

**Somers Group Holdings Ltd.**  
**Consolidated Financial Statements**

December 31, 2023



March 13, 2024

## Report of Independent Auditors

To the Board of Directors and Shareholder of Somers Group Holdings Ltd.

### Opinion

We have audited the accompanying consolidated financial statements of Somers Group Holdings Ltd. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of income (loss), comprehensive income (loss), changes in shareholder's equity and cash flows for the years then ended, including the related notes (collectively referred to as 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, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for opinion

We conducted our 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 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 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 consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated 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 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 the consolidated financial statements are available to be issued.

### Auditors' 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 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 judgement made by a reasonable user based on the consolidated financial statements.

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

- Exercise professional judgement and maintain professional skepticism 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 judgement, 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 required supplemental information pertaining to Short-Duration Contracts disclosures labelled as "Unaudited" within Note 6 on pages 21 to 26 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 supplemental 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.

*PricewaterhouseCoopers Ltd*

**Chartered Professional Accountants**

**SOMERS GROUP HOLDINGS LTD.**  
**CONSOLIDATED BALANCE SHEETS**  
(U.S. dollars in thousands)

	December 31, 2023	December 31, 2022
<b>Assets</b>		
Investments:		
Term loans, fair value option (Amortized cost: \$247,170 and \$471,477) .....	\$ 242,419	\$ 425,124
Short-term investments, fair value option (Cost: \$1,292,280 and \$929,524) .....	1,292,932	933,574
Fixed maturities, available for sale (Amortized cost: \$1,777,784 and \$1,305,342; net of allowance for credit losses: \$27,073 and \$43,226) .....	1,725,534	1,142,389
Equity securities, fair value through net income .....	21,110	29,547
<b>Total investments</b> .....	<b>3,281,995</b>	<b>2,530,634</b>
Cash and cash equivalents .....	206,857	265,873
Accrued investment income .....	26,546	18,184
Premiums receivable .....	769,386	632,318
Reinsurance recoverable on unpaid and paid losses and loss adjustment expenses .....	769,260	606,286
Prepaid reinsurance premiums .....	276,851	198,694
Deferred acquisition costs, net .....	179,945	119,140
Intangible assets .....	—	7,650
Other assets .....	294,968	259,739
Assets held for sale .....	146,759	—
<b>Total assets</b> .....	<b>\$ 5,952,567</b>	<b>\$ 4,638,518</b>
<b>Liabilities</b>		
Reserve for losses and loss adjustment expenses .....	\$ 2,726,302	\$ 2,445,298
Unearned premiums .....	963,319	667,214
Losses payable .....	133,414	102,302
Reinsurance balances payable .....	372,281	179,193
Long-term debt .....	236,140	235,765
Other liabilities .....	298,322	236,302
Liabilities held for sale .....	111,712	—
<b>Total liabilities</b> .....	<b>\$ 4,841,490</b>	<b>\$ 3,866,074</b>
<b>Shareholder's equity</b>		
Common shares (\$0.01 par; shares authorized: 120 million; shares issued: 100) .....	—	—
Additional paid-in capital .....	954,563	954,563
Accumulated other comprehensive income (loss) .....	(29,498)	(122,678)
Retained earnings (deficit) .....	186,012	(59,441)
<b>Total shareholder's equity</b> .....	<b>1,111,077</b>	<b>772,444</b>
<b>Total liabilities and shareholder's equity</b> .....	<b>\$ 5,952,567</b>	<b>\$ 4,638,518</b>

See Notes to Consolidated Financial Statements

**SOMERS GROUP HOLDINGS LTD.**  
**CONSOLIDATED STATEMENTS OF INCOME (LOSS)**  
(U.S. dollars in thousands)

	Year Ended December 31,	
	2023	2022
<b>Revenues</b>		
Gross premiums written .....	\$ 1,898,152	\$ 1,620,986
Gross premiums ceded .....	(583,290)	(445,481)
Net premiums written .....	1,314,862	1,175,505
Change in unearned premiums .....	(211,659)	(3,695)
Net premiums earned .....	1,103,203	1,171,810
Other underwriting income (loss) .....	652	998
Net investment income (loss) .....	151,593	(58,203)
Total revenues .....	1,255,448	1,114,605
<b>Expenses</b>		
Losses and loss adjustment expenses .....	(723,399)	(857,505)
Acquisition expenses .....	(296,501)	(290,697)
General and administrative expenses .....	(30,752)	(25,355)
Interest expense .....	(15,908)	(14,267)
Net foreign exchange gains (losses) .....	(25,130)	33,368
Amortization of intangible assets .....	—	(8,843)
Total expenses .....	(1,091,690)	(1,163,299)
Income (loss) before income taxes .....	163,758	(48,694)
Income tax benefit (expense) .....	81,695	(1,887)
Net income (loss) before preference dividends .....	245,453	(50,581)
Preference dividends .....	—	(2,203)
Net income (loss) available to common shareholders .....	\$ 245,453	\$ (52,784)

**SOMERS GROUP HOLDINGS LTD.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
(U.S. dollars in thousands)

	Year Ended December 31,	
	2023	2022
Comprehensive income (loss)		
Net income (loss) available to common shareholders	\$ 245,453	\$ (52,784)
Other comprehensive income (loss) net of income tax:		
Available for sale investments:		
Unrealized holding gains (losses) arising during the year	61,029	(181,725)
Unrealized foreign currency gains (losses) arising during the year	22,163	(21,204)
Credit loss provision (release) recognized in net income (loss)	(16,153)	38,760
Reclassification of net realized (gains) losses, included in net income (loss)	26,943	48,067
Deferred tax benefit (expense) on unrealized gains	(563)	108
Unrealized holding gains (losses) on available for sale investments	93,419	(115,994)
Foreign currency translation adjustments	(239)	(1,568)
Other comprehensive income (loss) net of income tax	93,180	(117,562)
Comprehensive income (loss)	\$ 338,633	\$ (170,346)

**SOMERS GROUP HOLDINGS LTD.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY**  
(U.S. dollars in thousands)

	Year Ended December 31,	
	2023	2022
<b>Common shares</b>		
Balance at beginning and end of year .....	\$ —	\$ —
<b>Additional paid-in capital</b>		
Balance at beginning and end of year .....	954,563	954,563
<b>Accumulated other comprehensive income (loss)</b>		
Balance at beginning of year .....	(122,678)	(5,116)
Unrealized holding gains (losses) of available for sale investments:		
Balance at beginning of year .....	(119,650)	(3,656)
Unrealized holding gains (losses) of available for sale investments, net of reclassification adjustment .....	93,419	(115,994)
Balance at end of year .....	(26,231)	(119,650)
Currency translation adjustment:		
Balance at beginning of year .....	(3,028)	(1,460)
Currency translation adjustment .....	(239)	(1,568)
Balance at end of year .....	(3,267)	(3,028)
Balance at end of year .....	(29,498)	(122,678)
<b>Retained earnings (deficit)</b>		
Balance at beginning of year .....	(59,441)	(6,657)
Net income (loss) before preference dividends .....	245,453	(50,581)
Preference share dividends paid and accrued .....	—	(2,203)
Balance at end of year .....	186,012	(59,441)
<b>Total shareholder's equity .....</b>	<b>\$ 1,111,077</b>	<b>\$ 772,444</b>

**SOMERS GROUP HOLDINGS LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(U.S. dollars in thousands)

	Year Ended December 31,	
	2023	2022
<b>Operating Activities</b>		
Net income (loss) before preference dividends	\$ 245,453	\$ (50,581)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Net realized and unrealized (gains) losses on investments	1,959	149,942
Amortization of fixed assets	258	144
Amortization of intangible assets	—	8,843
Changes in:		
Accrued investment income	(8,285)	(4,322)
Premiums receivable	(126,874)	(237,800)
Reinsurance recoverable on unpaid and paid losses and loss adjustment expenses	(202,683)	(44,408)
Prepaid reinsurance premiums	(80,387)	(81,635)
Deferred acquisition costs, net	(58,181)	(25,534)
Reserve for losses and loss adjustment expenses	277,277	398,358
Unearned premiums	292,046	85,330
Reinsurance balances payable	186,287	36,661
Other liabilities	83,849	178,022
Other items	(112,609)	(70,904)
Net Cash Provided By (Used For) Operating Activities	498,110	342,116
<b>Investing Activities</b>		
Purchase of term loans	(194,709)	(590,793)
Purchase of fixed maturity investments	(1,251,772)	(1,282,430)
Purchase of short-term investments with maturities over three months	(111,589)	(122,290)
Proceeds from sale, redemptions and maturity of term loans	460,790	581,352
Proceeds from sales, redemptions and maturities of fixed maturity investments	746,820	1,206,368
Proceeds from sales, redemptions and maturities of short-term investments with maturities over three months	23,820	2,020
Net (purchases) sales of short-term investments with maturities less than three months	(242,798)	(258,773)
Purchases of equity securities	(3,406)	(196)
Proceeds from sales of equity securities	14,952	84,609
Net settlements of derivative instruments	231	3,007
(Purchases) sales of furniture, equipment and other assets	(378)	(606)
Net Cash Provided By (Used For) Investing Activities	(558,039)	(377,732)
<b>Financing Activities</b>		
Dividends paid on redeemable preference shares	—	(2,203)
Redemption of redeemable preference shares	—	(53,630)
Net proceeds from issuance of long-term debt	—	63,500
Net Cash Provided By (Used For) Financing Activities	—	7,667
Effects of exchange rate changes on foreign currency cash	6,701	(26,806)
Increase (decrease) in cash	(53,228)	(54,755)
Cash and cash equivalents, beginning of year	265,873	320,628
Cash and cash equivalents, held for sale assets	(5,788)	—
Cash and cash equivalents, end of year	\$ 206,857	\$ 265,873
<b>Supplementary information</b>		
Income taxes paid	\$ 1,020	\$ 712
Interest paid	\$ 15,503	\$ 13,891
Non-cash exchange of investments	\$ 6,896	\$ —

See Notes to Consolidated Financial Statements



**SOMERS GROUP HOLDINGS LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(U.S. dollars in thousands, except share data)

## **1. Organization**

Somers Group Holdings Ltd. ("Somers", or the "Company") and its wholly-owned subsidiary, Somers Re Ltd. ("Somers Re"), were incorporated under the laws of Bermuda on July 19, 2013. Somers is a wholly-owned subsidiary of Greysbridge Holdings Ltd. ("Greysbridge"). Greysbridge is approximately 40% owned by Arch Capital Group Ltd. ("ACGL" or "Arch") and approximately 30% owned each by funds managed by Kelso & Company ("Kelso") and Warburg Pincus LLC ("Warburg Pincus"). See Note 12, "Transactions with related parties" for further details.

Somers was formerly known as Watford Holdings Ltd. and Somers Re was formerly known as Watford Re Ltd. until November 4, 2021. All references to Somers and Somers Re throughout the notes to the consolidated financial statements also refer to legacy Watford Holdings Ltd. and Watford Re Ltd., unless otherwise indicated.

As used herein, the terms "Companies," or "we," "us" and "our," collectively refer to the Company and/or, as applicable, its subsidiaries. Somers Re is licensed as a Class 4 multi-line insurer under the Insurance Act 1978 of Bermuda, as amended, and related regulations (the "Insurance Act") and is licensed to underwrite general business on an insurance and reinsurance basis. Through Somers Re, the Company primarily underwrites reinsurance on exposures worldwide.

Somers Re has four operating subsidiaries underwriting insurance exposures in the U.S. and Europe. Watford Specialty Insurance Company Ltd. ("WSIC") is a U.S.-based excess & surplus ("E&S") lines insurer. Watford Insurance Company Ltd. ("WIC"), is a U.S.-based insurer writing admitted (or licensed) U.S. insurance business. At December 31, 2023, WIC's assets and liabilities are recorded separately in "assets held for sale" and "liabilities held for sale," respectively, on the Company's consolidated balance sheets. See Note 3, "Assets and liabilities held for sale" for further details. Watford Insurance Company Europe Limited ("WICE") was incorporated in Gibraltar, and writes personal lines and commercial lines of property & casualty ("P&C") insurance in the United Kingdom. Axeria IARD ("Axeria"), a P&C insurance company based in France, writes insurance business in Europe.

## **2. Basis of presentation and significant accounting policies**

### ***(a) Basis of presentation***

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") and include the accounts of the Company and its subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation. 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 from those estimates and assumptions.

### ***(b) Premium revenues and related expenses***

Reinsurance premiums written are recorded based on the type of contracts the Company writes. Premiums on the Company's excess of loss and pro rata reinsurance contracts are estimated when the business is underwritten. For excess of loss contracts, premiums are recorded as written, on the inception date, based on the terms of the contract. Estimates of premiums written under pro rata contracts are recorded in the period in which the underlying risks are expected to incept and are based on information provided by the brokers and the ceding companies. For multi-year reinsurance treaties which are payable in annual installments, premium recognition depends on whether the contract is non-cancellable. If either party retains the ability to cancel or commute coverage prior to expiration, only the initial annual installment is included as premiums written at policy inception. The remaining annual installments would then be included as premiums written at

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each successive anniversary date within the multi-year term. If, on the other hand, the contract is non-cancellable, the full multi-year premiums would be recognized as written at policy inception.

Reinsurance premiums written and assumed include amounts reported by brokers and ceding companies, supplemented by the Company's own estimates of premiums where reports have not been received. On an ongoing basis, the Company reviews the amounts reported by these third parties for reasonableness based on their experience and knowledge of the subject class of business. Premium estimates are updated when new information is received and differences between such estimates and actual amounts are recorded in the period in which estimates are changed or the actual amounts are determined. Adjustments to premium estimates could be material and such adjustments could directly and significantly impact earnings favorably or unfavorably in the period they are determined because the estimated premium may be fully or substantially earned.

