AUDITED FINANCIAL STATEMENTS

Liberty Re (Bermuda) Limited
Years Ended December 31, 2020 and 2019
With Report of Independent Auditors

Liberty Re (Bermuda) Limited

Audited Financial Statements

Years Ended December 31, 2020 and 2019

Contents

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Report of Independent Auditors

The Shareholder
Liberty Re (Bermuda) Limited

We have audited the accompanying financial statements of Liberty Re (Bermuda) Limited, which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of operations and comprehensive income, changes in shareholder's equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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.

Building a better working world

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Liberty Re (Bermuda) Limited at December 31, 2020 and 2019, and the results of its operations and its 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 claims and allocated claim expense, net of reinsurance and the cumulative paid claims and allocated claim adjustment expenses, net of reinsurance for the years ending 2019 and prior and the average annual percentage payout of incurred claims by age, net of reinsurance disclosed on pages 28 to 30 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.

March 17, 2021

Liberty Re (Bermuda) Limited
(Incorporated in Bermuda)

Balance Sheets
(Expressed in United States dollars)

	December 31 2020	December 31 2019
Assets		
Cash and cash equivalents *(Note 3)*	**$ 5,967,781**	$ 9,496,237
Investments held in Trust *(Notes 3 and 4)*	**1,034,681,435**	1,039,694,328
Funds held investments *(Note 5)*	**220,822,949**	140,326,915
Funds withheld by LMIC *(Note 6)*	**99,667,044**	98,996,174
Retrocession recoverable *(Notes 8 and 12)*	**40,695,917**	35,278,988
Premiums receivable	**218,866**	232,993
Losses receivable	**7,996,352**	5,445,601
Other receivables	**-**	2,792,805
Accrued interest receivable *(Note 4)*	**8,359,742**	9,388,053
Deferred acquisition costs	**347,483**	178,834
Policy loans	**27,762**	26,440
Total assets	**$ 1,418,785,331**	$ 1,341,857,368
Liabilities		
Loss and loss expenses reserve *(Note 11)*	**$ 32,248,932**	$ 32,807,800
Unearned premiums	**2,211,213**	782,841
Premiums payable	**74,252**	329,529
Future policy benefits *(Note 12)*	**137,452,256**	137,097,018
Other policyholder funds and benefits payable *(Note 12)*	**697,408,032**	697,855,169
Losses payable	**2,438,746**	5,121,760
Accounts payable and accrued expenses *(Note 7)*	**987,706**	1,542,354
Taxes payable	**2,165,916**	3,134,679
Deferred tax liability *(Note 10)*	**30,031,290**	7,221,970
Accounts payable for investments purchased	**-**	369,961
Intercompany payable *(Note 7)*	**303,469**	394,107
Total liabilities	**905,321,812**	886,657,188
Shareholder's equity		
Share capital *(Note 9)*	**79,608,500**	79,608,500
Additional paid-in capital	**230,916,293**	230,916,293
Retained earnings	**67,918,213**	69,642,620
Accumulated other comprehensive income *(Notes 10 and 14)*	**135,020,513**	75,032,767
Total shareholder's equity	**513,463,519**	455,200,180
Total liabilities and shareholder's equity	**$ 1,418,785,331**	$ 1,341,857,368

See accompanying notes.

On behalf of the Board:

Director ____________________ Director ____________________

Liberty Re (Bermuda) Limited

Statements of Operations and Comprehensive Income

(Expressed in United States dollars)

	Years Ended December 31	
	2020	**2019**
Underwriting income		
Reinsurance premiums written and earned	**$ 6,587,669**	$ 2,624,778
Reinsurance premiums ceded *(Note 8)*	**(10,273,005)**	(9,661,219)
Change in unearned premiums	**(1,428,372)**	70,215
Fee and other revenue	**23,497,659**	23,157,739
Total net premiums earned and other revenue	**18,383,951**	16,191,513
Underwriting expenses		
Future policy benefits *(Notes 8 and 12)*	**8,473,005**	7,574,438
Loss and loss expenses *(Note 11)*	**3,081,638**	1,639,559
Interest credited to policyholder account balances	**27,851,151**	26,916,615
Other underwriting expenses	**(169,634)**	659,605
Policy acquisition costs	**782,507**	453,443
Total underwriting expenses	**40,018,667**	37,243,660
Net Underwriting Loss	**(21,634,716)**	(21,052,147)
Net investment income *(Note 15)*	**80,561,109**	50,841,656
Realized gain on embedded derivatives *(Note 12)*	**4,101,674**	1,257,038
General and administrative expenses		
Management fees (Note 7*)*	**782,800**	957,120
Actuarial fees (Note 7)	**667,235**	447,235
Audit fees	**180,000**	180,000
Trust fees	**141,361**	105,551
Bermuda company fees	**123,980**	113,180
Legal fees	**11,524**	9,362
Miscellaneous	**11,970**	1,347
Total general and administrative expenses	**1,918,870**	1,813,795
Income before income taxes	**61,109,197**	29,232,752
Federal income tax expense *(Note 10)*		
Current tax expense	**5,970,395**	5,186,954
Deferred tax expense	**6,863,209**	1,028,688
	12,833,604	6,215,642
Net income after taxes	**48,275,593**	23,017,110
Other comprehensive income *(Note 14)*	**59,987,746**	84,210,623
Comprehensive income	**$ 108,263,339**	$ 107,227,733

See accompanying notes.

Liberty Re (Bermuda) Limited

Statements of Changes in Shareholder's Equity

(Expressed in United States dollars)

	Share Capital	Additional Paid-in Capital	Accumulated Retained earnings	Accumulated Other Comprehensive Income (Loss)	Total
January 1, 2019	79,608,500	230,916,293	46,659,874	(9,177,856)	348,006,811
Net unrealized gain on investments, net of taxes	–	–	–	84,176,259	84,176,259
ASU 2018-02 Topic 220 RE/AOCI Reclass	–	–	(34,364)	34,364	–
Net Income	–	–	23,017,110	–	23,017,110
December 31, 2019	79,608,500	230,916,293	69,642,620	75,032,767	455,200,180
Net unrealized gain on investments, net of taxes	–	–	–	**59,987,746**	**59,987,746**
Net Income	–	–	**48,275,593**		**48,275,593**
Dividend	–	–	**(50,000,000)**	–	**(50,000,000)**
December 31, 2020	**$ 79,608,500**	**$ 230,916,293**	**$ 67,918,213**	**$ 135,020,513**	**$ 513,463,519**

See accompanying notes.

