021.

The following tables summarize the effect of the factors indicated above on the loss ratios for the three months ended March 31, 2022 and 2021:

	For the three months ended March 31,			
	2022		2021	
($ in thousands)	Losses and LAE	% of Net Earned Premiums	Losses and LAE	% of Net Earned Premiums
Loss Ratio:				
Current Accident Year[1] – Excluding Catastrophe	$89,989	63.5%	$77,666	66.3%
Current Accident Year – Catastrophe Losses[2]	—	0.0%	3,354	2.9%
Prior Year Development – Non-LPT Related	—	0.0%	—	0.0%
Prior Year Development – Net Impact of LPT[3]	—	0.0%	—	0.0%
Total	**$89,989**	**63.5%**	**$81,020**	**69.1%**
Adjusted Loss Ratio[4]:				
Current Accident Year[1] – Excluding Catastrophe	$89,989	63.5%	$77,666	66.3%
Current Accident Year – Catastrophe Losses[2]	—	0.0%	3,354	2.9%
Prior Year Development – Non-LPT Related	—	0.0%	—	0.0%
Total	**$89,989**	**63.5%**	**$81,020**	**69.1%**

(1) Accident year loss ratio, expressed as a percentage, is the ratio of losses and LAE for the current accident year (excluding development on prior accident year reserves) to net earned premiums.

(2) We define catastrophe losses as any single loss, or group of losses, related to a single Property Claim Services ("PCS" a Verisk company) designated catastrophe event. PCS has defined catastrophes in the United States, Puerto Rico, and the U.S. Virgin Islands as events that cause $25.0 million or more in direct insured losses to property and affect a significant number of policyholders and insurers.

(3) Includes reserve development for policy years and business subject to the LPT net of reinsurance recoveries from the LPT.

(4) Non-GAAP financial measure. See the section entitled "— Reconciliation of Non-GAAP Financial Measures" for a reconciliation of the non-GAAP financial measures in accordance with GAAP to their most applicable GAAP measure.

The improvement in the loss ratio versus the prior year was driven by an improvement in the current accident year loss ratio, excluding catastrophe losses combined with a reduction in catastrophe losses. The improvement in the current accident year loss ratio, excluding catastrophe losses was driven by changing mix of business, including the continued run-off of exited business. There were no catastrophe losses incurred in the first quarter of 2022 compared to $3.4 million, or 2.9 points of catastrophe losses incurred in the first quarter of 2021. There was not development related to the LPT in the first quarter of either year, therefore the adjusted loss ratio was 63.5% for the three months ended March 31, 2022 compared to 69.1% for the three months ended March 31, 2021.

Expense Ratio

The expense ratio was 28.4% for the three months ended March 31, 2022 compared to 25.9% for the three months ended March 31, 2021. The following table summarizes the components of the expense ratio for the three months ended March 31, 2022 and 2021:

	For the three months ended March 31,			
	2022		2021	
($ in thousands)	Expenses	% of Net Earned Premiums	Expenses	% of Net Earned Premiums
Net policy acquisition expenses	$13,421	9.5%	$ 9,907	8.5%
Other operating and general expenses	27,113	19.1%	21,122	18.0%
Underwriting, acquisition and insurance expenses	40,534	28.6%	31,029	26.5%
Commission and fee income	(230)	-0.2%	(686)	-0.6%
Total net expenses	**$40,304**	**28.4%**	**$30,343**	**25.9%**

The increase in the expense ratio for the three months ended March 31, 2022 compared to the three months ended March 31, 2021, was primarily driven by changes in our mix of business, with an increase in underwriting, acquisition, and insurance expenses combined with a decline in commission and fee income (which is netted against other underwriting expenses in the calculation of expense ratio).

Combined Ratio

The combined ratio and adjusted combined ratio were 91.9% for the three months ended March 31, 2022, compared to 95.0% for the three months ended March 31, 2021.

Investing Results

The following table summarizes the components of net investment income and net investment gains for the three months ended March 31, 2022 and 2021:

	For the three months ended March 31,					
	2022		2021			
($ in thousands)	Net Investment Income	Net Yield	Net Investment Income	Net Yield	$ Change	% Change
Cash and Short-term Investments	$ 5	0.0%	$ 89	0.1%	$ (84)	-94.4%
Fixed Income	2,987	2.7%	1,871	2.3%	1,116	59.6%
Opportunistic Fixed Income	11,447	25.7%	3,427	10.3%	8,020	234.0%
Equities	710	1.7%	223	0.9%	487	218.4%
Net investment income	**$15,149**	**6.0%**	**$ 5,610**	**2.6%**	**$ 9,539**	**170.0%**
Net unrealized gains (losses)	$ (5,369)		$ 5,613		$(10,982)	NM
Net realized investment gains	$ 931		$ 763		$ 168	22.0%

Net investment income was $15.1 million for the three months ended March 31, 2022, compared to $5.6 million for the three months ended March 31, 2021. The increase in net investment income was driven by the deployment of cash flow from operations and reinvestment of our cash and short-term investment portfolio into higher yielding investments within our Fixed Income, Opportunistic Fixed Income and Equities portfolios. In addition, we recognized $8.5 million of income within our Opportunistic Fixed Income portfolio due to market appreciation of limited partnerships during the three months ended March 31, 2022, compared to $3.5 million during the three months ended March 31, 2021. Limited partnership income primarily reflects increases in reported net asset values during the quarter. Until these asset values are monetized and the resultant income is distributed, they are subject to future increases or decreases in asset value. Our investment portfolio had a net investment yield of 6.0% for the three months ended March 31, 2022, compared to 2.6% for the three months ended March 31, 2021.

Net unrealized losses were $5.4 million for the three months ended March 31, 2022 compared to net unrealized gains of $5.6 million for the three months ended March 31, 2021. The primary reason for the decrease was a decline in equity investment markets during the current period.

Net realized gains were $0.9 million for the three months ended March 31, 2022, compared to $0.8 million for the three months ended March 31, 2021.

Impairment Charges

Impairment charges were $0.0 million for the three months ended March 31, 2022, compared to $0.9 million for the three months ended March 31, 2021. The impairment charge in 2021 was primarily due to the write-off of goodwill within our Program underwriting division.

Other Income and Expenses

Other income was $0.0 million for the three months ended March 31, 2022 compared to $3.5 million for the three months ended March 31, 2021. The increase was driven by gains on the sales of business units during 2021.

Amortization Expense

Amortization expense related to intangible assets was $0.4 million for the three months ended March 31, 2022 compared to $0.3 million for the three months ended March 31, 2021.

Interest Expense

Interest expense was $1.2 million for the three months ended March 31, 2022 and 2021.

Income Tax Expense (Benefit)

Income tax expense was $4.3 million for the three months ended March 31, 2022 compared to income tax expense of $4.0 million for the three months ended March 31, 2021. Our effective tax rate was 20.7% for the three months ended March 31, 2022, compared to 21.0% for the three months ended March 31, 2021.

Results of Operations

Year ended December 31, 2021 compared to year ended December 31, 2020

The following table summarizes our results of operations for the years ended December 31, 2021 and 2020:

	For the years ended December 31,			
	2021	2020	Change	% Change
Gross written premiums	$ 939,859	$ 873,613	$ 66,246	7.6%
Ceded written premiums	(410,716)	(412,090)	1,374	0.3%
Net written premiums	**$ 529,143**	**$ 461,523**	**$ 67,620**	**14.7%**
Net earned premiums	$ 499,823	$ 431,911	$ 67,912	15.7%
Commission and fee income	3,973	5,664	(1,691)	-29.9%
Losses and LAE	354,411	362,182	(7,771)	-2.1%
Underwriting, acquisition and insurance expenses	138,498	119,818	18,680	15.6%
Underwriting income (loss)[1]	**10,887**	**(44,425)**	**$ 55,312**	**124.5%**
Net investment income	24,646	14,130	$ 10,516	74.4%
Net unrealized gains (losses)	15,251	(928)	$ 16,179	NM
Net realized investment gains	1,856	1,067	$ 789	73.9%
Impairment charges	(2,821)	(57,582)	$ 54,761	95.1%
Other income and (expenses)	4,632	128	$ 4,504	NM
Interest expense	4,622	5,532	$ (910)	-16.4%
Amortization expense	1,520	1,390	$ 130	9.4%
Income (loss) before federal income tax	**48,309**	**(94,532)**	**$ 142,841**	**151.1%**
Income tax expense (benefit)	9,992	(19,890)	$ 29,882	150.2%
Net income (loss)	**$ 38,317**	**$ (74,642)**	**$ 112,959**	**151.3%**
Adjusted operating income[1]	**$ 36,062**	**$ 17,876**	**$ 18,185**	**101.7%**
Loss ratio	70.9%	83.9%		
Expense ratio	26.9%	26.4%		
Combined ratio	**97.8%**	**110.3%**		
Return on equity	9.4%	-19.5%		
Return on tangible equity[1]	11.9%	-27.7%		
Adjusted loss ratio[1]	67.7%	70.0%		
Expense ratio	26.9%	26.4%		
Adjusted combined ratio[1]	**94.6%**	**96.4%**		
Adjusted return on equity[1]	8.8%	4.6%		
Adjusted return on tangible equity[1]	11.2%	6.6%		

(1) Non-GAAP financial measure. See the section entitled "— Reconciliation of Non-GAAP Financial Measures" for a reconciliation of the Non-GAAP financial measures in accordance with their most applicable GAAP measure.

Premiums

The following table presents gross written premiums by underwriting division for the years ended December 31, 2021 and 2020:

	For the years ended December 31,					
($ in thousands)	**2021**	**% of Total**	**2020**	**% of Total**	**Change**	**% Change**
Industry Solutions	$219,973	23.4%	$176,177	20.2%	$ 43,796	24.9%
Global Property	167,887	17.9%	155,027	17.7%	12,860	8.3%
Programs	140,283	14.9%	119,479	13.7%	20,804	17.4%
Accident & Health	112,146	11.9%	94,616	10.8%	17,530	18.5%
Captives	87,836	9.3%	58,722	6.7%	29,114	49.6%
Professional Lines	59,992	6.4%	28,816	3.3%	31,176	108.2%
Surety	51,792	5.5%	13,176	1.5%	38,616	293.1%
Transactional E&S	27,997	3.0%	2,318	0.3%	25,679	1107.8%
Total continuing business	**$867,906**	**92.3%**	**$648,331**	**74.2%**	**$ 219,575**	**33.9%**
Exited business	71,953	7.7%	225,282	25.8%	(153,329)	-68.1%
Total gross written premiums	**$939,859**	**100.0%**	**$873,613**	**100.0%**	**$ 66,246**	**7.6%**

Gross written premiums were $939.9 million for the year ended December 31, 2021, compared to $873.6 million for the year ended December 31, 2020, an increase of $66.2 million, or 7.6%. Growth in gross written premiums was achieved by growth in our continuing business, which increased by a total of $219.6 million or 33.9% compared to the prior year. This growth was partially offset by a $153.3 million, or 68.1%, decline within exited business.

Gross written premium growth within continuing business was driven by organic growth through strong policy retention, achievement of premium rate increases and new business production, particularly within our Industry Solutions, Global Property and Accident & Health divisions. Growth was also driven by the addition of new Programs and Captives during 2021, the acquisition of Aegis Surety Bonds and Insurance Services, LLC, as well as production from newly-hired underwriting talent, primarily within the Professional Lines, Surety and Transactional E&S divisions.

Net written premiums were $529.1 million for the year ended December 31, 2021, compared to $461.5 million for the year ended December 31, 2020, an increase of $67.6 million, or 14.7%. The growth in net written premiums was driven by the growth in gross written premiums, as well as an increase in our net retention as a result of a reduction in the amount of reinsurance purchased during the year ended December 31, 2021. See the section entitled “Business — Our Business” for more information regarding gross written premiums for each underwriting division.

Net earned premiums were $499.8 million for the year ended December 31, 2021, compared to $431.9 million for the year ended December 31, 2020, an increase of $67.9 million, or 15.7%. Growth in net written premiums in 2021 drove the growth in net earned premiums. See the section entitled “Business — Our Business — Reinsurance” for additional information on our reinsurance programs.

Loss ratio

The loss ratio was 70.9% for the year ended December 31, 2021, compared to 83.9% for the year ended December 31, 2020.

The following tables summarize the effect of the factors indicated above on the loss ratios for the years ended December 31, 2021 and 2020:

	For the years ended December 31,			
	2021		2020	
($ in thousands)	Losses and LAE	% of Net Earned Premiums	Losses and LAE	% of Net Earned Premiums
Loss Ratio:				
Current Accident Year[(1)] – Excluding Catastrophe	$326,520	65.3%	$ 297,622	68.9%
Current Accident Year – Catastrophe Losses[(2)]	11,828	2.4%	4,223	1.0%
Prior Year Development – Non-LPT Related	—	0.0%	540	0.1%
Prior Year Development – Net Impact of LPT[(3)]	16,063	3.2%	59,797	13.8%
Total	**$ 354,411**	**70.9%**	**$ 362,182**	**83.9%**
Adjusted Loss Ratio[(4)]:				
Current Accident Year[(1)] – Excluding Catastrophe	$326,520	65.3%	$ 297,622	68.9%
Current Accident Year – Catastrophe Losses[(2)]	11,828	2.4%	4,223	1.0%
Prior Year Development – Non-LPT Related	—	0.0%	540	0.1%
Total	**$338,348**	**67.7%**	**$ 302,385**	**70.0%**

(1) Accident year loss ratio, expressed as a percentage, is the ratio of losses and LAE for the current accident year (excluding development on prior accident year reserves) to net earned premiums.

(2) We define catastrophe losses as any single loss, or group of losses, related to a single Property Claim Services (“PCS” a Verisk company) designated catastrophe event. PCS has defined catastrophes in the United States, Puerto Rico, and the U.S. Virgin Islands as events that cause $25.0 million or more in direct insured losses to property and affect a significant number of policyholders and insurers.

(3) Includes reserve development for policy years and business subject to the LPT net of reinsurance recoveries from the LPT.

(4) Non-GAAP financial measure. See the section entitled “— Reconciliation of Non-GAAP Financial Measures” for a reconciliation of the non-GAAP financial measures in accordance with GAAP to their most applicable GAAP measure.

The improvement in the loss ratio versus the prior year was driven by an improvement in the current accident year loss ratio, excluding catastrophe losses and a reduction in prior year development related to the net impact of the LPT, partially offset by an increase in catastrophe losses. The improvement in the current accident year loss ratio, excluding catastrophe losses was driven by changing mix of business, including the continued run-off of exited business, which historically had higher loss ratios. Our 2021 results include $16.1 million net incurred losses and LAE related to the LPT, comprised of $28.0 million of reserve strengthening offset by $11.9 million of reinsurance recoveries. Our 2020 results include $59.8 million of net incurred losses and LAE related to the net impact of the LPT, comprised of (i) $43.5 million of expense to enter into the LPT and (ii) $49.0 million attributable to strengthening our reserves subject to the LPT, partially offset by $32.7 million of reinsurance recoveries under the LPT. The adjusted loss ratio was 67.7% for the year ended December 31, 2021 compared to 70.0% for the year ended December 31, 2020. The improvement in the adjusted loss ratio versus the prior year was driven by an improvement in the current accident year loss ratio, excluding catastrophe losses, partially offset by an increase in catastrophe losses.

Expense Ratio

The expense ratio was 26.9% for the year ended December 31, 2021 compared to 26.4% for the year ended December 31, 2020. The following table summarizes the components of the expense ratio for the years ended December 31, 2021 and 2020:

	For the years ended December 31,			
	2021		2020	
($ in thousands)	Expenses	% of Net Earned Premiums	Expenses	% of Net Earned Premiums
Net policy acquisition expenses	$ 47,061	9.4%	$ 36,971	8.6%
Other operating and general expenses	91,437	18.3%	82,847	19.2%
Underwriting, acquisition and insurance expenses	138,498	27.7%	119,818	27.7%
Commission and fee income	(3,973)	-0.8%	(5,664)	-1.3%
Total net expenses	**$ 134,525**	**26.9%**	**$ 114,154**	**26.4%**

The increase in the expense ratio for the year was primarily driven by changes in our mix of business, with an increase in underwriting, acquisition, and insurance expenses combined with a decline in commission and fee income (which is netted against other underwriting expenses in the calculation of expense ratio).

Combined Ratio

The combined ratio was 97.8% for the year ended December 31, 2021, compared to 110.3% for the year ended December 31, 2020. The adjusted combined ratio was 94.6% for the year ended December 31, 2021, compared to 96.4% for the year ended December 31, 2020.

Investing Results

The following table summarizes the components of net investment income and net investment gains for the years ended December 31, 2021 and 2020:

	For the years ended December 31,					
	2021		2020			
($ in thousands)	Net Investment Income	Net Yield	Net Investment Income	Net Yield	$ Change	% Change
Cash and Short-term Investments	$ 224	0.1%	$ 1,211	0.4%	$ (987)	-81.5%
Fixed Income	9,071	2.3%	6,770	2.4%	2,301	34.0%
Opportunistic Fixed Income	12,571	8.6%	5,492	4.7%	7,079	128.9%
Equities	2,780	2.3%	657	0.7%	2,123	323.1%
Net investment income	**$ 24,646**	**2.7%**	**$ 14,130**	**1.8%**	**$ 10,516**	**74.4%**
Net unrealized gains (losses)	$ 15,251		$ (928)		$ 16,179	NM
Net realized investment gains	$ 1,856		$ 1,067		$ 789	73.9%

Net investment income was $24.6 million for the year ended December 31, 2021, compared to $14.1 million for the year ended December 31, 2020. The primary driver for the increase in net investment income was the deployment of cash flow from operations and reinvestment of our cash and short-term investment portfolio into higher yielding investments within our Fixed Income, Opportunistic Fixed Income and Equities portfolios. In addition, we recognized $7.5 million of income within our Opportunistic Fixed Income portfolio due to market appreciation of limited partnerships during the year ended December 31, 2021, compared to $3.6 million during the year ended December 31, 2020. Limited partnership income primarily reflects increases in reported net asset values during the year. Until these asset values are monetized and the resultant income is distributed, they are subject to future increases or decreases in asset value. Our investment portfolio had a net investment yield of 2.7% for the year ended December 31, 2021, compared to 1.8% for the year ended December 31, 2020.

Net unrealized gains were $15.3 million for the year ended December 31, 2021 compared to net unrealized losses of $0.9 million for the year ended December 31, 2020. The primary reason for the increase was market appreciation of common equity investments.

Net realized gains were $1.9 million for the year ended December 31, 2021, compared to $1.1 million for the year ended December 31, 2020.

Impairment Charges

Impairment charges were $2.8 million for the year ended December 31, 2021, compared to $57.6 million for the year ended December 31, 2020. The charge in 2021 was primarily due to the write-off of goodwill related to our exited title agent professional liability insurance business. The $57.6 million impairment charge during 2020 is primarily comprised of goodwill impairment charges of $38.0 million within our Accident & Health underwriting division, $10.4 million within our exited business, and $9.2 million within our Programs underwriting division.

Other Income and Expenses

Other income was $4.6 million for the year ended December 31, 2021 compared to $0.1 million for the year ended December 31, 2020. The $4.5 million increase was driven by gains on the sales of affiliated entities during 2021.

Amortization Expense

Amortization expense related to intangible assets was $1.5 million for the year ended December 31, 2021 compared to $1.4 million for the year ended December 31, 2020.

Interest Expense

Interest expense was $4.6 million for the year ended December 31, 2021, compared to $5.5 million for the year ended December 31, 2020. The $0.9 million decrease was driven by a decrease in floating interest rates applicable to our term loan and debentures during 2021.

Income Tax Expense (Benefit)

Income tax expense was $10.0 million for the year ended December 31, 2021 compared to a benefit of $19.9 million for the year ended December 31, 2020. Our effective tax rate was 20.7% for the year ended December 31, 2021, compared to 21.0% for the year ended December 31, 2020.

Reconciliation of Non-GAAP Financial Measures

Adjusted Operating Income (Loss)

We define adjusted operating income (loss) as net income (loss) excluding the impact of certain items that may not be indicative of underlying business trends, operating results, or future outlook, net of tax impact. We use adjusted operating income as an internal performance measure in the management of our operations because we believe it gives our management and other users of our financial information useful insight into our results of operations and our underlying business performance. Adjusted operating income (loss) should not be viewed as a substitute for net income (loss) calculated in accordance with GAAP, and other companies may define adjusted operating income differently.

Adjusted operating income for the three months ended March 31, 2022 and 2021 reconciles to net income (loss) as follows:

	For the three months ended March 31,			
	2022		2021	
($ in thousands)	Before income taxes	After income taxes	Before income taxes	After income taxes
Income (loss) as reported	$ 20,580	$ 16,311	$ 18,886	$ 14,920
Less:				
Net impact of loss portfolio transfer	—	—	—	—
Net unrealized gains (losses)	(5,369)	(4,242)	5,613	4,434
Net realized investment gains	931	735	763	603
Impairment charges	—	—	(882)	(697)
Net realized gain on sale of business	—	—	3,453	2,728
Other operating (loss) income	—	—	—	—
Adjusted operating income	**$ 25,018**	**$ 19,817**	**$ 9,939**	**$ 7,852**

Adjusted operating income for the year ended December 31, 2021 and 2020 reconciles to net income (loss) as follows:

	For the years ended December 31,			
	2021		2020	
($ in thousands)	Before income taxes	After income taxes	Before income taxes	After income taxes
Income (loss) as reported	$ 48,309	$ 38,317	$(94,532)	$(74,642)
Less:				
Net impact of loss portfolio transfer	(16,063)	(12,690)	(59,797)	(47,240)
Net unrealized gains (losses)	15,251	12,048	(928)	(733)
Net realized investment gains	1,856	1,466	1,067	843
Impairment charges	(2,821)	(2,229)	(57,582)	(45,490)
Net realized gain on sale of business	5,077	4,011	—	—
Other operating (loss) income	(445)	(352)	128	101
Adjusted operating income	**$ 45,454**	**$ 36,062**	**$ 22,580**	**$ 17,876**

Underwriting income (loss)

We define underwriting income (loss) as net income (loss) before income taxes excluding net investment income, net realized and unrealized gains and losses on investments, impairment charges, interest expense, amortization expense and other income and expenses. Underwriting income (loss) represents the pre-tax profitability of our underwriting operations and allows us to evaluate our underwriting performance without regard to investment income. We use this metric as we believe it gives our management and other users of our financial information useful insight into our underlying business performance. Underwriting income (loss) should not be viewed as a substitute for pre-tax income (loss) calculated in accordance with GAAP, and other companies may define underwriting income (loss) differently.

Underwriting income (loss) for the three months ended March 31, 2022 and 2021 reconciles to income (loss) before federal income tax as follows:

($ in thousands)	For the three months ended March 31, 2022	2021
Income (loss) before federal income tax	$ 20,580	$ 18,886
Add:		
Interest expense	1,177	1,155
Amortization expense	387	348
Less:		
Net investment income	15,149	5,610
Net unrealized gains (losses)	(5,369)	5,613
Net realized investment gains	931	763
Impairment charges	—	(882)
Net realized gain on sale of business	—	3,453
Other operating (loss) income	—	—
Underwriting income (loss)	**$ 11,433**	**$ 5,832**

Underwriting income (loss) for the years ended December 31, 2021 and 2020 reconciles to income (loss) before federal income tax as follows:

($ in thousands)	For the years ended December 31, 2021	2020
Income (loss) before federal income tax	$48,309	$ (94,532)
Add:		
Interest expense	4,622	5,532
Amortization expense	1,520	1,390
Less:		
Net investment income	24,646	14,130
Net unrealized gains (losses)	15,251	(928)
Net realized investment gains	1,856	1,067
Impairment charges	(2,821)	(57,582)
Net realized gain on sale of business	5,077	—
Other operating (loss) income	(445)	128
Underwriting income (loss)	**$10,887**	**$ (44,425)**

Adjusted Loss Ratio / Adjusted Combined Ratio

We define adjusted loss ratio and adjusted combined ratio as the corresponding ratio (calculated in accordance with GAAP), excluding losses and LAE related to the LPT and all development on reserves fully or partially covered by the LPT. We use these adjusted ratios as internal performance measures in the management of our operations because we believe they give our management and other users of our financial information useful insight into our results of operations and our underlying business performance. Our adjusted loss ratio and adjusted combined ratio should not be viewed as substitutes for our loss ratio and combined ratio, respectively.

Adjusted loss ratio and adjusted combined ratio for the three months ended March 31, 2022 and 2021 reconcile to loss ratio and combined ratio as follows:

($ in thousands)	For the three months ended March 31, 2022	2021
Net earned premiums	$141,726	$117,195
Losses and LAE	89,989	81,020
Less: Pre-tax net impact of loss portfolio transfer	—	—
Adjusted losses and LAE	89,989	81,020
Loss ratio	63.5%	69.1%
Less: Net impact of LPT	0.0%	0.0%
Adjusted Loss Ratio	**63.5%**	**69.1%**
Combined ratio	**91.9%**	**95.0%**
Less: Net impact of LPT	0.0%	0.0%
Adjusted Combined Ratio	**91.9%**	**95.0%**

Adjusted loss ratio and adjusted combined ratio for the years ended December 31, 2021 and 2020 reconcile to loss ratio and combined ratio as follows:

($ in thousands)	For the years ended December 31, 2021	2020
Net earned premiums	$ 499,823	$ 431,911
Losses and LAE	354,411	362,182
Less: Pre-tax net impact of loss portfolio transfer	16,063	59,797
Adjusted losses and LAE	338,348	302,385
Loss ratio	70.9%	83.9%
Less: Net impact of LPT	3.2%	13.8%
Adjusted Loss Ratio	**67.7%**	**70.0%**
Combined ratio	**97.8%**	**110.3%**
Less: Net impact of LPT	3.2%	13.8%
Adjusted Combined Ratio	**94.6%**	**96.4%**

Tangible Stockholders' Equity

We define tangible stockholders' equity as stockholders' equity, plus any temporary equity, less goodwill and intangible assets. Our definition of tangible stockholders' equity may not be comparable to that of other companies and should not be viewed as a substitute for stockholders' equity calculated in accordance with GAAP. We use tangible stockholders' equity internally to evaluate the strength of our balance sheet and to compare returns relative to this measure.

Tangible stockholders' equity for the periods ended March 31, 2022, December 31, 2021 and December 31, 2020 reconciles to stockholders' equity as follows:

($ in thousands)	As of March 31, 2022	As of December 31, 2021	As of December 31, 2020
Stockholders' equity	$428,619	$425,214	$302,267
Plus: Temporary Equity	—	—	90,302
Less: Goodwill and intangible assets	90,970	91,336	84,014
Tangible stockholders' equity	**$337,649**	**$333,878**	**$308,555**

Adjusted Return on Equity

We define adjusted return on equity as adjusted operating income expressed as a percentage of average beginning and ending stockholders' equity, plus any temporary equity, during the period. We use adjusted return on equity as an internal performance measure in the management of our operations because we believe it gives our management and other users of our financial information useful insight into our results of operations and our underlying business performance. Adjusted return on equity should not be viewed as a substitute for return on equity calculated in accordance with GAAP, and other companies may define adjusted return on equity differently.

Adjusted return on equity for the three months ended March 31, 2022 and 2021 reconciles to return on equity as follows:

($ in thousands)	For the three months ended March 31, 2022	For the three months ended March 31, 2021
Numerator: adjusted operating income	$ 19,817	$ 7,852
Denominator: average stockholders' equity including temporary equity	427,350	399,264
Adjusted return on equity[(1)]	**18.5%**	**7.9%**

(1) Adjusted return on equity is calculated on an annualized basis by multiplying the quarterly result by a factor of four.

Adjusted return on equity for the years ended December 31, 2021 and 2020 reconciles to return on equity as follows:

($ in thousands)	For the years ended December 31, 2021	For the years ended December 31, 2020
Numerator: adjusted operating income	$ 36,062	$ 17,876
Denominator: average stockholders' equity including temporary equity	409,803	382,666
Adjusted return on equity	**8.8%**	**4.6%**

Return on Tangible Equity

We define return on tangible equity as net income as a percentage of average beginning and ending tangible stockholders' equity during the period. We use return on tangible equity as an internal performance measure in the management of our operations because we believe it gives our management and other users of our financial information useful insight into our results of operations and our underlying business performance. Return on tangible equity should not be viewed as a substitute for return on equity calculated in accordance with GAAP, and other companies may define return on tangible equity differently.

Return on tangible equity for the three months ended March 31, 2022 and 2021 reconciles to return on equity as follows:

($ in thousands)	For the three months ended March 31, 2022	2021
Numerator: net income (loss)	$ 16,311	$ 14,920
Denominator: average tangible stockholders' equity	336,197	309,128
Return on tangible equity[(1)]	**19.4%**	**19.3%**

(1) Return on tangible equity is calculated on an annualized basis by multiplying the quarterly result by a factor of four.

Return on tangible equity for the years ended December 31, 2021 and 2020 reconciles to return on equity as follows:

($ in thousands)	For the years ended December 31, 2021	2020
Numerator: net income (loss)	$ 38,317	$ (74,642)
Denominator: average tangible stockholders' equity	322,128	269,206
Return on tangible equity	**11.9%**	**-27.7%**

Adjusted Return on Tangible Equity

We define adjusted return on tangible equity as adjusted operating income as a percentage of average beginning and ending tangible stockholders' equity during the period. We use adjusted return on tangible equity as an internal performance measure in the management of our operations because we believe it gives our management and other users of our financial information useful insight into our results of operations and our underlying business performance. Adjusted return on tangible equity should not be viewed as a substitute for return on equity calculated in accordance with GAAP, and other companies may define adjusted return on tangible equity differently.

Adjusted return on tangible equity for the three months ended March 31, 2022 and 2021 reconciles to return on equity as follows:

($ in thousands)	For the three months ended March 31, 2022	2021
Numerator: adjusted operating income	$ 19,817	$ 7,852
Denominator: average tangible stockholders' equity	336,197	309,128
Adjusted return on tangible equity[(1)]	**23.6%**	**10.2%**

(1) Adjusted return on tangible equity is calculated on an annualized basis by multiplying the quarterly result by a factor of four.

Adjusted return on tangible equity for the years ended December 31, 2021 and 2020 reconciles to return on equity as follows:

($ in thousands)	For the years ended December 31, 2021	2020
Numerator: adjusted operating income	$ 36,062	$ 17,876
Denominator: average tangible stockholders' equity	322,128	269,206
Adjusted return on tangible equity	**11.2%**	**6.6%**

Liquidity and Capital Resources

Sources and Uses of Funds

We are organized as a holding company with our operations primarily conducted by our wholly-owned insurance subsidiaries, HSIC, IIC, and GMIC, which are domiciled in Texas, and OSIC, which is domiciled in Oklahoma. Accordingly, the holding company may receive cash through (1) corporate service fees from our operating subsidiaries, (2) payments pursuant to our consolidated tax allocation agreement, (3) dividends from our subsidiaries, subject to certain limitations discussed below regarding dividends from our insurance subsidiaries, (4) loans from banks, (5) draws on a revolving loan agreement, and (6) issuance of equity and debt securities. We also may use the proceeds from these sources to contribute funds to insurance subsidiaries in order to support premium growth, pay dividends and taxes and for other business purposes.

Skyward Service Company receives corporate service fees from the operating subsidiaries to reimburse it for most of the operating expenses that it incurs. Reimbursement of expenses through corporate service fees is based on the actual costs that we expect to incur with no mark-up above our expected costs.

We file a consolidated U.S. federal income tax return with our subsidiaries, and under our corporate tax allocation agreement, each participant is charged or refunded taxes according to the amount that the participant would have paid or received had it filed on a separate return basis with the Internal Revenue Service (the "IRS").

Applicable state insurance laws restrict the ability of the insurance subsidiaries to declare stockholder dividends without prior regulatory approval. Applicable state insurance regulators require insurance companies to maintain specified levels of statutory capital and surplus. Dividend payments are further limited to that part of available policyholder surplus which is derived from net profits on an insurer's business.

Insurance regulators have broad powers to prevent reduction of statutory surplus to inadequate levels, and there is no assurance that dividends of the maximum amounts calculated under any applicable formula would be permitted. State insurance regulatory authorities that have jurisdiction over the payment of dividends by our insurance subsidiaries may in the future adopt statutory provisions more restrictive than those currently in effect. Our insurance subsidiaries did not pay dividends to us for the years ended December 31, 2021 or 2020.

As of March 31, 2022, our holding company had $7.6 million in cash and investments, compared to $5.8 million as of December 31, 2021 and $12.6 million as of December 31, 2020.

We believe that we have sufficient liquidity available to meet our operating cash needs and obligations and committed capital expenditures for the next 12 months.

Cash Flows

Our most significant source of cash is from premiums received from our insureds, which, for most policies, we receive at the beginning of the coverage period, net of the related commission amount for the policies. Our most significant cash outflow is for claims that arise when a policyholder incurs an insured loss. Because the payment of claims occurs after the receipt of the premium, often years later, we invest the cash in various investment securities that generally earn interest and dividends. We also use cash to pay for operating expenses such as salaries, rent and taxes and capital expenditures such as technology systems. As described under "— Reinsurance" below, we use reinsurance to manage the risk that we take on our policies. We cede, or pay out, part of the premiums we receive to our reinsurers and collect cash back when losses subject to our reinsurance coverage are paid.

The timing of our cash flows from operating activities can vary among periods due to the timing by which payments are made or received. Some of our payments and receipts, including loss settlements and subsequent reinsurance receipts, can be significant, and as a result their timing can influence cash flows from operating activities in any given period. Management believes that cash receipts from premiums and proceeds from investment income are sufficient to cover cash outflows in the foreseeable future

Our cash flows for the three months ended March 31, 2022 and 2021 were:

	For the three months ended March 31,	
($ in thousands)	**2022**	**2021**
Cash and cash equivalents provided by (used in):		
Operating activities	$ 45,882	$ 38,411
Investing activities	(55,596)	(57,517)
Financing activities	186	1,011
Change in cash and cash equivalents	**$ (9,528)**	**$ (18,095)**

The increase in cash provided by operating activities the three months ended March 31, 2022 and 2021 was due primarily to the timing of premium receipts, claim payments and reinsurance activity. Cash flows from operations were used primarily to fund investing activities.

For the three months ended March 31, 2022, net cash used in investing activities was $55.6 million, a decrease of $1.9 million from the three months ended March 31, 2021. Cash used in investing activities was funded by cash provided by operating activities.

For the three months ended March 31, 2022, net cash provided by financing activities was $0.2 million, compared to net cash provided by financing activities of $1.0 million for the three months ended March 31, 2021.

Our cash flows for the twelve months ended December 31, 2021 and 2020 were:

	For the years ended December 31,	
($ in thousands)	**2021**	**2020**
Cash and cash equivalents provided by (used in):		
Operating activities	$ 175,285	$ 44,709
Investing activities	(183,014)	(74,934)
Financing activities	1,380	56,301
Change in cash and cash equivalents	**$ (6,349)**	**$ 26,076**

The increase in cash provided by operating activities in 2021 and 2020 was due primarily to the timing of premium receipts, claim payments and reinsurance activity, including funding the LPT during 2020. Cash flows from operations in each of the past two years were used primarily to fund investing activities.

For the year ended December 31, 2021, net cash used in investing activities was $183.0 million, an increase of $108.1 million from 2020 due to the investment of cash provided by operating activities.

For the year ended December 31, 2021, net cash provided by financing activities was $1.4 million. For the year ended December 31, 2020, net cash provided by financing activities was $56.3 million driven by the receipt of $90.4 million of net proceeds from the completion of our private preferred share rights offering on April 24, 2020, partially offset by the repayment of $33.8 million on our revolving line of credit.

Credit Agreements

On December 11, 2019, we entered into a credit agreement with Prosperity Bank which provided us with a $50.0 million term loan (the "Term Loan") and a $50.0 million revolving line of credit (the "Revolver") with additional capacity up to $75.0 million.

The Term Loan

The interest rate on the Term Loan is the lesser of the one-month LIBOR (0.45% on March 31, 2022) plus the "Applicable Margin," which is defined as 1.65%, or the Highest Lawful Rate. The "Highest Lawful Rate" is defined as the lesser of (a) (i) the "weekly ceiling" as defined within Section 303.003 of the Texas Finance code, as amended or (ii) the "annualized ceiling" as defined within Section 303.103 of the Texas Finance Code, as amended and (b) (i) 24% if the principal is less than $250 thousand or (ii) 28% if the principal is greater than $250 thousand. Interest-only payments are due and payable on a quarterly basis through December 31, 2024. As of March 31, 2022 the principal balance on the Term Loan was $50.0 million, which is due December 31, 2024.

The Revolver

The interest rate on the revolver is the lesser of the Prime Rate (3.50% on March 31, 2022) or the one-month LIBOR (0.45% on December 31, 2021) plus the Applicable Margin, which is defined as the lesser of 1.65%, or the Highest Lawful Rate. The revolving promissory note includes a fee of 0.25% on the unused portion. Interest-only payments are due and payable on a quarterly basis through December 31, 2024. As of March 31, 2022, there was no outstanding balance on the Revolver compared to a contractual capacity of $50.0 million. Subject to lender approval, we have a right to increase the capacity to $75.0 million.

Borrowings under the Term Loan and Revolver may be used to refinance debt and general corporate purposes.

Included in the Credit Agreement is a provision that allows for us to issue up to $20.0 million of letters of credit ("LOCs"). Any amounts drawn on the LOCs must either be repaid, or the balance constitutes additional borrowings under the Revolver. As of March 31, 2022, there were no LOCs issued.

Trust Preferred

In August 2006, we received $58.0 million of proceeds from a debenture offering through a statutory trust, Delos Capital Trust (the "Trust"). The sole asset of the Trust consists of Fixed/Floating Rate Junior Subordinated Deferrable Interest Debentures (the "Trust Preferred") with a principal amount of $59.8 million issued by us and cash of $1.8 million from the issuance of Trust common shares purchased by us equal to 3% of the Trust capitalization. The Trust Preferred are an unsecured obligation, are redeemable on or after September 15, 2011, and have a maturity date of September 15, 2036. Interest on the Trust Preferred is payable quarterly at an annual rate based on the three-month LIBOR plus 3.4%, which was 0.96% at March 31, 2022.

Subordinated Debt

In May 2019, we issued unsecured subordinated notes (the "Notes") with an aggregate principal amount of $20.0 million. Interest on the subordinated notes is 7.25% fixed for the first 8 years and 8.25% fixed thereafter. Early retirement of the debt ahead of the eight (8) year commitment requires all interest payments to be paid in full, as well as the return of all capital. Principal payment is due at maturity on May 24, 2039 and interest is payable quarterly.

At March 31, 2022, December 31, 2021 and December 31, 2020, the ratio of total debt outstanding, including the Term Loan, the Revolver, the Trust Preferred and the Notes, to total capitalization (defined as total debt plus stockholders' equity, plus any temporary equity) was 23.1%, 23.2% and 24.6%, respectively. We believe that having debt as part of our capital structure reduces our blended cost of capital and allows us to generate a higher return on equity and return on tangible equity and generates a higher growth rate of our book value per share than we could by using equity capital alone.

Reinsurance

We strategically purchase reinsurance from third parties which enhances our business by protecting capital from severity events (either large single event losses or catastrophes) and reducing volatility in our earnings. Our reinsurance contracts are predominantly one year in length and renew annually throughout the year, primarily in January and June. At each annual renewal, we consider several factors that influence any changes to our reinsurance purchases, including any plans to change the underlying insurance coverage we offer, updated loss activity, the level of our capital and surplus, changes in our risk appetite and the cost and availability of reinsurance treaties.

We purchase quota share reinsurance, excess of loss reinsurance, and facultative reinsurance coverage to limit our exposure from losses on any one occurrence. The mix of reinsurance purchased considers efficiency, cost, our risk appetite and specific factors of the underlying risks we underwrite.

- ***Quota share reinsurance*** refers to a reinsurance contract whereby the reinsurer agrees to assume a specified percentage of the ceding company's losses arising out of a defined class of business in exchange for a corresponding percentage of premiums, net of a ceding commission.
- ***Excess of loss reinsurance*** refers to a reinsurance contract whereby the reinsurer agrees to assume all or a portion of the ceding company's losses for an individual claim or an event in excess of a specified amount in exchange for a premium payable amount negotiated between the parties. This definition includes our catastrophe reinsurance program.
- ***Facultative coverage*** refers to a reinsurance contract on individual risks as opposed to a group or class of business. It is used for a variety of reasons, including supplementing the limits provided by the treaty coverage or covering risks or perils excluded from treaty reinsurance.

For the years ended December 31, 2021 and 2020, our net retention on a written basis (calculated as net written premiums as a percentage of gross written premiums) was 56.3% and 52.8%, respectively.

The following is a summary of our reinsurance programs as of June 1, 2022:

Line of Business	Maximum Company Retention
Accident & Health	$0.75 million per occurrence
Commercial Auto[(1)]	$1.0 million per occurrence
Excess Casualty[(1)]	$2.35 million per occurrence
General Liability[(1)]	$2.0 million per occurrence
Professional Lines	$2.4 million per occurrence
Property	$2.0 million per occurrence
Surety	$3.0 million per occurrence
Workers' Compensation	$1.95 million per occurrence

(1) Legal defense expenses can force exposure above the maximum company retention for Excess Casualty, Commercial Auto and General Liability.

We use quota share reinsurance principally related to our Global Property, Captives and Accident & Health underwriting divisions. Quota share is also used within our Programs underwriting division for property lines. For the year ended December 31, 2021 and 2020, quota share reinsurance ceded premiums as a percentage of total gross written premiums were 28.3% and 32.7%, respectively. Facultative reinsurance is principally used in our Global Property division and the Specialty Trucking unit of our Industry Solutions divisions. For the year ended December 31, 2021 and 2020, facultative reinsurance ceded premiums as a percentage of total gross written premiums were 11.9% and 11.3%, respectively.

For the year ended December 31, 2021, property insurance represented 20.2% of our gross written premiums. We actively manage and continuously monitor our aggregation of property writings by geographic area to limit our potential for aggregation of loss resulting from severe events such as hurricanes, convective storms, and earthquakes. We buy catastrophe reinsurance to further mitigate an aggregation of property losses due to a single event or series of events. To inform our purchase of catastrophe reinsurance, we use third-party stochastic and our own deterministic models to analyze the risk of aggregation of losses from such events. These models provide a quantitative view of PML events, which is an estimate of the level of loss we would expect to experience once in a given number of years (referred to as the return period). Based upon our modeling, it would take an event beyond our 1 in 250-year PML to exhaust our $32.0 million property catastrophe coverage. Additionally, we seek to expose no more than 3.0% of our stockholders' equity to a catastrophic loss that is less than a 1 in 250-year event. We believe our current reinsurance program provides coverage well in excess of our theoretical losses from any recorded historical event.

In the event of a catastrophe that impacts our reinsurance contracts, a portion of our reinsurance program includes the right to pay additional premium to reinstate reinsurance limits for potential future recoveries during the same contract year and preserve our limit for subsequent events. This payment for subsequent event coverage is known as a "reinstatement."

We seek to purchase reinsurance from reinsurers that are rated at least "A-" ("Excellent") or better by A.M. Best. As of March 31, 2022, 98.6% of our reinsurance recoverables were either derived from reinsurers rated "A-" (Excellent) by A.M. Best, or better, or were collateralized for our reinsurance recoverable by the reinsurer, with an additional 0.4% of the March 31, 2022 balance collateralized in April 2022. While we only select reinsurers whom we believe to have acceptable credit and A.M. Best ratings, if our reinsurers are unable to pay the claims for which they are responsible, we ultimately retain primary liability to our policyholders. Hence, failure of the reinsurer to honor its obligations could result in losses to us, and therefore, we establish allowances for amounts considered uncollectible. At December 31, 2021 and 2020, there was no allowance for uncollectible reinsurance.

Ratings

Skyward Specialty and its insurance subsidiaries have a financial strength rating of "A-" (Excellent) with a stable outlook from A.M. Best, which rates insurance companies based on factors of concern for policyholders. A.M. Best assigns 16 ratings to insurance companies, which currently range from "A++" (Superior) to "F" (In Liquidation). The "A-" (Excellent) rating is assigned to insurers that have, in A.M. Best's opinion, an excellent ability to meet their ongoing obligations to policyholders. This rating is intended to provide an independent opinion of an insurer's ability to meet its obligation to policyholders and is not an evaluation directed at investors. See also the section entitled "Risk Factors — Risks Related to Our Business — A decline in our financial strength rating may adversely affect the amount of business we write" for a discussion of the potential impact of changes to our financial strength rating.

The group financial strength ratings assigned by A.M. Best have an impact on the ability of the insurance subsidiaries to attract and retain our distribution partners and on the risk profiles of the submissions for insurance that the insurance subsidiaries receive. The "A-" (Excellent) rating was affirmed by A.M. Best in August 2021 and is consistent with our business plan and allows us to actively pursue relationships with our distribution partners.

Contractual Obligations and Commitments

The following table illustrates our contractual obligations and commercial commitments by due date as of December 31, 2021:

	Payments due by period		
($ in thousands)	**Total**	**Less Than One Year**	**One Year or More**
Reserves for losses and LAE	$ 979,549	$345,563	$633,986
Long-term debt	129,794	—	129,794
Interest on debt obligations	61,579	4,427	57,152
Operating lease obligations	11,966	2,395	9,571
Total	**$1,182,888**	**$352,385**	**$830,503**

Reserves for losses and LAE represent our best estimate of the ultimate cost of settling reported and unreported claims and related expenses. Estimating reserves for losses and LAE is based on various complex and subjective judgments. Actual losses and settlement expenses paid may deviate, perhaps substantially, from the reserve estimates reflected in our financial statements. Similarly, the timing for payment of our estimated losses is not fixed and is not determinable on an individual or aggregate basis. The assumptions used in estimating the payments due by period are based on our own, industry and peer group claims payment experience. Due to the uncertainty inherent in the process of estimating the timing of such payments, there is a risk that the amounts paid in any period will be significantly different than the amounts disclosed above. Amounts disclosed above are gross of anticipated amounts recoverable from reinsurers. Reinsurance balances recoverable on reserves for losses and LAE are reported separately as assets, instead of being netted with the related liabilities, since reinsurance does not discharge us of our liability to policyholders. Reinsurance balances recoverable on reserves for paid and unpaid losses and LAE totaled $536.3 million and $538.9 million at December 31, 2021 and 2020, respectively.

Financial Condition

Stockholders' Equity

At March 31, 2022, stockholders' equity was $428.6 million and tangible stockholders' equity was $337.6 million, compared to stockholders' equity of $426.1 million and tangible stockholders' equity of $334.7 million at December 31, 2021. The increase in both stockholders' equity and tangible stockholders' equity was primarily due to net income earned for the three months ended March 31, 2022 of $16.3 million and a reduction of stock notes receivable of $2.1 million, partially offset by the net increase in unrealized losses of $16.7 million related to available-for-sale securities, net of taxes.

At December 31, 2021, stockholders' equity was $426.1 million and tangible stockholders' equity was $334.7 million. At December 31, 2020, stockholders' equity (including temporary equity of $90.3 million) was $393.5 million and tangible stockholders' equity (including temporary equity) was $309.5 million. Temporary equity of $90.3 million at December 31, 2020 resulted from a private preferred share rights offering completed on April 24, 2020, which preferred shares conversion rate was contingently adjustable in the future and there was no contractual limit on the number of common shares that could be issued. As of December 31, 2021, temporary equity has been reclassified into stockholders' equity as a result of the conversion rate becoming fixed and the preferred shares becoming convertible into a fixed number of common shares as of such date. For a detailed discussion of temporary equity and the preferred share rights offering, see the "Notes to Consolidated Financial Statements" included elsewhere in this prospectus. The increase in both stockholders' equity and tangible stockholders' equity was primarily due to net income earned for the year ended December 31, 2021 of $38.3 million, partially offset by the net increase in unrealized losses of $7.6 million related to available-for-sale securities, net of taxes. See "— Reconciliation of Non-GAAP Financial Measures" for a reconciliation of tangible stockholders' equity to stockholders' equity, which is the most directly comparable financial metric prepared in accordance with GAAP.

Dividend declarations

We did not declare any dividends in the years ended December 31, 2021 and 2020.

Investment portfolio

The following table summarizes the components of our total investments and cash as of and for the periods ended March 31, 2022 and December 31, 2021:

($ in thousands)	For the three months ended March 31, 2022			For the year ended December 31, 2021		
	Fair value	% of total	Net Yield	Fair value	% of total	Net Yield
Cash and Short-term Investments	$ 229,083	22.4%	0.0%	$207,024	20.9%	0.1%
Fixed Income	438,752	42.9%	2.7%	458,351	46.2%	2.3%
Opportunistic Fixed Income	188,666	18.4%	25.7%	168,058	17.0%	8.6%
Equities	166,849	16.3%	1.7%	158,033	15.9%	2.3%
Total Investments and Cash	**$1,023,350**	**100.0%**	**6.0%**	**$991,466**	**100.0%**	**2.7%**

Cash & Short-term Investments

The Cash & Short-term Investments portfolio consists of cash, cash equivalents, money market funds and other highly liquid (less than one year duration) short-term investments. We expect that the Cash & Short-term Investment portfolio will decrease as funds are deployed in accordance with our investment strategy.

Fixed Income

The Fixed Income portfolio consists primarily of investment grade fixed income securities which are predominantly highly- rated and liquid bonds. Our objective in the Fixed Income portfolio is to earn attractive risk-adjusted returns with a low risk of loss of principal. The Fixed Income portfolio is managed by third party managers. The average duration of the Fixed Income portfolio is approximately 4.6 years and 4.3 years as of March 31, 2022 and December 31, 2021, respectively. The weighted average credit rating of the portfolio was “AA” by Standard & Poor’s Financial Services, LLC (“Standard & Poor’s”) as of both March 31, 2022 and December 31, 2021:

($ in thousands)	For the three months ended March 31, 2022		For the year ended December 31, 2021	
	Fair value	% of total fair value	Fair value	% of total fair value
U.S. government securities	45,041	10.3%	49,263	10.7%
Corporate securities and miscellaneous	149,850	34.2%	154,163	33.6%
Municipal securities	54,307	12.4%	56,942	12.4%
Residential mortgage-backed securities	94,426	21.5%	103,735	22.6%
Commercial mortgage-backed securities	15,766	3.6%	14,484	3.2%
Asset-backed securities	79,362	18.1%	79,764	17.4%
Fixed Income securities, available for sale	**438,752**	**100.0%**	**458,351**	**100.0%**

The table below summarizes the credit quality of our Fixed Income portfolio as of March 31, 2022 and December 31, 2021, as rated by Standard & Poor's or equivalent designation:

($ in thousands)	For the three months ended March 31, 2022 Fair value	% of total	For the year ended December 31, 2021 Fair value	% of total
AAA	$204,397	46.6%	$223,404	48.7%
AA	67,674	15.4%	67,157	14.7%
A	85,793	19.6%	87,337	19.1%
BBB	78,366	17.9%	76,835	16.8%
BB and Lower	2,522	0.6%	3,618	0.8%
Total Fixed Income	**$438,752**	**100.0%**	**$458,351**	**100.0%**

Opportunistic Fixed Income

The Opportunistic Fixed Income portfolio consists of separately managed accounts, limited partnerships, promissory notes and equity interests. The underlying securities held are primarily floating rate, comprised of short duration, collateralized, asset-oriented credit investments designed to generate attractive risk-adjusted returns. The limited partnerships are subject to future increases or decreases in asset value and may exhibit volatile results as asset values are monetized and the resultant income is distributed. The Opportunistic Fixed Income portfolio is managed by Arena Investors, LP ("Arena"), which is affiliated with Westaim, our largest shareholder at the time of this offering. The average duration of the Opportunistic Fixed Income portfolio is approximately 1.4 years and 1.5 years as of March 31, 2022 and December 31, 2021, respectively.

The following table summarizes the components of our Opportunistic Fixed Income portfolio by industry sector for the periods ended March 31, 2022 and December 31, 2021:

($ in thousands)	For the three months ended March 31, 2022 Fair Value	% of Total	For the year ended December 31, 2021 Fair Value	% of Total
Real Estate	$ 80,120	42.5%	$ 75,305	44.8%
Oil & Gas	20,913	11.1%	20,321	12.1%
Banking, Finance & Insurance	14,447	7.7%	13,683	8.1%
Other Sectors(1)	20,906	11.1%	16,936	10.1%
Cash and Cash Equivalents(2)	52,280	27.7%	41,813	24.9%
Opportunistic Fixed Income	**$188,666**	**100.0%**	**$168,058**	**100.0%**

(1) Other Sectors primarily includes additional sectors such as Aerospace & Defense, Business Services, Retail, Commercial & Industrial and Environmental.

(2) Includes cash on settlements that have not yet been redeployed.

Equities

The Equities portfolio primarily consists of domestic preferred stocks, common equities, exchange traded funds, limited partnerships, limited liability corporations and other types of equity interests 76% of which are publicly traded. During 2021, we initiated a tail-risk management strategy that is designed to provide some protection for the equity portfolio relating to a significant decline in the S&P 500 within a 30 day period. We continued this strategy in the quarter ended March 31, 2022. The annual cost of the strategy is approximately $2.5 million. Our Equities portfolio is directed internally and includes both self-managed investments and portfolios managed by third-party investment management firms.

The following table summarizes the components of our Equities portfolio by security type for the periods ended March 31, 2022 and December 31, 2021:

	For the three months ended March 31, 2022		For the year ended December 31, 2021	
($ in thousands)	Fair value	% of total fair value	Fair value	% of total fair value
Domestic Common Equities	$ 81,476	48.8%	$ 82,895	52.5%
International Common Equities	27,186	16.3%	16,911	10.7%
Preferred Stock	18,419	11.0%	18,166	11.5%
Other[(1)]	39,768	23.8%	40,061	25.3%
Equities	**$166,849**	**100.0%**	**$158,033**	**100.0%**

(1) Other includes LPs, LLCs and other equity interests.

Quantitative and Qualitative Disclosures about Market Risk

Market risk is the risk of economic losses due to adverse changes in the estimated fair value of a financial instrument as the result of changes in interest rates, equity prices, foreign currency exchange rates and commodity prices. The primary components of market risk affecting us are credit risk and interest rate risk. We do not have significant exposure to foreign currency exchange rate risk or commodity risk.

Credit risk

Credit risk is the potential loss resulting from adverse changes in an issuer’s ability to repay its debt obligations. We have exposure to credit risk as a holder of debt instruments in our Fixed Income and Opportunistic Fixed Income portfolios. Our risk management strategy and investment policy is to invest primarily in debt instruments of high credit quality issuers and to limit the amount of credit exposure with respect to particular ratings categories and any one issuer. At March 31, 2022, our Fixed Income portfolio had an average rating of “AA,” with approximately 81.5% of securities in that portfolio rated “A” or better by at least one nationally recognized rating organization. Our policy is to invest in investment grade fixed income securities which are high quality and liquid, providing a stable income stream, supplemented by opportunistic fixed income and equity securities, with the objective of further enhancing the portfolio’s diversification and risk-adjusted returns. At March 31, 2022, approximately 0.6% of our Fixed Income portfolio was unrated or rated below investment-grade. Through our investment managers, we monitor the financial condition of all of the issuers of securities in our portfolio.

In addition, we are subject to credit risk with respect to our third-party reinsurers. Although our third-party reinsurers are obligated to reimburse us to the extent we cede risk to them, we are ultimately liable to our policyholders on all risks we have ceded. As a result, reinsurance contracts do not limit our ultimate obligations to pay claims covered under the insurance policies we issue, and we might not collect amounts recoverable from our reinsurers. We address this credit risk by seeking to purchase reinsurance from reinsurers that are rated at least “A-” (Excellent) or better by A.M. Best. We also perform, along with our reinsurance broker, periodic credit reviews of our reinsurers. As of March 31, 2022, 98.6% of our reinsurance recoverables were either derived from reinsurers rated A- (Excellent) by A.M. Best, or better, or were collateralized through funds held, trusts and letters of credit our reinsurance recoverable by the reinsurer, with an additional 0.4% of the March 31, 2022 balance collateralized in April 2022. If one of our reinsurers suffers a credit downgrade, we may consider various options to lessen the risk of asset impairment, including commutation, novation and letters of credit.

Interest rate risk

Interest rate risk is the risk that we will incur economic losses due to adverse changes in interest rates. The primary market risk to our investment portfolio is interest rate risk associated with investments in fixed income securities. Fluctuations in interest rates have a direct effect on the market valuation of these securities. When market interest rates rise, the fair value of our securities decreases. Conversely, as interest rates fall, the fair value of our securities increases. We manage this interest rate risk by investing in securities with varied maturity dates and by managing the duration of our investment portfolio in directional relation to the duration of our reserves. Expressed in years, duration is the weighted average payment period of cash flows, where the weighting is based on the present value of the cash flows. We set duration targets for our Fixed Income investment portfolios after consideration of the estimated duration of our liabilities and other factors. Our fixed maturity securities, including both Fixed Income and Opportunistic Fixed Income portfolios, had a weighted average effective duration of 2.7 years as of March 31, 2022.

We had fixed income securities that were subject to interest rate risk with a fair value of $458.4 million at December 31, 2021. Our opportunistic fixed income securities are excluded from our interest rate sensitivity analysis as they are primarily floating rate and treated as held to maturity securities.

The table below summarizes the sensitivity of the fair value of our Fixed Income portfolio to selected hypothetical changes in interest rates as of December 31, 2021.

	For the year ended December 31, 2021		
($ in thousands)	Estimated Fair Value	Estimated Change in Fair Value	Estimated % Increase (Decrease) in Fair Value
300 basis point increase	$ 401,928	$ (56,423)	(12.3)%
200 basis point increase	$ 419,804	$ (38,547)	(8.4)%
100 basis point increase	$ 438,779	$ (19,572)	(4.3)%
No change	$ 458,351	$ —	0.0%
100 basis point decrease	$ 473,889	$ 15,538	3.4%
200 basis point decrease	$ 480,856	$ 22,505	4.9%
300 basis point decrease	$ 481,085	$ 22,734	5.0%

Changes in interest rates will have an immediate effect on comprehensive income and stockholders' equity but will not ordinarily have an immediate effect on net income. Actual results may differ from the hypothetical change in market rates assumed in the table above. This sensitivity analysis does not reflect the results of any action that we may take to mitigate such hypothetical losses in fair value

Equity price risk

Equity price risk represents the potential economic losses due to adverse changes in equity security prices. As of March 31, 2022, approximately 16.3% of the fair value of our investment portfolio (excluding cash and cash equivalents) was invested in equity securities. We manage equity price risk through portfolio diversification and maintain a tail-risk management strategy that is designed to provide some protection for the equity portfolio relating to a significant decline in the S&P 500 within a 30 day period.

Critical Accounting Policies and Estimates

We identified the accounting estimates below as critical to the understanding of our financial position and results of operations. Critical accounting estimates are defined as those estimates that are both important to the portrayal of our financial condition and results of operations and require us to exercise significant judgment. We use significant judgment concerning future results and developments in applying these critical accounting estimates and in preparing our consolidated financial statements. These judgments and estimates affect our reported amounts of assets, liabilities, revenues and expenses and the disclosure of our material contingent assets and liabilities. Actual results may differ materially from the estimates and assumptions used in preparing the consolidated financial statements. We evaluate our estimates regularly using information that we believe to be relevant. For a detailed discussion of our accounting policies, see Note 2 to our consolidated financial statements included elsewhere in this prospectus.

Reserves for unpaid losses and LAE

The reserves for unpaid losses and LAE is the largest and most complex estimate in our consolidated balance sheet. The reserves for unpaid losses and LAE represent our estimated ultimate cost of all unreported and reported but unpaid insured claims and the cost to adjust these losses that have occurred as of or before the balance sheet date. We do not discount our reserves for losses and LAE to reflect estimated present value. We estimate the reserves using individual case-basis valuations of reported claims and statistical analyses and various actuarial procedures. Those estimates are based on our historical information, industry and peer group information and our estimates of future trends in variable factors such as loss severity, loss frequency and other factors such as inflation. We regularly review our estimates and adjust them as necessary as experience develops or as new information becomes known to us. Additionally, during the loss settlement period, it often becomes necessary to refine and adjust the estimates of liability on a claim either upward or downward. Even after such adjustments, the ultimate liability may exceed or be less than the revised estimates. Accordingly, the ultimate settlement of losses and the related LAE may vary significantly from the estimate included in our financial statements.

We categorize our reserves for unpaid losses and LAE into two types: case reserves and IBNR. Our gross reserves for losses and LAE at December 31, 2021 were $979.5 million, and of this amount, 53.9% related to IBNR. Our net reserves for losses and LAE at December 31, 2021 were $598.2 million, and of this amount, 60.0% related to IBNR.

Our gross reserves for losses and LAE at December 31, 2020 were $856.8 million, and of this amount, 53.1% related to IBNR. Our net reserves for losses and LAE at December 31, 2020 were $481.6 million, and of this amount, 57.3% related to IBNR.

The following tables present our gross and net reserves for unpaid losses and LAE at December 31, 2021 and 2020:

	For the year ended December 31, 2021			
($ in thousands)	**Gross**	**% of Total**	**Net**	**% of Total**
Case reserves	$ 451,446	46.1%	$239,013	40.0%
IBNR	528,103	53.9%	359,198	60.0%
Total	**$ 979,549**	**100.0%**	**$598,211**	**100.0%**

	For the year ended December 31, 2020			
($ in thousands)	**Gross**	**% of Total**	**Net**	**% of Total**
Case reserves	$ 401,648	46.9%	$ 205,705	42.7%
IBNR	455,132	53.1%	275,898	57.3%
Total	**$ 856,780**	**100.0%**	**$ 481,602**	**100.0%**

Case reserves are established for individual claims that have been reported to us. We are notified of losses by our insureds or their agents or our brokers. Based on the information provided, we establish case reserves by estimating the ultimate losses from the claim, including defense costs associated with the ultimate settlement of the claim. Our claims department personnel use their knowledge of the specific claim along with advice from internal and external experts, including underwriters and legal counsel, to estimate the expected ultimate losses. In limited circumstances, we utilize the services of TPAs to assist in the adjustment of claims. Our internal claims managers oversee TPA activities and monitor their individual claim handling activities to our prescribed standards.

Our IBNR reserves are developed in accordance with Actuarial Standards of Practice promulgated by the American Academy of Actuaries. Our reserve review is performed by our Reserve Committee that utilizes several accepted loss reserving methods to arrive at our best estimate of loss reserves. We give consideration to the relative strengths and weaknesses of each of the methods in deriving our actuarial best estimate of the liabilities. Where we have limited years of loss experience compared to the period over which we expect losses to be reported, we use industry and/or peer-group data in addition to our own data as a basis for selecting the parameters underlying our reserving methods. We monitor loss emergence daily. We carefully consider other internal or external factors such as underwriting, claims handling, economic, or environmental changes that could adversely affect the accuracy of the assumptions underlying our standard actuarial methods and when necessary we will adjust these assumptions, methods, and/or procedures to ensure that they appropriately reflect these changing conditions. The duration of loss reserves is 2.3 years, as of March 31, 2022.

Our Reserve Committee includes our Chief Actuary, Chief Risk Officer, Chief Financial Officer and Chief Claim Officer. The Reserve Committee meets quarterly to review the actuarial reserving recommendations made by the Chief Actuary and uses their best judgment to determine the best estimate to be recorded for the reserve for losses and LAE on our balance sheet. In establishing the quarterly actuarial recommendation for the reserves for losses and LAE, our actuary estimates an initial expected ultimate loss ratio for each of our underwriting divisions. Input from our underwriting and claims departments, including premium pricing assumptions and historical experience, is considered by our actuary in estimating the initial expected loss ratios. Multiple actuarial methods are used to estimate the reserve for losses and LAE. These methods utilize, to varying degrees, the initial expected loss ratio, detailed statistical analysis of past claims reporting and payment patterns, claims frequency and severity, paid loss experience, industry loss experience, and changes in market conditions, policy forms, exclusions, and exposures. The actuarial methods used to estimate losses and LAE reserves are:

- *Reported and/or Paid Loss Development Methods* — Ultimate losses are estimated based on historical reported and/or paid loss reporting patterns. Reported losses are the sum of paid and case losses. Industry development patterns are substituted for historical development patterns when sufficient historical data is not available.
- *Reported Bornhuetter-Ferguson Methods* — Ultimate losses are estimated as the sum of cumulative reported losses and estimated IBNR losses. IBNR losses are estimated based on historical development patterns and one or more of the following: expected average severity and estimated ultimate claims counts, expected pure premium, and expected loss ratios underlying our loss cost multipliers.
- *Paid Bornhuetter-Ferguson Method* — Under this method, ultimate losses are estimated as the sum of cumulative paid losses and estimated unpaid losses. Unpaid losses are estimated based on the expected loss ratios underlying our loss cost multipliers, and selected industry development patterns of paid losses.

We utilize each of these methods in our comprehensive review of reserves. When evaluating reserves related to less mature policy years, we utilize the Bornhuetter-Ferguson Method as the primary method for our ultimate loss indications. As we move to more mature policy years, we transition to the Reported and/or Paid Loss Development Methods. We primarily rely on reported methods where case reserving is consistently applied across policy years, however, when there is a change in reserving philosophy we will blend both reported and paid methods in our evaluation of ultimate loss indications.

Our reserves are driven by several important factors, including litigation and regulatory trends, legislative activity, climate change, social and economic patterns and claims inflation assumptions. Our reserve estimates reflect current inflation in legal claims' settlements and assume we will not be subject to losses from significant new legal liability theories. Our reserve estimates assume that there will not be significant changes in the regulatory and legislative environment. The impact of potential changes in the regulatory or legislative environment is difficult to quantify in the absence of specific, significant new regulation or legislation. In the event of significant new regulation or legislation, we will attempt to quantify its impact on our business, but no assurance can be given that our attempt to quantify such inputs will be accurate or successful.

Although we believe that our reserve estimates are reasonable, it is possible that our actual loss experience may not conform to our assumptions. Specifically, our actual ultimate loss ratio could differ from our initial expected loss ratio or our actual reporting and payment patterns could differ from our expected reporting and payment patterns, which are based on our own data and industry data. Accordingly, the ultimate settlement of losses and the related LAE may vary significantly from the estimates included in our financial statements. We regularly review our estimates and adjust them as necessary as experience develops or as new information becomes known to us. Such adjustments are included in the results of current operations.

The table below quantifies the impact of potential reserve deviations from our carried reserve at December 31, 2021. We applied sensitivity factors to incurred losses for the three most recent accident years and to the carried reserve for all prior accident years combined. In the selection of the volatility factors, we have considered the potential impact of changes in current loss trends, pricing trends, and other actuarial reserving assumptions. The aggregate development depicted in the sensitivity analysis is consistent with the average development in recent calendar periods and a reasonable depiction of the potential volatility of the reserve estimates for the current calendar period. We believe that potential changes such as these would not have a material impact on our liquidity.

($ in thousands)			December 31, 2021		Potential Impact on 2021	
Sensitivity	Accident Year	Net Ultimate Loss and LAE Sensitivity Factor	Net Ultimate Incurred Losses and LAE	Net Loss and LAE Reserve	Pre-tax income	Stockholders' Equity[(1)]
Sample increases	2021	5.0%	$338,348	$260,797	$(16,917)	$ (13,365)
	2020	4.0%	302,245	114,675	(12,090)	(9,551)
	2019	3.0%	252,563	57,913	(7,577)	(5,986)
	Prior	5.0%		164,326	(8,216)	(6,491)
Sample decreases	2021	(5.0)%	338,348	260,797	16,917	13,365
	2020	(4.0)%	302,245	114,675	12,090	9,551
	2019	(3.0)%	252,563	57,913	7,577	5,986
	Prior	(5.0)%		164,326	8,216	6,491

(1) In 2021, the effective rate was consistent with the U.S. corporate income tax rate of 21% and is used to estimate the potential impact to stockholders' equity.

The amount by which estimated losses differ from those originally reported for a period is known as "development." Development is unfavorable when the losses ultimately settle for more than the amount reserved or subsequent estimates indicate a basis for reserve increases on unresolved claims. Development is favorable when losses ultimately settle for less than the amount reserved or subsequent estimates indicate a basis for reducing loss reserves on unresolved claims. We reflect favorable or unfavorable development of loss reserves in the results of operations in the period the estimates are changed.

Investments

Fair value measurements

We have established a framework for valuing financial assets and financial liabilities. The framework is based on a hierarchy of inputs used in valuation and gives the highest priority to quoted prices in active markets and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the hierarchy is based on whether the significant inputs into the valuation are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect the Company's significant market assumptions. The three levels of inputs that may be used to measure fair value and categorize the assets and liabilities within the hierarchy:

Level 1 — Fair value is based on unadjusted quoted prices in active markets that are accessible to us for identical assets or liabilities. These prices generally provide the most reliable evidence and are used to measure fair value whenever available. Active markets are defined as having the following for the measured asset/liability: (i) many transactions, (ii) current prices, (iii) price quotes not varying substantially among market makers, (iv) narrow bid/ask spreads and (v) most information publicly available.

Level 2 — Fair value is based on significant inputs, other than Level 1 inputs, that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets, nonbinding quotes in markets that are not active for identical or similar assets and other market observable inputs (e.g., interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.).

Level 3 — Fair value is based on at least one or more significant unobservable inputs that are supported by little or no market activity for the asset. These inputs reflect our understanding about the assumptions market.

We generally obtain valuations from third-party pricing services and/or security dealers for identical or comparable assets or liabilities by obtaining nonbinding broker quotes (when pricing service information is not available) in order to determine an estimate of fair value. We base all of our estimates of fair value for assets on the bid price as it represents what a third-party market participant would be willing to pay in an arm's-length transaction.

Impairment

We review fixed income securities for other-than-temporary impairments ("OTTI") based upon quantitative and qualitative criteria that include, but are not limited to, downgrades in rating agency levels for securities, the duration and extent of declines in fair value of the security below its cost or amortized cost, interest rate trends, our intent to sell or hold the security, market conditions, and the regulatory environment for the security's issuer.

We may also consider cash flow models and matrix analyses in connection with our OTTI evaluation. We will record credit impairment in the consolidated statements of operations and comprehensive income (loss) when the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security. In addition, any portion of such decline to arise from factors other than credit is recorded as a component of other comprehensive income ("OCI").

Deferred income taxes

We record deferred income taxes as assets or liabilities on our balance sheet to reflect the net tax effect of the temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred tax assets and liabilities are measured by applying enacted tax rates in effect for the years in which such differences are expected to reverse. Our deferred tax assets result from temporary differences primarily attributable to loss reserves, unearned premium reserves and net adjusted operating losses from prior periods. Our deferred tax liabilities result primarily from unrealized gains in the investment portfolio and deferred acquisition costs. We review the need for a valuation allowance related to our deferred tax assets each quarter. We reduce our deferred tax assets by a valuation allowance when we determine that it is more likely than not that some portion or all of the deferred tax assets will not be realized. The assessment of whether or not a valuation allowance is needed requires us to use significant judgment. See Note 15, "Income Taxes" in our consolidated financial statements included elsewhere in this prospectus for further discussion regarding our deferred tax assets and liabilities.

Reinsurance

We strategically purchase reinsurance from third parties which enhances our business by protecting capital from severity events (either large single event losses or catastrophes) and reducing volatility in our earnings. Reinsurance refers to an arrangement in which a company called a reinsurer agrees in a contract (often referred to as a treaty) to assume specified risks written by an insurance company (known as a ceding company) by paying the insurance company all or a portion of the insurance company's losses arising under specified classes of insurance policies in return for a share in premiums.

Reinsurance recoverables recorded on insurance losses ceded under reinsurance contracts are subject to judgments and uncertainties similar to those involved in estimating gross loss reserves. In addition to these uncertainties, our reinsurance recoverables may prove uncollectible if the reinsurers are unable or unwilling to perform under the reinsurance contracts. In establishing our reinsurance allowance for amounts deemed uncollectible, we evaluate the financial condition of our reinsurers and monitor concentration of credit risk arising from our exposure to individual reinsurers. To determine if an allowance is necessary, we consider, among other factors, published financial information, reports from rating agencies, payment history, collateral held and our legal right to offset balances recoverable against balances we may owe. Our reinsurance allowance for doubtful accounts is subject to uncertainty and volatility due to the time lag involved in collecting amounts recoverable from reinsurers. Over the period of time that losses occur, reinsurers are billed and amounts are ultimately collected, economic conditions, as well as the operational and financial performance of particular reinsurers may change and these changes may affect the reinsurers' willingness and ability to meet their contractual obligations to us. It is difficult to fully evaluate the impact of major catastrophic events on the financial stability of reinsurers, as well as the access to capital that reinsurers may have when such events occur. The ceding of insurance does not legally discharge us from our primary liability for the full amount of the policies, and we will be required to pay the loss and bear the collection risk if any reinsurer fails to meet its obligations under the reinsurance contracts. We seek to purchase reinsurance from reinsurers that are rated at least "A-" ("Excellent") or better by A.M. Best. Based on our evaluation of the factors discussed above, we believe all of our recoverables are collectible and, therefore, no allowance for uncollectible reinsurance was provided for at December 31, 2021.

Certain ceded reinsurance contracts, which we determine do not transfer significant insurance risk, are accounted for using the deposit method of accounting. The evaluation of the transfer of significant insurance risk involves an assessment of both timing risk and underwriting risk. We may determine that a reinsurance contract does not transfer significant insurance risk if either underwriting risk or timing risk or both are not deemed to have been transferred. For those contracts that transfer only significant timing risk, a deposit asset is recorded equal to the initial cash outflow under the contract, which will then be offset by cash inflows received from the reinsurers. To the extent cash outflows are expected to differ from expected cash inflows, an accretion rate is established at inception of the contract based on actuarial estimates whereby the deposit accounting asset is increased/decreased to the estimated amount receivable over the contract term. The accretion of the deposit is based on the expected rate of return implied from the estimated cash inflows and outflows under the contract. Periodically, we reassess the estimated ultimate receivable and the related expected rate of return on the deposit asset. The accretion of the deposit asset, including any changes in accretion resulting from changes in estimated cash flows, are reflected as part of investment income in our results of operations.

Recent Accounting Pronouncements

We currently qualify as an "emerging growth company" under the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. Accordingly, we are provided the option to adopt new or revised accounting guidance either (i) within the same periods as those otherwise applicable to non-emerging growth companies or (ii) within the same time periods as private companies. We have elected to avail ourselves of this extended transition period and, as a result, we will not be required to adopt new or revised accounting standards on the relevant dates on which adoption of such standards is required for other public companies.

We will remain an emerging growth company until the earliest of (i) the last day of the fiscal year in which we have total annual gross revenues of $1.07 billion or more; (ii) the last day of our fiscal year following the fifth anniversary of the date of the completion of this offering; (iii) the date on which we have issued more than $1 billion in nonconvertible debt during the previous three years; and (iv) the date on which we are deemed to be a large accelerated filer under the rules of the SEC.

In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments (Topic 326). ASU 2016-13 requires organizations to estimate credit losses on certain types of financial instruments, including receivables and available-for-sale debt securities, by introducing an approach based on expected losses. The expected loss approach will require entities to incorporate considerations of historical information, current information and reasonable and supportable forecasts. The guidance is effective for fiscal years beginning after December 15, 2022. Early adoption is permitted. We are currently evaluating the impact that the adoption of the ASU will have on our consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles — Goodwill and Other (Topic 350). ASU 2017-04 eliminates the requirement to calculate the implied fair value of goodwill that is done in step two of the current goodwill impairment test to measure a goodwill impairment loss. Instead, entities will record an impairment loss based on the excess of a reporting unit's carrying amount over its fair value. We adopted this ASU effective January 1, 2020. The adoption of this ASU did not have a material impact on our consolidated financial statements.

In February 2017, the FASB issued ASU No. 2016-02, Leases, to improve the financial reporting of leasing transactions. Under legacy guidance for lessees, leases are only included on the balance sheet if certain criteria, classifying the agreement as a capital lease, are met. This pronouncement requires the recognition of a right-of-use asset and a corresponding lease liability, discounted to the present value, for all leases that extend beyond 12 months. For operating leases, the asset and liability will be expensed over the lease term on a straight-line basis, with all cash flows included in the operating section of the statement of cash flows. For finance leases, interest on the lease liability will be recognized separately from the amortization of the right-of-use asset in the income statement and the repayment of the principal portion of the lease liability will be classified as a financing activity in the statements of cash flows while the interest component will be included in the operating activities in the statements of cash flows. This ASU is effective for reporting periods beginning after December 15, 2018 for public entities and reporting periods beginning after December 15, 2020 for private entities. Early adoption is permitted and, accordingly, we adopted this ASU effective January 1, 2020. The adoption of this ASU resulted in the recognition of a $12.4 million right-of-use asset within other assets and a $12.8 million lease liability within accounts payable and accrued liabilities on the consolidated balance sheets.

In March 2017, the FASB issued ASU No. 2017-08, Premium Amortization on Purchased Callable Debt Securities, provided guidance that shortens the amortization period for certain callable debt securities held at a premium by requiring the premium to be amortized to the earliest call date. The standard does not require an accounting change for securities held at a discount, which continue to be amortized to maturity. This ASU is effective for nonpublic entities with fiscal years beginning after December 15, 2019. We adopted this ASU effective January 1, 2020. The adoption of this ASU did not have a material impact on our consolidated financial statements

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform, provided guidance to expedite and simplify the accounting associated with the anticipated migration away from the widely-used London Inter-bank Offered Rate and other similar rates as benchmark interest rates (collectively, “LIBOR”) after 2021. Under pre-existing GAAP, such modifications made to: (i) loans and certain other contracts would require re-assessments of the accounting for those contacts, such as whether they were extinguished and remeasured from an accounting perspective. This new guidance largely eliminates these requirements as a result of this migration to one or more new benchmark rates and is generally applicable for contract modifications made prior to December 31, 2022. We adopted this ASU effective March 12, 2020. The adoption of this ASU did not have a material impact on our consolidated financial statements.

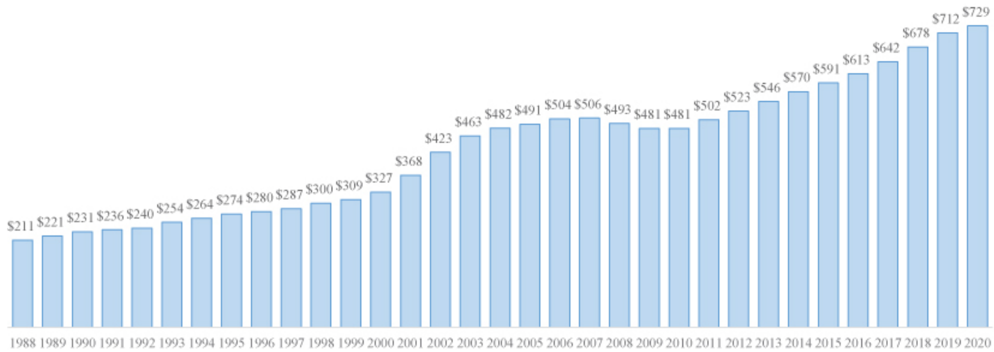
In August 2020, the FASB issued ASU 2020-06, Debt — Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging — Contracts in Entity’s Own Equity (Subtopic 815-40) to simplify accounting for certain financial instruments. ASU 2020-06 eliminates the current models that require separation of beneficial conversion and cash conversion features from convertible instruments and simplifies the derivative scope exception guidance pertaining to equity classification of contracts in an entity’s own equity. The new standard also introduces additional disclosures for convertible debt and freestanding instruments that are indexed to and settled in an entity’s own equity. ASU 2020-06 amends the diluted earnings per share guidance, including the requirement to use the if-converted method for all convertible instruments. ASU 2020-06 is effective January 1, 2022 and should be applied on a full or modified retrospective basis, with early adoption permitted beginning on January 1, 2021. The Company adopted ASU 2020-06 on a full retrospective basis, effective January 1, 2021. The adoption of ASU simplifies the accounting and disclosure of convertible instruments as a part of filing financial statements with the U.S. Securities and Exchange Commission (SEC). All previous financial statements were not subject to SEC financial statement standards.

INDUSTRY

In general terms, property and casualty ("P&C") insurance companies provide coverage for a loss as specified by a policy/contract in exchange for premiums paid by the insured. Broadly, an insurance policy is a contract between the insurance company and the insured or a principal under which the insurance company agrees to pay for losses suffered by the insured, or a third-party, that are covered under the contract. The insurance contract can cover the insured for either a first party loss, such as to the insured's property, or for reimbursement of expenses borne by the insured, or for third party loss such as bodily injury, financial loss, or in instances when an obligation is not fulfilled such as provided by surety contracts. The type of coverage and source of premiums are often classified based on how long an insurer may have exposure to the risks covered by the policy, meaning the time from when a contract incepts to when a claim is quantified, settled and paid. Property claims are an example of claims that are often quantified and paid within a relatively short period of time after the underlying loss event has occurred. It is one example of insurance claim which is referred to as "short-tailed." Casualty and liability coverages, in contrast, often take longer to quantify and settle because there can be a delay between the occurrence of a loss and the time the insurer takes to quantify and settle the claim; these are examples of insurance coverages that are "medium to long tailed." For the year ended December 31, 2021, approximately 47% of our gross written premiums were generated from short-tailed lines of business, specifically property, A&H, auto physical damage and surety. The remaining 53% were generated from medium-tailed lines of business, which typically average in aggregate three to five years from occurrence of a loss to quantification and settlement of the claim. Examples of medium-tailed lines we write include auto liability, general liability, excess liability and professional liability.

The U.S. P&C insurance industry, the largest P&C market in the world, generated approximately $729 billion in direct premiums written ("DPW") in 2020 according to A.M. Best. The P&C insurance industry's direct premiums written are closely correlated to gross domestic product ("GDP") with the P&C industry generally growing in line with GDP growth. In 2021, approximately 96% of our gross written premiums covered U.S.-based underlying risks.

Total U.S. P&C DPW ($ in billions)



The U.S. P&C insurance industry can be divided between standard and specialty insurance products. Standard insurance products generally have more uniformity, cover more homogenous risks, and offer more standardized coverages. Although there is no standard definition of "specialty insurance," we believe "specialty" insurance products typically cover higher-hazard or non-standard risks and/or risks in niche market segments or geographies that require tailored underwriting and claims handling. Within the P&C industry, we operate in the specialty insurance market.

Many specialty insurers offer both admitted and non-admitted ("E&S") products, depending on the market conditions and regulatory requirements. Admitted products are more heavily regulated by state insurance departments with respect to terms of coverage and price, and are often easier for retail agents or brokers to sell, as most states require that the retail agent or broker try to obtain coverage on behalf of the insured from a specified number of admitted carriers before insurance can be placed in the non-admitted market. For the year ended December 31, 2021, for our continuing business, 51% of our gross written premiums were attributable to admitted products.

E&S carriers are not subject to the same degree of regulatory oversight as admitted carriers, and E&S business is underwritten with more flexible policy forms and rates. This flexibility allows the non-admitted carriers to evaluate fully the unique qualities of the underlying risk and customize pricing and terms and conditions to meet the needs of the insured. Non-admitted carriers generally are only permitted to underwrite business that has been specifically deemed acceptable for the E&S market by state regulators or once coverage has been denied in the admitted market. For the year ended December 31, 2021, for our continuing business, 49% of our gross written premiums were attributable to E&S products.

We believe that the competition in the specialty segment of the market tends to focus less on price compared to the standard lines insurance market and more on other value-based considerations such as availability, terms of coverage, customer service and underwriting and claims expertise. The demand for specialty insurance products (both admitted and non-admitted) has expanded significantly over the past few years due to (i) increased globalization and acceleration of technology, which has introduced new categories of risks at an increasing rate, (ii) a generally increased level of litigation and regulation which has the potential to increase liability costs for business, (iii) increasing jury awards granted to plaintiffs, (iv) the emergence of novel health risks, including the COVID-19 pandemic, and (v) increased frequency of severe weather events and the risk of climate change. In part, this growth in the specialty market is evidenced by (i) growth of the E&S market, which has expanded from $8.5 billion of direct premiums written in 1993 to $66.1 billion in 2020 and (ii) the commercial lines market share of E&S insurers having increased from 6.1% of all U.S. commercial lines direct premiums written in 1993 to 18.4% in 2020, according to A.M. Best.

Cyclicality of the Industry

Historically, the insurance industry has had underwriting cycles with periods of “hard” and “soft” pricing based on the supply of insurance capital in a given market relative to the demand for insurance in that same market. The supply of insurance is a function of prevailing prices, the level of insured losses, the level of industry surplus, the availability of capital, and other factors. The level of industry surplus, in turn, may fluctuate in response to loss experience and reserve development as well as changes in rates of return on investments being earned in the insurance industry. As a result, P&C insurance is a cyclical industry characterized by periods of excess underwriting capacity and lack of underwriting discipline resulting in heightened competition on price and policy terms, followed by periods of attractive underwriting conditions for carriers driven by shortages of capacity and favorable rate environments and policy terms and conditions. During hard market cycles, some risks move from the admitted market to the E&S market as standard market carriers restrict their underwriting appetite in response to losses they have taken during the soft part of the underwriting cycle. Similarly, when conditions begin to soften, many customers that were previously driven into the E&S market may return to the admitted market, exacerbating the effects of rate decreases. We believe we are currently experiencing a relatively hard market cycle, however we cannot predict the timing or duration of changes in the market cycle because the cyclicality is due in large part to the actions of our competitors and general insurance market factors.

Underwriting capacity, as defined by the capital of participants in the industry as well as the willingness of investors to make further capital available at attractive terms, is affected by a number of factors, including:

- Loss experience for the industry in general, and for specific lines of business or risks in particular;
- Natural and man-made disasters, such as hurricanes, windstorms, earthquakes, floods, fires and acts of terrorism;
- Trends in the amounts of settlements and jury awards in cases involving third party liability claims;
- A growing trend of plaintiffs targeting property and casualty insurers in class action litigation related to claims handling, insurance sales practices, negligence and other practices related to the insurance business;
- Development of reserves for mass tort liability, professional liability and other specialty medium - tailed lines of business;
- Investment results, including credit defaults, rating downgrades, realized and unrealized gains and losses on investment portfolios and annual investment yields; and
- Ratings and financial strength of market participants.

Over the last several years, there has been a significant increase in loss events such as losses stemming from the COVID-19 pandemic, natural catastrophe activity and man-made losses. The elevated loss activity combined with the trend of increasing jury verdicts and attorney involvement (sometimes referred to as "social inflation"), the recent increase in financial inflation and historically low interest rates and investment yields have pressured profitability of the P&C insurance industry as a whole, thereby, causing insurers to review their pricing, risk appetites and return thresholds. These factors have driven wide-spread rate increases across many business lines and forced some risks from the standard market to the specialty admitted or E&S market. The rate increases, which gained prominence in 2020, are expected to continue in the near term and generally match or exceed loss cost trends which should lead to continued margin expansion for the P&C insurance industry. The largest rate increases are seen in the professional liability market, commercial auto market and catastrophe exposed property market, particularly for those accounts that have experienced losses. Beyond price, insurers are also starting to note improved terms and conditions.

Overall, as profitability pressures persist and capacity remains tight, we are experiencing positive rate movement as well as better terms in most lines of business in which we operate. When the underwriting cycle turns, our ability to increase rates will be reduced and some risks that are currently being written in the E&S market will return to the admitted market. We anticipate that our ability to write in both admitted and non-admitted markets will help us to compete across underwriting cycles.

BUSINESS

Who We Are

We are a growing specialty insurance company delivering commercial P&C products and solutions on a non-admitted (or E&S) and admitted basis, predominantly in the United States. We focus our business on markets that are underserved, dislocated and/or for which standard insurance coverages are insufficient or inadequate to meet the needs of businesses, including our customers and prospective customers operating in these markets. Our customers typically require highly specialized, customized underwriting solutions and claims capabilities. As such, we develop and deliver tailored insurance products and services to address each of the niche markets we serve.

Our portfolio of insured risks is highly diversified — we insure customers operating in a wide variety of industries; we distribute through multiple channels; we write multiple lines of business, including general liability, excess liability, professional liability, commercial auto, group accident and health, property, surety and workers' compensation; we insure both short and medium duration liabilities; and our business mix is balanced between E&S and admitted markets. All of these factors enable us to respond to market opportunities and dislocations by deploying capital where we believe we can consistently earn attractive risk-adjusted returns. We believe this diversification, combined with our underwriting and claims expertise, will produce strong growth and consistent profitability across P&C insurance pricing cycles.

We seek to lead in our chosen market niches and establish sustainable competitive positions in these markets. The following key elements underpin our strategy and approach to our business:

1. Providing differentiated products, services and solutions that meet the unique needs of our target markets;
2. Attracting and retaining exceptional underwriting and claims talent and incentivizing our professionals in a manner that aligns with our organization and corporate goals;
3. Amplifying the expertise of our people with advanced technology and analytics that enable superior risk selection, pricing and claims management;
4. Empowering our underwriting and claims teams with considerable authority to make decisions and apply their expertise; and
5. Fostering a culture that promotes nimbleness and responsiveness to market opportunities and dislocation.

We refer to this strategy as "Rule Our Niche" and it forms the basis of our approach to building a strong defensible market position, creating a competitive moat, and winning in our chosen markets. We believe that the principles underlying our strategy are key to achieving and sustaining best-in-class underwriting results through P&C insurance pricing cycles. We consistently strive for excellence in risk selection, pricing, and claims outcomes, and to amplify these critical functions with the use of advanced technology and analytics.

We are led by an entrepreneurial executive management team with decades of insurance leadership experience spanning multiple aspects of the global P&C industry. Our leadership is supported by an experienced team with a broad skillset and aligned around our strategy. We believe our high-quality leadership and underwriting and claims teams, technology DNA, advanced analytics capabilities, diversified book of business, and strong competitive position in each of our chosen market niches position us to continue to profitably grow our business. We aim to deliver long-term value for our shareholders by generating best-in-class underwriting profitability and book value per share growth across P&C market cycles.

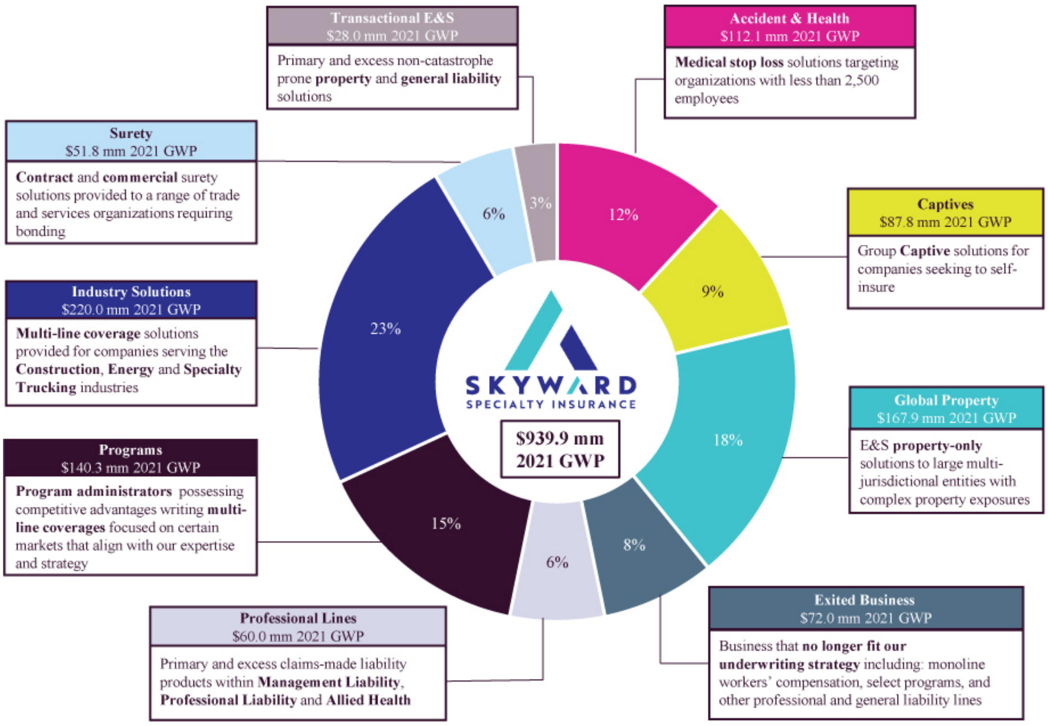
For the three months ended March 31, 2022, we wrote $282.6 million in gross written premiums and had a combined ratio and an adjusted combined ratio of 91.9%. At March 31, 2022, our stockholders' equity was $428.6 million. For the three months ended March 31, 2022, we generated $16.3 million and $19.8 million of net income and adjusted operating income, respectively, a 15.3% and 18.5% annualized return on equity and annualized adjusted return on equity, respectively and a 19.4% and 23.6% annualized return on tangible equity and annualized adjusted return on tangible equity, respectively.

For the year ended December 31, 2021, we wrote $939.9 million in gross written premiums, had a combined ratio of 97.8% and an adjusted combined ratio of 94.6%, and our stockholders' equity was $426.1 million at year end, an increase of 8.3% compared to the prior year period. For the year ended December 31, 2021, we generated $34.3 million and $36.0 million of net income and adjusted operating income, respectively, a 9.4% and 8.8% return on equity and adjusted return on equity, respectively and a 11.9% and 11.2% return on tangible equity and adjusted return on tangible equity, respectively. For a reconciliation of adjusted combined ratio to combined ratio, adjusted operating income to net income, adjusted return on equity to return on equity, return on tangible equity to return on equity, and adjusted return on tangible equity to return on equity, see the section entitled "Management's Discussion and Analysis of Financial Conditions and Results of Operations — Reconciliation of Non-GAAP Financial Metrics."

Our Business

We have one reportable segment through which we offer a broad array of insurance coverages to a number of market niches. In order to provide a clear overview of this segment, we provide a presentation of our eight distinct underwriting divisions. Each of the underwriting divisions has dedicated underwriting leadership supported by high-quality technical staff with deep experience in their respective niches. We believe this structure and expertise allow us to serve the needs of our customers effectively and be a value-add partner to our distributors, while earning attractive risk-adjusted returns.

The following chart represents our gross written premiums by underwriting division for the year ended December 31, 2021.



Accident & Health: Our Accident & Health underwriting division provides a medical stop loss solution targeting organizations with less than 2,500 employees. Our approach for managing medical costs, combined with our claims oversight, enables us to partner with select distribution partners. We target and serve a segment of the small and medium sized enterprise market that is actively seeking to take control of their healthcare costs by self-insuring a portion of their healthcare insurance. We write these products on an admitted basis and distribute through retail brokers and wholesale broker partners. We established our presence in the Accident & Health marketplace in 2015 through an acquisition of a program administrator, expanding our scope in 2016 with another program administrator partnership and eventual acquisition in 2018.

Captives: Our Captives underwriting division provides group captive solutions by drawing on our underwriting and claims expertise from other underwriting divisions to create group captives for companies seeking to self-insure. By leveraging our underwriting, claims, technology, and analytical expertise across our Company, we are able to broaden our market reach and write additional profitable business with limited additional expense. Our Captive underwriting division writes property, general liability, commercial auto, excess liability, and workers' compensation lines of business on an E& S and an admitted basis. We often administer this business through partnerships with third-party captive managers.

Global Property: Our Global Property underwriting division provides property-only solutions to large multi-jurisdictional entities with complex property exposures. The business is written entirely on an E&S basis. We distribute this product through retail brokers and select wholesale brokers. Our book and position with our customers and distribution partners has been curated over more than ten years, and we have become an important partner to the brokers that place this business and an equally important part of our insureds' risk transfer program.

Professional Lines: Our Professional Lines underwriting division includes three underwriting units: Management Liability, Professional Liability, and Allied Health. Professional Liability and Allied Health provide E&S primary and excess claims-made liability products distributed exclusively through wholesale brokers, while our Management Liability unit provides both E&S and admitted products distributed through both wholesale and retail brokers. Our teams of experienced professional lines underwriters and claims professionals strive to deliver creative solutions effectively and efficiently, often for higher severity exposures, thereby providing value to our distribution partners and customers. While we have been underwriting professional lines business for many years, this division was substantially expanded during the year ended December 31, 2021 with the addition of several experienced and highly respected underwriters and claims professionals.

Programs: Our Programs underwriting division partners with program administrators focused on certain markets that align with our expertise and strategy. We believe partnering with a program administrator in certain circumstances is the optimal way for us to participate profitably — or extend our reach — in some markets and "Rule Our Niche." Typically, the program administrators possess a competitive advantage (owing to their scale in a particular market niche and/or proprietary technology) that we believe would be difficult for us to replicate on our own. For example, certain of our program administrator partners have developed proprietary technology to optimize risk selection and pricing in specific markets. The combination of our underwriting and claims expertise with their scale and/or technology creates a more powerful partnership than either party could present to the market on its own. In all of our programs we are an active partner, bringing resources and capabilities to the partnership that extend far beyond balance sheet capacity. Our Programs underwriting division writes property, general liability, commercial auto liability, excess liability, and workers' compensation lines of business on an E&S and an admitted basis. Our Company and team have decades of experience operating and/or partnering with program administrators. Our underwriting appetite and approach to this market was substantially repositioned during the years ended December 31, 2020 and 2021 resulting in our cancellation of certain program administrator relationships and the refocusing of our resources on select existing and new relationships.

Industry Solutions: Our Industry Solutions underwriting division includes three underwriting units that each provide multiple coverages to the businesses they serve: Construction, Energy and Specialty Trucking. Our Construction and Energy underwriting units provide general liability, excess liability, commercial auto, workers' compensation, and inland marine, written principally on an admitted basis, to a broad range of middle market construction and energy production and servicing customers. Our Specialty Trucking unit writes on an E&S basis commercial auto and general liability solutions to mid-sized intermodal trucking companies. The industry segments we seek to underwrite often have high severity exposures that our teams of skilled and experienced underwriters and claims professionals are able to address quickly and creatively, frequently with multi-line solutions. We distribute these products through retail agents and brokers and a select network of wholesalers.

Surety: Our Surety underwriting division provides contract and commercial surety solutions to a range of trade and services organizations requiring bonding. We principally focus on small-to medium-sized enterprises with aggregate bond programs up to $50 million. Our underwriting and claims professionals differentiate themselves through their technical capabilities and decision making speed. We write this business on an admitted basis and distribute through retail agents and brokers. We have been actively writing Surety business since 2018, and substantially increased our presence in the market with the acquisition of Aegis Surety in January 2021.

Transactional E&S: Our Transactional E&S underwriting division provides primary and excess non-catastrophe prone property and general liability solutions, with particular emphasis on risks that are considered hard to place because of the complexity of the underlying exposure, loss history, and/or limited operating history (i.e., start up and newer businesses). Success in our target market is determined by technical underwriting, thoughtful coverage provisions and pricing, and high-quality broker service. We access the market in this division exclusively through wholesale brokers. We formed our Transactional E&S division in September 2020 with the hiring of experienced underwriters with whom our leadership team worked at prior companies to build this business.

Our gross written premiums for each of our underwriting divisions for the years ending December 31, 2021 and 2020 are as follows:

	Total Gross Written Premiums For the years ended December 31,			
($ in thousands)	**2021**	**% of Total**	**2020**	**% of Total**
Industry Solutions	$ 219,973	23.4%	$ 176,177	20.2%
Global Property	167,887	17.9%	155,027	17.7%
Programs	140,283	14.9%	119,479	13.7%
Accident & Health	112,146	11.9%	94,616	10.8%
Captives	87,836	9.3%	58,722	6.7%
Professional Lines	59,992	6.4%	28,816	3.3%
Surety	51,792	5.5%	13,176	1.5%
Transactional E&S	27,997	3.0%	2,318	0.3%
Total continuing business	**$ 867,906**	**92.3%**	**$ 648,331**	**74.2%**
Exited business	71,953	7.7%	225,282	25.8%
Total gross written premiums	**$ 939,859**	**100.0%**	**$ 873,613**	**100.0%**

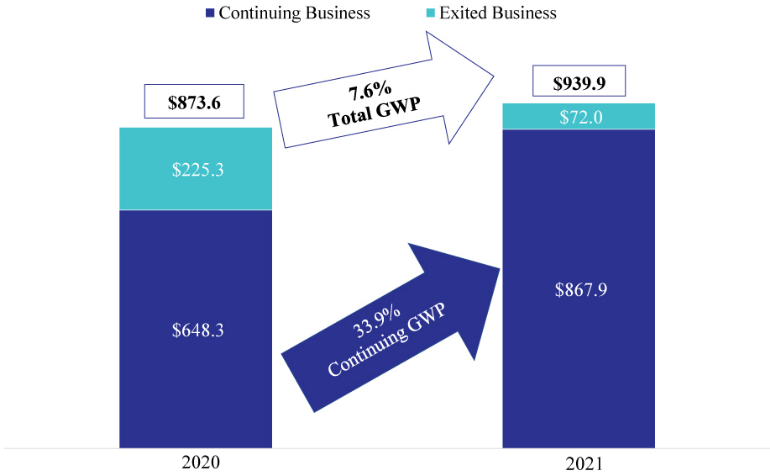
Within every underwriting division, our actions are intentional to “Rule Our Niche.” We aim to innovate constantly, and our actions are specific to each of our divisions and the markets we serve. Some notable highlights are:

- ***SkyDrive***: Within our Specialty Trucking underwriting unit, we developed the award-winning, proprietary SkyDrive underwriting and risk management portal for our underwriters, brokers, and insureds to address a market that has been disrupted for some time due to the loss experience of certain incumbent carriers operating in the market. Our portal synthesizes real-time intelligence on driver and fleet history, safety, and performance, utilizing telematics and other data from a variety of sources. We believe the portal significantly increases the power of our risk selection, underwriting, risk management and claims decision-making. Given the success of SkyDrive, we have started to deploy components of SkyDrive across our commercial auto exposures in other underwriting divisions as well.
- ***Quick-Strike***: Across all of our commercial auto lines, we utilize an innovative “quick strike” response to claims events. We seek to have an experienced investigator at the scene of an accident within two hours of the event, regardless of the location, to access, and if appropriate, to resolve quickly any third-party claims.
- ***Accident & Health Artificial Intelligence***: Within our Accident & Health underwriting division, we have deployed the use of big data to circumvent or augment data collection and account profiling, particularly for smaller accounts (those with less than 250 lives) for which we believe efficient data capture and data fidelity is critical to the underwriting process. We utilize artificial intelligence to facilitate risk scoring to augment underwriter analysis for risk selection and pricing.

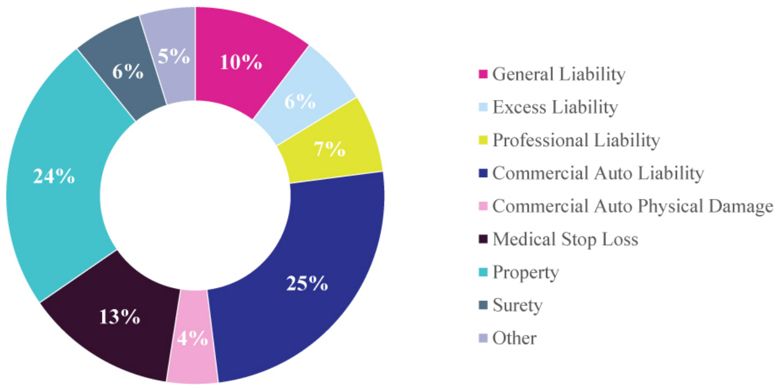
- ***Cannabis Industry***: As part of our focus on underserved markets, we identified the cannabis industry as a market niche not sufficiently served by the P&C insurance industry. In property and general liability lines, we elected to partner with a technology-forward program administrator with specific capabilities for the cannabis industry. We subsequently developed and launched cannabis specific professional and executive liability products we offer directly to our wholesale partners, and then further developed and launched cannabis specific commercial surety products. We identified, evaluated, and launched products across these underwriting divisions in less than six months. We believe we have one of the market leading product offerings for cannabis, one of the fastest growing industries in the United States as measured by sales and job creation.
- ***Construction Captive***: Together with our distribution partners for our Construction underwriting unit, we identified an opportunity to leverage our market leading experience and capabilities in a particular specialty contractor segment. We subsequently developed and launched an innovative captive solution for this segment which is offered side-by-side with our traditional guaranteed cost product. As a result, we have significantly broadened the portion of this market we can serve while leveraging our existing underwriting, claims and analytic expertise.
- ***Commercial Flood***: Within our Programs underwriting division, and in partnership with an insurance technology company, we introduced an innovative commercial flood product that we believe is unique in the market. The partnership brings together Skyward Specialty's deep expertise analyzing and underwriting the property risks with the advanced high definition data and technology capabilities of our partner to address the growing risks and coverage need of commercial property owners.

In addition to the underwriting divisions listed above (which we refer to as our "continuing business"), in the year ended December 31, 2021, and prior we wrote premiums in certain markets and lines of business that we have since exited and placed into run-off following a determination that they did not fit our "Rule Our Niche" strategy. For example, in the year ended December 31, 2020, we initiated a review of our business lines leading to our exiting specialty workers' compensation, lawyers' professional liability, automobile dealers programs, insurance agents and brokers professional liability, title agents professional liability, commercial auto for the timber industry and liability solutions for the hospitality industry. We refer to these lines and businesses, along with others we previously exited, as our "exited business." Gross written premiums in "exited business" was $2.8 million and $37.8 million for the three months ended March 31, 2022 and 2021, respectively, representing 1.0% and 15.9% of our total gross written premiums for each of these periods. Gross written premiums in "exited business" was $72.0 million and $225.3 million for the years ended December 31, 2021 and 2020, respectively, representing 7.7% and 25.8% of our total gross written premiums for each of these years.

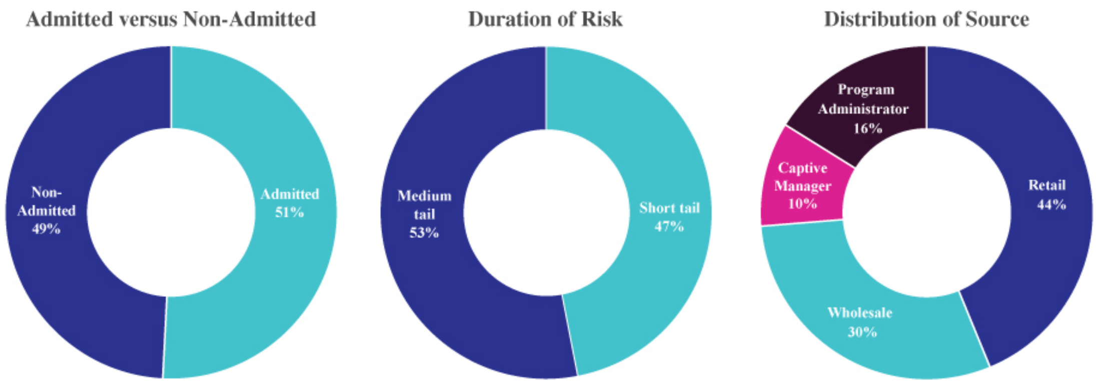
The distribution and growth of gross written premiums between exited business and continuing business for the years ended December 31, 2020 and December 31, 2021 are shown below *($ in millions)*.



The following graphic depicts the percentage distribution of gross written premiums for continuing business by line of business for the year ended December 31, 2021.



The following charts outline the percentage of gross written premiums for continuing business on an admitted and non-admitted basis, by duration of risk (Short Tail, which is generally less than two years versus Medium Tail, which is generally greater than two years), and by distribution source for the year ended December 31, 2021.



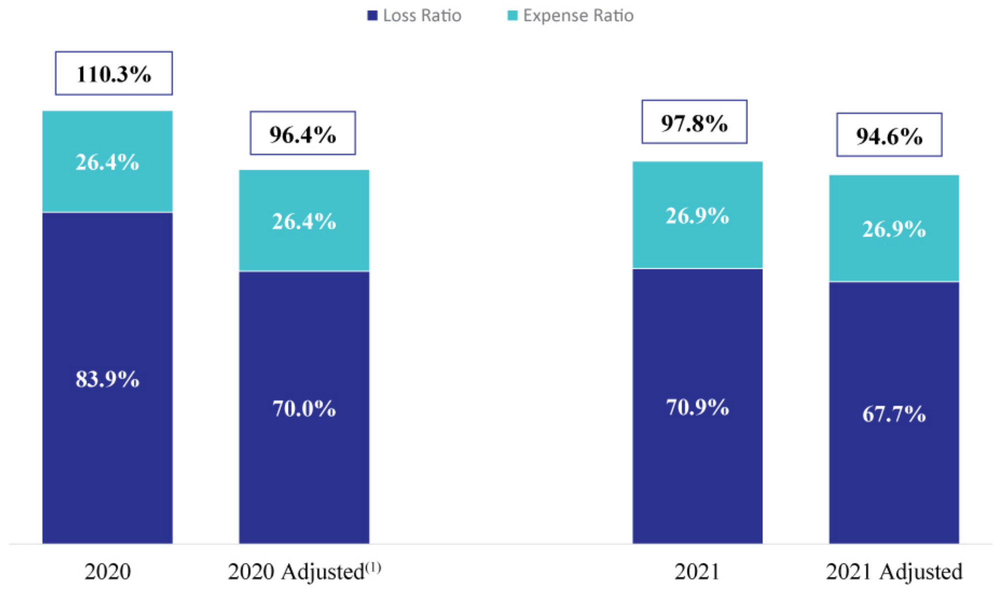
We believe that our claims operations are a key competitive differentiator. Aligning with our focus on specific customer segments and niches, our claims management teams are highly specialized to ensure that they can apply their expertise in handling claims for each niche we serve. Our claims operations are primarily staffed by Skyward Specialty employees, allowing us to maintain full control of the claims-handling process, meet our high-quality standards, and manage our losses and LAE. During the year ended December 31, 2021, we handled 75.9% of our claims in-house, measured as percentage of gross reported losses. In the limited instances where we do not handle claims in-house, we utilize claims adjusters through TPAs. Specifically, we utilize these TPAs for a select set of captives and programs for which the TPA possesses specific expertise that we would not seek to replicate. We also utilize these TPAs for the workers' compensation line of business, given the specific geographical knowledge that is required to adjudicate these claims.

We strategically purchase reinsurance from third parties which enhances our business by protecting capital from severity events (either large single event losses or catastrophes) and volatility in our earnings. As of March 31, 2022, 98.6% of our reinsurance recoverables were either derived from reinsurers rated "A-" (Excellent) by A.M. Best, or better, or were collateralized for our reinsurance recoverable by the reinsurer, with an additional 0.4% of the March 31, 2022 balance collateralized in April 2022. We treat our reinsurers as long-term partners. As such, we target underwriting profitability on a gross basis before utilization of reinsurance to ensure consistent support from our reinsurance partners and to protect ourselves from changes in the reinsurance market. Our reinsurance includes quota share, facultative, and excess of loss coverages. Based upon our modeling, it would take an event beyond our 1 in 250-year PML to exhaust our $32.0 million property catastrophe coverage. Additionally, we seek to expose no more than 3.0% of our stockholders' equity to a catastrophic loss that is less than a 1 in 250-year event.

We believe a strong balance sheet is foundational to our ability to deliver superior financial performance and returns as it underpins our distribution partners' and customers' confidence in our business. Our insurance liabilities consist of losses and LAE reserves including case reserves and IBNR. To illustrate our reserve strength, our net IBNR reserves as a percentage of total net losses and LAE reserves was 60.0% as of December 31, 2021, up from 57.3% as of December 31, 2020. A centerpiece of our strong balance sheet is our rigorous reserving practices designed and overseen by experienced claims professionals and actuaries. Since 2020, we have focused on materially strengthening both the quality of our claims team and the processes and guidelines by which case reserves are set and managed. In this regard, our entire claims team works diligently to identify and recognize loss exposures as early as possible in the claims-handling process. For example, our reserving guidelines direct our adjusters to use their best estimate to set liability reserves to an expected ultimate loss within 90 days of first notice of loss.

Similarly, we have invested considerably in our actuarial team, increasing the number of members of our actuarial team by fifty percent (50%) since January 1, 2020. The actuarial team has monthly meetings with each of the underwriting divisions and our claims professionals, to discuss trends inclusive of, loss frequency, severity, rate and retention by class and line of business. Additionally, we put in place rigorous risk oversight measures including the formation of a reserve committee that meets twice a quarter. We measure each of the key loss metrics by policy year against prior policy years at the same development ages to ensure the business is performing as expected.

Additionally, in 2020, we entered into an LPT agreement covering policy years 2017 and prior to limit our exposure to potential loss reserve development on the covered business produced during those years. The LPT agreement covers the majority of our exited business. This protection has allowed our management team to focus on our continuing business which we believe provides the best path for continued profitable growth. The following graphic depicts the Loss Ratios, Expense Ratios and Combined Ratios for the year ended December 31, 2021 versus December 31, 2020 on a reported and adjusted basis. See the section entitled "Business — Reserves" for additional information on the LPT agreement.



(1) Non-GAAP financial measure. See the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operation — Reconciliation of Non-GAAP Financial Measures" for a reconciliation of the non-GAAP financial measures in accordance with GAAP.

We believe our recent underwriting results begin to highlight the impact these initiatives have had on our business and positioning us to deliver consistently attractive underwriting results across P&C market cycles.

We complement our strong reserve position with a conservative investment portfolio overseen by our Investment Committee. Our portfolio is mainly comprised of cash and cash equivalents and investment-grade fixed-maturity securities, supplemented by additional investments that fit our risk appetite, principally higher yielding direct lending strategies and equities. Other investments, while typically not rated securities, are generally lower volatility fixed income loans and securities that we believe provide us with risk-adjusted returns above what is achievable in liquid investment grade markets. We call this part of our investment portfolio Opportunistic Fixed Income. Our fixed maturity securities, including both fixed income and opportunistic fixed income, together comprising 61.3% of our total investments and cash as of March 31, 2022, had a weighted average effective duration of 2.7 years as of March 31, 2022, and an average fixed income credit rating of "AA" (Standard & Poor's) as of March 31, 2022.

We seek to maintain an "A-" (Excellent) or better financial strength rating with A.M. Best, which we carry today with a stable outlook. This is the fourth highest of 16 ratings assigned by A.M. Best to insurance companies. Maintaining a strong rating from A.M. Best helps us demonstrate our financial strength to policyholders and distribution partners, which we believe is a critical factor in the decision to purchase insurance.

Our Competitive Strengths

We believe that our competitive strengths include:

Focus on profitable niches of the market that require technical underwriting and claims management as barriers to entry.

We believe that the niche areas of the commercial lines P&C markets we have selected are a highly attractive subset of the P&C insurance market and present an opportunity to generate attractive risk-adjusted returns. We actively target markets that are underserved, dislocated or for which standard, commoditized products are insufficient or inadequate to meet the needs of our customers. The unique characteristics of the risks within our core markets require each account to be efficiently and individually underwritten, in order for us to generate an acceptable, sustainable underwriting profit. Many carriers have chosen to reject businesses that they deem to be too complex, or that requires thoughtful individual underwriting; or, alternatively, have focused on simple small account risks for which more automated underwriting can be effective. Instead, we have chosen to build our underwriting divisions around deeply experienced underwriters who we empower with appropriate authority to make underwriting decisions. This structure enables us to offer innovative and unique products and solutions to our distribution partners and customers, regardless of how challenging or complex a risk may be. Further, we augment our underwriters' experience with data and predictive analytics that are intended to differentiate risk selection and pricing decision-making while enhancing efficiency. We believe our adjusted combined ratio of 94.6% for the year ended December 31, 2021 is evidence of our underwriting profitability potential in the lines of business we target.

Highly skilled underwriters.

We focus on hiring underwriting and technical staff who help differentiate our company through their expertise and experience. Our underwriting teams are knowledgeable, experienced, and empowered — characteristics which are critical to operate successfully in the markets we serve, especially since many of the risks we underwrite are particularly difficult to automate. We do not impose strict underwriting rules (i.e., we are not "box" underwriters), but rather allow our professionals the freedom to use their expertise and judgment when evaluating and pricing risks. Simply put, we give our people the tools and appropriate authority to make decisions and do what they do best — profitably underwrite complex risks.

Superior Claims Staff and Operations.

We have cultivated a best-in-class and highly specialized team of claims professionals who are highly knowledgeable about the niches we serve the lines of business we write. Our claims professionals systematically address first party claims with fair and equitable solutions and third-party claims with holistic and comprehensive responses, in each case seeking to ensure consistent and early loss recognition of indemnity and LAE.

When a claim is reported, we respond quickly, with specialized adjusters, who are armed with expertise, advanced technology and analytics, to assist them in the claims resolution process. We embed technology deeply into our claims process and leverage our technology-enabled platform and tools from first notice of loss to investigation to settlement. Our analytics capabilities used by our senior leadership and claims teams include real-time, detailed information on open claims and benchmarks against closed claims. We believe that our industry expertise, nimble culture, and technology-embedded claims processes enables us to reach fair and appropriate claims outcomes for our customers.

Superior business intelligence platform.

SkyBI, our business intelligence platform, focuses on providing our senior leadership, as well as our technical teams, with real-time intelligence to drive superior decision making. SkyBI reflects the best practices our management team has learned from its extensive experience across the P&C insurance and technology sectors. We developed SkyBI, our single, comprehensive enterprise-wide data repository, as our foundation for reporting, business intelligence, analytics, and other advanced data capabilities. It provides our organization information and performance metrics across the Company in an easy-to-consume visualized format. The data can be filtered by many categories, including distributor, customer segment, line of business, specific industry, individual underwriter, and specific risk feature among others. SkyBI aids in establishing clear line of sight to objectives as well as facilitating our decision-making processes.

Advanced technology and new risk data for underwriting and claims.

We fundamentally believe that every underwriting and claims decision can be augmented with the use of new types of risk data and advanced technology. While our underwriting decisions are backed by reliable historical data and in-depth evaluation of risks resulting from intentional investment in data collection and processing capabilities, we amplify our underwriting and claims prowess by combining this data with new forms of risk data and predictive analytics. Examples of our utilization of technology include our use of SkyDrive in our Specialty Trucking unit and deployment of data collection and analytics in our A&H line described in the section entitled "— Our Business" above.

Diversified business that allows us to respond to, and capitalize on, changes in market conditions across P&C cycles.

We have been successful in building a diversified group of underwriting divisions spanning multiple product lines, industries, geographies and distribution channels. We aim to evolve with, and adapt to, the market growing certain lines of business when market conditions are favorable and limiting our exposure to certain markets when conditions are less favorable. For the year ended December 31, 2021, (i) we wrote premiums spanning eight underwriting divisions, including four with more than $100 million of gross written premiums, (ii) our mix of gross written premiums by line for continuing business was 47% short tail and 53% medium tail, and (iii) our gross written premiums for continuing business were 51% admitted lines and 49% non-admitted lines. We believe the diversity of our book allows us to respond to, and capitalize on, market opportunities and dislocations across P&C insurance market and pricing cycles resulting in a durable insurance franchise. We believe our recent expansion in our Professional Lines underwriting division ($28.8 million of GWP in 2020 to $60.0 million of GWP in 2021), Transactional E&S Lines underwriting division ($2.3 million of GWP in 2020 to $28.0 million of GWP in 2021), and Surety underwriting division, as noted in the chart above, are representative examples of our ability to successfully capitalize on market conditions and opportunities that align with our strategic objectives and fit within our risk appetite.

Attractive and winning culture.

As evidenced by our internal surveys and public information such as that available on Glassdoor and LinkedIn, we have built a distinctive winning culture. Key to our culture and operating approach is a flat structure of communication and decision-making. We trust our staff to make decisions that produce or exceed our desired financial results, and we support our staff with a clear system of measurement to gauge performance. Our use of advanced technology to enhance, but not replace, our underwriting and claims team's decision-making is both practical and a source of value to our professionals. We pride ourselves on maintaining an entrepreneurial environment that encourages and rewards a proactive approach to capitalize on market disruption. This environment is not only consistent with our identity as a specialty insurer but also a foundation for our success in attracting great talent and our objective of delivering best-in-class results.

High-quality, experienced leadership team that is aligned with our shareholders.

Led by our CEO, Andrew Robinson, we have an experienced, innovative and entrepreneurial executive leadership team with a track record of success in senior management roles at industry leading property and casualty companies as well as in starting and building new businesses in our industry. Our team has an average of 27 years of experience in nearly all facets of the P&C insurance sector including underwriting, claims, technology, investment management, risk management, finance, actuarial and operations.

Prior to assuming the role as our CEO in May 2020, Mr. Robinson was the President of Specialty, EVP Corporate Development and Chief Risk Officer at The Hanover Insurance Group, Inc. During his 10 plus year tenure at The Hanover Insurance Group, Inc., Mr. Robinson established its specialty business segment, building it into a business with more than three quarters of a billion dollars in gross written premiums. Immediately prior to joining Skyward Specialty, Mr. Robinson served as executive-in-residence for venture and growth equity firm Oak HC/FT Partners, giving him significant exposure to numerous fintech and technology companies and related investment opportunities, including a period as Chairman and Co-CEO of one portfolio company and Chairman of another portfolio company. Earlier in Mr. Robinson's career, he spent twenty years in strategy consulting including as the global insurance practice head for Diamond (now PwC) Consulting.

