

EVEREN SPECIALTY LTD.

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

Years Ended November 30, 2023 and 2022



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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of Everen Specialty Ltd.

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Everen Specialty Ltd. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of November 30, 2023 and 2022, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of November 30, 2023 and 2022, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for opinion

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

Responsibilities of management for the consolidated financial statements

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

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

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

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



In performing an audit in accordance with GAAS, we:

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

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

Required supplementary information

U.S. generally accepted accounting principles require that certain disclosures related to short-duration contracts in Note 5 be presented to supplement the basic consolidated financial statements. Such information is the responsibility of management and, although not a part of the basic consolidated financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
February 27, 2024

EVEREN SPECIALTY LTD.

Consolidated Balance Sheets

November 30, 2023 and 2022

(Expressed in Thousands of United States Dollars)

	<u>2023</u>	<u>2022</u>
Assets		
Cash and cash equivalents (Note 2(i))	\$ 225,607	\$ 184,453
Investments in marketable securities and derivative assets (Notes 2(d), 2(e), 3 and 4)	785,675	745,266
Other investments (Notes 2(d) and 3)	104,868	118,152
Restricted assets and restricted cash (Note 2(i), 4 (c))	445,861	399,873
Investment sales pending settlement	25,080	9,566
Accrued investment income	5,280	3,899
Losses recoverable from reinsurers (Notes 5 and 9)	345,437	317,710
Accounts receivable	247,126	318,287
Funds withheld	62,969	75,754
Prepaid reinsurance premiums	52,196	67,811
Deferred acquisition costs (Note 2(b))	38,264	74,434
Other assets (Note 10)	<u>1,330</u>	<u>961</u>
 Total assets	 \$ 2,339,693	 \$ 2,316,166
Liabilities		
Outstanding losses and loss expenses (Note 5)	\$ 1,338,708	\$ 1,195,550
Unearned premiums	238,184	363,692
Investment purchases pending settlement	43,703	19,473
Derivative liabilities (Note 2(e), 3 and 4)	6,066	10,325
Loan payable (Notes 2(f), 2(h), 6(a) and 6(c))	132,129	132,011
Reinsurance premium payable	57,999	56,844
Amounts due to affiliates (Note 8(b))	2,273	2,289
Accounts payable	<u>120,740</u>	<u>170,847</u>
 Total liabilities	 <u>1,939,802</u>	 <u>1,951,031</u>
Shareholders' equity		
Common shares (Note 7)	315	310
Retained earnings	<u>399,576</u>	<u>364,825</u>
 Total shareholders' equity	 <u>399,891</u>	 <u>365,135</u>
 Total liabilities and shareholders' equity	 <u>\$ 2,339,693</u>	 <u>\$ 2,316,166</u>

See accompanying notes to consolidated financial statements

EVEREN SPECIALTY LTD.

Consolidated Statements of Operations

Years Ended November 30, 2023 and 2022
(Expressed in Thousands of United States Dollars)

	<u>2023</u>	<u>2022</u>
Gross premiums written	\$ 444,228	\$ 657,034
Change in unearned premiums	<u>125,478</u>	<u>(22,308)</u>
Premiums earned	569,706	634,726
Ceded premiums	108,728	140,457
Change in prepaid reinsurance premiums	<u>15,609</u>	<u>(12,267)</u>
Ceded premiums earned	124,337	128,190
Net premiums earned	445,369	506,536
Losses and loss expenses incurred, net of reinsurance (Note 5)	(336,291)	(400,001)
Commission and brokerage fees, net	<u>(107,953)</u>	<u>(127,109)</u>
Net underwriting gain (loss)	1,125	(20,574)
Interest income	35,243	14,946
Net gains (losses) on investments (Note 3)	38,005	(62,446)
Dividends	1,055	1,097
Investment advisory and custodian fees	(3,484)	(3,821)
Interest and debt expense (Notes 6(a) and 6(c))	<u>(11,864)</u>	<u>(11,687)</u>
Net investment income (losses)	58,955	(61,911)
General and administrative expenses (Note 8(a))	<u>(25,367)</u>	<u>(25,825)</u>
Net income (loss) before income taxes	<u>34,713</u>	<u>(108,310)</u>
Income tax benefit (expense) (Notes 2j and 10)	<u>38</u>	<u>(20)</u>
Net income (loss)	<u>\$ 34,751</u>	<u>\$ (108,330)</u>

See accompanying notes to consolidated financial statements

EVEREN SPECIALTY LTD.

Consolidated Statements of Changes in Shareholders' Equity

Years Ended November 30, 2023 and 2022

(Expressed in Thousands of United States Dollars)

	<u>Common shares</u>			
	<u>Number of</u>		<u>Retained</u>	<u>Total</u>
	<u>shares</u>		<u>earnings</u>	
Balance at November 30, 2021	60	\$ 300	\$ 473,155	\$ 473,455
Shares issued in year	2	10	–	10
Shares redeemed in year	–	–	–	–
Net loss	<u>–</u>	<u>–</u>	<u>(108,330)</u>	<u>(108,330)</u>
Balance at November 30, 2022	62	\$ 310	\$ 364,825	\$ 365,135
Shares issued in year	2	10	–	10
Shares redeemed in year	(1)	(5)	–	(5)
Net income	<u>–</u>	<u>–</u>	<u>34,751</u>	<u>34,751</u>
Balance at November 30, 2023	<u>63</u>	<u>\$ 315</u>	<u>\$ 399,576</u>	<u>\$ 399,891</u>

See accompanying notes to consolidated financial statements

EVEREN SPECIALTY LTD.

Consolidated Statements of Cash Flows

Years Ended November 30, 2023 and 2022
(Expressed in Thousands of United States Dollars)

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities		
Net income (loss)	\$ 34,751	\$ (108,330)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Amortization of deferred debt issuance costs	118	118
Interest on deferrable subordinated debentures	10,672	10,672
Net (gains) losses on investments	(38,005)	62,446
Proceeds from the sale of investments	1,395,527	789,057
Purchase of investments	(1,399,870)	(784,917)
Changes in operating assets and liabilities:		
Accrued investment income	(1,381)	1,170
Losses recoverable from reinsurers	(27,727)	(66,622)
Accounts receivable	71,161	(34,380)
Funds withheld	12,785	23
Prepaid reinsurance premiums	15,615	(12,266)
Deferred acquisition costs	36,170	(1,702)
Other assets	(369)	(187)
Outstanding losses and loss expenses	143,158	168,059
Unearned premiums	(125,508)	22,308
Reinsurance premium payable	1,155	9,717
Amounts due to affiliates	(16)	(774)
Accounts payable	(50,107)	48,742
Restricted assets	(24,839)	(188,374)
	<u>53,290</u>	<u>(85,240)</u>
Cash flows from financing activities		
Interest paid on deferrable subordinated debentures	(10,672)	(10,672)
Issuance of common shares, net	<u>5</u>	<u>10</u>
	<u>(10,667)</u>	<u>(10,662)</u>
Net increase (decrease) in cash and cash equivalents and restricted cash	42,623	(95,902)
Cash and cash equivalents and restricted cash at beginning of year	<u>203,822</u>	<u>299,724</u>
Cash and cash equivalents and restricted cash at end of year	<u>\$ 246,445</u>	<u>\$ 203,822</u>
Supplementary Disclosure of Consolidated Cash Flow Information		
Cash and cash equivalents	225,607	184,453
Restricted cash included in Restricted assets (Note 4(c))	<u>20,838</u>	<u>19,369</u>
Total cash and cash equivalents and restricted cash shown in the Consolidated Statement of Cash Flows	<u>\$ 246,445</u>	<u>\$ 203,822</u>

See accompanying notes to consolidated financial statements

EVEREN SPECIALTY LTD.

Notes to Consolidated Financial Statements

November 30, 2023 and 2022

1. Nature of the business

Everen Specialty Ltd. (the “Company” or “Everen Specialty”) was incorporated under the laws of Bermuda on May 14, 1986. The Company changed its name from Oil Casualty Insurance, Ltd. effective June 28, 2022. The Company’s shareholders comprise companies operating in the energy industry. The Company provides property and casualty insurance and reinsurance on a global basis.

Through October 1, 2015, the Company’s insurance business insured the risks of companies operating in the energy industry while its assumed reinsurance business mainly represented the property and casualty risks of ceding companies that provide such insurance primarily to energy companies. Effective October 1, 2015, the Company expanded its operations to insure and reinsure the same risks of companies outside of the energy industry. The Company holds a Class 3B license under The Insurance Act 1978 of Bermuda and related regulations.