Liberty Re (Bermuda) Limited

Statements of Cash Flows
(Expressed in United States dollars)

	Years Ended December 31	
	2020	**2019**
Operating activities		
Net income	**$ 48,275,593**	$ 23,017,110
Adjustment for items not requiring the use of cash:		
Amortization on investments	**1,122,006**	1,230,139
Deferred tax expense	**6,863,209**	1,028,688
Net realized gain on sale of marketable securities	**(36,973,962)**	(7,886,162)
Investment income on funds held investments	**(3,268,882)**	(3,575,786)
Investment income from investments held in Trust	**(39,138,046)**	(37,843,020)
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Unearned premiums	**1,428,372**	13,477
Funds withheld by LMIC	**(670,870)**	2,009,626
Accounts payable for investments purchased	**(369,961)**	-
Retrocession recoverable	**(5,416,929)**	2,708,154
Premiums receivable	**14,127**	20,367
Losses receivable	**(2,550,751)**	(3,463,137)
Other receivables	**2,792,805**	-
Taxes payable	**(968,763)**	6,753,776
Intercompany payable	**(90,638)**	(2,743,934)
Accrued interest receivable	**1,028,311**	(541,531)
Loss and loss expenses reserve	**(558,868)**	(4,678,037)
Premiums payable	**(255,277)**	186,616
Future policy benefits	**355,238**	(5,554,289)
Other policyholder funds and benefits payable	**(447,137)**	34,717,866
Losses payable	**(2,683,014)**	(2,198,834)
Policy loans	**(1,322)**	(1,259)
Accounts payable and accrued expenses	**(554,648)**	996,241
Deferred acquisition costs	**(168,649)**	3,316
Net cash (used in) provided by operating activities	**(32,238,056)**	4,199,387
Investing activities		
Purchase of investments held in trust	**(183,768,845)**	(249,141,459)
Proceeds on sale of investments held in trust	**339,705,602**	255,322,944
Purchase of funds held investments	**(239,353,078)**	(54,635,725)
Withdrawals from funds held investments	**162,125,921**	42,244,303
Net cash provided by (used in) in investing activities	**78,709,600**	(6,209,937)

Liberty Re (Bermuda) Limited

Statements of Cash Flows (continued)
(Expressed in United States dollars)

	Years Ended December 31	
	2020	**2019**
Financing activities		
Dividend	**$ (50,000,000)**	$ -
Net cash used in financing activities	**$ (50,000,000)**	$ -
Net decrease in cash, cash equivalents and restricted cash	**$ (3,528,456)**	$ (2,010,550)
Cash, cash equivalents and restricted cash, beginning of year	**9,496,237**	11,506,787
Cash, cash equivalents and restricted cash, end of year	**$ 5,967,781**	$ 9,496,237
Cash, cash equivalents and restricted cash comprise		
Cash and cash equivalents	**$ 261,869**	$ 266,070
Restricted cash *(Note 3)*	**5,570,272**	9,095,084
Short term deposits and money fund	**135,640**	135,083
	$ 5,967,781	$ 9,496,237

See accompanying notes

1. General

Liberty Re (Bermuda) Limited (the Company) was incorporated under the laws of Bermuda on June 24, 1998. The Company is a wholly-owned subsidiary of Liberty Mutual Insurance Company (LMIC), a United States company. The Company is licensed under the Bermuda Insurance Act 1978, amendments thereto and Related Regulations, to write long-term business and all classes of property and casualty business.

Long-Term Business

The Company's long-term business operations have consisted of life, annuity and accident and health risks for groups and individuals. Effective January 1, 2003, the group life and single premium group annuity policies were commuted. The remaining long-term business consists of three variable annuity reinsurance contracts with third parties, which commenced in 1998 and 1999, to reinsure Guaranteed Minimum Death Benefits (GMDB) and Guaranteed Minimum Income Benefits (GMIB).

As a result of the sale of all the shares of Liberty Life Assurance Company of Boston (LLAC) by Liberty Mutual Group Inc., effective May 1, 2018, the Company entered into a reinsurance agreement with LLAC, where LLAC ceded to the Company, on an indemnity reinsurance basis, all of LLAC's liabilities with respect to a legacy block of LLAC's affiliated corporate owned life insurance policies, as well as life insurance policies issued to Liberty Mutual employees (COLI policies). All of the COLI policies reinsured by the Company are universal life with nonguaranteed elements.

All obligations of the Company under the COLI reinsurance agreement are guaranteed by Liberty Mutual Group Inc.

1. General (continued)

Property and Casualty Business

On November 30, 2018 the Company signed a novation agreement with St. James Insurance Company Ltd. and LMIC. Included in the novation was a Loss Portfolio transfer from September 30, 1987 to December 31, 2003 plus Deductible Reimbursement policies with LMIC issued from January 1, 2004 to January 1, 2017. From January 1, 2004 the workers' compensation, employer's liability, and general liability risks were covered up to $5 million per event, and auto liability risks up to $1 million per event limit. The employer's liability was not renewed on January 1, 2010. Effective January 1, 2014, the limits for workers' compensation and auto liability are $2 million per occurrence and general liability remains at $5 million. Effective January 1, 2017 auto physical damage was added to this policy with no limit per occurrence and the policy was not renewed on January 1, 2018. All of these lines of business are insured subject to an annual aggregate limit ranging from $23 million to $30.5 million per policy in excess of annual retentions varying from $2 million to $2.4 million.

On December 17, 2018, the Company signed a novation agreement with St. James Insurance Company Ltd. and Magna Carta Insurance Company (Bermuda) Ltd. The Company provides punitive damage reinsurance coverage to Magna Carta Insurance Company (Bermuda) Ltd. with a maximum limit of $50 million on any one original policy since January 25, 2016. Effective January 1, 2019 the maximum limit was increased to $100 million on any one policy. The policies are limited to "wrap policies" supplementing policies issued by those companies included in the Approved Members Group.

2. Significant Accounting Policies

The financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). Significant accounting policies are summarized as follows:

Cash and Cash Equivalents

The Company considers money market funds and all highly liquid debt instruments, with an original maturity of three months or less at the date of purchase, to be cash equivalents.

In November 2016, the FASB issued ASU 2016-18, *Restricted Cash*. The pronouncement requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash and cash equivalents.

2. Significant Accounting Policies (continued)

The amendments in this update are effective for fiscal years beginning on or after December 15, 2018, with early adoption permitted. The Company adopted this standard effective January 1, 2019 and elected to apply the full retrospective adoption method. Adoption of this guidance did not have any material impact on the Company's financial statements or disclosures.

Investments Held in Trust

The Company has established trusts with Bank of New York Mellon in favor of its long-term business ceding companies. These trusts are made up of cash and investments (refer to Notes 3 and 4).

Investments Held in Trust include corporate bonds, municipal taxable bonds, municipal tax-exempt bonds, government bonds and mortgage-backed fixed maturity securities classified as available-for-sale securities and are reported at fair value with changes in fair values, net of deferred income taxes, reported in accumulated other comprehensive income. The Company recognizes income 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.

Realized gains and losses on securities are recognized in income using the specific identification method. Unrealized losses that are other-than-temporary are recognized as realized losses. The Company reviews fixed income securities for impairment on a timely 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, and (7) the past impairment history of the security holding or the issuer. All bonds and mortgage-backed securities are reviewed for other-than-temporary impairment treatment in accordance with the guidance of Accounting Standards Codification (ASC) 320, *Investment – Debt and Equity Securities* and ASC 325, *Investments – Other*. In addition, for securities expected to be sold, or the Company is required to sell, an other-than-temporary impairment charge is recognized if the Company does not expect the fair value of a security to recover to cost or amortized cost prior to the expected date of sale.

