EVEREN LIMITED

Consolidated Financial Statements
(With Independent Auditor's Report Thereon)

Years Ended December 31, 2022 and 2021

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of Everen Limited

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Everen Limited and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

Basis for opinion

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

Responsibilities of management for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional scepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Required supplementary information

U.S. generally accepted accounting principles require that certain disclosures related to short-duration contracts in Note 5 be presented to supplement the basic consolidated financial statements. Such information is the responsibility of management and, although not a part of the basic consolidated financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic consolidated 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 of America, 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 basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated 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.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
February 24, 2022

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EVEREN LIMITED

Consolidated Balance Sheets

December 31, 2022 and 2021
(Expressed in Thousands of United States Dollars)

		2022		2021
Assets				
Cash and cash equivalents (Note 2(k))	$	555,616	$	435,829
Investments in marketable securities and derivative assets, net (Notes 2(f), 2(g), 3 and 4)		4,185,382		4,946,736
Other investments (Notes 2(f) and 3)		690,653		775,491
Investment sales pending settlement		107,753		156,413
Accrued investment income		16,982		14,424
Amounts due from affiliates (Note 7(b))		4,039		6,553
Retrospective premiums receivable (Note 2(c))		39,462		120,732
Accounts receivable (Note 2(b))		3		2
Other assets (Note 2(l))		5,728		2,644
Total assets	$	5,605,618	$	6,458,824
Liabilities				
Outstanding losses and loss expenses (Note 5)	$	2,096,717	$	1,843,509
Premiums received in advance		–		732
Securities sold short (Notes 2(j), 3 and 4)		168,040		213,132
Investment purchases pending settlement		161,900		132,305
Derivative liabilities, net (Notes 2(g), 3 and 4)		33,748		–
Amounts due to affiliates (Note 7(b))		–		21
Accounts payable (Note 2(l))		29,505		26,714
Total liabilities		2,489,910		2,216,413
Shareholders’ equity				
Common shares (Note 6)		650		640
Retained earnings		3,115,058		4,241,771
Total shareholders’ equity		3,115,708		4,242,411
Total liabilities and shareholders’ equity	$	5,605,618	$	6,458,824

See accompanying notes to consolidated financial statements

EVEREN LIMITED

Consolidated Statements of Operations

Years Ended December 31, 2022 and 2021
(Expressed in Thousands of United States Dollars)

	2022	2021
Premiums written (Note 2(b))	$ 522,698	$ 530,678
Retrospective premiums (Note 2(c))	(59,353)	69,335
Premiums written and earned	463,345	600,013
Discount earned on retrospective premiums receivable (Note 2(c))	876	87
Losses and loss expenses incurred (Note 5)	(692,631)	(331,241)
Acquisition costs	(809)	(2,874)
Net underwriting (loss) income	(229,219)	265,985
Interest income	66,078	62,262
Net (losses) gains on investments (Note 3)	(578,779)	359,973
Dividend income	23,884	23,964
Investment advisory and custodian fees	(35,980)	(24,957)
Net investment (loss) income	(524,797)	421,242
General and administrative expenses (Note 7(a))	(22,697)	(19,774)
Net (loss) income	$ (776,713)	$ 667,453

See accompanying notes to consolidated financial statements

EVEREN LIMITED

Consolidated Statements of Changes in Shareholders' Equity

Years Ended December 31, 2022 and 2021
(Expressed in Thousands of United States Dollars)

	Common shares		Retained	
	Number of shares		earnings	Total
Balance at December 31, 2020	62	$ 620	$ 3,954,318	$ 3,954,938
Shares issued in year	4	40	–	40
Shares redeemed in year (Note 6)	(2)	(20)	–	(20)
Net income	–	–	667,453	667,453
Dividend on common shares (Note 6)	–	–	(380,000)	(380,000)
Balance at December 31, 2021	64	$ 640	$ 4,241,771	$ 4,242,411
Shares issued in year	2	20	–	20
Shares redeemed in year (Note 6)	(1)	(10)	–	(10)
Net loss	–	–	(776,713)	(776,713)
Dividend on common shares (Note 6)	–	–	(350,000)	(350,000)
Balance at December 31, 2022	65	$ 650	$ 3,115,058	$ 3,115,708

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows

Years Ended December 31, 2022 and 2021
(Expressed in Thousands of United States Dollars)

	2022	2021
Cash flows from operating activities		
Net (loss) income	$ (776,713)	$ 667,453
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Net losses (gains) on investments	578,779	(359,973)
Proceeds from the sale of investments	4,583,146	5,975,059
Purchase of investments	(4,244,165)	(5,657,798)
Proceeds from the sale of securities sold short	647,773	597,657
Purchase of securities sold short	(652,430)	(643,946)
Changes in operating assets and liabilities:		
Accrued investment income	(2,558)	2,674
Amounts due from affiliates	2,514	(2,786)
Retrospective premiums receivable	81,270	(54,139)
Accounts receivable	(1)	2,012
Deferred acquisition costs	–	494
Other assets	(3,084)	43
Outstanding losses and loss expenses	253,208	(181,224)
Retrospective premiums payable	–	(527)
Premiums received in advance	(732)	(2,094)
Amounts due to affiliates	(21)	21
Accounts payable	2,791	208
Net cash provided by operating activities	469,777	343,134
Cash flows from financing activities		
Issuance of common shares, net	10	20
Dividends paid on common shares	(350,000)	(380,000)
Net cash used by financing activities	(349,990)	(379,980)
Net increase (decrease) in cash and cash equivalents	119,787	(36,846)
Cash and cash equivalents at beginning of year	435,829	472,675
Cash and cash equivalents at end of year	$ 555,616	$ 435,829

See accompanying notes to consolidated financial statements

1. Nature of the business

Everen Limited (the "Company") was incorporated under the laws of Bermuda on December 14, 1971 and carries on business as an insurance and reinsurance company insuring specific property, pollution liability, control of well and other similar risks of its members, of which there were 65 companies as at December 31, 2022. The Company changed its name from Oil Insurance Limited effective June 28, 2022. The members comprise companies in the energy industry. The Company holds a Class 2 license under The Insurance Act 1978 of Bermuda and related regulations.

During the year ended December 31, 2022, coverage provided to each insured is limited to $450.0 million per occurrence (2021 - $400.0 million) for non-Designated Named Windstorm events. There is no annual aggregate limit for each insured; however, there is an aggregation limit in place for multiple claims arising from a single occurrence of $1.4 billion (2021- $1.2 billion). There is a per occurrence limit of $150.0 million for Designated Named Windstorm ("DNWS") losses and only the DNWS losses up to an aggregate annual retention of $300.0 million are mutualized among all members with any DNWS losses above that amount being mutualized among the DNWS pool members only.

2. Summary of significant accounting policies

The accompanying Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") which require 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 these estimates. The following are the significant accounting policies adopted by the Company:

(a) Principles of consolidation

These Consolidated Financial Statements include the results of the Company and its wholly-owned subsidiaries, Everen Investment Ltd. ("EIL") (formally known as Oil Investment Corporation, Ltd) and Everen Management Services Ltd. ("EMSL") (formally known as Oil Management Services Ltd). EIL was established to hold the Company's investment portfolios and EMSL was established to provide administrative support services to the Company. All intercompany transactions are eliminated on consolidation. Given the nature of EMSL is to recharge expenses incurred to affiliated companies, these expenses and related recharges have been included on a net basis in the Consolidated Statement of Operations.

(b) Premiums and acquisition costs

Premiums are recorded on an accruals basis. All premiums written are earned at the balance sheet date.

Under the terms of the Rating and Premium Plan, all members are charged a withdrawal premium upon their withdrawal from the Company. In 2022, the Company recorded withdrawal premiums totaling $nil (2021 - $nil) which is recorded within accounts receivable in the Consolidated Balance Sheets.

