FINANCIAL STATEMENTS

Hiscox Insurance Company (Bermuda) Limited
Year Ended December 31, 2022
With Independent Auditor's Report

Hiscox Insurance Company (Bermuda) Limited

Financial Statements

Year Ended December 31, 2022

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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, 2022, 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, 2022;
- 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.

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 28, 2023

Hiscox Insurance Company (Bermuda) Limited
Statement of Financial Position

As of December 31, 2022
(expressed in thousands of U.S. dollars, except per share and share amounts)

	2022	2021
Assets		
Cash and cash equivalents (Note 5)	$ 484,677	$ 248,388
Financial assets carried at fair value (Notes 6, 7 and 9)	1,629,608	1,953,356
Loans and receivables including reinsurance receivables (Notes 8 and 14)	636,137	574,966
Funds withheld (Note 11)	904,329	1,307,399
Reinsurance recoverable on unpaid claims (Notes 4 and 12)	1,309,909	1,084,137
Deferred acquisition costs (Note 10)	105,468	95,162
Prepaid reinsurance premiums (Note 12)	156,958	107,288
Total assets	$ 5,227,086	$ 5,370,696
Liabilities		
Loss and loss adjustment expense reserve (Note 12)	$ 2,812,247	$ 3,162,408
Unearned premium reserves (Note 12)	759,186	696,310
Trade and other payables (Notes 13 and 14)	450,054	217,736
Total liabilities	4,021,487	4,076,454
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	2,319	90,962
Total shareholder's equity	1,205,599	1,294,242
Total liabilities and shareholder's equity	$ 5,227,086	$ 5,370,696

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, 2022
(expressed in thousands of U.S. dollars)

	2022	2021
Income		
Gross premiums written	$ 1,851,920	$ 1,661,004
Change in unearned premium reserves	(63,275)	(28,398)
Gross premiums earned	1,788,645	1,632,606
Gross premiums ceded	699,547	447,988
Change in prepaid reinsurance premiums	(52,613)	7,976
Earned premiums ceded	646,934	455,964
Net premiums earned (Note 12)	1,141,711	1,176,642
Reinsurance commission income (Note 10)	96,503	66,636
Net investment (loss) income (Note 6)	(115,712)	23,854
Total income	1,122,502	1,267,132
Expenses		
Loss and loss adjustment expenses incurred	1,506,133	912,786
Reinsurance recoveries	(845,375)	(157,558)
Loss and loss adjustment expenses incurred, net (Note 12)	660,758	755,228
Acquisition costs (Note 10)	256,305	220,330
General and administrative expenses (Note 14)	99,059	101,543
Foreign exchange loss	50,023	3,223
Total expenses	1,066,145	1,080,324
Other comprehensive income	-	-
Total comprehensive income for the year	$ 56,357	$ 186,808

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, 2022
(expressed in thousands of U.S. dollars, except share amounts)

	2022	2021
Common Shares		
Balance, beginning and end of year	100,000,000	100,000,000
Common Shares (Note 16)		
Balance, beginning and end of year	$ 100,000	$ 100,000
Contributed surplus		
Balance, beginning of year	1,103,280	1,103,280
Balance, end of year	$ 1,103,280	$ 1,103,280
Retained earnings (Note 16)		
Balance, beginning of year	90,962	64,818
Net income	56,357	186,808
Dividends declared	(145,000)	(160,664)
Balance, end of year	$ 2,319	$ 90,962
Total shareholder's equity	$ 1,205,599	$ 1,294,242

The accompanying notes are an integral part of the financial statements

Hiscox Insurance Company (Bermuda) Limited
Statements of Cash Flows

Year Ended December 31, 2022
(expressed in thousands of U.S. dollars)

