Liberty Specialty Markets Bermuda Limited

Consolidated Financial Statements
For the year ended December 31, 2020

Liberty Specialty Markets Bermuda Limited

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Report of Independent Auditors

The Board of Directors and Shareholder
Liberty Specialty Markets Bermuda Limited

We have audited the accompanying consolidated financial statements of Liberty Specialty Markets Bermuda Limited, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, 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 to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Liberty Specialty Markets Bermuda Limited as of December 31, 2020 and 2019, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Required Supplementary Information

Accounting principles generally accepted in the United States require that the incurred and paid claims development prior to the most recent year and the average annual percentage payout of incurred claims disclosed on pages 23 through 26 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.

April 30, 2021

Liberty Specialty Markets Bermuda Limited
Consolidated Balance Sheets
As of December 31, 2020 and 2019
(Expressed in thousands of U.S. dollars, except share data)

	December 31, 2020	December 31, 2019
ASSETS		
Fixed maturity securities available for sale, at fair value (amortized cost: 2020 - $2,130,472, 2019 - $1,894,893)	$2,232,389	$1,931,626
Short term investments, at fair value	3,554	4,067
Other investments	26,142	31,089
Total investments	2,262,085	1,966,782
Cash and cash equivalents	87,556	204,629
Accrued investment income	11,441	9,953
Premiums receivable	747,952	884,558
Reinsurance recoverable on unpaid losses	513,951	573,333
Reinsurance recoverable on paid losses	82,611	59,733
Deferred acquisition costs	155,726	125,227
Prepaid reinsurance premiums	47,258	68,709
Receivable for securities sold	104	6,252
Net deferred tax asset	167,569	212,548
Amounts receivable from related parties	63,473	69,012
Other assets	2,373	2,508
Total assets	$4,142,099	$4,183,244
LIABILITIES		
Reserve for losses and loss adjustment expenses	$1,124,786	$1,258,816
Unearned premiums	532,667	487,989
Insurance and reinsurance balances payable	46,990	61,845
Payable for securities purchased	43,749	106,271
Amounts payable to related parties	2,798	3,899
Other liabilities	392,269	415,723
Total liabilities	2,143,259	2,334,543
SHAREHOLDER'S EQUITY		
Common shares, 2,000,000 authorized, $1.00 par value, issued and outstanding (2020: 1,000,000; 2019: 1,000,000)	1,000	1,000
Additional paid-in capital	1,541,489	1,541,489
Accumulated other comprehensive loss	85,639	30,163
Retained earnings	370,712	276,049
Total shareholder's equity	1,998,840	1,848,701
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	$4,142,099	$4,183,244

See accompanying notes to the consolidated financial statements

Liberty Specialty Markets Bermuda Limited
Consolidated Statements of Operations and Comprehensive Income
For the years ended December 31, 2020 and 2019
(Expressed in thousands of U.S. dollars, except share data)

	December 31, 2020	December 31, 2019
REVENUES		
Gross premiums written	$1,147,352	$612,828
Reinsurance premiums ceded	(75,083)	(114,121)
Net premiums written	1,072,269	498,707
Change in unearned premiums	(66,129)	36,394
Net premiums earned	1,006,140	535,101
Net investment income	48,469	61,514
Net realized gains on investments	26,863	13,714
Net foreign exchange losses	(8,671)	(5,253)
Other income	-	412
Total revenues	1,072,801	605,488
EXPENSES		
Net losses and loss adjustment expenses	585,819	322,121
Acquisition expenses	294,824	159,168
General and administrative expenses	25,822	39,245
Total expenses	906,465	520,534
Income before tax expense	166,336	84,954
Income tax expense	(33,673)	(20,561)
Net income	$132,663	$64,393
COMPREHENSIVE INCOME		
Net income	$132,663	$64,393
Other comprehensive income, before tax		
Change in net unrealized gains on investments	68,232	72,029
Income tax expense on other comprehensive income	(12,756)	(14,673)
Other comprehensive income, net of tax	55,476	57,356
Comprehensive income	$188,139	$121,749

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, 2020 and 2019
(Expressed in thousands of U.S. dollars, except share data)

	December 31, 2020	December 31, 2019
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	30,163	(27,193)
Comprehensive income, net of income tax of $(12,756) and $(14,673)	55,476	57,356
Balance as of end of year	85,639	30,163
RETAINED EARNINGS		
Balance as of beginning of year	276,049	211,656
Net income	132,663	64,393
Dividends	(38,000)	-
Balance as of end of year	370,712	276,049
TOTAL SHAREHOLDER'S EQUITY	$1,998,840	$1,848,701

Liberty Specialty Markets Bermuda Limited
Consolidated Statements of Cash Flows
For the years ended December 31, 2020 and 2019
(Expressed in thousands of U.S. dollars, except share data)

