Liberty Specialty Markets Bermuda Limited

Consolidated Financial Statements
For the year ended December 31, 2023

Liberty Specialty Markets

Liberty Specialty Markets Bermuda Limited

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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, 2023 and 2022, 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, 2023 and 2022, 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.

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.

Required Supplementary Information

Accounting principles generally accepted in the United States require that the incurred claims and allocated claims adjustment expenses, net of reinsurance and the cumulative paid claims and allocated claims adjustment expenses, net of reinsurance for the years ending 2022 and prior and the average annual percentage payout of incurred claims by age, net of reinsurance disclosed on pages 25 through 29 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 26, 2024

Liberty Specialty Markets Bermuda Limited
Consolidated Balance Sheets
As of December 31, 2023 and 2022
(Expressed in thousands of U.S. dollars, except share data)

	December 31, 2023	December 31, 2022
ASSETS		
Fixed maturity securities available for sale, at fair value (net of allowance for credit losses of $880 in 2023) (amortized cost: 2023 - $2,070,285, 2022 - 1,956,967)	$1,948,874	$1,774,455
Equity securities, at fair value	70	345
Short term investments, at fair value	9	3,903
Other investments	1,373	1,397
Total investments	1,950,326	1,780,100
Cash and cash equivalents	220,824	136,117
Accrued investment income	13,968	11,450
Premiums receivable	555,988	519,936
Reinsurance recoverable on unpaid losses (net of allowance for credit losses of $2,091 in 2023)	532,198	547,023
Reinsurance recoverable on paid losses (net of allowance for credit losses of $1,088 in 2023)	53,561	71,810
Deferred acquisition costs	123,613	124,658
Prepaid reinsurance premiums	62,124	53,435
Receivable for securities sold	578	8,005
Net deferred tax asset	150,594	201,007
Amounts receivable from related parties	61,958	69,131
Other assets	3,898	5,073
Total assets	$3,729,630	$3,527,745
LIABILITIES		
Reserve for losses and loss adjustment expenses	$1,307,444	$1,278,272
Unearned premiums	554,573	506,547
Insurance and reinsurance balances payable	27,672	63,436
Payable for securities purchased	2,902	19,909
Amounts payable to related parties	3,801	12,593
Other liabilities	80,938	83,706
Total liabilities	1,977,330	1,964,463
SHAREHOLDER'S EQUITY		
Common shares, 2,000,000 authorized, $1.00 par value, issued and outstanding (2023: 1,000,000; 2022: 1,000,000)	1,000	1,000
Additional paid-in capital	1,541,489	1,541,489
Accumulated other comprehensive loss	(98,659)	(147,504)
Retained earnings	308,470	168,297
Total shareholder's equity	1,752,300	1,563,282
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	$3,729,630	$3,527,745

Liberty Specialty Markets Bermuda Limited
Consolidated Statements of Operations and Comprehensive Income (loss)
For the years ended December 31, 2023 and 2022
(Expressed in thousands of U.S. dollars, except share data)

	December 31, 2023	December 31, 2022
REVENUES		
Gross premiums written	$1,608,004	$1,845,310
Reinsurance premiums ceded	(112,477)	(92,957)
Net premiums written	1,495,527	1,752,353
Change in unearned premiums	(39,337)	(1,206)
Net premiums earned	1,456,190	1,751,147
Net investment income	69,323	51,056
Net realized gains on investments	(3,855)	3,794
Net foreign exchange gains (losses)	72	(5,128)
Total revenues	1,521,730	1,800,869
EXPENSES		
Net losses and loss adjustment expenses	925,126	1,294,642
Acquisition expenses	408,768	516,092
General and administrative expenses	10,088	36,526
Total expenses	1,343,982	1,847,260
Income (loss) before tax expense	177,748	(46,391)
Income tax benefits (expense)	(37,575)	10,938
Net income (loss)	$140,173	$(35,453)
COMPREHENSIVE INCOME (LOSS)		
Net income (loss)	$140,173	$(35,453)
Other comprehensive loss, before tax		
Change in net unrealized gains (losses) on investments	61,683	(223,290)
Income tax benefit (expense) on other comprehensive income	(12,838)	44,307
Other comprehensive income (loss), net of tax	48,845	(178,983)
Comprehensive income (loss)	$189,018	$(214,436)

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, 2023 and 2022
(Expressed in thousands of U.S. dollars, except share data)

	December 31, 2023	December 31, 2022
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	(147,504)	31,479
Comprehensive income (loss), net of income tax of $(12,838) and $44,307	48,845	(178,983)
Balance as of end of year	(98,659)	(147,504)
RETAINED EARNINGS		
Balance as of beginning of year	168,297	203,750
Net income (loss)	140,173	(35,453)
Balance as of end of year	308,470	168,297
TOTAL SHAREHOLDER'S EQUITY	$1,752,300	$1,563,282

Liberty Specialty Markets Bermuda Limited
Consolidated Statements of Cash Flows
For the years ended December 31, 2023 and 2022
(Expressed in thousands of U.S. dollars, except share data)

