



ARCH GROUP REINSURANCE LTD.

Financial Statements

December 31, 2023 and 2022

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Report of Independent Auditors

To the Board of Directors of Arch Group Reinsurance Ltd.

Opinion

We have audited the accompanying financial statements of Arch Group Reinsurance Ltd. (the “Company”), which comprise the balance sheets as of December 31, 2023 and 2022, and the related statements of income, comprehensive income, changes in shareholder’s equity and cash flows for the year ended December 31, 2023 and for the period from October 31, 2022 to December 31, 2022, including the related notes (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the year ended December 31, 2023 and for the period from October 31, 2022 to December 31, 2022 in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditors’ Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ 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 US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with US GAAS, we:

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

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

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the incurred and paid loss development for the period from October 31, 2022 to December 31, 2022 on page 13 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic 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 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 financial statements, and other knowledge we obtained during our audit of the basic 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.



New York, New York
April 26, 2024

ARCH GROUP REINSURANCE LTD.
BALANCE SHEETS
(U.S. dollars in thousands, except share data)

	December 31,	
	2023	2022
Assets		
Investments:		
Fixed maturities available for sale, at fair value (amortized cost: \$260,396 and \$251,068; net of allowance for credit losses: \$1 and \$0)	\$ 264,744	\$ 250,156
Short-term investments available for sale, at fair value (amortized cost: \$1,311 and \$4,267; net of allowance for credit losses: \$0 and \$0)	1,311	4,267
Total investments	266,055	254,423
Cash	596	—
Accrued investment income	3,017	1,024
Funds withheld	324,639	390,056
Other assets	8,473	7,732
Total assets	\$ 602,780	\$ 653,235
Liabilities		
Reserve for losses and loss adjustment expenses	\$ 301,290	\$ 390,056
Other liabilities	3,484	7,721
Total liabilities	304,774	397,777
Shareholder's Equity		
Common shares (\$1.00 par, shares authorized: 120,000, issued: 120,000)	120	120
Additional paid-in capital	275,880	255,880
Retained earnings	18,570	178
Accumulated other comprehensive income (loss), net of deferred income tax	3,436	(720)
Total shareholder's equity	298,006	255,458
Total liabilities, noncontrolling interests and shareholder's equity	\$ 602,780	\$ 653,235

ARCH GROUP REINSURANCE LTD.
STATEMENTS OF INCOME
(U.S. dollars in thousands, except share data)

	Year Ended December 31, 2023	Period from October 31, 2022 to December 31, 2022
Revenues		
Net premiums earned	\$ —	\$ 390,056
Net investment income	29,436	359
Net realized gains (losses)	(2,600)	—
Total revenues	<u>26,836</u>	<u>390,415</u>
Expenses		
Losses and loss adjustment expenses	9,077	390,056
Other operating expenses	495	133
Total expenses	<u>9,572</u>	<u>390,189</u>
Income before income taxes	17,264	226
Income taxes:		
Current tax expense (benefit)	717	7,588
Deferred tax expense (benefit)	(1,845)	(7,540)
Income tax expense	(1,128)	48
Net income	<u>\$ 18,392</u>	<u>\$ 178</u>

See Notes to the Financial Statements

ARCH GROUP REINSURANCE LTD.
STATEMENTS OF COMPREHENSIVE INCOME
(U.S. dollars in thousands)

	Year Ended December 31, 2023	Period from October 31, 2022 to December 31, 2022
Comprehensive Income		
Net income	\$ 18,392	\$ 178
Other comprehensive income (loss), net of deferred income tax		
Unrealized appreciation (decline) in value of available-for-sale investments:		
Unrealized holding gains (losses) arising during period	2,074	(720)
Reclassification of net realized gains (losses), net of income taxes, included in net income	2,082	—
Comprehensive income	<u>22,548</u>	<u>(542)</u>

ARCH GROUP REINSURANCE LTD.
STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY
(U.S. dollars in thousands)

	Year Ended December 31, 2023	Period from October 31, 2022 to December 31, 2022
Common shares		
Balance at beginning of period	120	—
Common shares issued, net	—	120
Balance at the end of period	<u>120</u>	<u>120</u>
Additional paid-in capital		
Balance at beginning of period	255,880	—
Capital contribution from parent	20,000	255,880
Balance at end of period	<u>275,880</u>	<u>255,880</u>
Retained earnings		
Balance at beginning of period	178	—
Net income	18,392	178
Balance at end of period	<u>18,570</u>	<u>178</u>
Accumulated other comprehensive income (loss)		
Unrealized appreciation (decline) in value of available-for-sale investments, net of deferred income tax:		
Balance at beginning of period	(720)	—
Unrealized holding gains (losses) arising during period, net of reclassification adjustment, net of deferred income tax	4,156	(720)
Balance at end of period	<u>3,436</u>	<u>(720)</u>
Total shareholder's equity	<u>\$ 298,006</u>	<u>\$ 255,458</u>

ARCH GROUP REINSURANCE LTD.
STATEMENTS OF CASH FLOWS
(U.S. dollars in thousands)

	Year Ended December 31, 2023	Period from October 31, 2022 to December 31, 2022
Operating Activities		
Net income	\$ 18,392	\$ 178
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized (gains) losses	2,600	—
Changes in:		
Reserve for losses and loss adjustment expenses, net of unpaid losses and loss adjustment expenses recoverable	(88,766)	390,056
Funds withheld	65,417	(390,056)
Other items, net	(8,144)	(828)
Net cash used for operating activities	<u>(10,501)</u>	<u>(650)</u>
Investing Activities		
Purchases of fixed maturity investments	(374,337)	(251,084)
Proceeds from sales of fixed maturity investments	361,101	—
Proceeds from redemptions and maturities of fixed maturity investments	1,377	—
Net (purchases) sales of short-term investments	2,956	(4,267)
Net cash used for investing activities	<u>(8,903)</u>	<u>(255,351)</u>
Financing Activities		
Capital contribution from parent	20,000	255,880
Proceeds from common shares issued, net	—	120
Net cash provided by financing activities	<u>20,000</u>	<u>256,000</u>
Increase (decrease) in cash and restricted cash and restricted cash	596	—
Cash and restricted cash, beginning of period	—	—
Cash and restricted cash, end of period	<u>\$ 596</u>	<u>\$ —</u>
Income taxes paid (received)	<u>\$ (5,419)</u>	<u>\$ —</u>

See Notes to the Financial Statements

**ARCH GROUP REINSURANCE LTD.
NOTES TO THE FINANCIAL STATEMENTS**

1. General

Arch Group Reinsurance Ltd. (the “Company”) is a Bermuda limited liability company, incorporated in October 2022 in Bermuda, and is a wholly owned subsidiary of Arch Capital Group (U.S.) Inc. (“ACGUS”) which is a subsidiary of Arch Capital Group Ltd. (“Arch Capital”), a Bermuda exempted public limited liability company. Under The Insurance Act 1978, as amended, and related regulations of Bermuda (the “Insurance Act”), the Company is licensed as a Class 3A general business insurer and is licensed to underwrite affiliated reinsurance with Arch Capital and its subsidiaries. The Company is an elected United States taxpayer through a section 953(d) voluntary election under the Internal Revenue Code 1986.

