

Report of Independent Auditors

The Board of Directors
Palomar Specialty Reinsurance Company Bermuda Ltd.

Opinions

We have audited the accompanying condensed financial statements of Palomar Specialty Reinsurance Company Bermuda Ltd. (the “Company”), which comprise the condensed balance sheets and condensed statements of capital and surplus as of December 31, 2023 and December 31, 2022, and the related condensed statements of income for the years then ended, including the related notes (collectively referred to as the “condensed financial statements”).

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the accompanying condensed 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 for the years then ended in accordance with the financial reporting provisions of the Insurance Act 1978, amendments thereto and the Insurance Account Rules 2016 with respect to condensed general purpose financial statements (the “Legislation”).

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for adverse opinion on U.S. generally accepted accounting principles* section of our report, the accompanying condensed financial statements do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2023 and 2022, or the results of its operations for the years then ended.

Basis of Opinions

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 condensed 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 opinions.

Reference: Report of Independent Auditors on the condensed financial statements of Palomar Specialty Reinsurance Company Bermuda Ltd. as at December 31, 2023 and 2022, and for the years then ended.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 3 to the condensed financial statements, the condensed financial statements are prepared by the Company on the basis of the financial reporting provisions of the Legislation, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the Bermuda Monetary Authority.

The effects on the condensed financial statements of the variances between the regulatory basis of accounting described in Note 3 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

Responsibilities of Management for the Condensed Financial Statements

Management is responsible for the preparation and fair presentation of the condensed financial statements in accordance with the financial reporting provisions of the Legislation. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the condensed financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the condensed 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 condensed financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Condensed Financial Statements

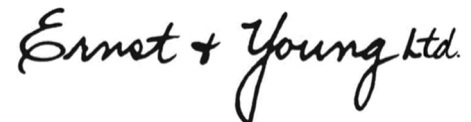
Our objectives are to obtain reasonable assurance about whether the condensed financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute 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 condensed financial statements.

Reference: Report of Independent Auditors on the condensed financial statements of Palomar Specialty Reinsurance Company Bermuda Ltd. as at December 31, 2023 and 2022, and for the years then ended.

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 condensed 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 condensed financial statements.
- Obtain an understanding of internal controls 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 condensed 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.



June 28, 2024

Chartered Professional Accountants

CONDENSED CONSOLIDATED BALANCE SHEET

Palomar Specialty Reinsurance Company Bermuda Ltd.

As at December 31, 2023

expressed in ['000s] United States Dollars

LINE No.		2023	2022
1.	CASH AND CASH EQUIVALENTS	297	572
2.	QUOTED INVESTMENTS:		
(a)	Bonds and Debentures		
	i. Held to maturity		
	ii. Other	13,174	12,229
(b)	Total Bonds and Debentures	13,174	12,229
(c)	Equities		
	i. Common stocks	-	-
	ii. Preferred stocks		
	iii. Mutual funds	2,034	1,802
(d)	Total equities	2,034	1,802
(e)	Other quoted investments		
(f)	Total quoted investments	15,208	14,031
3.	UNQUOTED INVESTMENTS:		
(a)	Bonds and Debentures		
	i. Held to maturity		
	ii. Other		
(b)	Total Bonds and Debentures	-	-
(c)	Equities		
	i. Common stocks		
	ii. Preferred stocks		
	iii. Mutual funds		
(d)	Total equities	-	-
(e)	Other unquoted investments		
(f)	Total unquoted investments	-	-
4.	INVESTMENTS IN AND ADVANCES TO AFFILIATES		
(a)	Unregulated entities that conduct ancillary services		
(b)	Unregulated non-financial operating entities		
(c)	Unregulated financial operating entities		
(d)	Regulated non-insurance financial operating entities		
(e)	Regulated insurance financial operating entities		
(f)	Total investments in affiliates	-	-
(g)	Advances to affiliates	159	130
(h)	Total investments in and advances to affiliates	159	130
5.	INVESTMENTS IN MORTGAGE LOANS ON REAL ESTATE:		
(a)	First liens		
(b)	Other than first liens		
(c)	Total investments in mortgage loans on real estate	-	-
6.	POLICY LOANS		
7.	REAL ESTATE:		
(a)	Occupied by the company (less encumbrances)		
(b)	Other properties (less encumbrances)		
(c)	Total real estate	-	-
8.	COLLATERAL LOANS		
9.	INVESTMENT INCOME DUE AND ACCRUED	105	108
10.	ACCOUNTS AND PREMIUMS RECEIVABLE:		
(a)	In course of collection	716	666
(b)	Deferred - not yet due		
(c)	Receivables from retrocessional contracts		
(d)	Total accounts and premiums receivable	716	666
11.	REINSURANCE BALANCES RECEIVABLE:		
(a)	Foreign affiliates		
(b)	Domestic affiliates		
(c)	Pools & associations		
(d)	All other insurers		
(e)	Total reinsurance balance receivable	-	-
12.	FUNDS HELD BY CEDING REINSURERS	-	-
13.	SUNDRY ASSETS:		
(a)	Derivative instruments		
(b)	Segregated accounts companies - long-term business - variable annuities		
(c)	Segregated accounts companies - long-term business - other		
(d)	Segregated accounts companies - general business		
(e)	Deposit assets		
(f)	Deferred acquisition costs	-	-
(g)	Net receivables for investments sold	-	-
(h)	Prepayments	18	18
(i)	Deferred Tax Asset	130	-
(j)	Federal Tax Receivable	222	
(k)	Total sundry assets	370	18
14.	LETTERS OF CREDIT, GUARANTEES AND OTHER INSTRUMENTS		
(a)	Letters of credit		