	December 31, 2023	December 31, 2022
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:		
Net income (loss)	$140,173	$(35,453)
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Amortization of fixed maturity securities	410	5,566
Net realized gains on investments	3,895	(5,242)
Deferred tax (benefit) expense	37,575	(10,979)
CHANGES IN OPERATIONAL ASSETS AND LIABILITIES:		
Premiums receivable	(36,052)	72,411
Reinsurance recoverable on unpaid losses	14,825	(21,489)
Reinsurance recoverable on paid losses	18,249	22,892
Deferred acquisition costs	1,045	12,300
Prepaid reinsurance premiums	(8,689)	4,644
Amounts receivable from related parties	7,173	14,400
Other assets	(1,198)	(4,426)
Reserve for losses and loss adjustment expenses	29,172	67,528
Unearned premiums	48,026	(3,438)
Insurance and reinsurance balances payable	(36,313)	(4,827)
Amounts payable to related parties	(8,792)	554
Other liabilities	140	(84,714)
Net cash provided by operating activities	209,639	29,727
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Accrued investment income	(2,518)	(2,079)
Purchases of fixed maturity securities available for sale	(325,946)	(1,043,651)
Purchases of equity securities available for sale	(126)	-
Purchases of short term investments	-	(3,865)
Purchases of other investments	(35)	(130)
Proceeds from sales and maturity of fixed maturity securities available for sale	199,297	1,025,438
Proceeds from sales of equity securities available for sale	305	-
Proceeds from sales of other investments	4,000	2,257
Proceeds from other investments	19	-
Net cash used in investing activities	(125,004)	(22,030)
CASH FLOWS USED IN FINANCING ACTIVITIES:		
Issuance of debt (Note 3)	(100,000)	-
Repayment of debt (Note 3)	100,000	-
Net cash used in financing activities	-	-
Net increase in cash and cash equivalents	84,635	7,697
Cash and cash equivalents as of beginning of year	136,117	133,548
Effect of exchange rates on cash and cash equivalents	72	(5,128)
CASH AND CASH EQUIVALENTS AS OF END OF YEAR	$220,824	$136,117
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Income taxes (paid) refunds received, net	$(22)	$471

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

Effective January 1, 2023, the Company adopted ASC 326, *Measurement of Credit Losses on Financial Instruments*. As a result, the Company used modified retrospective transition and estimates allowance for credit losses on items measured at amortized cost within the scope of ASC 326-20 to reflect management's estimate of expected credit losses considering historical losses, existing economic conditions, and reasonable and supportable forecasts. The adoption of ASC 326 did not have a material impact on the Company's results of operations or financial position and the Company did not record a cumulative effect adjustment to opening retained earnings as of January 1, 2023.

The Company adopted the FASB issued updated guidance for leases, ASC 842, 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. Leases are classified as either finance or operating, with classification affecting the pattern of expense recognition in the statements of income. The Company adopted the updated guidance for the quarter ended March 31, 2022 and elected to use the risk-free rate for the measurement of all lease liabilities. 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 $2,376 and $3,544 as of December 31, 2023 and 2022, respectively.

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.

Starting January 1, 2023, the Company has a portfolio monitoring process to assess whether a credit loss exists. For an available for sale security in an unrealized loss position, the Company assesses whether management with the appropriate authority has decided to sell, or it is more likely than not that the Company will be required to sell before recovery of the amortized cost basis. If the security meets either of these criteria, the allowance for credit losses is written off and the amortized cost basis is written down to the debt security's fair value at the reporting date with any incremental impairment reported in earnings. If the Company does not intend to sell the security and it is not more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis, the Company utilizes both qualitative and quantitative inputs to determine if a credit loss is expected. These factors includes 1) the extent to which fair value is less than the amortized cost basis, 2) credit spreads for the security, 3) adverse conditions related to the security, the industry or geographic area, 4) assessment of the issuer being able to make payments.

When developing estimate of cash flows expected to be collected, the Company considers available information relevant to the collectability of the security, including information about past events, current conditions, and reasonable and supportable forecasts. This information includes: 1) remaining payment terms of the security, 2) prepayment speeds, 3) value of the underlying collateral.

These considerations are part of the Company's portfolio monitoring process which includes a quarterly review of all securities to identify those whose fair value fell below their amortized cost basis by more than internally established thresholds. The securities identified, along with other securities for which the Company may have a concern, are evaluated to determine whether a credit loss exists. If the Company determines that a credit loss exists, an allowance for credit losses is recorded in the net realized gains (losses) line item of the statement of income, limited by the amount that the fair value is less than amortized cost basis. The Company calculates the present value of cash flows expected to be collected using the effective interest rate implicit in the security at the date of acquisition and compares it with the amortized cost basis of the security. The portion of the unrealized loss related to factors other than credit loss remains in other comprehensive income. Write-offs are deducted from the allowance in the period in which the securities are deemed uncollectible. Recoveries are recognized when received.

If the Company believes a decline in the value (including foreign exchange rates) of a particular fixed maturity security is temporary, the decline is recorded as an unrealized loss in policyholders' equity. If the decline is believed to be other-than-temporary, and the Company believes that it will not be able to collect all cash flows due on its fixed maturity securities, then the carrying value of the investment is written down to the expected cash flow amount and a realized loss is recorded as a credit impairment. A non-credit impairment loss is recognized in other comprehensive income, net of applicable taxes, as the difference between expected cash flows and fair value.

Prior to January 1, 2023, the Company reviewed fixed maturity securities and other investments for impairment on a quarterly basis. These investments 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 of the investment or issuer, 4) significant change 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) impact of foreign exchange rates on foreign currency denominated securities. 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 (losses). 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 for credit versus non-credit other-than-temporary impairment include the following: 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 and 5) industry analyst reports, sector credit ratings, and volatility of the security's fair value. In addition, the Company's accounting policy for other-than-temporary impairment recognition requires an other-than temporary impairment charge be recorded when it is determined the security will be sold or it is more likely than not that the Company will be required to sell the security before recovery of the security's amortized cost basis (all fixed maturity securities and certain preferred equity securities) or the Company does not have the intent and ability to hold certain equity securities for a period of time that is sufficient to allow for any anticipated recovery in fair value.