Operations

The Company serves as an affiliate reinsurance platform for certain North American Arch ceding companies, including Arch Insurance Company (“AIC”), a Missouri-domiciled corporation with its administrative office in Jersey City, New Jersey.

In 2022, the Company entered into a loss portfolio transfer reinsurance agreement of the risk written by Arch Insurance Company in 2018, 2019 and 2020 in its Executive Assurance, Professional Liability, E&S Casualty and High Excess Workers Compensation products.

2. Significant Accounting Policies

(a) Basis of Presentation

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”).

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates and assumptions. The Company’s principal estimates include:

- The reserve for losses and loss adjustment expenses;
- Estimates of written and earned premiums;
- The valuation of the investment portfolio and assessment of allowance for credit losses; and
- The valuation of deferred income tax assets.

(b) Retroactive Reinsurance

Retroactive reinsurance reimburses a ceding company for liabilities incurred as a result of past insurable events covered by the underlying policies reinsured. Retroactive reinsurance premiums written are recorded and earned at the policy inception. Underwriting income generated in connection with retroactive reinsurance contracts is deferred and amortized into income over the settlement period while losses are charged to income immediately. Subsequent changes in estimated amount or timing of cash flows under such retroactive reinsurance contracts are accounted for by adjusting the previously deferred amount to the balance that would have existed had the revised estimate been available at the inception of the reinsurance transaction, with a corresponding charge or credit to income.

(c) Cash

Cash includes cash equivalents, which are investments with original maturities of three months or less that are not part of the investment portfolio.

**ARCH GROUP REINSURANCE LTD.
NOTES TO THE FINANCIAL STATEMENTS**

(d) Investments

The Company currently classifies substantially all of its fixed maturity investments and short-term investments as “available for sale” and, accordingly, they are carried at estimated fair value (also known as fair value) with the changes in fair value recorded as an unrealized gain or loss component of accumulated other comprehensive income in shareholder’s equity. The fair value of fixed maturity securities and equity securities is generally determined from quotations received from nationally recognized pricing services, or when such prices are not available, by reference to broker or underwriter bid indications. Short-term investments comprise securities due to mature within one year of the date of issue. Short-term investments include certain cash equivalents which are part of investment portfolios under the management of external and internal investment managers.

The Company conducts a periodic review to identify and evaluate credit based impairments related to the Company’s available for sale investments. The Company derives estimated credit losses by comparing expected future cash flows to be collected to the amortized cost of the security. Estimates of expected future cash flows consider among other things, macroeconomic conditions as well as the financial condition, near-term and long-term prospects for the issuer, and the likelihood of the recoverability of principal and interest. Credit losses are recognized through an allowance account subject to reversal, rather than a reduction in amortized cost. Declines in value attributable to factors other than credit are reported as an unrealized loss in other comprehensive income while the allowance for credit loss is charged to net realized gains (losses) in the statement of income.

For available for sale investments that the Company intends to sell or for which it is more likely than not that the Company would be required to sell before an anticipated recovery in value, the full amount of the impairment is included in net realized gains (losses). The new cost basis of the investment is the previous amortized cost basis reduced by the impairment recognized in net realized gains (losses). The new cost basis is not adjusted for any subsequent recoveries in fair value.

The Company reports accrued investment income separately from investment balances and has elected not to measure an allowance for credit losses for accrued investment income. Any uncollectible accrued interest income is written off in the period it is deemed uncollectible.

Net investment income includes interest and dividend income together with amortization of market premiums and discounts and is net of investment management and custody fees. Anticipated prepayments and expected maturities are used in applying the interest method for certain investments such as mortgage and other asset-backed securities. When actual prepayments differ significantly from anticipated prepayments, the effective yield is recalculated to reflect actual payments to date and anticipated future payments. The net investment in such securities is adjusted to the amount that would have existed had the new effective yield been applied since the acquisition of the security. Such adjustments, if any, are included in net investment income when determined.

Investment gains or losses realized on the sale of investments, except for certain fund investments, are determined on a first-in, first-out basis and are reflected in net income. Investment gains or losses realized on the sale of certain fund investments are determined on an average cost basis. Unrealized appreciation or decline in the value of available for sale securities, which are carried at fair value, is excluded from net income and recorded as a separate component of accumulated other comprehensive income, net of applicable deferred income tax.

(e) Reserves for Losses and Loss Adjustment Expenses

The reserve for losses and loss adjustment expenses consists of estimates of unpaid reported losses and loss adjustment expenses and estimates for losses incurred but not reported. The reserve for unpaid reported losses and loss adjustment expenses, established by management based on reports from ceding companies and claims from insureds, excludes estimates of amounts related to losses under high deductible policies, and represents the estimated ultimate cost of events or conditions that have been reported to or specifically identified by the Company. Such reserves are supplemented by management’s estimates of reserves for losses incurred for which reports or claims have not been received. The Company’s reserves are based on a combination of reserving methods, incorporating both Company and industry loss development patterns. The Company selects the initial expected loss and loss adjustment expense ratios based on information derived by its underwriters and actuaries during the initial pricing of the business, supplemented by industry data where appropriate. Such ratios consider, among other things, rate changes and changes in terms and conditions that have been observed in the market. These estimates are reviewed regularly and, as experience develops and new information becomes known, the reserves are adjusted as necessary. Such adjustments, if any, are reflected in income in the period in which they are determined. As actual loss information has been reported, the Company has developed its own loss experience and its reserving methods include other actuarial techniques. Over time, such techniques have been given further weight in its reserving process based on the

ARCH GROUP REINSURANCE LTD.
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continuing maturation of the Company's reserves. Inherent in the estimates of ultimate losses and loss adjustment expenses are expected trends in claims severity and frequency and other factors which may vary significantly as claims are settled. Accordingly, ultimate losses and loss adjustment expenses may differ materially from the amounts recorded in the accompanying financial statements. Losses and loss adjustment expenses are recorded on an undiscounted basis, except for excess workers' compensation and employers' liability business written by the Company's insurance operations.

The establishment of reserves across the Company's operations is an inherently uncertain process, are necessarily based on estimates, and the ultimate net cost may vary from such estimates. The methods for making such estimates and for establishing the resulting liability are reviewed and updated using the most current information available. Any resulting adjustments, which may be material, are reflected in current operations.