Our CFO, Mark Haushill, has more than 25 years of experience in the insurance industry including as a public company CFO at Argo Group International Holdings, Ltd. and American Safety Insurance Holdings, Ltd. Mr. Haushill is a certified public accountant and spent the first part of his career at KPMG. Kirby Hill, our President of Industry Solutions, Captives and Programs underwriting divisions, has more than 30 years of experience spanning multiple facets of the insurance business. Prior to joining Skyward Specialty, Mr. Hill was CEO and Co-Founder of Norwich Holding Co., a company specializing in the development, implementation and administration of commercial specialty insurance products and programs, and prior to that in various multiline underwriting positions at PMA Insurance Corporation and American International Group, Inc. (AIG). John Burkhart, our President of Specialty Lines overseeing the Professional Lines, Surety, Transactional E&S and A&H underwriting divisions, has approximately 30 years of underwriting experience, previously as SVP & Head of Professional Lines & Industry Verticals at QBE Insurance Group Limited and Global Product Manager, Specialty Underwriting at Chubb Limited. Sean Duffy, our Chief Claims Officer and Executive Vice President, has more than 27 years of claims experience in large commercial and specialty insurance claims departments. Prior to joining Skyward Specialty, Mr. Duffy was Senior Vice President, Chief

Claims Officer at OneBeacon Insurance, and also held senior claims roles at insurers Great American Insurance and Travelers. In addition, the remaining members of our senior leadership team have significant experience in their respective fields of expertise.

Our entire senior leadership's compensation is directly aligned with our shareholders. Each of our leaders have a material portion of their compensation in the form of long-term and short-term incentives tied to delivering sustainable, best-in-class underwriting returns. Select members of our executive leadership team have additional long term incentive targets tied directly to growth in book value per share. See the section entitled "Executive Compensation" for more details.

Our Strategy in Action

With everything we do — from recruiting to marketing to underwriting to loss adjusting and claims resolution — we seek to follow the core tenets of our "Rule Our Niche" strategy. This strategy is based on (i) selecting underserved market niches with attractive risk-adjusted returns for which commoditized products are inadequate to meet the needs of customers; and (ii) building sustainable defensible competitive positions in these markets with talent and technology. We believe our "Rule Our Niche" strategy will help us achieve our goal of generating best-in-class underwriting profitability for our niches while creating superior long-term shareholder value through growth in book value per share. The core tenets of our "Rule Our Niche" strategy include:

Attract and retain blue-chip underwriting and claims talent to expand and enhance our market position.

We seek to hire the most talented technical underwriting professionals who have long-standing industry relationships with distribution partners and claims professionals with expertise in the niches we write. These relationships are key to getting steady access to our preferred business. During the year ended December 31, 2021 alone, we hired 70 leading underwriters and 20 claims professionals, respectively, with an average of approximately 20 years of experience. We believe that we have become a company of choice for the best talent in our industry and, as such, we will continue to grow our market position by bringing on world-class talent in our chosen markets.

Leverage our technology DNA to further distance ourselves from the competition.

We have demonstrated a differentiated ability to utilize new forms of risk data and advanced technology within the more complex, higher severity risk categories of the specialty P&C insurance market. SkyBI gives us the ability to promptly sense and quickly respond to market changes, while our core operating platforms allow us to move into new markets efficiently and without the complexity of burdensome systems. We believe our technological advantage positions us for profitable growth and expansion into additional specialty market niches where we can establish a strong and defensible market position.

Profitably grow existing lines of business and expand with new underwriting divisions.

We believe we are well-positioned to take advantage of several trends impacting our customers in the United States and globally. One such trend is the continued rise in demand for specialized insurance solutions because of increasing risks, as well as the complexity of risks, due to climate change/increased frequency of severe weather events, supply chain uncertainty, financial inflation risk, cyber risk, emergence of novel health risks (including the COVID-19 pandemic), increased level of litigation, attorney involvement and jury awards, and healthcare delivery and cost. Another such noticeable market trend is the emergence of different types of economic cycles within the commercial P&C market. Historically, we saw what appeared to be the market moving in lockstep across all lines of business. Today, in our opinion, the market is experiencing a variety of "micro cycles and micro dislocations" where different pockets of the P&C insurance market experience hardening and softening at different times. During the year ended December 31, 2021, we demonstrated our ability to react quickly in response to these trends by launching our Allied Health professional lines underwriting unit, entering the cannabis industry in three of our underwriting divisions, completing the acquisition of Aegis Surety, announcing program administration technology partnerships in cargo and commercial flood, launching two new captive solutions and adding an excess liability capability in our E&S business. We executed these expansions as part of growing gross written premiums of our continuing business from $648.3 million for the year ended December 31, 2020 to $867.9 million for the year ended December 31, 2021, a 33.9% year-over-year increase. We believe the 2021 fiscal year growth and profitability is indicative of our momentum and provides a powerful reference for the positioning of the company to continue to expand and grow in the markets we seek to serve.

Differentiate on daily excellence to drive best-in-class underwriting performance.

We believe that our ability to meet our long-term goals, including achieving best-in-class underwriting returns and growth in book value per share, relies on how well we execute our day-to-day operations across all of our functional departments, including but not limited to underwriting, product management, and claims management. SkyBI provides the foundation by which our senior management in our organization can monitor our performance, whether it is renewal rates, new business pricing and portfolio performance for an individual underwriter, or claims ageing and reserving practices and outcomes by claims adjusters. Our focus on the fundamentals that drive underwriting excellence is at the center of our strategy. Furthermore, our cross functional collaboration ensures that our underwriting, claims, actuarial and product management teams regularly review performance and trends so that portfolio, pricing and coverage changes can be implemented quickly.

Use our balance sheet to capture a larger part of the market we serve.

We are committed to establishing and maintaining a strong balance sheet, starting with conservative loss reserves and strong capitalization ratios. We believe this is imperative to maintain the confidence of customers, distribution partners, reinsurers, regulators, rating agencies and shareholders.

Since 2019, in addition to executing the previously noted LPT to limit our exposure to potential loss reserve development primarily associated with certain exited business, we have materially strengthened our claims case reserves practices with the aim to reserve to the expected ultimate loss within 90 days of first notice of loss. In addition, we have intentionally increased the level of IBNR reserves held above our claims case reserves to a more conservative position. Our net IBNR as a percentage of total net losses and LAE reserves was 60.0% as of December 31, 2021, up from 57.3% as of December 31, 2020. We believe our reserve position is now the strongest it has been in our history and positions us well for consistently strong underwriting profitability in the future.

Following this offering, we intend to contribute capital into our operating insurance companies to progress towards the size category X as set by A.M. Best, which is defined as companies having between $500 million and $750 million of adjusted policyholders' surplus. We believe this A.M. Best designation will provide us with further opportunities to expand in the markets we serve, as well as provide us with options to increase our net retentions on business we currently write.

Marketing and Distribution

Our approach to marketing and distribution mirrors our approach to underwriting and is a key facet of our "Rule Our Niche" strategy. Our underwriting teams, as well as the Company as a whole, have strong and well-established relationships with our distribution partners and equally strong reputations that provide a foundation to establish affiliations with new distribution partners. We believe we win with distribution partners because of our deep expertise in niche markets, high caliber underwriters, culture of innovation, thoughtful product line-up and product design, and speed and quality of responsiveness, among other factors. All of our underwriting divisions invest meaningful time and effort into sustaining and expanding distribution partner loyalty and long-term relationships.

Just as we tailor underwriting to the individual needs of the insureds, we tailor our choice of distribution partners to access the particular business we seek to write. Accordingly, we distribute our products, through retail agents, wholesale brokers, select program administrators, and captive managers. This approach allows us to access the business we target effective and efficiently based on the needs and dynamics of a particular market niche.

Retail Agents and Brokers: We primarily distribute our Industry Solutions and Surety products and a portion of our Global Property products through retail agents and brokers. We seek to partner with retail agents and brokers that specialize in the niche markets we target and have an ability to produce both our desired quality and quantity of business. We believe these specialized retail agents and brokers have better visibility into their clients' needs which helps us to better customize coverages to meet those needs. No retail agent or broker represents more than 8% of our business as measured by gross premiums written for the year ended December 31, 2021.

Wholesale Brokers: We primarily market and distribute our Professional Lines, and Transactional E&S products and a portion of our Global Property products through specialist wholesale brokers, including through London market wholesale brokers. We are deliberate in partnering with leading wholesale brokers in our target markets with the experience, knowledge, and ability to produce the type, volume, and quality of business we seek to write. We write business with many of the leading wholesalers in the United States and London.

Program Administrators: We partner with select program administrators that we believe have competitive advantages in certain markets owing to their scale, underwriting, technology and/or distribution infrastructure, and who align with our strategy. We conduct thorough diligence on program administrators before entering into new partnerships to ensure alignment on underwriting and risk management. We set strict underwriting guidelines to ensure that the business produced meets our target returns. In addition, we regularly and actively monitor the performance of the business produced by our program administration partners to ensure that it is consistent with our expectations. We also impose stringent reporting and auditing requirements on our partners designed to identify any potential issues before they arise. We are not a fronting carrier and generally do not intend to generate fee income from our program partners. Currently, we have relationships with five program administrators. In all instances, we seek to align compensation of our program administration partners to meet our target underwriting profit. In two of our partnerships, we have further aligned our interests by having a minority equity ownership position and/or warrants to acquire an equity ownership position in the respective program administrators.

Captive Managers: We partner with captive managers as they serve a critical role in sourcing prospective customers, supporting the sale of the captive product, and administering the group captive. Captive Managers work directly with retail agents and brokers to ensure a prospective customer is suitable for a group captive solution and to assist the retail agent or broker in the presentation of the group captive product. The captive manager also facilitates the day-to-day needs of the captive and its members and coordinates various administrative and operating functions for the captive including compliance, financial reporting, and board meetings. In certain instances, the captive manager will pre-underwrite a prospective customer prior to submission for full underwriting review by our Captives underwriting unit. Delivery of other components of the captive product, including underwriting, claims oversight, reinsurance, and collateral management for claims are functions we perform. Close partnership on nearly all functions is critical to the successful construction and delivery of our group captive solutions.

Underwriting

Our approach to underwriting is deeply embedded in our “Rule Our Niche” strategy and is core to how we win in the market. As of December 31, 2021, we had 178 underwriters across eight underwriting divisions. Within the eight divisions, we further specialize underwriting teams with a focus on specific niches within the markets the eight divisions serve. Kirby Hill, our President of Industry Solutions, Captives and Programs underwriting divisions, has more than 30 years of experience spanning multiple facets of the insurance business. Prior to joining Skyward Specialty, Mr. Hill was the CEO and Co-Founder of Norwich Holding Co., a company specializing in the development, implementation and administration of commercial specialty insurance products and programs, and prior to that in various multiline underwriting positions at PMA Insurance Corporation and American International Group, Inc. (AIG). John Burkhart, our President of Specialty Lines overseeing the Professional Lines, Surety, Transactional E&S and A&H underwriting divisions, has approximately 30 years of underwriting experience, previously as SVP & Head of Professional Lines & Industry Verticals at QBE Insurance Group Limited and Global Product Manager, Specialty Underwriting at Chubb Limited. Doug Davies, our Senior Vice President of the Global Property Underwriting Division, has approximately 20 years of underwriting experience, previously with Starr Underwriting Agency Ltd., Arch Insurance Bermuda and Zurich Global Energy, in London and Bermuda.

Our underwriting approach is underpinned by hiring highly experienced, best-in-class and diverse teams of technical underwriters with established track records in specific specialty niche markets. We then amplify our underwriters’ skill sets with advanced technology and data analytics and empower them with appropriate authority to make decisions. We believe this approach is key to superior risk selection and pricing, and producing sustainable best-in-class underwriting results across market cycles.

Our underwriting teams are knowledgeable, experienced, and have deep market relationships with key distribution partners in the markets we target. These characteristics are critical to operating successfully in the markets we serve since many of the risks we underwrite require customized solutions and individual risk underwriting. We do not impose strict underwriting rules on our underwriting professionals (i.e., we are not "box" underwriters), instead we allow our underwriting professionals the freedom to use their expertise and judgment when evaluating and pricing risks. Simply put, we give our people the tools and appropriate authority to make decisions and do what they do best: profitably underwrite complex risks.

We strive to augment the capabilities and experience of our underwriting professionals using new forms of data and analytics for risk selection and pricing. Our underwriting data is captured in our business intelligence platform, SkyBI. This comprehensive data repository forms the foundation of our reporting, analytics, and other data capabilities and is a key tool for our senior management team and business leaders. See the section entitled "Technology" below for more information on SkyBI.

We are highly selective in the policies we choose to bind. If our underwriters cannot reasonably expect to bind coverage at the combination of premium and coverage terms that meets our standard, we encourage them to move on quickly to other prospective opportunities.

When accepting risks, we are careful to establish terms and price that are suited to the underlying exposure. When writing in the admitted market, we endeavor to ensure that our approved forms and filed rates are appropriate and adequate for the risks we are accepting while also allowing us the flexibility to address specific and/or unique exposures. When writing in the E&S market, we use our freedom of rate and form to ensure risk and coverage are appropriate to the unique needs and exposure that are presented in this market. We endeavor to craft policies that offer affordable and appropriate protection to address our insureds' exposures while also constructing coverage such that potential losses are more predictable and claims cost can be best managed.

Underwriting teams are supported by active engagement and collaboration with our Claims, Actuarial, Product Management, Legal and Compliance and Finance departments so that trends in the business, legal and tort developments, and competitor and regulatory actions are analyzed, shared, and acted upon in a timely manner. We view our underwriters as the center of our company and all support functions are incented and measured to support the achievement of our underwriting profitability targets. This structure serves to surface both opportunities and issues early and forms a key part of our nimbleness and ability to take advantage of market disruptions. Finally, our underwriting controls and procedures are regularly reviewed to ensure our underwriters are acting with clear line of sight to profitably underwrite each of the markets we serve.

Overall, we believe that our best-in-class underwriting talent, our use of advanced technology and analytics to enhance our underwriting selection and pricing, as well as our orientation to surround our underwriters with support from other functional areas to act on opportunities and respond to potential disruption is a unique composition of capabilities to "Rule Our Niche" in each of the markets we serve.

Claims Management

At December 31, 2021, our claims department consisted of 65 claims professionals who have an average of more than 10 years of claims experience in the traditional P&C and various specialty lines of business. Our Chief Claims Officer and Executive Vice President, Sean Duffy, has over 27 years of claims experience in large commercial and specialty insurance claims departments. Prior to joining us, Mr. Duffy was the Senior Vice President, Chief Claims Officer for OneBeacon Insurance. Our claims department is fully integrated with our underwriting, actuarial, reinsurance and other functional departments in order to make thoroughly informed decisions about claims matters. During the year ended December 31, 2021, we handled 75.9% of our claims in-house, measured as percentage of gross reported losses. In the limited instances where we do not handle claims in-house, we utilize TPAs. Specifically, we utilize TPAs for a select set of captives and programs for which the TPA possesses specific expertise that we would not seek to replicate. We also utilize TPAs for our workers' compensation line of business, given the specific geographical knowledge that is required to adjudicate these claims. Our internal claims managers actively oversee TPA activities and monitor their individual claim handling activities to our prescribed service levels and standards. In addition, our claims department works closely with our underwriting teams to keep them apprised of claims trends and provide feedback to our underwriters on emerging areas of loss experience.

Our claims department is guided by the following principles: (1) prompt and comprehensive claim investigations, considering all aspects of each loss, and using advanced analytics and technology to improve efficiency, accuracy and speed of response; (2) providing our customers with quality claims handling service while engaging customers through the entire claims resolution process; (3) promptly establishing reserves reflective of our best estimate of ultimate loss; (4) effectively pursuing contribution and subrogation on every claim; (5) detecting and preventing fraud activity throughout the claims handling process using a variety of existing tools and new technological processes; and (6) disciplined litigation management to provide our customers with a superior legal defense while closely monitoring legal costs.

When a claim is reported, we respond quickly with experienced, specialized adjusters utilizing advanced technology and analytics to assist them in the claims resolution process.We embed technology deeply into our claims process and leverage our technology-enabled platform and tools from first notice of loss to investigation to settlement. For example, we have retained an industry leading technology vendor to enable us to complete prompt and efficient virtual auto physical damage approvals and to make corresponding loss payments.

Our analytics capabilities used by our senior leadership and claims teams include real-time, detailed information on open claims and benchmarks against closed claims. We believe that industry expertise, nimble culture and technology-embedded claims processes enable us to reach fair and appropriate claims outcomes for our customers.

Moreover, when our insureds are sued or presented with a claim against them, we retain specialized independent legal counsel to defend and represent them. We vet both individual attorneys, and their law firms, to ensure they have the experience and expertise required to defend our insureds effectively and efficiently. We have developed carefully crafted litigation guidelines for both our claims processionals and our outside counsel to ensure that counsel is providing the appropriate defense to our insureds. To ensure that defense costs are reasonable, customary and standard within the respective attorneys' geography and practice area, we review legal invoices to confirm case handling and billing practices fall within our retainer agreement with the law firm.

We have invested heavily in technology in all aspect of our claims from first notice of loss through claims settlement. Like underwriting data, our claims data is captured in SkyBI for reporting and analytics. We have also sought to innovate our claims processes to reduce loss costs. By way of example, for commercial auto, we have implemented "quick strike" response to claims events that deploys an experienced investigator at the scene of an accident within two hours of the event, regardless of the location, to access, and if appropriate, to resolve quickly any third-party claims. Similarly, we are piloting the use of artificial intelligence to signal fraud, early indicators of propensity for legal representation by third party claimants, and to route claims at first notice of loss based on potential severity.

Technology

Our technology is at the heart of everything we do and every decision we make, helping us to win over the long-term. We deploy technology across our organization to drive competitive advantages in three primary functional ways:

1. ***Superior Business Intelligence Platform.*** SkyBI, our business intelligence platform, focuses on providing our senior leadership, as well as our technical teams, with real-time intelligence to drive superior decision making. SkyBI reflects the best practices our management team has learned from its extensive experience across the P&C insurance and technology sectors. We developed SkyBI, our single, comprehensive enterprise-wide data repository, as our foundation for reporting, business intelligence, analytics, and other advanced data capabilities. It provides our organization information and performance metrics across the Company in an easy-to-consume visualized format. The data can be filtered by many categories, including distributor, customer segment, line of business, specific

industry, individual underwriter, and specific risk feature among others. SkyBI aids in establishing clear line of sight to objectives as well as facilitating our decision-making process.

2. ***Predictive Analytics Technology.*** We strive to augment the capabilities of our employees daily using new forms of risk data and the use of predictive analytics including artificial intelligence for risk selection, pricing and claims handling. Within every underwriting division, our actions are intentional to "Rule Our Niche." We aim to innovate constantly, and our actions are specific to each of the divisions/markets we serve. Examples include SkyDrive, Accident & Health Artificial Intelligence and our Commercial Flood product.

3. ***Core Transactional Platforms.*** Our core operating platforms, including our policy administration, billing and claims systems, are intentionally designed to enable nimble scaling and expansion of our business. We generally use, third-party vendor developed core operating applications that we have customized for our company. Our core platform organization is used for all business except for Accident & Health, Global Property and Surety as the unique features of these underwriting divisions require select dedicated core processing components. Data gathered from our core operating platforms from all divisions flows to our SkyBI platform with comparable data quality and granularity regardless of underwriting division.

Our use of advanced technology for underwriting and claims, SkyBI and core operating platforms provide our business with a flywheel effect allowing our underwriters to better select risk, our claims professionals to better adjudicate claims, our unit leaders to better communicate with reinsurance and third-party partners, and our senior leadership team to better evaluate trends in our business. These tools also have the added advantage of allowing us to communicate with our distribution partners, reinsurers, and other third-party partners more accurately, effectively, and efficiently.

Like other companies, we face external threats to our information technology systems, including the possibility of system failure, attempts to steal our customer data, and ransomware attacks. We designed our technology infrastructure to function through almost any major disruption. We replicate our data in real time to a third-party cloud disaster recovery site for use in the event of a major system failure. We also back-up our data daily for system restoration if needed. Additional actions we take to prevent disruptions to our systems and data include: actively monitoring Cybersecurity and Infrastructure Security Agency's (CISA) cybersecurity directives, taking immediate action on any vulnerability identified in a directive; conducting monthly vulnerability scans on all network attached devices, at all locations, with patching applied whenever needed; requiring two-factor authentication for access to any of our systems; conducting monthly security training for all employees; implementing endpoint detection agents for threat detection and response; performing desktop scenarios to practice responses to breaches involving our cybersecurity insurance partners and retained security consultants; and performing annual penetration testing. We constantly review our security breach posture and regularly implement updated processes, best practices and tools.

Reinsurance

We strategically purchase reinsurance from third parties which enhances our business by protecting capital from severity events (either large single event losses or catastrophes) and reducing volatility in our earnings. Our reinsurance contracts are predominantly one year in length and renew annually throughout the year, primarily in January and June. At each annual renewal, we consider several factors that influence any changes to our reinsurance purchases, including any plans to change the underlying insurance coverage we offer, updated loss activity, the level of our capital and surplus, changes in our risk appetite and the cost and availability of reinsurance treaties.

We purchase quota share reinsurance, excess of loss reinsurance, and facultative reinsurance coverage to limit our exposure from losses on any one occurrence. The mix of reinsurance purchased considers efficiency, cost, our risk appetite and specific factors of the underlying risks we underwrite.

- ***Quota share reinsurance*** refers to a reinsurance contract whereby the reinsurer agrees to assume a specified percentage of the ceding company's losses arising out of a defined class of business in exchange for a corresponding percentage of premiums, net of a ceding commission.

- ***Excess of loss reinsurance*** refers to a reinsurance contract whereby the reinsurer agrees to assume all or a portion of the ceding company's losses for an individual claim or an event in excess of a specified amount in exchange for a premium payable amount negotiated between the parties, which includes our catastrophe reinsurance program.

- ***Facultative coverage*** refers to a reinsurance contract on individual risks as opposed to a group or class of business. It is used for a variety of reasons, including supplementing the limits provided by the treaty coverage or covering risks or perils excluded from treaty reinsurance.

The following is a summary of our reinsurance programs as of June 1, 2022:

Line of Business	Maximum Company Retention
Accident & Health	$0.75 million per occurrence
Commercial Auto[(1)]	$1.0 million per occurrence
Excess Casualty[(1)]	$2.35 million per occurrence
General Liability[(1)]	$2.0 million per occurrence
Professional Lines	$2.4 million per occurrence
Property	$2.0 million per occurrence
Surety	$3.0 million per occurrence
Workers' Compensation	$1.95 million per occurrence

(1) Legal defense expenses can force exposure above the maximum company retention for Excess Casualty, Commercial Auto and General Liability.

For the year ended December 31, 2021, property insurance represented 20.2% of our gross written premiums. We actively manage and continuously monitor our aggregation of property writings by geographic area to limit our potential for aggregation of loss resulting from severe events such as hurricanes, convective storms, and earthquakes. We buy catastrophe reinsurance to further mitigate an aggregation of property losses due to a single event or series of events. To inform our purchase of catastrophe reinsurance, we use third-party stochastic and our own deterministic models to analyze the risk of aggregation of losses from such events. These models provide a quantitative view of PML events, which is an estimate of the level of loss we would expect to experience once in a given number of years (referred to as the return period). Based upon our modeling, it would take an event beyond our 1 in 250-year PML to exhaust our $32.0 million property catastrophe coverage. Additionally, we seek to expose no more than 3.0% of our stockholders' equity to a catastrophic loss that is less than a 1 in 250-year event. We believe our current reinsurance program provides coverage well in excess of our theoretical losses from any recorded historical event.

In the event of a catastrophe that impacts our reinsurance contracts, a portion of our reinsurance program includes the right to pay additional premium to reinstate reinsurance limits for potential future recoveries during the same contract year and preserve our limit for subsequent events. This payment for subsequent event coverage is known as a "reinstatement."

In addition to our reinsurance programs for our continuing business, during 2020, we entered into a LPT retroactive reinsurance agreement with a third-party reinsurer domiciled in Bermuda for liabilities (including claim payments, allocated losses and LAE reserves and certain extra-contractual obligations) related to certain policies issued or assumed for policy years 2017 and prior so as to limit the volatility associated with the business written during those years. As of the Valuation Date, we ceded approximately $153.1 million of Net LPT Reserves. As of the Valuation Date, the LPT provided cover of approximately $127.4 million above Net LPT Reserves, subject to co-participation at specific amounts. As of March 31, 2022, our reinsurance recoverables from our LPT amounted to $64.2 million, of which 96.9% was collateralized; as of April 2022, this recoverable is fully collateralized. See the section entitled "Business Section — Reserves" for more information.

Certain ceded reinsurance contracts, which we determined do not transfer significant insurance risk, are accounted for using the deposit method of accounting. See the section entitled "Management's Discussion and Analysis — Critical Accounting Policies and Estimates — Reinsurance" for more information regarding the deposit method of accounting.

For the years ended December 31, 2021 and 2020, our net premium retention, defined as the ratio of net premiums written divided by gross written premiums, was 56.3% and 52.8%, respectively.

We seek to purchase reinsurance from reinsurers that are rated at least "A-" ("Excellent") or better by A.M. Best. As of March 31, 2022, 98.6% of our reinsurance recoverables were either derived from reinsurers rated "A-" (Excellent) by A.M. Best, or better, or were collateralized for our reinsurance recoverable by the reinsurer, with an additional 0.4% of the March 31, 2022 balance collateralized in April 2022. While we only select reinsurers whom we believe to have acceptable credit and A.M. Best ratings, if our reinsurers are unable to pay the claims for which they are responsible, we ultimately retain primary liability to our policyholders. Hence, failure of the reinsurer to honor its obligations could result in losses to us, and therefore, we establish allowances for amounts considered uncollectible. At December 31, 2021 and 2020, there was no allowance for uncollectible reinsurance.

The following table sets forth our most significant reinsurers by amount of reinsurance recoverables and the amount of reinsurance recoverables pertaining to each such reinsurer as of March 31, 2022 as well as A.M. Best rating as of December 31, 2021:

Reinsurer	Reinsurance Recoverables as of March 31, 2022 ($ in thousands)	AM Best Rating as of December 31, 2021
Everest Reinsurance Co.	175,013	A+
Randall & Quilter (R&Q Bermuda (SAC) Ltd)(1)	64,228	Unrated
eCaptive PC1-IC (and PC2-IC), Inc.(2)	66,632	Unrated
RGA Reinsurance Company	28,987	A+
Swiss Reinsurance America Corp	20,861	A+
Arch Reinsurance Co.	14,656	A+
Munich Reinsurance America Inc.	14,628	A+
Scor Reinsurance Co.	14,603	A+
Hannover Ruckversicherung AG	14,364	A+
AMLIN Bermuda Limited	14,034	A
Top 10 Total	**428,006**	
All Others	115,822	
Total	**543,828**	

(1) This reinsurer facilitates our LPT reinsurance agreement; we maintain the right of offset of our recoverables for premiums we owe to the reinsurer, we held collateral in a statutory trust of $62.2 million on our net reinsurance recoverables as of December 31, 2021, with an additional $2.0 million collateralized in April 2022.

(2) This reinsurer facilitates our eMaxx captive; we hold collateral in a statutory trust of $92.0 million on our reinsurance recoverables.

For a further discussion of our reinsurance, see the section entitled "Management's Discussion and Analysis of Financial Conditions and Results of Operations — Reinsurance."

Enterprise Risk Management

Our enterprise risk management ("ERM") is embedded in nearly every aspect of our company and guides our day-to-day activities. At the highest level, our approach to ERM is to ensure we achieve an acceptable risk adjusted return for our shareholders; as such we are intentional in our underwriting and asset portfolio construction. As an example, we aim to balance liability duration of our underwriting portfolio, and we use reinsurance to manage volatility from a single loss and for cumulative losses tied to a single event or series of events. Our investment strategy is similarly set out to have a diversified target portfolio that balances portfolio yield, liquidity, volatility, and potential for principal loss.

Our Chief Risk Officer oversees several critical ERM processes as well as chairing our cross-functional corporate ERM Committee. We formalize our own view of risk and solvency in terms of potential economic loss using our Economic Capital Model ("ECM"). We use the output of our ECM to measure potential earnings and capital loss for a range of scenarios. These outputs are measured against risk tolerances that are set out and updated annually by the ERM Committee and approved by the Audit Committee of our Board. More specifically, our ECM provides a probabilistic modeled view of earnings and capital loss that brings together the potential loss from catastrophes, reserving, underwriting, market, credit risk, strategic and operational risks.

Aside from maintaining our ECM and overseeing our risk tolerance framework, our Chief Risk Officer works with our ERM Committee to review and maintain a comprehensive risk register with accountabilities to ensure appropriate mitigations are in place and are monitored for any change. The top 10 risks are further identified and quantified by the Chief Risk Officer and the ERM Committee and reviewed every quarter. The Chief Risk Officer and the ERM Committee submit these reports to the Audit Committee on a regular basis.

We construct our operational processes and controls with a view to identify, assess and manage key risks on an ongoing basis. For example, our Underwriting Committee is responsible for overseeing standard letters of authority, underwriting audits, changes in risk appetite, and product line and division expansion. Within Claims, we diligently monitor our claims handling practices against guidelines through regular internal audits, conduct monthly large loss reviews, and maintain and monitor a watchlist of potential high severity claims. Within Actuarial, we perform quarterly reserve studies, and our Reserve Committee meets twice each quarter to review and respond to trends in loss emergence. Any key observations are subsequently discussed with the CEO. Monthly and quarterly our underwriting divisions assess rate change and retention on existing business, new business quality and pricing adequacy, and loss emergence as compared to expected. Our SkyBI platform provides real-time portfolio, underwriting, claims and actuarial analytics which is critical to ensuring that the above processes achieve the desired outcome.

Altogether, our Enterprise Risk Management is at the center of our decision making and our day-to-day activities. It is a central component to our strategy to achieve market leading risk adjusted returns for our shareholders.

Reserves

We maintain reserves for specific claims incurred and reported, IBNR reserves and reserves for uncollectible reinsurance when appropriate. Our ultimate liability may be greater or less than the current reserves. In the insurance industry, there is always the risk that reserves may prove inadequate. We continually monitor reserves using new information on reported claims and a variety of statistical analyses. Anticipated inflation is reflected implicitly in the reserving process through analysis of cost trends and the review of historical development. We do not discount our reserves for losses and LAE to reflect estimated present value.

When a claim is reported, we establish a case reserve for the estimated amount of the ultimate payment after an appropriate assessment of coverage, damages and other investigation as applicable. The estimate is based on our reserving practices and on the claims adjuster's experience and knowledge of the nature and value of the specific type of claim. Case reserves are revised periodically based on subsequent developments associated with each claim. See the section entitled "Business — Claims Management" for more information.

We establish IBNR reserves in accordance with industry practice to provide for (i) the estimated amount of future loss payments on incurred claims not yet reported, and (ii) potential development on reported claims. IBNR reserves are estimated based on generally accepted actuarial reserving techniques that take into account quantitative loss experience data and, where appropriate, qualitative factors.

We regularly review our loss reserves using a variety of actuarial techniques. We also update the reserve estimates as historical loss experience develops, additional claims are reported and/or settled and new information becomes available. Additionally, our loss reserving is reviewed annually for reasonableness by a reputable third-party actuarial firm. A reserve can be increased or decreased over time as claims move towards settlement, which can impact earnings in the form of either adverse development or reserve releases.

The following table presents the development of our loss reserves calculated in accordance with GAAP, as of December 31 for each year.

Net Ultimate Loss and ALAE					
($ in thousands)	Calendar Year			Development	
Accident Year	2019	2020	2021	2019 to 2020	2020 to 2021
Prior	$1,329,014	$1,390,905	$1,418,885	$ 61,891	$30,980
2019	257,469	245,131	243,851	(12,338)	(1,280)
2020	N/A	291,139	292,439	N/A	(1,700)
2021	N/A	N/A	323,697	N/A	N/A
Total Reserve Development				**$ 49,553**	**$28,000**
Reserve Development on losses subject to LPT				49,013	28,000
Reserve Development on losses excluding losses subject to LPT				**$ 540**	**$ —**

We present our loss development on a consolidated basis, however, we evaluate net ultimate loss and LAE under three sub-categories: multi-line solutions, short tail/monoline specialty lines and exited lines. Multi-line solutions includes those market niches for which we provide multiple products most frequently as an integrated solution, The multi-line solution subcategory is made up predominantly of occurrence liability including general liability, excess liability, and commercial auto, in aggregate has a longer duration for losses to fully develop and is comprised of our Industry Solutions, Transactional E&S, Programs and Captives underwriting divisions. Short tail/monoline specialty lines includes those market niches we serve with monoline solutions which generally have shorter durations for losses to fully develop and is comprised of our Global Property, A&H, Surety and Professional Lines underwriting divisions. Exited lines includes all underwriting divisions which we have placed in run-off. See the section "Financial pages — Losses and Loss Adjustment Expenses" footnote for additional information on loss reserves and development.

During the year ended December 31, 2021, our net incurred losses and LAE, including losses and LAE subject to the LPT, for accident years 2020 and prior developed unfavorably by $28.0 million. This unfavorable development was driven by $28.8 million of unfavorable development in exited lines and $4.8 million of unfavorable development in multi-line solutions, partially offset by $5.6 million of favorable development in short tail/monoline specialty lines.

Within exited lines, unfavorable development of $28.8 million was primarily related to 2013, 2015, and 2018 accident years and predominantly driven by increases in both frequency and severity of losses in general liability. Within multi-line solutions, unfavorable development of $4.8 million was primarily related to 2016 and 2017 accident years and was driven by increased frequency and severity of claims in commercial auto. Within short tail/monoline specialty lines, favorable development of $5.6 million was primarily related to 2019 and 2020 accident years and was driven by favorable loss emergence relative to actuarial expectations in property and accident & health product areas.

During the year ended December 31, 2021, excluding losses subject to the LPT, we reported zero net development on incurred losses and LAE for accident years 2020 and prior, driven by favorable development of $3.0 million primarily related to short tail/monoline specialty lines in accident years 2019 and 2020, offset by unfavorable development of $3.0 million primarily related to multi-line solutions in accident years 2018 and prior.

During the year ended December 31, 2020, our net incurred losses for accident years 2019 and prior developed unfavorably by $49.6 million. This unfavorable development was driven by $45.9 million of unfavorable development in exited lines and $18.2 million of unfavorable development in multi-line solutions, partially offset by $14.6 million of favorable development in short tail/monoline specialty lines.

Within exited lines, unfavorable development of $45.9 million, was primarily related to 2016 through 2018 accident years and driven by unfavorable loss emergence relative to actuarial expectations of general liability.Within multi-line solutions, unfavorable development of $18.2 million, was primarily related to 2016 and 2017 accident years and driven by increased frequency and severity of claims in commercial auto.Within short tail/monoline specialty lines, favorable development of $14.6 million, was primarily related to 2019 accident year and was driven by favorable loss emergence relative to actuarial expectations in property.

During the year ended December 31, 2020, excluding losses subject to the LPT, our net incurred losses for accident years 2019 and prior developed unfavorably by $0.5 million, driven by unfavorable development of $12.8 million primarily related to multi-line solutions and exited lines in accident years 2018 and prior, offset by favorable development of $12.3 million primarily related to short tail/monoline specialty lines in the 2019 accident year.

Loss Portfolio Transfer

On April 1, 2020, with a valuation date of June 30, 2019, we entered into a LPT retroactive reinsurance agreement with R&Q Bermuda (SAC) Limited, a third party reinsurer domiciled in Bermuda that specializes in assuming legacy blocks of insurance business and running them off. The LPT covers liabilities (including claim payments, allocated LAE and certain extra-contractual obligations) related to certain policies issued or assumed for policy years 2017 and prior. The LPT agreement covers the majority of our exited business. We believe purchasing this coverage reduces the volatility associated with the covered business produced in 2017 and prior, and has allowed our management team to focus on the continuing business which we believe provide the best path for continued profitable growth.

As of the Valuation Date, we agreed to cede $153.1 million of Net LPT Reserves for certain lines of business, primarily related to 2017 and prior policy years, subject to an aggregate cash deductible of $105 million which was withheld from the reinsurer. Subsequent to the Valuation Date but prior to the Inception Date, we strengthened the Net LPT Reserves by $5.5 million. This development resulted in an increase in the Net LPT Reserves of $5.5 million to $158.6 million. Consequently, at the Inception Date, the cash remitted to the third party reinsurer for the cession of the Net LPT reserves was $53.6 million (reflecting the $158.6 million of Net LPT Reserves less the $105 million cash deductible).

As of the Inception Date, the LPT provided reinsurance protection of approximately $127.4 million above the Net LPT Reserves, subject to co-participations at specified amounts, detailed below. We paid $43.5 million in premium to the reinsurer for this reinsurance protection. This premium payment of $43.5 million combined with the $53.6 million remitted to the reinsurer resulted in a total cash transfer of $97.1 million on the Inception Date.

The LPT is structured into two distinct sections with separate and independent reinsurance structures. Section A (representing $22.2 million of ceded net reserves at inception of the LPT) is the smaller section of the LPT covering claims from exited workers' compensation and general liability lines of business primarily related to business written in policy years 2011 and prior. Section B (representing $130.9 million of ceded net reserves at inception of the LPT) is a substantially larger section, covering claims from other exited business and certain continuing business related to policies written in years 2017 and prior, principally comprised of general liability and commercial auto lines.

As of December 31, 2021, our net loss reserves subject to the LPT were $90.3 million. In connection with refocusing our strategy, we have materially strengthened our reserves subject to the LPT. These decisions have been informed by substantial actuarial and claims analyses performed specific to our business subject to the LPT. At the same time, we have reduced the number of open claims by 54.8% since the inception of the LPT.

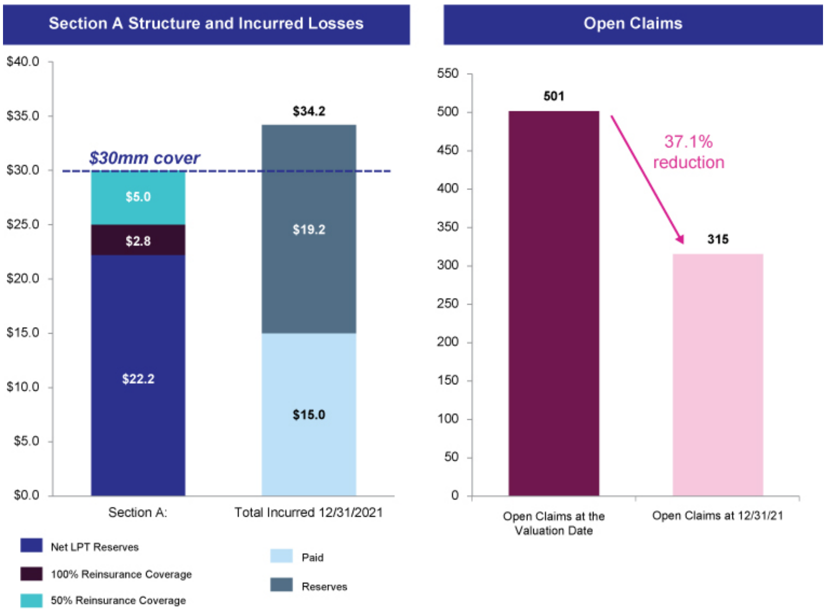
Section A

Based on the reserves on the Valuation Date, we ceded $22.2 million of net reserves related to Section A, subject to the aggregate cash deductible. The LPT provides 100% reinsurance coverage on the first $2.8 million of incurred losses and LAE above the ceded net reserves for Section A. Above the $2.8 million coverage layer is a further $5.0 million of reinsurance coverage for which we retain 50% of the incurred losses and LAE.

In April 2021, we reviewed every open claim for the business covered by Section A, with the help of a leading independent actuarial firm, to ensure that our reserves were set to our expected ultimate loss. Based on the review, we strengthened our reserves subject to Section A. As of December 31, 2021, total incurred losses and LAE (including claims paid, case reserves and IBNR) were $34.2 million, which is $4.2 million in excess of our reinsurance coverage under Section A of the LPT. As a result, should new claims arise or existing claims develop adversely such that we need to increase our incurred losses and LAE on business covered by Section A, there would be no further reinsurance coverage on these policies subject to the LPT.

As of December 31, 2021, paid losses and LAE on policies subject to Section A of the LPT were $15.0 million, which is $7.2 million below the net reserves ceded at valuation of the LPT and $15.0 million below our total reinsurance coverage under Section A. We believe the ratio of paid losses and LAE to total incurred losses and LAE of 43.9% as of December 31, 2021, on policies covered under Section A of the LPT, in combination with the age of the policies (primarily policy years 2011 and prior) and the declining number of open claims (Section A open claims have been reduced by 37.1% since the Valuation Date), underscores the strength of our reserve position on Section A.

The chart below provides an illustration of the Section A reinsurance structure, the paid and incurred losses and LAE positions within the structure as of December 31, 2021, and the reduction in open claims from the Valuation Date through December 31, 2021.

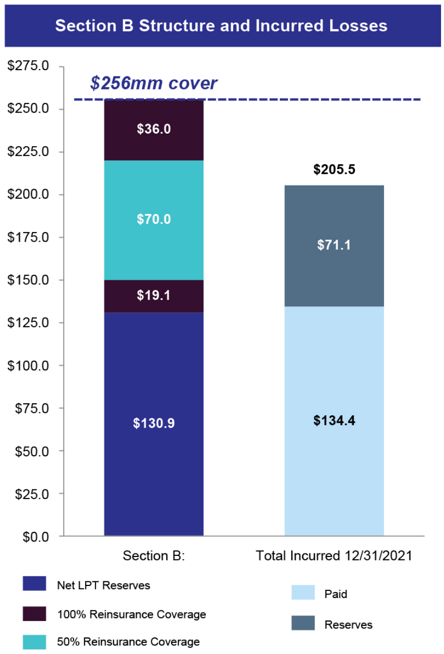


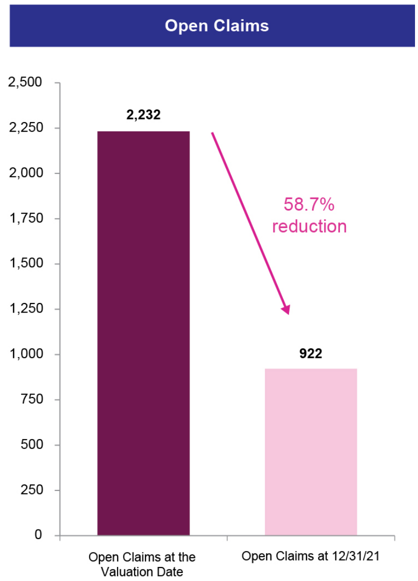
Section B

Based on the reserves on the Valuation Date, we ceded $130.9 million of net reserves related to Section B, subject to the aggregate cash deductible. The LPT provides 100% reinsurance coverage on the first $19.1 million of incurred losses and LAE above the ceded net reserves for Section B. Above the $19.1 million layer, a further $70.0 million of reinsurance coverage is provided, for which we have a 50% co-participation on the incurred losses and LAE in the layer. There is a further $36.0 million of reinsurance that provides 100% coverage above the $70 million layer.

In September 2021, we reviewed every open claim for the business covered by Section B to ensure that our reserves were set to our expected ultimate loss. Based on the review, we strengthened our reserves subject to Section B. As of December 31, 2021, total incurred losses and LAE (including claims paid, case reserves and IBNR) were $205.6 million. This means that $14.4 million of the $70.0 million layer of 50% coverage (representing $7.2 million of net coverage), as well as the entire $36.0 million of 100% coverage layer are available should new claims arise or existing claims develop adversely (total of $43.2 million of coverage remaining). As of December 31, 2021, paid losses and LAE on policies subject to Section B were $134.4 million, which is $121.6 million below our total reinsurance coverage under Section B, which includes the co-participation amounts. As with Section A, we believe that the Section B ratio of paid losses and LAE to total incurred losses and LAE of 65.4% as of December 31, 2021 in combination with and the rapidly declining number of open claims (reduced by 58.7%) since the Valuation Date underscores the strength of our reserve position on Section B.

The chart below provides an illustration of the Section B reinsurance structure, the paid and incurred losses and LAE positions within the structure as of December 31, 2021, and the reduction in open claims from the Valuation Date through December 31, 2021.





Investments

We seek to maintain a balanced investment portfolio predominantly composed of investments that generate predictable and stable returns, augmented by select strategic investments that generate attractive risk-adjusted returns. Our investment allocation strategy utilizes an Enterprise Based Asset Allocation model. This model, which is embedded in our Economic Capital Model (see ERM discussion), allows us to understand the impact of our investment allocation decisions on our capital, liquidity and risk profile across a range of market scenarios.

We actively manage and monitor our investment risk to balance the goals of stable growth and liquidity with our need to comply with the insurance regulatory and rating agency frameworks within which we operate. Our portfolio is mainly comprised of cash and cash equivalents and investment-grade fixed-maturity securities, supplemented by additional investments that fit our risk appetite, principally higher yielding direct lending strategies and equities. Other investments, while typically not rated securities, are generally lower volatility fixed income loans and securities that we believe provide us with risk-adjusted returns above what is achievable in liquid investment grade markets. We call this part of our investment portfolio Opportunistic Fixed Income.

The Investment Committee of our Board of Directors reviews and approves our investment policy and strategy. This committee meets on a regular basis to review and consider investment activities, tactics, and new investment opportunities as they arise. The portfolio is directed internally and includes both self-managed investments and portfolios managed by select third-party investment management firms.

A summary of our investment portfolio at March 31, 2022 and December 31, 2021 is as follows:

($ in thousands)	March 31, 2022			December 31, 2021		
	Fair value	% of total	Net Yield	Fair value	% of total	Net Yield
Cash and Short-term Investments	$ 229,083	22.4%	0.0%	$ 207,024	20.9%	0.1%
Fixed Income	438,752	42.9%	2.7%	458,351	46.2%	2.3%
Opportunistic Fixed Income	188,666	18.4%	25.7%	168,058	17.0%	8.6%
Equities	166,849	16.3%	1.7%	158,033	15.9%	2.3%
Total Investments and Cash	**$ 1,023,350**	**100.0%**	**6.0%**	**$ 991,466**	**100.0%**	**2.7%**

Our fixed maturity securities, together comprising 61.3% of our total investments and cash as of December 31, 2021, including both fixed income and opportunistic fixed income, had a weighted average effective duration of 2.7 and 2.8 years as of March 31, 2022 and December 31, 2021, and an average credit rating of "AA" (Standard & Poor's) as of both March 31, 2022 and December 31, 2021.

Competition

The specialty lines property & casualty insurance market consists of many markets and sub-markets. Each market is characterized by distinct customer needs and product and services to meet those needs, and specific economic and structural features. We face competition in our underwriting divisions from other specialty and standard insurers as well as program administrators. Competition is based on many factors including pricing of coverage, the general reputation and perceived financial strength of the company, relationships with brokers, terms and conditions of products offered, ratings assigned by independent rating agencies, speed of claims payment and reputation, and the experience and reputation of the members of the underwriting and claims teams. Given the diversity of our underwriting divisions, our competition is broad and certain competitors may be specific to only a subset of our divisions. Some of our notable competitors include: Markel Corporation; W.R. Berkley Corporation; American Financial Group Inc.; Tokio Marine Holdings, Inc.; CNA Financial Corporation; Hiscox, Ltd.; RLI Corp.; Intact Finance Corporation; Argo Group International Holdings, Ltd.; Kinsale Capital Group, Inc.; and James River Group Holdings, Ltd.

Ratings

Our insurance group, Skyward Specialty Insurance Group, Inc. currently has a rating of "A-"(Excellent) with a stable outlook from A.M. Best, which rates insurance companies based on factors of concern to policyholders. A.M. Best currently assigns 16 ratings to insurance companies, which currently range from "A++" (Superior) to "F" (In Liquidation). The "A-" (Excellent) rating is the fourth highest rating. In evaluating a company's financial and operating performance, A.M. Best reviews a company's profitability, leverage, and liquidity, as well as its book of business, the adequacy and soundness of its reinsurance, the quality and estimated market value of its assets, the adequacy of its losses and loss expense reserves, the adequacy of its surplus, its capital structure, the experience and competence of its management and its market presence. A.M. Best's ratings reflect its opinion of an insurance company's financial strength, operating performance, and ability to meet its obligations to policyholders. These evaluations are not directed to investors of an insurance company's securities.

Employees and Human Capital

As of March 31, 2022, we had 401 employees. Our employees are not subject to any collective bargaining agreement, and we are not aware of any current efforts to implement such an agreement. We believe we have good working relations with our employees. We aim to be an employer of choice, and not just for insurance. As such, we strive to create a culture committed to fostering a rich diversity of thought, background and perspective. We embrace diversity, equity and inclusion initiatives as a way to improve workplace culture and demonstrate the importance of valuing our employees as people, not just as workers. In addition, we offer and maintain a competitive benefits package designed to support the well-being of our employees, including, but not limited to, medical, dental and vision insurance, a 401(k) plan, paid time off, family leave and employee assistance programs. We also emphasize the training and development of our employees and provide opportunities to further their education and professional development. We know that we cannot win at our business unless we first win with our people.

Intellectual Property

We have applied for various trademark registrations in the United States at both federal and state levels. We will pursue additional trademark registrations and other intellectual property protection to the extent we believe it would be beneficial and cost effective.

In addition, we monitor our trademarks and service marks and protect them from unauthorized use as necessary.

Facilities

Our primary executive offices and insurance operations are in Houston, Texas which occupy approximately 40,000 square feet of office space for annual rent and rent-related operating payments of approximately $0.7 million. The lease for this space expires in 2029.

We believe that our facilities are adequate for our current needs and that suitable additional or substitute space will be available as needed.

Legal Proceedings

We are periodically party to legal proceedings which arise in the ordinary course of business. Currently, we are not involved in any legal proceedings which we believe could have a material adverse effect on our business or results of operation.

Our History

Skyward Specialty was formed as a Delaware corporation on January 3, 2006 as an insurance holding company. We operated under the name Houston International Insurance Group, Ltd. until we re-branded as Skyward Specialty in November 2020. We were founded for the purpose of underwriting commercial property and casualty insurance coverages for specialized customer niches and industries.

Our founding shareholders and management set out to build a leading specialty insurance provider underwriting across the United States and select niche global markets. The foundation for the company was established — and its business and geographic footprint widened — in part, through a series of acquisitions of insurance carriers and other insurance service providers beginning in 2007. In July 2014, to provide liquidity for certain of our then-shareholders as well as capital for the continued expansion of the business, we sold an interest in the company to an investment consortium led by Westaim, our largest shareholder as of the time of this offering. In the years following Westaim's investment, we continued to pursue organic growth in specialty P&C markets, supplemented by various strategic investments and acquisitions to enhance existing capabilities or enter new markets.

In 2020, we embarked upon a series of changes to refocus our strategy and position us for emerging opportunities in our chosen markets:

- In April 2020, we entered into the previously noted LPT reinsurance transaction covering certain business written during policy years 2017 and prior, to limit our exposure to potential loss reserve development primarily associated with certain exited business and to allow our management team to focus on the continuing business which we believe provide the best path for continued profitable growth.
- In April 2020, we raised approximately $100 million of capital from our existing investors to (i) provide capital to grow in the hardening pricing environment, (ii) position the Company for growth during a period of market dislocation, and (iii) strengthen our balance sheet.
- In May 2020, we appointed Andrew Robinson as our Chief Executive Officer. Under Mr. Robinson's leadership, we developed and implemented our "Rule Our Niche" strategy. As part of this strategy, we

implemented additional changes that further transformed our business. These changes have included (i) substantial strengthening of our underwriting, claims and actuarial teams and support functions, (ii) improving the company culture with particular focus on attracting, retaining and developing top talent, (iii) considerable investment in our business intelligence technology capabilities and use of advanced technology for underwriting and claims decision-making, and (iv) a disciplined approach to focus only on the niches in which we believe we can earn an attractive underwriting profit and build sustainable and defensible positions.

As part of this strategy, we have taken several steps including, but not limited to, the following:

- Made multiple key hires across the organization — including underwriting, claims and technology — bringing us a diversity of world-class leadership and underwriting and claims expertise in select specialty lines;
- Launched select underwriting divisions, units and product lines where we believe we have — or can establish — defensible positions in high-profit niches to deliver consistent, best-in-class returns. Examples include Transactional E&S Lines, Allied Health Professional Liability and a range of insurance solutions for the cannabis industry;
- Acquired Aegis Surety, substantially increasing our scale in surety, deepening our surety underwriting and leadership team, and positioning the business line for profitable growth;
- Exited underperforming classes and divisions that did not meet our “Rule Our Niche” strategy, including specialty workers’ compensation, lawyers’ professional liability, automobile dealers programs, insurance agents and brokers professional liability, title agents liability, commercial auto for the timber industry and liability solutions for the hospitality industry;
- Invested significantly in our technology to amplify the capabilities and expertise of our people, using advance data and analytics to improve our decision-making, and facilitate our expansion into new business lines; and
- Implemented our name change and rebranding to Skyward Specialty, aligning with our repositioned business and culture.

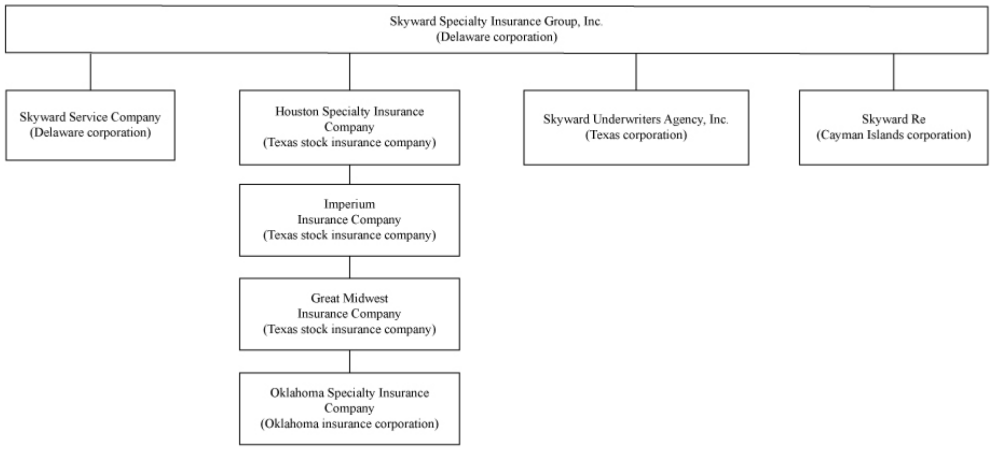
We believe our strategy and actions are driving financial performance and positioning us for long-term, sustainable growth and profitability that is among the best in the specialty P&C marketplace. Our momentum is strong and accelerating and we believe we are well-situated to continue our growth trajectory and consistently achieve best-in-class underwriting returns and return on equity.

Our Structure

We conduct our operations principally through four insurance companies. HSIC, which is our largest insurance subsidiary, underwrites multiple lines of insurance on a surplus lines basis in 50 states and the District of Columbia. IIC, a subsidiary of HSIC, underwrites on an admitted basis in all 50 states and the District of Columbia. GMIC, a subsidiary of IIC, underwrites multiple lines of insurance on an admitted basis in all 50 states and the District of Columbia. OSIC, a subsidiary of GMIC, is an approved surplus lines carrier in 47 states and the District of Columbia.

In addition to our primary insurance companies, we also own Skyward Re, a wholly-owned captive reinsurance company domiciled in the Cayman Islands that was incorporated on January 7, 2020. Skyward Re was established to facilitate the LPT. We also operate two non-insurance companies: Skyward Underwriters Agency, Inc., a licensed agent, managing general agent and reinsurance broker, and Skyward Service Company, which provides various administrative services to our subsidiaries.

Our organizational structure is set forth below. Each entity is wholly-owned by its immediate parent.



Our Corporate Information

Skyward Specialty Insurance Group, Inc. is an insurance holding company incorporated in Delaware that was organized in 2006. Our principal executive office is located at 800 Gessner Road, Suite 600, Houston, TX 77024 and our telephone number is (713) 935-4800. Our website address is www.skywardinsurance.com. Information contained on, or that can be accessed through, our website is not part of and is not incorporated by reference into this prospectus, and you should not consider information on our website to be part of this prospectus.

REGULATION

Insurance Regulation

We are regulated by insurance regulatory authorities in the states in which we conduct business. State insurance laws and regulations generally are designed to protect the interests of policyholders, consumers and claimants rather than stockholders or other investors. The nature and extent of state regulation varies by jurisdiction, and state insurance regulators generally have broad administrative power relating to, among other matters, setting capital and surplus requirements, licensing of insurers and insurance producers, review and approval of product forms and rates, establishing standards for reserve adequacy, prescribing statutory accounting methods and the form and content of statutory financial reports, regulating certain transactions with affiliates and prescribing types and amounts of investments.

Regulation of insurance companies constantly changes as governmental agencies and legislatures react to real or perceived issues. In recent years, the state insurance regulatory framework has come under increased federal scrutiny, and some state legislatures have considered or enacted laws that alter and, in many cases, increase, state authority to regulate insurance companies and insurance holding company systems. Further, the NAIC and some state insurance regulators are re-examining existing laws and regulations specifically focusing on issues relating to the solvency of insurance companies, interpretations of existing laws and the development of new laws. Although the federal government does not directly regulate the business of insurance, federal initiatives often affect the insurance industry in a variety of ways. In addition, the Federal Insurance Office (the "FIO") was established within the U.S. Department of the Treasury by the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") in July 2010. The FIO monitors all aspects of the insurance industry, including identifying issues or gaps in the regulation of insurers that could contribute to a systemic crisis in the insurance industry or the U.S. financial system, although the FIO has no express regulatory authority over insurance companies or other insurance industry participants.

Required Licensing

Skyward Specialty is the ultimate parent company for four insurance company subsidiaries. Two of the insurance subsidiaries, GMIC and IIC, are domiciled and admitted in the state of Texas to transact certain lines of property and casualty insurance. HSIC is domiciled in the state of Texas and operates on a surplus lines basis. Lastly, OSIC is domiciled in the state of Oklahoma and operates on a surplus lines basis. All of Skyward Specialty's insurance subsidiary's licenses are in good standing, and, pursuant to applicable state laws and regulations, will continue in force unless otherwise suspended, revoked or otherwise terminated, subject to certain conditions and the filing of an annual registration statement with the state of domiciliary.

GMIC and IIC currently operate on an admitted basis in all fifty (50) states and the District of Columbia and each must maintain an insurance license in each state in which it transacts the business of insurance. HSIC currently operates on a surplus lines basis in all 50 states and the District of Columbia. OSIC currently operates on a surplus lines basis in forty-seven (47) states and the District of Columbia. While HSIC and OSIC do not have to apply for and maintain a license in those states (with the exception of their respective domiciliary states), they are subject to maintaining eligibility standards or approval under each particular state's surplus lines laws to be included as an approved surplus lines carrier. In states in which HSIC and OSIC operate on a surplus line basis, HSIC and OSIC have the freedom of rate and form on the majority of its business. This means that HSIC and OSIC can implement changes in policy form, underwriting guidelines, or rates for a product on an immediate basis without regulatory approval.

All insurance is written through licensed agents and brokers. In states in which we operate on a non-admitted basis, surplus lines brokers generally are required to certify that a certain number of licensed admitted insurers had been offered and declined to write a particular risk prior to placing that risk with us or that the coverage is otherwise unavailable from an admitted carrier.

Insurance Holding Company Regulation

We operate as an insurance holding company system and are subject to the insurance holding company laws of the State of Texas, the state in which our primary insurance companies are domiciled, as well as those of Oklahoma. These statutes require that each insurance company in the system register with the insurance department of its state of domicile and furnish information concerning the operations of companies within the holding company system that may materially affect the operations, management or financial condition of the insurers within the system and domiciled in that state. These statutes also provide that all transactions among members of a holding company system must be fair and reasonable. Transactions between insurance subsidiaries and their parents and affiliates generally must be disclosed to the state regulators, and notice to or prior approval of the applicable state insurance regulator generally is required for any material or extraordinary transaction.

Changes of Control

Before a person can acquire control of a U.S. domestic insurer, prior written approval must be obtained from the insurance commissioner of the state where the insurer is domiciled, or the acquiror must make a disclaimer of control filing with the insurance department of such state and obtain approval thereon. Prior to granting approval of an application to acquire control of a domestic insurer, the domiciliary state insurance commissioner will consider a number of factors, which include the financial strength of the proposed acquiror, the acquiror's plans for the future operations of the domestic insurer and any anti-competitive results that may arise from the consummation of the acquisition of control.

Generally, state insurance statutes provide that control over a domestic insurer is presumed to exist if any person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing, ten percent or more of the outstanding voting securities of the domestic insurer. This statutory presumption of control may be rebutted by a showing that control does not exist in fact. The state regulators, however, may find that "control" exists in circumstances in which a person owns or controls less than ten percent of the voting securities of the domestic insurer.

Since Skyward Specialty's insurance companies are domiciled in Texas and Oklahoma, the insurance laws and regulations of those state would be applicable to any proposed acquisition of control of Skyward Specialty. Under applicable Texas and Oklahoma insurance laws and regulations, no person may acquire control of a domestic insurer until written approval is obtained from the state insurance commissioner. Such approval would be contingent upon the state insurance commissioner's consideration of a number of factors, including among others, the financial strength of the proposed acquiror, the integrity and management of the acquiror's board of directors and executive officers, the acquiror's plans for the future operations of the domestic insurer and any anti-competitive results that may arise from the consummation of the acquisition of control. Texas and Oklahoma insurance laws and regulations pertaining to changes of control apply to both the direct and indirect acquisition of ten percent or more of the voting stock of a domiciled insurer. Accordingly, the acquisition of ten percent or more of our common stock would be considered an indirect change of control of Skyward Specialty and would trigger the applicable change of control filing requirements under Texas and Oklahoma insurance laws and regulations, absent a disclaimer of control filing and its acceptance by the Texas and Oklahoma Departments of Insurance. These requirements may discourage potential acquisition proposals and may delay, deter or prevent a change of control of us, including through transactions that some or all of our stockholders might consider to be desirable.

Restrictions on Paying Dividends

We are a holding company with no business operations of our own. Consequently, our ability to pay dividends to stockholders and meet our debt payment obligations is largely dependent on dividends and other distributions from our insurance subsidiaries. Applicable state insurance laws restrict the ability of our insurance subsidiaries to declare stockholder dividends. Applicable state insurance regulators require insurance companies to maintain specified levels of statutory capital and surplus. Dividend payments are further limited to that part of available policyholder surplus which is derived from net profits on an insurer's business. Insurance regulators have broad powers to prevent reduction of statutory surplus to inadequate levels, and there is no assurance that dividends of the maximum amounts calculated under any applicable formula would be permitted. State insurance regulatory authorities that have jurisdiction over the payment of dividends by our insurance subsidiaries may in the future adopt statutory provisions more restrictive than those currently in effect.

Investment Regulation

Skyward Specialty's insurance companies are subject to Texas and Oklahoma laws which require diversification of our investment portfolios and limits on the amount of investments in certain categories. Failure to comply with these laws and regulations would cause non-conforming investments to be treated as non-admitted assets for purposes of measuring statutory surplus and, in some instances, would require us to sell those investments.

Restrictions on Cancellation, Non-renewal or Withdrawal

Many states have laws and regulations that limit the ability of an insurance company licensed by that state to exit a market. Some states prohibit an insurer from withdrawing from one or more lines of business in the state except pursuant to a plan approved by the state insurance regulator, which may disapprove a plan that may lead to market disruption. Some state statutes may explicitly or by interpretation apply these restrictions to insurers operating on a surplus lines basis.

Licensing of Our Employees and Adjusters

In certain states in which we operate, insurance claims adjusters are required to be licensed and some must fulfill annual continuing education requirements. In most instances, our employees who are negotiating coverage terms are underwriters and employees of the Company and are not required to be licensed agents. As of March 31, 2022, 39 employees of Skyward Specialty were required to maintain and did maintain requisite licenses for these activities in most states in which we operate.

Enterprise Risk and Other Recent Developments

The NAIC, as part of its solvency modernization initiative, has engaged in a concerted effort to strengthen the ability of U.S. state insurance regulators to monitor U.S. insurance holding company groups. The NAIC's solvency modernization initiative, among other things, aims to expand the authority and focus of state insurance regulators to encompass U.S. insurance holding company systems at the group level. The holding company reform efforts at the NAIC culminated in December 2010 in the adoption of significant amendments to the NAIC's Insurance Holding Company System Regulatory Act (the "Model Holding Company Act") and its Insurance Holding Company System Model Regulation (the "Model Holding Company Regulation"). Among other things, the revised Model Holding Company Act and Model Holding Company Regulation explicitly address "enterprise" risk — the risk that an activity, circumstance, event or series of events involving one or more affiliates of an insurer will, if not remedied promptly, be likely to have a material adverse effect upon the financial condition or liquidity of the insurer or its insurance holding company system as a whole — and require annual reporting of potential enterprise risk as well as access to information to allow the state insurance regulator to assess such risk. In addition, the Model Holding Company Act amendments include a requirement to the effect that any person divesting control over an insurer must provide 30 days' notice to the regulator and the insurer (with an exception for cases where a Form A is being filed). The amendments direct the domestic state insurance regulator to determine those instances in which a divesting person will be required to file for and obtain approval of the transaction.

Some form of the 2010 amendments to the Model Holding Company Act has been adopted in all states, including Texas. In June 2011, Texas adopted the principal components of the amended Model Holding Company Act. In December 2014, the NAIC adopted additional revisions to the Model Holding Company Act, updating the model to clarify the group-wide supervisor for a defined class of internationally active insurance groups. The revisions also outline the process for determining the lead state for domestic insurance groups, outline the activities the commissioner may engage in as group-wide supervisor and extend confidentiality protections to cover information received in the course of group-wide supervision. The 2014 revisions to the Model Holding Company Act have been adopted in Texas and Oklahoma.

In 2012, the NAIC adopted the Risk Management and Own Risk and Solvency Assessment ("ORSA") Model Act, which requires domestic insurers to maintain a risk management framework and establishes a legal requirement for domestic insurers to conduct an ORSA in accordance with the NAIC's ORSA Guidance Manual. The ORSA Model Act provides that domestic insurers, or their insurance group, must regularly conduct an ORSA consistent with a process comparable to the ORSA Guidance Manual process. The ORSA

Model Act also provides that, no more than once a year, an insurer's domiciliary regulator may request that an insurer submit an ORSA summary report, or any combination of reports that together contain the information described in the ORSA Guidance Manual, with respect to the insurer and the insurance group of which it is a member. When the ORSA Model Act is adopted by a particular state, the ORSA Model Act would impose more extensive filing requirements on parents and other affiliates of domestic insurers. Texas and Oklahoma have both adopted their versions of the ORSA Model Act.

Additionally, in response to the growing threat of cyber-attacks in the insurance industry, certain jurisdictions have begun to consider new cybersecurity measures, including the adoption of cybersecurity regulations which, among other things, would require insurance companies to establish and maintain a cybersecurity program and implement and maintain cybersecurity policies and procedures. On October 24, 2017, the NAIC adopted its Insurance Data Security Model Law, intended to serve as model legislation for states to enact in order to govern cybersecurity and data protection practices of insurers, insurance agents, and other licensed entities registered under state insurance laws.

We constantly monitor changes in state laws that are related to and which impose obligations on us regarding data security.

Federal Regulation

The U.S. federal government's oversight of the insurance industry was expanded under the Dodd-Frank Act. Prior to the enactment of the Dodd-Frank Act in July 2010, the U.S. federal government's regulation of the insurance industry was essentially limited to certain insurance products, such as flood insurance, multi-peril crop insurance and reinsurance of losses from terrorism. As part of the overall federal financial regulatory reform package contained in the Dodd-Frank Act, Congress has legislated reforms in the reinsurance and surplus lines sectors.

Under reinsurance credit rules established under the Dodd-Frank Act, a U.S. ceding insurer need not satisfy the reinsurance credit rules of any nondomestic state if the following two conditions are met: (1) the ceding insurer's domestic state is NAIC-accredited or has financial solvency requirements substantially similar to the requirements necessary for NAIC accreditation, and (2) the ceding insurer's domestic state recognizes credit for reinsurance for its ceded risk.

The Dodd-Frank Act also incorporates the Nonadmitted and Reinsurance Reform Act of 2010 ("NRRA"), which became effective on July 21, 2011. Among other things, the NRRA establishes national uniform standards on how states may regulate and tax surplus lines insurance and sets national standards concerning the regulation of reinsurance. In particular, the NRRA gives regulators in the home state of an insured exclusive authority to regulate and tax surplus lines insurance transactions, and regulators in a ceding insurer's state of domicile the sole responsibility for regulating the balance sheet credit that the ceding insurer may take for reinsurance recoverables.

The Dodd-Frank Act also established the FIO in the U.S. Department of the Treasury and vested the FIO with the authority to monitor all aspects of the insurance sector, monitor the extent to which traditionally underserved communities and consumers have access to affordable non-health insurance products, and to represent the United States on prudential aspects of international insurance matters, including at the International Association of Insurance Supervisors (the "IAIS"). In addition, the FIO serves as an advisory member of the Financial Stability Oversight Council, assists the secretary of the U.S. Department of the Treasury with administration of the Terrorism Risk Insurance Program, and advises the secretary of the U.S. Department of the Treasury on important national and international insurance matters. In addition, the FIO has the ability to recommend to the Financial Stability Oversight Council the designation of an insurer as "systemically significant" and therefore subject to regulation by the Federal Reserve as a bank holding company.

In limited circumstances, the FIO can declare a state insurance law or regulation "preempted," but this can be done only after extensive consultation with state insurance regulators, the Office of the U.S. Trade Representative and key insurance industry players (in trade associations representing insurers and intermediaries). Additionally, the FIO must publish a notice regarding the basis for the preemption in the Federal Register, allowing a reasonable opportunity for comments. The FIO cannot preempt state antitrust laws governing rate making, underwriting, sales practices or coverage requirements. No later than September 30th of each year, the FIO must submit an annual report to Congress explaining any use of the preemption authority during the prior year.

In addition, a number of federal laws affect and apply to the insurance industry, including various privacy laws and the economic and trade sanctions implemented by the Office of Foreign Assets Control ("OFAC") of the U.S. Department of the Treasury. OFAC maintains and enforces economic sanctions against certain foreign countries and groups and prohibits U.S. persons from engaging in certain transactions with certain persons or entities. OFAC has imposed civil penalties on persons, including insurance and reinsurance companies, arising from violations of its economic sanctions program.

On December 12, 2013, the FIO submitted a report to Congress as required under the Dodd-Frank Act on improving U.S. insurance regulation (the "Modernization Report"). The Modernization Report concludes that the federal government should continue its involvement in insurance regulation, emphasizing the need for improved uniformity and efficiency in the U.S. insurance regulatory system, but that the current "hybrid" state and federal regulatory system should remain in place. The Modernization Report also recommends certain steps that should be taken to modernize and improve the U.S. insurance regulatory system through a combination of actions to be taken by the state and federal governments. Many of the recommendations in the Modernization Report are subject to NAIC initiatives. As the FIO does not have regulatory authority, the recommendations in its report could be viewed as advisory in nature. Most suggestions for U.S. federal standards and involvement in insurance regulation would require U.S. Congressional action. Whether many of the recommendations will be implemented, altered considerably, or delayed for an extended period is still uncertain.

The FIO and the Office of the U.S. Trade Representative have exercised their authority under the Dodd-Frank Act to negotiate a "covered agreement" with each of the European Union (the "EU") and the United Kingdom. Those covered agreements, which establishes standards on collateral requirements for reinsurance, insurance group supervision and confidentiality, began taking effect in 2018 and are expected to be fully implemented by September 22, 2022, with preemption analysis by the FIO to be completed by September 1, 2022.

Trade Practices

The manner in which insurance companies and insurance agents and brokers conduct the business of insurance is regulated by state statutes in an effort to prohibit practices that constitute unfair methods of competition or unfair or deceptive acts or practices. Prohibited practices include, but are not limited to, disseminating false information or advertising, unfair discrimination, rebating and false statements. We set business conduct policies to make our employee-agents and other sales personnel aware of these prohibitions, and we require them to conduct their activities in compliance with these statutes.

Unfair Claims Practices

Generally, insurance companies, adjusting companies and individual claims adjusters are prohibited by state statutes from engaging in unfair claims practices on a flagrant basis or with such frequency to indicate a general business practice. Unfair claims practices include, but are not limited to, misrepresenting pertinent facts or insurance policy provisions; failing to acknowledge and act reasonably promptly upon communications with respect to claims arising under insurance policies; and attempting to settle a claim for less than the amount to which a reasonable person would have believed such person was entitled. We set business conduct policies to make our employee-adjusters and other claims personnel aware of these prohibitions, and requires them to conduct their activities in compliance with these statutes.

Quarterly and Annual Financial Reporting

Our insurance subsidiaries are required to file quarterly and annual financial reports with state insurance regulators using statutory accounting practices (SAP) rather than generally accepted accounting principles (GAAP). In keeping with the intent to assure policyholder protection, SAP emphasizes solvency considerations. For a summary of the SAP capital and surplus and net income (loss) relating to our insurance subsidiaries, see Note 26 to our audited consolidated financial statements included in this prospectus.

Credit for Reinsurance

State insurance laws permit U.S. insurance companies, as ceding insurers, to take financial statement credit for reinsurance that is ceded, so long as the assuming reinsurer satisfies the state's credit for reinsurance laws. There are several different ways in which the credit for reinsurance laws may be satisfied by an assuming reinsurer, including being licensed in the state, being accredited in the state, or maintaining certain types of qualifying collateral. We ensure that our material reinsurers qualify in order for us to be able to take full financial statement credit for its reinsurance.

Periodic Financial and Market Conduct Examinations

The insurance regulatory authority in the States of Texas and Oklahoma conduct on-site visits and examinations of the financial affairs and market conduct condition our insurance company subsidiaries, including their financial condition, their relationships and transactions with affiliates and their dealings with policyholders, every five years, and may conduct special or targeted examinations to address particular concerns or issues at any time. Our next exam will begin sometime in 2022. Insurance regulators of other states in which we do business may also conduct examinations. The results of these examinations can give rise to regulatory orders requiring remedial, injunctive or other corrective action. Insurance regulatory authorities have broad administrative powers to regulate trade practices and to restrict or revoke licenses to transact business and to levy fines and monetary penalties against insurers and insurance agents and brokers found to be in violation of applicable laws and regulations.

Risk-Based Capital

Risk-based capital ("RBC") laws are designed to assess the minimum amount of capital that an insurance company needs to support its overall business operations and to ensure that it has an acceptably low expectation of becoming financially impaired. State insurance regulators use RBC to set capital requirements, considering the size and degree of risk taken by the insurer and taking into account various risk factors including asset risk, credit risk, underwriting risk and interest rate risk. As the ratio of an insurer's total adjusted capital and surplus decreases relative to its risk-based capital, the RBC laws provide for increasing levels of regulatory intervention culminating with mandatory control of the operations of the insurer by the domiciliary insurance department at the so-called mandatory control level.

The Texas and Oklahoma Departments of Insurance have largely adopted the model legislation promulgated by the NAIC pertaining to RBC, and requires annual reporting by their domiciled insurers to confirm that the minimum amount of RBC necessary for an insurer to support its overall business operations has been met. Insurers falling below a calculated threshold may be subject to varying degrees of regulatory action. Failure to maintain risk-based capital at the required levels could adversely affect our ability to maintain the regulatory approvals necessary to conduct our business. However, as of December 31, 2021, we maintained RBC levels significantly in excess of amounts that would require any corrective actions.

IRIS Ratios

The NAIC Insurance Regulatory Information System, or IRIS, is part of a collection of analytical tools designed to provide state insurance regulators with an integrated approach to screening and analyzing the financial condition of insurance companies operating in their respective states. IRIS is intended to assist state insurance regulators in targeting resources to those insurers in greatest need of regulatory attention. IRIS consists of two phases: statistical and analytical. In the statistical phase, the NAIC database generates key financial ratio results based on financial information obtained from insurers' annual statutory statements. The analytical phase is a review of the annual statements, financial ratios and other automated solvency tools. The primary goal of the analytical phase is to identify companies that appear to require immediate regulatory attention. A ratio result falling outside the usual range of IRIS ratios is not considered a failing result; rather, unusual values are viewed as part of the regulatory early monitoring system. Furthermore, in some years, it may not be unusual for financially sound companies to have several ratios with results outside the usual ranges. An insurance company may fall out of the usual range for one or more ratios because of specific transactions that are in themselves immaterial.

As of December 31, 2021, our insurance companies had IRIS ratios outside the usual range, as set forth in the following table:[1]

Ratio	As of December 31, 2021 Unusual Range	Actual Results
Two-year overall operating ratio	>100%	
Investment yield	2.0% to 5.5%	
Change in adjusted policyholders' surplus	-10% to 25%	

Our results for these ratios are attributable to the significant growth in premiums and low investment yields due to the current interest rate environment.

1 NTD: Confirm table before filing. May need to remove since STAT audit extension granted to at least July 1.

MANAGEMENT

Executive Officers and Directors

Set forth below is certain biographical and other information regarding our directors and our executive officers as of the date of this prospectus.

Name	Age	Position(s)
Executive Officers		
Andrew Robinson	56	Chief Executive Officer and Director
Mark Haushill	60	Chief Financial Officer
Kirby Hill	58	Executive Vice President and President of Industry Solutions, Captives and Programs
John Burkhart	53	Executive Vice President and President of Specialty Lines
Sean Duffy	55	Chief Claims Officer
Sandip Kapadia	42	Chief Actuary and Executive Vice President, Underwriting Strategy and Enterprise Analytics
Daniel Bodnar	55	Chief Information and Technology Officer
Thomas Schmitt	63	Chief People and Administrative Officer
Leslie Shaunty	53	General Counsel
Non-Employee Directors		
J. Cameron MacDonald	60	Chair of the Board
Robert Creager	73	Director
James Hays	64	Director
Robert Kittel	50	Director

The following are brief biographies describing the backgrounds of our executive officers and directors.

Andrew Robinson has served as our Chief Executive Officer and as a member of our Board of Directors since May 2020. Since August 2020, Mr. Robinson has also served as a member of our Compensation Committee. Prior to joining Skyward Specialty, Mr. Robinson was an Executive in Residence then Senior Advisor at Oak HC/FT, a venture and growth equity firm, including serving as Co-Chief Executive Officer then as Executive Chairman at Groundspeed Analytics, and as Chairman of Clara Analytics, both insurance technology companies funded by Oak HC/FT. From January 2017 to July 2017, Mr. Robinson served as the Global Chief Operating Officer and Executive Vice President of Crawford & Company, a claims management solutions business. Mr. Robinson oversaw Crawford & Company's four businesses with revenues of $1.1 billion and over 8,000 employees. Mr. Robinson's experience also includes over ten years with The Hanover Insurance Group, Inc. ("The Hanover"), an insurance company, where he rose to President of Specialty Insurance, Executive Vice President of Corporate Development and Chief Risk Officer. While at The Hanover, his responsibilities included all aspects of the company's U.S. specialty businesses, including profit and loss and strategic and operational oversight. He was also responsible for acquisitions, divestitures, business integration, and enterprise risk management for the broader enterprise. Prior to his time at The Hanover, he was the Managing Partner of Global Insurance at Diamond (now PWC) Consulting. Mr. Robinson also serves on the board of McLarens, Inc., a global insurance services company, and PLNAR, an insurance technology company. Mr. Robinson previously served on the Board of Directors of Chaucer Plc, a Lloyd's of London managing agency.

Mr. Robinson holds a Bachelor of Science degree from Clarkson University. Mr. Robinson is a highly experienced and successful global insurance executive with a 30 year track record of growth, financial improvement, strategic and operational leadership. We believe Mr. Robinson is qualified to serve as a member of our Board of Directors based on our review of his experience, qualifications, attributes and skills, including his executive leadership experience in the insurance, claims management and technology industries.

Mark Haushill has served as our Chief Financial Officer and Executive Vice President since November 2015. Since November 2015, Mr. Haushill has served as a Director of each of our insurance subsidiaries, including HSIC, IIC, GMIC and OSIC, and President of each since August 17, 2020. Prior to joining Skyward Specialty, Mr. Haushill was Vice President, Chief Financial Officer and Treasurer at American Safety Holdings, Ltd., a public insurance company, from September 2009 to December 2015. From December 2000 to September 2009, Mr. Haushill was Vice President, Chief Financial Officer and Treasurer at Argo Group, Ltd., a publicly-traded insurance company.

Mr. Haushill holds a Bachelor of Business Administration degree in Accounting from Baylor University. With his more than 25 years of experience in the insurance industry, Mr. Haushill brings a wealth of knowledge of best processes and practices to the Company’s accounting and treasury functions.

Kirby Hill has served as our Executive Vice President and President of Industry Solutions, Captives and Programs since January 2021, and prior to that, in a variety of roles leading different aspects of our underwriting operations since December 2010. Prior to joining Skyward Specialty, Mr. Hill was the Chief Executive Officer and Co-Founder of Norwich Holding Co., LLC, a company specializing in the development, implementation and administration of commercial specialty insurance products and programs, and prior to that in various multiline underwriting positions at PMA Insurance Corporation and American International Group, Inc. (AIG). Mr. Hill holds a Bachelor of Economics from Villanova University. With his more than 30 years of experience in all facets of the insurance business, including agency, captive and underwriting operations, Mr. Hill brings significant value to the Company, handling our program administrator partnerships, specialty distribution and niche industry businesses.

John Burkhart has served as our Executive Vice President and President of Specialty Lines since January 2021. Prior to joining Skyward Specialty, Mr. Burkhart was Senior Vice President, Head of Professional Lines and Industry Verticals at QBE Insurance Group Limited, a public insurance company, from November 2013 to September 2020. Prior to that Mr. Burkhart held several roles, including Vice President — Specialty Lines, during his tenure at Chubb Limited, a publicly-traded insurance company, from June 1992 to October 2013.

Mr. Burkhart holds a Bachelor of Science degree in Finance from Western Michigan University. Mr. Burkhart has almost 30 years of experience in specialty lines insurance, including management and professional liability, healthcare, financial institutions and transactional liability

Sean Duffy has served as our Chief Claims Officer and Executive Vice President since January 2019. Since March 2019, Mr. Duffy has also served as Director of our subsidiaries Houston Specialty Insurance Company, Imperium Insurance Company, Great Midwest Insurance Company, and Oklahoma Specialty Insurance Company. Prior to joining Skyward Specialty, Mr. Duffy was Senior Vice President, Chief Claims Officer at OneBeacon Insurance, a specialty insurance provider, from April 2010 to March 2018. In addition, Mr. Duffy previously held senior claims roles at insurers Great American Insurance and Travelers.

Mr. Duffy holds a Juris Doctorate from Hamline University and a Bachelor of Arts from Carleton College. Mr. Duffy has over 27 years of experience in the insurance industry.

Sandip Kapadia has served as our Chief Actuary and Executive Vice President, Underwriting Strategy and Enterprise Analytics since November 2021. From April 2020 to November 2021, Mr. Kapadia served as our Senior Vice President, Head of Data Analytics and Underwriting Strategy. Since August 2021, Mr. Kapadia has also served as Director of our subsidiaries Houston Specialty Insurance Company, Imperium Insurance Company, Great Midwest Insurance Company, and Oklahoma Specialty Insurance Company, including as a member of the Audit Committee of Houston Specialty Insurance Company, Imperium Insurance Company, and Great Midwest Insurance Company. Prior to joining Skyward Specialty, Mr. Kapadia was Vice President at Crum & Forster, an insurance company, from September 2015 to April 2020. Mr. Kapadia has also held various analytical roles in the insurance industry at Partner Re, Everest Re, and Aon Re.

Mr. Kapadia holds a Bachelor of Science from Pennsylvania State University. Mr. Kapadia is a Fellow of the Casualty Actuarial Society, a member of the American Academy of Actuaries, and a Designated Mentor to the Columbia University Actuarial Science graduate program. Mr. Kapadia brings with him over 20 years of industry experience across multiple actuarial, insurance, reinsurance, and modeling roles.

Daniel Bodnar has served as our Chief Information and Technology Officer since August 2017. Since March 2021, Mr. Bodnar has also served as Director of our subsidiaries Houston Specialty Insurance Company, Imperium Insurance Company, Great Midwest Insurance Company, and Oklahoma Specialty Insurance Company, and since August 2021, he has served as Director of our subsidiary Skyward Service Company. Prior to joining Skyward Specialty, Mr. Bodnar was a Property and Casualty IT Consultant at insureCIO, an information technology services company servicing the property and casualty insurance industry, from March 2015 to August 2017. Prior to that Mr. Bodnar was at Argo Insurance Group and HCC Insurance Holdings, two specialty insurance companies, successfully building specialty insurance technology teams and platforms.

Mr. Bodnar holds a Bachelor of Computer Science from Trinity University (San Antonio). Mr. Bodnar has more than 20 years' experience working in the insurance technology industry.

Thomas Schmitt has served as our Chief People and Administrative Officer since September 2020. Since August 2021, he has served as a Director of our subsidiary Skyward Service Company. Prior to joining Skyward Specialty, Mr. Schmitt served as Chief Human Resources Officer and Senior Vice President at James River Insurance Group, an insurance company, from January 2019 to July 2019. Mr. Schmitt was an Independent Management Consultant from January 2018 to December 2019 and from June 2020 to September 2020. From February 2003 to December 2017, Mr. Schmitt was in positions of ascending authority at OneBeacon Insurance, an insurance company, most recently serving as Senior Vice President and Chief Human Resources Officer. Mr. Schmitt was instrumental in building high-performing human resources functions and assisting in the transformation of the company in times of growth and expansion.

Mr. Schmitt holds a Bachelor of Science from Boston College and an MBA from Babson College. Mr. Schmitt has more than 30 years of experience in a variety of human resources and administrative management roles in the insurance, technology, and banking industries.

Leslie Shaunty has served as our General Counsel since January 2021. Prior to that, Ms. Shaunty was the Company's Vice President of Legal & Compliance from July 2013 to December 2019 and Chief Legal Officer from June 2020 to January 2021. Since June 2020, Ms. Shaunty has served as a Director and the Secretary of each of our subsidiaries, including HSIC, IIC, GMIC and OSIC. From February 2019 to June 2020, Ms. Shaunty operated the Shaunty Law Firm, providing clients, including Skyward Specialty, with corporate legal services.

Ms. Shaunty holds a Juris Doctorate from the University of Virginia and a Bachelor of Arts from the University of Texas. Ms. Shaunty has more than 25 years of legal experience in a variety of industries, including retail and manufacturing, in addition to more than 10 years of insurance industry experience.

Non-Employee Directors

J. Cameron MacDonald has served on our Board of Directors since July 2014 and as Chairman of our Board since May 2020. Mr. MacDonald has served as a member of the Nominating & Governance Committee since August 2020. Since April 2009, Mr. MacDonald has served as President and Chief Executive Officer of The Westaim Corporation, a public investment company and significant shareholder of the Company. Mr. MacDonald has served as a Director on the Board of The Westaim Corporation since December 2008. Mr. MacDonald served as Chairman of the Goodwood Advisory Committee from March 2009 to November 2012. He served as the President and CEO of Goodwood Inc., an investment management firm, from September 2000 to November 2012. Prior to his tenure at Goodwood Inc., from March 1990 through March 1999, Mr. MacDonald was a Director, member of the Research and Executive Committee, and shareholder of Connor Clark Private Trust, a wealth management company. From 1983 through 1990 he held various positions at CIBC Wood Gundy, a retail brokerage company, in Credit, Operations, and served as an Account Executive in the capacity of Vice President.

Mr. MacDonald holds a Bachelor of Arts in Economics from Wilfrid Laurier University and is a CFA Charterholder. We believe Mr. MacDonald is qualified to serve as a member of our Board of Directors based on our review of his experience, qualifications, attributes, and skills, including his corporate governance and executive leadership experience in the investment, insurance and technology industries.

Robert Creager has served on our Board of Directors since October 2012, as Chairman of the Audit Committee since July 2014 and as Chairman of the Nominating & Governance Committee since August 2020. Since November 2019, Mr. Creager has served as Director and Chairman of the Audit Committee of our subsidiaries Houston Specialty Insurance Company, Imperium Insurance Company, and Great Midwest Insurance Company and as a Director of our subsidiary Oklahoma Specialty Insurance Company. Since 2012, Mr. Creager has served as a Director and Chairman of the Audit Committee of USA Truck, Inc.(NASDAQ: USAK), a public trucking and logistics company. Previously he served as a Director and Chaired the Audit Committee of Mattress Firm, Inc., a mattress retailer, and GeoMet, Inc. (OTC: GMET), an energy company. From 1982 until 2009, Mr. Creager was an Assurance Partner with PricewaterhouseCoopers LLP. and was the leader of the Houston audit practice from 2001 to 2007.

Mr. Creager holds a Bachelor of Science degree in Accounting from the University of Maryland. From 2010 to 2019, Mr. Creager was a board member of the National Association of Corporate Directors Texas TriCities Chapter, served as the Treasurer, and was a Governance Fellow. He has served on boards of directors of public, private, and not-for-profit companies. Mr. Creager is a senior financial professional with many years of public accounting experience, corporate governance experience as a director, and industry expertise. We believe Mr. Creager is qualified to serve as a member of our Board of Directors based on his experience, qualifications, attributes, and skills including his extensive financial accounting background and his experience serving on Audit Committees.

James Hays has served on our Board of Directors since April 2020 and as a member of our Compensation Committee and Nominating & Governance Committee since August 2020. Since October 2018, Mr. Hays has served as Vice Chairman and member of the Board of Directors of Brown & Brown, Inc., a public insurance company. Since August 1994, he served as the Founder and Chief Executive Officer of Hays Companies, an insurance broker that was acquired by Brown & Brown, Inc. in October 2018. At Hays Companies, Mr. Hays developed the organization into a nationwide leader in risk management, P&C, employee benefits, and personal lines insurance. As Chief Executive Officer of Hays Companies, Mr. Hays has overseen more than 25 years of growth, starting from a seven-person operation to a large-scale firm with more than 700 teammates in 30 offices. In addition to his leadership responsibilities, Mr. Hays maintains relationships with key accounts, helping customers understand their risk profile and developing robust insurance solutions.

Mr. Hays holds a Bachelor of Science and a Master of Business Administration from the University of Minnesota. He currently serves on the Boards of the Astronaut Scholarship Foundation, a non-profit organization, JS Held, LLC, a consulting firm, and Mid Country Acquisition Corp, a savings and loan holding company. We believe Mr. Hays is qualified to serve as a member of our Board of Directors based on his experience, qualifications, attributes, and skills including his extensive experience in the multiple sectors of the insurance industry.

Robert Kittel has served on our Board of Directors and as a member of the Audit Committee and Compensation Committee since July 2014. Mr. Kittel has been the Chairman of the Compensation Committee since August 2020. Since January 2013, Mr. Kittel has served as the Chief Operating Officer of The Westaim Corporation, a public financial and investment company and a significant stockholder of the Company. Previously he was a Partner and Portfolio Manager at Goodwood Inc., an investment management firm, that he joined in 2002. From 2000 through 2002, he was Vice President and Analyst of a Canadian-based hedge fund investment firm. From 1997 through 2000, Mr. Kittel was employed by the Cadillac Fairview Corporation, a commercial real estate development company in the investments area. Prior to 1997, Mr. Kittel was a Staff Accountant at KPMG LLP.

Mr. Kittel has served as a Director on several public company Boards, both in Canada and the United States, and is currently on the Board, Audit Committee and Compensation Committee of Constellation Software Inc., a public diversified software company. Mr. Kittel holds a Bachelor of Business Administration Honours from Wilfrid Laurier University, is a Chartered Professional Accountant, and a Chartered Financial Analyst. We believe Mr. Kittel is qualified to serve as a member of our board of directors based on our review of his experience, qualifications, attributes, and skills, including his extensive experience in financial accounting.

Family Relationships

There are no family relationships among any of our directors or executive officers.

Board Composition

Our bylaws provide that our Board of Directors shall initially consist of eight members, and thereafter shall be fixed from time to time by resolution of our Board of Directors. At the time of this Offering our Board of Directors will consist of members: .

In accordance with our certificate of incorporation, our Board of Directors will be divided into three classes with staggered three year terms. At each annual meeting of stockholders after the initial classification, the successors to the directors whose terms will then expire will be elected to serve from the time of election and qualification until the third annual meeting following their election. Our directors will be divided among the three classes as follows:

- the Class I directors will be and , and their terms will expire at the annual meeting of stockholders to be held in 2023;
- the Class II directors will be and , and their terms will expire at the annual meeting of stockholders to be held in 2024; and
- the Class III directors will be and , and their terms will expire at the annual meeting of stockholders to be held in 2025.

Any increase or decrease in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of the directors. This classification of our Board of Directors may have the effect of delaying or preventing changes in control of our company.

Our Board of Directors has determined that upon completion of this offering, five will be independent directors. In making this determination, our Board of Directors applied the standards set forth in and in Rule 10A-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). In evaluating the independence of , our Board of Directors considered their current and historical employment, any compensation we have given to them, any transactions we have with them, their beneficial ownership of our capital stock, their ability to exert control over us, all other material relationships they have had with us and the same facts with respect to their immediate family. The Board of Directors also considered all other relevant facts and circumstances known to it in making this independence determination. In addition, are all non-employee directors, as defined in Rule 16b-3 of the Exchange Act.

Although there is no specific policy regarding diversity in identifying director nominees, both the Nominating and Corporate Governance Committee and the Board of Directors seek the talents and backgrounds that would be most helpful to us in selecting director nominees. In particular, the Nominating and Corporate Governance Committee, when recommending director candidates to the full Board of Directors for nomination, may consider whether a director candidate, if elected, assists in achieving a mix of Board of Directors members that represents a diversity of background and experience.

Board Leadership Structure

Our Board of Directors recognizes that one of its key responsibilities is to evaluate and determine its optimal leadership structure so as to provide effective oversight of management. Our bylaws and corporate governance guidelines, will provide our Board of Directors with flexibility to combine or separate the positions of Chair of the Board and Chief Executive Officer. Our Board of Directors currently believes that our existing leadership structure, under which Andrew Robinson serves as our chief executive officer and J. Cameron MacDonald serves as Chair of the Board, is effective, and achieves the optimal governance model for us and for our stockholders.

Board Oversight of Risk

Although management is responsible for the day-to-day management of the risks our company faces, our Board of Directors and its committees take an active role in overseeing management of our risks and have the ultimate responsibility for the oversight of risk management. The Board of Directors regularly reviews information regarding our operational, financial, legal and strategic risks. Specifically, senior management attends quarterly meetings of the Board of Directors, provides presentations on operations including significant risks, and is available to address any questions or concerns raised by our Board of Directors.

In addition, we expect that several of our committees will assist the Board of Directors in fulfilling its oversight responsibilities regarding risk. The Audit Committee will coordinate the Board of Director's oversight of our internal controls over financial reporting, disclosure controls and procedures, related party transactions and code of conduct and corporate governance guidelines and management will regularly report to the Audit Committee on these areas. The Compensation Committee will assist the Board of Directors in fulfilling its oversight responsibilities with respect to the management of risks arising from our compensation policies and programs as well as succession planning as it relates to our Chief Executive Officer. The Nominating and Corporate Governance Committee will assist the Board of Directors in fulfilling its oversight responsibilities with respect to the management of risks associated with board organization, membership and structure, succession planning for our directors and corporate governance. When any of the committees receives a report related to material risk oversight, the chairman of the relevant committee will report on the discussion to the full Board of Directors.

Code of Business Conduct and Ethics

We anticipate adopting an amended code of conduct and ethics, effective immediately prior to the completion of this offering, which will apply to all of our employees, officers and directors, including those officers responsible for financial reporting. Following its completion, the code of conduct and ethics will be available on our website at www.skywardinsurance.com. We intend to disclose any amendments to the code, or any waivers of its requirements, on our website to the extent required by the applicable rules and exchange requirements. The inclusion of our website address in this prospectus does not incorporate by reference the information on or accessible through our website into this prospectus.

Board Committees

Our Board of Directors has established the following committees: an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee. The anticipated composition and responsibilities of each committee are described below. Members will serve on these committees until their resignation or until otherwise determined by our Board of Directors.

Audit Committee

Our audit committee oversees our corporate accounting and financial reporting process. Among other matters, the audit committee:

- appoints our independent registered public accounting firm;
- evaluates the independent registered public accounting firm's qualifications, independence and performance;
- determines the engagement of the independent registered public accounting firm;
- reviews and approves the scope of the annual audit and the audit fee;
- discusses with management and the independent registered public accounting firm the results of the annual audit and the review of our quarterly financial statements;
- approves the retention of the independent registered public accounting firm to perform any proposed permissible non-audit services;
- monitors the rotation of partners of the independent registered public accounting firm on our engagement team in accordance with requirements established by the SEC;
- reviews our financial statements and our management's discussion and analysis of financial condition and results of operations to be included in our annual and quarterly reports to be filed with the SEC;
- reviews our critical accounting policies and estimates; and
- reviews the audit committee charter and the committee's performance at least annually.

The members of our audit committee are (chairperson), and . All members of our audit committee meet the requirements for financial literacy under the applicable rules and regulations of the SEC and the . Our Board of Directors has determined that is an audit committee financial expert as defined under the applicable rules of the SEC and has the requisite financial sophistication as defined under the applicable rules and regulations of the . Under the rules of the SEC, members of the audit committee must also meet heightened independence standards. However, a minority of the members of the audit committee may be exempt from the heightened audit committee independence standards for one year from the date of effectiveness of the registration statement of which this prospectus forms a part. Our Board of Directors has determined that each of , and are independent under the heightened audit committee independence standards of the SEC and . As allowed under the applicable rules and regulations of the SEC and the , we intend to phase in compliance with the heightened audit committee independence requirements prior to the end of the one-year transition period. The audit committee operates under a written charter that satisfies the applicable standards of the SEC and the .

Compensation Committee

Our compensation committee reviews and recommends policies relating to compensation and benefits of our officers and employees. Among other matters, the compensation committee:

- reviews, modifies and approves (or, if it deems appropriate, makes recommendations to our board of directors regarding) corporate goals and objectives relevant to compensation of our Chief Executive Officer and other executive officers;
- evaluates the performance of these officers in light of those goals and objectives and determines and approves (or, if it deems appropriate, recommends to our board of directors for determination and approval) the compensation of these officers based on such evaluations;
- reviews, and for our executives officers approves, (or, if it deems appropriate, recommending to our board of directors for determination and approval) the issuance of awards under our stock plans; and
- reviews and evaluates, at least annually, the performance of the compensation committee and its members, including compliance by the compensation committee with its charter.

The members of our compensation committee are (chairperson), and . Each of the members of our Compensation Committee is a “non-employee director” as defined in Rule 16b-3 promulgated under the Exchange Act and is an “outside director” as that term is defined in Section 162(m) of the Internal Revenue Code of 1986, as amended, or Section 162(m). The compensation committee operates under a written charter that satisfies the applicable standards of the SEC and the .

Nominating and Corporate Governance Committee

Our Nominating and Corporate Governance Committee consists of (chairperson), and . The principal duties and responsibilities of the Nominating and Corporate Governance Committee are as follows:

- to identify candidates qualified to become directors, consistent with criteria approved by our Board of Directors;
- to recommend to our Board of Directors nominees for election as directors at the next annual meeting of stockholders or a special meeting of stockholders at which directors are to be elected, as well as to recommend directors to serve on the other committees of the Board of Directors;
- to recommend to our Board of Directors candidates to fill vacancies and newly created directorships on the Board;
- to identify best practices and recommend corporate governance principles, including giving proper attention and making effective responses to stockholder concerns regarding corporate governance;
- to develop and recommend to our Board of Directors guidelines setting forth corporate governance principles; and
- to oversee the evaluation of our Board of Directors and senior management.

Compensation Committee Interlocks and Insider Participation

None of the expected members of our compensation committee has at any time been one of our officers or employees. None of our executive officers currently serves, or in the past fiscal year has served, as a member of the board of directors or compensation committee of any entity that has one or more executive officers on our Board or compensation committee.

EXECUTIVE COMPENSATION

This section discusses the material components of the executive compensation program for our executive officers who are named in the "Summary Compensation Table" below. For the fiscal year ended December 31, 2021, our "named executive officers" and their positions were as follows:

- Andrew Robinson, our Chief Executive Officer;
- Mark Haushill, our Chief Financial Officer and Executive Vice President;
- Kirby Hill, our Executive Vice President and President of Industry Solutions, Captives and Programs; and
- John Burkhart, our Executive Vice President and President of Specialty Lines.

This discussion may contain forward-looking statements that are based on our current plans, considerations, expectations and determinations regarding future compensation programs. Actual compensation programs that we adopt following the closing of this offering may differ materially from the currently planned programs summarized in this discussion.

Summary Compensation Table

The following table sets forth information concerning the compensation of our named executive officers for the year ended December 31, 2021.

Name and Principal Position	Year	Salary ($)	Stock Awards ($)[1]	Non-Equity Incentive Plan Compensation ($)[6]	All other Compensation ($)	Total ($)
Andrew Robinson *Chief Executive Officer*	2021	$ 750,000	$ 950,000[2]	$ 1,285,000[7]	$ 172,198[10]	$ 3,157,198
Mark Haushill *Chief Financial Officer and Executive Vice President*	2021	$ 450,000	$ 150,000[3]	$ 250,000[8]	$ 14,500[11]	$ 864,500
Kirby Hill *Executive Vice President and President of Industry Solutions, Captives and Programs*	2021	$ 425,000	$ 143,333[4]	$ 296,667[9]	$ 14,500[11]	$ 879,500
John Burkhart *Executive Vice President and President of Specialty Lines*	2021	$ 383,333	$ 133,333[5]	$ 276,667[9]	$ 39,500[12]	$ 832,833

(1) Amounts calculated using the grant date fair market value as of December 31, 2020.

(2) Consists of the aggregate value of Long-Term Equity Awards granted under the 2020 Long Term Incentive Plan granted during fiscal year ended December 31, 2021. The value of the Restricted Stock Units equals $475,000 and upon vesting each unit is equivalent to one share of the Company's common stock. These awards will fully vest on the third anniversary of the grant date. The value of the Performance Share Awards (PSAs) equals $475,000 with vesting terms subject to obtaining specified performance criteria from January 1, 2021 through December 31, 2023. Each PSA is equivalent to one share of the

Company's common stock. The number of units subject to vest under this award can range from 0% to 150% of the amount shown. These awards will fully vest on the third anniversary of the grant date.

(3) Consists of the aggregate value of Long-Term Equity Awards granted under the 2020 Long Term Incentive Plan granted during fiscal year ended December 31, 2021. The value of the Restricted Stock Units equals $75,000 and upon vesting each unit is equivalent to one share of the Company's common stock. These awards will fully vest on the third anniversary of the grant date. The value of the Performance Share Awards (PSAs) equals $75,000 with vesting terms subject to obtaining specified performance criteria from January 1, 2021 through December 31, 2023. Each PSA is equivalent to one share of the Company's common stock. The number of units subject to vest under this award can range from 0% to 150% of the amount shown. These awards will fully vest on the third anniversary of the grant date.

(4) Consists of the aggregate value of Long-Term Equity Awards granted during fiscal year ended December 31, 2021. The value of the Restricted Stock Units equals $71,667 and upon vesting each unit is equivalent to one share of the Company's common stock. These Restricted Stock Units will fully vest on the third anniversary of the grant date. The value of the Performance Share Awards (PSAs) equals $71,667 with vesting terms subject to obtaining specified performance criteria from January 1, 2021 through December 31, 2023. Each PSA is equivalent to one share of the Company's common stock. The number of units subject to vest under this award can range from 0% to 150% of the amount shown. The PSAs will fully vest on the third anniversary of the grant date.

(5) Consists of the aggregate value of the Long-Term Equity Awards granted during fiscal year ended December 31, 2021. The value of the Restricted Stock Units equals $66,667 and upon vesting each unit is equivalent to one share of the Company's common stock. These Restricted Stock Units will fully vest on the third anniversary of the grant date. The value of the Performance Share Awards (PSAs) equals $66,667 with vesting terms subject to obtaining specified performance criteria from January 1, 2021 through December 31, 2023. Each PSA is equivalent to one share of the Company's common stock. The number of units subject to vest under this award can range from 0% to 150% of the amount shown. The PSAs will fully vest on the third anniversary of the grant date.

(6) Consists of the bonus amounts paid to each individual for the fiscal year ended December 31, 2021. These amounts are as follows: Mr. Robinson, $810,000; Mr. Haushill, $175,000; Mr. Hill, $225,000; Mr. Burkhart, $210,000.

(7) Consists of the value of Long-Term Performance Cash Awards granted during fiscal year ended December 31, 2021. The value of the Performance Units (PUs) equals $475,000 with vesting terms subject to performance criteria related to the Company's combined ratio from January 1, 2021 through December 31, 2023. Each PSU is equivalent to $100. The number of units subject to vest under this award can range from 0% to 150% of the amount shown. This award will fully vest on the third anniversary of the grant date.

(8) Consists of the value of Long-Term Performance Cash Awards granted during fiscal year ended December 31, 2021. The value of the Performance Units (PUs) equals $75,000 with vesting terms subject to performance criteria related to the Company's combined ratio from January 1, 2021 through December 31, 2023. Each PSU is equivalent to $100. The number of units subject to vest under this award can range from 0% to 150% of the amount shown. This award will fully vest on the third anniversary of the grant date.

(9) Long-Term Performance Cash Award was granted on January 1, 2021 with vesting terms subject to performance criteria related to the Company's combined ratio from January 1, 2021 through December 31, 2023. The amount subject to vest under this award can range from 0% to 150% of the amount shown. This award will fully vest as a lump sum cash payment on the third anniversary of the grant date.

(10) Consists of $157,698 in relocation and moving expenses and $14,500 of Company matched 401(k) contributions.

(11) Consists of $14,500 of Company matched 401(k) contributions.

(12) Consists of $25,000 in relocation and moving expenses and $14,500 of Company matched 401(k) contributions.

Employment Agreements

As of the year ended December 31, 2021, Andrew Robinson is the only named executive officer that we have entered into a written employment agreement.

Andrew Robinson

On May 22, 2020, we entered into an employment agreement, amended as of January 1, 2022, with Andrew Robinson, who currently serves as our Chief Executive Officer. Mr. Robinson's employment agreement provides for at-will employment and sets forth his annual base salary and annual performance-based cash bonus, as well as his eligibility to participate in our benefit plans generally. Mr. Robinson's current annual base salary is no less than $800,000 and his annual performance-based cash bonus is 100% of the annual base salary.

Under Mr. Robinson's employment agreement, in the event that Mr. Robinson's employment with us is terminated at any time without "cause" or Mr. Robinson resigns for "good reason," then subject to and contingent upon Mr. Robinson's execution and delivery of a release agreement, Mr. Robinson will be entitled to receive: (a) a lump sum cash payment in an amount equal to his base salary as of the date of termination; (b) continued benefits for one year; (c) payment of a prorated target annual bonus for the year in which the termination occurs; (d) payment of any earned and accrued bonus for the calendar year proceeding the calendar year in which his employment is terminated; and (e) acceleration of any time-vesting awards under the Company's Long-Term Incentive Plan. If Mr. Robinson is terminated without "cause" or resigns for "good reason" within twelve (12) months of a Change in Control he shall receive the above payments, as well as accelerated vesting of any performance based awards, based on the valuation of the Board in good faith.

Pursuant to Mr. Robinson's employment agreement, "cause" means (a) an act of dishonesty, fraud, theft, or embezzlement by Mr. Robinson with respect to us or our subsidiaries; (b) malfeasance or gross negligence in the performance of Mr. Robinson's duties; (c) commission or conviction of any felony, or entry of a plea of guilty or nolo contendere to any felony, conviction of any misdemeanor involving theft, defalcation, dishonesty or violence, or entry of a plea of guilty or nolo contendere to any misdemeanor involving theft, defalcation, dishonesty or violence, or conviction related to any crime of moral turpitude; (d) willfully refusing to perform his duties and responsibilities, or failure to adhere to the directions of the Board or our or any of our subsidiaries' corporate codes, policies, or procedures, as in effect or amended from time to time; (e) failure by Mr. Robinson to perform his duties and responsibilities hereunder (other than by reason of disability due to physical or mental impairment) without the same being corrected within thirty (30) days after being given written notice thereof, as determined by us in good faith; (f) the material breach by Mr. Robinson of any of the covenants contained in the employment agreement; and (g) violation of any statutory, material contractual, or common law duty or obligation to us or any of our affiliates, including, without limitation, Mr. Robinson duty of loyalty, and further with respect to (a)-(d) and (f)-(g), without the same being corrected within ten (10) days after being given written notice thereof.

Pursuant to Mr. Robinson's employment agreement, "good reason" means the occurrence of any of the following events:

(a) a material diminution in Mr. Robinson's Base Salary, Mr. Robinson's Annual Bonus opportunity, or Mr. Robinson's Annual LTI Award opportunity;

(b) a material diminution in Mr. Robinson's authority, duties, title, or responsibilities;

(c) the involuntary relocation of the geographic location of Mr. Robinson's principal place of employment that is not to a mutually-agreed location;

(d) a material breach by us of any material provision of the employment agreement; or

(e) removal of Mr. Robinson from the Board without cause pursuant to Sections 3.3 and 3.5 of the Amended and Restated Stockholders' Agreement by and among the Stockholders party thereto and the Company dated as of March 12, 2014.

Under his employment agreement, Mr. Robinson is also subject to a twelve (12) month non-compete provision, which is reduced to six (6) months if his termination is within a month of a Change in Control, and non-solicitation of employees and customers for one year, to run from the date of his termination.

Outstanding Equity Awards at Fiscal Year-End

The following table sets forth information regarding outstanding equity awards held by our named executive officers as of December 31, 2021.

Name and Principal Position	Grant Date[(1)(2)]	Number of Shares or Units of Stock that have not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested[(3)]	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested
Andrew Robinson	01/01/2021	160,548[(4)]	$ —	—	—
Chief Executive Officer	01/01/2021	—	—	160,548[(5)]	$ [(3)]
	01/01/2021	—	—	4,750[(6)]	$ 475,000
	03/17/2021	168,999[(7)]	$ —	—	—
Mark Haushill	01/01/2021	25,349[(4)]	$ —	—	—
Chief Financial Officer and Executive Vice President	01/01/2021	—		25,349[(5)]	$ [(3)]
	01/01/2021	—	—	750[(6)]	$ 75,000
	06/30/2016	197,080[(8)]	$ —	—	—
Kirby Hill	01/01/2021	24,223[(4)]	$ —	—	—
Executive Vice President and President of Industry Solutions, Captives and Programs	01/01/2021	—	—	24,223[(5)]	$ [(3)]
John Burkhart	01/01/2021	22,533[(4)]	$ —	—	—
Executive Vice President and President of Specialty Lines	01/01/2021	—	—	22,533[(5)]	$ [(3)]

(1) All January 1, 2021 awards were granted pursuant to the 2020 Skyward Specialty Long-Term Incentive Plan.

(2) All other awards were granted pursuant to the Houston International Insurance Group, Ltd. 2016 Equity Incentive Program.

(3) Market value is based on the fair market value of the Company's common stock as of December 31, 2021. As there was no public market for our common stock on December 31, 2021, we have assumed that the fair market value on December 31, 2021 was $, which is the midpoint of the price range set forth on the cover page of this prospectus.

(4) Amounts shown are Restricted Stock Units granted on January 1, 2021. Upon vesting each unit is equivalent to one share of the Company's common stock. These awards will fully vest on the third anniversary of the grant date.

(5) Performance Share Awards (PSAs) were awarded on January 1, 2021 with vesting terms subject to obtaining specified performance criteria from January 1, 2021 through December 31, 2023. Each PSA is equivalent to one share of the Company's common stock. The number of units subject to vest under this award can range from 0% to 150% of the amount shown. This award will fully vest on the third anniversary of the grant date.

(6) Performance Units (PUs) were awarded on January 1, 2021 with vesting terms subject to performance criteria related to the Company's combined ratio from January 1, 2021 through December 31, 2023. Each PU is equivalent to $100. The number of units subject to vest under this award can range from 0% to 150% of the amount shown. This award will fully vest on the third anniversary of the grant date.

(7) Mr. Robinson was granted 253,498 shares of Restricted Stock on March 17, 2021, as a match to shares purchased under the 2016 Employee Incentive Program. The award is subject to three-year ratable vesting with one-third vesting on his anniversary of service date each year. The first tranche vested on May 22, 2021. The second tranche will vest on May 22, 2022. The third and final tranche will vest on May 22, 2023. Upon the consummation of this public offering all unvested shares shall immediately vest.

Employee Benefit and Equity Incentive Plans

2022 Long-Term Incentive Plan (2022 Plan)

In 2022, our board of directors adopted, and our stockholders approved, the 2022 Plan, which will become effective immediately prior to the closing of this offering. We intend to use the 2022 Plan following the completion of this offering to provide incentives that will assist us to attract, retain, and motivate employees, including officers, consultants, and directors.

The 2022 Plan will remain in effect, subject to the right of our board of directors or Compensation Committee to amend or terminate the 2022 Plan at any time, until the earlier of (a) the earliest date as of which all awards granted under the 2022 Plan have been satisfied in full or terminated and no shares of common stock approved for issuance under the 2022 Plan remain available to be granted under new awards, or (b) , 2032. No awards will be granted under the 2022 Plan after such termination date. Subject to other applicable provisions of the 2022 Plan, all awards made under the 2022 Plan on or before , 2032, or such earlier termination of the 2022 Plan, shall remain in effect until such awards have been satisfied or terminated in accordance with the 2022 Plan and the terms of such awards.

The 2022 Plan will be administered by the Compensation Committee, provided that no director shall participate in any deliberation or decision in respect of any stock option, stock appreciation right, stock award, stock unit, performance share, performance unit and/or other stock-based award to be granted to the director or held by the director. The 2022 Plan provides, subject to certain limitations, for indemnification by us of any director, officer or employee against all reasonable expenses, including attorneys' fees, incurred in connection with any legal action arising from such person's action or failure to act in administering the 2022 Plan.

The Administrator has the authority, in its sole and absolute discretion, to grant awards under the 2022 Plan to eligible individuals, and to take all other actions necessary or desirable to carry out the purpose and intent of the 2022 Plan. Further, the Administrator has the authority, in its sole and absolute discretion, subject to the terms and conditions of the 2022 Plan, to, among other things:

- determine the eligible individuals to whom, and the time or times at which, awards shall be granted;
- determine the type of awards to be granted to any eligible individual;
- determine the number of shares of common stock to be covered by or used for reference purposes for each award or the value to be transferred pursuant to any award; and
- determine the terms, conditions and restrictions applicable to each award and any shares of common stock acquired pursuant thereto, including, without limitation, (i) the purchase price of any shares of common stock, (ii) the method of payment for shares of common stock purchased pursuant to any award, (iii) the method for satisfying any tax withholding obligation arising in connection with any award, including by the withholding or delivery of shares of common stock, (iv) the timing, terms and conditions of the exercisability, vesting or payout of any award or any shares of common stock acquired pursuant thereto, (v) the performance goals applicable to any award and the extent to which such performance goals have been attained, (vi) the time of the expiration of an award, (vii) the effect of a participant's Termination of Service, as defined in the 2022 Plan, on any of the foregoing and (viii) all other terms, conditions and restrictions applicable to any award or shares of common stock acquired pursuant thereto as the Administrator considers to be appropriate and not inconsistent with the terms of the 2022 Plan.

A total of shares of our common stock will be initially authorized and reserved for issuance under the 2022 Plan. This reserve will automatically increase on January 1, 2023 and each subsequent anniversary through 2032, by an amount equal to the smaller of (a) 2% of the number of shares of common stock issued and outstanding on the immediately preceding December 31, or (b) an amount determined by the Compensation Committee. This reserve will not be increased to include any shares issuable upon exercise of options granted under an Assumed Plan that expire or terminate without having been exercised in full.

Appropriate adjustments will be made in the number of authorized shares and other numerical limits in the 2022 Plan and in outstanding awards to prevent dilution or enlargement of participants' rights in the event of a stock split or other change in our capital structure. Shares subject to awards which expire, are cancelled, forfeited, terminated unearned, settled in cash, or withheld or surrendered in payment of an exercise price or taxes will again become available for issuance under the 2022 Plan.

Subject to adjustment as provided in the provision of the 2022 Plan pertaining to the occurrence of certain corporate transactions, the maximum number of shares of common stock that may be issued pursuant to stock options granted under the 2022 Plan that are intended to qualify as incentive stock options is .

The Compensation Committee may establish compensation for directors who are not our employees, provided that the sum of any cash compensation and the grant date fair value of Awards granted under the 2022 Plan to a non-employee director as compensation for services as a non-employee director during any calendar year may not exceed $500,000 for an annual grant, provided that in a non-employee's director first year of service, compensation for services may not exceed $1 million. The Compensation Committee, in its discretion, may make exceptions to this limit for individual non-employee directors in extraordinary circumstances.

Awards may be granted individually or in tandem with other types of awards, concurrently with or with respect to outstanding awards. All awards will be evidenced by a written agreement between us and the holder of the award and may include any of the following:

- *Stock options.* We may grant non-statutory stock options or incentive stock options (as described in Section 422 of the Code), each of which gives its holder the right, during a specified term (not exceeding ten years) and subject to any specified vesting or other conditions, to purchase a number of shares of our common stock at an exercise price per share determined by the Administrator, which may not be less than the fair market value of a share of our common stock on the date of grant.
- *Stock appreciation rights.* A stock appreciation right, or SAR, gives its holder the right, during a specified term (not exceeding ten years) and subject to any specified vesting or other conditions, to receive the appreciation in the fair market value of our common stock between the date of grant of the award and the date of its exercise. We may pay the appreciation in shares of our common stock or in cash.
- *Restricted stock.* We may grant restricted stock awards. Shares of restricted stock remain subject to forfeiture until vested, based on such terms and conditions as we specify. Holders of restricted stock will have the right to vote the shares and to receive any dividends paid, except that the dividends may be subject to the same vesting conditions as the related shares.
- *Restricted stock units.* Restricted stock units, or RSUs, represent rights to receive shares of our common stock (or their value in cash) at a future date without payment of a purchase price, subject to vesting or other conditions specified by the Administrator. Holders of RSUs have no voting rights or rights to receive cash dividends unless and until shares of common stock are issued in settlement of such awards. However, the Administrator may grant RSUs that entitle their holders to dividend equivalent rights.
- *Performance awards.* Performance awards, consisting of either performance shares or performance units, are awards that will result in a payment to their holder only if specified performance goals are achieved during a specified performance period. The Administrator establishes the applicable performance goals based on one or more measures of business performance, such as combined ratio or gross written premiums growth. To the extent earned, performance awards may be settled in cash, in shares of our common stock or a combination of both in the discretion of the Administrator. Holders of performance shares or performance units have no voting rights or rights to receive cash dividends unless and until shares of common stock are issued in settlement of such awards. However, the Administrator may grant performance shares that entitle their holders to dividend equivalent rights.

- *Cash-based awards and other share-based awards.* The Administrator may grant cash-based awards that specify a monetary payment or range of payments or other share-based awards that specify a number or range of shares or units that, in either case, are subject to vesting or other conditions specified by the Administrator. Settlement of these awards may be in cash or shares of our common stock, as determined by the Administrator. Their holders will have no voting rights or right to receive cash dividends unless and until shares of our common stock are issued pursuant to the awards. The Administrator may grant dividend equivalent rights with respect to other share-based awards.

In the event of a change in control, as defined in the 2022 Plan, outstanding awards will terminate upon the effective time of the change in control unless provision is made for the continuation, assumption or substitution of awards by the surviving or successor entity or its parent. Unless an award agreement says otherwise, the following will occur with respect to awards that terminate in connection with a change in control:

- stock options and stock appreciation rights will become fully exercisable and holders of these awards will be permitted immediately before the change in control to exercise them;
- restricted stock and stock units with time-based vesting (i.e., not subject to achievement of performance goals) will become fully vested immediately before the change in control, and stock units will be settled as promptly as is practicable in accordance with applicable law; and
- performance shares and units that vest based on the achievement of performance goals will vest as if the performance goal for the unexpired performance period had been achieved at the target level; and the performance units will be settled as promptly as is practicable in accordance with applicable law.

In connection with the grant of awards, each participant will be required to enter into an agreement with us containing confidentiality, non-solicitation, and/or other provisions. If the Compensation Committee determines that a participant has breached such agreement all of a participant's vested and unvested shares received, awarded, vested or granted pursuant to restricted share awards shall immediately be cancelled.

2022 Employee Stock Purchase Plan (ESPP)

In 2022, our board of directors adopted, and our stockholders approved, the ESPP, which will become effective immediately prior to the closing of this offering.

The purpose of the ESPP is to attract, retain and reward our employees who contribute to our growth and profitability by providing them with an opportunity to acquire an ownership interest in the Company.

A total of shares of our common stock are available for sale under the ESPP. In addition, the ESPP provides for annual increases in the number of shares available for issuance under the ESPP on January 1, 2023 and each subsequent anniversary through 2030, equal to the smallest of:

- 1% of the outstanding shares of our common stock on the immediately preceding December 31; or
- such other amount as may be determined by our Compensation Committee.

Appropriate adjustments will be made in the number of authorized shares and in outstanding purchase rights to prevent dilution or enlargement of participants' rights in the event of a stock split or other change in our capital structure. Shares subject to purchase rights which expire or are cancelled will again become available for issuance under the ESPP.

The Compensation Committee will administer the ESPP and have full authority to interpret the terms of the ESPP. The ESPP provides, subject to certain limitations, for indemnification by us of any director, officer or employee against all reasonable expenses, including attorneys' fees, incurred in connection with any legal action arising from such person's action or failure to act in administering the ESPP.

All of our employees, including our named executive officers, are eligible to participate if they are customarily employed at least 20 hours per week and more than five months in any calendar year. Non-employee directors are not eligible to participate in the ESPP. Employees will be limited to purchasing $25,000 of stock each year and will not be able to purchase if such a purchase would cause the employee to own 5% or more of our stock.

The ESPP is intended to qualify under Section 423 of the Code and the ESPP shall be so construed. The ESPP will typically be implemented through two consecutive six-month offering periods. The offering periods generally start on or about March 15th and September 15th of each year after an enrollment period. The Compensation Committee may, in its discretion, modify the terms of future offering periods, including establishing offering periods of up to 27 months and providing for multiple purchase dates.