The Company is required to review its natural resource and other equity method investments when facts and circumstances indicate that carrying values may not be recoverable. In performing a quarterly review, the fair value of the Company's investment is estimated using indicators including, but not limited to, market comparables and analyses, commodity prices, and discounted cash flows and a realized loss is recognized for the excess, if any, of the investment's carrying value over its estimated fair value.

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.

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.

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.

Credit Loss Provisions
The Company evaluates its premiums receivable and reinsurance recoverable on unpaid and paid losses for potential specific credit or collection issues that might indicate an impairment. Premiums receivable and reinsurance recoverable on unpaid and paid losses are presented net of the resulting credit provisions, with the corresponding debits offset against gross premiums written or losses and loss adjustment expenses, as applicable, in the consolidated statement of operations and comprehensive income (loss).

The method for calculating the best estimate of losses depends on the size, nature, and risk characteristics of the related underwriting receivable. Such an estimate requires consideration of historical loss experience, current economic conditions, and judgments about the probable effects of relevant observable data, including historical information, counterparty financial strength ratings and the extent of collateralization. The underlying assumptions, estimates and assessments are updated periodically to reflect the Company's view of current conditions. Changes in estimates may significantly affect the allowance and provision for losses. It is possible that the Company's actual credit loss experience will differ materially from current estimates. Adjustments, if any, are recorded in earnings in the periods in which they become known.

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.

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.

On August 16, 2022, the U.S. enacted the Inflation Reduction Act ("IRA"). For tax years beginning after December 31, 2022, the IRA imposes a new corporate alternative minimum tax ("CAMT") on applicable corporations with average adjusted financial statement income in excess of $1 billion for the three prior tax years. Liberty Mutual Holding Company Inc. and Subsidiaries, the controlled group of corporations which the Company is a member of, is an applicable corporation subject to the CAMT; however, it is not expected to have a material effect on the Company's results of operations or financial position.

As of December 31, 2023, the U.S. Treasury Department and the Internal Revenue Service ("IRS") are still in the process of issuing various regulations in accordance with the Tax Cuts and Jobs Act ("TCJA") of 2017. Accordingly, future adjustments to the financial statements may be necessary as regulations are issued.

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

3. Investments

The amortized cost, gross unrealized gains and losses and fair value of available for sale securities as of December 31, 2023 and 2022 are as follows:

		Included in Accumulated Other Comprehensive Income			
December 31, 2023	**Cost or amortized cost**	**Credit Allowance**	**Unrealized Gains**	**Unrealized losses**	**Fair value**
U.S. government and government agency securities	$329,093	$ -	$722	$(14,802)	$315,013
Non-U.S. government securities	879	-	-	(103)	776
U.S. state and municipal securities	104,081	-	10	(8,369)	95,722
Corporate and other securities	953,009	(880)	3,456	(62,156)	893,429
Residential mortgage-backed securities	265,234	-	1,126	(18,460)	247,900
Commercial mortgage-backed securities	197,541	-	994	(13,323)	185,212
Other mortgage-backed and asset-backed securities	220,448	-	631	(10,257)	210,822
Total fixed maturity securities	$2,070,285	$(880)	$6,939	$(127,470)	$1,948,874

		Included in Accumulated Other Comprehensive Income		
December 31, 2022	**Cost or amortized cost**	**Unrealized Gains**	**Unrealized losses**	**Fair value**
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

The following table presents the other comprehensive income reclassification adjustments on investments for the year ended December 31, 2023 and 2022:

	2023	**2022**
Change on net unrealized gains on investments arising during the year	$57,828	$(219,496)
Less:		
Reclassification adjustment included in net income	3,855	(3,794)
Other comprehensive income, before tax	61,683	(223,290)
Less: Income tax expense	(12,838)	44,307
Other comprehensive income, net of tax	$48,845	$(178,983)

Included in the tables above are cash and cash equivalents of $8,292 and $12,264; and fixed maturity securities of $647,708 and $729,983 in trust accounts as collateral under the terms of certain insurance and reinsurance transactions as of December 31, 2023 and 2022, respectively.

On December 1, 2009, the Company entered into a standby letter of credit facility provided by Citibank Europe plc. As of December 31, 2023 and 2022, $84,309 and $71,703, respectively, of letters of credit were issued and outstanding under this facility. Fixed maturity securities of $99,131 and $82,275 as of December 31, 2023 and 2022, respectively, were pledged as collateral.

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

As of December 31, 2022, the Company's parent operated in the Lloyd's market through its corporate member Liberty Corporate Capital (Two) Ltd. ("LCC2"), which represented 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, fixed maturity securities of $147,707 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, 2023 and 2022:

	December 31, 2023		
	Realized gains	Realized losses	Net realized gains (losses)
Fixed maturity securities	$707	$(4,418)	$(3,711)
Equity securities	-	(144)	(144)
	$707	$(4,562)	$(3,855)

	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

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, 2023	**Fair Value**	**Gross Unrealized Loss**	**Fair Value**	**Gross Unrealized Loss**
U.S. government and government agency securities	$74,594	$(1,179)	$208,277	$(13,623)
Non-U.S. government securities	-	-	776	(103)
U.S. state and municipal securities	3,220	(180)	90,416	(8,189)
Corporate and other securities	50,726	(2,289)	717,551	(60,747)
Residential mortgage-backed securities	12,968	(154)	205,987	(18,306)
Commercial mortgage-backed securities	6,716	(818)	146,634	(12,505)
Other mortgage-backed and asset-backed securities	4,467	(16)	164,473	(10,241)
Total fixed maturity securities	$152,691	$(4,636)	$1,534,114	$(123,714)

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

	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)

As of December 31, 2023, there were 908 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.