(f) Income Taxes

Deferred income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for income tax purposes. A valuation allowance is recorded if it is more likely than not that some or all of a deferred tax asset may not be realized. The Company considers future taxable income and feasible tax planning strategies in assessing the need for a valuation allowance. In the event the Company determines that it will not be able to realize all or part of its deferred income tax assets in the future, an adjustment to the deferred income tax assets would be charged to income in the period in which such determination is made. In addition, if the Company subsequently assesses that the valuation allowance is no longer needed, a benefit would be recorded to income in the period in which such determination is made. See note 8 for more information.

The Company recognizes a tax benefit where it concludes that it is more likely than not that the tax benefit will be sustained on audit by the taxing authority based solely on the technical merits of the associated tax position. If the recognition threshold is met, the Company recognizes a tax benefit measured at the largest amount of the tax benefit that, in the Company's judgment, is greater than 50% likely to be realized. The Company records interest and penalties related to unrecognized tax benefits in the provision for income taxes.

On December 27, 2023 the Bermuda government enacted tax legislation referred to as the Corporate Income Tax Act 2023 ("Bermuda CIT Act"). The Bermuda CIT Act establishes a 15% corporate income tax, for in-scope businesses, for fiscal years beginning on or after January 1, 2025. The enacted legislation includes a provision referred to as the Economic Transition Adjustment, which requires Bermuda Constituent entities to establish tax basis in their assets and liabilities, excluding goodwill, based on fair value as of September 30, 2023. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See note 8 for additional information regarding Company's deferred income tax asset.

(g) Funds Held Arrangements

Funds held arrangements are agreements with an affiliate reinsurance company, where the reinsured retains the related assets on a funds held basis. Such amounts are included in "Funds Withheld" on the Company's balance sheet. Investment returns produced by those assets are recorded as part of net investment income and net realized gains (losses) in the Company's results of operations.

(h) Recent Accounting Pronouncements

Recently Issued Accounting Standards Not Yet Adopted

ASU 2020-04, "Facilitation of the Effects of Reference Rate Reform on Financial Reporting," was issued in March 2020 and amended in December 2022 with ASU 2022-06, "Reference Rate Reform (Topic 848)". This ASU provides optional expedients and exceptions for applying GAAP to investments, derivatives, or other transactions that reference the London Interbank Offered Rate ("LIBOR") or another reference rate expected to be discontinued because of reference rate reform. Along with the optional expedients, the amendments include a general principle that permits an entity to consider contract modifications due to reference reform to be an event that does not require contract re-measurement at the modification date or reassessment of a previous accounting determination. The amendment deferred the sunset date from December 31, 2022 to December 31, 2024. As a result, this standard can be adopted no later than December 31, 2024, with early adoption permitted. Based on its current analysis, the Company does not expect that the new guidance will have a material effect on the Company's financial statements.

ASU 2023-09, "Improvements to Income Tax Disclosures," was issued in December 2023 with the stated purpose of enhancing the transparency and decision usefulness of income tax disclosures. The amendments in ASU 2023-09 address investor

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requests for enhanced income tax information primarily through changes to the rate reconciliation and income taxes paid information. While early adoption is permitted, a public entity should apply the amendments in ASU 2023-09 prospectively to all annual periods beginning after December 15, 2024. The Company is currently evaluating the impact of this standard on the Company's financial statements and related disclosures.

**ARCH GROUP REINSURANCE LTD.
NOTES TO THE FINANCIAL STATEMENTS**

3. Reserve for Losses and Loss Adjustment Expenses

The following table represents an analysis of losses and loss adjustment expenses and a reconciliation of the beginning and ending reserve for losses and loss adjustment expenses:

	Year Ended December 31, 2023	Period from October 31, 2022 to December 31, 2022
Reserve for losses and loss adjustment expenses at beginning of period	\$ 390,056	\$ —
Unpaid losses and loss adjustment expenses recoverable	—	—
Net reserve for losses and loss adjustment expenses at beginning of period	390,056	—
Net incurred losses and loss adjustment expenses relating to losses occurring in:		
Current year	—	—
Prior years	9,077	—
Total net incurred losses and loss adjustment expenses	9,077	—
Net losses and loss adjustment expense reserves of acquired business		
	—	390,056
Net paid losses and loss adjustment expenses relating to losses occurring in:		
Current year	—	—
Prior years	(97,843)	—
Total net paid losses and loss adjustment expenses	(97,843)	—
Net reserve for losses and loss adjustment expenses at end of period	301,290	390,056
Unpaid losses and loss adjustment expenses recoverable	—	—
Reserve for losses and loss adjustment expenses at end of period	<u>\$ 301,290</u>	<u>\$ 390,056</u>

2023 Prior Year Reserve Development

During 2023, the Company recorded estimated net unfavorable development on prior year loss reserves of \$9.1 million in the reinsurance segment.

The reinsurance segment's net unfavorable development of \$9.1 million, was entirely from losses acquired in 2022 related to long-tailed casualty lines. Net unfavorable development was recognized primarily from the 2016 and 2018 underwriting years (i.e., all premiums and losses attributable to contracts having an inception or renewal date within the given twelve-month period) arising from E&S Casualty, Executive Assurance and High Excess Comp, partially offset by favorable development mainly in the 2019 underwriting year arising from Executive Assurance and High Excess Comp and the 2020 underwriting year arising from Professional Liability.

2022 Prior Year Reserve Development

During 2022, the Company recorded \$390.1 million of acquired net losses and loss adjustment expense reserves of acquired business in long-tailed casualty lines. Prior to this, there were no recorded reserves, thus there was no development on prior year reserves.

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NOTES TO THE FINANCIAL STATEMENTS**

4. Short Duration Contracts

The Company's reserves for losses and loss adjustment expenses primarily relate to short-duration contracts. The Company short-duration contracts are detailed in the table below:

	Incurred Losses & ALAE		IBNR
	2022	2023	Year Ended December 31, 2023
Accident Year:	Unaudited		
2018	\$ 106,565	\$ 120,744	\$ 44,234
2019	118,213	110,565	55,162
2020	165,279	167,824	79,609
Total		399,133	

	Cumulative Paid Losses & ALAE	
	2022	2023
Accident Year:	Unaudited	
2018	\$ —	\$ 39,452
2019	—	23,294
2020	—	35,097
Total		97,843
Liabilities for losses and loss adjustment expenses, net of reinsurance	\$	301,290

The Company is required to establish reserves for losses and loss adjustment expenses ("Loss Reserves") that arise from the business the Company underwrites. Loss Reserves represent estimates of future amounts required to pay losses and loss adjustment expenses for insured or reinsured events which have occurred at or before the balance sheet date. Loss Reserves do not reflect contingency reserve allowances to account for future loss occurrences. Losses arising from future events will be estimated and recognized at the time the losses are incurred and could be substantial.