	2022	2021
Operating activities		
Net income	$ 56,357	$ 186,808
Adjustments to reconcile net income to net cash provided by operating activities:		
Share compensation expense	2,551	2,344
Interest loss (income)	2,875	(31,685)
Unrealized losses on foreign exchange	51,460	11,265
Net fair value losses on financial assets	94,113	27,808
Changes in assets and liabilities:		
Financial assets carried at fair value	182,235	87,506
Loans and receivables including reinsurance receivables	(129,697)	(81,929)
Funds withheld	416,182	206,842
Prepaid reinsurance premiums	(49,670)	7,975
Deferred acquisition costs	(10,306)	(6,102)
Loss and loss adjustment expenses recoverable	(204,196)	101,280
Loss and loss adjustment expense reserves	(306,550)	(429,216)
Unearned premium reserves	62,876	29,515
Trade and other payables	234,093	(96,642)
Net cash provided by operating activities	402,323	15,769
Financing activities		
Capital contribution	-	-
Dividends paid	(145,000)	(160,664)
Net cash used in financing activities	(145,000)	(160,664)
Net change in cash and cash equivalents	257,323	(144,895)
Cash and cash equivalents, beginning of year	248,388	397,187
Effect of exchange rate movements on cash	(21,034)	(3,904)
Cash and cash equivalents, end of year	$ 484,677	$ 248,388

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. Basis of Presentation

2.1 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 24, 2023. The Board of Directors has the power to amend these financial statements subsequent to issuance.

2.2 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 4. 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.

2.3 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.

2.4 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, 2022 is $2,058,602 (2021: $1,903,449) 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, 2022 is $921,825 (2021: $731,484).

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 4.1 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 12.

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.

3. Significant accounting policies

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

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

(a) New accounting standards, interpretations and amendments to published standards as listed below that are effective for annual periods beginning on 1 January 2022 have been applied in preparing these consolidated financial statements and had no material impact on the Company.

IFRS 3 References to the Conceptual Framework (Amendments to IFRS 3)

IAS 16 Proceeds before intended use and annual improvements

IAS 37 Onerous contracts – cost of fulfilling a contract(Amendments to IAS 37)

(b) Future accounting developments: The following new standards and amendment to standards, are effective for annual periods beginning on or 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), a majority of 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. The 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.

Loans, receivables and debtors in scope of IFRS 9 will 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, but the impact on equity on adoption is not expected to be material.

IFRS 17 Insurance Contracts

The Company will restate comparative information for 2022 applying the full retrospective transitional provisions of IFRS 17.

The nature of the changes in accounting policies can be summarised, as follows.

The Company is permitted under IFRS 4 Insurance Contracts to continue to adopt the existing accounting policies that were applied prior to the adoption of IFRS ('grandfathered') or the date of the acquisition of a subsidiary. IFRS 17 replaces IFRS 4 and is effective for annual periods beginning on or after 1 January 2023 and has been endorsed by the UK Endorsement Board. IFRS 17 establishes specific principles for the recognition, measurement and presentation of insurance contracts issued and reinsurance contracts held by the Company. Under IFRS 17, the liability for incurred claims (LIC) is equivalent to the liabilities for claims reported, claims adjustment expenses, and claims incurred but not reported under IFRS 4 and the liability for remaining coverage (LRC) is equivalent to unearned premium liabilities for premiums received.

Measurement

IFRS 17 requires a current measurement model where estimates are remeasured at each reporting period. Under the General Measurement Model (GMM), contracts are measured using the building blocks of discounted probability-weighted fulfilment cash flows, an explicit risk adjustment, and a contractual service margin (CSM) representing the unearned profit of the contract which is recognised as revenue over the coverage period. A simplification, the Premium Allocation Approach (PAA), can be applied if certain eligibility criteria are met. The majority of the Company's policies have a coverage period of 12 months or less and so are eligible for the PAA. Management applies significant judgement in assessing whether applying the PAA to groups of contracts with a coverage period extending beyond 12 months would produce a measurement of the LRC that would not differ materially from the one that would be produced applying GMM. Management has concluded that a majority of the Company's insurance contracts issued, and reinsurance contracts held, meet the criteria and the PAA is applied to measure them.

