Liberty Specialty Markets Bermuda Limited

Consolidated Financial Statements
For the year ended December 31, 2022

Liberty Specialty Markets Bermuda Limited

Table of Contents

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Report of Independent Auditors

The Board of Directors and Shareholder
Liberty Specialty Markets Bermuda Limited

Opinion

We have audited the consolidated financial statements of Liberty Specialty Markets Bermuda Limited (the Company), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of operations and comprehensive income (loss), changes in shareholder's equity and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

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Required Supplementary Information

Accounting principles generally accepted in the United States require that the incurred losses and loss adjustment expenses, net of reinsurance and the cumulative paid losses and loss adjustment expenses, net of reinsurance for the years ending 2021 and prior and the average annual percentage payout of incurred claims by age disclosed on pages 23 and 27 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Ernst & Young Ltd.

Hamilton, Bermuda
April 28, 2023

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Liberty Specialty Markets Bermuda Limited
Consolidated Balance Sheets
As of December 31, 2022 and 2021
(Expressed in thousands of U.S. dollars, except share data)

	December 31, 2022	December 31, 2021
ASSETS		
Fixed maturity securities available for sale, at fair value (amortized cost: 2022 - $1,956,967, 2021 - $1,971,525)	$1,774,455	$1,998,673
Equity securities, at fair value	345	460
Short term investments, at fair value	3,903	13
Other investments	1,397	3,352
Total investments	1,780,100	2,002,498
Cash and cash equivalents	136,117	133,548
Accrued investment income	11,450	9,371
Premiums receivable	519,936	592,347
Reinsurance recoverable on unpaid losses	547,023	525,534
Reinsurance recoverable on paid losses	71,810	94,702
Deferred acquisition costs	124,658	136,958
Prepaid reinsurance premiums	53,435	58,079
Receivable for securities sold	8,005	21
Net deferred tax asset	201,007	145,721
Amounts receivable from related parties	69,131	83,531
Other assets	5,073	2,820
Total assets	$3,527,745	$3,785,130
LIABILITIES		
Reserve for losses and loss adjustment expenses	$1,278,272	$1,210,744
Unearned premiums	506,547	509,985
Insurance and reinsurance balances payable	63,436	68,763
Payable for securities purchased	19,909	29,236
Amounts payable to related parties	12,593	12,039
Other liabilities	83,706	176,645
Total liabilities	1,964,463	2,007,412
SHAREHOLDER'S EQUITY		
Common shares, 2,000,000 authorized, $1.00 par value, issued and outstanding (2022: 1,000,000; 2021: 1,000,000)	1,000	1,000
Additional paid-in capital	1,541,489	1,541,489
Accumulated other comprehensive income (loss)	(147,504)	31,479
Retained earnings	168,297	203,750
Total shareholder's equity	1,563,282	1,777,718
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	$3,527,745	$3,785,130

See accompanying notes to the consolidated financial statements

Liberty Specialty Markets Bermuda Limited
Consolidated Statements of Operations and Comprehensive Income (loss)
For the years ended December 31, 2022 and 2021
(Expressed in thousands of U.S. dollars, except share data)

	December 31, 2022	**December 31, 2021**
REVENUES		
Gross premiums written	$1,845,310	$1,909,433
Reinsurance premiums ceded	(92,957)	(88,744)
Net premiums written	1,752,353	1,820,689
Change in unearned premiums	(1,206)	33,503
Net premiums earned	1,751,147	1,854,192
Net investment income	51,056	44,888
Net realized gains on investments	3,794	10,995
Net foreign exchange gains (losses)	(5,128)	7,965
Total revenues	1,800,869	1,918,040
EXPENSES		
Net losses and loss adjustment expenses	1,294,642	1,178,389
Acquisition expenses	516,092	556,612
General and administrative expenses	36,526	14,453
Total expenses	1,847,260	1,749,454
Income (loss) before tax expense	(46,391)	168,586
Income tax benefit (expense)	10,938	(35,548)
Net income (loss)	$(35,453)	$133,038
COMPREHENSIVE INCOME (LOSS)		
Net income (loss)	$(35,453)	$133,038
Other comprehensive loss, before tax		
Change in net unrealized losses on investments	(223,290)	(68,431)
Income tax benefit on other comprehensive income	44,307	14,271
Other comprehensive loss, net of tax	(178,983)	(54,160)
Comprehensive income (loss)	$(214,436)	$78,878

See accompanying notes to the consolidated financial statements

Liberty Specialty Markets Bermuda Limited
Consolidated Statements of Changes in Shareholder's Equity
For the years ended December 31, 2022 and 2021
(Expressed in thousands of U.S. dollars, except share data)

	December 31, 2022	December 31, 2021
COMMON SHARES	$1,000	$1,000
ADDITIONAL PAID-IN CAPITAL		
Balance as of beginning of year	1,541,489	1,541,489
Capital contribution	-	-
Balance as of end of year	1,541,489	1,541,489
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)		
Balance as of beginning of year	31,479	85,639
Comprehensive income, net of income tax of $44,307 and $14,271	(178,983)	(54,160)
Balance as of end of year	(147,504)	31,479
RETAINED EARNINGS		
Balance as of beginning of year	203,750	370,712
Net income (loss)	(35,453)	133,038
Dividends	-	(300,000)
Balance as of end of year	168,297	203,750
TOTAL SHAREHOLDER'S EQUITY	$1,563,282	$1,777,718

See accompanying notes to the consolidated financial statements

Liberty Specialty Markets Bermuda Limited
Consolidated Statements of Cash Flows
For the years ended December 31, 2022 and 2021
(Expressed in thousands of U.S. dollars, except share data)

	December 31, 2022	December 31, 2021
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:		
Net income (loss)	$(35,453)	$133,038
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Amortization and depreciation	-	12
Amortization of fixed maturity securities	5,566	8,650
Net realized gains on investments	(5,242)	(15,288)
Deferred tax (benefit) expense	(10,979)	36,119
CHANGES IN OPERATIONAL ASSETS AND LIABILITIES:		
Premiums receivable	72,411	155,605
Reinsurance recoverable on unpaid losses	(21,489)	(11,583)
Reinsurance recoverable on paid losses	22,892	(12,091)
Deferred acquisition costs	12,300	18,768
Prepaid reinsurance premiums	4,644	(10,821)
Amounts receivable from related parties	14,400	(20,058)
Other assets	(4,426)	1,384
Reserve for losses and loss adjustment expenses	67,528	85,958
Unearned premiums	(3,438)	(22,682)
Insurance and reinsurance balances payable	(4,827)	21,711
Amounts payable to related parties	554	9,241
Other liabilities	(84,714)	(223,390)
Net cash provided by operating activities	29,727	154,573
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Accrued investment income	(2,079)	2,070
Purchases of fixed maturity securities available for sale	(1,043,651)	(2,452,300)
Purchases of equity securities available for sale	-	(449)
Purchases of short term investments	(3,865)	-
Purchases of other investments	(130)	(876)
Proceeds from sales and maturity of fixed maturity securities available for sale	1,025,438	2,613,837
Proceeds from sales of other investments	2,257	21,172
Net cash provided by (used in) investing activities	(22,030)	183,454
CASH FLOWS USED IN FINANCING ACTIVITIES:		
Dividends paid	-	(300,000)
Net cash used in financing activities	-	(300,000)
Net increase in cash and cash equivalents	7,697	38,027
Cash and cash equivalents as of beginning of year	133,548	87,556
Effect of exchange rates on cash and cash equivalents	(5,128)	7,965
CASH AND CASH EQUIVALENTS AS OF END OF YEAR	$136,117	$133,548
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Income taxes (paid) refunds received, net	$471	$(5,174)

See accompanying notes to the consolidated financial statements

1. Nature of the business

Liberty Specialty Markets Bermuda Limited ("LSM Bermuda") was incorporated under the laws of Bermuda on October 19, 2006. LSM Bermuda, together with its subsidiaries (collectively referred to as the "Company"), began underwriting activities in 2007. The Company is a wholly owned subsidiary of Ironshore Inc. ("Ironshore"), a company that was incorporated under the laws of the Cayman Islands on September 26, 2006. On May 1, 2015, Ironshore entered into a definitive merger agreement with Fosun International Limited ("Fosun"), and on November 20, 2015, the merger was completed and Ironshore became a wholly-owned indirect subsidiary of Fosun. On December 5, 2016, Ironshore, Fosun and its subsidiaries, Mettlesome Investment Limited ("Mettlesome HK") and Mettlesome Investments (Cayman) III Limited ("Mettlesome CI"), and Liberty Mutual Group Inc. ("Liberty Mutual") entered into a stock purchase agreement pursuant to which Mettlesome HK and Mettlesome CI agreed to sell to Liberty Mutual all of the issued and outstanding ordinary shares of Ironshore on the terms and conditions specified in the agreement. On May 1, 2017, Liberty Mutual completed the acquisition of Ironshore for approximately $2,926,000.

LSM Bermuda is registered as a Class 4 insurer under The Insurance Act 1978 in Bermuda, related regulations and amendments thereto (the "Bermuda Insurance Act").

2. Significant accounting policies

Basis of presentation
The accompanying consolidated financial statements include the accounts of LSM Bermuda and entities over which the Company exercises control including majority and wholly owned subsidiaries. All material intercompany transactions and balances have been eliminated. Certain prior year amounts have been reclassified to conform to the current year presentation.

The accompanying consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company's principal estimates include (1) reserve for losses and loss adjustment expenses, (2) reinsurance recoverables, (3) fair value determination and other-than-temporary impairments of the investment portfolio, (4) recoverability of deferred acquisition costs, and (5) deferred income tax valuation allowance. While the amounts included in the consolidated financial statements reflect management's best estimates and assumptions, these amounts ultimately could vary.