The Company records reserves based upon the amount of reserves recommended by the affiliated ceding company. Loss Reserves are comprised of estimated amounts for (1) reported losses ("case reserves") and (2) incurred but not reported losses ("IBNR reserves"). Generally, claims personnel at the affiliated ceding company determine whether to establish a case reserve for the estimated amount of the ultimate settlement of individual claims. The estimate reflects the judgment of claims personnel based on general corporate reserving practices, the experience and knowledge of such personnel regarding the nature and value of the specific type of claim and, where appropriate, advice of counsel. Arch Capital also contracts with a number of outside third party administrators in the claims process who, in certain cases, have limited authority to establish case reserves. The work of such administrators is reviewed and monitored by claims personnel. Loss Reserves are also established to provide for loss adjustment expenses and represent the estimated expense of settling claims, including legal and other fees and the general expenses of administering the claims adjustment process. Periodically, adjustments to the case reserves may be made as additional information is reported or payments are made. IBNR reserves are established to provide for incurred claims which have not yet been reported at the balance sheet date as well as to adjust for any projected variance in case reserving. Actuaries at the affiliated ceding company estimate ultimate losses and loss adjustment expenses using various generally accepted actuarial methods applied to known losses and other relevant information. Like case reserves, IBNR reserves are adjusted as additional information becomes known or payments are made. The process of estimating reserves involves a considerable degree of judgment by management and, as of any given date, is inherently uncertain.

Ultimate losses and loss adjustment expenses are generally determined by projection of claim emergence and settlement patterns observed in the past that can reasonably be expected to persist into the future. In forecasting ultimate losses and loss adjustment expenses with respect to any line of business, past experience with respect to that line of business is the primary resource, developed through both industry and company experience, but cannot be relied upon in isolation. Uncertainties in estimating ultimate losses and loss adjustment expenses are magnified by the length of the time lag between when a claim actually occurs and when it is reported and settled. This time lag is sometimes referred to as the "claim-tail." During this period additional facts regarding coverages written in prior accident years, as well as about actual claims and trends, may

**ARCH GROUP REINSURANCE LTD.
NOTES TO THE FINANCIAL STATEMENTS**

become known and, as a result, may lead to adjustments of the related Loss Reserves. If the affiliated ceding company determines that an adjustment is appropriate, the adjustment is recorded in the accounting period in which such determination is made. Accordingly, should Loss Reserves need to be increased or decreased in the future from amounts currently established, future results of operations would be negatively or positively impacted respectively.

In determining ultimate losses and loss adjustment expenses, the cost to indemnify claimants, provide needed legal defense and other services for insureds and administer the investigation and adjustment of claims are considered. These claim costs are influenced by many factors that change over time, such as expanded coverage definitions as a result of new court decisions, inflation in costs to repair or replace damaged property, inflation in the cost of medical services and legislated changes in statutory benefits, as well as by the particular, unique facts that pertain to each claim. As a result, the rate at which claims arose in the past and the costs to settle them may not always be representative of what will occur in the future. The factors influencing changes in claim costs are often difficult to isolate or quantify and developments in paid and incurred losses from historical trends are frequently subject to multiple and conflicting interpretations. Changes in coverage terms or claims handling practices may also cause future experience and/or development patterns to vary from the past. A key objective of actuaries in developing estimates of ultimate losses and loss adjustment expenses, and resulting IBNR reserves, is to identify aberrations and systemic changes occurring within historical experience and adjust for them so that the future can be projected more reliably. Because of the factors previously discussed, this process requires the substantial use of informed judgment and is inherently uncertain.

Although Loss Reserves are initially determined based on underwriting and pricing analyses, the affiliated ceding company applies several generally accepted actuarial methods, as discussed below, on a quarterly basis to evaluate the Loss Reserves, in addition to the expected loss method, in particular for Loss Reserves from more mature accident years (the year in which a loss occurred). Each quarter, as part of the reserving process, the operations' actuaries reaffirm that the assumptions used in the reserving process continue to form a sound basis for the projection of liabilities. If actual loss activity differs substantially from expectations based on historical information, an adjustment to Loss Reserves may be supported. The affiliated ceding company places more or less reliance on a particular actuarial method based on the facts and circumstances at the time the estimates of Loss Reserves are made.

These methods generally fall into one of the following categories or are hybrids of one or more of the following categories:

- *Expected loss methods* - these methods are based on the assumption that ultimate losses vary proportionately with premiums. Expected loss and loss adjustment expense ratios are typically developed based upon the information derived by underwriters and actuaries during the initial pricing of the business, supplemented by industry data available from organizations, such as statistical bureaus and consulting firms, where appropriate. These ratios consider, among other things, rate increases and changes in terms and conditions that have been observed in the market. Expected loss methods are useful for estimating ultimate losses and loss adjustment expenses in the early years of long-tailed lines of business, when little or no paid or incurred loss information is available, and is commonly applied when limited loss experience exists for a company.
- *Historical incurred loss development methods* - these methods assume that the ratio of losses in one period to losses in an earlier period will remain constant in the future. These methods use incurred losses (*i.e.*, the sum of cumulative historical loss payments plus outstanding case reserves) over discrete periods of time to estimate future losses. Historical incurred loss development methods may be preferable to historical paid loss development methods because they explicitly take into account open cases and the claims adjusters' evaluations of the cost to settle all known claims. However, historical incurred loss development methods necessarily assume that case reserving practices are consistently applied over time. Therefore, when there have been significant changes in how case reserves are established, using incurred loss data to project ultimate losses may be less reliable than other methods.
- *Historical paid loss development methods* - these methods, like historical incurred loss development methods, assume that the ratio of losses in one period to losses in an earlier period will remain constant. These methods use historical loss payments over discrete periods of time to estimate future losses and necessarily assume that factors that have affected paid losses in the past, such as inflation or the effects of litigation, will remain constant in the future. Because historical paid loss development methods do not use incurred losses to estimate ultimate losses, they may be more reliable than the other methods that use incurred losses in situations where there are significant changes in how incurred losses are established by a company's claims adjusters. However, historical paid loss development methods are more leveraged (meaning that small changes in payments have a larger impact on estimates of ultimate losses) than actuarial methods that use incurred losses because cumulative loss payments take much longer to equal the expected ultimate losses than

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cumulative incurred amounts. In addition, and for similar reasons, historical paid loss development methods are often slow to react to situations when new or different factors arise than those that have affected paid losses in the past.

