

Heritage Reinsurance Company, Ltd.

**Condensed General Purpose Financial Statements
Together with the Independent Auditors' Report**

December 31, 2023 and 2022

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of
Heritage Reinsurance Company, Ltd.

Opinions

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

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the accompanying condensed financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations for the years then ended in accordance with the financial reporting provisions of the Insurance Act 1978, amendments thereto and the Insurance Account Rules 2016 with respect to condensed general purpose financial Statements (the “Legislation”).

Adverse Opinion on Accounting Generally Accepted in the United States of America

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

Basis for Opinions

We conducted our audit 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 condensed financial statements* section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for adverse opinion on U.S. generally accepted accounting principles

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

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

Responsibilities of management for the condensed financial statements

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

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

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

Our objectives are to obtain reasonable assurance about whether the condensed financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 judgement made by a reasonable user based on the condensed financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the condensed financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the condensed financial statements.
- Obtain an understanding of internal 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 condensed financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Deloitte Ltd.

April 29, 2024

CONDENSED BALANCE SHEET

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

LINE No.		2023	2022
1.	CASH AND CASH EQUIVALENTS	122	154
2.	QUOTED INVESTMENTS:		
(a)	Bonds and Debentures		
	i. Held to maturity	-	-
	ii. Other	31,212	68,812
(b)	Total Bonds and Debentures	31,212	68,812
(c)	Equities		
	i. Common stocks		
	ii. Preferred stocks		
	iii. Mutual funds		
(d)	Total equities	-	-
(e)	Other quoted investments		
(f)	Total quoted investments	31,212	68,812
9.	INVESTMENT INCOME DUE AND ACCRUED	63	366
12.	FUNDS HELD BY CEDING REINSURERS:	104	104
13.	SUNDRY ASSETS:		
(h)	Deferred income tax asset	387	1,023
(i)	Income tax receivable	160	
(j)			
(k)	Total sundry assets	547	1,023
15.	TOTAL	32,048	70,459
TOTAL INSURANCE RESERVES, OTHER LIABILITIES AND STATUTORY CAPITAL AND SURPLUS			
17.	LOSS AND LOSS EXPENSE PROVISIONS:		
(a)	Gross loss and loss expense provisions	7,173	7,400
(b)	Less : Reinsurance recoverable balance		
	i. Foreign affiliates		
	ii. Domestic affiliates		
	iii. Pools & associations		
	iv. All other reinsurers		
(c)	Total reinsurance recoverable balance	-	-
(d)	Net loss and loss expense provisions	7,173	7,400
18.	OTHER GENERAL BUSINESS INSURANCE RESERVES		
19.	TOTAL GENERAL BUSINESS INSURANCE RESERVES	7,173	7,400
OTHER LIABILITIES			
28.	INSURANCE AND REINSURANCE BALANCES PAYABLE	-	-
31.	(a) INCOME TAXES PAYABLE	-	32
	(b) DEFERRED INCOME TAXES		
32.	AMOUNTS DUE TO AFFILIATES	27	27
33.	ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	60	60
34.	FUNDS HELD UNDER REINSURANCE CONTRACTS:		
35.	DIVIDENDS PAYABLE		
38.	TOTAL OTHER LIABILITIES	87	119
39.	TOTAL INSURANCE RESERVES AND OTHER LIABILITIES	7,260	7,519
CAPITAL AND SURPLUS			
40.	TOTAL CAPITAL AND SURPLUS	24,788	62,940
41.	TOTAL	32,048	70,459

