

TRAVELERS (BERMUDA) LIMITED

Financial Statements

(With Independent Auditor's Report Thereon)

December 31, 2023 and 2022

TRAVELERS (BERMUDA) LIMITED

Table of Contents

December 31, 2023 and 2022

	Pages
Independent Auditor's Report	1 - 2
Balance Sheet	3
Statement of Income and Comprehensive Income	4
Statement of Changes in Shareholder's Equity	5
Statement of Cash Flows	6
Notes to Financial Statements	7 – 20



KPMG Audit Limited
Crown House
4 Par-la-Ville Road
Hamilton
HM 08
Bermuda

Telephone +1 441 295 5063
Fax +1 441 295 9132
Internet www.kpmg.bm

INDEPENDENT AUDITOR'S REPORT

To the Shareholder and Board of Directors of Travelers (Bermuda) Limited

Opinion

We have audited the financial statements of Travelers (Bermuda) Limited (the "Company"), which comprise the balance sheets as of December 31, 2023 and 2022, and the related statements of income and comprehensive income, changes in shareholder's equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for opinion

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

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 financial statements are available to be issued.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 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

Management has omitted the required supplementary information under Accounting Standards Update 2015-09, Disclosures about Short-Duration Contracts that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the U.S. Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
April 30, 2024

TRAVELERS (BERMUDA) LIMITED

Balance Sheet

December 31, 2023 and 2022
(Expressed in United States Dollars)

	<u>2023</u>	<u>2022</u>
Assets		
Cash and cash equivalents (Note 3)	\$ 647,240	\$ 834,808
Short-Term Investments	14,153,084	12,472,597
Fixed maturities, available for sale, at fair value (amortized cost \$15,718,864 and \$17,333,522 Note 4)	14,183,366	15,256,367
Investment income accrued	111,678	123,316
Premiums receivable (Note 2 (a) & (b))	7,825,887	6,958,744
Prepaid reinsurance premium (Notes 3 and 5)	7,279,121	6,284,804
Reinsurance recoverables (Notes 3, 5 and 6)	20,217,543	20,970,607
Reinsurance balances receivable (Note 5)	355,380	398,588
Escrow fund	1,031,296	1,031,296
Prepaid expenses	14,734	5,670
Net deferred tax asset (Note 12)	<u>363,291</u>	<u>480,419</u>
 Total assets	 \$ 66,182,620	 \$ 64,817,216
Liabilities		
Claims and claim adjustment expense reserves (Note 6)	\$ 23,272,515	\$ 24,115,612
Unallocated loss adjustment expense reserve (Note 6)	614,550	1,090,200
Unearned premium reserves	7,279,121	6,284,804
Reinsurance balances payable	7,499,988	6,749,991
Due to related company (Note 9)	376,192	418,094
Accounts payable and accrued expenses	61,801	61,821
Escrow fund payable	1,031,296	1,031,296
Income tax payable	6,038	190,164
Unearned commissions	31,216	18,767
Sundry payables	<u>28,685</u>	<u>—</u>
 Total liabilities	 \$ 40,201,402	 \$ 39,960,749
Shareholder's equity		
Share capital (Note 7)	1,658,605	1,658,605
Additional paid-in capital (Note 8)	15,119,184	15,119,184
Accumulated other comprehensive loss	(1,213,043)	(1,640,953)
Retained earnings	<u>10,416,472</u>	<u>9,719,631</u>
 Total shareholder's equity	 \$ 25,981,218	 \$ 24,856,467
 Total liabilities and shareholder's equity	 \$ 66,182,620	 \$ 64,817,216

See accompanying notes to financial statements

TRAVELERS (BERMUDA) LIMITED

Statement of Income and Comprehensive Income

Year Ended December 31, 2023 and 2022
(Expressed in United States Dollars)

