FINANCIAL STATEMENTS

Hiscox Insurance Company (Bermuda) Limited
Year Ended December 31, 2021
With Independent Auditor's Report

Hiscox Insurance Company (Bermuda) Limited

Financial Statements

Year Ended December 31, 2021

Contents

Independent auditor's report

To the Board of Directors and Shareholder of Hiscox Insurance Company (Bermuda) Limited

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Hiscox Insurance Company (Bermuda) Limited (the Company) as at December 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at December 31, 2021;
- the statement of income and comprehensive income for the year then ended;
- the statement of changes in shareholder's equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements of the Chartered Professional Accountants of Bermuda Rules of Professional Conduct (CPA Bermuda Rules) that are relevant to our audit of the financial statements in Bermuda. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the CPA Bermuda Rules.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers Ltd.

Chartered Professional Accountants
Hamilton, Bermuda

April 29, 2022

Hiscox Insurance Company (Bermuda) Limited
Statement of Financial Position

As of December 31, 2021
(expressed in thousands of U.S. dollars, except per share and share amounts)

		2021		2020
Assets				
Cash and equivalents (Note 6)	$	248,388	$	397,187
Financial assets carried at fair value (Notes 7, 8 and 10)		1,953,356		2,040,980
Loans and receivables including reinsurance receivables (Notes 9 and 15)		574,966		535,341
Funds withheld (Note 12)		1,307,399		1,514,241
Reinsurance recoverable on unpaid claims (Notes 5 and 13)		1,084,137		1,194,208
Deferred acquisition costs (Note 11)		95,162		89,060
Prepaid reinsurance premiums (Note 13)		107,288		115,263
Total assets	$	5,370,696	$	5,886,280
Liabilities				
Loss and loss adjustment expense reserve (Note 13)	$	3,162,408	$	3,635,115
Unearned premium reserves (Note 13)		696,310		666,795
Trade and other payables (Notes 14 and 15)		217,736		316,272
Total liabilities		4,076,454		4,618,182
Shareholder's equity				
Common shares (par value $1.00; authorized, issued and fully paid, 100,000,000)	$	100,000	$	100,000
Contributed surplus		1,103,280		1,103,280
Retained earnings		90,962		64,818
Total shareholder's equity		1,294,242		1,268,098
Total liabilities and shareholder's equity	$	5,370,696	$	5,886,280

The accompanying notes are an integral part of the financial statements

Signed on behalf of the Board:

________________________________Director ________________________________Director

Hiscox Insurance Company (Bermuda) Limited
Statement of Income and Comprehensive Income

Year Ended December 31, 2021
(expressed in thousands of U.S. dollars)

	2021	2020
Income		
Gross premiums written	$ 1,661,004	$ 1,523,536
Change in unearned premium reserves	(28,398)	13,535
Gross premiums earned	1,632,606	1,537,071
Gross premiums ceded	447,988	444,482
Change in prepaid reinsurance premiums	7,976	8,024
Earned premiums ceded	455,964	452,506
Net premiums earned (Note 13)	1,176,642	1,084,565
Reinsurance commission income (Note 11)	66,636	77,840
Net investment income (Note 7)	23,854	109,652
Total income	1,267,132	1,272,057
Expenses		
Loss and loss adjustment expenses incurred	912,786	1,204,820
Reinsurance recoveries	(157,558)	(113,454)
Loss and loss adjustment expenses incurred, net (Note 13)	755,228	1,091,366
Acquisition costs (Note 11)	220,330	219,553
General and administrative expenses (Note 15)	101,543	99,226
Foreign exchange loss (gain)	3,223	(16,582)
Total expenses	1,080,324	1,393,563
Other comprehensive income	-	-
Total comprehensive income (loss) for the year	$ 186,808	$ (121,506)

The accompanying notes are an integral part of the financial statements

Hiscox Insurance Company (Bermuda) Limited
Statements of Changes in Shareholder's Equity

Year ended December 31, 2021
(expressed in thousands of U.S. dollars, except share amounts)

	2021	2020
Common Shares		
Balance, beginning and end of year	100,000,000	100,000,000
Common Shares (Note 17)		
Balance, beginning and end of year	$ 100,000	$ 100,000
Contributed surplus		
Balance, beginning of year	1,103,280	402,000
Assumed from HCL (Note 2)	-	491,808
Capital contribution (Note 17)	-	209,472
Balance, end of year	$ 1,103,280	$ 1,103,280
Retained earnings (Note 17)		
Balance, beginning of year	64,818	96,362
Assumed from HCL (Note 2)	-	89,962
Net income (loss)	186,808	(121,506)
Dividends declared	(160,664)	-
Balance, end of year	$ 90,962	$ 64,818
Total shareholder's equity	$ 1,294,242	$ 1,268,098

The accompanying notes are an integral part of the financial statements

Hiscox Insurance Company (Bermuda) Limited
Statements of Cash Flows

Year Ended December 31, 2021
(expressed in thousands of U.S. dollars)

	2021	2020
Operating activities		
Net income (loss)	$ 186,808	$ (121,506)
Adjustments to reconcile net income to net cash provided by operating activities:		
Share compensation expense	2,344	696
Interest income	(31,685)	(63,515)
Unrealized losses (gains) on foreign exchange	11,265	(20,905)
Net fair value losses (gains) on financial assets	27,808	(8,499)
Changes in assets and liabilities:		
Financial assets carried at fair value	87,506	33,844
Loans and receivables including reinsurance receivables	(81,929)	181,167
Funds withheld	206,842	(254,431)
Prepaid reinsurance premiums	7,975	8,086
Deferred acquisition costs	(6,102)	8,869
Loss and loss adjustment expenses recoverable	101,280	158,574
Loss and loss adjustment expense reserves	(429,216)	167,398
Unearned premium reserves	29,515	(18,699)
Trade and other payables	(96,642)	(36,518)
Net cash provided by operating activities	15,769	34,561
Financing activities		
Capital contribution	-	3,133
Dividends paid	(160,664)	-
Net cash used in financing activities	(160,664)	3,133
Net change in cash and cash equivalents	(144,895)	37,694
Cash and cash equivalents, beginning of year	397,187	315,550
Cash and cash equivalents, assumed from HCL (Note 2)	-	36,476
Effect of exchange rate movements on cash	(3,904)	7,467
Cash and cash equivalents, end of year	$ 248,388	$ 397,187

The accompanying notes are an integral part of the financial statements

1. Company Information

Hiscox Insurance Company (Bermuda) Limited (the "Company") was incorporated under the laws of Bermuda on October 21, 2005. The Company is a global provider of property catastrophe and specialty reinsurance coverage to both third party and affiliate insurers and reinsurers. The Company is registered as a Class 4 insurer under The Insurance Act 1978 (Bermuda) and is a wholly owned subsidiary of Hiscox Ltd (the "Parent" or "Group"), a company incorporated in Bermuda and publicly traded on the London Stock Exchange. The Company's registered office is 96 Pitts Bay Road Pembroke, Bermuda.

2. Merger with HCL

As discussed in Note 4.1 on June 30, 2020 the Company effected a merger with Hiscox Capital Limited ("HCL"). HCL was party to a quota share agreement whereby it assumed 60% of the risks underwritten by Hiscox Dedicated Corporate Member Limited ("HDCM"), a wholly owned subsidiary of the Parent. HDCM underwrites as a Corporate Member of Lloyd's of London on Syndicates 33 and 3624 (the "Syndicates"), which are managed by Hiscox Syndicates Limited. HDCM has a 72.5% participation in Syndicate 33 and 100% participation in Syndicate 3624.

The following table denotes the impact on the Statement of Financial Position of the Company as at January 1, 2020, the date at which the merger was given effect in the financial statements of the Company.

Statement of financial position reconciliation

	Balance beginning of year January 1, 2020	Assets Assumed from HCL	Balance at January 1, 2020 inclusive of HCL
		($ in thousands)	
Assets			
Cash and equivalents	315,550	36,476	352,026
Financial assets carried at fair value	1,160,560	622,409	1,782,969
Loans and receivables including reinsurance receivables	606,502	66,547	673,049
Funds withheld	117,255	1,142,555	1,259,810
Reinsurance recoverable on unpaid claims	1,344,011	-	1,344,011
Deferred acquisition costs	97,929	-	97,929
Prepaid reinsurance premiums	123,349	-	123,349
Liabilities			
Loss and loss adjustment expense reserve	2,381,111	1,043,605	3,424,716
Unearned premium reserves	447,617	237,877	685,494
Trade and other payables	338,066	4,735	342,801

Shareholder's equity			
Common shares	100,000	-	100,000
Contributed surplus	402,000	491,808	893,808
Retained earnings	96,362	89,962	186,324

3. Basis of Presentation

3.1 Statement of compliance

These financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the International Accounting Standards Board ("IASB"). These financial statements were examined and authorised by the Board of Directors and adopted at the meeting of the Board of Directors ("the Board") held on April 29, 2022. The Board of Directors has the power to amend these financial statements subsequent to issuance.

3.2 Basis of measurement

The financial statements have been prepared on a going concern basis under the historical cost convention, except for certain financial instruments which are measured at fair value.

In adopting the going concern basis, the Board has reviewed the current and forecast solvency and liquidity positions for the next twelve months and beyond. As part of the consideration of the appropriateness of adopting the going concern basis, the Board uses scenario analysis and stress testing to assess the robustness of the entity's solvency and liquidity positions. In undertaking this analysis, no material uncertainty in relation to going concern has been identified. This is due to the strong capital and liquidity positions, which provide considerable resilience to these shocks, underpinned by the Company's approach to risk management which is described in note 5. After making enquiries, the Board have a reasonable expectation that the Company has adequate resources to continue in operational existence over a period of at least 12 months from the date of this report. For this reason, the Company continues to adopt the going concern basis in preparing the financial statements.

3.3 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in United States Dollars, which is also the Company's functional currency.

3.4 Use of significant judgments, estimates and assumptions

The preparation of financial statements requires management to select accounting policies and make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses in the financial statements.

The Board reviews the reasonableness of critical judgments, estimates and assumptions applied and the appropriateness of significant accounting policies.

The following accounting policies are those considered to have a significant impact on the amounts recognised in the financial statements, with those judgments involving estimation summarised thereafter.
– Insurance contract: assessment of the significance of insurance risk transferred to the Company in determining whether a contract should be accounted for as an insurance contract or as a financial instrument;
– Financial assets: classification and measurement of investments including the application of the fair value option.
All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and their predictions of future events. Actual results may differ from those estimates, possibly significantly. Estimates are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The following describes items considered particularly susceptible to changes in estimates and assumptions.

The most critical estimate included in the Statement of Financial Position is the estimate for losses incurred but not reported. The total gross estimate as at December 31, 2021 is $1,903,449 (2020: $2,221,021) and is included within Loss and loss adjustment expense reserve in the Statement of Financial Position. The total estimate for the reinsurers' share of losses incurred but not reported as at December 31, 2021 is $731,484 (2020: $766,021).