The ESPP permits participants to purchase common stock through payroll deductions of up to 10.0% of their regular gross earnings and overtime payments. Other types of compensation are not considered part of compensation for purposes of the ESPP.

Unless provided otherwise by the Compensation Committee, the purchase price of the shares will be 85.0% of the lower of the fair market value of our common stock on the first trading day of the offering period or on the last day of the offering period. Participants may end their participation at any time during an offering period and will be paid their accrued payroll deductions that have not yet been used to purchase shares of common stock. Participation ends automatically upon termination of employment with us.

Each participant in any offering will have an option to purchase for each full month contained in the offering period a number of shares which shall be the lesser of (i) the number of shares determined by dividing $2,083.33 by the fair market value of a share of our common stock on the first day of the offering period or (ii) 300 shares, and except as limited in order to comply with Section 423 of the Code. Prior to the beginning of any offering period, the Compensation Committee may alter the maximum number of shares that may be purchased by any participant during the offering period or specify a maximum aggregate number of shares that may be purchased by all participants in the offering period. If insufficient shares remain available under the plan to permit all participants to purchase the number of shares to which they would otherwise be entitled, the Administrator will make a pro rata allocation of the available shares. Any amounts withheld from participants' compensation in excess of the amounts used to purchase shares will be refunded, without interest.

A participant may not transfer rights granted under the ESPP other than by will, the laws of descent and distribution or as otherwise provided under the ESPP as described below. As further discussed below, in the event of a change in control, an acquiring or successor corporation may assume our rights and obligations under outstanding purchase rights or substitute substantially equivalent purchase rights. If the acquiring or successor corporation does not assume or substitute for outstanding purchase rights, then the purchase date of the offering periods then in progress will be accelerated to a date prior to the change in control.

The ESPP will continue in effect until terminated by the Compensation Committee. The Compensation Committee has the authority to amend, suspend or terminate the ESPP at any time.

2020 Long-Term Incentive Plan (2020 Plan)

The 2020 Plan was adopted by our board of directors on November 10, 2020. The purpose of the 2020 Plan was to attract, motivate and retain certain key employees, including officers, and non-employee directors by offering them incentive awards that recognize the creation of value for the shareholders and promote our long-term growth and success.

Awards granted under the 2020 Plan were one of five types: (1) Restricted Shares; (2) Restricted Stock Units; (3) Performance Shares; (4) Performance Units; or (5) Long-Term Performance Cash (collectively, the "Awards"). No Awards will be made under the 2020 Plan after the completion of this offering. All Awards granted prior to the completion of this offering will continue to be administered pursuant to the terms of the 2020 Plan.

The 2020 Plan was administered by our Compensation Committee. Subject to the provisions of the 2020 Plan, the Compensation Committee in its sole and absolute discretion, determined the persons to whom and the times at which Awards were granted, the sizes of such Awards and all of their terms and conditions. The Compensation Committee had the authority to construe and interpret the terms of the 2020 Plan and Awards granted under it. The 2020 Plan provided, subject to certain limitations, for indemnification by us of any director, officer, or employee against all reasonable expenses, including attorneys' fees, incurred in connection with any legal action arising from such person's action or failure to act in administering the 2020 Plan.

The Compensation Committee may, but is not required to, establish a maximum number of Units and/or Shares with respect to which Awards may be granted under the 2020 Plan. As of December 31, 2021, there were an aggregate of 1,464,180 shares and units outstanding under the 2020 Plan. Appropriate adjustment will be made in outstanding Awards to prevent dilution or enlargement of a participants' rights in the event of a stock split or other change in our capital structure.

The 2020 Plan provided for vesting acceleration upon a "double trigger event" which is defined as either): (1) termination by the Company without cause (as defined in the 2020 Plan); or (2) a "constructive termination" (as defined in the 2020 Plan) of a participant's employment, within twenty-four (24) months after a "change in control" (as defined in the 2020 Plan). In the event of a sale or closure of a business unit where a participant is hired by the purchaser, all Awards will be forfeited if the purchaser has a comparable incentive plan in which the employee will participate. If the purchaser does not have a comparable incentive plan, a portion of the unvested Award will vest.

In connection with the grant of Awards, each participant was required to enter into an agreement with us containing confidentiality, non-solicitation, and/or other provisions. If the Compensation Committee determines that a participant has breached such agreement all of a participant's vested and unvested shares received, awarded, vested or granted pursuant to restricted share awards shall immediately be cancelled.

All provisions of the 2020 Plan may at any time or from time to time be modified or amended by the Compensation Committee as long as no outstanding Award is adversely modified, impaired or canceled without the consent of the Award holder. The Compensation Committee may suspend or terminate the 2020 Plan at any time. The termination of the 2020 Plan shall not impair or affect any Award previously granted and the rights of the holder of the Award shall remain in effect until the Award has been paid in its entirety or has expired or otherwise has been terminated in accordance with the terms of such Award.

Pre-2020 Stock Purchase Programs

Prior to 2020, we had two different stock purchase programs, one effective in 2016 and one that began in 2011 and ended in 2015 (the "Programs"). The Programs allowed key employees to purchase our common stock at a price based on the fair value of our common stock at the end of the quarter in which the employee committed to the purchase. We then matched all purchases with stock grants. The Programs required an initial cash payment by the participating employee of at least 30% of the purchase price, with the remainder financed by a note from the employee to us. Grants awarded prior to 2016 vested as stock was paid for by the employee. Starting in 2016, a three-year vesting requirement was added with one third of any paid-for stock vesting each year. Once the employee was employed for three years, the only condition to vesting was payment of the note, as with the pre-2016 program. The last grant under the Programs was made in January 2021 and no further grants will be made under the Programs.

401(k) Plan

We maintain a retirement savings plan, or 401(k) Plan, for the benefit of our eligible employees, including our named executive officers. Our 401(k) Plan is intended to qualify under Sections 401 of the Internal Revenue Code. Each participant in the 401(k) Plan may contribute up to the statutory limit of his or her pre-tax compensation. We make matching contributions of 100% of the first 5% contributed by employees, up to the statutory compensation limits. All matching contributions are 50% vested after one year of service and 100% vested after two years of service. The 401(k) Plan provides for automatic salary deferrals of 5% of compensation upon hiring. If an employee elects a deferral percentage less than 5%, the deferral is escalated by 1% each year up to a max of 5%. Participants are permitted to waive the automatic deferral and escalation provisions.

Limitation of Liability and Indemnification

Our Certificate of Incorporation and our Bylaws will provide that we are permitted to indemnify our directors and officers, in each case to the fullest extent permitted by Delaware law. Our Bylaws will also provide that we may indemnify a director, officer, employee or agent (including the advancement of the final disposition of any action or proceeding), and permit us to secure insurance on behalf of any officer, director, employee or other agent for any liability arising out of his or her actions in that capacity regardless of whether we would otherwise be permitted to indemnify him or her under Delaware law.

We have entered into indemnification agreements that limit the liability of our directors for monetary damages to the fullest extent permitted by Delaware law, with certain exceptions. Consequently, our directors will not be personally liable to us or our stockholders for monetary damages for any breach of fiduciary duties as directors, except liability for:

- any breach of the director's duty of loyalty to us or our stockholders;
- any act or omission not in good faith or that involves intentional misconduct or a knowing violation of law;
- unlawful payments of dividends or unlawful stock repurchases or redemptions as provided in Section 174 of the Delaware General Corporation Law, or the DGCL; or
- any transaction from which the director derived an improper personal benefit.

Our indemnification agreements also provide advance expenses to our directors, executive officers and other employees as determined by our board of directors. With specified exceptions, these agreements provide for indemnification for related expenses including, among other things, attorneys' fees, judgments, fines and settlement amounts incurred by any of these individuals in any action or proceeding. We believe that these Bylaw provisions and indemnification agreements are necessary to attract and retain qualified persons as directors and officers. We also maintain directors' and officers' liability insurance.

The limitation of liability and indemnification provisions in our Bylaws and our indemnification agreements may discourage stockholders from bringing a lawsuit against our directors and officers for breach of their fiduciary duty. They may also reduce the likelihood of derivative litigation against our directors and officers, even though an action, if successful, might benefit us and our stockholders. Further, a stockholder's investment may be adversely affected to the extent that we pay the costs of settlement and damage.

Director Compensation

Non-independent directors do not receive compensation for their service on the Board. Effective April 1, 2022, independent directors, or their designees, will receive an annual retainer in the amount of $50,000 for their service on the Board. The Chair of the Audit Committee receives an additional annual retainer of $20,000. The Chair of the Compensation Committee receives an additional annual retainer of $15,000. Our independent directors, or their designees, will also be eligible to receive grants of our common stock under the 2022 Plan that fully vest after the first anniversary of the grant date. Directors will be required to have a minimum equity holding of five times (5x) of their annual base cash retainer, with five years to achieve such holding levels. Directors do not receive any fees for attending board or committee meetings. We also reimburse all directors (including employee directors) for reasonable out-of-pocket expenses they incur in connection with their service as directors.

On January 1, 2021, each of our independent directors received $100,000 worth of common stock for their service on the Board for 2021 that will fully vest after the third anniversary of the grant date. Additionally, on March 1, 2021, each of our independent directors received an additional $100,000 worth of common stock for their service on the Board during 2020 that will fully vest after the third anniversary of the grant date.

The following table sets forth information regarding compensation earned by our independent directors for service on the Board during the year ended December 31, 2021.

Name	Fees Earned or Paid in Cash ($)(1)	Stock Awards ($)	All Other Compensation ($)	Total ($)
J. Cameron MacDonald	—	—	—	—
Bill Andrus(2)	—	—	—	—
Robert Creager	$ 65,000(3)	$ 250,000(4)(5)	$ 50,000(6)	$ 365,000
James Hays	$ 50,000	$ 200,000(4)	—	$ 250,000
Robert Kittel	—	—	—	—
Donald D. Larson(7)	$ 50,000	$ 200,000(4)	—	$ 250,000
Stephen Way(8)	—	—	$ 2,600,000(9)	

(1) Reflects the aggregate dollar amount of fees earned or paid in cash for services rendered as a non-independent director, including fees for service as a committee chairperson, and board and committee meeting fees.

(2) Mr. Andrus resigned from the Board in April 2022.

(3) Mr. Creager received the fees due to him for his service as the Chairman of the Audit Committee in January 2022, totaling $15,000.

(4) Represents the aggregate grant date fair value computed for stock awards granted in 2021 for services rendered by independent directors in 2020 and 2021.

(5) Mr. Creager was awarded a one-time share award of fifty-thousand dollars ($50,000) that vested immediately for board services rendered in relation to special projects in years prior.

(6) Mr. Creager was awarded a one-time cash award of fifty-thousand dollars ($50,000) for board services rendered in relation to special projects in years prior.

(7) Mr. Larson resigned from the Board in April 2022.

(8) Mr. Way resigned from the Board in April 2022.

(9) Amounts paid to Mr. Way were pursuant to the Consulting Agreement with the Company. See the section entitled “Certain Relationships and Related Party Transactions” for more details.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Other than the compensation agreements and other arrangements described in the "Executive Compensation" section of this prospectus and the transactions described below, since January 1, 2019 there has not been and there is not currently proposed, any transaction or series of similar transactions to which we were, or will be, a party in which the amount involved exceeded, or will exceed, $120,000 and in which any director, executive officer, holder of 5% or more of any class of our capital stock or any member of the immediate family of, or entities affiliated with, any of the foregoing persons, had, or will have, a direct or indirect material interest.

Sale and Issuance of Preferred Stock and Related Promissory Notes

Rights Offering

In April 2020, we conducted a rights offering pursuant to which we sold shares of our Series A convertible preferred stock at a price per share of $50 to participating stockholders, including certain of our executive officers, directors and holders of more than 5% of our common stock, for an aggregate purchase price of $86,245,410. The following table sets forth the aggregate number of shares of our Series A convertible preferred stock that we issued and sold to our directors, officers and 5% stockholders and their affiliates in this transaction and the aggregate amount of consideration for such shares:

Purchaser[(1)]	Shares of Series A Convertible Preferred Stock	Cash purchase price
Daniel Bodnar	549.000	$ 27,450
Mark Haushill	17,776.240	$ 888,812
James Hays (held companies JWayne LLC, Marquis Lafayette LLC)	309,132.539	$ 15,456,627
Kirby Hill[(2)]	581.935	$ 29,097
L. Byron Way	10,738.996	$ 536,950
Stephen Way	111,009.820	$ 5,550,491
Caffrey Partners	197,513.685	$ 9,875,680
Mt. Whitney Securities, LLC	197,534.599	$ 9,876,730
The Westaim Corporation	880,071.479	$ 44,003,574

(1) See the section entitled "Principal and Selling Stockholders" for additional information about shares held by these entities.

(2) Amount of shares shown is the total following a forfeiture of 412.825 shares due to a corresponding reduction in the amounts due under Mr. Hill's Promissory Note.

Promissory Notes

In connection with the rights offering, we entered into promissory notes with certain of our executive officers and directors pursuant to which we loaned such individuals the aggregate purchase price for the shares purchased in the offering. Each of the directors and officers listed above entered into a promissory note with a principal amount reflecting the full amount of the price paid for the preferred shares. Each of the notes held by a director or executive officer will be repaid in full prior to the filing of the registration statement of which this prospectus forms a part.

Transactions with Stephen Way and his affiliates

In June and July of 2020 and January 1, 2022, we entered into consulting agreements with Stephen Way, our former Chief Executive Officer, former Director and founder. Mr. Way's current consulting agreement provides for a monthly fee of $183,000 and $150,000 for calendar years 2022 and 2023, respectively, an additional fee of $65,000 paid following signing of the consulting agreement, and a performance fee for achievement of certain objectives set forth in the agreement. Mr. Way will provide services relating to our underwriting business as specifically requested by us. The agreement continues until December 31, 2023, unless extended by mutual agreement. For the years ended December 31, 2021 and 2020, we paid Mr. Way consulting fees of approximately $2.6 million, and $2.2 million, respectively.

In October 2017, we entered into a lease agreement for use of a corporate aircraft with SLW Aviation, Inc., which is 100% owned by Stephen Way (the "Aviation Lease"). The Aviation Lease was terminated in May, 2020. For the years ended December 31, 2021, 2020 and 2019, we paid fees of $0, approximately $334,000 and approximately $975,000 pursuant to the lease agreement.

Stephen Way's son, L. Byron Way, serves as CEO, Skyward Accident & Health Division. During fiscal 2021, L. Byron Way earned $360,000 in base salary, $142,000 in bonus payments, received a relocation payment of $45,000 and received 11,153 restricted stock units with an aggregate grant date fair value of $33,000.

Transaction with The Westaim Corporation and its affiliates

In August 2019, we entered into a management services agreement with Westaim, which will terminate automatically in connection with the closing of this offering. For the fiscal years ended December 31, 2021, 2020 and 2019, we paid Westaim $500,000, $500,000 and $791,667, respectively, pursuant to the management services agreement.

In November 2015, our subsidiaries HSIC, IIC and GMIC, entered into an investment management agreement with Arena Investors, which is controlled by Westaim for Arena Investors to act as one our investment managers. For the fiscal years ended December 31, 2021, 2020 and 2019, we incurred various investment management expenses from Arena Investors of approximately $4.4 million, $2.8 million and $0.5 million, respectively, pursuant to the respective investment management or partnership agreements.

Transaction with Everest Reinsurance Company

From time to time, we have entered into reinsurance agreements with Everest Reinsurance Company ("Everest"), an affiliate of Mt. Whitney Securities, LLC, a holder of more than 5% of our Class A common stock. These agreements are entered into in the ordinary course of business and are the result of arms-length negotiation. We recorded $101.2 million, $101.0 million and $117.3 million of reinsurance premiums ceded during the years ended December 31, 2021, 2020 and 2019 respectively, related to the agreements. Reinsurance recoverable from Everest Re, net of premium payables, was $168.8 million, $162.4 million and $186.2 million as of December 31, 2021, 2020 and 2019, respectively.

In June 2021, we entered into a co-surety arrangement with Everest Reinsurance Company, an affiliate of Mt. Whitney Securities, which allows GMIC to write treasury listed bonds beyond certain thresholds. We incurred an administrative fee of $60,000 for the year ended December 31, 2021.

Stockholders' Agreement

On March 12, 2014, we entered into an Amended and Restated Stockholders' Agreement, with certain holders of our common stock, including our five percent stockholders and entities affiliated with our directors. Our Amended and Restated Stockholders' Agreement provides these holders with a right of first refusal for certain sales of our securities by certain holders therein, certain information delivery rights, including with respect to our financial statements and budget, and inspection rights, which will terminate immediately prior to the closing of this offering. In addition, our Amended and Restated Stockholders' Agreement provides these holders the right, following the closing of this offering and subject to certain conditions, to demand that we file a registration statement or request that their shares be covered by a registration statement that we are otherwise filing. See the section entitled "Description of Capital Stock — Registration Rights" for additional information regarding these registration rights. The Amended and Restated Stockholders' Agreement will terminate automatically upon the closing of this offering, except that the registration rights shall survive.

Indemnification Agreements and Directors' and Officers' Liability Insurance

We have entered into indemnification agreements with each of our directors and executive officers. These agreements, among other things, require us to indemnify each director and executive officer to the fullest extent permitted by Delaware law, subject to certain exceptions, including indemnification of expenses such as attorneys' fees, judgments, penalties fines and settlement amounts incurred by the director or executive officer in any action or proceeding, including any action or proceeding by or in right of us, arising out of the person's services as a director or executive officer.

Policies and Procedures for Related Party Transactions

Our board of directors has adopted a written related person transaction policy, to be effective upon the consummation of this offering, setting forth the policies and procedures for the review and approval or ratification of related person transactions. This policy will cover, with certain exceptions set forth in Item 404 of Regulation S-K under the Securities Act, any transaction, arrangement or relationship, or any series of similar transactions, arrangements or relationships in which we were or are to be a participant, where the amount involved exceeds $120,000 and a related person had or will have a direct or indirect material interest, including, without limitation, purchases of goods or services by or from the related person or entities in which the related person has a material interest, indebtedness, guarantees of indebtedness and employment by us of a related person. In reviewing and approving any such transactions, our audit committee is tasked to consider all relevant facts and circumstances, including, but not limited to, whether the transaction is on terms comparable to those that could be obtained in an arm's length transaction with an unrelated third party and the extent of the related person's interest in the transaction. All of the transactions described in this section occurred prior to the adoption of this policy.

PRINCIPAL AND SELLING STOCKHOLDERS

The following table sets forth information with respect to the beneficial ownership of our common stock as of , 2022, and as adjusted to reflect the sale of our common stock offered by us and the selling stockholders in this offering, for:

- each of our named executive officers;
- each of our directors;
- all of our current directors and executive officers as a group;
- each person, or group of affiliated persons, known by us to be the beneficial owner of more than 5% of our outstanding shares common stock; and
- each of the selling stockholders.

We have determined beneficial ownership in accordance with the rules of the SEC, which generally means that a person has beneficial ownership of a security if he or she possesses sole or shared voting or investment power of that security, including options that are currently exercisable or exercisable, or restricted stock or restricted stock units vesting, within 60 days of , 2022. Unless otherwise indicated, to our knowledge, the persons and entities named in the table below have sole voting and sole investment power with respect to all shares that they beneficially own, subject to community property laws where applicable. The information in the table below does not necessarily indicate beneficial ownership for any other purpose, including for purposes of Sections 13(d) and 13(g) of the Securities Act.

We have based our calculation of the percentage of beneficial ownership prior to this offering on shares of common stock outstanding as of , 2022, assuming the conversion of all outstanding shares of our Series A preferred stock into an aggregate of shares of common stock immediately prior to the closing of this offering. We have based our calculation of the percentage of beneficial ownership after this offering on shares of common stock outstanding immediately after the closing of this offering. In computing the number of shares beneficially owned by an individual or entity and the percentage ownership of that person, shares of common stock subject to options, convertible securities or other rights, held by such person that are currently exercisable or will become exercisable within 60 days of , 2022, are considered outstanding. We did not, however, deem such shares outstanding for the purpose of computing the percentage ownership of any other person.

Unless otherwise indicated, the address of each beneficial owner listed in the table below is c/o 800 Gessner Road, Suite 600, Houston, Texas 77024.

Name of Beneficial Owner[1]	Number of Shares Beneficially Owned Prior to Offering	Number of Shares to be Sold in the Offering	Percentage of Shares Beneficially Owned: Prior to this Offering	Percentage of Shares Beneficially Owned: After this Offering
5% and Greater Shareholders:				
The Westaim Corporation[2]	60,924,203			
Caffrey Partners, LLC[3]	7,404,228			
Mt. Whitney Securities LLC[4]	13,674,614			
James C. Hays[5]	11,862,716			
Stephen L. Way[6]	6,849,837			
Named Executive Officers and Directors:				
Andrew Robinson[7]	506,996			
Mark Haushill[8]	1,176,945			
Kirby Hill[9]	38,531			
John Burkhart	—			

Name of Beneficial Owner[(1)]	Number of Shares Beneficially Owned Prior to Offering	Number of Shares to be Sold in the Offering	Percentage of Shares Beneficially Owned	
			Prior to this Offering	After this Offering
J. Cameron MacDonald[(2)]	58,268,560			
Robert Creager[(10)]	185,070			
James C. Hays[(5)]	12,765,140			
Robert Kittel[(2)]	58,268,560			
Dan Bodnar	36,348			
Sean Duffy	—			
Tom Schmitt	—			
Sandip Kapadia	30,870			
Leslie Shaunty	53,314			
All executive officers and directors as a group (13 persons)[(11)]	72,159,350			
Other Selling Stockholders:				
Other Selling Stockholders				

* less than 1%.

(1) For purposes of this table, we have assumed the dissolution of Westaim HIIG Limited Partnership (the "Westaim Partnership"). Westaim HIIG GP Inc. ("HIIG GP"), a wholly-owned subsidiary of The Westaim Corporation, is the general partner of Westaim Partnership. The dissolution of the Westaim Partnership is expected to occur on or prior to the effectiveness of the IPO.

(2) Consists of 29,127,121 shares of common stock held and shares of Series A Preferred Stock convertible into 31,797,082 shares of common stock. Mr. MacDonald serves as the Chief Executive Officer of The Westaim Corporation and Mr. Kittle serves as the Chief Operating Officer of The Westaim Corporation. By virtue of their roles as Chief Executive Officer and Chief Operating Officer, respectively, each of Messrs. MacDonald and Kittel may be deemed to share voting and dispositive power over the shares held by The Westaim Corporation. The address for The Westaim Corporation is 70 York Street, Suite 1700, Toronto, Ontario, Canada M5J 1S9.

(3) Consists of 864,040 shares of common stock held and shares of Series A Preferred Stock convertible into 7,136,192 shares of common stock. is Caffrey Partners, LLC and may be deemed to share voting and dispositive power over the shares held by Caffrey Partners, LLC. The address for the entities affiliated with Caffrey Partners, LLC is .

(4) Consists of 6,537,667 shares of common stock held and shares of Series A Preferred Stock convertible into 7,136,947 shares of common stock. is of Mt. Whitney Securities, LLC and may be deemed to share voting and dispositive power over the shares held by Mt. Whitney Securities, LLC. The address for Mt. Whitney Securities, LLC is 405 Lexington Avenue, 59th Floor, New York, New York 10174.

(5) Consists of: (i) shares of Series A Preferred Stock convertible into 9,496,544 shares of common stock held by Jwayne LLC, (ii) shares of Series A Preferred Stock convertible into 1,672,449 shares of common stock held by Marquis Lafayette LLC, (iii) 64,130 shares of common stock held directly, and (iv) 1,532,016 shares of common stock held by Marquis Lafayette LLC, and (vi) 372,220 shares of common stock held by Philip Schuyler LLC. Mr. Hays serves as the controlling member for Jwayne LLC and Marquis Lafayette LLC.

(6) Consists of 3,674,016 shares of common stock held and shares of Series A Preferred Stock convertible into 4,010,797 shares of common stock.

(7) Consists of shares of common stock held.

(8) Consists of 588,328 shares of common stock held and shares of Series A Preferred Stock convertible into 642,258 shares of common stock.

(9) Consists of 19,262 shares of common stock held and shares of Series A Preferred Stock convertible into 35,941 shares of common stock.

(10) Consists of 103,987 shares of common stock held and shares of Series A Preferred Stock convertible into 55,308 shares of common stock.

(11) Consists of 103,987 shares of common stock held and shares of Series A Preferred Stock convertible into 55,308 shares of common stock.

DESCRIPTION OF CAPITAL STOCK

General

As of the closing of this offering, our authorized capital stock will consist of shares of common stock, par value $0.01 per share, and shares of preferred stock, par value $0.01 per share.

The following descriptions of our capital stock, provisions of our Certificate of Incorporation, our Bylaws and the Amended and Restated Stockholders Agreement are summaries and are qualified by reference to the full text of those documents, copies of which will be filed with the SEC as exhibits to the registration statement of which this prospectus forms a part. The following summary of relevant provisions of the DGCL is qualified by the full text of such provisions. The description of our capital stock reflects changes to our capital structure that will occur prior to the closing of this offering.

Common Stock

As of March 31, 2022, we had shares of common stock outstanding and shares of preferred stock outstanding. After giving effect to the conversion of all outstanding shares of preferred stock into shares of common stock immediately prior to the completion of this offering and a one for reverse stock split, there would have been shares of common stock outstanding on , 2022, held of record by stockholders.

The holders of common stock will be entitled to one vote per share on all matters to be voted upon by the stockholders. The holders of common stock will be entitled to receive ratably those dividends, if any, that may be declared from time to time by our board of directors out of funds legally available, subject to preferences that may be applicable to preferred stock, if any, then outstanding. In the event of a liquidation, dissolution or winding up of our company, the holders of common stock will be entitled to share ratably in all assets remaining after payment of liabilities, subject to prior distribution rights of preferred stock, if any, then outstanding. The common stock will have no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to the common stock. Following the completion of this offering, all outstanding shares of common stock will be fully paid and non-assessable.

Preferred Stock

No shares of preferred stock will be issued or outstanding immediately after the offering contemplated by this prospectus. Our Certificate of Incorporation will authorize our board of directors to establish one or more series of preferred stock (including convertible preferred stock). Unless required by law or any stock exchange, the authorized shares of preferred stock will be available for issuance without further action by the holders of our common stock. Our board of directors will be able to determine, with respect to any series of preferred stock, the powers (including voting powers), preferences and relative, participating, optional or other special rights, and the qualifications, limitations, or restrictions thereof, including:

- the designation of the series;
- the number of shares of the series, which our board of directors may, except where otherwise provided in the preferred stock designation, increase (but not above the total number of authorized shares of the class) or decrease (but not below the number of shares then outstanding);
- whether dividends, if any, will be cumulative or non-cumulative and the dividend rate of the series;
- the dates at which dividends, if any, will be payable;
- the redemption or repurchase rights and price or prices, if any, for shares of the series;
- the terms and amounts of any sinking fund provided for the purchase or redemption of shares of the series;
- the amounts payable on shares of the series in the event of any voluntary or involuntary liquidation, dissolution or winding-up of our affairs;
- whether the shares of the series will be convertible into shares of any other class or series, or any other security, of us or any other entity, and, if so, the specification of the other class or series or other

security, the conversion price or prices or rate or rates, any rate adjustments, the date or dates as of which the shares will be convertible and all other terms and conditions upon which the conversion may be made;

- restrictions on the issuance of shares of the same series or of any other class or series; and
- the voting rights, if any, of the holders of the series.

We could issue a series of preferred stock that could, depending on the terms of the series, impede or discourage an acquisition attempt or other transaction that some, or a majority, of the holders of our common stock might believe to be in their best interests or in which the holders of our common stock might receive a premium over the market price of the shares of our common stock. Additionally, the issuance of preferred stock may adversely affect the rights of holders of our common stock by restricting dividends on the common stock, diluting the voting power of the common stock, or subordinating the liquidation rights of the common stock. As a result of these or other factors, the issuance of preferred stock could have an adverse impact on the market price of our common stock.

Registration Rights

Upon the closing of this offering, holders of up to shares of our common stock, which shares we refer to as "registrable securities," will be entitled to rights with respect to the registration of these registrable securities under the Securities Act. These rights are provided under the terms of the Amended and Restated Stockholders' Agreement. The Amended and Restated Stockholders' Agreement includes demand registration rights and piggyback registration rights.

All underwriting discounts applicable to the sale of registrable securities pursuant to the Amended and Restated Stockholders' Agreement shall be borne by the holders of registrable securities participating in such sale. Any additional expenses incurred in connection with exercise of registration rights under the Amended and Restated Stockholders' Agreement, including all registration, filing and qualification fees, printers' and accounting fees, and fees and disbursements of our counsel shall be borne by us.

Subject to certain exceptions contained in the Amended and Restated Stockholders' Agreement, the underwriters may limit the number of shares included in an underwritten offering by holders of registrable securities to the number of shares which the underwriters determine in their sole discretion will not jeopardize the success of the offering.

Demand Registration Rights

Form S-1. If at any time following the effective date of the registration statement of which this prospectus forms a part, an Eligible Demanding Stockholder, as defined in the Amended and Restated Stockholders' Agreement, holding registrable securities requests in writing that we effect a registration and the anticipated price to the public of such registrable securities is $7.0 million or more, we may be required to register their shares. We are obligated to effect at most four registrations for the holders of registrable securities in response to these demand registration rights, subject to certain exceptions.

Form S-3. If at any time we become entitled under the Securities Act to register our shares on Form S-3, an Eligible Demanding Stockholder, as defined in the Amended and Restated Stockholders' Agreement, holding registrable securities requests in writing that we register their shares for public resale on Form S-3 and the price to the public of the offering is $7.0 million or more, we will be required to provide notice to all holders of registrable securities and to use all reasonable efforts to effect such registration; provided, however, that we will not be required to effect such a registration if, we have already effected four registrations on Form S-1 for the holders of registrable securities.

Piggyback Registration Rights

After the closing of this offering, if we propose to register the offer and sale of any of our securities under the Securities Act in connection with the public offering of such securities, the holders of registrable securities will be entitled to certain "piggyback" registration rights allowing such holders to include their shares in such registration, subject to certain limitations. As a result, whenever we propose to file a registration statement under the Securities Act, other than with respect to a registration related solely to an employee benefit plan, a registration related solely to a corporate reorganization or transaction under Rule 145 of the Securities Act or any rule adopted by the SEC in substitution thereof or amendment thereto, or a registration on any registration form which does not include substantially the same information as would be required to be included in a registration statement covering the sale of registrable securities, the holders of these shares are entitled to notice of the registration and have the right to include their shares in the registration.

Anti-Takeover Matters in our Governing Documents and Under Delaware Law

Our Certificate of Incorporation and our Bylaws will contain, and the DGCL contains, provisions that are intended to enhance the likelihood of continuity and stability in the composition of our board of directors. These provisions are intended to avoid costly takeover battles, reduce our vulnerability to a hostile or abusive change of control, and enhance the ability of our board of directors to maximize stockholder value in connection with any unsolicited offer to acquire us. However, these provisions may have an antitakeover effect and may delay, deter, or prevent a merger or acquisition by means of a tender offer, a proxy contest, or other takeover attempt that a stockholder might consider in its best interest, including those attempts that might result in a premium over the prevailing market price for the shares of common stock held by stockholders.

Authorized but unissued capital stock

The authorized but unissued shares of common stock and preferred stock are available for future issuance without stockholder approval, subject to any limitations imposed by the listing standards of Nasdaq. These additional shares may be used for a variety of corporate finance transactions, acquisitions and employee benefit plans. The existence of authorized but unissued and unreserved common stock and preferred stock could make more difficult or discourage an attempt to obtain control of us by means of a proxy contest, tender offer, merger, or otherwise.

Classified board of directors

Our Certificate of Incorporation will provide that our board of directors will be divided into three classes, with the classes as nearly equal in number as possible and each class serving three-year staggered terms. Directors may only be removed from our board of directors for cause by the affirmative vote of at least a majority of the confirmed voting power of our common stock. In addition, our Certificate of Incorporation will provide that, subject to the rights granted to one or more series of preferred stock then outstanding, any newly created directorship on the board of directors that results from an increase in the number of directors and any vacancies on our board of directors will be filled only by the affirmative vote of a majority of the remaining directors, even if less than a quorum, or by a sole remaining director. These provisions may have the effect of deferring, delaying, or discouraging hostile takeovers, changes in control of us or changes in our management.

Delaware Anti-Takeover Law

After this offering, we will be subject to Section 203 of the DGCL, which is an anti-takeover law. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a business combination with an interested stockholder for a period of three years following the date that the person became an interested stockholder, unless the business combination or the transaction in which the person became an interested stockholder is approved in a prescribed manner. Generally, a business combination includes a merger, asset or stock sale, or another transaction resulting in a financial benefit to the interested stockholder. Generally, an interested stockholder is a person who, together with affiliates and associates, owns 15% or more of the corporation's outstanding voting stock or is the corporation's affiliate or associate and was the owner of 15% or more of the corporation's outstanding voting stock at any time within the three-year period immediately before the date of determination. The existence of this provision may have an anti-takeover effect with respect to transactions that are not approved in advance by our board, including discouraging attempts that might result in a premium over the market price for the shares of common stock held by stockholders.

No cumulative voting

Under Delaware law, the right to vote cumulatively does not exist unless the certificate of incorporation specifically authorizes cumulative voting. Our Certificate of Incorporation will not authorize cumulative voting. Therefore, stockholders holding a majority of the shares of our stock entitled to vote generally in the election of directors will be able to elect all of our directors.

Special stockholder meetings

Our Certificate of Incorporation will provide that special meetings of our stockholders may be called at any time only by or at the direction of the board of directors or the chair of the board of directors. Our Bylaws will prohibit the conduct of any business at a special meeting other than as specified in the notice for such meeting. These provisions may have the effect of deferring, delaying, or discouraging hostile takeovers or changes in control or management.

Director nominations and stockholder proposals

Our Bylaws will establish advance notice procedures with respect to stockholder proposals and the nomination of candidates for election as directors, other than nominations made by or at the direction of the board of directors or a committee of the board of directors. In order for any matter to be "properly brought" before a meeting, a stockholder will have to comply with advance notice requirements and provide us with certain information. Generally, to be timely, a stockholder's notice must be received at our principal executive offices not less than 90 days nor more than 120 days prior to the first anniversary date of the immediately preceding annual meeting of stockholders. Our Bylaws will also specify requirements as to the form and content of a stockholder's notice. Our Bylaws will allow the chair of a meeting of the stockholders to adopt rules and regulations for the conduct of that meeting that may have the effect of precluding the conduct of certain business at that meeting if the rules and regulations are not followed. These provisions may also defer, delay, or discourage a potential acquirer from conducting a solicitation of proxies to elect the acquirer's own slate of directors or otherwise attempting to influence or obtain control.

Stockholder action by written consent

Pursuant to Section 228 of the DGCL, any action required to be taken at any annual or special meeting of the stockholders may be taken without a meeting, without prior notice, and without a vote if a consent or consents in writing, setting forth the action so taken, is or are signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares of our stock entitled to vote thereon were present and voted, unless the certificate of incorporation provides otherwise. Our Certificate of Incorporation will only permit stockholder action by unanimous written consent.

Amendment of Certificate of Incorporation or Bylaws

The DGCL provides generally that the affirmative vote of a majority of the shares entitled to vote on any matter is required to amend a corporation's certificate of incorporation or bylaws, unless a corporation's certificate of incorporation or bylaws, as the case may be, requires a greater percentage. Upon the closing of this offering, our Bylaws may be amended or repealed by a majority vote of our board of directors or by the affirmative vote of the holders of at least 66⅔% of the votes which all our stockholders would be entitled to cast in any annual election of directors. In addition, the affirmative vote of the holders of at least 66⅔% of the votes which all our stockholders would be entitled to cast in any election of directors will be required to amend or repeal or to adopt any provisions inconsistent with any of the provisions of our Certificate of Incorporation described above.

The foregoing provisions of our Certificate of Incorporation and our Bylaws could discourage potential acquisition proposals and could delay or prevent a change in control. These provisions are intended to enhance the likelihood of continuity and stability in the composition of our board of directors and in the policies formulated by our board of directors and to discourage certain types of transactions that may involve an actual or threatened change of control. These provisions are designed to reduce our vulnerability to an unsolicited acquisition proposal. The provisions also are intended to discourage certain tactics that may be used in proxy fights. However, such provisions could have the effect of discouraging others from making tender offers for our shares and, as a consequence, they also may inhibit fluctuations in the market price of our shares of common stock that could result from actual or rumored takeover attempts. Such provisions also may have the effect of preventing changes in our management or delaying or preventing a transaction that might benefit you or other minority stockholders.

Exclusive forum

Our Certificate of Incorporation will provide that, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware be the sole and exclusive forum for: (1) any derivative action or proceeding brought on behalf of our company, (2) any action asserting a claim of breach of fiduciary duty owed by any director (including any director serving as a member of the Executive Committee), officer, agent, or other employee or stockholder of our company to us or our stockholders, (3) any action asserting a claim arising pursuant to any provision of the DGCL, our Certificate of Incorporation or our Bylaws or as to which the DGCL confers jurisdiction on the Court of Chancery of the State of Delaware, or (4) any action asserting a claim governed by the internal affairs doctrine, in each case subject to such Court of Chancery having personal jurisdiction over the indispensable parties named as defendants therein. It will further provide that, unless we consent in writing to the selection of an alternative forum, the federal district courts of the United States of America shall, to the fullest extent permitted by law, be the sole and exclusive forum for the resolutions of any complaint asserting a cause of action arising under the Securities Act. Furthermore, this application to Securities Act claims and Section 22 of the Securities Act create concurrent jurisdiction for federal and state courts over all suits brought to enforce any duty or liability created by the Securities Act or the rules and regulations thereunder. Accordingly, there is uncertainty as to whether a court would enforce such provision, and our stockholders will not be deemed to have waived our compliance with the federal securities laws and the rules and regulations thereunder. However, this exclusive forum provision would not apply to suits brought to enforce a duty or liability created by the Exchange Act or any other claim for which the federal courts have exclusive jurisdiction. Although we believe these provisions benefit us by providing increased consistency in the application of applicable law in the types of lawsuits to which they apply, the provisions may have the effect of discouraging lawsuits against our directors and officers. The enforceability of similar choice of forum provisions in other companies' certificates of incorporation has been challenged in legal proceedings and there is uncertainty as to whether a court would enforce such provisions. In addition, investors cannot waive compliance with the federal securities laws and the rules and regulations thereunder. It is possible that, in connection with any applicable action brought against us, a court could find the choice of forum provisions contained in our Certificate of Incorporation to be inapplicable or unenforceable in such action. Any person or entity purchasing or otherwise acquiring any interest in shares of our capital stock shall be deemed to have notice of and consented to the forum provisions in our Certificate of Incorporation.

Limitations of liability and indemnification

The DGCL authorizes corporations to limit or eliminate the personal liability of directors to corporations and their stockholders for monetary damages for breaches of directors' fiduciary duties, subject to certain exceptions. We have also entered into and will continue to enter into indemnification agreements with our directors and executive officers which provide that we must indemnify and advance expenses to our directors and officers to the fullest extent authorized by the DGCL, subject to certain exceptions as described in "Certain Relationships and Related Party Transactions — Indemnification agreements." Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors or executive officers, we have been informed that in the opinion of the SEC such indemnification is against public policy and is therefore unenforceable. We are expressly authorized to carry directors' and officers' liability insurance providing indemnification for our directors, officers and certain employees for some liabilities. We believe these indemnification and advancement provisions and insurance are useful to attract and retain qualified directors and executive officers.

The limitation of liability, indemnification and advancement provisions in our indemnification agreements and our Bylaws may discourage stockholders from bringing a lawsuit against directors for breach of their fiduciary duty. These provisions also may have the effect of reducing the likelihood of derivative litigation against directors and officers, even though such an action, if successful, might otherwise benefit us and our stockholders. In addition, your investment may be adversely affected to the extent we pay the costs of settlement and damage awards against directors and officers pursuant to these indemnification provisions.

There is currently no pending material litigation or proceeding involving any of our directors, officers or employees for which indemnification is sought.

Transfer Agent and Registrar

Upon the closing of this offering, the transfer agent and registrar for our common stock will be American Stock Transfer Trust Company, LLC. The transfer agent's address is 6201 15th Avenue, Brooklyn, NY 11219.

Exchange Listing

We have applied to list our common stock on Nasdaq under the symbol "SKWD."

SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, there has been no public market for our common stock, and we cannot predict the effect, if any, that market sales of shares of our common stock or the availability of shares of our common stock for sale will have on the market price of our common stock prevailing from time to time. Future sales of our common stock in the public market, or the availability of such shares for sale in the public market, could adversely affect market prices prevailing from time to time. As described below, only a limited number of shares of our common stock will be available for sale shortly after this offering due to contractual and legal restrictions on resale. Nevertheless, sales of our common stock in the public market after such restrictions lapse, or the perception that those sales may occur, could adversely affect the prevailing market price at such time and our ability to raise equity capital in the future.

Following the closing of this offering, based on the number of shares of our capital stock outstanding as of , 2022, shares of common stock will be outstanding, assuming no exercise of the underwriters' option to purchase additional shares to cover over-allotments, if any, and no exercise of outstanding options. Of these outstanding shares, all of the shares of our common stock sold in this offering will be freely tradable, except that any shares purchased in this offering by our affiliates, as that term is defined in Rule 144 under the Securities Act, would only be able to be sold in compliance with the Rule 144 limitations described below.

The remaining outstanding shares of our common stock not sold in this offering will be, and shares subject to stock options will, upon issuance, be deemed "restricted securities" as defined in Rule 144 under the Securities Act. Restricted securities may be sold in the public market only if they are registered or if they qualify for an exemption from registration under Rule 144 or Rule 701 under the Securities Act, which rules are summarized below. All of our selling stockholders and substantially all of our executive officers, directors and holders of our capital stock and securities exchangeable or exercisable for our capital stock have entered lock-up agreements with the underwriters under which they have agreed, subject to certain customary exceptions, not to sell any of our stock for 180 days following the date of this prospectus. As a result of these agreements and subject to the provisions of Rule 144 or Rule 701, shares of our common stock will be available for sale in the public market as follows:

- beginning on the date of this prospectus, all shares of our common stock sold in this offering will be immediately available for sale in the public market; and
- beginning 180 days after the date of this prospectus, the remaining shares of our common stock will be eligible for sale in the public market from time to time thereafter, subject in some cases to the volume and other restrictions of Rule 144, as described below.

Lock-Up Agreements

We, our officers, directors, the selling stockholders and holders of substantially all of our capital stock and securities convertible into or exchangeable for our capital stock have agreed or will agree, with the underwriters, that, subject to certain exceptions, for a period of 180 days after the date of this prospectus, we and they will not, and will not cause or direct any of our or their respective affiliates to, without the prior written consent of Barclays Capital Inc. and Keefe, Bruyette & Woods, Inc., (i) offer, sell, contract to sell, pledge, grant any option to purchase, lend or otherwise dispose of any shares of common stock, any options or warrants to purchase any shares of common stock or any securities convertible into or exchangeable for or that represent the right to receive shares of our common stock, (ii) engage in any hedging or other transaction or arrangement (including, without limitation, any short sale or the purchase or sale of, or entry into, any put or call option, or combination thereof, forward, swap or any other derivative transaction or instrument, however described or defined) which is designed to or which reasonably could be expected to lead to or result in a sale, loan, pledge or other disposition (whether by such holder or someone other than such holder), or transfer of any of the economic consequences of ownership, in whole or in part, directly or indirectly, of any shares of common stock or derivative instruments, whether any such transaction or arrangement (or instrument provided for thereunder) would be settled by delivery of common stock or other securities, in cash or otherwise, or (iii) otherwise publicly announce any intention to engage in or cause any action or activity described in clauses (i) or (ii) above. Barclays Capital Inc. and Keefe, Bruyette & Woods, Inc. may, in their discretion, release any of the securities subject to lock-up agreements at any time. When determining whether or not to release our common stock and other securities from lock-up agreements, Barclays Capital Inc. and Keefe, Bruyette & Woods, Inc. will consider, among other factors, the holder's reasons for requesting the release, the number of shares for which the release is being requested and market conditions at the time of the request. In the event of such a release or waiver for one of our directors or officers, Barclays Capital Inc. and Keefe, Bruyette & Woods, Inc. shall provide us with notice of the impending release or waiver at least three business days before the effective date of such release or waiver and we will announce the impending release or waiver by issuing a press release at least two business days before the effective date of the release or waiver.

Rule 144

In general, under Rule 144 as currently in effect, once we have been subject to the public company reporting requirements of Section 13 or Section 15(d) of the Exchange Act for at least 90 days, a person who is not deemed to have been one of our affiliates for purposes of the Securities Act at any time during the 90 days preceding a sale and who has beneficially owned the shares of our common stock proposed to be sold for at least six months is entitled to sell those shares without complying with the manner of sale, volume limitation or notice provisions of Rule 144, subject to compliance with the public information requirements of Rule 144. If such a person has beneficially owned the shares proposed to be sold for at least one year, including the holding period of any prior owner other than our affiliates, then that person would be entitled to sell those shares without complying with any of the requirements of Rule 144.

In general, under Rule 144, as currently in effect, our affiliates or persons selling shares of our common stock on behalf of our affiliates are entitled to sell upon expiration of the market standoff agreements and lock-up agreements described above, within any three-month period, a number of shares that does not exceed the greater of:

- 1% of the number of shares of our capital stock then outstanding, which will equal shares immediately after this offering; or
- the average weekly trading volume of our common stock during the four calendar weeks preceding the filing of a notice on Form 144 with respect to that sale.

Sales under Rule 144 by our affiliates or persons selling shares of our common stock on behalf of our affiliates are also subject to manner of sale provisions and notice requirements and to the availability of current public information about us.

Rule 701

Rule 701 generally allows a stockholder who purchased shares of our capital stock pursuant to a written compensatory plan or contract and who is not deemed to have been an affiliate of our company during the immediately preceding 90 days to sell these shares in reliance upon Rule 144, but without being required to comply with the public information, holding period, volume limitation or notice provisions of Rule 144. Rule 701 also permits affiliates of our company to sell their Rule 701 shares under Rule 144 without complying with the holding period requirements of Rule 144. All holders of Rule 701 shares, however, are required to wait until 90 days after the date of this prospectus before selling those shares pursuant to Rule 701.

Registration Statement

We intend to file a registration statement on Form S-8 under the Securities Act promptly after the closing of this offering to register shares of our common stock subject to options outstanding, as well as reserved for future issuance, under our equity compensation plans. The registration statement on Form S-8 is expected to become effective immediately upon filing, and shares of our common stock covered by the registration statement will then become eligible for sale in the public market, subject to the Rule 144 limitations applicable to affiliates, vesting restrictions and any applicable market standoff agreements and lock-up agreements. See the section captioned "Executive Compensation — Employee Benefit and Equity Incentive Plans" for a description of our equity compensation plans.

Registration Rights

Beginning 180 days after the date of this prospectus, the holders of up to shares of our common stock will be entitled to various rights with respect to the registration of these shares under the

Securities Act. Registration of these shares under the Securities Act would result in these shares becoming fully tradable without restriction under the Securities Act immediately upon the effectiveness of the registration. See the section entitled "Description of Capital Stock — Registration Rights" for additional information. Shares covered by a registration statement will be eligible for sale in the public market upon the expiration or release from the terms of the lock-up agreement.

MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES TO NON-U.S. HOLDERS

The following is a summary of the material U.S. federal income tax consequences to non-U.S. holders (as defined below) of the ownership and disposition of our common stock issued pursuant to this offering. This discussion is not a complete analysis of all potential U.S federal income tax consequences relating thereto, does not address the potential application of the alternative minimum tax or Medicare contribution tax on net investment income, and does not address any estate or gift tax consequences (other than those specifically set forth below) or any tax consequences arising under any state, local or foreign tax laws, or any other U.S. federal tax laws. This discussion is based on the Code, Treasury Regulations promulgated thereunder, judicial decisions and published rulings and administrative pronouncements of the IRS, all as in effect on the date of this prospectus supplement. These authorities are subject to differing interpretations and may change, possibly retroactively, resulting in U.S. federal income tax consequences different from those discussed below. We have not requested a ruling from the IRS with respect to the statements made and the conclusions reached in the following summary, and there can be no assurance that the IRS or a court will agree with such statements and conclusions.

This discussion is limited to non-U.S. holders who purchase our common stock pursuant to this offering and who hold our common stock as a "capital asset" within the meaning of Section 1221 of the Code (generally, property held for investment). This discussion does not address all of the U.S. federal income tax consequences that may be relevant to an individual holder in light of such holder's particular circumstances. This discussion also does not consider any specific facts or circumstances that may be relevant to non-U.S. holders subject to special rules under the U.S. federal income tax laws, including:

- certain former citizens or long-term residents of the United States;
- partnerships or other pass-through entities (and investors therein);
- "controlled foreign corporations";
- "passive foreign investment companies";
- corporations that accumulate earnings to avoid U.S. federal income tax;
- banks, financial institutions, investment funds, insurance companies, brokers, dealers or traders in securities;
- tax-exempt organizations and governmental organizations;
- tax-qualified retirement plans;
- persons subject to special tax accounting rules under Section 451(b) of the Code;
- persons that own or have owned, actually or constructively, more than 5% of our common stock;
- persons who have elected to mark securities to market; and
- persons holding our common stock as part of a hedging or conversion transaction or straddle, or a constructive sale, or other risk reduction strategy or integrated investment.

If an entity or arrangement that is classified as a partnership for U.S. federal income tax purposes holds our common stock, the U.S. federal income tax treatment of a partner in the partnership will generally depend on the status of the partner and the activities of the partnership. Partnerships holding our common stock and the partners in such partnerships are urged to consult their tax advisors about the particular U.S. federal income tax consequences to them of holding and disposing of our common stock.

PROSPECTIVE INVESTORS SHOULD CONSULT THEIR TAX ADVISORS REGARDING THE PARTICULAR U.S. FEDERAL INCOME TAX CONSEQUENCES TO THEM OF ACQUIRING, OWNING AND DISPOSING OF OUR COMMON STOCK, AS WELL AS ANY TAX CONSEQUENCES ARISING UNDER ANY STATE, LOCAL OR FOREIGN TAX LAWS AND ANY OTHER U.S. FEDERAL TAX LAWS.

Definition of Non-U.S. Holder

For purposes of this discussion, a non-U.S. holder is any beneficial owner of our common stock that is not a "U.S. person" or a partnership (including any entity or arrangement treated as a partnership) or other pass-through entity for U.S. federal income tax purposes. A U.S. person is any person that, for U.S. federal income tax purposes, is or is treated as any of the following:

- an individual who is a citizen or resident of the United States;
- a corporation (including any entity treated as a corporation for U.S. federal income tax purposes) created or organized under the laws of the United States, any state thereof or the District of Columbia;
- an estate, the income of which is subject to U.S. federal income tax regardless of its source; or
- a trust (1) whose administration is subject to the primary supervision of a U.S. court and which has one or more United States persons who have the authority to control all substantial decisions of the trust or (2) that has a valid election in effect under applicable Treasury Regulations to be treated as a United States person.

If you are an individual non-U.S. citizen, you may, in some cases, be deemed to be a resident alien (as opposed to a nonresident alien) by virtue of being present in the United States for at least 31 days in the calendar year and for an aggregate of at least 183 days during a three-year period ending in the current calendar year. Generally, for this purpose, all the days present in the current year, one-third of the days present in the immediately preceding year, and one-sixth of the days present in the second preceding year, are counted.

Resident aliens are generally subject to U.S. federal income tax as if they were U.S. citizens. Individuals who are uncertain of their status as resident or nonresident aliens for U.S. federal income tax purposes are urged to consult their tax advisors regarding the U.S. federal income tax consequences of the ownership or disposition of our common stock.

Distributions on Our Common Stock

If we distribute cash or other property on our common stock, such distributions will constitute dividends for U.S. federal income tax purposes to the extent paid from our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Amounts distributed in excess of our current and accumulated earnings and profits will constitute a return of capital and will first be applied against and reduce a non-U.S. holder's tax basis in our common stock, but not below zero. Any distribution in excess of a non-U.S. basis will be treated as gain realized on the sale or other disposition of our common stock and will be treated as described in the "Gain On Disposition of Our Common Stock" section below.

Subject to the discussion below regarding effectively connected income, backup withholding and FATCA (as defined below), dividends paid to a non-U.S. holder of our common stock generally will be subject to U.S. federal withholding tax at a rate of 30% of the gross amount of the dividends or such lower rate specified by an applicable income tax treaty. To receive the benefit of a reduced treaty rate, a non-U.S. holder must furnish the applicable withholding agent with a valid IRS Form W-8BEN or IRS Form W-8BEN-E (or applicable form) certifying such non-U.S. holder's qualification for the reduced rate. This certification must be provided to the applicable withholding agent before the payment of dividends and must be updated periodically. If the non-U.S. holder holds our common stock through a financial institution or other agent acting on the non-U.S. holder's behalf, the non-U.S. holder will be required to provide appropriate documentation to the agent, which then will be required to provide certification to the applicable withholding agent, either directly or through other intermediaries.

If a non-U.S. holder holds our common stock in connection with the conduct of a trade or business in the United States, and dividends paid on our common stock are effectively connected with such holder's U.S. trade or business (and are attributable to such holder's permanent establishment or fixed base in the United States if required by an applicable tax treaty), the non-U.S. holder will generally be exempt from U.S. federal withholding tax, provided that the non-U.S. holder furnishes a valid IRS Form W-8ECI (or applicable successor form) to the applicable withholding agent.

However, any such effectively connected dividends paid on our common stock generally will be subject to U.S. federal income tax on a net income basis at the regular U.S. federal income tax rates in the same manner as if such holder were a resident of the United States. A non-U.S. holder that is a foreign corporation also may be subject to an additional branch profits tax equal to 30% (or such lower rate specified by an applicable income tax treaty) of its effectively connected earnings and profits for the taxable year, as adjusted for certain items.

Non-U.S. holders that do not provide the required certification on a timely basis, but that qualify for a reduced treaty rate, may obtain a refund of any excess amounts withheld by timely filing an appropriate claim for refund with the IRS. Non-U.S. holders should consult their tax advisors regarding any applicable income tax treaties that may provide for different rules.

Gain on Disposition of Our Common Stock

Subject to the discussion below regarding backup withholding and FATCA, a non-U.S. holder generally will not be subject to U.S. federal income tax on any gain realized on the sale or other disposition of our common stock, unless:

- the gain is effectively connected with the non-U.S. holder's conduct of a trade or business in the United States and, if required by an applicable income tax treaty, is attributable to a permanent establishment or fixed base maintained by the non-U.S. holder in the United States;
- the non-U.S. holder is a nonresident alien individual present in the United States for 183 days or more during the taxable year of the disposition, and certain other requirements are met; or
- our common stock constitutes a "U.S. real property interest" by reason of our status as a U.S. real property holding corporation ("USRPHC"), for U.S. federal income tax purposes at any time within the shorter of the five-year period preceding the disposition or the non-U.S. holder's holding period for our common stock, and our common stock is not regularly traded on an established securities market during the calendar year in which the sale or other disposition occurs.

Determining whether we are a USRPHC depends on the fair market value of our U.S. real property interests relative to the fair market value of our other trade or business assets and our foreign real property interests. We believe we are not currently and we do not anticipate becoming a USRPHC for U.S. federal income tax purposes, although there can be no assurance we will not in the future become a USRPHC.

Gain described in the first bullet point above generally will be subject to U.S. federal income tax on a net income basis at the regular U.S. federal income tax rates in the same manner as if such non-U.S. holder were a resident of the United States. A non-U.S. holder that is a foreign corporation also may be subject to an additional branch profits tax equal to 30% (or such lower rate specified by an applicable income tax treaty) of its effectively connected earnings and profits for the taxable year, as adjusted for certain items. Gain described in the second bullet point above will be subject to U.S. federal income tax at a flat 30% rate (or such lower rate specified by an applicable income tax treaty), but may be offset by certain U.S.-source capital losses (even though the individual is not considered a resident of the United States), provided that the non-U.S. holder has timely filed U.S. federal income tax returns with respect to such losses. Gain described in the third bullet point above will generally be subject to federal income tax in the same manner as gain that is effectively connected with the conduct of a U.S. trade or business (subject to any provisions under an applicable income tax treaty), except that the branch profits tax generally will not apply.

Non-U.S. holders should consult their tax advisors regarding any applicable income tax treaties that may provide for different rules.

U.S. Federal Estate Tax

The estates of nonresident alien individuals generally are subject to U.S. federal estate tax on property with a U.S. situs. Because we are a U.S. corporation, our common stock will be U.S. situs property and, therefore, will be included in the taxable estate of a nonresident alien decedent, unless an applicable estate tax treaty between the United States and the decedent's country of residence provides otherwise. The terms "resident" and "nonresident" are defined differently for U.S. federal estate tax purposes than for U.S. federal income tax purposes. Investors are urged to consult their tax advisors regarding the U.S. federal estate tax consequences of the ownership or disposition of our common stock.

Information Reporting and Backup Withholding

Annual reports are required to be filed with the IRS and provided to each non-U.S. holder indicating the amount of dividends on our common stock paid to such holder and the amount of any tax withheld with respect to those dividends. These information reporting requirements apply even if no withholding was required because the dividends were effectively connected with the holder's conduct of a U.S. trade or business, or withholding was reduced or eliminated by an applicable income tax treaty. This information also may be made available under a specific treaty or agreement with the tax authorities in the country in which the non-U.S. holder resides or is established.

Backup withholding, currently at a 24% rate, generally will not apply to payments to a non-U.S. holder of dividends on or the gross proceeds of a disposition of, our common stock provided the non-U.S. holder furnishes the required certification for its non-U.S. status, such as by providing a valid IRS Form W-8BEN, IRS Form W-8BEN-E or IRS Form W-8ECI, or certain other requirements are met. Backup withholding may apply if the payor has actual knowledge, or reason to know, that the holder is a U.S. person who is not an exempt recipient.

Backup withholding is not an additional tax. If any amount is withheld under the backup withholding rules, the non-U.S. holder should consult with a U.S. tax advisor regarding the possibility of and procedure for obtaining a refund or a credit against the non-U.S. holder's U.S. federal income tax liability, if any.

Withholding on Foreign Entities

The Foreign Account Tax Compliance Act ("FATCA"), as reflected in Sections 1471 through 1474 of the Code, imposes a U.S. federal withholding tax of 30% on certain payments, including dividends paid in respect of our common stock and the gross proceeds of disposition on our common stock, made to a "foreign financial institution" (as specially defined under these rules) unless such institution enters into an agreement with the U.S. government to withhold on certain payments and to collect and provide to the U.S. tax authorities substantial information regarding certain U.S. account holders of such institution (which includes certain equity and debt holders of such institution, as well as certain account holders that are foreign entities with U.S. owners) or an exemption applies. FATCA also generally will impose a U.S. federal withholding tax of 30% on certain payments, including dividends paid in respect of our common stock and the gross proceeds of disposition on our common stock, made to a non-financial foreign entity unless such entity provides the withholding agent a certification identifying certain direct and indirect U.S. owners of the entity or an exemption applies. An intergovernmental agreement between the United States and an applicable foreign country may modify these requirements. Under certain circumstances, a non-U.S. holder might be eligible for refunds or credits of such taxes. FATCA currently applies to dividends paid on our common stock. Proposed Treasury Regulations, which may be relied upon until final Treasury Regulations are finalized, currently eliminate FATCA withholding on payments of gross proceeds from sales or other dispositions of our common stock.

Prospective investors are encouraged to consult with their tax advisors regarding the possible implications of FATCA on their investment in our common stock.

EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS TAX ADVISOR REGARDING THE TAX CONSEQUENCES OF PURCHASING, HOLDING AND DISPOSING OF OUR COMMON STOCK, INCLUDING THE CONSEQUENCES OF ANY PROPOSED CHANGE IN APPLICABLE LAW, AS WELL AS TAX CONSEQUENCES ARISING UNDER ANY STATE, LOCAL, NON-U.S. OR U.S. FEDERAL NON-INCOME TAX LAWS SUCH AS ESTATE AND GIFT TAX.

UNDERWRITING

Barclays Capital Inc. and Keefe, Bruyette & Woods, Inc. are acting as the representatives of the underwriters and book-running managers of this offering. Under the terms of an underwriting agreement, which will be filed as an exhibit to the registration statement, with respect to the shares being offered, each of the underwriters named below has severally agreed to purchase from us and the selling stockholders the respective number of shares of common stock shown opposite its name below:

Underwriters	Number of Shares
Barclays Capital Inc.	
Keefe, Bruyette & Woods, Inc.	
Total	

The underwriting agreement provides that the underwriters' obligation to purchase shares of common stock depends on the satisfaction of the certain conditions contained in the underwriting agreement including:

- the obligation to purchase all of the shares of common stock offered hereby (other than those shares of common stock covered by their option to purchase additional shares as described below), if any of the shares are purchased;
- the representations and warranties made by us to the underwriters are true;
- there is no material change in our business or the financial markets; and
- we deliver customary closing documents to the underwriters.

Discounts and Expenses

The following table summarizes the underwriting discounts we and the selling stockholders will pay to the underwriters. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional shares. The underwriting fee is the difference between the initial price to the public and the amount the underwriters pay to us for the shares.

Paid by Us	No Exercise	Full Exercise
Per Share	$	$
Total	$	$

Paid by the Selling Stockholders	No Exercise	Full Exercise
Per Share	$	$
Total	$	$

The representatives have advised us that the underwriters propose to offer the shares of common stock directly to the public at the offering price on the cover of this prospectus and to selected dealers, which may include the underwriters, at such offering price less a selling concession not in excess of $ per share. If all the shares are not sold at the initial offering price following the initial offering, the representatives may change the offering price and other selling terms.

The expenses of the offering that are payable by us are estimated to be approximately $ (excluding underwriting discounts). We have agreed to reimburse the underwriters for up to $ for certain of their expenses.

Option to Purchase Additional Shares

We have granted the underwriters an option exercisable for 30 days after the date of this prospectus to purchase, from time to time, in whole or in part, up to an aggregate of shares from us at the offering price less underwriting discounts. This option may be exercised to the extent the underwriters sell more than shares in connection with this offering. To the extent that this option is exercised, each underwriter will be obligated, subject to certain conditions, to purchase its pro rata portion of these additional shares based on the underwriter's percentage underwriting commitment in this offering as indicated in the above table.

Lock-Up Agreements

We, and all of our directors and executive officers, the selling stockholders and the holders of substantially all of our outstanding stock have agreed that, for a period of 180 days after the date of this prospectus subject to certain limited exceptions as described below, we and they will not directly or indirectly, without the prior written consent of each of Barclays Capital Inc. and Keefe, Bruyette & Woods, Inc., (1) offer for sale, sell, pledge, or otherwise dispose of (or enter into any transaction or device that is designed to, or could be expected to, result in the disposition by any person at any time in the future of) any shares of common stock (including, without limitation, shares of common stock that may be deemed to be beneficially owned by us or them in accordance with the rules and regulations of the SEC and shares of common stock that may be issued upon exercise of any options or warrants) or securities convertible into or exercisable or exchangeable for common stock (other than the stock and shares issued pursuant to employee benefit plans, qualified stock option plans, or other employee compensation plans existing on the date of this prospectus, or sell or grant options, rights or warrants with respect to any shares of common stock or securities convertible into or exchangeable for common stock, (2) enter into any swap or other derivatives transaction that transfers to another, in whole or in part, any of the economic benefits or risks of ownership of shares of common stock, whether any such transaction described in clause (1) or (2) above is to be settled by delivery of common stock or other securities, in cash or otherwise, (3) make any demand for or exercise any right or confidentially submit or file or cause a registration statement to be filed or confidentially submitted, including any amendments thereto, with respect to the registration of any shares of common stock or securities convertible, exercisable or exchangeable into common stock or any of our other securities (other than any registration statement on Form S-8), or (4) publicly disclose the intention to do any of the foregoing.

The restrictions above do not apply to: .

Barclays Capital Inc. and Keefe, Bruyette & Woods, Inc. , in their sole discretion, may release the common stock and other securities subject to the lock-up agreements described above in whole or in part at any time. When determining whether or not to release common stock and other securities from lock-up agreements, Barclays Capital Inc. and Keefe, Bruyette & Woods, Inc. will consider, among other factors, the holder's reasons for requesting the release, the number of shares of common stock and other securities for which the release is being requested and market conditions at the time. At least three business days before the effectiveness of any release or waiver of any of the restrictions described above with respect to an officer or director of the Company, Barclays Capital Inc. and Keefe, Bruyette & Woods, Inc. will notify us of the impending release or waiver and we have agreed to announce the impending release or waiver in accordance with any method permitted by applicable law or regulation (which may include a press release), except where the release or waiver is effected solely to permit a transfer of common stock that is not for consideration and where the transferee has agreed in writing to be bound by the same terms as the lock-up agreements described above to the extent and for the duration that such terms remain in effect at the time of transfer.

Offering Price Determination

Prior to this offering, there has been no public market for our common stock. The initial offering price was negotiated between the representatives and us. In determining the initial offering price of our common stock, the representatives considered:

- the history and prospects for the industry in which we compete;
- our financial information;
- the ability of our management and our business potential and earning prospects;

- the prevailing securities markets at the time of this offering; and
- the recent market prices of, and the demand for, publicly traded shares of generally comparable companies.

Indemnification

We and the selling stockholders have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, and to contribute to payments that the underwriters may be required to make for these liabilities.

Stabilization, Short Positions and Penalty Bids

The representatives may engage in stabilizing transactions, short sales and purchases to cover positions created by short sales, and penalty bids or purchases for the purpose of pegging, fixing or maintaining the price of the common stock, in accordance with Regulation M under the Securities Exchange Act of 1934, as amended:

- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.
- A short position involves a sale by the underwriters of shares in excess of the number of shares the underwriters are obligated to purchase in the offering, which creates the syndicate short position. This short position may be either a covered short position or a naked short position. In a covered short position, the number of shares involved in the sales made by the underwriters in excess of the number of shares they are obligated to purchase is not greater than the number of shares that they may purchase by exercising their option to purchase additional shares. In a naked short position, the number of shares involved is greater than the number of shares in their option to purchase additional shares. The underwriters may close out any short position by either exercising their option to purchase additional shares and/or purchasing shares in the open market. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through their option to purchase additional shares. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering.
- Syndicate covering transactions involve purchases of the common stock in the open market after the distribution has been completed in order to cover syndicate short positions.
- Penalty bids permit the representatives to reclaim a selling concession from a syndicate member when the common stock originally sold by the syndicate member is purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.

These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of the common stock. As a result, the price of the common stock may be higher than the price that might otherwise exist in the open market. These transactions may be effected on the   or otherwise and, if commenced, may be discontinued at any time.

Neither we nor any of the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the common stock. In addition, neither we nor any of the underwriters make any representation that the representatives will engage in these stabilizing transactions or that any transaction, once commenced, will not be discontinued without notice.

Electronic Distribution

A prospectus in electronic format may be made available on the Internet sites or through other online services maintained by one or more of the underwriters and/or selling group members participating in this offering, or by their affiliates. In those cases, prospective investors may view offering terms online and, depending upon the particular underwriter or selling group member, prospective investors may be allowed to place orders online. The underwriters may agree with us to allocate a specific number of shares for sale to online brokerage account holders. Any such allocation for online distributions will be made by the representatives on the same basis as other allocations.

Other than the prospectus in electronic format, the information on any underwriter's or selling group member's web site and any information contained in any other web site maintained by an underwriter or selling group member is not part of the prospectus or the registration statement of which this prospectus forms a part, has not been approved and/or endorsed by us or any underwriter or selling group member in its capacity as underwriter or selling group member and should not be relied upon by investors.

Listing on Nasdaq

We have applied to list our common stock on Nasdaq under the symbol "SKWD."

Stamp Taxes

If you purchase shares of common stock offered in this prospectus, you may be required to pay stamp taxes and other charges under the laws and practices of the country of purchase, in addition to the offering price listed on the cover page of this prospectus.

Settlement

We expect that delivery of the shares of common stock will be made against payment therefor on or about the closing date specified on the coverage page of this prospectus, which will be the second day following the date of pricing of the shares of common stock, or third day if pricing occurs after 4:30 p.m. New York time (this settlement cycle being referred to as "T+2"). Under Rule 15c6-1 of the Exchange Act, as amended, trades in the secondary market generally are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade shares of common stock on the date of pricing or the two succeeding business day will be required, by virtue of the fact that the shares of common stock initially will settle T+2, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of shares of common stock who wish to trade shares of common stock prior to settlement should consult their own advisors.

Other Relationships

The underwriters and certain of their affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. The underwriters and certain of their affiliates have, from time to time, performed, and may in the future perform, various commercial and investment banking and financial advisory services for the issuer and its affiliates, for which they received or may in the future receive customary fees and expenses.

In the ordinary course of their various business activities, the underwriters and certain of their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and/or instruments of the issuer or its affiliates. If the underwriters or their affiliates have a lending relationship with us, certain of those underwriters or their affiliates routinely hedge, and certain other of those underwriters or their affiliates may hedge, their credit exposure to us consistent with their customary risk management policies. Typically, the underwriters and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities or the securities of our affiliates, including potentially the shares of common stock offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of the shares of common stock offered hereby. The underwriters and certain of their affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Selling Restrictions

General

Other than in the United States, no action has been taken by us or the underwriters that would permit a public offering of the securities offered by this prospectus in any jurisdiction where action for that purpose is required. The securities offered by this prospectus may not be offered or sold, directly or indirectly, nor may this prospectus or any other offering material or advertisements in connection with the offer and sale of any such securities be distributed or published in any jurisdiction, except under circumstances that will result in compliance with the applicable rules and regulations of that jurisdiction. Persons into whose possession this prospectus comes are advised to inform themselves about and to observe any restrictions relating to the offering and the distribution of this prospectus. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities offered by this prospectus in any jurisdiction in which such an offer or a solicitation is unlawful.

European Economic Area

In relation to each Member State of the European Economic Area (each, a “Member State”), no shares have been offered or will be offered pursuant to the offering to the public in that Member State prior to the publication of a prospectus in relation to the shares which has been approved by the competent authority in that Member State, all in accordance with the Prospectus Regulation, except that offers of shares may be made to the public in that Member State at any time under the following exemptions under the Prospectus Regulation:

- to any legal entity which is a qualified investor as defined in the Prospectus Regulation;
- to fewer than 150 natural or legal persons (other than qualified investors as defined under the Prospectus Regulation), subject to obtaining the prior consent of the underwriters for any such offer; or
- in any other circumstances falling within Article 1(4) of the Prospectus Regulation,

provided that no such offer of shares shall require the Company or any of the underwriters to publish a prospectus pursuant to Article 3 of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation.

For the purposes of this provision, the expression an “offer to the public” in relation to any shares in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any shares to be offered so as to enable an investor to decide to purchase or subscribe for any shares, and the expression “Prospectus Regulation” means Regulation (EU) 2017/1129.

United Kingdom

In relation to the United Kingdom, no shares have been offered or will be offered pursuant to the offering to the public in the United Kingdom prior to the publication of a prospectus in relation to the shares which has been approved by the Financial Conduct Authority, except that it may make an offer to the public in the United Kingdom of any shares at any time under the following exemptions under the UK Prospectus Regulation:

- to any legal entity which is a qualified investor as defined under Article 2 of the UK Prospectus Regulation;
- to fewer than 150 natural or legal persons (other than qualified investors as defined under Article 2 of the UK Prospectus Regulation), subject to obtaining the prior consent of the representatives for any such offer; or
- in any other circumstances falling within Section 86 of the FSMA,

provided that no such offer of the shares shall require the Company or any of the underwriters to publish a prospectus pursuant to Section 85 of the FSMA or supplement a prospectus pursuant to Article 23 of the UK Prospectus Regulation.

For the purposes of this provision, the expression an "offer to the public" in relation to the shares in the United Kingdom means the communication in any form and by any means of sufficient information on the terms of the offer and any shares to be offered so as to enable an investor to decide to purchase or subscribe for any shares and the expression "UK Prospectus Regulation" means Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018.

In addition, in the United Kingdom, this document is being distributed only to, and is directed only at, and any offer subsequently made may only be directed at persons who are "qualified investors" (as defined in Article 2 of the UK Prospectus Regulation) (i) who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended, (the "Order"), and/or (ii) who are high net worth companies (or persons to whom it may otherwise be lawfully communicated) falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons") or otherwise in circumstances which have not resulted and will not result in an offer to the public of the shares in the United Kingdom within the meaning of the FSMA.

Canada

The shares may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the shares must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this prospectus (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 Underwriting Conflicts (NI 33-105), the underwriters are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

Switzerland

The shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange ("SIX") or on any other stock exchange or regulated trading facility in Switzerland. This document does not constitute a prospectus within the meaning of, and has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this document nor any other offering or marketing material relating to the shares or the offering may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this document nor any other offering or marketing material relating to the offering, the Company, the shares of have been or will be filed with or approved by any Swiss regulatory authority. In particular, this document will not be filed with, and the offer of shares will not be supervised by, the Swiss Financial Market Supervisory Authority FINMA (FINMA), and the offer of shares has not been and will not be authorized under the Swiss Federal Act on Collective Investment Schemes ("CISA"). The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of shares.

United Arab Emirates

The shares have not been, and are not being, publicly offered, sold, promoted or advertised in the United Arab Emirates (including the Dubai International Financial Centre) other than in compliance with the laws of the United Arab Emirates (and the Dubai International Financial Centre) governing the issue, offering and sale of securities. Further, this prospectus does not constitute a public offer of securities in the United Arab Emirates (including the Dubai International Financial Centre) and is not intended to be a public offer. This prospectus has not been approved by or filed with the Central Bank of the United Arab Emirates, the Securities and Commodities Authority or the Dubai Financial Services Authority.

Australia

This prospectus:

- does not constitute a disclosure document or a prospectus under Chapter 6D.2 of the Corporations Act 2001 (Cth) (the "Corporations Act");
- has not been, and will not be, lodged with the Australian Securities and Investments Commission ("ASIC"), as a disclosure document for the purposes of the Corporations Act and does not purport to include the information required of a disclosure document for the purposes of the Corporations Act; and
- may only be provided in Australia to select investors who are able to demonstrate that they fall within one or more of the categories of investors, available under section 708 of the Corporations Act ("Exempt Investors").

The shares may not be directly or indirectly offered for subscription or purchased or sold, and no invitations to subscribe for or buy the shares may be issued, and no draft or definitive offering memorandum, advertisement or other offering material relating to any shares may be distributed in Australia, except where disclosure to investors is not required under Chapter 6D of the Corporations Act or is otherwise in compliance with all applicable Australian laws and regulations. By submitting an application for the shares, you represent and warrant to us that you are an Exempt Investor.

As any offer of shares under this document will be made without disclosure in Australia under Chapter 6D.2 of the Corporations Act, the offer of those securities for resale in Australia within 12 months may, under section 707 of the Corporations Act, require disclosure to investors under Chapter 6D.2 if none of the exemptions in section 708 applies to that resale. By applying for the shares you undertake to us that you will not, for a period of 12 months from the date of issue of the shares, offer, transfer, assign or otherwise alienate those shares to investors in Australia except in circumstances where disclosure to investors is not required under Chapter 6D.2 of the Corporations Act or where a compliant disclosure document is prepared and lodged with ASIC.

Japan

The shares have not been and will not be registered pursuant to Article 4, Paragraph 1 of the Financial Instruments and Exchange Act. Accordingly, none of the shares nor any interest therein may be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any "resident" of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to or for the benefit of a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and any other applicable laws, regulations and ministerial guidelines of Japan in effect at the relevant time.

Hong Kong

The shares have not been offered or sold and will not be offered or sold in Hong Kong, by means of any document, other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "SFO") of Hong Kong and any rules made thereunder; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong) (the "CO") or which do not constitute an offer to the public within the meaning of the CO. No advertisement, invitation or document relating to the shares has been or may be issued or has been or may be in the possession of any person for the purposes of issue, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong

Kong) other than with respect to shares which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made thereunder.

Singapore

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of common stock may not be circulated or distributed, nor may the shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "SFA")) pursuant to Section 274 of the SFA; (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the shares are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contract (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the shares pursuant to an offer made under Section 275 of the SFA except:

- to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- where no consideration is or will be given for the transfer;
- where the transfer is by operation of law;
- as specified in Section 276(7) of the SFA; or
- as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities based Derivatives Contracts) Regulations 2018.

Singapore SFA Product Classification — Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the SFA, the Company has determined, and hereby notifies all relevant persons (as defined in Section 309A of the SFA) that the shares are "prescribed capital markets products" (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

LEGAL MATTERS

DLA Piper LLP (US) will pass upon the validity of the shares of our common stock being offered by this prospectus. Latham & Watkins LLP is acting as counsel to the underwriters.

EXPERTS

Ernst & Young LLP, independent registered public accounting firm, has audited our consolidated financial statements at December 31, 2021 and 2020, and for each of the two years in the period ended December 31, 2021, as set forth in their report. We've included our financial statements in the prospectus and elsewhere in the registration statement in reliance on Ernst & Young LLP's report, given on their authority as experts in accounting and auditing.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We have filed with the SEC a registration statement on Form S-1 under the Securities Act with respect to the shares of our common stock offered by this prospectus. This prospectus, which constitutes a part of the registration statement, does not contain all of the information set forth in the registration statement, some of which is contained in exhibits to the registration statement as permitted by the rules and regulations of the SEC. For further information with respect to us and our common stock, we refer you to the registration statement, including the exhibits filed as a part of the registration statement. Statements contained in this prospectus concerning the contents of any contract or any other document are not necessarily complete. If a contract or document has been filed as an exhibit to the registration statement, please see the copy of the contract or document that has been filed. Each statement in this prospectus relating to a contract or document filed as an exhibit is qualified in all respects by the filed exhibit. The SEC maintains a website that contains reports, proxy statements and other information about issuers, like us, that file electronically with the SEC. The address of that website is www.sec.gov.

As a result of this offering, we will become subject to the information and reporting requirements of the Exchange Act and, in accordance with this law, will file periodic reports, proxy statements and other information with the SEC. These periodic reports, proxy statements and other information will be available for inspection at the website of the SEC referred to above. We also maintain a website at www.skywardinsurance.com where, upon closing of this offering, you may access these materials free of charge as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC. The information on or that can be accessed through our website is not a part of this prospectus and the inclusion of our website address in this prospectus is an inactive textual reference only.

Skyward Specialty Insurance, Inc.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

SKYWARD SPECIALTY INSURANCE GROUP, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT
As of and for the Years Ended December 31, 2021 and 2020
and
UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
As of March 31, 2022 and December 31, 2021 and
For the Three Months Ended March 31, 2022 and 2021

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES
TABLE OF CONTENTS

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of Skyward Specialty Insurance Group, Inc. and subsidiaries

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Skyward Specialty Insurance Group, Inc. and subsidiaries (the Company) as of December 31, 2021 and 2020, the related consolidated statements of operations and comprehensive income (loss), changes in stockholders' equity and cash flows for the years then ended, and the related notes and schedules (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Ernst + Young LLP

We have served as the Company's auditor since 2021.

Houston, TX
April 19, 2022

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2021 AND 2020
(In Thousands, except for share and per share amounts)

	2021	2020
Assets		
Investments:		
Fixed maturity securities, available for sale, at fair value (amortized cost of $452,478 and $299,454, respectively)	$ 458,351	$ 315,001
Fixed maturity securities, held to maturity, at amortized cost	47,117	28,393
Equity securities, at fair value (cost of $98,986 and $74,112, respectively)	117,971	77,866
Mortgage loans	29,531	5,228
Other long-term investments	132,111	102,832
Short-term investments, at fair value	164,278	235,957
Total investments	949,359	765,277
Cash and cash equivalents	42,107	63,455
Restricted cash	65,167	50,168
Premiums receivable, net of allowance	112,158	114,302
Reinsurance recoverables	536,327	538,889
Ceded unearned premium	137,973	146,624
Deferred policy acquisition costs	59,456	53,519
Deferred income taxes	33,663	41,518
Goodwill and intangible assets, net	91,336	84,014
Other assets	90,666	90,867
Total assets	$ 2,118,212	$ 1,948,633
Liabilities, Temporary Equity and Stockholders' Equity		
Liabilities:		
Losses and loss adjustment expenses ("LAE")	$ 979,549	$ 856,780
Unearned premiums	363,288	342,619
Deferred ceding commission	30,500	35,757
Reinsurance and premium payables	119,919	124,125
Funds held for others	29,587	27,158
Accounts payable and accrued liabilities	40,760	40,221
Notes payable	50,000	50,000
Subordinated debt, net of debt issuance costs	78,529	78,448
Total liabilities	1,692,132	1,555,108
Temporary Equity:		
Series A preferred stock, $0.01 par value, 2,000,000 shares authorized, 1,976,310 issued and outstanding as of December 31, 2020	—	90,303
Total temporary equity	—	90,303
Stockholders' Equity:		
Series A preferred stock, $0.01 par value, 2,000,000 shares authorized, 1,970,124 shares issued and outstanding as of December 31, 2021	20	—
Common stock, $0.01 par value, 168,000,000 shares authorized and 67,052,434 shares issued as of December 31, 2021 and 2020, respectively	671	671
Treasury stock, at par value, 917,800 and 1,406,427 shares, as of December 31, 2021 and 2020, respectively	(9)	(14)
Additional paid-in capital	574,663	475,989
Stock notes receivable	(9,092)	(2,510)
Accumulated other comprehensive income	4,640	12,216
Accumulated deficit	(144,813)	(183,130)
Total stockholders' equity	426,080	303,222
Total liabilities, temporary equity and stockholders' equity	$ 2,118,212	$ 1,948,633

The accompanying notes are an integral part of these consolidated financial statements.

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(In Thousands, except for share and per share amounts)

	2021	2020
Revenues:		
Net earned premium	$ 499,823	$ 431,911
Commission and fee income	3,973	5,664
Net investment income	24,646	14,130
Net unrealized gains (losses) on equity securities	15,251	(928)
Realized investment gains	1,856	1,067
Net realized gain on sale of business	5,077	—
Other operating (loss) income	(445)	128
Total revenues	550,181	451,972
Expenses:		
Losses and loss adjustment expenses	354,411	362,182
Underwriting, acquisition and insurance expenses	138,498	119,818
Impairment charges	2,821	57,582
Interest expense	4,622	5,532
Amortization expense	1,520	1,390
Total expenses	501,872	546,504
Income (loss) before income tax expense	48,309	(94,532)
Income tax expense (benefit)	9,992	(19,890)
Net income (loss)	38,317	(74,642)
Other comprehensive (loss) income:		
Unrealized gains and losses on investments:		
Net change in unrealized (losses) and gains on investments, net of tax	(8,173)	6,693
Reclassification adjustment for gains and losses on securities no longer held, net of tax	597	508
Total other comprehensive (loss) income	(7,576)	7,201
Comprehensive income (loss)	$ 30,741	$ (67,441)
Net income (loss) attributable to common shareholders	$ 19,810	$ (74,642)
Per share data:		
Basic earnings (loss) per share	$ 0.30	$ (1.15)
Diluted earnings (loss) per share	$ 0.30	$ (1.15)
Weighted-average common shares outstanding:		
Basic	65,235,002	64,855,972
Diluted	129,873,596	64,855,972

The accompanying notes are an integral part of these consolidated financial statements.

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(In thousands)

	Preferred Stock	Common Stock	Treasury Stock	Additional Paid-In Capital	Stock Notes Receivable	Accumulated Other Comprehensive Income	Accumulated Deficit	Total
Balance at January 1, 2020	$ —	$ 670	$ (8)	$ 478,164	$ (3,547)	$ 5,015	$ (108,488)	$ 371,806
Employee equity transactions	—	1	(2)	(930)	128	—	—	(803)
Treasury stock transactions	—	—	(4)	(1,245)	909	—	—	(340)
Net loss	—	—	—	—	—	—	(74,642)	(74,642)
Other comprehensive income, net of tax	—	—	—	—	—	7,201	—	7,201
Balance at December 31, 2020	$ —	$ 671	$ (14)	$ 475,989	$ (2,510)	$ 12,216	$ (183,130)	$ 303,222
Employee equity transactions	—	—	5	424	880	—	—	1,309
Net income	—	—	—	—	—	—	38,317	38,317
Other comprehensive loss, net of tax	—	—	—	—	—	(7,576)	—	(7,576)
Reclassification of temporary equity to stockholders' equity	20	—	—	98,250	(7,462)	—	—	90,808
Balance at December 31, 2021	$ 20	$ 671	$ (9)	$ 574,663	$ (9,092)	$ 4,640	$ (144,813)	$ 426,080

The accompanying notes are an integral part of these consolidated financial statements.

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(In Thousands)

	2021	2020
Cash flows from operating activities:		
Net income (loss)	$ 38,317	$ (74,642)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Net realized (gains)	(1,856)	(1,067)
Depreciation and amortization expense	5,603	5,985
Stock-based compensation expense	522	(25)
Provision for bad debts	79	812
Unrealized (gains) losses on equity securities	(15,251)	928
Earnings on illiquid investments	(11,413)	(4,991)
Deferred income tax, net	9,984	(19,551)
Impairment charges	2,821	57,582
Net realized (gain) on sale of business	(5,077)	—
Changes in operating assets and liabilities:		
Premiums receivable, net	1,876	(2,316)
Reinsurance recoverables	1,062	(114,959)
Ceded unearned premium	8,548	28,430
Deferred policy acquisition costs	(5,975)	2,354
Federal income taxes receivable	—	662
Losses and loss adjustment expenses	124,270	172,887
Unearned premiums	20,772	1,182
Deferred ceding commission	(5,219)	(6,250)
Reinsurance and premium (receivables) payables	(4,201)	6,566
Funds held for others	2,649	496
Accounts payable and accrued liabilities	1,148	9,240
Other, net	6,626	(18,614)
Net cash provided by operating activities	175,285	44,709
Cash flows from investing activities:		
Purchase of fixed maturity securities, available for sale	(255,155)	(146,639)
Purchase of illiquid investments	(48,060)	(36,091)
Purchase of equity securities	(60,328)	(36,880)
Purchase of business	(10,554)	—
Investment in direct and indirect loans	(16,079)	17,920
Purchase of property and equipment	(2,154)	(2,072)
Sale of investment in subsidiary	8,188	—
Sales and maturities of investment securities	135,289	136,065
Distributions from equity method investments	2,387	1,000
Change in short-term investments	70,207	24,206
Receivable for securities sold	(725)	—
Cash used in deposit accounting	(6,074)	(32,940)
Other, net	44	497
Net cash used in investing activities	(183,014)	(74,934)
Cash flows from financing activities:		
Employee share purchases	1,380	255
Issuance of preferred shares	—	90,413
Repayments of notes payable	—	(33,827)
Repurchase of common stock	—	(540)
Net cash provided by financing activities	1,380	56,301
Net (decrease) increase in cash and cash equivalents and restricted cash	(6,349)	26,076
Cash and cash equivalents and restricted cash at beginning of year	113,623	87,547
Cash and cash equivalents and restricted cash at end of year	$ 107,274	$ 113,623
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 4,669	$ 5,530

The accompanying notes are an integral part of these consolidated financial statements.

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Operations

Skyward Specialty Insurance Group, Inc. (the "Company", collectively we, us or our), an insurance holding company, is a Delaware corporation that was organized in 2006. We are a specialty insurance company operating in one segment delivering commercial property and casualty products and accident and health insurance coverages through our underwriting divisions. We focus our business on markets that are underserved, dislocated and/or for which standard insurance coverages are insufficient or inadequate to meet the needs of businesses, including our customers and prospective customers operating in these markets. Our customers typically require highly specialized, customized underwriting solutions and claims capabilities. As such, we develop and deliver tailored insurance products and services to address each of the niche markets we serve.

Our portfolio of insured risks is highly diversified — we insure customers operating in a wide variety of industries; we distribute through multiple channels; we write multiple lines of business, including general liability, excess liability, professional liability, commercial automobile liability, commercial automobile physical damage, group accident and health, property, surety and workers' compensation.

Insurance Companies

We conduct operations principally through four insurance companies. Houston Specialty Insurance Company ("HSIC"), our largest insurance subsidiary, underwrites multiple lines of insurance on a surplus lines basis in 50 states and the District of Columbia. Imperium Insurance Company ("IIC"), a subsidiary of HSIC, underwrites on an admitted basis in all 50 states and the District of Columbia. Great Midwest Insurance Company ("GMIC"), a subsidiary of IIC underwrites multiple lines of insurance on an admitted basis in all 50 states, the District of Columbia and is a certified surety bond company listed with the Department of Treasury. Oklahoma Specialty Insurance Company ("OSIC"), a subsidiary of GMIC, is an approved surplus lines company in 47 states.

Reinsurance Company

Skyward Re is a wholly owned captive reinsurance company domiciled in the Cayman Islands that was incorporated on January 7, 2020. Skyward Re assumes net reserves for certain divisions, related to a retroactive reinsurance contract, from our insurance companies and retrocedes the net reserves to a third-party reinsurer.

Non-insurance Companies

Skyward Underwriters Agency, Inc. ("SUA"), a subsidiary of the Company, is a managing general insurance agent and reinsurance broker for property and casualty and accident and health risks in specialty niche markets. Skyward Service Company, also our subsidiary, provides various administrative services to our subsidiaries.

2. Summary of Significant Accounting Policies

Basis of Presentation

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and include the accounts of the Company and its subsidiaries as of and for the years ended December 31, 2021 and 2020. All significant intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies (continued)

contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ materially from these estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and highly liquid short-term investments. We consider all short-term investments purchased with an original maturity of three months or less to be cash equivalents. The carrying value of the Company’s cash and cash equivalents approximates fair value.

Restricted Cash

Cash with a legal restriction as to withdrawal or use by the consolidated group is recorded as restricted cash. The carrying value of the Company’s restricted cash approximates fair value.

SUA collects premiums from clients, and after deducting commissions and any applicable fees, remits these premiums to our insurance companies, noted within the Nature of Operations or to 3rd party insurance companies. SUA holds unremitted insurance premiums in a fiduciary capacity to 3rd party insurance companies, as restricted cash.

We are required by state regulations to maintain assets on deposit with certain states and hold cash as collateral for certain reinsurance balances. Cash that we hold in a depository account for others or which is restricted by a state is recorded as restricted cash.

Investments

Available for Sale

Our investments in fixed maturity securities are classified as available for sale and are reported at fair value based on quoted market prices or dealer quotes. Unrealized gains and losses for fixed maturity securities are excluded from net income and reported in stockholders’ equity, net of taxes, as a component of accumulated other comprehensive income (loss). If quoted market prices or dealer quotes are not available, we estimate fair value based on recent trading information. Premiums and discounts on mortgage-backed securities are amortized using the retroactive method adjusted for anticipated prepayments and the estimated economic life of the securities. Adjustments related to changes in prepayment assumptions are included in net investment income.

Held to maturity

Our investments in fixed maturity securities where we have demonstrated the intent and ability to hold until maturity have been classified as held to maturity and are reported at amortized cost.

Other-than-Temporary Impairments

We evaluate declines in the market value of invested assets below amortized cost, for other-than-temporary impairment losses, on a quarterly basis. Impairment losses for declines in the value of our fixed maturity securities below amortized cost attributable to issuer-specific events are based on all relevant facts and circumstances for each investment and are recognized when appropriate. For all our investments with unrealized losses due to market conditions or industry-related events where we do not have the intent to sell the security and we have the ability to hold the investment for either a period of time sufficient to allow a market recovery or to maturity, declines in value below cost are not assumed to be other-than-temporary. When we consider the impairment of the value of an investment to be other-than-temporary, we report the

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies (continued)

decrease in value in net income within the Consolidated Statements of Operations and a corresponding reduction in carrying value on the balance sheet.

Equity securities with a readily determinable fair value

Equity securities consists of common stock or preferred stock. We also classify mutual funds, including those that invest mostly in debt securities, as equity securities. Our investments in equity securities with a readily determinable fair value are carried on the balance sheet at fair value using quoted market prices. Unrealized gains and losses on equity securities are included in net income within the Consolidated Statements of Operations.

Mortgage loans

Our investments in mortgage loans are classified as held for investment and carried on the balance sheet at cost adjusted for unamortized: premiums, discounts and loan fees. When an amount is determined to be uncollectable, we directly write off the uncollectable amount in the period it was determined to be uncollectable. We recognize interest on the loans as interest receivable which we include in other assets on the balance sheet.

Other long-term investments

Our other long-term investments include investments in equity and equity securities of non-public entities and indirect investments in loans and loan collateral.

We have equity investments in certain limited partnerships and corporations where we have significant influence but not control. Our analysis of entities that are variable interest entities indicated that we are not the primary beneficiary and would not have to consolidate these entities. We use the equity method to account for these investments. Under the equity method, our initial investment is recorded at cost and is subsequently adjusted based on our proportionate share of distributions and net income or loss of the equity method investee. The difference between the cost of an investment and our proportionate share of the underlying equity in net assets recorded on the investee's books is a component of investment income. We amortize the difference as an adjustment to our pro-rata share of equity method income over the useful life which is based on the underlying asset.

We do not have significant influence in our investments in equity securities of non-public entities. When these securities do not have a readily determinable fair value, we carry these investments at cost, minus impairment, if any, and changes resulting from observable price changes in orderly transactions for identical or similar investments of the same issuer.

Our investments in indirect collateralized loans and loan collateral are held through and accounted for as an ownership interest in an unconsolidated subsidiary. Our ownership interests in unconsolidated subsidiaries consists of investments in entities such as partnerships, joint ventures and special purpose investment vehicles. We have significant influence but not control of these unconsolidated subsidiaries and use the equity method to account for these investments.

Short-Term Investments

Our short-term investments consist primarily of money market funds and are carried at cost which approximates fair value.

Net Investment Income and Net Realized Gains and Losses

Net investment income consists of interest, dividends and equity in earnings (losses) of investees net of investment expenses such as investment management expenses. Interest income is recognized on the accrual

2. Summary of Significant Accounting Policies (continued)

basis, and dividends as earned at the ex-dividend date. Interest income on mortgage-backed and asset-backed securities is recognized using the effective-yield method based on estimated principal repayments. Included in interest income is the amortization of premium and accretion of discounts on debt securities.

We recognize net realized gains and losses on investments in net income based upon the specific identification method.

Reinsurance

Reinsurance Accounting

In the normal course of business, we purchase prospective reinsurance for certain lines of business on a proportional, excess of loss and facultative basis. Proportional reinsurance requires us to share the losses and expenses with the reinsurer in exchange for a share of the premiums. Excess of loss reinsurance shares losses, either a proportion of or in its entirety, above a certain dollar threshold, in exchange for a negotiated cost. Facultative reinsurance covers specific risks and/or policies on either a proportional or excess of loss basis.

We report ceded unearned premium and reinsurance balances recoverable, on paid and unpaid losses and settlement expenses, separately as assets, instead of netting them with the related liabilities, since reinsurance does not relieve us of our legal liability to our policyholders. Reinsurance on unpaid losses and settlement expenses represent estimates of the portion of the liabilities recoverable from reinsurers. On the Consolidated Statements of Operations, net earned premium, losses and loss adjustment expenses, net and underwriting, acquisition and insurance expenses are presented net of reinsurance ceded.

We purchase retroactive reinsurance on certain lines of business in the form of loss portfolio transfers (“LPT”) and adverse development covers. These contracts provide indemnification of losses related to past loss events where the reinsurer shares losses, either a proportion of or in its entirety, depending on certain dollar thresholds. Income generated from retroactive reinsurance contracts is deferred and amortized into net income over the settlement period and losses are charged to net income immediately. Subsequent changes in the measurement of the retroactive reinsurance contract are accounted for under a full retrospective method.

Deposit Accounting

Certain ceded reinsurance contracts, which Management determines do not transfer significant insurance risk, are accounted for using the deposit method of accounting. The evaluation of the transfer of significant insurance risk involves an assessment of both timing risk and underwriting risk. Management may determine that a reinsurance contract does not transfer significant insurance risk if either underwriting risk or timing risk or both are not deemed to have been transferred. For those contracts that transfer only significant timing risk and do not transfer sufficient underwriting risk, a deposit asset is recorded equal to the initial cash outflow under the contract, which will then be offset by cash inflows received from the reinsurers. To the extent cash outflows are expected to differ from expected cash inflows, an accretion rate is established at inception of the contract based on actuarial estimates whereby the deposit accounting asset is increased/decreased to the estimated amount receivable over the contract term. The accretion of the deposit is based on the expected rate of return implied from the estimated cash inflows and outflows under the contract. Periodically, the Company reassesses the estimated ultimate receivable and the related expected rate of return on the deposit asset. The accretion of the deposit asset, including any changes in accretion resulting from changes in estimated cash flows, are reflected as part of investment income in the Company’s results of operations. We have several reinsurance contracts that require deposit accounting treatment due to not transferring sufficient underwriting risk. There were no reinsurance contracts that require deposit accounting treatment due to not transferring sufficient timing risk.

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies (continued)

Reinsurance Recoverables

Reinsurance does not relieve us of our legal liability to our policyholders. We continuously monitor the financial condition of our reinsurers. As part of our monitoring efforts, we review their annual financial statements. We also review insurance industry developments that may impact the financial condition of our reinsurers. We analyze the credit risk associated with our reinsurance recoverables by monitoring the financial strength rating of our reinsurers from A.M. Best, a widely recognized rating agency with an exclusive insurance industry focus. We also assess the adequacy of collateral obtained, where applicable. Should our reinsurers fail to fulfill their obligations to us, we have access to $230.9 million and $246.5 million of collateral from various reinsurers as of December 31, 2021 and 2020, respectively. When our review indicates the existence of uncollectible amounts from reinsurers, our policy is to charge net income and provide an allowance for estimated unrecoverable amounts. As of December 31, 2021 and 2020, we determined that no allowance for uncollectable reinsurance recoverables was required.

Reinsurance recoverables present potential exposures to individual reinsurers. The following table lists the individual reinsurers which represent 10% or more of our reinsurance recoverable balances and the respective financial strength rating from A.M. Best:

	A.M. Best Rating	2021	2020
Everest Reinsurance Co.	A+	28.9%	28.9%
Randall & Quilter (R&Q Bermuda (SAC) Ltd)	Not rated	12.0%	16.0%

We have approximately $11.8 of uncollateralized recoverables from Randall & Quilter Bermuda (SAC) Ltd that they are contractually obligated to fund as of December 31, 2021.

Concentration of Credit Risk

Other than reinsurance recoverables, financial instruments that potentially subject us to concentrations of credit risk are primarily cash and cash equivalents, restricted cash, investments and premiums receivable.

Cash equivalents and short-term investments include investments in money market funds and securities backed by the U.S. government. Investments are diversified throughout many industries and geographic regions. We limit the amount of credit exposure with any one financial institution or issuer and believe that no significant concentration of credit risk exists with respect to cash and investments. As of December 31, 2021 and 2020, the outstanding premiums receivable are generally diversified due to the large number of entities comprising our customer base and their dispersion across many different lines of business and geographic regions. Failure by distribution sources to remit premiums could result in premium write-offs and a corresponding loss of income.

Deferred Policy Acquisition Costs

Policy acquisition costs consist of commissions and premium taxes that vary with and are directly related to the successful production of new or renewal business. We defer policy acquisition costs and related ceding commissions and charge or credit them to earnings in proportion with the premium earned.

We recognize a premium deficiency if the sum of expected losses, loss adjustment expenses, and unamortized acquisition costs exceed our related unearned premiums. We first recognize a premium deficiency by charging any unamortized acquisition costs to expense to the extent required to eliminate the deficiency. If our premium deficiency is greater than unamortized acquisition costs, we accrue a liability for the excess deficiency. We consider anticipated investment income in the determination of premium deficiencies. Based on the analysis performed by management, we believe that no premium deficiency existed as of December 31, 2021 and 2020.

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies (continued)

Goodwill and Intangible Assets

Goodwill and intangible assets are recorded as a result of a business combination. Goodwill represents the excess of the purchase price over the fair value of the assets acquired and liabilities assumed. We amortize identifiable intangible assets with a finite useful life over the period that the intangible asset is expected to contribute directly or indirectly to our future cash flows. We do not amortize indefinite lived intangible assets.

We evaluate goodwill and identifiable intangible assets for recoverability annually in the fourth quarter or on an interim basis should events or changes in circumstances indicate that a carrying amount may not be recoverable.

To test for impairment, we first perform a qualitative assessment to determine if it is more likely-than-not that the fair value of a reporting unit is less than its carrying value, including goodwill. This initial assessment includes, among other factors, consideration of: (i) past, current and projected future earnings and equity; (ii) recent trends and market conditions; and (iii) valuation metrics involving similar companies that are publicly traded and acquisitions of similar companies, if available. If the more likely-than-not threshold is met, we perform a quantitative impairment test by comparing the estimated fair value with the carrying value. If the carrying value of the net assets associated with the reporting unit exceeds the fair value of the reporting unit, goodwill is considered impaired and will be determined as the amount by which the reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill.

Our reporting unit is at the underwriting division level, this is one level below the consolidated group where the underwriting division represents a business and discrete financial information is available and reviewed regularly by underwriting management. Determining the fair value of our reporting units is subjective in nature and involves the use of significant estimates and assumptions, including projected net cash flows, discount and long-term growth rates. We determine the fair value of our reporting units based on an income approach, whereby the fair value of the reporting unit is derived from the present value of estimated future cash flows associated with the reporting unit. The assumptions about estimated cash flows include factors such as future premiums, loss and LAE expenses, general and administrative expenses and industry trends. We consider historical rates and current market conditions when determining the discount and long-term growth rates to use in our analysis. We consider other valuation methods, such as the cost approach or market approach, if the facts and circumstances indicate these methods provide a more representative approximation of fair value. Changes in these estimates based on evolving economic conditions or business strategies could result in material impairment charges in future periods. We base our fair value estimates on assumptions we believe to be reasonable. Actual results may differ from those estimates.

As a result of the process described above, we recorded a goodwill impairment charge of $2.8 million and $57.6 million for the years ended December 31, 2021 and 2020, respectively. This amount is included in "Impairment charges" in the Consolidated Statements of Operations.

Property and Equipment

We record property and equipment, which is included in other assets in the consolidated balance sheets, at cost less accumulated depreciation and recognize depreciation expense on a straight-line basis for financial statement purposes over periods ranging from four to eight years for software and equipment and for leasehold improvements over the life of our leases.

Leases

Right-of-use (ROU) assets are included in other assets and lease liabilities are included in accounts payable and accrued liabilities on the balance sheet. For operating leases, we determine if a contract contains a lease at inception and recognize operating lease ROU assets and lease liabilities based on the present value of the future minimum lease payments at the commencement date. As we do not have the interest rate implicit in

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies (continued)

our leases, we use our incremental borrowing rate based on the information available at the commencement date in determining the present value of future payments. Lease agreements may include options to extend or terminate. The options are exercised at our discretion and are included in operating lease liabilities if it is reasonably certain the option will be exercised. Lease agreements have lease and non-lease components, which are accounted for as a single lease component. Operating lease cost for future minimum lease payments is recognized on a straight-line basis over the lease term. Sublease income is recognized on a straight-line basis over the sublease term.

Losses and LAE Reserves

Losses and LAE reserves represent our best estimate of the ultimate net cost of all reported and unreported losses that are unpaid as of the balance sheet dates. Our estimated reserves for losses and LAE include the accumulation of estimates for claims reported and unpaid prior to the balance sheet dates, estimates (based on projections of relevant historical data) of increases in claims costs for claims already reported, of claims incurred but not reported, and estimates of expenses for investigating and adjusting all incurred and unpaid claims. We estimate our reserves on an undiscounted basis, using individual case-basis valuations, statistical analyses, and various actuarial methods such as:

Paid Loss Development — Historical payment patterns for prior claims are used to estimate future payment patterns for claims. These patterns are applied to current payments by policy year to yield an expected ultimate loss.

Incurred Loss Development — Historical case loss patterns for past claims are used to estimate future case-incurred amounts for current claims. These patterns are applied to current case losses by policy year to yield an expected ultimate loss.

Case Reserve Development — Patterns of historical development in reported losses relative to historical case reserves are determined. These patterns are applied to current case reserves by policy year and the result is combined with paid losses to yield an expected ultimate loss.

Expected Loss Ratio — Historical loss ratios, in combination with projections of frequency and severity trends, as well as estimates of price and exposure changes, are analyzed to produce an estimate of the expected loss ratio (“loss pick”) for each policy year. The loss pick is then applied to the earned premium for each year to estimate the expected ultimate losses.

Paid and Incurred Bornhuetter/Ferguson (BF) — This approach blends the expected loss ratio method with either the paid or incurred loss development method. In effect, the BF methods produce weighted average indications for each policy year.

In most cases, multiple estimation methods will be valid for the particular facts and circumstances of the claim liabilities being evaluated. Each estimation method has its own set of assumption variables and its own advantages and disadvantages, with no single estimation method being better than the others in all situations, and no one set of assumption variables being meaningful for all underwriting divisions. The relative strengths and weaknesses of the particular estimation methods, when applied to a particular group of claims, can also change over time. Therefore, the weight given to each estimation method will likely change by policy year and with each evaluation given the facts and circumstances associated with each underwriting division.

The estimates generated by the methods above are based on our historical information, industry information, and our estimates of future trends in variable factors such as loss severity and loss frequency. Losses and LAE reserves are subject to uncertainty from various sources, including changes in reporting patterns, claims settlement patterns, judicial decisions, legislation, and economic conditions. Therefore, our actual loss experience may not conform to the methods used in determining the estimated amounts for such

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies (continued)

liability at the balance sheet dates. We continually monitor and review reserves and adjust our estimates as necessary as new information becomes available.

Losses and LAE reserves are subject to uncertainty from various sources, including changes in reporting patterns, claims settlement patterns, judicial decisions, legislation, and economic conditions. Therefore, our actual loss experience may not conform to the assumptions used in determining the estimated amounts for such liability at the balance sheet dates. We continually monitor and review reserves, and as settlements are made or reserves adjusted, the differences are reported in the current year.

Because of the nature of business we have historically written, management believes that we have limited exposure to environmental and other toxic tort type claim liabilities.

Temporary Equity

We evaluate the conversion feature associated with our preferred share rights offering, discussed within Note 14, in order to determine the balance sheet classification of the instrument. The preferred shares are classified within Temporary equity when the Option Conversion Rate is contingently adjustable in the future and there is no contractual limit on the number of common shares that could be issued. Under these circumstances we cannot assert we have ability to settle in common shares.

Premiums

We earn and recognize property and casualty and surety premiums on a pro-rata basis over the terms of the policies. We earn accident and health premiums as billed, based on census data. Gross premiums written are reduced by ceded premiums from proportional, facultative and excess of loss reinsurance costs for prospective reinsurance. Our premiums receivable include deferred premiums, which represent installment payments we are due from insureds under the payment terms of their policies. We recorded an allowance for estimated uncollectible premiums receivable of approximately $0.3 million and $1.1 million as of December 31, 2021 and 2020, respectively.

Unearned premiums represent the portion of gross premiums written which is applicable to the unexpired terms of insurance policies or reinsurance contracts in force. Ceded unearned premiums represent the portion of ceded premiums written which is applicable to the unexpired terms of insurance policies or reinsurance contracts in force. These unearned premiums are calculated on a pro-rata basis over the terms of the policies for direct and ceded amounts.

Commission and Fee Income

SUA commission revenue

SUA commission revenue is generated from the placement of insurance policies on reinsurance programs through a reinsurance broker which represents our single performance obligation. Our transaction price is fixed at contract inception and based on a percentage of premiums placed. We recognize 100% of the transaction price as the associated performance obligation is satisfied at the point in time a policy is placed as we have no constraints on revenue.

SUA fee income

SUA fee income is generated from the placement of insurance policies with a 3rd party insurance company. Our single performance obligation consists of the placement of the policy. Our transaction price is variable at contract inception and based on a percentage of premium based on risk factors that vary every month such as employee census data and worker roles. We estimate our transaction price over the life of the

2. Summary of Significant Accounting Policies (continued)

policy using the expected value method and recognize revenue at the point in time the policy is placed. When there are changes in the estimate of variable consideration, we recognize those changes in the month they occur.

Income Taxes

We accrue income tax expense for the tax effects of transactions reported in the consolidated financial statements and this provision for income taxes consists of taxes currently due plus deferred taxes resulting from temporary differences between amounts reported for financial statement and income tax purposes. We establish a valuation allowance for any deferred tax asset not expected to be realized.

We measure deferred tax assets and liabilities using enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rates is recognized in income in the period that includes the enactment date.

We record a liability for uncertain tax positions where it is more likely-than-not that the tax position will not be sustained upon examination by the appropriate tax authority. Changes in the liability for uncertain tax positions are reflected in income tax expense in the period when a new uncertain tax position arises, judgment changes about the likelihood of an uncertainty, the tax issue is settled, or the statute of limitation expires. Any potential net interest income or expense and penalties related to uncertain tax positions are recorded in the Consolidated Statements of Operations.

We file a consolidated federal income tax return in the United States and certain other state tax returns. Our admitted insurance subsidiaries pay premium taxes on gross written premiums in lieu of most state income or franchise taxes. Premium tax expense is recognized within policy acquisition costs in the Consolidated Statement of Operations.

Fair Value of Financial Instruments

Fair value is estimated for each class of financial instrument based on the framework established in the fair value accounting guidance. This guidance requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Fair value hierarchy disclosures are based on the quality of inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

As a part of management’s process to determine fair value, we utilize widely recognized, third-party pricing sources to determine our fair values. We have obtained an understanding of the third-party pricing sources’ valuation methodologies and inputs.

See Note 6 for further details regarding fair value disclosures.

Stock Based Compensation

We granted common stock to our employees and non-employee directors under our Stock Purchase Program and Equity Incentive Program (the “Legacy Programs”). The Legacy Programs required that employees who receive an award purchase a certain amount of stock, which the Company then matched. The matching share awards were subject to certain vesting requirements. For the purchased portion of the participant’s stock, the participant was required to make a minimum payment toward the purchase commitment, with the remainder of the balance issued as a note receivable to us and recorded as a stock notes receivable within Stockholders’ Equity. We recognize compensation costs over the applicable vesting period

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies (continued)

for share-based payments to employees, former employees and non-employee directors at fair value of the common stock on the grant date. We recognize forfeiture of purchased and awarded shares as they occur.

In December 2020, the Compensation Committee of the Company's Board of Directors (the "Compensation Committee") approved a new Long Term Incentive Plan (the "2021 Plan"). The 2021 plan provides for the granting of restricted stock, restricted stock units, performance share awards, as well as cash-based performance awards, to select employees and non-employee directors of the Company. Under the 2021 Plan, the Compensation Committee ratifies the selection of participants for each year's grants which are subject to the terms and conditions of the 2021 Plan. The equity awards consist of common share awards with either a market or a performance condition and restricted common stock units. All awards are subject to a service condition and the accounting policy for each award is presented below.

Market condition awards

For common share awards with a market and service condition, we use a probability assessment to determine the fair value of these awards on the grant date. We recognize the grant date fair value as compensation costs over the applicable service period of the award. If the market condition is not obtained, previously recognized compensation expense is not reversed.

Performance and service condition awards

For common share awards with a performance condition and a service condition, we calculate a grant date fair value based on the probability weighted assessment of the performance condition and respective award values. We recognize compensation costs over the service period based on our latest estimate of grant date fair value. If the performance condition is not satisfied, we will reverse previously recognized compensation expense.

Service condition awards

We grant restricted common stock units that only have a service condition. We recognize compensation costs over the service period based on the fair value of common stock on the grant date.

Earnings (loss) per share

We use the two-class method for calculating basic earnings (loss) per share. Undistributed earnings are allocated to participating securities based on the extent to which each class may share in earnings as if all the earnings for the period have been distributed. Basic earnings (loss) per share is calculated by dividing net income (loss) attributable to common shareholders by the weighted-average number of common shares outstanding for the period. Common shares related to our Legacy Programs are excluded from the weighted-average number of common shares outstanding for the period for basic earnings (loss) per share when contingencies, such as vesting requirements, exist and have not been satisfied.

Contingently issuable common shares and common share equivalents are instruments where the holder must return, all or part of, if specified conditions are not met. These instruments are excluded from basic and diluted earnings (loss) per share when the specified conditions are not met presuming the end of the period is the end of the contingency period.

Instruments that are convertible into common shares are included in diluted weighted-average common shares outstanding on an if-converted basis based on the legal conversion rate for the respective period, if dilutive. Share-based awards to employees with only service conditions are included as potential common shares, weighted for the portion of the period they are unvested, if dilutive. Share-based awards to employees with performance and service or market conditions are included as potential common shares presuming the end of the period is the end of the contingency period, if dilutive.

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies (continued)

When inclusion of common share adjustments increases the earnings per share or reduces the loss per share, the effect on earnings is anti-dilutive, and the diluted net earnings or net loss per share is computed excluding these common share equivalents.

3. Recent Accounting Pronouncements

The Company currently qualifies as an “emerging growth company” under the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. Accordingly, the Company is provided the option to adopt new or revised accounting guidance either (i) within the same periods as those otherwise applicable to non-emerging growth companies or (ii) within the same time periods as private companies.

The Company may elect to adopt new or revised accounting guidance within the same time period as private companies, unless, as indicated below, management determines it is preferable to take advantage of early adoption provisions offered within the applicable guidance.

Recently Issued Accounting Standards Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments (Topic 326). ASU 2016-13 requires organizations to estimate credit losses on certain types of financial instruments, including receivables and available-for-sale debt securities, by introducing an approach based on expected losses. The expected loss approach will require entities to incorporate considerations of historical information, current information and reasonable and supportable forecasts. The guidance is effective for fiscal years beginning after December 15, 2022. Early adoption is permitted. We are currently evaluating the impact that the adoption of the ASU will have on our consolidated financial statements.

Accounting Standards Adopted

In January 2017, the FASB issued ASU No. 2017-04, Intangibles — Goodwill and Other (Topic 350). ASU 2017-04 eliminates the requirement to calculate the implied fair value of goodwill that is done in step two of the current goodwill impairment test to measure a goodwill impairment loss. Instead, entities will record an impairment loss based on the excess of a reporting unit’s carrying amount over its fair value. We adopted this ASU effective January 1, 2020. The adoption of this ASU did not have a material impact on our consolidated financial statements.

In February 2017, the FASB issued ASU No. 2016-02, Leases, to improve the financial reporting of leasing transactions. Under legacy guidance for lessees, leases are only included on the balance sheet if certain criteria, classifying the agreement as a capital lease, are met. This pronouncement requires the recognition of a right-of-use asset and a corresponding lease liability, discounted to the present value, for all leases that extend beyond 12 months. For operating leases, the asset and liability will be expensed over the lease term on a straight-line basis, with all cash flows included in the operating section of the statement of cash flows. For finance leases, interest on the lease liability will be recognized separately from the amortization of the right-of-use asset in the income statement and the repayment of the principal portion of the lease liability will be classified as a financing activity in the statements of cash flows while the interest component will be included in the operating activities in the statements of cash flows. This ASU is effective for reporting periods beginning after December 15, 2018 for public entities and reporting periods beginning after December 15, 2020 for private entities. Early adoption is permitted and, accordingly, we adopted this ASU effective January 1, 2020. This pronouncement provides a number of practical expedients in transition. The Company elected the “package of practical expedients”, which permits the Company not to reassess under the new standard prior conclusions about lease identification, lease classification and initial direct costs. The adoption of this ASU resulted in the recognition of a $12.4 million right-of-use asset within other assets and a $12.8 million lease liability within accounts payable and accrued liabilities on the consolidated balance sheets.

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Recent Accounting Pronouncements (continued)

In March 2017, the FASB issued ASU No. 2017-08, Premium Amortization on Purchased Callable Debt Securities, provided guidance that shortens the amortization period for certain callable debt securities held at a premium by requiring the premium to be amortized to the earliest call date. The standard does not require an accounting change for securities held at a discount, which continue to be amortized to maturity. This ASU is effective for nonpublic entities with fiscal years beginning after December 15, 2019. We adopted this ASU effective January 1, 2020. The adoption of this ASU did not have a material impact on our consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform, provided guidance to expedite and simplify the accounting associated with the anticipated migration away from the widely-used London Inter-bank Offered Rate and other similar rates as benchmark interest rates (collectively, “LIBOR”) after 2021. Under pre-existing GAAP, such modifications made to: (i) loans and certain other contracts would require re-assessments of the accounting for those contacts, such as whether they were extinguished and remeasured from an accounting perspective; This new guidance largely eliminates these requirements as a result of this migration to one or more new benchmark rates and is generally applicable for contract modifications made prior to December 31, 2022. We adopted this ASU effective March 12, 2020. The adoption of this ASU did not have a material impact on our consolidated financial statements.

In August 2020, the FASB issued ASU 2020-06, Debt — Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging — Contracts in Entity’s Own Equity (Subtopic 815-40) to simplify accounting for certain financial instruments. ASU 2020-06 eliminates the current models that require separation of beneficial conversion and cash conversion features from convertible instruments and simplifies the derivative scope exception guidance pertaining to equity classification of contracts in an entity’s own equity. The new standard also introduces additional disclosures for convertible debt and freestanding instruments that are indexed to and settled in an entity’s own equity. ASU 2020-06 amends the diluted earnings per share guidance, including the requirement to use the if-converted method for all convertible instruments. ASU 2020-06 is effective January 1, 2022 and should be applied on a full or modified retrospective basis, with early adoption permitted beginning on January 1, 2021. The Company adopted ASU 2020-06 on a full retrospective basis, effective January 1, 2021. The adoption of ASU simplifies the accounting and disclosure of convertible instruments as a part of filing financial statements with the U.S. Securities and Exchange Commission (SEC).

4. Goodwill and Intangible Assets

Acquisition of Aegis Surety

In January 2021, we closed on an agreement to purchase the surety business of Aegis Surety Bonds and Insurance Services, LLC (“Aegis”) in exchange for $10.0 million in cash and the disposal of our Exterminator Pro business. The Aegis acquisition increased our scale in surety positioning the business line for profitable growth. The implied fair value of the Aegis surety underwriting business was $15.3 million and we recognized a gain of $3.5 million on disposal of the assets related to our Exterminator Pro underwriting business. We determined that the remaining goodwill of $0.9 million associated with our Exterminator Pro business was fully impaired after the disposal. We recorded the assets from Aegis using the acquisition method of accounting. The purchase price was allocated to the identifiable assets based on their estimated fair values on the acquisition date. The final purchase price was an $8.3 million intangible asset for agent relationships with a 15 year useful life and $6.9 million of goodwill. We review our purchase price allocation up to 1 year subsequent to an acquisition and may make adjustments within the one year period.

Compass

During the second quarter of 2021, we elected to exit a book of errors & omissions business generated from our acquisition of Compass Group Partners, LLC (“Compass”). As a result of this decision, we

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Goodwill and Intangible Assets (continued)

determined the fair value of the goodwill and agent relationships was zero, resulting in an impairment of $1.9 million and $0.1 million, respectively.

Sale of Boston Indemnity Company

During June of 2021, the Company signed a Purchase Agreement with an unrelated third party for the sale of all the issued and outstanding capital stock of Boston Indemnity Company (BIC). The transaction was completed on October 4, 2021. The Company recorded $8.2 million in net proceeds related to the sale and recognized $1.8 million of gain on sale of business.

Exterminator Pro

In 2020, we decided to dispose of our Exterminator Pro business. As part of our annual review of goodwill, we performed a discounted cash flow analysis of the business using the updated projections from the strategic plan and determined that the implied fair value was less than the carrying value resulting in $9.2 million of Exterminator Pro's goodwill being impaired.

Hospitality

In 2020, as part of our annual review and approval of our strategic plan, we performed a detailed review of the projections and business plan of our Hospitality underwriting division. We considered the impact of the pandemic, the future viability of the business considering its historical loss ratios and expense loads, as well as the durability of the business. Based on this analysis, we determined that Hospitality's implied fair value was less than its carrying value resulting in 100% of Hospitality's goodwill, $10.4 million, being impaired.

Accident and Health

In 2020, as part of our annual review and approval of our strategic plan, we updated our cash flow projections of our Accident & Health underwriting division. We considered the future viability of the business considering projected loss ratios as a result of recent loss experience. Based on this analysis, we determined that the implied fair value was less than the carrying value of our Accident and Health underwriting division resulting in a goodwill impairment charge of $38.0 million.

The carrying amount and changes in the balance of goodwill by reporting unit as of December 31, 2021 and 2020 is as follows (in thousands):

	Accident and Health	Surety	Energy	Exterminator Pro	Other	Total
Goodwill						
Gross balance at December 31, 2020	$ 91,577	$ —	$ 10,052	$ 11,810	$ 4,681	118,120
Accumulated impairment at December 31, 2020	(44,821)	—	—	(9,248)	—	(54,069)
Additions	—	6,956	—	—	—	6,956
Disposals	—	(175)	—	(1,680)	(650)	(2,505)
Impairment	—	—	—	(882)	(1,886)	(2,768)
Net balance at December 31, 2021	$ 46,756	$ 6,781	$ 10,052	$ —	$ 2,145	$ 65,734

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Goodwill and Intangible Assets (continued)

	Accident and Health	Hospitality	Energy	Exterminator Pro	Other	Total
Goodwill						
Gross balance at December 31, 2019	$ 91,577	$ 10,361	$ 10,052	$ 11,810	$ 4,681	128,481
Accumulated impairment at December 31, 2019	(6,846)	—	—	—	—	(6,846)
Disposals	—	—	—	—	—	—
Impairment	(37,975)	(10,361)	—	(9,248)	—	(57,584)
Net balance at December 31, 2020	$ 46,756	$ —	$ 10,052	$ 2,562	$ 4,681	$ 64,051

The carrying amount and changes in the balance of other intangible assets as of December 31, 2021 and 2020 are as follows (in thousands):

	Agent Relationships	Non-competes	Trade-marks	Licenses	Total
Other Intangible Assets					
Gross balance at December 31, 2020	$ 16,355	$ 1,117	$ 1,122	$ 15,019	$ 33,613
Accumulated amortization at December 31, 2020	(13,203)	(447)	—	—	(13,650)
Additions	8,300	—	—	—	8,300
Disposals	(45)	—	(123)	(1,000)	(1,168)
Impairment	(52)	—	—	—	(52)
Amortization	(1,218)	(223)	—	—	(1,441)
Net balance at December 31, 2021	$ 10,137	$ 447	$ 999	$ 14,019	$ 25,602

	Agent Relation-ships	Policy Renewals	Non-competes	Trade-marks	Licenses	Total
Other Intangible Assets						
Gross balance at December 31, 2019	$ 13,164	$ 3,826	$ 3,755	$ 1,122	$ 15,019	$ 36,886
Accumulated amortization at December 31, 2019	(9,295)	(3,702)	(2,617)	—	—	(15,614)
Amortization	(717)	(124)	(468)	—	—	(1,309)
Net balance at December 31, 2020	$ 3,152	$ —	$ 670	$ 1,122	$ 15,019	$ 19,963

Our indefinite lived intangible assets relate to insurance licenses and trademarks. Our finite lived intangible assets, which relate to policy renewals, agency relationships, within Agent Relationships, and non-compete/exclusivity agreements, within Non-competes, have a weighted average useful life of approximately 14 years as of December 31, 2021.