CONDENSED STATEMENT OF INCOME

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

LINE No.		2023	2022
	GENERAL BUSINESS UNDERWRITING INCOME		
1.	GROSS PREMIUMS WRITTEN		
	(a) Direct gross premiums written		
	(b) Assumed gross premiums written		
	(c) Total gross premiums written	-	-
2.	REINSURANCE PREMIUMS CEDED		
3.	NET PREMIUMS WRITTEN	-	-
4.	INCREASE (DECREASE) IN UNEARNED PREMIUMS		
5.	NET PREMIUMS EARNED	-	-
6.	OTHER INSURANCE INCOME		
7.	TOTAL GENERAL BUSINESS UNDERWRITING INCOME	-	-
	GENERAL BUSINESS UNDERWRITING EXPENSES		
8.	NET LOSSES INCURRED AND NET LOSS EXPENSES INCURRED	-	-
9.	COMMISSIONS AND BROKERAGE		
10.	TOTAL GENERAL BUSINESS UNDERWRITING EXPENSES	-	-
11.	NET UNDERWRITING PROFIT (LOSS) - GENERAL BUSINESS	-	-
29.	COMBINED NET UNDERWRITING RESULTS BEFORE THE UNDERNOTED ITEMS	-	-
	UNDERNOTED ITEMS		
30.	COMBINED OPERATING EXPENSE		
	(a) General and administrative	345	341
	(b) Personnel cost		
	(c) Other		
	(d) Total combined operating expenses	345	341
31.	COMBINED INVESTMENT INCOME - NET	1,436	968
32.	COMBINED OTHER INCOME (DEDUCTIONS)	-	-
33.	COMBINED INCOME BEFORE TAXES	1,091	627
34.	COMBINED INCOME TAXES (IF APPLICABLE):		
	(a) Current	(145)	128
	(b) Deferred	(13)	4
	(c) Total	(158)	132
35.	COMBINED INCOME BEFORE REALIZED GAINS (LOSSES)	1,249	495
36.	COMBINED REALIZED GAINS (LOSSES)	(1,841)	-
37.	COMBINED INTEREST CHARGES		
38.	NET INCOME	(592)	495

CONDENSED STATEMENT OF CAPITAL AND SURPLUS

Heritage Reinsurance Company, Ltd.

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

LINE No.		2023	2022
1.	CAPITAL:		
(a)	Capital Stock		
	(i) Common Shares		
	authorized 550,370,000 shares of par	550,370	550,370
	value \$ 1,000 each issued and		
	fully paid 550,370,000 shares		
(b)	Contributed surplus	(281,765)	(281,765)
(d)	Total Capital	<u>268,605</u>	<u>268,605</u>
2.	SURPLUS:		
(a)	Surplus - Beginning of Year	(205,665)	(201,963)
(b)	Add: Income for the year	(592)	495
(c)	Less: Dividends paid and payable	(40,000)	
(d)	Add (Deduct) change in unrealized appreciation (depreciation) of investments	2,440	(4,197)
(e)	Add (Deduct) change in any other surplus		
(f)	Surplus - End of Year	<u>(243,817)</u>	<u>(205,665)</u>
3.	Accumulated Other Comprehensive Income net of Tax	-	-
4.	TOTAL CAPITAL AND SURPLUS	<u>24,788</u>	<u>62,940</u>

HERITAGE REINSURANCE COMPANY, LTD.
NOTES TO THE CONDENSED GENERAL PURPOSE FINANCIAL STATEMENTS
December 31, 2023 and 2022
(Expressed in Thousand U.S. Dollars)

1. Organization and Structure of Business

Heritage Reinsurance Company, Ltd. (“the Company”) was incorporated in Bermuda on November 14, 1997, as a subsidiary of Fencourt Reinsurance Company, Ltd (“Fencourt”), a Bermuda domiciled insurer. On December 31, 1997, the entire share capital of the Company was transferred to Heritage Holdings, Inc. (“Heritage Holdings”), which is ultimately a wholly owned subsidiary of The Hartford Financial Services Group, Inc. (“Hartford”), a U.S. corporation. On September 18, 2000, 550,000,000 shares were issued to Hartford Fire Insurance Company (“Hartford Fire”). On October 29, 2004, Hartford Fire sold the 550,000,000 shares to Heritage Holdings. On December 22, 2017, the Company merged with Fencourt into a single entity (“Merger”). As the surviving entity, the Company retained its existing capital structure, management and constitution. The Company is wholly owned by Heritage Holdings.

2. General Nature of Risks Underwritten

The Company has no active reinsurance policies as the last policy, which was a reinsurance policy in Fencourt, ended in 1992. Most of the remaining carried reserves relate specifically to captive insurance coverage for an affiliate’s workers compensation program assumed by the Company from an individual ceding entity exposure.