2. Significant Accounting Policies (continued)

Investment Income

Investment income is comprised of interest, amortization of premiums or accretion of discounts on investments, interest on funds held investments and interest on funds withheld by LMIC. Interest earned is accrued to the balance sheet date.

Loss and Loss Expenses

Loss and loss expenses are recorded when advised by the Company's claims specialists. Loss and loss expenses comprise estimates of the amount of reported loss and loss expenses based on reports from claims specialists, plus a provision for losses incurred but not reported based on the recommendations of the Company's actuaries using the past loss data of the insureds together with industry specific loss development factors.

Loss estimates are continually reviewed and modified to reflect current conditions. Any adjustments to provisions are reflected in operating results of the year in which the adjustments are determined.

Management believes that the reserve for loss and loss expenses is a best estimate of the ultimate cost of losses incurred to the balance sheet date, but the reserve is necessarily an estimate and may ultimately be settled for a materially greater or lesser amount. Any subsequent differences arising are recorded in the period in which they are determined.

Future Policy Benefits and Other Policyholder Funds and Benefits Payable

The Company's reserves for GMDB and GMIB are calculated on a stochastic basis, resulting in a distribution of projected cash flows emanating from the business and a probability distribution of the present value of future claims less the present value of future premiums (the present value of the net liability). The expected value using the distribution of the net liability is used for purposes of the reserve.

Inherent in the estimates of the reserve for future policy benefits are mortality rates, volatility of the equity markets, future lapse rates, expected growth in equity values, level of U.S. interest rates, expected number of people that elect to receive a guaranteed annuity on retirement and other factors. Due to the nature of the risks insured and reinsured by the Company, these factors may vary significantly as claims are settled.

2. Significant Accounting Policies (continued)

Future Policy Benefits and Other Policyholder Funds and Benefits Payable (continued)

The liability for other policyholder funds and benefits payable is primarily recorded at the accumulated value plus accrued interest credited, less withdrawals and fees, and less unearned premium on the annual renewable term reinsurance agreements between LLAC and other reinsurers entered into prior to May 1, 2018 for which LLAC is the cedant. The unearned premiums on a treaty entered into by the Company with a reinsurer effective August 1, 2018, where the Company is the cedant, are reported on a gross basis in the balance sheets. The Credited rates for universal life contracts in force were between 3.25% - 5.15% during 2020 (2019 – 3.25%-5.15%).

Policy Loans

Policy loans are carried at unpaid principal balances. There is no allowance for policy loans because these loans serve to reduce the death benefit paid when the death claim is made and the balances are effectively collateralized by the cash surrender value of the policy.

Premiums Written and Ceded

Property and casualty business premiums written are recognized as revenue on a pro-rata basis over the periods covered by the insurance policies or contracts of reinsurance to which they relate. Premiums are recorded as reported by the ceding company.

Premiums from GMDB and GMIB long duration policies are recognized as revenue when they are reported by the ceding companies.

Premiums received for universal life products are reported as deposits to other policyholder funds and benefits payable. Reinsurance premiums ceded are recognized as a reduction in revenues over the period the reinsurance coverage is provided in proportion to the risks to which the premiums relate.

Fee and Other Revenue

Fee and other revenue represent revenues recognized from universal life products consisting of policy charges for cost of insurance, policy administration charges and surrender fees charged to policyholders. Fee and other revenue are recognized as revenues in the period in which they are assessed against policyholders, unless the fees are designed to compensate us for services to be provided in the future.

2. Significant Accounting Policies (continued)

Reinsurance

All assets and liabilities related to reinsurance ceded contracts are reported on a gross basis in the balance sheets. This reflects the fact that the Company is not relieved of its primary obligation from assumed business.

Income Taxes

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

The Company recognizes deferred income tax assets and liabilities for the expected future tax effects attributable to temporary differences between the financial statement and tax return bases of assets and liabilities based on enacted tax rates and other provisions of the tax 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 in 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.

As of December 31, 2020, the U.S. Treasury Department and the Internal Revenue Service ("IRS") are still in the process of issuing various regulations in accordance with the Tax Cuts and Jobs Act of 2017. Accordingly, future adjustments to the financial statements may be necessary as regulations are issued and the 2020 tax returns are filed with the IRS.

The Company has elected 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.

Disclosure About Fair Value of Financial Instruments

Fair values for investments held in Trust are based on quoted market prices. The carrying amount of other assets and liabilities, including income tax receivable, intercompany balances receivable and payable, and accounts payable and accrued expenses approximates their fair values due to the immediate or short-term nature of these balances.

Since January 1, 2008, the Company has adopted ASC 820, *Fair Value Measurement and Disclosures.* This Statement provides guidance for using fair value to measure assets and liabilities.

2. Significant Accounting Policies (continued)

Disclosure About Fair Value of Financial Instruments (continued)

Under this standard, the definition of fair value focuses on the price that would be received to sell the asset or paid to transfer the liability (an exit price), not the price that would be paid to acquire the asset or received to assume the liability (an entry price). ASC 820 clarifies that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets and the lowest priority being unobservable data.

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.

2. Significant Accounting Policies (continued)

Disclosure About Fair Value of Financial Instruments (continued)

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.

Use of Estimate

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States 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. Actual results could differ from those estimates.

3. Restricted Cash

The Company entered into trust agreements with three long term business ceding companies (Beneficiaries) and Bank of New York Mellon (Trustee). According to the terms of the agreements, the Company deposited certain assets in three trust accounts. These assets consist of cash and other specific types of investments. Upon written notice from either Beneficiary to the Trustee, that Beneficiary shall have the right to withdraw any or all of the assets from its respective trust account to satisfy amounts due under the reinsurance agreement.

(Expressed in United States dollars)

3. Restricted Cash (continued)

At December 31, 2020, cash and investments amounting to $1,040,251,707 (2019 – $1,048,789,412) are held in the trust accounts and are comprised as follows:

	2020	2019
Investments held in Trust (Note 4)	**$ 1,034,681,435**	$ 1,039,694,328
Restricted cash	**5,570,272**	9,095,084
	$ 1,040,251,707	$ 1,048,789,412

4. Investments Held in Trust

The following is a summary of Investments Held in Trust at December 31, 2020 and 2019:

	Amortized Cost	**Gross Unrealized Gain**	**Gross Unrealized Loss**	**Fair Value**
2020				
Corporate bonds	**$ 579,975,816**	**$ 116,994,235**	**$ (34,538)**	**$ 696,935,513**
Municipal taxable bonds	**115,901,445**	**23,262,530**	**(990)**	**139,162,985**
U.S. government bonds	**74,623,079**	**19,280,907**	**(60,143)**	**93,843,843**
Foreign government bonds	**26,244,684**	**7,007,185**	**-**	**33,251,869**
Surplus notes	**6,229,527**	**1,586,001**	**-**	**7,815,528**
Mortgage backed securities	**60,794,843**	**3,924,295**	**(1,047,441)**	**63,671,697**
	$ 863,769,394	**$ 172,055,153**	**$ (1,143,112)**	**$ 1,034,681,435**