	December 31, 2020	December 31, 2019
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:		
Net income	$132,663	$64,393
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Amortization and depreciation	448	470
Amortization of fixed maturity securities	6,130	4,398
Net realized gains on investments	(17,624)	13,714
Deferred tax expense	32,223	19,396
CHANGES IN OPERATIONAL ASSETS AND LIABILITIES:		
Premiums receivable	136,109	257,985
Reinsurance recoverable on unpaid losses	59,382	(5,631)
Reinsurance recoverable on paid losses	(22,878)	131
Deferred acquisition costs	(30,499)	1,159
Prepaid reinsurance premiums	21,451	37,318
Amounts receivable from related parties	5,539	(13,910)
Other assets	1,530	24,031
Reserve for losses and loss adjustment expenses	(133,375)	(54,207)
Unearned premiums	44,678	(82,845)
Insurance and reinsurance balances payable	(14,855)	(25,639)
Amounts payable to related parties	(1,101)	1,052
Other liabilities	(14,691)	(119,508)
Net cash provided by operating activities	205,130	122,307
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Accrued investment income	(1,488)	800
Purchases of fixed maturity securities available for sale	(2,808,682)	(2,041,014)
Purchases of short term investments	-	(33,791)
Purchases of other investments	(2,345)	(6,272)
Proceeds from sales and maturity of fixed maturity securities available for sale	2,535,117	1,963,787
Proceeds from sales of short term investments	-	30,050
Proceeds from sales of other investments	2,037	38,684
Net cash used in investing activities	(275,361)	(47,756)
CASH FLOWS USED IN FINANCING ACTIVITIES:		
Dividends paid	(38,000)	-
Net cash used in financing activities	(38,000)	-
Net increase (decrease) in cash and cash equivalents	(108,231)	74,551
Cash and cash equivalents as of beginning of year	204,629	135,680
Effect of exchange rates on cash and cash equivalents	(8,842)	(5,602)
CASH AND CASH EQUIVALENTS AS OF END OF YEAR	$87,556	$204,629
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Income taxes refunds received, net	$(572)	$(1,798)

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"). LSM Bermuda includes Liberty Specialty Markets Bermuda Limited, Singapore Branch, which is registered as a direct insurer to carry on general insurance in Singapore effective January 26, 2012, and Ironshore Insurance Ltd., Canada Branch, which writes property and casualty insurance for Canadian-domiciled risks effective March 29, 2014.

On September 30, 2019, following a strategic decision to close Ironshore Insurance Ltd., Canada branch ("IIL Canada branch"), the Company transferred IIL Canada branch insurance portfolio and related assets and liabilities to Liberty Mutual Insurance Company, Canada branch ("LMIC Canada branch"). On January 28, 2020, formal approval was received from the Canadian Regulator, The Office of the Superintendent of Financial Institutions ("OSFI"), to close the IIL Canada branch and repatriate remaining assets to LSM Bermuda.

On November 1, 2019, following a strategic decision to close Liberty Specialty Markets Bermuda, Singapore branch ("LSMB Singapore branch"), the Company transferred LSMB Singapore branch insurance portfolio and related assets and liabilities to Liberty Specialty Markets Singapore PTE Ltd. ("LSMS PTE"). The Branch subsequently de-registered as a licensed insurer with the Monetary Authority of Singapore ("MAS") on December 30, 2019 and on February 24, 2020 filed the Notification of Foreign Company of Cessation of Business with the Accounting and Corporate Regulatory Authority in Singapore (ACRA).

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, 2019, the Company adopted the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory* ("ASU 2016-16") on a modified retrospective basis. The standard requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs, rather than when the asset is sold to a third party. The adoption of this standard did not have an impact to the Company's financial statements.

Effective January 1, 2019, the Company adopted the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"). ASU 2014-09 was issued to clarify the principles for recognizing revenue, however, insurance contracts and financial instrument transactions are not within the scope of this guidance. The Company adopted ASU 2014-09 on a modified retrospective basis. The adoption of this standard did not have an impact to the Company's financial statements.

Effective January 1, 2019, the Company adopted the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* ("ASU 2016-01"). ASU 2016-01 eliminates the available-for-sale balance sheet classification for equity securities and changes in unrealized gains and losses on equity securities are recognized in the statements of income (excluding those accounted for under the equity method or those that result in consolidation). The adoption of this standard did not have an impact to the Company's financial statements.

The Company has not adopted any new accounting standards in 2020.

Future Adoption of New Accounting Standards

The Company will adopt the FASB issued ASU 2016-02, *Leases* ("ASU 2016-02"). The amendments will require 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 will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statements of income. The amendments of ASU 2016-02 are effective for nonpublic business entities for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years beginning after December 15, 2022. The Company is currently evaluating the impact of the adoption of ASU 2016-02. The adoption is expected to have no material impact on the Company's financial statements.

The Company will adopt the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). ASU 2016-13 replaces the current incurred loss model with an expected credit loss model, which measures credit losses on financial instruments measured at amortized cost, and will require companies to recognize an allowance for expected credit losses. In addition, ASU 2016-13 also amends the credit loss measurement guidance for available-for-sale debt securities and beneficial interests in securitized financial assets. This amendment removes certain factors to consider when determining whether credit losses should be recognized and will require companies to recognize expected credit losses through an allowance. ASU 2016-13 is effective for nonpublic business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022. The Company is currently evaluating the impact of the adoption of ASU 2016-13.

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 accumulated other comprehensive income.

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

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

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

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

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

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

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

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

Other Assets

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

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

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

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

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

Accordingly, ultimate losses and loss expenses may differ materially from the amounts recorded in the consolidated financial statements. These estimates are reviewed regularly and, as experience develops and new information becomes known, the reserves are adjusted as necessary. Such adjustments, if any, are recorded in earnings in the periods in which they become known and are accounted for as changes in estimates.

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

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

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

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

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

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

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

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

Taxation
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 basis of assets and liabilities based on enacted tax rates and other provisions of the tax law. 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.