Adoption of New Accounting Standards
The Company adopted the FASB issued ASU 2016-02, *Leases* ("ASU 2016-02"), which requires a lessee to recognize a right-of-use asset and a lease liability on the balance sheet for leases with terms longer than 12 months. The Company adopted the updated guidance for the quarter ended March 31, 2022. The adoption resulted in the recognition of a right-of-use asset and a lease liability of $4,711. A right-of-use asset and lease liability are recognized as part of other assets and other liabilities, respectively, in the consolidated balance sheet.

The Company's leases consist of the lease agreement for real estate that is used for office space in the ordinary course of business. Lease agreement is accounted for as operating lease, whereby lease expense is recognized on a straight-line basis over the term of the lease. The balance of the right-of-use asset and lease liability was $3,544 as of December 31, 2022.

Future Adoption of New Accounting Standards
The Company will adopt the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). ASU 2016-13 replaces the current incurred loss model with an expected credit loss model, which measures credit losses on financial instruments measured at amortized cost, and will require companies to recognize an allowance for expected credit losses. In addition, ASU 2016-13 also amends the credit loss measurement guidance for available-for-sale debt securities and beneficial interests in securitized financial assets. This amendment removes certain factors to consider when determining whether credit losses should be recognized and will require companies to recognize expected credit losses through an allowance. ASU 2016-13 is effective for nonpublic business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022. The adoption of ASU 2016-13 will not have a material impact on the Company's consolidated results of operations or financial position.

There are no other accounting standards not yet adopted by the Company that are expected to have a material impact on the consolidated financial statements.

Investments

Fixed maturity securities classified as available for sale are debt securities that have principal payment schedules, are held for indefinite periods of time, and are used as a part of the Company's capital strategy or sold in response to risk and reward characteristics, liquidity needs or similar economic factors. These securities are reported at fair value with changes in fair values, net of deferred income taxes, reported in accumulated other comprehensive income.

Equity securities classified as available for sale include common equities and non-redeemable preferred stocks and are reported at quoted fair values. Changes in fair values, net of deferred income taxes, are reported in net income.

Realized gains and losses on sales of investments are recognized in income using the specific identification method. The Company reviews fixed maturity securities, equity securities, and other investments for impairment on a quarterly basis. Securities are reviewed for both quantitative and qualitative considerations including, but not limited to, (1) the extent of the decline in fair value below book value, (2) the duration of the decline, (3) significant adverse changes in the financial condition or near term prospects for the investment or issuer, (4) significant changes in the business climate or credit ratings of the issuer, (5) general market conditions and volatility, (6) industry factors, (7) the past impairment of the security holding or the issuer, and (8) changes in foreign exchange.

For fixed maturity securities that the Company does not intend to sell or for which it is more likely than not that the Company would not be required to sell before an anticipated recovery in value, the Company separates impairments into credit loss and non-credit loss components. The determination of the credit loss component of the impairment charge is based on the Company's best estimate of the present value of the cash flows expected to be collected from the fixed maturity security compared to its amortized cost and is reported as part of net realized gains. The non-credit component, the residual difference between the credit impairment component and the fair value, is recognized in other comprehensive income. The factors considered in making an evaluation of credit versus non-credit other-than-temporary impairments include: (1) failure of the issuer of the security to make scheduled interest or principal payments (including the payment structure of the fixed maturity security and the likelihood the issuer will be able to make payments that increase in the future), (2) performance indicators of the underlying assets in the security (including default and delinquency rates), (3) vintage, (4) geographic concentration, (5) impact of foreign exchange rates on foreign currency denominated securities, and (6) industry analyst reports, sector credit ratings and volatility of the security's fair value.

For fixed maturity securities the Company intends to sell or for which it is more likely than not that the Company will be required to sell before an anticipated recovery in value, the full amount (fair value less amortized cost) of the impairment is included in net realized gains (losses).

Upon recognizing an other-than-temporary impairment, the new cost basis of the investment is the previous amortized cost basis less the other-than-temporary impairment ("OTTI") recognized in net realized gains/losses. The new cost basis is not adjusted for any subsequent recoveries in fair value; however, for fixed maturity securities the difference between the new cost basis and the expected cash flows is accreted to net investment income over the remaining expected life of the investment.

Cash equivalents are short-term, highly liquid investments that are both readily convertible into known amounts of cash and so near to maturity that they present insignificant risk of changes in value due to changing interest rates. The Company's cash equivalents include debt securities purchased with maturities of three months or less at acquisition and are carried at amortized cost, which approximates fair value.

Short-term investments are debt securities with maturities at acquisition between three months and one year, are considered available for sale, and are reported at fair value with changes in fair values, net of deferred income taxes, reported in accumulated other comprehensive income.

Other investments include investments in closed-end limited partnerships that invest primarily in commercial real estate debt in North America and Europe. It also includes investment in a Cayman-island registered partnership fund that primarily invests in portfolio companies in China, Hong Kong, Macau and/or Taiwan. Investments in closed-end limited partnerships and Cayman-island registered fund are carried at fair value, with related unrealized gains and losses recorded in net realized and unrealized gains (losses) on investments included in the statement of operations and comprehensive income.

Net investment income primarily consists of interest, dividends, and income from limited partnerships. Interest income is recognized on an accrual basis using the effective interest method and dividend income is recognized at the ex-dividend date. Interest income for mortgage-backed fixed maturity securities is recognized using a constant effective yield based on anticipated prepayments over the economic life of the security. The mortgage-backed portfolio is accounted for under the retrospective method and prepayment assumptions are based on market expectations. When actual prepayments differ significantly from anticipated prepayments, the effective yield is recalculated to reflect actual payments to date and anticipated future payments and any resulting adjustment is included in net investment income.

Other Assets

Investments in which the Company has significant influence over the operating and financial policies of the investee are classified as other assets and are accounted for under the equity method of accounting. Under this method, the Company records its proportionate share of income or loss from such investments in its results for the period and includes these investments in other assets in its consolidated financial statements.

Also included in other assets are depreciable long-lived assets such as information technology equipment, software and software licenses, leasehold improvements, furniture and fixtures that are carried at cost less accumulated depreciation and are depreciated on a straight-line basis over their estimated useful lives taking into account residual value. The estimated useful lives (i.e., information technology equipment - three years; software - three to five years; leasehold improvements - shorter of their useful life or remaining life of the lease; furniture and fixtures - five years) is based on the period over which the Company expects to generate net cash inflows from the use of these assets. The depreciable long-lived assets are subject to impairment testing whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

Deferred Acquisition Costs

Costs that are directly related to the successful acquisition or renewal of insurance contracts are deferred and amortized over the respective policy terms. Acquisition costs are shown net of commissions on reinsurance ceded. All other acquisition related costs, including market research, training, administration, unsuccessful acquisition or renewal efforts, and product development are charged to expense as incurred.

Deferred acquisition costs are limited to their estimated realizable value based on the related unearned premiums. Anticipated loss and loss adjustment expenses based on historical and current experience and anticipated investment income related to those premiums are considered in determining the recoverability of deferred acquisition costs. Acquisition expenses also include profit commission. Profit commissions are recognized when earned.

Reserve for Losses and Loss Adjustment Expenses

The Company establishes reserves for unpaid reported losses and for losses incurred but not reported. The reserve for unpaid reported losses and loss expenses is established by management based on reports from loss adjusters, ceding companies and insureds and represents the estimated ultimate cost of events or conditions that have been reported to, or specifically identified, by the Company. The reserve for incurred but not reported losses and loss adjustment expenses is established by management based on actuarially determined estimates of ultimate losses and loss expenses. Inherent in the estimate of ultimate losses and loss expenses are expected trends in claim severity and frequency and other factors that vary significantly as claims are settled.

Accordingly, ultimate losses and loss expenses may differ materially from the amounts recorded in the consolidated 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 earnings in the periods in which they become known and are accounted for as changes in estimates.

Revenue Recognition

Direct insurance and assumed facultative reinsurance premiums are recognized as earned on a pro rata basis over the applicable policy or contract periods. For assumed treaty reinsurance written on a losses occurring basis, premiums written are earned on a pro rata basis over the risk period. For assumed treaty reinsurance written on a risks attaching basis, premiums written are earned on a pro rata basis over the periods of the underlying policies. Premiums may include estimates based on information received from brokers, ceding insurers and insureds, and any subsequent differences from such estimates are recorded in the period in which they are determined. In each case, the portions of the premiums written applicable to the unexpired terms are recorded as unearned premiums.

Assumed retroactive loss portfolio transfer (“LPT”) contracts in which the insured loss events occurred prior to the inception of the contract are evaluated to determine whether they meet the established criteria for reinsurance accounting. If reinsurance accounting is appropriate, premiums written are fully earned and corresponding losses and loss adjustment expenses recognized at the inception of the contract. The contracts can cause significant variances in gross premiums written, net premiums written, net premiums earned, and net incurred losses in the years in which they are written. Reinsurance contracts sold not meeting the established criteria for reinsurance accounting are recorded using the deposit method.

A premium deficiency reserve is established when expected claim payments or incurred losses, loss adjustment expenses and administrative expenses exceed the premiums to be earned over the remaining contract period. For the purposes of determining whether a premium deficiency reserve exists contracts are grouped in a manner consistent with how policies are marketed, serviced and measured. Anticipated investment income is utilized as a factor in the premium deficiency reserve calculation.