Reinstatement premiums are recognized at the time a loss event occurs, where coverage limits for the remaining life of the contract are reinstated under predefined contract terms. Reinstatement premiums, if obligatory, are fully earned when recognized. The accrual of reinstatement premiums is based on an estimate of losses and loss adjustment expenses, which reflects management's judgment.

Reinsurance premiums written on a losses occurring basis, irrespective of the class of business, are generally earned on a pro rata basis over the term of the underlying policies or reinsurance contracts. Contracts which are written on a "risks attaching" basis are written and earned over the terms of the underlying contracts and policies. Certain of the Company's reinsurance contracts include provisions that adjust premiums or acquisition expenses based upon the experience under the contracts. Premiums written and earned, as well as related acquisition expenses are recorded based upon the projected experience under such contracts.

Acquisition expenses consist primarily of brokerage fees, ceding commissions, premium taxes, underwriting fees payable to Arch under our services agreements and other direct expenses that relate to our contracts and policies and are presented net of commissions received from reinsurance we purchase. Deferred acquisition expenses are amortized over the related contract term in the same proportion that the premiums are earned. Acquisition expenses may also include profit commissions paid to our sources of business in the event of favorable underwriting experience.

Deferred acquisition costs, which are based on the related unearned premiums, are carried at their estimated realizable value and take into account anticipated losses and loss adjustment expenses, based on historical and current experience, and anticipated investment income. A premium deficiency occurs if the sum of anticipated losses and loss adjustment expenses, unamortized acquisition costs and anticipated investment income exceed unearned premiums. A premium deficiency is recorded by charging any unamortized acquisition costs to expense to the extent required in order to eliminate the deficiency. If the premium deficiency exceeds unamortized acquisition costs then a liability is accrued for the excess deficiency. No premium deficiency charges were recorded by the Company for the years ended December 31, 2023 and 2022.

***(c) Reinsurance ceded***

The accompanying consolidated statements of income (loss) reflect premiums, losses and loss adjustment expenses and acquisition expenses, net of reinsurance ceded (see Note 4, "Reinsurance"). Ceded unearned premiums are reported as prepaid reinsurance premiums and estimated amounts of reinsurance recoverable on unpaid losses are reported as reinsurance recoverable on unpaid losses and loss adjustment expenses. Reinsurance premiums ceded and reinsurance recoverable on unpaid losses and loss adjustment expenses are estimated in a manner consistent with that of the original policies issued and the terms of the reinsurance contracts. If the reinsurers are unable to satisfy their obligations under the agreements, the Company would be liable for such defaulted amounts. Reinsurance ceding commissions are recognized as income on a pro rata basis over the period of risk. Reinsurance ceding commissions that represent a recovery of

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acquisition costs are recognized as a reduction to acquisition expenses while the remaining portion is deferred.

***(d) Cash and cash equivalents***

Cash includes cash equivalents, which are investments with original maturities of three months or less that are not managed by the external Investment Managers. Short-term investments include certain cash equivalents which are part of investment portfolios under the management of our Investment Managers.

***(e) Investments***

The Company elected the fair value option for its term loan and short-term investments in accordance with Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("ASC") 825, *Financial Instruments*. As a result, such investments are reported at fair value with changes in fair value included in "net investment income (loss)" in the consolidated statements of income (loss).

The Company has elected to classify debt instruments as "available for sale". Accordingly, such investments 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 (loss) in shareholder's equity. In addition, the Company has elected to classify its equity securities as fair value through net income, with changes in fair value included in "net investment income (loss)" in the consolidated statements of income (loss). See Note 8, "Investments" for further information about the investment portfolios.

The fair values of investments are based on 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 are comprised of securities due to mature within one year of the date of issue. Investment transactions are recorded on a trade date basis with balances pending settlement recorded separately in the consolidated balance sheets as "other assets" or "other liabilities." See Note 9, "Fair value" for further details.

***Investment Impairments***

The Company conducts a periodic review to identify and evaluate invested assets that may have credit impairments.

***Credit Impairments of Available For Sale Fixed Maturities***

The Company derives estimated credit losses for fixed maturities 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 of the issuer, 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 in other comprehensive income (loss) while the allowance for credit loss is charged to "net investment income (loss)" in the Company's consolidated statements of income (loss).

For fixed maturity investments the Company intends to sell or for which it is more likely than not that the Company will be required to sell before an anticipated recovery in value, the full amount of the impairment is included in "net investment income (loss)" on the Company's consolidated statements of income (loss). The new cost basis of the investment is the previous amortized cost basis less the impairment recognized in "net investment income (loss)." The new cost basis is not adjusted for any subsequent recoveries in fair value.

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The Company reports accrued investment income separately from available for sale fixed maturities, and has elected not to measure an allowance for credit losses for accrued investment income. Uncollectible accrued interest is written off when the Company determines that no additional interest payments will be received.

Investment gains or losses realized on the sale of investments are determined on a first-in, first-out basis and are reflected in net income. 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 (loss), net of applicable deferred income tax.

Net interest income includes interest income together with amortization of market premiums and discounts, net of investment management fees, interest expense and custody fees. Anticipated prepayments and expected maturities are used in applying the interest method for certain investments, such as 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 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 interest income when determined. Investment gains or losses realized on the sale of investments are determined on a first-in, first-out basis and are reflected in "net investment income (loss)" in the consolidated statements of income (loss). See Note 8, "Investments" for further details.

***(f) Derivative instruments***

The Company recognizes all derivative financial instruments, including embedded derivative instruments, at fair value in the consolidated balance sheets. The Company's investment and underwriting strategy allows for the limited use of derivative instruments to enhance investment performance, replicate investment positions or manage market exposures and duration risk that would be allowed under the Company's investment guidelines if implemented in other ways. For such investment derivative instruments, changes in assets and liabilities measured at fair value are recorded as a component of "net investment income (loss)." In addition, the Company's derivative instruments include amounts related to underwriting activities where an insurance or reinsurance contract meets the accounting definition of a derivative instrument. For such contracts, changes in fair value are reflected in "other underwriting income (loss)" in the consolidated statements of income (loss), as the underlying contract originates from the Company's underwriting operations. See Note 10, "Derivative instruments" for further details.

***(g) 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, 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 ceding company and industry loss development patterns. The Company selects the initial expected losses and loss adjustment expense ratios based on information derived by the underwriting teams 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. The Company, in conjunction with data and analysis supplied by the underwriting teams, reviews the reserves 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. Inherent in the estimates of ultimate losses and loss adjustment expenses are expected trends in claims severity

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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 consolidated financial statements. Losses and loss adjustment expenses are recorded on an undiscounted basis. See Note 5, "Reserve for losses and loss adjustment expenses" for further details.

***(h) Foreign exchange***

Monetary assets and liabilities, such as premiums receivable and the reserve for losses and loss adjustment expenses, denominated in foreign currencies are revalued at the exchange rate in effect at the balance sheet date with the resulting foreign exchange gains and losses included in net income. Accounts that are classified as non-monetary, such as deferred acquisition costs and the unearned premium reserves, are not subsequently re-measured. In the case of foreign currency-denominated cash and investments, the change in exchange rates between the local currency and the Company's functional currency at each balance sheet date is included as a component of "net foreign exchange gains (losses)" included in the consolidated statements of income (loss). In the case of foreign currency denominated fixed maturity securities which are classified as "available for sale," the change in exchange rates between the local currency in which the investments are denominated and the Company's functional currency at each balance sheet date is included in unrealized appreciation or decline in value of securities, a component of accumulated other comprehensive income (loss), net of applicable deferred income tax.

Assets and liabilities of foreign operations whose functional currency is not the U.S. dollar are translated at the prevailing exchange rates at each balance sheet date. Revenues and expenses of such foreign operations are translated at average exchange rates during the year. The net effect of the translation adjustments for foreign operations is included in accumulated other comprehensive income (loss).

***(i) Intangible assets***

The Company's intangible assets with indefinite lives include licenses held by its U.S. insurance subsidiary which allow such subsidiary to write insurance business in various jurisdictions. These indefinite-lived intangible assets are carried at or below fair value and are tested annually for impairment, either qualitatively or quantitatively, and between annual tests if events or change in circumstances indicate that it is more likely than not that the asset is impaired. If intangible assets are impaired, such assets are written down to their fair values with the related expense recorded in the Company's consolidated statements of income (loss). As of December 31, 2023, the Company had entered into an agreement to sell WIC and, as the transaction met the criteria to be classified as held for sale, the intangibles are reflected in "assets held for sale" in the Company's consolidated balance sheet. See Note 3, "Assets and liabilities held for sale" for more information.

***(j) 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 11, "Income taxes" for more information.

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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 related interest and penalties in income tax expense.

***(k) Reinsurance recoverables***

In the normal course of business, the Company's subsidiaries cede a portion of their premium and losses through pro rata and excess of loss reinsurance agreements on a treaty or facultative basis. Reinsurance recoverables are recorded as assets, predicated on the reinsurers' ability to meet their obligations under the reinsurance agreements. In certain instances, the Company obtains collateral, including letters of credit and trust accounts, to further reduce the credit exposure on its reinsurance recoverables. The Company reports its reinsurance recoverables net of an allowance for expected credit loss in the Company's consolidated balance sheets. The allowance is based upon the Company's ongoing review of amounts outstanding, the financial condition of its reinsurers, amounts and form of collateral obtained and other relevant factors. A ratings based probability-of-default and loss-given-default methodology is used to estimate the allowance for expected credit loss. Any allowance for credit losses is charged to the Company's consolidated statements of income (loss) in the period the recoverable is recorded and revised in subsequent periods to reflect changes in the Company's estimate of expected credit losses.

***(l) Premiums receivable and unearned premium reserves***

Premiums are recognized as revenues pro rata over the policy period. Unearned premium reserves represent the unexpired portion of policy premiums. Accrued retrospective premiums are included in premiums receivable balances. Premiums receivable balances are reported net of an allowance for expected credit losses. The Company monitors credit risk associated with premiums receivable through its ongoing review of amounts outstanding, aging of the receivable, historical loss data and counterparty financial strength measures. The allowance also includes estimated uncollectible amounts related to dispute risk. Amounts deemed to be uncollectible, are written off against the allowance. In certain instances, credit risk may be reduced by the Company's right to offset loss obligations or unearned premiums against premiums receivable. Any allowance for credit losses is charged to the Company's consolidated statements of income (loss) in the period the receivable is recorded and revised in subsequent periods to reflect changes in the Company's estimate of expected credit losses.

***(m) Assets and liabilities held for sale***

The Company classifies long-lived assets or disposal groups to be sold as held for sale in the period in which all of the following criteria are met: management, having the authority to approve the action, commits to a plan to sell the asset or disposal group; the asset or disposal group is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets or disposal groups; an active program to locate a buyer and other actions required to complete the plan to sell the asset or disposal group have been initiated; the sale of the asset or disposal group is probable, and transfer of the asset or disposal group is expected to qualify for recognition as a completed sale within one year, except if events or circumstances beyond the Company's control extend the period of time required to sell the asset or disposal group beyond one year; the asset or disposal group is being actively marketed for sale at a price that is reasonable in relation to its current fair value; and actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

A long-lived asset or disposal group that is classified as held for sale is valued at the lower of its carrying value or fair value less any costs to sell. Any loss resulting from this measurement is

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recognized in the period in which the held-for-sale criteria are met. Conversely, gains are not recognized on the sale of a long-lived asset or disposal group until the date of sale.

Upon determining that a long-lived asset or disposal group meets the criteria to be classified as held for sale, the Company shall no longer record depreciation (amortization) on the assets. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale shall continue to be accrued. See Note 3, "Assets and liabilities held for sale" for further details.

***(n) Recent accounting pronouncements***

***Recently announced accounting standards and accounting standard updates ("ASU")***

In December 2023, the FASB issued ASU No. 2023-09, *Improvements to Income Tax Disclosures* ("ASU 2023-09"). Among other things, ASU 2023-09 addresses investor requests for more transparency about income tax information through improvements to income tax disclosures primarily related to the rate reconciliation and income taxes paid information. ASU 2023-09 is effective for entities, other than public business entities, for fiscal years beginning after December 15, 2025. The Company is currently evaluating the impact of this guidance.

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### 3. Assets and liabilities held for sale

As of December 31, 2023, the Company had entered into an agreement to sell WIC to streamline insurance operations. As this transaction met the criteria to be classified as held for sale, the relevant assets and liabilities must be recorded at the lower of carrying value and fair value, less any costs to sell based on the sale price. The Company is not expecting to record a material gain or loss on the sale of WIC, and expects that this transaction will be completed within twelve months from the balance sheet date.