Acquisition costs, consisting primarily of commissions, are charged to income on a pro rata basis over the term of each policy.

2. Summary of significant accounting policies (continued)

(c) Retrospective premiums

Certain of the Company's insurance policies provide for the receipt of retrospective premiums relating to losses incurred by its insureds, with such payments being receivable over a five year period. Retrospective premiums are recognized as premiums written and earned in the Consolidated Statement of Operations in the year in which the loss is incurred and are adjusted periodically in accordance with changes in the estimates of underlying losses. Retrospective premiums receivable and payable are non-interest bearing and, accordingly, are discounted at prevailing interest rates and this discount is accreted over the collection period. For the year ended December 31, 2022 this rate is approximately 4.22% (2021 - 0.97%). Discount accreted on the retrospective premium receivable and payable is recorded in the Consolidated Statement of Operations.

(d) Outstanding losses and loss expenses

The reserve for outstanding losses and loss expenses represents current estimates of reported losses and loss expenses based upon the judgment of the Company's claims personnel and reports received from independent loss adjusters and legal counsel, plus a provision for losses incurred but not reported ("IBNR") based on the recommendations of an independent actuary using the past loss experience of the Company.

Management is of the opinion that the recorded reserves are adequate to cover the ultimate cost of losses incurred to date, but the provisions are necessarily estimates based upon information currently known and may ultimately be settled for a significantly greater or lesser amount. It is at least reasonably possible that management will revise these estimates significantly in the near term. Any subsequent differences are recorded in the period in which they are determined.

The establishment of the provision for outstanding losses and loss adjustment expenses is based upon known facts and interpretation of circumstances and is therefore a complex and dynamic process influenced by a large variety of factors. In establishing a provision for unpaid claims and claims expenses related to environmental exposure and clean-up, management considers facts currently known, the current state of laws and litigation and current estimates of reported losses and loss expenses. Liabilities are recognized for known claims when sufficient information has been developed to indicate the involvement of a specific policy, and management can reasonably estimate the Company's liability. In addition, a provision for adverse development for reported notifications and incurred but not reported claims is recorded based on the recommendations of an independent actuary using the past loss history of the Company and industry data.

(e) Subrogation recoveries

In the normal course of business, the Company pursues recovery of certain losses through subrogation claims. Subrogation proceeds are recorded as a reduction of losses incurred in the year in which agreement of the recovery is determined. Subrogation recoveries for the year ended December 31, 2022, amounted to $8.4 million (2021 - $nil).

2. Summary of significant accounting policies (continued)

(f) Investments in marketable securities, other investments and investment income

Investments are classified as trading and are carried in the Consolidated Balance Sheet at fair value. Realized and unrealized gains and losses are included in the Consolidated Statement of Operations. Security transactions are accounted for on a trade date basis with investment purchases and sales pending settlement accrued in the Consolidated Balance Sheet. Other investments consist of investments in hedge funds and fund of funds and are carried at fair value. The units of account that are valued by the Company are its interest in the funds and not the underlying holdings of such funds. Thus, the inputs used by the Company to value its investments in each of the funds may differ from the inputs used to value the underlying holdings of such funds. These funds are stated at fair value, which ordinarily will be the most recently reported net asset value ("NAV") as reported by their investment managers or third-party administrators. The use of net asset value as an estimate of the fair value for investments in certain entities that calculate the net asset value is a permitted practical expedient. The change in the fair value of hedge fund investments is included in the Consolidated Statement of Operations. As of December 31, 2022, the Company does not have any unfunded commitments related to these investments.

Investment gains and losses are computed using the average costs of securities sold and are recorded in the Consolidated Statement of Operations. Dividend income, net of withholding tax, is recorded when declared. Interest income is accrued to the balance sheet date.

Short term investments comprise securities due to mature within one year of the balance sheet date.

(g) Derivative financial instruments

The Company recognizes all derivatives as either assets or liabilities in the Consolidated Balance Sheet and measures those instruments at fair value. All changes in the fair value of derivatives are recorded in the Consolidated Statement of Operations. None of the derivatives used by the Company are designated as accounting hedges. Derivatives are used by the Company to mitigate certain risks inherent in holding the underlying debt or equity securities, or are designed to provide exposure to certain sectors or markets and to enhance investment returns. The unrealized gains or losses arising from derivative financial instruments are not separately classified as assets or liabilities in the Consolidated Balance Sheet; they are classified with the underlying debt and equity securities they are designed to hedge or enhance (see Notes 3 and 4). Aggregate asset or liability positions are netted on the Consolidated Balance Sheet only to the extent permitted by qualifying master netting arrangements in place with each respective counterparty (see Note 4).

(h) Translation of foreign currency investments and losses

The costs of foreign currency investments are translated at exchange rates in effect on the date of purchase; fair values are translated at year end exchange rates. Reserves for outstanding losses denominated in foreign currencies are translated at exchange rates in effect at the balance sheet date. Realized and unrealized exchange gains and losses are included in the Consolidated Statement of Operations.

(i) Fair value of financial instruments

The following methods and assumptions are used by the Company in estimating the fair value of its financial instruments:

Cash and cash equivalents: The carrying amounts reported in the Consolidated Balance Sheet for these instruments approximate their fair values.

2. Summary of significant accounting policies (continued)

(i) Fair value of financial instruments (continued)

Investments in marketable securities: Fair values of fixed maturity securities, long and short positions in equity securities and short term investments are based on market prices quoted by broker dealers in that market or quoted on the relevant exchange. The Company invests in fixed income and equity funds. When there is no market price available for the funds on a recognized exchange, the Company values the funds using the net asset values obtained from the investment managers or the administrators of the respective investment funds. These investment entities carry their investments at fair value.

Other investments: Hedge fund investments, which are investments in fund of funds and investments in other hedge funds, are valued using the net asset values obtained from the investment managers or administrators of the respective investment funds. These investment entities carry their investments at fair value.

Derivatives: The fair values of these instruments are based on quoted market prices. Where quoted market prices are not available, fair value is based upon prices provided by the counterparty.

Other assets and liabilities: The fair values of investment purchases and sales pending settlement, amounts due from/to affiliates, premiums received in advance and accounts payable approximate their carrying value due to the immediate or short-term maturity of these financial instruments. Retrospective premiums receivable and payable are carried at the discounted present value of future cash flows which approximates their fair value.

The estimates of fair value presented herein are subjective in nature and are not necessarily indicative of the amounts that the Company could realize in a current market exchange. Any differences are not expected to be material. All non-financial instruments such as other assets and financial instruments related to insurance contracts such as outstanding losses and loss expenses are excluded from fair value disclosure. Thus the total fair value amounts cannot be aggregated to determine the underlying economic value of the Company.

(j) Short selling

The Company may sell a security it does not own in anticipation of a decline in the fair value of that security. Securities sold short are recorded as liabilities in the Consolidated Balance Sheet at fair value. The Company must borrow the security or enter into an arrangement to borrow the security before the Company sells a security short. The Company is required to maintain collateral with the broker-dealer from which the security was borrowed. A gain, limited to the price at which the Company sold the security short, or a loss, unlimited in size, will be realized upon the termination of a short sale. The Company is also subject to the risk that it may be unable to reacquire a security to close a short position except at a price substantially in excess of the last quoted price. Realized and unrealized gains and losses arising from short sales are recorded within net (losses) gains on investments in the Consolidated Statement of Operations.

(k) Cash and cash equivalents

For the purposes of the Consolidated Statement of Cash Flows, cash equivalents include time deposits with an original maturity period of ninety days or less.