CONDENSED CONSOLIDATED BALANCE SHEET

Palomar Specialty Reinsurance Company Bermuda Ltd.

As at December 31, 2023

expressed in ['000s] United States Dollars

LINE No.		2023	2022
(b)	Guarantees		
(c)	Other instruments		
(e)	Total letters of credit, guarantees and other instruments	-	-
15.	TOTAL	16,855	15,525
TOTAL INSURANCE RESERVES, OTHER LIABILITIES AND STATUTORY CAPITAL AND SURPLUS			
16.	UNEARNED PREMIUM RESERVE		
(a)	Gross unearned premium reserves	21	21
(b)	Less: Ceded unearned premium reserve		
	i. Foreign affiliates		
	ii. Domestic affiliates		
	iii. Pools & associations		
	iv. All other insurers		
(c)	Total ceded unearned premium reserve	-	-
(d)	Net unearned premium reserve	21	21
17.	LOSS AND LOSS EXPENSE PROVISIONS:		
(a)	Gross loss and loss expense provisions		
(b)	Less : Reinsurance recoverable balance		
	i. Foreign affiliates		
	ii. Domestic affiliates		
	iii. Pools & associations		
	iv. All other reinsurers		
(c)	Total reinsurance recoverable balance	-	-
(d)	Net loss and loss expense provisions	-	-
18.	OTHER GENERAL BUSINESS INSURANCE RESERVES		
19.	TOTAL GENERAL BUSINESS INSURANCE RESERVES	21	21
LONG-TERM BUSINESS INSURANCE RESERVES			
20.	RESERVE FOR REPORTED CLAIMS		
21.	RESERVE FOR UNREPORTED CLAIMS		
22.	POLICY RESERVES - LIFE		
23.	POLICY RESERVES - ACCIDENT AND HEALTH		
24.	POLICYHOLDERS' FUNDS ON DEPOSIT		
25.	LIABILITY FOR FUTURE POLICYHOLDERS' DIVIDENDS		
26.	OTHER LONG-TERM BUSINESS INSURANCE RESERVES		
27.	TOTAL LONG-TERM BUSINESS INSURANCE RESERVES		
(a)	Total Gross Long-Term Business Insurance Reserves	-	-
(b)	Less: Reinsurance recoverable balance on long-term business		
	(i) Foreign Affiliates		
	(ii) Domestic Affiliates		
	(iii) Pools and Associations		
	(iv) All Other Insurers		
(c)	Total Reinsurance Recoverable Balance	-	-
(d)	Total Net Long-Term Business Insurance Reserves	-	-
OTHER LIABILITIES			
28.	INSURANCE AND REINSURANCE BALANCES PAYABLE		
29.	COMMISSIONS, EXPENSES, FEES AND TAXES PAYABLE		
30.	LOANS AND NOTES PAYABLE		
31.	(a) INCOME TAXES PAYABLE		
	(b) DEFERRED INCOME TAXES		
32.	AMOUNTS DUE TO AFFILIATES	70	-
33.	ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	32	30
34.	FUNDS HELD UNDER REINSURANCE CONTRACTS:		
35.	DIVIDENDS PAYABLE		
36.	SUNDRY LIABILITIES:		
(a)	Derivative instruments		
(b)	Segregated accounts companies		
(c)	Deposit liabilities		
(d)	Net payable for investments purchased		
(e)	Other sundry liabilities (specify)		
(f)	Other sundry liabilities (specify)		
(g)	Other sundry liabilities (specify)		
(h)	Total sundry liabilities	-	-