2. Summary of significant accounting policies

The accompanying Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. The following are the significant accounting policies adopted by the Company:

(a) *Principles of consolidation*

These Consolidated Financial Statements include the results of the Company and its wholly-owned subsidiaries, Everen Specialty Investment Ltd. (“ESIL”), OCIL Limited and Olivewood Holdings, Ltd (“OHL”). ESIL (formerly Oil Casualty Investment Corporation Ltd.) was established to hold the Company’s investment portfolios. OCIL Limited is a corporate member established during 2016 to participate in Lloyd’s business from January 1, 2017. OHL is a holding company incorporated in Delaware during 2020 and has two wholly owned subsidiaries, OCIL Specialty Ltd (“OSL”) and OSL Insurance Services, Inc. (“OISI”). OSL was incorporated under the laws of Bermuda during 2020 and holds a Class 3A license under The Insurance Act 1978 of Bermuda and related regulations. OSL commenced writing business in April 2021. OISI was incorporated in the State of Texas during 2020 and provides managing underwriting agency services to OSL. OISI was licensed to carry out business from January 1, 2021. All intercompany transactions are eliminated on consolidation.

(b) *Premiums and acquisition costs*

Insurance and assumed reinsurance premiums earned are recognized as income in the consolidated statement of operations.

Insurance premiums are recorded as written on the inception date of the policy. Insurance premiums are recognized as income generally on a basis proportionate with the coverage period within the underlying contracts. Unearned premiums represent the portion of premiums written that relate to the unexpired terms of policies in force.

Assumed reinsurance premiums are recorded at the inception of the reinsurance contract or underlying policies depending on contract terms. Premiums written are estimated based upon information in contracts and information provided by clients and/or brokers. Assumed reinsurance premiums written are earned generally on a basis proportionate with the coverage period. Assumed reinsurance premiums written not yet recognized as revenue are recorded on the consolidated balance sheets as unearned premiums.

Due to the nature of reinsurance, ceding companies routinely report and remit premiums to the Company subsequent to the contract coverage period. Consequently, gross premiums written and earned, premiums receivable and unearned premium include amounts reported and billed by the ceding companies, supplemented by estimates of premiums that are written but not reported. The Company’s premium estimation process considers the terms and conditions of the reinsurance contracts and assumes that the contracts will remain in-force until expiration.

2. Summary of significant accounting policies (continued)

(b) Premiums and acquisition costs (continued)

The Company's estimates of written premiums may be affected by early cancellation, election of contract provisions for cut-off and return of unearned premiums or other contract disruptions. Changes in assumed reinsurance premium estimates are expected and may result in significant adjustments in any period. These estimates change over time as additional information regarding the underlying exposures insured is obtained. Any subsequent differences arising on such estimates are recorded as premiums written in the period they are determined.

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. Premiums ceded are pro-rated over the period the reinsurance coverage is provided with the unearned portion being deferred as prepaid reinsurance premiums.

Reinstatement premiums ceded are recognized and accrued at the time losses are incurred and are expensed pro-rata over the reinstated coverage period. Such accruals are based upon actual contractual terms applied to the amount of losses expected to be paid. However, there is a significant amount of management judgment involved with respect to the estimated amount of loss reserves as described in Note 2(c). It is at least reasonably possible that management will revise this estimate significantly in the near term. Any changes in the assessment of the ceded reinsurance premium will be recorded in the period in which it is determined.

Acquisition costs, consisting primarily of commissions, are deferred and charged to income on a pro-rata basis over the term of each policy or reinsurance contract.

(c) Outstanding losses and loss expenses and losses recoverable from reinsurers

Outstanding losses and loss expenses include reserves for reported unpaid losses and loss expenses and for losses incurred but not reported, including an estimate of the loss adjustment expenses. The reserve for outstanding losses and loss expenses for the Company's insurance and reinsurance operations is established by management based on claims reported from insureds or amounts reported from ceding companies at or before the balance sheet date, and represent the estimated ultimate cost of events or conditions that have been reported to or specifically identified by the Company. In addition, a provision for adverse development for reported notifications and for losses incurred but not reported ("IBNR") is estimated by management based on the recommendations of an independent actuary using the past loss history of the Company and industry data. In establishing a provision for unpaid claims and claims expenses related to environmental exposure and clean-up, management considers facts currently known and the current state of laws and litigation.

Liabilities are recognized for known claims when sufficient information has been developed to indicate the involvement of a specific policy, and management can reasonably estimate the Company's liability. A substantial degree of judgment is required in assessing the ultimate cost of outstanding losses and the related amounts recoverable from reinsurers. It is at least reasonably possible that management will revise these estimates significantly in the near term. Any changes in the assessment of the ultimate cost of claims notified to date will be recorded in the period in which they are determined.

Unidentified events or conditions may have occurred which may be validly notified to the Company in subsequent periods and result in losses. Any such losses will be subject to the limits and conditions of the related policies in force at the time of notification.

Amounts recoverable from reinsurers are estimated in a manner consistent with the underlying liabilities.

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

Investments are classified as trading and are carried in the Consolidated Balance Sheet at fair value. Realized and unrealized gains and losses are included in the Consolidated Statement of Operations. Security transactions are accounted for on a trade date basis with investment purchases and sales pending settlement accrued in the Consolidated Balance Sheet. As at November 30, 2023, \$3.0 million purchases (2022: \$ Nil) of the investments pending settlement relate to restricted assets.

2. Summary of significant accounting policies (continued)

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

Other investments consist of investments in hedge funds and fund of funds and are carried at fair value. The units of account that are valued by the Company are its interest in the funds and not the underlying holdings of such funds. Thus, the inputs used by the Company to value its investments in each of the funds may differ from the inputs used to value the underlying holdings of such funds. These funds are stated at fair value, which ordinarily will be the most recently reported net asset value ("NAV") as reported by their investment managers or third party administrators. The use of net asset value as an estimate of the fair value for investments in certain entities that calculate the net asset value is a permitted practical expedient.

The change in the fair value of other investments is included in the Consolidated Statement of Operations. As of November 30, 2023, the Company does not have any unfunded commitments related to these investments.

Restricted assets are carried in the Consolidated Balance Sheet at fair value. Realized and unrealized gains and losses are included in the Consolidated Statement of Operations.

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

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

(e) Derivative financial instruments

The Company recognizes all derivatives as either assets or liabilities in the Consolidated Balance Sheet and measures those instruments at fair value. All changes in the fair value of derivatives are recorded in the Consolidated Statement of Operations. None of the derivatives used by the Company are designated as accounting hedges. Derivatives are used by the Company to mitigate certain risks inherent in holding the underlying debt or equity securities, or are designed to provide exposure to certain sectors or markets and to enhance investment returns (see Notes 3 and 4).

(f) Loan payable and deferred debt issuance costs

The Company defers costs directly associated with the issuance of debt instruments and amortizes such costs on a straight-line basis over the term of the debt agreements. The amortization is reported within interest and debt expense in the Consolidated Statement of Operations. The Company carries its loan payable at cost less the balance of the related amortized deferred costs.

(g) Translation of foreign currency investments and losses

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

(h) Fair value of financial instruments

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

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

2. Summary of significant accounting policies (continued)

(h) *Fair value of financial instruments* (continued)

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

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

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

Other assets and liabilities: The fair values of restricted assets, investment purchases and sales pending settlement, amounts due to affiliates, reinsurance premiums payable, accounts receivable, funds withheld and accounts payable approximate their carrying value due to the immediate or short term maturity of these financial instruments.

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

(i) *Cash and cash equivalents*

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

(j) *Income taxes*

The Company provides for income taxes for its operations in income tax paying jurisdictions. The Company's provision relies on estimates and interpretations of currently enacted tax laws.

The Company recognizes deferred tax assets and liabilities based on temporary differences between the tax basis of assets and liabilities and their reported amounts in the Financial Statements, which will result in taxable or deductible amounts in the future. Such temporary differences are primarily due to tax basis discounts on loss and loss adjustment expense reserves and unearned premiums, deferred acquisition costs, and unrealized gains (losses) on investments.

A valuation allowance against deferred tax assets is recorded if it is more likely than not that all, or some portion, of the benefits related to deferred tax assets will be not be realized. Any adjustments to deferred income taxes are accounted for as changes in estimates and are reflected in the Consolidated Statement of Operations in the year in which they are made.

EVEREN SPECIALTY LTD.