2. Summary of significant accounting policies (continued)

(l) Recently adopted accounting pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842): Section A- Leases, Section B- Conforming Amendments Related to Leases and Section C- Background Information and Basis for Conclusions (“ASU 2016-02”). ASU 2016-02 intends to improve financial reporting related to leasing transactions. ASU 2016-02 requires entities that lease assets, referred to as “lessees”, to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. The Company adopted ASU 2016-02 effective for the year ended December 31, 2022. Lease assets and liabilities are initially recognized and measured based on the present value of the lease payments. As of December 31, 2022, the Company had $3.4 million of operating lease right-of-use assets included in other assets and $3.4 million of operating lease liabilities included in accounts payable.

3. Investments

The fair values of investments as at December 31, 2022 and 2021 are as follows:

	2022 ($'000)	2021 ($'000)
Short Term Investments	$ 448,590	$ 465,711
Derivative Assets, net	–	3,697
Equity Securities	1,670,953	2,167,639
Fixed Maturities		
US Treasury and Government Agency	415,069	374,429
State and Municipal Bonds	24,720	30,441
Non-US Government Bonds	259,510	458,818
Supranationals	3,675	26,999
Corporate Bonds	888,613	991,034
Asset-Backed Securities	266,224	269,126
Mortgage-Backed Securities	208,028	158,842
Total Fixed Maturities	2,065,839	2,309,689
Total Investments in Marketable Securities and Derivative Assets, net	$ 4,185,382	$ 4,946,736
Other Investments	$ 690,653	$ 775,491

In the table above mortgage-backed securities issued by US government agencies are combined with other mortgage-backed securities held and are included in the category "Mortgage-Backed Securities". At December 31, 2022, approximately 61% (2021 - 36%) of the total mortgage-backed holdings are represented by investments in GNMA, FNMA and FHLMC securities. The remainder of the mortgage exposure consists of collateralized mortgage obligations and non-government issued securities, the majority of which have investment grade credit ratings.

The credit quality of fixed maturities and short term investments as at December 31, 2022 and 2021, are as follows:

	2022 ($'000)	2021 ($'000)
US Government and Agency	$ 606,323	$ 572,684
AAA	360,170	340,067
AA	211,313	278,665
A	550,589	573,654
BBB	635,645	740,836
Below BBB	150,389	269,494
Total Fixed Maturities and Short Term Investments	$ 2,514,429	$ 2,775,400

The Company's methodology for assigning credit ratings to fixed maturities and short term investments, uses the middle rating if there is a split rating between Standard & Poor's, Moody's and/or Fitch; when a rating from only two agencies is available the lower rating is used; when only one agency rates a bond that rating is used. Securities with a credit rating below investment grade as at December 31, 2022, had a net unrealized loss of $31.6 million (2021 - $17.1 million net unrealized gain) at the same date, which has been recorded in the Consolidated Statement of Operations.

3. Investments (continued)

The contractual maturities of fixed maturities and short term investments as at December 31, 2022 and 2021, are as follows:

	2022 ($'000)	2021 ($'000)
Due in one year or less	$ 448,590	$ 465,711
Due after one year through five years	853,210	866,526
Due after five years through ten years	389,499	478,855
Due after ten years	348,878	536,340
	2,040,177	2,347,432
Asset-Backed Securities	266,224	269,126
Mortgage-Backed Securities	208,028	158,842
Total Fixed Maturities and Short Term Investments	$ 2,514,429	$ 2,775,400

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 and the lenders may have the right to put or sell the securities back to the borrower.

The gross realized gains and gross realized losses on investments and the change in unrealized gains and losses for the years ended December 31, 2022 and 2021 are as follows:

	2022 ($'000)	2021 ($'000)
Gross realized gains on investments	$ 544,366	$ 658,015
Gross realized losses on investments	(600,215)	(301,234)
Gross realized gains on derivative instruments	308,786	180,521
Gross realized losses on derivative instruments	(166,778)	(136,895)
Gross realized gains on other investments	1,254	2,231
Gross realized losses on other investments	(14,281)	(3,082)
Change in net unrealized losses during the year on investments	(651,152)	(74,762)
Change in net unrealized gains during the year on other investments	36,686	42,127
Change in net unrealized losses during the year on derivative instruments	(37,445)	(6,948)
Net (losses) gains on investments	$ (578,779)	$ 359,973

During the year ended December 31, 2022, the change in net unrealized gains and losses on investments was attributable to movements in the fair value of the Company's equity securities of a $393.9 million loss (2021 - $79.6 million gain) and fixed maturities and short term investments of a $257.3 million loss (2021 - $154.4 million loss).

3. Investments (continued)

Under U.S. GAAP the Company is required to determine the appropriate level in the fair value hierarchy for each fair value measurement. The fair value hierarchy prioritizes the inputs, which refer broadly to assumptions market participants would use in pricing an asset or liability, into three levels. It gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date. Level 1 financial instruments include certain short duration instruments such as money market funds, short term investments, U.S. treasury securities and exchange traded equities.

Level 2 inputs are those which are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates and similar observable market data. Level 2 financial instruments include sovereign debt, corporate debt, U.S. agency and non-agency mortgage and asset-backed securities and derivatives.

Level 3 includes financial instruments whose value is based on valuation techniques that use significant inputs which are unobservable. These measurements include circumstances in which there is little, if any, market activity for the asset or liability. In making the assessment, the Company considers factors specific to the asset or liability and such an assessment will involve significant management judgment. Because of the inherent uncertainty in the valuation of these Level 3 investments, fair values of such investments may differ from the values that would have been used had a ready market for these investments existed, and the differences could be material.

When the inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. Thus, a Level 3 fair value measurement may include inputs that are observable (Level 1 and 2) and unobservable (Level 3).

Fair value prices for all securities in the fixed maturities portfolio are independently provided by the investment custodian and the investment managers, which each utilize internationally recognized independent pricing services. The Company records the unadjusted price provided by the investment custodian or the investment accounting service provider and validates this price through a process that includes, but is not limited to: (i) comparison to the price provided by the investment manager, with significant differences investigated; (ii) quantitative analysis (e.g. comparing the quarterly return for each managed portfolio to its target benchmark, with significant differences identified and investigated); (iii) evaluation of methodologies used by external pricing sources to calculate fair value; and (iv) comparing the price to the Company's knowledge of the current investment market.

The independent pricing services used by the investment custodian, investment accounting service provider and investment managers obtain actual transaction prices for securities that have quoted prices in active markets. Each pricing service has its own proprietary method for determining the fair value of securities that are not actively traded. In general, these methods involve the use of “matrix pricing” in which the independent pricing service uses observable market inputs including, but not limited to, reported trades, benchmark yields, broker/dealer quotes, interest rates, prepayment speeds, default rates and such other inputs as are available from market sources to determine a reasonable fair value. In addition, pricing services use valuation models to develop prepayment and interest rate scenarios.

The fair values of short-term investments are determined based on observable inputs that may include the spread above the risk-free yield curve, reported trades and broker-dealer quotes.

3. Investments (continued)

For all assets classified as Level 2, the market approach is utilized. The significant inputs used to determine the fair value of those assets classified as Level 2 are as follows:

- US government agency securities fair values were based on observable inputs that may include the spread above the risk-free yield curve, reported trades and broker/dealer quotes. These are considered observable market inputs and, therefore, the fair value of these securities are classified within Level 2.

- Non-U.S. government securities consist of bonds issued by non-U.S. governments and agencies along with supranational organizations. The significant inputs include the spread above the risk-free yield curve, reported trades and broker/ dealer quotes. These are considered to be observable market inputs and, therefore, the fair values of these securities are classified within Level 2.

- Corporate securities consist primarily of investment-grade debt of a wide variety of corporate issuers and industries. The fair values of these securities are determined using the spread above the risk-free yield curve, reported trades, broker/ dealer quotes, benchmark yields, industry and market indicators. These are considered observable market inputs and, therefore, the fair value of these securities are classified within Level 2.