CONDENSED CONSOLIDATED BALANCE SHEET

Palomar Specialty Reinsurance Company Bermuda Ltd.

As at **December 31, 2023**expressed in ['000s] **United States Dollars**

LINE No.		2023	2022
37.	LETTERS OF CREDIT, GUARANTEES AND OTHER INSTRUMENTS:		
(a)	Letters of credit		
(b)	Guarantees		
(c)	Other instruments		
(d)	Total letters of credit, guarantees and other instruments	-	-
38.	TOTAL OTHER LIABILITIES	102	30
39.	TOTAL INSURANCE RESERVES AND OTHER LIABILITIES	123	51
	CAPITAL AND SURPLUS		
40.	TOTAL CAPITAL AND SURPLUS	16,732	15,474
41.	TOTAL	16,855	15,525
		TRUE	TRUE

CONDENSED CONSOLIDATED STATEMENT OF INCOME

Palomar Specialty Reinsurance Company Bermuda Ltd.
 As at December 31, 2023
 expressed in ['000s] United States Dollars

LINE No.		2023	2022
	GENERAL BUSINESS UNDERWRITING INCOME		
1.	GROSS PREMIUMS WRITTEN		
	(a) Direct gross premiums written		
	(b) Assumed gross premiums written	50	50
	(c) Total gross premiums written	50	50
2.	REINSURANCE PREMIUMS CEDED		
3.	NET PREMIUMS WRITTEN	50	50
4.	INCREASE (DECREASE) IN UNEARNED PREMIUMS	-	-
5.	NET PREMIUMS EARNED	50	50
6.	OTHER INSURANCE INCOME		
7.	TOTAL GENERAL BUSINESS UNDERWRITING INCOME	50	50
	GENERAL BUSINESS UNDERWRITING EXPENSES		
8.	NET LOSSES INCURRED AND NET LOSS EXPENSES INCURRED		
9.	COMMISSIONS AND BROKERAGE	-	-
10.	TOTAL GENERAL BUSINESS UNDERWRITING EXPENSES	-	-
11.	NET UNDERWRITING PROFIT (LOSS) - GENERAL BUSINESS	50	50
	LONG-TERM BUSINESS INCOME		
12.	GROSS PREMIUMS AND OTHER CONSIDERATIONS:		
	(a) Direct gross premiums and other considerations		
	(b) Assumed gross premiums and other considerations		
	(c) Total gross premiums and other considerations	-	-
13.	PREMIUMS CEDED		
14.	NET PREMIUMS AND OTHER CONSIDERATIONS:		
	(a) Life		
	(b) Annuities		
	(c) Accident and health		
	(d) Total net premiums and other considerations	-	-
15.	OTHER INSURANCE INCOME		
16.	TOTAL LONG-TERM BUSINESS INCOME	-	-
	LONG-TERM BUSINESS DEDUCTIONS AND EXPENSES		
17.	CLAIMS - LIFE		
18.	POLICYHOLDERS' DIVIDENDS		
19.	SURRENDERS		
20.	MATURITIES		
21.	ANNUITIES		
22.	ACCIDENT AND HEALTH BENEFITS		
23.	COMMISSIONS		
24.	OTHER		
25.	TOTAL LONG-TERM BUSINESS DEDUCTIONS AND EXPENSES	-	-
26.	INCREASE (DECREASE) IN POLICY RESERVES (ACTUARIAL LIABILITIES):		
	(a) Life		
	(b) Annuities		

CONDENSED CONSOLIDATED STATEMENT OF INCOME

Palomar Specialty Reinsurance Company Bermuda Ltd.