Notes to Consolidated Financial Statements

November 30, 2023 and 2022

3. Investments

The fair values of investments as at November 30, 2023 and 2022 are as follows:

	<u>2023</u> (\$'000)	<u>2022</u> (\$'000)
<u>Short Term Investments</u>	\$ <u>206,556</u>	\$ <u>174,675</u>
<u>Derivatives Assets</u>	<u>6,795</u>	<u>5,280</u>
<u>Equity Securities</u>	<u>43,494</u>	<u>111,456</u>
<u>Fixed Maturities</u>		
US Treasury and Government Agency	123,717	88,692
State and Municipal Bonds	9,038	9,520
Non-US Government Bonds	46,808	44,332
Supranationals	476	139
Corporate Bonds	181,177	195,756
Asset-Backed Securities	56,729	64,848
Residential Mortgage-Backed Securities	108,053	37,999
Commercial Mortgage-Backed Securities	<u>2,832</u>	<u>12,569</u>
Total Fixed Maturities	<u>528,830</u>	<u>453,855</u>
Total Investments in Marketable Securities and Derivative Assets	\$ <u>785,675</u>	\$ <u>745,266</u>
Other Investments	\$ <u>104,868</u>	\$ <u>118,152</u>

In the table above, mortgage-backed securities issued by US government agencies are combined with other mortgage-backed securities held and are included in the categories "Residential Mortgage-Backed Securities" and "Commercial Mortgage-Backed Securities". At November 30, 2023, approximately 77% (2022 - 35%) of the total mortgage-backed holdings are represented by investments in GNMA, FNMA and FHLMC securities. The remainder of the mortgage exposure consists of collateralized mortgage obligations and non-government issued securities, the majority of which have investment grade credit ratings.

The credit quality of fixed maturities and short term investments as at November 30, 2023 and 2022, are as follows:

	<u>2023</u> (\$'000)	<u>2022</u> (\$'000)
US Government and Agency	\$ 265,362	\$ 200,910
AAA	69,367	83,387
AA	134,869	89,110
A	126,975	110,357
BBB	115,107	118,138
Below BBB	<u>23,706</u>	<u>26,628</u>
Total Fixed Maturities and Short Term Investments	\$ <u>735,386</u>	\$ <u>628,530</u>

The Company's methodology for assigning credit ratings to fixed maturities and short term investments uses the middle rating if there is a split rating between Standard & Poor's, Moody's and/or Fitch; when a rating from only two agencies is available the lower rating is used. Securities with a credit rating below investment grade as at November 30, 2023, had a net unrealized loss of \$(4.5) million (2022 - \$(6.3) million net unrealized loss) at the same date, which has been recorded in the Consolidated Statement of Operations.

EVEREN SPECIALTY LTD.

Notes to Consolidated Financial Statements

November 30, 2023 and 2022

3. Investments (continued)

The contractual maturities of fixed maturities and short term investments as at November 30, 2023 and 2022 are as follows:

	<u>2023</u> (\$'000)	<u>2022</u> (\$'000)
Due in one year or less	\$ 206,556	\$ 174,675
Due after one year through five years	239,768	203,174
Due after five years through ten years	60,070	65,883
Due after ten years	<u>61,378</u>	<u>69,382</u>
	567,772	513,114
Asset-Backed Securities	56,729	64,848
Residential Mortgage-Backed Securities	108,053	37,999
Commercial Mortgage-Backed Securities	<u>2,832</u>	<u>12,569</u>
Total Fixed Maturities and Short Term Investments	<u>\$ 735,386</u>	<u>\$ 628,530</u>

Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties and the lenders may have the right to put or sell the securities back to the borrower.

The gross realized gains and gross realized losses on investments and the change in unrealized gains and losses for the years ended November 30, 2023 and 2022 are as follows:

	<u>2023</u> (\$'000)	<u>2022</u> (\$'000)
Gross realized gains on investments and restricted assets	\$ 78,375	\$ 46,888
Gross realized losses on investments and restricted assets	(71,516)	(64,120)
Gross realized gains on derivative instruments	28,260	43,938
Gross realized losses on derivative instruments	(28,748)	(18,199)
Gross realized gains on other investments	29,092	316
Gross realized losses on other investments	-	(1,867)
Change in net unrealized gains and (losses) during the year on investments and restricted assets	19,049	(69,061)
Change in net unrealized gains and (losses) during the year on other investments	5,774	4,354
Change in net unrealized gains and (losses) during the year on derivative instruments	<u>(22,281)</u>	<u>(4,695)</u>
Net (losses) gains on investments	<u>\$ 38,005</u>	<u>\$ (62,446)</u>

During the year ended November 30, 2023, the change in net unrealized gains and losses on investments was attributable to movements in the fair value of the Company's fixed maturities and short term investments of a \$14.8 million gain (2022: \$(49.0) million loss), equity securities of a \$(11.7) million loss (2022: \$(18.0) million loss) and restricted assets of a \$15.9 million gain (2022: \$(2.1) million loss).

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

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

3. Investments (continued)

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

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

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

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

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

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

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

- US government agency securities fair values were based on observable inputs that may include the spread above the risk-free yield curve, reported trades and broker/dealer quotes. These are considered observable market inputs and, therefore, the fair value of these securities are classified within Level 2.
- Non-U.S. government securities consist of bonds issued by non-U.S. governments and agencies along with supranational organizations. The significant inputs include the spread above the risk-free yield curve, reported trades and broker/dealer quotes. These are considered to be observable market inputs and, therefore, the fair values of these securities are classified within Level 2.
- Corporate securities consist primarily of investment-grade debt of a wide variety of corporate issuers and industries. The fair values of these securities are determined using the spread above the risk-free yield curve, reported trades, broker/dealer quotes, benchmark yields, and industry and market indicators. These are considered observable market inputs and, therefore, the fair value of these securities are classified within Level 2.
- Municipal securities consist primarily of bonds issued by U.S. domiciled state and municipality entities. The fair values of these securities are determined using the spread above the risk-free yield curve, reported trades, broker/ dealer quotes and benchmark yields. These are considered observable market inputs and, therefore, the fair value of these securities are classified within Level 2.

3. Investments (continued)

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

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

Effective September 2, 2023, the Company invested in a "Direct Hedge Fund" portfolio that is invested with a number of managers following various strategies. As of November 30, 2023, the Direct Hedge Fund portfolio was invested with 10 managers, with the common strategies being global macro, multi-strategy/event driven and long/short equity. The funds require a range of notice periods for redemptions ranging from 5 business days to 90 calendar days. Five of the funds have a lock-up period, which refers to the initial amount of time an investor is contractually required to invest before having the ability to redeem. Four of the funds with lock-ups last 12 months from inception before expiring, while one is ongoing that only permits redemptions on months that mark a quarter end. Additionally, four of the funds have quarterly investor gates that limit the amount an investor can redeem at one time. The company also invests in one 'fund of funds' hedge fund portfolio which has daily liquidity.

Certain fund of funds may be allowed to invest a portion of their assets in illiquid securities, such as private equity or convertible debt. In such cases, a common mechanism used is a side-pocket, whereby the illiquid security is assigned to a separate memorandum capital account or designated account. Typically, the investor loses its redemption rights in the designated account. Only when the illiquid security is sold, or otherwise deemed liquid by the fund of funds, may investors redeem their interest in the side-pocket. As of November 30, 2023, the fair value of hedge funds held in lock ups was \$42.2 million (2022 - \$20.6 million). No funds in the Direct Hedge Fund portfolio held any side-pocket investments as of November 30, 2023.

The Company has ongoing due diligence processes with respect to funds in which it invests and their managers. These processes are designed to assist the Company in assessing the quality of information provided by, or on behalf of, each fund and in determining whether such information continues to be reliable or whether further review is warranted. Certain funds do not provide full transparency of their underlying holdings; however, the Company obtains the audited financial statements for the fund of funds annually, and regularly reviews and discusses the fund performance with the fund managers to corroborate the reasonableness of the reported net asset values. While reported net asset value is the primary input to the review, when the net asset value is deemed not to be indicative of fair value, the Company may incorporate adjustments to the reported net asset value and not use the permitted practical expedient on an investment by investment basis. These adjustments may involve significant management judgment. The Company has not made any such adjustments for the year ended November 30, 2023 or 2022. Hedge fund investments measured at net asset value are not required to be disclosed within the fair value hierarchy.

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

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

EVEREN SPECIALTY LTD.