- Municipal securities consist primarily of bonds issued by U.S. domiciled state and municipality entities. The fair values of these securities are determined using the spread above the risk-free yield curve, reported trades, broker/ dealer quotes and benchmark yields. These are considered observable market inputs and, therefore, the fair value of these securities are classified within Level 2.

- Asset-backed securities consist primarily of investment-grade bonds backed by pools of loans with a variety of underlying collateral. The significant inputs used to determine the fair value of these securities include the spread above the risk-free yield curve, reported trades, benchmark yields, broker/dealer quotes, prepayment speeds, and default rates. These are considered observable market inputs and, therefore, the fair value of these securities are classified within Level 2.

- Residential and commercial mortgage-backed securities include both agency and non-agency originated securities. Agency originated securities include securities issued by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and other U.S. government agencies. The significant inputs used to determine the fair value of these securities include the spread above the risk-free yield curve, reported trades, benchmark yields, broker/dealer quotes, prepayment speeds, and default rates. These are considered observable market inputs and, therefore, the fair value of these securities are classified within Level 2.

The ability to obtain quoted market prices is reduced in periods of decreasing liquidity, which generally increases the use of matrix pricing methods and generally increases the uncertainty surrounding the fair value estimates. This could result in the reclassification of a security between levels of the fair value hierarchy.

The Company invests in hedge “fund of funds” which invest in a number of underlying funds, following different investment strategies. As of December 31, 2022, the “fund of funds” portfolio was invested in a variety of strategies, with the common strategies being long / short equity, global macro, event driven, multistrategy and co-investments. One fund of funds in which the Company is invested has daily liquidity. The other fund of funds in which the Company is invested requires at least 65-95 days’ notice of redemption, and may be redeemed on a monthly or semi-annual basis, depending on the fund of fund. Certain fund of funds have a lock-up period. A lock-up period refers to the initial amount of time an investor is contractually required to invest before having the ability to redeem.

3. Investments (continued)

Certain fund of funds may be allowed to invest a portion of their assets in illiquid securities, such as private equity or convertible debt. In such cases, a common mechanism used is a side-pocket, whereby the illiquid security is assigned to a separate memorandum capital account or designated account. Typically, the investor loses its redemption rights in the designated account. Only when the illiquid security is sold, or otherwise deemed liquid by the fund of funds, may investors redeem their interest in the side-pocket. As of December 31, 2022, the fair value of hedge funds held in lock ups or side-pockets was $64.8 million (2021 - $67.1 million).

The Company has ongoing due diligence processes with respect to funds in which it invests and their managers. These processes are designed to assist the Company in assessing the quality of information provided by, or on behalf of, each fund and in determining whether such information continues to be reliable or whether further review is warranted. Certain funds do not provide full transparency of their underlying holdings; however, the Company obtains the audited financial statements for the fund of funds annually, and regularly reviews and discusses the fund performance with the fund managers to corroborate the reasonableness of the reported net asset values. While reported net asset value is the primary input to the review, when the net asset value is deemed not to be indicative of fair value, the Company may incorporate adjustments to the reported net asset value and not use the permitted practical expedient on an investment by investment basis. These adjustments may involve significant management judgment. The Company has not made any such adjustments for the year ended December 31, 2022 or 2021. Hedge fund investments measured at net asset value are not required to be disclosed within the fair value hierarchy.

Derivative financial instruments that have quoted prices on a recognized exchange, such as futures and option contracts, are classified as Level 1. Over the counter derivative instruments such as interest rate swaps, foreign exchange forward contracts and credit default swaps, whose prices are based upon reports from counterparties of the transactions or observable market inputs, are classified as Level 2.

A review of fair value hierarchy classifications is conducted on a quarterly basis. Changes in the observability of valuation inputs may result in a reclassification for certain financial assets and liabilities. Reclassifications between Level 1, 2 and 3 of the fair value hierarchy are reported as transfers in and/or out as of the beginning of the quarter in which the reclassifications occur.

3. Investments (continued)

The following tables summarize the levels of inputs used as of December 31, 2022 and 2021, in determining the classification of investment assets and liabilities held at fair value:

December 31, 2022 Assets	Level 1 ($'000)	Level 2 ($'000)	Level 3 ($'000)	NAV [1] ($'000)	Total ($'000)
Short Term Investments	$ 191,254	$ 257,317	$ 19	$ –	$ 448,590
Derivatives Assets, net	–	–	–	–	–
Equity Securities	1,467,969	–	–	202,984	1,670,953
US Treasury and Government Agency	415,069	–	–	–	415,069
State and Municipal Bonds	–	24,720	–	–	24,720
Non-US Government Bonds	–	207,988	–	51,522	259,510
Supranationals	–	3,675	–	–	3,675
Corporate Bonds	–	846,257	–	42,356	888,613
Asset-Backed Securities	–	266,224	–	–	266,224
Mortgage-Backed Securities	–	208,028	–	–	208,028
Total Investments in Marketable Securities and Derivative Assets, net	$ 2,074,292	$ 1,814,209	$ 19	$ 296,862	$ 4,185,382
Other Investments measured at net asset value [1]					$ 690,653

December 31, 2022 Liabilities	Level 1 ($'000)	Level 2 ($'000)	Level 3 ($'000)	NAV [1] ($'000)	Total ($'000)
Equity Securities sold short	$ (168,040)	$ –	$ –	$ –	$ (168,040)
Derivative Liabilities, net	–	(33,748)	–	–	(33,748)

December 31, 2021 Assets	Level 1 ($'000)	Level 2 ($'000)	Level 3 ($'000)	NAV [1] ($'000)	Total ($'000)
Short Term Investments	$ 187,295	$ 278,386	$ 30	$ –	$ 465,711
Derivatives Assets, net		3,697	–	–	3,697
Equity Securities	1,946,053	–	–	221,586	2,167,639
US Treasury and Government Agency	374,429	–	–	–	374,429
State and Municipal Bonds	–	30,441	–	–	30,441
Non-US Government Bonds	–	379,699	–	79,119	458,818
Supranationals	–	26,999	–	–	26,999
Corporate Bonds	–	938,397	–	52,637	991,034
Asset-Backed Securities	–	269,126	–	–	269,126
Mortgage-Backed Securities	–	158,842	–	–	158,842
Total Investments in Marketable Securities and Derivative Assets, net	$ 2,507,777	$ 2,085,587	$ 30	$ 353,342	$ 4,946,736
Other Investments measured at net asset value [1]					$ 775,491

3. Investments (continued)

December 31, 2021 Liabilities	Level 1 ($'000)	Level 2 ($'000)	Level 3 ($'000)	NAV [1] ($'000)	Total ($'000)
Equity Securities sold short	$ (213,132)	$ –	$ –	$ –	$ (213,132)

[1] Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in these tables are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the Consolidated Balance Sheet.

Investments in equity, corporate bond, and non-US government bond funds that are measured at fair value using net asset value per share do not have any selling restrictions or redemption notice periods. As of December 31, 2022 and 2021, the Company does not have any unfunded commitments related to these investments.

The fair value measurements of the Company's Level 3 short term investments were based on unadjusted third party pricing sources. During the years ended December 31, 2022, and 2021, there were no purchases or issues of Level 3 assets or liabilities or transfers in or out of Level 3.