The measurement principles differ from the approach used by the Company under IFRS 4. The key areas are:

- the LRC reflects premiums received less deferred insurance acquisition cash flows and less amounts recognised in insurance service revenue. The Company has taken the option not to discount the LRC;
- measurement of the LRC does not require separate identification of the risk adjustment for non-financial risk and the CSM;
- measurement of the LRC is adjusted if a group of contracts is expected to be onerous (i.e. loss making) over the remaining coverage period and a loss is recognised immediately in the income statement under 'insurance service expenses' with the recoveries in 'amounts recoverable from reinsurers for incurred claims'. A loss component is measured as the excess of the fulfilment cash flows that relate to the remaining coverage of the group over the carrying amount of the LRC of the group of contracts;
- measurement of the LIC is determined on a probability-weighted expected value basis. In contrast to IFRS 4, the LIC is discounted. The LIC also includes an explicit risk adjustment to compensate

for non-financial risk. The liability includes the Company's obligation to pay other incurred insurance expenses;

- the discount rates used to calculate the LIC are constructed using risk-free rates, plus an illiquidity premium, where applicable. The risk-free rates are determined by reference to the market observable data (swap rates or highly liquid sovereign bonds) in the currencies of the respective (re)insurance contract liabilities. The liquidity premium is determined based on market observable illiquidity premiums in financial assets, adjusted to reflect the liquidity characteristics of the liability cash flows;
- the risk adjustment for non-financial risk is the estimated compensation that the Company requires for bearing the uncertainty about the amount and timing of the cash flows of groups of insurance contracts. Management applies significant judgements in determining the risk adjustment amount;
- measurement of the reinsurance contract asset for remaining coverage (ARC) reflecting reinsurance premiums paid for reinsurance held is adjusted to include a loss-recovery component to reflect the expected recovery of onerous contract losses where such contracts reinsure onerous contracts;
- measurement of the reinsurance asset for incurred claims (AIC) is similar to the LIC as set out above;
- the expected premium received is recognised in the consolidated income statement as part of insurance service revenue over the insurance 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;
- all insurance and reinsurance contract assets and liabilities are monetary items. As a result, those balances denominated in foreign currencies are subject to revaluation at foreign exchange rates prevailing at the reporting date, with the impact of changes in foreign exchange rates recognised in the income statement in insurance finance income and expenses;
- under IFRS 4, acquisition costs were recognised and presented separately as 'deferred acquisition costs'. Under IFRS 17, the Company has taken the option to include directly attributable acquisition cash flows in the LRC which are tested separately for recoverability and are amortised as part of insurance service expenses.

Changes to presentation and disclosure

The presentation of the income statement will change, with premium and claims figures being replaced with insurance contract revenue, insurance service expense and insurance finance income and expense. Gross and net premiums written will no longer be presented on the face of the income statement. Further, reinsurance commission income that is contingent on claims, for example profit commission income, is treated as a part of claims recoveries cash flows and that which is not contingent on claims, for example overrider commission, is accounted for as part of premium paid or received cash flows.

Transition

On transition date, 1 January 2022, the Company:

- has identified, recognised and measured each group of insurance contracts as if IFRS 17 requirements had always applied (the fully retrospective approach);

- derecognised any existing balances that would not exist had IFRS 17 requirements always applied;
- performed a PAA eligibility assessment for the 2021 and prior unexpired groups of insurance and reinsurance contracts with coverage periods of longer than 12 months;
- estimated the net impact to equity at 1 January 2022 of approximately $26 million (increase) driven by the following factors:
    - the application of the discounting of the insurance contract liabilities and assets of approximately $38 million;
    - the application seasonal earnings $8 million;
    - offset by other differences including the recognition of non-performance risk, FX on UPR and DAC and an affiliate’s cession of an increased risk adjustment estimate

The Company has not presented here the restated opening balance sheet on 1 January 2022 or restated accounts for the year-end 2022.

3.2 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.

Reinsurance transactions that transfer risk but are retroactive are included in reinsurance balances payable. 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.

3.3 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 9.

3.4 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.

3.5 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.

3.6 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.

3.7 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.

3.8 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.

3.9 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.

3.10 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.

3.11 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 12.

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, 2022 and 2021, the Company did not deem any losses recoverable from reinsurers as uncollectible. Please refer to the section on credit risk for further discussion.

3.12 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 14 for related party disclosures.

3.13 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.

3.14 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, 2022 and 2021, the Company did not have any uncertain tax liabilities.