We recognized amortization expense of approximately $1.4 million and $1.3 million for the years ended December 31, 2021 and 2020, respectively.

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Goodwill and Intangible Assets (continued)

Estimated future net amortization expense of intangible assets for the next five years is as follows (in thousands):

Year Ending December 31,	Amount
2022	$ 1,466
2023	1,466
2024	1,074
2025	998
2026	553

5. Investments

The amortized cost and the fair value of our investments as of December 31, 2021 and 2020 are summarized as follows (in thousands):

	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2021				
Fixed maturity securities, available for sale:				
U.S. government securities	$ 48,816	$ 716	$ (269)	$ 49,263
Corporate securities and miscellaneous	151,053	3,698	(588)	154,163
Municipal securities	53,179	3,799	(36)	56,942
Residential mortgage-backed securities	103,758	1,232	(1,255)	103,735
Commercial mortgage-backed securities	14,634	38	(188)	14,484
Asset-backed securities	81,038	226	(1,500)	79,764
Total fixed maturity securities, available for sale	$ 452,478	$ 9,709	$ (3,836)	$ 458,351
Fixed maturity securities, held to maturity:				
Asset-backed securities	$ 47,117	$ —	$ —	$ 47,117
Total fixed maturity securities, held to maturity	$ 47,117	$ —	$ —	$ 47,117
Equity securities:				
Common stocks	$ 47,379	$ 13,887	$ (2,841)	$ 58,425
Preferred stocks	17,821	349	(4)	18,166
Mutual funds	33,786	7,611	(17)	41,380
Total equity securities	$ 98,986	$ 21,847	$ (2,862)	$ 117,971

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Investments (continued)

	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2020				
Fixed maturity securities, available for sale:				
U.S. government securities	$ 53,304	$ 1,515	$ (2)	$ 54,817
Corporate securities and miscellaneous	63,573	5,859	(8)	69,424
Municipal securities	53,200	5,153	—	58,353
Residential mortgage-backed securities	78,678	2,849	(3)	81,524
Commercial mortgage-backed securities	2,872	56	(27)	2,901
Asset-backed securities	47,827	544	(389)	47,982
Total fixed maturity securities, available for sale	$ 299,454	$ 15,976	$ (429)	$ 315,001
Fixed maturity securities, held to maturity:				
Asset-backed securities	$ 28,393	$ —	$ —	$ 28,393
Total fixed maturity securities, held to maturity	$ 28,393	$ —	$ —	$ 28,393
Equity securities:				
Common stocks	$ 44,742	$ 6,738	$ (4,250)	$ 47,230
Mutual funds	29,370	1,268	(2)	30,636
Total equity securities	$ 74,112	$ 8,006	$ (4,252)	$ 77,866

The amortized cost and estimated fair value of fixed maturity securities, available for sale, at December 31, 2021 by contractual maturity are shown below (in thousands). Expected maturities may differ from contractual maturities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Also, changing interest rates, tax considerations or other factors may result in portfolio sales prior to maturity.

	Amortized Cost	Fair Value
December 31, 2021		
Due in less than one year	$ 10,614	$ 10,724
Due after one year through five years	138,804	141,714
Due after five years through ten years	81,933	83,864
Due after ten years	21,697	24,066
Mortgage-backed securities	118,392	118,219
Asset-backed securities	81,038	79,764
Total	$ 452,478	$ 458,351

The amortized cost and estimated fair value of fixed maturity securities, held to maturity, at December 31, 2021 by contractual maturity are shown below (in thousands). Expected maturities may differ from contractual maturities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Investments (continued)

	Amortized Cost	Fair Value
December 31, 2021		
Asset-backed securities	$ 47,117	$ 47,117
Total	$ 47,117	$ 47,117

The following tables summarize gross unrealized losses and the corresponding fair values of investments, aggregated by length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2021 and 2020 (in thousands).

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2021						
U.S. government securities	$ 19,819	$ (267)	$ 108	$ (2)	$ 19,927	$ (269)
Corporate securities and miscellaneous	47,308	(588)	—	—	47,308	(588)
Municipal securities	4,549	(36)	—	—	4,549	(36)
Residential mortgage-backed securities	72,672	(1,252)	145	(3)	72,817	(1,255)
Commercial mortgage-backed securities	12,653	(175)	241	(12)	12,894	(187)
Asset-backed securities	34,266	(1,463)	1,256	(38)	35,522	(1,501)
Total fixed maturity securities, available for sale	191,267	(3,781)	1,750	(55)	193,017	(3,836)
Common stocks	2,493	(1,066)	7,885	(1,775)	10,378	(2,841)
Preferred stocks	1,353	(4)	—	1,353	(4)	
Mutual funds	5,441	(17)	—	—	5,441	(17)
Equity securities	9,287	(1,087)	7,885	(1,775)	17,172	(2,862)
Total	$ 200,554	$ (4,868)	$ 9,635	$ (1,830)	$ 210,189	$ (6,698)

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Investments (continued)

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2020						
U.S. government securities	$ 108	$ (2)	$ —	$ —	$ 108	$ (2)
Corporate securities and miscellaneous	976	(8)	—	—	976	(8)
Residential mortgage-backed securities	5,502	(3)	—	—	5,502	(3)
Commercial mortgage-backed securities	327	(27)	—	—	327	(27)
Asset-backed securities	3,247	(389)	—	—	3,247	(389)
Total fixed maturity securities, available for sale	10,160	(429)	—	—	10,160	(429)
Common stocks	7,102	(2,034)	7,940	(2,216)	15,042	(4,250)
Mutual funds	150	(2)	—	—	150	(2)
Equity securities	7,252	(2,036)	7,940	(2,216)	15,192	(4,252)
Total	$ 17,412	$ (2,465)	$ 7,940	$ (2,216)	$ 25,352	$ (4,681)

As of December 31, 2021 we have 5 lots of fixed maturity securities in an unrealized loss position aged over 12 months. We do not have the intent to sell and it is not more likely-than-not that we will be required to sell these fixed maturity securities, available for sale, before the securities recover to their amortized cost value. In addition, we believe that none of the declines in the fair values of these fixed maturity securities, available for sale relate to credit losses. We believe that none of the declines in the fair value of these fixed maturity securities, available for sale, and equity securities were other-than-temporary at December 31, 2021. We recognized no other-than-temporary impairment adjustments on fixed maturity securities, available for sale, or equity securities for the years ended December 31, 2021 and 2020.

The components of net realized gains (losses) for the years ended December 31, 2021 and 2020 are as follows (in thousands):

	2021	2020
Gross realized gains		
Fixed maturity securities, available for sale	$ 474	$ 982
Equity securities	2,763	6,817
Other	13	258
Total	3,250	8,057
Gross realized losses		
Fixed maturity securities, available for sale	(1,160)	(885)
Equity securities	(230)	(5,678)
Other invested assets	—	(283)
Other	(4)	(144)
Total	(1,394)	(6,990)
Net realized gains	$ 1,856	$ 1,067

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Investments (continued)

Proceeds from sales of fixed maturity securities, available for sale and equity securities for the year ended December 31, 2021 were approximately $15.1 million and $38.0 million, respectively. Proceeds from sales of fixed maturity securities, available for sale and equity securities for the year ended December 31, 2020 were approximately $28.0 million and $34.4 million, respectively.

Our net investment income for the years ended December 31, 2021 and 2020 is summarized as follows (in thousands):

	2021	2020
Income:		
Fixed maturity securities, available for sale	$ 9,931	$ 7,479
Fixed maturity securities, held to maturity	4,840	792
Equity securities	2,572	1,638
Equity method investments	9,280	4,084
Mortgage loans	1,188	327
Indirect loans	1,852	1,756
Short term investments and cash	141	1,278
Other	241	494
Total investment income	30,045	17,848
Investment expenses	(5,399)	(3,718)
Net investment income	$ 24,646	$ 14,130

The change in net unrealized (losses) gains on investments, net of deferred income taxes, in other comprehensive income for the years ended December 31, 2021 and 2020 is as follows (in thousands):

	2021	2020
Fixed maturity securities	$ (9,674)	$ 9,015
Deferred income taxes	2,098	(1,814)
Total	$ (7,576)	$ 7,201

We are required by various state regulations to maintain cash, investment securities or letters of credit on deposit with the states in a depository account. At December 31, 2021 and 2020, cash and investment securities on deposit had fair values of approximately $63.2 million and $58.2 million, respectively.

6. Fair Value Measurements

Our financial instruments include assets and liabilities carried at fair value, as well as assets and liabilities carried at cost or amortized cost but disclosed at fair value in our financial statements. In determining fair value, we generally apply the market approach, which uses prices and other relevant data based on market transactions involving identical or comparable assets and liabilities.

We use data provided by a third-party investment managers or pricing vendors to value our investments and we perform periodic analyses on the prices received from third parties to determine whether the prices are reasonable estimates of fair value. Our analyses include a review of month-to-month price fluctuations and, as needed, a comparison of pricing services' valuations to other pricing services' valuations for the identical security.

We classify our financial instruments into the following three-level hierarchy:

Level 1 — Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Fair Value Measurements (continued)

Level 2 — Inputs are other than quoted prices included in Level 1 that are observable for the asset or liability through corroboration with market data at the measurement date.

Level 3 — Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

We used the following methods and assumptions in estimating the fair value disclosures for financial instruments in the accompanying consolidated financial statements and in these notes:

U.S. government securities, mutual funds and common stock

We use unadjusted quoted prices for identical instruments in an active exchange to measure fair value which represent Level 1 inputs.

Preferred stocks, municipal securities, corporate securities and miscellaneous

We use a pricing model that utilizes market-based inputs such as trades in an illiquid market for a particular security or trades in active markets for securities with similar characteristics. The model considers other inputs such as benchmark yields, issuer spreads, security terms and conditions, and other market data. These represent Level 2 fair value inputs.

Commercial mortgage-backed securities, residential mortgage-backed securities and asset-backed securities

We use a pricing model that utilizes market-based inputs that may include dealer quotes, market spreads, and yield curves. We may evaluate individual tranches in a security by determining cash flows using the security's terms and conditions, collateral performance, credit information benchmark yields and estimated prepayments. These represent Level 2 fair value inputs.

The following table presents the carrying value and estimated fair value of our financial instruments as of December 31, 2021 and 2020:

	December 31, 2021		December 31, 2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Fixed maturity securities, available for sale	$ 458,351	$ 458,351	$ 315,001	$ 315,001
Fixed maturity securities, held to maturity	47,117	47,117	28,393	28,393
Equity securities	117,971	117,971	77,866	77,866
Mortgage loans	29,531	29,264	5,228	5,142
Short-term investments	164,278	164,278	235,957	235,957
Cash and cash equivalents	42,107	42,107	63,455	63,455
Restricted cash	65,167	65,167	50,168	50,168
Liabilities				
Notes payable	$ 50,000	$ 50,000	$ 50,000	$ 50,000
Subordinated debt	78,529	83,235	78,448	83,235

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Fair Value Measurements (continued)

The following table summarizes fair value measurements by level at December 31, 2021 and 2020 for assets and liabilities measured at fair value on a recurring basis (in thousands):

	Level 1	Level 2	Level 3	Total
December 31, 2021				
Fixed maturity securities, available for sale:				
U.S. government securities	$ 49,263	$ —	$ —	$ 49,263
Corporate securities and miscellaneous	—	154,163	—	154,163
Municipal securities	—	56,942	—	56,942
Residential mortgage-backed securities	—	103,735	—	103,735
Commercial mortgage-backed securities	—	14,484	—	14,484
Asset-backed securities	—	79,764	—	79,764
Total fixed maturity securities, available for sale	49,263	409,088	—	458,351
Common stocks:				
Consumer discretionary	2,102	—	—	2,102
Consumer staples	13,643	—	—	13,643
Energy	2,781	—	—	2,781
Finance	24,657	—	—	24,657
Industrial	8,806	—	—	8,806
Information technology	2,408	—	—	2,408
Materials	3,160	—	—	3,160
Other	868	—	—	868
Total common stocks	58,425	—	—	58,425
Preferred stocks:				
Finance	—	17,018	—	17,018
Other	—	1,148	—	1,148
Total preferred stocks	—	18,166	—	18,166
Mutual funds:				
Fixed income	5,374	—	—	5,374
Equity	35,471	—	—	35,471
Commodity	535	—	—	535
Total mutual funds	41,380	—	—	41,380
Total equity securities	99,805	18,166	—	117,971
Short-term investments	164,278	—	—	164,278
Total assets measured at fair value	$ 313,346	$ 427,254	$ —	$ 740,600

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Fair Value Measurements (continued)

	Level 1	Level 2	Level 3	Total
December 31, 2020				
Fixed maturity securities, available for sale:				
U.S. government securities	$ 54,817	$ —	$ —	$ 54,817
Corporate securities and miscellaneous	—	69,424	—	69,424
Municipal securities	—	58,353	—	58,353
Residential mortgage-backed securities	—	81,524	—	81,524
Commercial mortgage-backed securities	—	2,901	—	2,901
Asset-backed securities	—	47,982	—	47,982
Total fixed maturity securities, available for sale	54,817	260,184	—	315,001
Common stocks:				
Consumer discretionary	1,462	—	—	1,462
Consumer staples	11,415	—	—	11,415
Energy	2,294	—	—	2,294
Finance	22,105	—	—	22,105
Industrial	5,669	—	—	5,669
Information technology	1,706	—	—	1,706
Materials	1,923	—	—	1,923
Other	656	—	—	656
Total common stocks	47,230	—	—	47,230
Mutual funds:				
Fixed income	808	—	—	808
Equity	29,229	—	—	29,229
Commodity	599	—	—	599
Total mutual funds	30,636	—	—	30,636
Total equity securities	77,866	—	—	77,866
Short-term investments	235,957	—	—	235,957
Total assets measured at fair value	$ 368,640	$ 260,184	$ —	$ 628,824

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Fair Value Measurements (continued)

We measure certain assets, including investments in indirect loans and loan collateral, equity method investments and other invested assets, at fair value on a nonrecurring basis only when they are deemed to be other-than-temporarily-impaired.

In addition to the preceding disclosures on assets and liabilities recorded at fair value in the consolidated balance sheets, we are also required to disclose the fair values of certain other financial instruments for which it is practicable to estimate fair value. Estimated fair value amounts, defined as the quoted market price of a financial instrument, have been determined using available market information and other appropriate valuation methodologies. However, considerable judgements are required in developing the estimates of fair value where quoted market prices are not available. Accordingly, these estimates are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions or estimating methodologies may have an effect on the estimated fair value amounts.

We used the following methods and assumptions in estimating the fair value disclosures of other financial instruments:

Fixed maturity securities, held to maturity: Fixed maturity securities, held to maturity consists of senior and junior notes with target rates of return. We determined the fair value of these instruments using the market approach utilizing inputs that consisted of transactions in a private market (Level 2) as of December 31, 2020. As of December 31, 2021, we determined the fair value of these instruments using the income approach utilizing inputs that are unobservable (Level 3).

Mortgage loans: Mortgage loans have fixed interest rates and are collateralized by real property. We determine the fair value of mortgage loans using the income approach utilizing inputs that are unobservable (Level 3).

Notes payable: The carrying value approximates the estimated fair value for notes payable as the notes payable accrue interest at current market rates plus a spread. We determine the fair value using the income approach utilizing inputs that are available (Level 2).

Subordinated debt: Subordinated debt consists of two debt instruments, the Junior Subordinated Interest Debentures, due September 15, 2036, and Unsecured Subordinated Notes, due May 24, 2039. The carrying value of the Junior Subordinated Interest Debentures approximates the estimated fair value as the instrument accrues interest at current market rates plus a spread. The Unsecured Subordinated Notes have a fixed interest rate. We determine the fair value of these instruments using the income approach utilizing inputs that are observable (Level 2).

Other financial instruments qualify as insurance-related products and are specifically exempted from fair value disclosure requirements.

7. Mortgage Loans

During 2016, we began investing in a Separately Managed Account (“SMA1”), managed by Arena Investors, LP (“Arena”), which is affiliated with The Westaim Corporation (“Westaim”) who, through Westaim HIIG LP (a limited partnership controlled by Westaim), is our largest shareholder. During 2017, we began investing in a second Separately Managed Account (“SMA2”), managed by Arena. As of December 31, 2021 and 2020, we held direct investments in mortgage loans from various creditors through SMA1 and SMA2.

Our mortgage loan portfolios are primarily senior loans on real estate across the U.S. The loans earn interest at fixed rates, mature in five months to three years from loan origination and the principal amounts of the loans range between 55% to 80% property’s appraised value at the time the loans were made. Mortgage loan participations are carried at cost adjusted for unamortized: premiums, discounts and loan fees. The

7. Mortgage Loans (continued)

carrying value of our mortgage loans and gross investment income as of and for the years ended December 31, 2021 and 2020 are as follows (in thousands):

	2021		2020	
	Carrying Value	Gross Investment Income	Carrying Value	Gross Investment Income
Retail	$ 10,593	$ 66	$ —	$ —
Industrial	6,314	90	—	—
Commercial	6,298	151	—	—
Multi-Family	3,296	143	—	—
Office	1,691	64	—	—
Land	—	451	4,293	264
Hospitality	1,339	223	935	63
Total	$ 29,531	$ 1,188	$ 5,228	$ 327

The uncollectable amounts on loans, on an individual loan basis, are determined based upon consultations and advice from the Company's specialized investment manager and consideration of any adverse situations that could affect the borrower's ability to repay, the estimated value of underlying collateral, and other relevant factors. When an amount is determined to be uncollectable, we directly write off the uncollectable amount in the period it was determined to be uncollectable. For the years ended December 31, 2021 and 2020 we wrote off $0.0 million and $0.3 million, respectively.

As of December 31, 2021 and 2020, approximately $10.8 million and $9.7 million of mortgage loans, respectively, were in the process of foreclosure. The carrying value of the mortgage loans in foreclosure approximates the fair value of the collateral less costs to sell.

8. Other long-term investments

Equity Method Investments

During the year ended December 31, 2020, we invested in investment products issued by Arena Special Opportunities Partners (Feeder) I, LP ("Arena SOP"), managed by Arena, which is affiliated with Westaim. The investment products include senior and junior notes issued by the Arena SOP to raise capital from limited partners to fund purchases of investments. The return on the investments are used to pay interest on the senior and junior notes based on target returns of each class. The senior and junior notes are debt securities classified as held to maturity and presented on the balance sheet within fixed maturity securities, held to maturity. Income in excess of return targets on the senior and junior notes is allocated to the investment in Arena SOP limited partnership ("Arena Rated Product LP units").

During the year ended December 31, 2021, we invested $1.9 million in Hudson Ventures Fund 2, LP. During the year ended December 31, 2021, we invested $5.0 million in Universa Black Swan Protection Protocol LIX L.P. ("Universa Black Swan"). During the year ended December 31, 2021, we invested $12.0 million in JVM Multi-Family Premier Fund IV, LLC and $12.0 million in JVM Preferred Equity Fund, LLC, together "JVM Funds LLC".

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Other long-term investments (continued)

The carrying value of equity method investments as of December 31, 2021 and 2020 is as follows (in thousands):

	2021	2020
Dowling Capital Partners LP units	$ 2,416	$ 2,166
RISCOM	3,366	4,508
Arena Special Opportunities Fund, LP units	41,763	38,958
Arena Rated Product LP units	5,692	974
KIC Surety	—	1
Hudson Ventures Fund 2 LP units	1,913	—
Universa Black Swan LP units	4,354	—
JVM Funds LLC units	24,000	—
Total	$ 83,504	$ 46,607

Net investment income from equity method investments for the years ended December 31, 2021 and 2020 is summarized as follows (in thousands):

	2021	2020
Net investment income		
Dowling Capital Partners LP units	$ 438	$ (454)
RISCOM	1,058	973
Arena Special Opportunities Fund, LP units	3,729	3,514
Arena Rated Product LP units	4,717	975
PVI Agency LLC	—	(924)
Hudson Ventures Fund 2 LP units	(16)	—
Universa Black Swan LP units	(646)	—
Total	$ 9,280	$ 4,084

The unfunded commitment of equity method investments as of December 31, 2021 and 2020 is as follows (in thousands):

	2021	2020
Dowling Capital Partners LP units	$ 368	$ 350
Arena Rated Product LP units	—	16,937
Hudson Ventures Fund 2 LP units	3,063	—
Total	$ 3,431	$ 17,287

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Other long-term investments (continued)

The difference between the cost of an investment and our proportionate share of the underlying equity in net assets is allocated to the various assets and liabilities of the equity method investment. We amortize the difference in net assets over the same useful life of a similar asset as the underlying equity method investment. For RISCOM, a similar asset would be agent relationships, which we amortize over a 15 year useful life and we amortize the difference in net assets of RISCOM over 15 years. The following table summarizes our recorded investment compared to our share of underlying equity (in thousands):

	Underlying Equity	Difference	Recorded Investment Balance
December 31, 2021			
RISCOM	$ 1,378	$ 1,988	$ 3,366

	Underlying Equity	Difference	Recorded Investment Balance
December 31, 2020			
RISCOM	$ 2,276	$ 2,232	$ 4,508

Investment in Bank Holding Companies

Beginning in 2017 and through 2018, we acquired a $2.0 million investment in Captex Bancshares, a Texas bank holding company. Our assessment of our ownership percentage and influence through one of our employees on the Board of Directors of Captex Bankshares indicates that we do not have significant influence over the investee. We carry our investment in Captex Bancshares at cost, less impairment or observable changes in price. We review these investments for impairment or observable changes in price during each reporting period. There were no impairments or observable changes in price during the years ended December 31, 2021 and 2020.

During the first quarter of 2020, we acquired a $2.0 million investment in Gulf Capital, a Texas bank holding company. Our assessment of our ownership percentage indicates that we do not have significant influence over the investee. During the fourth quarter of 2020 we sold approximately $1.8 million of shares to other owners of Gulf Capital at cost. We carry our investment in Gulf Capital at cost, less impairment or observable changes in price. There were no impairments or observable changes in price during the year ended December 31, 2021 and 2020.

Investment in Indirect Loans and Loan Collateral

As of December 31, 2021 and 2020, we held indirect investments in collateralized loans and loan collateral through SMA1 and SMA2. The carrying value and unfunded commitment of the SMA1 and SMA2 as of December 31, 2021 and 2020 is as follows (in thousands):

	Carrying Value	Unfunded Commitment
December 31, 2021		
SMA1	$ 33,100	$ —
SMA2	10,855	16,563
Total	$ 43,955	$ 16,563

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Other long-term investments (continued)

	Carrying Value	Unfunded Commitment
December 31, 2020		
SMA1	$ 39,993	$ 1,517
SMA2	12,121	33,027
Total	$ 52,114	$ 34,544

See Note 11 for common stock acquired from an entity providing our subordinated debt.

9. Property and Equipment

The following table presents the components of property and equipment, which are included within other assets on the consolidated balance sheets.

	2021	2020
Leasehold improvements	$ 2,761	$ 2,777
Furniture and equipment	30,791	29,295
Other	39	94
	33,591	32,166
Accumulated depreciation	(23,964)	(20,796)
Total	$ 9,627	$ 11,370

Depreciation expense for the years ended December 31, 2021 and 2020 was $3.6 million.

10. Leases

We determine if a contract contains a lease at inception and recognize a right-of-use asset, within other assets, and lease liability, within accounts payable and accrued liabilities, based on the present value of future lease payments. In cases where our leases do not provide an implicit interest rate, we use our incremental borrowing rate based on the information available on the inception date to determine the lease liability.

Our leases are primarily for office facilities which have been classified as operating leases. Our leases have remaining lease terms ranging from less than 1 year to 10 years, some of which include options to extend the leases. Lease expense for the years ended December 31, 2021 and 2020 was $2.7 million and $2.9 million, respectively. The following table provides information on our leases as of December 31, 2021 and 2020 (in thousands).

	2021	2020
Operating lease right-of-use assets	$10,532	$11,259
Operating lease liabilities	10,921	11,594
Operating lease weighted-average remaining lease term	5.73 years	6.64 years
Operating lease weighted-average discount rate	3.12%	3.16%

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Leases (continued)

	2021	2020
Operating lease expense	$ 2,607	$ 2,613
Short-term lease expense	127	291
Total lease expense	$ 2,734	$ 2,904
Operating cash outflows from operating leases	$ 2,361	$ 2,505

Future minimum lease payments under operating leases as of December 31, 2021 are as follows (in thousands):

	2021
2022	$ 2,395
2023	2,313
2024	2,106
2025	1,577
2026	1,270
Thereafter	2,305
Total future minimum operating lease payments	$ 11,966
Less imputed interest	(1,045)
Total operating lease liability	$ 10,921

11. Subordinated Debt

The following table summarizes our subordinated debt as of December 31, 2021 and 2020 (in thousands).

	2021	2020
Junior Subordinated Interest Debentures, due September 15, 2036, interest payable quarterly Principal	$ 59,794	$ 59,794
Less: debt issuance costs	(705)	(753)
Unsecured Subordinated Notes, due May 24, 2039, interest payable quarterly Principal	20,000	20,000
Less: debt issuance costs	(560)	(593)
Subordinated debt, net of debt issuance costs	$ 78,529	$ 78,448

In May 2019, the Company entered into an agreement to issue unsecured subordinated notes (the "Notes") with an aggregate principal amount of $20.0 million. Interest on the Notes is fixed at 7.25% for the first 8 years and fixed at 8.25% thereafter. Early retirement of the debt ahead of 8 year commitment requires all interest payments paid in full as well as the return of all capital. Principal is due at maturity on May 24, 2039 and interest is payable quarterly. The Notes have junior priority to all previously issued debt. We report the debt related to the Notes in our December 31, 2021 and 2020 consolidated balance sheets, net of debt issuance costs of approximately $0.6 million. These deferred financing costs are presented as a direct deduction from the carrying amount of the subordinated debt.

On August 2, 2006, Delos Capital Trust n/k/a HIIG Capital Trust I (the "Trust"), a Delaware statutory trust, issued $58.0 million of fixed/floating rate capital securities guaranteed by us. The Trust also issued us $1.8 million of common stock, classified within other invested assets. We have not consolidated the Trust that

11. Subordinated Debt (continued)

issued the capital securities, as it does not meet the criteria for consolidation and we do not have significant influence over the investee. We carry our investment in the common stock of the Trust at cost, less impairment or observable changes in price. There were no impairments or observable changes in price during the year ended December 31, 2021.

The sole asset of the Trust consists of Fixed/Floating Rate Junior Subordinated Deferrable Interest Debentures (the "Debentures") with a principal amount of $59.8 million issued by us. The Debentures are an unsecured obligation, are redeemable on or after September 15, 2011, and have a maturity date of September 15, 2036. Interest on the Debentures is payable quarterly at an annual rate based on the three-month LIBOR (0.21% at December 31, 2021) plus 3.4%. We reflect the debt related to the Debentures in our December 31, 2021 and 2020 consolidated balance sheets, net of debt issuance costs of approximately $0.7 million and $0.8 million, respectively. These deferred financing costs are presented as a direct deduction from the carrying amount of the subordinated debt.

12. Notes Payable

The following table summarizes our notes payable as of December 31, 2021 and 2020 (in thousands).

	2021	2020
Term loan, due December 31, 2024, interest payable quarterly	$ 50,000	$ 50,000
Revolving line of credit, due December 31, 2024, interest payable quarterly	—	—
Notes payable	$ 50,000	$ 50,000

The interest rate on the $50.0 million term loan is the lesser of the one-month LIBOR (0.10% on December 31, 2021) plus the Applicable Margin, which is defined as 1.65%, or the highest lawful rate. Interest-only payments are due and payable on a quarterly basis through December 31, 2024. The entire principal balance of the $50.0 million term loan is due December 31, 2024. Interest payments on the term loan were $0.9 and $1.0 million for the years ended December 31, 2021 and 2020, respectively.

The interest rate on the $50.0 million revolving line of credit is the lesser of the prime rate, as published by the Wall Street Journal, or the one-month LIBOR (0.10% on December 31, 2021) plus the Applicable Margin, which is defined as the lesser of 1.65%, or the highest lawful rate. The revolving promissory note includes a fee of 0.25% on the unused portion. Interest-only payments are due and payable on a quarterly basis through December 31, 2024. The entire principal balance of the $50.0 million revolving line of credit is due December 31, 2024. Interest payments on the revolving line of credit were $0.0 and $0.4 million for the years ended December 31, 2021 and 2020, respectively. Subject to lender approval, we have a right to increase the capacity to $75.0 million.

The indebtedness is collateralized by a perfected first priority security interest in all of the assets of SSIG and SUA and the outstanding capital stock of HSIC.

Our credit agreement includes financial covenants that require the Company maintain minimum surplus and risk based capital on HSIC, minimum net worth, and a minimum fixed charge coverage ratio as well as other customary covenants and events of default. As of December 31, 2021, the Company was in compliance with all covenants in our credit agreement.

13. Temporary Equity and Stockholders' Equity

Preferred Share Rights Offering

On April 24, 2020 the Company closed a private preferred share rights offering. Existing holders of common stock were given the right to subscribe for shares, on a pro rata basis, of Series A Convertible

13. Temporary Equity and Stockholders' Equity (continued)

Preferred Stock (the "Preferred Shares") with a face value of $50.00 per share. The Company issued $100.0 million of Preferred Shares and received $90.2 million of cash, net of issuance costs. Employees of the Company participating in the offering financed their purchase with $9.6 million in stock notes receivable. Approximately $33.8 million of the proceeds were used to repay, in its entirety, the remaining principal balance on the Company's revolving line of credit that was executed on December 11, 2019.

Conversion feature

The Preferred Shares provide the holder the option at any time to convert the Preferred Shares into common stock based on the Option Conversion Rate. The initial Option Conversion rate allowed the holder of the Preferred Shares the right to convert into common stock based on a conversion price equal to $1.74 per common share. In accordance with the terms of the Preferred Shares, the Option Conversion Rate will be adjusted upon the completion of the audit of the financial statements as of and for the year ended December 31, 2021. The adjustments to the Option Conversion Rate will consist of adjustments for: (i) the after-tax cost of the LPT, a retroactive reinsurance agreement we entered into during the second quarter of 2020; (ii) the after-tax impact of any co-participation expense related to the LPT; (iii) the development of losses and LAE reserves subject to but in excess of limits on the LPT; and (iv) the after-tax impact of development on losses and LAE reserves not subject to the LPT subsequent to December 31, 2019. As of December 31, 2021 the Option Conversion Rate allowed the holder of the Preferred Shares the right to convert into common stock based on a conversion price equal to $1.51 per common share. Since the Preferred Shares did not have a contractual limit on the number of common shares that could be issued and the Option Conversion Rate was contingently adjustable on December 31, 2021, we did not have the ability to settle in common shares before December 31, 2021 and the Preferred Shares were classified within Temporary Equity as December 31, 2020.

As of December 31, 2021, the 1,970,124 outstanding Preferred Shares could be converted into 65,235,876 common shares after the final adjustment to the Option Conversion Rate. The Option Conversion Rate will not be updated subsequent to December 31, 2021. As of December 31, 2021 we have the ability to settle in common shares and the Preferred Shares were classified within Stockholders' Equity.

The Preferred Shares are subject to mandatory conversion upon a defined change of control transaction or the closing of an initial public offering at the Mandatory Conversion Rate. The Mandatory Conversion Rate is similar to the Option Conversion Rate but is adjusted for the after-tax impact of any co-participation expense related to the LPT, the development of losses and LAE reserves in excess of limits on the LPT and the after-tax impact of development on losses and LAE reserves not subject to the LPT on the final day of the last quarter-end prior to when a defined change of control transaction or closing of an initial public offering occurs. As of December 31, 2021, the Mandatory Conversion Rate allowed the holder of the Preferred Shares the right to convert into common stock based on a conversion price equal to $1.51 per common share.

Preference

The Preferred Shares have preference in liquidation over common stock in the amount of the face value of $50.00 per share and any declared but unpaid dividends to related common shares at the applicable conversion rate.

Retrospective adjustment to the Preferred Share Rights Offering

On April 24, 2020, the Company closed a private preferred share rights offering where eligible employees could participate in the offering based on their common shares. Subsequent to the offering, several employees' forfeited common and award shares under the Legacy Programs during the year ended December 31, 2021. The employees' participation in the preferred share rights offering were retrospectively adjusted for the forfeitures. The retrospective adjustment to the preferred share rights offering resulted in the reduction of

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Temporary Equity and Stockholders' Equity (continued)

6,186 preferred shares and cancellation of stock notes receivable of $0.2 million, for the year ended December 31. 2021.

14. Income Taxes

Income tax (benefit) expense consists of the following for the years ended December 31, 2021 and 2020 (in thousands):

	2021	2020
Current income tax expense	$ —	$ 190
Deferred tax (benefit) expense related to temporary differences	9,992	(20,080)
Total income tax (benefit) expense	$ 9,992	$ (19,890)

Our provision for income taxes generally does not deviate substantially from the statutory tax rate. The effective tax rate may vary slightly from the statutory rate due to tax adjustments for tax-exempt income and dividends-received deduction. The effective tax rates for the year ended December 31, 2021 and 2020 are listed below.

The differences between income taxes expected at the Federal statutory income tax rate of 21% and the reported income tax expense for the years ended December 31, 2021 and 2020 are summarized as follows (in thousands):

	2021		2020	
	Amount	Percentage	Amount	Percentage
Income tax (benefit) expense at federal statutory rate	$ 10,145	21.0%	$ (19,852)	21.0%
Tax advantaged investments	(256)	(0.5)	(197)	0.2
Other	103	0.2	159	(0.2)
Total income tax (benefit) expense	$ 9,992	20.7%	$ (19,890)	21.0%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below (in thousands) as of December 31, 2021 and 2020:

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Income Taxes (continued)

	2021	2020
Deferred tax assets:		
Net operating losses	$ 28,009	$ 32,032
Losses and loss adjustment expenses	7,782	5,591
Unearned premiums	9,461	8,255
Intangibles	1,632	3,485
Stock options/awards	627	527
Other	1,034	1,841
Total deferred tax assets	48,545	51,731
Less valuation allowance	(586)	(586)
Total deferred tax assets after valuation allowance	47,959	51,145
Deferred tax liabilities:		
Deferred policy acquisition costs	6,063	3,712
Depreciation	1,459	1,595
Investments	5,507	1,038
Unrealized gains on investments	1,230	3,261
Other	37	21
Total deferred tax liabilities	14,296	9,627
Net deferred tax assets	$ 33,663	$ 41,518

We made no payments for federal income taxes, during the years ended December 31, 2021 and 2020, which are available for recoupment in the event of future losses. The Company's federal income tax returns for tax years 2018 to 2020 are subject to examination by the Internal Revenue Service.

As of December 31, 2021 and 2020, management does not believe there are any uncertain tax benefits that could be recognized within the next twelve months that would impact the Company's effective tax rate. We classify all interest and penalties related to tax contingencies as income tax expense. As of December 31, 2021 and 2020, there was no accrued interest recorded as an income tax liability.

The Company has federal net operating loss carryforwards of approximately $134.5 million. These net operating losses are set to expire beginning in 2030. The Company is limited on the utilization of $63.3 million of the net operating losses under Internal Revenue Code Section 382 which imposes limitations on a corporation's ability to utilize tax attributes if the corporation experiences an "ownership change." The Company experienced an ownership change during 2013. The 382 limitation is expected to result in an expiration of $2.8 million ($0.6 million tax effected) of net operating losses. A valuation allowance has been established against this balance that is expected to expire without utilization.

We provide a valuation allowance against deferred tax assets when it is more likely-than-not that some portion, or all, of deferred tax assets will not be realized. Our deferred tax valuation allowance for the years ended December 31, 2021 and 2020 is as follows (in thousands):

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Income Taxes (continued)

	2021	2020
Balance at beginning of year	$ 586	$ 586
Increase (decrease) related to:		
Net operating losses	—	—
Balance at end of year	$ 586	$ 586

15. Losses and Loss Adjustment Expenses

We present our loss development on a consolidated basis, however, we evaluate net ultimate loss and LAE under three sub-categories: multiline solutions, short tail/monoline specialty lines and exited lines. We have chosen to disaggregate our short-duration loss disclosures in this manner as to not obscure useful information by otherwise aggregating items with significantly different characteristics. A description of the factors we considered in our disaggregation by sub-category is as follows:

Multi-line Solutions

Multi-line solutions includes those market niches for which we provide multiple products most frequently as an integrated solution. The multi-line solution subcategory is made up predominantly of occurrence liability including general liability, excess liability, and commercial auto. Multi-line solutions have a longer duration for losses to fully develop compared to short-tail/monoline specialty lines. Due to the unique claim characteristics of each product and the longer-tail nature of the multi-line solutions, this introduces more uncertainty as over time the claims can impacted by changes in regulation, inflation and other unforeseen factors.

Short tail/monoline specialty lines

Short tail/monoline specialty lines includes those market niches for which we serve with monoline solutions which generally have shorter durations for losses to fully develop. Losses for these lines are generally reported within a short period of time from the date of loss, and in most instances, claims are settled and paid within a relatively short timeframe. Short tail/monoline specialty can be impacted by larger losses which can be more complex due to factors such as difficulty determining actual damages, legal and regulatory impediments potentially extending the period of time it takes to settle and pay claims.

Exited lines

Exited lines includes all underwriting divisions which we have placed in run-off and are presented separately from lines that we currently underwrite.

A reconciliation of unpaid losses and loss adjustment expenses as reported in the consolidated balance sheet as of and for the years ended December 31, 2021 and 2020 are as follows (in thousands):

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Losses and Loss Adjustment Expenses (continued)

	2021	2020
Reserves for losses and LAE, beginning of period	$ 856,780	$ 683,970
Less: reinsurance recoverable on unpaid claims, beginning of period	(375,178)	(333,286)
Reserves for losses and LAE, beginning of period, net of reinsurance	481,602	350,684
Incurred, net of reinsurance, related to:		
Current period	338,348	301,845
Prior years	28,000	49,553
Total incurred, net of reinsurance	366,348	351,398
Paid, net of reinsurance, related to:		
Current period	77,551	98,781
Prior years	172,188	121,699
Total paid	249,739	220,480
Net reserves for losses and LAE, end of period	598,211	481,602
Plus: reinsurance recoverable on unpaid claims, end of period	381,338	375,178
Reserves for losses and LAE, end of period	$ 979,549	$ 856,780

During the year ended December 31, 2021, our net incurred losses and LAE for accident years 2020 and prior developed unfavorably by $28.0 million. This unfavorable development was driven by $28.8 million of unfavorable development in exited lines and $4.8 million of unfavorable development in multi-line solutions, partially offset by $5.6 million of favorable development in short tail lines.

Within exited lines, unfavorable development of $28.8 million was primarily related to 2013, 2015, and 2018 accident years and predominantly driven by increases in both frequency and severity of losses in general liability. Within multi-line solutions, unfavorable development of $4.8 million was primarily related to 2016 and 2017 accident years and was driven by increased frequency and severity of claims in commercial auto. Within short tail lines, favorable development of $5.6 million was primarily related to 2019 and 2020 accident years and was driven by favorable loss emergence relative to actuarial expectations in property and accident & health product areas.

During the year ended December 31, 2020, our net incurred losses for accident years 2019 and prior developed unfavorably by $49.6 million. This unfavorable development was driven by $45.9 million of unfavorable development in exited lines and $18.2 million of unfavorable development in multi-line solutions, partially offset by $14.6 million of favorable development in short tail lines.

Within exited lines, unfavorable development of $45.9 million, was primarily related to 2016 through 2018 accident years and driven by unfavorable loss emergence relative to actuarial expectations of general liability. Within multi-line solutions, unfavorable development of $18.2 million, was primarily related to 2016 and 2017 accident years and driven by increased frequency and severity of claims in commercial auto. Within short tail lines, favorable development of $14.6 million, was primarily related to 2019 accident year and was driven by favorable loss emergence relative to actuarial expectations in property.

Short Duration Contract Disclosures

Losses and LAE reserves represent our best estimate of the ultimate net cost of all reported and unreported losses that are unpaid as of the balance sheet dates. Our estimated reserves for losses and LAE include the accumulation of estimates for claims reported and unpaid prior to the balance sheet dates, estimates (based on projections of relevant historical data) of increases in claims costs for claims already

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Losses and Loss Adjustment Expenses (continued)

reported, of claims incurred but not reported, and estimates of expenses for investigating and adjusting all incurred and unpaid claims.

In determining the cumulative number of reported claims, the Company measures claim counts by incident. The claim counts include all claims reported, even if the Company does not establish a liability for the claim (i.e. reserve for loss and loss adjustment expenses).

Multi-line Solutions — mid to longer tail lines of business, includes our industry solutions, programs, captives and transactional E&S underwriting divisions

Multi-line Solutions Incurred Losses and LAE, Net of Reinsurance Years Ended December 31,											As of December 31, 2021	
	Supplemental and unaudited											
Accident Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	IBNR	Cumulative Number of Reported Claims
2012	$20,529	$24,952	$ 25,952	$ 30,046	$ 30,524	$ 29,696	$ 29,696	$ 29,714	$ 29,616	$ 29,242	$ 317	1,784
2013		66,517	71,800	64,439	73,382	75,196	74,701	74,987	75,419	69,496	1,478	3,323
2014			100,355	100,355	115,749	116,970	116,970	117,783	118,995	120,697	1,873	4,972
2015				103,191	114,266	117,024	117,024	119,216	121,746	122,839	2,814	5,355
2016					63,223	62,843	62,843	62,643	69,701	73,200	2,422	4,686
2017						65,332	65,332	64,260	72,913	78,578	3,254	5,505
2018							74,476	74,476	73,868	73,868	11,704	5,027
2019								107,432	106,432	106,432	8,576	5,982
2020									140,880	140,880	47,439	5,306
2021										173,568	103,596	5,470
Total										$ 988,800	$183,473	47,410
Cumulative net paid loss and LAE from the table below										(708,372)		
Net reserves for loss and LAE before 2012										6,414		
Total net reserves for loss and LAE										$ 286,842		

Multi-line Solutions Cumulative Paid Losses and ALAE, Net of Reinsurance Years Ended December 31,										
	Supplemental and unaudited									
Accident Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
2012	909	10,103	20,146	24,571	26,837	27,666	28,454	28,436	28,541	29,171
2013		19,912	40,425	48,673	59,460	67,857	73,511	75,117	75,340	75,030
2014			32,530	63,699	81,251	96,639	101,984	104,984	105,756	106,214
2015				44,152	72,137	88,833	99,401	108,291	114,098	117,295
2016					23,239	42,528	53,352	58,895	60,864	63,893
2017						23,770	41,945	53,093	64,235	67,243
2018							26,201	42,568	50,320	64,119
2019								33,019	59,529	78,803
2020									33,538	67,216
2021										39,388
Total										$708,372

Short Tail/Monoline Specialty — includes specialty/monoline business — Global Property, A&H, Surety, Professional Lines underwriting divisions

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Losses and Loss Adjustment Expenses (continued)

	Short Tail/Monoline Specialty Incurred Losses and LAE, Net of Reinsurance Years Ended December 31,					As of December 31, 2021	
	|---------Supplemental and unaudited---------|						
Accident Year	2017	2018	2019	2020	2021	IBNR	Cumulative Number of Reported Claims
2017	$28,989	$28,989	$29,359	$29,799	$ 28,923	$ —	891
2018		33,570	33,570	33,570	36,863	2,957	857
2019			62,922	48,101	45,301	(217)	1,006
2020				66,359	64,859	14,390	1,213
2021					100,172	48,988	1,265
Total					$ 276,118	$66,118	5,232
Cumulative net paid loss and LAE from the table below					(167,018)		
Net reserves for loss and LAE before 2017					101		
Total net reserves for loss and LAE					$ 109,201		

	Short Tail/Monoline Specialty Cumulative Paid Losses and ALAE, Net of Reinsurance Years Ended December 31,				
	|---------Supplemental and unaudited---------|				
Accident Year	2017	2018	2019	2020	2021
2017	16,575	16,989	19,556	19,440	20,759
2018		24,754	31,907	31,323	33,522
2019			33,714	40,228	41,484
2020				30,974	56,499
2021					14,754
Total					$167,018

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Losses and Loss Adjustment Expenses (continued)

Exited Lines — all lines in runoff

	Exited Lines Incurred Losses and LAE, Net of Reinsurance Years Ended December 31,										As of December 31, 2021	
	Supplemental and unaudited											
Accident Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	IBNR	Cumulative Number of Reported Claims
2012	$31,816	$25,101	$37,960	$44,957	$45,097	$44,213	$44,213	$46,528	$ 49,025	$ 50,159	$ 5,495	1,629
2013		44,791	37,993	44,909	46,437	48,372	48,372	49,850	49,486	53,236	1,299	2,624
2014			64,186	57,904	62,425	63,729	63,729	68,855	69,920	71,219	11,797	4,124
2015				61,810	65,063	68,008	70,803	75,187	80,678	83,365	2,257	4,535
2016					93,526	92,743	91,119	93,324	103,602	104,612	6,489	4,840
2017						75,919	80,341	82,545	95,119	97,011	29,002	4,281
2018							73,492	68,125	78,902	90,348	2,078	4,815
2019								87,115	90,598	92,118	1,064	5,489
2020									83,900	86,700	18,026	4,618
2021										49,957	35,451	1,992
Total										$ 778,725	112,958	38,947
Cumulative net paid loss and LAE from the table below										(589,463)		
Net reserves for loss and LAE before 2012										5,226		
Total net reserves for loss and LAE										$ 194,488		

	Exited Lines Cumulative Paid Losses and ALAE, Net of Reinsurance Years Ended December 31,									
	Supplemental and unaudited									
Accident Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
2012	12,927	23,293	31,636	37,736	40,850	43,303	44,797	45,789	45,938	45,968
2013		4,763	17,904	36,890	42,995	41,158	44,186	47,101	48,069	48,322
2014			9,700	30,863	42,141	50,785	49,906	52,450	53,290	53,615
2015				9,026	41,653	55,610	65,269	73,100	77,981	80,312
2016					36,592	57,638	70,253	78,070	81,516	85,794
2017						34,177	52,103	51,985	56,839	63,516
2018							25,552	60,149	67,262	80,448
2019								28,636	63,243	66,682
2020									24,468	54,950
2021										9,856
Total										$589,463

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Losses and Loss Adjustment Expenses (continued)

The table below presents the reconciliation of the net incurred and paid claims development to loss reserves in the consolidated balance sheets as of December 31, 2021 by sub-category is as follows (in thousands):

	2021
Net reserves for losses and LAE:	
Multi-line Solutions	$ 286,842
Short Tail/Monoline Specialty	109,201
Exited Lines	194,488
Reserves for losses and LAE, net of reinsurance	590,531
Reinsurance recoverable on unpaid claims:	
Multi-line Solutions	232,146
Short Tail/Monoline Specialty	121,717
Exited Lines	27,475
Total reinsurance recoverable on unpaid claims	381,338
Unallocated LAE	7,680
Gross reserves for losses and LAE at end of year	$ 979,549

The following table presents supplementary information about average historical claims duration as of December 31, 2021, by sub-category is as follows:

Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance (unaudited required supplementary information)

Years	1	2	3	4	5	6	7	8	9	10 and older
Multi-line Solutions	25.8%	19.7%	14.9%	10.7%	8.1%	5.5%	4.0%	3.4%	3.6%	4.4%
Short Tail/Monoline Specialty	36.1%	51.4%	5.4%	2.4%	1.5%	0.9%	0.5%	0.3%	0.2%	1.3%
Exited Lines	27.4%	28.6%	12.3%	8.5%	6.5%	4.4%	3.2%	2.7%	2.9%	3.5%

16. Premiums

Direct and assumed premiums written by line of business pursuant to statutory guidelines for the years ended December 31, 2021 and 2020 are as follows:

	2021		2020	
Property	$ 235,686	25.1%	$ 163,025	18.7%
Commercial Auto Liability	227,853	24.2%	181,295	20.8%
General Liability	116,953	12.4%	110,962	12.7%
Group Accident & Health	112,146	11.9%	94,616	10.8%
Professional Liability	61,466	6.5%	48,298	5.5%
Excess Liability	52,176	5.6%	29,123	3.3%
Surety	51,792	5.6%	13,176	1.5%
Workers' Compensation	41,890	4.5%	198,793	22.8%
Commercial Auto Physical Damage	39,897	4.2%	34,325	3.9%
Total	$ 939,859	100.0%	$ 873,613	100.0%

16. Premiums (continued)

For the years ended December 31, 2021 and 2020, our direct and assumed premiums written were produced from the following states:

	2021	2020
California	11.6%	8.1%
Louisiana	10.4	10.3
Texas	10.1	12.0
Florida	6.2	6.3
New York	6.0	6.4
Georgia	3.6	3.5
Pennsylvania	3.5	3.2
Illinois	3.3	3.8
Massachusetts	3.1	2.4
Ohio	2.8	1.7
All other states	39.4	42.3
Total	100.0%	100.0%

17. Commission and Fee Income

Commission and fee income is primarily generated from SUA for the placement of insurance policies on either a 3rd party insurance or reinsurance company. Our disaggregated revenues from contracts with customers for the years ended December 31, 2021 and 2020 are as follows (in thousands):

	2021	2020
SUA commission revenue	$ 2,037	$ 2,090
SUA fee income	1,185	2,067
Other	751	1,507
Total commission and fee income	$ 3,973	$ 5,664

Our contract assets from commission and fee income as of December 31, 2021 and 2020 are as follows (in thousands):

	2021	2020
Contract asset	$ 1,209	$ 1,097

18. Underwriting, Acquisition and Insurance Expenses

Underwriting, acquisition and insurance expense consists of the following for the years ended December 31, 2021 and 2020 (in thousands):

	2021	2020
Amortization of policy acquisition costs	$ 47,061	$ 36,971
Other operating and general expenses	91,437	82,847
Total underwriting, acquisition and insurance expenses	$ 138,498	$ 119,818

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

19. Reinsurance

Certain premiums and benefits are assumed from and ceded to other insurance companies under various reinsurance agreements. The reinsurance agreements provide us with increased capacity to write larger risks and maintain our exposure to loss within our capital resources. We remain obligated for amounts ceded in the event that the reinsurers do not meet their obligations.

The effects of reinsurance on premiums written and earned for the years ended December 31, 2021 and 2020 are as follows (in thousands):

	2021		2020	
	Written	Earned	Written	Earned
Direct premiums	$ 842,318	$ 816,837	$ 774,436	$ 775,666
Assumed premiums	97,541	102,352	99,177	96,765
Ceded premiums	(410,716)	(419,366)	(412,090)	(440,520)
Net premiums	$ 529,143	$ 499,823	$ 461,523	$ 431,911
Ceded losses and LAE incurred		$ 248,360		$ 335,503

Reinsurance recoverables on unpaid losses and loss adjustment expense reserves ceded at December 31, 2021 and 2020 were approximately $381.3 million and $375.2 million, respectively. Reinsurance recoverables on paid losses and loss adjustment expense ceded at December 31, 2021 and 2020 were approximately $90.8 million and $77.4 million, respectively. Reinsurance recoverables related to the LPT at December 31, 2021 and 2020 were approximately $64.2 million and $86.3 million, respectively. Ceded unearned premiums at December 31, 2021 and 2020 were approximately $138.0 million and $146.6 million, respectively.

We have entered into agreements with several of our reinsurers, whereby the reinsurer established funded trust accounts with the Company as the sole beneficiary. These trust accounts provide us additional security to collect claim recoverables under reinsurance contracts. At December 31, 2021, the market value of these accounts was approximately $131.2 million. The agreements provide that, as was customary in the past, the reinsurer will continue claim payment reimbursements without disturbing the trust balances. The trust amount will be adjusted periodically, by mutual agreement, based on loss reserve recoverables.

During the first quarter of 2020, we entered into a LPT retroactive reinsurance agreement. Under the LPT the Company received reinsurance protection of approximately $127.4 million above the ceded losses and LAE reserves and is subject to co-participations at specified amounts.

Subsequent to the first quarter of 2020 and during the year ended December 31, 2020, we recognized adverse development on reserves for certain divisions covered by the LPT of $49.0 million resulting in an increase in the amount ceded under this agreement. The increase in the amount ceded resulted in $32.7 million of recognized gain. During the year ended December 31, 2021 we recognized adverse development on reserves for certain divisions covered by the LPT of $28.0 million resulting in an increase in the amount ceded under this agreement. The increase in the amount ceded resulted in $11.9 million of recognized gain, representing the reversal of previously recognized loss on the LPT, and $2.1 million of deferred gain. The following table presents the impact of the LPT on the Consolidated Statements of Operations for the year ended December 31, 2021 and 2020 (in thousands):

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

19. Reinsurance (continued)

	2021	2020
Expense to enter the LPT	$ —	$ (43,476)
Strengthening of reserves	(28,000)	(49,013)
Reinsurance recoveries under the LPT	11,937	32,692
Pretax net impact of the LPT and strengthening of reserves subject to the LPT	$ (16,063)	$ (59,797)

Certain ceded reinsurance contracts that transfer only significant timing risk and do not transfer sufficient underwriting risk are accounted for using the deposit method of accounting. Our deposit asset as of December 31, 2021 and 2020 was approximately $45.0 million and $38.9 million, respectively, which was included in other assets on the balance sheet.

20. Stock Based Compensation

The Legacy Programs were active during the years ended December 31, 2021 and 2020 and allow key employees to purchase our common stock at a price based on fair value of the Company at the end of the quarter in which the employee commits to the purchase. We then match all purchases with stock grants. The programs require an initial cash payment of at least 30% of the committed fair value of the purchase with any remaining commitment recorded as a note receivable to the Company which is included in Stockholders' Equity. Grants awarded vest after two conditions are met (i) the employee has worked for us for three years after the grant and (ii) cash payments are made for stock purchases. All grants awarded under the Legacy Programs vest over a three-year service period and are expensed on a pro rata basis over the service period.

Under the Legacy Programs, we sold 253,498 shares and 30,870 shares of our common stock during the years ended December 31, 2021 and 2020, respectively. In accordance with the plan, we granted a match of 253,498 shares and 30,870 shares of our common stock during the years ended December 31, 2021 and 2020, respectively.

Under the Legacy Programs, the Company offers employees the option to finance up to 70% of the purchased shares with a stock note receivable. These stock notes receivables are recorded as a reduction to Stockholders' Equity. At December 31, 2021 and 2020 stock notes receivable related to these programs totaled $1.6 million and $2.5 million, respectively. The stock notes receivable bear interest at a rate ranging from 0.95% to 2.80%, based on the Internal Revenue Service applicable federal rates.

During the year ended December 31, 2021, several employees who previously received common stock awards under the Legacy Programs notified the Company that they would not be repaying the remaining balance on their stock notes receivable. Under the terms of the Legacy Programs, the employees would return their common shares financed by the remaining stock note balance and forfeit the same number of award shares. During the year ended December 31, 2021, 85,260 common shares financed and awarded were returned and forfeited. The return of the 42,630 financed shares resulted in the cancellation of $0.8 million in stock notes for the year ended December 31, 2021. Forfeitures of the 42,630 award shares resulted in the reversal of previously recognized stock compensation expense of $0.8 million for the year ended December 31, 2021.

During the year ended December 31, 2021, the Compensation Committee approved 869,613 shares of common stock valued at approximately $2.6 million worth of shares for grant or award, based on the grant date fair value, under the 2021 Plan discussed within Note 2. Awards with a market or performance condition will be issued in shares at the end of the requisite service period in an amount that varies based on satisfaction of market or performance condition targets during the requisite service period. A summary of the equity awards, target payout ranges based on meeting award conditions and authorized target common shares is as follows:

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

20. Stock Based Compensation (continued)

Award type	Award Target Payout Range	Requisite Service Period	Authorized Target Common Shares
Market condition awards	0% – 150%	3 years	185,897
Performance condition awards	0% – 150%	3 years	118,014
Restricted stock units	N/A	3 years	565,702
			869,613

During the year ended December 31, 2021, members of the Board of Directors were awarded 207,555 common shares under the Legacy Programs with a service period of between 0 to 3 years. A summary of the status of our non-vested common stock awards from the Legacy Programs and the 2021 Plan as of and for the year ended December 31, 2021 and 2020, is presented below:

	Weighted-average Grant-date Fair Value	Number of Common Shares
Non-vested at January 1, 2020	$ 5.03	530,253
Granted	3.24	30,870
Vested	4.45	(15,469)
Forfeited	5.07	(206,969)
Non-vested at December 31, 2020	4.87	338,685
Granted	2.99	1,330,666
Vested	3.55	(26,056)
Forfeited	4.00	(140,693)
Non-vested at December 31, 2021	$ 3.31	1,502,602

As of December 31, 2021 the total unrecognized compensation cost related to non-vested, share-based compensation awards was $2.5 million and the weighted average period over which that cost is expected to be recognized is 1.9 years.

Stock-based compensation expense (income) for the years ended December 31, 2021 and 2020 is summarized as follows (in thousands):

	2021	2020
Stock-based compensation expense (income)		
Stock-based compensation expense	$ 1,365	$ 72
Forfeitures	(843)	(97)
Total	$ 522	$ (25)

21. Earnings (Loss) Per Share

The following table presents a reconciliation of the numerator and denominator of the basic and diluted earnings (loss) per share computations contained in the year-ended consolidated financial statements in thousands, except for share and per share amounts.

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

21. Earnings (Loss) Per Share (continued)

	2021	2020
Numerator		
Net income (loss)	$ 38,317	$ (74,642)
Less: undistributed (income) loss allocated to participating Securities	(18,507)	—
Net income (loss) attributable to common shareholders (numerator for basic earnings per share)	19,810	(74,642)
Add back: undistributed income (loss) allocated to participating securities	18,507	—
Net income (loss) (numerator for diluted earnings per share under the two class method)	$ 38,317	$ (74,642)
Denominator		
Basic weighted-average common shares	65,235,002	64,855,972
Preferred shares (if converted method)	60,943,498	—
Contingently issuable instruments (treasury stock method)	2,892,586	—
Market condition awards (contingently issuable)	270,396	—
Restricted stock units (treasury stock method)	532,114	—
Diluted weighted-average common share equivalents	129,873,596	64,855,972
Basic earnings (loss) per share	$ 0.30	$ (1.15)
Diluted earnings (loss) per share	$ 0.30	$ (1.15)

Our Preferred Shares participate in dividends and distributions with common stock on an as-converted basis and represent a participating security. The Preferred Shares did not have a contractual obligation to absorb losses during the year ended December 31, 2020 and were not allocated losses for that period.

Anti-dilutive instruments are excluded from the calculation of diluted weighted-average common share equivalents as they would have an anti-dilutive impact. The following table presents instruments that were excluded from the calculation of diluted weighted-average common share equivalents for the period ended December 31, 2021 and 2020, in shares.

	2021	2020
Unvested common shares	—	13
Preferred Shares, if converted	—	41,554,360
Total	—	41,554,373

Our Common and Preferred Shares financed by stock notes are contingently issuable instruments where the holder must return, all or part of, if the stock notes are not paid off. The following table presents common share equivalents of contingently issuable instruments that were excluded from basic and diluted earnings (loss) per share for the period ended December 31, 2021 and 2020, in shares.

	2021	2020
Common shares	—	1,013,030
Preferred Shares, if converted	—	5,539,860
Total	—	6,552,890

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

22. Employee Benefit Plans

We sponsor the SSIG 401(k) Plan (the "Plan"). The Plan, available to substantially all of our employees, is subject to provisions of the Employee Retirement Income Security Act of 1974. We match employee contributions on a discretionary basis. We expensed $2.3 million and $1.3 million of matching contributions during the year ended December 31, 2021 and 2020, respectively.

23. Related Party Transactions

Westaim

In 2014 and continuing through 2015, Westaim HIIG LP acquired a majority of our common stock. As of December 31, 2021 and 2020, Westaim HIIG LP owns 71.0% and 71.6% of our common stock, respectively. The changes in Westaim HIIG LP's ownership percentage were due to transactions related to our stock-based compensation programs.

In 2015, we purchased 3,076,924 shares of Westaim common stock for $8.4 million. Our investment in Westaim is included in equity securities in the consolidated balance sheet as of December 31, 2021 and 2020. The unrealized loss on this investment is $2.0 million as of December 31, 2021 and 2020.

On April 24, 2020, Westaim HIIG LP affiliates participated in our preferred share rights offering and purchased $68.6 million of Preferred Shares in exchange for $68.1 million of cash and $0.5 million of stock notes. Within this group, Westaim purchased $44.0 million of Preferred Shares in exchange for $44.0 million of cash. As of December 31, 2021 and 2020, Westaim owns 44.7% and 44.5% of our preferred stock, respectively.

Westaim performs consulting and certain other services for us pursuant to an agreement (the "Management Services Agreement"). Pursuant to the Management Services Agreement, we are required to pay Westaim $0.5 million a year plus expenses. The agreement will be effective until the termination date. The termination date is the earliest of (a) the date on which Westaim HIIG LP owns less than 8% of the number of shares outstanding, (b) the date on which the Company's initial public offering is consummated, or (c) the date upon which a change in control occurs. Pursuant to the current Management Services Agreement, we incurred expenses approximately $0.5 million and $1.5 million for the year ended December 31, 2021 and 2020, respectively, related to services provided by Westaim.

RISCOM

During 2016, we entered into an agency agreement with RISCOM, in which we hold a 20% ownership interest, for wholesale brokerage services in addition to the already existing managing general agency agreement between the parties. Net earned premium and gross commission expense related to these agreements for the years ended December 31, 2021 and 2020 is summarized as follows (in thousands):

	2021	2020
Net earned premium	$ 76,701	$ 66,971
Gross commission expense	21,256	19,788

Premiums receivable as of December 31, 2021 and 2020 is as follows (in thousands):

	2021	2020
Premiums receivable	$ 11,334	$ 12,516

Reinsurance

We have reinsurance agreements with Everest Re, an affiliate of Mt. Whitney Securities, LLC, a limited partner of Westaim HIIG LP. We recorded $101.2 million and $101.0 million of reinsurance premiums ceded

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

23. Related Party Transactions (continued)

during the years ended December 31, 2021 and 2020, respectively, related to the agreement. Reinsurance recoverable from Everest Re, net of premium payables, was $168.8 million and $162.4 million, respectively, as of December 31, 2021 and 2020.

Arena

During the second quarter of 2021, we began investing in an asset-backed securities investment account managed by Arena. The asset-backed securities are within fixed maturity securities, available for sale on the consolidated balance sheet. As of December 31, 2021 we have an unfunded commitment of $2.6 million.

Other

During the years ended December 31, 2021 and 2020, we paid approximately $3.7 million and $1.7 million, respectively, of advisory and professional services fees and expense reimbursements to various affiliated shareholders and directors.

During the years ended December 31, 2021 and 2020, we paid approximately $0.0 million and $0.3 million, respectively, of travel costs to companies owned by an affiliated shareholder, member of management and director of the Company.

On April 24, 2020, an affiliated shareholder, member of management and director of the Company, along with his immediate family, purchased approximately $10.6 million of Preferred Shares in exchange for $4.5 million in cash and $6.1 million in stock notes. Another affiliated shareholder and director of the Company purchased approximately $13.1 million of Preferred Shares in exchange for $13.1 million in cash.

On April 24, 2020, a director of the Company, through his held companies, purchased approximately $15.5 million of Preferred Shares in exchange for $15.5 million in cash.

On April 24, 2020, a director of the Company purchased approximately $0.3 million of Preferred Shares in exchange for $0.3 million in cash.

See Note 7, 8 and 9 for investments involving affiliated companies and additional related party transactions.

See Note 14 for related party transactions related to our preferred share rights offering.

24. Commitments and Contingencies

Litigation

We are named as a defendant in various legal actions arising from claims made under insurance policies and contracts. Those actions are considered by us in estimating the losses and loss adjustment expense reserves. Also, from time to time, we are a defendant in various legal actions that relate to bad faith claims, disputes with third parties or that involve alleged errors and omissions. We record accruals for these items to the extent the losses are probable and reasonably estimable. Although the ultimate outcome of these matters cannot be determined at this time, based on present information, the availability of insurance coverage and advice received from outside legal counsel, our management believes the resolution of any such matters will not, individually or in the aggregate, have a material adverse effect on our Consolidated Balance Sheets, Consolidated Statements of Operations or Consolidated Statements of Cash Flows. During the years ended December 31, 2021 and 2020, we recorded no provision for various contingencies.

During the year ended December 31, 2020, we recorded $4.5 million of income related to the settlement of previous contingencies paid and recorded by the Company. This recovery was included in other operating expenses for the year ended December 31, 2020 and collected in the first quarter of 2021.

24. Commitments and Contingencies (continued)

COVID-19

During the first quarter of 2020, the onset of COVID-19 resulted in various emergency restrictions instituted by various state and local governments in the United States. These restrictions have caused considerable economic disruption and may have a significant impact on our policyholders.

We assessed our insurance policies and we believe we do not have material claim exposure to the impacts of COVID-19. Many of our property policies provide business interruption coverage and require physical damage to trigger a loss. Many of these policies also have a virus exclusion.

In anticipation of the impacts of COVID-19 on our business, we believed we would incur additional legal and claims defense costs and increased credit risk from our policyholders and reinsurers. As of December 31, 2021 and 2020 we believe we have appropriately accrued for these additional legal and claims defense costs of approximately $0.0 million and $2.0 million within losses and LAE reserves, respectively. As of December 31, 2021 and 2020 we believe our allowance for uncollectible receivables on our premiums receivable and reinsurance recoverables appropriately reflects the increased credit risk.

Indemnification

In conjunction with the sale of business assets and subsidiaries, we have provided indemnifications to certain of the buyers. Certain indemnifications cover typical representations and warranties related to the responsibilities to perform under the sales contracts. The amount of potential exposure covered by the indemnifications is difficult to determine because the indemnifications cover a variety of matters, operations and scenarios. Certain of these indemnifications have no time limit. At this time, we do not have reason to believe any such significant claims exist.

Contingent Consideration Related to Acquisitions

We potentially owe earn-out liabilities to former owners of assets and business acquired. Included in accounts payable and accrued liabilities are $0.0 million and $0.5 million of earn-out liabilities as of December 31, 2021 and 2020, respectively. We made a $0.6 million earn-out payment during the year ended December 31, 2021.

Guarantee as part of the Sale of Boston Indemnity Company

In conjunction with the sale of Boston Indemnity Company on October 4, 2021, the Company guaranteed the obligations of GMIC under the sale agreement and the reinsurance agreement of the business ceded to GMIC by BIC.

25. Regulatory Matters

A significant amount of the consolidated assets represent assets of our insurance company subsidiaries, HSIC, IIC, GMIC and OSIC. IIC, OSIC and GMIC are all direct and indirect wholly-owned subsidiaries of HSIC. HSIC is restricted by Texas law as to the amount of dividends it may pay without the approval of regulatory authorities. The maximum amount of dividends which can be paid by HSIC without prior approval is subject to restrictions relating to policyholder surplus, net income, and dividends declared or distributed during the preceding 12 months. As of December 31, 2021, HSIC cannot pay ordinary dividends. HSIC did not declare or pay any dividends during the years ended December 31, 2021 and 2020.

Property and casualty insurance companies are subject to certain Risk Based Capital (“RBC”) requirements as specified by the National Association of Insurance Commissioners (“NAIC”). Under those requirements, the amount of capital and surplus maintained by a property and casualty insurance company is

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

25. Regulatory Matters (continued)

to be determined based on the various risk factors related to it. At December 31, 2021 and 2020, our insurance company subsidiaries met the RBC requirements.

The capital and surplus and RBC level of HSIC on a consolidated statutory basis (including IIC, GMIC OSIC, and BIC) as of and for the years ended December 31, 2021 and 2020 were as follows (in thousands):

	2021	2020
Statutory capital and surplus	$ 369,583	$ 342,256
RBC authorized control level	84,968	67,838

26. Statutory Accounting Principles

The statutory capital and surplus for our principal operating subsidiaries at December 31, 2021 and 2020 were as follows (in thousands):

	2021	2020
HSIC	$ 369,583	$ 342,256
IIC	215,508	149,623
GMIC	209,347	144,280
BIC	—	26,058
OSIC	21,095	21,063

These amounts include ownership interests in affiliated insurance subsidiaries. The statutory net income (loss) for our principal operating subsidiaries for the years ended December 31, 2021 and 2020 was as follows (in thousands):

	2021	2020
HSIC	$ 5,880	$ (4,044)
IIC	7,315	(21,038)
GMIC	(947)	(17,526)
BIC	(67)	(38)
OSIC	31	143

See note 4 for the sale of BIC. Statutory net loss amount reflects nine months ended September 30, 2021.

27. Subsequent Events

We have evaluated subsequent events through April 19, 2022, the date financial statements were available to be issued.

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES
SCHEDULE I — SUMMARY OF INVESTMENTS — OTHER THAN IN RELATED PARTIES
DECEMBER 31, 2021
(In Thousands)

	Cost	Fair Value	Amount on Balance Sheet
December 31, 2021			
Fixed maturity securities, available for sale:			
U.S. government securities	$ 48,816	$ 49,263	$ 49,263
Corporate securities and miscellaneous	151,053	154,163	154,163
Municipal securities	53,179	56,942	56,942
Residential mortgage-backed securities	103,758	103,735	103,735
Commercial mortgage-backed securities	14,634	14,484	14,484
Asset-backed securities	81,038	79,764	79,764
Total fixed maturity securities, available for sale	452,478	458,351	458,351
Fixed maturity securities, held to maturity:			
Asset-backed securities	47,117	47,117	47,117
Total fixed maturity securities, held to maturity	47,117	47,117	47,117
Equity securities:			
Common stocks	47,379	58,425	58,425
Preferred stocks	17,821	18,166	18,166
Mutual funds	33,786	41,380	41,380
Total equity securities	98,986	117,971	117,971
Mortgage loans	29,447	29,264	29,531
Short-term investments	164,278	164,278	164,278
Total investments	$ 792,306	$ 816,981	$ 817,248

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES
SCHEDULE II — CONDENSED FINANCIAL INFORMATION OF REGISTRANT
BALANCE SHEETS (PARENT COMPANY)
DECEMBER 31, 2021 AND 2020
(In Thousands)

	2021	2020
Assets		
Investments:		
Investment in subsidiaries	$ 517,326	$ 478,426
Short-term investments, at fair value	25	25
Total investments	517,351	478,451
Cash and cash equivalents	5,849	12,604
Restricted cash	156	151
Deferred income taxes	15,182	13,314
Goodwill and intangible assets, net	12,641	12,641
Other assets	4,218	5,559
Total assets	$ 555,397	$ 522,720
Liabilities, Temporary Equity and Stockholders' Equity		
Liabilities:		
Accounts payable and accrued liabilities	$ 788	$ 747
Notes payable	50,000	50,000
Subordinated debt, net of debt issuance costs	78,529	78,448
Total liabilities	129,317	129,195
Temporary Equity:		
Temporary equity	—	90,303
Stockholders' Equity:		
Stockholders' equity	426,080	303,222
Total liabilities, temporary equity and stockholders' equity	$ 555,397	$ 522,720

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES
SCHEDULE II — CONDENSED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE INCOME (LOSS) (PARENT COMPANY)
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(In Thousands)

	2021	2020
Revenues:		
Commission and fee income	$ —	$ 625
Net investment income	2,383	1,469
Realized investment losses	—	(315)
Total revenues	2,383	1,779
Expenses		
Operating expenses	—	3,149
Interest expense	4,621	5,531
Amortization expense	81	81
Total expenses	4,702	8,761
Loss before income tax expense	(2,319)	(6,982)
Income tax (benefit) expense	(487)	3,017
Net loss before equity in earnings of subsidiaries	(1,832)	(9,999)
Equity in undistributed earnings of subsidiaries	40,149	(64,643)
Net income (loss)	$ 38,317	$ (74,642)

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES
SCHEDULE II — CONDENSED STATEMENTS OF CASH FLOWS (PARENT COMPANY)
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(In Thousands)

	2021	2020
Cash flows from operating activities:		
Net income (loss)	$ 38,317	$ (74,642)
Adjustments to reconcile net income to net cash provided by (used in) operating activities	(40,447)	73,531
Net cash provided by operating activities	(2,130)	(1,111)
Cash flows from investing activities:		
Capital contribution to subsidiaries	(10,000)	(50,600)
Distributions from investment in subsidiaries	4,000	4,000
Other, net	—	1
Net cash (used in) provided by investing activities	(6,000)	(46,599)
Cash flows from financing activities:		
Employee share purchases	1,380	255
Issuance of preferred shares	—	90,413
Repayments of notes payable	—	(33,827)
Repurchase of common stock	—	(540)
Net cash provided by financing activities	1,380	56,301
Net (decrease) increase in cash and cash equivalents and restricted cash	(6,750)	8,591
Cash and cash equivalents and restricted cash at beginning of year	12,755	4,164
Cash and cash equivalents and restricted cash at end of year	$ 6,005	$ 12,755
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 4,669	$ 5,530

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES
SCHEDULE IV — REINSURANCE
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(In Thousands)

	2021		2020	
	Accident & Health	Property & Casualty	Accident & Health	Property & Casualty
Gross amount	$ 111,759	$ 730,559	$ 94,616	$ 679,820
Ceded to other companies	(68,350)	(342,366)	(57,364)	(354,726)
Assumed from other companies	387	97,154	—	99,177
Net amount	$ 43,796	$ 485,347	$ 37,252	$ 424,271
Percentage of amount assumed to net	0.9%	20.0%	0.0%	23.4%

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES
SCHEDULE V — VALUATION AND QUALIFYING ACCOUNTS
DECEMBER 31, 2021 AND 2020
(In Thousands)

	Valuation Allowance For Deferred Tax Assets	Allowance for Uncollectable Reinsurance Recoverable	Allowance for Uncollectable Premiums Receivable
Balance at January 1, 2020	$ 586	$ —	$ 1,076
Charged to costs and expenses	—	—	781
Amounts written off	—	—	(711)
Balance at December 31, 2020	586	—	1,146
Charged to costs and expenses	—	—	18
Amounts written off	—	—	(903)
Balance at December 31, 2021	$ 586	$ —	$ 261

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES
SCHEDULE VI — SUPPLEMENTAL INFORMATION CONCERNING PROPERTY — CASUALTY INSURANCE OPERATIONS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(In Thousands)

	2021	2020
Deferred policy acquisition costs	$ 59,456	$ 53,519
Reserve for losses and loss adjustment expenses	979,549	856,780
Unearned premiums	363,288	342,619
Net earned premium(1)	499,823	431,911
Net investment income	24,646	14,130
Losses and loss adjustment expenses (current year)(1)	338,348	301,845
Losses and loss adjustment expenses (prior years)(1)(2)	28,000	49,553
Amortization of policy acquisition costs(1)	47,061	36,971
Paid claims and claim adjustment expenses(1)	249,739	220,480
Net premiums written(1)	529,143	461,523
Ceded unearned premium	137,973	146,624
Deferred ceding commission	30,500	35,757

(1) Amount is presented net of reinsurance

(2) Amount does not include gain or loss on retroactive reinsurance which is included in losses and loss adjustment expenses presented on the Consolidated Statements of Operations

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
MARCH 31, 2022 AND DECEMBER 31, 2021
(In thousands, except for share and per share amounts)

	March 31, 2022 (Unaudited)	December 31, 2021
Assets		
Investments:		
Fixed maturity securities, available for sale, at fair value (amortized cost of $453,643 and $452,478, respectively)	$ 438,752	$ 458,351
Fixed maturity securities, held to maturity, at amortized cost	49,203	47,117
Equity securities, at fair value (cost of $113,431 and $98,986, respectively)	127,081	117,971
Mortgage loans	37,947	29,531
Other long-term investments	141,285	132,111
Short-term investments, at fair value	202,909	164,278
Total investments	997,177	949,359
Cash and cash equivalents	26,173	42,107
Restricted cash	71,573	65,167
Premiums receivable, net of allowance	135,684	112,158
Reinsurance recoverables	543,828	536,327
Ceded unearned premium	177,708	137,973
Deferred policy acquisition costs	64,168	59,456
Deferred income taxes	33,755	33,663
Goodwill and intangible assets, net	90,970	91,336
Other assets	94,523	90,666
Total assets	$2,235,559	$2,118,212
Liabilities and Stockholders' Equity		
Liabilities:		
Losses and loss adjustment expenses ("LAE")	$ 999,782	$ 979,549
Unearned premiums	396,697	363,288
Deferred ceding commission	35,295	30,500
Reinsurance and premium payables	181,025	119,919
Funds held for others	26,514	29,587
Accounts payable and accrued liabilities	39,078	40,760
Notes payable	50,000	50,000
Subordinated debt, net of debt issuance costs	78,549	78,529
Total liabilities	1,806,940	1,692,132
Stockholders' Equity:		
Series A preferred stock, $0.01 par value, 2,000,000 shares authorized, 1,970,124 shares issued and outstanding as of March 31, 2022 and December 31, 2021, respectively	20	20
Common stock, $0.01 par value, 168,000,000 shares authorized and 67,052,434 shares issued as of March 31, 2022 and December 31, 2021	671	671
Treasury stock, at par value, 917,800 shares as of March 31, 2022 and December 31, 2021	(9)	(9)
Additional paid-in capital	575,165	574,663
Stock notes receivable	(6,962)	(9,092)
Accumulated other comprehensive (loss) income	(11,764)	4,640
Accumulated deficit	(128,502)	(144,813)
Total stockholders' equity	428,619	426,080
Total liabilities and stockholders' equity	$2,235,559	$2,118,212

The accompanying notes are an integral part of these consolidated financial statements.

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS) (UNAUDITED) FOR THE THREE MONTHS ENDED MARCH 31, 2022 AND 2021
(In thousands, except for share and per share amounts)

	2022	2021
Revenues:		
Net earned premium	$ 141,726	$ 117,195
Commission and fee income	230	687
Net investment income	15,149	5,610
Net unrealized (losses) gains on equity securities	(5,369)	5,613
Realized investment gains	931	763
Net realized gain on sale of business	—	3,453
Total revenues	152,667	133,321
Expenses:		
Losses and loss adjustment expenses	89,989	81,020
Underwriting, acquisition and insurance expenses	40,534	31,030
Impairment charges	—	882
Interest expense	1,177	1,155
Amortization expense	387	348
Total expenses	132,087	114,435
Income before income tax expense	20,580	18,886
Income tax expense	4,269	3,966
Net income	16,311	14,920
Net income attributable to participating securities	7,829	7,224
Net income attributable to common shareholders	$ 8,482	$ 7,696
Net income	$ 16,311	$ 14,920
Other comprehensive loss:		
Unrealized gains and losses on investments:		
Net change in unrealized losses on investments, net of tax	(16,705)	(4,458)
Reclassification adjustment for gains on securities no longer held, net of tax	301	50
Total other comprehensive loss	(16,404)	(4,408)
Comprehensive (loss) income	$ (93)	$ 10,512
Per share data:		
Basic earnings per share	$ 0.13	$ 0.12
Diluted earnings per share	$ 0.13	$ 0.12
Weighted-average common shares outstanding:		
Basic	65,400,219	64,830,064
Diluted	129,649,462	129,050,819

The accompanying notes are an integral part of these consolidated financial statements.

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(UNAUDITED)
FOR THE THREE MONTHS ENDED MARCH 31, 2022 AND 2021
(In thousands)

	Preferred Stock	Common Stock	Treasury Stock	Additional Paid-In Capital	Stock Notes receivable	Accumulated Other Comprehensive (Loss) Income	Accumulated Deficit	Total
Balance at December 31, 2021	$ 20	$ 671	$ (9)	$ 574,663	$ (9,092)	$ 4,640	$ (144,813)	$ 426,080
Employee equity transactions	—	—	—	502	188	—	—	690
Reclassification of stock notes receivable to other assets	—	—	—	—	1,942	—	—	1,942
Net income	—	—	—	—	—	—	16,311	16,311
Other comprehensive loss, net of tax	—	—	—	—	—	(16,404)	—	(16,404)
Balance at March 31, 2022	$ 20	$ 671	$ (9)	$ 575,165	$ (6,962)	$ (11,764)	$ (128,502)	$ 428,619
Balance at December 31, 2020	$ —	$ 671	$ (14)	$ 475,989	$ (2,510)	$ 12,216	$ (183,130)	$ 303,222
Employee equity transactions	—	—	6	381	344	—	—	731
Net income	—	—	—	—	—	—	14,920	14,920
Other comprehensive loss, net of tax	—	—	—	—	—	(4,408)	—	(4,408)
Balance at March 31, 2021	$ —	$ 671	$ (8)	$ 476,370	$ (2,166)	$ 7,808	$ (168,210)	$ 314,465

The accompanying notes are an integral part of these consolidated financial statements.

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE THREE MONTHS ENDED MARCH 31, 2022 AND 2021
(In thousands)

	2022	2021
Cash flows from operating activities:		
Net income	$ 16,311	$ 14,920
Adjustments to reconcile net income to net cash provided by (used in) operating activities	29,571	23,491
Net cash provided by operating activities	45,882	38,411
Cash flows from investing activities:		
Purchase of fixed maturity securities, available for sale	(23,370)	(55,565)
Purchase of other long-term investments	(2,376)	(15,267)
Purchase of equity securities	(25,221)	(32,162)
Purchase of business	—	(10,000)
(Investment in) proceeds from direct and indirect loans	(8,019)	4,924
Purchase of property and equipment	(431)	(300)
Sales and maturities of investment securities	33,935	36,805
Distributions from equity method investments	1,326	1,187
Change in short-term investments	(38,631)	6,349
Receivable for securities sold	5,671	8,830
Cash provided by (used in) deposit accounting	1,518	(2,318)
Other, net	2	—
Net cash used in investing activities	(55,596)	(57,517)
Cash flows from financing activities:		
Employee share purchases	186	1,011
Net cash provided by financing activities	186	1,011
Net (decrease) increase in cash and cash equivalents and restricted cash	(9,528)	(18,095)
Cash and cash equivalents and restricted cash at beginning of period	107,274	113,623
Cash and cash equivalents and restricted cash at end of period	$ 97,746	$ 95,528
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 1,124	$ 1,237

The accompanying notes are an integral part of these consolidated financial statements.

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Basis of Presentation

The condensed consolidated financial statements of Skyward Specialty Insurance Group, Inc. (the "Company", collectively we, us or our), have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Certain information and footnote disclosures normally included in the consolidated financial statements prepared in accordance with U.S. GAAP have been condensed or omitted in these financial statements. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2021. In our opinion, we have made all adjustments necessary for a fair statement of the condensed consolidated financial statements as of March 31, 2022 and December 31, 2021 and for the three months ended March 31, 2022 and 2021. All significant intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ materially from these estimates.

2. Investments

The amortized cost and the fair value of our investments as of March 31, 2022 and December 31, 2021 are summarized as follows (in thousands):

	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2022				
Fixed maturity securities, available for sale:				
U.S. government securities	$ 45,610	$ 331	$ (900)	$ 45,041
Corporate securities and miscellaneous	155,486	698	(6,334)	149,850
Municipal securities	55,117	847	(1,657)	54,307
Residential mortgage-backed securities	99,934	277	(5,785)	94,426
Commercial mortgage-backed securities	16,736	17	(987)	15,766
Asset-backed securities	80,760	242	(1,640)	79,362
Total fixed maturity securities, available for sale	$453,643	$ 2,412	$(17,303)	$438,752
Fixed maturity securities, held to maturity:				
Asset-backed securities	$ 49,203	$ —	$ (2,369)	$ 46,834
Total fixed maturity securities, held to maturity	$ 49,203	$ —	$ (2,369)	$ 46,834
Equity securities:				
Common stocks	$ 49,303	$11,913	$ (3,016)	$ 58,200
Preferred stocks	20,215	28	(1,824)	18,419
Mutual funds	43,913	6,720	(171)	50,462
Total equity securities	$113,431	$18,661	$ (5,011)	$127,081

2. Investments (continued)

	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2021				
Fixed maturity securities, available for sale:				
U.S. government securities	$ 48,816	$ 716	$ (269)	$ 49,263
Corporate securities and miscellaneous	151,053	3,698	(588)	154,163
Municipal securities	53,179	3,799	(36)	56,942
Residential mortgage-backed securities	103,758	1,232	(1,255)	103,735
Commercial mortgage-backed securities	14,634	38	(188)	14,484
Asset-backed securities	81,038	226	(1,500)	79,764
Total fixed maturity securities, available for sale	$452,478	$ 9,709	$(3,836)	$458,351
Fixed maturity securities, held to maturity:				
Asset-backed securities	$ 47,117	$ —	$ —	$ 47,117
Total fixed maturity securities, held to maturity	$ 47,117	$ —	$ —	$ 47,117
Equity securities:				
Common stocks	$ 47,379	$13,887	$(2,841)	$ 58,425
Preferred stocks	17,821	349	(4)	18,166
Mutual funds	33,786	7,611	(17)	41,380
Total equity securities	$ 98,986	$21,847	$(2,862)	$117,971

The amortized cost and estimated fair value of fixed maturity securities, available for sale, at March 31, 2022 by contractual maturity are shown below (in thousands). Expected maturities may differ from contractual maturities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Also, changing interest rates, tax considerations or other factors may result in portfolio sales prior to maturity.

	Amortized Cost	Fair Value
March 31, 2022		
Due in less than one year	$ 11,790	$ 11,853
Due after one year through five years	144,872	142,095
Due after five years through ten years	68,629	65,198
Due after ten years	30,922	30,052
Mortgage-backed securities	116,670	110,192
Asset-backed securities	80,760	79,362
Total	$453,643	$438,752

The cost and estimated fair value of fixed maturity securities, held to maturity, at March 31, 2022 by contractual maturity are shown below (in thousands). Expected maturities may differ from contractual maturities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. Investments (continued)

	Cost	Fair Value
March 31, 2022		
Asset-backed securities	$49,203	$46,834
Total	$49,203	$46,834

The following tables summarize gross unrealized losses and the corresponding fair values of investments, aggregated by length of time that individual securities have been in a continuous unrealized loss position as of March 31, 2022 and December 31, 2021 (in thousands).

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
March 31, 2022						
U.S. government securities	$ 15,972	$ (706)	$ 3,636	$ (194)	$ 19,608	$ (900)
Corporate securities and miscellaneous	114,556	(6,219)	1,385	(115)	115,941	(6,334)
Municipal securities	25,341	(1,657)	—	—	25,341	(1,657)
Residential mortgage-backed securities	57,735	(3,494)	23,135	(2,291)	80,870	(5,785)
Commercial mortgage-backed securities	14,557	(968)	587	(19)	15,144	(987)
Asset-backed securities	38,008	(1,454)	2,571	(186)	40,579	(1,640)
Total fixed maturity securities, available for sale	266,169	(14,498)	31,314	(2,805)	297,483	(17,303)
Asset-backed securities	46,834	(2,369)	—	—	46,834	(2,369)
Total fixed maturity securities, held to maturity	46,834	(2,369)	—	—	46,834	(2,369)
Common stocks	7,908	(1,537)	6,948	(1,479)	14,856	(3,016)
Preferred stocks	17,426	(1,824)	—	—	17,426	(1,824)
Mutual funds	5,484	(171)	—	—	5,484	(171)
Equity securities	30,818	(3,532)	6,948	(1,479)	37,766	(5,011)
Total	$343,821	$ (20,399)	$38,262	$(4,284)	$382,083	$ (24,683)

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. Investments (continued)

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2021						
U.S. government securities	$ 19,819	$ (267)	$ 108	$ (2)	$ 19,927	$ (269)
Corporate securities and miscellaneous	47,308	(588)	—	—	47,308	(588)
Municipal securities	4,549	(36)	—	—	4,549	(36)
Residential mortgage-backed securities	72,672	(1,252)	145	(3)	72,817	(1,255)
Commercial mortgage-backed securities	12,653	(175)	241	(12)	12,894	(187)
Asset-backed securities	34,266	(1,463)	1,256	(38)	35,522	(1,501)
Total fixed maturity securities, available for sale	191,267	(3,781)	1,750	(55)	193,017	(3,836)
Common stocks	2,493	(1,066)	7,885	(1,775)	10,378	(2,841)
Preferred stocks	1,353	(4)	—		1,353	(4)
Mutual funds	5,441	(17)	—	—	5,441	(17)
Equity securities	9,287	(1,087)	7,885	(1,775)	17,172	(2,862)
Total	$200,554	$(4,868)	$9,635	$(1,830)	$210,189	$(6,698)

As of March 31, 2022 we have 39 lots of fixed maturity securities in an unrealized loss position aged over 12 months. We do not have the intent to sell and it is not more likely-than-not that we will be required to sell these fixed maturity securities, available for sale, before the securities recover to their amortized cost value. In addition, we believe that none of the declines in the fair values of these fixed maturity securities, available for sale relate to credit losses. We believe that none of the declines in the fair value of these fixed maturity securities, available for sale, and equity securities were other-than-temporary at March 31, 2022. We recognized no other-than-temporary impairment adjustments on fixed maturity securities, available for sale, or equity securities for the three months ended March 31, 2022 and 2021.

The components of net realized gains (losses) for the three months ended March 31, 2022 and 2021 are as follows (in thousands):

	March 31, 2022	March 31, 2021
Gross realized gains		
Fixed maturity securities, available for sale	$ 16	$ 129
Equity securities	1,830	924
Other	31	—
Total	1,877	1,053
Gross realized losses		
Fixed maturity securities, available for sale	(276)	(196)
Equity securities	(654)	(94)
Other	(16)	—
Total	(946)	(290)
Net realized gains	$ 931	$ 763

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. Investments (continued)

Proceeds from sales of fixed maturity securities, available for sale; and equity securities for the three months ended March 31, 2022 were approximately $7.6 million and $12.0 million, respectively. Proceeds from sales of fixed maturity securities, available for sale; and equity securities for the three months ended March 31, 2021 were approximately $6.1 million and $9.9 million, respectively.

Our net investment income for the three months ended March 31, 2022 and 2021 is summarized as follows (in thousands):

	March 31, 2022	March 31, 2021
Income:		
Fixed maturity securities, available for sale	$ 3,224	$ 2,099
Fixed maturity securities, held to maturity	1,937	1,055
Equity securities	738	567
Equity method investments	9,210	3,733
Mortgage loans	818	146
Indirect loans	1,657	(405)
Short term investments and cash	27	55
Other	7	5
Total investment income	17,618	7,255
Investment expenses	(2,469)	(1,645)
Net investment income	$15,149	$ 5,610

The change in net unrealized losses on investments, net of deferred income taxes, in other comprehensive loss for the three months ended March 31, 2022 and 2021 is as follows (in thousands):

	March 31, 2022	March 31, 2021
Fixed maturity securities	$(20,764)	$(5,816)
Investment in direct and indirect loans	—	187
Deferred income taxes	4,360	1,221
Total	$(16,404)	$(4,408)

3. Fair Value Measurements

Our financial instruments include assets and liabilities carried at fair value, as well as assets and liabilities carried at cost or amortized cost but disclosed at fair value in our financial statements. In determining fair value, we generally apply the market approach, which uses prices and other relevant data based on market transactions involving identical or comparable assets and liabilities.

We use data provided by a third-party investment manager to value our investments and we perform periodic analyses on the prices received from third parties to determine whether the prices are reasonable estimates of fair value. Our analyses include a review of month-to-month price fluctuations and, as needed, a comparison of pricing services' valuations to other pricing services' valuations for the identical security.

We classify our financial instruments into the following three-level hierarchy:

Level 1 — Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. Fair Value Measurements (continued)

Level 2 — Inputs are other than quoted prices included in Level 1 that are observable for the asset or liability through corroboration with market data at the measurement date.

Level 3 — Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

We used the following methods and assumptions in estimating the fair value disclosures for financial instruments in the accompanying consolidated financial statements and in these notes:

U.S. government securities, mutual funds and common stock

We use unadjusted quoted prices for identical instruments traded in an active exchange market to measure fair value which represent Level 1 inputs.

Preferred stocks, municipal securities, corporate securities and miscellaneous

We use a pricing model that utilizes market-based inputs such as trades in an illiquid market for a particular security or trades in active markets for securities with similar characteristics. The model considers other inputs such as benchmark yields, issuer spreads, security terms and conditions, and other market data. These represent Level 2 fair value inputs.

Commercialmortgage-backed securities, residential mortgage-backed securities and asset-backed securities

We use a pricing model that utilizes market-based inputs that may include dealer quotes, market spreads, and yield curves. We may evaluate individual tranches in a security by determining cash flows using the security's terms and conditions, collateral performance, credit information benchmark yields and estimated prepayments. These represent Level 2 fair value inputs.

The following table presents the carrying value and estimated fair value of our financial instruments as of March 31, 2022 and December 31, 2021:

	March 31, 2022		December 31, 2021	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Fixed maturity securities, available for sale	$438,752	$438,752	$458,351	$458,351
Fixed maturity securities, held to maturity	49,203	46,834	47,117	47,117
Equity securities	127,081	127,081	117,971	117,971
Mortgage loans	37,947	37,718	29,531	29,264
Short-term investments	202,909	202,909	164,278	164,278
Cash and cash equivalents	26,173	26,173	42,107	42,107
Restricted cash	71,573	71,573	65,167	65,167
Liabilities				
Notes payable	$ 50,000	$ 50,000	$ 50,000	$ 50,000
Subordinated debt	78,549	81,753	78,529	83,235

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. Fair Value Measurements (continued)

The following table summarizes fair value measurements by level at March 31, 2022 and December 31, 2021 for assets and liabilities measured at fair value on a recurring basis (in thousands):

	Level 1	Level 2	Level 3	Total
March 31, 2022				
Fixed maturity securities, available for sale:				
U.S. government securities	$ 45,041	$ —	$—	$ 45,041
Corporate securities and miscellaneous	—	149,850	—	149,850
Municipal securities	—	54,307	—	54,307
Residential mortgage-backed securities	—	94,426	—	94,426
Commercial mortgage-backed securities	—	15,766	—	15,766
Asset-backed securities	—	79,362	—	79,362
Total fixed maturity securities, available for sale	45,041	393,711	—	438,752
Common stocks:				
Consumer discretionary	1,700	—	—	1,700
Consumer staples	12,147	—	—	12,147
Energy	3,396	—	—	3,396
Finance	26,489	—	—	26,489
Industrial	8,747	—	—	8,747
Information technology	1,949	—	—	1,949
Materials	2,782	—	—	2,782
Other	990	—	—	990
Total common stocks	58,200	—	—	58,200
Preferred stocks:				
Finance	—	16,853	—	16,853
Other	—	1,566	—	1,566
Total preferred stocks	—	18,419	—	18,419
Mutual funds:				
Fixed income	5,264	—	—	5,264
Equity	44,570	—	—	44,570
Commodity	628	—	—	628
Total mutual funds	50,462	—	—	50,462
Total equity securities	108,662	18,419	—	127,081
Short-term investments	202,909	—	—	202,909
Total assets measured at fair value	$356,612	$412,130	$—	$768,742

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. Fair Value Measurements (continued)

	Level 1	Level 2	Level 3	Total
December 31, 2021				
Fixed maturity securities, available for sale:				
U.S. government securities	$ 49,263	$ —	$—	$ 49,263
Corporate securities and miscellaneous	—	154,163	—	154,163
Municipal securities	—	56,942	—	56,942
Residential mortgage-backed securities	—	103,735	—	103,735
Commercial mortgage-backed securities	—	14,484	—	14,484
Asset-backed securities	—	79,764	—	79,764
Total fixed maturity securities, available for sale	49,263	409,088	—	458,351
Common stocks:				
Consumer discretionary	2,102	—	—	2,102
Consumer staples	13,643	—	—	13,643
Energy	2,781	—	—	2,781
Finance	24,657	—	—	24,657
Industrial	8,806	—	—	8,806
Information technology	2,408	—	—	2,408
Materials	3,160	—	—	3,160
Other	868	—	—	868
Total common stocks	58,425	—	—	58,425
Preferred stocks:				
Finance	—	17,018	—	17,018
Other	—	1,148	—	1,148
Total preferred stocks	—	18,166	—	18,166
Mutual funds:				
Fixed income	5,374	—	—	5,374
Equity	35,471	—	—	35,471
Commodity	535	—	—	535
Total mutual funds	41,380	—	—	41,380
Total equity securities	99,805	18,166	—	117,971
Short-term investments	164,278	—	—	164,278
Total assets measured at fair value	$313,346	$427,254	$—	$ 74,600

We measure certain assets, including investments in indirect loans and loan collateral, equity method investments and other invested assets, at fair value on a nonrecurring basis only when they are deemed to be other-than-temporarily-impaired.

In addition to the preceding disclosures on assets and liabilities recorded at fair value in the consolidated balance sheets, we are also required to disclose the fair values of certain other financial instruments for which it is practicable to estimate fair value. Estimated fair value amounts, defined as the quoted market price of a financial instrument, have been determined using available market information and other appropriate valuation methodologies. However, considerable judgements are required in developing the estimates of fair

3. <u>Fair Value Measurements</u> (continued)

value where quoted market prices are not available. Accordingly, these estimates are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions or estimating methodologies may have an effect on the estimated fair value amounts.

We used the following methods and assumptions in estimating the fair value disclosures of other financial instruments:

Fixed maturity securities, held to maturity: Fixed maturity securities, held to maturity consists of senior and junior notes with target rates of return. We determined the fair value of these instruments using the income approach utilizing inputs that are unobservable (Level 3).

Mortgage loans: Mortgage loans have fixed interest rates and are collateralized by real property. We determine the fair value of mortgage loans using the income approach utilizing inputs that are unobservable (Level 3).

Notes payable: The carrying value approximates the estimated fair value for notes payable as the notes payable accrue interest at current market rates plus a spread. We determine the fair value using the income approach utilizing inputs that are observable (Level 2).

Subordinated debt: Subordinated debt consists of two debt instruments, the Junior Subordinated Interest Debentures, due September 15, 2036, and Unsecured Subordinated Notes, due May 24, 2039. The carrying value of the Junior Subordinated Interest Debentures approximates the estimated fair value as the instrument accrues interest at current market rates plus a spread. Unsecured Subordinated Notes have a fixed interest rate. We determine the fair value of these instruments using the income approach utilizing inputs that are observable (Level 2).

Other financial instruments qualify as insurance-related products and are specifically exempted from fair value disclosure requirements.

4. <u>Mortgage Loans</u>

During 2016, we began investing in a Separately Managed Account (“SMA1”), managed by Arena Investors, LP (“Arena”), which is affiliated with The Westaim Corporation (“Westaim”) who, through Westaim HIIG LP (a limited partnership controlled by Westaim), is our largest shareholder. During 2017, we began investing in a second Separately Managed Account (“SMA2”), managed by Arena. As of March 31, 2022 and December 31, 2021, we held direct investments in mortgage loans from various creditors through SMA1 and SMA2.

Our mortgage loan portfolios are primarily senior loans on real estate across the U.S. The loans earn interest at fixed rates, mature in five months to three years from loan origination and the principal amounts of the loans range between 55% to 80% property’s appraised value at the time the loans were made. Mortgage loan participations are carried at cost adjusted for unamortized: premiums, discounts and loan fees.

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. Mortgage Loans (continued)

The carrying value of our mortgage loans as of March 31, 2022 and December 31, 2021 are as follows (in thousands):

	March 31, 2022	December 31, 2021
Retail	$10,622	$10,593
Industrial	6,306	6,314
Commercial	6,304	6,298
Multi-Family	6,773	3,296
Office	4,850	1,691
Hospitality	3,092	1,339
Total	$37,947	$29,531

The gross investment income for the three months ended March 31, 2022 and 2021 are as follows (in thousands):

	March 31, 2022	March 31, 2021
Retail	$359	$ —
Commercial	210	—
Multi-Family	69	52
Office	166	—
Land	—	50
Hospitality	14	44
Total	$818	$146

The uncollectable amounts on loans, on an individual loan basis, are determined based upon consultations and advice from the Company's specialized investment manager and consideration of any adverse situations that could affect the borrower's ability to repay, the estimated value of underlying collateral, and other relevant factors. When an amount is determined to be uncollectable, we directly write off the uncollectable amount in the period it was determined to be uncollectable. For the three months ended March 31, 2022 and 2021, we had no write-off for uncollectable amounts.

As of March 31, 2022 and December 31, 2021, approximately $11.7 million and $10.8 million of mortgage loans, respectively, were in the process of foreclosure. The carrying value of the mortgage loans in foreclosure approximates the fair value of the collateral less costs to sell.

5. Other long-term investments

Equity Method Investments

Our ownership interests in most of our equity method investments ranges from approximately from 3% to less than 50% where we have significance influence but not control. We own 100% of the limited partner interests in Universa Black Swan LP; however, we do not have the power to direct the activities of Universa Black Swan LP and we do not consolidate the entity.

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. Other long-term investments (continued)

The carrying value of equity method investments as of March 31, 2022 and December 31, 2021 is as follows (in thousands):

	March 31, 2022	December 31, 2021
Dowling Capital Partners LP units	$ 1,976	$ 2,416
RISCOM	3,384	3,366
Arena Special Opportunities Fund, LP units	44,143	41,763
Arena Rated Product LP units	11,809	5,692
Hudson Ventures Fund 2 LP units	2,723	1,913
Universa Black Swan LP units	3,861	4,354
JVM Funds LLC units	23,814	24,000
Total	$91,710	$83,504

Net investment income from equity method investments for the three months ended March 31, 2022 and 2021 is summarized as follows (in thousands):

	March 31, 2022	March 31, 2021
Net investment income		
Dowling Capital Partners LP units	$ 514	$ 42
RISCOM	18	(115)
Arena Special Opportunities Fund, LP units	2,804	1,598
Arena Rated Product LP units	6,117	2,208
JVM Funds LLC	186	—
Hudson Ventures Fund 2 LP units	64	—
Universa Black Swan LP units	(493)	—
Total	$9,210	$3,733

The unfunded commitment of equity method investments as of March 31, 2022 and December 31, 2021 is as follows (in thousands):

	March 31, 2022	December 31, 2021
Dowling Capital Partners LP units	$ 386	$ 368
Arena Rated Product LP units	—	—
Hudson Ventures Fund 2 LP units	2,317	3,063
Total	$2,703	$3,431

The difference between the cost of an investment and our proportionate share of the underlying equity in net assets is allocated to the various assets and liabilities of the equity method investment. We amortize the difference in net assets over the same useful life of a similar asset as the underlying equity method investment. For RISCOM, a similar asset would be agent relationships, which we amortize over a 15 year useful life and we amortize the difference in net assets of RISCOM over 15 years.

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. Other long-term investments (continued)

The following table summarizes our recorded investment compared to our share of underlying equity as of March 31, 2022 and December 31, 2021 (in thousands):

	Underlying Equity	Difference	Recorded Investment Balance
March 31, 2022			
RISCOM	$1,456	$1,928	$3,384

	Underlying Equity	Difference	Recorded Investment Balance
December 31, 2021			
RISCOM	$1,378	$1,988	$3,366

Investment in Bank Holding Companies

Beginning in 2017 and through 2018, we acquired a $2.0 million investment in Captex Bancshares, a Texas bank holding company. Our assessment of our ownership percentage and influence through one of our employees on the Board of Directors of Captex Bankshares indicates that we do not have significant influence over the investee. We carry our investment in Captex Bancshares at cost, less impairment or observable changes in price. We review these investments for impairment or observable changes in price during each reporting period. There were no impairments or observable changes in price during the three months ended March 31, 2022 and 2021.

During the first quarter of 2020, we acquired a $2.0 million investment in Gulf Capital, a Texas bank holding company. Our assessment of our ownership percentage indicates that we do not have significant influence over the investee. During the fourth quarter of 2020 we sold approximately $1.8 million of shares to other owners of Gulf Capital at cost. We carry our investment in Gulf Capital at cost, less impairment or observable changes in price. There were no impairments or observable changes in price during the three months ended March 31, 2022 and 2021.

Investment in Indirect Loans and Loan Collateral

As of March 31, 2022 and December 31, 2021, we held indirect investments in collateralized loans and loan collateral through SMA1 and SMA2. The carrying value and unfunded commitment of the SMA1 and SMA2 as of March 31, 2022 and December 31, 2021 is as follows (in thousands):

	Carrying Value	Unfunded Commitment
March 31, 2022		
SMA1	$36,057	$ —
SMA2	9,485	6,591
Total	$45,542	$6,591

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. Other long-term investments (continued)

	Carrying Value	Unfunded Commitment
December 31, 2021		
SMA1	$33,100	$ —
SMA2	10,855	16,563
Total	$43,955	$16,563

See Note 6 for $1.8 million of common stock acquired from an entity providing our subordinated debt.

6. Subordinated Debt

The following table summarizes our subordinated debt as of March 31, 2022 and December 31, 2021 (in thousands).

	March 31, 2022	December 31, 2021
Junior Subordinated Interest Debentures, due September 15, 2036, interest payable quarterly		
Principal	$59,794)	$59,794
Less: debt issuance costs	(693)	(705)
Unsecured Subordinated Notes, due May 24, 2039, interest payable quarterly		
Principal	20,000	20,000
Less: debt issuance costs	(552)	(560)
Subordinated debt, net of debt issuance costs	$78,549	$78,529

In May 2019, the Company entered into an agreement to issue unsecured subordinated notes (the "Notes") with an aggregate principal amount of $20.0 million. Interest on the Notes is fixed at 7.25% for the first 8 years and fixed at 8.25% thereafter. Early retirement of the debt ahead of 8 year commitment requires all interest payments to be paid in full as well as the return of outstanding principal. Principal is due at maturity on May 24, 2039 and interest is payable quarterly. The Notes have junior priority to all previously issued debt. We report the debt related to the Notes in our March 31, 2022 and December 31, 2021 consolidated balance sheets, net of debt issuance costs of approximately $0.6 million. These deferred financing costs are presented as a direct deduction from the carrying amount of the subordinated debt.

On August 2, 2006, Delos Capital Trust n/k/a HIIG Capital Trust I (the "Trust"), a Delaware statutory trust, issued $58.0 million of fixed/floating rate capital securities guaranteed by us. The Trust also issued us $1.8 million of common stock, classified within other invested assets. We have not consolidated the Trust that issued the capital securities, as it does not meet the criteria for consolidation and we do not have significant influence over the investee. We carry our investment in the common stock of the Trust at cost. There were no impairments or observable changes in price during the three months ended March 31, 2022 and 2021.

The sole asset of the Trust consists of Fixed/Floating Rate Junior Subordinated Deferrable Interest Debentures (the "Debentures") with a principal amount of $59.8 million issued by us. The Debentures are an unsecured obligation, are redeemable on or after September 15, 2011, and have a maturity date of September 15, 2036. Interest on the Debentures is payable quarterly at an annual rate based on the three-month LIBOR (0.21% at December 31, 2021) plus 3.4%. We reflect the debt related to the Debentures in our March 31, 2022 and December 31, 2021 consolidated balance sheets, net of debt issuance costs of approximately $0.7 million. These deferred financing costs are presented as a direct deduction from the carrying amount of the subordinated debt.

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

7. Notes Payable

The following table summarizes our notes payable as of March 31, 2022 and December 31, 2021 (in thousands).

	March 31, 2022	December 31, 2021
Term loan, due December 31, 2024, interest payable quarterly	$50,000	$50,000
Revolving line of credit, due December 31, 2024, interest payable quarterly	—	—
Notes payable	$50,000	$50,000

The interest rate on the $50.0 million term loan is the lesser of the one-month LIBOR (0.10% on December 31, 2021) plus the Applicable Margin, which is defined as 1.65%, or the highest lawful rate. Interest-only payments are due and payable on a quarterly basis through December 31, 2024. The entire principal balance of the $50.0 million term loan is due December 31, 2024. Interest payments on the term loan were $0.2 million for the three months ended March 31, 2022 and 2021.

The interest rate on the $50.0 million revolving line of credit is the lesser of the prime rate, as published by the Wall Street Journal, or the one-month LIBOR (0.10% on December 31, 2021) plus the Applicable Margin, which is defined as the lesser of 1.65%, or the highest lawful rate. The revolving promissory note includes a fee of 0.25% on the unused portion. Interest-only payments are due and payable on a quarterly basis through December 31, 2024. The entire principal balance of the $50.0 million revolving line of credit is due December 31, 2024. Interest payments on the revolving line of credit were $0.0 million for the three months ended March 31, 2022 and 2021. Subject to lender approval, we have a right to increase the capacity to $75.0 million.

The indebtedness is collateralized by a perfected first priority security interest in all of the assets of SSIG and SUA and the outstanding capital stock of HSIC.

Our credit agreement includes financial covenants that require the Company maintain minimum surplus and risk based capital on HSIC, minimum net worth, and a minimum fixed charge coverage ratio as well as other customary covenants and events of default. As of March 31, 2022, the Company was in compliance with all covenants in our credit agreement.

8. Stockholders' Equity

Conversion feature

On April 24, 2020 the Company closed a private preferred share rights offering. Existing holders of common stock were given the right to subscribe for shares, on a pro rata basis, of Series A Convertible Preferred Stock (the "Preferred Shares") with a face value of $50.00 per share. The Preferred Shares provide the holder the option at any time to convert the Preferred Shares into common stock based on the Option Conversion Rate. The initial Option Conversion rate allowed the holder of the Preferred Shares the right to convert into common stock based on a conversion price equal to $1.74 per common share. In accordance with the terms of the Preferred Shares, the Option Conversion Rate was adjusted upon the completion of the audit of the financial statements as of and for the year ended December 31, 2021. The adjustments to the Option Conversion Rate consisted of adjustments for: (i) the after-tax cost of the loss portfolio transfer, a retroactive reinsurance agreement we entered into during the second quarter of 2020 ("LPT"); (ii) the after-tax impact of any co-participation expense related to the LPT; (iii) the development of losses and LAE reserves subject to but in excess of limits on the LPT; and (iv) the after-tax impact of development on losses and LAE reserves not subject to the LPT subsequent to December 31, 2019. As of March 31, 2022 and December 31, 2021 the Option Conversion Rate allowed the holder of the Preferred Shares the right to convert into common stock based on a conversion price equal to $1.51 per common share.

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8. Stockholders' Equity (continued)

As of March 31, 2022 and December 31, 2021, the 1,970,124 outstanding Preferred Shares could be converted into 65,235,876 common shares after the final adjustment to the Option Conversion Rate. The Option Conversion Rate will not be updated subsequent to December 31, 2021. As of March 31, 2022 and December 31, 2021 we have the ability to settle in common shares and the Preferred Shares were classified within Stockholders' Equity.

The Preferred Shares are subject to mandatory conversion upon a defined change of control transaction or the closing of an initial public offering at the Mandatory Conversion Rate. The Mandatory Conversion Rate is similar to the Option Conversion Rate but is adjusted for the after-tax impact of any co-participation expense related to the LPT, the development of losses and LAE reserves in excess of limits on the LPT and the after-tax impact of development on losses and LAE reserves not subject to the LPT on the final day of the last quarter-end prior to when a defined change of control transaction or closing of an initial public offering occurs. As of December 31, 2021, the Mandatory Conversion Rate allowed the holder of the Preferred Shares the right to convert into common stock based on a conversion price equal to $1.51 per common share.

Preference

The Preferred Shares have preference in liquidation over common stock in the amount of the face value of $50.00 per share and any declared but unpaid dividends to related common shares at the applicable conversion rate.

9. Income Taxes

The Company reported income tax expense of $4.3 million and $4.0 million for the three months ended March 31, 2022 and 2021, respectively. The effective tax rates for the three months ended March 31, 2022 and 2021 were 20.7 percent and 21.0 percent, respectively. The effective tax rate is reduced from the statutory rate of 21 percent due to beneficial adjustments for tax-exempt income and dividends-received deduction.

We paid no income taxes, during the three months ended March 31, 2022 and 2021, which are available for recoupment in the event of future losses.

As of March 31, 2022, there were no material uncertain tax positions. Management believes it is more likely-than-not that the total amounts will not significantly increase or decrease within twelve months of the reporting date. We classify all interest and penalties related to tax contingencies as income tax expense. As of March 31, 2022 and December 31, 2021, there was no accrued interest recorded as an income tax liability.

Deferred tax assets and liabilities are recorded based on the difference between the financial statement and tax bases of assets and liabilities at the enacted tax rates. We review our deferred tax assets regularly for recoverability. At March 31, 2022 and December 31, 2021, we provide a valuation allowance against deferred tax assets when it is more likely-than-not that some portion, or all, of deferred tax assets will not be realized.

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

10. Losses and Loss Adjustment Expenses

A reconciliation of unpaid losses and loss adjustment expenses as reported in the consolidated balance sheet as of and for the three months ended March 31, 2022 and 2021 are as follows (in thousands):

	March 31, 2022	March 31, 2021
Reserves for losses and LAE, beginning of period	$ 979,549	$ 856,780
Less: reinsurance recoverable on unpaid claims, beginning of period	(381,338)	(375,178)
Reserves for losses and LAE, beginning of period, net of reinsurance	598,211	481,602
Incurred, net of reinsurance, related to:		
Current period	89,989	81,020
Prior years	—	—
Total incurred, net of reinsurance	89,989	81,020
Paid, net of reinsurance, related to:		
Current period	10,605	9,808
Prior years	62,959	46,445
Total paid	73,564	56,253
Net reserves for losses and LAE, end of period	614,636	506,369
Plus: reinsurance recoverable on unpaid claims, end of period	385,146	375,178
Reserves for losses and LAE, end of period	$ 999,782	$ 881,547

11. Commission and Fee Income

Skyward Underwriters Agency, Inc. ("SUA"), a subsidiary of the Company, is a managing general insurance agent and reinsurance broker for property and casualty and accident and health risks in specialty niche markets. Commission and fee income is primarily generated from SUA for the placement of insurance policies on either a 3rd party insurance or reinsurance company. Our disaggregated revenues from contracts with customers for the three months ended March 31, 2022 and 2021 are as follows (in thousands):

	March 31, 2022	March 31, 2021
SUA commission revenue	$ 624	$205
SUA fee income	(159)	334
Other	(235)	148
Total commission and fee income	$ 230	$687

Our contract assets from commission and fee income as of March 31, 2022 and December 31, 2021 are as follows (in thousands):

	March 31, 2022	December 31, 2021
Contract asset	$777	$1,209

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

12. Underwriting, Acquisition and Insurance Expenses

Underwriting, acquisition and insurance expense consists of the following for the three months ended March 31, 2022 and 2021 (in thousands):

	March 31, 2022	March 31, 2021
Amortization of policy acquisition costs	$13,421	$ 9,908
Other operating and general expenses	27,113	21,122
Total underwriting, acquisition and insurance expenses	$40,534	$31,030

13. Reinsurance

Certain premiums and benefits are assumed from and ceded to other insurance companies under various reinsurance agreements. The reinsurance agreements provide us with increased capacity to write larger risks and maintain our exposure to loss within our capital resources. We remain obligated for amounts ceded in the event that the reinsurers do not meet their obligations.

The effects of reinsurance on premiums written and earned for the three months ended March 31, 2022 and 2021 are as follows (in thousands):

	March 31, 2022		March 31, 2021	
	Written	Earned	Written	Earned
Direct premiums	$ 248,635	$ 222,637	$ 210,563	$ 198,095
Assumed premiums	34,007	26,595	27,286	25,363
Ceded premiums	(147,241)	(107,506)	(123,080)	(106,263)
Net premiums	$ 135,401	$ 141,726	$ 114,769	$ 117,195
Ceded losses and LAE incurred		$ 61,527		$ 51,728

Reinsurance recoverables on unpaid losses and loss adjustment expense reserves ceded at March 31, 2022 and December 31, 2021 were approximately $385.1 million and $381.3 million, respectively. Reinsurance recoverables on paid losses and loss adjustment expense ceded at March 31, 2022 and December 31, 2021 were approximately $94.5 million and $90.8 million, respectively. Reinsurance recoverables related to the LPT at March 31, 2022 and December 31, 2021 were approximately $64.2 million. Ceded unearned premiums at March 31, 2022 and December 31, 2021 were approximately $177.7 million and $138.0 million, respectively.

We have entered into agreements with several of our reinsurers, whereby the reinsurer established funded trust accounts with the Company as the sole beneficiary. These trust accounts provide us additional security to collect claim recoverables under reinsurance contracts, we do not carry these on the balance sheet as we will only have custody over these accounts upon the failure of the reinsurer to pay amounts due. At March 31, 2022 and December 31, 2021, the market value of these accounts was approximately $132.5 million and $131.2 million. The agreements provide that, as was customary in the past, the reinsurer will continue claim payment reimbursements without disturbing the trust balances. The trust amount will be adjusted periodically, by mutual agreement, based on loss reserve recoverables.

Certain ceded reinsurance contracts that transfer only significant timing risk and do not transfer sufficient underwriting risk are accounted for using the deposit method of accounting. Our deposit asset as of March 31, 2022 and December 31, 2021 was approximately $43.5 million and $45.0 million, respectively, which was included in other assets on the balance sheet.

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

14. Stock Based Compensation

Legacy Programs

We granted common stock to our employees and non-employee directors under our Stock Purchase Program and Equity Incentive Program (the "Legacy Programs"). The Legacy Programs were active during the three months ended March 31, 2021 and allowed key employees to purchase our common stock at a price based on fair value of the Company at the end of the quarter in which the employee commits to the purchase. We then match all purchases with stock grants. The programs required an initial cash payment of at least 30% of the committed fair value of the purchase with any remaining commitment recorded as a note receivable to the Company which is included in Stockholders' Equity. Grants awarded vest after two conditions are met (i) the employee has worked for us for three years after the grant and (ii) cash payments are made for stock purchases. All grants awarded under the Legacy Programs vest over a three-year service period and are expensed on a pro rata basis over the service period.

Under the Legacy Programs, we sold 253,498 shares of our common stock during the three months ended March 31, 2021. In accordance with the plan, we granted a match of 253,498 shares of our common stock during the three months ended March 31, 2021. During the three months ended March 31, 2021, members of the Board of Directors were awarded 192,390 common shares with a service period of between 0 to 3 years.

Under the Legacy Programs, the Company offered employees the option to finance up to 70% of the purchased shares with a stock note receivable. These stock notes receivables are recorded as a reduction to Stockholders' Equity. As of March 31, 2022 and December 31, 2021 stock notes receivable related to these programs totaled $0.6 million and $1.6 million, respectively. The stock notes receivable bear interest at a rate ranging from 0.95% to 2.80%, based on the Internal Revenue Service applicable federal rates.

During the three months ended March 31, 2021, several employees who previously received common stock awards under the Legacy Programs notified the Company that they would not be repaying the remaining balance on their stock notes receivable. Under the terms of the Legacy Programs, the employees would return their common shares financed by the remaining stock note balance and forfeit the same number of award shares. During the three months ended March 31, 2021, 66,829 common shares financed and awarded were returned and forfeited. The return of the 33,414 financed shares resulted in the cancellation of $0.3 million in stock notes for the three months ended March 31, 2021. Forfeitures of the 33,414 award shares resulted in the reversal of previously recognized stock compensation expense of $0.3 million for the three months ended March 31, 2021.

Long Term Incentive Plan

In December 2020, the Compensation Committee of the Company's Board of Directors (the "Compensation Committee") approved a new Long Term Incentive Plan (the "LTIP"). The LTIP provides for the granting of restricted stock, restricted stock units, performance share awards, as well as cash-based performance awards, to select employees and non-employee directors of the Company. Awards with a market or performance condition will be issued in shares at the end of the requisite service period in an amount that varies based on satisfaction of market or performance condition targets during the requisite service period.

During the three months ended March 31, 2022 and 2021, under the LTIP the Compensation Committee approved 766,771 and 848,164 shares of common stock, respectively. During the three months ended March 31, 2022, members of the Board of Directors were awarded 60,790 common shares with a service period of 1 year. The shares granted during the three months ended March 31, 2022 and 2021 were valued at approximately $2.5 million based on the grant date fair value.

