



Consolidated Financial Statements

Allied World Assurance Company Holdings, Ltd and Subsidiaries

As of and for the years ended

December 31, 2023 and December 31, 2022

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ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD

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Report of Independent Auditors

To the Board of Directors of Allied World Assurance Company Holdings, Ltd

Opinion

We have audited the accompanying consolidated financial statements of Allied World Assurance Company 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 comprehensive income (loss), of shareholders' equity and of 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 judgment made by a reasonable user based on the consolidated financial statements.

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

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

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

Other Information

Accounting principles generally accepted in the United States of America require that the information about incurred and paid loss developments for all years preceding the year-ended December 31, 2023 and the related historical claims payout percentage disclosure for short-duration insurance contracts on pages 27 to 34 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

PricewaterhouseCoopers LLP

New York, New York
April 23, 2024

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD

CONSOLIDATED BALANCE SHEETS

as of December 31, 2023 and December 31, 2022

(Expressed in millions of United States dollars, except share and per share amount)

	As of December 31, 2023	As of December 31, 2022
ASSETS:		
Fixed maturity investments, at fair value (amortized cost: 2023 \$8,573.5: 2022 \$7,782.1)	\$ 8,756.8	\$ 7,594.1
Equity securities, at fair value (cost: 2023 \$1,538.5: 2022 \$1,405.6)	1,817.1	1,419.6
Loans (cost: 2023 \$1,108.5: 2022 \$507.6)	\$ 1,082.0	\$ 497.5
Other invested assets	1,020.8	882.4
Total investments	12,676.7	10,393.6
Cash and cash equivalents	526.6	1,014.6
Restricted cash	129.4	164.0
Insurance balances receivable	1,588.8	1,428.1
Funds held	146.2	276.1
Prepaid reinsurance	1,218.2	1,184.7
Reinsurance recoverable	4,448.6	3,923.6
Reinsurance recoverable on paid losses	352.3	220.3
Accrued investment income	108.4	52.6
Net deferred acquisition costs	263.8	180.5
Goodwill	939.7	938.7
Intangible assets	474.2	519.2
Balances receivable on sale of investments	706.7	1.9
Net deferred tax assets	74.3	13.9
Other assets	267.8	250.7
Total assets	<u>\$ 23,921.7</u>	<u>\$ 20,562.5</u>
LIABILITIES:		
Reserve for losses and loss expenses	12,144.4	10,976.6
Unearned premiums	3,777.6	3,485.8
Reinsurance balances payable	478.2	444.2
Reinsurance funds held	208.0	196.3
Balances due on purchases of investments	782.3	—
Senior notes:		
Principal amount	500.0	500.0
Add unamortized premium and debt issuance costs	1.9	2.9
Senior notes, including unamortized premium and debt issuance costs	501.9	502.9
Other long-term debt	20.6	19.8
Accounts payable and accrued liabilities	338.7	342.1
Total liabilities	<u>\$ 18,251.7</u>	<u>\$ 15,967.7</u>
SHAREHOLDERS' EQUITY:		
Common shares 2023 and 2022: par value CHF 100; USD \$120 per share (Class A shares 2023 and 2022: 18,575 and 19,182 shares issued and outstanding; Class B shares 2023 and 2022: 93,385 and 92,778 shares issued and outstanding)	13.4	13.4
Additional paid-in capital	4,382.6	4,382.3
Accumulated other comprehensive gain (loss)	17.0	(8.6)
Retained earnings (deficit)	1,257.0	207.7
Total shareholders' equity	<u>\$ 5,670.0</u>	<u>\$ 4,594.8</u>
Total liabilities and shareholders' equity	<u>\$ 23,921.7</u>	<u>\$ 20,562.5</u>

See accompanying notes to the consolidated financial statements.

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
for the years ended December 31, 2023 and December 31, 2022
(Expressed in millions of United States dollars)

	<u>2023</u>	<u>2022</u>
REVENUES:		
Gross premiums written	\$ 6,902.5	\$ 6,543.9
Premiums ceded	(2,063.0)	(2,087.8)
Net premiums written	4,839.5	4,456.1
Change in unearned premiums	(256.3)	(258.1)
Net premiums earned	4,583.2	4,198.0
Net investment income	467.3	215.6
Net realized and unrealized investment gains (losses)	424.6	(457.7)
Total revenue	<u>5,475.1</u>	<u>3,955.9</u>
EXPENSES:		
Net losses and loss expenses	3,095.6	2,956.4
Acquisition costs	483.4	403.6
General and administrative expenses	533.6	455.6
Other expense	6.3	16.9
Amortization of intangible assets	45.5	45.9
Interest expense	23.9	23.9
Foreign exchange loss (gain)	13.3	(3.9)
Total expenses	<u>4,201.6</u>	<u>3,898.4</u>
Income (loss) before income taxes	1,273.5	57.5
Income tax expense (benefit)	49.7	62.2
NET INCOME (LOSS)	<u>1,223.8</u>	<u>(4.7)</u>
Other comprehensive gain (loss)	25.6	(14.1)
COMPREHENSIVE INCOME (LOSS)	<u>\$ 1,249.4</u>	<u>\$ (18.8)</u>

See accompanying notes to the consolidated financial statements.

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
for the years ended December 31, 2023 and December 31, 2022
(Expressed in millions of United States dollars)

	2023	2022
Share capital		
Balance at the beginning of the year	\$ 13.4	\$ 13.4
Balance at the end of the year	13.4	13.4
Additional paid-in-capital		
Balance at the beginning of the year	4,382.3	4,396.1
Purchase of Fairfax subordinate voting shares	(36.0)	(42.1)
Amortization of stock based compensation	36.8	28.3
Other	(0.5)	—
Balance at the end of the year	4,382.6	4,382.3
Accumulated other comprehensive gain (loss)		
Balance at the beginning of the year	(8.6)	5.5
Foreign currency translation adjustment	7.8	(3.5)
Other	17.8	(10.6)
Balance at the end of the year	17.0	(8.6)
Retained earnings		
Balance at the beginning of the year	207.7	377.3
Net income (loss)	1,223.8	(4.7)
Dividends	(174.4)	(164.9)
Other	(0.1)	—
Balance at the end of the year	1,257.0	207.7
Total shareholders' equity	<u>\$ 5,670.0</u>	<u>\$ 4,594.8</u>

See accompanying notes to the consolidated financial statements.

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended December 31, 2023 and December 31, 2022

(Expressed in millions of United States dollars)

	2023	2022
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Net income (loss)	1,223.8	(4.7)
Adjustments to reconcile net income (loss) to cash provided by operating activities:		
Net realized losses (gains) on sales of investments	142.6	32.2
Mark-to-market adjustments	(567.2)	425.5
Stock compensation expense	37.8	29.2
Distributed and undistributed loss (income) of equity method investments	(15.6)	(20.0)
Depreciation and amortization	(45.6)	33.9
Changes in:		
Reserve for losses and loss expenses, net of reinsurance recoverables	648.3	1,037.6
Unearned premiums, net of prepaid reinsurance	258.3	255.2
Insurance balances receivable	(160.7)	(267.8)
Reinsurance recoverable on paid losses	(132.0)	(35.0)
Funds held	129.9	20.8
Reinsurance balances payable	28.4	(67.0)
Reinsurance funds held	11.7	50.6
Net deferred acquisition costs	(83.2)	(26.0)
Net deferred tax assets	(60.4)	(75.1)
Accounts payable and accrued liabilities	(39.6)	37.0
Other items, net	(89.7)	(18.3)
Net cash provided by (used in) operating activities	1,286.8	1,408.1
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES:		
Purchases of securities	(13,079.2)	(10,775.3)
Purchases of loans	(897.8)	(116.3)
Purchases of other invested assets	(121.1)	(107.8)
Sale and maturity of securities	12,119.5	8,761.6
Sales of loans	324.8	34.7
Sales of other invested assets	61.4	59.4
Purchases of fixed assets	(17.9)	(14.8)
Net cash provided by (used in) investing activities	(1,610.3)	(2,158.5)
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES:		
Dividends paid	(174.4)	(164.9)
Purchases of Fairfax subordinate voting shares	(36.0)	(42.1)
Repayment of other long-term debt	(0.4)	(0.3)
Net cash provided by (used in) financing activities	(210.8)	(207.3)
Effect of exchange rate changes on foreign currency cash	11.7	(5.3)
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(522.6)	(963.0)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, BEGINNING OF YEAR	1,178.6	2,141.6
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, END OF YEAR	\$ 656.0	\$ 1,178.6
Supplemental disclosure of cash flow information:		
— Cash paid (received) for income taxes	133.3	\$ 122.0
— Cash paid for interest expense	\$ 22.0	\$ 23.8

See accompanying notes to the consolidated financial statements.

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

1. GENERAL

Allied World Assurance Company Holdings, Ltd (the "Company") through its wholly-owned subsidiaries is a global provider of a diversified portfolio of property and casualty insurance and reinsurance. References to "\$" are to the lawful currency of the United States and "CHF" are to the lawful currency of Switzerland.

On July 6, 2017, Fairfax Financial Holdings Limited ("Fairfax"), through Fairfax Financial Holdings (Switzerland) GmbH ("Fairfax Switzerland"), completed the acquisition of 94.6% of the outstanding shares of Allied World Assurance Company Holdings, AG ("Allied World AG") for purchase consideration of \$3,977.9 million. Contemporaneously with the closing of the acquisition of Allied World AG, Ontario Municipal Employees Retirement System ("OMERS"), the pension plan manager for government employees in the province of Ontario, Alberta Investment Management Corporation ("AIMCo") and certain other third parties (together "the co-investors") invested \$1,580.0 million for an indirect equity interest in Allied World AG. The remaining 5.4% of the outstanding shares of Allied World AG was acquired by Fairfax Switzerland on August 17, 2017 for purchase consideration of \$229.0 million in a merger transaction under Swiss law pursuant to which Allied World Assurance Company Holdings, GmbH ("Allied World Switzerland") became the surviving entity. This merger resulted in the co-investors holding an indirect ownership interest in Allied World Switzerland of 32.6%.

On July 2, 2019, Allied World Switzerland re-domesticated to Bermuda and became a Bermuda company. In connection with this re-domestication, Allied World Switzerland changed its name to "Allied World Assurance Company Holdings, Ltd" (hereinafter referred to as "AWACH Bermuda"). On July 3, 2019, Fairfax Switzerland, the 100% direct parent entity of Allied World Switzerland also re-domesticated to Bermuda and became a Bermuda company. In connection with this re-domestication, Fairfax Switzerland changed its name to "Fairfax Financial Holdings (Bermuda), Ltd" (hereinafter referred to as "FFH (Bermuda)"). On July 10, 2019, FFH (Bermuda) effected a merger with AWACH Bermuda under Bermuda law pursuant to which FFH (Bermuda) became the surviving entity and assumed all of the assets and liabilities of AWACH Bermuda. In connection with this merger, the surviving entity assumed AWACH Bermuda's name, Allied World Assurance Company Holdings, Ltd.

On September 27, 2022, Fairfax purchased 41% of the co-investors indirect interest of the Company for \$650.0 million resulting in the co-investors owning 17.1% of the Company. On June 23, 2023, Fairfax purchased an additional 0.5% of the co-investors indirect interest of the Company for \$30.6 million and, as a result, the co-investors currently own approximately 16.6% of the Company.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). The preparation of financial statements in conformity with U.S. 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. The significant estimates reflected in the Company's financial statements include, but are not limited to:

- The premium estimates for certain reinsurance agreements,
- Recoverability of deferred acquisition costs,
- The reserve for outstanding losses and loss expenses,
- Valuation of ceded reinsurance recoverables,
- Determination of impairment of goodwill and other intangible assets, and
- Valuation of financial instruments.

Intercompany accounts and transactions have been eliminated on consolidation and all entities meeting consolidation requirements have been included in the consolidated financial statements. To facilitate comparison of information across periods, certain reclassifications have been made to prior year amounts to conform to the current year's presentation.

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

The significant accounting policies are as follows:

a) Premiums and Acquisition Costs

Premiums are recorded as written on the inception date of the policy. For certain types of business written by the Company, notably assumed reinsurance, the exact premium income may not be known at the policy inception date. In the case of quota share reinsurance treaties assumed by the Company, the underwriter makes an estimate of premium income at inception. The underwriter's estimate is based on statistical data provided by reinsureds and the underwriter's judgment and experience. Such estimations are refined over the reporting period of each treaty as actual written premium information is reported by ceding companies and intermediaries. Premiums resulting from changes in the estimate of the premium income are recorded in the period during which the estimate is changed. Certain insurance and reinsurance contracts may require that the premium be adjusted at the expiry of the contract to reflect the change in exposure or loss experience of the insured or reinsured.

Premiums are recognized as earned over the period of policy coverage in proportion to the risks to which they relate. Reinsurance premiums under a losses-occurring reinsurance contract are earned over the coverage period. Reinsurance premiums under a risks-attaching reinsurance contract are earned over the same period as the underlying policies, or risks, covered by the contract. As a result, the earning pattern of a risks-attaching reinsurance contract may extend up to 24 months, reflecting the inception dates of the underlying policies. Premiums relating to the unexpired periods of coverage are recorded on the consolidated balance sheets as "unearned premiums".

Acquisition costs, comprised of commissions, brokerage fees and insurance taxes, are costs that are directly related to the successful acquisition of new and renewal business and are deferred. Although permitted under U.S. GAAP to defer certain internal costs that are directly related to the successful acquisition of new and renewal business, the Company does not defer such costs. Acquisition costs that are deferred, and carried on the consolidated balance sheets as an asset, are expensed as the premiums to which they relate are earned. Expected losses and loss expenses, other costs and anticipated investment income related to these unearned premiums are considered in determining the recoverability or deficiency of deferred acquisition costs. If it is determined that deferred acquisition costs are not recoverable, they are expensed. Further analysis is performed to determine if a liability is required to provide for losses which may exceed the related unearned premiums. Acquisition costs recorded in the consolidated statements of comprehensive income ("consolidated income statements") include other acquisition-related costs such as profit commissions that are expensed as incurred.

b) Reserve for Losses and Loss Expenses

The reserve for losses and loss expenses is comprised of two main elements: outstanding loss reserves ("OSLR," also known as case reserves) and reserves for losses incurred but not reported ("IBNR"). OSLR relate to known claims and represent management's best estimate of the likely loss payment. Reserves for IBNR relates to reserves established by the Company for claims that have occurred but have not yet been reported to us as well as for changes in the values of claims that have been reported to us but are not yet settled. See Note 6 for additional information.

c) Ceded Reinsurance

In the ordinary course of business, the Company uses both treaty and facultative reinsurance to minimize its net loss exposure to any one catastrophic loss event or to an accumulation of losses from a number of smaller events. Reinsurance premiums ceded are expensed and any commissions recorded thereon are earned over the period the reinsurance coverage is provided in proportion to the risks to which they relate. For reinsurance treaties that have contractual minimum premium provisions, premiums ceded are recorded at the inception of the treaty based on the minimum premiums. Prepaid reinsurance represents unearned premiums ceded to reinsurance companies. Any unearned ceding commission is included in "net deferred acquisitions costs" on the consolidated balance sheets and is recorded as a reduction to the overall net deferred acquisition cost balance in the consolidated income statements.

Reinsurance recoverable includes the balances due from reinsurance companies under the terms of the Company's reinsurance agreements for unpaid losses and loss reserves, including IBNR, and is presented net of a provision for

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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uncollectible reinsurance. Amounts recoverable from reinsurers are estimated in a manner consistent with the estimated claim liability associated with the reinsured policy. The Company determines the portion of the IBNR liability that will be recoverable under its reinsurance contracts by reference to the terms of the reinsurance protection purchased. This determination is necessarily based on the estimate of IBNR and accordingly, is subject to the same uncertainties as the estimate of IBNR.

The Company remains liable to the extent that its reinsurers do not meet their obligations under the reinsurance contracts; therefore, the Company regularly evaluates the financial condition of its reinsurers and monitors concentration of credit risk.

d) Expected credit losses

Reinsurance recoverables - The Company actively manages its reinsurance recoverable and reinsurance recoverable for paid losses exposure generally by selecting reinsurers with higher credit quality, generally "A-" or higher based on A.M. Best issuer ratings. In addition, the Company will assess the collectability of reinsurance recoverable balances at each reporting period through a financial analysis of the credit quality of reinsurers. If applicable, the Company records an adjustment to reflect the results of this assessment through an allowance for credit losses that reduces the carrying amount of reinsurance recoverable and reinsurance recoverable on paid losses on the consolidated balance sheets. This estimate requires significant judgment for which key considerations include:

- paid and unpaid amounts recoverable;
- the relative financial health of the reinsurer are classified by the current A.M. Best issuer risk rating for each reinsurer; and
- whether collateral and collateral arrangements exist.

An estimate of the reinsurance recoverable's lifetime expected credit losses is established utilizing a probability of default and loss given default method, which reflects the reinsurer's A.M. Best issuer rating and is net of collateral. The Company believes that the historical A.M. Best probability of defaults and loss given default by rating categories is a reasonable and supportable basis to forecast and estimate future expected credit losses.