Reinsurance

In the normal course of business, the Company may seek to mitigate underwriting risk that could cause unfavorable results by reinsuring certain amounts of risk with reinsurers. Reinsurance does not relieve the Company of its primary obligation to the insured. The accounting for reinsurance ceded depends on the method of reinsurance. If the policy is on a losses occurring basis, reinsurance premiums ceded and associated commissions are expensed on a pro rata basis over the period reinsurance coverage is provided. If the policy is on a risk attaching basis, reinsurance premiums ceded and associated commissions are expensed in line with gross premiums earned to which the risk attaching policy relates. Prepaid reinsurance premiums represent the portion of premiums ceded on the unexpired terms of the policies purchased. Reinsurance commissions that will be earned in the future are deferred and recorded as deferred acquisition costs on the balance sheets.

Reinsurance recoverable is presented on the balance sheets net of any reserves for uncollectible reinsurance. The method of determining the reinsurance recoverable on unpaid losses and loss adjustment expenses involves actuarial estimates in a manner consistent with the determination of unpaid losses and loss adjustment expenses. Ceded reinstatement premiums are estimated after the occurrence of a significant loss and are recorded in accordance with the contract terms based upon the ultimate loss estimates associated with each contract. Ceded reinstatement premiums are earned over the remaining contract period.

Certain ceded reinsurance contracts do not transfer underwriting risk and are accounted for using the deposit method of accounting. Fees are accounted for as income based on the terms of the contract. A deposit asset is recorded at the inception of the contract based on the consideration transferred. Corresponding changes in the amount of the deposit asset reflecting actual and expected future loss payments are recorded as a credit or charge to interest income.

Insurance and Reinsurance Balances Payable

Insurance and reinsurance balances payable principally represents ceded premiums payable and profit commissions payable to third party reinsurance companies or program administrators. Also included within this line item are amounts related to the Company’s insurance business principally related to return premiums, which arise when an insurance contract is cancelled and the Company is required to return some or all of the premium received to the insured.

Translation of Foreign Currencies

The Company’s reporting currency is the United States Dollar (“U.S. dollars”). The Company translates the financial statements of its foreign operations into U.S. dollars from the functional currency designated for each foreign unit, generally the currency of the primary economic environment in which that operation does its business. Assets and liabilities are translated into U.S. dollars at period-end exchange rates, while income and expenses are translated using average rates for the period. Translation adjustments are recorded as a separate component of accumulated other comprehensive income, net of tax, to the extent applicable. Foreign currency amounts are re-measured to the functional currency, and the resulting foreign exchange gains or losses are reflected in earnings.

(Expressed in thousands of U.S. dollars, except share data)

Income Taxes

In accordance with FASB Accounting Standards Codification ("ASC") Topic 740, *Income Taxes*, the income tax provision is calculated under the liability method of accounting.

The Company recognizes deferred income tax assets and liabilities for the expected future tax effects attributable to temporary differences between the financial statement and tax return bases of assets and liabilities based on enacted tax rates and other provisions of the tax laws. The effect of a change in tax laws or rates on deferred tax assets and liabilities is recognized in income in the period in which such change is enacted. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that all or some portion of the deferred tax assets will not be realized.

3. Investments

The amortized cost, gross unrealized gains and losses and fair value of available for sale securities as of December 31, 2022 and 2021 are as follows:

		Included in Accumulated Other Comprehensive Income			
December 31, 2022	**Cost or amortized cost**	**Unrealized Gains**	**Unrealized losses**	**Fair value**	**Non-credit-other than temporary impairment**
U.S. government and government agency securities	$282,120	$326	$(19,247)	$263,199	$ -
Non-U.S. government securities	897	-	(172)	725	-
U.S. state and municipal securities	105,424	2	(12,056)	93,370	-
Corporate and other securities	942,447	1,287	(99,023)	844,711	-
Residential mortgage-backed securities	253,623	-	(22,245)	231,378	-
Commercial mortgage-backed securities	170,747	252	(15,360)	155,639	-
Other mortgage-backed and asset-backed securities	201,709	6	(16,282)	185,433	-
Total fixed maturity securities	$1,956,967	$1,873	$(184,385)	$1,774,455	$ -

		Included in Accumulated Other Comprehensive Income			
December 31, 2021	**Cost or amortized cost**	**Unrealized gains**	**Unrealized losses**	**Fair value**	**Non-credit-other than temporary impairment**
U.S. government and government agency securities	$303,767	$679	$(1,353)	$303,093	$ -
Non-U.S. government securities	-	-	-	-	-
U.S. state and municipal securities	107,888	4,635	(288)	112,235	-
Corporate and other securities	943,322	22,645	(4,537)	961,430	-
Residential mortgage-backed securities	239,049	3,083	(1,185)	240,947	-
Commercial mortgage-backed securities	153,608	4,130	(296)	157,442	-
Other mortgage-backed and asset-backed securities	223,891	781	(1,146)	223,526	-
Total fixed maturity securities	$1,971,525	$35,953	$(8,805)	$1,998,673	$ -

(Expressed in thousands of U.S. dollars, except share data)

The following table presents the other comprehensive income reclassification adjustments on investments for the year ended December 31, 2022 and 2021:

	2022	2021
Change on net unrealized losses on investments arising during the year	$(219,496)	$(57,436)
Less:		
Reclassification adjustment included in net income	(3,794)	(10,995)
Other comprehensive loss, before tax	(223,290)	(68,431)
Less: Income tax benefit	44,307	14,271
Other comprehensive loss, net of tax	$(178,983)	$(54,160)

Included in the tables above are cash and cash equivalents of $12,264 and $8,694; and fixed maturity securities of $729,983 and $782,922 in trust accounts as collateral under the terms of certain insurance and reinsurance transactions as of December 31, 2022 and 2021, respectively.

On December 1, 2009, the Company entered into a standby letter of credit facility provided by Citibank Europe plc. As of December 31, 2022 and 2021, $71,703 and $61,431, respectively, of letters of credit were issued and outstanding under this facility. Fixed maturity securities of $82,275 and $76,795 as of December 31, 2022 and 2021, respectively, were pledged as collateral.

The Company's parent operates in the Lloyd's market through its corporate member Liberty Corporate Capital (Two) Ltd. ("LCC2"), which represents its participation in Syndicate 4000 and in Syndicate 2014. Lloyd's sets capital requirements for corporate members annually through the application of a capital model that is based on regulatory capital rules pursuant to Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) ("Solvency II"), as further adjusted by Lloyd's. Such capital, or Funds at Lloyd's ("FAL"), may be satisfied by cash, certain investments and undrawn letters of credit provided by approved banks. As of December 31, 2022 and 2021, fixed maturity securities of $147,707 and $169,664 were restricted to satisfy LCC2's FAL requirements. These assets set aside to satisfy Lloyd's FAL requirement were provided by the Company.

The following represents an analysis of net realized gains (losses) on the sale of available for sale securities for the year ended December 31, 2022 and 2021:

	December 31, 2022		
	Realized gains	**Realized losses**	**Net realized gains (losses)**
Fixed maturity securities	$17,777	$(13,721)	$4,056
Equity securities	-	(262)	(262)
	$17,777	$(13,983)	$3,794

	December 31, 2021		
	Realized gains	**Realized losses**	**Net realized gains (losses)**
Fixed maturity securities	$17,627	$(6,642)	$10,985
Short term investments	10	-	10
	$17,637	$(6,642)	$10,995

(Expressed in thousands of U.S. dollars, except share data)

The following table summarizes the fair value and gross unrealized losses of available for sale securities aggregated by category and the length of time the individual securities have been in a continuous unrealized loss position:

	0 - 12 Months		Over 12 Months	
December 31, 2022	**Fair Value**	**Gross Unrealized Loss**	**Fair Value**	**Gross Unrealized Loss**
U.S. government and government agency securities	$195,697	$(16,663)	$32,501	$(2,584)
Non-U.S. government securities	-	-	725	(172)
U.S. state and municipal securities	53,570	(5,810)	38,703	(6,246)
Corporate and other securities	453,846	(35,398)	365,016	(63,625)
Residential mortgage-backed securities	147,955	(11,512)	83,423	(10,733)
Commercial mortgage-backed securities	84,096	(4,610)	70,329	(10,750)
Other mortgage-backed and asset-backed securities	40,822	(1,812)	140,699	(14,470)
Total fixed maturity securities	$975,986	$(75,805)	$731,396	$(108,580)

	0 - 12 Months		Over 12 Months	
December 31, 2021	**Fair Value**	**Gross Unrealized Loss**	**Fair Value**	**Gross Unrealized Loss**
U.S. government and government agency securities	$219,869	$(1,210)	$8,687	$(143)
Non-U.S. government securities	-	-	-	-
U.S. state and municipal securities	30,186	(288)	-	-
Corporate and other securities	255,843	(3,525)	24,651	(1,012)
Residential mortgage-backed securities	94,019	(1,066)	4,390	(119)
Commercial mortgage-backed securities	21,441	(296)	-	-
Other mortgage-backed and asset-backed securities	170,044	(1,146)	-	-
Total fixed maturity securities	$791,402	$(7,531)	$37,728	$(1,274)

As of December 31, 2022, there were 526 securities that were in an unrealized loss position for 12 months or longer. The Company monitors the difference between the amortized cost and estimated fair value of fixed maturity securities to ascertain whether declines in value are temporary in nature. The Company currently does not have the intent to sell and has determined it is not more likely than not that it would be required to sell these fixed maturity securities before they recover their fair value.

As of December 31, 2022 and 2021, other-than-temporary impairment losses recognized through net realized and unrealized gains on investments were $(1,019) and $(444), respectively.