	<u>2023</u>	<u>2022</u>
Income		
Premiums earned	9,232,805	8,263,343
Reinsurance premiums ceded earned	<u>9,232,805</u>	<u>8,372,093</u>
Net premiums earned	—	(108,750)
Commission income	37,551	24,949
Net investment income (Notes 4 and 10)	<u>1,018,783</u>	<u>564,664</u>
Total income	1,056,334	480,863
Expenses		
Claims and claim adjustment expenses incurred	7,269,021	4,125,707
Reinsurance recoveries	(7,284,646)	(4,685,668)
Claims handling expense	<u>—</u>	<u>(500,000)</u>
Net claims and claim adjustment expenses recovered (Note 6)	(15,625)	(1,059,961)
General and administrative expenses	<u>217,546</u>	<u>287,151</u>
Total expenses	<u>201,921</u>	<u>(772,810)</u>
Net income before income taxes	854,413	1,253,673
Income tax expense (Note 12)	<u>157,572</u>	<u>241,186</u>
Net Income	<u>696,841</u>	<u>1,012,487</u>
Other comprehensive income (loss), net of tax:		
Change in unrealized holding gains (losses) on investments arising during year, net of tax expense of \$113,748 (2022 benefit - \$489,152)	427,910	(1,840,139)
Less: reclassification of adjustments for realized gains included in net income, net of tax expense of \$0 (2022 expense - \$142)	<u>—</u>	<u>535</u>
Other comprehensive income (loss), net of tax	<u>427,910</u>	<u>(1,840,674)</u>
Comprehensive income (loss)	<u>\$ 1,124,751</u>	<u>\$ (828,187)</u>

See accompanying notes to financial statements

TRAVELERS (BERMUDA) LIMITED

Statements of Changes in Shareholder's Equity

Year Ended December 31, 2023 and 2022
(Expressed in United States Dollars)

	<u>Total</u>	<u>Share capital</u>	<u>Number of shares</u>	<u>Additional paid-in capital</u>	<u>Accumulated other comprehensive income/(loss)</u>	<u>Retained earnings</u>
Balance at December 31, 2021	\$ 25,684,654	\$ 1,658,605	1,658,605	\$ 15,119,184	\$ 199,721	\$ 8,707,144
Net income for the year	1,012,487	—	—	—	—	1,012,487
Change in accumulated other-comprehensive income (loss), net of tax	<u>(1,840,674)</u>	—	—	—	<u>(1,840,674)</u>	—
Balance at December 31, 2022	\$ 24,856,467	\$ 1,658,605	1,658,605	\$ 15,119,184	\$ (1,640,953)	\$ 9,719,631
Net income for the year	696,841	—	—	—	—	696,841
Change in accumulated other-comprehensive income (loss), net of tax	<u>427,910</u>	—	—	—	<u>427,910</u>	—
Balance at December 31, 2023	\$ 25,981,218	\$ 1,658,605	1,658,605	\$ 15,119,184	\$ (1,213,043)	\$ 10,416,472

See accompanying notes to financial statement

TRAVELERS (BERMUDA) LIMITED

Statements of Cash Flows

December 31, 2023 and 2022
(Expressed in United States Dollars)

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Net Income	\$ 696,841	\$ 1,012,487
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Amortization of investments	69,658	62,750
Realized investment (gains)	-	(677)
Changes in assets and liabilities:		
Investment income accrued	11,638	24,454
Premiums receivable	(867,143)	185,235
Prepaid reinsurance premium	(994,317)	-
Reinsurance recoverables	753,064	1,546,980
Reinsurance balances receivable	43,208	(78,318)
Income tax (receivable)/payable	(184,126)	193,377
Prepaid expenses	(9,064)	(270)
Claims and claim adjustment expense reserves	(843,097)	(2,228,206)
Unallocated loss adjustment expense reserve	(475,650)	(500,000)
Unearned premium reserve	994,317	-
Reinsurance balances payable	749,997	-
Due to related company	(41,902)	86,443
Accounts payable and accrued expenses	(20)	1,252
Net deferred tax liability	3,379	8,635
Sundry payables	28,686	-
Unearned commissions	<u>12,449</u>	<u>51</u>
Net cash (used in) provided by operating activities	<u>(52,082)</u>	<u>314,193</u>
Cash flows from investing activities:		
Purchases of investments:		
Available for sale investments	-	-
Short-term investment	(28,475,486)	(23,277,018)
Proceeds from sale and maturity of investments:		
Available for sale investments	1,545,000	2,830,000
Short-term investments	<u>26,795,000</u>	<u>19,779,000</u>
Net cash used in investment activities	<u>(135,486)</u>	<u>(668,018)</u>
Net decrease in cash and cash equivalents	(187,568)	(353,825)
Cash and cash equivalents at beginning of year	<u>834,808</u>	<u>1,188,633</u>
Cash and cash equivalents at end of year	\$ 647,240	\$ 834,808
Supplemental disclosure of cash flow information:		
Cash paid during the year for income taxes	\$ 338,318	\$ 39,172