The following table presents the major classes of assets and liabilities that were classified as held for sale in the Company's consolidated balance sheets:

	December 31, 2023
	<i>(\$ in thousands)</i>
<b>Assets</b>	
Investments:	
Short-term investments, fair value option (Cost: \$7,249) .....	\$ 7,249
Fixed maturities, available for sale (Amortized cost: \$16,471; net of allowance for credit losses: \$Nil) .....	15,854
<b>Total investments</b> .....	<b>23,103</b>
Cash and cash equivalents .....	5,788
Premiums receivable .....	5,470
Reinsurance recoverable on unpaid and paid losses and loss adjustment expenses .....	90,849
Prepaid reinsurance premiums .....	4,830
Intangible assets .....	7,650
Other assets .....	9,069
<b>Total assets</b> .....	<b>\$ 146,759</b>
<b>Liabilities</b>	
Reserve for losses and loss adjustment expenses .....	\$ 99,576
Unearned premiums .....	5,428
Reinsurance balances payable .....	4,125
Other liabilities .....	2,583
<b>Total liabilities</b> .....	<b>\$ 111,712</b>



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#### 4. Reinsurance

Through reinsurance agreements with Arch Reinsurance Ltd. ("ARL"), Arch Reinsurance Company ("ARC") and Arch Reinsurance Europe Underwriting Designated Activity Company ("ARE"), which are subsidiaries of ACGL, as well as through other third-party reinsurance agreements, the Company cedes a portion of its premiums. The effects of reinsurance on the Company's written and earned premiums, losses and loss adjustment expenses were as follows:

	Year Ended December 31,	
	2023	2022
<i>(\$ in thousands)</i>		
<b>Premiums written</b>		
Direct .....	\$ 850,799	\$ 602,092
Assumed .....	1,047,353	1,018,894
Ceded .....	(583,290)	(445,481)
Net .....	<u>\$ 1,314,862</u>	<u>\$ 1,175,505</u>
<b>Premiums earned</b>		
Direct .....	\$ 679,291	\$ 552,350
Assumed .....	932,322	976,471
Ceded .....	(508,410)	(357,011)
Net .....	<u>\$ 1,103,203</u>	<u>\$ 1,171,810</u>
<b>Losses and loss adjustment expenses</b>		
Direct .....	\$ 497,293	\$ 433,548
Assumed .....	586,967	661,408
Ceded .....	(360,861)	(237,451)
Net .....	<u>\$ 723,399</u>	<u>\$ 857,505</u>

The Company monitors the financial condition of its reinsurers and attempts to place coverages only with financially sound carriers. At December 31, 2023 and 2022, 100% of reinsurance recoverable on unpaid and paid losses and loss adjustment expenses were due from carriers which had an A.M. Best, Standard & Poor or Fitch rating of "A-" or better.

At December 31, 2023 and 2022, approximately 47% and 42%, respectively, of the Company's reinsurance recoverable on unpaid and paid losses and loss adjustment expenses (not including prepaid reinsurance premiums) were due from ARL, ARC and ARE, each of which have ratings of "A+" from A.M. Best. Although the Company has not experienced any material credit losses to date, an inability of its reinsurers to meet their obligations to it over the relevant exposure periods for any reason could have a material adverse effect on its financial condition and results of operations.

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## 5. 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 for the years ended December 31, 2023 and 2022.

	Year Ended December 31,	
	2023	2022
	(\$ in thousands)	
Gross reserve for losses and loss adjustment expenses at beginning of year	\$ 2,445,298	\$ 2,134,495
Unpaid losses and loss adjustment expenses recoverable	496,405	463,134
Net reserve for losses and loss adjustment expenses at beginning of year	1,948,893	1,671,361
Net incurred losses and loss adjustment expenses relating to losses occurring in:		
Current year	692,476	844,907
Prior years	30,923	12,598
Total net losses and loss adjustment expenses	723,399	857,505
Reclassified to held for sale, net of reinsurance recoverables	(9,921)	—
Foreign exchange losses (gains)	57,029	(95,135)
Net paid losses and loss adjustment expenses relating to losses occurring in:		
Current year	(165,740)	(171,127)
Prior years	(432,785)	(313,711)
Total paid losses and loss adjustment expenses	(598,525)	(484,838)
Net reserve for losses and loss adjustment expenses at end of year	2,120,875	1,948,893
Unpaid losses and loss adjustment expenses recoverable	605,427	496,405
Gross reserve for losses and loss adjustment expenses at end of year	\$ 2,726,302	\$ 2,445,298

During 2023, the Company recorded net unfavorable development on prior year loss reserves of \$30.9 million. Net unfavorable development was experienced on casualty reinsurance losses of \$48.7 million and insurance programs and coinsurance losses of \$12.6 million. This unfavorable development was partially offset by favorable development on other specialty reinsurance losses of \$21.8 million and property catastrophe reinsurance losses of \$8.6 million.

During 2022, the Company recorded net unfavorable development on prior year loss reserves of \$12.6 million. Net unfavorable development was experienced on casualty reinsurance losses of \$21.1 million and insurance programs and coinsurance losses of \$10.6 million. This unfavorable development was partially offset by favorable development on other specialty reinsurance losses of \$15.4 million and property catastrophe reinsurance losses of \$3.7 million.

## 6. Short duration contracts

The Company is required by applicable insurance laws and regulations and U.S. GAAP to establish reserves for losses and loss adjustment expenses (“loss reserves”) that arise from the business it underwrites. Loss reserves are balance sheet liabilities representing 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.

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Loss reserves are comprised of (1) case reserves for claims reported, (2) additional case reserves, or ACRs, and (3) incurred but not reported (“IBNR”) reserves. Loss reserves are 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 reported or case reserves may be made as additional information regarding the claims 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 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 extrapolation 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 time lag between when a claim actually occurs and when it is reported and settled. During the claims reporting and settlement period, additional facts regarding coverages written in prior accident years, as well as about actual claims and trends, may become known and, as a result, management may adjust its reserves. If management determines that an adjustment is appropriate, the adjustment is recorded in the accounting period in which such determination is made in accordance with U.S. GAAP.

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. 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 accurately adjust for them so that the future can be projected 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 analysis, we apply several generally accepted actuarial methods, such as expected loss methods, historical paid and incurred loss development methods, Bornhuetter-Ferguson paid and incurred loss methods, on a quarterly basis. Each quarter, as part of the reserving process, actuaries reaffirm that the assumptions used in the reserving process continue to form a sound basis for projection of liabilities. If actual loss activity differs substantially from expectations based on historical information, an adjustment to loss reserves may be supported. Estimated loss reserves for more mature underwriting years are based more on actual loss activity and historical patterns than on the initial assumptions based on pricing indications. More recent underwriting years rely more heavily on internal pricing assumptions. We place 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. 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, and analysis of specific industry events, such as large lawsuits or claims.

The reinsurance business relies heavily on information reported by ceding companies, as discussed above. In order to determine the accuracy and completeness of such information, underwriters,

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actuaries, and claims personnel often perform audits of ceding companies and regularly review information received from ceding companies for unusual or unexpected results.

For insurance programs and coinsurance line of business, claim personnel, including those under service arrangements, determine whether to establish a case reserve for the estimated amount of the ultimate settlement of individual claims. We contract 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 these administrators is reviewed and monitored by such claims personnel.

The reserves for losses and loss adjustment expenses primarily relate to short-duration contracts with various characteristics (e.g., type of coverage, geography, claims duration). We have considered such information in determining the level of disaggregation for disclosures related to short-duration contracts.

The Company does not include claim count information in the short duration triangles for reinsurance. A significant percentage of reinsurance business is written on a proportional basis, for which individual loss information is typically unavailable.

For insurance programs and coinsurance line of business, we generally consider a reported claim to be per claimant, and we include claims with nil or nominal payments and/or case reserves.

We write the majority of reinsurance contracts on an underwriting year basis and therefore may involve multiple accident years. Pursuant to customary cedant/reinsurer reporting requirements, the cedant reports premium for a given contract to us in total for the contract period, not separated by accident year. Similarly, for certain contract structures, the paid and outstanding losses will also be reported in total for the contract period, not by accident year. The short duration disclosure requires us to separately disclose paid losses, case reserves and IBNR losses by accident year, which necessitates an allocation of the underwriting year data between each of the applicable accident years. To separate reported losses by accident year we employ certain assumptions, which can lead to anomalies in the presentation of individual accident year results.

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The following tables present information on the short-duration contracts by line of business:

<b>Casualty reinsurance - Pro Rata (\$000's)</b>											<b>December 31, 2023</b>
<b>Incurred losses and allocated loss adjustment expenses, net of reinsurance</b>											<b>Total of IBNR liabilities plus expected development on reported claims</b>
<b>Accident year</b>	<b>Year ended December 31,</b>										<b>2023</b>
	<b>2014 unaudited</b>	<b>2015 unaudited</b>	<b>2016 unaudited</b>	<b>2017 unaudited</b>	<b>2018 unaudited</b>	<b>2019 unaudited</b>	<b>2020 unaudited</b>	<b>2021 unaudited</b>	<b>2022 unaudited</b>	<b>2023</b>	
2014 .....	\$ 44,430	\$ 43,224	\$ 44,613	\$ 46,237	\$ 48,653	\$ 50,326	\$ 50,344	\$ 51,940	\$ 52,882	\$ 53,623	\$ 3,424
2015 .....		162,370	164,802	179,182	177,650	185,517	187,460	190,256	194,000	201,264	16,927
2016 .....			168,133	187,237	187,943	196,917	202,527	206,010	209,114	218,843	21,718
2017 .....				178,901	179,943	192,318	192,976	197,126	200,302	210,896	26,210
2018 .....					147,929	143,055	144,011	149,125	154,306	161,565	26,123
2019 .....						115,836	113,307	112,750	114,765	116,998	20,369
2020 .....							73,798	67,601	65,958	62,952	13,744
2021 .....								51,769	46,422	46,732	14,544
2022 .....									65,268	60,973	30,288
2023 .....										56,478	36,568
									<b>Total</b>	<b>\$ 1,190,324</b>	
<b>Cumulative paid losses and allocated loss adjustment expenses, net of reinsurance</b>											
2014 .....	\$ 938	\$ 6,874	\$ 14,017	\$ 20,804	\$ 25,614	\$ 32,169	\$ 35,973	\$ 40,427	\$ 43,190	\$ 44,591	
2015 .....		13,065	37,903	70,976	86,842	114,571	131,951	145,286	156,559	165,966	
2016 .....			11,413	45,368	68,841	111,258	134,061	148,583	163,531	175,737	
2017 .....				15,366	40,604	82,119	108,713	125,085	144,126	156,827	
2018 .....					11,130	35,894	60,439	80,303	100,352	113,144	
2019 .....						16,594	36,817	52,994	67,407	78,628	
2020 .....							11,295	24,069	33,445	39,693	
2021 .....								5,564	13,353	21,852	
2022 .....									6,317	16,625	
2023 .....										6,449	
									<b>Total</b>	<b>819,512</b>	
<b>Liabilities for losses and loss adjustment expenses, net of reinsurance</b>										<b>\$ 370,812</b>	

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**Casualty reinsurance - Excess of Loss (\$000's)**

Accident year	Year ended December 31,										December 31, 2023	Total of IBNR liabilities plus expected development on reported claims
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023		
	unaudited	unaudited	unaudited	unaudited	unaudited	unaudited	unaudited	unaudited	unaudited	unaudited		
2014	\$ 4,587	\$ 5,546	\$ 5,118	\$ 11,203	\$ 10,258	\$ 10,014	\$ 11,017	\$ 11,756	\$ 11,921	\$ 12,482	\$ 833	
2015		27,068	28,217	35,468	36,976	37,315	38,479	36,775	41,689	42,093	3,440	
2016			37,233	41,230	47,905	48,598	46,876	47,302	49,483	52,620	7,136	
2017				56,672	35,180	38,471	47,601	50,263	65,130	71,998	9,844	
2018					68,235	65,744	57,933	62,001	65,980	68,976	10,569	
2019						76,719	66,225	71,115	79,237	79,792	10,909	
2020							95,489	86,140	44,374	59,960	6,892	
2021								129,805	146,923	140,631	89,549	
2022									150,268	139,805	98,596	
2023										143,583	129,684	
									Total	\$ 811,940		
<b>Cumulative paid losses and allocated loss adjustment expenses, net of reinsurance</b>												
2014	\$ —	\$ 2	\$ 69	\$ 646	\$ 1,297	\$ 3,242	\$ 4,039	\$ 5,394	\$ 5,726	\$ 6,694		
2015		94	609	1,965	6,827	8,562	15,181	20,017	24,869	26,446		
2016			212	780	2,565	5,421	10,675	14,374	19,106	24,543		
2017				107	968	2,455	8,275	15,565	22,368	33,107		
2018					155	2,438	13,783	17,881	22,928	32,390		
2019						300	2,794	4,705	8,174	29,367		
2020							224	1,191	5,722	16,772		
2021								224	2,083	7,966		
2022									526	5,958		
2023										1,201		
									Total	184,444		
Liabilities for losses and loss adjustment expenses, net of reinsurance										\$ 627,496		

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**Other Specialty Reinsurance (\$000's)**

Incurred losses and allocated loss adjustment expenses, net of reinsurance											December 31, 2023
Accident year	Year ended December 31,										Total of IBNR liabilities plus expected development on reported claims
	2014 unaudited	2015 unaudited	2016 unaudited	2017 unaudited	2018 unaudited	2019 unaudited	2020 unaudited	2021 unaudited	2022 unaudited	2023	
2014 .....	\$ 16,791	\$ 17,148	\$ 17,035	\$ 17,475	\$ 17,905	\$ 17,898	\$ 18,435	\$ 18,621	\$ 19,901	\$ 19,682	\$ 1,200
2015 .....		71,749	73,102	71,405	74,000	76,478	78,695	78,832	81,211	81,314	1,393
2016 .....			67,789	58,274	58,007	55,597	60,769	59,189	59,436	59,451	(414)
2017 .....				75,789	65,647	72,025	73,708	74,347	74,261	74,662	686
2018 .....					67,702	69,449	67,960	69,683	69,933	68,211	(938)
2019 .....						78,158	74,291	70,393	69,411	69,960	8,434
2020 .....							66,560	68,572	67,974	65,341	12,596
2021 .....								108,279	108,409	110,227	18,397
2022 .....									219,882	221,058	87,847
2023 .....										147,042	105,810
									Total	\$ 916,948	
<b>Cumulative paid losses and allocated loss adjustment expenses, net of reinsurance</b>											
2014 .....	\$ 4,834	\$ 12,445	\$ 14,303	\$ 15,410	\$ 16,802	\$ 17,085	\$ 17,297	\$ 17,223	\$ 18,320	\$ 18,443	
2015 .....		30,048	49,125	58,070	67,176	70,066	72,916	73,549	76,432	77,809	
2016 .....			25,247	38,611	45,307	49,615	53,913	55,310	56,302	57,150	
2017 .....				30,269	50,927	56,923	61,227	64,159	66,716	67,391	
2018 .....					14,183	41,933	54,813	60,458	63,837	66,963	
2019 .....						19,428	28,316	42,784	49,015	53,625	
2020 .....							9,821	20,469	28,564	37,858	
2021 .....								12,542	35,956	62,713	
2022 .....									32,326	81,136	
2023 .....										13,481	
									Total	536,569	
Liabilities for losses and loss adjustment expenses, net of reinsurance .....										\$ 380,379	