Insurance balances receivables - The Company assesses the collectability of direct and assumed insurance balance receivables in each reporting period through an aging analysis of the receivables in the categories of current, 1-30 days, 30-60 days, 60-90 days and > 90 days past due. A significant portion of amounts included in insurance balance receivables are not currently due based on the terms of the underlying contracts. The Company uses internal historical insurance balance receivables and collection data to develop a loss ratio for each of the aging categories, and believes the Company's loss history is a reasonable and supportable basis to forecast and estimate future expected credit losses. The loss ratios are then applied to the current insurance balance receivables in each aging category to estimate the Company's expected credit losses. For insurance balance receivables that have been identified as in default, a specific provision is determined based on historical recoverability for defaulted receivables.

e) Investments

The Company has elected the fair value option permitted under U.S. GAAP for all of its fixed maturity investments and equity securities (not accounted for using the equity method) at the time each security was acquired. The Company classifies these investments as securities, and they are carried at fair value with any change in unrealized gains or losses recognized in the consolidated income statements and included in "net realized and unrealized investment gains (losses)". As a result of this investment classification, the Company does not record any change in unrealized gains or losses on investments as a separate component of accumulated other comprehensive income on the consolidated balance sheets.

Other invested assets consist of investments in hedge funds, private equity funds and real estate held for investment purposes, which the Company has elected the fair value option as permitted under U.S. GAAP at the time each investment was acquired. For loans, the Company has also elected the fair value option as permitted under U.S. GAAP at the time each loan was acquired. In addition, included in the Company's other invested assets are various investments that are accounted for using the equity method of accounting. The Company uses the equity method where it individually, or together with Fairfax, has significant influence. Equity method investments are recorded at cost and adjusted for the Company's proportionate share of earnings or losses on a quarterly lag basis. An other-than-temporary impairment charge related to the equity method investments is assessed when facts and circumstances exists that indicate an impairment may exist. An other-than-temporary impairment charge is recorded when it is determined that the carrying value of the equity method investment is below its fair

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
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(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

value and the Company does not have the intent and ability to hold to recovery. Other investments are recorded based on valuation techniques depending on the nature of the individual assets.

At each measurement date, the Company obtains the fair values for substantially all of the Company's financial instruments from Fairfax, which utilizes a market or income approach to determine a financial instrument's fair value. Considerable judgment may be required in interpreting market data used to develop estimates of fair value. Accordingly, actual values realized in future market transactions may differ from the estimates presented in these consolidated financial statements. The use of different market assumptions and/or valuation methodologies may have a material effect on the estimated fair values.

Valuation techniques used by the Company's independent pricing service providers and third-party broker-dealers include use of prices from similar instruments where observable market prices exist, discounted cash flow analysis, option pricing models, and other valuation techniques commonly used by market participants. The Company and Fairfax assess the reasonableness of pricing received from these third party sources by comparing the fair values received to recent transaction prices for similar assets where available, to industry accepted discounted cash flow models (that incorporate estimates of the amount and timing of future cash flows and market observable inputs such as credit spreads and discount rates) and to option pricing models (that incorporate market observable inputs, including the quoted price, volatility and dividend yield of the underlying security and the risk free rate).

Detailed valuations are performed for those financial instruments that are priced internally, while external pricing received from independent pricing service providers and third-party broker-dealers are evaluated by the Company and Fairfax for reasonableness.

Investment securities are recorded on a trade-date basis. Investment income is recognized when earned and includes the accrual of discount or amortization of premium on fixed maturity investments using the effective yield method and is net of related expenses. Interest income for fixed maturity investments is accrued and recognized based on the contractual terms of the fixed maturity investments and is included in "net investment income" in the consolidated income statements. For asset-backed securities and any other holdings for which there is a prepayment risk, prepayment assumptions are evaluated and revised on a regular basis. Revised prepayment assumptions are applied to securities on a retrospective basis to the date of acquisition. The cumulative adjustments to amortized cost required due to these changes in effective yields and maturities are recognized in net investment income in the same period as the revision of the assumptions. The Company's share of undistributed net income from equity method investments is included in net investment income. The return on investments is managed on a total financial statement portfolio return basis, which includes the undistributed net income from equity method investments, and as such have classified these amounts in net investment income.

Realized gains and losses on the disposition of investments, which are based upon the first-in first-out method of identification, are included in "net realized and unrealized investment gains (losses)" in the consolidated income statements.

f) Consolidation

Subsidiaries - The Company's consolidated financial statements include the assets, liabilities, equity, revenue, expenses and cash flows of the Company. A subsidiary is an entity over which the Company has control. The Company controls an entity when the Company has power over the entity, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Assessment of control is based on the substance of the relationship between the Company and the entity and includes consideration of both existing voting rights and, if applicable, potential voting rights that are currently exercisable and convertible. The operating results of subsidiaries acquired are included in the consolidated financial statements from the date control is acquired (typically the acquisition date). The operating results of subsidiaries that are divested during the year are included up to the date control ceased (typically the disposition date) and any difference between the fair value of the consideration received and the carrying value of a divested subsidiary is recognized in the consolidated income statements. Accounting policies of subsidiaries have been aligned with those of the Company where necessary.

The Company may be involved in the normal course of business with variable interest entities ("VIEs") as a passive investor in certain of its hedge fund and private equity fund investments. As of the year ending December 31, 2023, the Company has no investments in hedge funds.

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

g) Translation of Foreign Currencies

Functional and presentation currency - The consolidated financial statements are presented in U.S. dollars, which is the functional and presentation currency of the consolidated group.

Foreign currency transactions - Foreign currency transactions are translated into the functional currencies of the Company's subsidiaries using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated income statements. Non-monetary items carried at cost are translated using the exchange rate at the date of the transaction. Non-monetary items carried at fair value are translated at the date the fair value is determined.

Translation of foreign subsidiaries - The functional currencies of some of the Company's subsidiaries differ from the consolidated group U.S. dollar presentation currency. As a result, the assets and liabilities of these foreign subsidiaries (including goodwill and fair value adjustments arising on their acquisition, where applicable) are translated on consolidation at the rates of exchange prevailing at the balance sheet date. Revenue and expenses are translated at the average rate of exchange for the period. The net unrealized gain or loss resulting from this translation is recognized in accumulated other comprehensive income, and only recycled to the consolidated income statements upon reduction of an investment in a foreign subsidiary.

h) Cash and Cash Equivalents and Restricted Cash

Cash and cash equivalents include amounts held in banks, time deposits, commercial paper, discount notes and U.S. Treasury Bills with maturities of less than three months from the date of purchase. Restricted cash primarily relates to cash held in trust accounts in favor of cedents, other counterparties or government authorities, as well as accounts that are pledged as collateral for the Company's letter of credit facilities.

i) Income Taxes

The Company and certain of its subsidiaries operate in jurisdictions where they are subject to income taxation. Current and deferred income taxes are charged or credited to operations, or to shareholders' equity in certain cases, based upon enacted tax laws and rates applicable in the relevant jurisdiction in the period in which the tax becomes payable. Deferred income taxes are provided for all temporary differences between the bases of assets and liabilities used in the financial statements and those used in the various jurisdictional tax returns.

It is the Company's policy to recognize interest accrued related to unrecognized tax benefits in "interest expense" and penalties in "general and administrative expenses" in the consolidated income statements. The Company has not recorded or accrued any interest or penalties during the years ended December 31, 2023 and December 31, 2022.

j) Share-based Awards

The Company participates in the Fairfax Financial Holdings Limited 1999 Restricted Share Plan (the "Fairfax Plan"). The Fairfax Plan generally provides officers, key employees and directors who were employed by or provided services to the Company or its subsidiaries with awards of restricted shares of Fairfax common stock. As part of the Fairfax Plan, the Company purchases, from time to time, Fairfax shares for issuances to employees. The Fairfax shares are recorded in "additional paid-in capital" in the consolidated balance sheet and based on the fair value at the time of purchase. The restricted share awards vest on the five-year anniversary of the grant date. Forfeitures are recorded as incurred.

k) Goodwill and Intangible Assets

The Company classifies its intangible assets into three categories: (1) intangible assets with finite lives subject to amortization, (2) intangible assets with indefinite lives not subject to amortization, and (3) goodwill. Intangible assets, other than goodwill, generally consist of customer renewal rights, distribution channels, internally generated software, non-compete covenants, trademarks, and insurance licenses.

For intangible assets with finite lives, the value of the assets is amortized over their expected useful lives and the expense is included in "amortization of intangible assets" in the consolidated income statements. The Company tests assets for impairment if conditions exist that indicate the carrying value may not be recoverable. If, as a result of the evaluation, the

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Company determines that the value of the intangible assets is impaired, then the value of the assets will be written-down in the period in which the determination of the impairment is made.

For indefinite lived intangible assets, the Company does not amortize the intangible asset but evaluates and compares the fair value of the assets to their carrying values on an annual basis or more frequently if circumstances warrant. If, as a result of the evaluation, the Company determines that the value of the intangible assets is impaired, then the value of the assets will be written-down in the period in which the determination of the impairment is made.

Goodwill represents the excess of the cost of acquisitions over the fair value of net assets acquired and is not amortized. Goodwill is assigned at acquisition to the applicable reporting unit(s) based on the expected benefit to be received by the reporting units from the business combination. The Company determines the expected benefit based on several factors including the purpose of the business combination, the strategy of the Company subsequent to the business combination and structure of the acquired company subsequent to the business combination. A reporting unit is a component of the Company's business that has discrete financial information that is reviewed by management. In determining the reporting unit, the Company analyzes the inputs, processes, outputs and overall operating performance of the reporting unit. The Company has four reporting units to which the goodwill is allocated.

For goodwill, the Company performs an annual impairment test, or more frequently if circumstances warrant. The Company may first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The results of the qualitative assessment will determine if an entity needs to proceed with the two-step goodwill impairment test. For the years ended December 31, 2023 and December 31, 2022, the Company performed a qualitative assessment and concluded it was not more likely than not that the fair value of the Company's reporting units were less than its carrying value.

The goodwill impairment test compares the fair value of the reporting unit with its carrying value, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, then the goodwill impairment is recognized as the difference between the carrying value of a reporting unit and its fair value as calculated in the goodwill impairment test.

The Company recorded no goodwill impairments during the years ended December 31, 2023 and December 31, 2022.

l) Derivative Instruments

The Company utilizes derivative financial instruments as part of its overall risk management strategy. The Company recognizes all derivative financial instruments at fair value as either assets or liabilities on the consolidated balance sheets. The accounting for gains and losses associated with changes in the fair value of a derivative and the effect on the consolidated financial statements depends on its hedge designation and whether the hedge is highly effective in achieving offsetting changes in the fair value of the asset or liability hedged.

The Company may use currency forward contracts and foreign currency swaps to manage currency exposure. The Company may also utilize various derivative instruments such as interest rate futures, interest rate swaps, total return swaps and index options, for the purpose of managing market exposures, interest rate volatility, portfolio duration, hedging certain investments, or enhancing investment performance. These derivatives are not designated as hedges and accordingly are carried at fair value on the consolidated balance sheets within "other assets" or "accounts payable and accrued liabilities" with realized and unrealized gains and losses included in the consolidated income statements.

In addition, the Company's derivative instruments may include insurance and reinsurance contracts that are required to be accounted for as derivatives. This will be the case when the insurance or reinsurance contract provides indemnification to the insured or cedent as a result of a change in a variable versus an identifiable insurable event. The Company considers these insurance and reinsurance contracts to be an extension of its overall insurance operations. The insurance and reinsurance derivative contracts are recorded at fair value, with net premiums received recognized in "net premiums earned" over the period of policy coverage in proportion to the risk to which it relates, and other changes in the fair value of this contract is recorded in "other income" or "other expense" in the consolidated income statements. To the extent losses are incurred or ceded under these contracts, those net losses would be recorded in "net losses and loss expenses". During the year ended December 31, 2023, the Company recorded zero net premiums earned, other income and other expenses related to these insurance and reinsurance derivative contracts. During the year ended December 31, 2022, the Company recorded net premiums earned of \$5.6 million, other income of \$11.3 million, and other expense of \$18.4 million related to these insurance and reinsurance

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derivative contracts. During the year ended December 31, 2022, these insurance and reinsurance derivative contracts had been cancelled.

m) Funds Held and Reinsurance Funds Held

In the ordinary course of business, the Company's assumed insurance contracts allow the cedent to retain a portion of the premium that would be ceded to the Company. Premiums retained in this manner are considered assets and presented as "funds held" on the consolidated balance sheet. The Company also has ceded premium and received cash collateral as part of a ceded reinsurance contracts, and loss portfolio transfer, which are considered liabilities and presented as a "reinsurance funds held" on the consolidated balance sheet. See Note 8 for more details.

n) New Accounting Pronouncements Adopted in 2023

Effective January 1, 2023, the Company adopted the ASC 326 - Financial Instruments – Credit Losses, which provides for the recognition and measurement of all current expected credit losses ("CECL") for financial assets that are not recorded under the fair value option method of accounting. All of the Company's fixed maturity securities and equity securities included in other investments are recorded using the fair value option accounting. The Company's other trading invested assets are measured at fair value or fall within the scope of ASC 323 - Investments - Equity Method and Joint Ventures. Balances receivable on the sale of investments relates to the timing convention for settlement and is very short duration in nature. Therefore, the Company's financial assets within the scope of this standard include cash and cash equivalents, restricted cash, insurance balances receivable, funds held, reinsurance recoverables, reinsurance recoverables on paid losses and some other assets. CECL requires a company to apply the modified retrospective approach, where any adjustments would be recorded in opening retained earnings of the first reporting period (i.e., March 31, 2023 for the Company). The adoption of this guidance did not have a material impact on the Company's consolidated financial position, results of operations or cash flows as of and for the year ended December 31, 2023.

o) New Accounting Pronouncements Not Yet Adopted or Effective in 2023

In June 2022, the FASB issued ASU 2022-03, "Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions" ("ASU 2022-03"). This update provides clarification that a contractual restriction on the sale of an equity security is not part of the unit of account of the equity security and therefore, is not considered when measuring fair value. The amendments also clarify that an entity as a separate unit of account cannot recognize and measure a contractual sale restriction. The update also requires certain disclosures for equity securities that are subject to contractual sale restrictions. ASU 2022-03 is effective for fiscal years beginning after December 15, 2024. The Company does not expect the adoption of ASU 2022-03 to have a material impact on its financial statements.

In December 2022, the FASB issued ASU 2022-05, "Financial Services—Insurance (Topic 944): Transition for Sold Contracts" ("ASU 2022-05"). This update requires an insurance entity to apply a retrospective transition method as of the earliest period or the beginning of the prior fiscal year. The update provides amendments on ASU 2018-12, "Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts (LDTI)". The amendments allow an insurance entity to make an accounting policy election on a transaction by transaction basis. ASU 2022-05 is effective for fiscal years beginning after December 15, 2024. The Company does not have insurance contracts within the scope of ASU 2022-05 and therefore does not expect the adoption of ASU 2022-05 to have a material impact on its financial statements.

In March 2023, the FASB issued ASU 2023-01, "Leases (Topic 842): Common Control Arrangements" ("ASU 2023-01"). This update provides guidance for private companies and not-for-profit entities that are not conduit bond obligors to determine whether a lease exists and the classification and accounting for the lease. The amendments also require that leasehold improvements for common control leases are amortized by the lessee over the useful life of the leasehold improvements. Also, the leasehold improvements are to be accounted for as a transfer between the entities under common control through an adjustment to equity when the lessee no longer controls the underlying asset. ASU 2023-01 is effective for fiscal years beginning after December 15, 2023. The Company does not currently have common control leases and as such, does not expect the adoption of ASU 2023-01 to have a material impact on its financial statements.

In March 2023, the FASB issued ASU 2023-02, "Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method (a consensus of the Emerging Issues Task Force)" ("ASU 2023-02"). This update permits reporting entities to account for their tax equity investments regardless of tax credit program from which their tax credits are received. ASU 2023-02 is effective for fiscal years

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beginning after December 15, 2024. The Company does not currently use the proportional amortization method and does not have investments in low-income-housing tax credit (LIHTC) structures and as such, does not expect the adoption of ASU 2023-02 to have a material impact on its financial statements.

In November 2023, the FASB issued ASU 2023-07, "Segment Reporting (Topic 280) - Improvements to Reportable Segment Disclosures". This update requires separate disclosure of significant segment expenses that are regularly provided to the chief operating decision maker ("CODM") of the profit and loss segment measure(s) the CODM uses in assessing segment performance and how to allocate resources; and the title and position of the CODM and an explanation of how the CODM uses the reported measure(s) of segment profit or loss in assessing segment performance and allocating resources. ASU 2023-07 is to be applied on a fully retrospective basis and is effective for public entities for fiscal years beginning after December 15, 2023, and interim periods beginning after December 15, 2024, with early adoption permitted. The Company is assessing the impact that the adoption of ASU 2023-09 will have on future financial statement disclosures.