Estimates of losses incurred but not reported are continually evaluated, based on entity-specific historical experience and contemporaneous developments observed in the wider industry when relevant, and are also updated for expectations of prospective future developments. Although the possibility exists for material changes in estimates to have a critical impact on the Company's reported performance and financial position, it is anticipated that the scale and diversity of the Company's portfolio considerably lessens the likelihood of this occurring. The overall reserving risk is discussed in more detail in Note 5.1 and the procedures used in estimating the cost of settling insured losses at the Statement of Financial Position date including losses incurred but not reported are detailed in Note 13.

The Company carries its financial assets at fair value through profit or loss, with fair values determined using published price quotations in the most active financial markets in which the assets trade, where available. Where quoted market prices are not available, valuation techniques are used to value financial instruments. These include third-party valuation reports and models utilising both observable and unobservable market inputs. The valuation techniques involve judgment with regard to the valuation models used and the inputs to these models, which can lead to a range of plausible valuations for financial assets.

4. Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

4.1 Business combination between entities that are under common control

On June 30, 2020, the Company executed a merger with Hiscox Capital Ltd. ("HCL") (the "merger") . The Company and HCL are wholly owned subsidiaries of the Parent and are consolidated by the Parent which supports the existence of common control. Pursuant to the terms of the Merger Agreement between the Company and HCL, subsequent to the merger, the Company is the surviving entity, and all the shares of HCL were cancelled without repayment of capital.

Transactions between entities under common control are not within the scope of IFRS 3 "Business Combinations". In light of this, management have elected to apply the predecessor basis of accounting, whereby the assets and liabilities of HCL have been assumed by the Company at book value. The transaction has been given effect in the Company's financial statements from January 1, 2020 with no restatement of prior year comparatives. See the statement of financial position effect of the merger in note 2.

4.2 New accounting standards, interpretations and amendments to published standards, and future accounting developments

(a) New standards, amendments to standards and interpretations that are effective for annual periods beginning on 1 January 2021 have been applied in preparing these financial statements and had no material impact on the Company.

Amendments to IFRS 7, IFRS 9, IAS 39, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2
The amendments require insurers who apply the temporary exemption from IFRS 9 to apply the amendments in IFRS 9 in accounting for modifications directly required by the interbank offered rate (IBOR) reform.

Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9
The effective date of IFRS 17, which will be replacing IFRS 4, is 1 January 2023; the fixed expiry date for the temporary exemption in IFRS 4 from applying IFRS 9 has also been deferred to 1 January 2023.

Covid-19-related rent concessions beyond 30 June 2021 – amendments to IFRS 16
Extends by one year, the May 2020 amendment that provides lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification.

(b) Future accounting developments: The following new standards and amendment to standards, are effective for annual periods beginning after 1 January 2022 and have not been applied in preparing the financial statements:

IFRS 9 Financial Instruments
This standard incorporates new classification and measurement requirements for financial assets, the introduction of an expected credit loss impairment model which will replace the incurred loss model of IAS 39 and new hedge accounting requirements.

The Company satisfies the criteria set out in IFRS 4 Insurance Contracts for the temporary exemption from IFRS 9. At December 31, 2015 (the date specified by IFRS 4), the carrying value of the Company's liabilities connected with insurance comprised 98% of the total liabilities and the activities of the Company remain predominantly connected with insurance.

Under the current requirements (IAS 39), the Company's investments were designated as at fair value through profit or loss on initial recognition and subsequently remeasured to fair value at each reporting date, reflecting the Company's business model for managing and evaluating the investment portfolio. Adoption of IFRS 9 is not expected to result in any material changes to the measurement of the Company's investments, which continues to be at fair value through profit or loss.

Financial assets within the scope of IFRS 17 Insurance Contracts such as premiums receivable and reinsurance and other recoveries on paid claims, which together form the majority of the carrying value of the Company's loans and receivables, and reinsurance recoveries on outstanding claims are outside the scope of IFRS 9.

Loans and receivables also includes amounts due from brokers, agents and intermediaries and other financial assets which are within the scope of IFRS 9. Under IFRS 9, these assets continue to be recognised at amortised cost less impairment, with the measurement of impairment reflecting expected credit losses. The Company expects a recognition of an earlier and higher loss allowance under this approach compared to the current incurred loss approach, resulting in a negative impact on equity on adoption. A significant portion of these balances are due to related parties, the Company does not expect the recognition of significant additional loss allowances under this approach compared to the current approach, for balances due to related parties.

IFRS 17 Insurance Contracts
IFRS 17 will significantly change the accounting for insurance contracts. The adoption of the standard will result in changes compared to the Company's current accounting policies including the following:

- insurance contracts assets and liabilities are measured based on a current estimate of future cash flows, including a risk adjustment and a contractual service margin. As a result, the claims and the reinsurance recoveries will be recognised on a present value basis with the unwind of the discounting recognised in the income statement;

- the premium allocation approach, an optional simplified measurement model for an eligible group of insurance contracts, will be adopted. This approach does not require separate identification of the risk adjustment and the contractual service margin until a claim is incurred. The premium is recognised over the coverage period on the basis of the passage of time unless the expected pattern of release from risk differs significantly from the passage of time, in which case it is recognised based on the expected timing of incurred claims and benefits;

- any expected losses arising from loss-making contracts and the corresponding expected recoveries from reinsurance contracts held are to be accounted for in the income statement when the entity determines that losses are expected;

- reinsurance commission income that is contingent on claims is treated as a reduction of claims recoveries cash flows and if not contingent on claims is accounted for as part of premium paid cash flows;.

- all insurance contract assets and liabilities are monetary items. As a result, those account balances denominated in foreign currencies are subject to revaluation with the impact of changes in foreign exchange rates recognised in the income statement.

The presentation of the income statement will also change, with premium and claims figures being replaced with insurance contract revenue, insurance service expense and insurance finance income and expense.

The cash flow and economic value generated by the Group's insurance business does not change. No significant effects on the Group's regulatory capital position, nor the ability of subsidiaries to pay dividends to Group, are expected. The Bermuda Solvency Capital Requirements will continue to drive the business's ability to pay dividends to the Group.

The requirements of IFRS 17 are complex and interpretations thereof are subject to change as the project progresses and as the Company continues to analyse the impacts of the standard and recent amendments. The Company's accounting guidance and application methodologies continue to be developed, and a project team has been mobilised to progress the detailed design and implementation of required changes to financial reporting systems. Market developments also continue to be monitored in order to assess the impact of evolving interpretations and other changes.

IFRS 17 is effective on January 1, 2023.

Initial application of IFRS 17 and IFRS 9 – comparative information
This narrow scope amendment is not expected to be used by the Company.

4.3 Insurance contracts

Insurance contracts are defined as those containing significant insurance risk if, and only if, an insured event could cause the Company to make significant additional payments in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire. The Company issues short term casualty and property insurance contracts that transfer significant insurance risk.

Premium revenue recognition

To the extent that the amount of written premium is estimable, the Company estimates the ultimate premiums for the entire contract period and records this estimate at the inception of the contract. For contracts where the full written premium is not estimable at inception, the Company records written premium for the portion of the contract period for which the amount is estimable. These estimates are based primarily on information in the underlying contracts as well as information provided by clients and/or brokers.

Premiums are stated before the deduction of acquisition costs and are earned over the exposure period in proportion to the period of risk covered. Unearned premiums represent the portion of premiums written that relate to the remaining term of the underlying policies in force.

Changes in premium estimates are expected and may result in adjustments in any reporting period. These estimates change over time as additional information regarding the underlying business volume is obtained. Any subsequent adjustments arising on such estimates are recorded in the period in which they are determined.

Where coverage is reinstated under pre-defined contract terms after the occurrence of a loss event, reinstatement premiums are recognized as written and recorded in the period in which they are determined. Accruals for reinstatement premiums are based on contractual terms applied to amounts of losses incurred with the only element of management judgment involved being with respect to the amount of loss reserves. Changes in estimates of reinstatement premiums are reflected in the period that changes in loss estimates are determined.

Reinsurance premiums ceded

The Company reduces the risk of losses on business written by reinsuring certain risks and exposures with other reinsurers. The Company remains liable to the extent that any retrocessionaire may fail to meet its obligations and to the extent that the Company does not hold sufficient security for their unpaid obligations. Ceded premiums are written during the period in which the risks incept and are expensed over the contract period in proportion to the period of risk covered. Prepaid reinsurance premiums consist of the unexpired portion of reinsurance ceded.

Retroactive insurance contracts that contain significant insurance risk and that have an insurance component and a deposit component are unbundled providing the deposit component can be measured separately. The deposit component is recorded directly into the balance sheet within reinsurers' share of insurance liabilities with a corresponding amount in creditors arising out of reinsurance operations. The reinsurers' share of insurance liabilities relating to the contracts is remeasured at each reporting period with movements taken to the reinsurance recoveries in the income statement.

Reinsurance transactions that transfer risk but are retroactive are included in reinsurance assets. The excess of estimated liabilities for claims and claim expenses over the consideration paid is established as a deferred credit at inception. The deferred amounts are subsequently amortized using the recovery method over the settlement period of the reserves and reflected through the loss and loss adjustment expenses line in the Statements of Income. In transactions where the consideration paid exceeds the estimated liabilities for loss and loss adjustment expenses a loss is recognized immediately. If the estimated liabilities exceeds the consideration paid, deferred gains are recorded. The deferred gains are subsequently recognized into earnings over the settlement period of the reserves.

Profit commissions on reinsurance ceded are calculated and accrued based on the expected loss experience for contracts and recorded when the current loss estimate indicates that a profit commission is probable under the contract terms. This is reported in Reinsurance commission income in the Statement of Income.

4.4 Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

This presumes that the transaction takes place in the principal (or most advantageous) market under current market conditions. Fair value is a market-based measure and in the absence of observable market prices in an active market, it is measured using the assumptions that market participants would use when pricing the asset or liability.

The fair value of a non-financial asset is determined based on its highest and best use from a market participant's perspective. When using this approach, the Company takes into account the asset's use that is physically possible, legally permissible and financially feasible. The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received.

If an asset or a liability measured at fair value has a bid price and an ask price, the price within the bid-ask spread that is most representative of fair value in the circumstances is used to measure fair value. An analysis of fair values of financial instruments and further details as to how they are measured are provide in Note 10.

4.5 Financial assets and liabilities including loans and receivables

The Company classifies its financial assets as: a) financial assets at fair value through profit and loss and b) loans and receivables. Management determines the classification of its financial assets based on the purpose for which the financial assets are held at initial recognition. The decision by the Company to designate debt and fixed income securities, equities and shares in unit trusts and deposits with credit institutions, at fair value through profit or loss reflects the fact that the investment portfolios are managed and their performance evaluated, on a fair value basis.