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**Property Catastrophe Reinsurance (\$000's)**

Accident year	Year ended December 31,										December 31, 2023
	2014 unaudited	2015 unaudited	2016 unaudited	2017 unaudited	2018 unaudited	2019 unaudited	2020 unaudited	2021 unaudited	2022 unaudited	2023	Total of IBNR liabilities plus expected development on reported claims
2014	\$ 1,498	\$ 1,109	\$ 801	\$ 767	\$ 645	\$ 601	\$ 565	\$ 565	\$ 541	\$ 546	\$ 25
2015		4,628	3,530	2,733	2,035	1,953	1,915	1,872	1,846	1,869	(12)
2016			5,090	4,088	3,392	2,947	2,862	2,824	2,730	2,617	(2)
2017				22,485	18,154	17,382	16,523	15,473	15,200	15,243	(2)
2018					16,340	14,215	12,452	11,361	10,764	10,577	166
2019						8,982	8,550	7,562	7,544	7,095	17
2020							21,061	26,645	26,763	25,915	912
2021								75,537	72,766	70,527	2,822
2022									72,297	66,477	9,508
2023										36,836	11,930
									Total	\$ 237,702	

**Cumulative paid losses and allocated loss adjustment expenses, net of reinsurance**

2014	\$ —	\$ 216	\$ 533	\$ 563	\$ 584	\$ 592	\$ 617	\$ 621	\$ 625	\$ 628
2015		373	800	1,353	1,433	1,471	1,519	1,527	1,533	1,529
2016			1,013	1,919	2,279	2,556	2,599	2,638	2,654	2,668
2017				6,611	12,078	13,228	14,250	14,564	14,761	14,863
2018					2,758	7,092	9,154	9,264	9,413	9,589
2019						525	3,402	4,490	4,899	5,089
2020							2,770	11,540	15,887	20,709
2021								5,428	33,048	48,857
2022									13,501	35,731
2023										2,829
									Total	142,492
Liabilities for losses and loss adjustment expenses, net of reinsurance										\$ 95,210



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**Insurance programs and coinsurance (\$000's except claim count)**

**Incurred losses and allocated loss adjustment expenses, net of reinsurance**

**December 31, 2023**

Accident year	Year ended December 31,										Total of IBNR liabilities plus expected development on reported claims (2)	Cumulative number of reported claims
	2015 unaudited	2016 unaudited	2017 unaudited	2018 unaudited	2019 unaudited	2020 unaudited	2021 unaudited	2022 unaudited	2023 (1)	Total		
2015	\$ 994	\$ 994	\$ 1,117	\$ 1,125	\$ 1,125	\$ 1,084	\$ 1,105	\$ 1,133	\$ 979	\$ 20	4,224	
2016		25,345	25,049	26,628	27,068	27,735	26,346	26,566	26,307	275	43,856	
2017			57,789	56,778	60,280	60,903	61,451	62,260	63,122	3,940	69,823	
2018				97,897	97,491	106,459	116,453	120,184	121,437	8,601	67,237	
2019					124,455	129,111	140,989	145,106	157,189	20,095	87,937	
2020						152,570	145,837	153,953	158,016	19,551	80,314	
2021							214,894	174,178	180,805	32,784	108,196	
2022								215,942	141,975	30,212	89,848	
2023									229,124	107,139	87,507	
									<u>Total</u>	<u>\$ 1,078,954</u>		
<b>Cumulative paid losses and allocated loss adjustment expenses, net of reinsurance</b>												
2015	\$ 8	\$ 388	\$ 707	\$ 824	\$ 887	\$ 1,203	\$ 1,235	\$ 1,114	\$ 958			
2016		5,809	15,139	20,335	22,346	24,814	24,987	25,621	25,987			
2017			17,826	36,442	43,441	48,892	53,037	56,885	59,688			
2018				30,512	64,912	74,830	85,887	98,758	110,055			
2019					30,280	74,423	81,864	100,405	119,402			
2020						25,513	60,847	85,146	107,881			
2021							56,538	103,482	118,652			
2022								58,744	111,774			
2023									67,160			
									<u>721,557</u>			
										<u>357,397</u>		
										<u>(9,921)</u>		
										<u>\$ 347,476</u>		

(1) Following the acquisition of Axeria, a prospective approach has been adopted to include losses from 2021 Accident Year onwards within the table above. The incurred losses and allocated loss adjustment expenses, net of reinsurance relating to prior accident years are excluded from the table and included within Other short duration lines in the reconciliation below.

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The following table presents the average annual percentage payout of incurred losses and allocated loss adjustment expenses by age, net of reinsurance, as of December 31, 2023:

	<b>Average annual percentage payout of incurred losses and loss adjustment expenses by age, net of reinsurance (unaudited)</b>									
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Casualty reinsurance - pro rata	10.6%	16.3%	15.4%	13.3%	10.0%	7.9%	6.4%	5.6%	4.9%	2.6%
Casualty reinsurance - excess of loss	0.4%	2.2%	6.0%	8.4%	13.5%	10.1%	12.0%	10.9%	3.2%	7.8%
Other specialty reinsurance	22.7%	23.3%	15.9%	8.9%	5.7%	3.5%	1.3%	2.5%	3.6%	0.6%
Property catastrophe reinsurance	20.2%	36.9%	15.9%	8.5%	1.9%	1.5%	0.6%	0.4%	0.3%	0.6%
Insurance programs and coinsurance	26.6%	29.6%	11.3%	10.3%	9.7%	5.4%	3.4%	(5.5)%	(7.9)%	—%

For the year ended December 31, 2023, the Company did not make any significant changes in its methodologies or assumptions.

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 at December 31, 2023:

	<b>December 31, 2023</b>
	<i>(\$ in thousands)</i>
<b>Net outstanding liabilities:</b>	
Casualty reinsurance - excess of loss	\$ 627,496
Other specialty reinsurance	380,379
Casualty reinsurance - pro rata	370,812
Insurance programs and coinsurance	347,476
Property catastrophe reinsurance	95,210
Other short duration lines not included in disclosures	288,651
<b>Total for short duration lines</b>	<b>2,110,024</b>
<b>Unpaid losses and loss adjustment expenses recoverable:</b>	
Insurance programs and coinsurance	332,947
Casualty reinsurance - excess of loss	104,435
Other specialty reinsurance	52,606
Property catastrophe reinsurance	13,908
Casualty reinsurance - pro rata	3,362
Other short duration lines not included in disclosures (1)	98,169
<b>Total for short duration lines</b>	<b>605,427</b>
<b>Unallocated claims adjustment expenses</b>	<b>10,851</b>
<b>Reserve for losses and loss adjustment expenses</b>	<b>\$ 2,726,302</b>

(1) Other short duration lines includes Axeria liabilities for accident years 2020 and prior and other miscellaneous items.

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## 7. Allowance for expected credit losses

### *Premiums Receivable*

The following table presents the balances of premiums receivable, net of the allowance for expected credit losses at December 31, 2023 and 2022, and changes in the allowance for expected credit losses for the years ended December 31, 2023 and 2022.

	At and For the Year Ended			
	December 31, 2023		December 31, 2022	
	Premiums Receivable, Net of Allowance	Allowance for Expected Credit Losses	Premiums Receivable, Net of Allowance	Allowance for Expected Credit Losses
	(\$ in thousands)			
Balance at beginning of year .....	\$ 632,318	\$ 503	\$ 410,677	\$ 505
Current period change for expected credit losses .....		4		(2)
Write-offs charged against the allowance .....		—		—
Balance at end of year .....	\$ 769,386	\$ 507	\$ 632,318	\$ 503

### *Reinsurance Recoverables*

The following table presents the balances of reinsurance recoverables, net of the allowance for expected credit losses, at December 31, 2023 and 2022, and changes in the allowance for expected credit losses for the years ended December 31, 2023 and 2022.

	At and For the Year Ended			
	December 31, 2023		December 31, 2022	
	Reinsurance Recoverables, Net of Allowance	Allowance for Expected Credit Losses	Reinsurance Recoverables, Net of Allowance	Allowance for Expected Credit Losses
	(\$ in thousands)			
Balance at beginning of year .....	\$ 606,286	\$ 1,767	\$ 562,537	\$ 943
Current period change for expected credit losses .....		55		824
Write-offs charged against the allowance .....		—		—
Balance at end of year .....	\$ 769,260	\$ 1,822	\$ 606,286	\$ 1,767

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## 8. Investments

### Available for Sale Investments

The following tables summarize the fair value of the Company's securities classified as available for sale as of December 31, 2023 and 2022:

	December 31, 2023				Fair Value
	Cost or Amortized Cost	Gross Unrealized Gains (1)	Gross Unrealized Losses (1)	Allowance for Expected Credit Losses	
	(\$ in thousands)				
Fixed maturities:					
Corporate bonds .....	\$ 1,306,290	\$ 21,747	\$ (15,688)	\$ (17,663)	\$ 1,294,686
Non-U.S. government and government agency bonds .....	248,462	1,823	(27,612)	(25)	222,648
U.S. government and government agency bonds .....	164,886	7	(2,492)	—	162,401
Asset-backed securities .....	47,387	272	(2,997)	(9,378)	35,284
Mortgage-backed securities .....	10,589	44	(272)	(7)	10,354
Municipal government and government agency bonds .....	170	—	(9)	—	161
Total investments, available for sale .....	<u>\$ 1,777,784</u>	<u>\$ 23,893</u>	<u>\$ (49,070)</u>	<u>\$ (27,073)</u>	<u>\$ 1,725,534</u>

(1) Gross unrealized gains and losses above exclude amounts attributable to assets held for sale at December 31, 2023.

	December 31, 2022				Fair Value
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Expected Credit Losses	
	(\$ in thousands)				
Fixed maturities:					
Corporate bonds .....	\$ 780,120	\$ 725	\$ (64,423)	\$ (32,196)	\$ 684,226
U.S. government and government agency bonds .....	243,094	—	(8,904)	—	234,190
Non-U.S. government and government agency bonds .....	219,227	—	(43,862)	(240)	175,125
Asset-backed securities .....	51,699	191	(3,079)	(10,788)	38,023
Mortgage-backed securities .....	9,632	1	(329)	—	9,304
Municipal government and government agency bonds .....	1,570	—	(47)	(2)	1,521
Total investments, available for sale .....	<u>\$ 1,305,342</u>	<u>\$ 917</u>	<u>\$ (120,644)</u>	<u>\$ (43,226)</u>	<u>\$ 1,142,389</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 losses by length of time the security has been in a continual unrealized loss position:

	December 31, 2023					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(\$ in thousands)					
Fixed maturities:						
Corporate bonds .....	\$ 108,158	\$ (970)	\$ 420,891	\$ (32,381)	\$ 529,049	\$ (33,351)
Non-U.S. government and government agency bonds .....	32,896	(2,729)	153,891	(24,908)	186,787	(27,637)
U.S. government and government agency bonds .....	13,928	(61)	146,196	(2,431)	160,124	(2,492)
Asset-backed securities .....	67	(622)	26,546	(11,753)	26,613	(12,375)
Mortgage-backed securities .....	4,210	(33)	4,464	(246)	8,674	(279)
Municipal government and government agency bonds .....	—	—	161	(9)	161	(9)
<b>Total .....</b>	<b>\$ 159,259</b>	<b>\$ (4,415)</b>	<b>\$ 752,149</b>	<b>\$ (71,728)</b>	<b>\$ 911,408</b>	<b>\$ (76,143)</b>

	December 31, 2022					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(\$ in thousands)					
Fixed maturities:						
Corporate bonds .....	\$ 503,543	\$ (68,261)	\$ 122,899	\$ (28,358)	\$ 626,442	\$ (96,619)
U.S. government and government agency bonds .....	89,671	(1,545)	144,518	(7,359)	234,189	(8,904)
Non-U.S. government and government agency bonds .....	3,907	(140)	171,200	(43,962)	175,107	(44,102)
Asset-backed securities .....	34,129	(12,212)	3,376	(1,655)	37,505	(13,867)
Mortgage-backed securities .....	5,937	(262)	3,121	(67)	9,058	(329)
Municipal government and government agency bonds .....	—	—	1,521	(49)	1,521	(49)
<b>Total .....</b>	<b>\$ 637,187</b>	<b>\$ (82,420)</b>	<b>\$ 446,635</b>	<b>\$ (81,450)</b>	<b>\$ 1,083,822</b>	<b>\$ (163,870)</b>

At December 31, 2023, 598 positions out of a total of 1,157 positions were in an unrealized loss position with the largest unrealized loss position being \$27.6 million. The reduction in gross unrealized losses on fixed maturities compared to December 31, 2022 can be attributed to the stabilization of interest rates and the movement in foreign exchange rates for the non-U.S. government agency bonds during the year. The Company believes that such securities were temporarily impaired at December 31, 2023.

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At December 31, 2022, 797 positions out of a total of 863 positions were in an unrealized loss position with the largest unrealized loss position being \$44.1 million. The increase in gross unrealized losses on fixed maturities compared to December 31, 2021 can be attributed to rising interest rates and the movement in foreign exchange rates for the non-U.S. government agency bonds since purchase. The Company believes that such securities were temporarily impaired at December 31, 2022.

*Allowance for expected credit losses*

The following table summarizes the allowance for expected credit losses and the changes in allowance. There were no write-offs charged against the allowance. The change in allowance is recognized in "net investment income (loss)" in the Company's consolidated statements of income (loss). There were no impairments of securities which the Company intends to sell or more likely than not will be required to sell.