See accompanying notes to financial statements

TRAVELERS (BERMUDA) LIMITED

Statements of Cash Flows

December 31, 2023 and 2022
(Expressed in United States Dollars)

1. General

Travelers (Bermuda) Limited (the "Company") was incorporated on January 29, 1993 under the laws of Bermuda and is licensed as a Class 3A insurer under the Insurance Act 1978 of Bermuda. The Company is a wholly owned subsidiary of Travelers Insurance Group Holdings, Inc. and an indirect subsidiary of The Travelers Companies, Inc.

On July 1, 2010, the Company amalgamated with St. Paul (Bermuda) Ltd. and St. Paul Re (Bermuda) Ltd. into a single Bermuda exempted company under Travelers (Bermuda) Limited.

The Company provides insurance coverage for the deductible obligation under workers' compensation and general liability policies, and to a lesser extent, auto liability policies issued by affiliates in the United States of America. These insurance policies are either fully reinsured with companies related to the insured (also known as captives) or contain a premium adjustment feature based on loss experience.

The Company began writing punitive damages policies effective October 2015 with maximum limits of \$25 million per occurrence. Those limits are reduced by any amounts paid under the "controlling domestic insurance policy". The Company purchased reinsurance covering 50% of the punitive damages exposure for accounts written prior to April 1, 2016 and 75% of exposure for those written April 1, 2016 or later. The Company ceased writing such coverage effective May 31, 2016.

The Company previously wrote Directors and Officers, Errors and Omissions and other Executive Liability coverages with maximum limits of \$25 million per occurrence and in the aggregate in excess of the insured's retention. The Company purchased reinsurance for 100% of these risks from affiliates. The Company ceased writing such coverages effective August 31, 2009.

The Company has two active policies, and the losses from these policies are 100% ceded and the reinsurance recoverable balances are fully collateralized.

2. Summary of significant accounting policies

Basis of Presentation

The accompanying financial statements are prepared in accordance with U.S. generally accepted accounting principles, 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, claims and claim adjustment expenses during the reporting period. Actual results could differ from those estimates.

Accounting Policies

(a) Premiums earned and reinsurance premiums ceded

Premiums written are recorded on the accrual basis and are included in income on a pro-rated basis over the term of the contract with the unearned portion deferred in the balance sheet as an unearned premium reserve. Reinsurance premiums ceded are similarly recognized on a pro rata basis over the term of the contract with the unearned portion being deferred in the balance sheet as prepaid reinsurance premium.

(b) Retrospective premiums

Certain of the Company's insurance policies provide for the receipt or payment of retrospective premiums relating to claims incurred by its insureds. Retrospective premiums are recognized as premiums written in the statements of income and comprehensive income in the year in which the loss is incurred and they are adjusted periodically in accordance with any changes in the estimates of underlying claims.

Accrued retrospective premiums are recorded when earned based on management's estimate of ultimate losses on the contract and are included in the balance sheet in premiums receivable. Changes in accrued retrospective premiums are included as a component of premiums earned.

TRAVELERS (BERMUDA) LIMITED

Statements of Cash Flows

December 31, 2023 and 2022
(Expressed in United States Dollars)

2. Summary of significant accounting policies (continued)

(c) *Claims and claim adjustment expense reserves*

Claims and claim adjustment expense reserves represent estimates for the ultimate cost of unpaid reported and unreported claims incurred and related expenses. The reserves are adjusted regularly based upon experience.

The Company performs a continuing review of its claims and claim adjustment expense reserves, including its reserving techniques and the impact of reinsurance. The reserves are also reviewed regularly by qualified actuaries employed by the Company. Since the reserves are based on estimates, the ultimate liability may be more or less than such reserves. The effects of changes in such estimated reserves are included in the results of operations in the period in which the estimates are changed. Such changes in estimates could occur in a future period and may be material to the Company's results of operations and financial position in such period.

For the year ended December 31, 2023, the Company included the unallocated loss adjustment expense reserve, the presentation of claim and claim adjustment expense reserves for the prior year was changed to conform to the current period presentation.