(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, 2020 and 2019 are as follows:

		Included in Accumulated Other Comprehensive Income			
December 31, 2020	**Cost or amortized cost**	**Unrealized gains**	**Unrealized losses**	**Fair value**	**Non-credit-other than temporary impairment**
U.S. government and government agency securities	$252,133	$2,807	$(36)	$254,904	$ -
Non-U.S. government securities	8,710	435	-	9,145	-
U.S. state and municipal securities	140,119	8,581	-	148,700	-
Corporate and other securities	1,114,099	68,893	(1,359)	1,181,633	-
Residential mortgage-backed securities	291,056	11,307	(55)	302,308	-
Commercial mortgage-backed securities	133,545	9,716	(47)	143,214	-
Other mortgage-backed and asset-backed securities	190,810	1,746	(71)	192,485	-
Total fixed maturity securities	$2,130,472	$103,485	$(1,568)	$2,232,389	$ -

		Included in Accumulated Other Comprehensive Income			
December 31, 2019	**Cost or amortized cost**	**Unrealized gains**	**Unrealized losses**	**Fair value**	**Non-credit-other than temporary impairment**
U.S. government and government agency securities	$494,942	$3,067	$(184)	$497,825	$ -
Non-U.S. government securities	48,639	346	(26)	48,959	-
U.S. state and municipal securities	71,821	2,871	(67)	74,625	-
Corporate and other securities	879,381	25,382	(1,680)	903,083	-
Residential mortgage-backed securities	230,772	3,550	(79)	234,243	-
Commercial mortgage-backed securities	63,167	3,340	(122)	66,385	-
Other mortgage-backed and asset-backed securities	106,171	366	(31)	106,506	-
Total fixed maturity securities	$1,894,893	$38,922	$(2,189)	$1,931,626	$ -

The following table presents the other comprehensive income reclassification adjustments on investments for the year ended December 31, 2020 and 2019:

	2020	**2019**
Change on net unrealized gains on investments arising during the year	$95,095	$85,743
Less:		
Reclassification adjustment included in net income	(26,863)	(13,714)
Other comprehensive income, before tax	68,232	72,029
Less: Income tax expense	(12,756)	(14,673)
Other comprehensive income, net of tax	$55,476	$57,356

Included in the tables above are fixed maturity securities with a fair value of $2,225 and $2,199 that are on deposit with Cayman Islands' insurance regulator as of December 31, 2020 and 2019, respectively, to meet certain statutory requirements. The Company also maintains cash and cash equivalents of $5,562 and $12,660; and fixed maturity securities of $721,205 and $722,132 in trust accounts as collateral under the terms of certain insurance and reinsurance transactions as of December 31, 2020 and 2019, respectively.

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

As of December 31, 2019, the Company maintained a trust account composed of cash and cash equivalents of $8,882; and fixed maturity securities of $44,302, respectively, to meet certain Canadian insurance regulatory requirements for Ironshore Insurance Ltd., Canada Branch.

As of December 31, 2019, the Company maintained a deposit composed of cash and cash equivalents of $507; and fixed maturity securities of $4,381, respectively, in favor of the Superintendent of Insurance of the Turks & Caicos Islands as part of the country's regulatory requirement.

On December 1, 2009, the Company entered into a standby letter of credit facility provided by Citibank Europe plc. As of December 31, 2020 and 2019, $59,289 and $55,598, respectively, of letters of credit were issued and outstanding under this facility. Fixed maturity securities of $70,635 and $62,190 as of December 31, 2020 and 2019, respectively, were pledged as collateral.

The Company's parent operates in the Lloyd's market through its corporate member Liberty Corporate Capital (Two) Ltd. ("LCC2"), which represents its participation in Syndicate 4000 and in Syndicate 2014. Lloyd's sets capital requirements for corporate members annually through the application of a capital model that is based on regulatory capital rules pursuant to Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) ("Solvency II"), as further adjusted by Lloyd's. Such capital, or Funds at Lloyd's ("FAL"), may be satisfied by cash, certain investments and undrawn letters of credit provided by approved banks. As of December 31, 2020 and 2019, fixed maturity securities of $479,028 and $442,472 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, 2020 and 2019:

	December 31, 2020		
	Realized gains	Realized losses	Net realized gains (losses)
Fixed maturity securities	$35,223	$(8,360)	$26,863
Short term investments	-	-	-
	$35,223	$(8,360)	$26,863

	December 31, 2019		
	Realized gains	Realized losses	Net realized gains (losses)
Fixed maturity securities	$19,217	$(5,510)	$13,707
Short term investments	24	(17)	7
	$19,241	$(5,527)	$13,714

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, 2020	**Fair Value**	**Gross Unrealized Loss**	**Fair Value**	**Gross Unrealized Loss**
U.S. government and government agency securities	$3,066	$(36)	$ -	$ -
Non-U.S. government securities	-	-	-	-
U.S. state and municipal securities	-	-	-	-
Corporate and other securities	26,174	(462)	16,455	(897)
Residential mortgage-backed securities	15,516	(50)	470	(5)
Commercial mortgage-backed securities	370	(47)	21	-
Other mortgage-backed and asset-backed securities	39,746	(71)	-	-
Total fixed maturity securities	$84,872	$(666)	$16,946	$(902)

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

	0 - 12 Months		Over 12 Months	
December 31, 2019	**Fair Value**	**Gross Unrealized Loss**	**Fair Value**	**Gross Unrealized Loss**
U.S. government and government agency securities	$51,670	$(157)	$4,625	$(27)
Non-U.S. government securities	6,779	(12)	2,787	(14)
U.S. state and municipal securities	13,548	(67)	-	-
Corporate and other securities	33,632	(679)	45,050	(1,001)
Residential mortgage-backed securities	9,198	(48)	5,113	(31)
Commercial mortgage-backed securities	10,360	(116)	931	(6)
Other mortgage-backed and asset-backed securities	46,442	(31)	167	-
Total fixed maturity securities	$171,629	$(1,110)	$58,673	$(1,079)

As of December 31, 2020, there were 36 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 recovery.

As of December 31, 2020 and 2019, other-than-temporary impairment losses recognized through net realized and unrealized gains on investments were $(2,016) and $Nil, respectively.