Purchases and sales of investments are accounted for at the trade date. Financial assets and liabilities are initially recognized at fair value. Subsequent to initial recognition financial assets and liabilities are measured as described below. Financial assets are derecognized when the right to receive cash flows from them expires or where they have been transferred and the Company has also transferred substantially all risks and rewards of ownership.

a) Financial assets at fair value through profit or loss
   A financial asset is classified into this category at inception if it is managed and evaluated on a fair value basis, if acquired principally for the purpose of selling in the short term, or if it forms part of a portfolio of financial assets in which there is evidence of short-term profit taking.

   The Company's investment portfolio comprises fixed income securities, certain traded mutual funds and other investments. These are carried at fair value with unrealized gains and losses included in the Statement of Income. Realised gains and losses are recognised in the Statement of Income using the specific identification method.

b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Receivables arising from insurance contracts are included in this category and are reviewed for impairment as part of the impairment review of loans and receivables. Loan and receivables are carried at amortised cost less any provision for impairment value.

c) Netting of financial instruments
Financial assets and liabilities are only netted and recognized in the appropriate net amount if a corresponding legal claim (reciprocity, similarity and maturity) exists or is expressly agreed by the contract.

d) Derivative financial instruments
Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently valued at fair value at each Statement of Financial Position date. Fair values are obtained from quoted market values and, if these are not available, valuation techniques including option pricing models as appropriate. The method for recognising gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged.

None of the Company's derivatives have been designated as hedging instruments and; as such, fair value changes are recognized immediately in the Statement of Income.

4.6 Cash and cash equivalents

The Company has classified cash deposits and short-term highly liquid investments as cash and cash equivalents. These assets are readily convertible into known amounts of cash and are subject to inconsequential changes in value. Cash equivalents are financial investments with less than three months to maturity at the date of acquisition.

4.7 Funds withheld

Funds withheld represents amounts contractually withheld by (re)insurers in accordance with their reinsurance agreements. The balance represents amounts that would normally be paid but are withheld by the (re)insurers to reduce a potential credit risk or to retain control over investments. They are recognized at their nominal amount.

4.8 Receivables and Payables Related to Insurance Contracts

Receivables and payables are recognised when due and are carried at nominal value. If there is objective evidence that premiums receivables are impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognize the impairment loss in the Statement of Income.

4.9 Deferred acquisition costs (DAC)

Acquisition costs consist of commissions, brokerage and excise taxes that are related directly to the successful acquisition of new or renewal reinsurance contracts. These costs are deferred and amortized over the period in which the related premiums are earned.

At each Statement of Financial Position date, the Company performs a liability adequacy test to ensure the adequacy of the contract liabilities net of related DAC. In performing this test, the current best estimate of future contractual cash flows and claims handling and administration expenses, as well as the investment income from the assets backing the liabilities are used. Any deficiency is charged to profit and loss initially by writing off DAC and by establishing a provision for losses arising from the liability adequacy test.

4.10 Deferred Commission Income

Reinsurance commission income represents acquisition costs earned from ceding companies and is earned over the terms of the underlying reinsurance contracts. The unearned portion of the reinsurance commission income is recognized as Reinsurer's share of deferred acquisition costs under Trade and other payables.

4.11 Impairment of assets

Objective factors that are considered when determining whether a financial asset or group of financial assets may be impaired include, but are not limited to, the following:

- negative rating agency announcements in respect of investment issuers, reinsurers and debtors;
- significant reported financial difficulties of investment issuers, reinsurers and debtors;
- actual breaches of credit terms such as persistent late payments or actual default;
- the disintegration of the active market(s) in which a particular asset is traded or deployed;
- adverse economic or regulatory conditions that may restrict future cash flows and asset recoverability; and
- the withdrawal of any guarantee from statutory funds or sovereign agencies implicitly supporting the asset.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For financial assets, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the value of the estimated future cash flows discounted at the financial asset's original effective interest rate. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior periods. A reversal of an impairment loss is recognised as income immediately.

4.12 Loss and loss adjustment expense reserves and Reinsurance recoverable on unpaid claims

The Company's loss and loss adjustment expense reserves include case reserves and reserves for losses incurred but not yet reported ("IBNR reserves"). Case reserves are established for losses that have been reported, but not yet paid. IBNR reserves represent the estimated loss and loss adjustment expenses that have been incurred by insureds and reinsureds but not yet reported to the insurer or reinsurer, including unknown future developments on loss and loss adjustment expenses that are known to the insurer or reinsurer. IBNR reserves are established by management based on the methods described in Note 13.

Inherent in the estimate of ultimate loss and loss adjustment expenses are expected trends in claim severity and frequency and other factors that may vary significantly as claims are settled. Accordingly, ultimate loss and loss adjustment expenses may differ materially from the amounts recorded in the financial statements. These estimates are reviewed regularly and, as experience develops and new information becomes known, the reserves are adjusted as necessary. Such adjustments, if any, are recorded in the Statement of Income in the period in which they become known.

As of December 31, 2021 and 2020, the Company did not deem any losses recoverable from reinsurers as uncollectible. Please refer to the section on credit risk for further discussion.

4.13 Related party transactions

IAS 24 Related Party Disclosures defines related parties, among others, as parent companies and subsidiaries, subsidiaries of a common parent company, associated companies, legal entities under the influence of management and the management of the company itself.

All related party transactions have been recorded in accordance with IAS 24 and include business both assumed and ceded under usual market conditions. Please refer to Note 15 for related party disclosures.

4.14 Foreign currency translation

The Company's functional currency is the U.S. dollar. Transactions in foreign currencies are translated to U.S. dollars at the exchange rate in effect on the transaction date. Monetary assets and liabilities in foreign currencies are remeasured at the exchange rates in effect at the reporting date and foreign exchange gains and losses are included in the Statement of Income.

4.15 Income taxes and uncertain tax positions

Under current Bermuda law, the Company is not subject to any income or capital gains taxes. In the event that such taxes are imposed, the Company would be exempted from any such taxes until March 2035 pursuant to the Tax Assurance Certificates issued to such entities pursuant to the Bermuda Exempted Undertakings Tax Protection Act of 1966, as amended.

As of December 31, 2021 and 2020, the Company did not have any uncertain tax liabilities.

5. Management of risks

The Company adheres to the Group's overall appetite for accepting and managing varying classes of risk is defined by the Group's Board of Directors (the "Board"). The Board has developed a governance framework and has set Group-wide risk management policies and procedures which include risk identification, risk management and mitigation and risk reporting. The objective of these policies and procedures is to protect the Group's shareholders, policyholders and other stakeholders from negative events that could hinder the Group's delivery of its contractual obligations and its achievement of sustainable profitable economic and social performance.

The Board exercises oversight of the development and operational implementation of its risk management policies and procedures through the Group Risk Committee and ongoing compliance therewith, through a dedicated internal audit function, which has operational independence, clear terms of reference influenced by the Board's Non-Executive Directors and a clear upwards reporting structure back into the Board. The Group and the Company, in common with the non-life insurance industry generally, is fundamentally driven by a desire to originate, retain and service insurance contracts to maturity. The Company's cash flows are funded mainly through advance premium collections and the timing of such premium inflows is reasonably predictable. In addition, the majority of material cash outflows are typically triggered by the occurrence of insured events, although the timing, frequency and severity of claims can fluctuate.

The Company continues to monitor and respond to Covid-19 as required, in particular any continued developments and the impacts related to our operations, insurance claims, reinsurance assets and investments on the Company's capital and liquidity positions.

The principal sources of risk relevant to the Company's operations and its financial statements fall into two broad categories: insurance risk and financial risk, which are described in Notes 5.1 and 5.2 below. The Company also actively manages its capital risks as detailed in Note 5.3.

5.1 Insurance Risk

The predominant risk to which the Company is exposed is insurance risk which is assumed through the underwriting process. Insurance risk can be sub-categorised into i) underwriting risk including the risk of catastrophe and systemic reinsurance losses and the reinsurance competition and cycle, and ii) reserving risk.

i) Underwriting risk
The Board sets the Company's underwriting strategy and risk appetite seeking to exploit identified opportunities in light of other relevant anticipated market conditions. The Board requires the Company's underwriters to operate within an overall Group appetite for individual events. This defines the maximum exposure that the Company is prepared to retain on its own account for any one potential catastrophe event or disaster.

Consistent with the Group, the Company's overall underwriting risk appetite seeks to ensure that in a 1-in-200 bad year it is within the underwriting risk limit. The limit is calibrated each year based on exposure, expected profit and the size of other correlated risks to enable the Company to continue in business and take advantage of market opportunities that arise. This approach is still being refined and is expected to be further updated for 2022.

Specific underwriting objectives such as aggregation limits, reinsurance protection thresholds and geographical disaster event risk exposures are prepared and reviewed by the Chief Underwriting Officer in order to translate the Board's summarised underwriting strategy into specific measurable actions and targets. These actions and targets are reviewed and approved by the Board in advance of each underwriting year. The Board continually reviews its underwriting strategy throughout each underwriting year in light of the evolving market pricing and loss conditions and as opportunities present themselves. The underwriters and management consider underwriting risk at an individual contract level, and also from a portfolio perspective where the risks assumed in similar classes of policies are aggregated and the exposure evaluated in light of historical portfolio experience and prospective factors.

To assist with the process of pricing and managing underwriting risk the Company routinely performs a wide range of activities including the following:

- regularly updating the Company's risk models;
- documenting, monitoring and reporting on the Company's strategy to manage risk;
- developing systems that facilitate the identification of emerging issues promptly;
- utilising sophisticated computer modelling tools to simulate catastrophes and measure the resultant potential losses before and after reinsurance;
- monitoring legal developments and amending the wording of policies when necessary;
- regularly aggregating risk exposures across individual underwriting portfolios and known accumulations of risk;
- examining the aggregated exposures in advance of underwriting further large risks; and
- developing processes that continually factor market intelligence into the pricing process.

The delegation of underwriting authority to specific individuals is subject to regular review. All underwriting staff are set strict parameters in relation to the levels and types of business they can underwrite, based on individual levels of experience and competence. These parameters cover areas such as the maximum sums insured per insurance contract, maximum gross premiums written and maximum aggregated exposures per geographical zone and risk class. Regular meetings are held between the Chief Underwriting Officer and a specialist team in order to monitor claim development patterns and discuss individual underwriting issues as they arise.

The Company compiles estimates of losses arising from realistic disaster events using statistical models alongside input from its underwriters. These require significant management judgment. Disaster scenarios are hypothetical events selected to represent major events occurring in areas with large insured values. They also reflect the areas that represent significant exposures for the Company. In addition to understanding the loss the Company may suffer from an event, it is important to ensure that the risk models used are calibrated to the risks faced today. This includes updating trends in claims payments, and capturing climate change-related impacts. The Group has a climate risk framework, which is used to assess where research resources should be focused, and models updated, and as a result improves not only the Company's understanding of the potential impact of a changing climate but also the Company's ability to respond.