	Year Ended December 31,	
	2023	2022
	(\$ in thousands)	
Balance at beginning of year	\$ 43,226	\$ 4,466
Changes in credit loss allowance	(16,153)	38,760
Balance at end of year	\$ 27,073	\$ 43,226

The amortized cost and fair value of fixed maturities classified as available for sale, summarized by contractual maturity are shown in the following tables.

	December 31, 2023		
	Amortized Cost	Estimated Fair Value	% of Fair Value
	(\$ in thousands)		
Due in one year or less	\$ 206,352	\$ 203,560	11.8 %
Due after one year through five years	1,055,882	1,031,757	59.8 %
Due after five years through ten years	429,669	417,628	24.2 %
Due after ten years	27,905	26,951	1.6 %
Asset-backed securities	47,387	35,284	2.0 %
Mortgage-backed securities	10,589	10,354	0.6 %
Total investments, available for sale	\$ 1,777,784	\$ 1,725,534	100.0 %

	December 31, 2022		
	Amortized Cost	Estimated Fair Value	% of Fair Value
	(\$ in thousands)		
Due in one year or less	\$ 89,102	\$ 85,006	7.4 %
Due after one year through five years	680,103	612,377	53.6 %
Due after five years through ten years	440,343	369,564	32.4 %
Due after ten years	34,463	28,115	2.5 %
Asset-backed securities	51,699	38,023	3.3 %
Mortgage-backed securities	9,632	9,304	0.8 %
Total investments, available for sale	\$ 1,305,342	\$ 1,142,389	100.0 %

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***Fair Value Option and Fair Value Through Net Income***

The following tables summarize the fair value of the Company's securities classified as fair value through net income or for which the fair value option was elected:

	December 31, 2023			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(\$ in thousands)			
Term loan investments .....	\$ 247,170	\$ 1,723	\$ (6,474)	\$ 242,419
Short-term investments .....	1,292,280	3,276	(2,624)	1,292,932
Investments, fair value option .....	\$ 1,539,450	\$ 4,999	\$ (9,098)	\$ 1,535,351
Fair Value Through Net Income:				
Equities, fair value through net income .....	\$ 26,895	\$ 2,331	\$ (8,116)	\$ 21,110

	December 31, 2022			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(\$ in thousands)			
Term loan investments .....	\$ 471,477	\$ 475	\$ (46,828)	\$ 425,124
Short-term investments .....	929,524	7,244	(3,194)	933,574
Investments, fair value option .....	\$ 1,401,001	\$ 7,719	\$ (50,022)	\$ 1,358,698
Fair Value Through Net Income:				
Equities, fair value through net income .....	\$ 30,743	\$ 6,344	\$ (7,540)	\$ 29,547

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The amortized cost and fair value of term loans and short-term investments, summarized by contractual maturity are shown in the following tables.

	December 31, 2023		
	Amortized Cost	Estimated Fair Value	% of Fair Value
<i>(\$ in thousands)</i>			
Due in one year or less .....	\$ 1,292,280	\$ 1,292,932	84.2 %
Due after one year through five years .....	182,999	178,165	11.6 %
Due after five years through ten years .....	64,171	64,254	4.2 %
<b>Total .....</b>	<b>\$ 1,539,450</b>	<b>\$ 1,535,351</b>	<b>100.0 %</b>

	December 31, 2022		
	Amortized Cost	Estimated Fair Value	% of Fair Value
<i>(\$ in thousands)</i>			
Due in one year or less .....	\$ 938,891	\$ 937,309	69.0 %
Due after one year through five years .....	267,704	239,428	17.6 %
Due after five years through ten years .....	184,925	172,702	12.7 %
Due after ten years .....	9,481	9,259	0.7 %
<b>Total .....</b>	<b>\$ 1,401,001</b>	<b>\$ 1,358,698</b>	<b>100.0 %</b>



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The tables below summarize the credit quality of total investments as rated by Standard & Poor's Financial Services, LLC, or Standard & Poor's, Moody's Investors Service, or Moody's, Fitch Ratings Inc., or Fitch, Kroll Bond Rating Agency, or KBRA, or DBRS Morningstar, or DBRS, as applicable:

	December 31, 2023									
	Credit Rating (1)									
	Fair Value	AAA	AA	A	BBB	BB	B	CCC	CC	Not Rated
	<i>(\$ in thousands)</i>									
Term loan investments .....	\$ 242,419	\$ —	\$ —	\$ —	\$ 19,192	\$ 43,816	\$ 164,212	\$ 15,194	\$ 5	\$ —
Fixed maturities:										
Corporate bonds .....	1,294,686	9,895	56,240	274,534	511,121	238,490	169,118	29,910	—	5,378
U.S. government and government agency bonds .....	162,401	—	162,401	—	—	—	—	—	—	—
Asset-backed securities .....	35,284	4,471	—	—	6,146	2,237	5,889	—	589	15,952
Mortgage-backed securities .....	10,354	916	1,385	4,308	1,430	—	—	—	—	2,315
Non-U.S. government and government agency bonds .....	222,648	14,304	200,377	1,095	6,872	—	—	—	—	—
Municipal government and government agency bonds .....	161	—	—	161	—	—	—	—	—	—
Total fixed income instruments .....	1,967,953	29,586	420,403	280,098	544,761	284,543	339,219	45,104	594	23,645
Short-term investments .....	1,292,932	926,307	99,333	99,323	156,331	4,227	—	—	—	7,411
Total fixed income instruments and short-term investments .....	3,260,885	955,893	519,736	379,421	701,092	288,770	339,219	45,104	594	31,056
Equities .....	21,110									
<b>Total</b> .....	<b>\$ 3,281,995</b>	<b>\$ 955,893</b>	<b>\$ 519,736</b>	<b>\$ 379,421</b>	<b>\$ 701,092</b>	<b>\$ 288,770</b>	<b>\$ 339,219</b>	<b>\$ 45,104</b>	<b>\$ 594</b>	<b>\$ 31,056</b>

(1) For individual fixed maturity investments, Standard & Poor's ratings are used. In the absence of a Standard & Poor's rating, ratings from Moody's are used, followed by ratings from Fitch, followed by ratings from KBRA, followed by ratings from DBRS.

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	December 31, 2022									
	Credit Rating (1)									
	Fair Value	AAA	AA	A	BBB	BB	B	CCC	CC	Not Rated
	(\$ in thousands)									
Term loan investments	\$ 425,124	\$ —	\$ —	\$ —	\$ 29,542	\$ 89,522	\$ 259,673	\$ 29,644	\$ —	\$ 16,743
Fixed maturities:										
Corporate bonds	684,226	—	9,318	15,972	86,822	270,511	271,790	21,855	—	7,958
U.S. government and government agency bonds	234,190	—	234,190	—	—	—	—	—	—	—
Asset-backed securities	38,023	2,375	—	486	—	7,829	8,533	529	424	17,847
Mortgage-backed securities	9,304	954	1,973	4,265	2,112	—	—	—	—	—
Non-U.S. government and government agency bonds	175,125	—	173,437	640	1,048	—	—	—	—	—
Municipal government and government agency bonds	1,521	734	550	237	—	—	—	—	—	—
Total fixed income instruments	1,567,513	4,063	419,468	21,600	119,524	367,862	539,996	52,028	424	42,548
Short-term investments	933,574	615,589	112,650	121,004	79,780	3,802	749	—	—	—
Total fixed income instruments and short-term investments	2,501,087	619,652	532,118	142,604	199,304	371,664	540,745	52,028	424	42,548
Equities	29,547									
Total	\$ 2,530,634	\$ 619,652	\$ 532,118	\$ 142,604	\$ 199,304	\$ 371,664	\$ 540,745	\$ 52,028	\$ 424	\$ 42,548

(1) For individual fixed maturity investments, Standard & Poor's ratings are used. In the absence of a Standard & Poor's rating, ratings from Moody's are used, followed by ratings from Fitch, followed by ratings from KBRA, followed by ratings from DBRS.

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**Fair value option**

The Company elected to carry term loans and short term investments at fair value under the fair value option afforded by accounting guidance regarding the fair value option for financial assets and liabilities. Changes in fair value of investments accounted for using the fair value option are included in "net investment income (loss)" in the Company's consolidated statements of income (loss).

**Net investment income (loss)**

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

	Year Ended December 31, 2023			
	Net Interest Income	Net Unrealized Gains (Losses)	Net Realized Gains (Losses)	Net Investment Income (Loss)
	(\$ in thousands)			
Net investment income (loss) by asset class:				
Term loan investments .....	\$ 40,825	\$ 41,604	\$ (32,848)	\$ 49,581
Fixed maturities - available for sale (1) .....	73,574	—	(9,545)	64,029
Short-term investments .....	48,842	(1,797)	1,092	48,137
Equities, fair value through net income .....	270	(4,590)	6,541	2,221
Other (2) .....	—	(2,647)	231	(2,416)
Management fees and other investment expenses .....	(9,959)	—	—	(9,959)
	<u>\$ 153,552</u>	<u>\$ 32,570</u>	<u>\$ (34,529)</u>	<u>\$ 151,593</u>

(1) Net realized gains (losses) from the fixed maturities available for sale portfolio consists of realized gains and realized losses of \$18.1 million and \$27.6 million, respectively. Net realized gains (losses) include a release of the allowance for expected credit losses on available for sale securities of \$16.2 million for the year ended December 31, 2023.

(2) Other includes unrealized gains and unrealized losses for total return swaps.

	Year Ended December 31, 2022			
	Net Interest Income	Net Unrealized Gains (Losses)	Net Realized Gains (Losses)	Net Investment Income (Loss)
	(\$ in thousands)			
Net investment income (loss) by asset class:				
Term loan investments .....	\$ 39,615	\$ (44,069)	\$ (11,982)	\$ (16,436)
Fixed maturities - available for sale (1) .....	55,597	—	(86,809)	(31,212)
Short-term investments .....	3,676	192	224	4,092
Equities, fair value through net income .....	2,890	(5,697)	4,765	1,958
Other (2) .....	—	(9,572)	3,006	(6,566)
Management fees and other investment expenses .....	(10,039)	—	—	(10,039)
	<u>\$ 91,739</u>	<u>\$ (59,146)</u>	<u>\$ (90,796)</u>	<u>\$ (58,203)</u>

(1) Net realized gains (losses) from the fixed maturities available for sale portfolio consists of realized gains and realized losses of \$3.1 million and \$89.9 million, respectively. Realized losses include an allowance for expected credit losses on available for sale securities of \$38.8 million for the year ended December 31, 2022.

(2) Other includes unrealized gains and unrealized losses for total return swaps.

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***Pledged and restricted assets***

For the benefit of certain Arch entities and other third parties that cede business to the Company, the Company is required to post and maintain collateral to support its potential obligations under reinsurance contracts written. This collateral can be in the form of either investment assets held in collateral trust accounts or letters of credit. Under its secured credit facilities, in order for the Company to have the bank issue a letter of credit to the Company's reinsurance contract counterparty, the Company must post investment assets or cash as collateral to the bank. In either case, the amounts remain restricted for the duration of the term of the trust or letter of credit, as applicable.

At December 31, 2023 and 2022, the Company held \$1.3 billion and \$1.2 billion, respectively, in pledged assets in support of insurance and reinsurance liabilities as well as to collateralize the Company's secured credit facilities and investment derivatives. Included within total pledged assets, the Company held \$8.7 million and \$7.4 million, respectively, in deposits with U.S. regulatory authorities.

***Non-cash investing activities***

During the year ended December 31, 2023, \$6.9 million of fixed maturities investment positions were converted or exchanged in non-cash transactions, as presented on the consolidated statements of cash flows. During the year ended December 31, 2022, no investments converted or exchanged in non-cash transactions.

## **9. Fair value**

***Fair value hierarchy***

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 transaction 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; and
- *Level 3:* Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

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inputs may be reduced for many financial instruments. This may lead to a change in the valuation techniques used to estimate the fair value measurement and cause an instrument to be reclassified between levels within the fair value hierarchy.

***Fair value measurements on a recurring basis***

The 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 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. Each price 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.

Where multiple quotes or prices are obtained, a price source hierarchy is 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.

In certain circumstances, when fair values are unavailable from these independent pricing sources, quotes are obtained directly from broker-dealers who are active in the corresponding markets. Such quotes are subject to the validation procedures noted above. Where quotes are unavailable, fair value is determined by using quantitative and qualitative assessments such as internally modeled values.

Of the \$3.3 billion of net financial assets and liabilities measured at fair value at December 31, 2023, approximately \$20.9 million, or 0.6%, were priced using non-binding broker-dealer quotes or modeled valuations. Of the \$2.5 billion of net financial assets and liabilities measured at fair value at December 31, 2022, approximately \$44.6 million, or 1.8%, were priced using non-binding broker-dealer quotes or modeled valuations.

The Company reviews its securities measured at fair value and discusses the proper classification of such investments with its Investment Managers and others. A discussion of the general classification of the Company’s financial instruments follows:

***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 investment securities by asset class:

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*Term Loans.* Fair values are estimated by using quoted prices obtained from independent pricing services for term loan investments with similar characteristics, pricing models or matrix pricing. Such investments are generally classified within Level 2. The fair values for certain of the Company's term loans are determined by using quantitative and qualitative assessments such as internally modeled values. The modeled values are based on peer loans and comparison to industry-specific market data. Significant unobservable inputs used to price these securities may include changes in peer and/or comparable credit spreads, accretion of any original issue discount and changes in the issuer's debt leverage since issue. Changes in peer credit spreads, comparable credits spreads and issuer debt leverage are negatively correlated with the modeled fair value measurement. Such investments are generally classified within Level 3.