In December 2023, the FASB issued ASU 2023-09, "Income Taxes (Topic 740) Improvements to Income Tax Disclosures ("ASU 2023-09)". This update requires, on an annual basis, specific categories within the rate reconciliation and additional information to reconcile items that are 5% or greater of pretax income (or loss) and the statutory income tax rate. ASU 2023-09 is to be applied on a prospective basis (retrospective application is permitted) and for non-public entities is effective for annual periods beginning after December 15, 2025, with early adoption permitted. The Company is assessing the impact that the adoption of ASU 2023-09 will have on future financial statement disclosures.

3. INVESTMENTS

a) Securities

Securities accounted for at fair value with changes in fair value recognized in the consolidated income statements by category are as follows:

	December 31, 2023		December 31, 2022	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
U.S. government and government agencies	\$ 5,649.9	\$ 5,520.8	\$ 5,296.8	\$ 5,391.8
Corporate debt	1,810.2	1,797.2	1,377.5	1,436.5
Non-U.S. government and government agencies	1,192.6	1,154.5	834.1	855.1
States, municipalities and political subdivisions	99.9	96.7	80.0	93.0
Asset-backed	4.2	4.3	5.7	5.7
Total fixed maturity investments	<u>\$ 8,756.8</u>	<u>\$ 8,573.5</u>	<u>\$ 7,594.1</u>	<u>\$ 7,782.1</u>
	December 31, 2023		December 31, 2022	
	Fair Value	Cost	Fair Value	Cost
Equity securities	\$ 1,817.1	\$ 1,538.5	\$ 1,419.6	\$ 1,405.6
Loans	1,082.0	1,108.5	497.5	507.6
Other invested assets	585.0	582.5	573.0	520.1
	<u>\$ 3,484.1</u>	<u>\$ 3,229.5</u>	<u>\$ 2,490.1</u>	<u>\$ 2,433.3</u>

Other invested assets, included in the table above, include investments in private equity funds, hedge funds and real estate investment that are accounted for at fair value, but excludes other private securities that are accounted for using the equity method of accounting, described below in Note 3(b).

The maturity distribution of the fixed income portfolio (on a fair value basis) as of December 31, 2023 and December 31, 2022 was as follows:

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	December 31, 2023	December 31, 2022
Due in one year or less	\$ 768.9	\$ 1,124.7
Due after one year through five years	2,632.9	6,224.4
Due after five years through ten years	5,127.3	36.7
Due after ten years	223.5	202.6
Asset-backed	4.2	5.7
Total	<u>\$ 8,756.8</u>	<u>\$ 7,594.1</u>

The following table shows the credit quality of the Company's fixed income portfolio, as rated by S&P, as of December 31, 2023 and December 31, 2022:

Fixed Income Credit Quality:	December 31, 2023		December 31, 2022	
	Fair Value	Percentage	Fair Value	Percentage
U.S. government and agencies	\$ 5,649.9	64.5 %	5,296.8	69.7 %
AAA/Aaa	785.8	9.0 %	523.2	6.9 %
AA/Aa	405.6	4.6 %	280.5	3.7 %
A/A	720.0	8.2 %	368.4	4.9 %
BBB/Baa	1,001.3	11.4 %	854.9	11.3 %
Total BBB/Baa and above	8,562.6	97.7 %	7,323.8	96.5 %
BB/Ba	154.4	1.8 %	150.6	2.0 %
B/B	0.0	0.0 %	21.1	0.3 %
CCC+ and below	39.8	0.5 %	98.6	1.2 %
Total	<u>\$ 8,756.8</u>	<u>100.0 %</u>	<u>\$ 7,594.1</u>	<u>100.0 %</u>

b) Other Invested Assets

Details regarding the carrying value, redemption characteristics and unfunded investment commitments of the other invested assets portfolio as of December 31, 2023 and December 31, 2022 were as follows:

Fund Type	Carrying Value as of December 31, 2023	Investments with Redemption Restrictions	Estimated Remaining Restriction Period	Investments without Redemption Restrictions	Unfunded Commitments
Private equity	\$ 312.0	\$ 213.6	1-8 Years ⁽¹⁾	\$ 98.4	\$ 50.7
Levered credit	67.8	67.8	1-2 years	—	56.3
Real estate	183.0	183.0	2-6 years	—	4.9
Total private equity	562.8	464.4		98.4	111.9
Real estate investment	22.2			22.2	
Total other invested assets at fair value	585.0	464.4		120.6	111.9
Other private securities	435.8			435.8	
Total other invested assets	<u>\$ 1,020.8</u>	<u>\$ 464.4</u>		<u>\$ 556.4</u>	<u>\$ 111.9</u>

⁽¹⁾ \$72.4 million of private equity investments have lock-up periods until dissolution.

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Fund Type	Carrying Value as of December 31, 2022	Investments with Redemption Restrictions	Estimated Remaining Restriction Period	Investments without Redemption Restrictions	Unfunded Commitments
Private equity	\$ 270.2	\$ 209.9	1-9 Years ⁽¹⁾	\$ 60.3	\$ 21.2
Levered credit	84.1	84.1	1-3 Years	—	61.5
Real estate	196.5	196.5	3-7 Years	—	10.7
Total private equity	550.8	490.5		60.3	93.4
Real estate investment	22.2	—		22.2	—
Total other invested assets at fair value	573.0	490.5		82.5	93.4
Other private securities	309.4	—		309.4	—
Total other invested assets	<u>\$ 882.4</u>	<u>\$ 490.5</u>		<u>\$ 391.9</u>	<u>\$ 93.4</u>

⁽¹⁾ \$42.1 million of private equity investments have lock-up periods until dissolution.

The following describes each investment type:

- **Private equity (primary and secondary):** Primary equity funds include funds that may invest in companies and general partnership interests, as well as direct investments. Secondary funds buy limited partnership interests from existing limited partners of primary private equity funds. As owners of private equity, funds may seek liquidity by selling their existing interests, plus any remaining commitment, to secondary market participants. These funds cannot be redeemed because the investments include restrictions that do not allow for redemption until termination of the funds.
- **Levered credit (including mezzanine debt):** Levered credit funds invest across the capital structures of upper middle market and middle market companies in connection with leveraged buyouts, mergers and acquisitions, recapitalizations, growth financings, refinancings and other corporate purposes. The most common position in the capital structure of mezzanine funds will be between the senior secured debt holder and the equity; however, the funds in which the Company is invested may include secured debt, subordinated debt, preferred stock and/or private equity. These funds cannot be redeemed because the investments include restrictions that do not allow for redemption until termination of the funds.
- **Real estate funds:** Private real estate funds invest directly (through debt and equity) in commercial real estate (multifamily, industrial, office, student housing and retail) as well as residential property. Real estate managers have diversified portfolios that generally follow core, core-plus, value-added or opportunistic strategies. These funds cannot be redeemed because the investments include restrictions that do not allow for redemption until termination of the funds.
- **Real estate investment:** This includes an interest in a commercial building.
- **Other private securities (a/k/a investments in associates):** These securities mostly include strategic non-controlling minority investments in private companies that are accounted for using the equity method of accounting. See Note 3(c) for further details.

c) Investment in Associates

The Company's investments in associates are as follows:

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	As at December 31, 2023			Year ended December 31, 2023	As at December 31, 2022			Year ended December 31, 2022
	Ownership Percentage ⁽¹⁾	Fair Value	Carrying Value	Share of Profit (Loss)	Ownership Percentage ⁽¹⁾	Fair Value	Carrying Value	Share of Profit (Loss)
Eurobank Ergasias Services & Holdings S.A. ("Eurobank")	3.7 %	\$ 243.1	\$ 198.2	\$ 9.4	3.7 %	\$ 146.2	\$ 174.4	\$ 30.6
Helios Fairfax Partners ("HFP")	5.6 %	12.0	33.3	1.5	5.6 %	15.1	31.6	-3.9
Stelco	7.5 %	156.9	93.0	7.6	7.5 %	135.1	97.2	0.0
KWF UK Holdco	5.4 %	4.3	4.4	(1.8)	6.3 %	6.2	6.2	0.4
Grivalia Hospitality S.A.	1.8 %	22.4	22.4	0.3	— %	—	—	—
ONX INC.	3.8 %	15.8	16.4	(1.5)	— %	—	—	—
FF Meadow	27.4 %	68.1	68.1	—	— %	—	—	—
Investment in associates		<u>522.6</u>	<u>435.8</u>	<u>\$ 15.5</u>		<u>302.6</u>	<u>309.4</u>	<u>\$ 27.1</u>

⁽¹⁾ Represents the Company's ownership interest only.

d) Net Investment Income

	Year Ended December 31,	
	2023	2022
Fixed maturity investments	\$ 324.8	\$ 145.7
Equity securities	42.6	26.1
Other invested assets: hedge funds and private equity	27.2	26.5
Other invested assets: other private securities	15.3	27.2
Loans	86.7	29.2
Cash and cash equivalents	31.9	9.6
Derivatives	(7.9)	—
Expenses	(53.3)	(48.7)
Net investment income	<u>\$ 467.3</u>	<u>\$ 215.6</u>

e) Net Realized and Unrealized Gains and Losses

	Year Ended December 31,	
	2023	2022
Gross realized gains on sale of invested assets	\$ 32.1	\$ 6.7
Gross realized losses on sale of invested assets	(188.1)	(102.9)
Net realized and unrealized gains (losses) on derivatives	1.5	47.1
Mark-to-market gains (losses):		
Debt securities	371.1	(253.5)
Equity securities	265.5	(163.3)
Loans	(6.8)	(14.9)
Other invested assets	(50.7)	23.1
Net realized and unrealized investment gains (losses)	<u>\$ 424.6</u>	<u>\$ (457.7)</u>

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f) Pledged Assets

As of December 31, 2023 and December 31, 2022, \$1,675.0 million and \$1,598.5 million, respectively, of cash and cash equivalents and investments were deposited, pledged or held in trust accounts in favor of ceding companies and other counterparties or government authorities to comply with reinsurance contract provisions and insurance laws.

In addition, as of December 31, 2023 and December 31, 2022, a further \$862.4 million and \$748.9 million, respectively, of cash and cash equivalents and investments were pledged as collateral for the Company's letter of credit facilities. See Note 10(d) for details on the Company's credit facilities.

g) Balances receivable/due on sale/purchase of investments

As of December 31, 2023 and December 31, 2022, the Company recorded \$706.7 million and \$1.9 million, respectively, of balances receivable on sale of investments and \$782.3 million and nil, respectively, of balances payable on purchase of investments. These amounts relate to investment transactions between the Company and other Fairfax subsidiaries late in 2023 that did not fully settle until shortly after December 31, 2023.

4. DERIVATIVE INSTRUMENTS

As of December 31, 2023 and December 31, 2022, none of the Company's derivatives were designated as hedges for accounting purposes. The following table summarizes information on the location and amounts of derivative fair values on the consolidated balance sheets:

	December 31, 2023				December 31, 2022			
	Asset Derivative Notional Amount	Asset Derivative Fair Value	Liability Derivative Notional Amount	Liability Derivative Fair Value	Asset Derivative Notional Amount	Asset Derivative Fair Value	Liability Derivative Notional Amount	Liability Derivative Fair Value
Foreign exchange contracts	\$ 183.6	\$ 2.0	\$ 863.0	\$ 11.0	\$ 208.9	\$ 2.1	\$ 497.3	\$ 9.2
Total return swaps	—	—	58.4	7.6	—	—	74.8	0.4
Equity indexed put options	248.7	4.2	—	—	12.0	2.2	—	—
Equity warrants	67.8	4.9	—	—	—	—	—	—
Credit default swaps	10.0	—	386.6	7.5	—	—	—	—
Contingent value rights	3.4	3.4	—	—	—	—	—	—
Interest rate swaps	—	—	650.0	0.3	—	—	—	—
Total derivatives	<u>\$ 513.5</u>	<u>\$ 14.5</u>	<u>\$ 1,958.0</u>	<u>\$ 26.4</u>	<u>\$ 220.9</u>	<u>\$ 4.3</u>	<u>\$ 572.1</u>	<u>\$ 9.6</u>

Derivative assets and derivative liabilities are classified within "other assets" or "accounts payable and accrued liabilities" on the consolidated balance sheets.

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The following table provides the net realized and unrealized gains (losses) on derivatives not designated as accounting hedges recorded on the consolidated income statements:

	Year Ended December 31,	
	2023	2022
Foreign exchange contracts	(10.1)	17.2
Interest rate swaps	(0.3)	—
Equity indexed put options	(7.1)	—
Equity warrants	(2.6)	(2.4)
Credit default swaps	(10.7)	—
Total return swaps	32.3	32.3
Total included in net realized and unrealized investment gains (losses)	1.5	47.1
Insurance contracts	—	(18.4)
Reinsurance contracts	—	11.3
Total included in other income (other expense)	—	(7.1)
Total realized and unrealized gains (losses) on derivatives	\$ 1.5	\$ 40.0

Derivative Instruments Not Designated as Hedging Instruments

The Company is exposed to foreign currency risk in its investment portfolio. Accordingly, the fair values of the Company's investment portfolio are partially influenced by the change in foreign exchange rates. These foreign currency hedging activities have not been designated as specific hedges for financial reporting purposes.

The Company's insurance and reinsurance subsidiaries and branches operate in various foreign countries and consequently the Company's underwriting portfolio is exposed to foreign currency risk. The Company manages foreign currency risk by seeking to match liabilities under the insurance policies and reinsurance contracts that it writes and that are payable in foreign currencies with cash and investments that are denominated in such currencies. When necessary, the Company may also use derivatives to economically hedge unmatched foreign currency exposures, specifically forward contracts and currency options.

The Company has also entered into insurance and reinsurance contracts that are required to be accounted for as derivatives. This will be the case when the insurance or reinsurance contract provides indemnification to the insured or cedent as a result of a change in a variable versus an identifiable insurable event, such as a single-trigger industry loss warranties. The Company considers these insurance and reinsurance contracts to be an extension of its overall insurance operations. For the year ended December 31, 2022, there were no such contracts in place.

The Company has also entered into Total Return Swaps ("TRS"). TRS are derivatives where one party makes payments based on a set rate, either fixed or variable, while the other party makes payments based on the return of an underlying asset, which includes both the income it generates and any capital gains. These agreements are designed to protect fixed income investments against increasing interest rates. The TRS that the Company holds are for a fixed period of 3 months and rolled forward as appropriate.

The Company has entered into long option arrangements which include equity warrants. An option is a contract that allows the holder the right to buy or sell an underlying asset or financial instrument at a specified strike price on or before a specified date, depending on the form of the option. An equity warrant is the right to purchase or sell an equity at a specified price within a stipulated time frame.

The Company has Contingent Value Rights ("CVR") which entitle the Company to a share of any refunds received on estimated softwood lumber duties paid by Resolute Forest Products, Inc. through June 30, 2022. Any proceeds attributable to the CVRs will be distributed proportionally to CVR holders, and the value will ultimately be determined by the terms and timing of the resolution of the softwood lumber dispute between Canada and the United States.

The Company has entered into Credit Default Swaps ("CDS"). Credit Default Swaps are derivatives where one party makes payments either fixed or variable while the other party makes payments in the event of a default of an underlying asset. These agreements are designed to protect investment portfolio against credit risk. The CDS that the Company holds are fixed rate and payable to the counterparty on a quarterly basis.

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The Company has entered into interest rate swaps ("IRS"), which is a type of a derivative contract through which two counterparties agree to exchange one stream of future interest payments for another, based on a specified principal amount. The Company's interest rate swaps include the exchange of a floating rate for a fixed interest rate of mortgage loans. The IRS are designed to keep floating rates of underlying mortgage loans fixed.

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

In accordance with U.S. GAAP, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. There is a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon whether the inputs to the valuation of an asset or liability are observable or unobservable in the market at the measurement date, with quoted market prices being the highest level (Level 1) and unobservable inputs being the lowest level (Level 3). A fair value measurement will fall within the level of the hierarchy based on the input that is significant to determining such measurement. The three levels are defined as follows:

- **Level 1** - Inputs represent unadjusted quoted prices for identical instruments exchanged in active markets. The fair values of all U.S. government securities, short-term non-U.S. government and government agencies and the Company's common stocks that are based on published quotes in active markets are included in the Level 1 fair value hierarchy.
- **Level 2** - Inputs include directly or indirectly observable inputs (other than Level 1 inputs) such as quoted prices for similar financial instruments exchanged in active markets, quoted prices for identical or similar financial instruments exchanged in active markets and other market observable inputs.

The fair value of the vast majority of the Company's investments in bonds are priced based on information provided by independent pricing service providers while much of the remainder, along with the Company's foreign currency forward contracts, are based primarily on non-binding third-party broker-dealer quotes that are prepared using Level 2 inputs. Where third-party broker-dealer quotes are used, typically one quote is obtained from a broker-dealer with expertise in the instrument being priced.

The following asset categories are priced using Level 2 inputs; all long-term non-U.S. government and government agencies, all state and municipals, corporate debt, asset backed securities and total return swaps where they have been priced using observable market inputs, common stocks where prices are obtained from market exchanges in active markets, the Company's senior notes based on reported trades, and the Company's other long-term debt where the fair value is based on the value of the debt using current interest rates.