The selection of realistic disaster scenario events is adjusted each year and they are not therefore necessarily directly comparable from one year to the next. The events are extreme and unprecedented, and as such these estimates may prove inadequate as a result of incorrect assumptions, model deficiencies, or losses from unmodelled risks. This means that should such a realistic disaster actually eventuate, the Company's final ultimate losses could materially differ from those estimates modelled by management. The Company's insurance contracts include provisions to contain losses, such as the ability to impose deductibles and demand reinstatement premiums in certain cases. In addition, in order to manage the Company's exposure to repeated catastrophic events, relevant policies frequently contain payment limits to cap the maximum amount payable from these insured events over the contract period. In the case of climate-exposed risks specifically, the vast majority of contracts written by the Company are annual in nature and thus can be revised frequently. This flexibility is a key tool for managing the multi-decade challenge of climate risks holistically.

Underwriting risk is also managed by purchasing reinsurance. Reinsurance protection may be in the form of quota share reinsurance or excess of loss cover and is purchased at an entity level but is also considered at an overall Group level to mitigate the effect of catastrophes and unexpected concentrations of risk. However, the scope and type of reinsurance protection purchased may change depending on the extent and competitiveness of cover available in the market.

Below is a summary of the gross and net insurance liabilities. The estimated liquidity profile to settle the gross claims liabilities is given in Note 13.

Estimated concentration of gross and net insurance liabilities:

	Property	**Casualty and Others**	**Total**
		($ in thousands)	
December 31, 2021			
Gross	$ 1,300,421	$ 1,861,987	$ 3,162,408
Recoverable	1,043,096	41,041	1,084,137
Net	$ 257,325	$ 1,820,946	$ 2,078,271
December 31, 2020			
Gross	$ 1,444,792	$ 2,190,323	$ 3,635,115
Recoverable	1,119,007	75,201	1,194,208
Net	$ 325,785	$ 2,115,122	$ 2,440,907

The Company's property reinsurance inwards acceptances are primarily focused on large commercial property, homeowner and crop exposures held by other insurance companies predominantly in North

America and other developed economies. This business is characterised more by large claims arising from individual events or catastrophes. Multiple insured losses can periodically arise out of a single natural or man-made occurrence. The main circumstances that result in claims against the reinsurance inwards book are conventional catastrophes, such as earthquakes or storms, and other events including fires, explosions, and cyber events. The occurrence and impact of these events are very difficult to model over the short term which complicates attempts to anticipate loss frequencies on an annual basis. In those years where there is a low incidence of severe catastrophes, loss experience on the reinsurance inwards book can be relatively low.

A significant proportion of the reinsurance inwards business provides cover on an excess of loss basis for individual events. The Company agrees to reimburse the cedant once their losses exceed a minimum level. Consequently, the frequency and severity of reinsurance inwards claims are related not only to the number of significant insured events that occur but also to their individual magnitude. If numerous catastrophes occurred in any one year, but the cedant's individual loss on each was below the minimum stated, then the Company would have no liability under such contracts. Maximum gross line sizes and aggregate exposures are set for each type of programme.

The Company writes reinsurance risks for periods of mainly one year so that contracts can be assessed for pricing and terms and adjusted to reflect any changes in market conditions and the evolving impact of climate change.

The Company also writes casualty reinsurance on a quota share basis from affiliates and the strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of potential hazard, industry and geography. However, the Company's exposure is more focused towards professional, general and technological liability risks rather than human bodily injury risks, which are only accepted under limited circumstances. Claims typically arise from incidents such as errors and omissions attributed to the insured, professional negligence and specific losses suffered as a result of electronic or technological failure of software products and websites.

The provision of insurance to cover allegations made against individuals acting in the course of fiduciary or managerial responsibilities, including directors' and officers' insurance is one example of a casualty insurance risk.

The Company's casualty reinsurance contracts mainly experience low severity attritional losses. By nature, some of these losses may take longer to settle than the other categories of business. In addition, there is increased potential for accumulation in casualty risk due to the growing complexity of business, technological advances, and greater interconnectivity and interdependency across the world due to globalisation.

The market for cyber insurance is still a relatively immature one, complicated by the fast-moving nature of the threat, as the world becomes more connected. The risks associated with cyber insurance are multiplying in both diversity and scale, with associated financial and reputational consequences of failing to prepare for them. The volume of cyber-related claims are relatively small at present but are only going to grow.

ii) Reserving risk

The Company's procedures for estimating the outstanding costs of settling insured losses at the Statement of Financial Position date, including claims incurred but not yet reported, are detailed in Note 13.

The Company's provision estimates are subject to rigorous review by senior management from all areas of the business. The final provision is approved by the Board on the recommendation of the reserving committee.

The short-tailed property reinsurance claims are normally mostly notified and settled within 12 to 24 months of the insured event occurring. There is often a time lag between the establishment and re-estimate of case reserves and reporting to the Company. The Company works closely with the reinsured to ensure timely reporting and also centrally analyses industry loss data to verify the reported reserves.

Those claims taking the longest time to develop and settle typically relate to casualty risks where legal complexities occasionally develop regarding the insured's alleged omissions or negligence. The length of time required to obtain definitive legal judgments and make eventual settlements exposes the Company to a degree of reserving risk in an inflationary environment.

The final quantum for casualty claims may not be established for many years after the event. Consequently, a significant proportion of the casualty insurance amounts reserved on the Statement of Financial Position may not be expected to settle within 24 months of the Statement of Financial Position date. This has been considered in the reserving process.

The nature of reinsurance is such that, there is often a time lag between the establishment and re-estimate of case reserves and reporting to the Company. The Company works closely with the reinsured to ensure timely reporting and also centrally analyses industry loss data to verify the reported reserves.

In addressing specific aspects of the impact of Covid-19 to the Company in relation to insurance risk, the Company focuses on assessing the assumptions and methodology used to determine the booked position. The assessment concentrates on uncertainty in two major areas: by program type to highlight challenges specific to each program, and by geographic location to highlight developments in various countries.

5.2 Financial Risk

The Company is exposed to financial risk through its ownership of financial instruments including financial liabilities which collectively represent a significant element of the shareholder equity. The Company invests in financial assets in order to fund obligations arising from its insurance contracts and financial liabilities.

The key financial risk for the Company is that the proceeds from its financial assets and investment result generated thereon are not sufficient to fund the Company's obligations. The most important elements and economic variables that could result in such an outcome relate to the reliability of fair value measures, price risk, interest rate risk, credit risk, liquidity risk and currency risk. The Company's policies and procedures for managing exposure to these specific categories of risk are detailed below.

i) Reliability of fair values

The Company has elected to carry loans and receivables at amortised cost and all financial investments at fair value through profit or loss as they are managed and evaluated on a fair value basis in accordance with a documented strategy. With the exception of unquoted investments shown in Note 9, all of the financial investments held by the Company are available to trade in markets and the Company therefore seeks to determine fair value by reference to published prices or as derived by pricing vendors using observable quotations in the most active financial markets in which the assets trade. The fair value of financial assets is measured primarily with reference to their closing market prices at the Statement of Financial Position date. The ability to obtain quoted market prices may be reduced in periods of diminished liquidity. In addition, those quoted prices that may be available may represent an unrealistic proportion of market holdings or individual trade sizes that could not be readily available to the Company. In such instances fair values may be determined or partially supplemented using other observable market inputs such as prices provided by market makers such as dealers and brokers, and prices achieved in the most recent regular transaction of identical or closely related instruments occurring before the Statement of Financial Position date but updated for relevant perceived changes in market conditions.

At 31 December 2021, the Company holds asset-backed and mortgage-backed fixed income instruments in its investment portfolio, but has minimal direct exposure to sub-prime asset classes. Together with the Group's investment managers, management continues to monitor the potential for any adverse development associated with this investment exposure through the analysis of relevant factors such as credit ratings, collateral, subordination levels and default rates in relation to the securities held. The Company did not experience any material defaults on debt securities during the year.

Valuation of these securities will continue to be impacted by external market factors including default rates, rating agency actions, and liquidity. The Company will make adjustments to the investment portfolio as appropriate as part of its overall portfolio strategy, but its ability to mitigate its risk by selling or hedging its exposures may be limited by the market environment. The Company's future results may be impacted, both positively and negatively, by the valuation adjustments applied to these securities.

Note 10 provides an analysis of the measurement attributes of the Company's financial instruments.

ii) Price risk

The Company is exposed to equity price risk through its holdings of equity and investment funds. This is limited to a relatively small and controlled proportion of the overall investment portfolio and the equity and investment funds involved are diversified over a number of companies and industries. The fair value of equity assets in the Statement of Financial Position at 31 December 2021 was $166,710 (2020: $166,814). Certain debt and bond funds have been reallocated from equities and investment funds to debt and fixed income holdings to better reflect the nature of the investments, and the 2020 comparatives have been re-presented accordingly. For 2020, $107,959 has been re-presented from equities and investment funds to debt and fixed income holdings.

These may be analysed as follows:

(expressed in U.S. dollars)

Nature of equity and investment fund holdings	**2021**	**2020***
	(% weighting)	
Directly held equity securities	0%	0%
Equity funds	81%	84%
Hedge funds	19%	16%
Geographic focus		
Specific UK mandates	41%	50%
Global mandates	59%	50%

**Re-presented to better reflect the nature of the investments*

The allocation of price risk is not heavily confined to any one market index so as to reduce the Company's exposure to individual sensitivities. The Company makes an allocation to less volatile, absolute return strategies within its risk assets, so as to balance its desire to maximise returns with the need to ensure capital is available to support underwriting throughout any downturn in financial markets. A 10% downward correction in equity prices at 31 December 2021 would have been expected to reduce the Company's equity and profit after tax for the year by approximately $16.7 million (2020 re-presented: $16.7 million) assuming that the only area impacted was equity financial assets. A 10% upward movement is estimated to have an equal but opposite effect.

iii) Interest rate risk

Fixed income investments represent a significant proportion of the Company's assets and the Board continually monitors investment strategy to minimise the risk of a fall in the portfolio's market value which could affect the amount of business that the Company is able to underwrite or its ability to settle claims as they fall due. The fair value of the Company's investment portfolio of debt and fixed income securities is normally inversely correlated to movements in market interest rates. If market interest rates rise, the fair value of the Company's debt and fixed income investments would tend to fall and vice versa if credit spreads remained constant. Debt and fixed income assets are predominantly invested in high-quality corporate, government and asset-backed bonds. The investments typically have relatively short durations and terms to maturity. The portfolio is managed to minimise the impact of interest rate risk on anticipated Company cash flows. Certain debt and bond funds have been reallocated from equities and shares in unit trusts to debt and fixed income securities to better reflect the nature of the investments, and the 2020 comparatives have been re-presented accordingly.