The amortized cost and fair value amounts for fixed maturity securities held as of December 31, 2022 and 2021 are shown by contractual maturity below. Actual maturity may differ from contractual maturity because certain borrowers may have the right to call or prepay certain obligations with or without call or prepayment penalties.

	December 31, 2022	
Available for Sale Securities	**Amortized**	**Fair value**
Due in one year or less	$36,712	$36,875
Due after one year through five years	688,667	643,198
Due after five years through ten years	514,338	446,832
Due after ten years	91,171	75,100
Residential, commercial and other mortgage and asset-backed securities	626,079	572,450
Total fixed maturity securities	$1,956,967	$1,774,455

(Expressed in thousands of U.S. dollars, except share data)

	December 31, 2021	
Available for Sale Securities	**Amortized**	**Fair value**
Due in one year or less	$74,493	$74,570
Due after one year through five years	714,918	728,510
Due after five years through ten years	468,868	474,076
Due after ten years	96,698	99,602
Residential, commercial and other mortgage and asset-backed securities	616,548	621,915
Total fixed maturity securities	$1,971,525	$1,998,673

Net investment income is derived from the following sources:

	2022	**2021**
Fixed maturity securities	$53,360	$52,365
Other investments	1,452	(2,083)
Cash and cash equivalents	1,045	52
Short term investments	(20)	161
Total gross investment income	55,837	50,495
Investment expenses	(4,781)	(5,607)
Net investment income	$51,056	$44,888

4. Fair value measurement

Fair value is the price that would be received to sell an asset or would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Company primarily uses the market approach, which generally utilizes market transaction data for identical or similar instruments.

The hierarchy level assigned to each security in the Company's available for sale portfolio is based on the Company's assessment of the transparency and reliability of the inputs used in the valuation of each instrument at the measurement date. The highest priority is given to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Securities are classified based on the lowest level of input that is significant to the fair value measurement. The three hierarchy levels are defined as follows:

- Level 1 — Valuations based on unadjusted quoted market prices in active markets for identical assets or liabilities that the Company has the ability to access.
- Level 2 — Valuations based on observable inputs (other than Level 1 prices), such as quoted prices for similar assets or liabilities at the measurement date, quoted prices in markets that are not active, or other inputs that are observable, either directly or indirectly.
- Level 3 — Valuations based on inputs that are unobservable and significant to the overall fair value measurement and involve management judgment. The unobservable inputs reflect the Company's estimates of the assumptions that market participants would use in valuing the assets and liabilities.

The availability of observable inputs can vary from financial instrument to financial instrument and is affected by a wide variety of factors, including, for example, the type of financial instrument, whether the financial instrument is new and not yet established in the marketplace, and other characteristics particular to the financial instrument. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires significantly more judgment. Accordingly, the degree of judgment exercised by management in determining fair value is greatest for instruments categorized in Level 3.

The Company is responsible for the determination of fair value and the supporting assumptions and methodologies. The Company gains assurance on the overall reasonableness and consistent application of valuation methodologies and inputs and compliance with accounting standards through the execution of various processes and controls designed to ensure that the Company's assets and liabilities are appropriately valued. For fair values received from third parties or internally estimated, the Company's processes are designed to determine that the valuation methodologies and inputs are appropriate and consistently applied, the assumptions are reasonable and consistent with the objective of determining fair value, and the fair values are accurately recorded. For example, on a continuing basis, the Company assesses the reasonableness of individual fair values that have stale security prices or that exceed certain thresholds as compared to previous fair values received from valuation service providers or brokers or derived from internal models. The Company performs procedures to understand and assess the methodologies, processes and controls of valuation service providers. In addition, the Company may validate the reasonableness of fair values by comparing information obtained from valuation service providers or brokers to other third party valuation sources for selected securities.

The Company used the following methods and assumptions in estimating the fair value of its financial instruments as well as the general classification of such financial instruments pursuant to the above fair value hierarchy:

Fixed maturity securities
At each valuation date, the Company uses various valuation techniques to estimate the fair value of its fixed maturities portfolio. The primary method for valuing the Company's securities is through independent third-party valuation service providers. For positions where valuations are not available from independent third-party valuation service providers, the Company utilizes broker quotes and internal pricing methods to determine fair values. The Company obtains a single non-binding price quote from a broker familiar with the security who, similar to the Company's valuation service providers, may consider transactions or activity in similar securities, as applicable, among other information. The brokers providing price quotes are generally from the brokerage divisions of leading financial institutions with market making, underwriting and distribution expertise regarding the security subject to valuation. The evaluation and prioritization of these valuation sources is systematic and predetermined resulting in a single quote or price for each financial instrument. The following describes the techniques generally used to determine the fair value of the Company's fixed maturities by asset class:

U.S. government and government agency securities
U.S. government and agency securities consist primarily of bonds issued by the U.S. Treasury and mortgage pass-through agencies such as the Federal Home Loan Bank, the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. As the fair values of the Company's U.S. Treasury securities are based on active markets and unadjusted market prices, they are classified within Level 1. The fair value of U.S. government agency securities is generally determined using observable market inputs that include quoted prices for identical or similar assets in markets that are not active, benchmark yields, reported trades, bids, offers and credit spreads. Accordingly, the fair value of U.S. government agency securities is classified within Level 2.

Non-U.S. government securities
Non-U.S. government securities include bonds issued or guaranteed by Non-U.S. governments. The fair value of Non-U.S. government securities is generally determined using observable market inputs that include quoted prices for identical or similar assets in markets that are not active, benchmark yields, binding broker quotes, issuer ratings, reported trades of identical or comparable securities and credit spreads. Accordingly, the fair value of Non-U.S. government securities is primarily classified within Level 2. In the event third-party vendor valuation is not available, prices are determined using non-binding price quotes from a broker familiar with the security. In this instance, the valuation inputs are generally unobservable and the fair value is classified within Level 3.

Municipal securities
The Company's municipal portfolio is comprised of bonds issued by U.S. domiciled state and municipal entities. The fair value of municipal securities is generally determined using observable market inputs that include quoted prices for identical or similar assets in markets that are not active, benchmark yields, binding broker quotes, issuer ratings, reported trades and credit spreads. Accordingly, the fair value of municipal securities is primarily classified within Level 2.

Mortgage-backed securities ("MBS")
The Company's portfolio of residential and commercial mortgage-backed securities is originated by both agencies and non-agencies, the majority of which are pass-through securities issued by U.S. government agencies. The fair value of mortgage-backed securities is generally determined using observable market inputs that include quoted prices for identical or similar assets in markets that are not active, benchmark yields, contractual cash flows, prepayment speeds, collateral performance and credit spreads. Accordingly, the fair value of MBS is primarily classified within Level 2.

Asset-backed securities ("ABS")
Asset-backed securities include mostly investment-grade bonds backed by pools of loans with a variety of underlying collateral, including automobile loan receivables, credit card receivables, and collateralized loan obligation securities originated by a variety of financial institutions. The fair value of asset-backed securities is generally determined using observable market inputs that include quoted prices for identical or similar assets in markets that are not active, benchmark yields, contractual cash flows, prepayment speeds, collateral performance and credit spreads. Accordingly, the fair value of ABS is primarily classified within Level 2.

Corporate and other securities
Corporate and other securities consist primarily of investment-grade debt of a wide variety of corporate issuers and industries. The fair value of corporate and other securities is generally determined using observable market inputs that include quoted prices for identical or similar assets in markets that are not active, benchmark yields, new issuances, issuer ratings, reported trades of identical or comparable securities, bids, offers and credit spreads. Accordingly, the fair value of corporate and other securities is primarily classified within Level 2. In the event third-party vendor valuation is not available, prices are determined using non-binding price quotes from a broker familiar with the security. In this instance, the valuation inputs are generally unobservable and the fair value is classified within Level 3.

Equity securities
Equity securities include common stocks. Common stocks with fair values based on quoted market prices in active markets are classified within Level 1. Common stocks with fair values determined using observable market inputs that include quoted prices for identical or similar assets in markets that are not active are classified within Level 2.

Short-term investments
The fair value of short-term investments is generally determined using observable market inputs that include quoted prices for identical or similar assets in markets that are not active, benchmark yields, new issuances, issuer ratings, reported trades of identical or comparable securities, bids, offers and credit spreads. Accordingly, the fair value of short-term investments is primarily classified within Level 2 of the fair value hierarchy.

Other investments
The Company's other investments include investments in closed-end limited partnerships that invest primarily in private commercial real estate debt in North America and Europe ("Real Estate Debt Funds"). The Company also invested in a limited partnership fund registered in Cayman Islands called China Momentum Fund, L.P. ("CMF"). The fair value of these investments is estimated using the net asset value ("NAV") as provided by the general partners or investment managers. As the NAV obtained from the general partners or investment managers lags by one quarter as of the measurement date, the Company considers any adjustment to the most recent NAV such as capital calls, distributions, redemptions and all other information available to the Company.

The Real Estate Debt Funds invest principally in senior and subordinated instruments, including mortgages, B-notes and mezzanine, senior and bridge loans related to real estate-related assets. These investments are not allowed to be redeemed, transferred or resold and have an estimated term of three to seven years. CMF invests primarily in a portfolio of companies engaged in consumer, financial or industrial undertakings domiciled in China, Hong Kong, Macau and/or Taiwan. The investment period for CMF commenced on August 15, 2013 with an estimated term of 10 years unless sooner dissolved.