- **Level 3** - Inputs include unobservable inputs used in the measurement of financial instruments. Management is required to use its own assumptions regarding unobservable inputs as there is little, if any, market activity in these instruments or related observable inputs that can be corroborated at the measurement date. Transfers between fair value hierarchy categories are considered effective from the beginning of the annual reporting period in which the transfer is identified. The following asset categories are priced using Level 3 inputs - some of the Company's corporate debt, derivatives, certain equity securities, all of the Company's real estate and loan investments.

The following table shows the fair value of the Company's financial instruments and where in the fair value hierarchy the fair value measurements are included as of the dates indicated below:

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December 31, 2023	Carrying amount	Total fair value	Level 1	Level 2	Level 3
ASSETS:					
Fixed maturity investments:					
U.S. government and government agencies	\$ 5,649.9	\$ 5,649.9	\$ 5,649.9	\$ —	\$ —
Corporate debt	1,810.2	1,810.2	—	1,786.3	23.9
Non-U.S. government and government agencies	1,192.6	1,192.6	56.7	1,135.9	—
States, municipalities and political subdivisions	99.9	99.9	—	99.9	—
Asset-backed	4.2	4.2	—	4.2	—
Total fixed maturity investments	8,756.8	8,756.8	5,706.6	3,026.3	23.9
Equity securities	1,817.1	1,817.1	708.9	191.2	917.0
Private equity and hedge funds	562.8	562.8	—	—	—
Real estate	22.2	22.2	—	—	22.2
Loans	1,082.0	1,082.0	—	—	1,082.0
Total investments	12,240.9	12,240.9	6,415.5	3,217.5	2,045.1
Derivative assets:					
Foreign exchange contracts	2.0	2.0	—	2.0	—
Equity warrants	4.9	4.9	—	—	4.9
Equity index put options	4.2	4.2	—	4.2	—
Contingent value right	3.4	3.4	—	—	3.4
LIABILITIES:					
Derivative liabilities:					
Foreign exchange contracts	11.0	11.0	—	11.0	—
Total return swaps	7.6	7.6	—	7.6	—
Credit default swaps	7.5	7.5	—	7.5	—
Interest rate swaps	0.3	0.3	—	0.3	—
Senior notes	501.9	488.0	—	488.0	—
Other long-term debt	20.6	19.5	—	19.5	—

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December 31, 2022	Carrying amount	Total fair value	Level 1	Level 2	Level 3
ASSETS:					
Fixed maturity investments:					
U.S. government and government agencies	\$ 5,296.8	\$ 5,296.8	\$ 5,296.8	\$ —	\$ —
Corporate debt	1,377.5	1,377.5	—	1,324.1	53.4
Non-U.S. government and government agencies	834.1	834.1	246.2	587.9	—
States, municipalities and political subdivisions	80.0	80.0	—	80.0	—
Asset-backed	5.7	5.7	—	5.7	—
Total fixed maturity investments	7,594.1	7,594.1	5,543.0	1,997.7	53.4
Equity securities	1,419.6	1,419.6	896.8	149.6	373.2
Private equity and hedge funds ⁽¹⁾	550.8	550.8	—	—	—
Real estate	22.2	22.2	—	—	22.2
Loans	497.5	497.5	—	—	497.5
Total investments	10,084.2	10,084.2	6,439.8	2,147.3	946.3
Derivative assets:					
Foreign exchange contracts	2.1	2.1	—	2.1	—
Options	2.2	2.2	—	—	2.2
LIABILITIES:					
Derivative liabilities:					
Foreign exchange contracts	9.2	9.2	—	9.2	—
Total return swaps	0.4	0.4	—	0.4	—
Senior notes	502.9	477.7	—	477.7	—
Other long-term debt	19.8	16.9	—	16.9	—

⁽¹⁾ In accordance with U.S. GAAP, private equity and hedge fund investments are measured at fair value using the net asset value per share (or its equivalent) practical expedient and have not been classified in the fair value hierarchy.

Level 3 Financial Instruments

As of December 31, 2023, the Company held financial assets of \$2,053.4 million that were measured using Level 3 valuation inputs. As of December 31, 2022, the Company held financial assets of \$948.5 million that were measured using Level 3 valuation inputs. During the year ended December 31, 2023, the Company transferred \$410.8 million of financial assets from Level 1 to Level 3 and purchased \$999.6 million of financial assets that were included in Level 3. During the year ended December 31, 2022, the Company purchased \$237.8 million of financial assets that were included in Level 3. For the Company's Level 3 investments, the effect on earnings was an unrealized and realized gain of \$110.7 million for the year ended December 31, 2023 and an unrealized and realized loss of \$96.4 million for the year ended December 31, 2022.

The following asset categories have securities that are valued in the Level 3 hierarchy:

- **Corporate Debt:** When the significant inputs used to price the Corporate debt are broker-dealer quotes and the Company is not able to determine if those quotes are based on observable market inputs, they are included in the Level 3 hierarchy.
- **Equity Securities:** The Company has certain securities that are valued by Fairfax or the Company and are included in the Level 3 fair value hierarchy. When fair value is determined by Fairfax, the fair value is determined by reference to various valuation measures for comparable companies and transactions, including relevant valuation multiples. Investments are classified as Level 3 because the valuation multiples applied by the Company were adjusted for differences in attributes between the investment and the underlying companies or transactions from which the valuation multiples were derived. Preferred stocks are priced using a combination of independent pricing service providers and internal valuation models that rely on directly or indirectly observable inputs.
- **Real Estate:** Comprised of a commercial real estate investment that was purchased during the year ended 2018. The Company engaged a third party to determine the fair value of the investment. The fair value of the commercial real estate investment was calculated using an income capitalization approach and the key unobservable input is the discount rate, which was 10.3%.

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- **Loans:** The fair value of the loans are calculated using a discounted cash flow approach. The key unobservable input is the discount rate, which for the loans, ranged between 5.3% and 38.2%. For the years ended December 31, 2023 and December 31, 2022, the Company recorded unrealized gains of \$2.0 million and \$2.1 million, respectively, due to the change in the instrument-specific credit risk of the loans.
- **Equity Index Put Options:** The Company has certain equity warrants that are valued using the Black-Scholes model. The key unobservable inputs are the historical volatility, which for the equity warrants ranged between 30.0% and 43.3%.
- **Contingent Value Rights:** The CVR entitles the Company to a share of any refunds received on approximately \$500 million of deposits on estimated softwood lumber duties paid by Resolute Forest Products, Inc. through June 30, 2022, including any interest received on such deposits, net of certain expenses and of applicable tax and withholding. Any proceeds attributable to the CVRs will be distributed proportionally to CVR holders, and the value will ultimately be determined by the terms and timing of the resolution of the softwood lumber dispute between Canada and the United States.

6. RESERVE FOR LOSSES AND LOSS EXPENSES

a) Basis for estimating the reserves for losses and loss expenses

The reserve for losses and loss expenses is comprised of two main elements: OSLR (also known as case reserves) and IBNR. OSLR relate to known claims and represent management’s best estimate of the likely loss settlement. IBNR reserves relate primarily to unreported events that, based on industry information, management’s experience and actuarial evaluation, can reasonably be expected to have occurred and are reasonably likely to result in a loss to the Company. IBNR reserves also relate to estimated development of reported events that, based on industry information, management’s experience and actuarial evaluation, can reasonably be expected to reach the Company’s attachment point and are reasonably likely to result in a loss. The Company also includes in IBNR reserves changes in the values of claims that have been reported but are not yet settled. Each claim is settled individually based upon its merits and it is not unusual for a claim to take years after being reported to settle, especially if legal action is involved. As a result, reserves for losses and loss expenses include significant estimates for IBNR reserves.

The reserve for IBNR is estimated by management for each line of business based on various factors, including underwriters’ expectations about loss experience, actuarial analysis, comparisons with the results of industry benchmarks and loss experience to date. The Company implicitly factors into IBNR reserves inflation by assuming an inflation rate consistent with historical trends. The IBNR reserves are calculated as the ultimate amount of losses and loss expenses less cumulative paid losses and loss expenses and OSLR. The Company’s actuaries employ generally accepted actuarial methodologies to determine estimated ultimate loss reserves.

The Company believes that its current estimates of liabilities appropriately reflect its current knowledge of the business and the prevailing market, social, legal and economic conditions while giving due consideration to historical trends and volatility evidenced in the liabilities over the longer term. Although management believes that OSLR and the IBNR reserves are sufficient to cover losses assumed by the Company, there can be no assurance that losses will not deviate from the Company’s reserves, possibly by material amounts. The methodology of estimating loss reserves is periodically reviewed to ensure that the assumptions made continue to be appropriate. The Company recognizes any changes in its loss reserve estimates, including prior year loss reserve development, and the related reinsurance recoverables in the periods in which they are determined and are recorded in “net losses and loss expenses” in the consolidated income statements.

The reserve for losses and loss expenses consists of the following:

	December 31,	
	2023	2022
Outstanding loss reserves	3,043.5	2,962.7
Reserves for losses incurred but not reported	9,100.9	8,013.9
Reserve for losses and loss expenses	<u>\$ 12,144.4</u>	<u>\$ 10,976.6</u>

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b) Reserve for losses and loss expenses rollforward

The table below is a reconciliation of the beginning and ending liability for unpaid losses and loss expenses. Losses incurred and paid are reflected net of reinsurance recoverables.

	Year Ended December 31,	
	2023	2022
Gross liability at beginning of year	\$ 10,976.6	\$ 9,548.6
Reinsurance recoverable at beginning of year	(3,923.6)	(3,533.3)
Net liability at beginning of year	7,053.0	6,015.3
Net losses incurred related to:		
Current year	3,095.6	2,925.9
Prior years	—	30.5
Total incurred	3,095.6	2,956.4
Net paid losses related to:		
Current year	358.4	334.3
Prior years	2,109.2	1,540.9
Total paid	2,467.6	1,875.2
Foreign exchange revaluation and other	14.8	(43.5)
Net liability at end of year	7,695.8	7,053.0
Reinsurance recoverable at end of year	4,448.6	3,923.6
Gross liability at end of year	\$ 12,144.4	\$ 10,976.6

For the year ended December 31, 2023, the Company recorded no net prior year reserve development. In addition, the Company incurred net losses, before reinstatement premiums, of \$212.8 million in catastrophe-related losses. The net catastrophe losses incurred from the Turkey Earthquake, Maui Fire, Europe Hailstorms, Morocco Earthquake, Hurricane Idalia, New Zealand Floods and other catastrophe events were \$28.3 million, \$20.3 million, \$11.5 million, \$11.0 million, \$9.3 million, \$8.2 million, and \$124.3 million, respectively.

For the year ended December 31, 2022, the Company recorded net unfavorable prior year reserve development primarily related to net unfavorable development with respect to late 2021 catastrophe losses. In addition, the Company incurred net losses, before reinstatement premiums, of \$351.0 million in catastrophe-related losses. The net catastrophe losses incurred from Hurricane Ian, Australian floods, French Hailstorms, Winter Storm Elliot, Typhoon Nanmadol and other catastrophe events were \$188.9 million, \$40.8 million, \$33.3 million, \$15.0 million, \$8.0 million and \$65.0 million, respectively.

The Company has not accrued any additional premiums or return premiums as a result of the net prior year reserve development during the years ended December 31, 2023 and December 31, 2022.

Although the Company has historically experienced favorable and unfavorable development in its insurance and reinsurance lines, there can be no assurance that conditions and trends that have affected the development of liabilities in the past will continue. It is not appropriate to extrapolate future redundancies based on prior years' development. The methodology of estimating loss reserves is periodically reviewed to ensure that the key assumptions used in the actuarial models continue to be appropriate.

c) Incurred and Paid Loss Development Triangles

The following information presents the incurred and paid claims information as of December 31, 2023, net of reinsurance, as well as cumulative claim frequency and total IBNR reserves by accident year. The information about incurred and paid claims development presented for the years ended December 31, 2014 to December 31, 2022 is presented as supplementary information.

The incurred and paid loss development triangles are presented based on the following:

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i. Groupings

Disaggregated based on lines of business within each operating segment. There are a total of eight incurred and paid loss development triangles presented, five of which relate to the Insurance segment and three of which relate to the Reinsurance segment. The eight incurred and paid loss development triangles were selected to create categories that were relatively homogeneous yet not so small as to have insufficient actuarial credibility, and are consistent with how the Company discloses gross premiums written and net premiums earned by line of business.

ii. Presentation

The incurred and paid loss development triangles include ten years of historical information. All incurred and paid loss development triangles are presented net of reinsurance and excludes unallocated loss adjustment expenses, allowance for uncollectible reinsurance recoverables, currency translation adjustments and fair value adjustments related to acquired reserves as those balances are not estimated for each accident year.

Acquisitions will be presented in the incurred and paid loss development triangles based on how the acquired reserves impact the nature, amount, timing and uncertainty of the cash flows related to the settlement of the reserve for losses and loss expenses.

iii. Foreign exchange

Reserves for losses and loss expenses and paid losses that are not recorded in the United States dollar functional currency are revalued at the United States dollar conversion rate at the end of the period.

iv. IBNR

The 'Total IBNR' by accident year disclosed with the incurred and paid loss development triangles includes (1) IBNR reserves for unreported events and (2) changes in the values of claims that have been reported but are not yet settled.

v. Claim count

Cumulative reported claims included in the tables below, which are reflected as the actual claim counts shown, consist of any reported indemnity claim or expense by claimant (e.g., insured) as of December 31, 2023 with a reserve balance greater than one United States dollar (or equivalent foreign currency). By including only claims with reserves greater than one United States dollar (or equivalent foreign currency), the tables do not include any notifications of claims which may or may not result in an indemnity claim. The Company has determined that it is impractical to provide cumulative reported claim information for the lines of business in the Reinsurance segment as this information is not provided to the Company from the cedents. The Company also does not believe cumulated reported claim counts for its Reinsurance segment provides any meaningful information related to the nature, amount, timing and uncertainty of the cash flows related to the settled reserve for losses and loss expenses.

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Insurance Segment:

Casualty

Incurred Claims and Loss Adjustment Expenses, Net of Reinsurance

Accident Year	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	December 31, 2023	
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total IBNR	Cumulative Reported Claims
2014	\$ 277.8	\$ 303.5	\$ 323.4	\$ 354.4	\$ 378.1	\$ 389.5	\$ 387.4	\$ 389.0	\$ 393.3	\$ 388.2	\$ 9.3	5,881
2015		354.2	363.1	379.4	401.0	407.9	418.8	423.5	432.2	441.6	14.5	7,960
2016			324.2	326.1	327.3	337.6	359.3	348.0	365.6	383.1	16.8	7,555
2017				293.0	300.1	325.9	335.9	330.5	325.8	343.7	21.7	7,186
2018					293.0	302.3	295.8	285.6	271.7	300.9	33.7	6,864
2019						305.8	309.6	309.6	294.3	244.2	19.8	6,431
2020							333.9	326.5	320.9	295.5	120.7	5,223
2021								441.1	431.7	398.5	243.3	5,428
2022									515.9	489.7	371.9	6,009
2023										489.0	441.0	6,123
												<u>\$3,774.4</u>

Cumulative Paid Claims and Loss Adjustment Expenses, Net of Reinsurance

Accident Year	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited		
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023		
2014	\$ 17.2	\$ 90.3	\$ 156.8	\$ 232.9	\$ 291.0	\$ 321.4	\$ 336.2	\$ 348.7	\$ 362.2	\$ 370.1		
2015		24.1	69.8	138.3	237.2	294.8	347.9	363.4	390.6	401.8		
2016			24.0	70.6	125.6	202.3	240.5	269.1	322.0	349.0		
2017				21.1	68.7	124.5	184.7	219.1	256.4	298.4		
2018					18.6	76.8	110.5	152.0	202.4	244.4		
2019						17.4	62.8	100.6	157.1	240.5		
2020							11.8	36.1	88.3	156.9		
2021								12.4	40.4	91.2		
2022									11.9	87.3		
2023										12.7		
											<u>\$2,252.3</u>	
												<u>\$ 122.1</u>
												<u>\$1,644.2</u>

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Professional liability

Incurred Claims and Loss Adjustment Expenses, Net of Reinsurance

Accident Year	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	December 31, 2023	
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total IBNR	Cumulative Reported Claims
2014	\$ 337.6	\$ 366.7	\$ 369.9	\$ 368.7	\$ 372.9	\$ 377.1	\$ 380.4	\$ 370.5	\$ 368.3	\$ 364.1	\$ 8.0	814
2015		389.1	396.6	411.0	416.4	430.8	430.0	417.3	425.1	421.5	12.5	780
2016			360.6	371.0	363.2	382.0	379.8	395.3	392.5	394.5	19.1	865
2017				308.9	321.8	316.1	318.5	321.0	316.6	337.5	19.5	884
2018					290.5	292.3	289.8	287.7	309.8	348.6	28.3	1,114
2019						291.1	293.1	288.2	315.0	324.6	48.1	1,256
2020							344.8	336.4	320.3	300.4	103.6	1,349
2021								563.8	512.5	459.8	283.5	1,483
2022									769.9	737.1	565.1	1,305
2023										840.5	752.6	1,302
										<u>840.5</u>		
										<u>\$4,528.6</u>		