*Corporate Bonds.* Valuations are 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 the majority of these securities are classified within Level 2. The fair values for certain of the Company's corporate bonds are determined by using quantitative and qualitative assessments such as internally modeled values. The modeled values are based on peer bonds and comparison to industry-specific market data. In addition, the Company assesses the fair value based on the valuation of the underlying holdings in accordance with the bonds' governing documents. Significant unobservable inputs used to price these securities may include changes in peer and/or comparable credit spreads, accretion of any original issue discount and changes in the issuer's debt leverage since issue. Changes in peer credit spreads, comparable credits spreads, and issuer debt leverage are negatively correlated with the modeled fair value measurement. Such investments are generally classified within Level 3.

*Asset-Backed Securities.* Valuations are 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. The pricing services also review prepayment speeds and other indicators, when applicable. 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.

*Mortgage-Backed Securities.* Valuations are 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.

*U.S. Government and Government Agencies.* Valuations are 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 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.

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*Non-U.S. Government Securities.* Valuations are provided by independent pricing services, with all prices provided through index providers and pricing vendors. The fair values of these securities are generally based on international indices or valuation models which include daily observed yield curves, cross-currency basis index spreads and country credit spreads. As the significant inputs used in the pricing process for non-U.S. government securities are observable market inputs, the fair value of these securities are classified within Level 2.

*Municipal Government Bonds.* Valuations are provided by independent pricing services, with all prices provided through index providers and pricing vendors. The fair values of these securities are generally determined using spreads obtained from broker-dealers who trade in the relevant security market, trade prices and the new issue market. As the significant inputs used in the pricing process for municipal bonds are observable market inputs, the fair value of these securities are classified within Level 2.

*Short-Term Investments.* The Company determined that certain of its short-term investments, held in highly liquid money market-type funds, and equities 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.

*Equity Securities.* The Company determined that exchange-traded equity securities are included in Level 1 as their values are based on quoted market prices in active markets. Other equity securities are initially valued at cost which approximates fair value. In subsequent measurement periods, the fair values of these securities are determined using non-binding broker-dealer quotes. These equity securities are included in Level 2 of the valuation hierarchy. Where such quotes are unavailable, fair value is determined by using quantitative and qualitative assessments such as internally modeled values. As the significant inputs used to price these securities are unobservable, the fair value of these securities are classified as Level 3. Significant unobservable inputs used to price preferred stock may include changes in peer and/or comparable credit spreads, accretion of any original issue discount and changes in the issuer's debt leverage since issue. Changes in peer credit spreads, comparable credit spreads, and issuer debt leverage are negatively correlated with the modeled fair value measurement.

*Underwriting Derivative Instruments.* The Company values the government-sponsored enterprise credit-risk sharing transactions using a valuation methodology based on observable inputs from non-binding broker-dealer quotes and/or recent trading activity. As the inputs used in the valuation process are observable market inputs, the fair value of these securities are classified within Level 2. Refer to Note 10, "Derivative instruments" for more information.

*Investment Derivative Instruments.* The Company values the investment derivatives, including total return swaps and options, at fair value. As the underlying investments have observable inputs, the fair value of these securities are classified within Level 2. Refer to Note 10, "Derivative instruments" for more information.

The following tables present the Company's financial assets and liabilities measured at fair value by level as of December 31, 2023 and 2022:

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	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)
	<i>(\$ in thousands)</i>			
<b>Assets measured at fair value:</b>				
Term loans .....	\$ 242,419	\$ —	\$ 242,419	\$ —
<b>Fixed maturities:</b>				
Corporate bonds .....	1,294,686	—	1,294,686	—
U.S. government and government agency bonds .....	162,401	162,401	—	—
Asset-backed securities .....	35,284	—	35,284	—
Mortgage-backed securities .....	10,354	—	10,354	—
Non-U.S. government and government agency bonds .....	222,648	—	222,648	—
Municipal government and government agency bonds .....	161	—	161	—
Short-term investments .....	1,292,932	1,247,127	45,805	—
Equities .....	21,110	—	238	20,872
Other underwriting derivative assets .....	1	—	1	—
Investment derivative assets (1) .....	1,458	—	1,458	—
<b>Total assets measured at fair value .....</b>	<b>\$ 3,283,454</b>	<b>\$ 1,409,528</b>	<b>\$ 1,853,054</b>	<b>\$ 20,872</b>
<b>Liabilities measured at fair value:</b>				
Investment derivative liabilities (1) .....	\$ 13,274	\$ —	\$ 1,113	\$ 12,161
<b>Total liabilities measured at fair value .....</b>	<b>\$ 13,274</b>	<b>\$ —</b>	<b>\$ 1,113</b>	<b>\$ 12,161</b>

(1) Investment derivative assets and liabilities are recorded in "other assets" and "other liabilities," respectively, in the consolidated balance sheets.



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	December 31, 2022			
	Estimated Fair Value	Fair Value Measurement Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(\$ in thousands)				
<b>Assets measured at fair value:</b>				
Term loans .....	\$ 425,124	\$ —	\$ 410,163	\$ 14,961
<b>Fixed maturities:</b>				
Corporate bonds .....	684,226	—	683,322	904
U.S. government and government agency bonds .....	234,190	234,090	100	—
Asset-backed securities .....	38,023	—	38,023	—
Mortgage-backed securities .....	9,304	—	9,304	—
Non-U.S. government and government agency bonds .....	175,125	—	175,125	—
Municipal government and government agency bonds .....	1,521	—	1,521	—
Short-term investments .....	933,574	912,934	20,640	—
Equities .....	29,547	—	1,387	28,160
Other underwriting derivative assets .....	9	—	9	—
Investment derivative assets (1) .....	50	—	50	—
<b>Total assets measured at fair value .....</b>	<b>\$ 2,530,693</b>	<b>\$ 1,147,024</b>	<b>\$ 1,339,644</b>	<b>\$ 44,025</b>
<b>Liabilities measured at fair value:</b>				
Investment derivative liabilities (1) .....	\$ 9,219	\$ —	\$ 9,219	\$ —
<b>Total liabilities measured at fair value .....</b>	<b>\$ 9,219</b>	<b>\$ —</b>	<b>\$ 9,219</b>	<b>\$ —</b>

(1) Investment derivative assets and liabilities represent the fair value of total return swaps, which are recorded in other assets and other liabilities, respectively, in the consolidated balance sheets.

When the fair value of financial assets and financial liabilities cannot be derived from active markets, the fair value is determined using a variety of valuation techniques that include the use of models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required to establish fair values. Changes in assumptions about these factors could affect the reported fair value of financial instruments and the level where the instruments are disclosed in the fair value hierarchy.

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The following tables present a reconciliation of the beginning and ending balances for all the financial assets measured at fair value on a recurring basis using Level 3 inputs:

Year Ended December 31, 2023				
	Beginning Balance	Net Purchases (Sales)(1)	Net Realized/ Unrealized Gains (Losses)(3)	Ending Balance
Term loans .....	\$ 14,961	\$ (15,388)	\$ 427	\$ —
Corporate bonds .....	904	(904)	—	—
Equities .....	28,160	(7,183)	(105)	20,872
Total .....	\$ 44,025	\$ (23,475)	\$ 322	\$ 20,872

Year Ended December 31, 2022				
	Beginning Balance	Net Purchases (Sales)(2)	Net Realized/ Unrealized Gains (Losses)(3)	Ending Balance
Term loans .....	\$ 15,520	\$ (157)	\$ (402)	\$ 14,961
Corporate bonds .....	904	—	—	904
Equities .....	101,941	(69,182)	(4,599)	28,160
Total .....	\$ 118,365	\$ (69,339)	\$ (5,001)	\$ 44,025

(1) For the year ended December 31, 2023, the net purchases (sales) consisted of the redemption of a term loan of \$15.4 million, sale of an equity investment of \$7.2 million and the redemption of a corporate bond of \$0.9 million.

(2) For the year ended December 31, 2022, the net purchases (sales) consisted of sales of equities of \$69.2 million and redemptions of term loans of \$0.2 million.

(3) Realized and unrealized gains or losses on Level 3 investments are included in "net investment income (loss)" in the Company's consolidated statements of income (loss).

***Financial instruments not carried at fair value***

The Company uses various financial instruments in the normal course of its business. The carrying values of cash and cash equivalents, accrued investment income, certain other assets and other liabilities approximated their fair values at December 31, 2023 and 2022 due to their respective short maturities. As these financial instruments are not actively traded, their respective fair values are classified within Level 2.

At December 31, 2023, the Company's 6.5% senior notes were carried at cost, net of debt issuance costs, of \$173.5 million and had a fair value of \$171.7 million. At December 31, 2023, the Company's 6.5% subordinated notes were carried at cost, net of debt issuance costs, of \$62.6 million and had a fair value of \$56.8 million. The fair value of the senior and subordinated notes was obtained from a third party pricing service and was based on observable market inputs. As such, the fair values of the senior and subordinated notes are classified within Level 2.

**10. Derivative instruments**

***Underwriting Derivatives***

The Company's underwriting strategy allows it to enter into government-sponsored enterprise credit-risk sharing transactions. These transactions are accounted for as derivatives. The derivative assets and derivative liabilities relating to these transactions are included in "other assets" and "other liabilities," respectively, in the Company's consolidated balance sheets. Realized and unrealized gains and losses from other derivatives are included in "other underwriting income (loss)" in the Company's consolidated statements of income (loss). The risk in force of these transactions is considered to be the notional amount.

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As of December 31, 2023 and 2022, the Company posted \$2.9 million and \$3.5 million, respectively, in assets as collateral. These assets are included in “fixed maturities,” which are recorded at fair value in the Company’s consolidated balance sheets.

***Investment Derivatives***

The Company’s investment strategy allows for the limited use of derivative securities. The Company invests in total return swaps (“swaps”) through a Master Confirmation of Total Return Swap Transactions agreement, and recognizes the swap derivatives at fair value. The derivative assets and derivative liabilities relating to these transactions are included in “other assets” and “other liabilities,” respectively, in the Company’s consolidated balance sheets. At December 31, 2023 and 2022, the Company had collateral funds held by the counterparty of \$26.7 million and \$44.4 million, respectively, included in “short-term investments” in the Company’s consolidated balance sheets.

The fair value of such options and swaps are based on observable inputs and classified in Level 2 of the valuation hierarchy. Realized and unrealized gains and losses from investment derivatives are included in “net investment income (loss)” in the Company’s consolidated statements of income (loss). The Company did not hold any derivatives designated as hedging instruments at December 31, 2023 and 2022.

Certain of the Company’s reinsurance contracts require interest to be paid on particular balances due, with the underlying performance of the Company’s investment portfolio being the basis for the interest calculation. The derivative liabilities relating to these transactions are included in “other liabilities” in the Company’s consolidated balance sheets. Realized and unrealized gains and losses from this derivative are included in “net investment income (loss)” in the Company’s consolidated statements of income (loss). The fair value of such contracts are classified in Level 3 of the valuation hierarchy.

The following table summarizes information on the fair values and notional amounts of the Company’s derivative instruments at December 31, 2023 and 2022:

	December 31, 2023			
	Estimated Fair Value			Notional Amount
	Asset Derivatives	Liability Derivatives	Net Derivatives	
	(\$ in thousands)			
Other underwriting derivatives .....	\$ 1	\$ —	\$ 1	\$ 12,083
Total return swaps .....	1,458	1,113	345	59,911
Other investment derivatives .....	—	12,161	(12,161)	—
<b>Total .....</b>	<b>\$ 1,459</b>	<b>\$ 13,274</b>	<b>\$ (11,815)</b>	<b>\$ 71,994</b>

  

	December 31, 2022			
	Estimated Fair Value			Notional Amount
	Asset Derivatives	Liability Derivatives	Net Derivatives	
	(\$ in thousands)			
Other underwriting derivatives .....	\$ 9	\$ —	\$ 9	\$ 14,657
Total return swaps .....	50	9,219	(9,169)	77,879
<b>Total .....</b>	<b>\$ 59</b>	<b>\$ 9,219</b>	<b>\$ (9,160)</b>	<b>\$ 92,536</b>

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The realized and unrealized gains and losses on the Company's derivative instruments are reflected in the consolidated statements of income (loss), as summarized in the following table:

	Year Ended December 31,	
	2023	2022
	(\$ in thousands)	
<b>Underwriting derivatives:</b>		
Other underwriting income (loss) .....	\$ 512	\$ 647
<b>Investment derivatives:</b>		
Net investment income (loss) .....	(2,416)	(6,566)

## 11. Income taxes

Somers and Somers Re are incorporated under the laws of Bermuda and, under current law, are not obligated to pay taxes in Bermuda based upon income or capital gains. The Company has received a written undertaking from the Bermuda Minister of Finance under the Exempted Undertakings Tax Protection Act 1966 that such taxes will not be applicable to Somers and Somers Re until March 31, 2035. However, on December 27, 2023, the Government of Bermuda enacted the Bermuda Corporate Income Tax Act 2023 ("Bermuda CIT Act"), which will become effective for tax years beginning on or after January 1, 2025 and supersede the Minister of Finance's assurance.

The Bermuda CIT Act will apply a 15% corporate income tax to certain Bermuda constituent entities of multi-national groups and is effective in fiscal years beginning on or after January 1, 2025, subject to a five-year exclusion for multi-national groups which have limited international presence; specifically groups comprised of entities located in six or fewer jurisdictions in the aggregate and have net tangible assets of less than €50 million in all other jurisdictions. As the Company qualifies for the five-year exclusion it will be subject to Bermuda corporate income taxes beginning in 2030.

The Bermuda CIT 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 legislation, the Company recorded an \$84.0 million deferred income tax asset in the fourth quarter of 2023, expected to be utilized predominantly over a 5-year period beginning in 2030.

WICE is incorporated under the laws of Gibraltar and regulated by the Gibraltar Financial Services Commission (the "FSC") under the Financial Services (Insurance Company) Act (the "Gibraltar Act"). In addition to its operations in Gibraltar, WICE operates a branch in Romania. The Romanian branch ceased accepting new business from September 1, 2020. The current rates of tax on applicable profits in Gibraltar and Romania are 12.5% and 16%, respectively. The open tax years that are potentially subject to examination are 2022 and 2023 in Gibraltar and 2019 through 2023 in Romania.