As at **December 31, 2023**expressed in ['000s] **United States Dollars**

LINE No.		2023	2022
27.	TOTAL LONG-TERM BUSINESS EXPENSES	-	-
28.	NET UNDERWRITING PROFIT (LOSS) - LONG-TERM BUSINESS	-	-
29.	COMBINED NET UNDERWRITING RESULTS BEFORE THE UNDERNOTED ITEMS	50	50
	UNDERNOTED ITEMS		
30.	COMBINED OPERATING EXPENSE		
	(a) General and administration	205	197
	(b) Personnel cost		
	(c) Other		
	(d) Total combined operating expenses	205	197
31.	COMBINED INVESTMENT INCOME - NET	513	434
32.	COMBINED OTHER INCOME (DEDUCTIONS)	-	-
33.	COMBINED INCOME BEFORE TAXES	358	287
34.	COMBINED INCOME TAXES (IF APPLICABLE):		
	(a) Current	62	52
	(b) Deferred	62	
	(c) Total	124	52
35.	COMBINED INCOME BEFORE REALIZED GAINS (LOSSES)	234	235
36.	COMBINED REALIZED GAINS (LOSSES)	232	(239)
37.	COMBINED INTEREST CHARGES		
38.	NET INCOME	466	(4)

CONDENSED CONSOLIDATED STATEMENT OF CAPITAL AND SURPLUS

Palomar Specialty Reinsurance Company Bermuda Ltd.

As at December 31, 2023

expressed in ['000s] United States Dollars

LINE No.		2023	2022
1.	CAPITAL:		
(a)	Capital Stock		
	(i) Common Shares		
	authorized 120,000 shares of par	120	120
	value \$ 1,000 each issued and		
	fully paid 120,000 shares		
	(ii)		
	(A) Preferred shares:		
	authorized _____ shares of par		
	value _____ each issued and		
	fully paid _____ shares		
	aggregate liquidation value for –		
	2023 _____		
	2022 _____		
	(B) Preferred shares issued by a subsidiary:		
	authorized _____ shares of par		
	value _____ each issued and		
	fully paid _____ shares		
	aggregate liquidation value for –		
	2023 _____		
	2022 _____		
	(iii) Treasury Shares		
	repurchased _____ shares of par		
	value _____ each issued		
(b)	Contributed surplus	5,380	5,380
(c)	Any other fixed capital		
	(i) Hybrid capital instruments		
	(ii) Guarantees and others		
	(iii) Total any other fixed capital	-	-
(d)	Total Capital	5,500	5,500
2.	SURPLUS:		
(a)	Surplus - Beginning of Year	9,974	11,473
(b)	Add: Income for the year	466	(4)
(c)	Less: Dividends paid and payable	-	-
(d)	Add (Deduct) change in unrealized appreciation (depreciation) of investments	792	(1,495)
(e)	Add (Deduct) change in any other surplus	-	-
(f)	Surplus - End of Year	11,232	9,974
3.	MINORITY INTEREST		
4.	TOTAL CAPITAL AND SURPLUS	16,732	15,474

PALOMAR SPECIALTY REINSURANCE COMPANY BERMUDA LTD.