Cumulative Paid Claims and Loss Adjustment Expenses, Net of Reinsurance

Accident Year	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	
2014	\$ 13.3	\$ 81.7	\$ 157.4	\$ 206.5	\$ 263.0	\$ 308.8	\$ 324.6	\$ 338.3	\$ 339.6	\$ 344.0
2015		10.9	74.9	142.9	217.5	297.5	332.3	372.1	381.2	397.0
2016			12.3	67.3	159.6	230.0	270.4	317.8	337.1	362.3
2017				9.7	65.1	117.3	165.4	198.5	242.6	274.1
2018					11.3	61.3	115.6	161.6	210.6	277.5
2019						24.6	76.0	125.2	183.2	221.9
2020							20.0	72.4	119.8	162.4
2021								21.4	75.4	123.3
2022									31.1	117.7
2023										38.3
										<u>\$2,318.5</u>
										<u>\$ 83.5</u>
										<u>\$2,293.6</u>

All outstanding liabilities before 2014, net of reinsurance

Liability for losses and loss expenses, net of reinsurance

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Property

Incurred Claims and Loss Adjustment Expenses, Net of Reinsurance

Accident Year	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	December 31, 2023	
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total IBNR	Cumulative Reported Claims
2014	\$ 137.0	\$ 134.8	\$ 124.7	\$ 124.6	\$ 122.2	\$ 121.2	\$ 119.6	\$ 119.2	\$ 117.1	\$ 117.9	\$ 0.2	2,795
2015		146.8	151.1	155.1	152.2	150.0	150.3	149.8	149.3	149.5	—	3,887
2016			143.8	148.4	143.9	141.0	138.6	139.2	147.3	148.0	—	3,920
2017				285.9	244.9	236.5	234.3	233.6	246.2	245.5	0.1	3,269
2018					182.9	197.0	187.1	187.8	203.4	204.2	0.3	3,154
2019						137.9	142.6	137.3	141.2	136.5	1.8	2,832
2020							164.3	155.6	158.7	156.1	4.0	2,417
2021								191.6	167.5	154.7	3.4	2,450
2022									176.1	193.4	17.0	2,947
2023										224.8	91.7	2,865
										<u>\$1,730.6</u>		

Cumulative Paid Claims and Loss Adjustment Expenses, Net of Reinsurance

Accident Year	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	
2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2023	
2014	\$ 39.9	\$ 92.9	\$ 110.4	\$ 115.2	\$ 116.0	\$ 116.8	\$ 116.8	\$ 116.9	\$ 116.8	\$ 116.6	
2015		58.0	121.8	140.4	145.9	146.9	149.1	149.1	148.9	148.8	
2016			51.6	108.6	126.8	135.5	142.2	143.1	145.2	147.9	
2017				65.7	188.5	221.2	233.2	238.4	241.2	244.3	
2018					74.7	153.9	180.6	192.2	197.7	201.6	
2019						53.8	103.4	122.0	128.2	134.4	
2020							47.6	90.9	114.9	133.3	
2021								44.8	102.4	126.5	
2022									48.8	122.7	
2023										57.1	
										<u>\$1,433.2</u>	
											<u>\$ 1.0</u>
											<u>\$ 298.4</u>

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Programs

Accident Year	Incurred Claims and Loss Adjustment Expenses, Net of Reinsurance										December 31, 2023	
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Total IBNR	Cumulative Reported Claims
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023		
2014	\$ 74.9	\$ 73.9	\$ 70.0	\$ 67.7	\$ 63.2	\$ 59.4	\$ 56.6	\$ 56.9	\$ 57.1	\$ 58.4	\$ 1.6	1,127
2015		86.9	86.2	81.9	74.8	70.7	72.9	73.2	74.1	75.4	1.9	1,293
2016			113.6	114.6	117.3	110.2	116.9	116.8	119.0	120.8	3.5	1,653
2017				147.7	154.4	148.4	140.7	142.7	147.5	155.6	5.3	2,658
2018					157.1	158.2	153.2	160.7	175.4	196.4	10.0	3,412
2019						209.2	218.1	215.8	233.8	262.9	18.1	5,040
2020							231.7	232.5	234.5	251.4	21.4	4,745
2021								247.2	229.2	231.9	52.6	5,080
2022									254.0	228.9	104.2	4,585
2023										236.6	175.5	3,387
												<u>\$1,818.3</u>

Accident Year	Cumulative Paid Claims and Loss Adjustment Expenses, Net of Reinsurance										
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	
2014	\$ 6.4	\$ 16.9	\$ 27.5	\$ 39.3	\$ 44.5	\$ 47.4	\$ 49.7	\$ 50.9	\$ 51.8	\$ 54.6	
2015		9.3	26.3	37.3	46.3	52.8	61.7	65.6	67.5	69.0	
2016			14.1	43.8	66.3	77.5	88.1	101.7	107.2	112.4	
2017				22.2	63.7	87.1	106.2	120.6	130.6	143.8	
2018					27.8	63.3	86.8	110.3	137.7	168.6	
2019						42.2	99.1	135.6	182.9	228.5	
2020							39.4	108.6	154.2	195.3	
2021								39.0	101.2	145.0	
2022									30.0	91.5	
2023										34.7	
										<u>\$1,243.4</u>	
											<u>\$ 7.1</u>
											<u>\$ 582.0</u>

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Other specialty

Incurred Claims and Loss Adjustment Expenses, Net of Reinsurance

Accident Year	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	December 31, 2023	
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total IBNR	Cumulative Reported Claims
2014	\$ 83.7	\$ 102.2	\$ 113.7	\$ 105.6	\$ 102.1	\$ 103.2	\$ 98.9	\$ 100.4	\$ 102.7	\$ 103.3	\$ 0.2	4,372
2015		123.1	135.0	138.8	134.9	135.8	134.1	135.1	138.1	138.4	2.7	13,851
2016			148.8	158.0	158.1	158.0	160.9	168.4	172.7	178.7	5.3	16,876
2017				204.6	199.4	202.3	201.5	213.5	214.2	220.3	9.0	14,039
2018					178.7	182.4	185.4	179.0	197.1	199.3	11.1	12,734
2019						180.8	204.5	196.2	215.7	199.4	23.8	13,305
2020							166.0	181.7	187.2	183.2	43.7	8,168
2021								182.4	189.6	186.8	73.7	6,401
2022									227.6	213.2	128.3	5,516
2023										217.5	158.5	5,847
												<u>\$1,840.1</u>

Cumulative Paid Claims and Loss Adjustment Expenses, Net of Reinsurance

Accident Year	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited		
2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2023		
2014	\$ 18.1	\$ 51.4	\$ 67.1	\$ 80.7	\$ 86.3	\$ 90.5	\$ 90.6	\$ 92.4	\$ 96.4	\$ 98.4		
2015		25.1	63.0	83.0	102.0	116.0	121.7	124.6	128.8	131.9		
2016			36.1	69.3	91.9	108.5	132.6	146.3	151.1	163.2		
2017				30.6	84.7	119.0	142.6	161.7	176.6	190.7		
2018					24.1	68.8	102.4	121.0	146.2	158.2		
2019						33.0	85.5	116.4	139.0	154.7		
2020							26.6	58.6	87.9	109.2		
2021								16.0	48.7	76.4		
2022									20.8	56.1		
2023										21.0		
										<u>\$1,159.8</u>		
											All outstanding liabilities before 2014, net of reinsurance	<u>\$ 5.9</u>
											Liability for losses and loss expenses, net of reinsurance	<u>\$ 686.2</u>

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Reinsurance Segment:

Property

Incurred Claims and Loss Adjustment Expenses, Net of Reinsurance

Accident Year	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	As of December 31, 2023	
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total IBNR	Cumulative Reported Claims
2014	\$ 202.4	\$ 171.7	\$ 158.5	\$ 156.2	\$ 155.3	\$ 154.7	\$ 154.3	\$ 153.6	\$ 153.8	\$ 154.3	\$ —	n/a
2015		204.5	174.9	157.3	157.1	157.1	156.1	156.5	156.8	156.8	—	n/a
2016			175.0	192.4	193.4	190.5	190.2	190.1	188.6	188.8	—	n/a
2017				411.0	385.3	428.2	431.5	430.3	441.9	444.2	0.7	n/a
2018					305.6	317.5	320.4	317.5	318.3	318.1	0.5	n/a
2019						201.0	180.2	166.0	178.5	178.6	0.6	n/a
2020							253.8	309.0	368.0	386.3	0.9	n/a
2021								345.6	377.5	444.7	7.7	n/a
2022									435.8	322.5	9.3	n/a
2023										372.2	120.9	n/a
										<u>\$2,966.5</u>		

Cumulative Paid Claims and Loss Adjustment Expenses, Net of Reinsurance

Accident Year	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	
2014	\$ 59.9	\$ 118.5	\$ 137.2	\$ 144.0	\$ 147.2	\$ 151.4	\$ 152.1	\$ 152.2	\$ 152.2	\$ 153.4	
2015		55.2	105.8	137.1	144.4	147.2	149.0	151.1	152.0	152.4	
2016			51.7	126.1	152.7	173.4	180.1	182.6	184.0	185.4	
2017				99.0	251.5	297.7	356.9	380.8	401.2	408.6	
2018					77.8	228.6	277.8	295.6	309.0	312.8	
2019						45.7	124.1	152.4	170.0	180.7	
2020							109.6	236.0	296.4	353.5	
2021								99.9	268.1	363.7	
2022									114.4	270.4	
2023										101.2	
										<u>\$2,482.1</u>	
											<u>\$ 3.0</u>
											<u>\$ 487.4</u>

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Casualty

Incurred Claims and Loss Adjustment Expenses, Net of Reinsurance

Accident Year	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	As of December 31, 2023	
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total IBNR	Cumulative Reported Claims
2014	\$ 167.2	\$ 179.6	\$ 182.0	\$ 174.6	\$ 162.8	\$ 149.0	\$ 143.9	\$ 140.6	\$ 141.5	\$ 137.9	\$ 16.8	n/a
2015		159.2	157.4	167.5	184.3	168.2	160.0	160.1	161.5	166.3	15.1	n/a
2016			130.0	120.1	128.1	147.3	146.1	149.2	158.1	157.3	11.5	n/a
2017				120.6	107.3	138.9	143.6	142.1	158.8	162.8	10.8	n/a
2018					123.3	114.4	142.5	124.9	137.0	141.1	16.5	n/a
2019						124.5	100.6	121.7	140.0	157.3	22.9	n/a
2020							190.3	172.6	179.9	179.2	56.5	n/a
2021								247.0	188.4	202.6	119.3	n/a
2022									313.3	269.6	212.7	n/a
2023										393.9	375.9	n/a
										<u>\$1,968.0</u>		

Cumulative Paid Claims and Loss Adjustment Expenses, Net of Reinsurance

Accident Year	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	
2014	2015	2016	2017	2018	2019	2020	2021	2022	2023		
2014	\$ 1.7	\$ 12.5	\$ 31.0	\$ 44.7	\$ 62.1	\$ 76.5	\$ 86.6	\$ 96.5	\$ 101.6	\$ 109.1	
2015		1.5	14.3	34.2	59.0	82.8	96.9	108.0	121.6	130.2	
2016			1.6	11.2	27.4	59.2	73.1	91.1	109.4	119.6	
2017				1.4	12.0	26.7	61.2	75.1	104.9	121.0	
2018					5.8	16.9	31.8	49.1	67.7	91.1	
2019						2.6	15.5	31.5	53.2	88.8	
2020							18.7	35.9	53.8	81.9	
2021							—	4.2	19.2	42.2	
2022							—	—	6.9	30.0	
2023										6.4	
										<u>\$ 820.3</u>	
											<u>\$ 133.9</u>
											<u>\$1,281.6</u>

All outstanding liabilities before 2014, net of reinsurance

Liability for losses and loss expenses, net of reinsurance

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Specialty

Incurred Claims and Loss Adjustment Expenses, Net of Reinsurance

Accident Year	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	As of December 31, 2023	
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total IBNR	Cumulative Reported Claims
2014	\$ 120.8	\$ 124.3	\$ 117.7	\$ 116.4	\$ 113.8	\$ 113.2	\$ 112.6	\$ 112.8	\$ 112.7	\$ 114.0	\$ 0.4	n/a
2015		129.6	127.1	123.2	118.8	119.2	116.1	115.6	116.3	117.2	0.8	n/a
2016			117.5	114.7	113.6	111.8	112.1	111.3	110.4	111.7	0.3	n/a
2017				137.0	102.2	106.0	104.5	103.4	103.6	103.3	0.4	n/a
2018					100.8	96.4	97.1	97.0	96.7	96.7	0.4	n/a
2019						95.2	97.2	103.1	111.3	112.3	0.9	n/a
2020							127.4	128.6	136.3	136.7	3.0	n/a
2021								120.3	110.0	112.8	3.8	n/a
2022									176.4	168.9	10.5	n/a
2023										223.7	201.5	n/a
										<u>\$ 1,297.3</u>		

Cumulative Paid Claims and Loss Adjustment Expenses, Net of Reinsurance

Accident Year	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	
2014	\$ 14.7	\$ 102.3	\$ 107.2	\$ 108.2	\$ 109.6	\$ 110.2	\$ 110.9	\$ 111.9	\$ 112.2	\$ 113.1	
2015		6.7	94.8	109.4	112.2	114.1	115.3	115.6	114.4	114.5	
2016			9.9	94.1	98.9	103.6	105.4	106.9	108.4	108.7	
2017				8.8	91.1	96.1	99.7	101.0	101.5	102.6	
2018					7.9	86.5	91.6	92.4	93.7	95.9	
2019						19.1	93.5	103.7	106.9	110.4	
2020							17.3	116.9	123.6	126.5	
2021								11.5	28.7	105.0	
2022									15.2	151.0	
2023										18.2	
										<u>\$ 1,045.9</u>	
											<u>\$ 3.4</u>
											<u>\$ 254.8</u>

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d) Reconciliation of incurred and paid loss development triangles to the reserve for losses and loss expenses

The following table reconciles the net reserve for losses and loss expenses derived from the incurred and paid loss development triangles to the reserve for losses and loss expenses in the consolidated balance sheet as of December 31, 2023:

		December 31, 2023
Net reserve for losses and loss expenses per the loss development triangles:		
Insurance:	Casualty	\$ 1,644.2
	Professional liability	2,293.6
	Property	298.4
	Programs	582.0
	Other specialty	686.2
Reinsurance:	Property	487.4
	Casualty	1,281.6
	Specialty	254.8
Total net reserves for losses and loss expenses per the loss development triangles:		\$ 7,528.2
Reinsurance recoverable for each loss development triangle:		
Insurance:	Casualty	\$ 1,665.3
	Professional liability	1,494.7
	Property	511.7
	Programs	191.2
	Other specialty	500.3
Reinsurance:	Property	46.8
	Casualty	33.7
	Specialty	3.3
Total reinsurance recoverables included in the loss development triangles:		\$ 4,447.0
Total gross reserves for losses and loss expenses included in the loss development triangles:		\$ 11,975.2
Other balances not included in the loss development triangles:		
	Unallocated loss adjustment expenses	166.7
	Other	2.5
		169.2
Total gross reserves for losses and loss expenses		\$ 12,144.4

e) Methods for estimating the reserve for losses and loss expenses, including IBNR reserves, and changes in methodologies

In general, the methods and related assumptions used for estimating the reserve for losses and loss expenses, including IBNR, are predicated on whether the line of business falls into one of the following two categories: short-tail line or long-tail line. In certain lines of business, claims are generally reported and paid within a relatively short period of time (“short-tail lines”) during and following the policy coverage period. This generally enables the Company to determine with greater certainty the estimate of ultimate losses and loss expenses. The estimate of reserves for short-tail lines of business relies primarily on traditional loss reserving methodologies, utilizing selected paid and reported loss development factors, which are further explained below. Short-tail lines of business in the Insurance segment include general property, energy and inland marine, all of which are included in the ‘property incurred and paid loss development triangle’ and aviation, accident and health, and marine, which are included in the ‘other specialty incurred and paid loss development triangle’. Short-tail lines of business in the Reinsurance segment include property reinsurance, which is included in the ‘property incurred and paid loss development triangle’, and crop and marine, which are included in the ‘specialty incurred and paid loss development triangle’.