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

14. Stock Based Compensation (continued)

A summary of the equity awards, target payout ranges based on meeting award conditions and authorized target common shares for the three months ended March 31, 2022 and 2021 are as follows:

	March 31, 2022		
Award type	Award Target Payout Range	Requisite Service Period	Authorized Target Common Shares
Market condition awards	0% – 150%	3 years	113,981
Performance condition awards	0% – 150%	3 years	104,859
Restricted share and stock unit awards	N/A	1 to 3 years	547,931
			766,771

	March 31, 2021		
Award type	Award Target Payout Range	Requisite Service Period	Authorized Target Common Shares
Market condition awards	0% – 150%	3 years	185,897
Performance condition awards	0% – 150%	3 years	118,014
Restricted stock units	N/A	3 years	544,253
			848,164

Summary of Legacy Programs and Long Term Incentive Plan

A summary of the status of our non-vested common stock awards from the Legacy Programs and the LTIP as of and for the three months ended March 31, 2022 and 2021, is presented below:

	Weighted-Average Grant-Date Fair Value	Number of Common Shares
Non-vested at January 1, 2022	$3.31	1,502,602
Granted	3.29	766,771
Vested	3.12	(223,406)
Non-vested at March 31, 2022	$3.32	2,045,967
Non-vested at January 1, 2021	$4.87	338,685
Granted	2.98	1,294,052
Vested	4.60	(5,178)
Forfeited	4.75	(66,829)
Non-vested at March 31, 2021	$3.31	1,560,730

As of March 31, 2022 the total unrecognized compensation cost related to non-vested, share-based compensation awards was $4.5 million and the weighted average period over which that cost is expected to be recognized is 2.1 years.

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

14. Stock Based Compensation (continued)

Stock-based compensation expense (income) for the three months ended March 31, 2022 and 2021 is summarized as follows (in thousands):

	March 31, 2022	March 31, 2021
Stock-based compensation expense (income)		
Stock-based compensation expense	$502	$ 271
Forfeitures	—	(317)
Total	$502	$ (45)

15. Earnings Per Share

The following table presents a reconciliation of the numerator and denominator of the basic and diluted earnings per share computations contained in the period-ended consolidated financial statements in thousands, except for share and per share amounts.

	March 31, 2022	March 31, 2021
Numerator		
Net income	$ 16,311	$ 14,920
Less: undistributed income allocated to participating Securities	(7,829)	(7,224)
Net income attributable to common shareholders (numerator for basic earnings per share)	8,482	7,696
Add back: undistributed income allocated to participating securities	7,829	7,224
Net income (numerator for diluted earnings per share under the two class method)	$ 16,311	$ 14,920
Denominator		
Basic weighted-average common shares	65,400,219	64,830,064
Unvested common shares	—	4,534
Preferred shares (if converted method)	60,370,341	60,856,952
Contingently issuable instruments (treasury stock method)	2,856,741	2,534,707
Market condition awards (contingently issuable)	161,841	185,898
Performance awards (contingently issuable)	129,463	94,411
Restricted stock units (treasury stock method)	730,857	544,253
Diluted weighted-average common share equivalents	129,649,462	129,050,819
Basic earnings per share	$ 0.13	$ 0.12
Diluted earnings per share	$ 0.13	$ 0.12

Our Common and Preferred Shares financed by stock notes are contingently issuable instruments where the holder must return, all or part of, the shares if the stock notes are not paid off. The following table presents common share equivalents of contingently issuable instruments that were excluded from basic earnings per share for the three months ended March 31, 2022 and 2021, in shares.

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

15. Earnings Per Share (continued)

	March 31, 2022	March 31, 2021
Common shares	734,415	866,986
Preferred Shares, if converted	4,865,558	5,192,705
Total	5,599,973	6,059,691

The impact of the contingently issuable instruments on diluted earnings per share was calculated using the treasury stock method and included in the reconciliation of the denominator of the basic and diluted earnings per share computations for the three months ended March 31, 2022 and 2021.

16. Related Party Transactions

Westaim

In 2014 and continuing through 2015, Westaim HIIG LP acquired a majority of our common stock. As of March 31, 2022 and December 31, 2021, Westaim HIIG LP owns 71.0% of our common stock. The changes in Westaim HIIG LP's ownership percentage were due to transactions related to our stock-based compensation programs.

In 2015, we purchased 3,076,924 shares of Westaim common stock for $8.4 million. Our investment in Westaim is included in equity securities in the consolidated balance sheet as of March 31, 2022 and December 31, 2021. The unrealized loss on this investment is $1.9 million and $2.0 million as of March 31, 2022 and December 31, 2021, respectively.

On April 24, 2020, Westaim HIIG LP affiliates participated in our preferred share rights offering and purchased $68.6 million of Preferred Shares in exchange for $68.1 million of cash and $0.5 million of stock notes. Within this group, Westaim purchased $44.0 million of Preferred Shares in exchange for $44.0 million of cash. As of March 31, 2022 and December 31, 2021, Westaim owns 44.7% of our preferred stock.

Westaim performs consulting and certain other services for us pursuant to an agreement (the "Management Services Agreement"). Pursuant to the Management Services Agreement, we are required to pay Westaim $0.5 million a year plus expenses. The agreement will be effective until the termination date. The termination date is the earliest of (a) the date on which Westaim HIIG LP owns less than 8% of the number of shares outstanding, (b) the date on which the Company's initial public offering is consummated, or (c) the date upon which a change in control occurs. Pursuant to the current Management Services Agreement, we incurred expenses approximately $0.1million for the three months ended March 31, 2022 and 2021 related to services provided by Westaim.

RISCOM

During 2016, we entered into an agency agreement with RISCOM, in which we hold a 20% ownership interest, for wholesale brokerage services in addition to the already existing managing general agency agreement between the parties.

Net earned premium and gross commission expense related to these agreements for the three months ended March 31, 2022 and 2021 is summarized as follows (in thousands):

	March 31, 2022	March 31, 2021
Net earned premium	$21,018	$18,107
Gross commission expense	7,348	5,635

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

16. Related Party Transactions (continued)

Premiums receivable as of March 31, 2022 and December 31, 2021 is as follows (in thousands):

	March 31, 2022	December 31, 2021
Premiums receivable	$15,666	$11,334

Reinsurance

We have reinsurance agreements with Everest Re, an affiliate of Mt. Whitney Securities, LLC, a limited partner of Westaim HIIG LP and holder of Preferred Shares. We recorded $19.6 million and $28.8 million of reinsurance premiums ceded during the three months ended March 31, 2022 and 2021, respectively, related to the agreement. Reinsurance recoverable from Everest Re, net of premium payables, was $180.7 million and $168.8 million, respectively, as of March 31, 2022 and December 31, 2021.

Arena

During the first quarter of 2022, we began investing in multiple investment products issued by Arena Special Opportunities Partners (Feeder) II, LP ("Arena SOP II"), managed by Arena, which is affiliated with Westaim. The investment products include senior and junior notes issued by the Arena SOP II to raise capital from limited partners to fund purchases of investments. The return on the investments is used to pay interest on the senior and junior notes based on target returns of each class. The senior and junior notes are debt securities classified as held to maturity and presented on the balance sheet within fixed maturity securities, held to maturity. As of March 31, 2022 we invested $1.6 million in the senior and junior notes.

During the second quarter of 2021, we began investing in an asset-backed securities investment account managed by Arena. The asset-backed securities are within fixed maturity securities, available for sale on the consolidated balance sheet. As of March 31, 2022 we have an unfunded commitment of $0.6 million.

Other

During the three months ended March 31, 2022 and 2021, we paid approximately $0.7 million and $1.6 million, respectively, of advisory and professional services fees and expense reimbursements to various affiliated shareholders and directors.

See Note 4 and 5 for investments involving affiliated companies and additional related party transactions.

17. Commitments and Contingencies

Litigation

We are named as a defendant in various legal actions arising from claims made under insurance policies and contracts. Those actions are considered by us in estimating the losses and loss adjustment expense reserves. Also, from time to time, we are a defendant in various legal actions that relate to bad faith claims, disputes with third parties or that involve alleged errors and omissions. We record accruals for these items to the extent the losses are probable and reasonably estimable. Although the ultimate outcome of these matters cannot be determined at this time, based on present information, the availability of insurance coverage and advice received from outside legal counsel, our management believes the resolution of any such matters will not, individually or in the aggregate, have a material adverse effect on our Consolidated Balance Sheets, Consolidated Statements of Operations or Consolidated Statements of Cash Flows. During the three months ended March 31, 2022 and 2021, we recorded no provision for various contingencies.

Indemnification

In conjunction with the sale of business assets and subsidiaries, we have provided indemnifications to certain of the buyers. Certain indemnifications cover typical representations and warranties related to the

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

17. Commitments and Contingencies (continued)

responsibilities to perform under the sales contracts. The amount of potential exposure covered by the indemnifications is difficult to determine because the indemnifications cover a variety of matters, operations and scenarios. Certain of these indemnifications have no time limit. At this time, we do not have reason to believe any such significant claims exist.

Guarantee as part of the Sale of Boston Indemnity Company

In conjunction with the sale of Boston Indemnity Company on October 4, 2021, the Company guaranteed the obligations of GMIC under the sale agreement and the reinsurance agreement of the business ceded to GMIC by BIC.

18. Subsequent Events

During April of 2022, holders of common stock and Preferred Shares financed by stock notes repaid approximately $1.9 million of stock notes receivable. The repayment of the stock notes provided substantial evidence of the intent and ability to pay the stock note receivable in a short time from March 31, 2022. Therefore, we reclassified $1.9 million of stock notes receivable into other assets as of March 31, 2022.

On April 22, 2022, an employee and a holder of common stock and Preferred Shares who paid approximately $1.9 million of stock notes receivable during April of 2022, entered into an agreement with the Company that should the Company not complete an initial public offering by December 31, 2022, the Company would return his $1.9 million payment in exchange for a $1.9 million of stock notes receivable.

Shares

SKYWARD SPECIALTY INSURANCE GROUP, INC.

Common Stock

Barclays **Keefe, Bruyette & Woods**
A Stifel Company

Through and including (25 days after the date of this prospectus), all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to a dealer's obligation to deliver a prospectus when acting as an underwriter and with respect an unsold allotment or subscription.

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The following table sets forth all expenses to be paid by Skyward Specialty Insurance Group, Inc. (the "Registrant"), incurred or to be incurred in connection with this offering. All amounts shown are estimates except for the SEC registration fee and the FINRA filing fee.

SEC registration fee	$	*
FINRA filing fee		*
Exchange listing fee		*
Printing and engraving expenses		*
Legal fees and expenses		*
Accounting fees and expenses		*
Transfer agent and registrar fees		*
Miscellaneous expenses		*
Total	$	*

* To be provided by amendment.

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Section 145 of the Delaware General Corporation Law authorizes a court to award, or a corporation's board of directors to grant indemnity to directors and officers in terms sufficiently broad to permit such indemnification under certain circumstances for liabilities, including reimbursement for expenses incurred, arising under the Securities Act. The Registrant's amended and restated certificate of incorporation that will be in effect upon the closing of this offering permits the Registrant to indemnify its directors, officers, employees and other agents to the maximum extent permitted by the Delaware General Corporation Law.

The Registrant has entered into indemnification agreements with its directors and officers, whereby it have agreed to indemnify its directors and officers to the fullest extent permitted by law, subject to certain exceptions, including indemnification against expenses and liabilities incurred in legal proceedings to which the director or officer was, or is threatened to be made, a party by reason of the fact that such director or officer is or was a director, officer, employee or agent of the Registrant, provided that such director or officer acted in good faith and in a manner that the director or officer reasonably believed to be in, or not opposed to, the best interest of the Registrant. At present, there is no pending litigation or proceeding involving a director or officer of the Registrant regarding which indemnification is sought, nor is the registrant aware of any threatened litigation that may result in claims for indemnification.

The Registrant maintains insurance policies that indemnify its directors and officers against various liabilities arising under the Securities Act and the Exchange Act that might be incurred by any director or officer in his or her capacity as such.

The underwriting agreement filed as Exhibit 1.1 to this registration statement will provide for indemnification by the underwriters of the Registrant, its officers and directors and the selling stockholders for certain liabilities arising under the Securities Act or otherwise.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES.

Since January 1, 2019, the Registrant has issued the following unregistered securities:

(a) Sale of Series A Preferred Stock

In April 2020, the Registrant entered into a series of subscription agreements, pursuant to which it issued and sold an aggregate of 200,000 shares of its Series A convertible preferred stock at a price per share of $50.00, for an aggregate purchase price of approximately $100 million.

No broker-dealers were involved in the foregoing issuances of securities. The securities described in this section (a) of Item 15 were issued to investors in reliance upon the exemption from the registration requirements of the Securities Act, as set forth in Section 4(a)(2) under the Securities Act and Regulation D promulgated thereunder relative to transactions by an issuer not involving any public offering, to the extent an exemption from such registration was required. All holders of securities described above represented to the Registrant in connection with their purchase or issuance that they were accredited investors and were acquiring the securities for their own account for investment purposes only and not with a view to, or for sale in connection with, any distribution thereof and that they could bear the risks of the investment and could hold the securities for an indefinite period of time. The holders received written disclosures that the securities had not been registered under the Securities Act and that any resale must be made pursuant to a registration statement or an available exemption from such registration.

(b) Grants of Stock Awards and Issuance of Shares

During the period beginning January 1, 2019 and ending December 31, 2021, pursuant to the Company's 2016 Program, we issued 284,368 shares of restricted stock, along with granting 284,368 matched shares, at a weighted average price of $2.99 per share to certain employees. During the period beginning January 1, 2019 and ending December 31, 2021, pursuant to the Company's 2020 Long-Term Incentive Plan, we granted 1,464,180 shares of restricted stock and restricted stock units at a weighted average price of $2.98 per share to certain employees and directors. During the period beginning January 1, 2019 and ending December 31, 2021, under the 2020 Rights Offering, we issued 2,000,000 preferred shares at a price of $50 per share to certain employees. During the period beginning January 1, 2019 and ending December 31, 2021, zero shares of common stock were issued upon the exercise of stock options.

The issuances of the securities described above were exempt from registration pursuant to Section 4(a)(2) of the Securities Act as transactions by an issuer not involving a public offering or Rule 701 promulgated under the Securities Act as transactions pursuant to compensatory benefit plans. The shares of common stock issued upon the exercise of options are deemed to be restricted securities for purposes of the Securities Act.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) Exhibits.

Exhibit Number	Exhibit Description
1.1*	Form of Underwriting Agreement.
3.1#	Amended and Restated Certificate of Incorporation, as currently in effect, with amendments.
3.2#	Amended and Restated Bylaws, as currently in effect.
3.3*	Amended and Restated Certificate of Incorporation, to be effective immediately prior to closing of this offering.
3.4*	Amended and Restated Bylaws, to be effective immediately prior to closing of this offering.
4.1#	Amended and Restated Stockholders' Agreement, dated March 12, 2014, by and among the Registrant and the stockholders listed therein.
5.1*	Opinion of DLA Piper LLP (US).
10.1+#	Share Purchase and Award Agreement and form of agreements thereunder in use before 2016.
10.2+#	2016 Equity Incentive Program and form of award agreements thereunder.
10.3+#	2020 Long Term Incentive Plan and form of award agreements thereunder.
10.4+*	Skyward Specialty Insurance Group, Inc. 2022 Long-Term Incentive Plan and form of stock option agreement thereunder.
10.5+*	Skyward Specialty Insurance Group, Inc. 2022 Employee Stock Purchase Plan.
10.6+#	Form of Indemnification Agreement.

Exhibit Number	Exhibit Description
10.7+	Employment Agreement, dated May 22, 2020, by and between the Registrant and Andrew Robinson, with Amendment No. 1 dated January1, 2022.
10.8+#	Form of Promissory Note.
10.9#	Lease Agreement by and between Memorial City Towers, Ltd. and Southwest Insurance Partners, Inc., dated December 1, 2008, with Amendment No. 1, dated February 16, 2009, Lease Commencement Agreement, dated August 24, 2009, Supplemental Parking Agreement, dated September 24, 2009, Amendment No. 2, dated August 17, 2010, Supplemental Letter Agreement dated August 26, 2010, Supplemental Lease Commencement Agreement, dated November 8, 2010, Amendment No. 3, dated February 20, 2013, Supplemental Commencement Agreement, dated September 25, 2013, Amendment No. 4, dated April 21, 2015, Amendment No. 5, dated July 27, 2015, Supplemental Commencement Agreement, dated October 7, 2015, Supplemental Commencement Agreement, dated April 7, 2016, Amendment No. 6, dated May 9, 2016, Supplemental Commencement Agreement, dated February 24, 2017, Amendment No. 7, dated November 6, 2017, and Supplemental Commencement Agreement, dated October 3, 2018.
10.10#	Credit Agreement by and between Prosperity Bank and Houston International Insurance Group, Ltd., dated December 11, 2019.
10.11#	Management Services Agreement by and between Westaim HIIG GP Inc. and Houston International Insurance Group, Ltd., dated August 1, 2019.
10.12#	Surety Excess of Loss Reinsurance Contract by and among Everest Reinsurance Company, Houston Specialty Insurance Company, Imperium Insurance Company, Great Midwest Insurance Company, Oklahoma Specialty Insurance Company and Boston Indemnity Company, Inc., dated June 1, 2021.
10.13†#	Consulting Agreement by and between Stephen Way and Skyward Specialty Insurance Group, Inc., dated January 1, 2022.
10.14†	Loss Portfolio Transfer and Adverse Development Retrocession Agreement by and among R&Q Bermuda (SAC) Limited acting in respect of the HIIG Segregated Account, HIIG Re, Houston Specialty Insurance Company, Imperium Insurance Company, and Great Midwest Insurance Company, dated April 1, 2020.
10.15†	Investment Management Agreement by and among Arena Investors, LP, Houston Specialty Insurance Company, Imperium Insurance Company, and Great Midwest Insurance Company, dated January 13, 2016, with Supplemental Acknowledgement dated May 17, 2021, Amendment Agreement effective March 15, 2022, and Supplemental Acknowledgement dated March 23, 2022.
21.1#	List of Subsidiaries of the Registrant.
23.1*	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.
23.2*	Consent of DLA Piper LLP (US) (included in Exhibit 5.1).
24.1*	Power of Attorney (included on signature page of this registration statement).

* To be filed by amendment.

\# Previously filed.

\+ Management contract or compensatory plan or arrangement.

† Portions of this exhibit have been omitted for confidentiality purposes.

(b) *Financial Statement Schedules*. All financial statement schedules are omitted because the information called for is not required or is shown either in the consolidated financial statements or in the notes thereto.

ITEM 17. UNDERTAKINGS.

The undersigned Registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act, may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933, as amended, and will be governed by the final adjudication of such issue.

The undersigned Registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant has duly caused this registration statement on Form S-1 to be signed on its behalf by the undersigned, thereunto duly authorized, in Houston, Texas, on the day of , 2022.

Skyward Specialty Insurance Group, Inc.

By: Andrew Robinson
Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Andrew Robinson, Mark Haushill and Leslie Shaunty, and each of them, as his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution and full power to act without the other, for him or her and to act in his or her name, place and stead, in any and all capacities, to execute the Registration Statement on Form S-1 of Skyward Specialty Insurance Group, Inc. and any or all amendments (including post-effective amendments) thereto and any new registration statement with respect to the offering contemplated hereby filed pursuant to Rule 462(b) of the Securities Act of 1933, as amended, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises hereby ratifying and confirming all that said attorneys-in-fact and agents, or his or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, as amended, this registration statement on Form S-1 has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
Andrew Robinson	Chief Executive Officer and Director (Principal Executive Officer)	, 2022
Mark Haushill	Chief Financial Officer (Principal Financial and Accounting Officer)	, 2022
J. Cameron MacDonald	Director	, 2022
Robert Creager	Director	, 2022
James Hays	Director	, 2022
Robert Kittel	Director	, 2022

Exhibit 10.7

Execution Copy

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("*Agreement*") is made on May 22, 2020 by and between HIIG SERVICE COMPANY and HOUSTON INTERNATIONAL INSURANCE GROUP, Ltd. (**"*HIIG*"**), both organized under the laws of the state of Delaware (collectively, the "***Company***"), and Andrew Robinson (**"*Executive*"**).

WITNESSETH:

WHEREAS, the Company desires to employ Executive as Chief Executive Officer on the terms, subject to the conditions and for the consideration, hereinafter set forth and Executive desires to be employed by the Company on such terms and conditions and for such consideration; and

WHEREAS, Executive acknowledges and agrees that the restrictive covenants contained in this Agreement are supported by the promises made by the Company in this Agreement, not only to provide confidential information but also to provide Executive equity reflecting the goodwill of the Company pursuant to the terms herein.

NOW, THEREFORE, for and in consideration of the mutual promises, covenants and obligations contained herein, the Company and Executive agree as follows:

ARTICLE I
DEFINITIONS

In addition to the terms defined in the body of this Agreement, for purposes of this Agreement, the following capitalized words shall have the meanings indicated below:

1.1 Definitions.

"*Board*" shall mean the Board of Directors of HIIG.

"*Business*" means (a) during the period of Executive's employment by the Company, any business in which the Company or any of its subsidiaries is engaged, or has specific plans to engage of which Executive is aware, during such period and (b) during the portion of the Prohibited Period that begins on the termination of Executive's employment with the Company, (i) the products and services provided and the activities engaged in by the Company or any of its subsidiaries at the time of such termination of employment and other products, services and activities that are functionally equivalent to the foregoing and (ii) any other business in which the Company or its subsidiaries is engaged, or has specific plans to engage of which Executive is aware during such period.

"*Cause*" shall mean (a) act of dishonesty, fraud, theft, or embezzlement by Executive with respect to the Company or its subsidiaries; (b) malfeasance or gross negligence in the performance of Executive's duties; (c) commission or conviction of any felony, or entry of a plea of guilty or nolo contendere to any felony, conviction of any misdemeanor involving theft, defalcation, dishonesty or violence, or entry of a plea of guilty or nolo contendere to any misdemeanor involving theft, defalcation, dishonesty or violence, or conviction related to any crime of moral turpitude; (d) willfully refusing to perform Executive's duties and responsibilities, or failure to adhere to the directions of the Board or the Company's or any of its subsidiaries' corporate codes, policies, or procedures, as in effect or amended from time to time; (e) failure by Executive to perform his duties and responsibilities hereunder (other than by reason of disability due to physical or mental impairment) without the same being corrected within thirty (30) days after being given written notice thereof, as determined by the Company in good faith; (f) the material breach by Executive of any of the covenants contained in this Agreement; and (g) violation of any statutory, material contractual, or common law duty or obligation to the Company or any of its affiliates, including, without limitation, Executive's duty of loyalty, and further with respect to (a)-(d) and (f)-(g), without the same being corrected within ten (10) days after being given written notice thereof.

"*Change in Control"* shall mean (i) a sale of all or substantially all of the assets of the Company or (ii) a merger, consolidation, recapitalization or similar transaction or series of transactions involving the Company or a direct or indirect sale of the equity interests of the Company, in each case where direct or indirect equity holders of the Company prior to such transaction do not own more than 50% of the direct or indirect equity of the surviving entity of such transaction or series of transactions.

"*Code"* shall mean the Internal Revenue Code of 1986, as amended.

"*Competing Business*" means any business, individual, partnership, firm, corporation, or other entity that wholly or in any significant part engages in the Business in the Restricted Area.

"*Date of Termination*" shall mean the date Executive's employment with the Company is considered to have terminated pursuant to Section 3.4.

"*Good Reason*" shall mean the occurrence of any of the following events:

(a) a material diminution in Executive's Base Salary, Executive's Annual Bonus opportunity, or Executive's Annual LTI Award opportunity;

(b) a material diminution in Executive's authority, duties, title, or responsibilities;

(c) the involuntary relocation of the geographic location of Executive's principal place of employment that is not to a mutually-agreed location;

(d) a material breach by the Company of any material provision of this Agreement; or

(e) in the event Executive is appointed to the Board, removal of Executive from the Board without cause pursuant to Sections 3.3 and 3.5 of the Amended and Restated Stockholders' Agreement by and among the Stockholders party thereto and HIIG dated as of March 12, 2014.

Notwithstanding any other provision in this Agreement to the contrary, any assertion by Executive of a termination of employment for "***Good Reason***" shall not be effective unless all of the following conditions are satisfied: (i) the condition described in (a), (b), (c), or (d) of this definition giving rise to Executive's termination of employment must have arisen without Executive's consent; (ii) Executive must provide written notice to the Company of such condition in accordance with Section 10.1 within 45 days of the initial existence of the condition; (iii) the condition specified in such notice must remain uncorrected for 45 days after receipt of such notice by the Company; and (iv) the date of Executive's termination of employment must occur within 91 days after the initial existence of the condition specified in such notice.

"*Governmental Authority*" means any governmental, quasi-governmental, state, county, city, or other political subdivision of the United States or any other country, or any agency, court or instrumentality, foreign or domestic, or statutory or regulatory body thereof.

"*Legal Requirement*" means any law, statute, code, ordinance, order, rule, regulation, judgment, decree, injunction, franchise, permit, certificate, license, authorization, or other directional requirement (including any of the foregoing that relates to environmental standards or controls, energy regulations and occupational, safety and health standards, or controls including those arising under environmental laws) of any Governmental Authority.

"*Notice of Termination*" shall mean a written notice delivered to the other party indicating the specific termination provision in this Agreement relied upon for termination of Executive's employment and the intended Date of Termination and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Executive's employment under the provision so indicated.

"*Prohibited Period*" means (i) in the event Executive's employment is terminated pursuant to Section 3.2 (not within the 12-month period beginning on a Change in Control) or Sections 3.1(c) or 3.1(d), the period during which Executive is employed by the Company and for a period of one year following the end of Executive's employment with the Company; or (ii) in the event Executive's employment is terminated pursuant to Section 3.2 (within the 12-month period beginning on a Change in Control) or Section 3.1(a), the period during which Executive is employed by the Company and for a period of six months following the end of Executive's employment.

"*Restricted Area*" means the United States. In the alternative, and only if the foregoing territory is deemed by a court of competent jurisdiction or an arbitrator, as the case may be in accordance with Article IX, to be unreasonable or otherwise invalid or unenforceable, then the Restricted Area means each state in the United States in which the Company's insurance products and services are being offered for sale on the date Executive's employment with or service to the Company terminates.

1.2 Rules of Construction. The word “or” is not exclusive. The words “include”, “includes” and “including”, in each instance in which any of such words appears herein, shall be deemed to be followed by the phrase “without limitation”. The term “affiliate,” as used in this Agreement with respect to a particular person or entity, shall mean any other person or entity that owns or controls, is owned or controlled by, or is under common ownership or control with, such particular person or entity. All recitals and headings in this Agreement are included for convenience and do not constitute a representation or warranty of any kind or affect the construction or interpretation of any provision of, or the rights or obligations of any party under, this Agreement. Any reference to value in this Agreement shall be measured in United States dollars.

ARTICLE II
EMPLOYMENT AND DUTIES

2.1 Employment; Effective Date. The Company agrees to employ Executive, and Executive agrees to be employed by the Company, pursuant to the terms of this Agreement beginning as of May 22, 2020 (the **“*Effective Date*”*),*** subject to the terms and conditions of this Agreement.

2.2 Positions. From and after the Effective Date, the Company shall employ Executive in the position of Chief Executive Officer or in such other position or positions as the parties mutually may agree, and Executive shall report to the Board.

2.3 Duties and Services. Executive agrees to serve in the position(s) referred to in Section 2.2 and to perform diligently and to the best of Executive’s abilities the duties and services appertaining to such position(s), as well as such additional duties and services appropriate to such position(s) that the parties mutually may agree upon from time to time.

2.4 Place of Employment. Executive’s principal place of employment shall be at the Company’s principal executive offices, which shall be located in Houston, Texas or at a location reasonably agreed to by Executive and the Board.

2.5 Other Interests. Executive agrees, during the period of Executive’s employment by the Company, to devote substantially all of Executive’s business time, energy and best efforts to the business and affairs of the Company. Notwithstanding the foregoing, the parties acknowledge and agree that Executive may (a) subject to Section 8.1, engage in and manage Executive’s passive personal investments, (b) engage in charitable and civic activities, and (c) serve on one or more other boards of directors with the approval of the Board, not to be unreasonably withheld, provided that such activities do not unreasonably conflict with the business and affairs of the Company, interfere with Executive’s performance of Executive’s duties hereunder, or otherwise violate the law.

ARTICLE III
TERMINATION OF EMPLOYMENT

3.1 Company’s Right to Terminate. The Company may terminate Executive’s employment under this Agreement at any time for any of the following reasons by providing Executive with a Notice of Termination:

(a) upon Executive being unable to perform Executive’s duties or fulfill Executive’s obligations under this Agreement, with reasonable accommodation, by reason of any physical or mental impairment for a period of at least 90 consecutive days or for a period of 120 days during any 12-month period, as determined by the Company and certified in writing by a competent medical physician selected by the Company; or

(b) Executive's death; or

(c) for Cause; or

(d) for any other reason whatsoever or for no reason at all, in the sole discretion of the Company.

3.2 <u>Executive's Right to Terminate</u>. Executive shall have the right to terminate Executive's employment under this Agreement for Good Reason or for any other reason whatsoever or for no reason at all, in the sole discretion of Executive, by providing the Company with a Notice of Termination. In the case of a termination of employment by Executive pursuant to this Section 3.2, the Date of Termination specified in the Notice of Termination shall not be less than 15 nor more than 60 days from the date such Notice of Termination is given, unless otherwise agreed by the Board of Directors of HIIG, and the Company may require a Date of Termination earlier than that specified in the Notice of Termination.

3.3 <u>Deemed Resignations</u>. Unless otherwise agreed to in writing by the Company and Executive prior to the termination of Executive's employment, any termination of Executive's employment shall constitute (a) an automatic resignation of Executive as an officer of the Company and from any and all other positions held at any affiliate of the Company, and (b) an automatic resignation of Executive from the Board (if applicable), and from the board of directors or similar governing body of any corporation, limited liability entity or other entity in which the Company holds an equity interest and with respect to which board or similar governing body Executive serves as the Company's designee or other representative.

3.4 <u>Meaning of Termination of Employment</u>. For all purposes of this Agreement, Executive shall be considered to have terminated employment with the Company when Executive incurs a "separation from service" with the Company within the meaning of section 409A(a)(2)(A)(i) of the Code and applicable administrative guidance issued thereunder.

ARTICLE IV
<u>COMPENSATION AND BENEFITS</u>

4.1 <u>Base Salary</u>. During the period of Executive's employment hereunder, Executive shall receive an annualized base salary of no less than $750,000.00 (such amount, as in effect from time to time, the "***Base Salary***"). Executive's annualized Base Salary shall be reviewed no less than annually by the Board. Executive's Base Salary shall be paid in equal installments in accordance with the Company's standard policy regarding payment of compensation to executives but no less frequently than monthly.

4.2 Annual Performance-Based Cash Bonus. Executive shall be eligible to receive an annual, calendar-year cash bonus (payable in a single lump sum) based on criteria determined in the sole discretion of the Board or a committee thereof (an "***Annual Bonus***"), it being understood that the actual amount of each Annual Bonus, if any, shall be between 0% and 120% of Executive's annual Base Salary as determined in good faith in the sole discretion of the Board or a committee thereof, and it being further understood that Executive's target Annual Bonus shall be 80% of his Base Salary, and it being further understood that, for calendar year 2020, the Board and Executive shall endeavor to establish the aforementioned criteria within 90 days of the Effective Date of this Agreement. The Company shall use commercially reasonable efforts to pay each Annual Bonus, if any, with respect to a calendar year on or before March 15 of the following calendar year (and in no event shall an Annual Bonus be paid after December 31 of the following calendar year); *provided, however,* that (except as otherwise provided in Section 6.1(b)) Executive will be entitled to receive payment of such Annual Bonus only if Executive is employed by the Company as of March 15 of the following calendar year. For any partial calendar year during the period of Executive's employment hereunder, the Annual Bonus for such year shall be prorated based on the ratio of the number of days during such calendar year that Executive was employed by the Company to the number of days in such calendar year.

4.3 Other Benefits. During Executive's employment hereunder, Executive shall be permitted to participate in all benefit plans and programs of the Company, including improvements or modifications of the same, which are now, or may hereafter be, available to similarly situated employees of the Company, subject to the terms and conditions of the applicable plans and programs and the discretion of the Board or a committee thereof. The Company shall not, however, by reason of this Section 4.3, be obligated to institute, maintain, or refrain from changing, amending, or discontinuing, any such benefit plan or program, so long as such changes are similarly applicable to similarly situated employees generally.

4.4 Expenses. The Company shall reimburse Executive for all reasonable business expenses incurred by Executive during Executive's employment hereunder in performing services hereunder, including all expenses of travel and living expenses while away from home on business or at the request of and in the service of the Company; *provided,* in each case, that such expenses are incurred and accounted for in accordance with the policies and procedures established by the Company. Any such reimbursement of expenses shall be made by the Company upon or as soon as practicable following receipt of supporting documentation reasonably satisfactory to the Company. Notwithstanding any provision of this Agreement to the contrary, (a) the amount of expenses eligible for reimbursement hereunder during one calendar year shall not affect the expenses eligible for reimbursement hereunder in any other calendar year, and (b) in no event shall Executive be entitled to reimbursement for any expenses after the first anniversary of the Date of Termination.

4.5 Relocation Allowance. Executive shall be entitled to reimbursement of out-of- pocket expenses associated with Executive and his family's relocation to Houston, Texas, including, but not limited to, temporary living and car rental, travel to and from Atlanta, Georgia or Rhode Island for Executive and/or his wife, and cost of Atlanta home sale and moving expenses up to $150,000.00 (the "***Relocation Expense Reimbursement***"), provided Executive is employed on the date any such reimbursement is incurred by Executive. Such expenses shall be accounted for in accordance with the policies and procedures established by the Company and shall be reimbursed and paid to Executive as follows: no more than $25,000 in 2020 and no more than $125,000 in 2021. The amount of any such reimbursement will include an additional amount of compensation as is necessary to place Executive in the same after-tax position Executive would have been in had no such taxes been paid or incurred with respect to receipt of the Relocation Expense Reimbursement assuming that Executive's overall effective tax rate equals a percentage to be determined in good faith by the Company at the time of reimbursement.

4.6 Vacation and Sick Leave. During Executive's employment hereunder, Executive shall be entitled to (a) sick leave in accordance with the Company's policies applicable to its similarly situated employees and (b) five weeks paid vacation each calendar year (none of which may be carried forward to a succeeding year) in accordance with the Company's vacation policies in effect from time to time; *provided, however,* that if Executive has not been employed by the Company since January 1 of the year that includes the Effective Date, then Executive's paid vacation for such year shall be prorated based on the ratio of the number of days remaining in such calendar year from and after the Effective Date to the number of days in such calendar year (rounded up to the nearest whole day).

4.7 Offices. Subject to Articles II, III, and IV hereof, Executive agrees to serve without additional compensation, if elected or appointed thereto, as a director of the Company and as a member of any committees of the Board or any officer or director position with respect to subsidiaries or affiliates of the Company.

ARTICLE V
EQUITY AND EQUITY-BASED AWARDS

5.1 Purchased Equity. As a portion of consideration for Executive's entry into this Agreement (and his agreement to the various covenants and obligations set forth herein), Executive may purchase (or cause an entity or a trust controlled by Executive *("**Executive's Designee**")* to purchase) common shares in the Company *("**Common Shares**")* having an aggregate value up to $1,000,000 no later than one year after the date of this Agreement pursuant to, and on the terms and subject to the conditions set forth in, the Company's Share Purchase Plan (the *"**Plan**")*. In the event Executive effects such purchase, the Company will award to Executive a number of unvested Common Shares equal to the number of Common Shares so purchased subject to and in accordance with the terms and conditions of the Plan.

5.2 Executive Long Term Incentive Bonus. Executive shall be eligible to participate in a long-term incentive plan *("**LTIP**")* to be adopted by the Company, the terms and conditions of which shall be determined by the Board in its sole discretion. During Executive's employment, Executive shall be eligible to receive annual equity incentive awards under the LTIP entitling him to receive a specified number of Common Shares subject to vesting conditions based on continued employment and/or the attainment of specified performance measures, in each case, as determined by the Board or a committee thereof in its sole discretion (an *"**Annual LTI Award**"),* it being understood that the target value of each Annual LTI Award shall equal 120% of his Base Salary (as determined at the time of grant), and the amount awarded pursuant to such Annual LTI Award may be zero but in no event shall exceed 180% of Executive's annual Base Salary (as determined at the time of grant).

ARTICLE VI
EFFECT OF TERMINATION OF EMPLOYMENT ON COMPENSATION

6.1 Effect of Termination of Employment on Compensation.

(a) If Executive's employment hereunder shall terminate for any reason, then all compensation and all benefits to Executive hereunder shall terminate contemporaneously with such termination of employment, except that Executive shall be entitled to (i) payment of all accrued and unpaid Base Salary through the Date of Termination, subject to applicable taxes and withholdings, with such amount to be paid on or before the Company's next regularly scheduled pay date immediately following the Date of Termination, (ii) reimbursement for all incurred but unreimbursed expenses for which Executive is entitled to reimbursement in accordance with Section 4.4 and Section 4.5, and (iii) benefits to which Executive is entitled under the terms of, and in accordance with, any applicable benefit plan or program.

(b) In addition to the amounts set forth in Section 6.1(a), if Executive's employment hereunder shall terminate for any reason described in Sections 3.1(a) or 3.1(b), Executive shall also be entitled to:

(i) payment of a prorated target Annual Bonus (as described in Section 4.2) for the year in which such Date of Termination occurs based on ratio of the number of days during such calendar year that Executive was employed by the Company to the number of days in such calendar year;

(ii) payment of any earned and accrued Annual Bonus for the calendar year preceding the calendar year in which the Date of Termination occurs to the extent not paid prior to the Date of Termination; and

(iii) with respect to any outstanding Annual LTIP Awards held by Executive on his Date of Termination that are subject to time-vesting conditions, accelerated vesting of such Annual LTI Awards.

(c) In addition to the amounts set forth in Sections 6.1(a) and 6(b), if Executive's employment hereunder shall terminate pursuant to Section 3.1(d) or pursuant to Executive's resignation for Good Reason, subject to Executive delivering, within 30 days after the Date of Termination, and not revoking, an executed release substantially in the form of the release set forth on Exhibit A (the *"**Release**"),* and provided that Executive does not violate any of the restrictions set forth in Articles VII or VIII of this Agreement, Executive shall also be entitled to:

(i) a lump sum cash payment in an amount equal to Executive's Base Salary as of the Date of Termination (but prior to any reduction giving rise to termination for Good Reason), less applicable taxes and withholdings (the *"**Severance Payment**")* payable within 60 days following the Date of Termination; and

(ii) continuation of the group health insurance coverage in accordance with the health insurance plan and applicable law (generally referred to as "COBRA") for a period of one year after the Date of Termination provided Executive does not obtain new employment, with Executive and the Company each continuing to pay their same respective portions of premium prior to Executive's termination.

(d) In addition to the amounts set forth in Sections 6.1(a), 6.1(b), and 6.1(c), if Executive's employment hereunder shall terminate pursuant to Section 3.1(d), or pursuant to Executive's resignation for Good Reason, in each case, within 12 months following a Change in Control, subject to Executive delivering, within 30 days after the Date of Termination, and not revoking, the executed Release, and provided that Executive does not violate any of the restrictions set forth in Articles VII or VIII of this Agreement, Executive shall also be entitled to accelerated vesting of any outstanding Annual LTI Awards held by Executive on his Date of Termination that are subject to performance-based vesting conditions based on a valuation mechanism determined by the Board in good faith that results in an award no less than target.

(e) In the event Executive's employment is terminated pursuant to Section 3.1(c), then all compensation and all benefits to Executive hereunder shall terminate contemporaneously with such termination of employment, and Executive shall be entitled to only the payments and benefits provided in Section 6.1(a), and Executive shall have no right to any further payments or benefits, including but not limited to any Severance Payment, Annual Bonus, any outstanding unvested Annual LTI Awards or payments or benefits pursuant to Section 5.2.

(f) Subject to Section 4.5, Executive shall be solely responsible for any taxes related to any payments or benefits provided pursuant to Article VI.

ARTICLE VII
PROTECTION OF INFORMATION

7.1 Disclosure to and Property of the Company. For purposes of this Article VII, the term "the Company" shall include the Company and all of its subsidiaries, and any reference to "employment" or similar terms shall include a director and/or consulting relationship. All information, trade secrets, designs, ideas, concepts, improvements, product developments, discoveries and inventions, whether patentable or not, that are conceived, made, developed, disclosed to or acquired by Executive, individually or in conjunction with others, during the period of Executive's employment by the Company (whether during business hours or otherwise and whether on the Company's premises or otherwise) that relate to the Company's businesses, trade secrets, products or services (including all such information relating to corporate opportunities, strategies, business plans, product specifications, compositions, manufacturing and distribution methods and processes, research, financial and sales data, pricing terms, evaluations, opinions, interpretations, acquisition prospects, the identity of customers or their requirements, the identity of key contacts within the customer's organizations or within the organization of acquisition prospects, or production, marketing and merchandising techniques, prospective names and marks) and all writings or materials of any type embodying any of such information, ideas, concepts, improvements, discoveries, inventions and other similar forms of expression (collectively, ***"Confidential Information")*** shall be disclosed to the Company and are and shall be the sole and exclusive property of the Company. Notwithstanding any of the preceding provisions of this Section 7.1 to the contrary, the term "Confidential Information" does not include (a) any information that, at the time of disclosure by the Company, is available to the public other than as a result of any act of Executive or (b) any information that becomes available to Executive on a non-confidential basis from a source other than the Company, provided that such source is not known by Executive to be bound by a confidentiality agreement with or other obligation of secrecy to the Company. Upon request by the Company, Executive shall promptly (i) disclose to the Company all Confidential Information in Executive's custody or control and (ii) return to the Company all Confidential Information in Executive's custody or control. Moreover, all documents, videotapes, written presentations, brochures, drawings, memoranda, notes, records, files, correspondence, manuals, models, specifications, computer programs, E-mail, voice mail, electronic databases, maps, drawings, architectural renditions, models and all other writings or materials of any type embodying any Confidential Information, ideas, concepts, improvements, discoveries, inventions and other similar forms of expression (collectively, ***"Work Product")*** are and shall be the sole and exclusive property of the Company. Executive agrees to perform all actions reasonably requested by the Company to establish and confirm such exclusive ownership. Upon termination of Executive's employment with the Company, for any reason, Executive promptly shall deliver such Confidential Information and Work Product, and all copies thereof, to the Company.

7.2 <u>Disclosure to Executive</u>. The Company shall (a) disclose to Executive and place Executive in a position to have access to or develop Confidential Information and Work Product of the Company, (b) entrust Executive with business opportunities of the Company, and (c) place Executive in a position to develop business good will on behalf of the Company.

7.3 <u>No Unauthorized Use or Disclosure</u>. Executive agrees to preserve and protect the confidentiality of all Confidential Information and Work Product of the Company. Executive agrees that Executive will not, at any time during or after Executive's employment with the Company, make any unauthorized disclosure of, and Executive shall not remove from the Company premises, Confidential Information or Work Product of the Company, or make any use thereof, except, in each case, in the carrying out of Executive's responsibilities hereunder. Executive shall use all reasonable efforts to cause all persons or entities to whom any Confidential Information shall be disclosed by Executive hereunder to preserve and protect the confidentiality of such Confidential Information. Executive shall have no obligation hereunder to keep confidential any Confidential Information if and to the extent disclosure thereof is specifically required by law; *provided, however,* that in the event disclosure is required by applicable law, Executive shall provide the Company with prompt notice of such requirement prior to making any such disclosure, so that the Company may seek an appropriate protective order. At the request of the Company at any time, Executive agrees to deliver to the Company all Confidential Information that Executive may possess or control. As a result of Executive's employment by the Company, Executive may also from time to time have access to, or knowledge of, confidential information or work product of third parties, such as customers, suppliers, partners, joint venturers, and the like, of the Company. Executive also agrees to preserve and protect the confidentiality of such third-party confidential information and work product.

7.4 **Ownership by the Company.** If, during Executive's employment by the Company, Executive creates any work of authorship fixed in any tangible medium of expression that is the subject matter of copyright (such as videotapes, written presentations, or acquisitions, computer programs, E-mail, voice mail, electronic databases, drawings, maps, architectural renditions, models, manuals, brochures, or the like) relating to the Company's business, products, or services, whether such work is created solely by Executive or jointly with others (whether during business hours or otherwise and whether on the Company's premises or otherwise), including any Work Product, the Company shall be deemed the author of such work if the work is prepared by Executive in the scope of Executive's employment; or, if the work relating to the Company's business, products, or services is not prepared by Executive within the scope of Executive's employment but is specially ordered by the Company as a contribution to a collective work, as a part of a motion picture or other audiovisual work, as a translation, as a supplementary work, as a compilation, or as an instructional text, then the work shall be considered to be work made for hire and the Company shall be the author of the work. If the work relating specifically to the Company's business, products, or services is neither prepared by Executive within the scope of Executive's employment nor a work specially ordered that is deemed to be a work made for hire during Executive's employment by the Company, then Executive hereby agrees to assign, and by these presents does assign, to the Company all of Executive's worldwide right, title, and interest in and to such work and all rights of copyright therein.

7.5 **Assistance by Executive.** During the period of Executive's employment by the Company, Executive shall assist the Company and its nominee, at any time, in the protection of the Company's worldwide right, title and interest in and to Confidential Information and Work Product and the execution of all formal assignment documents requested by the Company or its nominee(s) and the execution of all lawful oaths and applications for patents and registration of copyright in the United States and foreign countries. After Executive's employment with the Company terminates, at the request and reasonable expense of the Company, Executive shall assist the Company or its nominee(s) in the protection of the Company's worldwide right, title and interest in and to Confidential Information and Work Product and the execution of all formal assignment documents requested by the Company or its nominee and the execution of all lawful oaths and applications for patents and registration of copyright in the United States and foreign countries.

7.6 **Remedies.** Executive acknowledges that money damages would not be a sufficient remedy for any breach of this Article VII by Executive, and the Company shall be entitled to enforce the provisions of this Article VII by terminating payments then owing to Executive under Article VI of this Agreement or otherwise and to specific performance and injunctive relief as remedies for such breach or any threatened breach. Such remedies shall not be deemed the exclusive remedies for a breach of this Article VII but shall be in addition to all remedies available at law or in equity, including the recovery of damages from Executive and Executive's agents. However, if it is determined that Executive has not committed a breach of this Article VII, then the Company shall resume the payments and benefits due under this Agreement and pay to Executive or Executive's Designee, if applicable, all payments and benefits that had been suspended pending such determination.

ARTICLE VIII
RESTRICTIVE COVENANTS

8.1 Non-Competition; Non-Solicitation. Executive agrees to the non-competition and non-solicitation provisions of this Article VIII in consideration for the Confidential Information provided by the Company to Executive pursuant to Section 7.2(a) of this Agreement and Common Shares granted to Executive pursuant to Section 5.1 and 5.2 of this Agreement. In connection with the foregoing, Executive agrees to protect the trade secrets and Confidential Information of the Company disclosed or entrusted to Executive by the Company or created or developed by Executive for the Company, as applicable. Executive acknowledges that his agreement to the foregoing is an express incentive for the Company to enter into this Agreement.

(a) Subject to the exceptions set forth in Section 8.1(b) below, Executive expressly covenants and agrees that during the Prohibited Period (i) Executive will refrain from carrying on or engaging in, directly or indirectly, any Competing Business in the Restricted Area and (ii) Executive will not, and Executive will cause Executive's affiliates not to, directly or indirectly, own, manage, operate, join, become an employee of, partner in, owner or member of (or an independent contractor to), control or participate in, be connected with or loan money to, sell or lease equipment or property to, or otherwise be affiliated with any business, individual, partnership, firm, corporation or other entity which engages in a Competing Business in the Restricted Area.

(b) Notwithstanding the restrictions contained in Section 8.1(a), Executive or any of Executive's affiliates may own an aggregate of not more than 1% of the outstanding stock of any class of any corporation engaged in a Competing Business if such stock is listed on a national securities exchange or regularly traded in the over-the-counter market by a member of a national securities exchange, without violating the provisions of Section 8.1(a); *provided, however,* that neither Executive nor any of Executive's affiliates has the power, directly or indirectly, to control or direct the management or affairs of any such corporation and is not involved in the management of such corporation.

(c) Executive further expressly covenants and agrees that during Executive's employment by the Company and for a period of one year following the end of Executive's employment with the Company, Executive will not, and Executive will cause Executive's affiliates not, to (i) solicit the engagement or employment of, any person who is an officer or employee of the Company or (ii) on behalf of a Competing Business, solicit, approach or entice away or cause to be solicited, approached or enticed away from the Company any person or entity who, during the period in which Executive was employed by the Company, was a customer, client, agent, producer or policyholder of the Company or any of its subsidiaries.

(d) Before accepting employment with any other person or entity during the Prohibited Period, Executive will inform such person or entity of the restrictions contained in this Article VIII.

8.2 Relief. Executive and the Company agree and acknowledge that the limitations as to time, geographical area and scope of activity to be restrained as set forth in Section 8.1 are reasonable and do not impose any greater restraint than is necessary to protect the legitimate business interests of the Company. Executive and the Company also acknowledge that money damages would not be sufficient remedy for any breach of this Article VIII by Executive, and the Company shall be entitled to enforce the provisions of this Article VIII by terminating payments then owing to Executive under this Agreement or otherwise and to specific performance and injunctive relief as remedies for such breach or any threatened breach as provided by Section 9.3. Such remedies shall not be deemed the exclusive remedies for a breach of this Article VIII but shall be in addition to all remedies available at law or in equity, including the recovery of damages from Executive and Executive's agents. However, if it is determined by a court of competent jurisdiction or an arbitrator, as the case may be in accordance with Article IX, that Executive has not committed a breach of this Article VIII, then the Company shall resume the payments and benefits due under this Agreement and pay to Executive all payments and benefits that had been suspended pending such determination.

8.3 Reasonableness; Enforcement. Executive hereby represents to the Company that Executive has read and understands, and agrees to be bound by, the terms of this Article VIII. Executive acknowledges that he shall be a member of the Company's executive and management personnel, and that the geographic scope and duration of the covenants contained in this Article VIII are the result of arm's-length bargaining and are fair and reasonable in light of (a) the nature and wide geographic scope of the operations of the Business, (b) Executive's level of control over and contact with the Business in all jurisdictions in which it is conducted, (c) the fact that the Business is conducted throughout the Restricted Area, and (d) the amount of Confidential Information and equity reflecting the goodwill of the Company that Executive is receiving in connection with the performance of Executive's duties hereunder. It is the desire and intent of the parties that the provisions of this Article VIII be enforced to the fullest extent permitted under applicable Legal Requirements, whether now or hereafter in effect and therefore, to the extent permitted by applicable Legal Requirements, Executive and the Company hereby waive any provision of applicable Legal Requirements that would render any provision of this Article VIII invalid or unenforceable.

8.4 Reformation. The Company and Executive agree that the foregoing restrictions are reasonable under the circumstances and that any breach of the covenants contained in this Article VIII would cause irreparable injury to the Company. Executive understands that the foregoing restrictions may limit Executive's ability to engage in certain businesses in the Restricted Area during the Prohibited Period, but acknowledges Executive's skills are such that Executive can be gainfully employed in non-competitive employment, and that restrictions in this Article VIII will not prevent Executive from earning a living. Nevertheless, if any of the aforesaid restrictions are found by a court of competent jurisdiction or an arbitrator, as the case may be in accordance with Article IX, to be unreasonable, or overly broad as to geographic area or time, or otherwise unenforceable, the parties intend for the restrictions herein set forth to be modified by the court of competent jurisdiction or the arbitrator making such determination, as the case may be in accordance with Article IX, so as to be reasonable and enforceable and, as so modified, to be fully enforced. By agreeing to this contractual modification prospectively at this time, the Company and Executive intend to make this provision enforceable under the law or laws of all applicable States, Provinces, and other jurisdictions so that the entire agreement not to compete or solicit and this Agreement as prospectively modified shall remain in full force and effect and shall not be rendered void or illegal.

ARTICLE IX
DISPUTE RESOLUTION

9.1 Arbitration. Subject to Section 9.3, all claims or disputes relating to, arising from, or in connection with Executive's employment with the Company, the termination thereof, this Agreement, or the termination thereof, including any dispute as to the existence, validity, construction, interpretation, negotiation, performance, non-performance, breach, termination, or enforceability of this Agreement including this Section 9.1 (in each case, a "Dispute"), with the sole exception of the Company seeking injunctive relief for any breach or threatened breach by Executive of this Agreement as provided in Section 9.3, shall be settled by binding confidential arbitration before the American Arbitration Association *("**AAA**")*. Either party may, by providing written notice (the *"**Arbitration Notice**")* to the other party, demand arbitration of the dispute as set out below, and each party hereto expressly agrees to submit to, and be bound by, such arbitration, subject to Section 9.3.

9.2 Procedure; WAIVER OF JURY TRIAL. The Dispute shall be submitted for final and binding arbitration in the State of Delaware in accordance with the then-applicable rules for resolution of commercial disputes of the AAA. The arbitration shall be conducted by a single arbitrator licensed to practice law for at least ten (10) years who is a former judge, chosen pursuant to the then-applicable rules for resolution of commercial disputes of the AAA (the *"**Arbitrator**")*. The results of the arbitration and the decision of the Arbitrator will be final and binding on the parties and each party agrees and acknowledges that these results shall be enforceable in a court of law. No demand for arbitration may be made after the date when the institution of legal or equitable proceedings based on such claim or dispute would be barred by the applicable statute of limitations. The Arbitrator shall have the authority to award the same remedies, damages, and costs that a court could award, including but not limited to the right to award injunctive relief in accordance with the other provisions of this Agreement. In the event either party must resort to the judicial process to enforce the award of an arbitrator or equitable relief granted by an arbitrator, the party seeking enforcement shall be entitled to recover from the other party all costs of litigation including, but not limited to, reasonable attorney's fees and court costs. All proceedings conducted pursuant to this agreement to arbitrate, including any order, decision or award of the arbitrator, shall be kept confidential by all parties. **THE PARTIES ACKNOWLEDGE THAT, BY SIGNING THIS AGREEMENT, THEY ARE KNOWINGLY AND VOLUNTARILY WAIVING ANY RIGHTS THEY MAY HAVE TO A JURY TRIAL.** The Arbitrator's authority to resolve and make written awards is limited to claims between Executive and the Company alone. EXECUTIVE AGREES TO BRING ANY DISPUTE SUBJECT TO ARBITRATION PURSUANT TO THIS SECTION 9.2 ON AN INDIVIDUAL BASIS ONLY, AND NOT ON A CLASS OR COLLECTIVE BASIS. THERE WILL BE NO RIGHT OR AUTHORITY FOR ANY SUCH DISPUTE TO BE BROUGHT, HEARD, OR RESOLVED AS A CLASS OR COLLECTIVE, REPRESENTATIVE ACTION, OR AS A MEMBER IN ANY PURPORTED CLASS, COLLECTIVE, OR REPRESENTATIVE PROCEEDING.

9.3 Injunctive Relief and Specific Performance. Executive and the Company further acknowledge and agree that, as the sole exception to arbitration provided in Section 9.1 and 9.2, the Company shall have the right to seek emergency, temporary, or injunctive relief or specific performance, including claims arising under Articles VII and VIII hereunder, in a court of competent jurisdiction without posting a bond and without giving notice to the maximum extent permitted by law, and such court shall have the power to maintain the status quo pending the arbitration of any dispute under this Article IX; in such event, Executive hereby consents to the non-exclusive jurisdiction, forum, and venue of the state and federal courts located in the State of Delaware, and hereby waives any objection to the jurisdiction, forum, and venue of such court.

ARTICLE X
MISCELLANEOUS

10.1 Notices. For purposes of this Agreement, notices and all other communications provided for herein shall be in writing and shall be deemed to have been duly given (a) when received if delivered personally or by courier, (b) on the date receipt is acknowledged if delivered by certified mail, postage prepaid, return receipt requested, or (c) one day after transmission if sent by facsimile transmission with confirmation of transmission or email, as follows:

To Executive:	Andrew Robinson [***] [***] Facsimile: ____________
To the Company:	Houston International Insurance Group, Ltd. 800 Gessner, Suite 600 Houston, TX 77024 Attention: Chief Financial Officer Facsimile: ____________

or to such other address as either party may furnish to the other in writing in accordance herewith, except that notices or changes of address shall be effective only upon receipt.

10.2 Applicable Law. This Agreement is entered into under, and shall be governed for all purposes by, the laws of the State of Delaware, without regard to conflicts of laws principles thereof that would require the application of the laws of any other jurisdiction.

10.3 No Waiver. No failure by either party hereto at any time to give notice of any breach by the other party of, or to require compliance with, any condition or provision of this Agreement shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

10.4 Severability. If a court of competent jurisdiction or an arbitrator, as the case may be pursuant to Article IX, determines that any provision of this Agreement is invalid or unenforceable, then the invalidity or unenforceability of that provision shall not affect the validity or enforceability of any other provision of this Agreement, and all other provisions shall remain in full force and effect.

10.5 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which together will constitute one and the same Agreement.

10.6 Withholding of Taxes and Other Employee Deductions. The Company may withhold from any benefits and payments made pursuant to this Agreement all federal, state, city and other taxes and withholdings as may be required pursuant to any law or governmental regulation or ruling and all other customary deductions made with respect to the Company's employees generally.

10.7 Successors. This Agreement shall be binding upon and inure to the benefit of the Company and any successor of the Company. Except as provided in the preceding sentence, this Agreement, and the rights and obligations of the parties hereunder, are personal and neither this Agreement, nor any right, benefit or obligation of either party hereto, shall be subject to voluntary or involuntary assignment, alienation or transfer, whether by operation of law or otherwise, without the prior written consent of the other party. In addition, any payment owed to Executive hereunder after the date of Executive's death shall be paid to Executive's estate.

10.8 Term. Termination of this Agreement shall not affect any right or obligation of any party which is accrued or vested prior to such termination. Without limiting the scope of the preceding sentence, the provisions of Articles VI, VII, VIII, IX and X shall survive any termination of the employment relationship and/or of this Agreement.

10.9 Entire Agreement. In addition to the Plan, this Agreement constitutes the entire agreement of the parties with regard to the subject matter hereof, and contains all the covenants, promises, representations, warranties and agreements between the parties with respect to employment of Executive by the Company. Without limiting the scope of the preceding sentence, all understandings and agreements preceding the date of execution of this Agreement and relating to the subject matter hereof are hereby null and void and of no further force and effect.

10.10 Modification; Waiver. Any modification to or waiver of this Agreement will be effective only if it is in writing and signed by the parties to this Agreement.

10.11 Actions by the Board. Any and all determinations or other actions required of the Board hereunder that relate specifically to Executive's employment by the Company or the terms and conditions of such employment shall be made by the members of the Board other than Executive if Executive is a member of the Board, and Executive shall not have any right to vote or decide upon any such matter.

10.12 Executive's Representations and Warranties. Executive represents and warrants to the Company as follows:

(a) Executive is not bound by any restrictive covenants, covenants not to compete, non-solicitation agreements, or confidentiality agreements nor any other agreement or obligation that would prevent Executive from performing his duties hereunder or that would otherwise conflict with this Agreement.

(b) Executive has not and will not disclose to the Company, or use, or induce the Company to use, any proprietary information or trade secrets of others, including confidential and proprietary information of any previous employer, regardless of whether Executive is prohibited from doing so by any other agreements with any third parties. Executive acknowledges that he has been instructed by the Company not to use, or disclose to anyone employed by or consulting for the Company, any confidential, proprietary, or trade secret information of any third-party. Executive acknowledges that during his employment with the Company, he will not engage in any conduct that violates any lawful obligations he owes to any previous employer or any third party, and Executive represents and warrants that his work for the Company will not cause him to violate any obligations he owes to any previous employer or other party.

(c) To Executive's knowledge, after reasonable inquiry, Executive has returned all proprietary, confidential, and trade secret information belonging to all prior employers that he is or was required to do so.

10.13 Section 409A. This Agreement is intended to comply with the requirements of Section 409A of the Code, and shall be interpreted and construed consistently with such intent. The payments to Executive pursuant to this Agreement are also intended to be exempt from Section 409A of the Code to the maximum extent possible, under either the separation pay exemption pursuant to Treasury regulation §1.409A-1(b)(9)(iii) or as short-term deferrals pursuant to Treasury regulation §1.409A-1(b)(4), and for this purpose each payment shall constitute a "separately identified" amount within the meaning of Treasury Regulation §1.409A-2(b)(2). In the event the terms of this Agreement would subject Executive to taxes or penalties under Section 409A of the Code *("**409A Penalties**"),* the Company and the Executive shall cooperate diligently to amend the terms of this Agreement to avoid such 409A Penalties, to the extent possible; provided that in no event shall the Company be responsible for any 409A Penalties that arise in connection with any amounts payable under this Agreement. Notwithstanding any other provision in this Agreement, if Executive is a "specified employee," as defined in Section 409A of the Code, as of the date of Executive's Date of Termination, then to the extent any amount payable to Executive (i) constitutes the payment of nonqualified deferred compensation, within the meaning of Section 409A of the Code, (ii) is payable upon Executive's separation from service and (iii) under the terms of this Agreement would be payable prior to the six-month anniversary of Executive's Date of Termination, such payment shall be delayed until the earlier to occur of (a) the first business day following the six-month anniversary of the Date of Termination and (b) the date of Executive's death. The right to any reimbursement or in-kind benefit pursuant to this Agreement or otherwise shall not be subject to liquidation or exchange for any other benefit.

10.14 Section 280G. Notwithstanding anything to the contrary contained in this Agreement, in the event that it shall be (or is subsequently) determined that any payment, benefit or acceleration of vesting by the Company to or for the benefit of Executive (whether pursuant to the terms of this Agreement or otherwise) would be subject to the excise tax imposed by Section 4999 of the Code, then the payments and benefits payable to Executive shall be reduced (or appropriately adjusted) to an amount that is one dollar less than the smallest amount that would give rise to such excise tax (the "Reduced Amount") if and only if such Reduced Amount would be greater than the net after-tax proceeds (taking into account both the excise tax and any interest or penalties payable by Executive with respect thereto) of the unreduced payments and benefits payable to Executive. If the payments and benefits payable under this Agreement are required to be reduced pursuant to this Section 10.14, there shall be no discretion in the ordering of the payments payable under this Agreement so reduced, and such reductions shall be applied first to the Severance Payment under Section 6.1(c)(i), and if further reductions are necessary, such reduction shall be applied to the amount of cash payable pursuant to Section 6.1(b)(i) and (ii) attributable to Executive's Annual Bonus, and if further reductions are necessary, such reduction shall be applied on a prorated basis to all the other payments and benefits payable under this Agreement. For the avoidance of doubt, in no event shall the Company be responsible for any excise taxes payable under Section 4999 of the Code.

[Signatures begin on next page.]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of May 22, 2020, effective for all purposes as provided above.

HOUSTON INTERNATIONAL INSURANCE GROUP, LTD.

By: /s/ Cam MacDonald
Name: Cam MacDonald
Title: Director

ANDREW ROBINSON

By: /s/ Andrew Robinson
Name: Andrew Robinson

[Signature Page to Employment Agreement]

<u>EXHIBIT A</u>

RELEASE AGREEMENT

This Release Agreement (this *"**Agreement**")* constitutes the release referred to in that certain Employment Agreement (the *"**Employment Agreement**")* by and between HIIG SERVICE COMPANY and HOUSTON INTERNATIONAL INSURANCE GROUP, Ltd. *("**HHG**"),* both organized under the laws of the state of Delaware (collectively, the *"**Company**")* and [•] *("**Executive**").*

1. **<u>General Release</u>**.

(a) For good and valuable consideration, including the Company's provision of certain payments and benefits to Executive in accordance with Sections 6.1(c) and 6.1(d) of the Employment Agreement, Executive hereby releases, discharges, and forever acquits the Company, their respective affiliates and subsidiaries, the past, present and future stockholders, members, partners, directors, managers, officers, employees, agents, attorneys, heirs, legal representatives, successors and assigns of the foregoing, as well as all employee benefit plans maintained by the Company or any of its affiliates or subsidiaries and all fiduciaries and administrators of any such plan, in their personal and representative capacities (collectively, the *"**Company Parties**"),* from liability for, and hereby waives, any and all claims, rights, damages, or causes of action of any kind, including but not limited to those related to Executive's employment with any Company Party, the termination of such employment, and any other acts or omissions related to any matter on or prior to the date of this Agreement (collectively, the *"**Released Claims**").*

(b) The Released Claims include, without limitation, those arising under or related to: (i) the Age Discrimination in Employment Act of 1967; (ii) Title VII of the Civil Rights Act of 1964; (iii) the Civil Rights Act of 1991; (iv) sections 1981 through 1988 of Title 42 of the United States Code; (v) the Employee Retirement Income Security Act of 1974, including, but not limited to, sections 502(a)(1)(A), 502(a)(1)(B), 502(a)(2), and 502(a)(3) to the extent the release of such claims is not prohibited by applicable law; (vi) the Immigration Reform Control Act; (vii) the Americans with Disabilities Act of 1990; (viii) the National Labor Relations Act; (ix) the Occupational Safety and Health Act; (x) the Family and Medical Leave Act of 1993; (xi) any state anti-discrimination law; (xii) any state wage and hour law; (xiii) any other local, state or federal law, regulation or ordinance; (xiv) any public policy, contract, tort, or common law; (xv) costs, fees, or other expenses including attorneys' fees incurred in these matters; (xvi) any employment contract, incentive compensation plan or stock option plan with any Company Party or to any ownership interest in any Company Party except as expressly provided in the Employment Agreement and any stock option or other equity compensation agreement between Executive and the Company; and (xvii) compensation or benefits of any kind not expressly set forth in the Employment Agreement, the Company Share Purchase Plan, or any such stock option or other equity compensation agreement.

(c) In no event shall the Released Claims include (i) any claim that arises after the date of this Agreement, or (ii) any claims for the payments and benefits payable to Executive under Section 6.1(a), 6.1(b), 6.1(c), or 6.1(d) of the Employment Agreement.

(d) Notwithstanding this release of liability, nothing in this Agreement prevents Executive from filing any non-legally waivable claim (including a challenge to the validity of this Agreement) with the Equal Employment Opportunity Commission *("**EEOC**")* or comparable state or local agency or participating in any investigation or proceeding conducted by the EEOC or comparable state or local agency; however, Executive understands and agrees that Executive is waiving any and all rights to recover any monetary or personal relief or recovery as a result of such EEOC or comparable state or local agency proceeding or subsequent legal actions.

(e) This Agreement is not intended to indicate that any claims that would constitute Released Claims hereunder exist or that, if they do exist, they are meritorious. Rather, Executive is simply agreeing that, in exchange for the consideration recited in the first sentence of Section 1(a) of this Agreement, any and all potential claims of this nature that Executive may have against the Company Parties, regardless of whether they actually exist, are expressly settled, compromised and waived.

(f) By signing this Agreement, Executive is bound by it. Anyone who succeeds to Executive's rights and responsibilities, such as heirs or the executor of Executive's estate, is also bound by this Agreement. This release also applies to any claims brought by any person or agency or class action under which Executive may have a right or benefit. **THIS RELEASE INCLUDES MATTERS ATTRIBUTABLE TO THE SOLE OR PARTIAL NEGLIGENCE (WHETHER GROSS OR SIMPLE) OR OTHER FAULT, INCLUDING STRICT LIABILITY, OF ANY OF THE COMPANY PARTIES**.

2. **Covenant Not to Sue**. Executive agrees not to bring or join any lawsuit against any of the Company Parties in any court or before any arbitral authority relating to any of the Released Claims. Executive represents that Executive has not brought or joined any lawsuit or arbitration against any of the Company Parties in any court or before any arbitral authority and has made no assignment of any rights Executive has asserted or may have against any of the Company Parties to any person or entity, in each case, with respect to any Released Claims.

3. **Acknowledgments**. By executing and delivering this Agreement, Executive acknowledges that:

(a) Executive has carefully read this Agreement;

(b) Executive is not relying upon statements, understandings, representations, expectations, or agreements other than those expressly set forth in this Agreement;

(c) Executive has had at least [twenty-one (21)] [forty-five (45)] [*45 days must be used in the case of a termination of Executive's employment in connection with an exit incentive program or other employment termination program offered to a group or class of employees*] *days to consider this Agreement before the execution and delivery hereof to the Company* [*Add the following if 45 days applies:*] [*, and Executive acknowledges that attached to this Agreement is a list of (i) the job titles and ages of all employees selected for participation in the employment termination or exit incentive program pursuant to which Executive is being offered this Agreement, (ii) the job titles and ages of all employees in the same job classification or organizational unit who were not selected for participation in the program, and (iii) information about the unit affected by the program, including any eligibility factors for such program and any time limits applicable to such program];*

(d) Executive has been and hereby is advised in writing that Executive may, at Executive's option, discuss this Agreement with an attorney of Executive's choice and that Executive has had adequate opportunity to do so;

(e) Executive knowingly waives any claim that this Agreement was induced by any misrepresentation or nondisclosure and any right to rescind or avoid this Agreement based upon presently existing facts, known or unknown; and

(f) Executive fully understands the final and binding effect of this Agreement; the only promises made to Executive to sign this Agreement are those stated in the Employment Agreement and herein; and Executive is signing this Agreement voluntarily and of Executive's own free will, and that Executive understands and agrees to each of the terms of this Agreement.

The Parties stipulate that the Company is relying upon these representations and warranties in entering into this Agreement. These representations and warranties shall survive the execution of this Agreement.

4. **Revocation Right**. Executive may revoke this Agreement within the seven-day period beginning on the date Executive signs this Agreement (such seven day period being referred to herein as the *"**Release Revocation Period**")*. To be effective, such revocation must be in writing signed by Executive and must be delivered to the Board before 11:59 p.m., Central time, on the last day of the Release Revocation Period. This Agreement is not effective, and no consideration shall be paid to Executive, until the expiration of the Release Revocation Period without Executive's revocation. If an effective revocation is delivered in the foregoing manner and timeframe, this Agreement shall be of no force or effect and shall be null and void ab initio.

[Signatures begin on next page.]

Executed on this ______________ day of _____________, _________.

____
[EXECUTIVE]

STATE OF __________________ §

§

COUNTY OF__________________ §

BEFORE ME, the undersigned authority personally appeared_________________, by me known or who produced valid identification as described below, who executed the foregoing instrument and acknowledged before me that he subscribed to such instrument on this _________ day of ___________, ______.

____

NOTARY PUBLIC in and for the

State of_______________

My Commission Expires: ____________________________

Identification produced:

FIRST AMENDMENT TO EMPLOYMENT AGREEMENT

This FIRST AMENDMENT TO EMPLOYMENT AGREEMENT ("First Amendment") is effective as of the 1st day of January, 2022 by and among SKYWARD SPECIALTY INSURANCE GROUP, INC. (f/k/a Houston International Insurance Group, Ltd.), SKYWARD SERVICE COMPANY (f/k/a HIIG Service Company), (together "Company'), and ANDREW ROBINSON, ("Executive").

WITNESSETH:

WHEREAS, the Company and the Executive entered into that certain Employment Agreement effective May 22, 2020, ("Employment Agreement"), establishing terms and conditions of Executive's employment with the Company; and

WHEREAS, the Company and Executive desire to amend certain provisions of the Employment Agreement;

NOW, THEREFORE, in consideration of valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Paragraph 4.1 is amended so that Executive's base salary is no less than $800,000, effective April 1, 2022.

2. Paragraph 4.2 is amended so that Executive's target Annual Bonus shall be 100% of his Base Salary.

3. Paragraph 5.2 is deleted and replaced with the following:

   "Executive shall be eligible to participate in a long-term incentive plan (**"LTIP"**) as adopted by the Company, the terms and conditions of which shall be determined by the Board in its sole discretion. During Executive's employment, Executive shall be eligible to receive annual incentive awards under the LTIP entitling him to receive performance-based cash compensation and a specified number of Common Shares subject to vesting conditions based on continued employment and/or the attainment of specified performance measures, in each case, as determined by the Board or a committee thereof in its sole discretion (an **"Annual LTI Award"**), it being understood that the target value of each Annual LTI Award shall be at least $900,000 (as determined at the time of the grant), and the amount awarded pursuant to such Annual LTI Award may be zero but in no event shall exceed 150% of LTI award target (as determined at the time of such grant)."

Except as modified by this First Amendment, the Employment Agreement remains unchanged and continues in full force and effect and, along with this First Amendment, constitutes the entire contract and understanding between the parties hereto and supersedes all prior agreements, arrangements and understandings related to this matter.

IN WITNESS WHEREOF, the parties have executed this Lease by their duly authorized agents, effective the 1st day of January, 2022.

COMPANY:

SKYWARD SPECIALTY INSURANCE GROUP, INC.
a Delaware corporation

SKYWARD SERVICE COMPANY
a Delaware corporation

By: /s/Tom Schmitt
Name: Tom Schmitt
Title: Chief People Officer
Date of Execution 6/1/2022

Address for Notices:
800 Gessner, Suite 600
Houston, Texas 77024
Attention: General Counsel

EXECUTIVE:

By: /s/Andrew Robinson
Name: Andrew Robinson
Date of Execution: 6/1/2022

Address for Notices:
800 Gessner, Suite 600
Houston, Texas 77024

Exhibit 10.14

CONFIDENTIAL INFORMATION

Execution Version

LOSS PORTFOLIO TRANSFER AND ADVERSE DEVELOPMENT RETROCESSION AGREEMENT

by and among

R&Q BERMUDA (SAC) LIMITED
ACTING IN RESPECT OF THE HIIG SEGREGATED ACCOUNT

and

HIIG RE

and

solely for purposes of Article 7, Article 11, Article 12, Article 23, and Article 28
(and Article 2 and Article 30 to the extent relating to any of the foregoing)
HOUSTON SPECIALTY INSURANCE COMPANY, IMPERIUM INSURANCE COMPANY, AND
GREAT MIDWEST INSURANCE COMPANY

Dated as of April 1, 2020

TABLE OF CONTENTS

LOSS PORTFOLIO TRANSFER AND ADVERSE DEVELOPMENT
RETROCESSION AGREEMENT

This LOSS PORTFOLIO TRANSFER AND ADVERSE DEVELOPMENT RETROCESSION AGREEMENT (this "Retrocession Agreement"), dated as of April 1, 2020, is made and entered into by and among HIIG Re, a Cayman Islands corporation (the "Reinsurer"), R&Q Bermuda (SAC) Limited, a Bermuda limited company, acting in respect of the HIIG Segregated Account (in such capacity, the "Retrocessionaire"), and, solely for purposes of Article 7, Article 11, Article 12, Article 23, and Article 28 (and Article 2 and Article 30 to the extent relating to any of the foregoing), Houston Specialty Insurance Company, a Texas domiciled insurance company, Imperium Insurance Company, a Texas domiciled insurance company, and Great Midwest Insurance Company, a Texas domiciled insurance company, (each a "Company," and collectively, the "Companies").

W I T N E S S E T H:

WHEREAS, the Companies and Oklahoma Specialty Insurance Company, each an affiliate of Reinsurer, underwrote certain insurance programs (the "Reinsured Business") which Reinsurer reinsured in accordance with that certain Loss Portfolio Transfer and Adverse Development Reinsurance Agreement by and between Companies and Reinsurer, dated as of the date hereof and attached hereto as Exhibit B (the "Reinsurance Agreement");

WHEREAS, Reinsurer desires to obtain retrocession coverage for certain of the Reinsurer's obligations under the Reinsurance Agreement with respect to such portion of the Reinsured Business as is hereinafter defined as the Subject Business, and Retrocessionaire desires to provide the same, under and subject to the terms and conditions set forth in this Retrocession Agreement; and

WHEREAS, on the date hereof, concurrent with the execution and delivery of this Retrocession Agreement, each Company individually, the Reinsurer, the Retrocessionaire and The Bank of New York Mellon shall enter into certain Statutory Trust Agreements, pursuant to which Retrocessionaire shall collateralize its obligations in respect of Ultimate Net Loss reinsured hereunder.

NOW, THEREFORE, in consideration of the mutual covenants herein contained and for other good and valuable consideration, the receipt and sufficiency of which hereby are acknowledged, and intending to be legally bound hereby, Reinsurer and Retrocessionaire hereby agree as follows:

ARTICLE 1

BUSINESS COVERED

A. This Retrocession Agreement applies to all Ultimate Net Loss that is paid or payable by Reinsurer on and after the Effective Date in respect of the Subject Business, subject to all the terms and conditions of this Retrocession Agreement.

B. The Retrocessionaire's liability under this Retrocession Agreement shall commence at the Effective Time, and all reinsurance of Ultimate Net Loss ceded hereunder is subject to the same risks, terms, rates, conditions, assessments, interpretations, waivers, modifications, alterations and cancellations as the respective Policies to which this Retrocession Agreement applies, except as may be expressly modified by the specific terms and conditions of this Retrocession Agreement, the true intent of this Retrocession Agreement being that the Retrocessionaire shall, except as may be expressly modified by the specific terms and conditions of this Retrocession Agreement, (i) follow the fortunes of the Reinsurer and the Companies, and (ii) the Retrocessionaire shall be bound, without limitation, by all payments and settlement entered into by or on behalf of the Reinsurer or the Companies, including (for the avoidance of doubt) any payments or settlements entered into from the Effective Date to the date hereof.

C. Should any regulatory or other legal restriction of any applicable jurisdiction require modification of any Policy to which this Retrocession Agreement applies, or should any such Policy be modified in accordance with its terms or with consent of the Retrocessionaire, the liability of the Retrocessionaire will follow that of the Reinsurer and the Companies, subject to the express exclusions set forth herein and the other terms and conditions of this Retrocession Agreement.

ARTICLE 2

DEFINITIONS

The Recitals are incorporated into this Retrocession Agreement as if set forth at length herein. Capitalized terms as used in this Retrocession Agreement (including in the Recitals and Article 1) shall have the meanings set forth below throughout this Retrocession Agreement:

"Actuary's Rolled Amounts" has the meaning provided under the Article entitled **ROLL FORWARD OF ORIGINAL AMOUNTS**.

"Aggregate Limit" has the meaning provided under the Article entitled **RETROCESSION COVERAGE**.

"Agreement Deadline" has the meaning provided under the Article entitled **ROLL FORWARD OF ORIGINAL AMOUNTS**.

"Allocated Loss Adjustment Expenses" means all expenses and costs sustained, without duplication, by the Reinsurer or the Companies in connection with the adjustment, defense, settlement or litigation of claims or suits, satisfaction of judgments, or resistance to or negotiations concerning a Loss or potential Loss under specific Policies. Allocated Loss Adjustment Expenses shall include (i) the expenses and costs of TPAs (which, for the avoidance of doubt, shall not constitute Unallocated Loss Adjustment Expenses), (ii) legal expenses and costs incurred in connection with coverage analysis and questions regarding specific claims and legal actions assignable to a specific Policy, including declaratory judgment actions connected thereto (whether or not a Loss is incurred), (iii) all interest on judgments, and (iv) expenses and costs sustained to obtain recoveries, salvages or other reimbursements, or to secure the reversal or reduction of a verdict or judgment. Allocated Loss Adjustment Expenses shall not include any normal overhead, office expenses, fees, commissions, salaries and other employee compensation, and other similar expenses of the Reinsurer, TPAs, or the Companies, whether or not incurred in connection with adjusting a Loss, which shall be termed the "Unallocated Loss Adjustment Expenses."

"Board" has the meaning provided under the Article entitled **ARBITRATION**.

"Brokerage" means the brokerage fee payable to Guy Carpenter, LLC by the Reinsurer on behalf of the Retrocessionaire in respect of the transactions contemplated herein, in the amount of [***].

"Business Day" means a day other than (i) a Saturday; (ii) a Sunday; or (iii) a day on which banking institutions or trust companies in Texas, the Cayman Islands, or Bermuda, are authorized or required by applicable Law or executive order to remain closed.

“Ceded Reserves” means the Reserves for Ultimate Net Loss ceded to the Reinsurer under the Reinsurance Agreement in respect of Subject Business (including, for the avoidance of doubt, reserves for IBNR), calculated in accordance with SAP for the Companies.

“Code” means the U.S. Internal Revenue Code of 1986, as amended.

“Collateral Deficit” has the meaning provided under the Article entitled **COLLATERAL; STATUTORY TRUST ACCOUNTS; CREDIT FOR REINSURANCE**.

“Collateral Dispute Notice” has the meaning provided under the Article entitled **COLLATERAL; STATUTORY TRUST ACCOUNTS; CREDIT FOR REINSURANCE**.

“Collateral Excess” has the meaning provided under the Article entitled **COLLATERAL; STATUTORY TRUST ACCOUNTS; CREDIT FOR REINSURANCE**.

“Collateral Funds” has the meaning provided under the Article entitled **COLLATERAL; STATUTORY TRUST ACCOUNTS; CREDIT FOR REINSURANCE**.

“Collateral Offset” has the meaning provided under the Article entitled **COLLATERAL; STATUTORY TRUST ACCOUNTS; CREDIT FOR REINSURANCE**.

“Company” and “Companies” have the meanings provided under the Preamble to this Retrocession Agreement.

“Confidential Information” has the meaning provided under the Article entitled **CONFIDENTIALITY**.

“Deductible” means One Hundred Five Million Dollars ($105,000,000.00), which amount shall be rolled forward pursuant to the Article entitled **ROLL FORWARD OF ORIGINAL AMOUNTS**.

“Deemed Amounts” has the meaning provided under the Article entitled **REINSURANCE WARRANTY**.

“Disclosing Party” has the meaning provided under the Article entitled **CONFIDENTIALITY**.

“Doctrine” has the meaning provided under the Article entitled **ACCESS TO RECORDS**. “Effective Date” means April 1, 2020.

“Effective Time” means 12:00:01 a.m. Central Time on the Effective Date.

“Eligible Assets” means cash (United States legal tender), certificates of deposit (issued by a bank organized under the laws of the United States, or located in the United States, and payable in United States legal tender), or investments of the types permitted by Texas Insurance Code § 493.104; provided that such investments are issued by an institution that is not the parent, subsidiary, or affiliate of any of the Companies, the Reinsurer or the Retrocessionaire and such investments comply with the investment guidelines agreed by the Companies, the Reinsurer and the Retrocessionaire. The Companies, the Reinsurer and the Retrocessionaire agree that “Eligible Assets” shall not include any assets held or principally traded outside the United States. The Parties further agree that the defined term “Eligible Assets” do not include mortgages, collateralized debt obligations, collateralized loan obligations, real estate or derivatives. Additionally, to be an Eligible Asset, an investment must be interest bearing, interest accruing with a specific maturity date on which redemption is to be made at stated value, and not in default and shall otherwise qualify under Texas Insurance Law.

“Extra Contractual Obligations” has the meaning provided under the Article entitled **EXTRA CONTRACTUAL OBLIGATIONS/LOSS EXCESS OF POLICY LIMITS**.

“Fair Market Value” has the meaning provided under the Statutory Trust Agreements.

“FET” has the meaning provided under the Article entitled **FEDERAL EXCISE TAX**.

“Governmental Authorities” means collectively any applicable federal, state, local or foreign governmental, administrative or regulatory authority, court, agency or instrumentality, including the Texas Department of Insurance.

“Group A Participation Attachment Point” has the meaning provided under the Article entitled **RETROCESSION COVERAGE & APPLICATION OF DEDUCTIBLE**.

“Group A Policies” has the meaning set forth under the definition of Subject Business herein.

“Group A Sublimit” has the meaning provided under the Article entitled **RETROCESSION COVERAGE & APPLICATION OF DEDUCTIBLE**.

“Group B Participation Attachment Point” has the meaning provided under the Article entitled **RETROCESSION COVERAGE & APPLICATION OF DEDUCTIBLE**.

“Group B Policies” has the meaning set forth under the definition of Subject Business herein.

“Group B Sublimit” has the meaning provided under the Article entitled **RETROCESSION COVERAGE & APPLICATION OF DEDUCTIBLE**.

“IBNR” means incurred but not reported losses, as calculated in accordance with SAP for the Companies.

“Inuring Reinsurance” means reinsurance or retrocession coverages and related recoverables (as applicable) for the benefit of any of the Companies from unaffiliated reinsurance companies to the extent covering the Subject Business which were procured prior to the earlier to occur of the date hereof and the Effective Date, which shall be subject to the provisions of Article 8.

“Investment Manager” has the meaning provided under the Article entitled **COLLATERAL; STATUTORY TRUST ACCOUNTS; CREDIT FOR REINSURANCE**.

“IRS” means the U.S. Internal Revenue Service.

“Law” means any federal, state or local law, statute, ordinance, rule, regulation, or principle of common law or equity imposed by or on behalf of a Governmental Authority.

“Loss(es)” means, without duplication, all amounts paid or payable by the Reinsurer, the Companies or Oklahoma Specialty Insurance Company arising (i) under any Policy, subject to the original Policy terms and limit (or any changes to such Policy terms or limit required by applicable Law or approved in writing by the Retrocessionaire) or (ii) out of escheat or unclaimed property Laws applicable to the Policies. Losses shall not include Allocated Loss Adjustment Expenses.

"Loss Excess of Policy Limits" has the meaning provided under the Article entitled **EXTRA CONTRACTUAL OBLIGATIONS/LOSS EXCESS OF POLICY LIMITS**.

"Minimum Notional Amount" has the meaning provided under the Article entitled **REINSURANCE WARRANTY**.

"Net Ceded Reserves" means the Ceded Reserves which, subject to Article 5, are ceded to the Retrocessionaire hereunder. For the avoidance of doubt, Net Ceded Reserves shall be net of:

1. the amount of all Inuring Reinsurance; and

2. all salvage, subrogation and other recoverables actually received by or offset for the account of the Reinsurer in respect therefor.

"Net Loss" means, without duplication, all Loss, Allocated Loss Adjustment Expenses, Extra Contractual Obligations, and Loss Excess of Policy Limits, payable on and after the Effective Date in respect of the Subject Business and ceded by the Companies to the Reinsurer pursuant to the Reinsurance Agreement.

"Net Premium" has the meaning provided under the Article entitled **PREMIUM**.

"Notional Amount" has the meaning provided under the Article entitled **REINSURANCE WARRANTY**.

"NPPI" has the meaning provided under the Article entitled **PRIVACY & PROTECTION OF DATA**.

"Original Calculation Date" has meaning provided under the Article entitled **ROLL FORWARD OF ORIGINAL AMOUNTS**.

"Party" and "Parties" means either or both, as applicable, the Reinsurer and the Retrocessionaire and, for purposes of Article 7, Article 11, Article 12, Article 23, and Article 28 (and Article 2 and Article 30 to the extent relating to any of the foregoing), shall mean the Reinsurer, the Retrocessionaire and the Companies.

"PHI" has the meaning provided under the Article entitled **PRIVACY & PROTECTION OF DATA**.

"Policy(ies)" means each of the binders, policies, slips, line slips and other agreements of insurance , including all endorsements, riders and supplements thereto and all amendments thereof, in each case, of the Companies or indemnity reinsured by the Companies from Oklahoma Specialty Insurance Company.

"Premium" shall mean Ninety Seven Million One Hundred Thousand Dollars ($97,100,000.00).

"Quarterly Funding Report" has the meaning provided in the Article entitled **COLLATERAL; STATUTORY TRUST ACCOUNTS; CREDIT FOR REINSURANCE**.

"R&Q" means R&Q Bermuda (SAC) Limited.

"Receiving Party" has the meaning set forth under the Article entitled **CONFIDENTIALITY**.

"Reinsurance Agreement" has the meaning set forth under the Recitals.

"Reinsurance Transaction Agreements" as the meaning set forth under the Article entitled **ARBITRATION**.

"Reinsurance Warranty Amount" has the meaning set forth under the Article entitled **REINSURANCE WARRANTY**.

"Reinsured Business" has the meaning set forth under the Recitals.

"Reinsurer" has the meaning set forth under the Preamble.

"Reports" has the meaning set forth under the Article entitled **REPORTS AND SETTLEMENTS**.

"Representatives" has the meaning set forth under the Article entitled **CONFIDENTIALITY**.

"Required Collateral Amount" has the meaning provided in the Article entitled **COLLATERAL; STATUTORY TRUST ACCOUNTS; CREDIT FOR REINSURANCE**.

"Reserves" means, with respect to any insurer or reinsurer, as required by SAP or applicable Law of the jurisdiction of domicile of such insurance company, reserves (including any gross, net and ceded reserves, as applicable), funds or provisions for losses, claims (including reserves for IBNR), unearned premiums, costs and expenses (including Allocated Loss Adjustment Expenses).

"Retrocession Agreement" has the meaning set forth under the Preamble. "Retrocessionaire" has the meaning set forth under the Preamble.

"Retrocessionaire's Adjustment Notice" has the meaning set forth under the Article entitled **ROLL FORWARD OF ORIGINAL AMOUNTS**.

"Retrocessionaire's Agent for Process" has the meaning set forth under the Article entitled **SERVICE OF SUIT**.

"Roll Forward Agreement Date" has the meaning set forth under the Article entitled **ROLL FORWARD OF ORIGINAL AMOUNTS**.

"Rolled Amount" has the meaning set forth under the Article entitled **ROLL FORWARD OF ORIGINAL AMOUNTS**.

"SAP" means, as to any insurer or reinsurer, the statutory accounting practices and principles prescribed or permitted by the Governmental Authority responsible for the regulatory of insurance and reinsurance in the jurisdiction of domicile of such insurer or reinsurer.

"Statement of Rolled Amounts" has the meaning set forth under the Article entitled **ROLL FORWARD OF ORIGINAL AMOUNTS**.

"Statutory Trust Account(s)" has the meaning set forth under the Article entitled **COLLATERAL; STATUTORY TRUST ACCOUNTS; CREDIT FOR REINSURANCE**.

"Statutory Trust Agreement(s)" means the Statutory Trust Agreements the form of which is attached as Exhibit C hereto.

"Subject Business" means

(a) the Policies in respect of the business identified as "Group A" in Exhibit A, in each case, incepting prior to the date specified therein; and

(b) the Policies in respect of the business identified as "Group B" in Exhibit A, in each case, incepting prior to the applicable date specified therein.

"Term" has the meaning set forth under the Article entitled **COMMENCEMENT AND TERMINATION**.

"TPAs" means any and all third party administrators handling claims or performing other services in connection with the Subject Business.

"Transaction Agreements" means this Retrocession Agreement, the Reinsurance Agreement, and the Statutory Trust Agreements.

"Trustee" means the trustee of the Statutory Trust Accounts.

"Ultimate Net Loss" means all Net Loss, which is:

(1) net of:

i. the amount of all Inuring Reinsurance; and

ii. all salvage, subrogation and recoverables (other than the amount of all Inuring Reinsurance) received by or offset for the account of the Reinsurer in respect therefor;

and

(2) subject to the Aggregate Limit and other conditions and limitations provided under the Article entitled **RETROCESSION COVERAGE**.

In the event of insolvency of the Reinsurer, "Ultimate Net Loss" shall mean the amount of Ultimate Net Loss which the insolvent Reinsurer has incurred (or may incur) or is (or may become) liable for and payment by the Retrocessionaire shall be made to the receiver or statutory successor of the Reinsurer in accordance with the provisions of the Article entitled **INSOLVENCY**. Nothing in this Retrocession Agreement shall be construed to mean Losses are not recoverable until the final Ultimate Net Loss to the Reinsurer has been ascertained.

ARTICLE 3

COMMENCEMENT AND TERMINATION

The reinsurance coverage hereunder shall incept at the Effective Time and shall remain in effect until the earliest of the following (the "Term"):

1. the date on which the Aggregate Limit is exhausted by payments in respect of paid Ultimate Net Loss made by the Retrocessionaire;

2. the date on which all liabilities of the Reinsurer in respect of Net Loss are extinguished and all amounts due to the Reinsurer (or its statutory successor or receiver) under this Retrocession Agreement with respect to Ultimate Net Loss have been paid;

3. the date on which this Retrocession Agreement is terminated upon mutual agreement of the Reinsurer and the Retrocessionaire; or

4. the date on which this Retrocession Agreement is commuted pursuant to the Article entitled **COMMUTATION**.

ARTICLE 4

EXCLUSIONS

This Retrocession Agreement does not apply to and specifically excludes:

1. Net Loss paid or booked as paid by the Companies or Reinsurer before the Effective Date;

2. Unallocated Loss Adjustment Expenses;

3. Any reinstatement or other premiums due under Reinsurer's or any Company's existing reinsurance arrangements to the extent such existing reinsurance arrangements do not inure to the benefit of this Retrocession Agreement; and

4. Any payment of profit commission or similar arrangement due from Reinsurer or Companies to any other reinsurer or any other party in respect of the Subject Business.

ARTICLE 5

RETROCESSION COVERAGE & APPLICATION OF DEDUCTIBLE

A. The Retrocessionaire hereby agrees to reimburse the Reinsurer for one hundred percent (100%) of the Ultimate Net Loss with respect to the Subject Business, subject to the limitations provided in this Article 5.

B. Retrocessionaire agrees to reinsure and (subject to the Deductible and the Aggregate Limit) indemnify Reinsurer for Ultimate Net Loss in the amounts and subject to the conditions set forth below:

1. Group A. Retrocessionaire agrees to reinsure Ultimate Net Loss and (subject to the Deductible and the Aggregate Limit) indemnify Reinsurer for paid Ultimate Net Loss, in each case, arising out of or relating to Group A Policies in the amounts set forth as follows:

   a. Retrocessionaire shall be liable for one hundred percent (100%) of the Ultimate Net Loss on the Group A Policies for the first Twenty Five Million Dollars ($25,000,000.00) of such Ultimate Net Loss ("Group A Participation Attachment Point"); and

   b. In addition to the amount set forth in clause B.1.a above, Retrocessionaire shall be liable for fifty percent (50%) of every dollar incurred of Ultimate Net Loss on the first Five Million Dollars ($5,000,000.00) of Ultimate Net Loss on Group A Policies that exceeds the Group A Participation Attachment Point, up to an aggregate amount of Two Million Five Hundred Thousand Dollars ($2,500,000.00);

c. Reinsurer shall retain hereunder (1) fifty percent (50%) of every dollar of Ultimate Net Loss on the first Five Million Dollars ($5,000,000.00) of Ultimate Net Loss on Group A Policies that exceeds the Group A Participation Attachment Point, up to an aggregate amount of Two Million Five Hundred Thousand Dollars ($2,500,000.00);

d. Net Loss (and Inuring Reinsurance and all salvage, subrogation and other recoverables received by or offset for the account of the Reinsurer in respect of any of the foregoing) that would otherwise constitute Ultimate Net Loss on Group A Policies but that are incurred (or that correspond to Net Loss) in excess of the first net aggregate Thirty Million Dollars ($30,000,000.00) of such Ultimate Net Loss ceded hereunder (the "Group A Sublimit") shall be disregarded and shall not constitute Ultimate Net Loss.

2. Group B. Retrocessionaire agrees to reinsure Ultimate Net Loss and (subject to the Deductible and the Aggregate Limit) indemnify Reinsurer for paid Ultimate Net Loss, in each case, arising out of or relating to Group B Policies, in the amounts set forth as follows:

a. Retrocessionaire shall be liable for one hundred percent (100%) of the Ultimate Net Loss on the Group B Policies for the first One Hundred Fifty Million Dollars ($150,000,000.00) of such Ultimate Net Loss ("Group B Participation Attachment Point"); and

b. In addition to the amount set forth in clause B.2.a above, Retrocessionaire shall be liable for fifty percent (50%) of every dollar incurred of Ultimate Net Loss on the first Seventy Million Dollars ($70,000,000.00) of Ultimate Net Loss on Group B Policies that exceeds the Group B Participation Attachment Point, up to an aggregate amount of Thirty Five Million Dollars ($35,000,000.00) of such Ultimate Net Loss;

c. Reinsurer shall retain hereunder fifty percent (50%) of every dollar of Ultimate Net Loss on the next Seventy Million Dollars ($70,000,000.00) of Ultimate Net Loss on Group B Policies that exceeds the Group B Participation Attachment Point, up to an aggregate amount of Thirty Five Million Dollars ($35,000,000.00) of such Ultimate Net Loss;

d. In addition to the amounts set forth in clauses B.2.a and b, Retrocessionaire shall be liable for one hundred percent (100%) of Ultimate Net Loss on the Group B Policies that is in excess of Two Hundred Twenty Million Dollars ($220,000,000.00) of such Ultimate Net Loss, up to an aggregate amount of Thirty-Six Million Dollars ($36,000,000.00) of such Ultimate Net Loss; and

e. Net Loss (and Inuring Reinsurance and all salvage, subrogation and other recoverables actually received by or offset for the account of the Reinsurer in respect of any of the foregoing) that would otherwise constitute Ultimate Net Loss on Group B Policies but that are incurred (or that correspond to Net Loss incurred) in excess of the first net aggregate Two Hundred Fifty Six Million ($256,000,000.00) of such Ultimate Net Loss ceded hereunder (the "Group B Sublimit") shall be disregarded and shall not constitute Ultimate Net Loss.

3. Retrocessionaire's maximum aggregate limit of liability for indemnification of paid Ultimate Net Loss shall in no event exceed One Hundred Forty Three Million Five Hundred Thousand Dollars ($143,500,000.00) (the "Aggregate Limit"), being the sum of the maximum amounts payable by Retrocessionaire under Section B of this Article 5 less the Deductible. For the avoidance of doubt, the Aggregate Limit shall be rolled forward after the date hereof pursuant to the Article entitled **ROLL FORWARD OF ORIGINAL AMOUNTS**.

C. Application of Deductible

1. Prior to any cash settlement by the Retrocessionaire to cover its liability for paid Ultimate Net Losses, Reinsurer shall apply the Deductible funds to the settlement of the Retrocessionaire's liability for paid Ultimate Net Losses, which shall erode the amount remaining in respect of the Group A Sublimit and the Group B Sublimit but shall not erode the amount remaining in respect of the Aggregate Limit.

2. For the avoidance of doubt, Reinsurer shall not apply the Deductible toward payment of its obligations under Sections B.1.c. and B.2.c. above.

3. Furthermore, Reinsurer shall not apply the Deductible toward any Ultimate Net Loss incurred (A) in respect of the Group A Policies, in excess of the Group A Sublimit or (B) in respect of the Group B Policies, in excess of the Group B Sublimit, which liabilities shall not, in either case, constitute Ultimate Net Loss.

ARTICLE 6

PREMIUM

A. The payment of Premium to the Retrocessionaire hereunder includes the amount due in respect of the Brokerage and FET assessed on the amount of such Premium (the "Net Premium").

B. On the date hereof, the Reinsurer shall transfer the Premium due to Retrocessionaire under Section A above. Pursuant to this Retrocession Agreement, Reinsurer shall transfer (less the amount of Brokerage and FET imposed on the Premium transferred to the Retrocessionaire hereunder, which Brokerage shall be paid by Reinsurer to Guy Carpenter and which FET shall be withheld and remitted by Reinsurer in accordance with Article 20) directly to the Statutory Trust Accounts described in Article 11 below, as more particularly set forth in such Article 11 and in the Statutory Trust Agreements.

ARTICLE 7

ROLL FORWARD OF ORIGINAL AMOUNTS

A. The Reinsurer and the Retrocessionaire agree and acknowledge that certain sums set forth in this Retrocession Agreement have been calculated as of June 30, 2019 (the "Original Calculation Date"). Consequently, at the Effective Time there will have been changes to Net Ceded Reserves, paid Losses and other figures since the Original Calculation Date. Accordingly, the Reinsurer shall roll forward the following amounts in accordance with the procedures set forth on Exhibit D to reflect, among other things, claims reported and paid claims subject to this Retrocession Agreement under the Policies covered hereunder from the Original Calculation Date to the last day of the month ending prior to the date hereof (such date, the "Updated Calculation Date" and such amounts, the "Rolled Amounts"):

1. Net Ceded Reserves, calculated as of the Updated Calculation Date;

2. The Deductible;

3. The Aggregate Limit;

4. The Group A Participation Attachment Point, Group B Participation Attachment Point, Group A Sublimit, and Group B Sublimit; and

5. The Required Collateral Amount, calculated as of the Updated Calculation Date.

B.

1. The Reinsurer shall deliver to Retrocessionaire, within five (5) Business Days after the date hereof, a statement setting forth amounts from the Original Calculation Date and the Rolled Amounts (the "Statement of Rolled Amounts"), together with the backup documentation and information reasonably necessary to verify the Rolled Amounts. In addition, Reinsurer shall provide any other information reasonably requested by the Retrocessionaire in connection therewith.

2. Within ten (10) Business Days of receipt of the Reinsurer's Statement of Rolled Amounts (the "Agreement Deadline"), the Retrocessionaire shall advise the Reinsurer, in writing, of its agreement or disagreement with the calculation of the Rolled Amounts ("Retrocessionaire's Adjustment Notice"). If the Retrocessionaire agrees with such calculation or fails to notify the Reinsurer of its agreement or disagreement with such calculation by the Agreement Deadline, then the Statement of Rolled Amounts shall be deemed final and binding on the parties.

3. If the Retrocessionaire has any good faith disagreement to the Reinsurer's calculation of the Rolled Amounts, then within ten (10) Business Days following the delivery of the Retrocessionaire's Adjustment Notice, the Parties shall use good faith efforts to mutually agree to the Rolled Amounts. The Parties hereby acknowledge and agree that either Party's ability to object to Rolled Amounts in accordance with this Section is preclusive of all other rights of such Party to challenge such Rolled Amounts.

4. In the event the Parties are unable to reach agreement as to the Rolled Amounts within ten (10) Business Days following the delivery of the Retrocessionaire's Adjustment Notice, the Reinsurer and the Retrocessionaire shall, mutually appoint an independent actuary or, in the event that they fail to agree on the selection of an independent actuary, within ten (10) Business Days thereafter, each Party shall name three independent actuary candidates of which the other Party shall decline two, and the selection of the independent actuary as between the two remaining independent actuary candidates shall be made by the Party winning a coin toss. If either Party fails to provide such three names within such ten (10) Business Day period, the other Party shall select the independent actuary. All independent actuary candidates shall be disinterested in the outcome and shall be Fellows of the Society of Actuaries/Fellows of the Casualty Actuarial Society. The cost of the independent actuary selected shall be split evenly between the Reinsurer and the Retrocessionaire. The independent actuary's determination of the Rolled Amounts (the "Actuary's Rolled Amounts") shall be final and binding on the Parties. The Parties shall instruct the independent actuary to limit its review to matters objected to by the Retrocessionaire and not resolved by written agreement of the Parties.

5. The independent actuary shall act as an expert, not as an arbitrator, and neither the determination of the independent actuary, nor this Retrocession Agreement to submit to the determination of the independent actuary, shall be subject to or governed by the Federal Arbitration Act, 9 U.S.C. § 1 et seq., or any state arbitration law or regime.

6. The earliest of the dates when (i) the Retrocessionaire timely notifies the Reinsurer of its acceptance of the Rolled Amounts by delivery of the Retrocessionaire's Adjustment Notice, (ii) the Agreement Deadline passes and the Retrocessionaire fails to notify the Reinsurer of its disagreement with the Rolled Amounts by timely delivery of the Retrocessionaire's Adjustment Notice, (iii) in the event that Retrocessionaire disagrees with the Rolled Amounts by timely delivery of the Retrocessionaire's Adjustment Notice, (A) the date when the Parties mutually agree to the Rolled Amounts or (B) the date when the Parties receive the Actuary's Rolled Amounts, in each case, shall be known as the "Roll Forward Agreement Date." Any amounts due and owing between the Parties in respect of this Article 7 will be settled within five (5) Business Days of the Roll Forward Agreement Date.

7. In the event that between the Original Calculation Date and the Effective Time there is an event, circumstance, development, change or occurrence which, individually or together with any other event, change or occurrence, has, or would reasonably be expected to have, a material adverse effect (i) on the financial condition or results of operations of Companies or Reinsurer, or (ii) on the Subject Business, or (iii) on the Retrocessionaire's financial obligations hereunder, the amount of Premium, shall be recalculated to put the Parties in as close an economic position as is reasonably possible under this Retrocession Agreement as they would have been had such material adverse effect not occurred. In the event that the Parties disagree on the amount of the recalculated Premium, the parties shall utilize the procedure set forth in Article 15 to determine the amount of the recalculated Premium. At its election, the Companies shall be a party to any arbitration pursuant to Article 15 of this Retrocession Agreement concerning any adjustment to Premium pursuant to this Article 7.

ARTICLE 8

REINSURANCE WARRANTY

A. The Parties have agreed that a certain amount of reinsurance recoverables will be deemed collected under the Inuring Reinsurance (the "Deemed Amount") and applied Ultimate Net Loss. Reinsurer hereby agrees that a certain amount of reinsurance recoverables in excess of the Deemed Amounts shall be further deemed recovered, up to [***] (the "Reinsurance Warranty Amount"), determined in accordance with the provisions of this Article 8. The Reinsurer shall perform the calculation described below, measured from the Original Calculate Date, once per every calendar quarter occurring after the exhaustion of the Deductible and shall deliver its calculations to the Retrocessionaire within ten (10) Business Days following the last day of each such quarter.

B. To determine the amount of the Reinsurance Warranty Amount (if any) to be applied to Ultimate Net Loss, the following calculation is conducted:

Step 1. Determine the "Notional Amount," which shall be, as of any date of determination, an amount equal to the sum of following:

(i) [***]; ***less***

(ii) [***]; ***plus***

(iii) Interest on the sum of (i) and (ii), charged at Two Percent (2%) per annum, calculated on an annual basis from the date hereof to the date of determination.

Step 2. Compare the Notional Amount to the "Minimum Notional Amount," which shall be, as of any date of determination, an amount equal to the lesser of:

(i) [***]; or

(ii) the greater of:

(a) [***]; and

(b) [***] less the Notional Amount calculated as of such date of determination.

If the Notional Amount determined pursuant to Step 1 is less than the Minimum Notional Amount determined pursuant to Step 2, the calculation continues at Step 3. If, as of any date of determination, the Notional Amount is greater than the Minimum Notional Amount, then the Deemed Amounts are satisfied and the Retrocessionaire shall not be entitled to any further deemed amounts applied toward Ultimate Net Loss in respect of the Reinsurance Warranty Amount (and, for the avoidance of doubt, the calculation shall not continue to Step 3).

Step 3. Calculate the "Additional Excess Recoverables" as follows:

(i) for non-proportional reinsurance recoveries – non-proportional Inuring Reinsurance constituting Ultimate Net Losses on Group B Policies ***minus*** [***]; ***plus***

(ii) for proportional reinsurance recoveries – proportional Inuring Reinsurance constituting Ultimate Net Losses on Group B Policies minus [***].

The amount of the Additional Excess Recoverables is applied to reduce the amount of the Reinsurance Warranty Amount applicable to Ultimate Net Loss.

See Exhibit E for an example calculation of this reinsurance warranty.

C. For purposes of the calculation detailed in this Article 8, recoveries on the following types of Inuring Reinsurance shall count towards the satisfaction of the Additional Excess Recoverables: facultative (whether proportional or excess of loss), excess of loss, reinsurance covering excess liability insurance, and other proportional reinsurance.

D. Inuring Reinsurance shall not diminish and Retrocessionaire's liability hereunder shall not be increased by reason of the Reinsurer's or the Companies' inability to collect from any other reinsurers any amounts which are included in Inuring Reinsurance hereunder, whether such inability to collect arises from (i) the insolvency of such other reinsurers, (ii) breach of the agreements with such other reinsurers, (iii) the presence of any "net retained lines" or similar provisions in any agreements with such reinsurers which prevent the Reinsurer or the Companies from recovering such Inuring Reinsurance, (iv) the fact that agreements with such other reinsurers are no longer in force or became terminated, (v) the fact that the Reinsurer or the Companies failed to timely pay any reinsurance reinstatement premium, or (vi) any other reason whatsoever, regardless of whether Retrocessionaire, Reinsurer, or Companies were aware of such reason prior to the execution of this Retrocession Agreement.

E. Notwithstanding anything herein to the contrary in this Retrocession Agreement, neither the Companies nor the Reinsurer may consent to any commutation of any Inuring Reinsurance without the consent of the Retrocessionaire. In the event that any commutation of any Inuring Reinsurance is made without the consent of the Retrocessionaire, such Inuring Reinsurance subject to such commutations shall be deemed to continue in force and collectible in full as if such commutation had not been made.

F. Notwithstanding anything to the contrary in this Retrocession Agreement, Companies and Reinsurer shall keep in force all existing reinsurance arrangements inuring to the benefit of this Retrocession Agreement and shall timely pay all reinstatement or other premiums due under such existing reinsurance arrangements. In the event that Inuring Reinsurance is diminished, terminated, or not extended or renewed due to failure to timely pay reinstatement or other premiums due under its existing reinsurance arrangements, such Inuring Reinsurance shall be deemed to continue in force and collectible in full as if such payment had been timely made.

ARTICLE 9

ADMINISTRATION OF SUBJECT BUSINESS

Reinsurer will be responsible for the handling and administration of the Subject Business claims under this Retrocession Agreement, including managing and supervising any TPAs or other vendors retained to assist in the handling of such claims. The Reinsurer may delegate these handling and administrative duties to the Companies and, as of the date hereof, the Reinsurer has delegated all such handling and administrative duties to the Companies.

A. The Reinsurer shall investigate, adjust, settle, defend or otherwise handle all such claims as follows:

1. The Reinsurer may establish total Net Loss reserves up to [***] per Subject Business claim.

2. The Reinsurer may settle any Subject Business claim up to [***] in total Net Loss per claim.

3. The Reinsurer shall not settle or reserve any Subject Business claim in excess of its authority, as provided herein, without prior written approval from the Retrocessionaire.

4. The Reinsurer will prepare and submit to the Retrocessionaire a large loss report, with sufficient particulars to identify the facts of the claim, in an agreed upon format, and provide all requested relevant documentation, for all reserve or settlement authority requests on Subject Business claims in excess of the Reinsurer's authority hereunder.

5. The Retrocessionaire shall provide a written response to all of Reinsurer's authority requests as soon as practicable, but no later than five (5) Business Days.

B. The Reinsurer shall provide the Retrocessionaire written notice of any demand, whether time-sensitive or otherwise, to settle any Subject Business claim for available policy limits as soon as practicable, but no later than forty-eight (48) hours before the expiration of any time-sensitive demand, and will provide the Retrocessionaire all relevant information in the Reinsurer's possession to evaluate such demand. The Retrocessionaire shall provide a written response to the Reinsurer with respect to any such time-sensitive policy-limit demands as soon as practicable, but no later than the expiration of such demand.

C. The Reinsurer shall retain and utilize vendors that the Reinsurer deems reasonably necessary in the performance of its claims-handling services under this Retrocession Agreement, including, but not limited to, attorneys, estimators, appraisers, investigators, independent adjusters, experts or other advisors, collection companies, and any other claims-related vendors deemed necessary by the Reinsurer in the administration of any Subject Business claim. The costs of any such vendors shall constitute Allocated Loss Adjustment Expense under this Retrocession Agreement.

D. The Reinsurer shall handle all submitted claims in accordance with:

1. the care, skill, prudence, diligence and expertise that would be expected from experienced and qualified personnel performing such duties in like circumstances;

2. the Reinsurer's established Claims Handling Guidelines, Claims Litigation Guidelines and Claims Legal Guidelines; and

3. the requirements of all applicable laws and regulations.

E. The Reinsurer shall not terminate or change any TPA engaged to assist in the handling of the Subject Business claims as of the Effective Date, without the Retrocessionaire's prior written approval, except that Reinsurer may amend, modify, change or expand the terms of its engagement of any current TPA used by the Companies to administer the Subject Business claims.

F. The Reinsurer shall cooperate, and ensure cooperation of any applicable TPAs, in all respects with the Retrocessionaire, including, but not limited to, providing to the Retrocessionaire all relevant information about the Subject Business claims, as the Retrocessionaire may reasonably request, and be reasonably available to discuss individual Subject Business claims with the Retrocessionaire.

G. The Reinsurer will ensure that the Retrocessionaire has electronic access to all applicable claims systems and documents for the Subject Business claims, both during the duration of the Term of this Retrocession Agreement, and for such period of time after the termination of the Term as may be reasonably necessary for Retrocessionaire to fulfill any of its surviving obligations under this Retrocession Agreement or to fulfill the requirements of applicable Law, at no additional cost to Retrocessionaire.

H. Reinsurer will invite Retrocessionaire to participate in all large loss conferences with respect to Subject Business claims.

I. Reinsurer will be available to meet monthly or as otherwise deemed reasonably necessary by Retrocessionaire to discuss any issues related to the handling of Subject Business claims.

J. Reinsurer and Retrocessionaire will each designate a single point of contact to address any issues that may arise regarding the handling of an individual Subject Business claim, or to generally address the administration of Subject Business claims.

K. Reinsurer, to the extent commercially reasonable, will pursue its rights to salvage or subrogation relating to any Net Loss. Should Reinsurer choose not to pursue a subrogation or salvage that the Retrocessionaire would like to pursue, the Retrocessionaire is hereby authorized and empowered to instigate such action in the name of the Reinsurer, and from any amount recovered by Retrocessionaire there shall be first deducted the Retrocessinaire's expenses incurred in effecting the recoveries. Reinsurer hereby agrees to cooperate with Retrocessionaire to enforce its rights to salvage or subrogation and to cooperate with Retrocessionaire in the prosecution of all claims arising out of such rights, to the extent commercially reasonable. Reinsurer agrees to furnish Retrocessionaire, on request, any and all legal instruments necessary to implement the foregoing assignment.

ARTICLE 10

ACCOUNTING FOR RESERVES

A. In calculating and maintaining Net Ceded Reserves, the Reinsurer shall comply with (i) applicable statutory accounting principles and guidance and generally accepted actuarial standards and principles applied in a manner consistent with past practice used for calculating and maintaining such Net Ceded Reserves, and (ii) the requirements of any applicable Law, including, the insurance laws and regulations of the State of Texas, and shall otherwise be consistent with Companies' standard procedures for calculating and maintaining Reserves.

B. Neither Party has made, hereby makes or shall make any representation or warranty to the other Party as to (i) the proper accounting or tax treatment by such other Party of the transaction provided for in this Retrocession Agreement or (ii) the proper future accounting or tax treatment of the transaction provided for in this Retrocession Agreement. Further, each Party acknowledges and agrees that, in making its independent determination that the transaction provided for in the Retrocession Agreement is properly accounted for as reinsurance for SAP, GAAP and federal income tax purposes, it did not rely, in any respect, upon any representation or determination made by the other Party.

ARTICLE 11

COLLATERAL; STATUTORY TRUST ACCOUNTS; CREDIT FOR REINSURANCE

A. Required Collateral Amount. As security for the payment and performance of all of Retrocessionaire's obligations in respect of Ultimate Net Loss reinsured hereunder, whether now existing or hereafter incurred, subject to Reinsurer's initial funding obligation set forth in Section D.1. of this Article 11, following delivery of the first Quarterly Funding Report for the calendar quarter ending June 30, 2020, Retrocessionaire shall provide an amount of collateral for the benefit of each Company, calculated in an amount equal to One Hundred Five Percent (105%) of Net Ceded Reserves (the "Required Collateral Amount") and divided among the Statutory Trust Accounts in accordance with the Quarterly Funding Report. For the avoidance of doubt, the Retrocessionaire shall not be permitted to make any withdrawals from the Statutory Trust Agreements prior to the delivery of the first Quarterly Report delivered hereunder. Should Retrocessionaire at any time disagree with the amount of Required Collateral Amount determined by Reinsurer for any Company, Retrocessionaire shall notify Reinsurer in writing of its disagreement (the "Collateral Dispute Notice"). The applicable provisions of Article 7 with respect to a dispute thereunder shall apply *mutatis mutandis* to any dispute under this Article 11.

B. Statutory Trust Agreements. The Parties agree that the Retrocessionaire, Reinsurer, and the Trustee (as defined under the Article entitled **DEFINITIONS**) shall enter into a separate Trust Agreement (as defined under the Article entitled **DEFINITIONS**) with each individual Company and establish a statutory trust account ("Statutory Trust Account") for the benefit of each individual Company. The Retrocessionaire and the Reinsurer intend that the establishment and maintenance of the Statutory Trust Accounts will allow each Company to qualify for full statutory accounting credit for admitted reinsurance by all regulatory authorities having jurisdiction over the applicable Company for the Retrocessionaire's obligations under this Retrocession Agreement. Any change or modification of any Statutory Trust Agreement shall be null and void unless made by written amendment to the applicable Statutory Trust Agreement and signed by Retrocessionaire, Reinsurer, the applicable Company, and the Trustee.

C. Statutory Trust Accounts. The Parties understand and agree that the Net Premium, any top-up amounts, and any other funds subsequently provided by Retrocessionaire for the purpose of meeting its collateral obligations hereunder (collectively, the "Collateral Funds"), shall be kept in the Statutory Trust Accounts. Each Statutory Trust Account shall hold only the Collateral Funds applicable to beneficiary Company and no other funds. Notwithstanding anything to the contrary contained herein, in no event shall the Collateral Funds be used to pay any amounts other than the Retrocessionaire's indemnification of paid Ultimate Net Loss covered hereunder. Assets may be withdrawn from the Statutory Trust Account by the beneficiary Company only for the following purposes:

(a) to pay, or to reimburse the beneficiary Company for the due but unpaid or unreimbursed Ultimate Net Loss covered by Retrocessionaire under this Retrocession Agreement;

(b) to transfer to the Retrocessionaire any Collateral Funds that are in excess of the Required Collateral Amount;

(c) where the beneficiary Company or Reinsurer has received notification of termination of the Statutory Trust Agreement and where any of the Retrocessionaire's obligations under this Retrocession Agreement remain unliquidated and undischarged ten (10) days prior to the termination date, to withdraw assets in the applicable Statutory Trust Account equal to such obligations and deposit such assets in a separate account apart from its other assets, in the name of the beneficiary Company in any United States bank or trust company apart from its general assets in trust solely for the uses and purposes specified in this Section C.

Reinsurer shall not cause or allow any action or inaction that would cause funds in the Statutory Trust Account to be withdrawn or used (i) for any purpose other than the permitted purposes set forth in this Section C or (ii) in duplication of any funds in the Statutory Trust Account withdrawn or used by a Company in satisfaction of the same due but unpaid or unreimbursed Ultimate Net Loss covered by Retrocessionaire hereunder.

D. Collateral Top-Up Requirements; Withdrawals; Offset; Actuarial Review.

1. During the term of the Statutory Trust Agreements, the Reinsurer shall provide to the Retrocessionaire and the Companies a report (each, a "Quarterly Funding Report") no later than thirty (30) days from the end of each calendar quarter specifying the Required Collateral Amount as of the end of such calendar quarter, including the total Required Collateral Amount and the Required Collateral Amount for each individual Company.

2. Beginning with the Quarterly Funding Report for the calendar quarter ended June 30, 2020, if, based on the Quarterly Funding Report, the Required Collateral Amount for any one or more of the Statutory Trust Accounts at the end of any calendar quarter exceeds the sum of the aggregate

Fair Market Value of the Eligible Assets held in any one or more Statutory Trust Accounts (determined in accordance with the Statutory Trust Agreements) (a "Collateral Deficit"), Retrocessionaire shall promptly, but not less than five (5) Business Days after delivery of the Quarterly Funding Report, transfer directly from its own account to applicable Statutory Trust Account(s) such additional Eligible Assets as may be necessary to increase the Fair Market Value of the Eligible Assets held in the applicable Statutory Trust Account(s) to the Required Collateral Amount for each such applicable Statutory Trust Account.

3. Beginning with the Quarterly Funding Report for the calendar quarter ended June 30, 2020, if, based on the Quarterly Funding Report, the Required Collateral Amount for any one or more of the Statutory Trust Accounts at the end of any calendar quarter is less than the sum of the aggregate Fair Market Value of the Eligible Assets held in any one or more Statutory Trust Accounts (determined in accordance with the Statutory Trust Agreements) (the "Collateral Excess"), the applicable Company(ies) shall promptly, but not less than five (5) Business Days after delivery of the Quarterly Funding Report, direct Trustee to transfer directly from applicable Statutory Trust Account to the account of Retrocessionaire or its designee such Eligible Assets as are in excess of the Required Collateral Amount.

4. In the event that a Quarterly Funding Report shows that there is a Collateral Deficit in one or more of the Statutory Trust Accounts and a Collateral Excess in one or more of the other Statutory Trust Accounts, then the Companies may, in each instance with the prior written consent of Retrocessionaire, withdraw from the Statutory Trust Account(s) having a Collateral Excess and instruct the Reinsurer to deposit into Statutory Trust Account(s) having a Collateral Deficit an amount that is (i) excess of the Required Collateral Amount, and (ii) not greater than the amount required to increase the Collateral Funds held in the Statutory Trust Account(s) having a Collateral Deficit to the Required Collateral Amount. The transfer described in the foregoing sentence (the "Collateral Offset") is for administrative expedience only, and Retrocessionaire may refuse its consent to a Collateral Offset for any reason, in its sole discretion. A Collateral Offset completed in accordance with the provisions of this Article 11 Section D.4 shall not be considered a transfer in violation of the permitted purposes set forth in Article 11 Section C above.

5. No less frequently than annually, Reinsurer, as part of the Companies' normal annual statutory financial statement actuarial review, shall engage the Companies' appointed actuary to perform a full actuarial analysis to determine the Required Collateral Amount and shall include such actuary's report to the extent relevant to Ultimate Net Loss in its Quarterly Funding Report to Retrocessionaire and Companies.

E. Title to Assets. The Retrocessionaire, prior to depositing assets in the Statutory Trust Accounts, shall execute assignments, endorsements in blank, or transfer legal title to the Trustee of all shares, obligations or other assets requiring assignments in order that the Trustee, upon the direction of the applicable Company, may negotiate these assets without consent or signature from the Retrocessionaire.

F. Income and Interest. Any income or interest earned on assets on deposit in the Statutory Trust Accounts shall be held in the Statutory Trust Accounts in accordance with the terms of the Statutory Trust Agreements.

G. Substitutions. The Retrocessionaire shall have the right to withdraw from the Statutory Trust Accounts all or any part of the assets contained therein and transfer such assets to the Retrocessionaire; provided that the Retrocessionaire complies with the requirements set forth in the Statutory Trust Agreements; and provided further that prior to the time of such withdrawal, the Retrocessionaire replaces the withdrawn assets with other applicable Eligible Assets having a Fair Market Value at least equal to the Fair Market Value of the assets withdrawn so as to maintain at all times the deposit of the Required Collateral Amount.