Watford Holdings (U.K.) Limited is incorporated in the United Kingdom and is subject to U.K. corporate income tax. On April 2023, the U.K. corporate income tax rate increased from 19% to 25%. The open tax years that are potentially subject to examination by U.K. tax authorities are 2022 and 2023.

Watford Holdings (U.S.) Inc. is incorporated in the United States and files a consolidated U.S. federal tax return with its subsidiaries, WSIC, WIC and Watford Services Inc. The U.S. federal tax rate is 21%. The open tax years that are potentially subject to examination by U.S. tax authorities are 2020 through 2023.

Watford France Holdings SAS and Axeria are incorporated in France. In addition to its operations in France, Axeria operates a branch in Romania. The current rates of tax on applicable profits in France

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and Romania is 25% and 16%, respectively. The open tax years that are potentially subject to examination are 2020 through 2023 in France and 2022 through 2023 in Romania.

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

	Year Ended December 31,	
	2023	2022
	<i>(\$ in thousands)</i>	
<b>Current income tax expense (benefit):</b>		
France .....	\$ 282	\$ 419
Romania .....	450	115
United States .....	7	2
Gibraltar .....	—	—
	<u>739</u>	<u>536</u>
<b>Deferred income tax expense (benefit):</b>		
Bermuda .....	(84,031)	—
France .....	1,173	1,314
Romania .....	424	37
	<u>(82,434)</u>	<u>1,351</u>
<b>Total income tax expense (benefit)</b> .....	<b>\$ (81,695)</b>	<b>\$ 1,887</b>

The Company's income or loss after preferred dividends and before income taxes was earned in the following jurisdictions:

	Year Ended December 31,	
	2023	2022
	<i>(\$ in thousands)</i>	
<b>Income (loss) before income taxes:</b>		
Bermuda .....	\$ 157,405	\$ (57,751)
Romania .....	3,489	664
Gibraltar .....	701	215
United Kingdom .....	(44)	6
United States .....	(3,378)	(2,562)
France .....	5,585	8,531
<b>Total income (loss) before income taxes</b> .....	<b>\$ 163,758</b>	<b>\$ (50,897)</b>

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The reconciliation between the Company's income tax expense and the expected income tax expense (benefit) at the Bermuda statutory income tax rate is as follows:

	Year Ended December 31,	
	2023	2022
	(\$ in thousands)	
Expected income tax expense (benefit) at Bermuda statutory rate	\$ —	\$ —
Addition (reduction) in income tax expense (benefit) resulting from:		
Change in tax rate	(84,031)	—
Foreign taxes at local expected rates	1,639	1,681
Change in valuation allowance	644	210
Other	53	(4)
<b>Total income tax expense (benefit)</b>	<b>\$ (81,695)</b>	<b>\$ 1,887</b>

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:

	Year Ended December 31,	
	2023	2022
	(\$ in thousands)	
<b>Deferred income tax assets:</b>		
Net operating loss	\$ 2,850	\$ 3,346
Loss reserves	33,838	7,195
Other accruals	4,753	3,193
Ceding commissions	3,064	1,317
Investment basis differences	—	746
Capitalized expenses	58	67
Intangible assets	70,618	—
Net capital loss	379	265
Deferred tax assets before valuation allowance	115,560	16,129
Valuation allowance	(3,281)	(2,992)
Deferred tax assets net of valuation allowance	112,279	13,137
<b>Deferred income tax liabilities:</b>		
Unearned premium reserve	(26,801)	(9,180)
Intangible assets	—	(591)
Investment basis differences	(182)	—
<b>Total deferred tax liabilities</b>	<b>(26,983)</b>	<b>(9,771)</b>
<b>Net deferred income tax assets (liabilities)</b>	<b>\$ 85,296</b>	<b>\$ 3,366</b>

The Company provides a valuation allowance to reduce certain deferred tax assets to an amount which management expects to more likely than not be realized. As of December 31, 2023 and 2022, the Company's valuation allowance was \$3.3 million and \$3.0 million, respectively. After consideration of the valuation allowance, the Company had net deferred tax assets of \$85.3 million and \$3.4 million as of December 31, 2023 and 2022, respectively.

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

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associated tax position. The Company records interest and penalties related to unrecognized tax benefits in the provision for income taxes. As of December 31, 2023 and 2022, the Company's total unrecognized tax benefits, including interest and penalties, were \$Nil.

The United States also imposes an excise tax on insurance and reinsurance premiums paid to non-U.S. insurers or reinsurers with respect to risks located in the United States. The rate of tax, unless reduced by an applicable U.S. tax treaty, is 1% for all reinsurance premiums. The Company incurs federal excise taxes on certain of its reinsurance transactions.

## 12. Transactions with related parties

### Overview of Related Party Transactions

Arch Underwriters Ltd. ("AUL") acts as the insurance and reinsurance manager for Somers Re and WICE, Arch Underwriters Inc. ("AUI") acts as the insurance and reinsurance manager for WSIC and WIC, and Arch Underwriters Europe Limited ("AUEL") acts as the insurance and reinsurance manager for Axeria, all under separate long-term services agreements. Arch Investment Management Ltd. ("AIM") manages a portion of the Company's investment portfolio as Investment Manager under a long-term service agreement. The services agreements with AUL, AUI, AUEL and the investment management agreement with AIM provide for services for an extended period of time with limited termination rights by the Company.

### ACGL and affiliates

At December 31, 2023, affiliates of ACGL held approximately 40% of the common shares of Greysbridge. In recognition of its ownership interest, three senior executives of ACGL were appointed to the Company's board of directors. Prior to the redemption of the preference shares on July 13, 2022, affiliates of ACGL held approximately 6.6% of the Company's preference shares. In addition, affiliates of ACGL held \$35 million in aggregate principal amount of the Company's 6.5% senior notes.

The related balances presented in the consolidated statements of income (loss) were as follows:

	Year Ended December 31,	
	2023	2022
	(\$ in thousands)	
Consolidated statements of income (loss) items:		
Interest expense	\$ 2,336	\$ 2,323
Preference dividends	—	146

### AUL, AUI and AUEL

Somers Re and WICE entered into services agreements with AUL. WSIC and WIC entered into services agreements with AUI. AUL and AUI provide services related to the management of the underwriting portfolio for a term ending in December 2025. The services agreements perpetually renew automatically in five-year increments unless either the Company or Arch gives notice to not renew at least 24 months before the end of the then-current term.

Somers Re entered into a service agreement with AUEL to provide services related to the management of the underwriting portfolio of Axeria. This agreement is in place until it is terminated by mutual agreement.

As part of the services agreements, AUL, AUEL and AUI make available to the Companies, on a non-exclusive basis, certain designated employees who serve as officers of the Companies and underwrite business on behalf of the Companies (the "Designated Employees"). AUL and AUI also provide portfolio management, Designated Employee supervision, exposure modeling, loss reserve

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recommendations, claims-handling, accounting and other related services as part of the services agreements.

In return for their services, AUL and AUI receive fees from the Companies, including an underwriting fee and profit commission, as well as reimbursement for the services of the Designated Employees and reimbursements for an allocated portion of the expenses related to seconded employees, plus other expenses incurred on behalf of the Company. A profit commission is earned for each underwriting year where the performance meets defined thresholds within the service agreements. AUEL receive fees including an underwriting fee plus other expenses incurred on behalf of the Company.

The related AUL, AUI and AUEL fees and reimbursements incurred in the consolidated statements of income (loss) were as follows:

	Year Ended December 31,	
	2023	2022
	(\$ in thousands)	
Consolidated statements of income (loss) items:		
Acquisition expenses .....	\$ 23,429	\$ 24,273
General and administrative expenses .....	2,328	2,252
Total .....	\$ 25,757	\$ 26,525

(1) For the years ended December 31, 2023 and 2022, the Company incurred profit commission fees due to Arch of \$(1.5) million and \$1.7 million, respectively, included within acquisition expenses above.

Reinsurance transactions with ACGL affiliates

The Company reinsures ARL and other ACGL subsidiaries and affiliates for property and casualty risks on a quota share basis. ACGL cedes business to the Company pursuant to inward retrocession and reinsurance agreements the Company's operating subsidiaries have entered into with ACGL. Pursuant to these inward agreements, the Company pays a ceding fee based on the business ceded and the terms of the applicable retrocession or reinsurance agreement. Such fees, in addition to origination fees, are reflected in "acquisition expenses" on the Company's consolidated statements of income (loss).

The related consolidated statements of income (loss) were as follows:

	Year Ended December 31,	
	2023	2022
	(\$ in thousands)	
Consolidated statements of income (loss) items:		
Gross premiums written .....	\$ 926,277	\$ 873,733
Gross premiums earned .....	811,624	849,073
Losses and loss adjustment expenses .....	488,990	554,152
Acquisition expenses (1) .....	250,069	232,937

(1) Acquisition expenses relating to the ACGL inward quota share agreements referred to above. For the years ended December 31, 2023 and 2022, the Company incurred ceding fees to Arch, in aggregate, of \$45.5 million and \$38.6 million, respectively, under these inward agreements.

Separately, the Company's operating subsidiaries have entered into outward quota share retrocession or reinsurance agreements with ACGL subsidiaries. Specifically, each of Somers Re and WICE has entered into a separate outward quota share retrocession or reinsurance agreement with ARL, and each of WSIC and WIC has entered into a separate outward quota share reinsurance agreement with ARC. Additionally, Axeria has outward quota share and excess of loss reinsurance agreements with ARE.



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The related consolidated statements of income (loss) for the outward retrocession and reinsurance transactions were as follows:

	Year Ended December 31,	
	2023	2022
	(\$ in thousands)	
Consolidated statements of income (loss) items:		
Gross premiums ceded	\$ (316,063)	\$ (284,503)
Net premiums earned	(309,619)	(228,401)
Losses and loss adjustment expenses	(225,126)	(117,871)
Acquisition expenses (1)	(70,513)	(44,050)

(1) Acquisition expenses relating to the ACGL outward quota share agreements referred to above.

The related consolidated balance sheet account balances were as follows:

	December 31,	December 31,
	2023	2022
	(\$ in thousands)	
Consolidated balance sheet items:		
Total investments	\$ 798,024	\$ 995,532
Premiums receivable	530,561	461,123
Reinsurance recoverable on unpaid and paid losses and loss adjustment expenses	377,138	257,074
Prepaid reinsurance premiums	147,700	144,249
Deferred acquisition costs, net	105,017	87,279
Other assets	108,984	55,934
Reserve for losses and loss adjustment expenses	1,314,883	1,150,609
Unearned premiums	472,161	357,508
Losses payable	112,477	97,493
Reinsurance balances payable	193,768	101,883
Long-term debt	34,701	34,647
Other liabilities	178,043	155,240

AIM

Somers Re, WSIC, WICE and WIC entered into investment management agreements with AIM pursuant to which AIM manages a portion of the Company's investment portfolio. Each of the Somers Re, WICE, WSIC and WIC investment management agreements with AIM has a one-year term, with the terms ending annually on March 31, July 31, January 31 and July 31, respectively. The terms will continue to renew for successive one-year periods; provided, however, that either party may terminate any of the investment management agreements with AIM at any time upon 45 days prior written notice. To date, there has been no such notice filed under such agreements.

In return for its investment management services, AIM receives a monthly management fee. The management fee is based on a percentage of the aggregate asset value of the AIM managed portfolio. For the purposes of calculating the management fees, asset value is determined by AIM in accordance with the investment management agreements and is measured before deduction of any management fees or expense reimbursement. The Company has also agreed to reimburse AIM for additional services related to investment consulting and oversight services, administrative operations and risk analytic support services related to the management of the Company's

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portfolio, as set forth in the investment management agreements. Such fees are reflected in “net investment income (loss)” on the Company’s consolidated statements of income (loss).

The related consolidated statements of income (loss) were as follows:

	Year Ended December 31,	
	2023	2022
	(\$ in thousands)	
Consolidated statements of income (loss) items:		
Net investment income (loss)	\$ 1,024	\$ 1,033

### 13. Commitments and contingencies

#### *Concentrations of credit risk*

For reinsurance agreements, the creditworthiness of a counterparty is evaluated by the Company, taking into account credit ratings assigned by independent agencies. The credit approval process involves an assessment of factors, including, among others, the counterparty country and industry exposures. Collateral may be required, at the discretion of the Company, on certain transactions based on the creditworthiness of the counterparty.

The areas where significant concentrations of credit risk may exist include unpaid losses and loss adjustment expenses recoverable, prepaid reinsurance premiums and paid losses and loss adjustment expenses recoverable net of reinsurance balances payable (collectively, “net reinsurance recoverables”), investments and cash and cash equivalent balances.

The Company’s reinsurance recoverables, and prepaid reinsurance premiums, net of reinsurance balances payable, resulting from reinsurance agreements entered into with ARL, ARC and ARE as of December 31, 2023 and 2022 amounted to \$331.1 million and \$299.4 million, respectively. ARL, ARC and ARE have “A+” credit ratings from A.M. Best.

A credit exposure exists with respect to reinsurance recoverables as they may become uncollectible. The Company manages its credit risk in its reinsurance relationships by transacting with reinsurers that it considers financially sound and, if necessary, the Company may hold collateral in the form of funds, trust accounts and/or irrevocable letters of credit. This collateral can be drawn on for amounts that remain unpaid beyond specified time periods on an individual reinsurer basis.

In addition, the Company underwrites a significant amount of its business through brokers and a credit risk exists should any of these brokers be unable to fulfill their contractual obligations with respect to the payments of insurance and reinsurance balances owed to the Company. The Company’s investment portfolios are managed in accordance with investment guidelines that include standards of diversification, which limit the allowable holdings of any single issuer.