The amortized cost and fair value amounts for fixed maturity securities held as of December 31, 2020 and 2019 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, 2020	
Available for Sale Securities	**Amortized**	**Fair value**
Due in one year or less	$64,142	$64,476
Due after one year through five years	930,823	971,639
Due after five years through ten years	427,399	458,534
Due after ten years	92,697	99,733
Residential, commercial and other mortgage and asset-backed securities	615,411	638,007
Total fixed maturity securities	$2,130,472	$2,232,389

	December 31, 2019	
Available for Sale Securities	**Amortized**	**Fair value**
Due in one year or less	$141,925	$142,151
Due after one year through five years	957,706	971,289
Due after five years through ten years	324,271	336,293
Due after ten years	70,881	74,759
Residential, commercial and other mortgage and asset-backed securities	400,110	407,134
Total fixed maturity securities	$1,894,893	$1,931,626

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

Net investment income is derived from the following sources:

	2020	2019
Fixed maturity securities	$59,298	$60,750
Other investments	(4,785)	1,828
Cash and cash equivalents	474	2,282
Short term investments	257	373
Total gross investment income	55,244	65,233
Investment expenses	(6,775)	(3,719)
Net investment income	$48,469	$61,514

4. Fair value measurement

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As of December 31, 2020 and 2019, Real Estate Debt Funds and the Company's investments in CMF had a balance of $26,142 and $31,089, 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, 2020 and 2019 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, 2020 by level within the fair value hierarchy:

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

2020	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	$254,904	$ -	$ -	$254,904
Non-U.S. government securities	-	9,145	-	9,145
U.S. state and municipal securities	-	148,700	-	148,700
Corporate and other securities	-	1,144,430	37,203	1,181,633
Residential mortgage-backed securities	-	291,999	10,309	302,308
Commercial mortgage-backed securities	-	143,214	-	143,214
Other mortgage-backed and asset-backed securities	-	192,485	-	192,485
Total fixed maturity securities	254,904	1,929,973	47,512	2,232,389
Short term investments	-	3,453	101	3,554
Other assets	-	-	1,843	1,843
	$254,904	$1,933,426	$49,456	$2,237,786

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, 2019 by level within the fair value hierarchy:

2019	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	$497,825	$ -	$ -	$497,825
Non-U.S. government securities	-	48,959	-	48,959
U.S. state and municipal securities	-	74,625	-	74,625
Corporate and other securities	-	847,278	55,805	903,083
Residential mortgage-backed securities	-	234,243	-	234,243
Commercial mortgage-backed securities	-	66,385	-	66,385
Other mortgage-backed and asset-backed securities	-	106,506	-	106,506
Total fixed maturity securities	497,825	1,377,996	55,805	1,931,626
Short term investments	-	4,067	-	4,067
	$497,825	$1,382,063	$55,805	$1,935,693

As of December 31, 2020 and 2019, the Company's Level 3 investments represented 2.2% and 2.9%, respectively, of its total investments measured at fair value.

Level 3 Gains and Losses

The table below presents assets that are measured at fair value on a recurring basis as of December 31, 2020 and 2019 using significant Level 3 inputs:

	December 31, 2020			December 31, 2019		
	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						
Corporate and other	$40	$ -	$(1,429)	$2,076	$ -	$ -
Residential MBS	54,317	-	(11,108)	3,656	-	-
Other MBS and ABS	-	-	-	-	-	-
Short-term investments	212	-	-	-	-	-
Other assets	1,843	-	-	-	-	-
	$56,412	$ -	$(12,537)	$5,732	$ -	$ -

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

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

The Company had no material assets or liabilities that were measured at fair value on a nonrecurring basis during the years ended December 31, 2020 and 2019.

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, 2020 and 2019, respectively:

	2020	2019
Gross reserves for losses and loss adjustment expenses, beginning of year	$1,258,816	$1,313,554
Less reinsurance recoverable balances, beginning of year	573,333	567,782
Net reserves for losses and loss adjustment expenses, beginning of year	685,483	745,772
Increase (decrease) in net losses and loss adjustment expenses incurred in respect of losses		
Current year	547,511	348,237
Prior years	38,308	(26,116)
Total incurred losses and loss adjustment expenses	585,819	322,121
Less net losses and loss adjustment expenses paid in respect of losses occurring in:		
Current year	327,561	50,394
Prior years	341,035	437,584
Total net paid losses	668,596	487,978
Adjustments:		
Assumed loss reserves related to retroactive reinsurance contract with HIDAC	-	100,262
Net foreign currency gain on loss and loss adjustment expenses	8,129	5,306
	8,129	105,568
Net reserve for losses and loss adjustment expenses, end of year	610,835	685,483
Plus reinsurance recoverable balances, end of year	513,951	573,333
Gross reserve for losses and loss adjustments expenses, end of year	$1,124,786	$1,258,816

There were no significant adjustments for the year ended December 31, 2020.

There was a significant adjustment of $100,262 to the reserves for losses and loss adjustment expenses for the year ended December 31, 2019 relating to the retroactive reinsurance contract with Hamilton Insurance Designated Activity Company ("HIDAC", previously known as "Ironshore Europe DAC"). LSM Bermuda participated in a reinsurance agreement with HIDAC, where the Company assumed 80% quota share of all insurance and reinsurance risks earned by HIDAC. On August 20, 2019, LSM Bermuda and HIDAC entered into a retroactive reinsurance agreement, where LSM Bermuda assumed an additional 20% quota share of all insurance and reinsurance risk earned by HIDAC till the date of the agreement. This transaction brought the existing reinsurance agreement with HIDAC to 100% quota share of all insurance and reinsurance risk earned by HIDAC up to the date of the sale of HIDAC to Hamilton Insurance Group. Hamilton Insurance Group are responsible for all HIDAC risks written from the date of the sale.

There was an overall prior year adverse development of $38,308 for the year ended December 31, 2020. The underlying reasons for the prior year favorable development included:

- Net unfavorable loss reserve development of $89,022 across multiple accident years primarily due to losses emerging higher than expected for the International segment of $21,494, Political Risk of $18,273 and on reinsurance business written under LMRe brand of $46,930;

- Net favorable development of $50,714 driven primarily by $9,450 of recovery recorded for US Casualty segment and $34,298 favorable development on Corporate deals.