As of December 31, 2022 and 2021, Real Estate Debt Funds and the Company's investments in CMF had a balance of $1,397 and $3,352, accordingly, recorded as other investments in the consolidated balance sheets. Other investments are measured at fair value using the net asset value practical expedient as of December 31, 2022 and 2021 and were not classified in the fair value hierarchy above.

The Company received assistance with its investment accounting function from a related party within the Liberty Mutual group. These service providers as well as the Company's investment managers use several pricing services and brokers to assist with the determination of the fair value of the Company's investment portfolio. The Company does not typically adjust prices obtained from pricing services. In accordance with accounting guidance regarding fair value measurements, the Company's service providers maximize the use of observable inputs ensuring that unobservable inputs are used only when observable inputs are not available.

(Expressed in thousands of U.S. dollars, except share data)

The following table presents the Company's investments that are measured at fair value on a recurring basis as well as the carrying amount of these investments as of December 31, 2022 by level within the fair value hierarchy:

2022	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
U.S. government and government agency securities	$263,199	$ -	$ -	$263,199
Non-U.S. government securities	-	725	-	725
U.S. state and municipal securities	-	81,128	12,242	93,370
Corporate and other securities	-	828,205	16,506	844,711
Residential mortgage-backed securities	-	231,378	-	231,378
Commercial mortgage-backed securities	-	155,639	-	155,639
Other mortgage-backed and asset-backed securities	-	179,810	5,623	185,433
Total fixed maturity securities	263,199	1,476,885	34,371	1,774,455
Equity securities	345	-	-	345
Short term investments	-	-	1,371	1,371
Other assets	-	3,885	18	3,903
	$263,544	$1,480,770	35,760	$1,780,074

The following table presents the Company's investments that are measured at fair value on a recurring basis as well as the carrying amount of these investments as of December 31, 2021 by level within the fair value hierarchy:

2021	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
U.S. government and government agency securities	$303,093	$ -	$ -	$303,093
Non-U.S. government securities	-	-	-	-
U.S. state and municipal securities	-	99,106	13,129	112,235
Corporate and other securities	-	939,263	22,167	961,430
Residential mortgage-backed securities	-	240,947	-	240,947
Commercial mortgage-backed securities	-	157,442	-	157,442
Other mortgage-backed and asset-backed securities	-	215,818	7,708	223,526
Total fixed maturity securities	303,093	1,652,576	43,004	1,998,673
Equity securities	460	-	-	460
Short term investments	-	-	13	13
Other assets	-	-	1,395	1,395
	$303,553	$1,652,576	$44,412	$2,000,541

As of December 31, 2022 and 2021, the Company's Level 3 investments represented 2.0% and 2.2%, respectively, of its total investments measured at fair value.

The Company had no material assets or liabilities that were measured at fair value on a nonrecurring basis during the years ended December 31, 2022 and 2021.

Level 3 Gains and Losses

The table below presents assets that are measured at fair value on a recurring basis as of December 31, 2022 and 2021 using significant Level 3 inputs:

(Expressed in thousands of U.S. dollars, except share data)

	December 31, 2022			December 31, 2021		
	Purchases	Transfer in to Level 3	Transfer out of Level 3	Purchases	Transfer in to Level 3	Transfer out of Level 3
Assets at fair value						
U.S. state and municipal	$ -	$2,026	$ -	$ -	$13,264	$ -
Corporate and other	34	12	-	270	87	-
Residential MBS	-	-	-	-	-	(9,119)
Other MBS and ABS	-	-	-	7,870	-	-
Short-term investments	21	-	(12)	7	-	(87)
Other assets	-	-	-	-	-	-
	$55	$2,038	$(12)	$8,147	$13,351	$(9,206)

Transfers into and out of Level 3 were primarily due to changes in the observability of pricing inputs.

5. Reserves for losses and loss adjustment expenses

Reserves for losses and loss adjustment expenses are based in part upon the estimation of case reserves reported from brokers, insureds and ceding companies. The Company also uses statistical and actuarial methods to estimate ultimate expected losses and loss adjustment expenses. The period of time from the occurrence of a loss, the reporting of a loss to the Company and the settlement of the Company's liability may be several months or years. During this period, additional facts and trends may be revealed. As these factors become apparent, case reserves will be adjusted, sometimes requiring an increase or decrease in the overall reserves of the Company, and at other times requiring a reallocation of incurred but not reported reserves to specific case reserves. These estimates are reviewed regularly, and such adjustments, if any, are recorded in earnings in the period in which they become known. While management believes it has made a reasonable estimate of ultimate losses, there can be no assurances that ultimate losses and loss expenses will not exceed the total reserves.

The following table represents the activity in the reserve for losses and loss adjustment expenses for the years ended December 31, 2022 and 2021, respectively:

	2022	2021
Gross reserves for losses and loss adjustment expenses, beginning of year	$1,210,744	$1,124,786
Less reinsurance recoverable balances, beginning of year	525,534	513,951
Net reserves for losses and loss adjustment expenses, beginning of year	685,210	610,835
Increase (decrease) in net losses and loss adjustment expenses incurred in respect of losses		
Current year	1,245,809	1,185,703
Prior years	48,833	(7,314)
Total incurred losses and loss adjustment expenses	1,294,642	1,178,389
Less net losses and loss adjustment expenses paid in respect of losses occurring in:		
Current year	1,053,242	907,269
Prior years	194,624	194,800
Total net paid losses	1,247,866	1,102,069
Adjustments:		
Net foreign currency gain on loss and loss adjustment expenses	(737)	(1,945)
	(737)	(1,945)
Net reserve for losses and loss adjustment expenses, end of year	731,249	685,210
Plus reinsurance recoverable balances, end of year	547,023	525,534
Gross reserve for losses and loss adjustments expenses, end of year	$1,278,272	$1,210,744

There were no significant adjustments for the years ended December 31, 2022 and 2021.

There was an overall prior year unfavorable development of $48,833 for the year ended December 31, 2022. The underlying reasons for the prior year unfavorable development included:

- Net unfavorable loss reserve development of $98,062 across multiple accident years primarily due to losses emerging higher than expected for the US Casualty and International segments of $42,476 and $27,641, respectively; and on reinsurance business written under LMRe brand of $14,958;

- Net favorable development of $49,229 driven primarily by favorable development of $23,304 and $11,600 for Bermuda Property segment and Mortgage and Corporate Risk, respectively.

There was an overall prior year favorable development of $7,314 for the year ended December 31, 2021. The underlying reasons for the prior year favorable development included:

- Net favorable development of $72,135 driven primarily by favorable development of $36,871, $24,136 and $8,637 for Bermuda Property segment, International segment and Mortgage and Political Risk, respectively;

- Net unfavorable loss reserve development of $64,821 across multiple accident years primarily due to losses emerging higher than expected for the Corporate deals of $30,607 and on reinsurance business written under LMRe brand of $27,768.

The Company has written an increasing volume of casualty business in recent years, which adds significant variability to management's estimates because of the longer tail nature of the risks.

Claims Development and Frequency

The information provided herein about incurred and paid accident year claims development, net of reinsurance, for the years ended prior to December 31, 2022 and the annual percentage payouts of incurred claims by age, net of reinsurance, is presented as supplementary information. For incurred and paid accident year claims denominated in foreign currency, the Company used the current year-end balance sheet foreign exchange rate for all periods provided, thereby eliminating the effects of changes in foreign currency translation rates from the incurred and paid accident year claims development information included in the tables below.

Liberty Specialty Markets Bermuda Limited
Notes to Consolidated Financial Statements
(Expressed in thousands of U.S. dollars, except share data)

Casualty
(Claims counts in whole numbers)

Incurred claims and allocated claims adjustment expenses, net of reinsurance

As of December 31, 2022

	---supplemental and unaudited---									Gross			Total of incurred but not reported liabilities plus expected development on reported claims	Cumulative number of reported claims(1)
AY	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**ADC**	**Net of ADC**		
2013	$36,600	$38,515	$37,726	$49,069	$47,543	$40,776	$55,641	$54,007	$53,854	$54,564	$(5,514)	$49,050	$9,515	3,891
2014		47,289	50,720	49,252	38,607	50,244	50,382	44,689	41,640	43,580	(8,050)	35,530	11,492	7,190
2015			47,743	67,512	86,453	87,158	109,912	99,004	100,506	102,368	(15,800)	86,568	19,962	7,686
2016				43,189	45,593	48,028	65,139	62,821	64,949	84,959	(13,769)	71,190	15,896	7,916
2017					47,690	53,936	70,835	59,069	66,899	72,667		72,667	18,133	9,493
2018						72,028	69,247	78,323	84,466	89,619		89,619	34,979	9,176
2019							55,124	74,104	71,505	86,072		86,072	42,298	7,913
2020								61,144	61,278	70,227		70,227	42,139	3,718
2021									65,031	67,022		67,022	56,002	102
2022										51,724		51,724	50,022	22
								Total		**$722,802**	**$(43,133)**	**$679,669**		

(1) Note that 100% of claim count information is disclosed on a per claimant basis.
(2) Gross of retroactive reinsurance contract with HIDAC, see below

Cumulative paid claims and allocated claims adjustment expenses, net of reinsurance

As of December 31, 2022

	---supplemental and unaudited---									
AY	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
2013	$46	$736	$2,286	$1,184	$19,496	$21,214	$24,937	$25,843	$29,488	$41,644
2014		1,359	3,934	5,132	7,896	19,898	24,116	26,585	29,303	29,321
2015			1,895	16,550	22,402	28,231	56,654	77,124	80,158	77,549
2016				240	3,381	10,869	19,363	28,518	33,435	58,208
2017					944	2,811	10,730	25,924	29,250	36,129
2018						15,435	15,577	24,468	27,535	44,619
2019							4,800	11,726	13,794	26,089
2020								3,610	5,165	13,874
2021									310	3,234
2022										3,506
								Total		**$334,173**
					All net outstanding liabilities prior to 2013, net of reinsurance					**4,180**
					Liabilities for claims and claim adjustment expense					**$349,676**