Notes to Consolidated Financial Statements

November 30, 2023 and 2022

3. Investments (continued)

The following tables summarize the levels of inputs used as at November 30, 2023 and 2022, in determining the classification of investment assets and liabilities held at fair value:

November 30, 2023	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV¹</u>	<u>Total</u>
<u>Assets</u>	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Short Term Investments	\$ 141,645	\$ 64,909	\$ 2	\$ –	\$ 206,556
Derivative Assets	–	6,795	–	–	6,795
Equity Securities	28,090	–	–	15,404	43,494
US Treasury and Government Agency	123,717	–	–	–	123,717
State and Municipal Bonds	–	9,038	–	–	9,038
Non-US Government Bonds	–	39,548	–	7,260	46,808
Supranationals	–	476	–	–	476
Corporate Bonds	1,308	179,869	–	–	181,177
Asset-Backed Securities	–	56,729	–	–	56,729
Residential Mortgage-Backed Securities	–	108,053	–	–	108,053
Commercial Mortgage-Backed Securities	–	2,832	–	–	2,832
Total Investments in Marketable Securities and Derivative Assets	\$ 294,760	\$ 468,249	\$ 2	\$ 22,664	\$ 785,675
Other Investments measured at net asset value ¹					\$ 104,868
Liabilities					
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV¹</u>	<u>Total</u>
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Derivative Liabilities	\$ –	\$ (6,066)	\$ –	\$ –	\$ (6,066)
November 30, 2022	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV¹</u>	<u>Total</u>
Assets	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Short Term Investments	\$ 112,218	\$ 62,453	\$ 4	\$ –	\$ 174,675
Derivative Assets	–	5,280	–	–	5,280
Equity Securities	75,888	–	–	35,568	111,456
US Treasury and Government Agency	88,692	–	–	–	88,692
State and Municipal Bonds	–	9,520	–	–	9,520
Non-US Government Bonds	–	37,376	–	6,956	44,332
Supranationals	–	139	–	–	139
Corporate Bonds	1,219	194,537	–	–	195,756
Asset-Backed Securities	–	64,848	–	–	64,848
Residential Mortgage-Backed Securities	–	37,999	–	–	37,999
Commercial Mortgage-Backed Securities	–	12,569	–	–	12,569
Total Investments in Marketable Securities and Derivative Assets	\$ 278,017	\$ 424,721	\$ 4	\$ 42,524	\$ 745,266
Other Investments measured at net asset value ¹					\$ 118,152
Liabilities					
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV¹</u>	<u>Total</u>
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Derivative Liabilities	\$ –	\$ (10,325)	\$ –	\$ –	\$ (10,325)

3. Investments (continued)

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

Investments in equity and corporate bond funds that are measured at fair value using net asset value per share do not have any selling restrictions or redemption notice periods. As of November 30, 2023 and 2022, the Company does not have any unfunded commitments related to these investments.

The fair value measurements of the Company's Level 3 short term investments were based on unadjusted third party pricing sources. During the years ended November 30, 2023, and 2022, there were no purchases or issues of Level 3 assets or liabilities or transfers in or out of Level 3.

4. Commitments and contingencies

(a) *Derivative instruments*

The Company's investment guidelines permit, subject to specific approval, investment in derivative instruments such as futures and option contracts, interest rate swaps and forward foreign currency contracts. Their use is regularly monitored and they are used for yield enhancement, duration management, interest rate and foreign currency exposure management or to obtain an exposure to a particular financial market. The Company's use of derivative instruments with embedded leverage such as futures, swaps and options contracts may increase the Company's investment risk. Credit risk arises from the potential inability of counterparties to perform under the terms of the contract. As at November 30, 2023, cash and cash equivalents in the amount of \$ 4.7 million (2022 - \$10.1 million) and US Treasury and Government Agency investments in the amount of \$1.6 million (2022 - \$0.9 million) were deposited with counterparties as collateral for positions held in derivative financial instruments.

The tables below show the fair value of the Company's derivative instruments recorded in Investments in Marketable Securities and Derivative Assets and Derivative Liabilities in the Consolidated Balance Sheet as at November 30, 2023 and 2022:

	<u>Derivative assets</u>		<u>Derivative liabilities</u>	
	2023		2023	
	Fair value		Fair value	
	(\$'000)		(\$'000)	
Interest rate swaps	\$	5,399	\$	2,959
Credit default swaps		-		34
Fixed income and currency options		162		246
Forward foreign currency contracts		596		2,296
Interest rate futures		638		531
Total	\$	6,795	\$	6,066

	<u>Derivative assets</u>		<u>Derivative liabilities</u>	
	2022		2022	
	Fair value		Fair value	
	(\$'000)		(\$'000)	
Interest rate swaps	\$	3,940	\$	5,652
Credit default swaps		18		35
Fixed income and currency options		121		200
Forward foreign currency contracts		601		2,419
Interest rate futures		600		2,019
Total	\$	5,280	\$	10,325

4. Commitments and contingencies (continued)

(a) *Derivative instruments (continued)*

The tables below show the net gains and losses on the Company's derivative instruments recorded in the net gains (losses) on investments in the Consolidated Statement of Operations during the years ended November 30, 2023 and 2022:

		2023		
		Net realized gains and (losses) (\$'000)	Change in unrealized gains and (losses) (\$'000)	Net gains and (losses) (\$'000)
Interest rate swaps	\$	45	\$ 4,152	\$ 4,197
Credit default swaps		-	(17)	(17)
Fixed income and currency options		137	(5)	132
Forward foreign currency contracts		220	118	338
Interest rate futures		(889)	1,526	637
Total	\$	(487)	\$ 5,774	\$ 5,287

		2022		
		Net realized gains and (losses) (\$'000)	Change in unrealized gains and (losses) (\$'000)	Net gains and (losses) (\$'000)
Interest rate swaps	\$	82	\$ (1,406)	\$ (1,324)
Credit default swaps		-	84	84
Fixed income and currency options		393	78	471
Forward foreign currency contracts		12,855	(3,491)	9,364
Interest rate futures		12,409	40	12,449
Total	\$	25,739	\$ (4,695)	\$ 21,044

(i) *Foreign currency exposure management*

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

EVEREN SPECIALTY LTD.

Notes to Consolidated Financial Statements

November 30, 2023 and 2022

4. Commitments and contingencies (continued)

(a) *Derivative instruments* (continued)

(i) *Foreign currency exposure management* (continued)

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

The Company considers the notional amounts in the table below at November 30, 2023 and 2022, to be representative of the volume of its activities in forward foreign currency contracts.

Currency	2023		2022	
	Notional Receivable (\$'000)	Notional Payable (\$'000)	Notional Receivable (\$'000)	Notional Payable (\$'000)
AUD	\$ 3,605	\$ (2,712)	\$ 1,106	\$ (1,409)
BRL	477	—	583	(153)
CAD	3,769	(7,864)	723	(2,265)
CHF	2,287	(3,511)	1,390	(826)
CNH	238	(2,598)	338	(303)
CNY	—	(8,172)	1,488	(8,550)
CZK	111	(192)	13	(12)
DKK	4,755	(10,773)	2,844	(5,616)
EUR	18,318	(50,550)	11,912	(38,346)
GBP	7,393	(16,389)	5,629	(16,266)
INR	866	(380)	107	(107)
JPY	7,586	(28,120)	234	(22,302)
KRW	349	(1,748)	113	(1,488)
MXN	700	(283)	279	(565)
NOK	2,320	(746)	2,263	(1,274)
NZD	2,176	(2,382)	1,992	(2,824)
PLN	536	(38)	25	(1,242)
SEK	1,916	(1,596)	369	(614)
SGD	333	(58)	238	(227)
TRY	35	—	46	(46)
TWD	946	(1,266)	840	(1,657)
USD	135,378	(56,942)	109,346	(33,812)
ZAR	535	(147)	302	(280)
Other	812	(674)	2,139	(5,953)
	<u>\$ 195,441</u>	<u>\$ (197,141)</u>	<u>\$ 144,319</u>	<u>\$ (146,137)</u>

At November 30, 2023, unrealized gains of \$0.6 million (2022 - \$0.6 million) and unrealized losses of \$2.3 million (2022 - \$2.4 million) on forward foreign currency contracts are included in Investments in Marketable Securities and Derivative Assets and Derivative Liabilities in the Consolidated Balance Sheet.

4. Commitments and contingencies (continued)(a) *Derivative instruments* (continued)(ii) *Duration management, interest rate management and market exposure management***Futures**

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

All financial futures contracts are held on a non-leveraged basis, fully backed at all times by short term investments and cash equivalents that are posted as margin collateral.