(d) *Reinsurance recoverables*

Amounts recoverable from reinsurers are estimated in a manner consistent with the associated claim liability. The Company reports its reinsurance recoverables net of an allowance for amounts that are estimated to be uncollectible. The allowance is based upon the Company's ongoing review of amounts outstanding, length of collection periods, changes in reinsurer credit standing, disputes, applicable coverage defenses and other relevant factors. A probability-of-default methodology which reflects current and forecasted economic conditions is used to estimate the amount of uncollectible reinsurance due to credit-related factors and the estimate is reported in an allowance for estimated uncollectible reinsurance. The allowance also includes estimated uncollectible amounts related to dispute risk with reinsurers. Amounts deemed to be uncollectible, including amounts due from known insolvent reinsurers, are written off against the allowance. Changes in the allowance, as well as any subsequent collections of amounts previously written off, are reported as part of claims and claim adjustment expenses. The Company evaluates and monitors the financial condition of its reinsurers under voluntary reinsurance arrangements to minimize its exposure to significant losses from reinsurer insolvencies.

(e) *Investments*

Short-term investments have an original maturity of less than one year and are carried at amortized cost, which approximates fair value. For the year ended December 31, 2023, the Company reclassified its short-term investments from fixed maturities, available-for-sale, at fair value, to a separate line on the balance sheet. The presentation of short-term investments for the prior year was changed to conform to the current period presentation.

Fixed maturities include federal, state and municipal and corporate obligations and are classified as available-for-sale and reported at fair value, with unrealized investment gains and losses, net of income taxes, charged or credited directly to other comprehensive income.

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

Credit impairments related to fixed maturity investments

Some of the factors considered in assessing impairment of fixed maturity investments due to credit-related factors include: (1) the extent to which the fair value has been less than amortized cost; (2) the financial condition, near-term and long-term prospects for the issuer, including the relevant industry conditions and trends, and implications of rating agency actions and offering prices; (3) the likelihood of the recoverability of principal and interest; and (4) whether it is more likely than not that the Company will be required to sell the investment prior to an anticipated recovery in value.

For fixed maturity investments that the Company does not intend to sell or for which it is more likely than not that the Company would not be required to sell before an anticipated recovery in value, the Company separates the credit loss component of the impairment from the amount related to all other factors and reports the credit loss component in net realized investment gains (losses). The impairment related to all other factors (non-credit factors)

TRAVELERS (BERMUDA) LIMITED

Statements of Cash Flows

December 31, 2023 and 2022
(Expressed in United States Dollars)

2. Summary of significant accounting policies (continued)

(e) Investments (continued)

is reported in other comprehensive income. The allowance is adjusted for any additional credit losses and subsequent recoveries. Upon recognizing a credit loss, the cost basis is not adjusted.

For fixed maturity investments where the Company records a credit loss, a determination is made as to the cause of the impairment and whether the Company expects a recovery in the value. For fixed maturity investments where the Company expects a recovery in value, the constant effective yield method is utilized, and the investment is amortized to par.

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

The Company reports investment income accrued separately from fixed maturity investments, available for sale, and has elected not to measure an allowance for credit losses for investment income accrued. Investment income accrued is written off through net realized investment gains (losses) at the time the issuer of the bond defaults or is expected to default on payments.

Uncollectible available-for-sale debt securities are written-off when the Company determines that no additional payments of principal or interest will be received.

Determination of credit loss — Fixed maturities

The Company determines the credit loss component of fixed maturity investments by utilizing discounted cash flow modeling to determine the present value of the security and comparing the present value with the amortized cost of the security. If the amortized cost is greater than the present value of the expected cash flows, the difference is considered a credit loss and recognized in net realized investment gains (losses).

For non-structured fixed maturities (U.S. Treasury securities, obligations of U.S. government and government agencies and authorities, obligations of states, municipalities and political subdivisions, debt securities issued by foreign governments and certain corporate debt), the estimate of expected cash flows is determined by projecting a recovery value and a recovery time frame and assessing whether further principal and interest will be received.