3-5. Accounting policies

Basis of preparation

The accompanying condensed general purpose financial statements of the Company are presented in accordance with the financial reporting provisions of the Bermuda Insurance Act 1978, amendments thereto and the Insurance Account Rules 2016 (“the Legislation”), which is a basis of accounting other than principles generally accepted in the United States of America, to meet the requirements of the Bermuda Monetary Authority. The preparation of financial statements in conformity with the Legislation requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Premiums

Premiums written under retroactive contracts are earned upon inception of the policy.

Premiums for all other business are earned over the terms of the policies and are subject to retrospective adjustment based on actual loss experience.

HERITAGE REINSURANCE COMPANY, LTD.
NOTES TO THE CONDENSED GENERAL PURPOSE FINANCIAL STATEMENTS
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(Expressed in Thousand U.S. Dollars)

3.5 Accounting Policies (Cont'd)

Loss and loss expenses provisions

The reserve for losses and loss related expenses includes estimates for losses incurred but not reported as well as losses pending settlement.

Estimating the ultimate cost of future losses and loss adjustment expenses is an uncertain and complex process. This estimation process is based on the assumption that past developments are an appropriate predictor of future events and involves a variety of actuarial and scientific techniques that analyze experience, trends and other relevant factors. The uncertainties involved with the reserving process have become increasingly unpredictable due to a number of complex factors including social and economic trends and changes in the concept of legal liability and damage awards. Accordingly, final loss settlements may vary from the present estimates, particularly when those payments may not occur until well into the future.

Significant uncertainty limits the ability of insurers and reinsurers to estimate the ultimate reserves necessary for unpaid losses and expenses related to environmental and particularly asbestos claims. The degree of variability of reserve estimates for these exposures is significantly greater than for other more traditional exposures.

The Company continually reviews its loss and loss expenses provisions as additional experience and other relevant data becomes available and adjusts provision levels accordingly. Adjustments to previously established provisions, if any, will be reflected in the operating results of the period in which the adjustment is made.

Commissions

Underwriting commissions are expensed as incurred. Certain policies have provisions for a profit commission based upon the underwriting and investment experience of the underlying policies.

Quoted investments

Quoted Investments, which consist of fixed income securities, are carried at fair value. The Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investment transactions are recorded on a trade date basis. Realized gains or losses on sale of investments are determined using the first in first out method. Unrealized gains or losses on quoted investments at December 31, 2023 are included as a component of Surplus.

Cash and cash equivalents

Cash and cash equivalents include amounts held in banks and money market funds. The carrying value approximates fair value because of the short maturity of the balances.

HERITAGE REINSURANCE COMPANY, LTD.
NOTES TO THE CONDENSED GENERAL PURPOSE FINANCIAL STATEMENTS
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(Expressed in Thousand U.S. Dollars)

3.5 Accounting Policies (Cont'd)

Investment income

Investment income is recognized by the accrual method of accounting.

Other - asbestos and environmental related claims

The Company previously had assumed liability for asbestos-related illnesses and environmental cleanup, from affiliated companies. With regard to both environmental and particularly asbestos claims, significant uncertainty limits the ability of insurers and reinsurers to estimate the ultimate reserves necessary for unpaid losses and related expenses. Traditional actuarial reserving techniques cannot reasonably estimate the ultimate cost of these claims, particularly during periods where theories of law are in flux. The degree of variability of reserve estimates for these exposures is significantly greater than for other more traditional exposures. In particular, the Company believes there is a high degree of uncertainty inherent in the estimation of asbestos loss reserves.

As of December 31, 2023, the Company has \$nil carried asbestos and environmental reserves. The Company believes that this is reasonable and appropriate.

6.-12. Not applicable.