The unrealized gain or loss on financial futures contracts is calculated as the difference between the contract's price on the trade date and the contract's closing price on the valuation date as reported by the exchange on which the futures contracts are traded.

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

The Company considers the notional amounts in the table below at November 30, 2023 and 2022, to be representative of the volume of its derivative activities in financial futures contracts:

	2023		2022	
	Long (\$'000)	Short (\$'000)	Long (\$'000)	Short (\$'000)
Interest rate futures contracts	\$ 187,179	\$ (127,696)	\$ 178,740	\$ (120,220)

The Company had gross gains of \$0.6 million and gross losses of \$0.5 million on open futures contracts for the year ended November 30, 2023 (2022 - gross gains of \$0.6 million and gross losses of \$2.0 million). These gains and losses are included in the Consolidated Statement of Operations. The Company holds a margin account with its futures broker for the purposes of paying and receiving cash in connection with its futures transactions. Gains and losses are settled daily in cash in this margin account.

4. Commitments and contingencies (continued)(a) *Derivative instruments* (continued)(ii) *Duration management, interest rate management and market exposure management* (continued)**Swaps and Options**

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

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

At November 30, 2023 and 2022, the fair value of open interest rate swap contracts is:

	2023 _____ (\$'000)	2022 _____ (\$'000)
Interest rate swaps, net	\$ 2,440	\$ (1,712)

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

At November 30, 2023 and 2022 the fair value of open fixed income and currency option contracts is:

	2023 _____ (\$'000)	2022 _____ (\$'000)
Options purchased	\$ 162	\$ 121
Options written (liability)	(246)	(200)

Premiums received for open written options as of November 30, 2023, amounted to \$0.2 million (2022 - \$0.1 million).

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

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

4. Commitments and contingencies (continued)

(a) *Derivative instruments* (continued)

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

Swaps and Options (continued)

The Company considers the notional amounts in the table below at November 30, 2023 and 2022, to be representative of the volume of its derivative activities:

	Long exposure notional amounts	Short exposure notional amounts
	2023	2023
	(\$'000)	(\$'000)
Interest rate swaps	\$ 238,448	\$ (197,893)
Credit default swaps	–	(934)
Fixed income and currency options	41,232	(63,990)

	Long exposure notional amounts	Short exposure notional amounts
	2022	2022
	(\$'000)	(\$'000)
Interest rate swaps	\$ 90,779	\$ (153,228)
Credit default swaps	534	(2,773)
Fixed income and currency options	13,543	(8,720)

(b) *Concentrations of credit risk*

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

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

EVEREN SPECIALTY LTD.

Notes to Consolidated Financial Statements

November 30, 2023 and 2022

4. Commitments and contingencies (continued)

(c) *Restricted assets*

At November 30, 2023 and 2022, the fair values of the Company's restricted assets are as follows:

	2023 (\$'000)	2022 (\$'000)
Assets pledged under Insurance Trusts (i)	\$ 424,126	\$ 362,859
Funds at Lloyd's (ii)	<u>21,735</u>	<u>37,014</u>
Total Restricted Assets	<u>\$ 445,861</u>	<u>\$ 399,873</u>

(i) *Assets pledged under insurance trusts*

Certain of the Company's invested assets were held in trust and pledged in support of its insurance and reinsurance liabilities. Such pledges are largely required by the Company's operations that are "non-admitted" under U.S. state and other jurisdictions' insurance regulations, in order for the cedant to receive statutory credit for reinsurance.

The fair values of assets pledged under insurance trusts as at November 30, 2023 and 2022, and the level in the fair value hierarchy are as follows:

	2023 (\$'000)	2023 Level	2022 (\$'000)	2022 Level
Cash and Cash Equivalents	\$ 9,807	Level 1	\$ 4,862	Level 1
Short Term Investments - US Treasury	178,825	Level 1	130,224	Level 1
Short Term Investments - Corporate	54,784	Level 2	72,381	Level 2
<u>Fixed Maturities</u>				
State and Municipal Bonds	1,068	Level 2	1,762	Level 2
Corporate Bonds	80,653	Level 1	75,687	Level 1
Corporate Bonds	72,609	Level 2	58,766	Level 2
Asset-Backed Securities	21,778	Level 2	18,043	Level 2
Residential Mortgage-Backed Securities	3,121	Level 2	487	Level 2
Total Fixed Maturities	<u>179,229</u>		<u>154,745</u>	
Accrued Investment Income	<u>1,481</u>	Level 1	<u>647</u>	Level 1
Total Assets Pledged under Insurance Trusts	<u>\$ 424,126</u>		<u>\$ 362,859</u>	

EVEREN SPECIALTY LTD.

Notes to Consolidated Financial Statements

November 30, 2023 and 2022

4. Commitments and contingencies (continued)(c) *Restricted assets (continued)*(i) *Assets pledged under insurance trusts (continued)*

The contractual maturities of restricted assets held as fixed maturities and short term investments as at November 30, 2023 and 2022 are as follows:

	2023 (\$'000)	2022 (\$'000)
Due in one year or less	\$ 226,062	\$ 202,605
Due after one year through five years	<u>161,877</u>	<u>136,215</u>
	387,939	338,820
Asset-Backed Securities	\$ 21,778	\$ 18,043
Residential Mortgage-backed Securities	<u>3,121</u>	<u>487</u>
Total Fixed Maturities and Short Term Investments	\$ 412,838	\$ 357,350

The credit quality of the restricted assets held as fixed maturities and short term investments as at November 30, 2023 and 2022, are as follows:

	2023 (\$'000)	2022 (\$'000)
US Government and Agency	\$ 178,825	\$ 130,224
AAA	23,873	18,580
AA	120,703	111,450
A	65,094	62,981
BBB	<u>24,343</u>	<u>34,115</u>
Total Fixed Maturities and Short Term Investments	\$ 412,838	\$ 357,350

(ii) *Funds at Lloyd's*

The Company provides capital in the form of Funds at Lloyd's for use in Lloyd's business through a corporate member, OCIL Limited and certain assumed reinsurance treaties. At November 30, 2023, the capital is made up of cash of \$11.0 million (2022 - \$14.6 million) and \$10.7 million (2022 - \$22.4 million) of investments in fixed income securities held in a fixed income investment fund with a quoted price in an active market. The Company classifies all of these restricted assets within level 1 of the fair value hierarchy.

EVEREN SPECIALTY LTD.

Notes to Consolidated Financial Statements

November 30, 2023 and 2022

5. Outstanding losses and loss expenses

The reserve for outstanding losses and loss expenses is provided on the basis of current estimates made by the Company's claims personnel, independent actuarial consultants and legal advisors. Outstanding loss reserves comprise individual case reserves, reserves for adverse loss development on reported claims and IBNR reserves. The summary of changes in outstanding loss and loss expenses for 2023 and 2022 is as follows:

	<u>2023</u> (\$'000)	<u>2022</u> (\$'000)
Gross balance, beginning of year	\$ 1,195,550	\$ 1,027,491
Less: losses recoverable from reinsurers	<u>(317,710)</u>	<u>(251,088)</u>
Net balance, beginning of year	877,840	776,403
Loss and loss expenses incurred related to:		
Current year	265,024	351,994
Prior years	<u>71,267</u>	<u>48,007</u>
Total loss and loss expenses incurred	336,291	400,001
Paid loss and loss expenses related to:		
Current year	(28,091)	(41,718)
Prior years	<u>(194,595)</u>	<u>(252,539)</u>
Total paid loss and loss expenses	\$ (222,686)	\$ (294,257)
Foreign exchange gain	<u>1,826</u>	<u>(4,307)</u>
Net balance, end of year	993,271	877,840
Plus: losses recoverable from reinsurers	<u>345,437</u>	<u>317,710</u>
Gross balance, end of year	\$ 1,338,708	\$ 1,195,550

The 2023 current year incurred losses of \$265.0 million relate to: (i) the establishment of \$32.4 million of IBNR on the Company's direct insurance book of business for the 2023 underwriting year; (ii) case reserves totaling \$27.1 million on the Company's direct insurance book of business for the 2023 underwriting year; (iii) losses incurred of \$187.7 million on the Company's assumed reinsurance book of business (iv) losses incurred of \$17.0 million on the Lloyds corporate member business; and (v) \$0.8 million of loss expenses incurred over the Company's entire book of business.