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
2019				
Corporate bonds	$ 541,868,776	$ 60,132,799	$ (127,012)	$ 601,874,563
Municipal taxable bonds	180,055,305	19,264,911	-	199,320,216
U.S. government bonds	112,651,971	9,275,445	(872,694)	121,054,722
Foreign government bonds	26,779,465	4,232,110	-	31,011,575
Surplus notes	6,298,679	762,373	-	7,061,052
Mortgage backed securities	77,061,950	2,433,006	(122,756)	79,372,200
	$ 944,716,146	$ 96,100,644	$ (1,122,462)	$ 1,039,694,328

(Expressed in United States dollars)

4. Investments Held in Trust (continued)

The Company's Investments Held in Trust consist of debt securities, consisting of corporate bonds, municipal taxable bonds, municipal tax-exempt bonds, U.S. government bonds, foreign government bonds, surplus notes and residential mortgage-backed securities guaranteed by the US Government. These investments are considered to be available for sale and are carried at fair value with unrealized gains and losses reported as other accumulated comprehensive income. These investments partially fund the Trusts set up in favor of its long term ceding companies (see Note 3).

Realized gains on these Investments Held in Trust for the year ended December 31, 2020, were $36,973,962 (2019 – realized gains $7,886,162).

Accrued interest receivable on these Investments Held in Trust for the year ended December 31, 2020, is $8,359,742 (2019 – $9,388,053).

The following table shows the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2020 and December 31, 2019:

December 31, 2020

	Less Than 12 Months		12 Months or Greater		Total 2020	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Corporate bonds	**$ 5,920,140**	**$ (34,538)**	**$ -**	**$ -**	**$ 5,920,140**	**$ (34,538)**
Municipal taxable bonds	**999,010**	**(990)**	**-**	**-**	**999,010**	**(990)**
U.S. government bonds	**2,300,697**	**(60,143)**	**-**	**-**	**2,300,697**	**(60,143)**
Mortgage backed securities	**10,315,640**	**(842,483)**	**2,490,765**	**(204,958)**	**12,806,405**	**(1,047,441)**
Total	**$ 19,535,487**	**$ (938,154)**	**$ 2,490,765**	**$ (204,958)**	**$ 22,026,252**	**$ (1,143,112)**

(Expressed in United States dollars)

4. Investments Held in Trust (continued)

December 31, 2019

	Less Than 12 Months		12 Months or Greater		Total 2019	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate bonds	$ 12,661,140	$ (127,012)	$ -	$ -	$ 12,661,140	$ (127,012)
Municipal taxable bonds	-	-	-	-	-	-
U.S. government bonds	25,880,492	(872,694)	-	-	25,880,492	(872,694)
Mortgage backed securities	8,690,985	(41,010)	12,151,676	(81,746)	20,842,661	(122,756)
Total	$ 47,232,617	$ (1,040,716)	$ 12,151,676	$ (81,746)	$ 59,384,293	$ (1,122,462)

There were 10 securities (2019 – 31 securities) in a gross unrealized loss position as of December 31, 2020.

The unrealized loss on the Company's investments is the result of changes in general market conditions rather than credit concerns related to these specific securities. It is believed that the issuer of these securities will continue to meet the contractual obligations to the Company, including full repayment of principal as contractually obligated. The Company does not consider these investments to be other-than-temporarily impaired at December 31, 2020, because the Company does not intend to sell these securities and it is not more likely than not that the Company will be required to sell securities before the anticipated recovery of the remaining amortized cost basis.

(Expressed in United States dollars)

4. Investments Held in Trust (continued)

The amortized cost and fair value of fixed income securities at December 31, 2020 and December 31, 2019, by contractual maturity, are detailed below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties:

	2020	
	Amortized Cost	**Fair Value**
In one year or less	**$ 1,000,000**	**$ 1,020,190**
After one year through five years	**81,893,338**	**86,518,620**
After five years through ten years	**95,756,772**	**104,959,896**
After ten years	**624,324,441**	**778,511,032**
Mortgage backed securities	**60,794,843**	**63,671,697**
Total	**$ 863,769,394**	**$ 1,034,681,435**

	2019	
	Amortized Cost	Fair Value
In one year or less	$ 11,528,126	$ 11,543,895
After one year through five years	68,743,843	70,210,769
After five years through ten years	110,510,866	115,949,952
After ten years	676,871,361	762,617,512
Mortgage backed securities	77,061,950	79,372,200
Total	$ 944,716,146	$ 1,039,694,328

(Expressed in United States dollars)

4. Investments Held in Trust (continued)

The fair value of mortgage backed securities and Corporate and Other 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. 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

The following tables summarize the Company's assets held in Trusts that are measured at fair value as of December 31, 2020 and December 31, 2019:

	Level 1	**Level 2**	**Level 3**	**Total**
2020				
Corporate bonds	**$ -**	**$ 696,837,107**	**$ 98,406**	**$ 696,935,513**
Municipal taxable bonds	**-**	**139,162,985**	**-**	**139,162,985**
U.S. government bonds	**93,843,843**	**-**	**-**	**93,843,843**
Foreign government bonds	**-**	**33,251,869**	**-**	**33,251,869**
Surplus notes	**-**	**7,283,255**	**532,273**	**7,815,528**
Mortgage backed securities	**-**	**53,304,738**	**10,366,959**	**63,671,697**
	$ 93,843,843	**$ 929,839,954**	**$10,997,638**	**$1,034,681,435**

	Level 1	Level 2	Level 3	Total
2019				
Corporate bonds	$ -	$ 601,739,981	$ 134,582	$ 601,874,563
Municipal taxable bonds	-	199,320,216	-	199,320,216
U.S. government bonds	121,054,722	-	-	121,054,722
Foreign government bonds	-	31,011,575	-	31,011,575
Surplus notes	-	6,497,853	563,199	7,061,052
Mortgage backed securities	-	69,022,533	10,349,667	79,372,200
	$ 121,054,722	$ 907,592,158	$11,047,448	$1,039,694,328

(Expressed in United States dollars)

4. Investments Held in Trust (continued)

Changes in Level 3 Recurring Fair Value Measurements

The following table summarize the fair values of assets on a recurring basis classified as Level 3 within the fair value hierarchy:

	2020	2019
Beginning balance	**$ 11,047,448**	$ -
Tranfer from Level 2 to Level 3	**-**	5,139,728
Total gains or losses (realized/unrealized)	**56,716**	844,476
Purchases	**-**	6,480,304
Sales	**(106,526)**	(1,417,060)
Ending Balance at December 31	**$ 10,997,638**	$ 11,047,448

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

The following tables provide information about significant unobservable inputs used for recurring fair value measurments for certain material level 3 investments as of December 31, 2020 and December 31, 2019 and include only those investments for which information about inputs is reasonably available to the Company.