The following table is a roll-forward of the allowance for credit losses for fixed income securities:

	2023
Balance at January 1,	$ -
Credit losses on securities not previously reported	880
Net increase/(decrease) on credit losses on securities previously reported	-
Reductions of allowance related to sales	-
Write-offs	-
Balance at December 31,	$880

The Company believes the unrealized loss position as of December 31, 2023 does not contain credit loss because: 1) the Company did not intend to sell these fixed maturity available for sale securities; 2) it is not more likely than not that the Company will be required to sell the fixed maturity available for sale securities before recovery of their amortized cost basis; and 3) the difference between the present value of cash flows expected to be collected from the security and the amortized cost basis of the security was due to factors other than credit loss.

As of December 31, 2023, the unrealized losses associated with the U.S. government and agency securities, U.S. state and municipal, and Foreign government securities were attributable primarily to movement in interest rates and does not reflect a deterioration in the credit quality of the issuers.

Credit ratings express opinions of the credit quality of a security. Securities rated investment grade (those rated BBB- or higher by S&P) or Baa3 or higher by Moody's) are generally considered to have a low credit risk. As of December 31, 2023, 99% of the fair value of the Company's Corporate bond and other securities was rated investment grade, and the portion of the Company's Corporate bond and other securities rated below investment grade had an amortized cost basis of $13,797 and a fair value of $11,992.

As of December 31, 2023, the unrealized losses associated with the Company's MBS and ABS securities were attributable primarily to movement in interest rates. The Company assessed allowance for credit losses using the present value of expected cash flows which incorporates key assumptions, including credit spreads for the security, adverse conditions related to the security, the industry, or geographic area and assessment of the issuer being able to make payments.

Accrued interest of $13,968 is excluded from the amortized cost basis of the securities and is reported in the "Accrued investment income" line item of the consolidated balance sheet. For identifying and measuring an impairment, the Company monitors accrued interest receivables and writes them off by reversing interest income. No amounts were written off as of December 31, 2023.

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

As of December 31, 2023 and 2022, other-than-temporary impairment losses recognized through net realized and unrealized gains on investments were $(257) and $(1,019), respectively.

The amortized cost and fair value amounts for fixed maturity securities held as of December 31, 2023 and 2022 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, 2023	
Available for Sale Securities	**Amortized**	**Fair value**
Due in one year or less	$56,939	$55,985
Due after one year through five years	831,729	797,268
Due after five years through ten years	421,811	384,894
Due after ten years	76,583	66,793
Residential, commercial and other mortgage and asset-backed securities	683,223	643,934
Total fixed maturity securities	$2,070,285	$1,948,874

	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

Net investment income is derived from the following sources:

	2023	**2022**
Fixed maturity securities	$66,534	$53,360
Interest in revolving loan with LMIC	2,028	-
Other investments	(27)	1,452
Cash and cash equivalents	5,587	1,045
Short term investments	381	(20)
Total gross investment income	74,503	55,837
Investment expenses	(5,180)	(4,781)
Net investment income	$69,323	$51,056

On July 25, 2023, the Company issued a short-term loan to Liberty Mutual Insurance Company, an affiliated company, for $100,000 under existing revolving loan agreement. The loan bears an interest of 4.8%, payable on the last day when the loan is due. The loan was fully settled on December 28, 2023, total interest of $2,028 received from LMIC is included in net investment income in the consolidated statements of operations and comprehensive income (loss).

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 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

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

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.

As of December 31, 2023 and 2022, Real Estate Debt Funds had a balance of $1,373 and $1,397, 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, 2023 and 2022 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.

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, 2023 by level within the fair value hierarchy:

2023	**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	$315,013	$ -	$ -	$315,013
Non-U.S. government securities	-	776	-	776
U.S. state and municipal securities	-	85,176	10,546	95,722
Corporate and other securities	-	889,164	4,265	893,429
Residential mortgage-backed securities	-	247,900	-	247,900
Commercial mortgage-backed securities	-	185,212	-	185,212
Other mortgage-backed and asset-backed securities	-	205,479	5,343	210,822
Total fixed maturity securities	315,013	1,613,707	20,154	1,948,874
Equity securities	-	70	-	70
Short term investments	-	-	9	9
Other assets	-	-	1,368	1,368
	$315,013	$1,613,777	$21,531	$1,950,321

(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	-	3,885	18	3,903
Other assets	-	-	1,371	1,371
	$263,544	$1,480,770	35,760	$1,780,074

As of December 31, 2023 and 2022, the Company's Level 3 investments represented 1.1% and 2.0%, 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, 2023 and 2022.