During the year ended November 30, 2023, the incurred losses for prior year claims of \$71.3 million primarily relate to: (i) incurred loss development of \$57.2 million on the Company's assumed reinsurance book of business for prior years, (ii) unfavorable development on prior year claims of \$15.9 million on the Company's direct insurance book of business, and (iii) favorable loss development of \$1.8 million on the Lloyds corporate member business.

The 2022 current year incurred losses of \$352.0 million relate to: (i) the establishment of \$56.3 million of IBNR on the Company's direct insurance book of business for the 2022 underwriting year; (ii) case reserves totaling \$18.7 million on the Company's direct insurance book of business for the 2022 underwriting year; (iii) losses incurred of \$247.1 million on the Company's assumed reinsurance book of business (iv) losses incurred of \$28.3 million on the Lloyds corporate member business; and (v) \$1.6 million of loss expenses incurred over the Company's entire book of business.

During the year ended November 30, 2022, the incurred losses for prior year claims of \$48.0 million primarily relate to: (i) incurred loss development of \$63.9 million on the Company's assumed reinsurance book of business for prior years, (ii) favorable development on prior year claims of \$7.9 million on the Company's direct insurance book of business, and (iii) favorable loss development of \$8.0 million on the Lloyds corporate member business.

The Company's reserve for losses relating to pollution liabilities has been established in accordance with generally accepted accounting principles for loss contingencies. There are significant uncertainties involved in estimating the Company's ultimate liability for pollution claims. These uncertainties include, amongst others, (i) potentially long

5. Outstanding losses and loss expenses (continued)

latency periods, (ii) difficulty in establishing the commencement date of the pollution, (iii) delays in the reporting of claims, (iv) uncertainty regarding the extent of the underlying and/or other insurance coverages, which may respond before the Company and (v) the future outcome of litigation that is currently in process and the potential that exists for punitive and compensatory awards.

To assist in determining this reserve, management has obtained the advice of independent actuaries who annually establish an estimate of the Company's ultimate pollution claims liabilities based on actuarially accepted modeling techniques. Because of the variability and uncertainty inherent in the pollution claim evaluation, reserving and settlement processes, the reserve established by the Company represents management's best estimate at the balance sheet date based on current information but such claims may ultimately settle for a significantly greater or lesser amount. Such adjustments to reserves could be material to the Company.

Short Duration Contract Disclosures

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

The Company has disaggregated its information presented in the tables below by line of business as appropriate for direct liability, direct property and assumed reinsurance segments, including cumulative incurred and paid losses and allocated loss adjustment expenses, as well as the corresponding amount of IBNR reserves as of November 30, 2023. The level of disaggregation is consistent with how the Company analyzes loss reserves for both internal and external reporting purposes. The Company has not prepared loss development tables for 3 lines of business that are not considered significant. The gross reserves for losses and loss expenses as at November 30, 2023, for these lines of business totaled \$122.9 million (2022: \$101.0 million).

Some of the information provided in the following tables is Required Supplementary Information ("RSI") under U.S. GAAP. Therefore, it does not form part of these consolidated financial statements. Claims development information for all periods except the current reporting period and any information derived from it, including average annual percentage payout of claims incurred, is considered RSI.

EVEREN SPECIALTY LTD.

Notes to Consolidated Financial Statements

November 30, 2023 and 2022

5. Outstanding losses and loss expenses (continued)

Direct liability

The direct liability loss development tables have been produced for accident years 2014 through to 2023. The tables below also include claim frequency information, by accident year. The Company defines a single claim incident, per policy, which may include multiple claimants and multiple coverages on a single policy. Claims counts include claims closed without a payment as well as claims where the Company is monitoring to determine if exposure exists, even if a reserve has not been established.

Incurred losses and loss expenses, net of reinsurance (\$'000)											November 30, 2023	
Years ended November 30,											Total of IBNR reserves, net of reinsurance	Cumulative reported claims count
Unaudited												
Accident year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023		
2014	28,981	22,535	8,611	5,090	3,317	2,102	1,511	1,383	1,379	—	—	285
2015		48,088	72,592	87,330	89,025	89,299	88,443	102,277	102,285	101,050	—	326
2016			24,268	16,322	8,582	5,709	4,772	3,333	2,971	2,470	2,470	335
2017				24,685	25,039	17,764	16,660	13,692	13,069	16,216	2,716	384
2018					35,267	39,150	36,987	31,280	27,044	26,163	2,203	544
2019						17,116	17,465	9,878	5,734	3,849	3,849	465
2020							18,289	14,866	12,999	24,778	11,603	570
2021								17,293	16,773	12,533	10,264	492
2022									17,774	12,488	12,488	385
2023										17,929	17,929	249
Total										217,476		

Cumulative paid losses and loss expenses, net of reinsurance (\$'000)												
Years ended November 30,											Total of IBNR reserves, net of reinsurance	Cumulative reported claims count
Unaudited												
Accident year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023		
2014	—	—	—	—	—	—	—	—	—	—	—	—
2015		—	15,000	57,500	56,358	84,185	80,570	101,050	101,050	101,050	—	—
2016			—	—	—	—	—	—	—	—	—	—
2017				—	—	—	10,000	10,000	10,000	10,000	—	—
2018					—	13,960	23,960	23,960	23,960	23,960	—	—
2019						—	—	—	—	—	—	—
2020							—	—	—	—	—	—
2021								—	—	—	2,336	—
2022									—	—	—	—
2023										—	—	—
Total											137,346	

Reserves for outstanding losses and loss expenses, before 2014, net of reinsurance	25,760
Reserves for outstanding losses and loss expenses, net of reinsurance	\$ 105,890

EVEREN SPECIALTY LTD.

Notes to Consolidated Financial Statements

November 30, 2023 and 2022

5. Outstanding losses and loss expenses (continued)

Direct property

The direct property loss development tables have been produced for accident years 2014 through to 2023. For the property segment, the years presented in the tables comprise the majority of the period for which incurred losses typically remain outstanding. The tables below also include claim frequency information, by accident year. The Company defines a single claim incident, per policy, which may include multiple claimants and multiple coverages on a single policy. Claims counts include claims closed without a payment as well as claims where the Company is monitoring to determine if exposure exists, even if a reserve has not been established.

Incurred losses and loss expenses, net of reinsurance (\$'000)											November 30, 2023	
Years ended November 30,											Total of IBNR reserves, net of reinsurance	Cumulative reported claims count
Unaudited												
Accident year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023		
2014	2,268	654	193	186	183	181	180	180	180	180	—	9
2015		1,569	895	503	62	61	60	60	60	60	—	9
2016			1,365	2,120	1,431	1,628	1,599	1,574	1,569	1,567	4	23
2017				25,379	23,417	18,836	20,666	17,753	17,437	17,448	75	63
2018					20,134	27,384	23,614	22,256	21,591	22,027	206	35
2019						41,655	44,779	33,319	32,616	35,393	424	41
2020							50,688	68,870	67,425	65,718	1,953	108
2021								68,354	80,646	69,174	2,615	100
2022									42,459	45,401	5,332	71
2023										31,709	6,492	50
Total										288,677		

Cumulative paid losses and loss expenses, net of reinsurance (\$'000)												
Years ended November 30,											Total of IBNR reserves, net of reinsurance	Cumulative reported claims count
Unaudited												
Accident year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023		
2014	—	180	180	180	180	180	180	180	180	180	—	9
2015		40	60	60	60	60	60	60	60	60	—	9
2016			—	805	1,101	1,563	1,563	1,563	1,563	1,563	4	23
2017				(4,972)	2,131	10,408	18,234	18,829	18,829	18,829	75	63
2018					541	8,442	17,815	19,568	20,189	20,810	206	35
2019						2,289	16,040	19,292	34,298	36,475	424	41
2020							6,458	28,037	44,352	53,272	1,953	108
2021								(6,287)	17,316	44,669	2,615	100
2022									5,044	9,958	5,332	71
2023										3,807	6,492	50
Total										189,623		

Reserves for outstanding losses and loss expenses, before 2014, net of reinsurance	—
Reserves for outstanding losses and loss expenses, net of reinsurance	\$ 99,054

EVEREN SPECIALTY LTD.

Notes to Consolidated Financial Statements

November 30, 2023 and 2022

5. Outstanding losses and loss expenses (continued)

Assumed reinsurance

The assumed reinsurance loss development tables have been produced for accident years 2014 through to 2023. For the assumed reinsurance segment, the years presented in the tables comprise the majority of the period for which incurred losses typically remain outstanding. The Company provides treaty reinsurance products on a global basis and does not maintain claims count information associated with its assumed reinsurance claims. As such, the Company has determined that it is impracticable to provide this information.