	Fair Value	**Valuation**	**Unobservable**
2020			
Corporate bonds	$ 98,406	Broker price	Price
Surplus notes	532,273	Broker price	Price
Mortgage backed securities	10,366,959	Broker Price	Price
	$ 10,997,638		

(Expressed in United States dollars)

4. Investments Held in Trust (continued)

	Fair Value	Valuation Technique	Unobservable Input
2019			
Corporate bonds	$ 134,582	Broker price	Price
Surplus notes	563,199	Broker price	Price
Mortgage backed securities	10,349,667	Broker Price	Price
	$ 11,047,448		

5. Funds Held Investments

The Company has entered into a Guaranteed Investment Rate (GIR) Agreement with LMIC. The GIR investments are unsecured, due upon demand and have an effective interest rate of 2.82% (2019 – 3.17%). Interest earned on these Funds Held investments amounted to $3,268,882 and $3,575,786 in 2020 and 2019, respectively. Accrued interest of $3,268,882 (2019 – $3,575,786) is included in Funds Held investments.

6. Funds Withheld by LMIC

Under the Worker's Compensation/General Liability/Auto Liability/Auto Physical Damage novation, the Company has funds withheld by LMIC. These funds are withheld to secure payment of loss and loss expenses. The funds earn interest computed using a monthly rate varying from 0.21% to 0.42731% equivalent to an effective annual yield of 2.52%-5.25%. There has been no change to the rates in 2020 as the policy has not been renewed since January 1, 2018. Included in investment income is $4,311,377 (2019 - $4,307,982) of interest earned and accrued on these balances.

7. Other Related-Party Transactions

The Company receives various administrative and professional services from related parties. Management fee expenses incurred from a related party were $782,800 and $957,120 for 2020 and 2019, respectively. Investment management fees incurred from a related party were $2,054,498 and $1,770,155 for 2020 and 2019, respectively. Actuarial fees incurred from a related party were $667,235 and $447,235 for 2020 and 2019, respectively. Investment management fees payable of $180,377 (2019 – $155,564) and actuarial fees payable of $667,235 (2019 – $447,235) due to related parties are included in accounts payable and accrued expenses.

(Expressed in United States dollars)

7. Other Related-Party Transactions (continued)

The Company settles its tax obligations through an intercompany account with LMIC. At December 31, 2020, the Company had an intercompany payable balance of $303,469 (2019 – $394,107), mainly relating to tax paid by LMIC on behalf of the Company.

8. Reinsurance

The Company retrocedes a portion of the insurance risks related to GMDB and GMIB to a reinsurer. The Company also reinsures a portion of the insurance risks related to the COLI policies to a reinsurer. Reinsurance does not discharge or diminish the primary liability of the Company to insureds on risks reinsured. The Company evaluates the financial condition of its reinsurers and believes that the amounts due from such reinsurers are fully recoverable.

Reinsurance premiums ceded for long-term business are $10,273,005 (2019 – $9,661,219) for the year ended December 31, 2020.

At December 31, 2020, retrocession recoverables on future policy benefits of $39,158,669 (2019 – $34,391,496) were recorded.

At December 31, 2020, retrocession recoverables on other policyholder funds and benefits payable of $1,537,248 (2019 – $887,492) were recorded.

At December 31, 2020, the Company is a beneficiary of a letter of credit from its reinsurer for the value of $39,838,000 (2019 – $39,556,000).

9. Share Capital

	2020	**2019**
Authorized common shares @ $1.00	**$ 84,608,500**	$ 84,608,500
Issued common shares @ $1.00	**$ 79,608,500**	$ 79,608,500

(Expressed in United States dollars)

10. Income Taxes

Bermuda

Bermuda does not impose any form of taxation on receipts, dividends, capital gains, gifts or net income. In the event that such taxes are levied, the Company has received an assurance from the Bermuda government to be exempted from all such taxes until March 31, 2035.

United States

The Company 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. The Company is included in a U.S consolidated federal income tax return with Liberty Mutual Holding Company, Inc. and Subsidiaries. As part of the consolidated group, the Company is subject to the Liberty Mutual Group tax sharing agreement whereby the Company is allocated its share of the consolidated tax liability based upon the tax it would have owed had it filed separately. Tax benefits are allocated to each company for its portion of net operating losses and tax credit carry forwards in the year they are used by the consolidated group. Intercompany tax balances are settled quarterly.

The components of the provision for U.S. Federal income taxes for the years ended December 31, 2020 and 2019, are as follows:

	2020	2019
Current tax expense:		
U.S. Federal	**$ 5,970,395**	$ 5,186,954
Total current tax expense	**5,970,395**	5,186,954
Deferred tax expense:		
U.S. Federal	**6,863,209**	1,028,688
Total deferred tax expense	**6,863,209**	1,028,688
Total U.S. Federal income tax expense	**$ 12,833,604**	$ 6,215,642

(Expressed in United States dollars)

10. Income Taxes (continued)

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

	2020	2019
Expected U.S. Federal income tax expense	**$ 12,832,932**	$ 6,138,878
Tax effect of:		
Non-taxable investment income	**-**	(15)
Revision to estimates	**672**	76,779
Actual income tax expense	**$ 12,833,604**	$ 6,215,642

The significant components of the deferred income tax assets and liabilities at December 31, 2020 and 2019 are summarized as follows:

	2020	2019
Deferred tax assets:		
Unpaid claims discount	**$ 538,063**	$ 570,724
Investments	**12,691**	176,725
Alternative minimum tax credit	**-**	62,163
Policy reserves	**3,138,144**	2,284,418
Unearned premium reserves	**92,871**	32,879
Policy acquisition costs	**7,642,332**	9,655,332
Total deferred tax assets	**11,424,101**	12,782,241
Deferred tax liabilities:		
Deferred intercompany transactions	**5,563,863**	58,796
Unrealized gains on investments	**35,891,528**	19,945,415
Total deferred tax liabilities	**41,455,391**	20,004,211
Net deferred tax liabilities	**$ (30,031,290)**	$ (7,221,970)

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 as necessary.

(Expressed in United States dollars)

10. Income Taxes (continued)

As of December 31, 2020, the Company has no remaining tax attributes.

The Company 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.

The Company does not expect any material changes to unrecognized tax benefits within 12 months of the reporting date.

The statute of limitations has expired through the 2016 tax year. Any adjustments that may result from the examinations of open tax years are not expected to have a material impact on the financial position, liquidity, or results of operations of the Company.

11. Loss and Loss Expenses Reserve

The activity in the reserve for loss and loss expenses for the years ended December 31, 2020 and 2019 are summarized below:

	2020	2019
Balance, beginning of year	**$ 32,807,800**	$ 37,485,837
Incurred attributable to:		
Current year	**6,196,101**	1,761,893
Prior years	**(3,114,463)**	(122,334)
Total incurred	**3,081,638**	1,639,559
Paid attributable to:		
Current year	**-**	-
Prior years	**3,640,506**	6,317,596
Total paid	**3,640,506**	6,317,596
Balance, end of year	**$ 32,248,932**	$ 32,807,800

11. Loss and Loss Expenses Reserve (continued)

In 2020 the increase in current year incurred is related to the punitive damage business which is the only renewing general business in the Company. In 2020 the reserve for loss and loss expenses related to priors years decreased due to the favourable loss experience on the Worker's Compensation, Auto Liability and General liability program.