Level 3 Gains and Losses

The table below presents assets that are measured at fair value on a recurring basis as of December 31, 2023 and 2022 using significant Level 3 inputs:

	December 31, 2023			**December 31, 2022**		
	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	$ -	$110	$(1,768)	$ -	$2,026	$ -
Corporate and other	1,550	1,424	(3,052)	34	12	-
Residential MBS	-	-	-	-	-	-
Other MBS and ABS	26	-	-	-	-	-
Short-term investments	-	-	-	21	-	(12)
Other assets	-	-	-	-	-	-
	$1,576	$1,534	$(4,820)	$55	$2,038	$(12)

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

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

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, 2023 and 2022, respectively:

	2023	**2022**
Gross reserves for losses and loss adjustment expenses, beginning of year	$1,278,272	$1,210,744
Less reinsurance recoverable balances, beginning of year	547,023	525,534
Net reserves for losses and loss adjustment expenses, beginning of year	731,249	685,210
Increase (decrease) in net losses and loss adjustment expenses incurred in respect of losses		
Current year	910,529	1,245,809
Prior years	14,597	48,833
Total incurred losses and loss adjustment expenses	925,126	1,294,642
Less net losses and loss adjustment expenses paid in respect of losses occurring in:		
Current year	760,056	1,053,242
Prior years	121,296	194,624
Total net paid losses	881,352	1,247,866
Adjustments:		
Net foreign currency gain on loss and loss adjustment expenses	223	(737)
	223	(737)
Net reserve for losses and loss adjustment expenses, end of year	775,246	731,249
Plus reinsurance recoverable balances, end of year	532,198	547,023
Gross reserve for losses and loss adjustments expenses, end of year	$1,307,444	$1,278,272

There were no significant adjustments for the years ended December 31, 2023 and 2022.

There was an overall prior year unfavorable development of $14,597 for the year ended December 31, 2023. The underlying reasons for the prior year unfavorable development included:

- Net unfavorable loss reserve development of $38,883 across multiple accident years primarily due to losses emerging higher than expected for the US Casualty of $6,266, International segments of $8,412, Corporate Deals and Political Risks of $7,199; and on reinsurance business written under LMRe brand of $9,879;

- Net favorable development of $24,286 driven primarily by favorable development of $18,307 and $4,282 for Bermuda Property segment and Mortgage, respectively.

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.

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, 2023 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.

(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, 2023

	supplemental and unaudited													
AY	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**Gross 2023**	**ADC**	**Net of ADC**	**Total of incurred but not reported liabilities plus expected development on reported claims**	**Cumulative number of reported claims(1)**
2014	$47,289	$50,720	$49,252	$38,607	$50,244	$50,382	$44,689	$41,640	$43,522	$40,688	$(7,724)	$32,964	$7,699	7,169
2015		47,743	67,512	86,453	87,158	109,912	99,004	100,506	102,232	95,590	(15,183)	80,407	13,852	7,696
2016			43,189	45,593	48,028	65,139	62,821	64,949	84,847	83,232	(13,712)	69,520	14,344	8,010
2017				47,690	53,936	70,835	59,069	66,899	72,571	75,424	-	75,424	10,228	9,612
2018					72,028	69,247	78,323	73,119	79,088	85,700	-	85,700	2,210	9,274
2019						55,124	74,104	63,583	78,688	79,513	-	79,513	42,805	8,224
2020							61,144	54,985	64,359	67,058	-	67,058	37,717	3,909
2021								65,031	66,933	58,110	-	58,110	44,705	201
2022									51,656	65,328	-	65,328	53,233	91
2023										46,375	-	46,375	36,790	28
								Total		**$697,018**	**$(36,619)**	**$660,399**		

(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, 2023

	supplemental and unaudited											
AY	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**ADC**	**Net of ADC**
2014	$1,359	$3,934	$5,132	$7,896	$19,898	$24,116	$26,585	$29,303	$29,273	$28,172	$(1,406)	$26,766
2015		1,895	16,550	22,402	28,231	56,654	77,124	80,158	77,422	75,555	(3,199)	72,356
2016			240	3,381	10,869	19,363	28,518	33,435	58,113	62,391	(2,787)	59,604
2017				944	2,811	10,730	25,924	29,250	36,070	53,421	-	53,421
2018					15,435	15,577	24,468	24,044	34,134	61,894	-	61,894
2019						4,800	11,726	13,189	18,777	22,736	-	22,736
2020							3,610	3,448	8,076	16,236	-	16,236
2021								310	3,229	4,516	-	4,516
2022									3,500	8,866	-	8,866
2023										4,474	-	4,474
									Total	**$338,261**	**$(7,392)**	**$330,869**
											All net outstanding liabilities prior to 2014, net of reinsurance	**11,721**
											Liabilities for claims and claim adjustment expense	**$341,251**

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

Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**Year 10**
5.2%	5.5%	6.2%	8.8%	15.2%	15.8%	15.5%	3.0%	-1.0%	-2.7%

(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, 2023

	--------------supplemental and unaudited--------------									Gross			Total of incurred but not reported liabilities plus expected development on reported claims	Cumulative number of reported claims(1)
AY	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**ADC**	**Net of ADC**		
2014	$60,896	$58,637	$55,949	$65,490	$55,278	$55,492	$56,140	$55,602	$57,562	$57,402	$(10,897)	$46,505	$392	698
2015		39,982	32,695	36,889	27,464	29,861	30,681	30,714	31,589	34,407	(5,465)	28,942	3,421	748
2016			49,562	48,329	40,272	40,335	44,273	44,961	45,078	45,782	(7,542)	38,240	349	1,050
2017				133,053	184,931	157,302	150,976	148,469	164,001	166,226	-	166,226	5,194	1,339
2018					116,105	124,156	117,703	120,901	119,842	122,088	-	122,088	7,891	1,920
2019						98,027	68,606	75,506	72,277	77,183	-	77,183	4,224	1,153
2020							399,466	383,831	387,568	393,060	-	393,060	2,094	623
2021								1,046,074	996,519	993,503	-	993,503	9,010	282
2022									1,106,258	1,091,340	-	1,091,340	8,586	176
2023										774,651	-	774,651	61,059	64
								Total		**$3,755,642**	**$(23,904)**	**$3,731,738**		