4. Commitments and contingencies

(a) Derivative Instruments

The Company's investment guidelines permit, subject to specific approval, investment in derivative instruments such as futures and option contracts, interest rate swaps and forward foreign currency contracts. Their use is regularly monitored and they are used for yield enhancement, duration management, interest rate and foreign currency exposure management or to obtain an exposure to a particular financial market. The Company's use of derivative instruments with embedded leverage such as futures, swaps and options contracts may increase the Company's investment risk. Credit risk arises from the potential inability of counterparties to perform under the terms of the contract. As at December 31, 2022, cash and cash equivalents in the amount of $244.8 million (2021 - $219.2 million) and US Treasury and Government Agency investments in the amount of $8.0 million (2021- $4.5 million) was deposited with counterparties as collateral for securities sold short and positions held in derivative financial instruments.

The tables below show the fair value of the Company's derivative instruments recorded in Investments in Marketable Securities and Derivative Assets, net and Derivative Liabilities, net in the Consolidated Balance Sheet as of December 31, 2022 and 2021:

	Derivative assets	Derivative liabilities
	2022	2022
	Fair value ($'000)	Fair value ($'000)
Interest rate swaps	$ 36,869	$ 49,516
Credit default swaps	–	63
Equity swaps	3,917	235
Fixed income and currency options	921	1,972
Forward foreign currency contracts	3,138	26,081
Equity futures	–	842
Interest rate futures	15,210	15,094
Total	$ 60,055	$ 93,803

	Derivative assets	Derivative liabilities
	2021	2021
	Fair value ($'000)	Fair value ($'000)
Interest rate swaps	$ 15,990	$ 16,034
Credit default swaps	–	895
Equity swaps	4,213	1,179
Fixed income and currency options	410	2,261
Forward foreign currency contracts	7,160	6,388
Equity futures	435	–
Interest rate futures	6,133	3,887
Total	$ 34,341	$ 30,644

4. Commitments and contingencies (continued)

(a) *Derivative Instruments* (continued)

The tables below show the net gains and losses on the Company's derivative instruments recorded in the net gains (losses) on investments in the Consolidated Statement of Operations during the year ended December 31, 2022 and 2021:

	2022		
	Net Realized gains and (losses) ($'000)	Change in unrealized gains and (losses) ($'000)	Net gains and (losses) ($'000)
Interest rate swaps	$ 100	$ (12,603)	$ (12,503)
Credit default swaps	–	832	832
Equity swaps	–	648	648
Fixed income and currency options	2,224	800	3,024
Forward foreign currency contracts	90,779	(23,715)	67,064
Equity futures	(5,085)	(1,277)	(6,362)
Interest rate futures	53,990	(2,130)	51,860
Total	$ 142,008	$ (37,445)	$ 104,563

	2021		
	Net Realized gains and (losses) ($'000)	Change in unrealized gains and (losses) ($'000)	Net gains and (losses) ($'000)
Interest rate swaps	$ 181	$ 1,055	$ 1,236
Credit default swaps	–	1,854	1,854
Equity swaps	955	(24,129)	(23,174)
Fixed income and currency options	2,704	(2,023)	681
Forward foreign currency contracts	16,727	16,162	32,889
Equity futures	13,153	(2,726)	10,427
Interest rate futures	9,906	2,859	12,765
Total	$ 43,626	$ (6,948)	$ 36,678

(i) *Foreign currency exposure management*

A forward foreign currency contract is a commitment to purchase or sell a foreign currency at a future date, at a negotiated rate. The unrealized gain or loss on open forward contracts represents the Company's net equity therein and is calculated as the difference between the contract date rate and the applicable forward rate at the reporting date as reported in published sources, applied to the face amount of the contract. The unrealized gain or loss at the reporting date is included in investments in marketable securities and derivative assets, net and derivative liabilities, net in the Consolidated Balance Sheet. The Company utilizes forward foreign currency contracts to manage the impact of fluctuations in foreign currencies on the value of its foreign currency denominated investments.

4. Commitments and contingencies (continued)

(a) Derivative Instruments (continued)

(i) Foreign currency exposure management (continued)

Forward foreign currency contracts expose the Company to credit, market and liquidity risks. The Company is exposed to market risk to the extent that adverse changes occur in the exchange rate of the underlying foreign currency. This market risk is in excess of the amounts recognized in the Consolidated Balance Sheet. Liquidity risk represents the possibility that the Company may not be able to rapidly adjust the size of its forward positions in times of high volatility and financial stress at a reasonable price. The Company's investment guidelines only permit the use of counterparties carrying a credit rating of A3 or higher by the major rating agencies.

The Company considers the notional amounts in the table below at December 31, 2022 and 2021, to be representative of the volume of its activities in forward foreign currency contracts:

	2022		2021	
Currency	Notional receivable ($'000)	Notional payable ($'000)	Notional receivable ($'000)	Notional payable ($'000)
AUD	6,934	(8,666)	22,267	(36,262)
BRL	6,233	(3,077)	738	(527)
CAD	2,373	(25,079)	14,583	(63,164)
CHF	9,252	(2,085)	3,535	(1,759)
CLP	3,289	(3,722)	547	(120)
CNH	482	(446)	1,866	(1,753)
CNY	2,360	(46,554)	17	(62,849)
CZK	14	–	1,164	(297)
DKK	1,241	(17,378)	1,344	(48,649)
EUR	13,948	(184,224)	115,777	(317,861)
GBP	6,401	(86,391)	79,609	(187,063)
HKD	737	(2,010)	–	(2,636)
IDR	22	–	5,923	(5,578)
INR	1	–	–	(890)
JPY	8,416	(174,094)	43,400	(227,796)
KRW	–	(7,788)	868	(9,354)
MXN	1,516	(3,809)	4,260	(8,952)
NOK	9,094	(496)	12,569	(1,448)
NZD	4,713	(9,886)	3,062	(7,293)
PLN	220	(8,310)	711	(294)
RUB	–	–	2,087	(3,515)
SEK	364	(7,342)	2,620	(5,988)
SGD	340	(184)	–	(6,240)
TRY	–	–	1,737	(2,281)
TWD	1,213	(9,520)	2,832	(4,669)
USD	634,876	(103,051)	1,063,824	(333,014)
ZAR	8,535	(9,339)	507	(15,060)
Other	19,858	(51,924)	14,679	(44,442)
	$ 742,432	$ (765,375)	$ 1,400,526	$ (1,399,754)

4. Commitments and contingencies (continued)

(a) Derivative Instruments (continued)

(i) Foreign currency exposure management (continued)

At December 31, 2022, unrealized gains of $3.1 million (2021 - $7.2 million) and unrealized losses of $26.0 million (2021 - $6.4 million) on forward foreign currency contracts are included in investments in marketable securities and derivative assets, net and derivative liabilities, net in the Consolidated Balance Sheet.

(ii) Duration management, interest rate management and market exposure management

Futures

A portion of the Company's portfolio is invested in bond, note, money market, equity index and interest rate futures contracts. Such futures provide the Company with participation in market movements, determined by the underlying instrument or index on which the futures contract is based, without holding the instrument itself or the individual bonds or stocks in that index. This approach allows the Company more efficient and less costly access to bond and stock market exposure than would be available by the exclusive use of individual bonds and stocks. Exchange-traded bond and note futures contracts may also be used in the investment portfolios as substitutes for ownership of the physical bonds and notes.

All financial futures contracts are held on a non-leveraged basis, fully backed at all times by investments and cash equivalents that are posted as margin collateral. The unrealized gain or loss on financial futures contracts is calculated as the difference between the contract price on the trade date and the contract's closing price on the valuation date as reported on the exchange on which the futures contracts are traded.