The Company may also, from time to time, enter into interest rate future contracts in order to reduce interest rate risk on specific portfolios. The fair value of debt and fixed income assets in the Company's Statement of Financial Position at 31 December 2021 was $1,786,646 (2020 re-presented: $1,873,301).

One method of assessing interest rate sensitivity is through the examination of duration-convexity factors in the underlying portfolio. Using a duration-convexity-based sensitivity analysis, if market interest rates had increased or decreased by 100 basis points at the Statement of Financial Position date, the Company equity and profit after tax for the year might have been expected to increase or decrease by approximately $31.7 million (2020 re-presented: $31.5 million) assuming that the only Statement of Financial Position area affected was debt and fixed income financial assets. Duration is the weighted average length of time required for an instrument's cash flow stream to be recovered, where the weightings involved are based on the discounted present values of each cash flow. A closely related concept, modified duration, measures the sensitivity of the instrument's price to a change in its yield to maturity. Convexity measures the sensitivity of modified duration to changes in the yield to maturity. Using these three concepts, scenario modelling derives the above estimated impact on instruments' fair values for a 100-basis point change in the term structure of market interest rates.

Insurance contract liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted and contractually non-interest-bearing. The Company's debt and fixed income assets are further detailed at Note 10.

iv) Credit risk

The Company has exposure to credit risk, which is the risk that a counterparty will suffer a deterioration in perceived financial strength or be unable to pay amounts in full when due. The concentrations of credit risk exposures held by insurers may be expected to be greater than those associated with other industries, due to the specific nature of reinsurance markets and the extent of investments held in financial markets. In both markets, the Company interacts with a number of counterparties who are engaged in similar activities with similar customer profiles, and often in the same geographical areas and industry sectors. Consequently, as many of these counterparties are themselves exposed to similar economic characteristics, one single localised or macroeconomic change could severely disrupt the ability of a significant number of counterparties to meet the Company's agreed contractual terms and obligations.

Key areas of exposure to credit risk include:

- reinsurers' share of reinsurance liabilities;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from reinsurance contract holders; and
- counterparty risk with respect to cash and cash equivalents, and investments including deposits and derivative transactions.

The Company's maximum exposure to credit risk is represented by the carrying values of financial assets and reinsurance assets included in the Statement of Financial Position at any given point in time. The Company does not use credit derivatives or other products to mitigate maximum credit risk exposures on reinsurance assets, but collateral may be requested to be held against these assets. The Company structures the levels of credit risk accepted by placing limits on its exposure to a single counterparty, or groups of counterparties, and having regard to geographical locations. Such risks are subject to an annual or more frequent review. There is no significant concentration of credit risk with respect to loans and receivables, as the Company has a large number of internationally dispersed debtors with unrelated operations. Retrocession is used to contain insurance risk. This does not, however, discharge the Company's liability as primary reinsurer. If a retrocessionaire fails to pay a claim for any reason, the Company remains liable for the payment to the reinsured. The creditworthiness of retrocessionaires is therefore continually reviewed throughout the year.

The Credit Committee assesses the creditworthiness of all reinsurers by reviewing credit grades provided by rating agencies and other publicly available financial information detailing their financial strength and performance as well as detailed analysis from the Group's internal credit analysis team. The Committee considers the reputation of its reinsurance partners and also receives details of recent payment history and the status of any ongoing negotiations between the Company and these third parties. This information is used to update the reinsurance purchasing strategy.

The financial analysis of retrocession partners produces an assessment categorised by S&P rating (or equivalent when not available from S&P). Despite the rigorous nature of this assessment exercise, and the resultant restricted range of counterparties with acceptable strength and credit credentials that emerges therefrom, some degree of credit risk concentration remains inevitable.

A credit risk exists should any of our retrocessionaires be unable to fulfill their contractual obligations with respect to the payment of reinsurance balances due to the Company. As at December 31, 2021, of the $1,084.1m (2020: $1,194.2m) of loss and loss adjustment expenses recoverable, approximately 29% (2020: 22%) or $309.1m (2020: $256.2m) are due from cedants who are not required to provide collateral and are rated ‘A’ or above. Of the remaining 71% (2020: 78%) or $775.0m (2020: $938.0m), we hold collateral of $903.1m (2020: $1,026.6m) in trusts for which we are the beneficiary or trade with the counterparty on a funds withheld basis.

As at December 31, 2021 of the Company’s total Reinsurance Balances Receivable of $511.7m (2020: $468.3m), $309.5m (2020: $285.0m) were due from Hiscox affiliates. External reinsurance balances receivable of $202.2m (2020: $182.7m) have been evaluated and at December 31, 2021, the Company does not deem any of its reinsurance balances receivable as uncollectible.

The Company also mitigates counterparty credit risk by concentrating debt and fixed income investments in high-quality instruments, including a particular emphasis on government bonds issued mainly by North American countries and the European Union. For the current and prior period, the Company did not experience any material defaults on debt securities.

An analysis of the Company’s exposure to counterparty credit risk in its portfolio of fixed income holdings, based on S&P or equivalent rating is presented below. Certain debt and bond funds have been reallocated from equities and investment funds to debt and fixed income holdings to better reflect the nature of the investments, and the 2020 comparatives have been re-presented accordingly.

	2021	**2020****
	($ in thousands)	
Government and government agencies		
U.S.	$ 455,838	$ 549,750
Non-U.S.	187,453	200,302
AAA	163,411	29,014

(expressed in U.S. dollars)

AA		35,613		114,960
A		402,586		440,029
BBB		400,042		425,520
Non-investment grade*		141,703		113,726
Total investments in fixed income holdings	$	1,786,646	$	1,873,301

* *Fixed income holdings with a rating of below BBB*
** *Re-presented to better reflect the nature of the investments*

Of cash and cash equivalents, 7% (2020: 17%) are held at a U.S. financial institution rated A+ by Fitch Ratings, 67% (2020: 56%) at a Bermuda financial institution rated BBB- by Standard & Poor's, none (2020: 15%) represent U.S. and Japanese Government Treasury Bills rated AAA by Standard & Poor's and Corporate Debt rated BBB by Standard and Poor's classified as cash equivalents due to their short duration, 8% (2020: 8%) are held at U.K. Financial Institutions rated A+ by Standard & Poor's, 19% (2020: 4%) at a S&P AAA rated liquidity fund and less than 1% (2020: less than 1%) of cash and cash equivalents are held at a U.S. financial institution rated A1 (2020: A1) by Moody's. The Company's management evaluates the financial strength and stability of these institutions on a periodic basis. The Company's investment portfolio is managed by external investment managers in accordance with the Company's investment guidelines.

v) Liquidity Risk

The Company is exposed to daily calls on its available cash resources, mainly from claims arising from its reinsurance contracts. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Board sets limits on the minimum level of cash and maturing funds available to meet such calls.

A significant proportion of the Company's investments is in highly liquid assets which could be converted to cash in a prompt fashion and at minimal expense. The Company's exposure to equities is concentrated on shares and funds that are traded on internationally recognised stock exchanges.

The main focus of the investment portfolio is on high-quality, short-duration debt and fixed income securities and cash. There are no significant holdings of investments with specific repricing dates. Notwithstanding the regular interest receipts and also the Company's ability to liquidate these securities and the majority of its other financial instrument assets for cash in a prompt and reasonable manner, the contractual maturity profile of the fair value of these securities at 31 December is disclosed in Note 7.

The available headroom of working capital is monitored through the use of a detailed Company cash flow forecast which is reviewed by management quarterly or more frequently as required.

The following is an analysis of the estimated timing of net cash outflows based on the gross claims liabilities held. The Company does not discount claims liabilities. The estimated phasing of settlement is based on current estimates and historical trends and the actual timing of future settlement cash flows may differ materially from the following disclosure.

	2021	2020
	($ in thousands)	
Within one year	$ 1,454,708	$ 1,744,855
Between one and two years	758,978	836,076
Between two and five years	758,979	836,077
Over five years	189,743	218,107
Total claims liabilities	$ 3,162,408	$ 3,635,115

vi) Currency risk

Currency risk is the risk of loss resulting from fluctuations in exchange rates. The Company's exposures to foreign exchange risk arise mainly with respect to the Pound Sterling, Euro and the Japanese Yen, which arises from the conversion of foreign currency transactions resulting from the activities of entering into reinsurance, investment and operational contracts in a currency that is different to its functional currency.

Operational foreign exchange risk is principally managed by broadly matching assets and liabilities by currency and liquidity. Due attention is paid to local regulatory solvency and risk-based capital requirements. All foreign currency derivative transactions with external parties are managed centrally.

The Company does not hedge operational foreign exchange risk arising from the accounting mismatch due to the translation of monetary and non-monetary items. Non-monetary items including unearned premiums, deferred acquisition costs and reinsurers' share of unearned premiums, are recorded at historical transaction rates and are not remeasured at the reporting date. Monetary items including claims reserves, reinsurers' share of claims reserves, and investments are remeasured at each reporting date at the closing rates.

The Company's use of currency derivatives is disclosed in Note 8.

5.3 Capital Risk Management

The Company's primary objectives when managing its capital position are:

- to safeguard its ability to continue as a going concern
- to provide an adequate return to the Group by pricing its insurance products and services commensurately with the level of risk;
- to maintain an efficient cost of capital;
- to comply with all regulatory requirements by an appropriate margin;
- to settle policyholders' claims as they arise.

Additionally, the Company complies with all capital requirements set by its regulator, the Bermuda Monetary Authority ("the Authority"). Please refer to Note 18 for additional disclosures on statutory requirements.

6. Cash and cash equivalents

		2021		2020
		($ in thousands)		
Cash at bank	$	248,388	$	338,722
Short-term deposits		-		58,465
Total Cash and cash equivalents	$	248,388	$	397,187

Cash includes overnight deposits and money market funds. Short-term deposits represent debt securities with an original maturity date of less than three months.

7. Financial assets and liabilities and net investment income

Financial assets designated at fair value through profit or loss are measured at fair values, with all changes from one accounting period to the next being recorded through the Statement of Income. Certain debt and bond funds have been reallocated from equities and investment funds to debt and fixed income holdings to better reflect the nature of the investments, and the 2020 comparatives have been re-presented accordingly.

		2021		2020*
		($ in thousands)		
Debt and fixed income holdings	$	1,786,646	$	1,873,301
Equities and investment funds		166,710		166,814
Total investments		1,953,356		2,040,115
Derivative assets		-		865
Total financial assets carried at fair value	$	1,953,356	$	2,040,980

** Re-presented to better reflect the nature of the investments*

The effective maturity of debt and fixed income holdings due within and after one year are as follows:

		2021		2020*
		($ in thousands)		
Less than one year	$	446,989	$	713,528
Between one and two years		451,444		540,004
Between two and five years		664,324		469,487
Over five years		223,889		150,282
Total debt and fixed income holdings	$	1,786,646	$	1,873,301

** Re-presented to better reflect the nature of the investments*

The Company's equities and investment funds and other non-dated instruments have no contractual maturity terms but could also be liquidated in an orderly manner for cash in a prompt and reasonable time frame within one year of the Statement of Financial Position date.