Average annual percentage payout of incurred claims (Supplemental and unaudited)

Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**Year 10**
4.2%	4.7%	7.0%	8.4%	20.5%	9.6%	11.2%	1.8%	3.4%	22.3%

(Expressed in thousands of U.S. dollars, except share data)

Property
(Claims count in whole numbers)

Incurred claims and allocated claims adjustment expenses, net of reinsurance

As of December 31, 2022

	supplemental and unaudited									Gross		Net of	Total of incurred but not reported liabilities plus expected development on	Cumulative number of reported
AY	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**ADC**	**ADC**	**reported claims**	**claims(1)**
2013	$37,053	$38,247	$42,002	$41,550	$42,307	$42,512	$43,996	$43,199	$43,085	$44,265	$(4,473)	$39,792	$(78)	717
2014		60,896	58,637	55,949	65,490	55,278	55,492	56,140	55,602	57,641	(10,648)	46,993	2,665	689
2015			39,982	32,695	36,889	27,464	29,861	30,681	30,714	31,632	(4,882)	26,750	(1,350)	744
2016				49,562	48,329	40,272	40,335	44,273	44,961	45,140	(7,315)	37,825	(142)	1,047
2017					133,053	184,931	157,302	150,976	148,469	164,226	-	164,226	9,704	1,334
2018						116,105	124,156	117,730	124,243	123,077	-	123,077	4,205	1,901
2019							98,027	68,606	77,839	74,520	-	74,520	4,983	1,130
2020								399,466	385,685	389,803	-	389,803	2,802	575
2021									1,046,074	997,885	-	997,885	9,165	242
2022										1,107,775	-	1,107,775	94,556	89
								Total		**$3,035,964**	**$(27,318)**	**$3,008,646**		

(1) Note that 100% of claim count information is disclosed on a per claimant basis.
(2) Gross of retroactive reinsurance contract with HIDAC, see below

Cumulative paid claims and allocated claims adjustment expenses, net of reinsurance

As of December 31, 2022

	supplemental and unaudited									
AY	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
2013	$5,956	$22,474	$36,143	$39,904	$40,043	$41,470	$42,284	$42,562	$42,838	$43,275
2014		12,971	44,979	46,605	49,569	51,534	52,265	52,843	53,368	51,403
2015			6,900	17,675	20,001	23,164	27,927	29,206	29,938	31,452
2016				15,060	24,562	27,659	39,349	40,301	40,975	40,736
2017					21,366	111,605	123,224	131,694	135,901	144,252
2018						22,983	78,758	91,802	98,223	108,187
2019							19,700	48,169	52,469	62,383
2020								315,995	365,525	372,546
2021									903,192	917,122
2022										1,037,620
								Total		**$2,808,976**
								All net outstanding liabilities prior to 2013, net of reinsurance		**(4,190)**
								Liabilities for claims and claim adjustment expense		**$195,480**

Average annual percentage payout of incurred claims (Supplemental and unaudited)

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
41.4%	33.4%	9.1%	10.5%	5.3%	3.0%	1.2%	2.1%	-1.4%	1.0%

(Expressed in thousands of U.S. dollars, except share data)

Specialty Short Tail

(Claims count in whole numbers)

Incurred claims and allocated claims adjustment expenses, net of reinsurance

As of December 31, 2022

	--------------------------------------supplemental and unaudited--									Gross			Total of incurred but not reported liabilities plus expected development on reported claims	Cumulative number of reported claims(1)
AY	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**ADC**	**Net of ADC**		
2013	$45,474	$42,693	$42,165	$40,474	$58,435	$40,498	$42,368	$40,775	$42,176	$43,071	$(4,353)	$38,718	$(598)	226
2014		51,362	60,244	62,509	47,726	63,944	61,958	58,630	59,645	66,351	(12,257)	54,094	160	317
2015			66,443	69,361	59,727	78,376	85,420	88,764	90,994	91,785	(14,167)	77,618	158	553
2016				54,908	50,673	76,448	71,202	84,817	85,888	80,649	(13,070)	67,579	710	786
2017					68,148	57,529	31,920	61,366	65,155	60,842	-	60,842	(701)	613
2018						104,500	61,163	86,916	80,051	86,229	-	86,229	284	404
2019							131,047	117,476	117,459	132,074	-	132,074	38,838	293
2020								74,908	85,988	78,578	-	78,578	73,518	136
2021									74,180	78,323	-	78,323	53,257	38
2022										87,791	-	87,791	29,360	5
								Total		**$805,693**	**$(43,847)**	**$761,846**		

(1) Note that 100% of claim count information is disclosed on a per claimant basis.
(2) Gross of retroactive reinsurance contract with HIDAC, see below

Cumulative paid claims and allocated claims adjustment expenses, net of reinsurance

As of December 31, 2022

	--supplemental and unaudited---									
AY	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
2012	$11,038	$26,654	$33,276	$35,828	$36,478	$38,272	$40,033	$40,122	$41,168	$40,811
2013		18,997	50,869	80,667	41,422	60,425	56,419	56,319	58,799	65,111
2014			37,052	56,877	49,416	70,688	84,136	87,383	88,923	88,456
2015				15,800	76,984	63,112	69,656	79,998	82,669	76,735
2016					3,897	22,895	41,635	51,042	55,083	57,968
2017						52,533	53,866	66,876	77,507	84,219
2018							16,409	48,222	79,581	106,093
2019								4,274	16,521	28,861
2020									1,399	16,864
2021										12,116
								Total		**$577,234**
								All net outstanding liabilities prior to 2013, net of reinsurance		**(3,520)**
								Liabilities for claims and claim adjustment expense		**$181,092**

Average annual percentage payout of incurred claims (Supplemental and unaudited)

Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**Year 10**
21.5%	30.4%	15.0%	3.7%	12.0%	1.9%	-0.4%	1.1%	6.0%	-0.8%

(Expressed in thousands of U.S. dollars, except share data)

The assumed loss reserves related to the retroactive reinsurance contract with HIDAC has been presented prospectively within the loss development tables above, from the date that the retroactive reinsurance agreement became effective. As of December 31, 2022 and 2021, the Company held $62,912 and $58,904, respectively, of liabilities for claims and claim adjustment expense associated with the retroactive reinsurance contract with HIDAC.

The following table provides a breakdown of incurred and paid claims by accident year, net of reinsurance, that were included in the loss development tables and related to the retroactive reinsurance agreement:

Casualty
As of December 31, 2022

--supplemental and unaudited--

	Incurred claims and allocated claims adjustment expenses, net of reinsurance				Cumulative paid claims and allocated claims adjustment expenses, net of reinsurance				Total of incurred but not reported liabilities plus expected development on reported claims
AY	**2019**	**2020**	**2021**	**2022**	**2019**	**2020**	**2021**	**2022**	**2022**
2013	$4,859	$4,715	$4,555	$5,121	$120	$345	$435	$3,458	$1,214
2014	3,630	3,680	2,690	3,416	270	945	1,590	1,699	1,335
2015	15,545	14,449	13,055	13,915	81	9,196	9,618	10,001	3,231
2016	8,410	8,525	8,308	11,938	73	2,505	3,844	8,595	1,502
2017	12,367	12,764	12,898	17,740	151	2,651	2,999	4,972	6,416
2018	13,484	12,551	12,381	15,437	20	1,735	2,397	4,724	8,351
2019	10,312	8,574	8,437	12,577	24	1,276	1,744	2,540	5,306
2020		4,679	4,726	4,864		111	308	1,036	3,086
2021			1,579	2,703			47	400	1,677
2022				941				86	577
				$88,652				**$37,511**	

Property
As of December 31, 2022

--supplemental and unaudited--

	Incurred claims and allocated claims adjustment expenses, net of reinsurance				Cumulative paid claims and allocated claims adjustment expenses, net of reinsurance				Total of incurred but not reported liabilities plus expected development on reported claims
AY	**2019**	**2020**	**2021**	**2022**	**2019**	**2020**	**2021**	**2022**	**2022**
2013	$84	$157	$127	$278	$3	$53	$72	$132	$0
2014	166	186	227	684	17	83	171	7	32
2015	293	229	319	258	10	144	222	295	3
2016	525	834	700	1,010	1	213	289	483	9
2017	2,918	2,340	1,910	2,900	135	666	1,058	1,714	539
2018	4,738	4,461	3,704	4,734	1,203	2,097	2,746	4,008	8
2019	6,126	3,418	5,367	4,773	536	3,328	3,582	3,884	60
2020		4,592	4,657	4,849		1,574	3,274	3,731	226
2021			620	257			2	71	112
2022				214				-	214
				$19,957				**$14,325**	

(Expressed in thousands of U.S. dollars, except share data)

Specialty Short Tail
As of December 31, 2022

--------supplemental and unaudited--------

	Incurred claims and allocated claims adjustment expenses, net of reinsurance				Cumulative paid claims and allocated claims adjustment expenses, net of reinsurance				Total of incurred but not reported liabilities plus expected development on reported claims
AY	**2019**	**2020**	**2021**	**2022**	**2019**	**2020**	**2021**	**2022**	**2022**
2013	$199	$314	$299	$914	$0	$301	$237	$290	$8
2014	240	591	496	605	54	57	443	619	20
2015	564	830	992	1,076	96	415	696	647	17
2016	1,241	1,289	1,326	541	570	1,051	1,109	10	169
2017	3,460	4,044	3,707	4,470	999	2,390	3,327	3,610	108
2018	4,759	8,006	9,056	10,000	537	6,498	8,886	9,429	335
2019	7,097	4,312	3,505	4,820	48	2,448	3,341	4,406	477
2020		5,974	4,358	3,330		573	1,209	1,942	1,146
2021			1,758	4,726			270	3,793	405
2022				1,350				947	300
				$31,832				**$25,693**	