Incurred losses and loss expenses, net of reinsurance (\$'000)											November 30, 2023	
Years ended November 30,												
Unaudited												
Accident year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total of IBNR reserves, net of reinsurance	Cumulative reported claims count
2014	69,091	59,061	51,788	47,228	44,991	45,287	45,310	46,152	48,049	48,661	3,022	n/a
2015		55,480	54,383	49,435	43,055	43,954	42,289	41,873	43,078	45,835	2,937	n/a
2016			63,267	59,519	52,746	57,105	57,047	57,477	58,078	61,633	4,243	n/a
2017				90,145	82,597	93,041	99,111	99,818	100,396	109,289	9,568	n/a
2018					92,856	116,659	124,805	126,366	132,939	136,348	11,789	n/a
2019						102,252	118,062	143,874	153,288	151,570	16,790	n/a
2020							157,316	174,617	194,379	202,168	42,169	n/a
2021								227,198	248,640	260,983	75,286	n/a
2022									247,147	248,622	110,765	n/a
2023										187,724	125,949	n/a
Total										1,452,833		

Cumulative paid losses and loss expenses, net of reinsurance (\$'000)												
Years ended November 30,												
Unaudited												
Accident year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023		
2014	3,892	14,613	21,290	29,715	34,027	35,709	38,097	41,668	44,845	38,560		
2015		3,062	9,105	17,714	24,739	28,771	32,674	35,642	37,550	37,724		
2016			3,812	13,998	25,386	37,150	46,198	47,609	52,339	48,804		
2017				4,441	18,375	44,107	62,774	83,842	89,497	89,277		
2018					8,081	39,546	63,951	89,365	109,898	96,748		
2019						17,221	35,957	59,127	92,680	106,029		
2020							11,585	60,257	104,624	131,978		
2021								21,683	85,633	134,986		
2022									28,682	84,921		
2023										9,101		
Total										778,128		

Reserves for outstanding losses and loss expenses, before 2014, net of reinsurance	15,984
Reserves for outstanding losses and loss expenses, net of reinsurance	\$ 690,689

EVEREN SPECIALTY LTD.

Notes to Consolidated Financial Statements

November 30, 2023 and 2022

5. Outstanding losses and loss expenses (continued)

Assumed Reinsurance (continued)

The main difficulty in presenting accident year triangles for the Assumed Reinsurance segment relates to the allocation of loss information on proportional treaties to the appropriate accident years for net incurred and paid claims data. As an example, many proportional treaty reinsurance contracts are submitted using quarterly bordereau reporting by underwriting year, with loss information at a summary level. Where known, large losses can be allocated to the corresponding accident years. However, the remaining losses can generally only be allocated based on earned premiums and actuarial information on incurred losses. To the extent management's assumptions and allocation procedures differ from the actual loss development and payout patterns, the actual loss development and payout may differ materially from the loss development presented above.

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

The table below reconciles the net incurred and paid loss development tables, by segment, to the Company's outstanding losses and loss expenses in the consolidated balance sheet as at November 30, 2023:

	November 30, 2023
	(\$'000)
Outstanding losses and loss expenses, net of reinsurance	
Direct Liability	\$ 105,890
Direct Property	99,054
Assumed Reinsurance	690,689
Total outstanding losses and loss expenses, net of reinsurance	895,633
Loss reserves recoverable	
Direct Liability	266,930
Direct Property	16,415
Assumed Reinsurance	12,555
Total loss reserves recoverable	295,900
Outstanding loss and loss expenses, gross - other	122,942
Unallocated loss adjustment expenses	24,233
Total outstanding losses and loss expenses	\$ 1,338,708

The following table presents supplementary information about average historical claims duration as of November 30, 2023 based on cumulative incurred and paid losses and allocated loss adjustment expenses presented above.

Unaudited	Average annual percentage payout of incurred losses by age (in years)									
	1	2	3	4	5	6	7	8	9	10
Direct Liability	0.0%	10.0%	5.1%	7.1%	4.6%	2.0%	7.2%	0.0%	0.0%	0.0%
Direct Property	7.1%	43.2%	22.8%	19.8%	2.1%	0.6%	0.0%	0.0%	0.0%	0.0%
Assumed Reinsurance	7.3%	19.0%	18.6%	17.6%	12.6%	2.0%	4.7%	1.9%	3.5%	0.0%

EVEREN SPECIALTY LTD.

Notes to Consolidated Financial Statements

November 30, 2023 and 2022

6. Loan payable

(a) *Deferrable subordinated debentures*

On September 15, 2004 the Company issued \$200,000,000 of Deferrable Subordinated Debentures (the "Debentures"). These debentures have a final maturity date of September 15, 2034 and can be redeemed in whole prior to September 15, 2034 at the option of the Company. The Debentures bear interest at an annual fixed rate of 8.0% payable semi-annually in arrears on March 15 and September 15. The Debentures are unconditionally guaranteed by ESIL.

During the year ended November 30, 2023, the Company repurchased and retired a portion of the Deferrable Subordinated Debentures with a par value of \$nil million (2022: \$ nil million). As at November 30, 2023, the Company had repurchased and retired Deferrable Subordinated Debentures with an aggregate par value of \$133.4 million. At November 30, 2023, the Deferrable Subordinated Debentures outstanding total was \$133.4 million (2022: \$133.4 million) which is included in loans payable on the Consolidated Balance Sheets

(b) *Letter of Credit facility*

Effective May 15, 2018, the Company entered into a one year Standby Letter of Credit Agreement ("LOC Agreement") with Wells Fargo Bank, National Association ("Wells Fargo"). Under the terms of the agreement, the Company could request that Wells Fargo issue Letters of Credit up to an aggregate principal amount not to exceed \$75 million outstanding at any time. Under the terms of the LOC Agreement, and the amendments set forth below, ESIL has agreed to act as Guarantor and has pledged a portion of the investments held in the ESIL investment portfolio as security for the Letters of Credit issued.

Effective May 9, 2019, Everen Specialty amended the LOC Agreement with Wells Fargo Bank to extend the termination date to September 30, 2019 and to increase the aggregate principal amount to \$100.0 million. Effective August 23, 2019, Everen Specialty entered into an Amended and Restated Credit Agreement with Wells Fargo Bank to increase the aggregate principal amount to \$125.0 million and to incorporate a Revolving Credit Facility of up to \$50 million into the agreement, maturing on August 23, 2021. Effective January 22, 2021, Everen Specialty entered into the First Amendment to the Amended and Restated Credit Agreement with Wells Fargo Bank to increase the aggregate principal amount to \$150.0 million. On August 20, 2021, Everen Specialty renewed the facility by a Second Amendment to the Amended and Restated Credit Agreement with a scheduled maturity date of August 20, 2023. Effective August 20, 2021, the maximum aggregate principal amount was increased from \$150.0 million to \$200.0 million and the Revolving Credit Facility section was terminated. On August 18, 2023, Everen Specialty entered into a Second Amended and Restated Standby Letter of Credit Agreement with Wells Fargo Bank which maintained the aggregate principal amount under the facility of \$200.0 million and extended the scheduled maturity date to August 16, 2024.

As at November 30, 2023, an aggregate amount of \$195.6 million (2022: \$198.3 million) of Letters of Credit were issued by Wells Fargo.

Effective April 25, 2018, the Company entered into a one-year Standby Letter of Credit Agreement with Royal Bank of Canada ("RBC"). This Standby Letter of Credit is deemed automatically extended without amendment for one year, from the expiry date, or any further expiration date, unless notification given within ninety days of any expiration date. Under the terms of the agreement, the Company could request that RBC issue Letters of Credit up to an aggregate principal amount not to exceed \$2.5 million outstanding at any time. As at November 30, 2023, an aggregate amount of \$2.5 million (2022: \$2.5 million) of Letters of Credit were issued by RBC. Cash and cash equivalents with a fair value of \$2.5 million have been pledged as security for these Letters of Credit.

(c) *Debt issuance costs*

At November 30, 2023, the Company recognized deferred debt issuance costs of \$1.3 million (2022: \$1.4 million) relating to the Debentures, which are offset in loans payable on the Consolidated Balance Sheets. The amount of amortization of debt issuance costs for the year of \$0.1 million (2022: \$0.1 million) is included within interest expense.

7. Common shares

The Company's authorized share capital is \$2,500,000 divided into 500 common shares of par value \$5,000 each. At November 30, 2023: 63 (2022: 62) shares had been issued and fully paid. If a shareholder's insurance policies are cancelled or terminated the Company has a contractual obligation to repurchase its common share at the par value price of \$5,000 per share.