Investments at 31 December are denominated in the following currencies at fair value:

	2021	2020*
	($ in thousands)	
Debt and fixed income holdings		
US Dollars	$ 1,461,394	$ 1,567,543
Sterling	325,251	305,757
Other currencies	1	1
	$ 1,786,646	$ 1,873,301
Equities and investment funds		
US Dollars	$ 85,826	$ 71,181
Sterling	80,884	95,633
	$ 166,710	$ 166,814
Total investments	$ 1,953,356	$ 2,040,115

** Re-presented to better reflect the nature of the investments*

The financial liabilities carried at fair value is comprised of derivative instruments amounting to $198k (2020: $4k) and is all due within one year. This is included within Trade and other payables.

The following table summarises the Company's net investment results:

	2021	2020
	($ in thousands)	
Investment income including interest receivable	$ 31,685	$ 63,515
Net realised gains on investments at fair value through profit or loss	22,197	39,729
Net fair value (losses) gains on investments at fair value through profit or loss	(27,808)	7,775
Investment income-financial assets	26,074	111,019
Net fair value losses on derivative instruments	(2,220)	(1,367)
Total net investment income	$ 23,854	$ 109,652

8. Derivative financial instruments

The Company entered into both exchange-traded and over-the-counter derivative contracts for a number of purposes during 2021 and 2020. The Company had the right and intention to settle each contract on a net basis. The assets and liabilities of these contracts at December 31, 2021 all mature within one year of the Statement of Financial Position date and are detailed below:

31 December 2021

	Gross Contract Notional Amount	Fair Value of Assets	Fair value of liabilities	Net
		($ in thousands)		
Foreign exchange forward contracts	14,781	$ -	$ (198)	$ (198)

The foreign exchange forward contracts are represented by gross fair value of assets and liabilities as detailed below:

	Fair Value of Assets	Fair value of liabilities	Net
		($ in thousands)	
Gross fair value of assets	$ -	$14,807	$ 14,807
Gross fair value of liabilities	-	(15,005)	(15,005)
	$ -	$ (198)	$ (198)

31 December 2020

	Gross Contract Notional Amount	Fair Value of Assets	Fair value of liabilities	Net
		($ in thousands)		
Foreign exchange forward contracts	44,215	$ 865	$ (4)	$ 861

	Fair Value of Assets	Fair value of liabilities	Net
		($ in thousands)	
Gross fair value of assets	$ 43,580	$ 187	$ 43,767
Gross fair value of liabilities	(42,715)	(191)	(42,906)
	$ 865	$ (4)	$ 861

Derivative investments comprise Japanese Yen, Pound Sterling, Euro and Australian Dollar forward contracts as well as interest rate futures contracts, collectively with notional amounts of $14.8m (2020: $44.2m). The Company recognized in the Statement of Income, within Net investment income, a net exchange loss of $2.2m (2020: $1.4m loss) on its forward contract holdings. None of the Company's derivatives have been designated as hedging instruments and; as such, fair value changes are recognized immediately in the Statement of Income.

9. Loans and receivables including insurance receivables

	2021	2020
	($ in thousands)	
Reinsurance balances receivable	$ 511,667	$ 468,296
Other debtors including related party	43,730	43,980
Receivables for investments sold	9,548	14,401
Accrued interest	10,021	8,664
Total loans and receivables including insurance receivables	$ 574,966	$ 535,341

Included in Reinsurance balances receivable is $164.9m (2020: $150.5m) related to our assumed quota share arrangement with our affiliates which is withheld by the affiliates. Under this arrangement, cash and investments of $1,307.4m (2020: $1,514.2m) are also held by the affiliate as disclosed in Note 12. These assets will be settled net of outstanding claims of $195.3m (2020: $261.8m) as presented within the Loss and loss adjustment expense reserve on the statement of financial position.

The amounts expected to be recovered before and after one year are estimated as follows:

	2021	2020
	($ in thousands)	
Within one year	$ 490,104	$ 387,045
After one year	84,862	148,296
Total loans and receivables including insurance receivables	$ 574,966	$ 535,341

There is no significant concentration of credit risk with respect to loans and receivables as the Company has a large number of internationally dispersed debtors. No impairment allowance on loans and receivables were required as of the Statement of Financial Position dates.

10. Fair value measurements

In accordance with IFRS 13 Fair Value Measurement, the fair value of financial instruments based on a three-level fair value hierarchy that reflects the significance of the inputs used in measuring the fair value, is set out below.

2021	**Level 1**	**Level 2**	**Level 3**	**Total**
		($ in thousands)		
Government and government agencies				
U.S.	$ 358,768	$ 97,070	$ -	$ 455,838
Non-U.S.	46,564	140,889	-	187,453
Corporate securities	64,757	889,798	-	954,555
Asset-backed securities	-	37,069	-	37,069
Mortgage-backed securities - residential	-	37,475	-	37,475
Mortgage-backed securities - commercial	-	25,302	-	25,302
Derivative instruments	-	-	-	-
Other investments	-	226,080	29,584	255,664
Total financial assets carried at fair value	$ 470,089	$ 1,453,683	$ 29,584	$ 1,953,356

2020*	**Level 1**	**Level 2**	**Level 3**	**Total**
		($ in thousands)		
Government and government agencies				
U.S.	$ 420,429	$ 129,323	$ -	$ 549,752
Non-U.S.	155,935	44,367	-	200,302
Corporate securities	14,830	978,831	-	993,661
Asset-backed securities	-	7,340	-	7,340
Mortgage-backed securities - residential	-	14,291	-	14,291
Mortgage-backed securities - commercial	-	-	-	-
Derivative instruments	-	861	-	861
Other investments	-	274,379	394	274,773
Total financial assets carried at fair value	$ 591,194	$ 1,449,392	$ 394	$ 2,040,980

** Re-presented to better reflect the nature of the investments*

The levels of the fair value hierarchy are defined by the standard as follows:

- Level 1: fair values measured using quoted prices (unadjusted) in active markets for identical instruments;
- Level 2: fair values measured using directly or indirectly observable inputs or other similar valuation techniques for which all significant inputs are based on market observable data;
- Level 3: fair values measured using valuation techniques for which significant inputs are not based on market observable data.

The fair values of the Company's financial assets are based on prices provided by investment managers who obtain market data from numerous independent pricing services. The pricing services used by the investment manager obtain actual transaction prices for securities that have quoted prices in active markets. For those securities which are not actively traded, the pricing services use common market valuation pricing models. Observable inputs used in common market valuation pricing models include, but are not limited to, broker quotes, credit ratings, interest rates and yield curves, prepayment speeds, default rates and other such inputs which are available from market sources.

The Company has refined the criteria for financial assets being allocated to Level 1, and certain corporate bonds considered to have quoted prices in active markets are now included in Level 1. Previously no corporate bonds were included in Level 1. There is no impact on profit in current or future periods. $14.8m have been re-presented from Level 2 to Level 1 for 2020.

Included within Level 1 of the fair value hierarchy are certain government bonds, treasury bills, long-term debt which are measured based on quoted prices in active markets.

Level 2 of the hierarchy contains certain government bonds, US government agencies, corporate securities, asset backed securities and mortgage-backed securities. The fair value of these assets is based on the prices obtained from both investment managers and investment custodians as discussed above. The Group records the unadjusted price provided and validates the price through a number of methods including a comparison of the prices provided by the investment managers with the investment custodians and the valuation used by external parties to derive fair value. Quoted prices for US government agencies and corporate securities are based on a limited number of transactions for those securities and as such the Company considers these instruments to have similar characteristics to those instruments classified as Level 2. Also included within Level 2 are units held in collective investment vehicles investing in traditional and alternative investment strategies and over-the-counter derivatives.

Level 3 contains an investment in a limited partnership and a segregated portfolio company which have limited observable inputs on which to measure fair value. Fair value is determined to be net asset value for these investments. The effect of changing one or more inputs used in the measurement of fair value of this instrument to another reasonably possible assumption would not be significant.

The Company's policy is to recognize transfers into and transfers out of fair value hierarchy levels at the end of the relevant reporting period during which the transfers are deemed to have occurred. During the year there was a transfer of one investment holding from Level 2 to Level 3 of the fair value hierarchy.

The following table sets forth a reconciliation of opening and closing balances for financial instruments classified under Level 3 of the fair value hierarchy:

	2021	2020
	($ in thousands)	
Balance at January 1	$ 394	$ 789
Fair value losses through profit or loss	2	(446)
Purchases	-	51
Settlements	-	-
Transfer into Level 3	29,188	-
Balance at December 31	$ 29,584	$ 394

11. Deferred Acquisition Costs

	2021			2020		
	Gross	**Attributable to Reinsurers**	**Net**	**Gross**	**Attributable to Reinsurers**	**Net**
	($ in thousands)					
Balance deferred at January 1	89,060	(21,696)	67,364	97,929	(25,674)	72,255
Acquisition costs incurred in relation to reinsurance contracts written	225,843	(64,579)	161,264	213,106	(73,867)	139,239
Acquisition costs expense in the Statement of Income	(220,330)	66,636	(153,694)	(219,553)	77,840	(141,713)
Other adjustments	589	-	589	(2,422)	5	(2,417)
Balance deferred at December 31	95,162	(19,639)	75,523	89,060	(21,696)	67,364

The deferred amount of reinsurance contract acquisition costs attributable to reinsurers of $19,639 (2020: $21,696) is not eligible for offset against the gross Statement of Financial Position asset and is included separately within Trade and other payables.

Included in Other adjustments is Funds withheld movement of $nil (2020: ($1,872)) related to our assumed quota share arrangement with an affiliate and is withheld by the affiliate.

The net amounts expected to be recovered before and after one year are estimated as follows:

	2021	2020
	($ in thousands)	
Within one year	$ 48,513	$ 40,718
After one year	27,010	26,646
Total	$ 75,523	$ 67,364

12. Funds withheld

The funds withheld of $1,307.4m (2020: $1,514.2m) represents the net assets furnished by the Company to related party cedants to collateralise business assumed. Total investment income earned on the funds withheld in the year amounted to $8,022 (2020: $35,389).