H. Termination. Promptly following termination of this Retrocession Agreement and payment of the full amounts due under the Retrocession Agreement, the parties to the Statutory Trust Agreements all shall take all actions necessary to terminate the Statutory Trust Accounts and the Statutory Trust Agreements.

I. Company Credit for Reinsurance. If, at any time during the Term of this Retrocession Agreement, any Company does not qualify for full statutory accounting credit in respect of the Reinsurance Agreement for admitted reinsurance by regulatory authorities having jurisdiction over the Company by reason of its Statutory Trust Account not complying with applicable insurance laws or regulations such that a financial or accounting penalty to the Company would result on any statutory statement or report the Company is required to make or file with insurance regulatory authorities (or a court of law in the event of insolvency), the Retrocessionaire shall, on behalf of the Reinsurer, secure the Reinsurer's share (subject to the limitations reflected in, Article 5 hereof) of obligations under the Reinsurance Agreement for which such full statutory credit is not granted by those authorities in a manner, form, and amount acceptable to the applicable Company, Reinsurer, Retrocessionaire, and to all applicable insurance regulatory Governmental Authorities. Reinsurer shall cooperate with Retrocessionaire and the Company to secure such credit for reinsurance as needed. Reinsurer, to the extent required by the Reinsurance Agreement, shall secure its obligations to the Companies (separate and apart from the Statutory Trust Accounts) in accordance with all applicable Laws governing credit for reinsurance and no such obligation shall be funded through withdrawal from the Statutory Trust Accounts. Retrocessionaire shall have no obligation to provide any other funds in trust other than the Collateral Funds in accordance with this Retrocession Agreement and the Statutory Trust Agreements, notwithstanding anything to the contrary set forth in the Reinsurance Agreement or any other agreement.

J. Joint and Several Liability; Indemnification.

(1) Each Company and the Reinsurer shall be jointly and severally liable for an adjudicated default by any Company or the Reinsurer under any of the Statutory Trust Agreements, including the use of Collateral Funds for such purpose other than as allowed under this Agreement or the Statutory Trust Agreements by a Company, the Reinsurer, or any party acting on behalf of or at the direction of any Company or the Reinsurer (including a third party claims administrator).

(2) The Companies and the Reinsurer shall jointly and severally indemnify, defend and hold harmless the Restrocessionaire and its affiliates and their respective directors, officers, employees, agents, successors and permitted assigns ("Retrocessionaire Indemnified Persons") from and against any and all disputes, demands, claims, actions, damages, losses, attorneys' fees, court costs and other liabilities, including those asserted against Retrocessionaire by Reinsurer (collectively "Liabilities") incurred by a Retrocessionaire Indemnified Person to the extent arising from or relating to (1) any breach of the representations, warranties, covenants or agreements of the Companies or Reinsurer contained in the Statutory Trust Agreements, including the use or application of Collateral Funds for any purpose other than those permitted under the Statutory Trust Agreements or this Retrocession Agreement, or (2) any successful enforcement of this indemnity; provided, in any case, the foregoing shall not apply to the extent the Liabilities were caused by the negligence, gross negligence, fraud or intentional misconduct of any Retrocessionaire Indemnified Person.

(3) In the event that amounts in excess of the Required Collateral Amount are not timely paid to Retrocessionaire or otherwise transferred between Statutory Trust Accounts as a permitted Collateral Offset due to the insolvency of a Company and administration of Collateral Funds by a conservator, liquidator, receiver, or statutory successor, Retrocessionaire may, to the extent not prohibited by Law, offset such excess amounts due to it against the obligations of Retrocessionaire in accordance with Article 23 hereto. In addition, the Companies and Reinsurer shall be jointly and severally liable to Retrocessionaire for payment of all such excess amounts.

K. Investment Manager. The Parties agree that either the Retrocessionaire, or a third party investment manager registered with the U.S. Securities and Exchange Commission selected by the Retrocessionaire (the "Investment Manager"), shall enter into an investment management agreement with the Reinsurer, the Companies, and the Trustee to manage the assets in the Statutory Trust Accounts in accordance with the investment guidelines mutually agreed to among the parties to such investment management agreement. Such investment management agreement shall be in the form and contain provisions that are reasonably acceptable to the Companies and the Reinsurer. All fees, costs and expenses in respect of the Investment Manager shall be borne solely by the Retrocessionaire and shall not be paid from the Statutory Trust Accounts.

ARTICLE 12

REPORTS AND SETTLEMENTS

A. Reports. After receiving data from the TPA, the Reinsurer, or the Companies as its administrator, shall prepare and deliver the electronic reports listed below (the "Reports") with respect to the entirety of the Subject Business. Within two (2) Business Days following the accounting close of each month (such close occurring on the 15th of the subsequent month), the Reinsurer shall deliver a Report in a format to be mutually agreed upon by the Parties which contains such accounting and journal entries and details (i) as may be necessary and customary to enable the Retrocessionaire to determine the amounts owed hereunder from Retrocessionaire or from the Reinsurer, as the case may be, and (ii) as may be required to permit the Retrocessionaire to prepare, make and file necessary or required financial and statistical reports and financial statements or otherwise comply with applicable Law.

Such Report shall, without limitation, include the amount of the following, on a monthly and cumulative basis, as at the close of the applicable month (such close as defined above):

1. Amounts paid in respect of Ultimate Net Loss;

2. Outstanding case and IBNR Reserves;

3. Ceded Reserves;

4. Net Ceded Reserves;

5. a statement of any amount(s) payable by the Retrocessionaire, including an itemization of all of the payments that are being billed to the Retrocessionaire for the applicable monthly accounting period;

6. Status of Reinsurance Warranty Amount, including a listing of applicable Inuring Reinsurance;

7. Amounts paid in erosion of the remaining amount of the Deductible;

8. Amounts paid in erosion of the remaining amount of the Aggregate Limit; and

9. any other information in connection with settlements hereunder reasonably requested by the Retrocessionaire.

B. The Reports outlined in this Article shall continue until the conclusion of the Term of this Retrocession Agreement.

C. Settlements. The Parties shall conduct monthly settlements (other than with respect to any amounts satisfied intra-month through withdrawal by the Reinsurer or the Companies from the Claims Payments Account) based upon the reporting provided in Section A above evidencing the amount due, subject to Section D below. Any payment, transfer or crediting of amounts required under this Section shall be made within five (5) Business Days following the date of the delivery of the applicable Report (any such date, the "Settlement Date"). For the avoidance of doubt, in no event shall an obligation of Retrocessionaire to make a payment pursuant to this Article 12 be postponed or delayed to a date later than the Settlement Date as a result of any pending or threatened dispute pursuant to this Agreement, except for amounts due under this Article that are disputed in good faith by Retrocessionaire.

D. Claims Payments Account.

1. The Companies shall establish and maintain a demand deposit account for purposes of facilitating interim settlements of amounts due under this Retrocession Agreement in respect of Ultimate Net Loss indemnifiable by the Retrocessionaire (the "Claims Payments Account").

2. On the first Business Day of each monthly accounting period following the exhaustion of the Deductible, the Retrocessionaire shall transfer to the Claims Payments Account cash in an amount sufficient to bring the balance of the Claims Payments Account to an amount equal to the trailing two (2) month average of payments of Ultimate Net Loss (the "Required Funding Amount"). If at any time during a monthly accounting period the funds in a Claims Payments Account are, in the Reinsurer's reasonable estimate, insufficient to pay all of the Ultimate Net Loss payable in such monthly accounting period, the Reinsurer shall provide a statement (a "Claims Estimate") setting forth in reasonable detail a description of the additional proposed payments of Ultimate Net Loss anticipated to be required during the remainder of such monthly accounting period and the amount by which the then current balance in the Claims Payments Account falls short of the aggregate amount set forth in the Claims Estimate.

ARTICLE 13

COMMUTATION

A. This Retrocession Agreement shall be commuted effective at any calendar quarter end, subject to any required regulatory approvals, if applicable, (i) upon commutation of the Reinsurance Agreement or (ii) with the mutual agreement of the Retrocessionaire and the Reinsurer.

B. At commutation, the Retrocessionaire shall pay to the Reinsurer the present value of any and all Ultimate Net Loss liability outstanding hereunder, as mutually agreed upon by the Reinsurer and Retrocessionaire.

C. Upon payment of the commutation amount, all payable Ultimate Net Losses are deemed paid, both Parties shall be released of further liability under the terms and conditions of this Retrocession Agreement and this Retrocession Agreement shall be deemed commuted and terminated.

D. It is agreed that on the day of commutation, the Reinsurer shall release any and all letters of credit, trust accounts (including the Statutory Trust Accounts) or any other collateral posted by the Retrocessionaire, as applicable, under this Retrocession Agreement.

ARTICLE 14

ACCESS TO RECORDS

A. All records remain the property of the Reinsurer.

B. The Retrocessionaire or its designated representatives shall have the right to inspect (and make copies) at all reasonable times and upon reasonable prior notice to Reinsurer, during the Term of this Retrocession Agreement and thereafter, all proprietary and non-privileged books, records and papers of the Reinsurer directly related to any reinsurance hereunder, or the subject matter hereof, including, but not limited to administrative records, claim records, Policy files, and related documents and information, and Retrocessionaire shall have the right to make photocopies thereof at its expense. All such books, records, and papers shall be kept available by Reinsurer and its departmental or branch offices for a period of not less than five (5) years after the termination date of this Retrocession Agreement. Should the Retrocessionaire assume administration of claims for any of the Subject Business, Reinsurer or its designated representatives shall have the right to inspect (and make copies) at all reasonable times and upon prior reasonable notice to Retrocessionaire during the Term of this Retrocession Agreement, and thereafter, all proprietary and non-privileged books, records and papers of the Retrocessionaire directly related to the Retrocessionaire's administration of claims, and Reinsurer shall have the right to make photocopies thereof at its expense. All such books, records, and papers shall be kept available by Retrocessionaire and its departmental or branch offices for a period of not less than five (5) years after the termination date of this Retrocession Agreement.

C. For the purposes of this Article, "non-privileged" refers to books, records and papers that are not subject to the Attorney-client privilege and Attorney-work product doctrine. "Attorney-client privilege" and "Attorney-work product" shall have the meanings ascribed to each by statute and/or the court of final adjudication in the jurisdiction whose laws govern the substantive law of a claim arising under a Policy reinsured under this Retrocession Agreement.

D. Notwithstanding anything to the contrary in this Retrocession Agreement, for any claim or Loss under a Policy reinsured under this Retrocession Agreement, should either Party claim, pursuant to the Common Interest Doctrine ("Doctrine"), that it has the right to examine any document that is alleged to be subject to the Attorney-client privilege or the Attorney-work product privilege, upon the claiming Party providing to the other Party substantiation of any law which reasonably supports the basis for the conclusion that the Doctrine applies and the Doctrine will be upheld as applying between the Parties as against third parties pursuant to the substantive law(s) which govern the claim or Loss, the claiming Party shall be given access to such document.

E. Notwithstanding the foregoing, the Parties shall permit and not object to the other Party's access to privileged documents in connection with any underlying claim reinsured hereunder following final settlement or final adjudication of the case or cases involving such claim; provided that the Party may defer release of such privileged documents if there are subrogation, contribution, or other third party actions with respect to that claim or case, which might jeopardize the Party's defense by release of such privileged documents. In the event a Party shall seek to defer release of such privileged documents, it will, in consultation with the other Party, take other steps as reasonably necessary to provide the requesting Party with the information it reasonably requires to evaluate exposure, establish Reserves or indemnify without causing a loss of such privileges. The Parties shall in no event have access to privileged documents relating to any dispute between the Parties. Furthermore, in the event that a Party demonstrates a need for information contained in privileged documents prior to the resolution of the underlying claim, the other Party agrees it will endeavor to undertake steps as reasonably necessary to provide the requesting Party with the information it reasonably requires to indemnify the other Party without causing a loss of such privilege.

F. The provisions of this Article 14 shall survive the termination of this Retrocession Agreement.

ARTICLE 15

ARBITRATION

A. Any and all disputes between the Reinsurer and the Retrocessionaire arising out of, relating to, or concerning this Retrocession Agreement, whether sounding in contract or tort and whether arising during or after termination of this Retrocession Agreement, shall be submitted to the decision of a board of arbitration composed of two (2) arbitrators and an umpire ("Board") meeting at a site in the city in which the principal headquarters of the Retrocessionaire are located. The arbitration shall be conducted and shall proceed as set forth in the ARIAS-US Rules for the Resolution of U.S. Insurance and Reinsurance Disputes and the procedures below.

B. A notice requesting arbitration, or any other notice made in connection therewith, shall be in writing and be sent certified or registered mail, return receipt requested to the affected Party. The notice requesting arbitration shall state in particular all issues to be resolved, shall appoint the arbitrator selected by the claimant and shall set a tentative date for the hearing, which date shall be no sooner than ninety (90) days and no later than one hundred fifty (150) days from the date that the notice requesting arbitration is mailed. Within thirty (30) days of receipt of claimant's notice, the respondent shall notify claimant of any additional issues to be resolved in the arbitration and of the name of its appointed arbitrator.

C. The members of the Board shall be impartial, disinterested and not currently representing any Party participating in the arbitration, and shall be current or former senior officers of insurance or reinsurance concerns, experienced in the line(s) of business that are the subject of this Retrocession Agreement. The Reinsurer and the Retrocessionaire as aforesaid shall each appoint an arbitrator and the two (2) arbitrators shall choose an umpire before instituting the hearing. If the respondent fails to appoint its arbitrator within thirty (30) days after having received claimant's written request for arbitration, the claimant is authorized to and shall appoint the second arbitrator. If the two (2) arbitrators fail to agree upon the appointment of an umpire within thirty (30) days after notification of the appointment of the second arbitrator, within ten (10) days thereof, the two (2) arbitrators shall request ARIAS-U.S. ("ARIAS") to apply its procedures to appoint an umpire for the arbitration with the qualifications set forth above in this Article. If the use of ARIAS procedures fails to name an umpire, either Party may apply to a court of competent jurisdiction to appoint an umpire with the above required qualifications. The umpire shall promptly notify in writing all Parties to the arbitration of his selection and of the scheduled date for the hearing. Upon resignation or death of any member of the Board, a replacement shall be appointed in accordance with the same procedures pursuant to which the resigning or deceased member was appointed pursuant to this Article 15.

D. The claimant and respondent shall each submit initial briefs to the Board outlining the facts, the issues in dispute and the basis, authority, and reasons for their respective positions within thirty (30) days of the date of notice of appointment of the umpire. The claimant and the respondent may submit a reply brief to the Board within ten (10) days after filing of the initial brief(s). Initial and reply briefs may be amended by the submitting Party at any time, but not later than ten (10) days prior to the date of commencement of the arbitration hearing. Reasonable responses shall be allowed at the arbitration hearing to new material contained in any amendments filed to the briefs but not previously responded to.

E. The Board shall consider this Retrocession Agreement as an honorable engagement and shall make a decision and award with regard to the terms expressed in this Retrocession Agreement, the original intentions of the Parties to the extent reasonably ascertainable, and the custom and usage of the insurance and reinsurance business that is the subject of this Retrocession Agreement. Notwithstanding any other provision of this Retrocession Agreement, the Board shall have the right and obligation to consider underwriting and submission-related documents in any dispute between the Parties.

F. The Board shall be relieved of all judicial formalities and the formal rules of evidence, and the decision and award shall be based upon a hearing in which evidence that is relevant shall be allowed. Cross examination and rebuttal shall be allowed. The Board may request a post-hearing brief to be submitted within twenty (20) days of the close of the hearing.

G. The Board shall render its decision and award in writing within thirty (30) days following the close of the hearing or the submission of post-hearing briefs, whichever is later, unless the Parties consent to an extension. Every decision by the Board shall be by a majority of the members of the Board and each decision and award by the majority of the members of the Board shall be final and binding upon all Parties to the proceeding. Such decision shall be a condition precedent to any right of legal action arising out of the arbitrated dispute which either Party may have against the other. However, the Board is not authorized to award punitive, exemplary or enhanced compensatory damages.

H. The Board shall award interest on the award at a rate not in excess of Two Percent (2%) per annum calculated from the date the Board determines that any amounts due the prevailing Party should have been paid to the prevailing Party.

I. Either Party may apply to a court of competent jurisdiction for an order confirming any decision and the award; a judgment of that Court shall thereupon be entered on any decision or award.

J. Each Party shall bear the expenses and costs of its own attorney and of the one arbitrator appointed by or for it in connection with all phases of the arbitration proceeding through any judicial proceedings related to the arbitration and shall jointly and equally bear with the other Party the expense of any stenographer requested, and of the umpire. The remaining costs of the pre-confirmation arbitration proceedings shall be finally allocated by the Board.

K. Subject to customary and recognized legal rules of privilege, each Party participating in the arbitration shall have the obligation to produce those documents, and as witnesses at the arbitration those of its employees, and those of its affiliates, as any other participating Party reasonably requests, providing always that the same witnesses and documents be reasonably obtainable and relevant to the issues in the arbitration and not be unduly burdensome or excessive in the opinion of the Board.

L. The Parties may mutually agree as to pre-hearing discovery prior to the arbitration hearing and in the absence of agreement, upon the request of any Party, pre-hearing discovery may be conducted as the Board shall determine in its sole discretion to be in the interest of fairness, full disclosure, and in furtherance of a prompt hearing, decision and award by the Board.

M. The Board shall be the final judge of the composition of the Board, the procedures of the Board, the conduct of the arbitration, the rules of evidence, the rules of privilege, discovery and production and the excessiveness and relevancy of any witnesses and documents upon the petition of any participating Party. To the extent permitted by law, the Board shall have the authority to issue subpoenas and other orders to enforce its decisions. The Board shall also have the authority to issue interim decisions or awards in the interest of fairness, full disclosure, and a prompt and orderly hearing and decision and award by the Board.

N. Nothing in this Article shall preclude any of the Parties engaged in arbitration from settling the dispute and withdrawing from an arbitration established to resolve that dispute.

O. The provisions of this Article will survive the termination of this Retrocession Agreement.

P. If a dispute arising under this Retrocession Agreement is related to a dispute arising out of the Reinsurance Agreement (together, the "Reinsurance Transaction Agreements") all such disputes may be brought in a single arbitration, in each case, to the extent permitted under the respective applicable Reinsurance Transaction Agreement. If one or more arbitrations are already pending with respect to a dispute under this Retrocession Agreement or a dispute under the other Reinsurance Transaction Agreement, then any Party may request that any arbitration or any new related dispute be consolidated into any such prior arbitration. Such new dispute or arbitration shall be so consolidated, provided that the Board for the prior arbitration determines that: (i) the new dispute or arbitration presents significant issues of law or fact common with those in the pending arbitration; (ii) no party would be unduly prejudiced; and (iii) consolidation under these circumstances would not result in undue delay for the prior arbitration. Any such order of consolidation issued by the Board shall be final and binding upon the Parties. The Parties waive any right they have to appeal or to seek interpretation, revision or annulment of such order of consolidation, including in any court. The Board for the arbitration into which a new dispute is consolidated shall serve as the Board for the consolidated arbitration.

ARTICLE 16

CONFIDENTIALITY

A. The information, data, statements, representations and other materials provided by the Reinsurer and its Representatives or the Retrocessionaire and its Representatives to the other arising from consideration and participation in this Retrocession Agreement whether contained in the reinsurance submission, this Retrocession Agreement, or in materials or discussions arising from or related to this Retrocession Agreement, constitutes confidential or proprietary information (collectively, the "Confidential Information") unless (i) it is expressly indicated otherwise by the Party disclosing such information ("Disclosing Party") in writing from time to time to the other Party (the "Receiving Party"), or (ii) it is publicly available. This Confidential Information is intended for the sole use of the Parties to this Retrocession Agreement (and their affiliates involved in management or operation of the Subject Business covered hereunder, the intermediaries involved in the placement of this Retrocession Agreement, and their respective auditors, third-party service providers, professional advisors, and legal counsel, collectively termed the "Representatives") as may be necessary in analyzing and/or accepting a participation in and/or executing their respective responsibilities under or related to this Retrocession Agreement. The Receiving Party shall protect and safeguard the confidentiality of all Confidential Information with at least the same degree of care as the Receiving Party would protect its own Confidential Information, but in no event with less than a commercially reasonable degree of care.

B. Disclosing or using Confidential Information relating to this Retrocession Agreement, without the prior written consent of the Disclosing Party, for any purpose beyond (i) the scope of this Retrocession Agreement, (ii) the reasonable extent necessary to perform or enforce its rights and responsibilities provided for under this Retrocession Agreement or any Transaction Agreement, (iii) the reasonable extent necessary to administer, report to and effect recoveries under this Retrocession Agreement, (iv) the reporting to regulatory or other Governmental Authorities as may be legally required, (v) providing the Confidential Information to Representatives with a need to know such Confidential Information, who are legally obligated by either written agreement or otherwise to maintain the confidentiality of the Confidential Information, is expressly forbidden, or (vi) as may be required by applicable Law or regulatory requirement.

Copying, duplicating, disclosing, or using Confidential Information for any purpose beyond these purposes is forbidden without the prior written consent of the Disclosing Party.

C. Should a Receiving Party receive a third party demand pursuant to subpoena, summons, or court or governmental order or request, to disclose Confidential Information that has been provided by the Disclosing Party, to the extent allowed by law, the Receiving Party shall provide the Disclosing Party with written notice of any subpoena, summons, or court or governmental order or request, at least ten (10) days prior to such release or disclosure. Unless the Disclosing Party has given its prior permission to release or disclose the Confidential Information, the Receiving Party shall not comply with the subpoena prior to the actual date required by the subpoena. If a protective order or appropriate remedy is not obtained (at the sole expense of Disclosing Party), the Receiving Party may disclose only that portion of the Confidential Information that it is legally obligated to disclose. However, notwithstanding anything to the contrary in this Retrocession Agreement, in no event, to the extent permitted by law, shall this Article require the Receiving Party not to comply with the subpoena, summons, or court or governmental order.

ARTICLE 17

CURRENCY

A. Whenever the word "dollars" or the "$" sign appears in this Retrocession Agreement, they shall be construed to mean United States Dollars and all transactions under this Retrocession Agreement shall be in United States Dollars.

B. Amounts paid or received by the Companies in any other currency shall be converted to United States Dollars at the rate of exchange on the date such transaction is entered on the books of the Companies.

ARTICLE 18

DELAYS, ERRORS AND OMISSIONS

Inadvertent delays, errors or omissions made in connection with this Retrocession Agreement or any transaction hereunder (including the reporting of claims) shall not relieve either Party hereto from any liability which would have attached had such delay, error or omission not occurred, provided always that such delay, error or omission shall be rectified as soon as possible after discovery.

ARTICLE 19

EXTRA CONTRACTUAL OBLIGATIONS/LOSS EXCESS OF POLICY LIMITS

A. This Retrocession Agreement shall provide reinsurance for the Ultimate Net Loss of the Policies comprising the Subject Business, which includes, subject to the terms and conditions of this Article 19, any Extra Contractual Obligations and/or Loss Excess of Policy Limits.

B. "Extra Contractual Obligations" means all liabilities arising out of or relating to Subject Business not covered under any other provision of this Retrocession Agreement, including compensatory, consequential, punitive, or exemplary damages together with any legal costs and expenses incurred in connection therewith, paid (without duplication) as damages or in settlement by any Company, the Reinsurer or any affiliate arising from an allegation or claim of any Company's insured, Company's insured's assignee, or other third party, which alleges negligence, gross negligence, bad faith or other tortious conduct on the part of such Company, the Reinsurer or any affiliate, or any designee of such Company or the Reinsurer (including any TPA) to the extent indemnifiable by such Company or any affiliate of such Company in the handling, adjustment, rejection, defense or settlement of a claim under a Policy.

C. “Loss Excess of Policy Limits” means any costs, expenses or other amounts (other than Allocated Loss Adjustment Expenses) incurred in connection with a Loss paid as damages or in settlement (or otherwise) in excess of the limits of a specific Policy, but otherwise within the coverage terms of such Policy, including as arising from an allegation or claim of any Company’s insured, Company’s insured’s assignee, or other third party, which alleges negligence, gross negligence, bad faith or other tortious conduct in the handling of a claim under a Policy, in rejecting a settlement within the Policy limits, in discharging a duty to defend or prepare the defense in the trial of an action against the insured, or in discharging its duty to prepare or prosecute an appeal consequent upon such an action. For the avoidance of doubt, the decision by a Company to settle a claim for an amount within the coverage of the Policy but not within the Policy limit when such Company has reasonable basis to believe that it may have liability to the insured or assignee or other third party on the claim will be deemed a Loss Excess of Policy Limits.

D. Any Reserves ceded or assumed or amounts paid or settled by a Party (or a TPA on behalf of such Party) in respect of Extra Contractual Obligations or Loss Excess of Policy Limits without the other Party’s prior written approval such approval not to be unreasonably withheld, conditioned or delayed, shall not constitute Ultimate Net Loss or paid Ultimate Net Loss (as applicable), unless the other Party waives in writing the foregoing exclusion with respect to a particular amount or amounts. No such waiver by either Party shall constitute any future waiver of this Section with respect to other amounts.

E. An Extra Contractual Obligation or a Loss Excess of Policy Limits shall be deemed to have occurred on the same date as the Loss covered under the Policy and shall be considered part of the original Loss (subject to other terms of this Retrocession Agreement).

F. Neither an Extra Contractual Obligation nor a Loss Excess of Policy Limits shall include any Losses, liabilities, penalties, costs or other expenses arising out of any adjudicated fraudulent or criminal act by any officer or director of the Reinsurer or the Companies acting individually or collectively or in collusion with any other organization or party involved in the presentation, defense, or settlement of any claim covered under this Retrocession Agreement.

G. Neither an Extra Contractual Obligation nor a Loss Excess of Policy Limits shall include any Losses, liabilities, penalties, costs or other expenses arising out of any adjudicated fraudulent or criminal act by any officer or director of the Retrocessionaire acting individually or collectively or in collusion with any other organization or party involved in the presentation, defense, or settlement of any claim covered under this Retrocession Agreement, which all such Losses, Liabilities, penalties, costs or other expenses shall be the responsibility of Retrocessionaire and shall not be considered Ultimate Net Loss.

H. The Reinsurer shall be indemnified in accordance with this Article to the fullest extent permitted by applicable Law.

ARTICLE 20

FEDERAL EXCISE TAX

A. To the extent that any portion of the Premium paid to the Retrocessionaire under this Retrocession Agreement is subject to the Federal Excise Tax (as imposed under Section 4371 of the Internal Revenue Code) (“FET”) and the Retrocessionaire is not exempt therefrom, the Retrocessionaire shall allow for the purpose of paying the FET, a deduction by the Reinsurer of the applicable percentage of the Premium payable hereunder. In the event of any return of Premium becoming due hereunder, the Reinsurer shall use commercially reasonable efforts to obtain a refund of any FET paid to the IRS in respect of such returned Premium, and shall pay any such refunded FET over to the Retrocessionaire as soon as practicable following the receipt of such refund. Reinsurer or its agent shall be responsible for remitting any FET withheld from the Premium paid to the Retrocessionaire to the IRS. The Retrocessionaire shall reimburse the Reinsurer for any FET imposed on Premiums paid (or deemed paid) to the Retrocessionaire under this Retrocession Agreement that is not deducted and withheld in accordance with Article 6 and this Article 20.

B. To the extent applicable, in consideration of the terms under which this Retrocession Agreement is issued, the Reinsurer undertakes not to claim any deduction of the premium hereon when making Canadian Tax returns or when making tax returns, other than Income or Profits Tax returns, to any State or Territory of the United States of America or to the District of Columbia.

ARTICLE 21

TAX INFORMATION REPORTING AND WITHHOLDING

A. Prior to the Effective Date, the Reinsurer shall provide the Retrocessionaire with the Reinsurer’s IRS Form W-9, and the Retrocessionaire shall provide the Reinsurer with the Retrocessionaire’s IRS Form W-8BEN-E. In the event the IRS Form W-9 or IRS Form W-8BEN-E initially provided may no longer be relied upon, the Reinsurer or Retrocessionaire, as applicable, shall upon the other party’s reasonable request promptly provide to such other party an updated form. To the extent the Retrocessionaire is subject to the deduction and withholding of Premium payable hereunder under applicable Law, including, but not limited to, under the Foreign Account Tax Compliance Act (Sections 1471-1474 of the Internal Revenue Code), the Retrocessionaire agrees to allow such deduction and withholding from the Premium payable under this Retrocession Agreement, and the Reinsurer shall have no obligation to gross-up the Retrocessionaire for any such withheld amounts.

B. In the event of any return of Premium becoming due hereunder, the Reinsurer shall use commercially reasonable efforts to assist the Retrocessionaire in obtaining any refund permitted by applicable Law. In that event, the Retrocessionaire agrees to provide the Reinsurer or its agent with all information, assistance and cooperation which the Reinsurer or its agent reasonably requests in order to assist the Retrocessionaire in obtaining a refund. The Retrocessionaire further agrees that it will do nothing to prejudice the Reinsurer’s or its agent’s position or their potential or actual rights of recovery.

ARTICLE 22

INSOLVENCY

A. In the event of insolvency and the appointment of a conservator, liquidator, receiver, or statutory successor of the Reinsurer, any risk or obligation assumed by the Retrocessionaire shall be payable to the conservator, liquidator, receiver, or statutory successor on the basis of claims allowed against the insolvent Reinsurer by any court of competent jurisdiction or by any conservator, liquidator, receiver, or statutory successor of the Reinsurer having authority to allow such claims, without diminution because of that insolvency, or because the conservator, liquidator, receiver, or statutory successor has failed to pay all or a portion of any claims.

B. Payments by the Retrocessionaire as above set forth shall be made directly to the Reinsurer, the Companies, or to Reinsurer’s conservator, liquidator, receiver, or statutory successor, except where the contract of insurance or reinsurance specifically provides another payee of such reinsurance or except as provided by applicable Law and regulation in the event of the insolvency of the Reinsurer.

C. In the event of the insolvency of the Reinsurer, the liquidator, receiver, conservator or statutory successor of the Reinsurer shall give written notice to the Retrocessionaire of the pendency of a claim against the insolvent Reinsurer on the Policy or Policies reinsured within a reasonable time after such claim is filed in the insolvency proceeding, and, during the pendency of such claim, Retrocessionaire may investigate such claim and interpose, at its own expense, in the proceeding where such claim is to be adjudicated, any defense or defenses which it may deem available to the Reinsurer or its liquidator, receiver, conservator or statutory successor. The expense thus incurred by the Retrocessionaire shall be chargeable subject to court approval against the insolvent Reinsurer as part of the expense of liquidation to the extent of a proportionate share of the benefit which may accrue to the Reinsurer solely as a result of the defense undertaken by the Retrocessionaire.

ARTICLE 23

OFFSET

The Reinsurer and the Retrocessionaire shall have the right to offset any balance or amounts due from one Party to the other under the terms of this Retrocession Agreement. In addition, Retrocessionaire shall specifically have the right of offset against any balance or amounts due to Reinsurer or Companies in the event that Collateral Funds in the Statutory Trust Accounts are used or withdrawn in violation of the terms and conditions of the Statutory Trust Agreements or this Retrocession Agreement. In the event of insolvency of a Party hereto, offset shall be as permitted by applicable Law.

ARTICLE 24

PRIVACY & PROTECTION OF DATA

A. The Reinsurer and the Retrocessionaire represent that they are aware of and in compliance with their responsibilities and obligations under applicable Laws and regulations pertaining to Non-Public Personal Information ("NPPI") and Protected Health Information ("PHI"). For the purpose of this Retrocession Agreement, NPPI and PHI shall mean (i) financial or health information that identifies an individual, including claimants under Policies reinsured under this Retrocession Agreement, and which information is not otherwise available to the public, and (ii) any other information which would constitute personal information or personal health information under applicable Laws or regulations relating to the collection, retention, protection and use of such information, including the Gramm-Leach-Bliley Act of 1999, the Health Insurance Portability and Accountability Act of 1996 and the Health Information Technology for Economic and Clinical Health Act, and all amendments to and further regulations thereto (collectively, "Privacy Laws"). Data conveyed to the Retrocessionaire may include NPPI and/or PHI that is protected under applicable Privacy Laws and shall be used only in the performance of rights, obligations and duties in connection with this Retrocession Agreement.

B. The Retrocessionaire shall maintain appropriate safeguards to protect any NPPI and PHI received hereunder from accidental loss or unauthorized access, use or disclosure, which such safeguards shall, at a minimum, comply with all applicable Privacy Laws. The Retrocessionaire shall immediately report to the Reinsurer any known or reasonably suspected accidental loss or unauthorized access, use or disclosure of any NPPI or PHI held by or on behalf of the Retrocessionaire hereunder.

C. Without limiting the foregoing, the Retrocessionaire shall collect and use NPPI and PHI solely as permitted by, and shall not otherwise violate, any applicable privacy policy(ies) of the Reinsurer or with which the Reinsurer must comply which have been provided to the Retrocessionaire in writing, or which are otherwise known to the Retrocessionaire.

D. Upon receipt of any request from the Reinsurer for the deletion of any NPPI or PHI, the Retrocessionaire shall promptly comply with such request and certify such deletion to the Reinsurer. The Retrocessionaire shall convey to the Reinsurer any request for the deletion of NPPI or PHI received from any purported data subject.

ARTICLE 25

SANCTIONS

Neither the Reinsurer nor the Retrocessionaire shall be liable for any amounts under this Retrocession Agreement if it would result in a violation of any mandatory sanction, prohibition or restriction under United Nations resolutions or the trade or economic sanctions, laws or regulations of the European Union, United Kingdom or United States of America that are applicable to either Party.

ARTICLE 26

SERVICE OF SUIT

A. This Article will not be read to conflict with or override the obligations of the Parties to arbitrate their disputes as provided for in the Article entitled **ARBITRATION**. This Article is intended as an aid to compel required arbitration or enforce an arbitration or arbitral award, not as an alternative to the Article entitled **ARBITRATION** for resolving disputes arising out of this Reinsurance Agreement.

B. In the event of any dispute, the Retrocessionaire, at the request of the Reinsurer, shall submit to the jurisdiction of a court of competent jurisdiction within the State of Texas. The Retrocessionaire agrees to comply with all requirements necessary to give such court jurisdiction over the Retrocessionaire. The Retrocessionaire further agrees to abide by the final decision of such court or an appellate court to which such court's decision is appealed. Nothing in this Article constitutes or should be understood to constitute a waiver of the Retrocessionaire's rights to commence an action in any court of competent jurisdiction in the United States, to remove an action to a United States District Court, or to seek a transfer of a case to another court as permitted by the laws of the United States or of any state in the United States.

C. Service of process in any such suit against the Retrocessionaire may be made upon its duly authorized agent for service of process, R&Q Solutions LLC, Two Logan Square, Suite 600, Philadelphia, PA 19103, Attn: Christopher Reichow, U.S. General Counsel (the "Retrocessionaire's Agent for Process"), and in any suit instituted, the Retrocessionaire shall abide by the final decision of such court or of any appellate court in the event of an appeal.

D. The Retrocessionaire's Agent for Process is authorized and directed to accept service of process on behalf of the Retrocessionaire in any such suit.

E. Further, as required by and pursuant to any statute of any state, territory or district of the United States which makes provision therefore, the Retrocessionaire hereby designates the Superintendent, Commissioner or Director of Insurance or other officer specified for that purpose in the statute, or his successor or successors in office, as its true and lawful attorney upon whom may be served any lawful process in any action, suit or proceeding instituted by or on behalf of the Reinsurer arising out of this Retrocessionaire Agreement, and hereby designates the Retrocessionaire's Agent for Process as the person to whom the said officer is authorized to mail such process or a true copy thereof.

ARTICLE 27

REGULATORY MATTERS

If Reinsurer or Retrocessionaire receives notice of, or otherwise becomes aware of any inquiry, investigation, examination, audit, enforcement action or proceeding by any Governmental Authority relating to this Retrocession Agreement or the Reinsurance Agreement, Reinsurer or the Retrocessionaire, as applicable, shall promptly notify the other Party thereof, whereupon the Parties shall cooperate to resolve such matter.

ARTICLE 28

LIMITED RECOURSE AND BERMUDA REGULATIONS

A. Reinsurer and the Companies acknowledge and agree that Retrocessionaire is a segregated account of R&Q. Notwithstanding anything to the contrary herein, the total liability of Retrocessionaire for the performance and discharge of all of its obligations, however they may arise, in relation to this Retrocession Agreement and the Statutory Trust Agreements, shall be limited to and payable solely from the proceeds of realization of the assets of the Retrocessionaire and, accordingly, neither Reinsurer nor the Companies shall have any recourse, direct or indirect, to any other assets of R&Q whether or not allocated to any other segregated account or the general account of R&Q. In the event that the proceeds of realization of the assets of Retrocessionaire are insufficient to meet all obligations, Reinsurer and the Companies undertake in such circumstances to take no action against R&Q in respect of any such obligations. In particular, neither the Reinsurer, the Companies, nor any party acting on either entity's behalf shall petition or take any steps for the winding up or receivership of R&Q.

B. Notwithstanding any matter referred to herein, the Reinsurer and the Companies understand and accept that Retrocessionaire is a segregated account of R&Q that contains assets and liabilities that are legally separate from the assets and liabilities of R&Q's general account and other segregated accounts and that all corporate matters relating to the creation of Retrocessionaire, capacity of Retrocessionaire, operation and liquidation of Retrocessionaire and any matters relating to Retrocessionaire thereof shall be governed by, and construed in accordance with, the laws of Bermuda. The transactions contemplated under this Retrocession Agreement shall be linked to the segregated account. Reinsurer and the Companies each have had the opportunity to take advice and to obtain all such additional information that it considers necessary to evaluate the terms, conditions and risks of entering into this Retrocession Agreement with Retrocessionaire.

ARTICLE 29

REPRESENTATIONS AND WARRANTIES; COVENANTS

A. Reinsurer represents and warrants to Retrocessionaire as of the date hereof that the Reinsurance Agreement attached hereto as Exhibit B is full, correct, and complete, and has not been further amended or replaced. No amendment of the Reinsurance Agreement shall alter the Retrocessionaire's rights and obligations hereunder or under the Reinsurance Agreement with respect to Retrocessionaire's status as a third party beneficiary of the Reinsurance Agreement, without the Retrocessionaire's prior written consent and any such amendment made without Retrocessionaire's prior written consent shall not be binding on Retrocessionaire and shall not alter the Retrocessionaire's rights or obligations hereunder or under the Reinsurance Agreement in any way. Reinsurer shall not be required to obtain Retrocessionaire's consent for any amendments of the Reinsurance Agreement that do not alter Retrocessionaire's rights and obligations hereunder, but Reinsurer shall provide notice and a copy of such amendments to Retrocessionaire.

B. Reinsurer represents and warrants to Retrocessionaire that the Policies for the Subject Business have not been further amended or replaced since the Effective Date, other than (i) in the ordinary course of business, (ii) in accordance with changes in applicable Law, or (iii) in accordance with the terms of such Policies, and in any case such amendments or replacements set forth in subclauses (i)-(iii) do not materially increase the risk to Retrocessionaire as disclosed. No amendment or replacement not expressly permitted herein shall be made without the Retrocessionaire's prior written consent and any such amendment or replacement made without Retrocessionaire's prior written consent shall not be binding on Retrocessionaire and shall not alter the Retrocessionaire's rights or obligations hereunder or under the Reinsurance Agreement in any way.

C. Reinsurer represents and warrants to Retrocessionaire as of the date hereof that the Subject Business and associated information attached hereto as Exhibit A is full, correct, and complete, and has not been further amended or replaced. No amendment of or endorsement to the Policies written in respect of the Subject Business (other than as set forth in Section A) shall affect Ultimate Net Loss ceded hereunder without Retrocessionaire's written consent.

D. Neither Company nor Reinsurer shall enter into any arrangement with existing reinsurers, or take any other action with respect to such existing reinsurance arrangements or the agreements evidencing such arrangements, that reduce, restrict or otherwise limit the cover provided by those reinsurers. Any action taken in violation of this Section shall not be binding on Retrocessionaire and shall not alter the Retrocessionaire's rights or obligations hereunder in any way.

ARTICLE 30

MISCELLANEOUS

A. Interpretation.

1. As used in this Retrocession Agreement, references to the following terms have the meanings indicated:

a. to the Preamble or to the Recitals, Sections, Articles, Exhibits or Schedules are to the Preamble or a Recital, Section or Article of, or an Exhibit or Schedule to, this Retrocession Agreement unless otherwise clearly indicated to the contrary;

b. to any contract or agreement (including this Retrocession Agreement) are to the contract or agreement as amended, modified, supplemented or replaced from time to time;

c. to any law are to such law as amended, modified, supplemented or replaced from time to time and all rules and regulations promulgated thereunder, and to any section of any law include any successor to such section;

d. to any Governmental Authority include any successor to the Governmental Authority and to any affiliate include any successor to the affiliate;

e. to any "copy" of any contract or agreement or other document or instrument are to a true and complete copy thereof;

f. to “hereof,” “herein,” “hereunder,” “hereby,” “herewith” and words of similar import refer to this Retrocession Agreement as a whole and not to any particular Article, Section or clause of this Retrocession Agreement, unless otherwise clearly indicated to the contrary;

g. to the “date of this Retrocession Agreement,” “the date hereof” and words of similar import refer to April 1, 2020; and

h. to “this Retrocession Agreement” includes the Exhibits and Schedules.

2. Whenever the last day for the exercise of any right or the discharge of any duty under this Retrocession Agreement falls on a day other than a Business Day, the Party having such right or duty shall have until the next Business Day to exercise such right or discharge such duty. Unless otherwise indicated, the word “day” shall be interpreted as a calendar day. With respect to any determination of any period of time, unless otherwise set forth herein, the word “from” means “from and including” and the word “to” means “to but excluding.”

3. Whenever the words “include,” “includes” or “including” are used in this Retrocession Agreement, they will be deemed to be followed by the words “without limitation.” The word “or” shall not be disjunctive unless context requires otherwise. Any singular term in this Retrocession Agreement will be deemed to include the plural, and any plural term the singular. All pronouns and variations of pronouns will be deemed to refer to the feminine, masculine or neuter, singular or plural, as the identity of the person referred to may require. Where a word or phrase is defined herein, each of its other grammatical forms shall have a corresponding meaning.

4. The Parties have participated jointly in the negotiation and drafting of this Retrocession Agreement; consequently, in the event an ambiguity or question of intent or interpretation arises, this Retrocession Agreement shall be construed as jointly drafted by the Parties and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any provision of this Retrocession Agreement.

5. No summary of this Retrocession Agreement prepared by or on behalf of any Party shall affect the meaning or interpretation of this Retrocession Agreement.

6. All capitalized terms used without definition in the Exhibits and Schedules to this Retrocession Agreement shall have the meanings ascribed to such terms in this Retrocession Agreement.

B. Binding Effect; Assignment. This Retrocession Agreement shall be binding upon and inure to the benefit of the Parties, and their respective successors and permitted assigns. This Retrocession Agreement may not be assigned by either Party, by operation of law or otherwise, without the prior written consent of the other Party, which consent may be withheld by either Party in its sole unfettered discretion. Any assignment in violation hereof shall be void. This provision shall not be construed to preclude the assignment by the Reinsurer of reinsurance recoverables to another party for collection.

C. Governing Law. This Retrocession Agreement shall be governed by and construed according to the laws of the state of Texas, exclusive of that state’s rules with respect to conflicts of law.

D. Headings. The table of contents and headings preceding the text of the Articles and Sections of this Retrocession Agreement are intended and inserted solely for the convenience of reference and shall not affect the meaning, interpretation, construction or effect of this Retrocession Agreement.

E. Entire Agreement; Amendment. This Retrocession Agreement and the Transaction Agreements shall constitute the entire agreement between the Parties with respect to the Subject Business hereunder. Any change or modification of this Retrocession Agreement shall be null and void unless made by written amendment to the Retrocession Agreement and signed by all Parties. Nothing in this Article shall act to preclude the introduction of reinsurance submission-related documents in any dispute between the Parties. No termination of this Retrocession Agreement shall be effective unless such is made in writing and signed by the Parties hereto.

F. No Third Party Beneficiaries. Nothing in this Retrocession Agreement is intended or shall be construed to give any person, other than the Parties hereto and the Companies, any legal or equitable right, remedy or claim under or in respect of this Retrocession Agreement or any provision contained herein, other than the Reinsurer and the Retrocessionaire, except any other applicable party pursuant to the Article entitled **INSOLVENCY**. The Companies are intended, express third party beneficiaries of all provisions of this Retrocession Agreement.

G. Remedies. In the event of any default hereunder beyond the applicable cure period (if any), the non-defaulting Party may proceed to protect and enforce its rights either by suit in equity and/or by action at law, including, but not limited to, an action for damages as a result of any such default. The rights and remedies provided herein shall be cumulative and not exclusive of any rights or remedies provided by law, except as set forth in the Article entitled **ARBITRATION**.

H. Severability. If any provision of this Retrocession Agreement should be invalid under applicable Laws, the latter shall control but only to the extent of the conflict without affecting the remaining provisions of this Retrocession Agreement.

I. Waiver. The failure of the Reinsurer or Retrocessionaire to insist on strict compliance with this Retrocession Agreement or to exercise any right or remedy shall not constitute a waiver of any rights contained in this Retrocession Agreement nor estop the parties from thereafter demanding full and complete compliance nor prevent the Parties from exercising any remedy.

J. Force Majeure. Each Party shall be excused for any reasonable failure or delay in performing any of its respective obligations under this Retrocession Agreement, if such failure or delay is caused by Force Majeure. "Force Majeure" shall mean any act of God, strike, lockout, act of public enemy, any accident, explosion, fire, storm, earthquake, flood, drought, peril of sea, riot, embargo, war or foreign, federal, state or municipal order or directive issued by a court or other authorized official, seizure, requisition or allocation, any failure or delay of transportation, shortage of or inability to obtain supplies, equipment, fuel or labor or any other circumstance or event beyond the reasonable control of the Party relying upon such circumstance or event.

K. Survival. Notwithstanding anything to the contrary herein, all Articles of this Retrocession Agreement shall survive the termination of this Retrocession Agreement until all surviving obligations between the Parties have been finally settled.

L. Construction. Whenever the content of this Retrocession Agreement requires, the gender of all words shall include the masculine, feminine and neuter, and the number of all words shall include the singular and the plural. This Retrocession Agreement shall be construed without regard to any presumption or other rule requiring construction against the Party causing this Retrocession Agreement to be drafted.

M. Authority. Each Party has full power and authority to execute and deliver this Retrocession Agreement and to perform its obligations hereunder. The execution and delivery of this Retrocession Agreement, and the consummation of the transactions contemplated herein, have been duly and validly approved by all requisite action on the part of each Party, and no other proceedings on the part of either Party, is necessary to approve this Retrocession Agreement and to consummate the transactions contemplated herein. This Retrocession Agreement has been duly and validly executed and delivered by each Party, and constitutes the legal, valid and binding obligation of each Party, enforceable against each Party in accordance with its terms, except as enforcement may be limited by general principles of equity, whether applied in a court of law or a court of equity, and by bankruptcy, insolvency, reorganization, moratorium and similar laws affecting or relating to creditors' rights and remedies generally.

N. Notices. All notices and other communications under this Retrocession Agreement shall be in writing and shall be deemed given (a) when delivered personally by hand, (b) when sent by email, (c) three (3) Business Days after being sent by certified mail, or (d) one (1) Business Day following the day sent by an internationally recognized overnight courier, in each case, at the following addresses, and email addresses (or to such other address or email address as a Party may have specified by notice given to the other Party pursuant to this provision):

In the case of Retrocessionaire:

R&Q Bermuda (SAC) Limited
Randall & Quilter Investment Holdings Ltd.
F B Perry Building, 40 Church Street
Hamilton HM11, Bermuda
Attention: Paul Corver
Email: [***]

With a copy to:

R&Q Solutions, LLC
Two Logan Square
Suite 600
Philadelphia, PA 19103
Attention: Christopher Reichow, U.S. General Counsel
Email: [***]

In the case of the Reinsurer:

HIIG Re
c/o Marsh Management Services Cayman Ltd.
P.O. Box 1051
Grand Cayman KY1-1102
CAYMAN ISLANDS
Attention: Kieran O'Mahony
Email: [***]

With a copy to:

HIIG Re
Legal Department
800 Gessner, Suite 600
Houston, TX 77024
Email: [***]

In the case of the Companies:

Houston Specialty Insurance Company
Legal Department
800 Gessner, Suite 600
Houston, TX 77024
Email: [***]

Imperium Insurance Company
Legal Department
800 Gessner, Suite 600
Houston, TX 77024
Email: [***]

Great Midwest Insurance Company
Legal Department
800 Gessner, Suite 600
Houston, TX 77024
Email: [***]

O. Counterparts: Electronic Execution. This Retrocession Agreement may be executed in one or more counterparts, each of which will be deemed to constitute an original, but all of which shall constitute one and the same agreement, and may be delivered by electronic means intended to preserve the original graphic or pictorial appearance of a document, including portable document format (PDF) scan.

(signatures appear on the following page)

IN WITNESS WHEREOF, each of the Parties has caused this Retrocession Agreement to be executed on its behalf as of April 1, 2020.

RETROCESSIONAIRE:

R&Q BERMUDA (SAC) LIMITED
ACTING IN RESPECT OF THE HIIG SEGREGATED ACCOUNT

By: /s/ Stewart Ritchie
Name: Stewart Ritchie
Title: Director

REINSURER:

HIIG RE

By: /s/ Kieran O'Mahony
Name: Kieran O'Mahony
Title: SVP March Management Services Cayman Ltd. as Assistant Secretary

COMPANIES:

HOUSTON SPECIALTY INSURANCE COMPANY

By: /s/ Peter B. Smith
Name: Peter B. Smith
Title: President

IMPERIUM INSURANCE COMPANY

By: /s/ Peter B. Smith
Name: Peter B. Smith
Title: President

(signatures continue on the following page)

(Signature page to Loss Portfolio Transfer Retrocession Agreement)

COMPANY (continued from previous page):

GREAT MIDWEST INSURANCE COMPANY

By: /s/ Peter B. Smith
Name: Peter B. Smith
Title: President

(Signature page to Loss Portfolio Transfer Retrocession Agreement — cont.)

EXHIBIT A
SUBJECT BUSINESS

Group A

[***]

Group B

[***]

<u>EXHIBIT B</u>

Reinsurance Agreement

LOSS PORTFOLIO TRANSFER AND ADVERSE DEVELOPMENT REINSURANCE AGREEMENT

by and among

HOUSTON SPECIALTY INSURANCE COMPANY,
IMPERIUM INSURANCE COMPANY,
GREAT MIDWEST INSURANCE COMPANY,

and

HIIG RE

Dated as of: April 1, 2020

TABLE OF CONTENTS

LOSS PORTFOLIO TRANSFER AND ADVERSE DEVELOPMENT REINSURANCE AGREEMENT

This LOSS PORTFOLIO TRANSFER AND ADVERSE DEVELOPMENT REINSURANCE AGREEMENT (this "Reinsurance Agreement"), dated as of April 1, 2020, is made and entered into by and among, HOUSTON SPECIALTY INSURANCE COMPANY, IMPERIUM INSURANCE COMPANY, and GREAT MIDWEST INSURANCE COMPANY, each a Texas domiciled insurance company (collectively, the "Companies", individually, a "Company") and HIIG Re, a Cayman Islands corporation and an affiliate of the Companies (the "Reinsurer").

W I T N E S S E T H:

WHEREAS, the Companies and the Reinsurer wish to enter into this loss portfolio transfer and adverse development reinsurance agreement, incepting at the Effective Time, pursuant to which the Companies shall cede and the Reinsurer shall accept and reinsure all of Ultimate Net Loss arising out of or relating to Policies comprising the Subject Business, subject to the Aggregate Limit (the "Reinsured Liabilities") and the terms and conditions set forth herein;

WHEREAS, concurrent with the execution and delivery of this Reinsurance Agreement, the Reinsurer, as the retrocedent, is entering into that certain loss portfolio transfer and adverse development retrocession agreement incepting at the Effective Time, attached hereto as Exhibit B (the "Retrocession Agreement") by and between Reinsurer and R&Q Bermuda (SAC) Limited, a Bermuda limited company, acting in respect of the HIIG Segregated Account (in such capacity, the "Retrocessionaire") whereby the Reinsurer will cede and the Retrocessionaire will reinsure all of the Ultimate Net Loss, except for the portion retained by the Reinsurer pursuant to Article 5 of the Retrocession Agreement, under and subject to the terms of the Retrocession Agreement; and

WHEREAS, on the date hereof, concurrent with the execution and delivery of this Reinsurance Agreement, each Company individually, the Reinsurer, the Retrocessionaire and The Bank of New York Mellon shall enter into certain Statutory Trust Agreements, pursuant to which Retrocessionaire shall collateralize its obligations in respect of ultimate net loss reinsured under the Retrocession Agreement.

NOW, THEREFORE, in consideration of the mutual covenants herein contained and for other good and valuable consideration, the receipt and sufficiency of which hereby are acknowledged, and intending to be legally bound hereby, Reinsurer and Retrocessionaire hereby agree as follows:

ARTICLE 1

BUSINESS COVERED

A. This Reinsurance Agreement applies to all Ultimate Net Loss that is paid or payable by the Companies on and after the Effective Date in respect of the Subject Business, subject to all the terms and conditions of this Reinsurance Agreement.

B. The Reinsurer's liability under this Reinsurance Agreement shall commence at the Effective Time, and all reinsurance of Ultimate Net Loss ceded hereunder is subject to the same risks, terms, rates, conditions, assessments, interpretations, waivers, modifications, alterations and cancellations as the respective Policies to which this Reinsurance Agreement applies, except as may be expressly modified by the specific terms and conditions of this Reinsurance Agreement, the true intent of this Reinsurance Agreement being that the Reinsurer shall, except as may be expressly modified by the specific terms and conditions of this Reinsurance Agreement, (i) follow the fortunes of the Companies, and (ii) be bound, without limitation, by all payments and settlement entered into by or on behalf of the Companies, including (for the avoidance of doubt) any payments or settlements entered into from the Effective Date to the date hereof.

C. Should any regulatory or other legal restriction of any applicable jurisdiction require modification of any Policy to which this Reinsurance Agreement applies, or should any such Policy be modified in accordance with its terms or with consent of the Reinsurer, the liability of the Reinsurer will follow that of the Companies, Oklahoma Specialty Insurance Company, an affiliate of the Companies, subject to the express exclusions set forth herein and the other terms and conditions of this Reinsurance Agreement.

ARTICLE 2

DEFINITIONS

The Recitals are incorporated into this Reinsurance Agreement as if set forth at length herein. Capitalized terms as used in this Reinsurance Agreement (including in the Recitals and Article 0) shall have the meanings set forth below throughout this Reinsurance Agreement:

"Actuary's Rolled Amounts" has the meaning provided under the Article entitled **ROLL FORWARD OF ORIGINAL AMOUNTS**.

"Aggregate Limit" has the meaning provided under the Article entitled **REINSURANCE COVERAGE**.

"Agreement Deadline" has the meaning provided under the Article entitled **ROLL FORWARD OF ORIGINAL AMOUNTS**.

"Allocated Loss Adjustment Expenses" means all expenses and costs sustained, without duplication, by the Companies in connection with the adjustment, defense, settlement or litigation of claims or suits, satisfaction of judgments, or resistance to or negotiations concerning a Loss or potential Loss under specific Policies. Allocated Loss Adjustment Expenses shall include (i) the expenses and costs of TPAs (which, for the avoidance of doubt, shall not constitute Unallocated Loss Adjustment Expenses), (ii) legal expenses and costs incurred in connection with coverage analysis and questions regarding specific claims and legal actions assignable to a specific Policy, including declaratory judgment actions connected thereto (whether or not a Loss is incurred), (iii) all interest on judgments, and (iv) expenses and costs sustained to obtain recoveries, salvages or other reimbursements, or to secure the reversal or reduction of a verdict or judgment. Allocated Loss Adjustment Expenses shall not include any normal overhead, office expenses, fees, commissions, salaries and other employee compensation, and other similar expenses of the Reinsurer, TPAs, or the Companies, whether or not incurred in connection with adjusting a Loss, which shall be termed the "Unallocated Loss Adjustment Expenses."

"Board" has the meaning provided under the Article entitled **ARBITRATION**.

"Brokerage" means the brokerage fee payable to Guy Carpenter, LLC by the Reinsurer on behalf of the Retrocessionaire in respect of the transactions contemplated under the Transaction Agreements, in the amount of [***].

"Business Day" means a day other than (i) a Saturday; (ii) a Sunday; or (iii) a day on which banking institutions or trust companies in Texas, the Cayman Islands, or Bermuda, are authorized or required by applicable Law or executive order to remain closed.

"Ceded Reserves" means the Reserves for Ultimate Net Loss ceded to the Reinsurer under this Reinsurance Agreement in respect of Subject Business (including, for the avoidance of doubt, reserves for IBNR), calculated in accordance with SAP for the Companies.

"Claims Estimate" has the meaning set forth under the Article entitled **REPORTS AND SETTLEMENTS**.

"Code" means the U.S. Internal Revenue Code of 1986, as amended.

"Companies" and "Company" has the meaning provided under the Preamble.

"Confidential Information" has the meaning provided under the Article entitled **CONFIDENTIALITY**.

"Deductible" means One Hundred Five Million Dollars ($105,000,000.00), which amount shall be rolled forward pursuant to the Article entitled **ROLL FORWARD OF ORIGINAL AMOUNTS**.

"Deemed Amounts" has the meaning provided under the Article entitled **REINSURANCE WARRANTY**.

"Disclosing Party" has the meaning provided under the Article entitled **CONFIDENTIALITY**.

"Doctrine" has the meaning provided under the Article entitled **ACCESS TO RECORDS**.

"Effective Date" means April 1, 2020.

"Effective Time" means 12:00:01 a.m. Central Time on the Effective Date.

"Eligible Assets" means cash (United States legal tender), certificates of deposit (issued by a bank organized under the laws of the United States, or located in the United States, and payable in United States legal tender), or investments of the types permitted by Texas Insurance Code § 493.104; provided that such investments are issued by an institution that is not the parent, subsidiary, or affiliate of any of the Companies, the Reinsurer or the Retrocessionaire and such investments comply with the investment guidelines agreed by the Companies, the Reinsurer and the Retrocessionaire. The Companies, the Reinsurer and the Retrocessionaire agree that "Eligible Assets" shall not include any assets held or principally traded outside the United States. The Parties further agree that the defined term "Eligible Assets" do not include mortgages, collateralized debt obligations, collateralized loan obligations, real estate or derivatives. Additionally, to be an Eligible Asset, an investment must be interest bearing, interest accruing with a specific maturity date on which redemption is to be made at stated value, and not in default and shall otherwise qualify under Texas Insurance Law.

"Extra Contractual Obligations" has the meaning provided under the Article entitled **EXTRA CONTRACTUAL OBLIGATIONS/LOSS EXCESS OF POLICY LIMITS**.

"FET" has the meaning provided under the Retrocession Agreement.

"Governmental Authorities" means collectively any applicable federal, state, local or foreign governmental, administrative or regulatory authority, court, agency or instrumentality, including the Texas Department of Insurance.

"Group A Participation Attachment Point" has the meaning provided under the Article entitled **REINSURANCE COVERAGE & APPLICATION OF DEDUCTIBLE**.

"Group A Participation Attachment Point Premium" has the meaning provided under the Article entitled **REINSURANCE COVERAGE & APPLICATION OF DEDUCTIBLE**.

"Group A Policies" has the meaning set forth under the definition of Subject Business herein.

"Group A Sublimit" has the meaning provided under the Article entitled **REINSURANCE COVERAGE & APPLICATION OF DEDUCTIBLE**.

"Group B Participation Attachment Point" has the meaning provided under the Article entitled **REINSURANCE COVERAGE & APPLICATION OF DEDUCTIBLE**.

"Group B Participation Attachment Point Premium" has the meaning provided under the Article entitled **REINSURANCE COVERAGE & APPLICATION OF DEDUCTIBLE**.

"Group B Policies" has the meaning set forth under the definition of Subject Business herein.

"Group B Sublimit" has the meaning provided under the Article entitled **REINSURANCE COVERAGE & APPLICATION OF DEDUCTIBLE**.

"IBNR" means incurred but not reported losses, as calculated in accordance with SAP for the Companies.

"Inuring Reinsurance" means reinsurance or retrocession coverages and related recoverables (as applicable) for the benefit of the Companies from unaffiliated reinsurance companies to the extent covering the Subject Business which were procured prior to the earlier to occur of the date hereof and the Effective Date which shall be subject to the provisions of Article 8.

"IRS" means the U.S. Internal Revenue Service.

"Law" means any federal, state or local law, statute, ordinance, rule, regulation, or principle of common law or equity imposed by or on behalf of a Governmental Authority.

"Loss(es)" means, without duplication, all amounts paid or payable by the Companies or Oklahoma Specialty Insurance Company arising (i) under any Policy, subject to the original Policy terms and limit (or any changes to such Policy terms or limit required by applicable Law or approved in writing by the Reinsurer) or (ii) out of escheat or unclaimed property Laws applicable to the Policies. Losses shall not include Allocated Loss Adjustment Expenses.

"Loss Excess of Policy Limits" has the meaning provided under the Article entitled **EXTRA CONTRACTUAL OBLIGATIONS/LOSS EXCESS OF POLICY LIMITS**.

"Minimum Notional Amount" has the meaning provided under the Article entitled **REINSURANCE WARRANTY**.

“Net Loss” means, without duplication, all Loss, Allocated Loss Adjustment Expenses, Extra Contractual Obligations, and Loss Excess of Policy Limits, payable on and after the Effective Date in respect of the Subject Business.

“Notional Amount” has the meaning provided under the Article entitled **REINSURANCE WARRANTY**.

“NPPI” has the meaning provided under the Article entitled **PRIVACY & PROTECTION OF DATA**.

“Original Calculation Date” has meaning provided under the Article entitled **ROLL FORWARD OF ORIGINAL AMOUNTS**.

“Party” and “Parties” means either or both, as applicable, the Reinsurer and the Companies.

“PHI” has the meaning provided under the Article entitled **PRIVACY & PROTECTION OF DATA**.

“Policy(ies)” means each of the binders, policies, slips, line slips and other agreements of insurance, including all endorsements, riders and supplements thereto and all amendments thereof, in each case, of the Companies or indemnity reinsured by the Companies from Oklahoma Specialty Insurance Company.

“Premium” shall mean Ninety Seven Million One Hundred Thousand Dollars ($97,100,000.00).

“Receiving Party” has the meaning set forth under the Article entitled **CONFIDENTIALITY**.

“Reinsurance Agreement” has the meaning set forth under the Preamble.

“Reinsurance Transaction Agreements” as the meaning set forth under the Article entitled **ARBITRATION**.

“Reinsurance Warranty Amount” has the meaning set forth under the Article entitled **REINSURANCE WARRANTY**.

“Reinsurer” has the meaning set forth under the Preamble.

“Reinsurer’s Adjustment Notice” has the meaning set forth under the Article entitled **ROLL FORWARD OF ORIGINAL AMOUNTS**.

“Reports” has the meaning set forth under the Article entitled **REPORTS AND SETTLEMENTS**.

“Representatives” has the meaning set forth under the Article entitled **CONFIDENTIALITY**.

“Required Collateral Amount” has the meaning set forth in the Retrocession Agreement.

“Required Funding Amount” has the meaning set forth under the Article entitled **REPORTS AND SETTLEMENTS**.

“Reserves” means, with respect to any insurer or reinsurer, as required by SAP or applicable Law of the jurisdiction of domicile of such insurance company, reserves (including any gross, net and ceded reserves, as applicable), funds or provisions for losses, claims (including reserves for IBNR), unearned premiums, costs and expenses (including Allocated Loss Adjustment Expenses).

"Retrocession Agreement" has the meaning set forth under the Recitals.

"Retrocessionaire" has the meaning set forth under the Recitals.

"Rolled Amount" has the meaning set forth under the Article entitled **ROLL FORWARD OF ORIGINAL AMOUNTS**.

"Roll Forward Agreement Date" has the meaning set forth under the Article entitled **ROLL FORWARD OF ORIGINAL AMOUNTS**.

"SAP" means, as to any insurer or reinsurer, the statutory accounting practices and principles prescribed or permitted by the Governmental Authority responsible for the regulatory of insurance and reinsurance in the jurisdiction of domicile of such insurer or reinsurer.

"Statement of Rolled Amounts" has the meaning set forth under the Article entitled **ROLL FORWARD OF ORIGINAL AMOUNTS**.

"Statutory Trust Account(s)" has the meaning set forth in the Retrocession Agreement.

"Statutory Trust Agreement(s)" means the Statutory Trust Agreements, the form of which is attached as Exhibit C hereto.

"Subject Business" means

(a) the Policies in respect of the business identified as "Group A" in Exhibit A, in each case, incepting prior to the date specified therein; and

(b) the Policies in respect of the business identified as "Group B" in Exhibit A, in each case, incepting prior to the applicable date specified therein.

"Term" has the meaning set forth under the Article entitled **COMMENCEMENT AND TERMINATION**.

"TPAs" means any and all third party administrators handling claims or performing other services in connection with the Subject Business.

"Transaction Agreements" means this Reinsurance Agreement, the Retrocession Agreement and the Statutory Trust Agreements.

"Ultimate Net Loss" means all Net Loss, which is:

(1) net of:

i. the amount of all Inuring Reinsurance; and

ii. all salvage, subrogation and recoverables (other than the amount of all Inuring Reinsurance) received by or offset for the account of the Reinsurer in respect therefor;

and

(2) subject to the Aggregate Limit and other conditions and limitations provided under the Article entitled **REINSURANCE COVERAGE**.

"Updated Calculation Date" has the meaning set forth under the Article entitled **ROLL FORWARD OF ORIGINAL AMOUNTS**.

In the event of insolvency of a Company, "Ultimate Net Loss" shall mean the amount of Ultimate Net Loss which the insolvent Company has incurred (or may incur) or is (or may become) liable for and payment by the Reinsurer shall be made to the receiver or statutory successor of the Company in accordance with the provisions of the Article entitled **INSOLVENCY**. Nothing in this Reinsurance Agreement shall be construed to mean Losses are not recoverable until the final Ultimate Net Loss to the Companies has been ascertained.

ARTICLE 3

COMMENCEMENT AND TERMINATION

The reinsurance coverage hereunder shall incept at the Effective Time and shall remain in effect until the earliest of the following (the "Term"):

1. the date on which the Aggregate Limit is exhausted by payments in respect of paid Ultimate Net Loss made by the Reinsurer;

2. the date on which all liabilities of the Companies in respect of Net Loss are extinguished and all amounts due to the Companies (or its statutory successor or receiver) under this Reinsurance Agreement with respect to Ultimate Net Loss have been paid;

3. the date on which this Reinsurance Agreement is terminated upon mutual agreement of the Reinsurer and the Companies; or

4. the date on which this Reinsurance Agreement is commuted pursuant to the Article entitled **COMMUTATION**.

ARTICLE 4

EXCLUSIONS

This Reinsurance Agreement does not apply to and specifically excludes:

1. Net Loss paid or booked as paid by the Companies or Reinsurer before the Effective Date;

2. Unallocated Loss Adjustment Expenses;

3. Any reinstatement or other premiums due under the Companies's existing reinsurance arrangements to the extent such existing reinsurance arrangements do not inure to the benefit of this Reinsurance Agreement; and

4. Any payment of profit commission or similar arrangement due from the Companies to any other reinsurer or any other party in respect of the Subject Business.

ARTICLE 5

REINSURANCE COVERAGE & APPLICATION OF DEDUCTIBLE

A. The Reinsurer hereby agrees to reimburse the Companies for one hundred percent (100%) of the Ultimate Net Loss with respect to the Subject Business, subject to the limitations provided in this Article 0.

B. Reinsurer agrees to reinsure and (subject to the Deductible and the Aggregate Limit) indemnify the Companies for Ultimate Net Loss in the amounts and subject to the conditions set forth below:

1. Group A. Reinsurer agrees to reinsure Ultimate Net Loss and (subject to the Deductible and the Aggregate Limit) indemnify the Companies for paid Ultimate Net Loss, in each case, arising out of or relating to Group A Policies in the amounts set forth as follows:

a. Reinsurer shall be liable for one hundred percent (100%) of the Ultimate Net Loss on the Group A Policies for the first Twenty Five Million Dollars ($25,000,000.00) of such Ultimate Net Loss ("Group A Participation Attachment Point"); and

b. In addition to the amount set forth in clause B.1.a above, Reinsurer shall be liable for one hundred percent (100%) of every dollar incurred of Ultimate Net Loss on the first Five Million Dollars ($5,000,000.00) of Ultimate Net Loss on Group A Policies that exceeds the Group A Participation Attachment Point, subject to payment by the Companies of additional premium (the "Group A Participation Attachment Point Premium") equal to FIFTY CENTS ($00.50) per each dollar of such incurred Ultimate Net Loss up to an aggregate amount of Two Million Five Hundred Thousand Dollars ($2,500,000) of such Group A Participation Attachment Point Premium. Until the Deductible is exhausted, such additional premium shall be notional, without any payment to Reinsurer hereunder.

c. Net Loss (and Inuring Reinsurance and all salvage, subrogation and other recoverables received by or offset for the account of the Companies in respect of any of the foregoing) that would otherwise constitute Ultimate Net Loss on Group A Policies but that are incurred (or that correspond to Net Loss) in excess of the first net aggregate Thirty Million Dollars ($30,000,000.00) of such Ultimate Net Loss ceded hereunder (the "Group A Sublimit") shall be disregarded and shall not constitute Ultimate Net Loss.

2. Group B. Reinsurer agrees to reinsure Ultimate Net Loss and (subject to the Deductible and the Aggregate Limit) indemnify Companies for the Ultimate Net Loss on Policies written for paid Ultimate Net Loss, in each case, arising out of or relating to Group B Policies, in the amounts set forth as follows:

a. Reinsurer shall be liable for one hundred percent (100%) of the Ultimate Net Loss on the Group B Policies for the first One Hundred Fifty Million Dollars ($150,000,000.00) of such Ultimate Net Loss ("Group B Participation Attachment Point"); and

b. In addition to the amount set forth in clause B.2.a above, Reinsurer shall be liable for one hundred percent (100%) of every dollar incurred of Ultimate Net Loss on the first Seventy Million Dollars ($70,000,000.00) of Ultimate Net Loss on Group B Policies that exceeds the Group B Participation Attachment Point, subject to payment by the Companies of additional premium (the "Group B Participation Attachment Point Premium") equal to FIFTY CENTS ($00.50) per each dollar of such incurred Ultimate Net Loss up to an aggregate amount of Thirty Five Million Dollars ($35,000,000) of such Group B Participation Attachment Point Premium. Until the Deductible is exhausted, such additional premium shall be notional and shall be credited to increase the amount remaining in respect of the Deductible, without any payment to Reinsurer hereunder.

c. In addition to the amounts set forth in clauses B.2.a and b, Reinsurer shall be liable for one hundred percent (100%) of Ultimate Net Loss on the Group B Policies that is in excess of Two Hundred Twenty Million Dollars ($220,000,000.00) of such Ultimate Net Loss, up to an aggregate amount of Thirty-Six Million Dollars ($36,000,000.00) of such Ultimate Net Loss; and

d. Net Loss (and Inuring Reinsurance and all salvage, subrogation and other recoverables actually received by or offset for the account of the Companies in respect of any of the foregoing) that would otherwise constitute Ultimate Net Loss on Group B Policies but that are incurred (or that correspond to Net Loss incurred) in excess of the first net aggregate Two Hundred Fifty Six Million ($256,000,000.00) of such Ultimate Net Loss ceded hereunder (the "Group B Sublimit") shall be disregarded and shall not constitute Ultimate Net Loss.

3. Reinsurer's maximum aggregate limit of liability for indemnification of paid Ultimate Net Loss shall in no event exceed One Hundred Forty Three Million Five Hundred Thousand Dollars ($143,500,000.00) (the "Aggregate Limit"), being the sum of the maximum amounts payable by Reinsurer under Section B of this Article 0 less the Deductible less the maximum amount of Group A Participation Attachment Point Premium and Group B Participation Attachment Point Premium payable to or eligible for crediting to the account of the Reinsurer under Section B of this Article 0. For the avoidance of doubt, the Aggregate Limit shall be rolled forward after the date hereof pursuant to the Article entitled **ROLL FORWARD OF ORIGINAL AMOUNTS**.

C. Application of Deductible

1. Prior to any cash settlement by the Reinsurer to cover its liability for paid Ultimate Net Losses, the Companies shall apply the Deductible funds to the settlement of the Reinsurer's liability for paid Ultimate Net Losses, which shall erode the amount remaining in respect of the Group A Sublimit and the Group B Sublimit but shall not erode the amount remaining in respect of the Aggregate Limit.

2. For the avoidance of doubt, the Companies shall not apply the Deductible toward payment of its obligations under Section B.2.d. above. Furthermore, the Companies shall not apply the Deductible toward any Ultimate Net Loss incurred (A) in respect of the Group A Policies, in excess of the Group A Sublimit or (B) in respect of the Group B Policies, in excess of the Group B Sublimit, which liabilities shall not, in either case, constitute Ultimate Net Loss.

ARTICLE 6

PREMIUM

A. The payment of Premium to Reinsurer hereunder includes the amount due in respect of the Brokerage and FET assessed on the amount of such Premium transferred to the Retrocessionaire under the Retrocession Agreement.

B. On the date hereof, the Companies shall transfer the Premium due to Reinsurer under Section A above. Pursuant to the Retrocession Agreement, on the date hereof, Reinsurer shall transfer the Premium (less the amount of Brokerage and FET imposed on the Premium transferred to the Retrocessionaire thereunder, which Brokerage shall be paid by Reinsurer to Guy Carpenter and which FET shall be withheld and remitted by Reinsurer in accordance with Article 20 of the Retrocession Agreement) directly to the Statutory Trust Accounts described in Article 0 below, as more particularly set forth in such Article 0.

ARTICLE 7

ROLL FORWARD OF ORIGINAL AMOUNTS

A. The Companies and the Reinsurer agree and acknowledge that certain sums set forth in this Reinsurance Agreement have been calculated as of June 30, 2019 (the "Original Calculation Date"). Consequently, at the Effective Time there will have been changes to Ceded Reserves, paid Losses and other figures since the Original Calculation Date. Accordingly, the Companies shall roll forward the following amounts in accordance with the procedures set forth on Exhibit D to reflect, among other things, claims reported and paid claims subject to this Reinsurance Agreement under the Policies covered hereunder from the Original Calculation Date to the last day of the month ending prior to the date hereof (such date, the "Updated Calculation Date" and such amounts, the "Rolled Amounts"):

1. Ceded Reserves, calculated as of the Updated Calculation Date;

2. The Deductible;

3. The Aggregate Limit;

4. The Group A Participation Attachment Point, Group B Participation Attachment Point, Group A Sublimit, and Group B Sublimit; and

5. Required Collateral Amount, calculated as of the Updated Calculation Date.

B.

1. The Companies shall deliver to Reinsurer, within five (5) Business Days after the date hereof, a statement setting forth amounts from the Original Calculation Date and the Rolled Amounts (the "Statement of Rolled Amounts"), together with the backup documentation and information reasonably necessary to verify the Rolled Amounts. In addition, Companies shall provide any other information reasonably requested by the Reinsurer in connection therewith.

2. Reinsurer shall deliver to Retrocessionaire the Statement of Rolled Amounts and documentation and information set forth in Section B.1 above immediately after receipt thereof. The Rolled Amounts shall be agreed upon as between Reinsurer and Retrocessionaire in accordance with the terms of the Retrocession Agreement. Within ten (10) Business Days of Retrocessionaire and Reinsurer's agreement on the Rolled Amounts (the "Agreement Deadline"), the Reinsurer shall advise the Companies, in writing, of its agreement or disagreement with the calculation of the Rolled Amounts as delivered by Companies ("Reinsurer's Adjustment Notice"). If the Reinsurer agrees with such calculation or fails to notify the Companies of its agreement or disagreement with such calculation by the Agreement Deadline, then the Statement of Rolled Amounts shall be deemed final and binding on the parties unless a dispute is pending pursuant to Article 7 of the Retrocession Agreement, in which case, the Statement of Rolled Amounts shall not be deemed final and binding until the resolution of such dispute thereunder and the implementation of any final and binding changes to the Statement of Rolled Amounts (as defined thereunder) in the Statement of Rolled Amounts delivered hereunder.

3. If the Reinsurer has any good faith disagreement to the Companies' calculation of the Rolled Amounts, then within ten (10) Business Days following the delivery of the Reinsurer's Adjustment Notice, the Parties shall use good faith efforts to mutually agree to the Rolled Amounts. The Parties hereby acknowledge and agree that either party's ability to object to Rolled Amounts in accordance with this Section is preclusive of all other rights of such Party to challenge such Rolled Amounts.

4. In the event the Parties are unable to reach agreement as to the Rolled Amounts within ten (10) Business Days following the delivery of the Reinsurer's Adjustment Notice, the Reinsurer and the Companies shall, mutually appoint an independent actuary or, in the event that they fail to agree on the selection of an independent actuary, within ten (10) Business Days thereafter, each Party shall name three independent actuary candidates of which the other Party shall decline two, and the selection of the independent actuary as between the two remaining independent actuary candidates shall be made by the Party winning a coin toss. If either Party fails to provide such three names within such ten (10) Business Day period, the other Party shall select the independent actuary. All independent actuary candidates shall be disinterested in the outcome and shall be Fellows of the Society of Actuaries/Fellows of the Casualty Actuarial Society. The cost of the independent actuary selected shall be split evenly between the Reinsurer and the Companies. The independent actuary's determination of the Rolled Amounts (the "Actuary's Rolled Amounts") shall be final and binding on the Parties. The Parties shall instruct the independent actuary to limit its review to matters objected to by the Reinsurer and not resolved by written agreement of the Parties.

5. The independent actuary shall act as an expert, not as an arbitrator, and neither the determination of the independent actuary, nor this Reinsurance Agreement to submit to the determination of the independent actuary, shall be subject to or governed by the Federal Arbitration Act, 9 U.S.C. § 1 et seq., or any state arbitration law or regime.

6. The earliest of the dates when (i) the Reinsurer timely notifies the Companies of its acceptance of the Rolled Amounts by delivery of the Reinsurer's Adjustment Notice, (ii) the Agreement Deadline (as defined hereunder and under the Retrocession Agreement) passes and both (A) the Reinsurer fails to notify the Companies of its disagreement with the Rolled Amounts by timely delivery of the Reinsurer's Adjustment Notice and (B) the Retrocessionaire fails to notify the Reinsurer of its disagreement with the Rolled Amounts (as defined under the Retrocession Agreement) by timely delivery of the Retrocessionaire's Adjustment Notice (as defined under the Retrocession Agreement), (iii) in the event that) the Reinsurer disagrees with the Rolled Amounts by timely delivery of the Reinsurer's Adjustment Notice, or the Retrocessionaire disagrees with the Rolled Amounts (as defined under the Retrocession Agreement) by timely delivery of the Retrocessionaire's Adjustment Notice (as defined under the Retrocession Agreement), the date when, (A) in the case of the Reinsurer's disagreement under this Article 0, the Parties mutually agree to the Rolled Amounts or the Parties receive the Actuary's Rolled Amounts, or, (B) in the case of the Retrocessionaire's disagreement under Article 7 of the Retrocession Agreement, the Parties (as defined under the Retrocession Agreement) mutually agree to the Rolled Amounts (as defined under the Retrocession Agreement) or the Parties (as defined under the Retrocession Agreement) receive the Actuary's Rolled Amounts (as defined under the Retrocession Agreement) and such changes as may become final and binding on the Statement of Rolled Amounts (as defined under the Retrocession Agreement) are made to the Statement of Rolled Amounts hereunder to the extent applicable thereto, in each case, shall be known as the "Roll Forward Agreement Date." Any amounts due and owing between the Parties in respect of this Article 7 will be settled within five (5) Business Days of the Roll Forward Agreement Date.

7. In the event that an adjustment to Premium (as defined in the Retrocession Agreement) is finally determined pursuant to Article 7 of the Retrocession Agreement, the Companies shall transfer to the Reinsurer cash in an amount equal to the difference between the Premium and the adjustment Premium calculated thereunder. At its election, the Companies shall be a party to any arbitration pursuant to Article 15 of the Retrocession Agreement concerning any adjustment to Premium pursuant to Article 7 thereof.

8. No difference in the Rolled Amounts as agreed between the Retrocessionaire and Reinsurer pursuant to the terms of the Retrocession Agreement and the Rolled Amounts as agreed between Reinsurer and Companies pursuant to the terms of this Reinsurance Agreement shall increase the Retrocessionaire's liability under the Retrocession Agreement in any way, and only the Rolled Amounts as agreed between Retrocessionaire and Reinsurer shall be binding on Retrocessionaire.

ARTICLE 8

REINSURANCE WARRANTY

A. The Parties have agreed that a certain amount of reinsurance recoverables will be deemed collected under the Inuring Reinsurance (the "Deemed Amounts") and applied toward Ultimate Net Loss. The Companies hereby agrees that a certain amount of reinsurance recoverables in excess of the Deemed Amounts will be further deemed recovered, up to [***] (the "Reinsurance Warranty Amount") determined in accordance with this Article 8. The Companies shall perform the calculation described below, measured from the Original Calculation Date, once per calendar quarter occurring after the exhaustion of the Deductible and shall deliver its calculation to the Reinsurer within ten (10) Business Days following the last day of each such quarter.

B. To determine the amount of the Reinsurance Warranty Amount (if any) to be applied to Ultimate Net Loss, the following calculation is conducted:

Step 1. Determine the "Notional Amount," which shall be, as of any date of determination, an amount equal to the sum of following:

(i) [***]; ***less***

(ii) [***]; ***plus***

(iii) Interest on the sum of (i) and (ii), charged at Two Percent (2%) per annum, calculated on an annual basis from the date hereof to the date of determination.

Step 2. Compare the Notional Amount to the "Minimum Notional Amount," which shall be, as of any date of determination, an amount equal to the lesser of:

(i) [***]; or

(ii) the greater of:

(a) [***]; and

(b) [***] less the Notional Amount calculated as of such date of determination.

If the Notional Amount determined pursuant to Step 1 is less than the Minimum Notional Amount determined pursuant to Step 2, the calculation continues at Step 3. If, as of any date of determination, the Notional Amount is greater than the Minimum Notional Amount, then the Deemed Amounts are satisfied and the Reinsurer shall not be entitled to any further deemed amounts applied toward Ultimate Net Loss in respect of the Reinsurance Warranty Amount (and, for the avoidance of doubt, the calculation shall not continue to Step 3).

Step 3. Calculate the "Additional Excess Recoverables" as follows:

(i) for non-proportional reinsurance recoveries – non-proportional Inuring Reinsurance constituting Ultimate Net Losses on Group B Policies ***minus*** [***]; ***plus***

(ii) for proportional reinsurance recoveries – proportional Inuring Reinsurance constituting Ultimate Net Losses on Group B Policies minus [***].

The amount of the Additional Excess Recoverables is applied to reduce the amount of the Reinsurance Warranty Amount applicable to Ultimate Net Loss.

See Exhibit E for an example calculation of this reinsurance warranty.

C. For purposes of the calculation detailed in this Article 0, recoveries on the following types of Inuring Reinsurance shall count towards the satisfaction of the Additional Excess Recoverables: facultative (whether proportional or excess of loss), excess of loss, reinsurance covering excess liability insurance, and other proportional reinsurance.

D. Inuring Reinsurance shall not diminish and the Reinsurer's liability hereunder shall not be increased by reason of any Company's inability to collect from any other reinsurers any amounts which are included in Inuring Reinsurance hereunder, whether such inability to collect arises from (i) the insolvency of such other reinsurers, (ii) breach of the agreements with such other reinsurers, (iii) the presence of any "net retained lines" or similar provisions in any agreements with such reinsurers which prevent a Company from recovering such Inuring Reinsurance, (iv) the fact that agreements with such other reinsurers are no longer in force or became terminated, (v) the fact that a Company failed to timely pay any reinsurance reinstatement premium, or (vi) any other reason whatsoever, regardless of whether Reinsurer or any Company was aware of such reason prior to the execution of this Reinsurance Agreement.

Notwithstanding anything herein to the contrary in this Reinsurance Agreement, the Companies may not consent to any commutation of any Inuring Reinsurance without the consent of the Reinsurer. In the event that any commutation of any Inuring Reinsurance is made without the consent of the Reinsurer, such Inuring Reinsurance subject to such commutations shall be deemed to continue in force and collectible in full as if such commutation had not been made.

A. Notwithstanding anything to the contrary in this Reinsurance Agreement, the Companies shall keep in force all existing reinsurance arrangements inuring to the benefit of this Reinsurance Agreement and shall timely pay all reinstatement or other premiums due under such existing reinsurance arrangements. In the event that Inuring Reinsurance is diminished, terminated, or not extended or renewed due to failure to timely pay reinstatement or other premiums due under its existing reinsurance arrangements, such Inuring Reinsurance shall be deemed to continue in force and collectible in full as if such payment had been timely made.

ARTICLE 9

ADMINISTRATION OF SUBJECT BUSINESS

The Companies will be responsible for the handling and administration of the Subject Business claims under this Reinsurance Agreement, including managing and supervising any TPAs or other vendors retained to assist in the handling of such claims.

A. The Companies shall investigate, adjust, settle, defend or otherwise handle all such claims as follows:

1. The Companies may establish total Net Loss reserves up to [***] per Subject Business claim.

2. The Companies may settle any Subject Business claim up to [***] in total Net Loss per claim.

3. The Companies shall not settle or reserve any Subject Business claim in excess of its authority, as provided herein, without prior written approval from the Reinsurer.

4. The Companies will prepare and submit to the Reinsurer a large loss report, with sufficient particulars to identify the facts of the claim, in an agreed upon format, and provide all requested relevant documentation, for all reserve or settlement authority requests on Subject Business claims in excess of the Companies's authority hereunder.

5. Reinsurer shall provide a written response to all of the Companies's authority requests as soon as practicable, but no later than five (5) Business Days.

B. The Companies shall provide Reinsurer written notice of any demand, whether time-sensitive or otherwise, to settle any Subject Business claim for available policy limits as soon as practicable, but no later than forty-eight (48) hours before the expiration of any time-sensitive demand, and will provide Reinsurer all relevant information in the Companies's possession to evaluate such demand. Reinsurer shall provide a written response to the Companies with respect to any such time-sensitive policy-limit demands as soon as practicable, but no later than the expiration of such demand.

C. The Companies shall retain and utilize vendors that the Companies deems reasonably necessary in the performance of its claims-handling services under this agreement, including, but not limited to, attorneys, estimators, appraisers, investigators, independent adjusters, experts or other advisors, collection companies, and any other claims-related vendors deemed necessary by the Companies in the administration of any Subject Business claim. The costs of any such vendors shall constitute Allocated Loss Adjustment Expense under this agreement.

D. The Companies shall handle all submitted claims in accordance with:

1. the care, skill, prudence, diligence and expertise that would be expected from experienced and qualified personnel performing such duties in like circumstances;

2. the established Claims Handling Guidelines, Claims Litigation Guidelines and Claims Legal Guidelines; and

3. the requirements of all applicable laws and regulations.

E. The Companies shall not terminate or change any TPA engaged to assist in the handling of the Subject Business claims as of the Effective Date, without Reinsurer's prior written approval, except that the Companies may amend, modify, change or expand the terms of its engagement of any current TPA used by the Companies to administer the Subject Business claims.

F. The Companies shall cooperate, and ensure cooperation of any applicable TPAs, in all respects with Reinsurer, including, but not limited to, providing to Reinsurer all relevant information about the Subject Business claims, as Reinsurer may reasonably request, and be reasonably available to discuss individual Subject Business claims with Reinsurer.

G. The Companies will ensure that Reinsurer has electronic access to all applicable claims systems and documents for the Subject Business claims, both during the duration of the Term of this Reinsurance Agreement, and for such period of time after the termination of the Term as may be reasonably necessary for Reinsurer to fulfill any of its surviving obligations under the Agreement or to fulfill the requirements of applicable Law, at no additional cost to Reinsurer.

H. The Companies will invite Reinsurer to participate in all large loss conferences with respect to Subject Business claims.

I. The Companies will be available to meet monthly or as otherwise deemed reasonably necessary by Reinsurer to discuss any issues related to the handling of Subject Business claims.

J. Reinsurer and the Companies will each designate a single point of contact to address any issues that may arise regarding the handling of an individual Subject Business claim, or to generally address the administration of Subject Business claims.

K. The Companies, to the extent commercially reasonable, will pursue their rights to salvage or subrogation relating to any Net Loss. Should any Company choose not to pursue a subrogation or salvage that the Reinsurer would like to pursue, the Reinsurer is hereby authorized and empowered to instigate such action in the name of such Company, and from any amount recovered by the Reinsurer there shall be first deducted the Reinsurer's expenses incurred in effecting the recoveries. The Companies hereby agree to cooperate with the Reinsurer to enforce its rights to salvage or subrogation and to cooperate with the Reinsurer in the prosecution of all claims arising out of such rights, to the extent commercially reasonable. The Companies agree to furnish the Reinsurer, on request, any and all legal instruments necessary to implement the foregoing assignment.

ARTICLE 10

ACCOUNTING FOR RESERVES

A. In calculating and maintaining Ceded Reserves, the Companies shall comply with (i) applicable statutory accounting principles and guidance and generally accepted actuarial standards and principles applied in a manner consistent with past practice used for calculating and maintaining such Ceded Reserves, and (ii) the requirements of any applicable Law, including, the insurance laws and regulations of the State of Texas, and shall otherwise be consistent with Companies' standard procedures for calculating and maintaining Reserves.

B. Neither Party has made, hereby makes or shall make any representation or warranty to the other Party as to (i) the proper accounting or tax treatment by such other Party of the transaction provided for in this Reinsurance Agreement or (ii) the proper future accounting or tax treatment of the transaction provided for in this Reinsurance Agreement. Further, each Party acknowledges and agrees that, in making its independent determination that the transaction provided for in the Reinsurance Agreement is properly accounted for as reinsurance for SAP, GAAP and federal income tax purposes, it did not rely, in any respect, upon any representation or determination made by the other Party.

ARTICLE 11

COLLATERAL; STATUTORY TRUST ACCOUNTS; CREDIT FOR REINSURANCE

A. Collateral; Statutory Trusts. The Parties intend that the Statutory Trust Accounts will contain the amount of collateral required to secure the amount of Reinsurer's obligations to each Company individually in respect of Ultimate Net Loss which is retroceded to the Retrocessionaire.

B. Credit for Reinsurance. If, at any time during the Term of this Reinsurance Agreement, any Company individually does not qualify for full statutory accounting credit in respect of the Reinsurance Agreement for admitted reinsurance by regulatory authorities having jurisdiction over such Company by reason of its Statutory Trust Account not complying with applicable insurance laws or regulations such that a financial or accounting penalty to such Company would result on any statutory statement or report such Company is required to make or file with insurance regulatory authorities (or a court of law in the event of insolvency), the Reinsurer shall secure the Reinsurer's share (subject to the limitations reflected in, Article 5 hereof) of obligations under the Reinsurance Agreement for which such full statutory credit is not granted by those authorities in a manner, form, and amount acceptable to such Company and to all applicable insurance regulatory Governmental Authorities. The Company shall cooperate with the Reinsurer to secure such credit for reinsurance as needed.

ARTICLE 12

REPORTS AND SETTLEMENTS

A. Reports. After receiving data from the TPA, the Companies shall prepare and deliver the electronic reports listed below (the "Reports") with respect to the entirety of the Subject Business. Within two (2) Business Days following the accounting close of each month (such close occurring on the 15th of the subsequent month), the Companies shall deliver a Report in a format to be mutually agreed upon by the Parties which contains such accounting and journal entries and details (i) as may be necessary and customary to enable the Reinsurer to determine the amounts owed hereunder from the Reinsurer, as the case may be, and (ii) as may be required to permit the Reinsurer to prepare, make and file necessary or required financial and statistical reports and financial statements or otherwise comply with applicable Law.

Such Report shall, without limitation, include the amount of the following, on a monthly and cumulative basis, as at the close of the applicable month (such close as defined above):

1. Amounts paid in respect of Ultimate Net Loss;

2. Outstanding case and IBNR Reserves;

3. Ceded Reserves;

4. a statement of any amount(s) payable by the Reinsurer, including an itemization of all of the payments that are being billed to the Reinsurer for the applicable monthly accounting period;

5. Status of Reinsurance Warranty, including a listing of applicable Inuring Reinsurance;

6. Amounts paid in erosion of the remaining amount of the Deductible;

7. Amounts paid in erosion of the remaining amount of the Aggregate Limit; and

8. any other information in connection with settlements hereunder reasonably requested by Reinsurer.

B. The Reports outlined in this Article shall continue until the conclusion of the Term of this Reinsurance Agreement.

C. Settlements. The Parties shall conduct monthly settlements (other than with respect to any amounts satisfied intra-month through withdrawal by the Companies from the Claims Payments Account) based upon the reporting provided in Section A above evidencing the amount due, subject to Section D below. Any payment, transfer or crediting of amounts required under this Section shall be made within five (5) Business Days following the date of the delivery of the applicable Report (any such date, the "Settlement Date"). For the avoidance of doubt, in no event shall an obligation of Reinsurer to make a payment pursuant to this Article 12, be postponed or delayed to a date later than the Settlement Date as a result of any pending or threatened dispute pursuant to this Agreement, except for amounts due under this Article that are disputed in good faith by Reinsurer including in respect of any amount due hereunder.

D. Claims Payments Account.

1. The Companies shall establish and maintain a demand deposit account for purposes of facilitating interim settlements of amounts due under this Reinsurance Agreement in respect of Ultimate Net Loss indemnifiable by the Reinsurer (the "Claims Payments Account").

2. On the first Business Day of each monthly accounting period following the exhaustion of the Deductible, the Retrocessionaire shall transfer to the Claims Payments Account cash in an amount sufficient to bring the balance of the Claims Payments Account to an amount equal to the trailing two (2) month average of payments of Ultimate Net Loss (as defined under the Retrocession Agreement) (the "Required Funding Amount"). If at any time during a monthly accounting period the funds in a Claims Payments Account are, in the Companies's reasonable estimate, insufficient to pay all of the Ultimate Net Loss payable in such monthly accounting period, the Companies shall provide a statement (a "Claims Estimate") setting forth in reasonable detail a description of the additional proposed payments of Ultimate Net Loss anticipated to be required during the remainder of such monthly accounting period and the amount by which the then current balance in the Claims Payments Account falls short of the aggregate amount set forth in the Claims Estimate.

ARTICLE 13

COMMUTATION

A. This Reinsurance Agreement shall be commuted effective at any calendar quarter end, subject to any required regulatory approvals, if applicable, (i) upon commutation of the Retrocession Agreement or (ii) with the mutual agreement of the Companies and the Reinsurer.

B. At commutation, the Reinsurer shall pay to the Companies the present value of any and all Ultimate Net Loss liability outstanding hereunder, as mutually agreed by the Companies and Reinsurer.

C. Upon payment of the commutation amount, all payable Ultimate Net Losses are deemed paid, both Parties shall be released of further liability under the terms and conditions of this Reinsurance Agreement and this Reinsurance Agreement shall be deemed commuted and terminated.

D. It is agreed that on the day of commutation, the Companies shall release any and all letters of credit, trust accounts (including the Statutory Trust Accounts) or any other collateral posted by the Reinsurer, as applicable, under this Reinsurance Agreement.

ARTICLE 14

ACCESS TO RECORDS

A. All records remain the property of the Companies.

B. The Reinsurer or its designated representatives shall have the right to inspect (and make copies) at all reasonable times and upon reasonable prior notice to Companies, during the Term of this Reinsurance Agreement, or Retrocession Agreement, as applicable, and for any reasonable purpose thereafter, all proprietary and non-privileged books, records and papers of the Companies directly related to any reinsurance hereunder, or the subject matter hereof, including, but not limited to administrative records, claim records, Policy files, and related documents and information, and Reinsurer shall have the right to make photocopies thereof at its expense. All such books, records, and papers shall be kept available by Reinsurer and its departmental or branch offices for a period of not less than five (5) years after the termination date of this Reinsurance Agreement. Should the Reinsurer assume administration of claims for any of the Subject Business, the Companies or its designated representatives shall have the right to inspect (and make copies) at all reasonable times and upon prior reasonable notice to Reinsurer during the Term of this Reinsurance Agreement, and thereafter, all proprietary and non-privileged books, records and papers of the Reinsurer directly related to the Reinsurer's administration of claims, and the Companies shall have the right to make photocopies thereof at its expense. All such books, records, and papers shall be kept available by Reinsurer and its departmental or branch offices for a period of not less than five (5) years after the termination date of this Reinsurance Agreement.

C. For the purposes of this Article, "non-privileged" refers to books, records and papers that are not subject to the Attorney-client privilege and Attorney-work product doctrine. "Attorney-client privilege" and "Attorney-work product" shall have the meanings ascribed to each by statute and/or the court of final adjudication in the jurisdiction whose laws govern the substantive law of a claim arising under a Policy reinsured under this Reinsurance Agreement.

D. Notwithstanding anything to the contrary in this Reinsurance Agreement, for any claim or Loss under a Policy reinsured under this Reinsurance Agreement, should either Party claim, pursuant to the Common Interest Doctrine ("Doctrine"), that it has the right to examine any document that is alleged to be subject to the Attorney-client privilege or the Attorney-work product privilege, upon the claiming Party providing to the other Party substantiation of any law which reasonably supports the basis for the conclusion that the Doctrine applies and the Doctrine will be upheld as applying between the Parties as against third parties pursuant to the substantive law(s) which govern the claim or Loss, the claiming Party shall be given access to such document.

E. Notwithstanding the foregoing, the Parties shall permit and not object to the other Party's access to privileged documents in connection with any underlying claim reinsured hereunder following final settlement or final adjudication of the case or cases involving such claim; provided that the Party may defer release of such privileged documents if there are subrogation, contribution, or other third party actions with respect to that claim or case, which might jeopardize the Party's defense by release of such privileged documents. In the event a Party shall seek to defer release of such privileged documents, it will, in consultation with the other Party, take other steps as reasonably necessary to provide the requesting Party with the information it reasonably requires to evaluate exposure, establish Reserves or indemnify without causing a loss of such privileges. The Parties shall in no event have access to privileged documents relating to any dispute between the Parties. Furthermore, in the event that a Party demonstrates a need for information contained in privileged documents prior to the resolution of the underlying claim, the other Party agrees it will endeavor to undertake steps as reasonably necessary to provide the requesting Party with the information it reasonably requires to indemnify the other Party without causing a loss of such privilege.

F. The provisions of this Article 14 shall survive the termination of the Reinsurance Agreement.

ARTICLE 15

ARBITRATION

A. Any and all disputes between the Companies and the Reinsurer arising out of, relating to, or concerning this Reinsurance Agreement, whether sounding in contract or tort and whether arising during or after termination of this Reinsurance Agreement, shall be submitted to the decision of a board of arbitration composed of two (2) arbitrators and an umpire ("Board") meeting at a site in the city in which the principal headquarters of the Companies are located. The arbitration shall be conducted and shall proceed as set forth in the ARIAS-US Rules for the Resolution of U.S. Insurance and Reinsurance Disputes and the procedures below.

B. A notice requesting arbitration, or any other notice made in connection therewith, shall be in writing and be sent certified or registered mail, return receipt requested to the affected Party. The notice requesting arbitration shall state in particular all issues to be resolved, shall appoint the arbitrator selected by the claimant and shall set a tentative date for the hearing, which date shall be no sooner than ninety (90) days and no later than one hundred fifty (150) days from the date that the notice requesting arbitration is mailed. Within thirty (30) days of receipt of claimant's notice, the respondent shall notify claimant of any additional issues to be resolved in the arbitration and of the name of its appointed arbitrator.

C. The members of the Board shall be impartial, disinterested and not currently representing any Party participating in the arbitration, and shall be current or former senior officers of insurance or reinsurance concerns, experienced in the line(s) of business that are the subject of this Reinsurance Agreement. The Companies and the Reinsurer as aforesaid shall each appoint an arbitrator and the two (2) arbitrators shall choose an umpire before instituting the hearing. If the respondent fails to appoint its arbitrator within thirty (30) days after having received claimant's written request for arbitration, the claimant is authorized to and shall appoint the second arbitrator. If the two (2) arbitrators fail to agree upon the appointment of an umpire within thirty (30) days after notification of the appointment of the second arbitrator, within ten (10) days thereof, the two (2) arbitrators shall request ARIAS-U.S. ("ARIAS") to apply its procedures to appoint an umpire for the arbitration with the qualifications set forth above in this Article. If the use of ARIAS procedures fails to name an umpire, either Party may apply to a court of competent jurisdiction to appoint an umpire with the above required qualifications. The umpire shall promptly notify in writing all Parties to the arbitration of his selection and of the scheduled date for the hearing. Upon resignation or death of any member of the Board, a replacement shall be appointed in accordance with the same procedures pursuant to which the resigning or deceased member was appointed pursuant to this Article 15.

D. The claimant and respondent shall each submit initial briefs to the Board outlining the facts, the issues in dispute and the basis, authority, and reasons for their respective positions within thirty (30) days of the date of notice of appointment of the umpire. The claimant and the respondent may submit a reply brief to the Board within ten (10) days after filing of the initial brief(s). Initial and reply briefs may be amended by the submitting Party at any time, but not later than ten (10) days prior to the date of commencement of the arbitration hearing. Reasonable responses shall be allowed at the arbitration hearing to new material contained in any amendments filed to the briefs but not previously responded to.

E. The Board shall consider this Reinsurance Agreement as an honorable engagement and shall make a decision and award with regard to the terms expressed in this Reinsurance Agreement, the original intentions of the Parties to the extent reasonably ascertainable, and the custom and usage of the insurance and reinsurance business that is the subject of this Reinsurance Agreement. Notwithstanding any other provision of this Reinsurance Agreement, the Board shall have the right and obligation to consider underwriting and submission-related documents in any dispute between the Parties.

F. The Board shall be relieved of all judicial formalities and the formal rules of evidence, and the decision and award shall be based upon a hearing in which evidence that is relevant shall be allowed. Cross examination and rebuttal shall be allowed. The Board may request a post-hearing brief to be submitted within twenty (20) days of the close of the hearing.

G. The Board shall render its decision and award in writing within thirty (30) days following the close of the hearing or the submission of post-hearing briefs, whichever is later, unless the Parties consent to an extension. Every decision by the Board shall be by a majority of the members of the Board and each decision and award by the majority of the members of the Board shall be final and binding upon all Parties to the proceeding. Such decision shall be a condition precedent to any right of legal action arising out of the arbitrated dispute which either Party may have against the other. However, the Board is not authorized to award punitive, exemplary or enhanced compensatory damages.

H. The Board shall award interest on the award at a rate not in excess of Two Percent (2%) per annum, calculated from the date the Board determines that any amounts due the prevailing Party should have been paid to the prevailing Party.

I. Either Party may apply to a court of competent jurisdiction for an order confirming any decision and the award; a judgment of that Court shall thereupon be entered on any decision or award.

J. Each Party shall bear the expenses and costs of its own attorney and of the one arbitrator appointed by or for it in connection with all phases of the arbitration proceeding through any judicial proceedings related to the arbitration and shall jointly and equally bear with the other Party the expense of any stenographer requested, and of the umpire. The remaining costs of the pre-confirmation arbitration proceedings shall be finally allocated by the Board.

K. Subject to customary and recognized legal rules of privilege, each Party participating in the arbitration shall have the obligation to produce those documents, and as witnesses at the arbitration those of its employees, and those of its affiliates, as any other participating Party reasonably requests, providing always that the same witnesses and documents be reasonably obtainable and relevant to the issues in the arbitration and not be unduly burdensome or excessive in the opinion of the Board.

L. The Parties may mutually agree as to pre-hearing discovery prior to the arbitration hearing and in the absence of agreement, upon the request of any Party, pre-hearing discovery may be conducted as the Board shall determine in its sole discretion to be in the interest of fairness, full disclosure, and in furtherance of a prompt hearing, decision and award by the Board.

M. The Board shall be the final judge of the composition of the Board, the procedures of the Board, the conduct of the arbitration, the rules of evidence, the rules of privilege, discovery and production and the excessiveness and relevancy of any witnesses and documents upon the petition of any participating Party. To the extent permitted by law, the Board shall have the authority to issue subpoenas and other orders to enforce its decisions. The Board shall also have the authority to issue interim decisions or awards in the interest of fairness, full disclosure, and a prompt and orderly hearing and decision and award by the Board.

N. Nothing in this Article shall preclude any of the Parties engaged in arbitration from settling the dispute and withdrawing from an arbitration established to resolve that dispute.

O. The provisions of this Article will survive the termination of this Reinsurance Agreement.

P. If a dispute arising under this Reinsurance Agreement is related to a dispute arising out of the Retrocession Agreement (together, the "Reinsurance Transaction Agreements") all such disputes may be brought in a single arbitration, in each case, to the extent permitted under the respective applicable Reinsurance Transaction Agreement. If one or more arbitrations are already pending with respect to a dispute under this Reinsurance Agreement or a dispute under the other Reinsurance Transaction Agreement, then any Party may request that any arbitration or any new related dispute be consolidated into any such prior arbitration. Such new dispute or arbitration shall be so consolidated, provided that the Board for the prior arbitration determines that: (i) the new dispute or arbitration presents significant issues of law or fact common with those in the pending arbitration; (ii) no party would be unduly prejudiced; and (iii) consolidation under these circumstances would not result in undue delay for the prior arbitration. Any such order of consolidation issued by the Board shall be final and binding upon the Parties. The Parties waive any right they have to appeal or to seek interpretation, revision or annulment of such order of consolidation, including in any court. The Board for the arbitration into which a new dispute is consolidated shall serve as the Board for the consolidated arbitration.

ARTICLE 16

CONFIDENTIALITY

A. The information, data, statements, representations and other materials provided by the Companies and its Representatives or the Reinsurer and its Representatives to the other arising from consideration and participation in this Reinsurance Agreement whether contained in the reinsurance submission, this Reinsurance Agreement, or in materials or discussions arising from or related to this Reinsurance Agreement, constitutes confidential or proprietary information (collectively, the "Confidential Information") unless (i) it is expressly indicated otherwise by the Party disclosing such information ("Disclosing Party") in writing from time to time to the other Party (the "Receiving Party"), or (ii) it is publicly available. This Confidential Information is intended for the sole use of the Parties to this Reinsurance Agreement (and their affiliates involved in management or operation of the Subject Business covered hereunder, the intermediaries involved in the placement of this Reinsurance Agreement, and their respective auditors, third-party service providers, professional advisors, and legal counsel, collectively termed the "Representatives") as may be necessary in analyzing and/or accepting a participation in and/or executing their respective responsibilities under or related to this Reinsurance Agreement. The Receiving Party shall protect and safeguard the confidentiality of all Confidential Information with at least the same degree of care as the Receiving Party would protect its own Confidential Information, but in no event with less than a commercially reasonable degree of care.

B. Disclosing or using Confidential Information relating to this Reinsurance Agreement, without the prior written consent of the Disclosing Party, for any purpose beyond (i) the scope of this Reinsurance Agreement, (ii) the reasonable extent necessary to perform or enforce its rights and responsibilities provided for under this Reinsurance Agreement or any Transaction Agreement, (iii) the reasonable extent necessary to administer, report to and effect recoveries under this Reinsurance Agreement, (iv) the reporting to regulatory or other Governmental Authorities as may be legally required, (v) providing the Confidential Information to Representatives with a need to know such Confidential Information, who are legally obligated by either written agreement or otherwise to maintain the confidentiality of the Confidential Information, is expressly forbidden, or (vi) as may be required by applicable Law or regulatory requirement. Copying, duplicating, disclosing, or using Confidential Information for any purpose beyond these purposes is forbidden without the prior written consent of the Disclosing Party.

C. Should a Receiving Party receive a third party demand pursuant to subpoena, summons, or court or governmental order or request, to disclose Confidential Information that has been provided by the Disclosing Party, to the extent allowed by law, the Receiving Party shall provide the Disclosing Party with written notice of any subpoena, summons, or court or governmental order or request, at least ten (10) days prior to such release or disclosure. Unless the Disclosing Party has given its prior permission to release or disclose the Confidential Information, the Receiving Party shall not comply with the subpoena prior to the actual date required by the subpoena. If a protective order or appropriate remedy is not obtained (at the sole expense of Disclosing Party), the Receiving Party may disclose only that portion of the Confidential Information that it is legally obligated to disclose. However, notwithstanding anything to the contrary in this Reinsurance Agreement, in no event, to the extent permitted by law, shall this Article require the Receiving Party not to comply with the subpoena, summons, or court or governmental order.

ARTICLE 17

CURRENCY

A. Whenever the word “dollars” or the “$” sign appears in this Reinsurance Agreement, they shall be construed to mean United States Dollars and all transactions under this Reinsurance Agreement shall be in United States Dollars.

B. Amounts paid or received by the Companies in any other currency shall be converted to United States Dollars at the rate of exchange on the date such transaction is entered on the books of the Companies.

ARTICLE 18

DELAYS, ERRORS AND OMISSIONS

Inadvertent delays, errors or omissions made in connection with this Reinsurance Agreement or any transaction hereunder (including the reporting of claims) shall not relieve either Party hereto from any liability which would have attached had such delay, error or omission not occurred, provided always that such delay, error or omission shall be rectified as soon as possible after discovery.

ARTICLE 19

EXTRA CONTRACTUAL OBLIGATIONS/LOSS EXCESS OF POLICY LIMITS

A. This Reinsurance Agreement shall provide reinsurance for the Ultimate Net Loss of the Policies comprising the Subject Business, which includes, subject to the terms and conditions of this Article 0, any Extra Contractual Obligations and/or Loss Excess of Policy Limits.

B. "Extra Contractual Obligations" means all liabilities arising out of or relating to Subject Business not covered under any other provision of this Reinsurance Agreement, including compensatory, consequential, punitive, or exemplary damages together with any legal costs and expenses incurred in connection therewith, paid (without duplication) as damages or in settlement by any Company or any affiliate arising from an allegation or claim of such Company's insured, such Company's insured's assignee, or other third party, which alleges negligence, gross negligence, bad faith or other tortious conduct on the part of such Company or any affiliate, or any designee of such Company (including any TPA) to the extent indemnifiable by the Company or any affiliate of the Company in the handling, adjustment, rejection, defense or settlement of a claim under a Policy.

C. "Loss Excess of Policy Limits" means any costs, expenses or other amounts (other than Allocated Loss Adjustment Expenses) incurred in connection with a Loss paid as damages or in settlement (or otherwise) in excess of the limits of a specific Policy, but otherwise within the coverage terms of such Policy, including as arising from an allegation or claim of a Company's insured, a Company's insured's assignee, or other third party, which alleges negligence, gross negligence, bad faith or other tortious conduct in the handling of a claim under a Policy, in rejecting a settlement within the Policy limits, in discharging a duty to defend or prepare the defense in the trial of an action against the insured, or in discharging its duty to prepare or prosecute an appeal consequent upon such an action. For the avoidance of doubt, the decision by a Company to settle a claim for an amount within the coverage of the Policy but not within the Policy limit when such Company has reasonable basis to believe that it may have liability to the insured or assignee or other third party on the claim will be deemed a Loss Excess of Policy Limits.

D. Any Reserves ceded or assumed or amounts paid or settled by a Party (or a TPA on behalf of such Party) in respect of Extra Contractual Obligations or Loss Excess of Policy Limits without the other Party's prior written approval such approval not to be unreasonably withheld, conditioned or delayed, shall not constitute Ultimate Net Loss or paid Ultimate Net Loss (as applicable), unless the other Party waives in writing the foregoing exclusion with respect to a particular amount or amounts. No such waiver by either Party shall constitute any future waiver of this Section with respect to other amounts.

E. An Extra Contractual Obligation or a Loss Excess of Policy Limits shall be deemed to have occurred on the same date as the Loss covered under the Policy and shall be considered part of the original Loss (subject to other terms of this Reinsurance Agreement).

F. Neither an Extra Contractual Obligation nor a Loss Excess of Policy Limits shall include any Losses, liabilities, penalties, costs or other expenses arising out of any adjudicated fraudulent or criminal act by any officer or director of a Company acting individually or collectively or in collusion with any other organization or party involved in the presentation, defense, or settlement of any claim covered under this Reinsurance Agreement.

G. Neither an Extra Contractual Obligation nor a Loss Excess of Policy Limits shall include any Losses, liabilities, penalties, costs or other expenses arising out of any adjudicated fraudulent or criminal act by any officer or director of the Reinsurer acting individually or collectively or in collusion with any other organization or party involved in the presentation, defense, or settlement of any claim covered under this Reinsurance Agreement, which all such Losses, Liabilities, penalties, costs or other expenses shall be the responsibility of Reinsurer and shall not be considered Ultimate Net Loss.

H. The Companies shall be indemnified in accordance with this Article to the fullest extent permitted by applicable Law.

ARTICLE 20

[RESERVED]

ARTICLE 21

TAX INFORMATION REPORTING AND WITHHOLDING

A. Prior to the Effective Date, the Companies shall provide the Reinsurer with the Companies' IRS Form W-9, and the Reinsurer shall provide the Companies with the Reinsurer's IRS Form W-9. In the event the IRS Form W-9 initially provided may no longer be relied upon, the Reinsurer or Companies, as applicable, shall upon the other Party's reasonable request promptly provide to such other Party an updated form. To the extent the Reinsurer is subject to the deduction and withholding of Premium payable hereunder under applicable Law, including, but not limited to, under the Foreign Account Tax Compliance Act (Sections 1471-1474 of the Internal Revenue Code), the Reinsurer agrees to allow such deduction and withholding from the Premium payable under this Reinsurance Agreement, and the Companies shall have no obligation to gross-up the Reinsurer for any such withheld amounts.

B. In the event of any return of Premium becoming due hereunder, the Companies shall use commercially reasonable efforts to assist the Reinsurer in obtaining any refund permitted by applicable Law. In that event, the Reinsurer agrees to provide the Companies or its agent with all information, assistance and cooperation which the Companies or its agent reasonably requests in or-der to assist the Retrocessionaire in obtaining a refund. The Reinsurer further agrees that it will do nothing to prejudice the Companies' or its agent's position or their potential or actual rights of recovery.

ARTICLE 22

INSOLVENCY

A. In the event of insolvency and the appointment of a conservator, liquidator, receiver, or statutory successor of a Company, any risk or obligation assumed by the Reinsurer shall be payable to the conservator, liquidator, receiver, or statutory successor on the basis of claims allowed against the insolvent Company by any court of competent jurisdiction or by any conservator, liquidator, receiver, or statutory successor of the Company having authority to allow such claims, without diminution because of that insolvency, or because the conservator, liquidator, receiver, or statutory successor has failed to pay all or a portion of any claims.

B. Payments by the Reinsurer as above set forth shall be made directly to the Company or to its conservator, liquidator, receiver, or statutory successor, except where the contract of insurance or reinsurance specifically provides another payee of such reinsurance or except as provided by applicable Law and regulation in the event of the insolvency of the Company.

C. In the event of the insolvency of a Company, the liquidator, receiver, conservator or statutory successor of the Company shall give written notice to the Reinsurer of the pendency of a claim against the insolvent Company on the Policy or Policies reinsured within a reasonable time after such claim is filed in the insolvency proceeding, and, during the pendency of such claim, Reinsurer may investigate such claim and interpose, at its own expense, in the proceeding where such claim is to be adjudicated, any defense or defenses which it may deem available to the Company or its liquidator, receiver, conservator or statutory successor. The expense thus incurred by the Reinsurer shall be chargeable subject to court approval against the insolvent Company as part of the expense of liquidation to the extent of a proportionate share of the benefit which may accrue to the Company solely as a result of the defense undertaken by the Reinsurer.

ARTICLE 23

OFFSET

The Companies and the Reinsurer shall have the right to offset any balance or amounts due from one Party to the other under the terms of this Reinsurance Agreement. In addition, the Reinsurer shall specifically have the right of offset against any balance or amounts due to Reinsurer or the Companies in the event that Collateral Funds in the Statutory Trust Accounts are used or withdrawn in violation of the terms and conditions of the Statutory Trust Agreements or this Reinsurance Agreement. In the event of insolvency of a Party hereto, offset shall be as permitted by applicable law.

ARTICLE 24

PRIVACY & PROTECTION OF DATA

A. The Companies and the Reinsurer represent that they are aware of and in compliance with their responsibilities and obligations under applicable Laws and regulations pertaining to Non-Public Personal Information ("NPPI") and Protected Health Information ("PHI"). For the purpose of this Reinsurance Agreement, NPPI and PHI shall mean (i) financial or health information that identifies an individual, including claimants under Policies reinsured under this Reinsurance Agreement, and which information is not otherwise available to the public, and (ii) any other information which would constitute personal information or personal health information under applicable Laws or regulations relating to the collection, retention, protection and use of such information, including the Gramm-Leach-Bliley Act of 1999, the Health Insurance Portability and Accountability Act of 1996 and the Health Information Technology for Economic and Clinical Health Act, and all amendments to and further regulations thereto (collectively, "Privacy Laws"). Data conveyed to the Reinsurer may include NPPI and/or PHI that is protected under applicable Privacy Laws and shall be used only in the performance of rights, obligations and duties in connection with this Reinsurance Agreement.

B. The Reinsurer shall maintain appropriate safeguards to protect any NPPI and PHI received hereunder from accidental loss or unauthorized access, use or disclosure, which such safeguards shall, at a minimum, comply with all applicable Privacy Laws. The Reinsurer shall immediately report to the Companies any known or reasonably suspected accidental loss or unauthorized access, use or disclosure of any NPPI or PHI held by or on behalf of the Reinsurer hereunder.

C. Without limiting the foregoing, the Reinsurer shall collect and use NPPI and PHI solely as permitted by, and shall not otherwise violate, any applicable privacy policy(ies) of the Companies or with which the Companies must comply which have been provided to the Reinsurer in writing, or which are otherwise known to the Reinsurer.

D. Upon receipt of any request from the Companies for the deletion of any NPPI or PHI, the Reinsurer shall promptly comply with such request and certify such deletion to the Companies. The Reinsurer shall convey to the Companies any request for the deletion of NPPI or PHI received from any purported data subject.

ARTICLE 25

SANCTIONS

Neither the Companies nor the Reinsurer shall be liable for premium or Loss under this Reinsurance Agreement if it would result in a violation of any mandatory sanction, prohibition or restriction under United Nations resolutions or the trade or economic sanctions, laws or regulations of the European Union, United Kingdom or United States of America that are applicable to either Party.

ARTICLE 26

SERVICE OF SUIT

A. This Article will not be read to conflict with or override the obligations of the Parties to arbitrate their disputes as provided for in the Article entitled **ARBITRATION**. This Article is intended as an aid to compel required arbitration or enforce an arbitration or arbitral award, not as an alternative to the Article entitled **ARBITRATION** for resolving disputes arising out of this Reinsurance Agreement.

B. In the event of any dispute, the Reinsurer, at the request of the Companies, shall submit to the jurisdiction of a court of competent jurisdiction within the State of Texas. The Reinsurer agrees to comply with all requirements necessary to give such court jurisdiction over the Reinsurer. The Reinsurer further agrees to abide by the final decision of such court or an appellate court to which such court's decision is appealed. Nothing in this Article constitutes or should be understood to constitute a waiver of the Reinsurer's rights to commence an action in any court of competent jurisdiction in the United States, to remove an action to a United States District Court, or to seek a transfer of a case to another court as permitted by the laws of the United States or of any state in the United States.

C. Service of process in any such suit against the Reinsurer may be made upon its duly authorized agent for service of process, Marsh Management Services Cayman Ltd., P.O. Box 1051, Grand Cayman KY1-1102, CAYMAN ISLANDS (the "Reinsurer's Agent for Process"), and in any suit instituted, the Reinsurer shall abide by the final decision of such court or of any appellate court in the event of an appeal.

D. The Reinsurer's Agent for Process is authorized and directed to accept service of process on behalf of the Reinsurer in any such suit.

E. Further, as required by and pursuant to any statute of any state, territory or district of the United States which makes provision therefore, the Reinsurer hereby designates the Superintendent, Commissioner or Director of Insurance or other officer specified for that purpose in the statute, or his successor or successors in office, as its true and lawful attorney upon whom may be served any lawful process in any action, suit or proceeding instituted by or on behalf of the Companies arising out of this Reinsurance Agreement, and hereby designates the Reinsurer's Agent for Process as the person to whom the said officer is authorized to mail such process or a true copy thereof.

ARTICLE 27

REGULATORY MATTERS

If Reinsurer or any Company receives notice of, or otherwise becomes aware of any inquiry, investigation, examination, audit, enforcement action or proceeding by any Governmental Authority relating to this Reinsurance Agreement, Reinsurer or such Company, as applicable, shall promptly notify the other Party thereof, whereupon the Parties shall cooperate to resolve such matter.

ARTICLE 28

MISCELLANEOUS

A. Interpretation.

1. As used in this Reinsurance Agreement, references to the following terms have the meanings indicated:

a. to the Preamble or to the Recitals, Sections, Articles, Exhibits or Schedules are to the Preamble or a Recital, Section or Article of, or an Exhibit or Schedule to, this Reinsurance Agreement unless otherwise clearly indicated to the contrary;

b. to any contract or agreement (including this Reinsurance Agreement) are to the contract or agreement as amended, modified, supplemented or replaced from time to time;

c. to any law are to such law as amended, modified, supplemented or replaced from time to time and all rules and regulations promulgated thereunder, and to any section of any law include any successor to such section;

d. to any Governmental Authority include any successor to the Governmental Authority and to any affiliate include any successor to the affiliate;

e. to any "copy" of any contract or agreement or other document or instrument are to a true and complete copy thereof;

f. to "hereof," "herein," "hereunder," "hereby," "herewith" and words of similar import refer to this Reinsurance Agreement as a whole and not to any particular Article, Section or clause of this Reinsurance Agreement, unless otherwise clearly indicated to the contrary;

g. to the "date of this Reinsurance Agreement," "the date hereof" and words of similar import refer to April 1, 2020; and

h. to "this Reinsurance Agreement" includes the Exhibits and Schedules.