(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, 2023

	--------------supplemental and unaudited--------------											
AY	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**ADC**	**Net of ADC**
2014	$12,971	$44,979	$46,605	$49,569	$51,534	$52,265	$52,843	$53,368	$51,312	$54,202	$(2,603)	$51,599
2015		6,900	17,675	20,001	23,164	27,927	29,206	29,938	31,396	29,962	(1,221)	28,741
2016			15,060	24,562	27,659	39,349	40,301	40,975	40,664	41,406	(1,780)	39,626
2017				21,366	111,605	123,224	131,694	135,901	143,997	147,422	-	147,422
2018					22,983	78,758	91,802	94,369	104,929	106,010	-	106,010
2019						19,700	48,169	51,801	60,131	61,108	-	61,108
2020							315,995	363,629	370,185	380,334	-	380,334
2021								903,192	915,498	931,975	-	931,975
2022									1,035,783	1,042,056	-	1,042,056
2023										753,688	-	753,688
									Total	**$3,548,163**	**$(5,604)**	**$3,542,559**
											All net outstanding liabilities prior to 2014, net of reinsurance	**(7,901)**
											Liabilities for claims and claim adjustment expense	**$181,278**

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

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
49.6%	28.7%	5.3%	8.6%	5.3%	2.4%	1.1%	2.3%	-3.9%	5.0%

(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, 2023

	supplemental and unaudited										Gross		
AY	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**ADC**	**Net of ADC**	**Total of incurred but not reported liabilities plus expected development on reported claims**	**Cumulative number of reported claims(1)**
2014	$51,362	$60,244	$62,509	$47,726	$63,944	$61,958	$58,630	$59,645	$66,262	$65,996	$(12,529)	$53,467	$511	307
2015		66,443	69,361	59,727	78,376	85,420	88,764	90,994	91,661	90,795	(14,421)	76,374	456	534
2016			54,908	50,673	76,448	71,202	84,817	85,888	80,540	79,615	(13,116)	66,499	426	849
2017				68,148	57,529	31,920	61,366	65,155	60,760	62,753	-	62,753	1,110	597
2018					104,500	61,163	86,916	73,681	80,267	76,576	-	76,576	1,094	447
2019						131,047	117,476	113,011	127,815	115,887	-	115,887	9,078	699
2020							74,908	82,455	75,230	74,439	-	74,439	13,306	421
2021								74,180	78,217	67,759	-	67,759	37,397	261
2022									87,673	122,158	-	122,158	110,594	97
2023										87,987	-	87,987	86,396	25
								Total		**$843,965**	**$(40,066)**	**$803,899**		

(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, 2023

	supplemental and unaudited											
AY	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**ADC**	**Net of ADC**
2014	$18,997	$50,869	$80,667	$41,422	$60,425	$56,419	$56,319	$58,799	$64,998	$65,187	$(3,129)	$62,058
2015		37,052	56,877	49,416	70,688	84,136	87,383	88,923	88,303	88,736	(3,615)	85,121
2016			15,800	76,984	63,112	69,656	79,998	82,669	76,602	77,001	(3,308)	73,693
2017				3,897	22,895	41,635	51,042	55,083	57,868	59,156	-	59,156
2018					52,533	53,866	66,876	73,792	78,227	72,080	-	72,080
2019						16,409	48,222	78,937	101,828	103,903	-	103,903
2020							4,274	14,693	25,569	60,903	-	60,903
2021								1,399	16,835	23,764	-	23,764
2022									12,095	10,166	-	10,166
2023										1,420	-	1,420
									Total	**$562,316**	**$(10,052)**	**$552,264**
											All net outstanding liabilities prior to 2014, net of reinsurance	**(6,552)**
											Liabilities for claims and claim adjustment expense	**$245,083**

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

Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**Year 10**
19.8%	26.8%	14.7%	9.1%	11.8%	-0.5%	-1.0%	1.2%	4.9%	0.3%

(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, 2023 and 2022, the Company held $45,918 and $62,912, 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, 2023

| ----------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**	**2023**	**2019**	**2020**	**2021**	**2022**	**2023**	**2023**
2014	$3,630	$3,680	$2,690	$3,416	$3,346	$270	$945	$1,590	$1,699	$1,791	$968
2015	15,545	14,449	13,055	13,915	13,173	81	9,196	9,618	10,001	10,209	2,445
2016	8,410	8,525	8,308	11,938	13,044	73	2,505	3,844	8,595	9,909	2,728
2017	12,367	12,764	12,898	17,740	16,990	151	2,651	2,999	4,972	12,165	2,287
2018	13,484	12,551	12,381	15,437	13,962	20	1,735	2,397	4,724	10,811	612
2019	10,312	8,574	8,437	12,577	13,215	24	1,276	1,744	2,540	3,482	5,941
2020		4,679	4,726	4,864	4,669		111	308	1,036	1,169	2,739
2021			1,579	2,703	1,876			47	400	458	739
2022				941	1,905				86	508	648
2023					711					2	67
					$82,891					**$50,504**	