4. 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 4.1 and 4.2 below. The Company also actively manages its capital risks as detailed in Note 4.3.

4.1 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.

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 extreme loss 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 an extreme loss event actually occur, 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 12.

Estimated concentration of gross and net insurance liabilities:

	Property	**Casualty and Others**	**Total**
		($ in thousands)	
December 31, 2022			
Gross	$ 1,537,332	$ 1,274,915	$ 2,812,247
Recoverable	1,267,383	42,526	1,309,909
Net	$ 269,949	$ 1,232,389	$ 1,502,338
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

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.

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 12.

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 the impact of inflation, the Company focuses on: regular case reserve reviews to ensure adequacy; uplifts to incurred but not reported (IBNR) reserves to allow for current and future expectations of high inflation rates, and assessment of rate increases against future inflation to assess loss ratio impacts. Given the increase in inflationary pressures over the year, the Company established explicit reserve uplifts to allow for the expected higher future claims costs. Loss ratios have also been reviewed to ensure they include an appropriate allowance for future inflation.

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.

4.2 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.

(expressed in U.S. dollars)

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 9 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 2022 was $96,910 (2021: $166,710).

These may be analysed as follows:

Nature of equity and investment fund holdings	**2022**	**2021**
	(% weighting)	
Directly held equity securities	0%	0%
Equity funds	65%	81%
Hedge funds	35%	19%
Geographic focus		
Specific UK mandates	14%	41%
Global mandates	86%	59%

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 2022 would have been expected to reduce the Company's equity and profit after tax for the year by approximately $9.7 million (2021: $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.

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 2022 was $1,532,698 (2021: $1,786,646).

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 200 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 $46.3 million (2021: $31.7 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 200-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 6.

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, 2022, of the $1,309.9m (2021: $1,084.1m) of loss and loss adjustment expenses recoverable, approximately 20% (2021: 29%) or $260.2m (2021: $309.1m) are due from cedants who are not required to provide collateral and are rated 'A' or above. Of the remaining 80% (2021: 71%) or $1,049.7m (2021: $775.0m), we hold collateral of $1,161.1m (2021: $903.1m) in trusts for which we are the beneficiary.

As at December 31, 2022 of the Company's total Reinsurance Balances Receivable of $588.9m (2021: $511.7m), $358.8m (2021: $309.5m) were due from Hiscox affiliates. External reinsurance balances receivable of $230.1m (2021: $202.2m) have been evaluated and at December 31, 2022, 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.

	2022	2021
	($ in thousands)	
Government and government agencies		
U.S.	$ 401,914	$ 455,838
Non-U.S.	160,466	187,453
AAA	101,857	163,411
AA	48,566	35,613
A	367,300	402,586
BBB	325,563	400,042
Non-investment grade*	127,032	141,703
Total investments in fixed income holdings	$ 1,532,698	$ 1,786,646

* *Fixed income holdings with a rating of below BBB*

Of cash and cash equivalents, 6% (2021: 7%) are held at a U.S. financial institution rated A+ by Fitch Ratings, 12% (2021: 67%) at a Bermuda financial institution rated BBB- by Standard & Poor's, 15% (2021: 8%) are held at U.K. Financial Institutions rated A+ by Standard & Poor's, 67% (2021: 19%) at a S&P AAA rated liquidity fund and less than 1% (2021: less than 1%) of cash and cash equivalents are held at a U.S. financial institution rated A1 (2021: 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 are 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 6.

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.

	2022	**2021**
	($ in thousands)	
Within one year	$ 1,237,389	$ 1,454,708
Between one and two years	703,062	758,978
Between two and five years	703,062	758,979
Over five years	168,734	189,743
Total claims liabilities	$ 2,812,247	$ 3,162,408

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 7.

4.3 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 17 for additional disclosures on statutory requirements.

The Company measures its capital requirements against its available capital. Available capital is defined by the Group as the total of net tangible asset value.

5. Cash and cash equivalents

		2022		2021
		($ in thousands)		
Cash at bank	$	158,633	$	222,268
Short-term deposits		326,044		26,120
Total Cash and cash equivalents	$	484,677	$	248,388

Cash includes overnight deposits. Short-term deposits includes debt securities with an original maturity date of less than three months and money market funds. Money market funds have been reallocated from Cash at bank to Short-term deposits to better reflect the nature of the cash equivalent and the 2021 comparatives have been re-presented accordingly.