NOTES TO CONDENSED GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

GENERAL NOTES TO THE FINANCIAL STATEMENTS

1. Palomar Specialty Reinsurance Company Bermuda Ltd. (the “Company”) was incorporated under the laws of Bermuda on August 14, 2014. The Company is a wholly-owned subsidiary of Palomar Holdings, Inc., (formerly GC Palomar Holdings) (the “Parent”), a company incorporated in Delaware. The Company is registered under and regulated by the Insurance Act 1978 and its related regulations.
2. The Company reinsures only U.S. commercial earthquake business ceded by its affiliate, Palomar Specialty Insurance Company (PSIC).
3. The condensed general purpose financial statements have been prepared in conformity with the financial reporting provisions of the Insurance Act 1978, amendments thereto and the Insurance Account Rules 2016 with respect to Condensed General Purpose Financial Statements (the “Legislation”). The condensed general purpose financial statements are based on United States of America Generally Accepted Accounting Principles (“US GAAP”) but are in accordance with the reporting requirements of the Legislation, which varies in certain respects from US GAAP.
4. In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurements of Credit Losses on Financial Instruments (“ASU 2016-13”). ASU2016-13 amends the guidance on reporting credit losses and affects loans, debt securities, trade receivables, reinsurance recoverables and other financial assets that have the contractual right to receive cash. The Company adopted this guidance during 2023, with no significant impact on the financial statements.
5. The financial statements are prepared in accordance with the Insurance Act 1978, as amended by the Insurance Amendment Act 1995, and the Insurance Account Rules 2016 and reflect the following policies:
 - (a) Premiums and acquisition expenses

Premiums are earned on a pro rata basis over the policy term. The portion of premiums that will be earned in the future are deferred and reported as unearned premiums. Acquisition costs, consisting of commissions, related to the unearned premiums are deferred and amortized to income over the period in which the respective premiums are earned.
 - (b) Losses and loss expense provisions

The Company reinsures only U.S. commercial earthquake business ceded by its affiliate, Palomar Specialty Insurance Company (PSIC). Palomar Re’s reinsurance liability to PSIC is triggered only by a single loss from an earthquake event exceeding \$15 million.
 - (c) Cash and cash equivalents

Cash and cash equivalents comprise of cash held at banks.
 - (d) Investment income

Investment income consists primarily of interest income and dividends. Interest income is recognized on the accrual basis and includes amortization of premiums or discount on fixed interest securities purchased at amounts different from their par value. Dividend income is recorded on the ex-dividend date. Net investment income represents investment income, net of expenses.

PALOMAR SPECIALTY REINSURANCE COMPANY BERMUDA LTD.

NOTES TO CONDENSED GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

(e) Income taxes

The Company reports its liability and expense for income taxes under the requirements of Accounting Standards Codification ("ASC") No. 740, *Income Taxes*. Deferred income taxes reflect the impact of temporary differences between the amounts of assets and liabilities recognized for financial reporting purposes and such amounts recognized for income tax purposes, measured by applying currently enacted tax laws. A valuation allowance against a deferred tax asset is provided for if and when the Company believes that a portion or all of the deferred tax asset may not be realized in the near term.

In addition, the Company is required to recognize the tax benefits of uncertain tax positions only where the position is "more likely than not" to be sustained, assuming examination by tax authorities. The Company has not recognized any liabilities for unrecognized tax benefits as a result of this guidance. The Company does not anticipate any significant changes to its total unrecognized tax benefits within the next twelve months and classifies all income tax associated with interest and penalties as income tax expense.

6. Income is recognised on the following basis:

Premium income - See General Note 5 (a)
Commission income – N/A
Interest income – See General Note 5 (d)

7-12. Not applicable

13. The Company invests in a variety of investment grade fixed income securities, including U.S. government issues, state government issues, mortgage and asset-backed obligations, and corporate bonds.

The Company utilizes passive and active equity investment strategies and invests in a variety of equity funds.

All of the Company's investments in fixed income securities and equity funds are classified as available-for-sale investment transactions recorded on trade date; and, therefore, are carried at fair value, with unrealized gains and losses included in accumulated other comprehensive income as a separate component of shareholder's equity. The Company uses the specific-identification method to determine the cost of fixed income securities sold and the first-in, first-out method for lots of equity funds sold.

Investment income consists primarily of interest and distributions. Interest income is recognized on an accrual basis. Net investment income represents investment income, net of expenses.

Fair Value

In accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, Fair Value Measurement, fair value is defined as the price that the Company would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market of the investment.

PALOMAR SPECIALTY REINSURANCE COMPANY BERMUDA LTD.

NOTES TO CONDENSED GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

The three-tier hierarchy of inputs is summarized in the three broad levels listed below:

Level 1 – Unadjusted quoted prices in active markets for identical investments that the reporting entity can access as of the measurement date.