- *Adjusted historical paid and incurred loss development methods* - these methods take traditional historical paid and incurred loss development methods and adjust them for the estimated impact of changes from the past in factors such as inflation, the speed of claim payments or the adequacy of case reserves. Adjusted historical paid and incurred loss development methods are often more reliable methods of predicting ultimate losses in periods of significant change, provided the actuaries can develop methods to reasonably quantify the impact of changes. As such, these methods utilize more judgment than historical paid and incurred loss development methods.
- *Bornhuetter-Ferguson ("B-F") paid and incurred loss methods* - these methods utilize actual paid and incurred losses and expected patterns of paid and incurred losses, taking the initial expected ultimate losses into account to determine an estimate of expected ultimate losses. The B-F paid and incurred loss methods are useful when there are few reported claims and a relatively less stable pattern of reported losses.
- *Frequency-Severity methods* - These methods utilize actual paid and incurred claim experience, but break the data down into its component pieces: claim counts, often expressed as a ratio to exposure or premium (frequency), and average claim size (severity). The component pieces are projected to an ultimate level and multiplied together to result in an estimate of ultimate loss. These methods are especially useful when the severity of claims can be confined to a relatively stable range of estimated ultimate average claim value.
- *Additional analyses* - other methodologies are often used in the reserving process for specific types of claims or events, such as catastrophic or other specific major events. These include vendor catastrophe models, which are typically used in the estimation of Loss Reserves at the early stage of known catastrophic events before information has been reported to an insurer or reinsurer.

In the initial reserving process for medium-tail and long-tail insurance lines (consisting of third party occurrence business, third party claims made business, and other exposures including surety, programs and contract binding exposures), the affiliated ceding company primarily relies on the expected loss method. The development of the Company's medium-tail and long-tail business may be unstable, especially if there are high severity major events, as a portion of the Company's casualty business is in high excess layers. As time passes, for a given accident year, additional weight is given to the paid and incurred B-F loss development methods and historical paid and incurred loss development methods in the reserving process. The affiliated ceding company makes a number of key assumptions in reserving for medium-tail and long-tail lines, including that the pricing loss ratio is the best estimate of the ultimate loss ratio at the time the policy is entered into, that the loss development patterns, which are based on a combination of company and industry loss development patterns and adjusted to reflect differences in the mix of business, are reasonable and that claims personnel and underwriters analyses of our exposure to major events are assumed to be the best estimate of exposure to the known claims on those events. The expected loss ratios used in the initial reserving process for medium-tail and long-tail business for recent accident years have varied over time, in some cases significantly, from earlier accident years. As the credibility of historical experience for earlier accident years increases, the experience from these accident years will be given a greater weighting in the actuarial analysis to determine future accident year expected loss ratios, adjusted for changes in pricing, loss trends, terms and conditions and reinsurance structure.

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The following table represents a reconciliation of the disclosures of net incurred and paid loss development tables to the reserve for losses and loss adjustment expenses as at December 31, 2023:

	<u>December 31, 2023</u>
Net outstanding liabilities	
Reinsurance	
Casualty	\$ 301,290
Total for short duration lines	<u>301,290</u>
Unpaid losses and loss adjustment expenses recoverable	
Reinsurance	
Casualty	—
Total for short duration lines	—
Unallocated claims adjustment expenses	\$ —
Reserve for losses and loss adjustment expenses	<u><u>\$ 301,290</u></u>

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5. Investment Information

Available For Sale Investments

The following table summarizes the fair value and cost or amortized cost of the Company's securities classified as available for sale:

	Estimated Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Expected Credit Losses	Cost or Amortized Cost
<u>December 31, 2023</u>					
Fixed maturities:					
Corporate bonds	\$ 172,369	\$ 3,331	\$ (117)	\$ (1)	\$ 169,156
Mortgage backed securities	16,253	235	—	—	16,018
Commercial mortgage backed securities	4,962	114	—	—	4,848
U.S. government and government agencies	54,099	730	—	—	53,369
Asset backed securities	17,061	60	(3)	—	17,004
Total	264,744	4,470	(120)	(1)	260,395
Short-term investments	1,311	—	—	—	1,311
Total	<u>\$ 266,055</u>	<u>\$ 4,470</u>	<u>\$ (120)</u>	<u>\$ (1)</u>	<u>\$ 261,706</u>
<u>December 31, 2022</u>					
Fixed maturities:					
Corporate bonds	\$ —	\$ —	\$ —	\$ —	\$ —
Mortgage backed securities	—	—	—	—	—
Commercial mortgage backed securities	—	—	—	—	—
U.S. government and government agencies	250,156	—	(912)	—	251,068
Asset backed securities	—	—	—	—	—
Total	250,156	—	(912)	—	251,068
Short-term investments	4,267	—	—	—	4,267
Total	<u>\$ 254,423</u>	<u>\$ —</u>	<u>\$ (912)</u>	<u>\$ —</u>	<u>\$ 255,335</u>

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The following table summarizes, for all available for sale securities in an unrealized loss position, the fair value and gross unrealized loss by length of time the security has been in a continual unrealized loss position:

	<u>Less than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	<u>Estimated Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>	<u>Gross Unrealized Losses</u>
December 31, 2023						
Fixed maturities:						
Corporate bonds	\$ 23,869	\$ (117)	\$ —	\$ —	\$ 23,869	\$ (117)
Mortgage backed securities	—	—	—	—	—	—
Commercial mortgage backed securities	—	—	—	—	—	—
U.S. government and government agencies	—	—	—	—	—	—
Asset backed securities	2,997	(3)	—	—	2,997	(3)
Total	26,866	(120)	—	—	26,866	(120)
Short-term investments	—	—	—	—	—	—
Total	\$ 26,866	\$ (120)	\$ —	\$ —	\$ 26,866	\$ (120)
December 31, 2022						
Fixed maturities:						
Corporate bonds	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Mortgage backed securities	—	—	—	—	—	—
Commercial mortgage backed securities	—	—	—	—	—	—
U.S. government and government agencies	250,156	(912)	—	—	250,156	(912)
Asset backed securities	—	—	—	—	—	—
Total	250,156	(912)	—	—	250,156	(912)
Short-term investments	—	—	—	—	—	—
Total	\$ 250,156	\$ (912)	\$ —	\$ —	\$ 250,156	\$ (912)

At December 31, 2023, on a lot level basis, approximately 10 security lots out of a total of approximately 82 security lots were in an unrealized loss position and the largest single unrealized loss from a single lot in the Company's fixed maturity portfolio was \$53 thousand. The Company believes that such securities were temporarily impaired at December 31, 2023. At December 31, 2022, on a lot level basis, approximately 1 security lots out of a total of approximately 2 security lots were in an unrealized loss position and the largest single unrealized loss from a single lot in the Company's fixed maturity portfolio was \$912 thousand.