There was an overall prior year favorable development of $26,116 for the year ended December 31, 2019. The underlying reasons for the prior year favorable development included:

- Net favorable development of $41,585 driven primarily by $28,289 of recovery recorded for International segment and $9,591 favorable development on Political risk;

- Net unfavorable loss reserve development of $15,469 across multiple accident years due to losses emerging higher than expected including $11,173 on business written through LSM Agency and $3,319 on Corporate deals.

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

Claims Development and Frequency
The information provided herein about incurred and paid accident year claims development, net of reinsurance, for the years ended prior to December 31, 2020 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, 2020

	supplemental and unaudited									Gross		Net of	Total of incurred but not reported liabilities plus expected development on	Cumulative number of reported
AY	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019 (2)**	**2020 (2)**	**ADC**	**ADC**	**reported claims**	**claims(1)**
2011	$40,727	$37,900	$36,353	$33,682	$35,761	$41,552	$43,900	$43,253	$43,155	$43,395	$(1,258)	$42,137	$3,474	4,118
2012		57,209	52,123	51,409	49,290	46,097	44,448	43,689	47,261	49,403	(3,291)	46,112	6,235	5,024
2013			66,092	68,532	66,923	77,138	80,003	79,436	95,570	94,815	(5,746)	89,069	9,246	5,779
2014				86,438	95,092	93,906	96,362	90,075	91,731	89,163	(9,539)	79,624	16,275	9,128
2015					93,775	113,930	145,782	144,858	162,791	157,144	(16,195)	140,949	14,386	9,977
2016						100,361	111,766	107,629	124,446	132,242	(12,224)	120,018	13,444	10,155
2017							110,015	122,735	139,887	139,154	-	139,154	29,789	12,005
2018								136,236	139,615	137,570	-	137,570	47,911	11,726
2019									90,513	101,020	-	101,020	71,301	8,900
2020										62,149	-	62,149	53,055	3,599
								Total		**$1,006,055**	**$(48,253)**	**$957,802**		

(1) Note that 75% of claim count information is disclosed on a per claimant basis and 25% is disclosed on a per occurrence 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, 2020

	supplemental and unaudited									
AY	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019 (2)**	**2020 (2)**
2011	$1,837	$2,682	$2,262	$5,843	$8,459	$28,552	$35,599	$34,303	$38,563	$42,079
2012		459	4,365	5,326	9,573	540	32,106	25,421	36,048	35,803
2013			882	2,658	9,155	11,372	68,546	59,098	64,440	66,376
2014				2,336	10,223	15,417	63,811	58,849	65,056	70,842
2015					2,322	19,677	67,052	84,516	108,807	134,933
2016						902	15,989	43,829	78,115	97,580
2017							1,738	16,704	65,388	105,646
2018								16,598	37,917	69,826
2019									10,168	19,816
2020										4,678
								Total		**$647,479**
								All net outstanding liabilities prior to 2011, net of reinsurance		**1,398**
								Liabilities for claims and claim adjustment expense		**$311,721**

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

Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**Year 10**
4.2%	8.8%	15.4%	19.9%	12.1%	24.8%	3.7%	6.9%	4.7%	8.1%

(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, 2020

	---supplemental and unaudited---									Gross			Total of incurred but not reported liabilities plus expected development on reported claims	Cumulative number of reported claims(1)
AY	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019 (2)**	**2020 (2)**	**ADC**	**Net of ADC**		
2011	$70,335	$67,590	$66,822	$65,277	$65,538	$64,356	$69,746	$64,975	$69,946	$69,486	$(2,014)	$67,472	$1	1,399
2012		39,218	41,385	36,531	35,692	35,330	33,577	33,931	39,791	37,729	(2,513)	35,216	160	1,008
2013			48,897	47,478	50,445	49,125	43,764	46,131	47,361	46,923	(2,843)	44,080	146	1,346
2014				83,410	83,648	73,070	71,993	76,605	77,674	79,004	(8,452)	70,552	205	1,488
2015					45,673	42,375	38,999	37,247	39,028	41,407	(4,267)	37,140	310	1,472
2016						67,725	68,356	65,658	66,016	76,691	(7,089)	69,602	89	1,749
2017							170,922	213,486	188,719	182,631	-	182,631	974	2,416
2018								131,507	138,837	123,805	-	123,805	7,144	2,641
2019									103,308	70,088	-	70,088	6,426	1,260
2020										398,547	-	398,547	41,941	369
								Total		**$1,126,311**	**$(27,178)**	**$1,099,133**		

(1) Note that 57% of claim count information is disclosed on a per claimant basis and 43% is disclosed on a per occurrence 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, 2020

	---supplemental and unaudited---									
AY	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019 (2)**	**2020 (2)**
2011	$10,720	$36,527	$59,481	$61,030	$62,590	$61,205	$68,517	$64,004	$68,177	$69,126
2012		1,646	22,020	29,312	32,641	32,826	30,218	31,865	33,499	34,103
2013			6,548	27,632	43,137	46,637	41,018	44,824	45,609	46,399
2014				24,343	51,845	62,115	55,941	72,421	74,381	75,887
2015					7,828	14,868	22,164	32,733	37,061	40,027
2016						10,126	36,060	50,226	64,974	72,890
2017							35,685	127,478	147,941	163,707
2018								24,347	85,596	98,120
2019									20,432	49,727
2020										317,301
								Total		**$967,287**
								All net outstanding liabilities prior to 2011, net of reinsurance		**181**
								Liabilities for claims and claim adjustment expense		**$132,027**

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

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
24.5%	40.4%	19.5%	9.2%	5.4%	1.8%	4.6%	-0.2%	3.8%	1.4%