During the year ended December 31, 2017, the Company adopted Accounting Standards Update 2015-09, disclosures about short-duration contracts, and has included the required disclosures below.

The Company establishes loss reserves, which are estimates of future payments of reported and unreported claims for losses and related expenses, with respect to insured events that have occurred. Reserving is a complex process dealing with uncertainty, requiring the use of informed estimates and judgments. Any changes in estimates or judgments are reflected in the results of operations in the period in which estimates and judgments are changed.

Significant delays may occur in the notification and settlement of claims, and a substantial measure of experience and judgment is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty as of the balance sheet date. The loss and loss expenses reserve is determined on the basis of information currently available. However, it is inherent in the nature of the business written that the ultimate liabilities may vary as a result of subsequent developments.

The following is information about incurred and paid claims development as of December 31, 2020, as well as cumulative claim frequency and the total of incurred but not yet reported liabilities plus expected development on reported claims included within the net incurred amounts. Some of the information provided in the following tables, is required supplementary information under U.S. GAAP. Therefore, it does not form part of the audited financial statements. Claims development information for all periods except the current reporting period and any information derived from it, including average annual percentage payout of claims incurred, is considered supplemental and is identified as such in the tables presented.

(Expressed in United States dollars)

11. Loss and Loss Expenses Reserve (continued)

Auto Liability Deductible Reimbursement policies

	Incurred claims and allocated claim expense, net of reinsurance								As of December 31, 2020	
	---Supplemental and unaudited---								Total of incurred but not reported liabilities plus expected development on reported claims	Cumulative number of reported claims
Accident Year	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**		
2013	$ 1,629,904	$ 1,292,723	$ 1,025,816	$ 923,321	$ 1,011,863	$ 1,011,457	$ 958,837	$ 949,573	$ 10,401	460
2014		1,582,243	1,613,923	1,513,311	1,166,653	1,104,700	1,031,219	1,012,046	32,203	416
2015			1,581,810	1,710,291	1,617,145	1,372,649	1,186,556	1,177,705	12,022	414
2016				1,861,274	1,805,013	2,165,082	2,240,933	2,157,292	251,266	336
2017					1,321,117	2,222,119	2,463,622	2,822,762	522,205	331
							Total	$ 8,119,378		

	Cumulative paid claims and allocated claim adjustment expenses, net of reinsurance							
	---Supplemental and unaudited---							
Accident Year	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
2013	$ 308,375	$ 589,895	$ 673,031	$ 681,979	$ 924,441	$ 940,071	$ 939,171	$ 939,171
2014		195,724	425,822	846,139	979,367	979,802	979,843	979,843
2015			241,394	468,027	909,812	935,490	935,887	946,136
2016				241,827	524,914	1,130,339	1,766,026	1,906,026
2017					172,120	391,051	1,125,088	2,111,964
							Total	$ 6,883,140
							Outstanding liabilities 2013-2017, net of reinsurance	1,236,238
							All outstanding liabilities before 2013, net of reinsurance	11,823
							All year outstanding liabilities, net of reinsurance	$ 1,248,061

Average annual percentage payout of incurred claims by age, net of reinsurance							
---Supplemental and unaudited---							
Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**
17.9%	18.5%	28.4%	11.4%	8.5%	0.8%	-0.1%	0.0%

(Expressed in United States dollars)

11. Loss and Loss Expenses Reserve (continued)

General Liability Deductible Reimbursement policies

Incurred claims and allocated claim expense, net of reinsurance									As of December 31, 2020	
	Supplemental and unaudited									
Accident Year	2013	2014	2015	2016	2017	2018	2019	2020	Total of incurred but not reported liabilities plus expected development on reported claims	Cumulative number of reported claims
2013	$ 391,761	$ 299,852	$ 204,595	$ 131,108	$ 93,674	$ 62,389	$ 46,644	$ 37,797	$ 11,356	28
2014		267,737	229,912	185,906	227,142	207,633	187,227	182,683	13,577	15
2015			264,513	204,657	636,546	1,177,791	962,664	876,878	73,368	12
2016				280,940	242,715	174,667	108,505	63,453	51,139	14
2017					292,753	237,638	167,255	100,187	97,978	5
							Total	$ 1,260,998		

Cumulative paid claims and allocated claim adjustment expenses, net of reinsurance								
	Supplemental and unaudited							
Accident Year	2013	2014	2015	2016	2017	2018	2019	2020
2013	$ 9,866	$ 13,122	$ 13,122	$ 13,122	$ 13,122	$ 26,441	$ 26,441	$ 26,441
2014		1,304	7,201	15,140	110,815	160,456	161,330	169,106
2015			-	1,690	4,570	803,510	803,510	803,510
2016				4,392	11,540	12,314	12,314	12,314
2017					-	2,155	2,209	2,209
							Total	$ 1,013,580
				Outstanding liabilities 2013-2017, net of reinsurance				247,418
				All outstanding liabilities before 2013, net of reinsurance				6,032
				All year outstanding liabilities, net of reinsurance				$ 253,450

Average annual percentage payout of incurred claims by age, net of reinsurance							
Supplemental and unaudited							
Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
6.7%	5.1%	1.2%	35.9%	9.1%	17.9%	0.0%	0.0%

(Expressed in United States dollars)

11. Loss and Loss Expenses Reserve (continued)

Workers' Compensation Deductible Reimbursement policies and Loss Portfolio transfer

	Incurred claims and allocated claim expense, net of reinsurance								As at December 31, 2020	
	Supplemental and unaudited									
Accident Year	2013	2014	2015	2016	2017	2018	2019	2020	Total of incurred but not reported liabilities plus expected development on reported claims	Cumulative number of reported claims
2013	$ 10,607,177	$ 9,411,706	$ 8,612,888	$ 8,312,216	$ 8,136,007	$ 7,917,501	$ 7,767,548	$ 7,188,892	$ 714,021	1,146
2014		9,949,065	9,108,938	8,619,718	8,504,777	9,149,698	8,936,411	8,970,922	211,598	1,124
2015			9,686,849	7,131,595	6,454,456	6,215,996	6,449,732	6,190,218	513,825	958
2016				8,656,603	7,071,163	7,667,733	7,388,632	6,803,627	223,281	825
2017					7,130,985	5,051,557	5,066,235	4,864,889	462,126	683
							Total	$ 34,018,548		

	Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance							
	Supplemental and unaudited							
Accident Year	2013	2014	2015	2016	2017	2018	2019	2020
2013	$ 1,012,484	$ 3,423,164	$ 4,415,562	$ 5,000,022	$ 5,799,480	$ 5,996,713	$ 6,119,103	$ 6,179,258
2014		1,414,498	3,537,356	4,747,609	5,662,148	6,395,883	6,424,552	6,841,446
2015			1,046,484	2,858,198	3,575,558	4,058,481	4,731,987	5,030,403
2016				1,345,877	2,692,756	4,007,966	4,524,407	4,877,867
2017					875,908	2,308,730	2,957,862	3,263,320
							Total	$ 26,192,294
				Outstanding liabilities 2013-2017, net of reinsurance				7,826,254
				All outstanding liabilities before 2013, net of reinsurance				11,950,668
				All year outstanding liabilities, net of reinsurance				$ 19,776,922

Average annual percentage payout of incurred claims by age, net of reinsurance							
Supplemental and unaudited							
Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
16.9%	27.1%	14.3%	8.4%	10.1%	1.5%	1.7%	0.8%

(Expressed in United States dollars)

11. Loss and Loss Expenses Reserve (continued)

The reconciliation of the net incurred and paid claims disclosure to the liability for claims and claims adjustment expenses in the Statement of Financial Position is as follows:

		2020
Net outstanding liabilities for unpaid claims		
Auto Liability Deductible Reimbursement policies	$	**1,248,061**
General Liability Deductible Reimbursement policies		**253,450**
Workers' Compensation Deductible Reimbursement policies and Loss Portfolio transfer		**19,776,922**
Other short-duration insurance lines		**10,970,499**
Liabilities for unpaid claims and claims adjustment expenses, net of reinsurance		**32,248,932**
Total reinsurance recoverable on unpaid claims		**-**
Total gross liability for unpaid claims and claims adjustment expenses	**$**	**32,248,932**

Included in the Other short-duration insurance lines is Punitive Damage. There is no real accident year view associated with the Punitive Damage program, rather one bulk reserve for all claims in all years.

12. Future Policy Benefits and Retrocession Recoverable

In 1998 and 1999, the Company entered into three reinsurance contracts with unrelated companies to reinsure underlying variable annuity contracts for GMDB and GMIB.

Policyholders pay single premiums into variable annuity contracts for the purpose of saving for their retirement. Investment funds accumulate according to the return achieved on the assets in which the policyholder chooses to invest. Regular and well-defined charges are deducted from the account value of each policyholder to cover the expenses of the direct insurer. In addition, certain rider benefits are available to the policyholder, in the form of GMDB and GMIB. These rider benefits are reinsured and ultimately retroceded to the Company.

For guarantees of amounts in the event of death, the net amount at risk is defined as the current GMDB in excess of the current account value at the balance sheet date.

(Expressed in United States dollars)

12. Future Policy Benefits and Retrocession Recoverable (continued)

The GMIB amount at risk is defined as the income benefit base multiplied by the ratio of the market annuity value to the guaranteed annuity value at the current 7-year US Treasury yield less the account value for all policies with an income benefit rider.

At December 31, 2020 and 2019, the Company had the following variable contract values with guarantees. The Company's variable contracts with guarantees may offer more than one type of guarantee in each contract; however, only the GMDB are subject to the provisions primarily codified by ASC 944*, Financial Services—Insurance*.

		2020		2019
Account value				
GMDB	**$**	**237,000,000**	$	240,000,000
GMIB		**222,000,000**		225,000,000
Net amount at risk				
GMDB	**$**	**80,000,000**	$	94,000,000
GMIB		**132,000,000**		156,000,000
Losses paid during the year	**$**	**8,286,687**	$	11,193,444
Weighted average attained age of contract holder		**71**		71

ASC 815*, Derivatives and Hedging,* requires companies to recognize embedded derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value.

Fair value focuses on the price that would be received to sell the asset or paid to transfer the liability (an exit price), not the price that would be paid to acquire the asset or received to assume the liability (an entry price). Fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets and the lowest priority being unobservable data. While some inputs are observable in the market such as risk free rates, volatility and historical equity returns, the underlying policyholder behavior inputs are highly unobservable. These assumptions include mortality, lapse, and the underlying take-up rate with regard to annuitization.

(Expressed in United States dollars)

12. Future Policy Benefits and Retrocession Recoverable (continued)

Assets and liabilities measured at fair value on a recurring basis at December 31, 2020:

		Fair Value Measurements at Reporting Date Using		
	Totals	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Description				
Investments Held in Trust *(Note 4)*	**$1,034,681,435**	**$ 93,843,843**	**$ 929,839,954**	**$ 10,997,638**
Retrocession recoverable*	**28,194,000**	**–**	**–**	**28,194,000**
Future policy benefits*	**(121,631,000)**	**–**	**–**	**(121,631,000)**
Total	**$ 941,244,435**	**$ 93,843,843**	**$ 929,839,954**	**$ (82,439,362)**

*These reserves relate only to GMIB policies, which are calculated on a fair value basis.

Assets and liabilities measured at fair value on a recurring basis at December 31, 2019:

		Fair Value Measurements at Reporting Date Using		
	Totals	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Description				
Investments Held in Trust (Note 4)	$1,039,694,328	$121,054,722	$907,592,158	$11,047,448
Retrocession recoverable*	22,647,000	–	–	22,647,000
Future policy benefits*	(120,185,000)	–	–	(120,185,000)
Total	$ 942,156,328	$121,054,722	$907,592,158	$(86,490,552)

*These reserves relate only to GMIB policies, which are calculated on a fair value basis.

(Expressed in United States dollars)

12. Future Policy Benefits and Retrocession Recoverable (continued)

Retrocession recoverable measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
	2020	2019
Beginning balance at January 1	**$ 22,647,000**	$ 21,701,000
Total gains or losses (realized/unrealized) included in earnings (or changes in net assets)	**8,267,000**	3,894,000
Purchase, issuance and settlements	**(2,720,000)**	(2,948,000)
Ending balance at December 31	**$ 28,194,000**	$22,647,000
The amount of total gains or losses for the period included in earnings (or changes in net assets) attributable to the change in unrealized gains or losses relating to assets still held at the reporting date.	**$ 8,267,000**	$ 3,894,000

(Expressed in United States dollars)

12. Future Policy Benefits and Retrocession Recoverable (continued)

Future policy benefits measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
	2020	**2019**
Beginning balance at January 1	**$ 120,185,000**	$ 120,497,000
Total gains or losses (realized/unrealized) included in earnings (or changes in net assets)	**12,778,000**	10,656,000
Purchase, issuance and settlements	**(11,332,000)**	(10,968,000)
Ending balance at December 31	**$ 121,631,000**	$ 120,185,000
The amount of total gains or losses for the period included in earnings (or changes in net assets) attributable to the change in unrealized gains or losses relating to assets still held at the reporting date.	**$ 12,778,000**	$ 10,656,000

The fair value adjustment relating to the future policy benefits and retrocession recoverable are included under these respective headings. These embedded derivatives reflect contractual features that the contract holder can elect at their discretion such as the guaranteed income benefits provided within the variable annuity business.

These embedded derivatives are reported on the balance sheet with the associated host instrument at fair value with changes in fair values reported in earnings. The benefit is defined as the present value of the minimum guaranteed annuity payments available to the contract holder determined in accordance with the terms of the contract in excess of the current account value.