The determination of recovery value incorporates an issuer valuation assumption utilizing one or a combination of valuation methods as deemed appropriate by the Company. The Company determines the undiscounted recovery value by allocating the estimated value of the issuer to the Company's assessment of the priority of claims. The present value of the cash flows is determined by applying the effective yield of the security at the date of acquisition (or the most recent implied rate used to accrete the security if the implied rate has changed as a result of a previous impairment) and an estimated recovery time frame. Generally, that time frame for securities for which the issuer is in bankruptcy is 12 months. For securities for which the issuer is financially troubled but not in bankruptcy, that time frame is generally 24 months. Included in the present value calculation are expected principal and interest payments; however, for securities for which the issuer is classified as bankrupt or in default, the present value calculation assumes no interest payments and a single recovery amount.

In estimating the recovery value, significant judgment is involved in the development of assumptions relating to a myriad of factors related to the issuer including, but not limited to, revenue, margin and earnings projections, the likely market or liquidation values of assets, potential additional debt to be incurred pre- or post-bankruptcy/restructuring, the ability to shift existing or new debt to different priority layers, the amount of restructuring/bankruptcy expenses, the size and priority of unfunded pension obligations, litigation or other contingent claims, the treatment of intercompany claims and the likely outcome with respect to inter-creditor conflicts.

Changes in intent to sell temporarily impaired assets

TRAVELERS (BERMUDA) LIMITED

Statements of Cash Flows

December 31, 2023 and 2022
(Expressed in United States Dollars)

2. Summary of significant accounting policies (continued)

(e) *Investments* (continued)

The Company may, from time to time, sell invested assets subsequent to the balance sheet date that it did not intend to sell at the balance sheet date. Conversely, the Company may not sell invested assets that it asserted that it intended to sell at the balance sheet date. Such changes in intent are generally due to events occurring subsequent to the balance sheet date. The types of events that may result in a change in intent include, but are not limited to, significant changes in the economic facts and circumstances related to the invested asset (e.g., a downgrade or upgrade from a rating agency), significant unforeseen changes in liquidity needs, or changes in tax laws or the regulatory environment.

(f) *Cash and cash equivalents*

For the purpose of the statements of cash flows, the Company considers all highly liquid debt investments with an original maturity of three months or less as cash and cash equivalents.

(g) *Income taxes*

The Company recognizes deferred income tax assets and liabilities for the expected future tax effects attributable to temporary differences between the financial statements and tax return bases of assets and liabilities, based on enacted tax rates and other provisions of the tax law. The effect of a change in tax laws or rates on deferred tax assets and liabilities is recognized in income in the period in which such change is enacted. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that all or some portion of the deferred tax asset will not be realized.

The Company recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records interest related to unrecognized tax benefits and penalties in income taxes.

(h) *Net investment income*

Investment income from fixed maturities is recognized based on the constant effective yield method which includes an adjustment for estimated principal pre-payments, if any. The adjustments to the yield for highly rated prepayable fixed maturities are accounted for using the retrospective method. The adjustments to the yield for non-highly rated prepayable fixed maturities are accounted for using the prospective method.

Net realized investment gains and losses are included as a component of pre-tax revenues based upon specific identification of the investments sold on the trade date.

(i) *Fair value of financial instruments*

The fair values of cash and cash equivalents, and other assets and liabilities, which include investment income accrued, premiums receivable, reinsurance balances receivable, escrow fund, reinsurance balances payable, due to related company, escrow fund payable, income tax receivable, and accounts payable and accrued expenses, approximate their carrying values due to their immediate or short-term maturity.

The estimates of fair values presented herein are subjective in nature and are not necessarily indicative of the amounts that the Company would actually realize in a current market exchange. All financial instruments related to insurance contracts such as reinsurance recoverables, prepaid reinsurance premium, claims and claim adjustment expense reserves, unearned premium reserve and unearned commissions are excluded from fair value disclosure.

(j) *Recently Adopted Accounting Pronouncements*

In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments, which requires loans, debt securities, trade receivables, reinsurance recoverables, and other financial assets that have contractual right to receive cash to record credit losses through an allowance for credit losses account. The update introduces a new impairment model, known as the current expected credit loss model, which is based on expected losses rather than incurred losses. Under the new credit loss model, the company will be required to recognize an

TRAVELERS (BERMUDA) LIMITED

Statements of Cash Flows

December 31, 2023 and 2022
(Expressed in United States Dollars)

2. Summary of significant accounting policies (continued)

(j) Recently Adopted Accounting Pronouncements (continued)

allowance for its expected credit losses on certain financial assets including trade receivable, debt instruments not measured at fair value and reinsurance receivables. Available-for-sale debt securities will record credit losses through an allowance for credit losses, which will be limited to the amount by which fair value is below amortized cost.