Level 2 – Pricing inputs other than quoted prices for similar investments in active markets that are observable either directly or indirectly.

Level 3 – Pricing inputs into models are unobservable for the investment. The unobservable inputs require significant management judgment or estimation.

The Company uses independent pricing sources to obtain the estimated fair value of investments. The fair value is based on quoted market prices, where available. In cases where quoted market prices are not available, the fair value is based on a variety of valuation techniques depending on the type of investment. The fair values obtained from independent pricing sources are reviewed for reasonableness and any discrepancies are investigated for final valuation. The valuation methods used by the Company, by type of investment, are described below.

The fair value of the Company's investments in equity funds is based on quoted prices available in active markets and classified and disclosed in Level 1 of the hierarchy.

The fair value of the Company's investments in fixed income securities is estimated using relevant inputs, including available market information, benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing. An Option Adjusted Spread model is also used to develop prepayment and interest rate scenarios. Industry standard models are used to analyze and value securities with embedded options or prepayment sensitivities. These fair value measurements are estimated based on observable, objectively verifiable market information rather than market quotes; therefore, these investments are classified and disclosed in Level 2 of the hierarchy.

If the amortized cost of the Company's fixed maturity and short-term investments classified as available for sale is, based upon the judgment of management, unlikely to be recovered, the Company recognizes the credit losses on impairment. Credit losses are recognized through an allowance account and subsequent reversals of the allowance account are recognized within income in the period in which they occur.

Investment securities are subject to fluctuations in fair value due to changes in issuer-specific circumstances, such as credit rating, and changes in industry-specific circumstances, such as movements in credit spreads based on the market's perception of industry risks. In addition, fixed maturities are subject to fluctuations in fair value due to changes in interest rates. As a result of these potential fluctuations, it is possible to have significant unrealized gains or losses on a security. Unrealized gains and losses on our fixed maturity securities are included in accumulated other comprehensive income as a separate component of total stockholders' equity. Equity securities are carried at fair value with unrealized gains and losses included as a component of net income.

The Company reviews all securities with unrealized losses on a quarterly basis to assess whether the decline in the securities fair value necessitates the recognition of an allowance for credit losses. Factors considered in the review include the extent to which the fair value has been less than amortized cost, and current market interest rates and whether the unrealized

PALOMAR SPECIALTY REINSURANCE COMPANY BERMUDA LTD.

NOTES TO CONDENSED GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

loss is credit-driven or a result of changes in market interest rates. The Company also considers factors specific to the issuer including the general financial condition of the issuer, the issuers industry and future business prospects, any past failure of issuer to make scheduled interest or principal payments, and the payment structure of the investment and the issuers ability to make contractual payments on the investment.

The Company also considers whether it intends to sell the security or if it is more likely than not that it will be required to sell the security before recovery of its amortized cost. When assessing whether it intends to sell a fixed-maturity security or if it is likely to be required to sell a fixed-maturity security before recovery of its amortized cost, the Company evaluates facts and circumstances including, but not limited to, decisions to reposition the investment portfolio, potential sales of investments to meet cash flow needs, and potential sales of investments to capitalize on favorable pricing.

For fixed-maturity securities where a decline in fair value is below the amortized cost basis and the Company intends to sell the security, or it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost, a credit-loss charge is recognized in net income based on the fair value of the security at the time of assessment. For fixed-maturity securities that the Company has the intent and ability to hold, the Company compares the estimated present value of the cash flows expected to be collected to the amortized cost of the security. The extent to which the estimated present value of the cash flows expected to be collected is less than the amortized cost of the security represents the credit-related portion of the impairment, which is recognized in net income through an allowance for credit losses. Any remaining decline in fair value represents the non-credit portion of the impairment, which is recognized in statutory capital.

14. The contractual maturity profile for the insurers' fixed maturity and short-term investments:

	<u>2023</u>	
	Cost	Fair Value
Due within 1 year	1,741,419	1,727,727
Due after 1 year through 5 years	4,639,028	4,467,914
Due after 5 years through 10 years	2,855,947	2,518,015
Due after 10 years	100,000	85,557
Mortgage & Asset Backed Securities	4,566,870	4,374,973
Equities	2,033,853	2,033,853
Total	15,937,117	15,208,039

	<u>2022</u>	
	Cost	Fair Value
Due within 1 year	2,000,670	1,982,923
Due after 1 year through 5 years	3,207,308	3,088,361
Due after 5 years through 10 years	5,230,548	4,644,996
Due after 10 years	350,000	294,059

PALOMAR SPECIALTY REINSURANCE COMPANY BERMUDA LTD.