(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, 2020

	supplemental and unaudited													
AY	2011	2012	2013	2014	2015	2016	2017	2018	2019 (2)	Gross 2020 (2)	ADC	Net of ADC	Total of incurred but not reported liabilities plus expected development on reported claims	Cumulative number of reported claims(1)
2011	$47,276	$47,588	$45,334	$51,011	$51,856	$51,359	$53,291	49,887	$61,825	$64,147	$(1,860)	$62,287	$32	2,104
2012		66,721	61,112	51,962	48,405	47,987	43,656	46,193	58,531	53,838	(3,586)	50,252	61	2,595
2013			93,185	96,799	97,719	96,885	95,778	97,516	97,942	97,393	(5,902)	91,491	273	3,127
2014				116,318	126,578	129,815	130,247	129,323	124,559	124,211	(13,289)	110,922	2,165	3,549
2015					117,364	118,173	129,601	132,206	139,663	143,148	(14,753)	128,395	1,483	3,835
2016						117,787	145,529	142,871	148,239	164,430	(15,200)	149,230	4,150	4,129
2017							141,684	141,252	116,606	106,330	-	106,330	4,808	4,547
2018								197,699	155,968	178,661	-	178,661	14,555	3,704
2019									153,807	197,269	-	197,269	47,151	1,558
2020										83,639	-	83,639	74,283	264
								Total		$1,213,066	$(54,590)	$1,158,476		

(1) Note that 9% of claim count information is disclosed on a per claimant basis and 91% is disclosed on a per occurrence 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, 2020

	supplemental and unaudited									
AY	2011	2012	2013	2014	2015	2016	2017	2018	2019 (2)	2020 (2)
2011	$13,720	$31,111	$31,777	$40,530	$44,057	$45,578	$52,748	$48,919	$61,188	$64,128
2012		16,627	34,030	34,137	47,812	41,276	42,496	45,119	55,485	53,758
2013			23,425	50,166	69,749	79,144	74,918	94,438	95,188	96,642
2014				25,663	80,760	123,312	125,639	124,674	118,487	121,767
2015					42,474	79,659	117,691	123,363	137,782	141,520
2016						24,913	133,023	125,005	146,059	159,427
2017							14,064	73,065	115,142	95,851
2018								60,689	115,333	149,214
2019									20,739	113,516
2020										5,262
								Total		$1,001,085
				All net outstanding liabilities prior to 2011, net of reinsurance						37
				Liabilities for claims and claim adjustment expense						$157,428

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

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
20.6%	39.6%	17.0%	7.0%	1.1%	4.5%	4.9%	4.9%	8.0%	4.6%

(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, 2020 and 2019, the Company held $72,197 and $97,599, 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, 2020

AY	Incurred claims and allocated claims adjustment expenses, net of reinsurance 2019(1)	2020	Cumulative paid claims and allocated claims adjustment expenses, net of reinsurance 2019(1)	2020	Total of incurred but not reported liabilities plus expected development on reported claims
2011	$117	$139	$39	$41	$96
2012	706	632	31	95	459
2013	4,859	4,715	120	345	693
2014	3,630	3,680	270	945	2,162
2015	15,545	14,449	81	9,196	4,103
2016	8,410	8,525	73	2,505	2,404
2017	12,367	12,764	151	2,651	8,465
2018	13,484	12,551	20	1,735	7,118
2019	10,312	8,574	24	1,276	5,952
2020		4,679		111	4,234
		$70,708		**$18,900**	

Property
As of December 31, 2020

AY	Incurred claims and allocated claims adjustment expenses, net of reinsurance 2019(1)	2020	Cumulative paid claims and allocated claims adjustment expenses, net of reinsurance 2019(1)	2020	Total of incurred but not reported liabilities plus expected development on reported claims
2011	$212	$131	$27	$52	$ -
2012	613	734	23	111	5
2013	84	157	3	53	11
2014	166	186	17	83	9
2015	293	229	10	144	1
2016	525	834	1	213	29
2017	2,918	2,340	135	666	190
2018	4,738	4,461	1,203	2,097	379
2019	6,126	3,418	536	3,328	137
2020		4,592		1,574	1,322
		$17,082		**$8,321**	

Specialty Short Tail
As of December 31, 2020

AY	Incurred claims and allocated claims adjustment expenses, net of reinsurance 2019(1)	2020	Cumulative paid claims and allocated claims adjustment expenses, net of reinsurance 2019(1)	2020	Total of incurred but not reported liabilities plus expected development on reported claims
2011	$ -	$ -	$ -	$ -	$ -
2012	2	1	-	-	-
2013	199	314	-	301	74
2014	240	591	54	57	150
2015	564	830	96	415	84
2016	1,241	1,289	570	1,051	345
2017	3,460	4,044	999	2,390	265
2018	4,759	8,006	537	6,498	88
2019	7,097	4,312	48	2,448	755
2020		5,974		573	5,308
		$25,361		**$13,733**	

(1) The information presented is supplemental and unaudited.

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

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, 2020**
Casualty	$311,721
Property	132,027
Specialty Short Tail	157,428
Liabilities for unpaid claims and allocated CAE, net of reinsurance	**$601,176**
Reinsurance recoverable on unpaid claims	
Casualty	293,215
Property	142,218
Specialty Short Tail	78,518
Total reinsurance recoverable on unpaid claims	**513,951**
Unallocated claims adjustment expenses	9,659
Gross reserve for losses and loss adjustment expenses	**$1,124,786**

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.