13. Investments

In accordance with the ASC Topic 820 (“Topic 820”), the Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 establishes a fair value hierarchy that prioritizes the inputs in the valuation techniques used to measure fair value into three broad Levels (Level 1, 2, or 3) as follows:

- Level 1 - Observable inputs that reflect quoted prices for identical assets or liabilities in active markets that the Company has the ability to access at the measurement date. Level 1 securities include highly liquid U.S. Treasuries and money market funds;
- Level 2 - Observable inputs, other than quoted prices included in Level 1, for the asset or liability or prices for similar assets and liabilities. Most fixed maturities are model priced by vendors using observable inputs and are classified within Level 2.
- Level 3 - Valuations that are derived from techniques in which one or more of the significant inputs are unobservable (including assumptions about risk). Level 3 securities include less liquid securities. Because Level 3 fair values, by their nature, contain one or more significant unobservable inputs as there is little or no observable market for these assets and liabilities, considerable judgment is used to determine the Level 3 fair values that represent the Company’s best estimate of an amount that could be realized in a current market exchange absent actual market exchanges.

HERITAGE REINSURANCE COMPANY, LTD.
NOTES TO THE CONDENSED GENERAL PURPOSE FINANCIAL STATEMENTS
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(Expressed in Thousand U.S. Dollars)

13. Investments (Cont'd)

The following table summarizes the levels within the fair value hierarchy in which the fair value measurements of the Company's financial instruments fall as of December 31, 2023 and 2022:

2023	Level 1	Level 2	Level 3	Total
ASSETS				
Short Term Investment Pool	\$ 4,249	\$ 7,769	\$ -	\$ 12,018
Other Portfolio Investments	-	19,194	-	19,194
	<hr/>	<hr/>	<hr/>	<hr/>
Total	\$ 4,249	\$ 26,963	\$ -	\$ 31,212
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
2022	Level 1	Level 2	Level 3	Total
ASSETS				
Short Term Investment Pool	\$ 3,042	\$ 5,013	\$ -	\$ 8,055
Other Portfolio Investments	-	60,757	-	60,757
	<hr/>	<hr/>	<hr/>	<hr/>
Total	\$ 3,042	\$ 65,770	\$ -	\$ 68,812
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The investments are in a short-term investment pool and other portfolio investments managed by an affiliated company. The short-term investment pool consists mainly of commercial paper, money market funds, and government treasury holdings with short maturity tenors. The other portfolio investments consist of government bonds. All investments are carried at market value. The pool is comprised of investment grade assets with a maximum maturity of one year.

The average life of the invested assets was 843 days in 2023 and 1,173 days in 2022.

HERITAGE REINSURANCE COMPANY, LTD.
NOTES TO THE CONDENSED GENERAL PURPOSE FINANCIAL STATEMENTS
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(Expressed in Thousand U.S. Dollars)

14. Maturity of Investments

The following table summarizes the maturity profile of the Company's financial instruments as of December 31, 2023:

2023	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years	Total
ASSETS					
Short Term Investment Pool	\$ 12,018	\$ -	\$ -	\$ -	\$ 12,018
Other Portfolio Investments	-	19,194	-	-	19,194
	<u>\$ 12,018</u>	<u>\$ 19,194</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,212</u>

15. Related Party

Hartford Investment Management Company Inc.

During the year, the Company's portfolio of investments was managed by Hartford Investment Management Company ("HIMCO"), an affiliated company, under a management agreement dated March 31, 1997. Under the terms of this agreement, the Company paid management fees to HIMCO totaling \$110 and \$111 in 2023 and 2022, respectively.

16. Subsequent Events

There were no events up to the date of this report.

17. Additional Information Requiring Disclosure

None noted.

HERITAGE REINSURANCE COMPANY, LTD.
NOTES TO THE CONDENSED GENERAL PURPOSE FINANCIAL STATEMENTS
December 31, 2023 and 2022
(Expressed in Thousand U.S. Dollars)

Notes to the Consolidated Statement of Capital and Surplus

1. (a) Capital stock

The Company's authorized share capital consists of 550,370,000 shares of \$1 (one dollar) each par value. 550,370,000 shares have been issued and fully paid.

(b) Contributed Surplus

The Company's contributed surplus is \$281,765 (2022: (\$281,765)).

2(c) During the year, the Company declared and paid dividends of \$40 million.