NOTES TO CONDENSED GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

Mortgage & Asset Backed Securities	2,433,944	2,218,669
Equities	1,801,511	1,801,511
Total	15,023,981	14,030,519

2023

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
U.S. government bonds	-	1,703,864	-	1,703,864
Corporate bonds	-	7,095,348	-	7,095,348
Mortgage-backed securities	-	3,710,356	-	3,710,356
Asset-backed securities	-	664,618	-	664,618
Equities	2,033,853	-	-	2,033,853
Total	2,033,853	13,174,186	-	15,208,039

2022

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
U.S. government bonds	-	2,146,374	-	2,146,374
Corporate bonds	-	7,863,965	-	7,863,965
Mortgage-backed securities	-	2,199,630	-	2,199,630
Asset-backed securities	-	19,038	-	19,038
Equities	1,801,511	-	-	1,801,511
Total	1,801,511	12,229,007	-	14,030,519

PALOMAR SPECIALTY REINSURANCE COMPANY BERMUDA LTD.

NOTES TO CONDENSED GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

NOTES TO THE CONSOLIDATED STATEMENT OF CAPITAL AND SURPLUS

1. (a) Capital Stock
Authorized, issued and fully paid 120,000 common shares of par value \$1 each.
- (b) Contributed Surplus – There was no change in contributed surplus during the year.
2. (c) Dividends and distributions in the amount of \$Nil were paid in 2023 (2022: \$Nil).

NOTES TO THE CONSOLIDATED BALANCE SHEET

1. Not applicable.
2. See General Note 13.
3. Not applicable.
4. Advances to affiliates was \$158,952 in 2023 (2022: \$130,304) and are interest free, unsecured and have no fixed terms of repayment.
- 5–8. Not applicable.
9. Investment income due and accrued of \$105,288 (2022: \$107,566) represents accrued investment income due at year end.
10. Accounts and premiums receivable of \$716,289 (2022: \$666,289) comprise premiums receivable from the ceding company
- 11-12. Not applicable
13. Sundry assets are composed of Prepaid Expenses, Deferred Tax Asset and Federal Tax Receivable. Prepaid expenses represents prepaid management fees and out of pocket expenses in the amount of \$18,333 (2022: \$18,333).
14. Not applicable.
16. See Part 1 note 4(a).
17. Not applicable
- 20-27. Not applicable.
28. Not applicable.
29. Not applicable.

PALOMAR SPECIALTY REINSURANCE COMPANY BERMUDA LTD.

NOTES TO CONDENSED GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

30. Not applicable.
31. a) The Bermuda Corporate Income Tax Act was enacted on December 27, 2023, establishing a 15% income tax regime. The Act is applicable to Bermuda businesses that are part of multinational enterprise (“MNE”) groups with annual revenue of EUR 750m or more. The tax is effective beginning in 2025. As of December 31, 2023, Palomar is not within this revenue threshold and hence not an in-scope entity. Subsequent financial years will be assessed for these rules.
- (b) The Company has filed a 953(d) election with the U.S. Department of the Treasury to be treated and taxed as a domestic corporation for United States tax purposes. The Company waives all benefits under any treaty between the U.S. and Bermuda.
32. Amounts due to affiliates of \$69,747 (2022: \$Nil) are interest free, unsecured and have no fixed terms of repayment.
33. Accounts payable and accrued expenses in the amount of \$32,507 (2022: \$30,449) represent the accrued secretarial fee, actuarial fee, and audit fee.
- 34-35. Not applicable.
36. Not applicable.
37. Not applicable.

NOTES TO THE CONSOLIDATED STATEMENT OF INCOME

6. Not applicable
15. Not applicable.
32. Not applicable
36. Realized gains reflect net gains resulting from the sale of marketable securities during the year.