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:

	2020	**2019**
Net premiums written		
Direct	$130,538	$118,199
Assumed	1,016,814	494,629
Ceded	(75,083)	(114,121)
Net premiums written	$1,072,269	$498,707
Net premiums earned		
Direct	$120,727	$139,350
Assumed	981,947	540,709
Ceded	(96,534)	(144,958)
Net premiums earned	$1,006,140	$535,101
Loss and Loss adjustment expenses		
Gross losses and loss adjustment expenses incurred	$651,444	$466,490
Losses and loss adjustment expenses recoveries	(65,625)	(144,369)
Net loss and loss adjustment expenses	$585,819	$322,121

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

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, 2020 and 2019, 99.0% of reinsurance recoverables (which includes loss reserves recoverable and recoverables on paid losses) were from reinsurers rated A- or better and included $233,379 and $217,490, respectively, of IBNR recoverable.

Reinsurance recoverables by reinsurer categories are as follows:

	December 31, 2020		December 31, 2019	
	Reinsurance Recoverable	% of Total	Reinsurance Recoverable	% of Total
Top 10 Reinsurers	$515,164	86.4%	$529,482	83.6%
Other reinsurers balances > $1 million	74,291	12.5%	102,384	16.2%
Other reinsurers balances < $1 million	7,107	1.1%	1,200	0.2%
Total	$596,562	100.0%	$633,066	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, 2020 and 2019, the reserves for reinsurance recoverables deemed uncollectible was $200 in both years.

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, 2020 and 2019 is 1,000,000 ordinary shares with a par value of $1.00 each.

(b) Dividends

The Company declared $38,000 and $Nil dividends during the years ended December 31, 2020 and 2019, respectively.

8. Taxation

(a) Bermuda

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

(b) United States

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

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

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

	2020	2019
Current tax (benefit) expense:		
U.S. Federal	$24,191	$7,897
U.S. Federal net operating losses	(20,831)	(8,052)
Foreign	(1,946)	1,103
Total current tax	1,414	948
Deferred tax expense:		
U.S. Federal	32,259	19,613
Total U.S. Federal and foreign income tax expense	$33,673	$20,561

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,	2020	%	2019	%
Expected U.S. Federal income tax	$34,931	21.0%	$17,864	21.0%
Tax effect of:				
Revision to estimate	(953)	(0.6)%	2,575	3.0%
Others	(305)	(0.2)%	122	0.2%
Income tax expense	$33,673	20.2%	$20,561	24.2%

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

	2020	2019
Deferred tax assets:		
Unpaid claims discount	$9,166	$11,713
Unearned premium reserves	20,388	19,407
Net operating losses	99,744	120,912
Employee benefits	621	230
Credits	-	238
Other accrued expenses	2,095	1,231
Intangibles	86,871	94,538
Depreciation/amortization	104	104
Other	28	-
Total deferred tax assets	219,017	248,373
Valuation allowance	-	-
Deferred tax assets net of valuation allowance	219,017	248,373
Deferred tax liabilities:		
Deferred acquisition costs	(32,702)	(28,616)
Net unrealized gains	(18,697)	(7,068)
Other	(49)	(141)
Total deferred tax liabilities	(51,448)	(35,825)
Net deferred tax asset	$167,569	$212,548

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, 2020 and 2019, management determined no valuation allowance was necessary.

As of December 31, 2020, LSM Bermuda has U.S. Federal net operating loss carry-forwards of $474,973 and no foreign tax credit carry-forwards. The net operating loss carry-forwards will begin to expire in year 2037 and are only available to offset future income of LSM Bermuda.

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

LSM Bermuda recognizes interest and penalties related to unrecognized tax benefits in U.S. Federal income tax expense. For the years ended December 31, 2020 and 2019, the Company did not recognize any interest and penalties.

LSM Bermuda is open for U.S. Federal income tax examinations for years beginning 2017 but does not expect any material changes to unrecognized tax benefits within 12 months of the reporting date.

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, 2020 and 2019, the following brokers were the top two producers by gross written premium:

Broker	% of Gross Premiums Written December 31, 2020	% of Gross Premiums Written December 31, 2019
Aon Benfield	17.8%	25.8%
Marsh & McLennan Companies	9.8%	8.5%

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, 2020 and 2019, 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, U.S., Canada and Singapore.

(b) Operating leases

The Company has entered into various operating lease agreements to lease office space and fixtures and fittings that expire up to 2025. During the years ended 2020 and 2019, total rent expenses of $368 and $816, respectively, were recorded in general and administrative expenses. The future minimum lease payments in the aggregate as of December 31, 2020 are as follows:

	December 31, 2020
2021	$1,249
2022	1,249
2023	1,249
2024	1,249
2025	1,249
Later	-
Total minimum future lease commitments	$6,245

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

(c) *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, 2020 and 2019.

(d) *Other Investments*

As of December 31, 2020 and 2019, the Company had an unfunded commitment to invest $46,777 and $55,721, respectively, into closed-end limited partnership funds.

10. Related party transactions

During the years ended December 31, 2020 and 2019, the Company paid expenses of $9,584 and $21,543, respectively, on behalf of Ironshore. The Company also purchases operating services and support at cost from Ironshore. During the years ended December 31, 2020 and 2019, the Company incurred expenses of $579 and $1,125, respectively, related to these services. As of December 31, 2020 and 2019, the Company has an outstanding receivable of $26,797 and $22,309, respectively, included under amounts receivable from related parties. These amounts are unsecured, non-interest bearing and payable upon demand.