6. 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.

		2022		2021
		($ in thousands)		
Debt and fixed income holdings	$	1,532,698	$	1,786,646
Equities and investment funds		96,910		166,710
Total investments		1,629,608		1,953,356
Derivative assets		-		-
Total financial assets carried at fair value	$	1,629,608	$	1,953,356

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

	2022	2021
	($ in thousands)	
Less than one year	$ 471,997	$ 446,989
Between one and two years	405,356	451,444
Between two and five years	520,427	664,324
Over five years	134,918	223,889
Total debt and fixed income holdings	$ 1,532,698	$ 1,786,646

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:

	2022	2021
	($ in thousands)	
Debt and fixed income holdings		
US Dollars	$ 1,258,601	$ 1,461,394
Sterling	274,097	325,251
Other currencies	-	1
	$ 1,532,698	$ 1,786,646
Equities and investment funds		
US Dollars	$ 76,992	$ 85,826
Sterling	19,918	80,884
	$ 96,910	$ 166,710
Total investments	$ 1,629,608	$ 1,953,356

The financial liabilities carried at fair value is comprised of derivative instruments amounting to $nil (2021: $198k) 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:

	2022	2021
	($ in thousands)	
Investment (losses) income including interest receivable	$ (2,875)	$ 31,685
Net realised (losses) gains on investments at fair value through profit or loss	(16,391)	22,197
Net fair value losses on investments at fair value through profit or loss	(94,113)	(27,808)
Investment (losses) income-financial assets	(113,379)	26,074
Net fair value losses on derivative instruments	(2,333)	(2,220)
Total net investment (losses) income	$ (115,712)	$ 23,854

7. Derivative financial instruments

The Company entered into both exchange-traded and over-the-counter derivative contracts for a number of purposes during 2022 and 2021. The Company had the right and intention to settle each contract on a net basis. There are no assets or liabilities related to these contracts at December 31, 2022.

31 December 2022

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

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	$ -	$ -	$ -
Gross fair value of liabilities	-	-	-
	$ -	$ -	$ -

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)

	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)

Derivative investments comprise of Japanese Yen forward contracts as well as interest rate futures contracts, collectively with notional amounts of $nil (2021: $14.8m). The Company recognized in the Statement of Income, within Net investment income, a net exchange loss of $2.3m (2021: $2.2m 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.

8. Loans and receivables including insurance receivables

	2022	2021
	($ in thousands)	
Reinsurance balances receivable	$ 588,916	$ 511,667
Other debtors including related party	35,538	43,730
Receivables for investments sold	930	9,548
Accrued interest	10,753	10,021
Total loans and receivables including insurance receivables	$ 636,137	$ 574,966

Included in Reinsurance balances receivable is $200.9m (2021: $164.9m) related to our assumed quota share arrangement with our affiliates which is withheld by the affiliates. Under this arrangement, cash and investments of $904.3m (2021: $1,307.4m) are also held by the affiliate as disclosed in Note 11. These assets will be settled net of outstanding claims of $166.1m (2021: $195.3m) 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:

	2022	2021
	($ in thousands)	
Within one year	$ 529,745	$ 490,104
After one year	106,392	84,862
Total loans and receivables including insurance receivables	$ 636,137	$ 574,966

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.

9. 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.

2022	Level 1	Level 2	Level 3	Total
		($ in thousands)		
Government and government agencies				
U.S.	$ 349,462	$ 52,452	$ -	$ 401,914
Non-U.S.	46,940	113,526	-	160,466
Corporate securities	29,011	777,037	-	806,048
Asset-backed securities	-	45,957	-	45,957
Mortgage-backed securities - residential	-	22,429	-	22,429
Mortgage-backed securities - commercial	-	13,520	-	13,520
Derivative instruments	-	-	-	-
Other investments	-	159,483	19,791	179,274
Total financial assets carried at fair value	$ 425,413	$ 1,184,404	$ 19,791	$ 1,629,608

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

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.