The contractual maturities of the Company's fixed maturities are shown in the following table. Expected maturities, which are management's best estimates, will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Maturity	<u>December 31, 2023</u>		<u>December 31, 2022</u>	
	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>
Due in one year or less	\$ —	\$ —	\$ —	\$ —
Due after one year through five years	142,574	140,935	250,156	251,068
Due after five years through 10 years	83,894	81,591	—	—
Due after 10 years	—	—	—	—
	226,468	222,526	250,156	251,068
Mortgage backed securities	16,253	16,018	—	—
Commercial mortgage backed securities	4,962	4,848	—	—
Asset backed securities	17,061	17,004	—	—
Total	\$ 264,744	\$ 260,396	\$ 250,156	\$ 251,068

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Net Investment Income

The components of net investment income were derived from the following sources:

	Year Ended December 31, 2023	Period from October 31, 2022 to December 31, 2022
Fixed maturities	\$ 12,225	\$ 324
Short-term investments	245	35
Interest on funds withheld	17,426	—
Gross investment income	29,896	359
Investment expenses	(460)	—
Net investment income	<u>\$ 29,436</u>	<u>\$ 359</u>

Net Realized Gains (Losses)

Net realized gains (losses) were as follows:

	Year Ended December 31, 2023	Period from October 31, 2022 to December 31, 2022
Available for sale securities:		
Gross gains on investment sales	\$ 427	\$ —
Gross losses on investment sales	(3,026)	—
Allowance for credit losses:		
Investments related	(1)	—
Net realized gains (losses)	<u>\$ (2,600)</u>	<u>\$ —</u>

Allowance for Expected Credit Losses

The following table provides a roll forward of the allowance for expected credit losses of the Company's securities classified as available for sale:

	Year Ended December 31, 2023	Period from October 31, 2022 to December 31, 2022
	Corporate Bonds	Corporate Bonds
Balance at beginning of period	\$ —	\$ —
Additions for current-period provision for expected credit losses	50	—
Additions (reductions) for previously recognized expected credit losses	(48)	—
Reductions due to disposals	—	—
Balance at end of period	<u>\$ 1</u>	<u>\$ —</u>

6. Fair Value

Accounting guidance regarding fair value measurements addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under GAAP and provides a common definition of fair value to be used throughout GAAP. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly fashion between market participants at the measurement date. In addition, it establishes a three-level valuation hierarchy for the disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The level in the hierarchy within which a given fair value measurement falls is determined based on the lowest level input that is significant to the measurement (Level 1 being the highest priority and Level 3 being the lowest priority).

The levels in the hierarchy are defined as follows:

- Level 1: Inputs to the valuation methodology are observable inputs that reflect quoted prices (unadjusted) for *identical* assets or liabilities in *active markets*
- Level 2: Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement

Following is a description of the valuation methodologies used for securities measured at fair value, as well as the general classification of such securities pursuant to the valuation hierarchy. The Company reviews its securities measured at fair value and discusses the proper classification of such investments with investment advisers and others.

The Company determines the existence of an active market based on its judgment as to whether transactions for the financial instrument occur in such market with sufficient frequency and volume to provide reliable pricing information. The independent pricing sources obtain market quotations and actual transaction prices for securities that have quoted prices in active markets. The Company uses quoted values and other data provided by nationally recognized independent pricing sources as inputs into its process for determining fair values of its fixed maturity investments. To validate the techniques or models used by pricing sources, the Company's review process includes, but is not limited to: (i) quantitative analysis (e.g., comparing the quarterly return for each managed portfolio to its target benchmark, with significant differences identified and investigated); (ii) a review of the prices obtained in the pricing process and the range of resulting fair values; (iii) initial and ongoing evaluation of methodologies used by outside parties to calculate fair value; (iv) a comparison of the fair value estimates to the Company's knowledge of the current market; (v) a comparison of the pricing services' fair values to other pricing services' fair values for the same investments; and (vi) periodic back-testing, which includes randomly selecting purchased or sold securities and comparing the executed prices to the fair value estimates from the pricing service. A price source hierarchy was maintained in order to determine which price source would be used (*i.e.*, a price obtained from a pricing service with more seniority in the hierarchy will be used over a less senior one in all cases). The hierarchy prioritizes pricing services based on availability and reliability and assigns the highest priority to index providers. Based on the above review, the Company will challenge any prices for a security or portfolio which are considered not to be representative of fair value.

Fixed maturities

The Company uses the market approach valuation technique to estimate the fair value of its fixed maturity securities, when possible. The market approach includes obtaining prices from independent pricing services, such as index providers and pricing vendors, as well as to a lesser extent quotes from broker-dealers. The independent pricing sources obtain market quotations and actual transaction prices for securities that have quoted prices in active markets. Each source 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 source uses observable market inputs including, but not limited to, investment yields, credit risks and spreads, benchmarking of like securities, broker-dealer quotes, reported trades and sector groupings to determine a reasonable fair value. The following describes the significant inputs generally used to determine the fair value of the Company's fixed maturity securities by asset class:

- U.S. government and government agencies — valuations provided by independent pricing services, with all prices provided through index providers and pricing vendors. The Company determined that all U.S. Treasuries would be classified as Level 1 securities due to observed levels of trading activity, the high number of strongly correlated pricing quotes received on U.S. Treasuries and other factors. The fair values of U.S. government agency securities are generally determined using the

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spread above the risk-free yield curve. As the yields for the risk-free yield curve and the spreads for these securities are observable market inputs, the fair values of U.S. government agency securities are classified within Level 2.

- Corporate bonds — valuations provided by independent pricing services, substantially all through index providers and pricing vendors with a small amount through broker-dealers. The fair values of these securities are generally determined using the spread above the risk-free yield curve. These spreads are generally obtained from the new issue market, secondary trading and from broker-dealers who trade in the relevant security market. As the significant inputs used in the pricing process for corporate bonds are observable market inputs, the fair value of these securities are classified within Level 2. A small number of securities are included in Level 3 due to the lack of an available independent price source for such securities. As the significant inputs used to price these securities are unobservable, the fair value of such securities are classified as Level 3.
- Residential Mortgage-backed securities — valuations provided by independent pricing services, substantially all through pricing vendors and index providers with a small amount through broker-dealers. The fair values of these securities are generally determined through the use of pricing models (including Option Adjusted Spread) which use spreads to determine the expected average life of the securities. These spreads are generally obtained from the new issue market, secondary trading and from broker-dealers who trade in the relevant security market. The pricing services also review prepayment speeds and other indicators, when applicable. As the significant inputs used in the pricing process for mortgage-backed securities are observable market inputs, the fair value of these securities are classified within Level 2.
- Commercial mortgage-backed securities — valuations provided by independent pricing services, substantially all through index providers and pricing vendors with a small amount through broker-dealers. The fair values of these securities are generally determined through the use of pricing models which use spreads to determine the appropriate average life of the securities. These spreads are generally obtained from the new issue market, secondary trading and from broker-dealers who trade in the relevant security market. As the significant inputs used in the pricing process for commercial mortgage-backed securities are observable market inputs, the fair value of these securities are classified within Level 2.
- Asset-backed securities — valuations provided by independent pricing services, substantially all through index providers and pricing vendors with a small amount through broker-dealers. The fair values of these securities are generally determined through the use of pricing models (including Option Adjusted Spread) which use spreads to determine the appropriate average life of the securities. These spreads are generally obtained from the new issue market, secondary trading and from broker-dealers who trade in the relevant security market. As the significant inputs used in the pricing process for asset-backed securities are observable market inputs, the fair value of these securities are classified within Level 2. A small number of securities are included in Level 3 due to a low level of transparency on the inputs used in the pricing process.