When entering a financial futures contract, the Company is required to provide initial margin which is a deposit of either cash or securities in an amount equal to a certain percentage of the contract value. The initial margin is adjusted to reflect changes in the value of the futures contract which are marked to market on a daily basis. The Company recognizes a realized gain or loss when the contract is closed. Futures contracts expose the Company to market and liquidity risks. The Company is exposed to market risk to the extent that adverse changes occur in the market values of the underlying securities or indices. This market risk is in excess of the amount recognized in the Consolidated Balance Sheet. Liquidity risk represents the possibility that the Company may not be able to rapidly adjust the size of its futures positions in times of high volatility and financial stress at a reasonable price. Exchange-traded futures are subject, however, to a number of safeguards to ensure that obligations are met, including the use of clearing houses, the posting of margins and the daily settlement of futures profits and losses and the amount of credit risk is therefore considered low.

The Company considers the notional amounts in the table below at December 31, 2022 and 2021, to be representative of the volume of its derivative activities in financial futures contracts:

	2022		2021	
	Long ($'000)	Short ($'000)	Long ($'000)	Short ($'000)
Equity index futures contracts	$ 34,703	$ –	$ 32,788	$ –
Interest rate futures contracts	1,199,597	(787,589)	591,062	(831,406)

The Company had gross gains of $15.2 million and gross losses of $15.9 million on open futures contracts for the year ended December 31, 2022 (2021 - gross gains of $6.6 million and gross losses of $3.9 million). These gains and losses are included in the Consolidated Statement of Operations.

4. Commitments and contingencies (continued)

(a) Derivative Instruments (continued)

(ii) Duration management, interest rate management and market exposure management (continued)

Futures (continued)

The Company holds a margin account with its futures broker for the purposes of paying and receiving cash in connection with its futures transactions. Gains and losses are settled daily in cash in this margin account.

Swaps and options

In order to manage interest rate exposure, portfolio duration or capitalize on anticipated changes in interest rate volatility, the Company may engage in interest rate swap transactions, buy and sell, call and put options and write call and put options if the options are secured by holdings in the underlying securities or by other means which would permit immediate satisfaction of the Company's obligation as a writer of the option contracts.

Swaps and option contracts are marked to market daily with unrealized gains and losses recorded in the Consolidated Statement of Operations.

At December 31, 2022 and 2021 the fair value of open interest rate swap contracts is:

	2022 ($'000)	2021 ($'000)
Interest rate swaps, net	$ (12,647)	$ (44)

Interest rate swap agreements involve the exchange by the Company with another party of their respective commitments to pay or receive interest (e.g. an exchange of floating rate payments for fixed rate payments) with respect to a notional amount of principal. Entering into these agreements involves to varying degrees, elements of credit and market risk in excess of the amounts recognized in the Consolidated Balance Sheet. Such risks involve the possibility that there will be no liquid market for these agreements, that the counterparty to the agreements may default on its obligation to perform, or that there may be unfavorable changes in interest rates.

At December 31, 2022 and 2021 the fair value of open fixed income and currency option contracts is:

	2022 ($'000)	2021 ($'000)
Options purchased	$ 921	$ 410
Options written (liability)	(1,972)	(2,261)

Premiums received for open written options as of December 31, 2022, amounted to $1.1 million (2021 - $2.3 million).

Option contracts provide the option purchaser with the right but not the obligation to buy or sell a financial instrument at a predetermined exercise price during a defined period. The option writer is obligated to buy or sell the item underlying the contract at a set price, if the option purchaser chooses to exercise the option. As a purchaser of an option contract, the Company is subject to credit risk since the counterparty is obligated to make payments under the terms of the option contract if the Company exercises the option and the Company is only subject to market risk to the extent of the premium paid. As a writer of an option contract, the Company is not subject to credit risk but is subject to market risk, since the Company is obligated to make payments under the terms of the option contract if exercised.

4. **Commitments and contingencies** (continued)

(a) *Derivative Instruments* (continued)

(ii) *Duration management, interest rate management and market exposure management* (continued)

Swaps and options (continued)

The Company uses credit default swaps as a way to manage credit risk to an individual issuer or a basket of issuers. When the Company buys protection, the Company pays a premium to the seller of the protection for the right to receive the par value of the bond in the event of default by the issuer, thereby reducing the Company's credit risk.

The Company considers the notional amounts in the table below at December 31, 2022 and 2021, to be representative of the volume of its derivative activities:

		Long Exposure Notional Amounts 2022 ($'000)		Short Exposure Notional Amounts 2022 ($'000)
Interest rate swaps	$	728,489	$	(1,308,131)
Credit default swaps		–		(16,680)
Equity swaps		12,297		(9,483)
Fixed income and currency options		114,398		(91,717)

		Long Exposure Notional Amounts 2021 ($'000)		Short Exposure Notional Amounts 2021 ($'000)
Interest rate swaps	$	1,779,553	$	(880,994)
Credit default swaps		–		(48,150)
Equity swaps		14,226		(25,890)
Fixed income and currency options		769,700		(451,346)

(b) *Concentrations of credit risk*

The investment portfolio is managed following prudent standards of diversification across counterparties, issuers, asset classes and geographical regions. Investments are allocated over three broad asset classes which are global equity, global fixed income and hedge funds. Investment guidelines are designed to limit the holdings of a single issue and issuer, control non-US dollar currency exposure and minimize sovereign risk. Fixed maturity securities held with maturities of longer than one year generally have a minimum investment rating of B3/B- or better and at least 85% (at fair value) generally have a minimum rating of Baa3/BBB- or better with average quality for the total portfolio of A2/A. The Company utilizes Standard & Poor's, Moody's or Fitch Investor Services. In the event of a split rating between Standard & Poor's, Moody's and/or Fitch the middle rating shall be used; when a rating from only two agencies is available, the lower rating is used; when only one agency rates a bond that rating shall be used. If a security is not rated by Standard & Poor's, Moody's or Fitch Investors Services, the equivalent implied rating as determined by the investment manager is utilized. Commercial Paper must carry a rating of A2/P2/F2 or better. Commercial paper rated below A1/P1/F1 must not exceed 20% of the market value of the portfolio.

4. Commitments and contingencies (continued)

(b) Concentrations of credit risk (continued)

The Company's maximum permitted fixed income investment in any one institution is 10% of the market value of the global fixed income portfolio with the exception of securities which are rated AA-/Aa3 or higher and issued or guaranteed by the US Treasury, US government agencies, or the Government of Canada, Japan, Australia, the United Kingdom or EMU countries. The maximum investment in any outstanding single issue shall not exceed 5% except for the issuers listed above. Commercial Paper shall be exempt from this 5% limit in any outstanding single issue, but still be subject to aggregate issuer limits. The aggregate maximum permitted fixed income investment in any obligations rated A-2, P-2, BBB- or Baa3 or below shall not exceed 5% of the market value of the global fixed income portfolio. The Company believes that there are no significant concentrations of credit risk associated with its investments in any issuer or market.

(c) Prime brokers

One large investment bank (the "Prime Broker") has been appointed as the Company's Prime Broker. Under the Customer Prime Broker Account Agreements, as of December 31, 2022, $187.9 million (2021 - $218.0 million) of the assets of the Company are held by the Prime Broker and each of the Prime Broker's affiliated companies are subject to a general lien and a continuing first priority perfected security interest in favor of the Prime Broker and therefore constitute collateral security for the Company's obligations and liabilities to the Prime Broker. The Prime Broker has a long term credit rating of A+ as issued by Standard and Poor's.

(d) Use of short selling

As part of the Company's overall investment strategy it allocates certain funds to long/short portfolios that are managed using a market neutral investment strategy. The market neutral investment strategy will typically hold short equity positions in the same and/or related sectors as the strategy's long positions to limit exposure to market events and to reduce the Company's investment risk within the strategy.

(e) Outstanding litigation

From time to time the Company is party to lawsuits and arbitration proceedings arising in the normal course of business. The Company believes the resolution of these proceedings will not have a material adverse effect on its financial condition.