13. Reinsurance liabilities and associated recoverables

	2021	2020
	($ in thousands)	
Gross		
Claims reported and claim adjustment expenses	$ 1,258,959	$ 1,414,095
Claims incurred but not reported	1,903,449	2,221,021
Unearned premiums	696,310	666,795
Total Reinsurance liabilities, gross	$ 3,858,718	$ 4,301,911
Recoverable from reinsurers		
Claims reported and claim adjustment expenses	$ 352,653	$ 428,187
Claims incurred but not reported	731,484	766,021
Unearned premiums	107,288	115,263
Total Reinsurers' share of Reinsurance liabilities	$ 1,191,425	$ 1,309,471
Net		
Claims reported and claim adjustment expenses	$ 906,306	$ 985,908
Claims incurred but not reported	1,171,965	1,455,000
Unearned premiums	589,022	551,532
Total Reinsurance liabilities, net	$ 2,667,293	$ 2,992,440

The Total Reinsurance liabilities, net expected before and after one year are estimated as follows:

	2021	2020
	($ in thousands)	
Within one year	$ 1,120,263	$ 1,645,842
After one year	1,547,030	1,346,598
Total	$ 2,667,293	$ 2,992,440

(a) Process used to decide on assumptions

There are many risks associated with insurance contracts, and this means that there is a considerable amount of uncertainty in estimating the future settlement cost of claims. There is uncertainty in both the amounts and the timing of future claim payment cash flows.

Claims paid are claims transactions settled up to the reporting date including settlement expenses allocated to those transactions.

Unpaid claims reserves are made for known or anticipated liabilities which have not been settled up to the reporting date. Included within the provision is an allowance for the future costs of settling those claims.

The Company relies on actuarial analysis to estimate the settlement cost of future claims. There is close communication between the actuaries and other key stakeholders, such as the underwriters, claims and finance teams when setting and validating the assumptions. The unpaid claims reserve is estimated based on past experience and current expectations of future cost levels. Allowance is made for the current premium rating and inflationary environment.

The claim reserves are estimated on a best estimate basis, taking into account current market conditions and the nature of risks being underwritten.

Under certain reinsurance contracts, the Company may have the right to pursue third parties for payment of some or all costs (for example, subrogation). If it is certain a recovery or reimbursement will be made at the valuation date, specific estimates of these salvage and/or subrogation amounts are included as allowances in the measurement of the reinsurance liability for unpaid claims. This is then recognised in reinsurance receivables when the liability is settled.

Estimates of where claim liabilities will ultimately settle are adjusted each reporting period to reflect emerging claims experience. Changes in expected claims may result in a reduction or an increase in the ultimate claim costs and a release or an increase in reserves in the period in which the change occurs.

Booked reserves are held above the best estimate to help mitigate the uncertainty within the reserve estimates. As the best estimate matures and becomes more certain, the management margin is gradually released in line with the reserving policy.

(b) Claims development tables

The development of reinsurance liabilities provides a measure of the Company’s ability to estimate the ultimate value of claims. The Company analyses actual claims development compared with previous estimates on an accident year basis.

The top of each table illustrates how estimates of ultimate claim costs for each accident year have changed at successive year ends and the bottom reconciles the cumulative claim costs to the amounts still recognised as liabilities.

For incurred and paid accident year claims denominated in foreign currency, the Company has revalued using the current period end exchange rate.

The following loss triangles are presented in thousands of U.S. dollars:

Gross Loss

Insurance claims and claims expenses reserves - GROSS											
Accident year	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**Total**
Estimate of ultimate claims costs:											
at end of accident year	598,528	580,023	601,382	648,983	826,330	1,519,112	1,425,768	1,580,351	1,569,146	1,298,443	**10,648,066**
one year later	763,828	550,530	533,595	618,242	713,741	1,403,759	1,674,302	1,318,284	1,461,258		**9,037,538**
two years later	725,082	494,500	482,808	540,216	678,023	1,355,322	1,617,636	1,066,710			**6,960,297**
three years later	719,799	461,047	452,553	542,444	687,126	1,325,118	1,394,305				**5,582,393**
four years later	712,600	408,351	442,403	540,711	709,101	1,253,202					**4,066,368**
five years later	484,640	390,824	431,153	556,133	665,422						**2,528,173**
six years later	478,942	398,089	433,420	533,800							**1,844,250**
seven years later	479,712	398,323	426,812								**1,304,847**
eight years later	468,721	387,892									**856,612**
nine years later	460,867										**460,867**
Current estimate of cumulative claims	**460,867**	**387,892**	**426,812**	**533,800**	**665,422**	**1,253,202**	**1,394,305**	**1,066,710**	**1,461,258**	**1,298,443**	**8,948,709**
Cumulative payments to date	**(436,928)**	**(377,287)**	**(373,147)**	**(449,927)**	**(562,731)**	**(1,064,950)**	**(1,073,044)**	**(684,810)**	**(605,106)**	**(205,853)**	**(5,833,782)**
Total Gross Reserves	23,939	10,604	53,665	83,873	102,691	188,253	321,260	381,900	856,152	1,092,590	**3,114,927**
Total Gross Reserves on prior accident years											47,481
Total Gross Reserves											**3,162,408**

Net Loss

Insurance claims and claims expenses reserves - NET											
Accident year	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**Total**
Estimate of ultimate claims costs:											
at end of accident year	568,198	563,351	574,873	616,638	750,782	959,652	887,246	896,225	1,143,010	860,068	**7,820,044**
one year later	501,877	488,759	510,747	578,445	676,596	828,772	943,729	856,448	1,073,163		**6,458,536**
two years later	464,239	435,668	458,113	530,168	645,131	835,352	931,317	727,535			**5,027,523**
three years later	449,644	399,124	432,466	532,523	660,492	853,096	812,164				**4,139,510**
four years later	444,275	399,041	419,801	531,746	683,959	786,554					**3,265,377**
five years later	463,807	385,499	406,478	546,561	640,089						**2,442,434**
six years later	459,362	394,160	408,184	523,935							**1,785,641**
seven years later	459,296	394,007	401,385								**1,254,688**
eight years later	449,448	383,175									**832,624**
nine years later	442,180										**442,180**
Current estimate of cumulative claims	**442,180**	**383,175**	**401,385**	**523,935**	**640,089**	**786,554**	**812,164**	**727,535**	**1,073,163**	**860,068**	**6,650,249**
Cumulative payments to date	**(418,902)**	**(373,130)**	**(348,079)**	**(441,947)**	**(537,969)**	**(679,005)**	**(627,037)**	**(516,891)**	**(502,017)**	**(173,862)**	**(4,618,838)**
Total Net Reserves	23,278	10,046	53,306	81,988	102,121	107,549	185,127	210,644	571,146	686,205	**2,031,411**
Total Net Reserves on prior accident years											46,860
Total Net Reserves											**2,078,271**

A reconciliation of reinsurance claims and liabilities is as follows:

	2021	2020
	($ in thousands)	
Gross loss and loss adjustment expenses reserves, beginning of year	$ 3,635,115	$ 2,381,111
Less: loss and loss adjustment expenses recoverable, beginning of year	(1,194,208)	(1,344,011)
Net loss and loss adjustment expenses reserves, beginning of year	2,440,907	1,037,100
Net loss and loss adjustment expenses incurred in respect of losses occurring in:		
Current year	860,240	1,091,181
Prior year	(105,012)	185
Total net loss and loss adjustment expenses incurred	755,228	1,091,366
Net loss and loss adjustment expenses paid in respect of losses occurring in:		
Current year	(173,862)	(236,563)
Prior year	(539,818)	(548,350)
Total net paid losses	(713,680)	(784,913)
Reserves assumed upon Merger with HCL (Note 2)	-	1,043,605
Transfers	(378,904)	-
Effect of foreign exchange and other adjustments	(25,280)	53,749
Net loss and loss adjustment expenses reserves, end of year	2,078,271	2,440,907
Plus: loss and loss adjustment expenses recoverable, end of year	1,084,137	1,194,208
Gross loss and loss adjustment expenses reserves, end of year	$ 3,162,408	$ 3,635,115

Transfers of $379m (2020: $nil) represent a decrease in net loss reserves related to loss portfolio transfers (LPTs). During the year, the Company completed LPTs securing coverage for potential adverse development on historical liabilities for selected lines of business. Included in the effect of foreign exchange and other adjustments is Funds withheld movement of $nil (2020: $12,106) related to our assumed quota share arrangement with an affiliate which is withheld by the affiliate.

Reserving Methodology
Reserving methods used include the Bornhuetter-Ferguson ("BF") method and the Expected Loss Ratio method for the most recent year(s). These methods place weight on initial loss expectations and are less volatile to early claims experience. For significant catastrophe exposures, the catastrophe component of the initial expected loss ratio is developed in line with a seasonally adjusted earning pattern rather than a standard triangle runoff pattern. As the years of account become more mature, more weighting is placed on the emerging experience and the projection will move over to a Chain Ladder projection (or blend of the BF and Chain Ladder methods). Over and above the exposure-based methods for assessment of Catastrophe IBNR required, specific IBNER is held for known events that have occurred. These IBNER estimates are established through the large loss process which is a robust and well-established process run within the Group. Combining these two approaches the IBNR estimates are determined.

In general, reserves for the Company's more recent loss exposed events are subject to greater uncertainty and, therefore, greater potential variability, and are likely to experience material changes from one period to the next. This is due to the uncertainty as to the size of the industry losses from the event, uncertainty to which contracts have been exposed to the event, uncertainty due to complex legal and coverage issues that can arise out of large complex events, and uncertainty as to the magnitude of claims incurred by the Company's customers. As the Company's claims age, more information becomes available and the Company believes its estimates become more certain.

The ultimate amounts of Covid-19 claims remain subject to a higher than normal level of uncertainty in the best estimate at this stage of development. Consequently, in measuring the liabilities, the Company has included an allowance for risk and uncertainties above the best estimate. In determining the Covid-19-related net claims, the Company estimates the reinsurers' share of the claims by applying a consistent set of assumptions with those in determining the gross claims, considering the individual wording of the reinsurance treaties, and assessing the potential for default or dispute risks. Changes to this set of assumptions and estimates could materially affect the amount of reinsurers' share of the claims.

There have been no significant changes in methodologies and assumptions during the year ended December 31, 2021.

A reconciliation of the unearned premium reserves is as follows:

	2021			2020		
	Gross	**Reinsurance**	**Net**	**Gross**	**Reinsurance**	**Net**
			($ in thousands)			
Balance unearned at 1 January	$ 666,795	$ (115,263)	$ 551,532	$ 447,617	$ (123,349)	$ 324,268
Assumed upon merger with HCL (Note 2)	-	-	-	237,877	-	237,877
Premiums written	1,661,004	(447,988)	1,213,016	1,523,536	(444,482)	1,079,054
Premiums earned in the Statements of Income	(1,632,606)	455,964	(1,176,642)	(1,537,071)	452,506	(1,084,565)

Other Adjustments	1,117	(1)	1,116	(5,164)	62	(5,102)
Balance unearned at 31 December	$ 696,310	$ (107,288)	$ 589,022	$ 666,795	$ (115,263)	$ 551,532

The amounts expected to be recovered before and after one year, based on historical experience, are included in the second table to this note.