Notes to the Consolidated Balance Sheet

1-8. Not applicable

9. Investment income due and accrued

Accrued investment income is valued as the interest or dividends payable to the Company for corporate and government bonds that are due within one year.

10-13. Not applicable.

14. Letters of credit

In the normal course of reinsurance operations, the Company has issued unsecured letters of credit in the amount of \$8,700 in favor of the ceding insurance companies.

15-16. Not applicable.

HERITAGE REINSURANCE COMPANY, LTD.
NOTES TO THE CONDENSED GENERAL PURPOSE FINANCIAL STATEMENTS
December 31, 2023 and 2022
(Expressed in Thousand U.S. Dollars)

17. Loss and loss expenses provisions

(a)

		2023		2022
Gross loss and loss expense provision at beginning of year	\$	7,400	\$	7,581
Less: Reinsurance recoverable at beginning of year		-		-
		7,400		7,581
Net loss and loss expense provisions at beginning of year		7,400		7,581
Add: Net losses and loss expenses reserve movement related to:				
Current year		-		-
Prior years		-		-
		-		-
Total net incurred losses and loss expenses		-		-
Less: Net losses and loss expenses paid or payable related to:				
Current year		-		-
Prior years		227		181
		227		181
Total losses and loss expenses paid or payable		227		181
Foreign exchange and other				
Net loss and loss expense provisions at end of year		7,400		7,400
add: Reinsurance recoverable at end of year		-		-
		-		-
Gross loss and loss expense provisions at end of year	\$	7,173	\$	7,400

(b) The net losses and loss expenses paid related to prior years in the amount of \$227. No additional premiums or return of premiums have been accrued as a result of the prior year effects.

(c)(ii) All policyholder obligations are unsecured. Refer to note 14.

20-30. Not applicable.

31. Income Tax

Bermuda Tax

At the present time, no income, profit or capital gain taxes are levied in Bermuda and accordingly, no provision for such tax has been recorded by the Company. In the event that such taxes are levied, the Company has received an undertaking by the Bermuda Government exempting it from all such taxes until March 31, 2035.

HERITAGE REINSURANCE COMPANY, LTD.
NOTES TO THE CONDENSED GENERAL PURPOSE FINANCIAL STATEMENTS
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31. Income Tax (Cont'd)

The Company is currently reviewing the Bermuda Corporate Income Tax Act of 2023. No quantifiable impact has been computed as of the date of these statements. Full assessment will be completed before the end of the first taxable year-end (i.e., 2025) where tax filing can be expected in 2026.

U.S. Income Tax

The Company has filed with the United States Internal Revenue Service an election pursuant to Section 953 (d) to be taxed as a domestic corporation for purposes of the United States Internal Revenue Code. The election is effective for the year ended December 31, 1997 and all subsequent years and may not be revoked without the consent of the Secretary of the Treasury.

An electing corporation, as a domestic corporation for United States tax purposes, is not subject to the provisions of Subpart F of the Internal Revenue Code. In addition, premiums paid or ceded to the Company will not be subject to the United States federal excise tax. The Company has also elected to be included in Hartford's consolidated United States federal income tax return.

Deferred Income Tax

Deferred tax assets and liabilities are determined based on the difference between the tax basis of an asset or liability and its reported amount in the financial statements using enacted tax rates. Future tax benefits attributable to these differences are recognized to the extent that realization of such benefits is more likely than not. The primary differences between accounting and taxable income arise from a difference in the method of discounting reserves for loss and loss related expenses.

32. Amounts due to affiliates

\$27 is payable to HIMCO and due quarterly in arrears.

33. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities of \$60 (2022: \$60) represent amounts incurred in the normal course of business not yet settled.

34-35 Not applicable

36. Sundry liabilities

Refer to note 31 "Deferred Income Tax".

37. Not applicable.

HERITAGE REINSURANCE COMPANY, LTD.
NOTES TO THE CONDENSED GENERAL PURPOSE FINANCIAL STATEMENTS
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(Expressed in Thousand U.S. Dollars)

Notes to the Consolidated Statement of Income

6-32. Not Applicable.