The table below provides reconciliation of the disclosure incurred and paid claims development to the liability for unpaid claims and claims adjustments expenses ("CAE"):

Net outstanding liabilities for unpaid claims and CAE, net of ADC	**December 31, 2022**
Casualty	$349,676
Property	195,480
Specialty Short Tail	181,092
Liabilities for unpaid claims and allocated CAE, net of reinsurance	**$726,248**
Reinsurance recoverable on unpaid claims	
Casualty	377,503
Property	89,257
Specialty Short Tail	80,263
Total reinsurance recoverable on unpaid claims	**547,023**
Unallocated claims adjustment expenses	5,001
Gross reserve for losses and loss adjustment expenses	**$1,278,272**

6. Reinsurance

In certain cases, the risks written by the Company are wholly or partially reinsured with third-party reinsurers. Reinsurance ceded varies by location and line of business based on a number of factors, including market conditions. The benefits of ceding risks to third-party reinsurers include reducing exposure on individual risks, protecting against catastrophic risks, maintaining acceptable capital ratios and enabling the writing of additional business. Reinsurance ceded contracts do not discharge the Company from its liabilities to the original policyholder in respect of the risk being reinsured.

The Company uses reinsurance to support its underwriting and retention guidelines as well as to control the aggregate exposure of the Company to a particular risk or class of risks. Reinsurance may be purchased at several levels ranging from reinsurance of risks assumed on individual contracts to reinsurance covering the aggregate exposure on a portfolio of policies issued by groups of companies.

(Expressed in thousands of U.S. dollars, except share data)

a) Effects of reinsurance on premiums written and earned

The effects of reinsurance on premiums written and earned, and on losses and loss adjustment expenses is as follows:

	2022	2021
Net premiums written		
Direct	$146,066	$166,381
Assumed	1,699,244	1,743,052
Ceded	(92,957)	(88,744)
Net premiums written	$1,752,353	$1,820,689
Net premiums earned		
Direct	$155,791	$147,506
Assumed	1,692,662	1,784,608
Ceded	(97,306)	(77,922)
Net premiums earned	$1,751,147	$1,854,192
Loss and Loss adjustment expenses		
Gross losses and loss adjustment expenses incurred	$1,353,794	$1,216,912
Losses and loss adjustment expenses recoveries	(59,152)	(38,523)
Net loss and loss adjustment expenses	$1,294,642	$1,178,389

b) Credit risk

The Company evaluates the financial condition of its reinsurers and monitors concentration of credit risk arising from its exposure to individual reinsurers. Reinsurance programs are generally placed with reinsurers whose rating, as of the time of placement, is A- or better as rated by AM Best Company or the equivalent with other rating agencies. Exposure to a single reinsurer is also controlled with restrictions dependent on rating. As of December 31, 2022 and 2021, 99.0% of reinsurance recoverables (which includes loss reserves recoverable and recoverables on paid losses) were from reinsurers rated A- or better and included $344,241 and $299,954, respectively, of IBNR recoverable.

Reinsurance recoverables by reinsurer categories are as follows:

	December 31, 2022		December 31, 2021	
	Reinsurance Recoverable	% of Total	Reinsurance Recoverable	% of Total
Top 10 Reinsurers	$506,525	81.9%	$539,212	86.9%
Other reinsurers balances > $1 million	105,783	17.1%	76,061	12.3%
Other reinsurers balances < $1 million	6,525	1.0%	4,963	0.8%
Total	$618,833	100.0%	$620,236	100.0%

Reserves for reinsurance recoverables deemed uncollectible are based on an estimate of the amount of the reinsurance recoverable balance that will ultimately not be recovered due to reinsurer insolvency, contractual dispute or some other reason. The valuation of the reserve for uncollectible reinsurance includes a detailed review of the credit ratings of the reinsurance recoverable by reinsurer on a continuous basis with any resulting adjustments recorded in earnings in the period that collection issues are identified. As of December 31, 2022 and 2021, the reserves for reinsurance recoverables deemed uncollectible was $4,700 and $200, respectively.

7. Share capital

(a) Authorized and issued

The Company’s authorized share capital is 2,000,000 ordinary shares with par value of $1.00 each. Issued and outstanding share capital as of December 31, 2022 and 2021 is 1,000,000 ordinary shares with a par value of $1.00 each.

(Expressed in thousands of U.S. dollars, except share data)

(b) Dividends

The Company declared $Nil and $300,000 dividends during the years ended December 31, 2022 and 2021, respectively.

8. Income Taxes

(a) Bermuda

Under current Bermuda law, LSM Bermuda is exempt from all Bermuda income, withholding and capital gains taxes. At the present time, no such taxes are levied in Bermuda. In the event that such taxes are imposed, LSM Bermuda would be exempt until March 2035 pursuant to the Bermuda Exempted Undertakings Tax Protection Act 1966, and Amended Act of 1987.

(b) United States

Effective May 2, 2017, LSM Bermuda made an irrevocable election to be treated as a U.S. domestic insurance company for U.S. Federal tax purposes under section 953(d) of the U.S. Internal Revenue Code and is, therefore, subject to income taxation in the U.S. LSM Bermuda is included in the consolidated U.S. federal income tax return of Liberty Mutual Holding Company, Inc. & Subsidiaries. As part of the consolidated group, LSM Bermuda is subject to the Liberty Mutual Group tax sharing agreement whereby the Company is allocated its share of the consolidated tax liability based upon the tax it would have owed had it filed separately. Tax benefits are allocated to each company for its portion of net operating losses and tax credit carry forwards in the year they are used by the consolidated group. Intercompany tax balances are settled quarterly.

The components of U.S. Federal and foreign income tax expense (benefit) from continuing operations are:

	2022	2021
Current tax (benefit) expense:		
U.S. Federal	$(17,496)	$24,338
U.S. Federal net operating losses	17,534	(24,834)
Foreign	-	(76)
Total current tax (benefit) expense	38	(572)
Deferred tax (benefit) expense:		
U.S. Federal	(10,976)	36,120
Total U.S. Federal and foreign income tax (benefit) expense	$(10,938)	$35,548

A reconciliation of the income tax expense computed at U.S. Federal statutory tax rates to the income tax expense as included in the consolidated statements of income is as follows:

Years ended December 31,	2022	%	2021	%
Expected U.S. Federal income tax (benefit) expense	$(9,743)	21.0%	$35,403	21.0%
Tax effect of:				
Revision to estimate	(1,265)	2.7%	664	0.4%
Other	70	(0.1)%	(519)	(0.3)%
Total income tax (benefit) expense	$(10,938)	23.6%	$35,548	21.1%

(Expressed in thousands of U.S. dollars, except share data)

The significant components of the deferred income tax assets and liabilities at December 31, are summarized as follows:

	2022	2021
Deferred tax assets:		
Unpaid claims discount	$9,217	$8,937
Unearned premium reserves	19,030	18,981
Net operating losses	84,218	70,464
Net unrealized losses	39,823	-
Employee benefits	841	582
Other accrued expenses	2,389	2,398
Intangibles	71,537	79,204
Depreciation/amortization	104	104
Other	772	28
Total deferred tax assets	227,931	180,698
Less: Valuation allowance	-	-
Deferred tax assets net of valuation allowance	227,931	180,698
Deferred tax liabilities:		
Deferred acquisition costs	(26,136)	(28,762)
Net unrealized gains	-	(6,063)
Other	(788)	(152)
Total deferred tax liabilities	(26,924)	(34,977)
Net deferred tax asset	$201,007	$145,721

ASC Topic 740, *Income Taxes*, requires a valuation allowance to reduce the deferred tax assets reported if, based on the weight of evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. For the years ended December 31, 2022 and 2021, management determined no valuation allowance was necessary.

As of December 31, 2022, LSM Bermuda has U.S. Federal net operating loss carry-forwards of $401,036 and no foreign tax credit carry-forwards. The net operating loss carry-forwards will begin to expire in year 2037 and are only available to offset future income of LSM Bermuda.

The Company assesses whether it has tax positions that would be required to be reflected in the special purpose financial statements in accordance with ASC 740, *Income Taxes*. Such positions are based solely on their technical merits, more likely than not to be sustained upon examination by taxing authorities and reflecting the largest amount of benefit, determined on a cumulative probability basis that is more likely than not to be realized upon settlement with the applicable taxing authority with full knowledge of all relevant information.

As of December 31, 2022, and 2021, the Company has no significant tax positions that would be required to be reflected in the special purpose financial statements. The Company does not expect any material changes to the unrecognized tax benefits within twelve months of the reporting date.

The Company recognizes interest and penalties related to unrecognized tax benefits in U.S. Federal income tax expense. For the years ended December 31, 2022 and 2021, the Company did not recognize any interest and penalties.

The U.S. Federal statute of limitations has expired through the 2018 tax year; however, it remains open for certain impacts of the Tax Cuts and Jobs Act of 2017. Any adjustments that may result from the examinations of open tax years are not expected to have a material impact on the financial position, liquidity, or results of operations of the Company.