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:

	2022	2021
	($ in thousands)	
Balance at January 1	$ 29,584	$ 394
Fair value gains through profit or loss	(5,680)	2
Sales	(4,113)	-
Transfer into Level 3	-	29,188
Balance at December 31	$ 19,791	$ 29,584

10. Deferred Acquisition Costs

	2022			2021		
	Gross	Attributable to Reinsurers	Net	Gross	Attributable to Reinsurers	Net
			($ in thousands)			
Balance deferred at January 1	95,162	(19,639)	75,523	89,060	(21,696)	67,364
Acquisition costs incurred in relation to reinsurance contracts written	266,790	(104,828)	161,962	225,843	(64,579)	161,264
Acquisition costs expense in the Statement of Income	(256,305)	96,503	(159,802)	(220,330)	66,636	(153,694)
Other adjustments	(179)	540	361	589	-	589
Balance deferred at December 31	105,468	(27,424)	78,044	95,162	(19,639)	75,523

The deferred amount of reinsurance contract acquisition costs attributable to reinsurers of $27,424 (2021: $19,639) is not eligible for offset against the gross Statement of Financial Position asset and is included separately within Trade and other payables.

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

	2022	2021
	($ in thousands)	
Within one year	$ 47,513	$ 48,513
After one year	30,531	27,010
Total	$ 78,044	$ 75,523

11. Funds withheld

The funds withheld of $904.3m (2021: $1,307.4m) 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 $38,449 loss (2021: $8,022 income).

12. Reinsurance liabilities and associated recoverables

	2022	2021
	($ in thousands)	
Gross		
Claims reported and claim adjustment expenses	$ 753,645	$ 1,258,959
Claims incurred but not reported	2,058,602	1,903,449
Unearned premiums	759,186	696,310
Total Reinsurance liabilities, gross	$ 3,571,433	$ 3,858,718
Recoverable from reinsurers		
Claims reported and claim adjustment expenses	$ 388,084	$ 352,653
Claims incurred but not reported	921,825	731,484
Unearned premiums	156,958	107,288
Total Reinsurers' share of Reinsurance liabilities	$ 1,466,867	$ 1,191,425
Net		
Claims reported and claim adjustment expenses	365,561	$ 906,306
Claims incurred but not reported	1,136,777	1,171,965
Unearned premiums	602,228	589,022
Total Reinsurance liabilities, net	$ 2,104,566	$ 2,667,293

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

	2022	2021
	($ in thousands)	
Within one year	$ 757,644	$ 1,120,263
After one year	1,346,922	1,547,030
Total	$ 2,104,566	$ 2,667,293

(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	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**Total**
Estimate of ultimate claims costs:											
at end of accident year	560,096	580,155	628,336	801,271	1,490,695	1,368,194	1,519,589	1,517,226	1,265,673	1,383,746	**11,114,982**
one year later	533,775	514,643	598,557	693,166	1,379,238	1,607,994	1,263,871	1,412,259	1,197,092		**9,200,595**
two years later	479,063	465,663	523,827	659,462	1,333,203	1,551,524	1,022,696	1,287,897			**7,323,337**
three years later	447,052	437,182	526,537	669,255	1,299,275	1,339,269	969,650				**5,688,220**
four years later	393,855	427,765	524,815	692,534	1,232,981	1,269,064					**4,541,014**
five years later	378,201	417,258	540,953	648,350	1,205,081						**3,189,843**
six years later	385,442	419,244	519,586	610,733							**1,935,004**
seven years later	387,571	412,754	500,121								**1,300,446**
eight years later	377,120	398,265									**775,384**
nine years later	371,286										**371,286**
Current estimate of cumulative claims	**371,286**	**398,265**	**500,121**	**610,733**	**1,205,081**	**1,269,064**	**969,650**	**1,287,897**	**1,197,092**	**1,383,746**	**9,192,935**
Cumulative payments to date	**(365,740)**	**(386,683)**	**(477,662)**	**(585,667)**	**(1,071,231)**	**(1,104,030)**	**(759,698)**	**(822,836)**	**(604,869)**	**(227,880)**	**(6,406,295)**
Total Gross Reserves	5,546	11,582	22,460	25,066	133,850	165,034	209,951	465,061	592,223	1,155,867	**2,786,640**
Total Gross Reserves on prior accident years											25,607
Total Gross Reserves											**2,812,247**