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

	2020	2019
Balance Sheet		
Premiums receivable	$260,844	$465,580
Deferred acquisition cost	11,865	37,522
Reserve for losses and loss adjustment costs	92,231	175,824
Unearned premiums	11,833	77,184
Other liabilities	214,353	278,885

	2020	2019
Income Statement		
Net premiums earned	$85,913	$218,052
Losses and loss adjustment expenses	75,694	116,123
Acquisition expenses	25,921	64,088
Net investment income	6,663	7,347
Net realized and unrealized (losses) on investments	5,629	2,547
General and administrative expenses	3,984	15,166

Subsequent to December 31, 2020, LCC2, a capital provider of Syndicate 4000, completed a reinsurance-to-close (RITC) transaction of the legacy liabilities of the 2018 and prior Years of Account of Syndicate 4000, managed by Hamilton Managing Agency (formerly known as Pembroke Managing Agency). Under the agreement, legacy Syndicate 4000 business that remained with LCC2 following Hamilton Insurance Groups' acquisition of Pembroke Managing Agency and Syndicate 4000 in 2019 will be transferred to Syndicate 3500 managed by RiverStone Managing Agency Limited effective January 1, 2021.

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

This transaction effectively commuted the existing reinsurance agreement between the Company and LCC2 for the 2018 and prior Years of Account of Syndicate 4000. A gain of approximately $23,582 has been recorded in the Company's financial results subsequently to the year end.

Effective April 8, 2011, LSM Bermuda entered into a reinsurance agreement with Ironshore Europe DAC ("IEDAC"), an affiliated company. This agreement provided that LSM Bermuda assumed an 80% quota share of all insurance and reinsurance risks earned by IEDAC.

On August 20, 2019, Ironshore Inc. closed the sale of IEDAC to Hamilton Insurance Group, followed by the rebranding of IEDAC to Hamilton Insurance Designated Activity Company ("HIDAC"). As part of the sale agreement, the Company entered into a retroactive reinsurance agreement, where LSM Bermuda assumed additional 20% quota share of all insurance and reinsurance risk earned by HIDAC till the date of the agreement. This transaction brought the existing reinsurance agreement with HIDAC to 100% quota share of all insurance and reinsurance risk earned by HIDAC up to the date of the sale of HIDAC to Hamilton Insurance Group. Hamilton Insurance Group are responsible for all HIDAC risks written from the date of the sale.

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

	2020	2019
Balance Sheet		
Premiums receivable	$112,108	$200,720
Deferred acquisition cost	11,803	31,200
Reserve for losses and loss adjustment costs	359,163	490,425
Unearned premiums	39,343	104,041
Other liabilities	92,408	103,313

Income Statement	2020	2019
Net premiums earned	$85,333	$210,917
Losses and loss adjustment expenses	45,302	103,726
Acquisition expenses	25,587	64,336

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

	2020
Balance Sheet	
Premiums receivable	$80,309
Reserve for losses and loss adjustment costs	31,377
Other liabilities	34,125

	2020
Income Statement	
Net premiums earned	$627,070
Losses and loss adjustment expenses	331,480
Acquisition expenses	202,991

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, 2020 and 2019. During the years ended December 31, 2020 and 2019, LSM Bermuda incurred administrative fees under the terms of the PMA of $16,507 and $15,526, respectively.

LSM Agency has an existing Claims Service Agreement ("CSA") with LSM Bermuda. Under the CSA, the 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, 2020 and 2019, LSM Bermuda incurred claim services fees under the terms of the CSA of $1,901 and $738, respectively.

During the years ended December 31, 2020 and 2019, LSM Bermuda paid operating costs of $16,552 and $19,791, respectively, on behalf of LSM Agency. As of December 31, 2020 and 2019, the Company has outstanding receivable of $4,994 and $15,093, respectively, from LSM Agency included in the amounts receivable from related parties. These amounts are unsecured, non-interest bearing and payable upon demand.

As of December 31, 2020 and 2019, the Company has an outstanding balance receivable from LMIC for reinsurance arrangements of $46,416 and $95,267, respectively, included under reinsurance recoverable on unpaid losses. As of December 31, 2020 and 2019, the Company has an outstanding balance payable to LMIC for reinsurance arrangements of $38,323 and $39,153, respectively, included under insurance and reinsurance balances payable. These amounts are unsecured, non-interest bearing and payable upon demand.

11. Statutory financial data

Under the Insurance Act 1978, amendments thereto and Related Regulations of Bermuda (the "Insurance Act"), the Company is required to prepare statutory financial statements and to file with the BMA a statutory financial return. As a Class 4 insurer, LSM Bermuda must maintain capital at the greater of a minimum solvency margin ("MSM") and its Enhanced Capital Requirement ("ECR"), which is established by reference to the Bermuda Solvency Capital Requirement ("BSCR") model. The BSCR model is a risk-based capital model that provides a method for determining an insurer's capital requirements (statutory capital and surplus) by taking into account the risk characteristics of different aspects of the insurer's business. The Insurance Act also requires LSM Bermuda to maintain certain measures of solvency and liquidity. The MSM that must be maintained by a Class 4 insurer with respect to its general business is the greater of (i) $100,000, or (ii) 50% of net premiums written (iii) 15% of net reserve for losses and loss adjustment expenses or (iv) 25% of ECR.

As of December 31, 2020 and 2019, the Company was required to maintain a minimum statutory capital and surplus of $536,135 and $249,354, respectively. As of December 31, 2020 and 2019, LSM Bermuda had statutory capital and surplus of $1,993,616 and $1,843,167, respectively and a statutory net income of $132,663 and $64,393, 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, 2020, LSM Bermuda can pay dividends of $460,792 without prior approval under Bermuda law.

12. Subsequent events

There are many uncertainties regarding the current coronavirus ("COVID-19") pandemic, and the Company is closely monitoring the impact of the pandemic on all aspects of its business, including how it will impact its customers, employees, business partners and distribution channels. While the pandemic did not materially affect the Company's financial results and business operations for the year ending December 31, 2020, we are unable to predict the ultimate impact that COVID-19 will have on its financial position and operating results due to numerous uncertainties. The Company expects to continue to assess the evolving impact of the COVID-19 pandemic.

Subsequent events have been evaluated through April 30, 2021, the date on which the financial statements were available to be issued.