The casualty insurance and casualty reinsurance lines of business include general liability risks, healthcare, programs, professional liability and other specialty risks, such as environmental and construction risks. For most of the Company’s lines of business, claims may be reported or settled several years after the coverage period has terminated (“long-tail lines”), which

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increases uncertainties of the reserve estimates in such lines. In addition, the attachment points for these long-tail lines can be relatively high, making reserving for these lines of business more difficult than short-tail lines due to having to estimate whether the severity of the estimated losses will exceed the attachment point. The Company establishes a case reserve when sufficient information is gathered to make a reasonable estimate of the liability, which often requires a significant amount of information and time. Due to the lengthy reporting pattern of these casualty lines, reliance is placed on industry benchmarks supplemented by the Company's own experience. For expected loss ratio selections, the Company considers its existing experience supplemented with analysis of loss trends, rate changes and experience of peer companies. Long-tail lines of business in the Insurance segment are included in the 'casualty incurred and paid loss development triangle', 'professional liability incurred and paid loss development triangle', 'programs incurred and paid loss development triangle', and 'other specialty incurred and paid loss development triangle'. Long-tail lines of business in the Reinsurance segment include casualty reinsurance in the 'casualty incurred and paid loss development triangle'.

In the Reinsurance segment, reinsurance contracts are reviewed individually, based upon individual characteristics and loss experience emergence. Loss reserves on assumed reinsurance often have unique features that make them more difficult to estimate than direct insurance. The Company establishes loss reserves upon receipt of advice from a cedent that a reserve is merited. The Company's claims staff may establish additional loss reserves where, in their judgment, the amount reported by a cedent is potentially inadequate. The following are the most significant features that make estimating loss reserves on assumed reinsurance difficult:

- Reinsurers rely upon the cedents and reinsurance intermediaries to report losses in a timely fashion.
- Reinsurers must rely upon cedents to price the underlying business appropriately.
- Reinsurers have less predictable loss emergence patterns than direct insurers, particularly when writing excess-of-loss reinsurance.

For excess-of-loss reinsurance, cedents generally are required to report losses that either exceed 50% of the retention, have a reasonable probability of exceeding the retention or meet serious injury reporting criteria. For quota share reinsurance treaties, cedents are required to give a periodic statement of account, generally monthly or quarterly. These periodic statements typically include information regarding written premiums, earned premiums, unearned premiums, ceding commissions, brokerage amounts, applicable taxes, paid losses and outstanding losses. They can be submitted 60 to 90 days after the close of the reporting period. Some quota share reinsurance treaties have specific language regarding earlier notice of serious claims.

Reinsurance generally has a greater time lag than direct insurance in the reporting of claims. The time lag is caused by the claim first being reported to the cedent, then the intermediary (such as a broker) and finally the reinsurer. This lag can be up to six months or longer in certain cases. There is also a time lag because the insurer may not be required to report claims to the reinsurer until certain reporting criteria are met. The Company uses reporting factors based on data from the Reinsurance Association of America to adjust for time lags. The Company also uses historical treaty-specific reporting factors when applicable. Loss and premium information are entered into the reinsurance system by the Company's claims and accounting departments on a timely basis.

The expected loss ratios that are assigned to each treaty are based upon analysis and modeling performed by a team of pricing actuaries. The historical data reviewed by the team of pricing actuaries is considered in setting the reserves for each cedent. The historical data in the submissions is matched against the carried reserves for the historical treaty years.

Loss reserves do not represent an exact calculation of liability. Rather, loss reserves are estimates of what the Company expects the ultimate resolution and administration of claims will cost. These estimates are based on actuarial and statistical projections and on an assessment of currently available data, as well as estimates of future trends in claims severity and frequency, judicial theories of liability and other factors. Loss reserve estimates are refined as experience develops and as claims are reported and resolved. In addition, the relatively long periods between when a loss occurs and when it may be reported to the Company's claims department for the casualty insurance and casualty reinsurance lines of business increase the uncertainties of the Company's reserve estimates in such lines.

The Company utilizes a variety of standard actuarial methods in its analysis. The selections from these various methods are based on the loss development characteristics of the specific line of business. For lines of business with long reporting periods such as casualty reinsurance, the Company may rely more on an expected loss ratio method (as described below) until losses begin to develop. For lines of business with short reporting periods such as property insurance, the Company may rely more on

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a paid loss development method (as described below) as losses are reported relatively quickly. The actuarial methods utilized by the Company include:

Paid Loss Development Method. Ultimate losses are estimated by calculating past paid loss development factors and applying them to exposure periods with further expected paid loss development. The paid loss development method assumes that losses are paid at a consistent rate. The paid loss development method provides an objective test of reported loss projections because paid losses contain no reserve estimates. In some circumstances, paid losses for recent periods may be too varied for accurate predictions. For many coverages, especially casualty coverages, claim payments are made slowly and it may take years for claims to be fully reported and settled. These payments may be unreliable for determining future loss projections because of shifts in settlement patterns or because of large settlements in the early stages of development. Choosing an appropriate “tail factor” to determine the amount of payments from the latest development period to the ultimate development period may also require considerable judgment, especially for coverages that have long payment patterns. When necessary, the Company has had to supplement paid loss development patterns with appropriate benchmarks.

Reported Loss Development Method. Ultimate losses are estimated by calculating past reported loss development factors and applying them to exposure periods with further expected reported loss development. Since reported losses include payments and case reserves, changes in both of these amounts are incorporated in this method. This approach provides a larger volume of data to estimate ultimate losses than the paid loss development method. Thus, reported loss patterns may be less volatile than paid loss patterns, especially for coverages that have historically been paid out over a long period of time but for which claims are reported relatively early and have case loss reserve estimates established. This method assumes that reserves have been established using consistent practices over the historical period that is reviewed. Changes in claims handling procedures, large claims or significant numbers of claims of an unusual nature may cause results to be too volatile for accurate forecasting. Also, choosing an appropriate “tail factor” to determine the change in reported loss from the latest development period to the ultimate development period may require considerable judgment. When necessary, the Company has had to supplement reported loss development patterns with appropriate benchmarks.

Expected Loss Ratio Method. To estimate ultimate losses under the expected loss ratio method, earned premium is multiplied by an expected loss ratio. The expected loss ratio is selected by utilizing industry data, historical Company data and professional judgment. This method is particularly useful for new lines of business where there are no historical losses or where past loss experience is not credible.

Bornhuetter-Ferguson Paid Loss Method. The Bornhuetter-Ferguson paid loss method is a combination of the paid loss development method and the expected loss ratio method. The amount of losses yet to be paid is based upon the expected loss ratios and the expected percentage of losses unpaid. These expected loss ratios are modified to the extent paid losses to date differ from what would have been expected to have been paid based upon the selected paid loss development pattern. This method avoids some of the distortions that could result from a large development factor being applied to a small base of paid losses to calculate ultimate losses. This method will react slowly if actual loss ratios develop differently because of major changes in rate levels, retentions or deductibles, the forms and conditions of reinsurance coverage, the types of risks covered or a variety of other changes.

Bornhuetter-Ferguson Reported Loss Method. The Bornhuetter-Ferguson reported loss method is similar to the Bornhuetter-Ferguson paid loss method, except that it uses reported losses and reported loss development factors.

In general, the Company will adjust its reliance on actuarial methods utilized for certain casualty lines of business and accident or treaty years within each of the operating segments shifting from the expected loss ratio method to the Bornhuetter-Ferguson reported loss method to loss development methods in varying degrees depending on the class of business, for example excess casualty versus primary casualty, and how old the accident or treaty year is. Placing greater reliance on more responsive actuarial methods for certain casualty lines of business and accident or treaty years within each of the Company’s operating segments is a natural progression that allows further refinement to the estimate of the reserve for losses and loss expenses. The Company will continue to utilize the expected loss ratio method for the most recent accident and treaty years until the Company has sufficient experience to utilize other acceptable actuarial methodologies. The Company will continue to evaluate and monitor the development of losses and the impact it has on the Company’s current and future assumptions.

The Company believes recognition of the reserve changes in the period they were recorded was appropriate since a pattern of reported losses had not emerged and the loss years were previously too immature to deviate from the expected loss ratio method in prior periods.

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f) Average historical claims duration

The following is unaudited supplementary information about average historical claims duration for lines of business within each operating segment as of December 31, 2023. The tables below present the average annual payout of incurred claims by age, net of reinsurance. This information provides an estimate of the average length of time it takes for losses to be incurred. As discussed above, short-tail lines will have average historical claim durations that occur over the first several years, whereas long-tail lines will have claim durations that extend over many years. The averages calculated below are simple averages based on the ratio of net paid losses in a given accident year to the most recent incurred losses for that same accident year. As such, the averages noted below may overstate or understate the actual claims duration. For example, smaller lines of business that recently started writing insurance policies could have abnormally high average claim duration percentages compared to more mature lines of business.

Years	1	2	3	4	5	6	7	8	9	10
Insurance										
Casualty	5 %	13 %	15 %	19 %	15 %	10 %	8 %	5 %	3 %	2 %
Professional liability	4 %	15 %	17 %	16 %	13 %	13 %	7 %	4 %	2 %	1 %
Property	32 %	39 %	14 %	6 %	3 %	1 %	1 %	1 %	— %	— %
Programs	13 %	23 %	15 %	13 %	10 %	10 %	6 %	3 %	2 %	5 %
Other specialty	14 %	23 %	15 %	11 %	10 %	6 %	3 %	4 %	3 %	2 %
Reinsurance										
Property	27 %	30 %	17 %	14 %	4 %	2 %	1 %	— %	— %	1 %
Casualty	2 %	7 %	10 %	15 %	13 %	13 %	9 %	7 %	4 %	5 %
Specialty	10 %	68 %	14 %	2 %	2 %	1 %	1 %	— %	— %	1 %

7. CEDED REINSURANCE

The Company purchases reinsurance from third-party and affiliate reinsurance companies to reduce its net exposure to losses. Reinsurance provides for recovery of a portion of gross losses and loss expenses from these reinsurers. The Company remains liable to the extent that its reinsurers do not meet their obligations under the related reinsurance contracts. The Company therefore regularly evaluates the financial condition of its reinsurers and monitors concentration of credit risk. The Company believes that as of December 31, 2023, its reinsurers are able to meet, and will meet, all of their obligations under the respective agreements. The amount of reinsurance recoverable is as follows:

	December 31, 2023	December 31, 2022
OSLR recoverable	\$ 990.5	\$ 843.6
IBNR recoverable	3,458.1	3,080.0
Reinsurance recoverable	\$ 4,448.6	\$ 3,923.6
Reinsurance recoverable on paid losses	\$ 352.3	\$ 220.3

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Direct, assumed and ceded premiums written and earned and losses and loss expenses incurred are as follows:

	Premiums Written	Premiums Earned	Losses and Loss Expenses
Year Ended December 31, 2023			
Direct	\$ 5,053.1	\$ 4,978.6	\$ 3,476.0
Assumed	1,849.4	1,635.6	996.0
Ceded	(2,063.0)	(2,031.0)	(1,376.4)
	<u>\$ 4,839.5</u>	<u>\$ 4,583.2</u>	<u>\$ 3,095.6</u>
Year Ended December 31, 2022			
Direct	\$ 5,051.5	\$ 4,847.5	\$ 3,055.9
Assumed	1,492.4	1,355.0	1,005.4
Ceded	(2,087.8)	(2,004.5)	(1,104.9)
	<u>\$ 4,456.1</u>	<u>\$ 4,198.0</u>	<u>\$ 2,956.4</u>

Of the premiums ceded during the years ended December 31, 2023 and December 31, 2022, approximately 35.3% and 37.2%, respectively, were ceded to four reinsurers.

The Company actively manages its reinsurance exposures by generally selecting reinsurers having a credit rating of “A-” or higher and monitoring the overall credit quality of its reinsurers to ensure that recoverables will be collected.

December 31, 2023					
	A.M. Best Rating	Reinsurance Recoverable	Percentage of Total	Prepaid Reinsurance ⁽¹⁾	Percentage of Total
Swiss Re	A+	\$ 607.4	13.7 %	\$ 134.9	11.1 %
Munich Re	A+	487.9	11.0 %	31.6	2.6 %
Sompo Holdings	A+	313.3	7.0 %	114.7	9.4 %
Everest Re	A+	303.4	6.8 %	100.4	8.2 %
Odyssey Re	A+	287.1	6.5 %	102.2	8.4 %
Top five reinsurers		1,999.1	45.0 %	483.8	39.7 %
Other reinsurers’ balances		2,449.5	55.0 %	734.4	60.3 %
Total reinsurance recoverable		<u>\$ 4,448.6</u>	<u>100.0 %</u>	<u>\$ 1,218.2</u>	<u>100.0 %</u>

December 31, 2022					
	A.M. Best Rating	Reinsurance Recoverable	Percentage of Total	Prepaid Reinsurance ⁽¹⁾	Percentage of Total
Munich Re	A+	\$ 576.0	14.7 %	\$ 44.5	3.8 %
Swiss Re	A+	557.4	14.2 %	159.0	13.4 %
Axis Capital	A	278.9	7.1 %	69.0	5.8 %
Everest Re	A+	260.3	6.6 %	93.7	7.9 %
Odyssey Re	A	256.4	6.6 %	99.2	8.4 %
Top five reinsurers		1,929.0	49.2 %	465.4	39.3 %
Other reinsurers’ balances		1,994.6	50.8 %	719.3	60.7 %
Total reinsurance recoverable		<u>\$ 3,923.6</u>	<u>100.0 %</u>	<u>\$ 1,184.7</u>	<u>100.0 %</u>

⁽¹⁾ Prepaid reinsurance represents unearned premiums ceded to reinsurance companies.

Approximately 94.1% and 93.9% of ceded reserves were recoverable from reinsurers who had an A.M. Best rating of “A” or higher as of December 31, 2023 and December 31, 2022, respectively.

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Ceded Reinsurance - Credit Losses

The following table represents a rollforward of the reinsurance recoverable and reinsurance recoverable on paid losses allowance:

	2023	2022
Balance at beginning of year	\$ 2.2	\$ 2.2
Balance at end of year	\$ 2.2	\$ 2.2

8. FUNDS HELD

For the year ended December 31, 2022, the Company had entered into a collateralized property catastrophe quota share reinsurance contract with Aeolus Re, Ltd., a Bermuda-based property catastrophe reinsurer ("Aeolus Re"), whereby the Company assumes property catastrophe business underwritten by Aeolus Re. The Company provide an annual capital commitment to support the business being underwritten by Aeolus Re. To the extent that capital is not utilized to support the business being underwritten by Aeolus Re, as all obligations have been settled, the capital is returned to the Company. To the extent the losses are in excess of the premiums written, the capital is utilized to pay the claims. This agreement was not renewed in the year ended December 31, 2023. The capital commitment is recorded in "funds held" on the consolidated balance sheets. The funds held balance related to the Aeolus Re contract as of December 31, 2023 and December 31, 2022 was \$76.8 million and \$218.2 million, respectively. For the years ended December 31, 2023 and December 31, 2022, the premiums written and assumed by the Company through the collateralized property catastrophe quota share reinsurance contract with Aeolus Re were \$0.4 million and \$39.4 million, respectively.

As part of a loss portfolio transfer entered into with Darag Deutschland, AG for the Company's primary casualty business, the Company has accrued \$7.1 million and \$21.6 million as reinsurance funds held in the consolidated balance sheet as of December 31, 2023 and December 31, 2022, respectively.

9. GOODWILL AND INTANGIBLE ASSETS

The following table shows the Company's goodwill and intangible assets as of December 31, 2023 and December 31, 2022:

	Indefinite-Lived Intangible Assets		Finite-Lived Intangible Assets		
	Goodwill Net Carrying Value	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Balance at December 31, 2022	\$ 938.7	\$ 203.0	\$ 586.8	\$ (270.6)	\$ 316.2
Amortization of intangible assets	—	—	—	(45.5)	(45.5)
Foreign currency translation adjustment	1.0	—	—	0.5	0.5
Balance at December 31, 2023	\$ 939.7	\$ 203.0	\$ 586.8	\$ (315.6)	\$ 271.2

As of December 31, 2023 and December 31, 2022, goodwill and intangible assets were comprised of amounts arising out of the acquisition of Allied World AG. The impairment reviews for goodwill and indefinite-lived intangibles did not result in the recognition of impairment losses for the years ended December 31, 2023 and December 31, 2022.

When testing for impairment, the Company may first assesses qualitative factors and whether those factors indicate that it is more likely than not that the fair value of a reporting unit ("RU") is less than its carrying amount. The results of the qualitative assessment will determine if the Company will proceed with a quantitative goodwill impairment test. The qualitative impairment indicators include whether there was:

- Deterioration in macroeconomic conditions;
- Deterioration in the industry or environment within which the Company operates;
- Increasing cost factors leading to a negative effect on earnings or cash flow;
- A decline in overall financial performance of the Company;
- Any other Company-specific events (e.g., litigation, bankruptcy);

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- Other events affecting the reporting unit (e.g., selling all or a portion of reporting unit's goodwill); and
- A combined ratio of greater than 100% of the reporting unit.

As of December 31, 2023 and December 31, 2022, the qualitative factors did not indicate the fair value of a RU is less than its carrying value.

As of December 31, 2023 and December 31, 2022, the net carrying value of indefinite-lived intangible assets is comprised of Lloyd's participation rights and brand names. As of December 31, 2023, the net carrying value of the finite-lived intangible assets is comprised of intangible assets of customer and broker relationships of \$270.7 million. As of December 31, 2022, the net carrying value of the finite-lived intangible assets is comprised of intangible assets of customer and broker relationships of \$316.2 million.