Short-term investments

The Company determined that certain of its short-term investments held in highly liquid money market-type funds, U.S. Treasury bills and commercial paper would be included in Level 1 as their fair values are based on quoted market prices in active markets. The fair values of other short-term investments are generally determined using the spread above the risk-free yield curve and are classified within Level 2.

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The following table presents the Company's financial assets and liabilities measured at fair value by level at December 31, 2023:

	Fair Value Measurement Using:			
	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Assets measured at fair value:</u>				
Available for sale securities:				
Fixed maturities:				
Corporate bonds	\$ 172,369	\$ —	\$ 172,369	\$ —
Mortgage backed securities	16,253	—	16,253	—
Commercial mortgage backed securities	4,962	—	4,962	—
U.S. government and government agencies	54,099	54,099	—	—
Asset backed securities	17,061	—	17,061	—
Total	264,744	54,099	210,645	—
Short-term investments				
	1,311	1,311	—	—
Total assets measured at fair value	\$ 266,055	\$ 55,410	\$ 210,645	\$ —

The following table presents the Company's financial assets and liabilities measured at fair value by level at December 31, 2022:

	Fair Value Measurement Using:			
	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Assets measured at fair value:</u>				
Available for sale securities:				
Fixed maturities:				
Corporate bonds	\$ —	\$ —	\$ —	\$ —
Mortgage backed securities	—	—	—	—
Commercial mortgage backed securities	—	—	—	—
U.S. government and government agencies	250,156	250,156	—	—
Asset backed securities	—	—	—	—
Total	250,156	250,156	—	—
Short-term investments				
	4,267	4,267	—	—
Total assets measured at fair value	\$ 254,423	\$ 254,423	\$ —	\$ —

Financial Instruments Disclosed, But Not Carried, At Fair Value

The Company uses various financial instruments in the normal course of its business. The carrying values of cash, accrued investment income, receivable for securities sold, certain other assets, payable for securities purchased and certain other liabilities approximated their fair values at December 31, 2023, due to their respective short maturities. As these financial instruments are not actively traded, their respective fair values are classified within Level 2.

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7. Other Comprehensive Income (Loss)

The following table presents the changes in each component of AOCI, net of noncontrolling interests:

	Unrealized Appreciation on Available-For-Sale Investments
Year Ended December 31, 2023	
Beginning balance	\$ (720)
Other comprehensive income (loss) before reclassifications	2,074
Amounts reclassified from accumulated other comprehensive income	2,082
Net current period other comprehensive income (loss)	4,156
Ending balance	\$ 3,436
Period from October 31, 2022 to December 31, 2022	
Beginning balance	\$ —
Other comprehensive income (loss) before reclassifications	(720)
Amounts reclassified from accumulated other comprehensive income	
Net current period other comprehensive income (loss)	(720)
Ending balance	\$ (720)

The following table presents details about amounts reclassified from accumulated other comprehensive income:

Details About AOCI Components	Statement of Income Line Item That Includes Reclassification	Amounts Reclassified from AOCI	
		Year Ended December 31, 2023	Period from October 31, 2022 to December 31, 2022
Unrealized appreciation on available-for-sale investments			
	Net realized gains	\$ 2,599	\$ —
	Provision for credit losses	1	—
	Total before tax	2,600	—
	Income tax expense	(518)	—
	Net of tax	\$ 2,082	\$ —

Following are the related tax effects allocated to each component of other comprehensive income (loss):

	Before Tax Amount	Tax Expense (Benefit)	Net of Tax Amount
Year Ended December 31, 2023			
Unrealized appreciation (decline) in value of investments:			
Unrealized holding gains (losses) arising during period	\$ 2,661	\$ 587	\$ 2,074
Less reclassification of net realized gains (losses) included in net income	(2,600)	(518)	(2,082)
Other comprehensive income (loss)	\$ 5,261	\$ 1,105	\$ 4,156
Period from October 31, 2022 to December 31, 2022			
Unrealized appreciation (decline) in value of investments:			
Unrealized holding gains (losses) arising during period	\$ (912)	\$ (191)	\$ (721)
Less reclassification of net realized gains (losses) included in net income	—	—	—
Other comprehensive income (loss)	\$ (912)	\$ (191)	\$ (721)

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8. Income Taxes

Arch Group Reinsurance Ltd. is incorporated under the laws of Bermuda and has made an election under Internal Revenue Code (IRC) Section 953(d) to be treated as a U.S. corporation.

Under current Bermuda law the Company is not obligated to pay any taxes in Bermuda based upon income or capital gains. The Company has received a written undertaking from the Minister of Finance in Bermuda under the Exempted Undertakings Tax Protection Act 1966 assuring that, in the event that any legislation is enacted in Bermuda imposing any tax computed on profits, income, gain or appreciation on any capital asset, or any tax in the nature of estate duty or inheritance tax, such tax will not be applicable to Arch Group Reinsurance Ltd. or any of its operations until March 31, 2035. However, on December 27, 2023, the Government of Bermuda enacted the Bermuda CIT Act, which will become effective for tax years beginning on or after January 1, 2025. Given the potential for the new corporate income tax regime in Bermuda to supersede the Minister of Finance's assurance, the Company is likely to become subject to taxes in Bermuda before March 31, 2035.

The Bermuda CIT Act will apply a 15% corporate income tax to certain Bermuda constituent entities of multi-national groups in fiscal years beginning on or after January 1, 2025. The act includes a provision referred to as the economic transition adjustment, which is intended to provide a fair and equitable transition into the tax regime. Pursuant to this act, the Company recorded a \$4.8 million net deferred income tax asset in the fourth quarter of 2023, expected to be amortized over 15 years under the safe harbor method of the act. The Company is not expecting to pay additional Bermuda tax due to the act giving credit to U.S. tax accrued at 21%. The 21% U.S. tax, under current Bermuda law, is allowed as a full Foreign Tax Credit "FTC" against Bermuda tax of all Bermuda Constituent Entity members of the in Scope MNE Group for a fiscal year.

The components of income taxes attributable to operations were as follows:

	Year Ended December 31, 2023	Period from October 31, 2022 to December 31, 2022
Current expense (benefit):		
United States	\$ 717	\$ 7,588
Non-U.S.	—	—
	<u>717</u>	<u>7,588</u>
Deferred expense (benefit):		
United States	2,977	(7,540)
Non-U.S.	(4,822)	—
	<u>(1,845)</u>	<u>(7,540)</u>
Income tax expense (benefit)	\$ (1,128)	\$ 48

The Company's income or loss before income taxes was \$17.3 million and \$0.2 million for the periods ending December 31, 2023 and December 31, 2022, respectively.