(Expressed in thousands of U.S. dollars, except share data)

9. Commitments and contingencies

(a) Concentration of credit risk

The creditworthiness of a counterparty is evaluated by the Company, taking into account credit ratings assigned by nationally-recognized rating agencies. The credit approval process involves an assessment of factors, including, among others, the counterparty, country and industry credit exposure limits. The areas where significant concentrations of credit risk may exist includes reinsurance recoverables (see Note 6), investments and cash and cash equivalent balances.

The Company underwrites a significant amount of its business through brokers. Credit risk exists should any of these brokers be unable to fulfill their contractual obligations with respect to the payments of insurance and reinsurance balances owed to the Company.

During the years ended December 31, 2022 and 2021, the following brokers were the top two producers by gross written premium:

Broker	% of Gross Premiums Written December 31, 2022	% of Gross Premiums Written December 31, 2021
Aon Benfield	10.7%	7.1%
Marsh & McLennan Companies	7.1%	5.8%

The Company's investment portfolio is managed in accordance with guidelines designed to ensure specific investment strategies are met. These guidelines include standards of diversification that limit the allowable holdings of any single issue. There were no investments in any entity in excess of 10% of the Company's shareholder's equity as of December 31, 2022 and 2021, other than investments issued or guaranteed by the U.S. government, its agencies or U.S. Government-Sponsored Enterprises.

The Company's cash and cash equivalents are on deposit with various financial institutions. Credit risk arises from the failure of the counterparty to perform according to the terms of a contract. The Company's deposits are with established banks to minimize this risk and they are located in Bermuda and U.S.

(b) Litigation

The Company is subject to litigation and arbitration in the normal course of its business. These lawsuits and arbitrations principally involve claims on policies of insurance and contracts of reinsurance and are typical for the Company and for the property and casualty insurance and reinsurance industry in general. Such legal proceedings are considered in connection with the Company's loss and loss expense reserves. In addition to litigation relating to insurance and reinsurance claims, the Company and its subsidiaries are subject to lawsuits in the normal course of business. The status of any such legal actions is actively monitored by management. If management believed, based on available information, that an adverse outcome upon resolution of a given legal action was probable and the amount of that adverse outcome was reasonable to estimate, a loss would be recognized and a related liability recorded. No such liabilities were recorded by the Company as of December 31, 2022 and 2021.

(c) Other Investments

As of December 31, 2022 and 2021, the Company had an unfunded commitment to invest $7,424 and $21,836, respectively, into closed-end limited partnership funds.

(Expressed in thousands of U.S. dollars, except share data)

10. Related party transactions

During the years ended December 31, 2022 and 2021, the Company paid expenses of $889 and $9,584, respectively, on behalf of Ironshore. The Company also purchases operating services and support at cost from Ironshore. During the years ended December 31, 2022 and 2021, the Company incurred expenses of $403 and $361, respectively, related to these services. As of December 31, 2022, the Company has an outstanding payable of $443 included under amounts payable to related parties. As of December 31, 2021, the Company has an outstanding receivable of $1,681 included under amounts receivable from related parties. These amounts are unsecured, non-interest bearing and payable upon demand.

Effective January 1, 2009, LSM Bermuda entered into a reinsurance agreement with LCC2, an affiliated company. This agreement provides that LSM Bermuda assumes a 75% quota share of all insurance and reinsurance risks earned by LCC2. In addition to the insurance and reinsurance risks, LSM Bermuda assumes 75% of LCC2's foreign exchange gains or losses, investment returns and operating expenses.

As of January 1, 2022, LCC2, a capital provider of Syndicate 2014, completed RITC transaction of the legacy liabilities of the 2019 and 2018 Years of Account of Syndicate 2014, managed by Hamilton Managing Agency. Under the agreement, legacy Syndicate 2014 business that remained with LCC2 was transferred to Syndicate 3500 managed by RiverStone Managing Agency Limited effective January 1, 2022.

This transaction effectively commuted the existing reinsurance agreement between the Company and LCC2 for the 2019 and 2018 Years of Account of Syndicate 2014. A favorable development of approximately $3,906 and bad debt allowance of $10,500 have been recorded in the Company's financial results for the year ended December 31, 2022. Included in the amounts receivable from related parties is a balance of $62,850, which represents the balance owed by LCC2 to the Company for executing the RITC transaction.

As of December 31, 2022 and 2021, the consolidated balance sheets and statements of operations include the following amounts related to the quota share agreement with LCC2:

	2022	2021
Balance Sheet		
Premiums receivable	$ -	$64,818
Deferred acquisition cost	-	663
Amount receivable from related parties	62,850	52,109
Reserve for losses and loss adjustment costs	-	29,783
Unearned premiums	-	3,074
Other liabilities	-	51,359

	2022	2021
Income Statement		
Net premiums earned	$(538)	$(1,044)
Losses and loss adjustment expenses	(3,799)	(21,216)
Acquisition expenses	(408)	(290)
Net investment income	159	608
Net realized and unrealized gains (losses) on investments	13,158	(6,952)
General and administrative expenses	360	1,434

(Expressed in thousands of U.S. dollars, except share data)

Effective August 1, 2020, LSM Bermuda entered into a reinsurance agreement with Liberty Mutual Insurance Company ("LMIC"), an affiliated company. This agreement provides that LSM Bermuda assumes a 30% quota share of the Auto Physical Damage ("APD") business underwritten by LMIC. Effective August 1, 2022, the share under the APD reinsurance agreement with LMIC was decreased from 30% to 20%.

The consolidated balance sheets and statements of operations include the following amounts related to the quota share agreement with LMIC:

	2022	2021
Balance Sheet		
Premiums receivable	$67,362	$95,419
Reserve for losses and loss adjustment costs	57,242	37,138
Other liabilities	29,311	54,132

	2022	2021
Income Statement		
Net premiums earned	$1,426,401	$1,554,538
Losses and loss adjustment expenses	1,050,450	939,996
Acquisition expenses	437,895	486,559

On April 1, 2009, Liberty Specialty Markets Agency Limited ("LSM Agency"), an affiliated company, entered into a Program Manager Agreement ("PMA") with LSM Bermuda. LSM Agency acts as an agent in the offering, issuance and administration of insurance policies written on a subscription basis by LSM Bermuda in Bermuda and other jurisdictions. Under the terms of the PMA, administrative fees for the services provided by the LSM Agency to LSM Bermuda were the lower of 10% of the gross premiums written and 50% of general and administrative costs incurred by the Agency excluding bonus and equity based compensation expenses for the years ended December 31, 2022 and 2021. During the years ended December 31, 2022 and 2021, LSM Bermuda incurred administrative fees under the terms of the PMA of $21,409 and $21,037, respectively.

LSM Agency has an existing Claims Service Agreement ("CSA") with LSM Bermuda. Under the CSA, LSM Agency provides claims management and consulting services with respect to the policies issued pursuant to the CSA. LSM Agency is reimbursed for compensation, benefits and out of pocket expenses it incurs in the performance of its obligations under the CSA. During the years ended December 31, 2022 and 2021, LSM Bermuda incurred claim services fees under the terms of the CSA of $2,551 and $2,010, respectively.

During the years ended December 31, 2022 and 2021, LSM Bermuda paid operating costs of $16,073 and $17,901, respectively, on behalf of LSM Agency. As of December 31, 2022, the Company has an outstanding payable of $8,426 to LSM Agency included in the amounts payable to related parties. As of December 31, 2021, the Company has an outstanding receivable of $629 from LSM Agency included in the amounts receivable from related parties. These amounts are unsecured, non-interest bearing and payable upon demand.

As of December 31, 2022 and 2021, the Company has an outstanding balance receivable from LMIC for reinsurance arrangements of $135,591 and $83,035, respectively, included under reinsurance recoverable on unpaid losses. As of December 31, 2022 and 2021, the Company has an outstanding balance payable to LMIC for reinsurance arrangements of $24,554 and $52,002, respectively, included under insurance and reinsurance balances payable. These amounts are unsecured, non-interest bearing and payable upon demand.

11. Statutory financial data

Under the Insurance Act 1978, amendments thereto and Related Regulations of Bermuda (the "Insurance Act"), the Company is required to prepare statutory financial statements and to file with the BMA a statutory financial return. As a Class 4 insurer, LSM Bermuda must maintain capital at the greater of a minimum solvency margin ("MSM") and its Enhanced Capital Requirement ("ECR"), which is established by reference to the Bermuda Solvency Capital Requirement ("BSCR") model. The BSCR model is a risk-based capital model that provides a method for determining an insurer's capital requirements (statutory capital and surplus) by taking into account the risk characteristics of different aspects of the insurer's business. The Insurance Act also requires LSM

Bermuda to maintain certain measures of solvency and liquidity. The MSM that must be maintained by a Class 4 insurer with respect to its general business is the greater of (i) $100,000, or (ii) 50% of net premiums written (iii) 15% of net reserve for losses and loss adjustment expenses or (iv) 25% of ECR.

As of December 31, 2022 and 2021, the Company was required to maintain a minimum statutory capital and surplus of $876,177 and $910,345, respectively. As of December 31, 2022 and 2021, LSM Bermuda had statutory capital and surplus of $1,558,232 and $1,772,598, respectively and a statutory net (loss) income of $(35,453) and $133,038, respectively for the years then ended.

Under the Insurance Act, LSM Bermuda is restricted as to the payment of dividends and/or distributions for amounts greater than 25% of the prior year's statutory capital and surplus. At December 31, 2022, LSM Bermuda can pay dividends of $443,150 without prior approval under Bermuda law.

12. Subsequent events

Subsequent events have been evaluated through April 28, 2023, the date on which the financial statements were available to be issued.