Property
As of December 31, 2023

| ----------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**	**2023**	**2019**	**2020**	**2021**	**2022**	**2023**	**2023**
2014	$166	$186	$227	$684	$717	$17	$83	$171	$7	$568	$15
2015	293	229	319	258	316	10	144	222	295	105	66
2016	525	834	700	1,010	1,147	1	213	289	483	612	33
2017	2,918	2,340	1,910	2,900	3,217	135	666	1,058	1,714	2,029	516
2018	4,738	4,461	3,704	4,734	5,208	1,203	2,097	2,746	4,008	4,117	327
2019	6,126	3,418	5,367	4,773	5,643	536	3,328	3,582	3,884	4,315	502
2020		4,592	4,657	4,849	5,250		1,574	3,274	3,731	4,425	39
2021			620	257	250			2	71	71	128
2022				214	100				-	-	101
2023					209					13	196
					$22,057					**$16,255**	

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

Specialty Short Tail
As of December 31, 2023

	----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**	**2023**	**2019**	**2020**	**2021**	**2022**	**2023**	**2023**
2014	$240	$591	$496	$605	$636	$54	$57	$443	$619	$632	$15
2015	564	830	992	1,076	1,008	96	415	696	647	714	27
2016	1,241	1,289	1,326	541	291	570	1,051	1,109	10	49	34
2017	3,460	4,044	3,707	4,470	4,444	999	2,390	3,327	3,610	3,833	146
2018	4,759	8,006	9,056	10,000	8,699	537	6,498	8,886	9,429	8,000	194
2019	7,097	4,312	3,505	4,820	5,658	48	2,448	3,341	4,406	3,869	1,317
2020		5,974	4,358	3,330	4,210		573	1,209	1,942	2,400	1,026
2021			1,758	4,726	5,233			270	3,793	4,341	169
2022				1,350	2,366				947	1,758	813
2023					969					189	480
					$33,514					**$25,785**	

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, 2023**
Casualty	$341,251
Property	181,278
Specialty Short Tail	245,083
Liabilities for unpaid claims and allocated CAE, net of reinsurance	**$767,612**
Reinsurance recoverable on unpaid claims	
Casualty	350,847
Property	87,668
Specialty Short Tail	93,683
Total reinsurance recoverable on unpaid claims	**532,198**
Unallocated claims adjustment expenses	7,634
Gross reserve for losses and loss adjustment expenses	**$1,307,444**

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:

	2023	2022
Net premiums written		
Direct	$152,888	$146,066
Assumed	1,455,116	1,699,244
Ceded	(112,477)	(92,957)
Net premiums written	$1,495,527	$1,752,353
Net premiums earned		
Direct	$146,176	$155,791
Assumed	1,413,802	1,692,662
Ceded	(103,788)	(97,306)
Net premiums earned	$1,456,190	$1,751,147
Loss and Loss adjustment expenses		
Gross losses and loss adjustment expenses incurred	$1,036,383	$1,353,794
Losses and loss adjustment expenses recoveries	(111,257)	(59,152)
Net loss and loss adjustment expenses	$925,126	$1,294,642

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, 2023 and 2022, 99.0% of reinsurance recoverables (which includes loss reserves recoverable and recoverables on paid losses) were from reinsurers rated A- or better and included $315,254 and $344,241, respectively, of IBNR recoverable.

Reinsurance recoverables by reinsurer categories are as follows:

	December 31, 2023		December 31, 2022	
	Reinsurance Recoverable	% of Total	Reinsurance Recoverable	% of Total
Top 10 Reinsurers	$464,550	79.3%	$506,525	81.9%
Other reinsurers balances > $1 million	113,186	19.3%	105,783	17.1%
Other reinsurers balances < $1 million	8,023	1.4%	6,525	1.0%
Total	$585,759	100.0%	$618,833	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, 2023 and 2022, the reserves for reinsurance recoverables deemed uncollectible was $3,179 and $4,700, 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, 2023 and 2022 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 did not declare dividends during the years ended December 31, 2023 and 2022.

8. Income Taxes

(a) Bermuda

On December 27, 2023, the Government of Bermuda enacted the Corporate Income Tax Act of 2023, which will apply a 15% corporate income tax to certain Bermuda businesses beginning on January 1, 2025. Upon the enactment of this legislation, the Company recorded a deferred tax asset of $12,212. A full valuation allowance of the same amount was recorded as incremental Bermuda taxes are not anticipated to be incurred for purposes of utilizing the future deductions.

(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:

	2023	2022
Current tax (benefit) expense:		
U.S. Federal	$34,068	$(17,496)
U.S. Federal net operating losses	(34,068)	17,534
Foreign	-	-
Total current tax (benefit) expense	-	38
Deferred tax (benefit) expense:		
U.S. Federal	37,575	(10,976)
Total U.S. Federal and foreign income tax (benefit) expense	$37,575	$(10,938)

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,	2023	%	2022	%
Expected U.S. Federal income tax (benefit) expense	$37,326	21.0%	$(9,743)	21.0%
Tax effect of:				
Revision to estimate	322	0.2%	(1,265)	2.7%
Establishment of deferred tax asset	(12,212)	(6.9)%	-	0.0%
Change in valuation allowance	12,212	6.9%	-	0.0%
Other	(73)	(0.0)%	70	(0.1)%
Total income tax (benefit) expense	$37,575	21.2%	$(10,938)	23.6%

(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:

	2023	2022
Deferred tax assets:		
Unpaid claims discount	$8,788	$9,217
Unearned premium reserves	20,682	19,030
Net operating losses	50,899	84,218
Net unrealized losses	38,470	39,823
Employee benefits	1,016	841
Other accrued expenses	4,895	2,389
Intangibles	63,870	71,537
Depreciation/amortization	104	104
Other	540	772
Total deferred tax assets	189,264	227,931
Less: Valuation allowance	(12,212)	-
Deferred tax assets net of valuation allowance	177,052	227,931
Deferred tax liabilities:		
Deferred acquisition costs	(25,959)	(26,136)
Other	(499)	(788)
Total deferred tax liabilities	(26,458)	(26,924)
Net deferred tax asset	$150,594	$201,007

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, 2023, the Company established a valuation allowance of $12,212 related to the aforementioned Bermuda deferred tax asset. Management believes it is more likely than not the remaining net deferred tax assets will be realized. For the year ended December 31, 2022, management determined no valuation allowance was necessary.