5. Outstanding losses and loss expenses

The Company's reserve for outstanding losses and loss expenses represents the estimated amount necessary to settle all outstanding claims, including claims which have been incurred but not reported, as of the balance sheet date. The reserve is provided on the basis of current estimates made by the Company's claims personnel, independent actuarial consultants, independent loss adjusters and legal counsel. The reserve is based on a detailed analysis of the facts in each case and historical claims development patterns including claim payment patterns, pending levels of unpaid claims and the regulatory and legal environment.

Due to the nature of the risks insured and the levels of coverage provided by the Company, significant delays can be experienced in the settlement of claims. Accordingly, a substantial degree of judgment is involved in assessing the ultimate cost of losses incurred.

A summary of changes in outstanding losses and loss expenses for 2022 and 2021 is as follows:

	2022 ($'000)	2021 ($'000)
Balance at January 1	$ 1,843,509	$ 2,024,733
Incurred losses related to:		
Current year	1,098,641	831,682
Prior years	(406,010)	(500,441)
Total incurred	692,631	331,241
Paid losses related to:		
Current year	(50)	(83,935)
Prior years	(439,373)	(428,530)
Total paid	(439,423)	(512,465)
Balance at December 31	$ 2,096,717	$ 1,843,509

The 2022 current year incurred losses of approximately $1,098.6 million primarily relate to: (i) case reserves recorded totaling $633.4 million relating to specific property and pollution incidents incurred during the year; (ii) the establishment of IBNR totaling $456.9 million for the 2022 underwriting year; and (iii) loss expenses incurred totaling $8.3 million.

The 2022 reduction in incurred losses for prior years claims of approximately $406.0 million primarily relates to: (i) favorable development of $393.3 million due to adjustments in ultimate loss ratios and favorable case reserve development relating to specific property and pollution incidents incurred during prior years based upon updated information received from insureds and loss adjusters and (ii) favorable development of loss expenses incurred totaling $12.7 million.

The 2021 current year incurred losses of approximately $831.7 million primarily relate to: (i) case reserves recorded totaling $551.7 million relating to specific property and pollution incidents incurred during the year; (ii) the establishment of IBNR totaling $273.2 million for the 2021 underwriting year; and (iii) loss expenses incurred totaling $6.8 million.

5. Outstanding losses and loss expenses (continued)

The 2021 reduction in incurred losses for prior years claims of approximately $500.4 million primarily relates to: (i) favorable development of $501.2 million due to adjustments in ultimate loss ratios and favorable case reserve development relating to specific property and pollution incidents incurred during prior years based upon updated information received from insureds and loss adjusters and (ii) loss expenses incurred totaling $0.8 million.

For catastrophic events there is a high degree of uncertainty and subjectivity underlying the assumptions and associated estimated reserves for losses and loss adjustment expenses. Reserves are reviewed regularly and, as experience develops and new information becomes known, the reserves are adjusted as necessary. Due to the nature and levels of the coverage provided by the Company these adjustments can be material. Additionally, the complexity resulting from matters such as policy coverage issues, multiple events affecting one geographic area and the resulting impact on the quantification of claims (including the allocation of claims to specific events and the effect of demand surge on the cost of building materials and labor) can cause delays in the timing of claim notifications and changes to loss estimates.

The Company insures its policyholders against certain pollution liabilities caused by occurrences which commenced at or after the inception of a member’s first policy, which for initial policyholders was January 1, 1972. The Company’s pollution exposure typically involves potential liabilities for the mitigation or remediation of environmental contamination, personal injury or property damage caused by the release of hazardous substances into the land, air or water. The Company is exposed to claims arising from its members’ use and storage of Methyl Tertiary Butyl Ether (“MTBE”) as a gasoline additive and its potential environmental impact through alleged seepage into groundwater. Additional claims related to the use of MTBE may be filed in the future. There are many uncertainties regarding both the magnitude of exposures of the Company’s insureds to the claimants and how the coverage under policies issued by the Company would apply to liabilities of its policyholders.

The Company’s reserve for losses incurred but not reported relating to pollution liabilities has been established in accordance with generally accepted accounting principles for loss contingencies. There are significant uncertainties involved in estimating the Company’s ultimate liability for pollution claims. These uncertainties include, amongst others, (i) potentially long latency periods, (ii) difficulty in establishing the commencement date of the pollution, (iii) delays in the reporting of claims, (iv) the uncertainty regarding the extent of the underlying and/or other insurance coverages, which may respond before the Company's coverage, and (v) the future outcome of litigation that is currently in process and the potential that exists for punitive and compensatory awards. To assist in determining this reserve, management has obtained the advice of independent claims consultants and actuaries who annually establish an estimate of the Company’s ultimate pollution liabilities based on actuarial modeling techniques.

Because of the variability and uncertainty inherent in the pollution claim evaluation, reserving and settlement processes, the reserves established by the Company represents management’s best estimate at the balance sheet date based on current information but, such claims may ultimately settle for a significantly greater or lesser amount. Such adjustments to reserves could be material to the Company.

5. Outstanding losses and loss expenses (continued)

Short duration contract disclosures

Under U.S. GAAP the Company is required to disclose, in tabular format, on a disaggregated basis, the undiscounted incurred and paid claim and allocated claim adjustment expense development by accident year, net of reinsurance, for up to 10 years. Tables must also include the total incurred but not reported claims liabilities, plus expected development on reported claims, and claims frequency for each accident year. A description of estimation methodologies and any significant changes in methodologies and assumptions used to calculate the liability and frequency is also required. Based on the disaggregated claims information in the tables, disclosure of historical average annual percentage payout of incurred claims is also required.

The Company has disaggregated its information presented in the tables below by line of business as appropriate for property and pollution segments, including cumulative incurred and paid losses and allocated loss adjustment expenses, as well as the corresponding amount of IBNR reserves as of December 31, 2022. The level of disaggregation is consistent with how the Company analyzes loss reserves for both internal and external reporting purposes.

Some of the information provided in the following tables is Required Supplementary Information ("RSI") under U.S. GAAP. Therefore, it does not form part of these consolidated 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 RSI.

Property

The property loss development tables have been produced for accident years 2013 through to 2022. For the property segment, the years presented in the tables comprise the majority of the period for which incurred losses typically remain outstanding. The tables below also include claim frequency information, by accident year. The Company defines a single claim incident, per policy, which may include multiple claimants and multiple coverages on a single policy. Claims counts include claims closed without a payment as well as claims where the Company is monitoring to determine if exposure exists, even if a reserve has not been established.

5. **Outstanding losses and loss expenses** (continued)

Incurred losses and loss expenses ($'000) Years ended December 31,

Accident Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	December 31, 2022 Total of IBNR reserves, net of reinsurance	December 31, 2022 Cumulative reported claims count
	Unaudited											
2013	436,832	280,563	445,193	393,567	389,820	378,039	350,478	349,707	348,554	348,554	-	45
2014		274,205	139,091	96,407	86,913	83,301	82,886	80,794	80,547	80,383	-	26
2015			662,985	556,569	409,511	404,400	393,770	389,106	371,244	458,905	1,056	42
2016				453,464	478,561	490,671	490,384	487,944	465,405	464,013	1,850	30
2017					467,782	444,512	408,624	418,142	307,330	324,802	53,751	31
2018						776,505	798,756	756,932	752,414	641,094	7,634	31
2019							203,789	163,456	113,921	113,354	1,907	19
2020								592,058	368,503	303,074	3,750	28
2021									773,267	514,676	20,115	33
2022										337,474	239,012	20
Total									$	3,586,329		

Cumulative paid losses and loss expenses ($'000) Years ended December 31,

Accident Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	Unaudited									
2013	47,409	177,220	206,676	181,285	187,149	349,757	348,554	348,554	348,554	348,554
2014		–	52,232	64,022	82,227	82,227	82,227	80,383	80,383	80,383
2015			49,950	140,035	314,179	317,120	295,894	300,563	291,423	407,773
2016				1,300	52,275	114,269	342,953	392,554	432,050	432,050
2017					95,011	175,742	241,405	248,134	271,051	271,051
2018						78,819	253,430	368,799	579,152	614,312
2019							–	79,943	111,447	111,447
2020								33,663	138,181	206,730
2021									83,484	217,770
2022										-
Total										2,690,070
Reserves for outstanding losses and loss expenses, before 2013										53,315
Reserves for outstanding losses and loss expenses									$	949,574

5. Outstanding losses and loss expenses (continued)

Pollution

The pollution loss development tables have been produced for accident years 2013 through to 2022. The tables below also include claim frequency information, by accident year. The Company defines a single claim incident, per policy, which may include multiple claimants and multiple coverages on a single policy. Claims counts include claims closed without a payment as well as claims where the Company is monitoring to determine if exposure exists, even if a reserve has not been established.