2. Whenever the last day for the exercise of any right or the discharge of any duty under this Reinsurance Agreement falls on a day other than a Business Day, the Party having such right or duty shall have until the next Business Day to exercise such right or discharge such duty. Unless otherwise indicated, the word "day" shall be interpreted as a calendar day. With respect to any determination of any period of time, unless otherwise set forth herein, the word "from" means "from and including" and the word "to" means "to but excluding."

3. Whenever the words "include," "includes" or "including" are used in this Reinsurance Agreement, they will be deemed to be followed by the words "without limitation." The word "or" shall not be disjunctive. Any singular term in this Reinsurance Agreement will be deemed to include the plural, and any plural term the singular. All pronouns and variations of pronouns will be deemed to refer to the feminine, masculine or neuter, singular or plural, as the identity of the person referred to may require. Where a word or phrase is defined herein, each of its other grammatical forms shall have a corresponding meaning.

4. The Parties have participated jointly in the negotiation and drafting of this Reinsurance Agreement; consequently, in the event an ambiguity or question of intent or interpretation arises, this Reinsurance Agreement shall be construed as jointly drafted by the Parties and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any provision of this Reinsurance Agreement.

5. No summary of this Reinsurance Agreement prepared by or on behalf of any Party shall affect the meaning or interpretation of this Reinsurance Agreement.

6. All capitalized terms used without definition in the Exhibits and Schedules to this Reinsurance Agreement shall have the meanings ascribed to such terms in this Reinsurance Agreement.

B. Binding Effect; Assignment. This Reinsurance Agreement shall be binding upon and inure to the benefit of the Companies and Reinsurer and their respective successors and permitted assigns. This this Reinsurance Agreement may not be assigned by either Party, by operation of law or otherwise, without the prior written consent of the other Party, which consent may be withheld by either Party in its sole unfettered discretion. Any assignment in violation hereof shall be void. This provision shall not be construed to preclude the assignment by the Companies of reinsurance recoverables to another party for collection.

C. Governing Law. This Reinsurance Agreement shall be governed by and construed according to the laws of the state of Texas, exclusive of that state's rules with respect to conflicts of law.

D. Headings. The table of contents and headings preceding the text of the Articles and Sections of this Reinsurance Agreement are intended and inserted solely for the convenience of reference and shall not affect the meaning, interpretation, construction or effect of this Reinsurance Agreement.

E. Entire Agreement; Amendment. This Reinsurance Agreement and the Transaction Agreements shall constitute the entire agreement between the Parties with respect to the Subject Business hereunder. Any change or modification of this Reinsurance Agreement shall be null and void unless made by written amendment to the Reinsurance Agreement and signed by both Parties. Nothing in this Article shall act to preclude the introduction of reinsurance submission-related documents in any dispute between the Parties. No termination of this Reinsurance Agreement shall be effective unless such is made in writing and signed by the Parties hereto.

F. No Third Party Beneficiaries. Nothing in this Reinsurance Agreement is intended or shall be construed to give any person, other than the Parties hereto, any legal or equitable right, remedy or claim under or in respect of this Reinsurance Agreement or any provision contained herein, other than the Companies and the Reinsurer as provided under the terms of this Reinsurance Agreement, except as expressly provided otherwise under Article entitled **INSOLVENCY**; and except for Retrocessionaire, which shall be a third-party beneficiary able to enforce rights under this Agreement to the extent that failure to enforce such rights (in whole or in part) would adversely affect the Retrocessionaire.

G. Remedies. In the event of any default hereunder beyond the applicable cure period (if any), the non-defaulting Party may proceed to protect and enforce its rights either by suit in equity and/or by action at law, including, but not limited to, an action for damages as a result of any such default. The rights and remedies provided herein shall be cumulative and not exclusive of any rights or remedies provided by law, except as set forth in the Article entitled **ARBITRATION**.

H. Severability. If any provision of this Reinsurance Agreement should be invalid under applicable Laws, the latter shall control but only to the extent of the conflict without affecting the remaining provisions of this Reinsurance Agreement.

I. Waiver. The failure of the Companies or Reinsurer to insist on strict compliance with this Reinsurance Agreement or to exercise any right or remedy shall not constitute a waiver of any rights contained in this Reinsurance Agreement nor estop the parties from thereafter demanding full and complete compliance nor prevent the Parties from exercising any remedy.

J. Force Majeure. Each Party shall be excused for any reasonable failure or delay in performing any of its respective obligations under this Reinsurance Agreement, if such failure or delay is caused by Force Majeure. "Force Majeure" shall mean any act of God, strike, lockout, act of public enemy, any accident, explosion, fire, storm, earthquake, flood, drought, peril of sea, riot, embargo, war or foreign, federal, state or municipal order or directive issued by a court or other authorized official, seizure, requisition or allocation, any failure or delay of transportation, shortage of or inability to obtain supplies, equipment, fuel or labor or any other circumstance or event beyond the reasonable control of the Party relying upon such circumstance or event.

K. Survival. Notwithstanding anything to the contrary herein, all Articles of this Reinsurance Agreement shall survive the termination of this Reinsurance Agreement until all surviving obligations between the Parties have been finally settled.

L. Construction. Whenever the content of this Reinsurance Agreement requires, the gender of all words shall include the masculine, feminine and neuter, and the number of all words shall include the singular and the plural. This Reinsurance Agreement shall be construed without regard to any presumption or other rule requiring construction against the Party causing this Reinsurance Agreement to be drafted.

M. Authority. Each Party has full power and authority to execute and deliver this Reinsurance Agreement and to perform its obligations hereunder. The execution and delivery of this Reinsurance Agreement, and the consummation of the transactions contemplated herein, have been duly and validly approved by all requisite action on the part of each Party, and no other proceedings on the part of either Party, is necessary to approve this Reinsurance Agreement and to consummate the transactions contemplated herein. This Reinsurance Agreement has been duly and validly executed and delivered by each Party, and constitutes the legal, valid and binding obligation of each Party, enforceable against each Party in accordance with its terms, except as enforcement may be limited by general principles of equity, whether applied in a court of law or a court of equity, and by bankruptcy, insolvency, reorganization, moratorium and similar laws affecting or relating to creditors' rights and remedies generally.

N. Notices. All notices and other communications under this Reinsurance Agreement shall be in writing and shall be deemed given (a) when delivered personally by hand, (b) when sent by email (with written confirmation of transmission), (c) three (3) Business Days after being sent by certified mail, or (d) one (1) Business Day following the day sent by an internationally recognized overnight courier, in each case, at the following addresses and email addresses (or to such other address or email address as a party may have specified by notice given to the other party pursuant to this provision):

In the case of Reinsurer:

Marsh Management Services Cayman Ltd.
P.O. Box 1051
Grand Cayman KY1-1102
CAYMAN ISLANDS

With a copy to:

HIIG Services Companies
800 Gessner, Suite 600
Houston, TX 77024
Attn: Legal Department

In the case of the Companies:

Houston Specialty Insurance Companies
Imperium Insurance Companies
Great Midwest Insurance Companies
Legal Department
800 Gessner, Suite 600
Houston, TX 77024

O. Counterparts: Electronic Execution. This Reinsurance Agreement may be executed in one or more counterparts, each of which will be deemed to constitute an original, but all of which shall constitute one and the same agreement, and may be delivered by electronic means intended to preserve the original graphic or pictorial appearance of a document, including portable document format (PDF) scan.

(signatures appear on the following page)

IN WITNESS WHEREOF, each of the Parties has caused this Reinsurance Agreement to be executed on its behalf as of April 1, 2020.

HOUSTON SPECIALTY INSURANCE COMPANY

By: ______________________________

Title: President

IMPERIUM INSURANCE COMPANY,

By: ______________________________

Title: President

GREAT MIDWEST INSURANCE COMPANY

By: ______________________________

Title: President

HIIG RE

By: ______________________________

Title:

EXHIBIT C

Statutory Trust Agreement Form

STATUTORY TRUST AGREEMENT

BY AND AMONG

R&Q BERMUDA (SAC) LIMITED
ACTING IN RESPECT OF THE HIIG SEGREGATED ACCOUNT

as Retrocessionaire Grantor

HIIG RE

as Reinsurer Grantor

[_________________________________]

as Beneficiary

AND

THE BANK OF NEW YORK MELLON

as Trustee

Dated as of April 1, 2020

STATUTORY TRUST AGREEMENT

This is a statutory trust agreement, dated as of April 1, 2020 (hereinafter the "Agreement"), by and among R&Q Bermuda (SAC) Limited, a Bermuda limited company, acting in respect of the HIIG Segregated Account (the "Retrocessionaire Grantor"), HIIG Re, a Cayman Islands company (the "Reinsurer Grantor" and together with the Retrocessionaire Grantor, the "Grantors" and either of them individually, a "Grantor"), [__________________________________], a Texas company ("Beneficiary"), and The Bank of New York Mellon, a New York banking corporation (the "Trustee"). The Grantors, the Beneficiary and the Trustee are hereinafter each sometimes referred to individually as a "Party" and collectively as the "Parties".

WHEREAS, the Beneficiary, [__________________________] and [________________________] (collectively, "the Ceding Companies") and the Reinsurer Grantor have entered into that certain Loss Portfolio Transfer and Adverse Development Reinsurance Agreement by and between Ceding Companies and the Reinsurer Grantor (the "Reinsurance Agreement");

WHEREAS, the Retrocessionaire Grantor and the Reinsurer Grantor have entered into that certain Loss Portfolio Transfer and Adverse Development Retrocession Agreement (the "Retrocession Agreement", together with the Reinsurance Agreement, the "LPT Agreements"), in accordance with which the Retrocessionaire Grantor agrees to provide retrocession coverage for certain, but not all, of Reinsurer Grantor's obligations under the Reinsurance Agreement, which such certain obligations were assumed by the Retrocessionaire Grantor under the Retrocession Agreement (the "Retrocession Liabilities");

WHEREAS, the Reinsurance Agreement and the Retrocession Agreement each provides that the Grantors shall secure their obligations in respect of the Retrocession Liabilities to each of the Ceding Companies by depositing and maintaining certain assets in trust for the benefit of the Ceding Companies, so that the Ceding Companies be permitted to take full credit for reinsurance with respect to such Retrocession Liabilities.

NOW, THEREFORE, for and in consideration of the premises and for other good and valuable consideration, the receipt of which is hereby acknowledged, and intending to be legally bound hereby, the Parties hereby agree as follows:

TERMS AND CONDITIONS

Section 1. Deposit of Assets to the Trust Account.

(a) The Grantors shall establish and maintain with the Trustee a trust account for the

sole benefit of Beneficiary (which in its totality shall be hereinafter referred to, including all successor accounts thereto, as the "Trust Account"). The Grantors shall transfer to the Trustee, for deposit to the Trust Account, cash and other Assets. The initial deposit of Assets into the Trust Account shall be made in accordance with the terms of the Retrocession Agreement by the Reinsurer Grantor, in cash in the amount of Beneficiary's proportionate share of the Net Premium. Trustee shall receive such Assets and hold all Assets in a safe place. Additional Assets may subsequently be deposited to, and Assets may be withdrawn from, the Trust Account only in accordance with the provisions of this Agreement. For the avoidance of doubt, Reinsurer Grantor has no obligation to make additional deposits to the Trust Account, on behalf of the Retrocession Grantor or otherwise.

(b) The Trustee shall administer the Trust Account as Trustee and fiduciary for the sole benefit of Beneficiary. The Trust Account shall be subject to withdrawal solely by Beneficiary as provided herein. All Assets in the Trust Account will be held by the Trustee at the Trustee's Office in the United States of America ("United States").

(c) A Grantor that transfers Assets into the Trust Account hereby represents and warrants with respect to such Assets that (i) all such cash and/or other Assets referred to in Section 1(a) transferred to the Trustee for deposit to the Trust Account shall consist only of United States Dollars ("cash") and Eligible Securities, (ii) that any such Assets transferred by the Grantor to the Trustee for deposit to the Trust Account will be in such form that Beneficiary, and the Trustee upon direction by Beneficiary, may negotiate any such Assets without consent or signature from the Grantors or any person in accordance with the terms of this Agreement and (iii) such cash and other Assets transferred for deposit to the Trust Account shall be free and clear of all liens, claims and encumbrances. A Grantor, prior to depositing Assets with the Trustee, shall execute assignments, endorsements in blank, or transfer legal title to the trustee of all shares, obligations, or any other assets requiring assignments, in order that Beneficiary, or the Trustee upon the direction of Beneficiary may, whenever necessary, negotiate any such Assets without consent or signature from the Grantors or any other entity.

(d) Reinsurer Grantor further represents and warrants that the initial deposit in the amount of the Net Premium transferred to the Trustee for deposit to the Trust Account shall consist only of cash and such cash transferred for deposit to the Trust Account shall be free and clear of all liens, claims and encumbrances

(e) The Trustee shall have no responsibility to determine whether the total value of cash proceeds and Eligible Securities referred to in Section 1(c) together with Eligible Securities in which cash in the Trust Account is invested or which are substituted for other Eligible Securities pursuant to Section 3(b) (such cash and Eligible Securities, as hereinafter defined, are in this Agreement referred to collectively as the "Assets" and individually as an "Asset") in the Trust Account are sufficient to secure the Retrocession Liabilities.

Section 2. Withdrawal of Assets from the Account.

(a) Without notice or consent of the Grantors, Beneficiary shall have the right to withdraw from the Trust Account, at any time and from time to time, upon Beneficiary giving written notice (the "Withdrawal Notice") to the Trustee, such Assets as are specified in such Withdrawal Notice. Beneficiary need present no statement or document in addition to a Withdrawal Notice in order to withdraw any Assets, nor is said right of withdrawal or any other provision of this Agreement subject to any conditions or qualifications outside of this Agreement.

(b) Upon receipt of a Withdrawal Notice, the Trustee shall immediately take any and all steps necessary to transfer absolutely and unequivocally all right, title, and interest and physical custody in the Assets specified in such Withdrawal Notice and shall deliver such assets to Beneficiary as specified in such Withdrawal Notice given by Beneficiary.

(c) Subject to paragraph (a) of this Section 2 and to Section 3 of this Agreement, in the absence of a Withdrawal Notice, the Trustee shall allow no substitution or withdrawal of any Asset from the Trust Account.

(d) Notwithstanding anything to the contrary set forth in this Section 2, Beneficiary shall utilize and apply any such withdrawals, without diminution because of the insolvency of Beneficiary or the Grantors, for the following purposes only (the "Permitted Purposes"):

(a) to pay, or to reimburse Beneficiary for the due but unpaid or unreimbursed Retrocession Liabilities;

(b) to transfer to the Retrocessionaire Grantor any Assets that are in excess of the Required Collateral Amount;

(c) where Beneficiary has received notification of termination of this Agreement and where any of the Grantors' Retrocession Liabilities remain unliquidated and undischarged ten (10) days prior to the termination date, to withdraw assets in the Trust Account equal to such obligations and deposit such assets in a separate account apart from its other assets, in the name of Beneficiary, in any United States bank or trust company apart from Beneficiary's general assets in trust solely for the uses and purposes specified in this section that remain executory after the withdrawal and for any period after such termination date.

A Collateral Offset (as defined in the Retrocession Agreement) completed in accordance with the provisions of the Retrocession Agreement shall not be considered a transfer in violation of the Permitted Purposes set forth above.

(e) Beneficiary shall return to the Trust Account, within five (5) Business Days, assets withdrawn in excess of all amounts due under Sections 2(d)(i) and 2(d)(iii), and, to the extent not yet actually paid to the Retrocessionaire Grantor, Section 2(d)(ii). Any such excess amounts shall at all times be held by Beneficiary (or any successor by operation of law thereof, including any liquidator, rehabilitator, receiver or conservator thereof) in trust for the benefit of the Retrocessionaire Grantor for the sole purpose of funding the payments and reimbursements described in Section 2(d). Assets that are subsequently determined not to be due shall be returned to the Trust Account with interest charged thereon at Two Percent (2%) per annum, calculated on an annual basis.

(f) The Trustee shall have no responsibility whatsoever to determine how any Assets withdrawn from the Trust Account pursuant to this Section 2 will be used and applied by Beneficiary. Furthermore, the Trustee shall have no responsibility whatsoever to determine whether the Beneficiary shall return, or shall have returned, any excess amounts and whether any interest is owed under Section 2(e).

(g) Beneficiary shall not, and shall not permit any party (including any third party claims administrator administering claims in connection with the Retrocession Liabilities) to use and apply Assets for any purpose other than the Permitted Purposes.

(h) If, based on the Quarterly Funding Report beginning with the calendar quarter ended June 30, 2020, the Required Collateral Amount at the end of any calendar quarter (i) is less than the Fair Market Value of the Assets held in the Trust Account (determined in accordance with Section 6(f) hereof), Beneficiary shall promptly, but not less than five (5) Business Days after delivery of the Quarterly Funding Report to the Grantors, direct the Trustee to transfer directly from the Trust Account to the account of the Retrocessionaire Grantor or its designee such Assets with a Fair Market Value in excess of the Required Collateral Amount, or (ii) exceeds the Fair Market Value of the Assets held in the Trust Account (determined in accordance with Section 6(f) hereof), the Retrocessionaire Grantor shall promptly, but not less than five (5) Business Days after delivery of the Quarterly Funding Report, transfer to the Trust Account such additional Assets as may be necessary to increase the Fair Market Value of the Assets held in the Trust Account to the Required Collateral Amount.

(i) Any other term in this Agreement notwithstanding, no statement or document, other than the written notice from Beneficiary to the Trustee, will be accepted to withdraw Assets. Beneficiary shall, upon written request of the Trustee, acknowledge in writing to the Trustee, Beneficiary's receipt of the withdrawn Assets.

Section 3. Redemption, Investment and Substitution of Assets.

(a) The Trustee shall surrender for payment all maturing Assets and all Assets called for redemption and deposit the principal amount of the proceeds of any such payment to the Trust Account.

(b) The Trustee shall allow no substitutions or withdrawals of Assets from the Trust Account, except on written instructions from Beneficiary, or the Trustee may, without the consent of but with written notice to Beneficiary, on call or maturity of any Asset, withdraw such Asset on condition that the proceeds are paid or deposited into the Trust Account.

(c) The Trustee shall invest and reinvest the cash held in the Trust Account as directed by the Retrocessionaire Grantor in writing from time to time. The Trustee shall have no responsibility whatsoever to determine that any Assets in the Trust Account are or continue to be in compliance with the provision of Texas Insurance Law.

(d) Any loss incurred from any investment pursuant to the terms of this Section 3 shall be borne exclusively by the Trust Account. Subject to other terms of this Agreement, the Trustee shall have no liability for any loss sustained as a result of any investment made pursuant to the terms of this Agreement or as a result of any liquidation of any investment prior to its maturity or for the failure of the Retrocessionaire Grantor to give the Trustee instructions to invest or reinvest the Trust Account. The Retrocessionaire Grantor shall make additional deposits pursuant to Section 1 in the event such loss is incurred.

(e) The Trustee shall keep full and complete records of the administration of the Trust Account.

(f) When the Trustee is directed by Beneficiary to deliver Assets against payment, delivery will be made in accordance with generally accepted market practice, not inconsistent with terms of this Agreement.

(g) The Trustee shall execute investment directions and settle securities transactions by itself or by means of an agent or broker. The Trustee shall not be responsible for any act or omission, or for the solvency, of any such agent or broker. For the purposes of Section 3 the Trustee shall not be liable for valuing the assets according to their Fair Market Value.

Section 4. Interest and Dividends.

All payments of interest, dividends and other income in respect to the Assets in the Trust Account shall be posted and credited by the Trustee, subject to deduction of the Trustee's compensation and expenses as provided in Section 7 of this Agreement, in the separate income column of the custody ledger (the "Income Account") within the Trust Account, which Trust Account is established and maintained by the Retrocessionaire Grantor at an office of the Trustee in New York City. Any interest, dividend or other income automatically posted and credited on the payment date to the Income Account which is not subsequently received by the Trustee shall be reimbursed by the Retrocessionaire Grantor to the Trustee and the Trustee may debit the Income Account for this purpose. Every quarter, after deduction of the Trustee's compensation and expenses as provided in Section 7 of this Agreement, the interest, dividends and other income set forth in the Income Account shall be swept into the Trust Account.

Section 5. Right to Vote Assets.

The Trustee shall forward all annual and interim stockholder reports and all proxies and proxy materials relating to the Assets in the Trust Account to the Retrocesionaire Grantor. The Retrocessionaire Grantor shall have the full and unqualified right to exercise any voting rights associated with the Assets in the Trust Account. The Trustee shall notify the Retrocessionaire Grantor of rights or discretionary actions with respect to Eligible Securities as promptly as practicable under the circumstances, provided that the Trustee has actually received notice of such right or discretionary corporate action from the relevant depository. Subject to other terms of this Agreement, absent actual receipt of such reports and materials, the Trustee shall have no liability for failing to so forward the same to the any Grantor. The Trustee shall not be liable for failure to take any action relating to or to exercise any rights conferred by such Eligible Securities.

Section 6. Additional Rights and Duties of the Trustee.

(a) The Trustee shall notify the Grantors and Beneficiary in writing within ten (10) days following each deposit to, or withdrawal from, the Trust Account. Any notification or statement required to be given by the Trustee under this Agreement shall be deemed so given upon notice by e-mail to the Grantors and Beneficiary that such notification or statement is available to the Grantors and the Beneficiary through the Trustee's online reporting tool, but only if the Grantors and Beneficiary are granted reasonable access to the Trustee's online reporting tool at the time of such notice and such notification or statement through the Trustee's online reporting tool is actually available to the Grantors and Beneficiary for at least a reasonable time thereafter. However, providing such access shall not relieve the Trustee of its notice obligations under this Section 6(a). The term notification as used in this paragraph does not include any notice or notification required to be given or referred in Section 10, Termination of the Trust Account.

(b) Before accepting any Asset for deposit to the Trust Account, the Trustee shall determine that such Asset is in such form that Beneficiary, or the Trustee upon direction by the Beneficiary, may, whenever necessary negotiate such Asset without consent or signature from the Grantors or any other person.

(c) The Trustee shall have no responsibility whatsoever to determine that any Assets in the Trust Account are or continue to be Eligible Securities.

(d) The Trustee may record any Assets in the Trust Account in a book entry form maintained at the Federal Reserve Bank of New York or in depositories such as the Depository Trust Company so long as the Trustee’s records clearly indicate that the assets held are a part of the Trust Account. Subject to other terms of this Agreement, the Trustee shall have no liability whatsoever for the action or inaction of any such depository or for any losses resulting from the maintenance of Assets with any such depository.

(e) The Trustee shall accept and open all mail directed to the Grantors or Beneficiary in care of the Trustee.

(f) The Trustee shall furnish to the Grantors and Beneficiary a statement of all Assets in the Trust Account at inception of the Trust Account and at the end of each calendar month. Such report shall, in reasonable detail, show: (i) all deposits, withdrawals and substitutions during such month; (ii) a listing of securities held and cash and cash equivalent balances in the Trust Account as of the last day of such month; and (iii) the Fair Market Value of each Asset held in the Trust Account (other than cash) and the amount of cash held as of the last day of such month. The Trustee shall utilize the services of nationally recognized industry providers in order to determine the Fair Market Value of any Assets in the Trust Account at inception and thereafter on a monthly basis, and the Grantors and Beneficiary shall accept such values; provided that such values are to be stated in United States dollars. Where the vendors do not provide information for particular Assets, an Authorized Person of the Retrocessionaire Grantor, or the Retrocesionaire Grantor's designated investment advisor, if any, may advise the Trustee regarding the Fair Market Value of, or provide other information with respect to, such Assets as determined by it in good faith. The Trustee shall not be liable for any loss, damage or expense incurred as a result of errors or omissions with respect to any pricing or any other information used by the Trustee hereunder.

(g) Upon the request of the Grantors or Beneficiary, the Trustee shall promptly permit the Grantors or Beneficiary, their respective agents, employees or independent auditors to examine, audit, excerpt, transcribe and copy, during the Trustee's normal business hours, any books, documents, papers and records relating to the Trust Account or the Assets.

(h) Unless otherwise provided in this Agreement, the Trustee is authorized to follow and rely upon all instructions given by officers named in incumbency certificates furnished to the Trustee from time to time by the Grantors and Beneficiary, respectively, and by attorneys-in-fact acting under written authority furnished to the Trustee by the Grantors or Beneficiary, including, without limitation, instructions given by letter, facsimile transmission, or electronic mail, if the Trustee reasonably believes such instructions to be genuine and to have been signed, sent or presented by the proper Party or Parties. The Trustee shall not incur any liability to anyone resulting from actions taken by the Trustee in reliance in good faith on such instructions. The Trustee shall not incur any liability in executing instructions (i) from an attorney-in-fact prior to receipt by it of notice of the revocation of the written authority of the attorney-in-fact or (ii) from any officer of the Grantors or Beneficiary named in an incumbency certificate delivered hereunder, if such instructions are executed prior to receipt by it of a more current certificate. Each Grantor and Beneficiary acknowledges and agrees that it is fully informed of the protections and risks associated with the various methods of transmitting instructions to the Trustee, and that there may be more secure methods of transmitting instructions than the method selected by the sender. Each Grantor and Beneficiary agrees that the security procedures, if any, to be followed in connection with a transmission of instructions provide to it a commercially reasonable degree of protection in light of its particular needs and circumstances. Other provisions and terms of this Agreement notwithstanding, the Trustee shall be liable to the Beneficiary and the Grantors for the Trustee’s negligence, willful misconduct, or lack of good faith or breach of fiduciary duty.

(i) The duties and obligations of the Trustee shall only be such as are specifically set forth in this Agreement, as it may from time to time be amended, and no implied duties or obligations shall be read into this Agreement against the Trustee. The Trustee shall only be liable for its own negligence, willful misconduct, or lack of good faith or breach of fiduciary duty. In the performance of its duties under this Agreement, the Trustee may act directly or through its agents and Affiliates, and the Trustee shall be deemed to have discharged its duties and responsibilities under this Agreement to the extent that an agent or an Affiliate of the Trustee has agreed to perform, and does perform, any act to discharge, and does discharge, any duty of the Trustee hereunder, and the Trustee shall not be held liable for the default or failure of the such agent of Affiliate provided that the Trustee shall have exercised due care in selection of such agent or Affiliate, and due care in the supervision of any such agent which is also an Affiliate of the Trustee, in each case in good faith and absent negligence, or willful misconduct or breach of fiduciary duty on the part of the Trustee. For the avoidance of doubt, the Trustee's fiduciary duty under this Agreement shall mean the safekeeping and administration of the Trust Account as explicitly specified in this Agreement. It is agreed that the standard of care and the benefits, protections and rights (including indemnities) applied to or provided to the Trustee under this Trust Agreement shall be applied to and shall be available to the Affiliates of the Trustee in respect of any execution or performance by such Affiliates hereunder.

(j) No provision of this Agreement shall require the Trustee to take any action which, in the Trustee's reasonable judgment, would result in any violation of law.

(k) The Trustee may confer with counsel of its own choice in relation to matters arising under this Agreement and shall have full and complete authorization from the other Parties hereunder and shall be fully protected with respect to any action taken or suffered by it under this Agreement or under any transaction contemplated hereby in good faith and in accordance with opinion of such counsel.

(1) The Trust Account shall be (i) in the possession of the Trustee at its offices in New York (ii) kept separate and apart on the books and records of the Trustee from any assets of the Trustee and any other securities held by the Trustee for whomever and for whatsoever purpose, (iii) clearly identifiable as Assets subject to this Agreement at all times while in the possession of the Trustee. The title and account number of the Trust Account are identified on Schedule 3 attached hereto.

(m) Anything in this Agreement to the contrary notwithstanding, in no event shall the Trustee be liable under or in connection with this Agreement for indirect, special, incidental, punitive or consequential losses or damages of any kind whatsoever, including but not limited to lost profits, whether or not foreseeable, even if the Trustee, has been advised of the possibility thereof and regardless of the form of action in which such damages are sought.

(n) The Trustee shall not be responsible for the existence, genuineness or value of any of the Assets or for the validity, perfection, priority or enforceability of the liens in any of the Assets, whether impaired by operation of law or by reason of any action or omission to act on its part hereunder, except to the extent such action or omission constitutes negligence, lack of good faith, or willful misconduct or breach of fiduciary duty, for the validity of title to the Assets, for insuring the Assets or for the payment of taxes, charges, assessments or liens upon the Assets.

(o) The Trustee shall not be required to risk or expend its own funds in performing its obligations under this Agreement.

(d) The Trustee shall respond to any and all reasonable requests from the Grantors or Beneficiary, and the Trustee shall promptly supply the information requested as concerning the Trust Account or the Assets held therein.

Section 7. The Trustee's Compensation, Expenses and Indemnification.

(a) The Retrocessionaire Grantor shall pay the Trustee, as compensation for its services under this Agreement, a fee computed at rates determined by the Trustee from time to time and communicated in writing to the Retrocessionaire Grantor. The Retrocessionaire Grantor shall pay or reimburse the Trustee for all of the Trustee's out-of-pocket expenses and disbursements in connection with its duties under this Agreement (including attorney's fees and expenses), except any such expense, or disbursement as may arise from the Trustee's negligence, willful misconduct, or lack of good faith or breach of fiduciary duty. The Trustee shall be entitled to deduct its compensation and expenses from payments of dividends into the Income Account as provided in Section 4 of this Agreement. This Agreement prohibits invasion of the trust corpus for the purpose of paying compensation to, or reimbursing the expenses of, the Trustee. The Grantors and Beneficiary severally and not jointly hereby indemnify the Trustee for, and holds it harmless against, any loss, liability, costs or expenses (including attorney's fees and expenses and the costs of successfully defending itself against a claim of negligence or willful misconduct on its part made by another party hereto) incurred or made without negligence, willful misconduct or lack of good faith on the part of the Trustee, or breach of fiduciary duty, arising out of or in connection with the performance of its obligations in accordance with the provisions of this Agreement, including any loss, liability, costs or expenses arising out of or in connection with the status of the Trustee. The Grantors and Beneficiary hereby acknowledge that the foregoing indemnities shall survive the resignation or discharge of the Trustee or the termination of this Agreement.

(b) No Assets shall be withdrawn from the Trust Account or used in any manner for paying compensation to, or reimbursement or indemnification of, the Trustee. This provision is not intended to limit or affect the Trustee's entitlement to deduct from the Income Account.

Section 8. TINs.

The Grantors and Beneficiary each represents that its respective correct Taxpayer Identification Number ("TIN") assigned by the Internal Revenue Service or any other taxing authority is set forth in Schedule 1 hereto. Upon execution of this Agreement, the Grantors shall each provide the Trustee with a fully executed W-8 or W-9 Internal Revenue Service Form, which shall include the applicable Grantor's Tax Identification Number (TIN), as assigned by the Internal Revenue Service. All interest or other income earned under this Agreement shall be deposited pursuant to the terms of this Agreement and reported by the Retrocessionaire Grantor to the Internal Revenue Service or any other taxing authority. Notwithstanding such written directions, Trustee shall report and, as required, withhold any taxes as it determines may be required by any law or regulation in effect at the time of the distribution. In the event that any such earnings remain undeposited at the end of any calendar year, Trustee shall report such income to the Internal Revenue Service or such other authority such earnings as it deems appropriate or as required by any applicable law or regulation. In addition, Trustee shall hold any taxes if required by law to do so and shall remit such taxes to the appropriate authorities.

Section 9. Grantor Trust for U.S. Federal Income Tax Purposes.

The Trust shall be treated as a grantor trust (pursuant to sections 671 through 677 of the Code) for U.S. federal income tax purposes. The Retrocessionaire Grantor shall constitute the grantor (within the meaning of sections 671 and 677(a) of the Code) and, thus, any and all income derived from the Assets shall constitute income or gain of the Retrocessionaire Grantor only as the owner of such Assets. The Retrocessionaire Grantor shall file any federal, state or local tax returns to the extent required by applicable Law.

Section 10. Resignation of the Trustee.

(a) The Trustee may resign at any time by giving not less than ninety (90) days written notice thereof to the Beneficiary and to the Grantors, such resignation to become effective on the acceptance of appointment by a successor trustee and the transfer to such successor trustee of all Assets in the Trust Account in accordance with paragraph (b) of this Section 9.

(b) Upon receipt of the Trustee's notice of resignation, the Grantors and Beneficiary shall appoint a successor trustee. Any successor trustee shall be a bank that is a member of the Federal Reserve System and shall not be a parent, a subsidiary or an affiliate of the Grantors or Beneficiary. Upon the acceptance of the appointment as trustee hereunder by a successor trustee, payment of all fees due the Trustee and the transfer to such successor trustee of all Assets in the Trust Account, the resignation of the Trustee shall become effective. Thereupon, such successor trustee shall succeed to and become vested with the rights, powers, privileges and duties of the Trustee, and the Trustee shall be discharged from any future duties and obligations under this Agreement, but the Trustee shall continue after its resignation to be entitled to the benefits of the indemnities provided herein for the Trustee.

Section 11. Termination of the Trust Account.

(a) The Trust Account and this Agreement, except for the indemnities provided herein, may be terminated only after (i) Beneficiary has given the Trustee written notice of its intention to terminate the Trust Account (the "Notice of Intention"), and (ii) the Trustee has given the Grantors and the Beneficiary the written notice specified in paragraph (b) of this Section 10. The Notice of Intention shall specify the date on which Beneficiary or the Trustee, as applicable, intends the Trust Account to terminate (the "Proposed Date").

(b) Within ten (10) Business Days following receipt by the Trustee of the Notice of Intention, the Trustee shall give written notification (the "Termination Notice") to the Beneficiary and the Grantors of the date (the "Termination Date") on which the Trust Account shall terminate. The Termination Date shall be (a) the Proposed Date (or if not a Business Day, the next Business Day thereafter), if the Proposed Date is at least thirty (30) days but no more than 45 days subsequent to the date the Termination Notice is given; (b) thirty (30) days subsequent to the date the Termination Notice is given (or if not a Business Day, the next Business Day thereafter), if the Proposed Date is fewer than thirty (30) days subsequent to the date the Termination Notice is given; or (c) forty five (45) days subsequent to the date the Termination Notice is given (or if not a Business Day, the next Business Day thereafter), if the Proposed Date is more than forty five (45) days subsequent to the date the Termination Notice is given. Further, the Trustee shall at least thirty (30) days prior to Termination Date deliver written notification of termination, including the termination date, via certified mail, to the Beneficiary.

(c) On the Termination Date, upon receipt of written approval of the Beneficiary, the Trustee shall transfer any Assets remaining in the Trust Account to the Retrocessionaire Grantor as directed by such instructions, at which time all liability of the Trustee with respect to such Assets shall cease.

(d) At least thirty (30) days prior to the Termination Date, written notification of termination of the Trust Account shall be delivered by the Trustee via certified mail to Beneficiary and to the Texas Department of Insurance. Notice to the Texas Department of Insurance shall be addressed and sent to the attention of the Financial Regulation Division, PO Box 149104, Austin, TX 78714-9104 or such other address. Beneficiary shall provide the Trustee with updates to such address and addressee information as from time to time may be necessary to keep that information current. In providing the Notices required by this paragraph, the Trustee may rely upon this information and in doing so shall be protected, held harmless and deemed to have exercised all reasonable due care.

Section 12. Definitions.

Except as the context shall otherwise require, the following terms shall have the following meanings for all purposes of this Agreement (the definitions are applicable to both the singular and the plural forms).

The term “Affiliate” with respect to any legal entity shall mean a person or legal entity which directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, such legal entity. The term “control” (including the related terms “controlled by” and “under common control with”) shall mean the ownership, directly or indirectly, of more than ten percent (10%) of the voting stock of a legal entity.

The term “Beneficiary” shall include any successor of the Beneficiary by operation of law including, without limitation, any liquidator, rehabilitator, receiver or conservator.

The term “Business Day” shall mean any day other than a Saturday, Sunday or any other day on which the Trustee located at the notice address set forth in Section 17 is authorized or required by law or executive order to remain closed.

The term "<u>Eligible Securities</u>" shall mean those securities which consist solely of

(1) a certificate of deposit payable in United States dollars and issued by a bank organized under the laws of the United States or any state thereof; or

(2) an investment of a type permitted by the Texas Insurance Code, Section 493.104, provided that such investment must also be issued by an institution which is not the parent, subsidiary or Affiliate of the Beneficiary or the Grantors. The Beneficiary and the Grantors agree the Eligible Securities shall not include any Assets held or principally traded outside the United States.

"Eligible Securities" do not include mortgages, collateralized debt obligations, collateralized loan obligations, real estate or derivatives. Additionally, to be part of Eligible Securities, an investment must be interest bearing, interest, accruing with a specific maturity date on which redemption is to be made at stated value, and not in default and shall otherwise qualify under Texas Insurance Law.

The term “Fair Market Value” shall mean in respect of any given valuation date, (i) in the case of securities listed on an exchange or in an over-the counter market, the closing price on such exchange or market (or the average of the closing bid and asked prices if there is no closing price) plus all accrued but unpaid interest on such securities through the last Business Day preceding the valuation date if such amount is not already reflected in such closing price (or such bid and asked prices), and (ii) in the case of cash, the face amount thereof. Trustee may, as an accommodation, provide pricing or other information services to Grantor and/ or Beneficiary in connection with this Agreement. The Trustee is authorized to utilize any nationally recognized vendor whose business regularly involves providing pricing information including the valuation of thinly traded or illiquid securities reasonably believed by the Trustee to be reliable to provide such information. Under no circumstances shall the Trustee be liable for any loss, damage, or expense suffered or incurred by Grantor or Beneficiary as a result of errors or omissions with respect to any pricing or other information utilized by Trustee hereunder.

The term “Net Premium” shall mean an amount equal to Premium *less* Brokerage *less* FET assessed on Premium (each of the foregoing, as defined in the Retrocession Agreement).

The term “Parent” shall mean an institution controlled, directly or indirectly, by another institution.

The term “Person” shall mean and include an individual, a corporation, a partnership, an association, a trust, an unincorporated organization or a government or political subdivision thereof.

The term “Quarterly Funding Report” shall have the meaning set forth in the Retrocession Agreement.

The term “Required Collateral Amount” shall have the meaning set forth in the Retrocession Agreement.

The term “Ultimate Net Loss” shall have the meaning set forth in the Retrocession Agreement.

Section 13. Governing Law.

This Agreement shall be subject to and governed by the laws of the State of New York. Each Party hereto irrevocably waives any objection on the grounds of venue, forum non conveniens or any similar grounds and irrevocably consents to the service of process by mail or in any other manner permitted by applicable laws and consents to the jurisdiction of the federal courts of the United States located in the Southern District of the State of New York or, if such courts do not have jurisdiction, the state courts of the State of New York sitting in the Borough of Manhattan. Each Party hereby waives any right to a trial by jury with respect to any lawsuit or judicial proceeding arising or relating to this Agreement.

Section 14. Successors and Assigns.

No Party may assign this Agreement or any of its obligations hereunder, without the prior written consent of the other Parties; provided, however, that this Agreement shall inure to the benefit of and bind those who, by operation of law, become successors to the Parties, including, without limitation, any liquidator, rehabilitator, receiver or conservator and any successor merged or consolidated entity and provided further that, in the case of the Trustee, the successor trustee is eligible to be a trustee under the terms hereof and in the case of Grantors and Beneficiary, the parties have provided the Trustee with prior written notice of such assignment and subject to the Bank’s satisfactory completion of CIP on the successor. Any corporation or association into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation or association to which all or substantially all the Insurance Trust business of the Trustee's corporate trust line of business may be transferred, shall be the Trustee under this Agreement without further act.

Section 15 Severability.

In the event that any provision of the Agreement shall be declared invalid or unenforceable by any regulatory body or court having jurisdiction, such invalidity or unenforceability shall not affect the validity or enforceability of the remaining portions of this Agreement.

Section 16. Entire Agreement.

This Agreement constitutes the entire agreement among the Parties with respect to the subject matter hereof, and there are no understandings or agreements, conditions or qualifications relative to this Agreement which are not fully expressed in this Agreement.

Section 17. Amendments.

This Agreement may be modified or otherwise amended, and the observance of any term of this Agreement may be waived, but only to the extent that such modification, amendment or waiver is in writing and signed by all of the Parties.

Section 18. Notices.

(a) All communications hereunder shall be in writing and shall be deemed to be duly given and received:

(i) upon delivery if delivered personally, electronic media or upon confirmed transmittal if by facsimile (Fax);

(ii) on the next Business Day if sent by overnight courier; or

(iii) four (4) Business Days after mailing if mailed by prepaid register mail, return receipt requested, to the appropriate notice address set forth below this Section 17 or at such other address as any Party hereto may have furnished to the other parties in writing by registered mail, return receipt requested.

If to the Retrocession Grantor:

R&Q Bermuda (SAC) Limited
Randall & Quilter Investment Holdings Ltd.
F B Perry Building, 40 Church Street
Hamilton HM11, Bermuda
Attention: Paul Corver
Email: [***]

With a copy to:

R&Q Solutions, LLC
Two Logan Square
Suite 600
Philadelphia, PA 19103
Attention: Christopher Reichow, U.S. General Counsel
Email: [***]

If to the Reinsurer Grantor:

HIIG Re
c/o Marsh Management Services Cayman Ltd.
P.O. Box 1051
Grand Cayman KY1-1102
CAYMAN ISLANDS
Email:

With a copy to

HIIG Re
Legal Department
800 Gessner, Suite 600
Houston, TX 77024
Email: [***]

If to the Beneficiary:

[_______________________]
[_______________________]
[_______________________]
[_______________________]
Email: [_______________________]

If to the Trustee:

The Bank of New York Mellon
Insurance Trust and Escrow
240 Greenwich Street,
New York, NY 10286 USA
Attention:
Fax

(b) Notwithstanding the above, in the case of communications delivered to the Trustee pursuant to (ii) and (iii) of this Section 17, such communications shall be deemed to have been given on the date received by the Trustee. Each Party may from time to time designate a different address for notices, directions, requests, demands, acknowledgments and other communications by giving written notice of such change to the other Parties. All notices, directions, requests, demands, acknowledgments and other communications relating to the Beneficiary's approval of the Retrocessionaire Grantor's authorization to substitute Trust Assets and to the termination of the Trust Account shall be in writing and may be made or given by facsimile or electronic media.

Section 19. Funds Transfer Procedures.

In the event funds transfer instructions are given in writing by Beneficiary, via facsimile or otherwise, pursuant to other terms of this Agreement, the Trustee is authorized to seek confirmation of such instructions from Beneficiary by telephone call-back to the person or persons designated in Schedule 2 hereto ("Schedule 2"), and the Trustee may rely upon the confirmation of anyone purporting to be the person or persons so designated. The persons and telephone numbers for call-backs may be changed only in a writing actually received and acknowledged by the Trustee. If the Trustee is unable to contact any of the authorized representatives identified in Schedule 2, the Trustee is hereby authorized to seek confirmation of such instructions by telephone call-back to any one or more of the executive officers of Beneficiary ("Executive Officers") as the Trustee may select. Such Executive Officer shall deliver to the Trustee a fully executed Incumbency Certificate, and the Trustee may rely upon the confirmation of anyone purporting to be any such officer. The Trustee and the Beneficiary's bank in any funds transfer may rely solely upon any account numbers or similar identifying numbers provided by Beneficiary to identify (i) the Beneficiary, (ii) the Beneficiary's bank, or (iii) an intermediary bank. The Trustee may choose to apply any of the Assets in the Trust Account for any payment order it executes using any such identifying number. The parties to this Agreement acknowledge that these security procedures are commercially reasonable. Payment or otherwise to act on any instruction by Beneficiary's Executive Officer will be made by the Trustee within three (3) Business Days after the Trustee's verification of instructions as set forth above, unless a shorter time frame is required by this Agreement or applicable Texas law. The Beneficiary shall notify the Trustee if a shorter time frame is required by this Agreement or under Texas law.

Notwithstanding any revocation, cancellation or amendment of a written funds transfer authorization pursuant to this Agreement, any action taken by the Trustee pursuant to such authorization prior to the Trustee's receipt of a notice of revocation, cancellation or amendment, pursuant to this Agreement, shall not be affected by such notice.

Section 20. Force Majeure.

In the event that any Party to this Agreement is unable to perform its obligations under the terms of this Agreement because of acts of God, strikes, equipment or transmission failure or damage reasonably beyond its control, or other cause reasonably beyond its control, such Party shall not be liable for damages to the other Parties resulting from such failure to perform or otherwise from such causes. Performance under this Agreement shall resume when the affected Party is able to perform substantially that Party's duties.

Section 21. USA Patriot Act.

The Grantors and Beneficiary hereby acknowledge that the Trustee is subject to federal laws, including the Customer Identification Program ("CIP") requirements under the USA PATRIOT Act and its implementing regulations, pursuant to which the Trustee must obtain, verify and record information that allows the Trustee to identify the Grantors and Beneficiary. Accordingly, prior to opening the Trust Account hereunder, the Trustee will ask the Grantors and Beneficiary to provide certain information including, but not limited to, the Grantors' and Beneficiary's name, physical address, tax identification number and other information that will help the Trustee to identify and verify the Grantors' and Beneficiary's identity such as organizational documents, certificate of good standing, license to do business, or other pertinent identifying information. Each of the Grantors and Beneficiary agrees that the Trustee cannot open the Trust Account hereunder unless and until the Trustee verifies the Grantors' and Beneficiary's identity in accordance with the Trustee's CIP.

Section 22. Required Disclosure.

The Trustee is authorized to supply any information regarding the Trust Account and related Assets that is required by any law, regulation or rule now or hereafter in effect. Grantors and Beneficiary agree to supply the Trustee with any required information if it is not otherwise reasonably available to the Trustee.

Section 23. Trustee's Representations, Warranties and Covenants.

Trustee represents, warrants and covenants to the Grantors and the Beneficiary that:

(a) Trustee is a bank that is either a member of the Federal Reserve System, or a New York State-chartered bank or trust company.
(b) Trustee shall maintain the Trust Account and the Trust Assets in the same manner as it maintains accounts and assets for its custodial customers;
(c) The Trust Account is and at all times shall be maintained at an office of the Trustee located within the Unites States of America; and
(d) Trustee is not a Parent, subsidiary or Affiliate of the Grantors or the Beneficiary.

Section 24. Parties' Representations.

Each Party represents and warrants to the other that it has full authority to enter into this Agreement upon the terms and conditions hereof and that the individual executing this Agreement on its behalf has the requisite authority to bind such Party to this Agreement, and that the Agreement constitutes a binding obligation of such Party enforceable in accordance with its terms.

Section 25. Shareholder Communication Act.

With respect to securities issued in the United States, the Shareholders Communications Act of 1985 (the “Act”) requires Trustee to disclose to the issuers, upon their request, the name, address and securities position of the Retrocessionaire Grantor that is (a) the “beneficial owners” (as defined in the Act) of the issuer’s securities, if the beneficial owner does not object to such disclosure, or (b) acting as a “respondent bank” (as defined in the Act) with respect to the securities. (Under the Act, “respondent banks” do not have the option of objecting to such disclosure upon the issuers’ request). The Act defines a “beneficial owner” as any person who has, or shares, the power to vote a security (pursuant to an agreement or otherwise), or who directs the voting of a security. The Act defines a “respondent bank” as any bank, association or other entity that exercises fiduciary powers which holds securities on behalf of beneficial owners and deposits such securities for safekeeping with a bank, such as Trustee. Under the Act, Retrocessionaire Grantor is either the “beneficial owner” or a “respondent bank.”

[1 Retrocessionaire Grantor is the “beneficial owner,” as defined in the Act, of the securities to be held by Trustee hereunder.
[1 Retrocessionaire Grantor is not the beneficial owner of the securities to be held by Trustee, but is acting as a “respondent bank,” as defined in the Act, with respect to the securities to be held by Trustee hereunder.
IF NO BOX IS CHECKED, TRUSTEE SHALL ASSUME THAT DEPOSITOR IS THE BENEFICIAL OWNER OF THE SECURITIES.
<u>For beneficial owners of the securities only</u>:
[1 Retrocessionaire Grantor objects
[1 Retrocessionaire Grantor does not object
to the disclosure of its name, address and securities position to any issuer which requests such information pursuant to the Act for the specific purpose of direct communications between such issuer and Retrocessionaire Grantor.

IF NO BOX IS CHECKED, TRUSTEE <u>SHALL RELEASE</u> SUCH INFORMATION UNTIL IT RECEIVES A CONTRARY WRITTEN INSTRUCTION FROM RETROCESSIONAIRE GRANTOR.

With respect to securities issued outside of the United States, information shall be released to issuers only if required by law or regulation of the particular country in which the securities are located.

The Retrocessionaire Grantor agrees to disseminate in a timely manner any proxies or requests for voting instructions, other proxy soliciting material, information statements, and/or annual reports that it receives to any other beneficial owners.

Section 26. Information Sharing.

The Bank of New York Mellon Corporation is a global financial organization that operates in and provides services and products to clients through its affiliates and subsidiaries located in multiple jurisdictions (the “BNY Mellon Group”). The BNY Mellon Group may (i) centralize in one or more affiliates and subsidiaries certain activities (the “Centralized Functions”), including audit, accounting, administration, risk management, legal, compliance, sales, product communication, relationship management, and the compilation and analysis of information and data regarding Grantors and Beneficiary (which, for purposes of this provision, includes the name and business contact information for the Grantors’ and Beneficiary’s employees and representatives) and the accounts established pursuant to this Agreement (“Grantors’ and Beneficiary’s Information”) and (ii) use third party service providers to store, maintain and process Grantors’ and Beneficiary’s Information (“Outsourced Functions”). Notwithstanding anything to the contrary contained elsewhere in this Agreement and solely in connection with the Centralized Functions and/or Outsourced Functions, Grantors and Beneficiary consent to the disclosure of, and authorize BNY Mellon to disclose, Grantors’ and Beneficiary’s Information to (i) other members of the BNY Mellon Group (and their respective officers, directors and employees) and to (ii) third-party service providers (but solely in connection with Outsourced Functions) who are required to maintain the confidentiality of Grantors’ and Beneficiary’s Information. In addition, the BNY Mellon Group may aggregate Grantors’ and Beneficiary’s Information with other data collected and/or calculated by the BNY Mellon Group, and the BNY Mellon Group will own all such aggregated data, provided that the BNY Mellon Group shall not distribute the aggregated data in a format that identifies Grantors’ and Beneficiary’s Information with Grantors and Beneficiary specifically. Grantors and Beneficiary represent that Grantors and Beneficiary are authorized to consent to the foregoing and that the disclosure of Grantors’ and Beneficiary’s Information in connection with the Centralized Functions and/or Outsourced Functions, and to the best of their knowledge and belief, does not violate any relevant data protection legislation. Grantors and Beneficiary also consent to the disclosure of Grantors’ and Beneficiary’s Information to governmental and regulatory authorities in jurisdictions where the BNY Mellon Group operates and otherwise as required by law.

Section 27. Insolvency.

The Grantors and Beneficiary agree that the Assets in the Trust Account may be withdrawn by the Beneficiary at any time, notwithstanding any other provisions in the LPT Agreements or other agreement, and be utilized and applied by the Beneficiary or its successors in interest by operation of law, including without limitation any liquidator, rehabilitator, receiver or conservator of the Beneficiary, without diminution because of the Beneficiary’s or the Grantors’ insolvency, but only for the Permitted Purposes.

Section 28. Remedies.

In the event of any default hereunder, the non-defaulting party may proceed to protect and enforce its rights either by suit in equity and/or by action at law, including, but not limited to, an action for damages as a result of any such default. The rights and remedies provided herein shall be cumulative and not exclusive of any rights or remedies provided by law.

Section 29. Reinsurance Contract.

Notwithstanding anything to the contrary herein or in the LPT Agreements, in no event shall the rights and obligations of any Party hereunder be conditioned or dependent on or derivative of any provisions of the Reinsurance Agreement. No modification, amendment, or revision of the Reinsurance Agreement shall affect the terms and conditions hereof in any way.

Section 30. Counterparts; Electronic Execution

This Agreement may be executed in any number of counterparts and by the different Parties on separate counterparts, each of which, when so executed, shall be deemed an original, but all such counterparts shall constitute but one and the same instrument, and may be delivered by facsimile or other electronic means intended to preserve the original graphic or pictorial appearance of a document, including portable document format (PDF) scan.

(signatures appear on the following page)

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed and delivered by their respective officers hereunto duly authorized as of the date first above written.

RETROCESSIONAIRE GRANTOR:

R&Q Bermuda (SAC) Limited, a Bermuda limited company, acting in respect of the HIIG Segregated Account

By: ____________________
Name: ____________________
Title: ____________________

REINSURER GRANTOR:

HIIG Re, a Cayman Island captive

By: ____________________
Name: ____________________
Title: ____________________

BENEFICIARY:

[____________________], a Texas corporation

By: ____________________
Name: ____________________
Title: ____________________

TRUSTEE:

The Bank of New York Mellon

By: ____________________
Name: ____________________
Title: ____________________

Schedule 1

TIN Numbers

Schedule 2

Telephone Number(s) for Call-Backs and
<u>Person(s) Designated to Confirm Funds Transfer Instructions</u>

(Beneficiary Telephone Call-Back Persons)

Telephone call-backs shall be made to the Beneficiary as per above (or to such other designees as the Beneficiary may provide notice to the other Parties) if joint instructions are required pursuant to the Agreement.

Schedule 3

Title and Account Number

EXHIBIT D

Roll Forward Methods

[***]

EXHIBIT E

Sample Calculation of Reinsurance Warranty

[***]

Exhibit 10.15

EXECUTION VERSION

INVESTMENT MANAGEMENT AGREEMENT

INVESTMENT MANAGEMENT AGREEMENT (the "Agreement"), made as of the 13th day of January, 2016, among Houston Specialty Insurance Company, Imperium Insurance Company and Great Midwest Insurance Company (collectively, the "Client") and Arena Investors, LP, a Delaware limited partnership, as investment adviser (referred to herein as the "Investment Adviser").

WHEREAS, each of the Client's constituent entities is a Texas-domiciled insurance company;

WHEREAS, the Client desires to retain the Investment Adviser to perform certain investment management services with respect to an account containing a designated portion of the Client's assets, which will consist of such cash and securities as the Client designates plus or minus such additions or withdrawals as the Client shall make from time to time in accordance with this Agreement (the "Account"); and

WHEREAS, the Investment Adviser desires to undertake to perform such services in respect of the Account pursuant to the terms and subject to the conditions of this Agreement.

NOW, THEREFORE, in consideration of the premises and mutual covenants hereinafter set forth and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. THE ACCOUNT.

(a) Account Assets. On or about the date agreed upon between the Client and the Investment Adviser for the commencement of the investment of the assets of the Account (the "Effective Date"), the Client will, subject to the terms hereof, establish the Account. The Client shall maintain such Account and shall make capital available to the Investment Adviser in accordance with the terms hereof. The assets in such Account, as altered from time to time by the investment, reinvestment or disposition thereof, are collectively referred to herein as the "Account Assets."

(b) Client Ownership. Notwithstanding anything herein to the contrary, all Account Assets in the Account are assets of, and solely owned by, the Client and remain such at all times. No right, duty, power or authorization granted to the Investment Adviser herein shall affect or be deemed to affect in any manner the Client's sole ownership of all Account Assets.

(c) Opening of Bank Accounts; Appointment of Custodian. The Client hereby delegates to the Investment Adviser responsibility for opening up bank accounts, engaging prime brokers and appointing a custodian recommended by the Investment Adviser (the "Custodian") in respect of the Account. In connection therewith, the Client agrees to cooperate with the Investment Adviser and promptly provide any documentation or signatures required in connection with opening such accounts, engaging such prime brokers and appointing the Custodian.

(d) Transaction Procedures. All transactions will be consummated by payment to, or delivery by, the Client or the Custodian, of all cash and/or securities due to or from the Account. The Investment Adviser shall not act as custodian for the Account, but may issue such instructions to the Custodian as may be appropriate in connection with the settlement of transactions initiated by the Investment Adviser pursuant to Section 3 hereof. Instructions of the Investment Adviser to the Client and/or the Custodian shall be made in writing sent by electronic mail or, at the option of the Investment Adviser, orally and confirmed in writing as soon as practical thereafter, and the Investment Adviser shall instruct all brokers and dealers executing orders on behalf of the Account to forward to the Client and/or the Custodian copies of all confirmations promptly after execution of transactions. The Investment Adviser shall not be responsible for any loss incurred by reason of any act or omission of any broker or dealer or the Custodian; provided, however, that the Investment Adviser will make reasonable efforts to require that brokers and dealers selected by the Investment Adviser perform their obligations with respect to the Account.

(e) Custodian Responsibility. The Investment Adviser shall not be liable to the Client for (i) any failure of the Custodian to perform its responsibilities to the Account, including, but not limited to, any losses that arise from the failure of the Custodian to notify the Investment Adviser of any notices affecting called securities, deadline expirations, dates and capital reorganization events affecting the securities in the Account or (ii) any liability or loss with respect to the transmittal or safekeeping of cash, securities or other assets. It is understood that all transactions effected by the Investment Adviser for the Account shall be at the Client's expense and risk, and the Client accepts responsibility for all indebtedness, losses, calls for payment and other liabilities sustained. The Client shall promptly pay all costs and other amounts involved on demand.

2. APPOINTMENT OF THE INVESTMENT ADVISER. The Client hereby appoints the Investment Adviser to act as Investment Adviser for it in respect of the Account for the period and on the terms set forth in this Agreement. By executing this Agreement, the Investment Adviser accepts such appointment and agrees to render the services herein set forth for the compensation herein provided, including on Exhibit A hereto.

3. DUTIES OF THE INVESTMENT ADVISER.

(a) Subject in each case to any requirement to obtain the Compliance Approval (as defined below) pursuant to Section 3(b), if applicable, the Investment Adviser shall have, and is hereby granted the following discretionary authorities, powers, and rights, for the Account and in the name of the Client in respect of the Account: buying, selling (including short selling), and trading, on margin or otherwise, any Admitted Asset. For these purposes, an "Admitted Asset" means: (i) United States currency; (ii) bonds issues by the State of Texas; (iii) bonds or other evidences of indebtedness of the United States the principal and interest of which are guaranteed by the United States; (iv) bonds or other interest-bearing evidences of indebtedness of a country or municipality of the State of Texas; (v) notes secured by first mortgages—(A) on otherwise unencumbered real property in the State of Texas the title to which is valid and (B) the payment of which is insured wholly or partly by the United States; (vi) government obligations of any state of the United States or a province of Canada; (vii) stock of national or state banks; (viii) deposits in Certain Financial Institutions (as defined in the Texas Insurance Code); (ix) certain obligations of a partnership or corporation; (x) mutual funds; (xi) real property; (xii) obligations secured by real property loans; (xiii) transportation equipment; (xiv) investment in a foreign jurisdiction; (xv) certain loans on the pledge of any mortgage, stock, bond or other evidence of indebtedness acceptable as an investment as long as the value of the collateral is 25% more than the amount of the loan; (xvi) obligations of Local Government Entities (as defined in the Texas Insurance Code); (xvii) notes or bonds issued by the University of Texas; (xviii) bonds issues, assumed or guaranteed in the international market; (xix) other bonds or notes specifically authorized by the Texas Insurance Code; (xx) certain dollar roll, repurchase, reverse repurchase and securities lending transactions; (xxi) certain risk control transactions (derivative instruments); (xxii) short term investment pools (strict limitations on types of investments in pool); and (xviii) other assets as long as they are (A) not specifically identified within the Accounting Practices and Policies, or any subsequently promulgated rules or regulations, of the Texas Insurance Code as a "nonadmitted asset" and (B) specifically identified within the Accounting Practices and Policies, or any subsequently promulgated rules or regulations, of the Texas Insurance Code as an "admitted asset."

(b) Prior to the purchase of, or entry into a short position in respect of, any Admitted Asset (each, a "Purchase Transaction"), the Investment Adviser shall provide the Client reasonably in advance of any such Purchase Transaction sufficient information to enable the Client to confirm that the Purchase Transaction complies with state insurance regulatory laws applicable to the Client. The Investment Adviser shall not be authorized to enter into any such Purchase Transaction until the foregoing confirmations have been received (which may be via email, facsimile or telephone) from the Client (such confirmations, the "Compliance Approval"). The Client shall confirm its willingness or unwillingness to provide the Compliance Approval as soon as practicable after advance notice by the Investment Adviser, it being understood that the Investment Adviser shall not be responsible for any losses that result from the Client's failure to respond in a timely manner. For the avoidance of doubt, the Investment Adviser shall not be obligated to seek a new Compliance Approval from the Client (i) as a result of any change in terms of a Purchase Transaction prior to the closing of such Purchase Transaction unless there is a fundamental change in the underlying collateral or asset implicated by such Purchase Transaction or (ii) in connection with the sale of any asset acquired pursuant to this Agreement. Each of the Client and the Investment Adviser agrees that upon the six month anniversary of this Agreement, the Client and the Investment Adviser shall review and discuss in good faith the process and necessity for obtaining the Compliance Approvals and eliminate or amend such process as mutually agreed upon by the Client and the Investment Adviser.

(c) The Investment Adviser is authorized to engage in loan origination activity.

(d) Notwithstanding Section 3(a), 3(b) and 3(c), the Investment Adviser's management of the Account shall be consistent with the Investment Guidelines set forth in Exhibit B hereto.

(e) The Investment Adviser may cause the Client to open accounts (including cash or securities accounts) in the name of, or otherwise on behalf of, the Client, with prime brokers, other broker-dealers, banks, futures commission merchants, any counterparty and custodians. Subject to Section 1(c), the Investment Adviser shall have full discretionary authority over any such account and any assets therein and may direct such counterparties, on behalf of the Client, to transfer or deploy such assets. Subject to its duty of best execution, the Investment Adviser is not required to select the broker offering the lowest brokerage commission for any transaction and may take into consideration other factors in selecting brokers for the Client's transactions.

(g) Subject to Section 3(b), the Investment Adviser is authorized to cause the Client to borrow monies from time to time (and to pledge, mortgage, hypothecate or encumber the assets in the Account, and issue notes or other evidences of indebtedness, in connection therewith) through leverage facilities entered into in advance or through margin provided by prime brokers, on such terms and subject to such conditions as the Investment Adviser may determine but, in all cases, consistent with the Investment Guidelines set forth in Exhibit B hereto. In connection therewith, the Client agrees to cooperate with the Investment Adviser and promptly provide any documentation or signatures required in connection with such matters.

(g) The Investment Adviser shall allocate orders and investment opportunities among the Account and its other client and proprietary accounts in accordance with the Investment Adviser's allocation policy and in accordance with its fiduciary duties to the Client and the other client accounts. The Client acknowledges that while the Investment Adviser, its affiliates and their personnel will seek to allocate orders and investment opportunities in a manner that they believe is equitable to all their clients and proprietary accounts, such allocations may not necessarily be *pro rata* as to the Account and other participating entities and clients (due to differing objectives, availability of investable funds or other considerations) and, thus, there can be no assurance that a particular order or investment opportunity will be allocated in a particular manner. If conflicts arise in the allocation of investment opportunities, the Investment Adviser shall seek to resolve such conflicts equitably. The Client acknowledges that the foregoing policy does not require that each opportunity be made available to all accounts, leaving significant discretion to the Investment Adviser.

(h) Where permitted by law, the Investment Adviser may aggregate orders occurring at approximately the same time, for the Account with its own orders, those of any affiliated company or any other client orders. The Client acknowledges and agrees that such aggregation of orders may on some occasions operate to the disadvantage of the Account.

(i) With the consent of the Client, the Investment Adviser may cause the Account to engage in transactions with affiliates of the Investment Adviser.

(j) Subject to Section 3(a) and 3(b), the Investment Adviser may from time to time form one or more partnerships, limited liability companies or other types of entities that are owned in part by the Account or other accounts managed by the Investment Adviser or affiliates of the Investment Adviser (each such entity or joint venture, an "Acquisition Vehicle"), the purpose of which is to purchase, own or dispose of investments and to allocate participation in such investments among the Account and the Investment Adviser's other accounts; provided that such Acquisition Vehicle shall not be subject to any additional management or performance fee.

(k) The Investment Adviser shall consider whether and in what manner all rights conferred by investments should be exercised and exercise such rights accordingly. Without limiting the foregoing, but subject to Section 1(c), Section 3(a) and Section 3(b), the Investment Adviser shall have the power on behalf of the Client to purchase, sell, exchange, transfer, lend (with or without security), mortgage, pledge, hypothecate, and otherwise act to acquire, dispose of, and exercise all rights, powers, privileges and other incidents of ownership or possession with respect to investments and other property or funds held or owned by the Client in the Account.

4. ADDITIONAL DUTIES OF THE INVESTMENT ADVISER.

(a) The investment management services of the Investment Adviser to the Client in respect of the Account under this Agreement are not exclusive with respect to the Investment Adviser, and the Investment Adviser shall be free to provide similar services to others. It is agreed that the Investment Adviser may give advice and take action with respect to such other clients or for its own account(s) that may differ from the advice or the timing or nature of action taken with respect to the Account. Furthermore, the Investment Adviser shall have no obligation to recommend for purchase or sale for the Account any asset that the Investment Adviser or an affiliate may purchase, sell or originate for its own account or for the account of any of their respective clients.

(b) The Investment Adviser shall not be liable to the Client or to any of the Client's affiliates or beneficial owners for any claim, loss, cost, indebtedness, liability, settlement or expense (including, without limitation, court costs, attorneys' fees and expenses, costs of investigation, expert witness fees, taxes and penalties) suffered by any such person that arises out of any action or inaction of the Investment Adviser, any of is respective affiliates, any Independent Representative, as applicable, if such person's course of conduct did not constitute willful misconduct, gross negligence, fraud or criminal wrongdoing in or about the conduct of the Investment Adviser's business or affairs on behalf of the Account or in the execution or discharge of such person's duties, powers, authorities or discretions (the "Standard of Care").

(c) The Investment Adviser shall determine how to vote (or not vote) proxies in connection with the Account in a manner consistent with (i) its fiduciary duty to the Client in respect of the Account and (ii) its policies and procedures in respect of proxy voting, as disclosed in the Investment Adviser's Form ADV Part 2A.

(d) The Investment Adviser shall use commercially reasonable efforts to provide the Client with a statement each month end for the Account within 20 days after month end, calculated according to the General Accepted Accounting Principles.

5. COMPENSATION.

(a) A management fee is calculated and deducted from the Account monthly in advance on the first day of each month and paid to the Investment Adviser or its affiliates in an amount equal to [***]% ([***]% per annum) of the balance of the Account payable on the first day of each month as described in the Schedule of Fees attached as Exhibit A hereto (the "Management Fee").

(b) Further, a performance fee is calculated as of December 31 of each year and upon the date of any disposition of Set Aside Assets in connection with a withdrawal request and deducted from the Account equal to [***]% of the net profits for such period (including net profits on unrealized gains), subject to a "high water mark" provision, as described in the Schedule of Fees attached Exhibit A hereto (the "Performance Fee" or "Set Aside Fee").

(c) The Client, through the execution of this Agreement, hereby provides its consent to the terms of the Schedule of Fees attached as Exhibit A hereto.

6. EXPENSES.

(a) Except as provided in Section 6(b) and Section 6(c) below, the Investment Adviser shall bear all of its separate expenses arising out of its duties hereunder, including all of its general overhead expenses (which include the rent of the offices which the Investment Adviser will occupy, compensation and benefits of the administrative staff of the Investment Adviser, maintenance of its books and records, and its fixed expenses, telephones, and general purpose office equipment).

(b) The Client shall bear all of its own operating and investment expenses including, but not limited to: the fees as set forth on the Schedule of Fees attached hereto as Exhibit B; brokerage commissions; expenses relating to short sales; hedging expenses; clearing and settlement charges; custodial fees; bank service fees; administrative expenses; valuation and appraisal expenses; interest expenses; financing costs; investment-related expenses, including travel (both private and commercial) and due diligence expenses; professional fees relating to investments (including expenses of attorneys, consultants and experts); other costs, fees and expenses incurred in connection with the investigation, development, acquisition, consummation, ownership, maintenance, monitoring, hedging or disposition of investments; origination fees; costs of trade breaks; costs of trade errors to the extent consistent with the Investment Adviser's Trade Error Policy; expenses related to organizing and structuring any blockers of special purpose vehicles; tax structuring costs; costs of joint venture servicing; risk management expenses; legal fees and compliance expenses; expenses related to or in connection with any governmental inquiry, investigation or proceeding involving the Account, including the amounts of any judgments, settlements or fines paid in connection therewith; accounting and operations expenses (including the cost of accounting software packages); extraordinary expenses (including litigation, indemnification and contribution expenses); expenses related to unconsummated investments, transactions or joint venture arrangements; out-of-pocket expenses of asset management personnel; third party administrator expenses; insurance costs; fees and expenses of sub-advisers; cost of software in connection with investments (including fees of third party software developers); costs of relevant non-accounting software; expenses relating to quantitative analysis and software management services; fees and expenses of servicers of specific assets owned by the Account; costs of research, information systems, software and hardware; costs of participations and other forms of compensation provided to deal finders or sourcers; costs of other service providers to the Account, including the Investment Adviser's affiliate, Arena Management Co., LLC, in connection with its services to the Investment Adviser in respect of the Account (provided, for the avoidance of doubt, except as provided in Section 6(c) below, the salaries of the Investment Adviser's employees (whether employed directly or through service agreements with AMC), rent and other normal operating overhead of the Investment Adviser and its affiliates shall not be borne by the Account); costs of third parties that approve affiliated transactions and possibly other conflicts involving the Account (including the Independent Representative); and costs and expenses associated with the preparation and distribution of periodic reports to the Client. To the extent such costs, fees or expenses are incurred for the benefit of both the Account and other entities managed by the Investment Adviser or its affiliates, the Investment Adviser shall make a good faith allocation of such costs, fees or expenses among the Account and such entities.

(d) Affiliates of the Investment Adviser may charge the Account a fee in connection with the management and servicing of certain portions of the Account's loan portfolio. This fee is in addition to the Management Fee already borne by the Account and will be used to facilitate the Investment Adviser or its affiliates in engaging personnel and incurring other overhead costs to manage loans in lieu of hiring an unaffiliated third-party service provider to provide these services. Any fee payable to the Investment Adviser or its affiliates will be comparable to a fee that a qualified independent third-party service provider would have charged to the Account for such services.

(e) The Client shall promptly reimburse the Arena Parties (as defined below) for any costs and expenses set forth in Section 6(b) incurred by the Arena Parties on behalf of the Account. "Arena Party" means the Investment Adviser, any affiliate of the Investment Adviser and any member, partner, shareholder, director, officer, employee or agent of the Investment Adviser or any such affiliate. Client hereby authorizes the Custodian and agrees to cause the Custodian to reimburse such amounts to the Arena Parties to ensure the Client's compliance with this provision.

(f) The Investment Adviser shall not be responsible for litigation costs and other extraordinary expenses of the Client.

7. WITHDRAWALS.

a) The Client shall have the right to make withdrawals from the Account in amounts designated by the Client (the "Withdrawal Amount") to be effective as of the last business day of any calendar month (each, a "Withdrawal Date"); provided that a written notice requesting such Withdrawal Amount (the "Withdrawal Notice") is provided to the Investment Adviser no later than ten (10) business days before the Withdrawal Date; provided, that any withdrawal that would bring the Account balance below the lesser of (i) $10,000,000 and (ii) 20% of the net asset value of the Account Assets as of the last month end shall be deemed a termination of this Agreement pursuant to Section 11. Subject to the authority of the Investment Adviser to retain amounts already designated for investment in a new investment, a follow-on investment or the satisfaction of anticipated expenses related to the Account, including for payment of taxes by the Client (as long as the need for such amount to satisfy tax liabilities has been communicated to the Investment Adviser at least 90 days in advance) (the "Reserve"), any Account Assets constituting cash or temporary cash equivalents as of such Withdrawal Date shall be used to satisfy such Withdrawal Amount and, to the extent so applied, the Agreement shall be deemed terminated in respect of such amounts.

b) To the extent the cash and temporary cash equivalents in the Account as of the Withdrawal Date are insufficient to satisfy the Withdrawal Amount in full as of the Withdrawal Date, the Investment Adviser will designate the portion of such Withdrawal Amount attributable to assets that the Investment Adviser determines in its sole discretion cannot be readily liquidated (such portion of the Withdrawal Amount together with any Reserve, the "Set Aside Portion" and the related assets, the "Set Aside Assets"). Following the Withdrawal Date, the Set Aside Portion will not participate in any new Account Assets or follow-on investments in respect of existing Account Assets, but the related Set Aside Assets shall be managed in the same manner as for other clients of the Investment Adviser participating in such Account Assets and the Account will participate in any profits or losses associated with such Set Aside Assets. For the avoidance of doubt, such Set Aside Assets will be liquidated at the same time on behalf of all clients of the Investment Adviser, including the Client, and shall not be liquidated prematurely on behalf of the Client or its Account. Each Set Aside Asset will be tracked separately and to the extent any follow-on investment is made by the Account in such asset, it shall be treated as a new or separate Account Asset for purposes of allocating profits and losses in respect thereof.

c) As and when the Set Aside Assets corresponding to the Set Aside Portion are realized (each such asset, a "Realized Set Aside Asset") or other payments are received by the Account attributable to such Set Aside Assets (including, but not limited to, dividends, principal and interest received in respect thereof), the Custodian shall distribute to the Client its Set Aside Percentage of the proceeds of such Realized Set Aside Asset, *less* (i) any additional reserve the Investment Adviser determines in its sole discretion may be necessary to satisfy liabilities (including future Management Fees in respect of any remaining Set Aside Portion) in respect of the remainder of such Set Aside Portion, (ii) any accrued Management Fees, and allocated expenses (to the extent not already paid from other sources) based on the Account's Set Aside Percentage of such Set Aside Asset, and (iii) any Set Aside Fee then payable pursuant to Exhibit A. Following such distribution, the Agreement shall be deemed terminated in respect of such amounts.

d) Following any Withdrawal Date, a set aside percentage (a "Set Aside Percentage") shall be determined for the withdrawal equal to the Account's percentage participation in any Set Aside Assets in which other clients participate immediately prior to such Withdrawal Date *multiplied* by the percentage of such Account sought to be withdrawn. Profits and losses in respect of the Account's Set Aside Assets will be allocated based on the Account's Set Aside Percentage.

8. INDEMNITY.

(a) The Client shall indemnify to the fullest extent permitted by applicable law, out of its assets, the Investment Adviser and its affiliates, partners, directors, shareholders, officers, controlling persons, employees (and their respective affiliates, directors, shareholders, officers, controlling persons, employees, and agents), and agents (each of the foregoing being an "Indemnified Party") against any liabilities, claims, and expenses, including amounts paid in satisfaction of judgments, in compromise, or as fines and penalties, and counsel fees and expenses reasonably incurred by such Indemnified Party in connection with the defense or disposition of any action, suit, or other proceeding, whether civil or criminal, before any court or administrative or investigative body, in which such Indemnified Party may be or may have been involved as a party or otherwise or with which such Indemnified Party may be or may have been threatened, in connection with this Agreement; except that, no Indemnified Party shall be indemnified hereunder against any liability or any expense of such Indemnified Party arising by reason of its violation of the Standard of Care.

(b) The Client shall make advance payments in connection with the expenses of defending any action with respect to which indemnification might be sought hereunder if the Client receives (i) a written affirmation of the Indemnified Party's good faith belief that the standard of conduct necessary for indemnification has been met and (ii) a written undertaking by or on behalf of the Indemnified Party to repay the amount paid or reimbursed if it shall ultimately be determined that such Indemnified Party is not entitled to be indemnified hereunder. Such obligation to make advance payments shall be on a pro rata basis based on the relative net asset values of the Account Assets to other funds or clients of the Investment Adviser from which indemnification is sought.

(c) All determinations with respect to indemnification hereunder shall be made pursuant to Section 16 of this Agreement. All determinations to advance payment in connection with the expense of defending any proceeding shall be made in accordance with Section 8(b).

(d) The rights accruing to any Indemnified Party under the provisions of this Section 8 shall not exclude any other right to which such Indemnified Party may be lawfully entitled.

(e) The provisions of this Section 8 shall survive the termination of this Agreement or the termination of the services of the Investment Adviser.

The indemnification and exculpation provisions herein shall not be construed as a waiver of any rights of the Client under the U.S. securities laws.

9. REPRESENTATIONS AND WARRANTIES.

(a) The Client represents, warrants and agrees to the following:

(i) The Client is duly organized, validly existing and in good standing (where such concept exists) under the laws of its jurisdiction of incorporation or formation and has all requisite power and authority to own its property, to conduct its business as currently conducted and to execute and deliver, and to perform its obligations under, this Agreement.

(ii) This Agreement has been duly authorized, executed and delivered by it and constitutes a legal, valid and binding obligation of the Client, enforceable against such party in accordance with its terms.

(iii) The execution and delivery of, and the performance by the Client of its obligations under this Agreement do not and will not result in a breach or constitute a violation of, conflict with, or constitute a default under, the certificate of incorporation or bylaws of the Client or any agreement or instrument to which it is a party or by which it or any of its property is bound, which breach, violation, conflict or default could have a material adverse effect on its ability to perform its obligations under this Agreement.

(iv) The Client acknowledges the receipt of the Investment Adviser's Form ADV Part 2A and Part 2B on or prior to the Effective Date. The Client has reviewed the Investment Adviser's Form ADV Part 2A and Part 2B and acknowledges and understands the conflicts of interest disclosed therein.

(v) The Client has carefully reviewed, understands and has agreed to the Schedule of Fees set forth in Exhibit A hereto, the Investment Guidelines set forth in Exhibit B hereto, Certain Conflicts of Interest set forth in Exhibit C hereto and Certain Risk Factors set forth in Exhibit D hereto. The Client has substantial knowledge and experience in business and financial matters. The Client can afford to bear the risks of the Investment Adviser's management of the Account, including the risk of losing the entire Account balance.

(vi) The Client is and during the term of this Agreement will remain a "qualified purchaser" as defined in Section 2(a)(51)(A) of the U.S. Investment Company Act of 1940, as amended, and the rules promulgated thereunder and a "qualified institutional buyer" as defined in Rule 144A of the Securities Act. Further, the Client is an "Eligible Contract Participant" as defined under the Commodity Exchange Act.

(vii) The Client has relied on the advice of its own professional advisers and is fully informed as to the legal, financial and tax aspects of the Investment Adviser's management of the Account.

(viii) No assets of the Account constitute assets of (i) an employee benefit plan as defined in and subject to Title I of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), (ii) a plan as defined in and subject to Section 4975 of the Internal Revenue Code of 1986, as amended (the "Code"), (iii) a governmental, church or non-U.S. plan subject to any Federal, State, local or non-U.S. law substantially similar to Section 406 of ERISA or Section 4975 of the Code (each of the foregoing, a "Plan"), or (iv) any entity the assets of which constitute assets of any such Plan.

(ix) The Client is not a foreign person, foreign corporation, foreign partnership, foreign trust or foreign estate (as those terms are defined in the Code and Treasury Regulations).

(x) The Client represents and warrants that it is aware that the Investment Adviser and their affiliates may, on behalf of the Account, effect transactions (known as "cross trades") in which the Investment Adviser or one of their affiliates also is acting for other parties (including, without limitation, other funds or pooled investment vehicles established or advised by the Investment Adviser and their affiliates, such as funds for their employees) on the other side of the same transaction (including circumstances where the Investment Adviser or one of their affiliates acts as broker for both sides of the transaction), and may have a potentially conflicting division of loyalties and responsibilities regarding the Account and the other parties to the transaction. By executing this Agreement, the Client hereby authorizes and consents to any and all of the foregoing transactions, including any exercise by the Investment Adviser of its right to consent to such transactions on behalf of the Account, and agrees that it has read, understood and accepts the conflicts of interests described in Exhibit D. Further, the Client understands that because a portion of the Account's strategy may involve frequent acquisitions of loans originated by an affiliate of the Investment Adviser, AOC, or other affiliated parties, and the possible sale of a portion of those loans to affiliated clients of the Investment Adviser, certain conflict resolution procedures may be implemented to provide for the review of, and consent to, such transactions on behalf of the Account.

(xi) The Client understands that the Investment Adviser is indirectly owned and controlled by The Westaim Corporation ("Westaim"), a Canadian corporation. In addition, Subscriber understands that Bernard Partners, LLC ("BernardCo"), an entity owned by Daniel Zwirn and certain other members of the management team of the Investment Adviser, may eventually earn a majority equity interest in the Investment Adviser, after which Westaim may retain certain veto rights over extraordinary actions designed to protect Westaim's economic interests in the Investment Adviser. The Investment Adviser does not anticipate that the change in equity ownership will have any effect on the day-to-day management or investment decision-making of the Investment Adviser, which are expected to remain with BernardCo. To the extent any such change in the equity ownership of the Investment Adviser represents an "assignment" or change of control within the meaning of the Advisers Act, the Client hereby consents to such assignment or, alternatively, consents to an independent representative with relevant experience, to provide consent to such assignment or change of control on behalf of the Client. The Client understands and agrees that any such consent given on its behalf will be binding on it and the Account.

(xii) The Client represents and covenants that neither the Client, nor any person controlling or controlled by the Client, nor any person having a beneficial interest in the Account, is a Prohibited Investor[1], and that the Account is not investing on behalf, or for the benefit, of any Prohibited Investor. Neither the Client nor any director, officer, partner, member, affiliate, or, if the Client is an unlisted company, any shareholder or beneficial owner of the Client is a Senior Foreign Political Figure,[2] any member of a Senior Foreign Political Figure's Immediate Family[3] or any Close Associate[4] of a Senior Foreign Political Figure unless the Client has notified the Investment Adviser of such fact. The Client is not resident in, or organized or chartered under the laws of, a jurisdiction that has been designated by the Secretary of the Treasury under Section 311 of the USA PATRIOT Act as warranting special measures due to money laundering concerns.[5] The Account funds do not originate from, nor were they routed through, an account maintained at a Foreign Shell Bank,[6] an offshore bank, a bank organized or chartered under the laws of a jurisdiction that has been designated by FATF as noncooperative with international anti-money laundering principles or a financial institution subject to special measures under Section 311 of the USA PATRIOT Act. If the Client or any person controlling, controlled by, or under common control with the Client is organized under the laws of a country other than the United States to engage in the business of banking, the Subscriber or such person, as the case may be, either: (i) has a Physical Presence' in a country in which the Client (or such person) is authorized to conduct banking activities, at which address the Subscriber (or such person): (x) employs one or more persons on a full-time basis, (y) maintains operating records relating to its banking business, and (z) is subject to inspection by the banking authority from which it obtained its banking license; or (ii) is affiliated with a financial institution that maintains a Physical Presence in the United States or another country and is subject to supervision by a banking authority regulating such affiliated financial institution.

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[1]"Prohibited Investors" include: (1) a person or entity whose name appears on the list of Specially Designated Nationals and Blocked Persons maintained by the Office of Foreign Assets Control ("OFAC") or prohibited under OFAC country sanctions, or any blocked persons list maintained by the SEC or other governmental or regulatory body as may become applicable to the General Partner and Arena, (2) any Foreign Shell Bank, (as defined below), and (3) any person or entity resident in or whose subscription funds are transferred from or through an account in a jurisdiction that has been designated as non-cooperative with international anti-money laundering principles or procedures by an intergovernmental group or organization, such as the Financial Action Task Force on Money Laundering ("FATF"), of which the U.S. is a member and with which designation the U.S. representative to the group or organization continues to concur. See http://www.fatf-gafi.org for FATF's list of Non-Cooperative Countries and Territories.

[2]"Senior Foreign Political Figure" means a current or former senior political official in the executive, legislative, administrative, military or judicial branches of a non-U.S. government (whether elected or not), a current or former senior official of a major non-U.S. political party, or a current or former senior executive of a non-U.S. government-owned corporation. In addition, a Senior Foreign Political Figure includes any corporation, business or other entity that has been formed by, or for the benefit of, a Senior Foreign Political Figure.

[3]"Immediate Family" with respect to a Senior Foreign Political Figure, typically includes the political figure's parents, siblings, spouse, children and in-laws.

[4]"Close Associate" means, with respect to a Senior Foreign Political Figure, a person who is widely and publicly known internationally to maintain an unusually close relationship with the Senior Foreign Political Figure, and includes a person who is in a position to conduct substantial domestic and international financial transactions on behalf of the Senior Foreign Political Figure.

[5]Notice of jurisdictions that have been designated by the Treasury Department as a primary money laundering concern under Section 311 are published in the Federal Register and on the website of the Treasury Department's Financial Crimes Enforcement Network ("FinCEN") at http://www.fincen.gov/reg section311.html. FinCEN also issues advisories regarding jurisdictions that it deems to be deficient in their counter-money laundering regimes. Such advisories are posted at http://www.fincen.gov/pub main.html.

[6] "Foreign Shell Bank" means a Foreign Bank without a Physical Presence (each as defined below) in any country, but does not include a Regulated Affiliate (as defined below).

"Foreign Bank" means an organization that (i) is organized under the laws of a country outside the United States; (ii) engages in the business of banking; (iii) is recognized as a bank by the bank supervisory or monetary authority of the country of its organization or principal banking operations; (iv) receives deposits to a substantial extent in the regular course of its business; and (v) has the power to accept demand deposits, but does not include the U.S. branches or agencies of a foreign bank.

"Physical Presence" means a place of business that is maintained by a Foreign Bank and is located at a fixed address, other than solely a post office box or an electronic address, in a county in which the Foreign Bank is authorized to conduct banking activities, at which location the Foreign Bank: (i) employs one or more individuals on a full-time basis; (ii) maintains operating records related to its banking activities; and (iii) is subject to inspection by the banking authority that licensed the Foreign Bank to conduct banking activities.

"Regulated Affiliate" means a Foreign Shell Bank that: (i) is an affiliate of a depository institution, credit union, or Foreign Bank that maintains a Physical Presence in the U.S. or a foreign country, as applicable; and (ii) is subject to supervision by a banking authority in the country regulating such affiliated depository institution, credit union, or Foreign Bank.

(xiii) The Client represents that (i) neither the Client nor any person who has discretionary authority to cause the Client to enter into this Agreement is an associated person of a firm that is a member of the Financial Industry Regulatory Authority, Inc. ("FINRA") (f/k/a the National Association of Securities Dealers, Inc.); or (ii) if the Subscriber or any person who has discretionary authority to cause the Client to enter into this Agreement is an associated person of a firm that is a member of FINRA, the associated person has informed the FINRA member firm with which it is associated of this Agreement and has not been advised by such member that it may not enter into this Agreement.

(b) The Investment Adviser represents warrants and agrees to the following:

(i) It is duly organized, validly existing and in good standing (where such concept exists) under the laws of its jurisdiction of incorporation or formation and has all requisite power and authority to own its property, to conduct its business as currently conducted and to execute and deliver, and to perform its obligations under, this Agreement.

(ii) This Agreement has been duly authorized, executed and delivered by it and constitutes a legal, valid and binding obligation of the Investment Adviser, enforceable against such party in accordance with its terms.

(iii) The execution and delivery of, and the performance by the Investment Adviser of its obligations under this Agreement do not and will not result in a breach or constitute a violation of, conflict with, or constitute a default under, the certificate of incorporation or bylaws of the Investment Adviser or any agreement or instrument to which it is a party or by which it or any of its property is bound, which breach, violation, conflict or default could have a material adverse effect on its ability to perform its obligations under this Agreement.

10. CONFIDENTIALITY.

(a) All information with respect to the business and assets of the Account, the Investment Adviser and their affiliates shall be presumed confidential and proprietary unless the Client and the Investment Adviser otherwise so indicate in writing. The Client covenants that the Client shall at all times keep confidential and not, directly or indirectly, disclose, divulge, furnish or make accessible to anyone, or use in any manner that would be adverse to the interests of the Account or the Investment Adviser, any confidential or proprietary information to which the Client has been or shall become privy relating to the business or assets of the Account or the Investment Adviser except with the prior written approval of the Investment Adviser, or as required by law or regulation, or except for information that is otherwise publicly available (other than information made publicly available by the Client relying on this exemption in disclosing such information) or required to be disclosed by law.

(b) The Investment Adviser covenants that the Investment Adviser shall at all times keep confidential and not, directly or indirectly, disclose, divulge, furnish or make accessible to anyone, or use in any manner that would be adverse to the interests of the Account or the Client, the identity of the Client or the terms of this Agreement, except in connection with the Investment Adviser's performance under this Agreement, with the prior written approval of the Client, or except for information that is otherwise publicly available (other than information made publicly available by the Client relying on this exemption in disclosing such information) or required to be disclosed by law or to comply with governmental or regulatory request or court order or in order to enforce rights under this agreement.

(c) Before any disclosure of information otherwise subject to this paragraph on the grounds that such information has otherwise become publicly available or that such disclosure is required by law, the Client shall so inform the Investment Adviser and shall give the Investment Adviser, to the greatest extent reasonably practicable, an opportunity to contest whether such information has in fact otherwise been made publicly available or is required by law to be disclosed. The Client shall only disclose such information if, and to the extent that, such disclosure is affirmatively determined to be permitted on the basis of such information otherwise having been so made publicly available or the disclosure being required by law. To the extent that it has been reasonably determined that information must be provided to the Texas Department of Insurance ("TDI"), such information will be redacted before being provided to TDI in a manner that ensures the Investment Adviser's compliance with its confidentiality obligations with respect to any third parties. If TDI will not accept redaction of such information, then Client shall indemnify the Investment Adviser for any liabilities, claims and expenses arising in connection with the provision of such information in a manner consistent with its indemnification obligations set forth in Section 8.

(d) The Client may, however, share such information with the Client's investment advisers (only to the extent necessary for the protection of the Client), beneficial owners, board members, accountants and attorneys ("Permitted Confidants"); provided, that the Client's Permitted Confidants undertake to hold such information strictly confidential to the same extent set forth herein, and not in any manner or respect to use any of such information for their personal gain; and provided further, that the Client accepts full liability for any unauthorized use or disclosure of such information by the Client's Permitted Confidants.

11. DURATION AND TERMINATION.

(a) This Agreement shall become effective on the Effective Date and shall remain in full force and effect until the twelfth month-end following the Effective Date. Thereafter, unless otherwise terminated, this Agreement will automatically be renewed for subsequent twelve-month terms.

(b) Either party may terminate this Agreement at any time by providing not less than 120 days' and not more than 180 days' prior written notice of termination to the other party.

(c) A termination of this Agreement shall be treated as a withdrawal of the entirety of the Account balance and the provisions of Section 7 shall apply such that (i) the Investment Adviser will cease reinvesting the positions in the Account, (ii) the Account shall be subject to a Performance Fee as of the date of such termination, (iii) all cash assets and cash equivalents shall be promptly made available to the Client and (iv) any remaining positions shall be treated as Set Aside Assets subject to the provisions of Section 7 (including with respect to the continued application of the Management Fee and the application of the Set Aside Fee).

(d) Any notice of termination shall have no effect upon the liabilities and commitments initiated, made, or accrued prior to the effective date of termination. Any obligations for acts or activities under this Agreement that are incurred prior to its termination shall survive any termination hereof.

(e) Notwithstanding the foregoing provisions of this Section 11, each of the Client and the Investment Adviser acknowledges and agrees that this Agreement may not be terminated during any period in which the Client is in receivership pursuant to Tex. Ins. Code Chapter 443 and during such period, the Investment Adviser will continue to maintain any systems, programs or other infrastructure used in connection with managing the Account Assets and will make them reasonably available to the receiver upon its request for so long as the Investment Adviser continues to receive timely payment of the management fee and is otherwise reimbursed for the costs and expenses of continuing to manage the Account Assets.

12. SERVICE TO OTHER CLIENTS AND OUTSIDE BUSINESS ACTIVITIES.

(a) It is understood that the Investment Adviser performs investment advisory services for various clients and manages its own proprietary accounts. The Client agrees that the Investment Adviser may give advice and take action with respect to any of its other clients or the Investment Adviser's proprietary accounts which may differ from advice given or the timing or nature of action taken with respect to the Account, so long as it is the Investment Adviser's policy, to the extent practical, to allocate investment opportunities to the Account over a period of time on a fair and equitable basis relative to other clients and proprietary accounts. It is understood that the Investment Adviser shall not have any obligation to purchase or sell, or to recommend for purchase or sale, for the Account any security which the Adviser, its principals, affiliates or employees may purchase or sell for its or their own accounts or for the account of any other client, if in the opinion of the Investment Adviser such transaction or investment appears unsuitable, impractical or undesirable for the Account.

(b) Except to the extent of any restrictions prescribed by law, the Investment Adviser and its officers, employees and beneficial owners shall be free from time to time to acquire, possess, manage, and dispose of securities or other investment assets for their own accounts, for the accounts of their families, for the account of any entity in which they have a beneficial interest or for the accounts of others for whom any of the foregoing may provide investment advisory, brokerage or other services in transactions which may or may not correspond with transactions effected or positions held in the Account; provided, however, that the Investment Adviser shall not cause the Client to purchase any asset from or sell any asset to the Investment Adviser or any of its officers or employees or any account or entity controlled by such persons without the Client's consent, which may be obtained via the procedures described under Section 3(i) above.

13. NO PERSONAL LIABILITY. Except as expressly set forth in this Agreement, each of the Client and the Investment Adviser understands and agrees that other persons not parties hereto, including but not limited to the directors and officers of such parties, shall not personally be bound by or liable hereunder, nor shall any resort to their personal property be had for the satisfaction of any obligation or claim hereunder.

14. INSURANCE REGULATORY ACKNOWLEDGMENT. Each of the Client and the Investment Adviser acknowledges and agrees that if the Client is placed in receivership or seized by the commissioner under Tex. Ins. Code Chapter 443, then the Client shall notify the Investment Adviser as soon as practicable of such event, all of the rights of the Client under this Agreement will extend to the receiver or the commissioner and, following any written request therefor, all books and records will be made available to the receiver or the commissioner as soon as practicable and upon the receiver or the commissioner's request, copies thereof will be turned over to the receiver or commissioner as soon as practicable.

15. INDEPENDENT CONTRACTOR STATUS. The Investment Adviser shall for all purposes herein be deemed to be an independent contractor and shall, unless otherwise expressly provided herein or authorized by the Client from time-to-time, have no authority to act for or represent the Client in any way or otherwise be deemed an agent of the Client.

16. GOVERNING LAW; ARBITRATION. Notwithstanding the place where this Agreement may be executed by any of the parties hereto, the parties expressly agree that this Agreement, and all terms and provisions hereof, shall be governed by and construed in accordance with the internal laws of the State of New York (without conflicts of laws principles) applicable to agreements made and to be performed in New York. Any dispute, controversy or claim arising out of or in connection with or relating to this Agreement or any breach or alleged breach hereof shall be submitted to, and determined and settled by, arbitration in New York, New York, pursuant to the Comprehensive Arbitration Rules of the Judicial Arbitration and Mediation Services, and judgment upon any such arbitral award rendered may be entered in any court having jurisdiction thereof.

17. NOTICES. Unless otherwise specified in this Agreement, all notices or other communications that the Investment Adviser or the Client may desire or be required to give hereunder shall be in writing and shall be personally delivered, delivered by facsimile transmission, mailed by certified or registered mail, sent by overnight delivery by a reputable private carrier or postal service or transmitted by e-mail in accordance with the provisions below.

If to the Investment Adviser:

Arena Investors, LP
405 Lexington Avenue, 59th floor
New York, New York 10174
United States

Email: [***] and [***]

Attn: Lawrence Cutler and Marcel Herbst

If to the Client:

HIIG Service Company
800 Gessner, Suite 600
Houston, TX 77024
United States

Email: [***]

Attn: Mark Haushill

18. NO THIRD PARTY BENEFICIARY RIGHTS. The provisions of this Agreement are intended solely for the benefit of the Client and the Investment Adviser and, to the fullest extent permitted by law, shall not be construed as conferring any benefit upon any creditor or receiver of the Client (and no such creditor or receiver shall be deemed a third party beneficiary of this Agreement).

19. ASSIGNMENT.

(a) This Agreement may not be assigned, in whole or in part, by any party to this Agreement without the prior written consent of the other party hereto. Subject to the foregoing, this Agreement shall inure to the benefit of and be binding on the parties hereto and their successors and permitted assigns, in each case provided that such successor or assignee agrees to be bound by the terms and conditions of this Agreement.

(b) Notwithstanding Section 19(a), this Agreement may be assigned, in whole or in part, by the Investment Adviser to one or more affiliates of the Investment Adviser upon notice to the Client, whereupon the assignee shall be substituted for the Investment Adviser hereunder and the Investment Adviser shall have no further liability or obligation hereunder, on condition that such assignment does not constitute an "assignment" for purposes of Section 205(a)(2) of the Investment Advisers Act of 1940, as amended.

20. ENTIRE AGREEMENT. This Agreement constitutes the entire agreement between the parties hereto with respect to the matters referred to herein, and no other agreement, verbal or otherwise, shall be binding as between the parties unless it shall be in writing and signed by the party against whom enforcement is sought.

21. AMENDMENT; WAIVER. This Agreement shall not be amended except by a writing signed by the parties hereto. No waiver of any provision of this Agreement shall be implied from any course of dealing between the parties hereto or from any failure by any party hereto to assert its rights hereunder on any occasion or series of occasions.

22. COUNTERPARTS. This Agreement may be executed in any number of identical counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same agreement as if the signatures to each counterpart were upon a single instrument. This Agreement shall become effective when counterparts have been signed by each party and delivered to the other parties, provided that a facsimile signature shall be considered due execution and shall be binding upon the signatory thereto with the same force and effect as if the signature were an original and not a facsimile signature.

23. HEADINGS. Headings to sections herein are for the convenience of the parties only and are not intended to be part of or to affect the meaning or interpretation of this Agreement.

24. SEVERABILITY. If any provision of this Agreement, or the application of any provision to any person or circumstance, shall be held to be inconsistent with any present or future law, ruling, rule, or regulation of any court or governmental or regulatory authority having jurisdiction over the subject matter hereof, such provision shall be deemed to be rescinded or modified in accordance with such law, ruling, rule, or regulation, and the remainder of this Agreement, or the application of such provision to persons or circumstances other than those as to which it shall be held inconsistent, shall not be affected thereby.

IN WITNESS WHEREOF, the parties hereto have caused the foregoing instrument to be executed as of the date first stated above.

HOUSTON SPECIALTY INSURANCE COMPANY

By: /s/ Cynthia L. Casale
Name:
Title:

IMPERIUM INSURANCE COMPANY

By: /s/ Cynthia L. Casale
Name:
Title:

GREAT MIDWEST INSURANCE COMPANY

By: /s/ Cynthia L. Casale
Name:
Title:

ARENA INVESTORS, LP

By: /s/ Lawrence D. Cutler
Name: Lawrence D. Cutler
Title: Chief Operating Officer

SCHEDULE I

EXHIBIT A

SCHEDULE OF FEES

[***]

EXHIBIT B

INVESTMENT GUIDELINES

Objective.

The investment objective for the Account is to seek capital appreciation and current income by investing in debt and equity instruments, with an emphasis on debt instruments. The Investment Adviser will pursue this objective through the creation and maintenance of a managed account pursuant to the qualifications and restrictions set forth in these Investment Guidelines and the Investment Management Agreement among Investment Adviser, Houston Specialty Insurance Company, Imperium Insurance Company and Great Midwest Insurance Company dated as of January 13, 2016.

EXHIBIT C

CERTAIN CONFLICTS OF INTEREST

Affiliated Loan Origination Vehicle. As part of the strategy for the Account, AOC and certain other affiliates of Arena, engage in and are expected to continue engaging in loan origination. AOC may sell all or a portion of those loans to the Account. Such parties may receive loan origination fees in connection with such activity and in connection with loans that are originated by other Arena clients and also may be sold to the Account. To the extent that the Account participates in loans originated by AOC, it is anticipated that it will share in the related origination fees. However, the Account may not benefit from all of the origination fees received by such parties. Mr. Zwirn and certain other members of the management team involved in managing the Account and selecting investments may be entitled, under certain circumstances, to share in such origination fees. AOC or its affiliates also may sell certain of its loans to the Arena Finance Affiliates (defined below).

Conflicts Procedures. Because a portion of the Account's investment strategy may involve frequent acquisitions of loans originated by AOC or other affiliated parties, including other Arena clients, where such a transaction constitutes (or may constitute), as determined by the Investment Adviser, a "principal transaction" under Section 206(3) of the Investment Advisers Act of 1940, certain conflict resolution procedures have been implemented to provide for the independent review of, and consent to, such transactions on behalf of the Account. As agreed to by the Client, an independent representative (the "Independent Representative") may be appointed by the Investment Adviser to review each such transaction, including the price and value of the asset so acquired. The Independent Representative may be requested to approve other transactions involving potential conflicts of interest. There is no guarantee that the foregoing procedures will eliminate the risk of conflicts of interest associated with these transactions

Valuation and Acquisition of Loans Originated by Other Arena Clients or AOC. As noted above, the Account may acquire from other Arena clients or AOC participations in and/or assignments or sales of loans (or interests therein) that such other Arena client or AOC has originated and/or purchased. In the event of such an acquisition, the price of the participation, assignment or sale will not be set by the Investment Adviser, such other Arena client or AOC but rather will be established based on a third-party valuation. Further, in the case of a "principal transaction" or a possible "principal transaction," as defined in Section 206(3) of the Advisers Act, the decision by the Account to accept or reject the offer will be made by a party independent of the Investment Adviser, such as an independent third-party valuation firm or an Independent Representative of the Account. There is no guarantee that the determinations of the Independent Representative will guarantee that such transaction is entered into at the most advantageous price.

Trading by the Investment Adviser. The Investment Adviser and its affiliates may trade securities for their own accounts. The records of such trading will not be made available to the Client. It is possible that the Investment Adviser and its affiliates may buy or sell securities or other instruments that the Investment Adviser has recommended to clients and may engage in transactions for their own accounts in a manner that is inconsistent with the Investment Adviser's recommendations to a client.

Personal Trading by Investment Adviser Employees. Personal securities transactions by principals, officers and employees may raise potential conflicts of interest when such persons trade in a security that is owned by, or considered for purchase or sale for, a client. The Investment Adviser has adopted policies and procedures designed to detect and prevent such conflicts of interest and, when they do arise, to ensure that it effects transactions for clients in a manner that is consistent with its fiduciary duty to its clients and in accordance with applicable law. In compliance with the Investment Adviser's Code of Ethics for

Personal Trading, transactions in certain securities described therein are required to be pre-cleared to allow for a review for any potential conflict of interest or insider trading. Principals, officers and employees of the Investment Adviser are required to report personal securities transactions either electronically or via a monthly (or as generated, *e.g.,* quarterly) duplicate statement sent directly from the corresponding brokerage firm.

Restrictions of Fund Trading Activities—Material Non-Public Information. Arena employees regularly acquire confidential information and Arena may enter into confidentiality and/or "standstill agreements" when assessing investment opportunities. By reason of its various activities, Arena and its employees may have access to material non-public information ("MNPI") about an issuer. For example, an employee of Arena may serve from time to time as a director, or in a similar capacity, or as an executive officer, with respect to, the securities of which may be purchased or sold on behalf of clients, which service may prohibit all clients from engaging in transactions in certain issuers. Additionally, employees of Arena may acquire MNPI in the ordinary course of their investment activities, which acquisition may result in restrictions on the Account's ability to sell a portfolio investment at a time when it might otherwise have done so. Any of these activities could prevent the Account from buying or selling securities or other interests in an issuer, potentially for an extended period.

Arena Finance Affiliates. Arena is affiliated with Arena Finance National LLC and Arena Finance Global LLC (together, the "Arena Finance Affiliates"). The Arena Finance Affiliates earn interest income and certain financing-related fees from holding debt instruments they acquire from AOC as well as from unrelated parties. Mr. Zwirn and certain members of the management team, will receive a salary and a bonus from the Finance Affiliates through BernardCo, and Mr. Zwirn will perform certain services on behalf of these firms.

Arena Services Affiliate. Arena Management Co., LLC ("AMC") has entered into a services agreement with the Investment Adviser. However, AMC and the individuals it employs are not dedicated solely to the Investment Adviser. AMC has also entered into services agreements with AOC and the Arena Finance Affiliates. As a result, the individuals AMC employs may face conflicting demands on their time and attention.

Compensation Structure. The Investment Adviser and affiliates and their principals ("Arena Parties") receive fees and performance-based compensation from the Client. The Arena Parties have a conflict of interest between their responsibility to manage the Account for the benefit of Client and their interest in maximizing the fees and profits such Arena Parties will receive. For example, the performance-based compensation paid to the Investment Adviser or its affiliate may create an incentive for the Investment Adviser to engage in more speculative investing than might be the case if the Investment Adviser or its affiliate were compensated solely based on a flat percentage of capital. Also, fees the Investment Adviser and its principals receive from the Investment Adviser's affiliates may create an incentive for the Investment Adviser to make investment recommendations that maximize those fees rather than recommendations in the best interests of the Client. The Investment Adviser endeavors to mitigate those risks by engaging in the Conflicts Procedures described above.

Valuation Risks. It is anticipated that a substantial portion of the Client's portfolio will consist of illiquid and difficult to value instruments. The Investment Adviser will be responsible for valuing instruments based on available information. Because both the Management Fee and Performance Fee calculations derive from the valuation of the Account Assets, the Investment Adviser faces a conflict in valuing the Client's Account. Although the Investment Adviser will seek to mitigate this conflict by relying on third party sources for valuation, such third party sources may not be available for many instruments.

EXHIBIT D

CERTAIN RISK FACTORS

Risk of Loss of a Portion or All of the Account Assets.

The Client's investments in securities through the Account are speculative and involve substantial risks, including, without limitation, general market and investment risks, risks associated with certain instruments, trading techniques and strategies, risks associated with derivatives, structural risks and tax risks. Such an investment is suitable only for persons who have limited need for liquidity in their investment, particularly due to extensive use of illiquid investments. No assurance exists that the Account will achieve its investment objective. A portion or all of the Account Assets may be lost. This is a risk the Client must be prepared to bear.

Substantial Costs. The Account is subject to fees (including the Management Fee), transactional and operating costs and expenses irrespective of its performance which, in the aggregate, may be substantial. If these fees, costs and expenses are not offset by investment gains, then the Account will not achieve its investment objective.

Illiquid Assets. It is anticipated that a substantial portion of the Account's positions will be or become relatively or entirely illiquid or may cease to be traded after the Account invests. In such cases, and in the event of extreme market volatility, the Account may not be able to liquidate its positions promptly if the need should arise. In addition, the Account's sales of some securities could depress the market value of such securities and thereby reduce the Account's profitability or increase its losses. The illiquidity of the assets could mean that the Client is obligated to wait a significant period of time (up to several years) before receiving any proceeds.

Fraud. Of paramount concern in lending is the possibility of material misrepresentation or omission on the part of the borrower. Such inaccuracy or incompleteness may adversely affect the valuation of the collateral underlying the loans or may adversely affect the ability to perfect or effectuate a lien on the collateral securing the loan. The Account will rely upon the accuracy and completeness of representations made by borrowers and/or other counterparties, co-investors and service providers to the extent reasonable, but cannot guarantee such accuracy or completeness.

Bank Loans and Participations. The Account's investment program may include bank loans and participations. These obligations are subject to unique risks, including: (i) the possible invalidation of an investment transaction as a "fraudulent conveyance" under relevant creditors' rights laws; (ii) so-called "lender liability" claims by the issuer of the obligations; (iii) environmental liabilities that may arise with respect to collateral securing the obligations; and (iv) limitations on the ability of The Account to directly enforce its rights with respect to participations. In analyzing each bank loan or participation, the Investment Adviser compares the relative significance of the risks against the expected benefits. Successful claims by third parties arising from these and other risks, absent violation of the Standard of Care by the Investment Adviser or its affiliates, will be borne by the Account.

The Account may experience significant delays in the settlement of certain loan and/or bank debt transactions, particularly in the case of investments that are or become distressed. Until such transactions are settled, The Account is subject to counterparty insolvency risk. Pursuant to certain insolvency laws, a counterparty may have the ability to reject or terminate an unsettled loan transaction. If a counterparty rejects an unsettled transaction, The Account might lose any increase in value with respect to such loan that accrued while the transaction was unsettled.

The Account may also invest in loan participations where it will be subject to certain additional risks as a result of having no direct contractual relationship with the borrower of the underlying loan. In such circumstances, The Account generally would depend on the lender to enforce its rights and obligations under the loan arrangements in the event of a default by the borrower on the underlying loan and will generally have no voting rights with respect to the issuer, as such rights are typically retained by the lender. Such investments are subject to the credit risk of the lender (as well as the borrower) since they will depend upon the lender forwarding payments of principal and interest received on the underlying loan. There can be no assurance that the lender will not default on its obligations under such arrangements, resulting in substantial losses to the Account.

From time to time, the Investment Adviser may cause the Account to acquire certain assets through participation and sub-participation arrangements with unaffiliated third parties. Such arrangements may expose the Account to additional credit risk compared to acquiring the asset directly because, in addition to the underlying credit risk of the asset, the Account is exposed to the risk of the direct participant defaulting on its obligations to the Account under the participation or sub-participation arrangement.

Prepayment Risk. The frequency at which prepayments (including voluntary prepayments by the obligors and liquidations due to default and foreclosures) occur on loans and other debt underlying certain of the Account's investments will be affected by a variety of factors including, **but** not limited to, the prevailing level of interest rates as well as economic, demographic, tax, social, legal and other factors. In general, "premium" financial instruments *(i.e.,* financial instruments whose market values exceed their principal or par amounts) are adversely affected by faster than anticipated prepayments, and "discount" financial instruments *(i.e.,* financial instruments whose principal or par amounts exceed their market values) are adversely affected by slower than anticipated prepayments. Since the Account's investments may include discount financial instruments when interest rates are high, and may include premium financial instruments when interest rates are low, such investments may be adversely affected by prepayments in any interest rate environment.

Agency Provisions. Agency provisions in the loans acquired by the Account may impair enforcement actions against the collateral and expose the Account to losses on the loans. The loans may consist of agented loans. Under the underlying loan agreement with respect to agented loans, the loan originator or another financial institution may be designated as the administrative agent and/or collateral agent. Under these arrangements, the borrower grants a lien to such agent on behalf of the lenders and directs payments to such agent, which, in turn, will distribute payments to the lenders, including the Account. The agent is responsible for administering and enforcing the loan and generally may take actions only in accordance with the instructions from lenders holding a specified percentage in commitments or principal amount of the loan. In the case of loans that are part of a capital structure that includes both senior and subordinated loans, the agent may take such action in accordance with the instructions of one or more senior lenders without consultation with, or any right to vote (except in certain limited circumstances) by, the subordinated lenders. The loans held by the Account may represent less than the amount sufficient to compel such actions or may represent subordinated debt which is precluded from acting and, under such circumstances, the Account would only be able to direct such actions if instructions from the Account were made in conjunction with other lenders that together comprise the requisite percentage of lenders then entitled to take or direct the agent to take action. Conversely, if the required percentage of lenders other than the Account desire to take or direct the agent to take certain actions, such actions may be taken even if the Account did not support such actions. Furthermore, if a loan held by the Account is subordinated to one or more senior loans made to the borrower, the ability of the Account to exercise such rights may be subordinated to the exercise of such rights by the senior lenders. However certain actions, such as amendments to the material payment terms of the loans, typically may not be taken without consent of all lenders, including the Account. If the loan is a syndicated revolving loan or delayed draw term loan, other lenders may fail to satisfy their full contractual funding commitments for such loan, which could create a breach of contract resulting in a lawsuit by the borrower against the lenders (including the Account even if it did not default) and adversely affect the fair market value of such loan.

There is a risk that an agent may become subject to insolvency proceedings. Such an event could delay, and possibly impair, the ability of the lenders for such agented loan to take any enforcement action against the related borrower or the collateral securing a loan and may require the lenders to take action in the agent's insolvency proceeding to realize on proceeds or payments made by borrowers that are in the possession or control of the agent.

In addition, it is expected that agented loans will allow for the agent to resign. Agented loans may or may not contain provisions for lenders to remove the agent. If an agent resigns or is removed, the lenders may be required to find, and the required percentage thereof agree to appoint, a successor agent that may be difficult to find or cost more than the predecessor agent.

Cross-collateralization. Certain of the loans may be cross-collateralized. Cross-collateralization arrangements may be subject to challenge, which could result in the subordination of the Account's interest in the collateral or the loan itself. Cross-collateralization arrangements involving more than one borrower could be challenged as fraudulent conveyances by creditors of the related borrower in an action brought outside a bankruptcy case or, if the borrower were to become a debtor in a bankruptcy case, by the borrower's representative (or the borrower as debtor-in-possession). If a court were to conclude that the granting of the liens to cross-collateralize a loan was a voidable fraudulent conveyance, such court could (a) subordinate all or part of the pertinent loan to existing or future indebtedness of that borrower, (b) recover payments made under that loan or (c) take other actions detrimental to the Account, including, under certain circumstances, invalidating the loan or the Account's interest in the collateral securing the cross-collateralized loan. Any of these actions could impair, delay or eliminate payments by the borrower of a loan that is cross-collateralized, which would adversely affect the returns expected by the Investors with respect to any such loan.

Equitable Subordination. Under common law principles that in some cases form the basis for lender liability claims, if a lender (a) intentionally takes an action that results in the undercapitalization of a borrower or issuer to the detriment of other creditors of such borrower or issuer, (b) engages in other inequitable conduct to the detriment of such other creditors, (c) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (d) uses its influence as a stockholder to dominate or control a borrower or issuer to the detriment of other creditors of such borrower or issuer, a court may elect to subordinate the claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors (a remedy called "equitable subordination"). The Account does not intend to engage in conduct that would form the basis for a successful cause of action based upon the equitable subordination doctrine; however, because of the nature of the debt obligations, the Account may be subject to claims from creditors of an obligor that debt obligations of such obligor which are held by the issuer should be equitably subordinated.

Risks of Acquiring Real Estate Loans and Participations. Real estate loans acquired by the Account may be at the time of their acquisition, or may become after their acquisition, nonperforming for a wide variety of reasons. Such nonperforming real estate loans may require a substantial amount of workout negotiations and/or restructuring, which may entail, among other things, a substantial reduction in the interest rate and a substantial writedown of the principal of such loan. However, even if a restructuring were successfully accomplished, a risk exists that, upon maturity of such real estate loan, replacement "takeout" financing may not be available. Purchases of participations in real estate loans raise many of the same risks as investments in real estate and also carry risks of illiquidity and lack of control. It is possible that Arena may find it necessary or desirable to foreclose on collateral securing one or more real

estate loans purchased by the Account. The foreclosure process varies jurisdiction by jurisdiction and can be lengthy and expensive. Borrowers often resist foreclosure actions by asserting numerous claims, counterclaims, and defenses, even when the assertions may have no basis in fact, in an effort to prolong the foreclosure process. In some states or other jurisdictions, foreclosure actions can take up to several years or more to conclude. During the foreclosure proceeding, a borrower may have the ability to file for bankruptcy, potentially staying the foreclosure action and further delaying the foreclosure process. Foreclosure litigation tends to create a negative public image of the collateral property and may result in disrupting ongoing leasing and management of the property.

Investments in Loans Secured by Real Estate. The Account may invest in loans secured by real estate (other than mortgage-backed securities) and may, as a result of default, foreclosure or otherwise, hold real estate assets. Special risks associated with such investments include change in the general economic climate or local conditions (such as an oversupply of space or a reduction in demand for space), competition based on rental rates, attractiveness and location of the properties, changes in the financial condition of tenants and changes in operating costs. Real estate values are also affected by such factors as governmental regulations (including those governing usage, improvements, zoning and taxes), interest rate levels, the availability of financing and potential liability under changing environmental and other laws. Of particular concern may be those mortgaged properties which are, or have been the site if manufacturing, industrial or disposal activities. Such environmental risks may give rise to a diminution in the value of property (including real property securing any portfolio investment) or liability for cleanup costs or other remedial actions, which liability could exceed the value of such property or the principal balance of the related portfolio investment. In certain circumstances, a lender may choose not to foreclose on contaminated property rather than risk incurring liability for remedial actions.

Non-Performing Nature of Loans. It is possible that certain of the loans purchased by the Account may be non-performing which may involve workout negotiations, restructuring and the possibility of foreclosure. These processes can be lengthy and expensive. Many of the NPLs will have been underwritten to "subprime," "Alternative A-Paper" or "expanded" underwriting guidelines. These underwriting guidelines are different from and, in certain respects, less stringent than the other general underwriting standards employed by originators. For example, these loans may have been originated to borrowers that have poor credit or that provide limited or no documentation in connection with the underwriting of the mortgage loan. Such loans present increased risk standards of delinquency, foreclosure, bankruptcy and loss than prime mortgage loans. An originator generally originates mortgage loans in accordance with underwriting guidelines it has established and, in certain cases, based on exceptions to those guidelines. These guidelines may not identify or appropriately assess the risk that the interest and principal payments due on a mortgage loan will be repaid when due, or at all, or whether the value of the mortgaged property will be sufficient to otherwise provide for recovery of such amounts. To the extent exceptions were made to an originator's underwriting guidelines in originating an NPL, those exceptions may increase the risk that principal and interest amounts may not be received or recovered and compensating factors, if any, which may have been the premise for making an exception to the underwriting guidelines may not in fact compensate for any additional risk.

Investments in Secured Loans. The assets of the portfolio of the Account will include secured debt, which involve various degrees of risk of a loss of capital. The factors affecting an issuer's secured leveraged loans, and its overall capital structure, are complex. Some secured loans may not necessarily have priority over all other debt of an issuer. For example, some secured loans may permit other secured obligations (such as overdrafts, swaps or other derivatives made available by members of the syndicate to the company), or involve secured loans only on specified assets of an issuer *(e.g.,* excluding real estate). Issuers of secured loans may have two tranches of secured debt outstanding each with secured debt on separate collateral. Furthermore, the liens referred to herein generally only cover domestic assets and non-U.S. assets are not included (other than, for example, where a borrower pledges a portion of the stock of first-tier non-U.S. subsidiaries). In the event of Chapter 11 filing by an issuer, the Bankruptcy Reform Act of 1978, as amended (the "Bankruptcy Code") authorizes the issuer to use a creditor's collateral and to obtain additional credit by grant of a priority lien on its property, senior even to liens that were first in priority prior to the filing, as long as the issuer provides what the presiding bankruptcy judge considers to be "adequate protection" which may but need not always consist of the grant of replacement or additional liens or the making of cash payments to the affected secured creditor. The imposition of priority liens on the Account's collateral would adversely affect the priority of the liens and claims held by the Account and could adversely affect the Account's recovery on the affected loans. Any secured debt is secured only to the extent of its lien and only to the extent of underlying assets or incremental proceeds on already secured assets. Moreover, underlying assets are subject to credit, liquidity, and interest rate risk.

Certain Risks Associated with Investments in Residential Mortgage Loans and RMBS.

Market Disruptions and Distress. The residential mortgage market in the United States and elsewhere has, at certain times, experienced disruption and instability. Such disruptions may occur even during periods of broader economic recovery. Declines in the value of mortgaged properties may result in increases in delinquencies and losses on residential mortgage loans generally.

Residential mortgage loans (including the mortgage loans underlying an issue of RMBS) held by the Account are likely to include "non-traditional" mortgage loans, such as adjustable rate mortgage loans (or "ARMS") — *i.e.,* mortgage loans that offer relatively low monthly payments during the initial years of the loan that increase (often significantly) in later years — or mortgage loans that require large "balloon" payments at specified times (unlike traditional, "self-amortizing" mortgage loans). Many borrowers enter into non-traditional mortgage loans with the hope that they will be able to refinance, or resell the underlying property, before the increased interest payments or balloon payments become due. Stress in the real estate markets, including declines in housing prices may, however, make these refinancings or resales commercially unfeasible or impossible. This, in turn, may contribute to higher delinquency rates and losses on mortgage loans (and mortgage loans underlying RMBS) held by the Account, which would adversely affect the Account's performance.

Under current market conditions, it is likely that many of the residential mortgage loans purchased by the Account will have loan-to-value ratios in excess of 100%, meaning that the amount owed on the mortgage loan exceeds the value of the underlying real property. Further, the borrowers on these mortgage loans may be in economic distress and/or may have become unemployed, bankrupt or otherwise unable or unwilling to make payments when due. Even though it is anticipated that the Account will pay less than the amount owed on these mortgage loans to acquire them, if actual results are different from the Account's assumptions in determining the price for these mortgage loans, then the Account may incur significant losses.

In connection with the disposition of mortgage loans, the Account may be required to make representations about the mortgage loans, including with respect to matters that the Account may be unable to diligence. Such transactions may also require the Account to indemnify the purchaser to the extent that any such representations turned out to be incorrect, incomplete or misleading. These arrangements may result in contingent liabilities, which ultimately may be paid by the Account.

Applicable Law and Regulations. State and federal laws, public policy and general principles of equity relating to the protection of consumers, abusive debt collection practices, and unfair, discriminatory and deceptive practices generally may apply to the origination, servicing and collection of the Account's residential mortgage loans and residential mortgage loans backing the Account's RMBS. Violations of these laws, policies and principles (including violations that occurred period to the Account's ownership of the relevant asset) may limit the ability of the Account (or, as applicable, the issuer of RMBS) to collect all or part of the principal of or interest on the mortgage loans, may entitle a borrower to a refund of amounts previously paid, and could subject the owner of a mortgage loan to damages and administrative enforcement.