As of December 31, 2023, LSM Bermuda has U.S. Federal net operating loss carry-forwards of $242,376 and no foreign tax credit carry-forwards. The net operating loss carry-forwards will begin to expire in 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, 2023, and 2022, the Company had 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 and Foreign income tax expense. For the years ended December 31, 2023 and 2022, the Company did not recognize any interest and penalties.

The U.S. Federal statute of limitations has expired through the 2019 tax year; however, it remains open for certain impacts of the Tax Cuts and Jobs Act of 2017. Liberty Mutual Holding Company and Subsidiaries has been notified that the 2021 tax year has been selected for examination by the IRS. 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, 2023 and 2022, the following brokers were the top two producers by gross written premium:

Broker	% of Gross Premiums Written December 31, 2023	% of Gross Premiums Written December 31, 2022
Aon Benfield	12.5%	10.7%
Marsh & McLennan Companies	9.5%	7.1%

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, 2023 and 2022, 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, 2023 and 2022.

(c) Other Investments

As of December 31, 2023 and 2022, the Company had an unfunded commitment to invest $1,110 and $7,424, 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, 2023 and 2022, the Company paid expenses of $9,364 and $889, respectively, on behalf of Ironshore. The Company also purchases operating services and support at cost from Ironshore. During the years ended December 31, 2023 and 2022, the Company incurred expenses of $243 and $403, respectively, related to these services. As of December 31, 2023, the Company has an outstanding receivable of $16,388 included under amounts receivable from related parties. As of December 31, 2022, the Company has an outstanding payable of $443 included under amounts payable to 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 has been recorded in the Company's financial results for the year ended December 31, 2022. As of December 31, 2023 and 2022, included in the amounts receivable from related parties is a balance of $34,141 and $62,850, respectively, which represents the balance owed by LCC2 to the Company for executing the RITC transaction.

As of December 31, 2023 and 2022, the consolidated balance sheets and statements of operations include the following amounts related to the quota share agreement with LCC2:

	2023	2022
Balance Sheet		
Amount receivable from related parties	34,141	62,850
	2023	**2022**
Income Statement		
Net premiums earned	$ -	$(538)
Losses and loss adjustment expenses	-	(3,799)
Acquisition expenses	-	(408)
Net investment income	-	159
Net realized and unrealized gains (losses) on investments	-	13,518
General and administrative expenses	-	360

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%.

Effective January 1, 2024, the share under the APD reinsurance agreement with LMIC was increased from 20% to 25%.

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

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

	2023	2022
Balance Sheet		
Premiums receivable	$71,365	$67,362
Reserve for losses and loss adjustment costs	42,268	57,242
Other liabilities	16,766	29,311

	2023	2022
Income Statement		
Net premiums earned	$1,144,294	$1,426,401
Losses and loss adjustment expenses	737,178	1,050,450
Acquisition expenses	336,984	437,895

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, 2023 and 2022. During the years ended December 31, 2023 and 2022, LSM Bermuda incurred administrative fees under the terms of the PMA of $24,579 and $21,409, 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, 2023 and 2022, LSM Bermuda incurred claim services fees under the terms of the CSA of $2,516 and $2,551, respectively.

During the years ended December 31, 2023 and 2022, LSM Bermuda paid operating costs of $21,885 and $16,073, respectively, on behalf of LSM Agency. As of December 31, 2023, the Company has an outstanding receivable of $11,276 from LSM Agency included in the amounts receivable from related parties. 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. These amounts are unsecured, non-interest bearing and payable upon demand.

As of December 31, 2023 and 2022, the Company has an outstanding balance receivable from LMIC for reinsurance arrangements of $115,352 and $135,591, respectively, included under reinsurance recoverable on unpaid losses. As of December 31, 2023 and 2022, the Company has an outstanding balance payable to LMIC for reinsurance arrangements of $8,851 and $24,554, respectively, included under insurance and reinsurance balances payable. These amounts are unsecured, non-interest bearing and payable upon demand.

11. Audit and audit related fees

Total audit and audit related fees were $1,141 and $1,156 for the years ended December 31, 2023, and 2022, respectively. Audit and audit related fees are recorded in general and administrative expenses within the consolidated statements of operations and comprehensive Income (loss). There were no non-audit related fees paid to the Company's external auditors during the years ended December 31, 2023 or 2022.

12. 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, 2023 and 2022, the Company was required to maintain a minimum statutory capital and surplus of $747,764 and $876,177, respectively. As of December 31, 2023 and 2022, LSM Bermuda had statutory capital and surplus of $1,747,283 and $1,558,232, respectively and a statutory net income (loss) of $140,173 and $(35,453), 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, 2023, LSM Bermuda can pay dividends of $389,558 without prior approval under Bermuda law.

13. Subsequent events

Subsequent events have been evaluated through April 26, 2024, the date on which the financial statements were available to be issued.