The GMIB policies are contract features that are not clearly and closely related to the economic characteristics and risks of the host variable insurance contracts and therefore meet the definition of an embedded derivative as defined in ASC 815.

(Expressed in United States dollars)

12. Future Policy Benefits and Retrocession Recoverable (continued)

The Company's accounting policy on derivatives is that all changes in value of its embedded derivative are recognized through a separate line item of realized gain or loss on embedded derivatives in the Statement of Operations and Comprehensive Income. At December 31, 2020 and 2019, the realized gain on embedded derivatives was $4,101,674 and 1,257,038 respectively.

Quantitative Information about Level 3 Fair Value Measurements

The following table provides information about the significant unobservable inputs used for recurring fair value measurements for certain material Level 3 liabilities and includes only those instruments for which information about the inputs is reasonably available to the Company. As the input information with respect to certain Level 3 instruments may not be reasonably available to the Company, balances shown below may not equal total amounts reported for such Level 3 assets and liabilities.

	Fair Value at December 31, 2020	**Valuation Technique**	**Unobservable Input**	**Range (Weighted Average)**
Retrocessional Recoverable	$ 28,194,000	Discounted Cash Flow	Lapse rates (i)	1.3% -6.3%
			Annuitization take-up rate (ii)	0.0% -11.6%
			Discount rate (iii)	0.4% - 6.5%
Future Policy Benefits	$ 121,631,000	Discounted Cash Flow	Lapse rates (i)	1.3% -13.5%
			Annuitization take-up rate (ii)	0.0% -25.9%
			Discount rate (iii)	0.4% - 6.5%

(Expressed in United States dollars)

12. Future Policy Benefits and Retrocession Recoverable (continued)

	Fair Value at December 31, 2019	Valuation Technique	Unobservable Input	Range (Weighted Average)
Retrocessional Recoverable	$ 22,647,000	Discounted Cash Flow	Lapse rates (i)	1.3% -6.3%
			Annuitization take-up rate (ii)	0.0% -11.6%
			Discount rate (iii)	0.2% - 6.5%
Future Policy Benefits	$ 120,185,000	Discounted Cash Flow	Lapse rates (i)	1.3% -13.8%
			Annuitization take-up rate (ii)	0.0% -28.8%
			Discount rate (iii)	0.2% - 6.5%

(i) An increase in the lapse rates will lead to a decrease in fair value and vice versa.

(ii) An increase in the take-up rate will lead to an increase in fair value and vice versa.

(iii) An increase in the discount rate will lead to a decrease in the fair value and vice versa.

In 2020, the Company recorded a pre-tax loss of $1.4 million (2019 – pre-tax profit of $0.3 million) on future policy benefits reserve and a pre-tax profit of $5.5 million (2019 – pre-tax profit of $0.9 million) on retrocession recoverable, resulting in a net profit recorded of $4.1 million (2019 – net profit of $1.3 million) reflecting the changes in fair value due primarily to offsetting economic conditions (rising equity returns offset by falling interest rates), the run-off of policies under the closed block and assumptions updated from historical experience

13. Concentration of Credit Risks

The Company is a party to financial instruments with concentrations of credit risk. These financial instruments include cash and cash equivalents, investments held in trust, funds withheld by LMIC, funds held investments and retrocession recoverable. As of December 31, 2020, cash and cash equivalents are spread across three financial institutions reducing the Company's credit risk exposure. The Company does not consider the restricted cash (see Note 3), included in cash and cash equivalents and held by a Custodian in Trust, as a credit risk exposure because these funds are held in a segregated account.

(Expressed in United States dollars)

13. Concentration of Credit Risks (continued)

Substantially all retrocession recoverable is due from one reinsurance company. The Company holds collateral, in the form of an incoming letter of credit, to support the retrocession recoverable.

The remainder of the retrocession recoverable is due from a different reinsurance company which has a financial strength rating of AA – from Standard & Poor's.

14. Other Comprehensive Income

	2020	2019
Change in unrealized holding income on available-for-sale securities arising during the year	**$ 75,933,859**	$ 106,552,226
Deferred Tax	**(15,946,113)**	(22,341,603)
Change in unrealized holding income on available-for-sale securities arising during the year (net of tax)	**$ 59,987,746**	$ 84,210,623

15. Net Investment Income

Net investment income at December 31, 2020 and 2019, includes:

	2020	2019
Interest income on funds held in Trust and Bank	**$ 38,061,386**	$ 36,841,881
Investment management fees	**(2,054,498)**	(1,770,155)
Gain on sale of investments	**36,973,962**	7,886,162
Interest income on Guaranteed Interest Rate investment	**3,268,882**	3,575,786
Interest income on funds withheld	**4,311,377**	4,307,982
Total net investment income	**$ 80,561,109**	$ 50,841,656

(Expressed in United States dollars)

16. Statutory Requirements

Under the Bermuda Insurance Act 1978, as amended, and related regulations, the Company is subject to capital requirements calculated using the Bermuda Solvency and Capital Requirement ("BSCR") model, which is a standardized statutory risk-based capital model used to measure the risk associated with the Company's assets, liabilities and premiums. The Company's required statutory capital and surplus under the BSCR model is referred to as the enhanced capital requirement ("ECR").

The Company is required to calculate and submit the ECR to the Bermuda Monetary Authority ("BMA"), annually. Following receipt of the submission of the Company's ECR the BMA has the authority to impose additional capital requirements (capital add-ons) if it deems necessary.

If a Company fails to maintain or meet its ECR, the BMA may take various degrees of regulatory action. In 2016, the BMA implemented the economic balance sheet ("EBS") framework, which is now used as the basis to determine the Company's ECR. Under the new framework, assets and liabilities are mainly assessed and included on the EBS at fair value, with the insurer's U.S. GAAP balance sheet serving as a starting point. The model also requires insurers to estimate insurance technical provisions, which consist of the insurer's insurance related balances valued based on best-estimate cash flows, adjusted to reflect the time value of money using a risk-free discount rate, with the addition of a risk margin to reflect the uncertainty in the underlying cash flows.

As of December 31, 2020 and December 31, 2019 , the principal difference between statutory capital and surplus and shareholders' equity presented in accordance with GAAP is that prepaid expenses is a non-admitted assets for statutory purposes.

The Company is also required under their Class 3A license to maintain minimum liquidity ratios whereby the value of their relevant assets are not less than 75% of the amount of their relevant liabilities for general business. As of December 31, 2020 and 2019, the Company met its minimum liquidity ratio requirements.

The following is a summary of actual statutory capital and surplus of the Company as of December 31, 2020 and 2019:

	2020	**2019**
Actual statutory capital and surplus	**$ 513,463,519**	$ 455,200,180

17. Subsequent Events

The Company has completed its subsequent events evaluation for the period subsequent to the balance sheet date of December 31, 2020, through to March 17, 2021, the date the financial statements were available for issue.

During this period, there were no subsequent events requiring disclosure or recognition in the audited financial statements.