Each shareholder has one vote for each paid up common share together with an additional vote for each \$5,000 of cumulative premium as defined in the Bye-laws, subject to a maximum of 9.5% of total voting rights. The Bye-laws provides for the distribution of dividends, as and when declared by the Company's directors, and distribution of the Company's net assets upon dissolution in the same proportion as the voting rights, excluding the 9.5% limitation.

8. Related party transactions

- (a) General and administrative expenses represent direct expenditures incurred by the Company and expenses which have been allocated from Everen Management Services Ltd. (formerly Oil Management Services Ltd.), a company affiliated through common shareholders and which provides administrative support services to the Company.
- (b) Amounts due from and to companies affiliated through common shareholders are unsecured, interest free and repayable on demand. These balances result from transactions conducted in the normal course of business.
- (c) The Company provides insurance to its shareholders, these transactions are conducted in the normal course of business.

9. Reinsurance

The Company purchases reinsurance when it is available on reasonable terms and conditions. Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company. The Company remains liable to the extent that its reinsurers do not meet their obligations under these agreements and the Company therefore regularly evaluates the financial condition of its reinsurers and monitors any concentration of credit risk. In order to reduce its credit risk, the Company seeks to do business with financially sound reinsurance companies and regularly reviews the financial strength of all reinsurers used. The current reinsurance programs have been placed with reinsurers with a financial rating of A- or better per Standard & Poor's or A.M. Best. Management performs periodic reviews of reinsurance recoverables and accordingly, provisions are made for amounts identified as potentially uncollectible.

10. Taxation

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

For the years ended November 30, 2023 and 2022, the Company did not record any unrecognized tax benefits or expenses. The Company has not recorded any interest or penalties during the years ended November 30, 2023 and 2022.

The Company's UK subsidiary, OCIL Limited, is subject to tax in the U.K. Any deferred tax asset of the Company has been fully offset by a valuation allowance as it is not deemed probable that there will be suitable income from future periods in which to utilize the asset. In evaluating the Company's ability to recover the deferred tax asset, the Company considers all available positive and negative evidence, including historical results.

The Company's US subsidiary, OHL, and its wholly owned subsidiary OISI, are subject to federal, state and local corporate income taxes, and other taxes applicable to U.S. corporations. OHL's subsidiary OSL, made an election to pay tax in the United States of America under Section 953(d) of the U.S. Internal Revenue Code of 1986, as amended. Accordingly, the related tax disclosures have been prepared on the basis of a group tax filing by OHL and its subsidiaries.

EVEREN SPECIALTY LTD.

Notes to Consolidated Financial Statements

November 30, 2023 and 2022

10. Taxation (continued)

The following table presents a reconciliation of expected income taxes to income tax (benefit) expense for the years ended November 30, 2023 and 2022.

	2023 (\$'000)	2022 (\$'000)
Bermuda (expected tax expense at 0%)	\$ —	\$ —
United States (expected tax expense at 21%)	(17)	2
Non-deductible expenses and other	(21)	18
	<u>\$ (38)</u>	<u>\$ 20</u>

The following table presents the Company's current and deferred income taxes for the years ended November 30, 2023 and 2022.

	2023 (\$'000)	2022 (\$'000)
Current tax expense	\$ 161	\$ 179
Deferred tax benefit	(199)	(159)
Income tax (benefit) expense	<u>\$ (38)</u>	<u>\$ 20</u>

The following table presents the tax effects of temporary differences that give rise to the deferred tax assets and deferred tax liabilities as of November 30, 2023 and 2022.

	2023 (\$'000)	2022 (\$'000)
Deferred tax assets:		
Discounting of loss and loss adjustment expense reserves	\$ 191	\$ 52
Unearned premiums	193	134
Unrealized losses on investments	28	221
Net capital loss carryforward	7	43
Net operating loss carryforward	206	5
Temporary taxable income differences	11	—
Total deferred tax assets	<u>636</u>	<u>455</u>
Deferred tax liabilities:		
Deferred acquisition costs	(82)	(99)
Total deferred tax liabilities	<u>(82)</u>	<u>(99)</u>
Net deferred tax assets	<u>\$ 554</u>	<u>\$ 356</u>

The deferred tax asset is included within Other assets on the Consolidated Balance Sheets.

To evaluate the recoverability of the deferred tax assets for the OHL group of subsidiaries, the Company considers the timing of the reversal of deferred income and expense items as well as the likelihood that its subsidiaries will generate sufficient taxable income to realize future tax benefits. The Company believes that it is more likely than not it will generate sufficient taxable income to realize the future tax benefits in order to recover the deferred assets and, accordingly, no valuation allowance was recorded as of November 30, 2023, for the OHL group of subsidiaries.

EVEREN SPECIALTY LTD.

Notes to Consolidated Financial Statements

November 30, 2023 and 2022

11. Regulation

Everen Specialty and OSL are required by their licenses to maintain capital and surplus greater than a minimum statutory amount determined as the greater of a percentage of outstanding losses or a given fraction of net written premiums. Beginning January 1, 2014, the minimum solvency margin is also subject to a minimum of 25% of the enhanced capital requirement ("ECR") of the Bermuda Solvency Capital Requirement model ("BSCR").

The following tables present the reconciliation of Everen Specialty's U.S. GAAP shareholders' equity to statutory capital and surplus, and the corresponding minimum capital adequacy levels as at November 30, 2023 and 2022:

	2023 (\$'000)	2022 (\$'000)
U.S. GAAP Shareholders' Equity	\$ 399,891	\$ 365,135
Plus: Loan Payable	133,400	133,400
Less: Non-admitted assets	<u>(1,936)</u>	<u>(1,900)</u>
Statutory Capital and Surplus	\$ <u>531,355</u>	\$ <u>496,635</u>
Minimum required statutory capital and Surplus	\$ <u>141,239</u>	\$ <u>124,104</u>

The following tables present the reconciliation of OSL's U.S. GAAP shareholder's equity to statutory capital and surplus, and the corresponding minimum capital adequacy levels as at November 30, 2023 and 2022:

	2023 (\$'000)	2022 (\$'000)
U.S. GAAP Shareholder's Equity	\$ 60,294	\$ 54,538
Less: Non-admitted assets	<u>(8)</u>	<u>(6)</u>
Statutory Capital and Surplus	\$ <u>60,286</u>	\$ <u>54,532</u>
Minimum required Statutory Capital and Surplus	\$ <u>1,556</u>	\$ <u>1,068</u>

Non-admitted assets for statutory purposes include prepaid assets and deferred expenses.

Everen Specialty and OSL are also required to maintain a minimum liquidity ratio whereby the value of its relevant assets is not less than 75% of the amounts of its relevant liabilities. At November 30, 2023 and 2022, Everen Specialty and OSL met their minimum liquidity ratio.

As Class 3B and 3A insurers, Everen Specialty and OSL, respectively, have disclosure and regulatory compliance reporting obligations along with an enhanced capital requirement. The BSCR is a standardized statutory risk-based capital model used to measure the risk associated with the Company's assets, liabilities and premiums. The BSCR determines an enhanced capital requirement and target capital level (defined as 120% of the ECR) for Class 3A and 3B insurers. Failure to maintain statutory capital and surplus at least equal to the target capital level could result in increased regulatory oversight by the Bermuda Monetary Authority. The eligible capital rules require the Companies to allocate their capital into three defined tiers based upon qualifying criteria and stipulates the maximum and minimum amounts of eligible capital in each tier that may be used to satisfy its minimum solvency margin and its ECR.

Class 3A and 3B reinsurers are restricted from declaring or paying dividends of more than 25% of its prior year total statutory capital and surplus, unless it files with the BMA an affidavit stating that any dividend in excess of this amount will not cause the Company to fail to meet its relevant margins. Class 3A and 3B insurers must obtain BMA approval prior to any reduction of prior year total statutory capital of 15% or more.

EVEREN SPECIALTY LTD.

Notes to Consolidated Financial Statements

November 30, 2023 and 2022

12. Comparative information

To facilitate comparison of information across all years, certain reclassifications have been made to prior year amounts to conform to the current year's presentation. There has been no change to the total shareholders' equity in the Balance Sheet at November 30, 2022 or the Statement of Operations and Retained Earnings for the year ended November 30, 2022.

13. Subsequent events

Subsequent events have been evaluated through February 27, 2024, which is the date the financial statements were available to be issued.