Numerous laws, regulations and rules related to the servicing of mortgage loans, including in respect of foreclosure actions, have been enacted and/or proposed by federal, state and local governmental authorities, including the newly formed Consumer Financial Protection Bureau created under the Reform Act. Such laws, regulations and rules may delay foreclosure processes, reduce payments by borrowers or increase reimbursable servicing expenses, which in turn would likely result in delays and reductions in the distributions to be made to the Account as the owners of residential mortgage loans or as an investor in RMBS and/or collateralized debt obligations backed by RMBS. In addition, the rate of foreclosures of properties backing subprime loans in certain states may prompt legislators, regulators and attorneys general in those states to try to prevent certain foreclosures and bring lawsuits against participants in the financing of subprime loans in their states, including issuers of RMBS backed by such loans and investors in those RMBS, including the Account. The Account and other similarly-situated investors will bear the risk that future regulatory developments will result in losses on their investments, whether due to delayed or reduced distributions or reduced market value.

Risks Associated with Servicers and Third Party Service Providers. Mortgage loans owned by the Account are serviced by one or more third party servicers. As mentioned directly above, mortgage servicers are subject to numerous laws, regulations and rules. The Account may not be able to successfully detect and prevent violations of such laws or, more generally, fraud or incompetence by such third parties, which could expose the Account to material liability. Terminating a mortgage servicer is a cumbersome process, which could result in delays in realizing the Account's investment strategies, thereby adversely affecting returns.

Whether relating to the Account's investments in mortgage loans or RMBS, the relevant servicer generally is required to make advances in respect of delinquent mortgage loans. However, servicers experiencing financial difficulties may not be able to perform these obligations. Servicers who have sought bankruptcy protection may, due to application of the provisions of bankruptcy law, not be required to advance such amounts. Even if a servicer were able to advance amounts in respect of delinquent mortgage loans, its obligation to make such advances may be limited to the extent that it does not expect to recover such advances due to the deteriorating credit of the delinquent mortgage loans. In addition, a servicer's obligation to make such advances may be limited to the amount of its servicing fee.

Additional third parties will be retained to provide services in respect of the Account's mortgage loan investments, which services may include those relating to evaluating loss mitigation strategies, assisting with valuation of underlying properties, assisting with foreclosures or general management of the loans. The Account's investments could be negatively affected by the actions taken, or advice given, by such third parties.

On January 10, 2014, a set of new rules issued by the U.S. Consumer Financial Protection Bureau went into effect. These new rules require mortgage servicers to (i) warn borrowers before any interest rate adjustments on their mortgage loans and provide alternatives for borrowers to consider, (ii) provide monthly mortgage statements that explicitly breakdown principal, interest, fees, escrow and due dates, (iii) provide options for avoiding lender-placed, or "force-placed" insurance, (iv) provide early outreach to borrowers in danger of default regarding options to avoid foreclosure, (v) provide that payments be credited to borrower accounts the day they are received, (vi) require borrower account records be kept current, (vii) provide increased accessibility to servicing staff and records for borrowers and (viii) investigate errors within 30 days and improve staff accessibility to consumers, among other things. The new rules may cause servicers, including the Account's servicer, to modify their servicing processes and procedures and to incur additional costs in connection therewith.

Violation of Various Federal, State and Local Laws May Result in Losses on Residential Mortgage Loans. Numerous federal and state consumer protection laws impose substantive requirements upon residential mortgage lenders in connection with the origination, servicing and enforcement of mortgage loans. There has been significant attention from state and federal banking regulatory agencies, state attorneys general, the U.S. Federal Trade Commission, the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, the U.S. Consumer Financial Protection Bureau and state and local governmental authorities regarding certain lending practices by some companies in the subprime industry, sometimes referred to as "predatory lending" practices. Sanctions have been imposed by state, local and federal governmental agencies for practices including, but not limited to, charging borrowers excessive fees, imposing higher interest rates than the borrower's credit risk warrants and failing to adequately disclose the material terms of loans to the borrowers. Sanctions could adversely affect the value of any investment by the Account in a mortgage loan.

Applicable state and local laws generally regulate interest rates and other charges, require certain disclosure, impact closing practices, and require licensing of originators. In addition, other state and local laws, public policy and general principles of equity relating to the protection of consumers, unfair and deceptive practices and debt collection practices may apply to the origination, ownership, servicing and collection of such residential mortgage loans. Such laws can increase the costs of compliance in connection with such investments and ultimately undermine the profitability of such investments.

Certain Risks Associated with Investments in CMBS. The underlying commercial mortgage loans in an issue of CMBS held by the Account will be backed by obligations (including participation interests in obligations) that are principally secured by mortgage loans on real property (or interests therein) having a multifamily or commercial use, including regional malls or other retail space, office buildings, industrial or warehouse properties, hotels, apartments, cooperatives, nursing homes and senior living centers. Commercial mortgage loans are generally nonrecourse loans, lack standardized terms, tend to have shorter maturities than residential mortgage loans and may provide for the payment of all or substantially all of the principal only at maturity. Commercial properties also tend to be unique and are more difficult to value than single-family residential properties. The types of property securing commercial mortgage loans, and the ways that those properties are used, can also create special risks. For instance, commercial properties that operate as hospitals and nursing homes may present special risks to lenders due to the significant governmental regulation of the ownership, operation, maintenance and financing of health care institutions. Hotel and motel properties are often operated pursuant to franchise, management or operating agreements which may be terminable by the franchisor or operator, and may be subject to complex local licensing requirements.

The repayment of loans secured by income-producing commercial properties is typically dependent on the successful operation of those properties rather than upon the liquidation value of the underlying real estate or the existence of independent income or assets of the borrower. The net operating income from commercial properties is subject to volatility, however, and may not be sufficient to cover debt service on the related mortgage loan at any given time. Furthermore, the net operating income from, and value of, any commercial property may be adversely affected by risks generally incidental to interests in real property, including events that the borrower or manager of the property, or the issuer or servicer of the related issuance of CMBS, may be unable to predict or control, such as changes in general or local economic conditions and specific industry segments; declines in real estate values; declines in rental or occupancy rates; increases in interest rates, real estate tax rates and other operating expenses; changes in governmental rules, regulations and fiscal policies; natural disasters; acts of war; acts of terrorism; and social unrest and civil disturbances. The value of commercial real estate is also subject to a number of laws, such as laws regarding environmental clean-up and limitations on remedies imposed by bankruptcy laws and state laws regarding foreclosures and rights of redemption.

Mortgage loans underlying a CMBS issue may lack regular amortization of principal, resulting in a single "balloon" payment due at maturity. If the underlying mortgage borrower experiences business problems, or other factors limit refinancing alternatives, these balloon payment mortgage loans are likely to experience payment delays or even default. In addition, the mortgage loans underlying a CMBS issue may lack diversification and may relate to a single loan or a limited number of loans.

Peer-to-Peer Lending. Peer-to-peer lending allows individuals and increasingly, institutional investors, to lend money to others via an online platform. The borrowers on such platforms are a wide range of individuals and businesses, and the Account's ability to assess their creditworthiness may be limited. While lending on a peer-to-peer platform can generate high returns, it is subject to many risks, including the risk that the Account could lose its entire investment if a borrower defaults or if the lending and/or loan servicing platform itself ceases operations. In the event of a default, certain lending platforms offer lenders almost no chance of recovery. In addition, peer-to-peer loans are relatively illiquid investments. In many cases it is difficult or impossible for the lender to get its money back before a loan matures, even absent a default.

Nature of Bankruptcy Proceedings. There are a number of significant risks when investing in companies involved, or which may have been involved, in bankruptcy proceedings, including the following: First, many events in a bankruptcy are the product of contested matters and adversary proceedings which are beyond the control of the creditors. Second, a bankruptcy filing may have adverse and permanent effects on a company. For instance, the company may lose its market position and key employees and otherwise become incapable of restoring itself as a viable entity. Further, if the proceeding is converted to a liquidation, the liquidation value of the company may not equal the liquidation value that was believed to exist at the time of the investment. Third, the duration of a bankruptcy proceeding is difficult to predict. A creditor's return on investment can be impacted adversely by delays while the plan of reorganization is being negotiated, approved by the creditors and confirmed by the bankruptcy court, and until it ultimately becomes effective. Fourth, certain claims, such as claims for taxes, wages and certain trade claims, may have priority by law over the claims of certain creditors. Fifth, the administrative costs in connection with a bankruptcy proceeding are frequently high and will be paid out of the debtor's estate prior to any return to creditors. Sixth, creditors can lose their ranking and priority in a variety of circumstances, including if they exercise "domination and control" over a debtor and other creditors can demonstrate that they have been harmed by such actions. Seventh, investors in the company may be subject to a court-imposed "cram down" in which they lose their seniority in the capital and security interest structure. Eighth, the Account may seek representation on creditors' committees and as a member of a creditors' committee it may owe certain obligations generally to all similarly situated creditors that the committee represents and may be exposed to liability to such other creditors who disagree with the Account's actions. There can be no assurance that the Account would be successful in obtaining results most favorable to it in such proceedings, although the Account may incur significant legal fees and other expenses in attempting to do so. The Account may also be subject to various trading or confidentiality restrictions. In addition, the Account and some of the Investment Adviser's other clients may potentially hold conflicting positions in relation to investments in companies involved in bankruptcy proceedings.

Investment in the debt of financially distressed companies domiciled outside the United States involves additional risks. Bankruptcy law and process may differ substantially from that in the United States, resulting in greater uncertainty as to the rights of creditors, the enforceability of such rights, reorganization timing, and the classification, seniority and treatment of claims.

Short Sales. The Account may make short sales in any type of securities for profit in anticipation of a change in the market price of a financial instrument or as a hedge against other positions held by the Account. Short sales that are not made "against the box" and are not part of a hedging transaction create opportunities to increase return but, at the same time, are speculative and involve special risk considerations. Since the seller in effect profits from a decline in the price of the securities sold short without the need to invest the full purchase price of the securities on the date of the short sale, returns tend to increase more when the securities sold short decrease in value, and to decrease more when the securities sold short increase in value, than would otherwise be the case if the seller had not engaged in such short sales. Short sales theoretically involve unlimited loss potential, as the market price of securities sold short may continuously increase, although the Account may mitigate such losses by replacing the securities sold short before the market price has increased significantly. Under adverse market conditions, the Account might have difficulty purchasing securities to meet its short sale delivery obligations, and might have to sell portfolio securities to raise the capital necessary to meet its short sale obligations at a time when fundamental investment considerations would not favor such sales.

As a result of the financial disruptions which began in the second half of 2008, it appears likely that there may be significant additional restrictions imposed on short-selling (at least of certain issuers' securities).

Hedging Transactions. Hedging techniques involve one or more of the following risks: (i) imperfect correlation between the performance and value of the instrument and the value of the Account securities or other objective of the Investment Adviser; (ii) possible lack of a secondary market for closing out a position in such instrument; (iii) losses resulting from interest rate, spread or other market movements not anticipated by the Investment Adviser; (iv) the possible obligation to meet additional margin or other payment requirements, all of which could worsen the Account's position; and (v) default or refusal to perform on the part of the counterparty with which the Account trades. Furthermore, to the extent that any hedging strategy involves the use of over-the-counter ("OTC") derivatives transactions, such a strategy would be affected by implementation of the various regulations adopted pursuant to the Reform Act.

The Investment Adviser will not attempt to hedge all market or other risks inherent in the Account's positions, and will hedge certain risks, if at all, only partially. Specifically, the Investment Adviser may choose not, or may determine that it is economically unattractive, to hedge certain risks — either in respect of particular positions or in respect of the Account's overall portfolio. The Account's portfolio composition will commonly result in various directional market risks remaining unhedged. The Investment Adviser may rely on diversification to control such risks to the extent that the Investment Adviser believes it is desirable to do so; however, the Account is not subject to formal diversification policies.

The ability of the Account to hedge successfully will depend on the ability of the Investment Adviser to predict relevant market movements, which cannot be assured. The Investment Adviser is not required to hedge and there can be no assurance that hedging transactions will be available or, even if undertaken, will be effective. In addition, it is not possible to hedge fully or perfectly against currency fluctuations affecting the value of securities denominated in non-United States currencies because the value of those securities is likely to fluctuate as a result of independent factors not related to currency fluctuations. Moreover, it should be noted that the portfolio will always be exposed to certain risks that cannot be hedged, such as counterparty credit risk. Furthermore, by hedging a particular position, any potential gain from an increase in the value of such position may be limited.

Credit Default Swaps. The Account may invest in credit default swaps. A credit default swap is a contract between two parties which transfers the risk of loss if a company fails to pay principal or interest on time or files for bankruptcy. Credit default swaps can be used to hedge a portion of the default risk on a single corporate bond or a portfolio of bonds. In addition, credit default swaps can be used to implement the General Partner's view that a particular credit, or group of credits, will experience credit improvement. The credit default swap market in high yield securities is comparatively new and rapidly evolving compared to the credit default swap market for more seasoned and liquid investment grade securities. Swap transactions dependent upon credit events are priced incorporating many variables including the pricing and volatility of the common stock, and potential loss upon default, among other factors. As such, there are many factors upon which market participants may have divergent views.

Because the master and credit support agreements for over-the-counter swap transactions are individually negotiated with a specific counterparty, there exists the risk that the parties may interpret contractual terms (e.g., the definition of default) differently when the Account seeks to enforce its contractual rights. If that occurs, the Account may be forced to seek to enforce its contractual rights through legal proceedings, which may be costly and time consuming.

Collateralized Debt Obligations ("CDOs"). The Account may invest in CDOs and CLOs. The portfolio may consist of CLO equity, multi-sector CDO equity, trust preferred CDO equity and CLO mezzanine debt. CDOs are subject to credit, liquidity and interest rate risks. The CDO equity purchased by the Account will most likely be unrated or non-investment grade, which means that a greater possibility that adverse changes in the financial condition of an issuer or in general economic conditions or both may impair the ability of the related issuer or obligor to make payments of principal or interest. Such investments may be speculative. In addition, as a holder of CDO equity, the Account will have limited remedies available upon the default of the CDO. In the recent past, the market for CDOs has become highly illiquid resulting in severe declines of the prices of such instruments.

Lending Against Equipment. In a loan against equipment transaction, also known as a sale leaseback, equipment is sold on paper by the seller and leased back. The seller obtains working capital and keeps the equipment on their property. As with equipment leasing, there are considerable costs associated with terminating such loans and retrieving hard assets if a borrower fails to make timely payments on the loan. Further, the value of the subject equipment will decline over time as a result of use by the borrower, reducing the value of the collateral backing the loan and increasing the risk that the Account will lose money in the event of borrower default. The Account may also engage in equipment leasing, which may expose the Investors to considerable risk. In cases of a non-performing lessee, there are considerable costs associated with terminating leases and retrieving hard assets that can disrupt and reduce cash flow. These risks may be exacerbated in the case of lessee bankruptcy. Further, it may be difficult to re-lease or sell retrieved equipment, depending on market conditions, especially if such equipment is outdated or has been misused.

Currency and Foreign Risks. The Account may, from time to time, invest in non-dollar denominated debt instruments or in securities of companies domiciled or operating outside of the United States. While this is not expected to be a significant portion of the Account's activities, investing in these securities involves considerations and possible risks not typically involved in investing in securities of companies domiciled and operating in the United States, including instability of some governments, capital controls, the possibility of expropriation, limitations on the use or removal of funds or other assets, changes in governmental administration or economic or monetary policy (in the United States or abroad) or changed circumstances in dealings between nations. The application of tax laws applicable outside the United States *(e.g.,* the imposition of withholding taxes on interest and dividend payments, income taxes and excise taxes) or confiscatory taxation may also affect the Account's investments. Moreover, less information may be publicly available concerning certain of the foreign issuers of securities held by the Account than is available concerning United States companies. The Account may incur higher expenses with respect to investments made outside the United States compared to investing in U.S. securities because of the costs incurred in connection with conversions between various currencies and the fact that brokerage commissions outside the United States may be higher than commissions in the United States. Non-United States markets also may be less liquid, more volatile and less subject to governmental supervision than in the United States.

Recent Developments in Europe. Global markets have experienced upheaval and above-average volatility due to developments in Europe that have raised doubts about the ability of certain European countries to meet their sovereign debt obligations, including the recent failure of Greece to pay interest on a portion of its outstanding bonds. The fallout from such developments could have a significant impact on the stability and credit ratings of various European countries and financial institutions with exposure to European sovereign debt, and even the continued viability of the European Union and the Euro currency. There can be no assurance that the Investment Adviser will accurately predict or adequately prepare for the impact of such developments, and therefore they may have a materially negative effect on the Account's investments, particularly those made in European entities or denominated in the Euro currency.

Mezzanine Debt Securities. Mezzanine debt securities are generally unrated or below investment grade rated investments that have greater credit and liquidity risk than more highly rated debt obligations. Mezzanine debt securities are typically issued in traditional private placements or in connection with acquisitions and other business combinations and have no trading market. Moreover, mezzanine debt securities are generally unsecured and subordinate to other obligations of the obligor and are subject to many of the same risks as those associated with high yield debt securities. Adverse changes in the financial condition of the obligor of mezzanine debt securities or in general economic conditions (including, for example, a substantial period of rising interest rates or declining earnings) or both may impair the ability of the obligor to make payment of principal and interest. Issuers of mezzanine debt securities may be highly leveraged, and their relatively high debt to equity ratios create increased risks that their operations might not generate sufficient cash flow to service their debt obligations.

Litigation Claims. The Account may purchase anticipated future payments to be received as the result of favorably determined litigation or mass tort claims. The results of pending litigation are inherently uncertain. Purchasing or lending against pending litigation entails unique risks because there is no guarantee that the relevant litigation will be favorably determined, and consequently that the Account's investment objective will be achieved. If the relevant litigation is determined (in a court or in an out-of-court settlement) in a manner that is adverse to the Account's interest, the Account may lose some or all of its investment.

Aviation Investments. Airline business and results of operations are significantly impacted by general economic and industry conditions. The airline industry is highly cyclical, and the level of demand for air travel is correlated to the strength of the U.S. and global economies. Robust demand for air transportation services depends on favorable economic conditions, including the strength of the domestic and foreign economies, low unemployment levels, strong consumer confidence levels and the availability of consumer and business credit. In addition, airlines are subject to extensive regulatory oversight. Compliance with U.S. and international regulations imposes significant costs and may have adverse effects on an airline.

In addition to factors linked to the aviation industry, other factors that may affect the value of an aircraft at any time include: (i) the particular maintenance and operating history of the related airframe and engines; (ii) manufacture and type or model of aircraft or engines, including the number of operators using such type or model; (iii) whether the aircraft is subject to a lease and, if so, whether the lease terms are favorable to the lessor; (iv) the age of the aircraft; (v) the advent of newer models of such aircraft or aircraft types competing with such aircraft; (vi) any tax, customs, regulatory and legal requirements that must be satisfied when an aircraft is purchased, sold or re-leased; (vii) compatibility of aircraft configurations or specifications with other aircraft operated by operators of that type of aircraft; (viii) regulatory actions, including mandatory grounding of the aircraft; (ix) any renegotiation of a lease on less favorable terms; (x) decreases in creditworthiness of lessees; and (xi) the availability of spare parts. Any decrease in values of and lease rates for used commercial aircraft which may result from the above factors or other unanticipated factors may have a material adverse effect on the Account's investments.

Shipping Investments. The maritime shipping industry is both cyclical and volatile in terms of charter rates and profitability. A worsening of the current global economic conditions may adversely affect the Account's ability to charter or recharter its vessels or to sell them on the expiration or termination of their charters and the rates payable in respect of its currently operating vessels, or any renewal or replacement charters that the Account enters into may not be sufficient to allow it to operate its vessels profitably. Fluctuations in charter rates and vessel values result from changes in the supply and demand for vessel capacity and changes in the supply and demand for the products that such vessels carry. The factors affecting the supply and demand for vessels are outside of the Account's control, and the nature, timing and degree of changes in industry conditions are unpredictable.

Trade Claims. The Account may purchase trade claims, often in connection with the restructuring or bankruptcy of a debtor company over which the Account is trying to exercise influence. The Account might also acquire trade claims as a means of obtaining control over a debtor that is in the process of emerging from Chapter 11, with an intent to push for a Chapter **11** plan that converts debt to equity or to block acceptance of any Chapter **11** plan it opposes. By purchasing trade claims in connection with a bankrupt company, the Account could use this leverage to negotiate a more favorable Chapter 11 plan. Alternatively, the Account could retain the claim, anticipating that the present value of any distribution at the conclusion of the case will exceed the purchase price. Although trade claims may result in significant returns to the Account, they involve a substantial degree of risk. In order to make successful decisions regarding the objective in connection with the acquisition of trade claims, the level of analytical sophistication, both financial and legal, necessary to such decision-making is unusually high. In addition, if the Account has acquired trade claims with the objective of exercising influence over a distressed company or in a bankruptcy action, the expected timing can only be estimated and there may be significant delays which may affect the returns on such trade claim investments for the Account.

Interest Rate Fluctuations. The prices of portfolio investments can be sensitive to interest rate fluctuations, and unexpected fluctuations in interest rates could cause the corresponding prices of a position to move in directions which were not initially anticipated. In addition, interest rate increases generally will increase the interest carrying costs to the Account of borrowed securities and leveraged investments.

Contrarian Investing. The Investment Adviser believes the price of certain securities may become depressed to the point that the Investment Adviser believes that such securities have lower downside risk than other investors may perceive *(i.e.,* an investment will generally be made only if it is believed that the current market price is less than the intrinsic value of the security, based on assumptions as to asset values, total liabilities or claims, timing and the rate of return on the investment), and the Account has made or will make certain investments in such securities. Because of the substantial uncertainty concerning the outcome of transactions involving financially troubled companies undergoing fundamental changes, there is always the potential risk of a substantial loss.

Emerging Markets. The Account may trade in emerging markets. These markets tend to be inefficient and illiquid as well as subject to political and other factors which do not typically affect more developed economies. The Account may sustain losses as a result of market inefficiencies or interference in emerging markets which would not take place in more developed markets.

Correlation Risk. The Account will tend to have a bias toward investments in which the Investment Adviser believes prices should ultimately hinge more on discrete, credit-specific events than the direction of the broader markets. However, in certain market environments (particularly those characterized by widespread perceptions of systemic risk), risk asset prices can display abnormal levels of correlation. The Account's returns could be adversely affected in scenarios like this, in which fundamental valuation metrics tend to be overwhelmed by other factors.

Risk Arbitrage. Special risks are associated with the use of risk arbitrage, or "merger arbitrage," techniques. In addition to general risks of market behavior and currency fluctuations, merger arbitrage is subject to "deal risk" — the risk of non-consummation of the transaction. A number of factors may lead to deal collapse or delay, such as either party's inability to satisfy conditions to closing, failure to obtain shareholder approval, failure to meet regulatory or antitrust requirements, failure to obtain required financing, or other events that may change the target's or the acquirer's willingness to consummate the transaction.

***Leverage* of Portfolio Companies.** The Account's investments may include securities of companies with leveraged capital structures, which could be subject to increased exposure to adverse economic factors such as an increase in interest rates, a downturn in the economy or further deterioration in the economic conditions of such company or its industry. Similarly, the Account may invest in entities that are unable to generate sufficient cash flow to meet principal and interest payments on their indebtedness. Accordingly, the value of the Account's investment in such an entity could be significantly reduced or even eliminated due to further credit deterioration.

Uncertain Exit Strategies; Duration of Investment Positions. The Investment Adviser typically does not know the maximum — or, often, even the expected — duration of any particular investment at the time of initiation. Due to the illiquid nature of some of the investments that the Account expects to make, the Investment Adviser is unable to predict with confidence what, if any, exit strategy for a given investment will ultimately be available for the Account. Exit strategies that appear to be viable at certain times during the life cycle of an investment may be precluded by the time the investment is ready to be realized due to economic, legal, political or other factors. The larger the transaction in which the Account is participating, the more uncertain the Account's exit strategy tends to become. The length of time for which a position is maintained may vary significantly, based on Arena's subjective judgment of the appropriate point at which to liquidate a position so as to augment gains or reduce losses. Many of the Account's transactions may involve acquiring related positions in a variety of different instruments or markets at or about the same time. Frequently, optimizing the probability of being able to exploit the pricing anomalies among these positions requires holding periods of significant length—sometimes many months to a year or more. Actual holding periods depend on numerous market factors which can both expedite and disrupt price convergences. There can be no assurance that the Account will be able to maintain any particular position, or group of related positions, for the duration required to realize the expected gains, or avoid losses, from such positions.

Expedited Transactions. Investment analyses and decisions by the Investment Adviser may be undertaken on an expedited basis in order to make it possible for the Account to take advantage of short-lived investment opportunities. In such cases, the available information at the time of an investment decision may be limited, inaccurate and/or incomplete. Furthermore, the Investment Adviser is unlikely to have sufficient time to fully evaluate information which is available. There is a significantly increased risk of making poor investments when they are made on an expedited basis.

Inability to Participate in Certain Investments. The Investment Adviser has numerous business commitments and relationships worldwide. As a result of these commitments and relationships, there may be situations in which the Investment Adviser would otherwise take a control position in an issuer, or a position adverse to the management of an issuer, but will be prevented from doing so due to other holdings.

Derivatives Risks

Derivatives. The Account may use various derivative instruments, such as options, futures, forwards, commodities, swaps and swaptions (including interest rate and credit default swaps). The use of derivative instruments involves a variety of material risks, including the extremely high degree of leverage sometimes embedded in such instruments. The derivatives markets are frequently characterized by limited liquidity, which can make it difficult as well as costly to close out open positions in order either to realize gains or to limit losses. The pricing relationships between derivatives and the instruments underlying such derivatives may not correlate with historical patterns, resulting in unexpected losses.

Use of derivatives and other techniques such as short sales for hedging purposes involves certain additional risks, including (i) dependence on the ability to predict movements in the price of the securities hedged; (ii) imperfect correlation between movements in the securities on which the derivative is based and movements in the assets of the underlying portfolio; and (iii) possible impediments to effective portfolio management or the ability to meet short-term obligations because of the percentage of a portfolio's assets segregated to cover its obligations. In addition, by hedging a particular position, any potential gain from an increase in the value of such position may be limited.

Swap Agreements. The Account from time to time enters into various swap agreements ("Swaps") as part of its investment program. A Swap is an individually negotiated, non-standardized agreement between two parties to exchange cash flows (and sometimes principal amounts) measured by different interest rates, commodity prices, exchange rates, indices or prices, with payments generally calculated by reference to a principal ("notional") amount or quantity. Swaps and similar derivative contracts are not currently traded on exchanges; rather, banks and dealers act as principals in these markets. As a result, the Account is subject to the risk of the inability or refusal to perform with respect to such contracts on the part of the counterparties with which the Account trades. Swaps may be subject to various other types of risk, including market risk, liquidity risk, counterparty credit risk, legal risk and operations risk. In addition, Swaps can involve considerable economic leverage and may, in some cases, involve significant risk of loss. Depending on their structure, Swaps may increase or decrease exposure to the corporate credit market, equity securities, long-term or short-term interest rates, foreign currency values, corporate borrowing rates or other factors. Swaps can take many different forms and are known by a variety of names. The Account is not limited to any particular form of Swap if its use is consistent with the Account's investment objectives and policies, and the Investment Adviser anticipates that the Account will invest in interest rate swaps, credit default swaps, total return swaps, variance swaps and other types of Swaps.

Depending on how they are used, Swaps may increase or decrease the overall volatility of a portfolio. The most significant factor in the performance of Swaps is the change in the specific interest rate, currency, equity index or other factors that determine the amounts of payments due to and from the Account. If a Swap calls for payments by the Account, the Account must be prepared to make such payments when due. In addition, if a counterparty's creditworthiness declines, the value of a Swap with such counterparty can be expected to decline, potentially resulting in losses by the Account.

Credit Default Swap Agreements. The Account may invest in credit default swaps. The typical credit default swap contract requires the seller to pay to the buyer, if a particular reference entity experiences specified credit events, the difference between the notional amount of the contract and the value of a portfolio of securities issued by the reference entity that the buyer delivers to the seller. In return, the buyer agrees to make periodic payments equal to a fixed percentage of the notional amount of the contract. The Account may also sell credit default swaps on a basket of reference entities as part of a synthetic collateralized debt obligation transaction.

As a buyer of credit default swaps, the Account will be subject to certain risks in addition to those described elsewhere herein. In circumstances in which the Account does not own the debt securities that are deliverable under a credit default swap, the Account will be exposed to the risk that deliverable securities will not be available in the market, or will be available only at unfavorable prices, as would be the case in a so-called "short squeeze." While the credit default swap market auction protocols reduce this risk, it is still possible that an auction will not be organized or will not be successful. In certain instances of issuer defaults or restructurings (for those credit default swaps for which restructuring is specified as a credit event), it has been unclear under the standard industry documentation for credit default swaps whether or not a "credit event" triggering the seller's payment obligation had occurred. The creation of the ISDA Credit Derivatives Determination Committee (the "Determination Committee") is intended to reduce this uncertainty and create uniformity across the market, although it is possible that the Determination Committee will not be able to reach a resolution or do so on a timely basis. In either of these cases, the Account would not be able to realize the full value of the credit default swap upon a default by the reference entity.

As a seller of credit default swaps, the Account will incur leveraged exposure to the credit of the reference entity and become subject to many of the same risks it would incur if it were holding debt securities issued by the reference entity. However, the Account will not have any legal recourse against the reference entity and will not benefit from any collateral securing the reference entity's debt obligations. In addition, the credit default swap buyer will have broad discretion to select which of the reference entity's debt obligations to deliver to the Account following a credit event and will likely choose the obligations with the lowest market value in order to maximize the payment obligations of the Account.

Counterparty risk is always present in credit default swaps. The market for credit default swaps on distressed securities is not liquid (compared to the market for credit default swaps on investment grade corporate reference entities). If current interest rate spreads over LIBOR (or over the applicable United States Treasury Benchmark) widen or the prevailing credit premiums on credit default swaps increase, the amount of a termination or assignment payment upon a termination or assignment of a transaction due from the Account to the credit default swap counterparty could increase by a substantial amount.

In addition, the proper tax treatment of credit default swaps and other derivatives may not be clear. Investors are required to treat any such derivatives for United States federal income tax purposes in the same manner as they are treated by the Account. The tax environment for derivatives is evolving and changes in the taxation of derivatives may adversely affect the value of derivatives held by the Account.

Given the recent sharp increases in volume of credit derivatives trading in the market, settlement of such contracts may also be delayed beyond the time frame originally anticipated by counterparties. Such delays may adversely impact the Account's ability to otherwise productively deploy any capital that is committed with respect to such contracts.

Certain governmental entities have indicated that they intend to regulate the market in credit default swaps. It is difficult to predict the impact of any such regulation on the Account, but it may be adverse (including making the Account ineligible to be a "seller" of credit default swaps).

Credit Default Swaps on Loans and LCDX Transactions. The Account may invest in all types of loan credit default swaps ("LCDS") and all types of LCDX transactions, a tradable index comprising 100 equally-weighted underlying single-name loan-only credit default swaps. LCDS are similar to credit default swaps on bonds, except that the underlying protection is sold on syndicated secured loans of a reference entity rather than a broader category of bonds or loans. Buyers of protection pay a fixed coupon agreed at time of trade, and receive compensation on the principal if the entity named on the contract defaults on its secured debt. The compensation will be par minus recovery either via the protection seller paying par in return for gaining possession of the loan or via cash settlement. Loan credit default swaps may be on single names or on baskets of loans, both tranched and untranched.

The Account may also invest in LCDX, which is the buying or selling of protection on 100 names that comprise the LCDX portfolio *(i.e.,* the buying and selling of 100 single-name LCDS). Buying and selling the LCDX can be compared to buying and selling a loan portfolio. When the index is bought, the buyer is taking on the credit exposure to the loans, and is exposed to defaults similar to when a loan portfolio is bought. if the index is sold, this exposure is passed on to someone else. The index has a fixed coupon, which is paid when the index is sold, or received if the index is bought. The credit events that generally trigger a payout from the buyer (protection seller) of the index are bankruptcy or failure to pay a scheduled payment on any debt (after a grace period), for any of the constituents of the index. Credit events can be settled by physical or cash settlement. Physical settlement entails delivering the loan and receiving par. The protection seller who took delivery of the loan holds the defaulted asset. Although this method is the traditional method of settlement, there are risks that the notional amounts of the outstanding loans is less than the LCDS outstanding and that the LCDX counterparty will be able to take receipt of the loans.

Total Return Swaps. The Account from time to time may invest in total return swaps. As a buyer of total return swaps, the Account will be obligated to make certain periodic payments in exchange for the total return on a referenced asset, including coupons, interest and the gain or loss on such asset over the term of the swap. The Account may be required to maintain collateral with the total return swap counterparty. If the Account fails to fulfill its payment obligations or fails to post any required collateral under a total return swap, the total return swap counterparty may declare an event of default and, as a result, the Account may be required to pay swap breakage fees, suffer the loss of the amounts paid to the counterparty and forego the receipts from the counterparty of further total return swap payments.

Over-the-Counter Derivatives Markets. The Reform Act, enacted in July 2010, includes provisions that comprehensively regulate the OTC derivatives markets for the first time. The Reform Act will ultimately mandate that a substantial portion of OTC derivatives must be executed in regulated markets and be submitted for clearing to regulated clearinghouses. OTC trades submitted for clearing will be subject to minimum initial and variation margin requirements set by the relevant clearinghouse, as well as possible SEC- or CFTC-mandated margin requirements. OTC derivatives dealers typically demand the unilateral ability to increase the Account's collateral requirements for cleared OTC trades beyond any regulatory and clearinghouse minimums. The regulators also have broad discretion to impose margin requirements on non-cleared OTC derivatives and new requirements will apply to the holding of customer collateral by OTC derivatives dealers. These requirements may increase the amount of collateral the Account is required to provide and the costs associated with providing it. OTC derivative dealers also are required to post margin to the clearinghouses through which they clear their customers' trades instead of using such margin in their operations, as was widely permitted before the Reform Act. This has and will continue to increase the OTC derivative dealers' costs, and these increased costs are generally passed through to other market participants in the form of higher upfront and mark-to-market margin, less favorable trade pricing, and the imposition of new or increased fees, including clearing account maintenance fees.

With respect to cleared OTC derivatives, the Account will not face a clearinghouse directly but rather through an OTC derivatives dealer that is registered with the CFTC or SEC to act as a clearing member. The Account may face the indirect risk of the failure of another clearing member customer to meet its obligations to its clearing member. Such scenario could arise due to a default by the clearing member on its obligations to the clearinghouse, triggered by a customer's failure to meet its obligations to the clearing member.

The SEC and CFTC will also require a substantial portion of derivative transactions that are currently executed on a bi-lateral basis in the OTC markets to be executed through a regulated securities, futures, or swap exchange or execution facility. Certain CFTC-regulated derivatives trades became subject to these rules starting in 2014. It is not yet clear when the parallel SEC requirements will go into effect. Such requirements may make it more difficult and costly for investment funds, including the Account, to enter into highly tailored or customized transactions. They may also render certain strategies in which the Account might otherwise engage impossible or so costly that they will no longer be economical to implement. If the Account decides to become a direct member of one or more of these exchanges or execution facilities, the Account would be subject to all of the rules of the exchange or execution facility, which would bring additional risks and liabilities, and potential additional regulatory requirements.

OTC derivative dealers are now required to register with the CFTC and will ultimately be required to register with the SEC. Dealers are subject to new minimum capital and margin requirements, business conduct standards, disclosure requirements, reporting and recordkeeping requirements, transparency requirements, position limits, limitations on conflicts of interest, and other regulatory burdens. These requirements further increase the overall costs for OTC derivative dealers, which costs may be passed along to market participants as market changes continue to be implemented. The overall impact of the Reform Act on the Account remains highly uncertain and it is unclear how the OTC derivatives markets will adapt to this new regulatory regime, along with additional, sometimes overlapping, regulatory requirements imposed by non-U.S. regulators.

Convertible Securities, Rights and Warrants. The Account may invest in hybrid securities that may be exchanged for, converted into or exercised to acquire a predetermined number of shares of an issuer's common stock at the option of the holder during a specified time period (such as convertible preferred stocks, convertible debentures, stock purchase rights, and warrants). Convertible securities generally pay interest or dividends and provide for participation in the appreciation of the underlying common stock but at a lower level of risk because the yield is higher and the security is senior to common stock. Convertible debt securities purchased by the Account that are acquired for their equity characteristics are not subject to minimum rating requirements.

The value of a convertible security is a function of its "investment value" (determined by its yield in comparison with the yields of other securities of comparable maturity and quality that do not have a conversion privilege) and its "conversion value" (the security's worth, at market value, if converted into the underlying common stock). The credit standing of the issuer and other factors may also affect the investment value of a convertible security. If the conversion value is low relative to the investment value, the price of the convertible security is governed principally by its investment value. To the extent the market price of the underlying common stock approaches or exceeds the conversion price, the price of the convertible security is increasingly influenced by its conversion value.

Convertible securities may also include warrants, often publicly traded, that give a holder the right to purchase at any time during a specified period a predetermined number of shares of common stock at a fixed price but that do not pay a fixed dividend. Their value depends primarily on the relationship of the exercise price to the current and anticipated price of the underlying securities.

Futures Trading. The Account may trade futures contracts, including stock index futures. Futures prices are highly volatile, with price movements being influenced by a multitude of factors such as changing supply and demand relationships, government trade, fiscal, monetary and exchange control programs and policies, national and international political and economic events and speculative frenzy and the emotions of the marketplace. In addition, governments from time to time intervene in certain markets, particularly currency and interest-rate markets.

The low margin deposits normally required in futures trading permit an extremely high degree of leverage; margin requirements for futures trading being in some cases as little as 2% of the face value of the contracts traded. Accordingly, a relatively small price movement in a futures contract may result in an immediate and substantial loss to the investor.

There can be no assurance that a liquid market will exist at a time when the Account seeks to close out an option position, future or Swap. Most United States commodity exchanges limit fluctuations in futures contract prices during a single day by regulations referred to as "daily limits." During a single trading day, no trades may be executed at prices beyond the daily limit. Once the price of a futures contract has increased or decreased to the limit point, positions can be neither taken nor liquidated. Futures prices have occasionally moved to the daily limit for several consecutive days with little or no trading. Similar occurrences could prevent the Account from promptly liquidating unfavorable positions and subject the Account to substantial losses. In addition, certain of these instruments are relatively new and are without a significant trading history. As a result, there is no assurance that an active secondary market will develop or continue to exist. Lack of a liquid market for any reason may prevent the Account from liquidating an unfavorable position and the Account would remain obligated to meet margin requirements until the position is closed.

The CFTC and the United States commodities exchanges impose limits referred to as "speculative position limits" on the maximum net long or net short speculative positions that any person may hold or control in any particular futures or options contracts traded on United States commodities exchanges. For example, the CFTC currently imposes speculative position limits on a number of agricultural commodities *(e.g.,* corn, oats, wheat, soybeans and cotton) and United States commodities exchanges currently impose speculative position limits on many other commodities. The Reform Act significantly expands the CFTC's authority to impose position limits with respect to futures contracts and options on futures contracts, swaps that are economically equivalent to futures or options on futures, and swaps that are traded on a regulated exchange and certain swaps that perform a significant price discovery function. In response to this expansion of its authority, in 2012, the CFTC proposed a series of new speculative position limits with respect to futures and options on futures on so-called "exempt commodities" (which includes most energy and metals contracts) and with respect to agricultural commodities. Those proposed speculative position limits were vacated by a United States District Court, but the CFTC has again proposed a new set of speculative position rules which are not yet finalized (or effective). If the CFTC is successful in this second try, the counterparties with which the Account deals may further limit the size or duration of positions available to the Account. All accounts owned or managed by the Investment Adviser are likely to be combined for speculative position limit purposes. The Account could be required to liquidate positions it holds in order to comply with such limits, or may not be able to fully implement trading instructions generated by its trading models, in order to comply with such limits. Any such liquidation or limited implementation could result in substantial costs to the Account.

Options Trading. When purchasing or selling an option, the risks associated with the transaction will vary depending on the type of option *(i.e.,* put or call). When purchasing an option, it is necessary to calculate the extent to which the value of the underlying security must increase (in the case of a call) or decrease (in the case of a put) in order for the Account's position to become profitable, taking into account the premium and **all** transaction costs. The purchaser of options may offset or exercise the options or allow the options to expire. The exercise of an option results either in a cash settlement or in the purchaser acquiring or delivering the underlying interest. If the option is on a future, the purchaser will acquire a futures position with associated liabilities for margin. If the purchased option expires worthless, the Account will suffer a total loss of the amount invested in the option that will consist of the option premium plus transaction costs.

Selling ("writing" or "granting") an option generally entails considerably greater risk than purchasing options. Although the premium received by the seller is fixed, the seller may sustain a loss well in excess of that amount. The seller will be liable for additional margin to maintain the position if the market moves unfavorably. The seller will also be exposed to the risk of the purchaser exercising the option, and, upon such exercise, the seller will be obligated to either settle the option in cash or to acquire or deliver the underlying interest, depending on the terms of the option. If the option is on a future, upon exercise by the purchaser of the option, the seller will acquire a position in a future with associated liabilities for margin. If the option is "covered" by the seller holding a corresponding position in the underlying interest or a future or another option, the risk may be reduced. If the option is not covered, the risk of loss can be unlimited. In the case of an option on a future, certain exchanges in some jurisdictions permit deferred payment of the option premium, exposing the purchaser to liability for margin payments not exceeding the amount of the premium. The purchaser is still subject to the risk of losing the premium and transaction costs. When the option is exercised or expires, the purchaser is responsible for any unpaid premium outstanding at that time.

Forward Contracts. Certain forward contracts may be traded on exchanges; however, forward contracts that are not traded on an exchange are traded via banks and/or dealers who act as principals in these markets. As a result of the Reform Act, the CFTC now regulates non-deliverable forwards (including deliverable forwards where the parties do not take delivery). Changes in the forward markets may entail increased costs and result in burdensome reporting requirements. There is currently no limitation on the daily price movements of forward contracts. Principals in the forward markets have no obligation to continue to make markets in the forward contracts traded. The imposition of credit controls by governmental authorities or the implementation of regulations pursuant to the Reform Act might limit such forward trading to less than that which the Investment Adviser would otherwise recommend, to the possible detriment of the Account.

Regulatory Developments Related to Commodities Trading. Trading activities may be impacted by regulatory developments related to commodities trading. For example, recent joint rulemaking by the CFTC and the SEC (required under the Reform Act) has broadened the definition of "commodities" positions to include certain types of swaps, including some foreign exchange trades, that were previously not regulated as commodities. The precise contours of the SEC and CFTC rules remain somewhat uncertain and may change in unpredictable ways over time. As of the date of this Memorandum, the General Partner is exempt from registration with the CFTC as a commodity pool operator ("CPO") pursuant to CFTC Rule 4.13(a)(3) which imposes certain quantitative limits on the size of commodities positions (including positions in swaps regulated as commodities) that the Account may take. Continued reliance on CFTC Rule 4.13(a)(3) will cause the Account to forego certain investment opportunities that might otherwise be suitable investments for the Account. In order to avoid the trading limitations imposed by CFTC Rule 4.13(a)(3), the Investment Adviser may seek to rely on other exemptions from registration that do not impose such limitations, or it may elect to register as a CPO with the CFTC. However, even if the Investment Adviser does register as a CPO, it expects that it may nevertheless be able to avoid certain disclosure, recordkeeping and reporting requirements that would otherwise apply to it (in reliance on CFTC Rule 4.7).

This SUPPLEMENTAL ACKNOWLEDGMENT (this "Supplemental Acknowledgment") to the existing Investment Management Agreement between Houston Specialty Insurance Company (the "Client") and Arena Investors, LP, a Delaware limited partnership, as investment adviser (referred to herein as the "Investment Adviser") dated January 13, 2016 (as amended and supplemented from time to time, the "IMA") is being entered into as of May 17, 2021.

The signatories below acknowledge that a new discretionary sub-account (the "Sub-Account") is being created pursuant to the IMA that will be subject to the terms, investment guidelines and fees described below. Capitalized terms not otherwise defined herein have the meanings set forth in the IMA.

I. Funding Terms

The Sub-Account will be funded through a commitment of $50 million (the "Initial Commitment") by the Client which will be funded by the Client in 5 tranches of $10 million (or such lesser amounts as determined and notified by the Investment Adviser), with each tranche to be funded upon five (5) business days' notice to the Client from the Investment Adviser.

2. Investment Guidelines

The Investment Adviser's management of the Sub-Account will be consistent with the investment guidelines set forth below.

- Asset Types: CLOs, CMBS, RMBS, Consumer ABS, FIG Corporates, and Esoteric ABS
- Investment grade only (as defined by industry accepted rating agencies)[1]
- Target position size: $1-5mm (cost at time of purchase)
- Target average duration of four years
- US dollar denominated investments only

3. Fees.

The fees for the Sub-Account shall be as set forth in the Fee Exhibit attached hereto.

4. Indemnity.

In addition to the terms set forth in the indemnification provisions set forth in Section 8 of the IMA, the parties agree that: (a) the Investment Adviser shall indemnify the Client against any liabilities, claims and expenses reasonably incurred by Client in connection with the defense or disposition of any suit in which Client is involved as a party if such suit is reasonably related to the Investment Adviser's violation of its Standard of Care; and (b) all determinations with respect to indemnification hereunder shall be made by a final decision on the merits by a court or other body before whom the proceeding was brought that the Client is liable or not liable for any acts or omissions in connection with this Agreement. All determinations to advance payment in connection with the expense of defending any proceeding shall be made in accordance with Section 8(b) of the IMA.

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[1] Credit ratings represent the rating agencies' opinions regarding the credit quality of certain instruments and are not a guarantee of future performance of such instruments. In addition, such ratings may not fully reflect the true risks of an investment in such instrument. Finally, in recent years, many highly rated instruments have been subject to substantial losses,

5. Confidentiality.

In addition to the confidentiality terms set forth in Section 10 of the IMA, the parties agree that before any disclosure of information otherwise subject to Section 10 of the IMA on the grounds that such information is required by law, the Investment Adviser, to the extent permitted under such applicable law or regulatory authority, shall so inform the Client and shall give the Client, to the greatest extent reasonably permitted and practicable, an opportunity to seek appropriate protection of such confidential information.

Termination Upon Withdrawals.

Notwithstanding the language in Section 7 of the IMA, unless the Investment Adviser determines otherwise, any withdrawal that would bring the Sub-Account balance below the lesser of (i) $25,000,000 and (ii) 20% of the net asset value of the Sub-Account Assets as of the last month end before the Withdrawal Date shall be deemed a termination of the IMA with respect to the Sub-Account.

6. Representations, Warranties and Covenants,

Each of the Client's representations, warranties and covenants will be deemed repeated and reaffirmed (including with respect to the authorization of the Custodian by the Client to pay the Management Fees and Performance Fes directly to the Investment Adviser) as of the date this Supplemental Acknowledgement is executed.

IN WITNESS WHEREOF, the parties hereto have caused the foregoing Supplemental Acknowledgment to be executed as of the date first stated above.

HOUSTON SPECIALTY INSURANCE COMPANY

By: /s/Mark W. Haushill
Name: Mark. W. Haushill
Title:

ARENA INVESTORS, LP

By: /s/Lawrence Cutler
Name: Lawrence Cutler
Title: Authorized Signatory

FEE EXHIBIT FOR INITIAL COMMITMENT

I. **Management Fee.**

A monthly management fee of [***]% ([***]% per annum) of the net asset value of the Sub-Account attributable to the Initial Commitment shall be payable to the Investment Adviser on the first day of each month as discussed in Exhibit A (the "Management Fee").

II. **Performance Fee.**

Further for its services hereunder, the Investment Adviser will calculate in respect of amounts attributable to the Initial Commitment as of (A) the end of each Fiscal Year *(i.e.*, December 31st) and (B) each Withdrawal Date, solely with respect to the amounts then withdrawn, [***]% (the "Performance Fee") of any excess as of such date of the Closing Sub-Account Balance, *over* (x) the Opening Sub-Account Balance (including for both the Opening and Closing Sub-Account Balances the balance attributable to any Set Aside Portions) as of the beginning of the current Fiscal Year (or, the Effective Date, as applicable); *provided,* however, that the Performance Fee shall not be paid unless the Sub-Account has earned the Hurdle from the date of the last payment of a Performance Fee (or for the first payment date from the Effective Date of the Sub-Account), it being the intention that if the Sub-Account has earned the Hurdle the Investment Adviser shall accrue a full Performance Fee on all of the net profits of the Sub-Account.[2] If the Hurdle has not been met for any Fiscal Period, no Performance Fee shall be paid for that Fiscal Period and entitlement to a Performance Fee shall be subject to meeting the Hurdle from the date a prior Performance Fee was paid or for the first payment date from the Effective Date of the Sub-Account. For these purposes:

"Closing Sub-Account Balance" means (i) for any Fiscal Period ending on December 31st or upon the date of termination of the Agreement, the Sub-Account balance as of the last business day of such Fiscal Period (as adjusted for any contributions or withdrawals during such period) or (ii) for any Fiscal Period ending as of a Withdrawal Date, the Sub-Account balance attributable to the amount of such withdrawal as of such Withdrawal Date.

"Fiscal Period" means the period beginning on the first business day of each calendar year (or the Effective Date for the first Fiscal Period) and ending on the earlier of the last business day of such calendar year (or the date of termination for the last Fiscal Period of the Sub-Account) and each Withdrawal Date.

"Hurdle" means a [***]% per annum increase in the actual Sub-Account value on any Fiscal Period end date above the net asset value as of the immediately preceding Fiscal Period end as to which a Performance Fee was paid (or for the first payment date from the Effective Date of the Sub-Account), as adjusted in good faith to eliminate the effect of additions to and withdrawals from the Sub-Account. Upon any withdrawal request from the Sub-Account, the Hurdle will be reduced pro rata based on the percentage of the Sub-Account sought to be withdrawn.

"Opening Sub-Account Balance" means (i) for any Fiscal Period beginning as of the Effective Date or the first business day of any calendar year, the Sub-Account balance as of such beginning date or (ii) for any Fiscal Period measured in connection with a withdrawal, the portion of the Sub-Account balance as of such beginning date attributable to the amount of such withdrawal.

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[2] Note that this does not include new capital contributions, as clarified in the definition of Closing Sub-Account Balance.

This SUPPLEMENTAL ACKNOWLEDGMENT B (this "Supplemental Acknowledgment") to the existing Investment Management Agreement between Houston Specialty Insurance Company (the "Client") and Arena Investors, LP, a Delaware limited partnership, as investment adviser (referred to herein as the "Investment Adviser") dated January 13, 2016 (as amended and supplemented from time to time, the "IMA") is being entered into as of May 17, 2021.

The signatories below acknowledge that a new discretionary sub-account (the "Sub-Account") is being created pursuant to the IMA and a Supplemental Acknowledgement thereof as of the date of this Supplemental Acknowledgment that will be subject to the terms, investment guidelines and fees described in such Supplemental Acknowledgment. Capitalized terms not otherwise defined herein have the meanings set forth in the IMA.

1. Expenses.

The expenses for the Sub-Account shall be as set forth in the Expenses Exhibit attached hereto.

2. Conflicts & Risk Factors.

The conflicts and risk factors set forth in the IMA shall be supplemented by the additional conflicts and risk factors set forth in the Conflicts & Risk Factors Exhibit attached hereto

IN WITNESS WHEREOF, the parties hereto have caused the foregoing Supplemental Acknowledgment to be executed as of the date first stated above.

HOUSTON SPECIALTY INSURANCE COMPANY

By: /s/Mark W. Haushill
Name: Mark. W. Haushill
Title:

ARENA INVESTORS, LP

By: /s/Lawrence Cutler
Name: Lawrence Cutler
Title: Authorized Signatory

EXPENSES EXHIBIT

The Client shall bear all of its own operating and investment expenses including, but not limited to: the fees as set forth on the Fee Exhibit attached hereto; the Sub-Account will pay or reimburse any Arena Party for all reasonable costs, fees and third-party expenses incurred on behalf of the Sub-Account, including, but not limited to, brokerage commissions; clearing and settlement charges; custodial fees; bank service fees; administration expenses; valuation and appraisal expenses; interest expenses; professional and other fees and costs relating to the investigation, development, acquisition, consummation, ownership, maintenance, monitoring, hedging or disposition of investment opportunities, whether or not consummated (including expenses of attorneys, consultants and experts, private and commercial travel and investment software); costs of trade breaks; costs of trade errors to the extent consistent with the Investment Adviser's Trade Error Policy; risk management expenses; insurance (including general liability, directors and officers, errors or omissions and any cybersecurity insurance in respect of the Investment Adviser and related sub-advisors); Management Fees; expenses related to or in connection with any governmental inquiry, investigation or proceeding involving the Sub-Account, including the amounts of any judgments, settlements or fines paid in connection therewith; accounting and operations expenses (including the cost of accounting software packages and relevant non-accounting software); extraordinary expenses (including, unless otherwise stated herein, litigation, indemnification and contribution expenses) related to activities performed pursuant to this Agreement; expenses associated with investor reports; fees and expenses of unaffiliated servicers of specific assets owned by the Sub-Account; costs of research, information systems, software and hardware; costs of participations and other forms of compensation provided to deal finders; fees, costs and expenses (including salaries) of third-party persons engaged to provide middle- and back-office services to the Investment Adviser in respect of the Sub-Account and its activities; and costs and expenses associated with the preparation and distribution of periodic reports to the Client. To the extent such costs, fees or expenses are incurred for the benefit of both the Sub-Account and other entities managed by the Investment Adviser or its affiliates, the Investment Adviser shall make a good faith allocation of such costs, fees or expenses among the Sub-Account, and such entities.

CONFLICTS & RISK FACTORS EXHIBIT

Capital Structure Conflicts. The Investment Adviser anticipates that it may make an investment in respect of the Sub-Account in a company in which another Arena client holds an investment in a different class of such company's debt or equity. In such circumstances, the Investment Adviser may have conflicting loyalties between its duties to the Sub-Account and such other Arena client. Generally speaking, Arena expects that the Sub-Account will make investments that potentially conflict with the interest of another Arena client only when, at the time of investment by the Sub-Account, the Investment Adviser believes that (a) such investment is in the best interests of the Sub-Account and (b)(i) the possibility of actual adversity between the Sub-Account and the other Arena client is remote, (ii) either the potential investment by the Sub-Account or the investment of such other Arena client is not large enough to control any actions taken by the collective holders of securities of such company or asset, or (iii) in light of the particular circumstances, the Investment Adviser believes such investment is appropriate notwithstanding the potential for conflict. In those circumstances where the Sub-Account and another Arena client hold investments in different classes of a company's debt or equity, the Investment Adviser may also, to the fullest extent permitted by applicable law, take steps to reduce the potential for adversity between the Sub-Account and such other Arena client, including causing the Sub-Account to take certain actions that, in the absence of such conflict, it would not take, such as (A) remaining passive in a restructuring or similar situations (including electing not to vote or voting pro rata with other security holders), (B) investing in the same or similar classes of securities as the other Arena Sub-Account in order to align their interests, (C) divesting investments or (D) otherwise taking an action designed to reduce adversity. Any such step could have the effect of benefiting another Arena client (or the Investment Adviser) and therefore may not have been in the best interests of, and may have been adverse to, the Sub-Account. A similar standard generally will apply if another Arena client makes an investment in a company or asset in which the Sub-Account holds an investment in a different class of such company's debt or equity securities or assets.

Valuation Risks. It is anticipated that a substantial portion of the Client's portfolio will consist of illiquid and difficult to value instruments. The Investment Adviser will be responsible for valuing instruments based on available information. The Investment Adviser shall determine the value of such instruments in good faith, in accordance with the Investment Adviser's pricing policy, which may be amended from time to time, copies of which shall be made available to the Client upon its reasonable request at any time. Because both the Management Fee and Performance Fee calculations derive from the valuation of the Sub-Account Assets, the Investment Adviser faces a conflict in valuing the Client's Sub-Account. The Investment Adviser will seek to mitigate this conflict by relying on third party sources for valuation whenever such third party sources are reasonably available.

Engagement of Advisors and Service Providers. Conflicts may arise in connection with the engagement of advisors and other service providers. Certain advisors and other service providers, or their affiliates (including accountants, administrators, lenders, bankers, brokers, attorneys, consultants, investment or commercial banking firms and certain other advisors and agents), to the Sub-Account may also provide goods or services to or have business, personal, financial or other relationships with the Investment Adviser or its affiliates and/or other Arena clients. Such advisors and service providers may be investors in other accounts, sources of investment opportunities or co-investors or counterparties therewith. These relationships may influence the Investment Adviser in deciding whether to select or recommend such a service provider to perform services for the Sub-Account (the cost of which will generally be borne directly or indirectly by the Sub-Account). In certain circumstances, advisors and service providers, or their affiliates, may charge different rates or have different arrangements for services provided to the Investment Adviser or its affiliates or other Arena clients as compared to services provided in respect of the Sub-Account, which may result in more favorable rates or arrangements than those payable by the Sub-Account.

Notwithstanding the foregoing, investment transactions for the Sub-Account that require the use of a service provider will generally be allocated to service providers on the basis of the Investment Adviser's judgment as to best execution. In addition, the Investment Adviser or its affiliates may from time to time enter into business arrangements with service providers to operating companies whereby the Investment Adviser or its affiliates will recommend the service provider to operating companies held by one or more Arena clients in circumstances deemed appropriate by the Investment Adviser or its affiliates, and the service provider will agree to provide services to all such operating companies at a discounted rate. Such arrangements present a conflict of interest given the potential recommendation of a service provider that is providing other operating companies (in some cases, owned by other Arena clients and/or the Investment Adviser) with services (at a discounted rate or otherwise).

Service Providers. In certain circumstances, the Investment Adviser and/or its affiliates may retain third-party consultants on a full-time or part-time basis primarily to provide manufacturing, sales, marketing, pricing, technology, human resources, acquisition integration/rationalization and/or other operations services or similar services in respect of the Sub-Account, any alternative investment vehicle or any Investment or prospective Investment of the Sub-Account or any alternative investment vehicle. In such circumstances, the Sub-Account may bear compensation and expenses of such consultants calculated as fixed fees and/or performance-based fees and allocations with respect to Investments, whether in the form of cash, options, warrants, stock, incentive equity, other stock awards or otherwise. The Sub-Account's portion of any such compensation payments and expenses will not be deemed transaction fees and will not otherwise reduce the Management Fee. In addition, over the life of the Sub-Account, the Investment Adviser generally expects to exercise its discretion to recommend to the Sub-Account or to an Investment thereof that it contracts for services with various service providers, potentially including, among others, a current or prospective investors in Arena clients or its affiliates. This subjects the Investment Adviser to potential conflicts of interest, because although it intends to select service providers that it believes are aligned with its operational strategies and that will enhance Investment performance, the Investment Adviser may have an incentive to recommend the related or other person or entity because of its financial or business interest.

Conflicts may arise whereby the Investment Adviser may be incentivized to favor the Investment Adviser's or its affiliates' consultants or current or prospective investors to provide such services over more qualified service providers. There is a possibility that the Investment Adviser, because of such incentive or for other reasons (including whether the use of such persons or entities could establish, recognize, strengthen or cultivate relationships that have the potential to provide longer-term benefits to the Investment Adviser, the Sub-Account or other Arena clients), may favor such retention or continuation even if a better price and/or qualify of service provider could be obtained from another person or entity. In addition, the Investment Adviser may have a conflict of interest in determining the costs of such services that will be charged to the Sub-Account. Whether or not the Investment Adviser has a relationship with or receives financial or other benefit from recommending a particular service provider, there can be no assurance that no other service provider is more qualified to provide the applicable services or could provide such services at lesser cost.

Middle- and Back-Office Support Services. The Investment Adviser may engage third-party services providers to provide middle- and back-office support services to the Investment Adviser in respect of the Sub-Account's and other Arena client's activities. Persons provided by such third-party service may spend a substantial amount of their time dedicated to the Investment Adviser as if they were employees of the Investment Adviser. The Sub-Account will bear its allocable share of the salaries, fees and expenses of any such persons.

Epidemics, Pandemics, Outbreaks of Disease and Public Health Issues. The Investment Adviser's business activities as well as the activities in respect of the Sub-Account and its operations and investments could be materially adversely affected by outbreaks of disease, epidemics and public health issues in Asia, Europe, North America, the Middle East and/or globally, such as COVID-19 (and other novel coronaviruses), Ebola, H1N1 flu, H7N9 flu, H5N1 flu, Severe Acute Respiratory Syndrome, or SARS, or other epidemics, pandemics, outbreaks of disease or public health issues. In particular, coronavirus, or COVID-19, has spread and is currently spreading rapidly around the world since its initial emergence in December 2019 and has negatively affected (and may continue to negative affect or materially impact) the global economy, global equity markets and supply chains (including as a result of quarantines and other government-directed or mandated measures or actions to stop the spread of outbreaks). Although the long-term effects of coronavirus, or COVID-19 (and the actions and measures taken by governments around the world to halt the spread of such virus), cannot currently be predicted, previous occurrences of other epidemics, pandemics and outbreaks of disease, such as HSNI, H1N1 and the Spanish flu, had material adverse effects on the economies, equity markets and operations of those countries and jurisdictions in which they were most prevalent. A recurrence of an outbreak of any kind of epidemic, communicable disease, virus or major public health issue could cause a slowdown in the levels of economic activity generally (or push the world or local economies into recession), which would be reasonably likely to adversely affect the business, financial condition and operations of the Investment Adviser and the Sub-Account. Should these or other major public health issues, including pandemics, arise or spread farther (or continue to worsen), the Investment Adviser and the Sub-Account could be adversely affected by more stringent travel restrictions (such as mandatory quarantines and social distancing), additional limitations on the Investment Adviser's (or the Sub-Account's) operations and business activities and governmental actions limiting the movement of people and goods between regions and other activities or operations.

Execution Version

AMENDMENT AGREEMENT TO

THE INVESTMENT MANAGEMENT AGREEMENT

THIS AMENDMENT AGREEMENT TO THE INVESTMENT MANAGEMENT AGREEMENT (the "**Amendment Agreement**") is entered into this March 23, 2022 with an effective date as of March 15, 2022, between Houston Specialty Insurance Company, Imperium Insurance Company and Great Midwest Insurance Company (collectively the "**Client**") and Arena Investors, LP, a Delaware limited partnership, as investment manager (the "**Investment Adviser**"). The Client and the Investment Adviser are sometimes each individually referred to as a "**Party**" and collectively as the "**Parties**". Any terms used but not defined herein have the meanings assigned to them in the IMA (as defined below).

Witnesseth

WHEREAS, the Investment Adviser and the Client are parties to that certain Investment Management Agreement dated January 13, 2016 (the "**IMA**"), pursuant to which the Investment Adviser provides certain services to the Client in respect of the Client's investment sub-accounts (collectively, the "**Account**").

WHEREAS, the Parties now wish to enter into this Amendment Agreement in order to document certain disclosures made to the Client by the Investment Adviser with respect to the Account.

NOW, THEREFORE, in consideration of the mutual promises contained herein, and for other good and valuable consideration, the receipt, adequacy and legal sufficiency of which are hereby acknowledged, and intending to be legally bound hereby, the Parties agree the IMA is hereby amended as follows:

1. AMENDMENTS

1.1 An Annex A titled "CERTAIN DISCLOSURES" shall be inserted at the end of the IMA to read as provided in Annex attached hereto.

1.2 The Client has carefully reviewed, understands and agrees to the disclosures listed on Annex A.

2. ABSENCE OF ADDITIONAL AMENDMENTS

Unless otherwise agreed in this Amendment Agreement, the terms of the IMA shall remain in full force and effect unless such terms are incompatible with the amendments set forth in Section 1 of this Amendment Agreement, in which case, such terms shall apply with the minimum modifications necessary to make them valid and enforceable.

3. REPRESENTATION AND WARRANTIES

3.1 Each Party hereby reiterates and confirms the original representations and warranties given in the IMA.

3.2 Without prejudice to Section 3.1 above, each Party represents and warrants that:

3.2.1 it has full power to execute this Amendment Agreement and to fulfil the obligations arising thereunder; and

3.2.2 it took all the necessary steps to authorize the execution and performance of its obligations under this Amendment Agreement.

4. GOVERNING LAW; ARBITRATION

Notwithstanding the place where this Amendment Agreement may be executed by any of the parties hereto, the parties expressly agree that this Amendment Agreement, and all terms and provisions hereof, shall be governed by and construed in accordance with the laws of the State of Delaware (without conflicts of laws principles). Any dispute, controversy or claim arising out of or in connection with or relating to this Amendment Agreement or any breach or alleged breach hereof shall be submitted to, and determined and settled by, arbitration in New York, New York, pursuant to the Comprehensive Arbitration Rules of the Judicial Arbitration and Mediation Services, and judgment upon any such arbitral award rendered may be entered in any court having jurisdiction thereof.

5. COUNTERPARTS

This Amendment Agreement may be executed in any number of identical counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same agreement as if the signatures to each counterpart were upon a single instrument. This Amendment Agreement shall become effective when counterparts have been signed by each party and delivered to the other parties; provided that a facsimile signature shall be considered due execution and shall be binding upon the signatory thereto with the same force and effect as if the signature were an original and not a facsimile signature.

6. JURY TRIAL WAIVER.

EACH OF THE PARTIES TO THIS AMENDMENT AGREEMENT HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW OR IN EQUITY, ALL OF ITS RIGHTS TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING, OR COUNTERCLAIM DIRECTLY OR INDIRECTLY ARISING OUT OF THIS AMENDMENT AGREEMENT, ANY GOVERNING DOCUMENT, THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY, OR ANY ACTIONS OR OMISSIONS IN CONNECTION HEREWITH OR THEREWITH. EACH PARTY (I) CERTIFIES THAT NO REPRESENTATIVE, AGENT, OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER, AND (II) ACKNOWLEDGES THAT IT AND THE OTHER PARTY HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AMENDMENT AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

IN WITNESS WHEREOF, the parties hereto have caused the foregoing instrument to be executed as of the date first stated above.

GREAT MIDWEST INSURANCE COMPANY

By: /s/Kevin Westervelt
Name: Kevin Westervelt
Title: Authorized Signatory

HOUSTON SPECIALTY INSURANCE COMPANY

By: /s/Kevin Westervelt
Name: Kevin Westervelt
Title: Authorized Signatory

IMPERIUM INSURANCE COMPANY

By: /s/Kevin Westervelt
Name: Kevin Westervelt
Title: Authorized Signatory

ARENA INVESTORS, LP

By: /s/Lawrence Cutler
Name: Lawrence Cutler
Title: Authorized Signatory

ANNEX A

CERTAIN DISCLOSURES

1. Certain Asset Servicing Expenses

Because many of the assets that the Account expects to acquire require the direct and continuous supervision of asset servicing personnel, the Investment Adviser, on behalf of the Account, will contract with its affiliate, Quaestor Advisors, LLC ("**Quaestor**" and together with Arena Fortify Management LLC, and any other company ultimately owned by AMC (as defined below) established for the purpose of providing similar services to assets from a specific industry or geographic profile, the "**Affiliated Asset Service Providers**") for the day-to-day asset servicing, including loan servicing and other ancillary services, required to maintain the types of illiquid assets in the Account's portfolio.

In addition, certain other support functions are performed by personnel or other entities in the Arena Group, the fees of which are paid by the Account and are not included in the Asset Servicing Expense discussed below. Each Affiliated Asset Service Provider is currently staffed primarily by individuals who are also employees of the Arena Group to service a broad array of illiquid assets on behalf of the Account and other persons. Given the Affiliated Asset Service Providers' affiliation with the Investment Adviser and that personnel are providing services on behalf of the Affiliated Asset Service Providers are employed by other entities in the Arena Group, the Investment Adviser faces a conflict in determining whether to engage any of the Affiliated Asset Service Providers and monitoring the quality of their services.

In light of the unique nature of a large portion of the Account's assets and the efforts required to service them, it is not possible to estimate servicing costs precisely. However, these services are estimated to cost Quaestor an annual amount per asset type set forth in the table below. Rather than charging an amount per asset type, Quaestor will limit the charge to the Account to an amount equal to [***] basis points ([***]%) per annum (the "**Asset Servicing Expense**") of the fair value, as determined by the Investment Adviser's valuation committee, of that portion of Account's illiquid assets. For the avoidance of doubt, asset servicing functions may be performed by personnel within back office functions including, for example, operations, accounting, finance and compliance. The Investment Adviser estimates that this will result in an aggregate annual Asset Servicing Expense in a typical year that is lower than the fees charged for asset servicing if an amount per asset type were charged to the Account based on the rates below. However, depending on the mix of asset types in the portfolio at any given time the fee could be higher or lower than an aggregated fee based on the rates below:

Asset Type	Annual Rate
ABS/CDO/RMBS/CMBS/ Other Securitized Bonds	[***]%
Commercial/Corporate-Performing Loans/Convertibles	[***]%
Real Estate - Performing Loans	[***]%
Private Structured Transactions	[***]%
Commercial/Corporate Non-Performing Distressed Loans	[***]%
Real Estate - Non-performing Distressed Loans/REO	[***]%
Other Assets (Tangible)	[***]%

From time to time the Investment Adviser will review the Asset Servicing Expense in consideration of the services provided in order to validate its belief that the Asset Servicing Expense is comparable than the fees that would be charged for the same services if obtained from a third party. In evaluating the Asset Servicing Expense, the Investment Adviser will consider the costs being charged for similar services by non-affiliated service providers. However, relevant comparisons may not be available for a number of reasons, including, without limitation, because there are a limited number of providers or users of such services or because of the confidential and/or bespoke nature of such services. For these reasons, market comparisons may not yield market terms for comparable services. In addition to acquiring market data, the Investment Adviser may decide from time to time to obtain benchmarking data. However, benchmarking data is based on general market overviews, rather than determined on an asset-by-asset basis. As a result, benchmarking data does not take into account the specific characteristics of individual assets (such as location or size, and to some degree, the specialty nature of an asset). Benchmarking studies are expensive and will be borne by the Account and/or any other Arena client utilizing such benchmarking study, and will not offset the Management Fee.

In addition to the day-to-day asset management services, the Affiliated Asset Service Providers will provide due diligence, acquisition and disposition services to the Account for the types of assets listed above.

The Asset Servicing Expense and the charges described above are in addition to, and will not offset, the Management Fee or any other fees; they are used to cover Affiliated Asset Service Providers' expense of engaging additional personnel and incurring additional overhead costs to manage the illiquid assets in the Account's portfolio, in lieu of hiring an unaffiliated third-party loan servicer.

The Affiliated Asset Service Providers will not manage or receive payments in respect of the Account's portfolio of liquid assets (i.e., Level I assets for GAAP purposes), for which the costs of managing will be covered by the Management Fee.

Arena and certain of its principals will benefit from each the Affiliated Asset Service Provider's relationship and its receipt of fees from the Account. Such fees and relationship enhance the value of each Affiliated Asset Service Provider as a full service asset servicing firm, and the Account will not participate in any increase in value, tangible or intangible, of such Affiliated Asset Service Provider. Conflicts may arise in determining whether the Affiliated Asset Service Providers have performed their obligations to the Account and/or whether the Affiliated Asset Service Providers are entitled to be indemnified pursuant to the provisions contained in any agreement between the Affiliated Asset Service Providers and the Account. The managers, officers, and employees of the Affiliated Asset Service Providers will devote such time as it determines in its sole discretion to be necessary to perform its obligations under its agreement with the Account. It is expected that such individuals will also perform services for other Arena clients and conflicts of interest may arise in allocating management time, services or functions among the Account and such other Arena clients.

2. Other Costs of Service Providers and Consultants

It is anticipated that the Account will bear additional expenses and charges related to certain types of assets in respect of the Account, including the expenses of Quaestor Strategic Advisors LLC ("**Quaestor Strategic Advisors**") and other charges. For example, loans, such as term loans and revolvers, originated by Arena affiliates, clients (including the Account) and their respective portfolio investments are anticipated to involve the engagement of Arena affiliates (including Quaestor Strategic Advisors and sourcers owned in whole or in part by Arena Management Company ("**AMC**") or other Arena funds) as a service provider. In addition, Arena Fortify Management LLC and other affiliates, subsidiaries, and successors of AMC or Quaestor Strategic Advisors, as applicable, will provide expertise and services to portfolio companies involved in specific sectors or geographic regions.

In addition, the Account will have the right to contract with other affiliates of the Investment Adviser for asset management, loan servicing, special servicing due diligence and ancillary services. In such an instance, such affiliate would receive fees from the Account for such services from the Account, which gives rise to a conflict associated with the pricing of such services.

3. Quaestor Strategic Advisors; Special Expenses

Quaestor Strategic Advisors consists of U.S. and non-U.S. entities utilized by affiliates of Arena (collectively with any subsidiary or successor entities thereto, and any similar entities established for the purpose of conducting similar activities for specified groupings of companies that come under the control of AMC, such as Arena Fortify Management LLC (the "**Quaestor Entities**" and together with any other company ultimately owned by AMC established for the purpose of providing similar services to assets from a specific industry or geographic profile, "**Affiliated Asset Service Entities**"). The Affiliated Asset Service Entities, in exchange for the Special Expenses, facilitate strategic arrangements with, or engagements (including on an independent contractor or employment basis) of, any persons that the Investment Adviser determines in good faith to be industry executives, advisors, consultants, operating executives, subject matter experts or other persons acting in a similar capacity, to provide consulting, sourcing or other services to the Account, issuers of investments (including with respect to potential portfolio investments of the Account) and other Arena clients and their investments and expects to provide such services to clients not managed by the Investment Adviser in the future. The foregoing individuals are distinct from Arena's personnel who provide services on behalf of the Investment Adviser; however, from time to time some personnel or consultants who are Arena employees may become employees or consultants of the Affiliated Asset Service Entities if the Investment Adviser determines that such personnel have the specific skills, talents or other qualities to perform certain services. No lapse in service or time period is required in order for the Affiliated Asset Service Entities to retain the services of such personnel and to commence billing the Account for the Special Expenses.

In connection with such services, the Affiliated Asset Service Entities may receive Special Expenses. Special Expenses will be retained by, and be for the benefit of, the Affiliated Asset Service Entities and will not offset the Management Fee. The Affiliated Asset Service Entities may hire a person to perform work for the Account and other funds advised by the Investment Adviser or for one or more investments in the Account. In such event the expenses paid for such person will be shared by the Account and such other Arena accounts in a manner that the Investment Adviser believes is fair and equitable. Such expenses include, but are not limited to, employee costs, consulting, legal expenses, software expenses and insurance.

To the extent that for legal, tax, regulatory or similar reasons it is necessary or desirable that the foregoing activities be conducted by, through or with one or more affiliates of the Investment Adviser or other persons other than the Affiliated Asset Service Entities, such activities will be treated for purposes of this definition as if they were conducted by the Affiliated Asset Service Entities.

"**Special Expenses**" means salary, fees, expenses or other compensation of any nature, including performance-based bonuses, paid by the Account or an issuer of an investment to the Affiliated Asset Service Entities (and a share of the Cost related to such entity) or any of their employees who acts as an officer of, or in an active management role at, or in respect of, such issuer (including industry executives, advisors, consultants (including operating consultants and sourcing consultants), operating executives, subject matter experts or other persons acting in a similar capacity engaged or employed by an applicable Affiliated Asset Service Entity, but excluding investment professionals providing services on behalf of the Investment Adviser that are engaged primarily in the investment activities of the Account. The Affiliated Asset Service Entities may be engaged by and receive reimbursement for Special Expenses from the Account with respect to a potential or actual portfolio investment or be engaged directly by a portfolio company and receive reimbursement for Special Expenses from the portfolio company. Neither reimbursement by the Account or by the issuer of an investment shall be the exclusive means of reimbursement of Special Expenses by the Affiliated Asset Service Entities with respect to any services provided by or expenses incurred by the Affiliated Asset Service Entities.

"**Cost**" means overhead costs including office leases and related expenses (such as rent, utilities and other related expenses), information technology and related support (such as applications, licenses, data/cybersecurity software and services and other related expenses), legal, regulatory compliance, human resources, accounting and internal audit, insurance, and other operating costs (e.g., travel, employee activities, working meals and supplies). For the avoidance of doubt, "Cost" will typically increase on a per client basis if fewer clients of the Investment Adviser utilize the applicable Affiliated Asset Service Entity or other affiliated service provider as the costs are spread among fewer additional persons.

4. Ongoing Account Expenses

For the avoidance of doubt, costs related to services provided to the Account by certain personnel of the Investment Adviser or its affiliates will be charged to the Account where such activities are outside of the services expected to be provided under the IMA. Such services are generally of a type that the Investment Adviser would otherwise hire a third party.

The Account will bear the expense for retaining additional personnel who will source investments on behalf of the Account and report to the applicable personnel employed by the Investment Adviser with respect to such investment origination. Such amounts will be in addition to the Management Fee.

5. Diversification Target

For the avoidance of doubt, the Investment Adviser may, in its sole discretion, determine that for the purposes of the limit on investments in any single issuer, investments will not be combined with other investments (even if investing in multiple developments within a geographic region with a single joint venture partner). Any deviation from this limit will be reported to the Client in the next quarterly reports.

6. Leverage

Leverage for the Account is expected in some cases to be obtained on a joint and several or cross-collateralized basis with other Arena accounts and affiliates. The Account intends to enter into credit facilities on a joint and several or cross-collateralized basis with other Arena accounts and certain affiliates. Such credit facilities may include implementing leverage for investments that will be purchased by or contributed to a special purpose vehicle ("**SPV**") for the purpose of co-investment in certain assets with other Arena accounts and which may further involve the sale of a portion of loans originated by such SPVs to other Arena accounts (directly or indirectly through another SPV structure that is co-owned by the Account and other Arena accounts) including other entities that are wholly-owned by the Investment Advisor or its parent. If there were a failure by one or more of the other borrowers in a cross-collateralized facility, the Account could be responsible for the repayment of any such defaulted portion, even if the loan proceeds were not extended to the Account but to another borrower included in the facility. In addition, in respect of any investment purchased with borrowed funds, the relevant lender may obtain certain restrictive or other consent rights in relation to such investment upon a default of a coborrower or the Account. Such rights may hinder the ability of the other co-borrowers, including the Account, to sell, amend or otherwise deal in the relevant asset.

7. New Ventures

In furtherance of the Account's investment strategy, the Investment Adviser may form, fund, and invest in, new going-concerns or other new businesses or business lines (individually, a "**New Venture Party"** and collectively, the "**New Venture Parties**"), and then cause such New Venture Parties to commence business operations, whether alone, or together with the Account and/or one or more other Arena accounts.

Such lines of business will be newly formed entities with no operating history or track record upon which to evaluate the New Venture Party's performance. Investing in new ventures is inherently riskier that investing in existing going-concerns. New ventures generally have less predictable operating results, could from time to time be parties to litigation, are often engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, could require a large amount of time and attention from the Investment Adviser, could require substantial additional capital to support their operations, finance expansion or maintain their competitive position, and if such new ventures have difficulty accessing the capital markets to meet future capital needs, will limit their ability to grow. In addition, the success of new ventures depends in large part on the management talents and efforts of a small group of persons and their ability to work together. In the case of the New Venture Parties, the persons, some of whom are performing critical functions, will not necessarily know each other and have no experience working together, which enhances the risk profile of the New Venture Parties. In addition, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on these ventures' ability to meet their obligations."

In addition, Arena could in the future develop new businesses, such as providing investment banking, advisory and other services to corporations, financial sponsors, management or other persons. Such services could relate to transactions that could give rise to investment opportunities that are suitable for the Account. In such case, Arena's client would typically require it to act exclusively on its behalf, thereby precluding the Account from participating in such investment opportunities. Arena would not be obligated to decline any such engagements in order to make an investment opportunity available to the Account. In addition, it is possible Arena or its affiliates will come into the possession of information through these new businesses that limits the Account's ability to engage in potential transactions.

8. Custody Rule

The Account will bear the Investment Adviser's expenses for complying with the custody rule under the Advisers Act. The Investment Adviser will determine how to comply with the custody rule in its sole discretion and charge such amounts to the Account. Such amounts will be in addition to the Management Fee.

9. Affiliated Broker-Dealer

The Investment Adviser is an affiliate of Arena Financial Services, LLC ("**AFS**"), which is registered as a broker-dealer in the U.S. with the SEC and FINRA and may become an affiliate of or establish other broker-dealers in the future. Such broker-dealers (including their respective related lending vehicles) could manage or otherwise participate in underwriting syndicates and/or selling groups with respect to portfolio companies of the Account or otherwise be involved in the private placement of debt or equity securities or instruments issued by the Account's portfolio companies and non-controlling entities in or through which the Account invests (including by placing securities issued by such portfolio companies with co-investors) or otherwise in arranging or providing financing for portfolio companies alone or with other lenders, which could include the Account and other Arena clients. As a consequence, such affiliated broker-dealers could hold positions in instruments and securities issued by the Account's portfolio companies and engage in transactions that could also be appropriate investments for the Account. Such broker-dealers will generally (subject to applicable law) receive underwriting fees, placement commissions, financing fees, interest payments or other compensation with respect to such activities, which are not required to be shared with the Account. Where an affiliated broker-dealer serves as underwriter with respect to a portfolio company's securities, the Account will generally be subject to a "lock-up" period following the offering under applicable regulations or agreements during which time its ability to sell any securities that it continues to hold is restricted. This could prejudice the Account's ability to sell of such securities at an opportune time.

In addition, in circumstances where a portfolio company becomes distressed and the participants in an offering undertaken by such portfolio company have a valid claim against the underwriter, the Account would have a conflict in determining whether to sue its affiliated broker-dealer. In circumstances where a non-affiliate broker-dealer has underwritten an offering, the issuer of which becomes distressed, the Account will also have a conflict in determining whether to bring a claim on the basis of concerns regarding Arena's relationship with the broker-dealer.

10. Certain Additional Risk Factors

Market Disruptions; Governmental Intervention; Dodd-Frank Wall Street Reform and Consumer Protection Act. The global financial markets have in the past gone through pervasive and fundamental disruptions that have led to extensive and unprecedented governmental intervention. Such intervention has in certain cases been implemented on an "emergency" basis, suddenly and substantially eliminating market participants' ability to continue to implement certain strategies or manage the risk of their outstanding positions. In addition — as one would expect given the complexities of the financial markets and the limited time frame within which governments have felt compelled to take action — these interventions have typically been unclear in scope and application, resulting in confusion and uncertainty which in itself has been materially detrimental to the efficient functioning of the markets as well as previously successful investment strategies.

The Account may incur major losses in the event of disrupted markets and other extraordinary events in which historical pricing relationships become materially distorted. The risk of loss from pricing distortions is compounded by the fact that in disrupted markets many positions become illiquid, making it difficult or impossible to close out positions against which the markets are moving. The financing available to the Account from its banks, dealers and other counterparties is typically reduced in disrupted markets. Such a reduction may result in substantial losses to the Account. Market disruptions may from time to time cause dramatic losses for the Account, and such events can result in otherwise historically low-risk strategies performing with unprecedented volatility and risk.

In the United States, the Dodd-Frank Act was signed into law in July 2010. The Dodd-Frank Act established rigorous oversight standards to protect the U.S. economy and American consumers, investors and businesses. The Dodd-Frank Act and related CFTC and SEC rulemakings require additional regulation of fund and derivative managers, including requirements for such managers to register as investment advisers under the Advisers Act, and disclose certain information to regulators about their funds, investors, positions, counterparties, and exposures. The Dodd-Frank Act is in the process of being implemented based on the adoption of various regulations and reports being promulgated by various authorities over a period of time. While certain significant rules have gone into effect, the regulators are currently in the process of proposing and promulgating additional regulations, and it is unknown in what form, when, and in what order all of the regulations may be implemented or the impact any such implemented regulations will have on Arena and the Account.

Regulatory Risks Associated with Investment Level Leverage. The Account may implement collateralized loan obligations ("**CLOs**") in order to secure leverage. The applicable risk retention rules require a sponsor or a "majority-owned affiliate" thereof of a securitization transaction, such as a CLO (in the case of U.S. Risk Retention Rules) or certain other eligible entities (in the case of EU/UK Risk Retention Rules), to retain at least 5% of the economic interest in the credit risk of the securitized assets (the "**Retention Interests**").

Under the U.S. Risk Retention Rules, a "majority-owned affiliate" of a sponsor may hold Retention Interests. For purposes of satisfying obligations under the U.S. Risk Retention Rules, Arena, as asset manager (a "**CLO Manager**") of any CLO implemented by the Account, expects to retain, as sponsor, or to cause one of its "majority-owned affiliates" to retain, Retention Interests in each such CLO. There has been limited guidance regarding how entities may be structured for this purpose, and therefore the regulatory environment in which any such CLOs would operate is uncertain. There can be no assurance that applicable governmental authorities will agree that any of the transactions, structures or arrangements entered into by Arena, and the manner in which it expects to hold Retention Interests, will satisfy the U.S. Risk Retention Rules. If such transactions, structures or arrangements are determined not to comply with the U.S. Risk Retention Rules, Arena and the Account could become subject to regulatory action. The impact of the U.S. Risk Retention Rules on the securitization market is also unclear and such rules may negatively impact the value of the CLOs and their underlying assets.

Epidemics, Pandemics, Outbreaks of Disease and Public Health Issues. The Investment Adviser's business activities as well as the activities in respect of the Account and its operations and investments could be materially adversely affected by outbreaks of disease, epidemics and public health issues in Asia, Europe, North America, the Middle East and/or globally, such as COVID-19 (and other novel coronaviruses), Ebola, H1N1 flu, H7N9 flu, H5N1 flu, Severe Acute Respiratory Syndrome, or SARS, or other epidemics, pandemics, outbreaks of disease or public health issues. In particular, coronavirus, or COVID-19, has spread and is currently spreading rapidly around the world since its initial emergence in December 2019 and has negatively affected (and may continue to negative affect or materially impact) the global economy, global equity markets and supply chains (including as a result of quarantines and other government-directed or mandated measures or actions to stop the spread of outbreaks). Although the long-term effects of coronavirus, or COVID-19 (and the actions and measures taken by governments around the world to halt the spread of such virus), cannot currently be predicted, previous occurrences of other epidemics, pandemics and outbreaks of disease, such as H5N1, H1N1 and the Spanish flu, had material adverse effects on the economies, equity markets and operations of those countries and jurisdictions in which they were most prevalent. A recurrence of an outbreak of any kind of epidemic, communicable disease, virus or major public health issue could cause a slowdown in the levels of economic activity generally (or push the world or local economies into recession), which would be reasonably likely to adversely affect the business, financial condition and operations of the Investment Adviser and the Account. Should these or other major public health issues, including pandemics, arise or spread farther (or continue to worsen), the Investment Adviser and the Account could be adversely affected by more stringent travel restrictions (such as mandatory quarantines and social distancing), additional limitations on the Investment Adviser's (or the Account's) operations and business activities and governmental actions limiting the movement of people and goods between regions and other activities or operations.

Risks Relating to SPACs. The Account may invest in one or more special purpose acquisition companies (each, a "**SPAC**"). Thus, a portion of the Account's profits will be dependent on a SPAC's ability to successfully complete its IPO and initial business combination transaction, the performance of a SPAC and of its acquired company at, and following, the business combination and the market value of a SPAC's securities. An investment in a SPAC, including SPACs sponsored by Arena SPAC Persons (as defined below), creates a number of significant risks, including those described below.

Risks associated with investing in a SPAC include, among other things, that: (i) such SPAC may not be able to locate or acquire target companies by the deadline; (ii) the value of any target company may decrease following its acquisition by such SPAC; (iii) the value of the funds invested and held in the trust decline; (iv) the inability to redeem due to the failure to hold the securities in the SPAC as of the record date or the failure to vote against the acquisition; and (v) if the SPAC is unable to consummate a business combination, public stockholders (including the Account) will be forced to wait until the deadline before liquidating distributions are made. If a SPAC is unable to locate and acquire target companies by the deadline, the SPAC may be forced to liquidate its assets, which may result in losses due to the expenses and liabilities of the SPAC.

The Account may invest in a SPAC that, at the time of investment, has not selected or approached any prospective target businesses with respect to a business combination. In such circumstances, there may be an extremely limited basis for the Account to evaluate the possible merits or risks of such SPAC's investment in any particular target business. Also, to the extent that a SPAC completes a business combination, it may be affected by numerous risks inherent in the business operations of the acquired company or companies, and there is no guarantee that a SPAC that completes a business combination will exceed the per share value of the SPAC's equity previously held in trust.

Also, certain affiliates and key persons of the Investment Adviser (the "**Arena SPAC Persons**") may serve in the future as a sponsor to, certain SPACs in which certain Arena clients will invest in the future (a "**Related SPAC**"). Although the Arena SPAC Persons will endeavor to evaluate the risks inherent in a particular target business for any Related SPAC, there is no guarantee that Arena SPAC Persons will properly ascertain or assess all of the significant risk factors or that they will have adequate time to complete due diligence. Furthermore, some of these risks may be outside of the target business and outside of any Related SPAC's control and leave a Related SPAC with no ability to control or reduce the chances that those risks will adversely impact a target business. In addition, there can be no assurance that a target business will be profitable or successful in its operations following the business combination.

Arena SPAC Persons, the Account and other Arena affiliated investment accounts managed by it or by an affiliate may, from time to time, be allocated Sponsor Equity (as defined below) in connection with a Related SPAC. For the avoidance of doubt, the Account may not be offered such opportunities depending on the circumstances of the SPAC. The Sponsor Equity will be worthless if a Related SPAC does not complete an initial business combination. As a result, the Arena SPAC Persons may have different interests in considering and supporting any proposed de-SPAC business combination transaction than the Account. Additionally, as a holder of Sponsor Equity the Account will incur its pro rata portion of any upfront costs incurred in connection with the formation of any Related SPAC, and there is no guarantee that the Account would receive any return on its investment in Sponsor Equity.

Investments in SPACs are speculative and involve a high degree of risk.

PIPE Transactions. The Account may participate in PIPE transactions, including PIPE transactions associated with Related SPACs. Special investments in public companies whose stocks are quoted on stock exchanges or which trade in the over-the-counter securities market, a type of investment commonly referred to as a "**PIPE**" transaction, may be entered into with smaller capitalization public companies, which will entail business and financial risks comparable to those of investments in the publicly issued securities of smaller capitalization companies. Such companies may also be less likely to weather business or cyclical downturns than larger companies and are more likely to be substantially hurt by the loss of a few key personnel. In addition, PIPE transactions will generally result in the Account acquiring either restricted stock or an instrument convertible into restricted stock. As with investments in other types of restricted securities, such an investment may be illiquid. The Account's ability to dispose of securities acquired in PIPE transactions may depend on the registration of such securities for resale. Any number of factors may prevent or delay a proposed registration. Alternatively, it may be possible for securities acquired in a PIPE transaction to be resold in transactions exempt from registration in accordance with Rule 144 under the Securities Act, or otherwise under U.S. federal securities laws. There can be no guarantee that there will be an active or liquid market for the stock of any small capitalization company due to the possible small number of stockholders. As a result, even if the Account is able to have securities acquired in a PIPE transaction registered or sell such securities through an exempt transaction, the Account may not be able to sell all the securities on short notice, and the sale of the securities could lower the market price of the securities. There is no guarantee that an active trading market for the securities will exist at the time of disposition of the securities, and the lack of such a market could hurt the market value of the Account's investments.

Conflicts Relating to Investments in SPACs and PIPEs. Certain Arena SPAC Persons expect in the future to sponsor one or more SPACs, in which Arena clients will invest in the future in various capacities. A SPAC is a publicly traded company formed for the purpose of raising capital through an IPO to fund the acquisition, through a merger, capital stock exchange, asset acquisition or other similar business combination, of one or more operating businesses.

It is expected that one or more Arena SPAC Persons will sponsor one or more Related SPACs in the future. In connection with sponsoring a Related SPAC and managing the Arena clients' investments in such SPACs, Arena SPAC Persons are and will be faced with actual and potential conflicts of interest, as set out in more detail below.

For the avoidance of doubt, the Account may or may not be offered positions in such investments based on the Investment Adviser's policies.

Allocation of Time and Resources

None of the Arena SPAC Persons are required to devote any particular amount of time to the Account or any other Arena clients. The devotion of time and effort of certain Arena SPAC Persons to sponsoring any Related SPAC could be viewed as creating a conflict of interest in that the time and effort of certain Arena SPAC Persons will not be devoted exclusively to the business of the Account and the Investment Adviser but will be allocated between the business of the Account and the Investment Adviser, on the one hand, and other business activities, including the activities of such SPACs, on the other hand, including diligencing target companies and management teams and effecting a merger with a target. In addition, in connection with sponsoring any Related SPAC it is anticipated that Arena SPAC Persons may serve as directors and/or officers of such SPACs and/or any acquisition target of such SPACs that becomes publicly listed on an exchange (each such company, an "**Acquired Company**"). Arena SPAC Persons may face a conflict between the duties owed to the Account and the duties owed to such SPACs or Acquired Companies. In such circumstances, such persons may act in ways that are in the best interests of such SPACs or Acquired Companies but not the Account. For example, such SPAC may decline an opportunity to merge with a company in which the Account is invested or may merge with a company that competes directly with a company in which the Account is invested. There can be no assurance that the board membership and/or the involvement of certain Arena SPAC Persons with respect to such SPACs or Acquired Companies, in each case, will result in favorable results for the Account.

Board of Director Compensation

From time to time, Arena SPAC Persons may receive compensation (whether in the form of cash, options, warrants, stock or otherwise) in connection with serving as a director of a SPAC or an Acquired Company in which the Account is invested. With respect to any cash payments received by an Arena SPAC Person in connection with such board positions, such amounts will be applied to reduce the Management Fees paid by the Management Fee-bearing Shareholders. Any other compensation received in connection with such board positions as non-cash payments (e.g., stock, options, warrants or otherwise) will not be used to offset Management Fees and will be retained by Arena SPAC Persons. For the avoidance of doubt, only cash compensation received by Arena SPAC Persons in connection with serving as a director of a SPAC or an Acquired Company will offset Management Fees, unlike instances in which Transaction Fees are received. Given these differences, the Investment Adviser may face a conflict of interest in allocating investment opportunities of the Account.

SPAC Sponsor Economics

Certain Arena SPAC Persons expect to receive, economic benefits in connection with serving as a sponsor of a SPAC ("**Sponsor Equity**"). It is expected that with respect to any Related SPAC, certain Arena SPAC Persons will receive similar economic benefits and such economic benefits will be shared with the Arena clients only to a limited extent as determined by the sponsor of such Related SPAC in its own discretion, without the requirement of notifying the Account and/or the Limited Partners.

Account Participation in SPACs and PIPEs

In addition to receiving an allocation of Sponsor Equity with respect to a SPAC, the Account may participate in an IPO of a SPAC and to the extent there is a PIPE formed in connection with a SPAC, the Account may also participate in the associated PIPE. However, there is no guarantee that the Account will be allocated such SPAC and PIPE opportunities.

In respect of any Related SPAC, the Account and certain other Arena clients may receive an allocation of Sponsor Equity, participate in an IPO of such SPACs, enter into a forward purchase agreement with such SPACs and/or participate in any associated PIPE. By directing the Account to enter into such transactions with such SPACs and/or participate in any associated PIPE, the Investment Adviser is presented with a conflict of interest. The Investment Adviser, on the one hand, is incentivized to increase the value of any Related SPAC or Acquired Company, thus preserving the benefits associated with its Sponsor Equity, including by having the Account invest in the related PIPE, which may help fund redemptions upon a de-SPAC transaction and ensure the success of a business merger. In addition, because of the economics associated with the Sponsor Equity, the Arena SPAC Persons are incentivized to enter into a merger with any target in order to reap the benefits of the Sponsor Equity, even if the securities of the Acquired Company are not ultimately a profitable investment for the Arena clients. This may be exacerbated by the possibility that the Arena SPAC Persons could receive significant profits in respect of the Sponsor Equity, even where the Account receives only minimal or no profits in respect of its PIPE investment. Such Arena SPAC Persons, on the other hand, owe certain duties to the Account. Thus, the Investment Adviser faces a conflict of interest in determining the size and scope of the Account's investment in any Related SPAC or Acquired Company. Further, there is no guarantee that such investment in any Related SPAC or Acquired Company would have been entered into but for certain Arena SPAC Persons serving as a sponsor to such SPACs. Arena has adopted written policies and procedures to help address any actual and potential conflicts arising out of its affiliation with a SPAC and/or a PIPE.

In connection with any Related SPAC's IPO, the Account may enter into a forward purchase agreement with an issuer to participate in a private placement transaction, which would close concurrently with the initial business combination of such SPAC. The terms of such forward purchase agreement would be negotiated by the Investment Adviser, on behalf of the Account, in its discretion. Thus, the Account could be in a position of providing capital to support the Arena SPAC Persons' acquisition of Sponsor Equity with no guarantee that such capital investment will be profitable for the Account.

Potential Engagement with Issuers

In connection with its investment activities, any Related SPAC may engage with issuers in which the Arena clients invest or other companies with respect to which the Arena clients,

including the Account, transact business. There is no guarantee such engagement by such SPAC will be beneficial to the Arena clients, and the interests of the Arena clients may not be aligned in all circumstances with the interests of such SPAC with respect to any such issuers, which could create actual or potential conflicts of interest or the appearance of such conflicts for such SPAC, the Arena clients, the Investment Adviser and/or its affiliates. In that regard, actions may be taken by such SPAC that are adverse to the Account.

The Investment Adviser will allocate investment opportunities involving SPACs, SPAC IPOs and PIPE investments in accordance with its investment allocation policies and procedures then in effect.

Credit Default Swap Agreements. The Account may invest in credit default swaps. The typical credit default swap contract requires the seller to pay to the buyer, if a particular reference entity experiences specified credit events, the difference between the notional amount of the contract and the value of a portfolio of securities issued by the reference entity that the buyer delivers to the seller. In return, the buyer agrees to make periodic payments equal to a fixed percentage of the notional amount of the contract. The Account may also sell credit default swaps on a basket of reference entities as part of a synthetic collateralized debt obligation transaction.

As a buyer of credit default swaps, the Account will be subject to certain risks in addition to those described elsewhere herein. In circumstances in which the Account does not own the debt securities that are deliverable under a credit default swap, the Account will be exposed to the risk that deliverable securities will not be available in the market, or will be available only at unfavorable prices, as would be the case in a so-called “short squeeze.” While the credit default swap market auction protocols reduce this risk, it is still possible that an auction will not be organized or will not be successful. In certain instances of issuer defaults or restructurings (for those credit default swaps for which restructuring is specified as a credit event), it has been unclear under the standard industry documentation for credit default swaps whether or not a “credit event” triggering the seller’s payment obligation had occurred. The Credit Derivatives Determination Committees (the “**Determination Committees**”) are intended to reduce this uncertainty and create uniformity across the market, although it is possible that a Determination Committee will not be able to reach a resolution or do so on a timely basis. In either of these cases, the Account would not be able to realize the full value of the credit default swap upon a default by the reference entity.

As a seller of credit default swaps, the Account will incur leveraged exposure to the credit of the reference entity and become subject to many of the same risks it would incur if it were holding debt securities issued by the reference entity. However, the Account will not have any legal recourse against the reference entity and will not benefit from any collateral securing the reference entity’s debt obligations. In addition, the credit default swap buyer will have broad discretion to select which of the reference entity’s debt obligations to deliver to the Account following a credit event and will likely choose the obligations with the lowest market value in order to maximize the payment obligations of the Account.

Counterparty risk is always present in credit default swaps, although central clearing of certain credit default swaps is intended to reduce counterparty risk by imposing the central clearing house as the counterparty to each cleared swap. The market for credit default swaps on distressed securities is not liquid (compared to the market for credit default swaps on investment grade corporate reference entities).

In addition, the proper tax treatment of credit default swaps and other derivatives may not be clear. Limited Partners generally are required to treat any such derivatives for U.S. federal income tax purposes in the same manner as they are treated by the Account. The tax environment for derivatives is evolving and changes in the taxation of derivatives may adversely affect the value of derivatives held by the Account.

Given the recent sharp increases in volume of credit derivatives trading in the market, settlement of such contracts may also be delayed beyond the time frame originally anticipated by counterparties. Such delays may adversely impact the Account's ability to otherwise productively deploy any capital that is committed with respect to such contracts.

Certain governmental entities have indicated that they intend to regulate the market in credit default swaps. It is difficult to predict the impact of any such regulation on the Account, but it may be adverse (including making the Account ineligible to be a "seller" of credit default swaps).

Total Return Swaps. The Account from time to time may invest in total return swaps. As a buyer of total return swaps, the Account will be obligated to make certain periodic payments in exchange for the total return on a referenced asset, including coupons, interest and the gain or loss on such asset over the term of the swap. The Account may be required to maintain collateral with the total return swap counterparty. If the Account fails to fulfill its payment obligations or fails to post any required collateral under a total return swap, the total return swap counterparty may declare an event of default and, as a result, the Account may be required to pay swap breakage fees, suffer the loss of the amounts paid to the counterparty and forego the receipts from the counterparty of further total return swap payments.

Over-the-Counter Derivatives Markets. The Dodd-Frank Act, enacted in July 2010, includes provisions that comprehensively regulate the OTC derivatives markets for the first time. The Dodd-Frank Act will ultimately mandate that a substantial portion of OTC derivatives must be executed in regulated markets and be submitted for clearing to regulated clearinghouses. OTC trades submitted for clearing will be subject to minimum initial and variation margin requirements set by the relevant clearinghouse, as well as possible SEC- or CFTC-mandated margin requirements. OTC derivatives dealers typically demand the unilateral ability to increase the Account's collateral requirements for cleared OTC trades beyond any regulatory and clearinghouse minimums. The regulators also have broad discretion to impose margin requirements on non-cleared OTC derivatives and new requirements will apply to the holding of customer collateral by OTC derivatives dealers. These requirements may increase the amount of collateral the Account is required to provide and the costs associated with providing it. OTC derivative dealers also are required to post margin to the clearinghouses through which they clear their customers' trades instead of using such margin in their operations, as was widely permitted before the Dodd-Frank Act. This has and will continue to increase the OTC derivative dealers' costs, and these increased costs are generally passed through to other market participants in the form of higher upfront and mark-to-market margin, less favorable trade pricing, and the imposition of new or increased fees, including clearing account maintenance fees.

With respect to cleared OTC derivatives, the Account will not face a clearinghouse directly but rather through an OTC derivatives dealer that is registered with the CFTC or SEC to act as a clearing member. The Account may face the indirect risk of the failure of another clearing member customer to meet its obligations to its clearing member. Such scenario could arise due to a default by the clearing member on its obligations to the clearinghouse, triggered by a customer's failure to meet its obligations to the clearing member.

The SEC and CFTC will also require a substantial portion of derivative transactions that were historically executed on a bi-lateral basis in the OTC markets to be executed through a regulated securities, futures, or swap exchange or execution facility. Some types of CFTC-regulated swaps (including interest rate swaps and credit default index swaps on North American and European indices) are required to be centrally cleared and exchange-traded, and additional types of swaps may be required to be centrally cleared and exchange traded in the future. In December 2019, the SEC adopted a package of rule amendments that "stood up" its regulatory regime with regard to security-based swaps became effective, and as of November 2021, security-based swap dealers will be required to register with the SEC and most of the SEC's regulations of security-based swaps come into effect. Such requirements may make it more difficult and costly for investment funds, including the Account, to enter into highly tailored or customized transactions. They may also render certain strategies in which the Account might otherwise engage impossible or so costly that they will no longer be economical to implement. If the Account decides to become a direct member of one or more of these exchanges or execution facilities, the Account would be subject to all of the rules of the exchange or execution facility, which would bring additional risks and liabilities, and potential additional regulatory requirements.

OTC derivative dealers are now required to register with the CFTC and will ultimately be required to register with the SEC. CFTC-registered swap dealers are and SEC-registered security-based swap dealers will be subject to minimum capital and margin requirements, business conduct standards, disclosure requirements, reporting and recordkeeping requirements, transparency requirements, position limits, limitations on conflicts of interest, and other regulatory burdens. These requirements further increase the overall costs for registered swap dealers and are expected to increase the overall costs for registered security-based swap dealers, which costs may be passed along to market participants as market changes continue to be implemented. The overall impact of the Dodd-Frank Act on the Account is not yet known, and it is unclear how the OTC derivatives markets will ultimately adapt to this regulatory regime, along with additional, sometimes overlapping, regulatory requirements imposed by non-U.S. regulators.

Futures Trading. The Account may trade futures contracts, including stock index futures. Futures prices are highly volatile, with price movements being influenced by a multitude of factors such as changing supply and demand relationships, government trade, fiscal, monetary and exchange control programs and policies, national and international political and economic events and speculative frenzy and the emotions of the marketplace. In addition, governments from time to time intervene in certain markets, particularly currency and interest-rate markets.

The low margin deposits normally required in futures trading permit an extremely high degree of leverage; margin requirements for futures trading being in some cases as little as 2% of the face value of the contracts traded. Accordingly, a relatively small price movement in a futures contract may result in an immediate and substantial loss to the investor.

There can be no assurance that a liquid market will exist at a time when the Account seeks to close out an option position, future or Swap. Most U.S. commodity exchanges limit fluctuations in futures contract prices during a single day by regulations referred to as "daily limits." During a single trading day, no trades may be executed at prices beyond the daily limit.

Once the price of a futures contract has increased or decreased to the limit point, positions can be neither taken nor liquidated. Futures prices have occasionally moved to the daily limit for several consecutive days with little or no trading. Similar occurrences could prevent the Account from promptly liquidating unfavorable positions and subject the Account to substantial losses. In addition, certain of these instruments are relatively new and are without a significant trading history. As a result, there is no assurance that an active secondary market will develop or continue to exist. Lack of a liquid market for any reason may prevent the Account from liquidating an unfavorable position and the Account would remain obligated to meet margin requirements until the position is closed.

The CFTC and the U.S. commodities exchanges impose limits referred to as "speculative position limits" on the maximum net long or net short speculative positions that any person may hold or control in any particular futures or options contracts traded on U.S. commodities exchanges. For example, the CFTC currently imposes speculative position limits on a number of agricultural commodities (e.g., corn, oats, wheat, soybeans and cotton) and U.S. commodities exchanges currently impose speculative position limits on many other commodities. The Dodd-Frank Act significantly expanded the CFTC's authority to impose position limits with respect to futures contracts and options on futures contracts, swaps that are economically equivalent to futures or options on futures, and swaps that are traded on a regulated exchange and certain swaps that perform a significant price discovery function. In October 2020, the CFTC adopted amendments to its position limits rules that establish certain new and amended position limits for 25 specified physical commodity futures and related options contracts traded on exchanges, other futures contracts and related options directly or indirectly linked to such 25 specified contracts, and any OTC transactions that are economically equivalent to the 25 specified contracts. The Investment Adviser will need to consider whether the exposure created under these contracts might exceed the new and amended limits in anticipation of the applicable compliance dates, and the limits may constrain the ability of the Account to use such contracts. The amendments also modify the bona fide hedging exemption for which certain swap dealers are currently eligible, which could limit the amount of speculative OTC transaction capacity each such swap dealer would have available for the Account prior to the applicable compliance date. All accounts owned or managed by the Investment Adviser are likely to be combined for speculative position limit purposes. The Account could be required to liquidate positions it holds in order to comply with such limits, or may not be able to fully implement trading instructions generated by its trading models, in order to comply with such limits. Any such liquidation or limited implementation could result in substantial costs to the Account.

Cybersecurity Breaches and Information Technology. Arena is heavily reliant on its information technology infrastructure, processes and procedures, and it has devoted significant resources to ensuring it has competitive informational technology systems. Information technology changes rapidly, however, and Arena may not be able to stay ahead of such advances. Moreover, as Arena grows, it may find itself a target of cybersecurity breaches and attacks. The Account is subject to risks associated with a breach in its cybersecurity. Cybersecurity is a generic term used to describe the technology, processes and practices designed to protect networks, systems, computers, programs and data from "hacking" by other computer users, other unauthorized access and the resulting damage and disruption of hardware and software systems, loss or corruption of data as well as misappropriation of confidential information. The computer systems, networks and devices used by Arena and service providers to Arena and the Account to carry out routine business operations employ a variety of protections designed to prevent damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches. Despite the various protections utilized, these systems, networks, or devices potentially can be breached. Cybersecurity breaches can include unauthorized access to systems, networks, or devices; infection from computer viruses or other malicious software code; and attacks that shut down, disable, slow, or otherwise disrupt operations, business processes, or website access or functionality.

The Account could be negatively impacted as a result of a cybersecurity breach. If a cybersecurity breach occurs, the Account may incur substantial costs, including those associated with: forensic analysis of the origin and scope of the breach; increased and upgraded cybersecurity; investment losses from sabotaged trading systems; loss of data and other records; identity theft; unauthorized use of proprietary information; litigation; adverse investor reaction; the dissemination of confidential and proprietary information; and reputational damage. Cybersecurity breaches may cause disruptions and impact business operations, potentially resulting in financial losses to the Account; interference with Arena's ability to calculate the value of an investment in the Account; impediments to trading; the inability of Arena and other service providers to transact business; violations of applicable privacy and other laws; regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, or additional compliance costs; as well as the inadvertent release of confidential information.

Investors are advised to ensure communication methods with the Investment Adviser and any of their respective affiliates, any financial advisers or any other parties associated with the Account are secure so as to prevent fraudulent change of details or other fraudulent requests and communications from being submitted through, for example, their email accounts.

This SUPPLEMENTAL ACKNOWLEDGMENT (this "Supplemental Acknowledgment") to the existing Investment Management Agreement between Houston Specialty Insurance Company, Imperium Insurance Company and Great Midwest Insurance Company (collectively, the "Client") and Arena Investors, LP, a Delaware limited partnership, as investment adviser (referred to herein as the "Investment Adviser") dated January 13, 2016 (as amended and supplemented from time to time, the "IMA") is entered into by and between Client and Advisor as of March 23, 2022.

The signatories below acknowledge that a discretionary Stable Income—Real Estate Credit sub-account (the "Sub-Account") has been created pursuant to the IMA that will be subject to the terms, investment guidelines and fees described below. Capitalized terms not otherwise defined herein have the meanings set forth in the IMA.

Client and Investment Adviser previously entered into a separate agreement–that certain Investment Management Agreement, dated March 1, 2017, which was replaced by the Amended and Restated Investment Management Agreement, dated April 1, 2020 (the "Former Investment Management Agreement"). The Former Investment Management Agreement governed the terms and conditions between Client and Investment Adviser in relation to the Stable Income—Real Estate Credit Sub-Account. Client and Investment Adviser hereby agree that the Former Investment Management Agreement is terminated and shall no longer be in effect upon the execution by Client and Investment Adviser of this Supplemental Acknowledgment; and henceforth, this Supplemental Acknowledgment together with the IMA shall govern the relationship and terms and conditions between Client and Investment Adviser for the Stable Income— Real Estate Credit Sub-Account.

1. Funding Terms

The Sub-Account was funded through a commitment of $50 million (the "Initial Commitment") by the Client on or about March 1, 2017 (the "Effective Date"). The Client shall maintain such Sub-Account and shall make capital available to the Investment Adviser. The assets in such Sub-Account, as altered from time to time by the investment, reinvestment or disposition thereof, are collectively referred to herein as the "Sub-Account Assets." On five (5) business days' notice the Client will advance funds to such accounts as the Investment Adviser shall designate for the purpose of investing in Sub-Account Assets, provided, however, that at no point shall the net asset value of the Account Assets exceed $50 million plus the amount of net profits retained in the Account less net losses suffered by the Account less the amounts distributed to the Client and withdrawn from the Account pursuant to Section 7(a) of the IMA less the amounts paid to the Investment Adviser for fees and costs.

2. Investment Guidelines: The Investment Adviser's management of the Sub-Account will be consistent with the investment guidelines set forth below.

Table A – Portfolio - Overall Risk Tolerance	**Limits**
Duration -Weighted Average Effective Range	1-5
Credit Quality- Weighted Average Minimum	BB-

All ratings criteria in this document will be applied using the NAIC method as follows:

(i) For a security rated by one NRSRO, it will be assigned that rating;
(ii) If a security is rated by two NRSROs, then the lowest rating will be assigned.
(iii) If a security is rated by three or more NRSROs, then the Bloomberg Composite[1] Rating will be assigned.
(iv) Securities that are rated higher by the NAIC due to cost basis treatment will be rated as follows: AA for NAIC 1, BBB for NAIC 2, BB for NAIC 3, B for NAIC 4, and CCC for NAIC 5.
(v) Securities with credit ratings with + or -, or numerical qualifier shall be deemed to be within the letter rating class shown, unless specifically indicated elsewhere in this Investment Policy. For example, a BBB minimum indication shall include BBB3 and BBB- securities.
(vi) For weight averaging calculation refer to Table D "Credit Rating Numerical Conversion"

Table B - Fixed Income - Asset Class Diversification	*Maximum of Invested Assets*
Short Term Investments with an original maturity of not more than one year (Minimum Credit Quality A1/P1)	100%
U.S. Government & Full-faith and credit Agency Obligations	100%
Non full-faith and credit U.S. Agency Obligations	100%
Mortgage Related Securities, including mortgage loans and mortgage pools with the following sub limits (excluding full faith & credit)	100%
- U.S. Agency Backed - Residential	100%
- Non-Agency Backed - Residential	100%
- U.S. Agency Backed - Commercial	100%
- Non-Agency Backed – Commercial (must be in compliance with Texas code detailed in Table B)	100%
- Total Agency and Non-Agency Backed - Commercial (including commercial loans)	100%
Asset-Backed Securities (Inclusive of all non-Collateralized Loan Obligations Asset-Backed Securities)	100%
-Collateralized Loan Obligation tranches	50%
-Rated BBB and Below Collateralized Loan Obligation tranches	25%
Public & 144A Corporate Securities including Convertible Securities	100%
Bank Debt – Originated Secondary (First Lien)	100%
-Second Lien	25%
Traditional Rated Private Placements	60%
Preferred Stocks including Convertible Securities	10%

[1] Bloomberg Composite Rating - The rating agencies (Moody's, Fitch, Standard & Poor's and Dominion Bond Rating Service Ltd) are evenly weighted when calculating the composite. The Bloomberg Composite is the average of existing ratings, rounded down to the lower rating if the composite is between two ratings.

Investments not specifically permitted in Table B are prohibited without prior written approval of the Investment Committee.

Table C- Issuer Diversification – excluding U.S. Government, Agency and Government sponsored MBS & Debentures		
Asset Class	**Rating Agency/NAIC**	**% of Invested Assets (Limit by Issuer)**
Corporate Bonds (Including Traditional Rated Privates), Mortgage Backed Securities, Asset Backed (excluding CLO) and Commercial Mortgage Backed Securities (Investment must be domiciled in US or Canada or have NAIC 1 or 2 rating)	AAA/1 AA/1 A/1 BBB/2 BB/3 B/4 CCC/5	20.0% 15.0% 10.0% 10.0% 10.0% 10.0% 10.0%
Collateralized Loan Obligations	AAA/1 AA/1 A/1 BBB/2 BB/3	18.0% 10.0% 10.0% 10.0% 10.0%
Commercial Mortgage Loan First Liens Under Section 424.066 of the Texas Insurance Code (Code), an insurer may invest funds, in excess of minimum capital and surplus, in a bond, note or evidence of indebtedness that is secured by a valid first lien on real property located in the United States. Loan to Value shall not exceed 90% and value must be determined by an outside appraisal. An insurer's single obligation may not exceed 10% of the insurer's capital and surplus and an insurer's aggregate investments may not exceed 30% of the insurer's assets. Loan secured by a valid first lien on real property located in the United States.	BBB/2	15.0%

Table D - Credit Rating Numerical Conversion			
Tsy	**1**	**BB+**	**12**
Agy	**2**	**BB**	**13**
AAA	**2**	**BB-**	**14**
AA+	**3**	**B+**	**15**
AA	**4**	**B**	**16**
AA-	**5**	**B-**	**17**
A+	**6**	**CCC+**	**18**
A	**7**	**CCC**	**19**
A-	**8**	**CCC-**	**20**
BBB+	**9**	**CC**	**21**
BBB	**10**	**C**	**22**
BBB-	**11**	**DDD**	**23**

3. Fees.

The fees for the Sub-Account shall be as set forth in the Fee Exhibit attached hereto.

4. Indemnity.

In addition to the terms set forth in the indemnification provisions set forth in Section 8 of the IMA, the parties agree that: (a) the Investment Adviser shall indemnify the Client against any liabilities, claims and expenses reasonably incurred by Client in connection with the defense or disposition of any suit in which Client is involved as a party if such suit is reasonably related to the Investment Adviser's violation of its Standard of Care; and (b) all determinations with respect to indemnification hereunder shall be made by a final decision on the merits by a court or other body before whom the proceeding was brought that the Client is liable or not liable for any acts or omissions in connection with this Agreement. All determinations to advance payment in connection with the expense of defending any proceeding shall be made in accordance with Section 8(b) of the IMA.

5. Confidentiality.

In addition to the confidentiality terms set forth in Section 10 of the IMA, the parties agree that before any disclosure of information otherwise subject to Section 10 of the IMA on the grounds that such information is required by law, the Investment Adviser, to the extent permitted under such applicable law or regulatory authority, shall so inform the Client and shall give the Client, to the greatest extent reasonably permitted and practicable, an opportunity to seek appropriate protection of such confidential information.

6. Termination Upon Withdrawals.

Notwithstanding the language in Section 7 of the IMA, unless the Investment Adviser determines otherwise, any withdrawal that would bring the Sub-Account balance below the lesser of (i) $10,000,000 and (ii) 20% of the net asset value of the Sub-Account Assets as of the last month end before the Withdrawal Date shall be deemed a termination of the IMA with respect to the Sub-Account.

7. Representations, Warranties and Covenants.

Each of the Client's representations, warranties and covenants will be deemed repeated and reaffirmed (including with respect to the authorization of the Custodian by the Client to pay the Management Fees and Performance Fes directly to the Investment Adviser) as of the date this Supplemental Acknowledgement is executed.

IN WITNESS WHEREOF, the parties hereto have caused the foregoing Supplemental Acknowledgment to be executed as of the date first stated above.

HOUSTON SPECIALTY INSURANCE COMPANY

By: /s/ Kevin Westervelt
Name: Kevin Westervelt
Authorized Signatory

IMPERIUM INSURANCE COMPANY

By: /s/ Kevin Westervelt
Name: Kevin Westervelt
Authorized Signatory

GREAT MIDWEST INSURANCE COMPANY

By: /s/ Kevin Westervelt
Name: Kevin Westervelt
Authorized Signatory

ARENA INVESTORS, LP

By: /s/ Lawrence Cutler
Name: Lawrence Cutler
Authorized Signatory

FEE EXHIBIT FOR INITIAL COMMITMENT

I. Management Fee.

A monthly management fee of [***]% ([***]% per annum) of the net asset value of the Sub-Account shall be payable to the Investment Adviser on the first day of each month as discussed in Exhibit A (the "Management Fee").

II. Performance Fee.

Further for its services hereunder, the Investment Adviser will calculate amounts as of (A) the end of each Fiscal Year (*i.e.,* December 31st) and (B) each Withdrawal Date, solely with respect to the amounts then withdrawn, [***]% (the "Performance Fee") of any excess as of such date of the Closing Sub-Account Balance, *over* (x) the Opening Sub-Account Balance (including for both the Opening and Closing Sub-Account Balances the balance attributable to any Set Aside Portions) as of the beginning of the current Fiscal Year (or, the Effective Date, as applicable); *provided*, however, that the Performance Fee shall not be paid unless the Sub-Account has earned the Hurdle from the date of the last payment of a Performance Fee (or for the first payment date from the Effective Date of the Sub-Account), it being the intention that if the Sub-Account has earned the Hurdle the Investment Adviser shall accrue a full Performance Fee on all of the net profits of the Sub-Account.[1] If the Hurdle has not been met for any Fiscal Period, no Performance Fee shall be paid for that Fiscal Period and entitlement to a Performance Fee shall be subject to meeting the Hurdle from the date a prior Performance Fee was paid or for the first payment date from the Effective Date of the Sub-Account. For these purposes:

"Closing Sub-Account Balance" means (i) for any Fiscal Period ending on December 31st or upon the date of termination of the Agreement, the Sub-Account balance as of the last business day of such Fiscal Period (as adjusted for any contributions or withdrawals during such period) or (ii) for any Fiscal Period ending as of a Withdrawal Date, the Sub-Account balance attributable to the amount of such withdrawal as of such Withdrawal Date.

"Fiscal Period" means the period beginning on the first business day of each calendar year (or the Effective Date for the first Fiscal Period) and ending on the earlier of the last business day of such calendar year (or the date of termination for the last Fiscal Period of the Sub-Account) and each Withdrawal Date.

"Hurdle" means a [***]% per annum increase in the actual Sub-Account value on any Fiscal Period end date above the net asset value as of the immediately preceding Fiscal Period end as to which a Performance Fee was paid (or for the first payment date from the Effective Date of the Sub-Account), as adjusted in good faith to eliminate the effect of additions to and withdrawals from the Sub-Account. Upon any withdrawal request from the Sub-Account, the Hurdle will be reduced pro rata based on the percentage of the Sub-Account sought to be withdrawn.

"Opening Sub-Account Balance" means (i) for any Fiscal Period beginning as of the Effective Date or the first business day of any calendar year, the Sub-Account balance as of such beginning date or (ii) for any Fiscal Period measured in connection with a withdrawal, the portion of the Sub-Account balance as of such beginning date attributable to the amount of such withdrawal.

[1] Note that this does not include new capital contributions, as clarified in the definition of Closing Sub-Account Balance.