The expected tax provision was computed on pre-tax income or loss using the United States statutory tax rate of 21%, as a result of the IRC Section 953(d) election. The Non-US deferred tax expense, as a result of the Bermuda CIT Act, has been calculated at the Bermuda tax rate of 15%.

A reconciliation of the difference between the provision for income taxes and the expected tax provision at the statutory income tax rate follows:

	Year Ended December 31, 2023	Period from October 31, 2022 to December 31, 2022
Expected income tax expense (benefit) computed on pre-tax income at weighted average income tax rate	\$ 3,666	\$ 47
Addition (reduction) in income tax expense (benefit) resulting from:		
Investment income	28	—
Change in tax rate	(4,822)	—
Income tax expense (benefit)	\$ (1,128)	\$ 47

The effect of a change in tax laws or rates on deferred income tax assets and liabilities is recognized in income in the period in which such change is enacted.

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Deferred income tax assets and liabilities reflect temporary differences based on enacted tax rates between the carrying amounts of assets and liabilities for financial reporting and income tax purposes.

Significant components of the Company's deferred income tax assets and liabilities were as follows:

	December 31,	
	2023	2022
Deferred income tax assets:		
Discounting of net loss reserves	\$ 10,288	\$ 7,540
Unrealized (Appreciation) Depreciation of Investments	—	191
Other, net	55	—
Deferred tax assets before valuation allowance	10,343	7,731
Valuation allowance	—	—
Deferred tax assets net of valuation allowance	10,343	7,731
Deferred income tax liabilities:		
Investment related	(1,871)	—
Total deferred tax liabilities	(1,871)	—
Net deferred income tax assets (liabilities)	\$ 8,472	\$ 7,731

The Company provides a valuation allowance to reduce the net value of certain deferred income tax assets to an amount which management expects to more likely than not be realized. As of December 31, 2023, the Company determined a valuation allowance was not required.

At December 31, 2023, the Company did not have any net operating loss carryforwards or tax credits.

The Company recognizes interest and penalties relating to unrecognized tax benefits in the provision for income taxes. As of December 31, 2023, the Company did not have any unrecognized tax benefits.

The Company participates in a tax sharing agreement with Arch Capital Group (U.S.) Inc. ("Arch U.S."). Under this agreement, the Company's taxes are computed as if it filed a separate tax return.

As of December 31, 2023, the Company's current income tax payable (included in "Other Liabilities") was \$2.9 million.

9. Transactions with Related Parties

On December 31, 2022, the Company entered into a loss portfolio transfer reinsurance agreement with Arch Insurance Company ("AIC"), a wholly owned subsidiary of the Arch Group. As a result, AIC ceded to AGRL on a 100% quota share basis AIC's net retained liability, net of inuring reinsurance, with respect to losses arising out of AIC's subject business on or after January 1, 2018, but prior to January 1, 2021. Subject business included policies issued in the following business divisions: Executive Assurance, Professional Liability, E&S Casualty, and High Excess Workers Compensation. There is no limit on the losses ceded to AGRL arising from the business ceded to it under the LPT. Ceded premium payable to AGRL was equal to ceded losses; and therefore, there was no gain or loss recognized at the inception of the contract. Approximately \$390.1 million of net liabilities was transferred to AGRL in 2022. As at December 31, 2023, the Company had loss reserves of \$301.3 million and a funds held by ceding reinsurers asset of \$307.2 million related to this transaction. As at December 31, 2022, the Company had loss reserves of \$390.1 million and a funds held by ceding reinsurers asset of \$390.1 million related to this transaction. Investment Income includes interest on fund held of \$17.4 million and \$0.0 million relating to this transaction for the periods ending December 31, 2023 and December 31, 2022, respectively.

Other Operating Expenses includes expense recharges from affiliates of \$0.3 million and \$0.1 million for the periods ending December 31, 2023 and December 31, 2022 respectively. Other Liabilities includes amounts due to affiliates of \$0.6 million and \$0.1 million as at December 31, 2023 and 2022 respectively. Amounts due to affiliates are non-interest bearing and payable on demand.

During 2023 and 2022, the Company incurred approximately \$0.5 million and \$0.0 million, respectively, of investment service fees to Arch Investment Management Ltd. ("AIM"). Such fees are incurred pursuant to the terms of the investment service agreement between the Company and AIM, and are included in "Net investment income" in the statements of income.

10. Commitments and Contingencies

The Company does not have any material contingencies or commitments.

11. Shareholder's Equity

Authorized and Issued

The authorized and issued share capital of the Company consists of 120,000 common shares, par value of \$1.00 per share, at December 31, 2023 and 2022.

12. Legal Proceedings

The Company, in common with the insurance industry in general, is subject to litigation and arbitration in the normal course of its business. As of December 31, 2023, the Company was not a party to any litigation or arbitration which is expected by management to have a material adverse effect on the Company's results of operations and financial condition and liquidity.

13. Statutory Information

Under the Bermuda Insurance Act 1978 and related regulations, each as amended (the "Insurance Act"), Arch Group Reinsurance Ltd. is registered as a Class 3A general business insurer and provides affiliated quota share reinsurance covering certain U.S. business. The Insurance Act requires that both entities maintain minimum statutory capital and surplus equal to the greater of a minimum solvency margin and the enhanced capital requirement ("ECR") as determined by the Bermuda Monetary Authority ("BMA"). The ECR is calculated based on the Bermuda Solvency Capital Requirement model, a risk-based model that takes into account the risk characteristics of different aspects of the company's business. At December 31, 2023 and 2022, the actual and required capital and surplus were based on the economic balance sheet requirements.

Under the Insurance Act, Arch Re Bermuda and AGRL are restricted with respect to the payment of dividends. Each entity is prohibited from declaring or paying in any financial year dividends of more than 25% of its total statutory capital and surplus (as shown on its previous financial year's statutory balance sheet) unless it files, at least seven days before payment of such dividends, with the BMA an affidavit stating that it will continue to meet the required margins following the declaration of those dividends.

The actual and required statutory capital and surplus for Arch Group Reinsurance Limited at December 31, 2023 and 2022 was as follows

	Year Ended December 31, 2023	Period from October 31, 2022 to December 31, 2022
Actual capital and surplus	\$ 312,564	\$ 283,578
Required capital and surplus	74,143	115,157

The statutory net income (loss) for the Company for 2023 and 2022 was \$13.6 million and \$0.2 million respectively.

14. Subsequent Event

The Company has evaluated subsequent events through April 26, 2024, the date the financial statements were available to be issued, and no events have occurred subsequent to the balance sheet date and before the date of evaluation that would require disclosure.