	Incurred losses and loss expenses ($'000) Years ended December 31, Unaudited										December 31, 2022	
Accident year	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**Total of IBNR reserves, net of reinsurance**	**Cumulative reported claims count**
2013	249,848	275,705	149,301	148,270	145,641	142,669	139,322	135,320	131,385	131,959	13,251	36
2014		50,328	32,847	30,558	28,005	24,968	20,565	16,749	13,911	14,490	14,490	17
2015			115,961	392,403	411,913	388,133	382,211	373,208	385,964	388,029	20,820	17
2016				64,444	53,680	47,867	43,461	36,941	32,877	22,255	22,255	13
2017					63,122	102,113	79,544	74,729	69,862	70,775	27,439	18
2018						57,590	43,196	40,606	44,237	39,258	28,973	21
2019							81,586	65,510	60,261	61,716	35,982	20
2020								51,046	39,220	42,518	42,518	10
2021									51,561	53,065	50,294	6
2022										752,880	217,880	13
Total									$	1,576,945		

	Cumulative Paid Losses and Loss Expenses ($'000) Years Ended December 31, Unaudited									
Accident year	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
2013	–	32,176	42,214	115,712	116,514	116,514	116,514	116,514	118,709	118,709
2014		–	–	–	–	–	–	–	–	–
2015			–	34,314	107,049	180,292	245,362	257,669	276,702	365,785
2016				–	–	–	–	–	–	–
2017					–	27,898	39,477	40,083	40,365	40,794
2018						–	–	–	–	–
2019							–	25,708	25,733	25,733
2020								–	–	–
2021									–	–
2022										–
Total										551,021
Reserves for outstanding losses and loss expenses, before 2013										99,714
Reserves for outstanding losses and loss expenses									$	1,125,638

5. Outstanding losses and loss expenses (continued)

Reconciliation of loss development information to the reserves for losses and loss expenses

The table below reconciles the net incurred and paid loss development tables, by segment, to the Company's outstanding losses and loss expenses in the Consolidated Balance Sheets as at December 31, 2022:

($'000s)		December 31, 2022
Outstanding losses and loss expenses		
Property	$	949,574
Pollution		1,125,638
Total outstanding losses and loss expenses		2,075,212
Unallocated loss adjustment expenses		21,505
Total outstanding losses and loss expenses	$	2,096,717

The following table presents supplementary information about average historical claims duration as of December 31, 2022 based on cumulative incurred and paid losses and allocated loss adjustment expenses presented above.

	Average Annual Percentage Payout of Incurred Losses by Age (in years)									
Unaudited	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Property	9.4%	35.1%	20.4%	14.3%	3.4%	11.2%	(1.2)%	8.5 %	0.0%	0.0%
Pollution	0.0%	12.7%	5.3%	10.8%	3.0%	0.8%	1.2%	7.7%	0.6%	0.0%

6. Common shares

	2022	2021
Authorized		
200 Class A shares of par value $10,000 each	$ 2,000,000	$ 2,000,000
Issued and fully paid		
65 (2021 - 64) Class A shares	$ 650,000	$ 640,000

Each shareholder has one vote for each paid up Class A share together with an additional vote for each $10,000 of cumulative premium as defined in the shareholders' agreement, subject to a maximum of 9.5% of total voting rights.

The shareholders' agreement provides for distribution of dividends, as and when declared by the Company's directors, and distribution of the Company's net assets upon dissolution in the same proportion as the voting rights, excluding the 9.5% limitation. Commencing January 1, 1987, the shareholders' agreement restricts the amount available for the payment of dividends to the Company's cumulative net income less any paid dividends after that date. During the year ended December 31, 2022, the Company declared and paid dividends totaling $350.0 million (2021 - $380.0 million) to its common shareholders.

7. Related party transactions

(a) General and administrative expenses represent direct expenditures incurred by the Company and expenses which have been allocated from EMSL.

(b) Amounts due from and to companies affiliated through common shareholders are unsecured, interest free and repayable on demand. These balances result from transactions conducted in the normal course of business.

8. Taxation

Under current Bermuda law, the Company is not obligated to pay any taxes in Bermuda on either income or capital gains. The Company has received an undertaking from the Minister of Finance in Bermuda pursuant to the provisions of the Exempted Undertakings Tax Protection Act 1966 (the "Act") which exempts the Company from any such taxes, at least until March 31, 2035.

For the years ended December 31, 2022 and 2021, the Company did not record any unrecognized tax benefits or expenses. The Company has not recorded any interest or penalties during the years ended December 31, 2022 and 2021.

9. Regulation

The Company is required by its license to maintain capital and surplus greater than a minimum statutory amount determined as the greater of a percentage of outstanding losses or a given fraction of net written premiums.

The following tables present the reconciliation of the Company's U.S. GAAP shareholders' equity to statutory capital and surplus, and the corresponding minimum capital adequacy levels as at December 31, 2022 and 2021:

	2022 ($'000)	2021 ($'000)
U.S. GAAP Shareholders' Equity	$ 3,115,708	$ 4,242,411
Plus: Theoretical withdrawal premium	995,114	929,710
Less: Non-admitted assets	(2,049)	(2,438)
Statutory Capital and Surplus	$ 4,108,773	$ 5,169,683
Minimum required statutory capital and Surplus	$ 209,672	$ 184,351

Non-admitted assets for statutory purposes include fixed assets and prepaid assets.

Under the terms of the Rating and Premium Plan, all members are charged a withdrawal premium upon their withdrawal from the Company. The Company has received permission from the Bermuda Monetary Authority ("BMA") to record the estimated amount of the theoretical withdrawal premium ("TWP") due from existing members who have not elected to withdraw or redeem their shares in the Company as statutory capital and surplus. As of December 31, 2022, the Company has included the discounted value of the TWP from current shareholders that are rated BBB- or higher by Standard and Poor's, totaling $1.0 billion (2021 - $0.9 billion), in the calculation of statutory capital and surplus.

The Company is also required to maintain a minimum liquidity ratio whereby the value of its relevant assets is not less than 75% of the amounts of its relevant liabilities. At December 31, 2022 the Company is required to maintain relevant assets of at least $1.6 billion (2021 - $1.4 billion). At December 31, 2022 and 2021, the Company met the minimum liquidity ratio.

Class 2 insurers must obtain BMA approval prior to any reduction of prior year total statutory capital of 15% or more.

10. Comparative information

Certain balances in the 2021 financial statements have been restated to conform to the 2022 financial statement presentation. There has been no change to the total shareholders' equity in the Consolidated Balance Sheet at December 31, 2021 or the Consolidated Statement of Operations for the year ended December 31, 2021.

11. Subsequent events

Subsequent events have been evaluated through February 24, 2023, which is the date the financial statements were available to be issued.