Net Loss

Insurance claims and claims expenses reserves - NET											
Accident year	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**Total**
Estimate of ultimate claims costs:											
at end of accident year	543,663	554,133	596,149	726,396	933,694	857,680	865,225	1,093,838	898,377	828,731	**7,897,885**
one year later	472,590	492,211	558,955	656,314	810,954	909,498	814,321	1,026,307	785,885		**6,527,034**
two years later	420,788	441,442	513,830	626,880	818,723	896,736	687,254	934,124			**5,339,777**
three years later	385,698	417,463	516,667	643,605	831,795	784,000	664,838				**4,244,066**
four years later	384,683	405,597	516,147	668,111	770,892	762,286					**3,507,716**
five years later	372,982	393,145	531,605	623,718	731,598						**2,653,048**
six years later	381,609	394,582	509,938	589,756							**1,875,886**
seven years later	383,355	387,899	492,158								**1,263,411**
eight years later	372,507	374,573									**747,079**
nine years later	366,679										**366,679**
Current estimate of cumulative claims	**366,679**	**374,573**	**492,158**	**589,756**	**731,598**	**762,286**	**664,838**	**934,124**	**785,885**	**828,731**	**6,530,629**
Cumulative payments to date	**(361,693)**	**(363,204)**	**(469,962)**	**(565,563)**	**(673,348)**	**(675,032)**	**(579,935)**	**(678,088)**	**(504,843)**	**(180,730)**	**(5,052,400)**
Total Net Reserves	4,986	11,368	22,197	24,193	58,250	87,254	84,903	256,036	281,042	648,001	**1,478,230**
Total Net Reserves on prior accident years											24,109
Total Net Reserves											**1,502,338**

A reconciliation of reinsurance claims and liabilities is as follows:

	2022	2021
	($ in thousands)	
Gross loss and loss adjustment expenses reserves, beginning of year	$ 3,162,408	$ 3,635,115
Less: loss and loss adjustment expenses recoverable, beginning of year	(1,084,137)	(1,194,208)
Net loss and loss adjustment expenses reserves, beginning of year	2,078,271	2,440,907
Net loss and loss adjustment expenses incurred in respect of losses occurring in:		
Current year	828,731	860,240
Prior year	(167,973)	(105,012)
Total net loss and loss adjustment expenses incurred	660,758	755,228
Net loss and loss adjustment expenses paid in respect of losses occurring in:		
Current year	(180,730)	(173,862)
Prior year	(835,571)	(539,818)
Total net paid losses	(1,016,301)	(713,680)
Transfers	(149,377)	(378,904)
Effect of foreign exchange and other adjustments	(71,013)	(25,280)
Net loss and loss adjustment expenses reserves, end of year	1,502,338	2,078,271
Plus: loss and loss adjustment expenses recoverable, end of year	1,309,909	1,084,137
Gross loss and loss adjustment expenses reserves, end of year	$ 2,812,247	$ 3,162,408

Transfers of $149m (2021: $379m) 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.

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, 2022.

A reconciliation of the unearned premium reserves is as follows:

	2022			2021		
	Gross	**Reinsurance**	**Net**	**Gross**	**Reinsurance**	**Net**
	($ in thousands)					
Balance unearned at 1 January	$ 696,310	$ (107,288)	$ 589,022	$ 666,795	$ (115,263)	$ 551,532
Premiums written	1,851,920	(699,547)	1,152,373	1,661,004	(447,988)	1,213,016
Premiums earned in the Statements of Income	(1,788,645)	646,934	(1,141,711)	(1,632,606)	455,964	(1,176,642)
Other Adjustments	(399)	2,943	2,544	1,117	(1)	1,116
Balance unearned at 31 December	$ 759,186	$ (156,958)	$ 602,228	$ 696,310	$ (107,288)	$ 589,022

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

13. Trade and other payables

Trade and other payables are comprised of:

	2022	2021
	($ in thousands)	
Reinsurance balances payable	$ 412,143	$ 186,273
Reinsurers' share of deferred acquisition costs	27,424	19,639
Deferred income	266	327
Payable for investments purchased	1,073	-
Derivative financial liability	-	198
Other payables including related party	9,148	11,299
Total	$ 450,054	$ 217,736

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.