The estimated amortization expense for each of the five succeeding fiscal years and thereafter related to the Company's finite-lived intangible assets is as follows:

	Amount
2024	\$ 43.4
2025	43.4
2026	43.4
2027	43.4
2028	43.4
2029 and thereafter	53.7
Total	\$ 270.7

10. DEBT AND FINANCING ARRANGEMENTS

a) Financing Structure

The following table shows the Company's financing structure:

	Outstanding ⁽¹⁾	Unamortized discount and debt issuance costs	Fair value adjustment ⁽²⁾	Balance ⁽³⁾
December 31, 2023				
2015 Senior notes due 2025 (with an imputed interest rate of 1.964%)	\$ 500.0	\$ (0.9)	\$ 2.8	\$ 501.9
Swiss office building mortgage	18.0	—	2.6	20.6
\$900 million secured letter of credit facility — uncommitted	652.7	—	—	—
	<u>\$ 1,170.7</u>	<u>\$ (0.9)</u>	<u>\$ 5.4</u>	<u>\$ 522.5</u>
December 31, 2022				
2015 Senior notes due 2025 (with an imputed interest rate of 1.964%)	500.0	(1.4)	\$ 4.3	502.9
Swiss office building mortgage	16.8	—	3.0	19.8
\$900 million secured letter of credit facility — uncommitted	639.9	—	—	—
	<u>\$ 1,156.7</u>	<u>\$ (1.4)</u>	<u>\$ 7.3</u>	<u>\$ 522.7</u>

⁽¹⁾ Indicates utilization of commitment amount, not drawn borrowings where applicable.

⁽²⁾ Represents the purchase price adjustment to record debt assumed from the acquisition of Allied World Assurance Company Holdings I, Ltd ("Allied World Bermuda") at fair value.

⁽³⁾ Represents the principal amount borrowed, net of unamortized discount, debt issuance costs, and the purchase price adjustment.

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b) 2015 Senior Notes Due 2025

In October 2015, Allied World Bermuda issued \$500 million aggregate principal amount of Senior Notes due 2025 (the “2025 Senior Notes”), with interest on the notes payable at a fixed interest rate of 4.35%. Proceeds from the 2025 Senior Notes were used to refinance the 2006 Senior Notes which matured in August 2016. The 2025 Senior Notes are Allied World Bermuda’s unsecured and unsubordinated obligations and rank equally in right of payment with all existing and future unsecured and unsubordinated indebtedness. Allied World Bermuda may redeem the 2025 Senior Notes at any time or from time to time in whole or in part at a redemption price equal to the greater of the principal amount of the 2025 Senior Notes to be redeemed or a make-whole price, in each case, plus accrued and unpaid interest. Allied World Bermuda has no current expectations of redeeming the 2025 Senior Notes prior to maturity. The 2025 Senior Notes include covenants and events of default that are usual and customary, but do not contain any financial covenants.

c) Swiss Office Building Mortgage

In 2014, the Company entered into a 20-year mortgage commitment with a Swiss bank for the construction of a Company-used office building in Zug, Switzerland. The total proceeds received in 2014 under the mortgage were \$14.2 million (CHF 14.0 million) with a fixed annual interest rate of 3.2% payable quarterly. An additional \$4.0 million (CHF 4.0 million) of proceeds from the mortgage was drawn during the first quarter of 2015. The mortgage payments are \$0.3 million (CHF 0.3 million) per year, plus accrued interest, for the first 19 years with the remaining balance payable at the end of the mortgage. The outstanding balance of the mortgage is included in “other long-term debt” on the consolidated balance sheets.

d) Credit Facilities

Allied World Assurance Company, Ltd has a collateralized amended letter of credit facility with Citibank Europe plc that has been and will continue to be used to issue standby letters of credit. The maximum aggregate amount available under this letter of credit facility as of December 31, 2023 and December 31, 2022 was \$900.0 million on an uncommitted basis.

e) Debt Maturities

The following table reflects the Company’s debt maturities, which includes its senior notes and other long-term debt:

	Amount
2024	\$ 0.4
2025	500.4
2026	0.4
2027	0.4
2028	0.4
2029 and thereafter	16.0
Total	\$ 518.0

11. INCOME TAXES

On December 27, 2023, the Government of Bermuda enacted a new 15.0% corporate tax effective for all companies domiciled in Bermuda and for fiscal years beginning on or after January 1, 2025. For the year ended December 31, 2023, the Company recorded a \$155.3 million deferred tax asset related to the new Bermuda corporate tax law. In addition, for the year ended December 31, 2023, the Company recorded a \$24.4 million deferred tax liability related to the Company's intangible assets upon adoption of the new Bermuda tax law.

Certain subsidiaries of the Company file U.S. federal income tax returns and various U.S. state income tax returns, as well as income tax returns in Canada, Hong Kong, Ireland, Singapore, Switzerland, Australia, Labuan and the United Kingdom. The Company has open tax years that are potentially subject to examinations by local tax authorities in the following major tax jurisdictions: the U.S., 2020 to 2023; Canada, 2016 to 2022; the United Kingdom, 2022 and 2023; Ireland, 2019 to 2023; Switzerland, 2022 to 2023; Hong Kong, 2017 to 2023; Australia, 2019 to 2023 and Singapore, 2019 to 2023. As of December 31, 2023, to the best of the Company's knowledge, there are no pending audit examinations.

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Management has concluded all material tax positions to have a greater than 50% likelihood of being sustained based on technical merits if challenged. The Company does not expect a significant change in unrecognized tax benefits within 12 months of December 31, 2023.

The components of income tax expense are as follows:

	Year Ended December 31,	
	2023	2022
Current income tax expense (benefit)	\$ 117.1	\$ 137.7
Deferred income tax expense (benefit)	(67.4)	(75.5)
Income tax expense (benefit)	<u>\$ 49.7</u>	<u>\$ 62.2</u>

The Company's income or loss is primarily sourced from the Company's Bermuda, U.S., European, including Switzerland, and Asia Pacific operations. The income (loss) before income taxes for these operations are as follows:

	Year Ended December 31,	
	2023	2022
Bermuda	\$ 314.2	\$ (170.1)
United States	769.8	236.1
All other jurisdictions	189.5	(8.5)
Income (loss) before income taxes	<u>\$ 1,273.5</u>	<u>\$ 57.5</u>

Deferred income taxes reflect the tax impact of temporary differences between the carrying amounts of assets and liabilities for financial reporting and income tax purposes, and are stated at the various enacted jurisdictional tax rates expected to be in effect when the reported amounts are recovered or settled. The significant components of the net deferred tax assets are as follows:

	December 31,	
	2023	2022
Deferred tax assets:		
Reserve for losses and loss expenses	\$ 95.6	\$ 59.8
Equity compensation	15.6	10.7
Unearned premium	73.8	65.5
Intangible assets	121.9	—
Tax credits	5.5	0.3
Premises and equipment	15.6	17.2
Net loss carryforward	47.9	65.1
Other	5.3	3.0
Total deferred tax assets	<u>381.2</u>	<u>221.6</u>
Deferred tax liabilities:		
Intangible assets related to business acquisitions	(91.3)	(74.3)
Depreciation	(16.8)	(17.8)
Unrealized appreciation and timing differences on investments	(78.6)	(13.7)
Deferred acquisition costs	(45.6)	(30.8)
Other	(18.9)	(12.2)
Total deferred tax liabilities	<u>(251.2)</u>	<u>(148.8)</u>
Net deferred taxes before valuation allowance	130.0	72.8
Valuation allowance	(55.6)	(58.9)
Net deferred tax asset (liability)	<u>\$ 74.4</u>	<u>\$ 13.9</u>

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The valuation allowance reported in the current period relates to net operating loss carryforwards for the European and Asia Pacific operations as it is unlikely those operations will have sufficient income to utilize the net loss carryforwards in the near term. The valuation allowance decreased by \$3.3 million for the year ended December 31, 2023 compared to the year ended December 31, 2022, mainly due to lower net operating losses which are now fully provided for. The net loss carryforwards from the United Kingdom and Asia Pacific operations do not expire. The net loss carryforward in the Company's Swiss operations expire within seven years.

Current tax receivable and payable have been included on the consolidated balance sheet in "other assets" and "accounts payable and accrued liabilities," respectively. Current taxes receivable or payable was as follows:

	December 31,	
	2023	2022
Current tax receivable	\$ —	\$ —
Current tax payable	\$ 20.0	\$ 35.6

The expected tax provision has been calculated using the pre-tax accounting income in each jurisdiction multiplied by that jurisdiction's applicable statutory tax rate. The statutory tax rates for the Company's Bermuda, U.S., Canada, Hong Kong, Ireland, Singapore, United Kingdom, Australia, Labuan and Switzerland operations are 15%, 21%, 26.6%, 16.5%, 12.5%, 17%, 25%, 30%, 24% and 7.8%, respectively.

The reconciliation between the Company's effective tax rate on pre-tax accounting income and the expected tax rate is as follows:

	Year Ended December 31,	
	2023	2022
Expected tax rate	— %	— %
Valuation allowance	(0.7)%	(2.9)%
Foreign taxes at local tax rates	18.2 %	105.0 %
Prior year refunds and adjustments	(0.7)%	12.7 %
Change in Bermuda tax law	(10.9)%	— %
Other	(2.0)%	(6.5)%
Effective tax rate	3.9 %	108.3 %

For the year ended December 31, 2022, the effective tax rate of 108.3% was due to the majority of the Company's net loss being incurred in Bermuda (which had a 0% statutory tax rate) and the majority of the Company's net income being earned in the United States (which has a 21.0% statutory tax rate).

12. SHAREHOLDERS' EQUITY

a) Authorized shares

The issued share capital of the Company consists of the following:

	December 31,	
	2023	2022
Class A shares (December 31, 2023: 18,575; December 31, 2022: 19,182)	\$ 2.2	\$ 2.3
Class B shares (December 31, 2023: 93,385; December 31, 2022: 92,778)	11.2	11.1
Share capital at end of period	\$ 13.4	\$ 13.4

The Class A shares are owned by the co-investors. The Class B shares are owned by Fairfax.

On June 23, 2023, Fairfax paid the co-investors \$30.6 million for 0.5% of the co-investors' shares.

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b) Dividends

On April 27, 2023, the Company paid a dividend of \$74.4 million to the Class A shareholders.

On December 28, 2023, the Company paid a dividend of \$100.0 million to the Class B shareholders.

13. EMPLOYEE BENEFIT PLANS

a) Share based awards

The Company participates in the Fairfax Plan, which generally provides officers, key employees and directors who were employed by or provided services to the Company or its subsidiaries with awards of restricted shares of Fairfax common stock. The restricted share awards vest on the five-year anniversary of the grant date. The grant date fair value is measured based on the closing price of Fairfax's common shares on the date of grant, converted to United States dollars.

The activity related to the Company's restricted share awards is as follows:

	<u>Year Ended December 31, 2023</u>	
	<u>Number of Awards</u>	<u>Weighted Average Grant Date Fair Value</u>
Outstanding at beginning of year	364,933	\$ 439.3
Restricted share awards granted	88,752	645.4
Restricted share awards forfeited	(17,101)	(488.4)
Restricted share awards fully vested	(19,925)	(507.8)
Outstanding restricted share awards at end of year	<u>416,659</u>	<u>\$ 477.6</u>

The Company recorded compensation expense of \$37.8 million and \$29.2 million during the years ended December 31, 2023 and December 31, 2022, respectively, for these awards. The weighted average remaining vesting period for these awards is 2.3 years as of December 31, 2023. The Company paid \$1.2 million and \$0.6 million to settle restricted share awards during the year ended December 31, 2023 and December 31, 2022, respectively.

b) Pension Plans

The Company provides defined contribution retirement plans for its employees and officers. Contributions are made by the Company, and in some locations, these contributions are supplemented by the local plan participants. Contributions are based on a percentage of the participant's base salary depending upon competitive local market practice and vesting provisions meeting legal compliance standards. The amount that an individual employee or officer can contribute may also be subject to regulatory requirements relating to the country of which the individual is a citizen. The Company incurred expenses for these defined contribution arrangements of \$18.2 million and \$16.5 million for the years ended December 31, 2023 and December 31, 2022, respectively.

c) Employee Share Purchase Plan

Under the Company (Non-Qualified) Employee Share Purchase Plan ("ESPP"), eligible employees are given the election to purchase Fairfax common shares in an amount up to 10% of their annual base salary. The Company matches these contributions by purchasing, on the employee's behalf, a number of Fairfax common shares equal in value to 30% of the employee's contribution. In the event that the Company achieves a net combined ratio in any calendar year that is less than 100%, then the Company allocates an additional contribution in an amount equal to 20% of the aggregate amount of the participant contributions during the calendar year. The Company recognized compensation expense under the ESPP of \$4.0 million and \$3.6 million for the years ended December 31, 2023 and December 31, 2022, respectively.

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14. COMMITMENTS AND CONTINGENCIES

a) Concentrations of Credit Risk

Credit risk arises out of the failure of a counterparty to perform according to the terms of the contract.

The Company's investment portfolio is managed pursuant to guidelines that follow prudent standards of diversification. The guidelines limit the allowable holdings of a single issue and issuers. The Company believes that there are no significant concentrations of credit risk associated with its investment portfolio. As of December 31, 2023 and December 31, 2022, substantially all of the Company's cash and investments were held with one custodian. The total carrying value of cash and securities deposited by the Company's insurance subsidiaries under requirements of regulatory authorities was \$249.8 million and \$157.5 million at December 31, 2023 and December 31, 2022, respectively.

Insurance balances receivable primarily consist of net premiums due from insureds and reinsureds. The Company believes that the counterparties to these receivables are able to meet, and will meet, all of their obligations. The Company's credit risk is further reduced by the contractual right to offset loss obligations or unearned premiums against premiums receivable. The insurance balances receivable that are outstanding for more than 90 days was \$38.3 million and \$35.5 million as of December 31, 2023 and December 31, 2022, respectively, which represented 4.1% and 3.6% of the total receivable balance for their respective years.

The following table represents a rollforward of the insurance balances receivable allowance:

	2023	2022
Balance at beginning of year	\$ 4.6	\$ 4.6
Addition to (release of) allowance for expected credit losses, net	(0.6)	—
Balance at end of year	<u>\$ 4.0</u>	<u>\$ 4.6</u>

b) Operating Leases

The Company leases office space under operating leases expiring in various years through 2035. As of December 31, 2023, the lease liability and corresponding right of use asset reflected in "accounts payable and accrued liabilities" and "other assets" were \$108.0 million and \$100.6 million, respectively, and the Company made cash payments of \$22.4 million in connection with those leases. The lease liability excludes non-lease components, such as property taxes and common area maintenance. Some of these leases contain renewal options after a specified period of time at the prevailing market rate; however, renewal options that have not been exercised as of December 31, 2023 are excluded until the Company attains a reasonable level of certainty that the renewal option will be exercised. Some leases also include termination options; however, termination options are not reflected in the right of use asset or lease liability until they have been exercised.

The weighted average discount rate and lease term assumptions used in determining the liability are 3.5% and 6.6 years, respectively. The primary assumption used to determine the discount rate is the cost of funding for the Company, which is based on the secured borrowing rate for the Company's outstanding senior notes and published yields for insurance or other financial services companies with similar credit ratings as the Company.

The following are future undiscounted minimum rental payments as of December 31, 2023. The primary difference between the Company's undiscounted cash flows and the recognized lease liability is interest expense.

	Amount
2024	\$ 33.8
2025	26.6
2026	18.8
2027	15.3
2028	14.0
2029 and thereafter	27.4
	<u>\$ 135.9</u>

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Total rent expense for the years ended December 31, 2023 and December 31, 2022 was \$24.2 million and \$22.9 million, respectively. The Company recorded sublease income for the years ended December 31, 2023 and December 31, 2022 of \$1.1 million and \$1.1 million, respectively.

c) Producers

The three largest individual producers as a percentage of gross premiums written are as follows:

	Year Ended December 31,	
	2023	2022
Marsh & McLennan Companies, Inc.	26 %	25 %
Aon Corporation	14 %	13 %
Willis Group Holdings	5 %	5 %

d) 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. These legal proceedings generally relate to claims asserted by or against the Company in the ordinary course of insurance or reinsurance operations. Estimated amounts payable under these proceedings are included in the reserve for losses and loss expenses in the Company's consolidated balance sheets. As of December 31, 2023, the Company was not a party to any material legal proceedings arising outside the ordinary course of business that management believes will have a material adverse effect on the Company's results of operations, financial position or cash flow.

e) Indemnity Liability Agreement

As of December 31, 2023 and December 31, 2022, the Company has accrued \$18.4 million and \$20.7 million respectively, related to certain indemnity agreements that Fairfax and the Company are a party to, in "Accounts payable and accrued liabilities" on the consolidated balance sheets.

15. STATUTORY CAPITAL AND SURPLUS

The Company's ability to pay dividends is subject to certain regulatory restrictions on the payment of dividends by its subsidiaries. The payment of such dividends is limited by applicable laws and statutory requirements of the jurisdictions in which the Company and its subsidiaries operate. The total amount of restricted net assets for the Company's consolidated subsidiaries as of December 31, 2023 was \$4,777.2 million.