#### *Employment and other arrangements*

The Company has employment agreements with certain of its executive officers. Such employment arrangements provide for compensation in the form of base salary, annual bonus, participation in the Company’s employee benefit programs and the reimbursements of expenses.

### 14. Leases

The Company enters into lease agreements for real estate that is used for office space in the ordinary course of business. These leases are accounted for as operating leases, whereby the lease expense is recognized on a straight-line basis over the term of the lease.

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The leases include an option to extend or renew the lease term. The exercise of the renewal options are at the Company's discretion. The operating lease liability includes lease payments related to options to extend or renew the lease term if the Company is reasonably certain of exercising those options. Such options relating to the extension or renewal of the lease term are not included in the operating lease liability at this time.

Lease expense is included in "general and administrative expenses" in the Company's consolidated statements of income (loss). Additional information regarding the Company's real estate operating lease is as follows.

	Year Ended December 31,	
	2023	2022
	(\$ in thousands)	
Lease cost:		
Operating lease	\$ 1,547	\$ 1,132
Other information on operating lease:		
Cash payments included in the measurement of lease liability reported in operating cash flows	837	606
Right-of-use assets (1)	3,359	4,630
Operating lease liability (2)	3,359	4,630
Weighted average discount rate	3.9 %	3.9 %
Weighted average remaining lease term in years	6.92 years	3.84 years

(1) Included in "other assets" on the Company's consolidated balance sheets.

(2) Included in "other liabilities" on the Company's consolidated balance sheets.

The following tables present the contractual maturity of the Company's lease liability:

	December 31, 2023
	(\$ in thousands)
2024	\$ 457
2025	464
2026	546
2027 and thereafter	2,071
Total undiscounted lease payments	3,538
Less: present value adjustment	(179)
Operating lease liability	\$ 3,359

	December 31, 2022
	(\$ in thousands)
2023	\$ 448
2024	448
2025	455
2026 and thereafter	2,545
Total undiscounted lease payments	3,896
Less: present value adjustment	734
Operating lease liability	\$ 4,630

## **15. Contingently redeemable preference shares**

The Company had issued 2,145,202 of the 30 million authorized 8½% Cumulative Redeemable Preference Shares (the “preference shares”). The preference shares had a par value of \$0.01 per share and a liquidation preference of \$25.00 per share. Holders of the preference shares were entitled to receive, if declared by the board of directors, quarterly cash dividends on the last day of March, June, September and December of each year. Dividends accrued at a floating rate per annum (the “Floating Rate”) equal to three-month U.S. dollar LIBOR *plus* a margin of 667.85 basis points; provided, that, if, at any time, the three-month U.S. dollar LIBOR shall be less than 1%, then the three-month U.S. dollar LIBOR for purposes of calculating the Floating Rate at the time of such calculation shall be 1%. Preference share dividends, including the accretion of the discount and issuance costs, were included in “preference dividends” in the Company’s consolidated statements of income (loss).

On July 13, 2022, the Company redeemed its outstanding preference shares. Dividends declared and unpaid to the redemption date, with the accumulation of any undeclared dividends on or after June 30, 2022 were paid to shareholders on the date of redemption.

For the years ended December 31, 2023 and 2022, dividends paid on the preference shares totaled \$Nil and \$2.2 million, respectively.

## **16. Debt and financing arrangements**

### ***Senior notes***

On July 2, 2019, the Company completed a private offering of \$175.0 million in aggregate principal amount of its 6.5% senior notes due July 2, 2029. Interest on the senior notes is fixed, and is paid semi-annually in arrears on each January 2 and July 2, which commenced on January 2, 2020. The \$172.3 million net proceeds from the offering were used to redeem a portion of the Company’s outstanding preference shares. Affiliates of ACGL purchased \$35 million in aggregate principal amount of the senior notes.

The senior notes are the Company’s senior unsecured and unsubordinated obligations and rank senior to the subordinated notes and equally with all of the other existing and future obligations of the Company that are unsecured and unsubordinated. The senior notes may be redeemed by the Company at any time, in whole or in part, prior to July 2, 2024, at “make-whole” redemption price, subject to the Bermuda Monetary Authority (“BMA”) redemption requirements. After July 2, 2024, the senior notes are redeemable, in whole or in part, at a redemption price equal to 100% of the principal amount, subject to the BMA redemption requirements.

As of December 31, 2023, the carrying amount of the senior notes was \$173.5 million, presented net of unamortized debt issuance costs of \$1.5 million. As of December 31, 2022, the carrying amount of the senior notes was \$173.2 million, presented net of unamortized debt issuance costs of \$1.8 million.

### ***Subordinated notes***

On June 15, 2022, the Company completed a private offering of \$63.5 million in aggregate principal amount of its 6.5% subordinated notes due June 15, 2032. Interest on the subordinated notes is paid semi-annually in arrears on each June 15 and December 15, which commenced on December 15, 2022. On June 15, 2027, the interest rates on the subordinated notes will reset to a level equal to the then-current 5-year constant maturity U.S. treasury rate, plus a margin. The \$63.5 million net proceeds from the offering were used to redeem a portion of the Company’s outstanding preference shares, as described in Note 15, “Contingently redeemable preference shares”.

The subordinated notes are the Company’s unsecured and subordinated obligations and rank below all of the other existing and future obligations of the Company that are unsecured and

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unsubordinated. The subordinated notes may be redeemed by the Company at any time, in whole or in part, prior to June 15, 2027, at “make-whole” redemption price, subject to the BMA redemption requirements. After June 15, 2027, the subordinated notes are redeemable, in whole or in part, at a redemption price equal to 100% of the principal amount, subject to the BMA redemption requirements. Payment of interest and principal on the subordinated notes is subject to the Company maintaining compliance with its Group Enhanced Capital Requirement, including after giving effect to such payment.

As of December 31, 2023, the carrying amount of the subordinated notes was \$62.6 million, presented net of unamortized debt issuance costs of \$0.9 million. As of December 31, 2022, the carrying amount of the subordinated notes was \$62.5 million, presented net of unamortized debt issuance costs of \$1.0 million.

***Secured letter of credit facility***

On May 13, 2023, Somers Re renewed its existing secured letter of credit facility (the “Secured Facility”). The Secured Facility amount is \$100.0 million and was renewed through to May 13, 2024. Under the renewed Secured Facility, the Company may request an increase in the facility amount, up to an aggregate of \$50.0 million. The principal purpose of the Secured Facility is to issue, as required, evergreen standby letters of credit in favor of primary insurance or reinsurance counterparties with which the Company has entered into reinsurance arrangements to ensure that such counterparties are permitted to take credit for reinsurance obtained from the Company as required under insurance regulations in the United States. The amount of letters of credit issued is driven by, among other things, the timing and payment of catastrophe losses, loss development of existing reserves, the payment pattern of such reserves, the further expansion of the Company’s business and the loss experience of such business. When issued, the letters of credit are secured by certificates of deposit or cash. At such dates, the Company had \$98.5 million and \$77.0 million, respectively, in restricted assets as collateral for outstanding letters of credit issued from the Secured Facility, which were secured by certificates of deposit. These collateral amounts are reflected as short-term investments in the Company’s consolidated balance sheets.

***Unsecured letter of credit facility***

On September 15, 2023, Somers Re renewed and amended its existing 364-day letter of credit agreement (the “Unsecured Facility”). The Unsecured Facility amount is \$50.0 million and will be effective for a period of one year, with the option to request a one-year extension 30 days prior to expiration, subject to approval of each lender. Under the renewed Unsecured Facility, the Company may request an increase in the facility amount, up to an aggregate of \$50.0 million. The principal purpose of the Unsecured Facility is to issue, as required, evergreen standby letters of credit in favor of primary insurance or reinsurance counterparties with which the Company has entered into reinsurance arrangements to ensure that such counterparties are permitted to take credit for reinsurance obtained from the Company as required under insurance regulations in the United States. The amount of letters of credit issued is driven by, among other things, the timing and payment of catastrophe losses, loss development of existing reserves, the payment pattern of such reserves, the further expansion of the Company’s business and the loss experience of such business. The Unsecured Facility requires the maintenance of certain covenants, as well as the making of certain representations and warranties that are customary for facilities of this type. At December 31, 2023 and 2022, the Company had \$49.7 million and \$43.8 million, respectively, in outstanding letters of credit issued from the Unsecured Facility, and was in compliance with all covenants contained in the Unsecured Facility requirements.

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## 17. Shareholder's equity

### *Common shares*

The authorized share capital of the Company at December 31, 2023 and 2022 was 120 million common shares. The issued and outstanding share capital of the Company at December 31, 2023 and 2022 was 100 shares, par value of \$0.01 per share.

## 18. 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 other litigation or arbitration, which is expected by management to have a material adverse effect on the Company's results of operations or financial condition and liquidity.

## 19. Statutory information

The Company's subsidiaries are subject to insurance and/or reinsurance laws and regulations in the jurisdictions in which they operate. These regulations include certain restrictions on the amount of dividends or other distributions available to shareholders without prior approval of the regulatory authorities.

The actual and required statutory capital and surplus for the Company's significant regulatory jurisdictions at December 31, 2023 and 2022 was as follows:

	December 31, 2023		December 31, 2022	
	Actual	Required	Actual	Required
	<i>(\$ in thousands)</i>			
<b>Statutory capital and surplus:</b>				
Bermuda (1) .....	\$ 1,256,533	\$ 865,000	\$ 1,002,206	\$ 838,288
Watford Specialty Insurance Company .....	53,242	4,448	58,846	5,297
Watford Insurance Company .....	24,570	1,902	27,242	2,307
United States .....	77,812	6,350	86,088	7,604
France .....	85,330	37,665	71,719	34,259
Gibraltar .....	49,014	29,474	33,521	21,188

(1) The Company is currently completing its 2023 group Bermuda Solvency Capital Requirement Model ("BSCR Model"), which must be filed with the BMA on or before April 30, 2024. The December 31, 2023 required statutory capital and surplus presented is the estimate of the enhanced capital requirement. At this time, the Company believes it will exceed the target level of required statutory economic capital and surplus.

There were no state-prescribed or permitted regulatory accounting practices for any of the Company's subsidiaries that resulted in reported statutory surplus that differed from that which would have been reported under the prescribed practices of the respective regulatory authorities, including the National Association of Insurance Commissioners. The differences between statutory financial statements and statements prepared in accordance with GAAP vary by jurisdiction, however, with the primary differences being that statutory financial statements may not reflect deferred acquisition costs, certain net deferred tax assets, intangible assets, unrealized appreciation or depreciation on debt securities and certain unauthorized reinsurance recoverables and include contingency reserves.

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The statutory net income (loss) for the Company's significant regulatory jurisdictions was as follows:

	Year Ended December 31,	
	2023	2022
	(\$ in thousands)	
Statutory net income (loss):		
Bermuda .....	\$ 177,449	\$ (36,380)
Watford Specialty Insurance Company .....	(2,214)	(1,352)
Watford Insurance Company .....	(1,037)	886
United States .....	(3,251)	(466)
France .....	7,601	6,467
Gibraltar .....	701	29

***Bermuda***

Under the Insurance Act, Somers Re, the Company's reinsurance subsidiary, is registered as a Class 4 insurer and is required to maintain minimum statutory capital and surplus equal to the greater of a minimum solvency margin and the enhanced capital requirement as determined by the Bermuda Monetary Authority ("BMA").

The enhanced capital requirement is calculated based on the BSCR 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, all such requirements were met.

The ability to pay dividends is limited under Bermuda laws and regulations. Under the Insurance Act, Somers Re is restricted with respect to the payment of dividends. Somers Re 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 7 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. Accordingly, Somers Re can pay dividends or return capital of approximately \$314.1 million during 2024 without providing an affidavit to the BMA.

***United States***

The Company's U.S. subsidiaries are subject to insurance laws and regulations in the jurisdictions in which they operate. The ability of the Company's regulated U.S. subsidiaries to pay dividends or make distributions is dependent on their ability to meet applicable regulatory standards. These regulations include restrictions that limit the amount of dividends or other distributions, such as loans or cash advances, available to common shareholders without prior approval of the insurance regulatory authorities.

Any dividends or distributions made by WSIC or WIC would result in an increase in available capital at Watford Holdings (U.S.) Inc. During 2024, WSIC and WIC cannot declare dividends without prior approval from the New Jersey Commissioner of Insurance.

***Gibraltar***

WICE is licensed by the Gibraltar Financial Services Commission ("GFSC") under the Gibraltar Financial Services (Insurance Companies) Act ("the Gibraltar Act") to underwrite various insurance businesses across Europe. Under the Gibraltar Act, WICE is subject to capital requirements and is required to prepare and submit annual financial statements to the GFSC as outlined in the Gibraltar Act and in accordance with Gibraltar Generally Accepted Accounting Practice.

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WICE shall notify the GFSC of any proposals to declare or pay a dividend on any of its share capital. WICE shall not declare or pay any dividend within 14 days of the date of notification. As of December 31, 2023 and 2022, WICE was in compliance with the GFSC dividend requirement.

***France***

Axeria is licensed by the French Prudential Supervisory and Resolution Authority (“ACPR”) and is regulated by the French Insurance Code to underwrite various non-life insurance businesses across Europe. Axeria operates exclusively on broker distribution in France and under freedom of services in European countries. As a French insurance company, Axeria is required to maintain capital in accordance with the Solvency II European directive.

In accordance with the European directives, a capital management policy is determined and approved by the board of directors. Any dividends paid by Axeria must follow the French Commerce Code (Article L232-11) and require board approval.

**20. Subsequent events**

The Company has completed its subsequent events evaluation for the period subsequent to the balance sheet date of December 31, 2023 through March 13, 2024, the date the consolidated financial statements were available to be issued, and concluded that there are no subsequent events requiring recognition or disclosure.