14. 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:

	2022	2021
	($ in thousands)	
Gross premiums written	$ 1,219,438	$ 1,191,839
Gross premiums earned	1,199,308	1,159,827
Gross premiums ceded	588,611	326,762
Earned premiums ceded	535,301	319,322
Loss and loss adjustment expenses incurred, net	190,800	608,138
Acquisition costs, net	107,262	108,338
General and Admin Expenses	59,508	64,039
Investment (Loss)/Income	(38,449)	8,022
Loans and receivables including reinsurance receivables	358,861	316,763
Funds withheld	904,329	1,307,399
Deferred acquisition costs	79,917	75,615
Loss and loss adjustment expense recoverable	1,005,371	649,963
Prepaid reinsurance premiums	135,963	85,498
Reinsurance balances payable	345,001	13,686
Unearned premium reserves	588,988	569,135
Loss and loss adjustment expenses reserves	1,591,855	2,070,598
Reinsurers' share of Deferred acquisition costs	23,365	15,927

During 2022, the Company maintained assets in trust accounts to collateralize obligations under various reinsurance agreements. Cash and marketable securities with an approximate market value of $495.5m (2021: $554.3m) were held in trust in respect of internal quota share arrangements. Additionally, cash and investments have been provided as funds withheld for internal quota share agreements as discussed in Note 11.

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:

		2022		2021
		($ in thousands)		
HUGS:				
Trade and other payables	$	1,642	$	948
Acquisition costs		-		10
Loss and loss adjustment expenses		300		468
Investment income		396		1,287
General and administrative expenses		17,253		9,728
HSL:				
Loans and receivables including reinsurance receivables	$	21,163	$	22,314
Acquisition costs		4,101		5,338
Loss and loss adjustment expenses		922		891
Investment income		2,071		2,124
General and administrative expenses		21,618		18,781

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

		2022		2021
		($ in thousands)		
Loans and receivables including reinsurance receivables	$	12,517	$	13,081
Trade and other payables		894		526
General and administrative expenses		369		143

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 $2.6m (2021: $2.3m).

15. Commitments and security arrangements

The letter of credit facilities held by the Company as at December 31, 2022 and 2021 are as follows:

		2022		2021
		($ 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 (2021: $470.0m) in letters of credit. At December 31, 2022, $189.4m (2021: $183.1m) in letters of credit were issued under these facilities, collateralized by cash, U.S. government and corporate securities with a fair value of $214.2m (2021: $201.7m).

During 2022, the Company maintained assets in trust accounts to collateralize obligations under various reinsurance agreements. At December 31, 2022, $504.3m (2021: $573.3m) of marketable securities and $14.3m (2021: $4.6m) 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 that occur from their interest in Syndicates 33 and 3624. At 31 December 2022, the Company held $553.5m of investments (2021: $728.2m), and $72.2m of cash (2021: $18.8m) 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 $600.0m (2021: GBP 450.0m) under a revolving credit facility or LOC up to $266.0m (2021: $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 2022 $226.0m (2021: $266.0m) was utilised by way of LOC to support the Funds at Lloyd's requirement and $nil cash drawings were outstanding (2021: $nil). 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.

16. 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 17.

In February and June 2022, dividends of $65m and $80m respectively were declared and paid to Hiscox Ltd.

17. 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, 2022, as determined using statutory accounting principles, was $1,205.6m (2021: $1,294.2m). At December 31, 2022 the Company's minimum capital requirement was $694.5m (2021: $622.9m).

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, 2022, the Company could pay dividends of $323.6m (2021: $317.0m) 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.

18. Subsequent events

Subsequent events have been evaluated up to and including April 28, 2023, being the date that these financial statements were available to be issued.

A dividend of $100.0m to Hiscox Ltd. was declared on April 24, 2023 and was fully paid on April 28, 2023.