The minimum required statutory capital and surplus is the amount of statutory capital and surplus necessary to satisfy regulatory requirements based on the Company's current operations. The statutory capital and surplus and minimum required statutory capital and surplus for the Company's most significant regulatory jurisdictions at December 31, 2023 and December 31, 2022 were as follows:

	December 31, 2023		December 31, 2022	
	Statutory Capital and Surplus	Minimum Required Statutory Capital and Surplus	Statutory Capital and Surplus	Minimum Required Statutory Capital and Surplus
Bermuda	\$ 4,556.7	\$ 729.0	\$ 3,571.4	\$ 667.7
United States	2,738.6	775.8	2,350.0	693.0
Ireland	525.1	199.3	476.9	173.4
Switzerland	286.4	155.7	282.3	172.7
United Kingdom	448.8	362.7	383.0	290.4

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There were no state-prescribed or permitted regulatory accounting practices for any of the Company's insurance entities 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. Statutory accounting under the prescribed practices of the respective regulatory authorities differs from U.S. GAAP accounting in the treatment of various items, including reporting of investments, acquisition costs and deferred income taxes.

The statutory net income (loss) for the Company's most significant regulatory jurisdictions for the years ended December 31, 2023 and December 31, 2022 was as follows:

	Year Ended December 31,	
	2023	2022
Bermuda	\$ 1,261.9	\$ 87.8
United States	345.3	285.1
Ireland	48.1	21.2
Switzerland	(37.1)	(35.9)
United Kingdom	72.2	55.2

At December 31, 2023, the maximum amount of ordinary dividends or distributions that can be paid, without prior regulatory approval, for the Company's most significant regulatory jurisdictions, were as follows:

	December 31, 2023
Bermuda	\$ 892.8
United States	176.6
Ireland	161.8
Switzerland	—
United Kingdom	—

a) Bermuda

The Company's Bermuda subsidiary, Allied World Assurance Company, Ltd, is registered under the Bermuda Insurance Act 1978 and related regulations as amended. As a Class 4 insurer, Allied World Assurance Company, Ltd is required to maintain minimum solvency standards and to hold available statutory capital and surplus equal to or exceeding the enhanced capital requirements as determined by the Bermuda Monetary Authority under the Bermuda Solvency Capital Requirement model ("BSCR model"). The BSCR model is a risk-based capital model that provides a method for determining an insurer's minimum required capital taking into account the risk characteristics of different aspects of the insurer's business. In addition, this subsidiary is required to maintain a minimum liquidity ratio. As of December 31, 2023 and December 31, 2022, this subsidiary met the requirements.

b) United States

The Company's U.S. insurance subsidiaries are subject to the insurance laws and regulations of the states in which they are domiciled, and also states in which they are licensed or authorized to transact business. These laws also restrict the amount of ordinary shareholder dividends the subsidiaries can pay. The restrictions are generally based on statutory surplus and/or statutory net income as determined in accordance with the relevant statutory accounting requirements of the individual domiciliary states. The U.S. subsidiaries are required to file annual statements with insurance regulatory authorities prepared on an accounting basis prescribed or permitted by such authorities. The U.S. subsidiaries are also required to maintain minimum levels of solvency and liquidity as determined by law, and comply with capital requirements and licensing rules. As of December 31, 2023 and December 31, 2022, the actual levels of solvency, liquidity and capital of each U.S. subsidiary were in excess of the minimum levels required.

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c) Ireland

The Company's Irish insurance subsidiary is regulated by the Central Bank of Ireland pursuant to the Insurance Acts 1909 to 2018 (as amended), the Central Bank Acts 1942 to 2018 and all statutory instruments relating to insurance made or adopted under the European Communities Acts 1972 to 2012, including the European Union (Insurance and Reinsurance) Regulations, 2015 (as amended). This subsidiary is required to maintain a minimum level of capital. As of December 31, 2023 and December 31, 2022, these requirements were met. The amount of dividends that this subsidiary is permitted to distribute is restricted to accumulated realized profits that have not been capitalized or distributed, less accumulated realized losses that have not been written off. The solvency and capital requirements must still be met following any distribution.

d) Switzerland

The Company's Swiss insurance subsidiary, Allied World Assurance Company, AG, is regulated by the Swiss Financial Market Supervisory Authority ("FINMA") pursuant to the Insurance Supervisory Law. This subsidiary's accounts are prepared in accordance with the Swiss Code of Obligations and the Insurance Supervisory Law. This subsidiary is obligated to maintain a minimum level of capital based on the Swiss Code of Obligations, a minimum of tied assets based on the Insurance Supervisory Law and a minimum solvency margin in accordance with the Swiss Solvency Test. As of December 31, 2023 and December 31, 2022, this subsidiary met the requirements. The amount of dividends that this subsidiary is permitted to distribute is restricted to freely distributable reserves which consist of retained earnings, the current year profit and legal reserves to a certain extent. Any dividend requires shareholder approval and where dividends would materially negatively affect the financial means or solvency of the Company, FINMA approval may be required. The solvency and capital requirements must still be met following any distribution.

e) United Kingdom

Allied World Capital (Europe) Limited is the sole corporate member of Syndicate 2232. Syndicate 2232 is managed by Allied World Managing Agency Limited, which is authorized and regulated by the Prudential Regulatory Authority ("PRA") and the Financial Conduct Authority. As a member of Lloyd's, Allied World Capital (Europe) Limited is obliged to comply with Lloyd's bylaws and regulations (made pursuant to the Lloyd's Acts 1871 to 1982) and applicable provisions of the Financial and Services and Markets Act 2000. The Council of Lloyd's has wide discretionary powers to regulate members' underwriting at Lloyd's and its exercise of these powers might affect the return on an investment of the corporate member in a given underwriting year. The capital required to support a Syndicate's underwriting capacity, referred to as "funds at Lloyd's", is assessed annually and is determined by Lloyd's in accordance with the capital adequacy rules established by the PRA. If a member of Lloyd's is unable to pay its debts to policyholders, such debts may be payable from the Lloyd's Central Fund, which in many respects acts as an equivalent to a state guaranty fund in the United States. The Company has provided capital to support the underwriting of Syndicate 2232 in the form of pledged assets provided by Allied World Assurance Company, Ltd. The amount that the Company provides as funds at Lloyd's is not available for distribution to the Company for the payment of dividends. Lloyd's is supervised by the PRA and required to implement certain rules prescribed by the PRA under the Lloyd's Act of 1982 regarding the operation of the Lloyd's market. With respect to managing agents and corporate members, Lloyd's prescribes certain oversight principles relating to management and control, solvency and other requirements and monitors managing agents' compliance with such principles.

f) Branch Offices

The Company's insurance subsidiaries maintain branch offices in Australia, Bermuda, Canada, Hong Kong, Labuan, Singapore, Switzerland and the United Kingdom. As branch offices are not considered separate legal entities, the required and actual statutory capital and surplus amounts for each jurisdiction in the table above include amounts related to the branch offices. These branch offices are subject to additional minimum capital or asset requirements in their countries of domicile. At December 31, 2023 and December 31, 2022, the actual capital and surplus for each of these branches exceeded the relevant local regulatory requirements.

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16. RELATED PARTY TRANSACTIONS

The Company has entered into various assumed and ceded reinsurance contracts with several entities that are controlled by Fairfax. The following summarizes the balances and activity as of December 31, 2023 and December 31, 2022 and the periods then ended:

	<u>As of December 31, 2023 and for the year ended December 31, 2023</u>	<u>As of December 31, 2022 and for the year ended December 31, 2022</u>
Balance Sheet:		
ASSETS:		
Reinsurance recoverables	\$ 483.5	\$ 409.0
Insurance balances receivable	9.6	14.5
Prepaid reinsurance	156.0	148.0
Reinsurance recoverables on paid losses	13.1	9.0
Loan	155.0	139.8
Investments in affiliates and associates ⁽¹⁾	1,440.7	1,195.3
Balances receivable on sale of investments	699.6	—
LIABILITIES:		
Reserve for losses and loss expenses	85.4	78.7
Unearned premiums	14.0	11.9
Deferred ceding commission income	48.4	42.9
Reinsurance balances payable	214.9	191.0
Balances due on purchases of investments	752.1	—
Income Statement:		
Assumed written premiums	62.0	53.9
Change in unearned assumed premiums	(2.1)	(1.5)
Ceded written premiums	(303.1)	(302.3)
Change in unearned ceded premiums	7.9	31.7
Assumed losses and loss expenses	34.1	35.2
Ceded losses and loss expenses	(142.6)	(201.5)
Ceding commission income earned	(74.8)	(58.3)
Investment management fees	(35.2)	(30.4)
Interest and dividend income (expense)	21.3	6.2
Realized and unrealized gains (losses) on investments	212.6	18.3

⁽¹⁾ As of December 31, 2023, \$435.8 million included in "other invested assets," \$991.4 million included in "equity securities" and \$13.5 million included in "fixed maturity investments" on the consolidated balance sheets. As of December 31, 2022, \$309.4 million included in "other invested assets," \$872.6 million included in "equity securities" and \$13.3 million included in "fixed maturity investments" on the consolidated balance sheets.

The Company's subsidiaries have entered into investment management agreements with Fairfax and its wholly-owned subsidiary, Hamblin Watsa Investment Counsel Ltd. These agreements generally provide for an annual base fee, calculated and paid quarterly based upon each subsidiary's average invested assets for the preceding three months, and an incentive fee, which is payable if realized gains on equity investments exceed certain benchmarks. These agreements may be terminated by either party on 30 days' notice. During the year ended December 31, 2023 and December 31, 2022, the Company incurred \$35.2 million and \$30.4 million, respectively, in investment management fees, which were included as a reduction to net investment income in the consolidated financial statements.

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Effective in 2018, the Company entered into an agreement to act as the fronting company for non-U.S. Fairfax affiliate companies that participate in the Fairfax Internal Reinsurance Vehicle (the "FIRV"). The agreement provides that certain Fairfax affiliate companies cede activity to the fronting company who then cedes that activity to another Fairfax designated entity. The Company receives a fronting fee for the administration of the cessions. The assumed and ceded activity related to the FIRV is recorded in insurance balances receivable, reinsurance payable, and ceding commission income earned. The fronting fee for the year ended December 31, 2023 and December 31, 2022 is \$1.2 million and \$0.9 million, respectively, and is recorded in "acquisition costs" in the consolidated income statements.

17. SEGMENT INFORMATION

The determination of reportable segments is based on how the Company's chief operating decision maker, the Chief Executive Officer, monitors the Company's underwriting operations. Management monitors the performance of its direct underwriting operations based on the geographic location of the Company's offices, the markets and customers served and the type of accounts written. The Company is currently organized into two operating segments: Insurance and Reinsurance. All product lines fall within these classifications.

The Insurance segment includes the Company's specialty insurance operations in Australia, Bermuda, Canada, Europe, Hong Kong, Labuan, Singapore and the United States. This segment provides both property and specialty casualty insurance world-wide. The Reinsurance segment includes the Company's reinsurance operations in Bermuda, Labuan, London, New York, Singapore and Zug. This segment provides reinsurance of property, general casualty, professional liability, specialty lines and property catastrophe coverages written by insurance companies. The Company presently writes reinsurance on both a treaty and a facultative basis, targeting several niche reinsurance markets.

Responsibility and accountability for the results of underwriting operations are assigned by major line of business within each segment. Because the Company does not manage its assets by segment, investment income, interest expense and total assets are not allocated to individual reportable segments. General and administrative expenses are allocated to segments based on various factors, including staff count and each segment's proportional share of gross premiums written.

The Company measures its segment income or loss as underwriting income or loss plus other insurance-related income and expenses, which may include the net earnings from derivative insurance and reinsurance contracts and other income or expense that is not directly related to the Company's underwriting operations. Management measures results of each segment's underwriting income or loss on the basis of the "loss and loss expense ratio," "acquisition cost ratio," "general and administrative expense ratio," "expense ratio" and the "combined ratio." The "loss and loss expense ratio" is derived by dividing net losses and loss expenses by net premiums earned. The "acquisition cost ratio" is derived by dividing acquisition costs by net premiums earned. The "general and administrative expense ratio" is derived by dividing general and administrative expenses by net premiums earned. The expense ratio is the sum of the "acquisition cost ratio" and the "general and administrative expense ratio". The "combined ratio" is the sum of the "loss and loss expense ratio," the "acquisition cost ratio" and the "general and administrative expense ratio."

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The following tables provide a summary of the segment results:

Year Ended December 31, 2023	Insurance	Reinsurance	Total
Gross premiums written	\$ 5,053.1	\$ 1,849.4	\$ 6,902.5
Net premiums written	3,090.1	1,749.4	4,839.5
Net premiums earned	3,045.1	1,538.1	4,583.2
Net losses and loss expenses	(2,123.9)	(971.7)	(3,095.6)
Acquisition costs	(176.8)	(306.6)	(483.4)
General and administrative expenses	(444.1)	(89.5)	(533.6)
Segment underwriting income (loss)	300.3	170.3	470.6
Net investment income			467.3
Net realized and unrealized investment gains (losses)			424.6
Other expenses			(6.3)
Amortization of intangible assets			(45.5)
Interest expense			(23.9)
Foreign exchange (loss) gain			(13.3)
Income (loss) before income taxes			\$ 1,273.5
Loss and loss expense ratio	69.7 %	63.2 %	67.5 %
Acquisition cost ratio	5.8 %	19.9 %	10.5 %
General and administrative expense ratio	14.6 %	5.8 %	11.7 %
Expense ratio	20.4 %	25.7 %	22.2 %
Combined ratio	90.1 %	88.9 %	89.7 %

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Year Ended December 31, 2022	Insurance	Reinsurance	Total
Gross premiums written	\$ 5,051.5	\$ 1,492.4	\$ 6,543.9
Net premiums written	3,067.8	1,388.3	4,456.1
Net premiums earned	2,945.5	1,252.5	4,198.0
Net losses and loss expenses	(1,993.1)	(963.3)	(2,956.4)
Acquisition costs	(156.4)	(247.2)	(403.6)
General and administrative expenses	(389.0)	(66.6)	(455.6)
Underwriting income (loss)	407.0	(24.6)	382.4
Other insurance-related revenue	(7.5)	—	(7.5)
Other insurance-related expenses	—	0.4	0.4
Segment income (loss)	399.5	(24.2)	375.3
Net investment income			215.6
Net realized and unrealized investment gains (losses)			(457.7)
Other expenses			(9.8)
Amortization of intangible assets			(45.9)
Interest expense			(23.9)
Foreign exchange (loss) gain			3.9
Income (loss) before income taxes			<u>\$ 57.5</u>
Loss and loss expense ratio	67.7 %	76.9 %	70.4 %
Acquisition cost ratio	5.3 %	19.7 %	9.6 %
General and administrative expense ratio	13.2 %	5.3 %	10.8 %
Expense ratio	<u>18.5 %</u>	<u>25.1 %</u>	<u>20.5 %</u>
Combined ratio	<u>86.2 %</u>	<u>102.0 %</u>	<u>90.9 %</u>

The following table shows an analysis of the Company's gross premiums written by geographic location of the Company's subsidiaries. All intercompany premiums have been eliminated.

	Year Ended December 31,	
	2023	2022
United States	4,241.9	\$ 3,984.4
Europe	1,019.5	891.9
Bermuda	926.8	1,000.9
Asia Pacific	540.9	501.9
Canada	173.4	164.8
Total gross premiums written	<u>\$ 6,902.5</u>	<u>\$ 6,543.9</u>

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The following table shows the Company's net premiums earned by line of business for each segment for the years ended December 31, 2023 and December 31, 2022.

	Year Ended December 31,	
	2023	2022
Insurance:		
Casualty	\$ 877.8	\$ 883.6
Professional liability	1,192.0	1,151.7
Property	362.2	291.3
Programs	343.2	381.7
Specialty and other	269.9	237.2
Total	\$ 3,045.1	\$ 2,945.5
Reinsurance:		
Property	\$ 630.3	\$ 532.3
Casualty	594.2	468.1
Specialty	313.6	252.1
Total	1,538.1	1,252.5
Total net premiums earned	\$ 4,583.2	\$ 4,198.0

18. RESTRICTED CASH

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated balance sheets that sum to the total of the same amounts shown in the statement of cash flows.

	December 31, 2023	December 31, 2022
Cash and cash equivalents	\$ 526.6	\$ 1,014.6
Restricted cash	129.4	164.0
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	\$ 656.0	\$ 1,178.6

Restricted cash primarily relates to cash held in trust accounts in favor of cedents, other counterparties or government authorities, as well as accounts that are pledged as collateral for the Company's letter of credit facilities.

19. SUBSEQUENT EVENTS

The Company considers events or transactions that occur after the consolidated balance sheet date but before the consolidated financial statements are available to be issued to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. Subsequent events have been evaluated through April 23, 2024, the date that the consolidated financial statements were available to be issued.