Included in Other adjustments is Funds withheld movement of $nil (2020: ($4,666)) related to our assumed quota share arrangement with an affiliate which is withheld by the affiliate.

14. Trade and other payables

Trade and other payables are comprised of:

	2021	**2020**
	($ in thousands)	
Reinsurance balances payable	$ 186,273	$ 282,536
Reinsurers' share of deferred acquisition costs	19,639	21,696
Deferred income	327	4,982
Derivative financial liability	198	4
Other payables including related party	11,299	7,054
Total	$ 217,736	$ 316,272

Reinsurance balances payable include amounts due for retroceded premiums netted off against amounts recoverable from retrocessionaires for their share of claims paid, as calculated in accordance with individual retrocession arrangements. The carrying amounts approximate fair value due to the short-term nature of the payables.

15. Related party transactions

The Company enters into reinsurance and retrocession agreements with affiliates. The financial statements include the following amounts which are attributable to reinsurance assumed and retrocession related party transactions:

	2021	**2020**
	($ in thousands)	
Gross premiums written	$ 1,191,839	$ 1,085,031
Gross premiums earned	1,159,827	1,100,089
Gross premiums ceded	326,762	305,100
Earned premiums ceded	319,322	323,575
Loss and loss adjustment expenses incurred, net	608,138	860,777
Acquisition costs, net	108,338	93,930

General and Admin Expenses	64,039	71,182
Investment Income	8,022	35,389
Loans and receivables including reinsurance receivables	316,763	296,991
Funds withheld	1,307,399	1,514,241
Deferred acquisition costs	75,615	68,113
Loss and loss adjustment expense recoverable	649,963	802,574
Prepaid reinsurance premiums	85,498	78,058
Reinsurance balances payable	13,686	58,787
Unearned premium reserves	569,135	536,007
Loss and loss adjustment expenses reserves	2,070,598	2,538,419
Reinsurers' share of Deferred acquisition costs	15,927	14,823

During 2021, the Company maintained assets in trust accounts to collateralize obligations under various reinsurance agreements. Cash and marketable securities with an approximate market value of $554.3m (2020: $598.7m) were held in trust in respect of internal QS arrangements. Additionally, cash and investments have been provided as funds withheld for internal quota share agreements as discussed in Note 12.

The losses recoverable from related parties is primarily due from an ILS fund that is managed by an affiliate.

The Company entered into various service agreements with Hiscox Underwriting Group Services Limited ("HUGS") and Hiscox Services Ltd. ("HSL"). HUGS and HSL are wholly owned subsidiaries of Hiscox Ltd. The service agreements with HUGS cover group wide investment management services, claims and legal services, human resources, IT, actuarial, accounting and other general corporate services, modeling services and outwards reinsurance administration services. The service agreements with HSL cover Bermuda general expenses as well as support services such as underwriting, modeling, outwards reinsurance administration, human resources, operations, claims and accounting services.

Transactions and balances with HUGS and HSL have been recorded in the financial statements as follows:

	2021	**2020**
	($ in thousands)	
HUGS:		
Loans and receivables including reinsurance receivables	$ -	$ 1,901
Trade and other payables	948	-
Acquisition costs	10	50
Loss and loss adjustment expenses	468	326
Investment income	1,287	289
General and administrative expenses	9,728	7,917

HSL:				
Loans and receivables including reinsurance receivables	$	22,314	$	16,932
Acquisition costs		5,338		3,559
Loss and loss adjustment expenses		891		643
Investment income		2,124		1,639
General and administrative expenses		18,781		19,992

Non-reinsurance related party balances with other Hiscox affiliates have been recorded in the financial statements as follows:

		2021		**2020**
		($ in thousands)		
Loans and receivables including reinsurance receivables	$	13,081	$	23,630
Trade and other payables		526		5,677
Loss and loss adjustment expenses		-		57
General and administrative expenses		143		276

The expense recognized during the year for the fair value of equity awards made to employees of the Company in the form of share options in the parent company, Hiscox Ltd, is $2.3m (2020: $0.7m).

16. Commitments and security arrangements

The letter of credit facilities held by the Company as at December 31, 2021 and 2020 are as follows:

		2021		**2020**
		($ in thousands)		
Citibank	$	125,000	$	125,000
Commerzbank		225,000		225,000
National Australia Bank		120,000		120,000
Total	$	470,000	$	470,000

Collectively, the secured facility agreements allow the Company to request the issuance of up to $470.0m (2020: $470.0m) in letters of credit. At December 31, 2021, $183.1m (2020: $140.1m) in letters of credit were issued under these facilities, collateralized by cash, U.S. government and corporate securities with a fair value of $201.7m (2020: $169.5m).

During 2021, the Company maintained assets in trust accounts to collateralize obligations under various reinsurance agreements. At December 31, 2021, $573.3m (2020: $756.3m) of marketable securities and $4.6m (2020: $30.3m) of cash were restricted as collateral within various Letter of Credit and trust accounts. The Company also provide assets under a Security and Trust Deed charged to Lloyd's of London, to meet any liabilities they occur from their interest in Syndicates 33 and 3624. At 31 December 2021, the Company held $728.2m of investments (2020: $884.6m), and $18.8m of cash (2020: $25.9m) in favour of Lloyd's of London under this arrangement.

Hiscox Plc, a company related by common control, has a letter of credit and revolving credit facility with Lloyds Banking Group, as agent for a syndicate of banks, which may be drawn in cash up to GPB 450 million under a revolving credit facility or LOC up to $266.0m (2020: $266.0m). In addition, the terms also provide that upon request the facility may be drawn in a currency other than US Dollars. At 31 December 2021 $266.0m (2020: $266.0m) was utilised by way of LOC to support the Funds at Lloyd's requirement and $nil cash drawings were outstanding (2020: $193.4m). The borrower for this letter of credit is initially responsible for repaying the banks for any amounts drawn. However, the facility is guaranteed by Hiscox Ltd and other affiliated companies, including the Company. This guarantee entitles the banks to pursue any of these entities for any sums due. In addition, the banks have share pledges over the shares of Hiscox Insurance Company Limited, an affiliate company, and the Company which can be called in the circumstance of a payment default.

17. Shareholder's equity

The items "common shares" and "contributed surplus" represent amounts paid or contributed by the Parent and retained earnings consist of accumulated reinvested net income generated by the Company. Any adjustment from a retrospective change in accounting policies affecting prior periods are recognised in the opening value of retained earnings in the Statement of Financial Position. For distribution restrictions, please refer to Note 18.

During June and December 2020, Capital contributions of $109.4m and $100.0m, respectively, were received from Hiscox Ltd. Total cash proceeds from the capital contributions were $3.1m, the balance was funded through investment securities contributed from Hiscox Ltd.

In June, October and November 2021, dividends of $73.7m, $30.3m and $57.0m respectively were declared and paid to Hiscox Ltd.

18. Statutory requirements

As a Class 4 insurer, the Company must at all times maintain a solvency margin and an enhanced capital requirement in accordance with the provisions of The Insurance Act 1978. Each year the Company is required to file with the Bermuda Monetary Authority (the "Authority") a capital and solvency return within four months of its relevant financial year end (unless specifically extended).

The prescribed form of capital and solvency return comprises the insurer's Bermuda Solvency Capital Requirement ("BSCR") model, a schedule of fixed income investments by rating category, a schedule of net loss and loss expense provision by line of business, a schedule of premiums written by line of business, a schedule of risk management and a schedule of fixed income securities by security type. The BSCR includes a standardized model used to measure the risk associated with an insurer's assets, liabilities and premiums, and a formula to take account of catastrophe risk exposure. The Authority has provided for the use of pre-approved internally developed company models in lieu of the standardized BSCR. The Authority requires all Class 4 insurers to maintain their capital at a target level which is 120% of the amount calculated in accordance with the BSCR or the company's approved internal model (the Enhanced Capital

Requirement or "ECR"). In addition, the Company is required to maintain a minimum solvency margin. Both requirements have been met.

Statutory capital and surplus at December 31, 2021, as determined using statutory accounting principles, was $1,294.2m (2020: $1,268.1m). At December 31, 2021 the Company's minimum capital requirement was $622.9m (2020: $571.3m).

The Insurance Act 1978 also requires an insurer engaged in general business to maintain the value of its relevant assets at not less than 75% of the amount of its relevant liabilities. Relevant assets include cash and time deposits, quoted investments, unquoted bonds and debentures, first liens on real estate, investment income due and accrued, accounts and premiums receivable, reinsurance balances receivable and funds held by ceding reinsurers. There are certain categories of assets which, unless specifically permitted by the Authority, do not automatically qualify as relevant assets, such as unquoted equity securities, investments in and advances to affiliates and real estate and collateral loans. The relevant liabilities are total general business insurance reserves and total other liabilities less deferred income tax, sundry liabilities (by interpretation, those not specifically defined) and, letters of credit, guarantees and other instruments. The minimum liquidity ratio has been met.

The Company is prohibited from declaring or paying a dividend if its Class 4 statutory capital and surplus is less than its ECR, or if it is in breach of its solvency margin or minimum liquidity ratio, or if the declaration or payment of such dividend would cause such breach. Further, the Company, as a Class 4 insurer, is prohibited from declaring or paying in any year dividends of more than 25% of its total statutory capital and surplus as shown on its previous year's statutory Statement of Financial Position unless it files (at least seven days before payment of such dividends) with the Authority an affidavit stating that it will continue to meet its solvency margin and minimum liquidity ratio. As of December 31, 2021, the Company could pay dividends of $317.0m (2020: $149.6m) without providing an affidavit to the Authority.

The Company must obtain the Authority's prior approval for a reduction by 15% or more of the total statutory capital as set forth in its previous year's statutory financial statements. These restrictions on declaring or paying dividends and distributions under the Insurance Act are in addition to those under the Companies Act 1981, which apply to all Bermuda companies.

19. Subsequent events

Subsequent events have been evaluated up to and including April 29, 2022, being the date that these financial statements were available to be issued.

A dividend of $65.0m to Hiscox Ltd. was declared on February 10, 2022 and was fully paid on March 23, 2022.

In February 2022, a military conflict arose in Ukraine. The Company has some limited direct insurance exposure through certain lines including terrorism, political violence, war and marine. Management are actively monitoring the situation. The Company has negligible exposure to investments in Ukrainian and Russian assets.

On March 2, 2022, Hiscox Syndicates Limited as managing agent for Lloyd's Syndicate 33, Lloyd's Syndicate 3624 (and therefore the Company via HDCM quota share agreements) entered into a reinsurance agreement providing coverage for adverse development on policies written in the casualty treaty (reinsurance) book. Under this agreement, the reinsurer will assume the liabilities subject to a maximum of \$239m. The effective date for the reinsurance agreement is September 1, 2021.