3. Concentration of credit risk and cash and cash equivalents

For the year ended December 31, 2023, 66% (2022 - 77%) of cash and cash equivalents are held with a single financial institution in Bermuda which is rated A- by Standard & Poor's.

Two reinsurers accounted for 63% and 23% of reinsurance recoverables, respectively, (2022 - 65% and 22%) at December 31, 2023.

One reinsurer accounted for 96% of prepaid reinsurance premium (2022 - One reinsurer accounted for 100%) at December 31, 2023.

4. Investments

The amortized cost and fair value of fixed maturities classified as available-for-sale securities were as follows:

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
<u>At December 31, 2023</u>				
State and municipal securities	10,865,623	2,659	(1,097,809)	9,770,473
Corporate debt securities	<u>4,853,241</u>	<u>-</u>	<u>(440,348)</u>	<u>4,412,893</u>
	<u>\$ 15,718,864</u>	<u>\$ 2,659</u>	<u>\$ (1,538,157)</u>	<u>\$ 14,183,366</u>
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
<u>At December 31, 2022</u>				
State and municipal securities	10,936,809	-	(1,511,870)	9,424,939
Corporate debt securities	<u>6,396,713</u>	<u>-</u>	<u>(565,285)</u>	<u>5,831,428</u>
	<u>\$ 17,333,522</u>	<u>\$ -</u>	<u>\$ (2,077,155)</u>	<u>\$ 15,256,367</u>

Unrealized Investment Losses

	Less than 12 months		12 months or longer		Fair Value	Total Gross Unrealized Losses
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses		
<u>December 31, 2023</u>						
State and municipal securities	-	-	8,978,106	1,097,809	8,978,106	1,097,809
Corporate debt securities	<u>-</u>	<u>-</u>	<u>4,412,893</u>	<u>440,348</u>	<u>4,412,893</u>	<u>440,348</u>
	<u>-</u>	<u>-</u>	<u>13,390,999</u>	<u>1,538,157</u>	<u>13,390,999</u>	<u>1,538,157</u>

TRAVELERS (BERMUDA) LIMITED

Statements of Cash Flows

December 31, 2023 and 2022
(Expressed in United States Dollars)

4. Investments (continued)

	Less than 12 months		12 months or longer		Fair Value	Total Gross Unrealized Losses
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses		
<u>December 31, 2022</u>						
State and municipal securities	5,604,359	700,667	3,820,580	811,203	9,424,939	1,511,870
Corporate debt securities	<u>5,831,428</u>	<u>565,285</u>	<u>-</u>	<u>-</u>	<u>5,831,428</u>	<u>565,285</u>
	<u>11,435,787</u>	<u>1,265,952</u>	<u>3,820,580</u>	<u>811,203</u>	<u>15,256,367</u>	<u>2,077,155</u>

The above tables summarize, for all fixed maturities classified as available for sale in an unrealized loss position at December 31, 2023 and December 31, 2022, the aggregate fair value and gross unrealized loss by the length of time those securities have been continuously in an unrealized loss position.

Fixed maturities reported at fair value for which fair value was less than 80% of amortized cost at December 31, 2023 and December 31, 2022, were \$672,513 and \$899,851, respectively. For 2023, the length of time the fair value of these investments was less than 80% of amortized cost was greater than one year (2022 – less than one year).

As the gross unrealized investment losses above are primarily due to the impact of interest rate movements, the unrealized loss is considered temporary in nature and is not expected to result in significant realized losses.

There were no expected credit losses for the years ended December 31, 2023 and December 31, 2022.

At December 31, 2023, the Company held individual state and municipal and corporate securities with a minimum Moody's credit rating of Baa1.

The amortized cost and fair value of investments by contractual maturity are shown below:

	2023		2022	
	Amortized cost	Fair value	Amortized cost	Fair value
Due within 1 year	\$ 2,336,045	\$ 2,297,420	\$ 1,544,181	\$ 1,538,273
Due in 1 to 5 years	1,600,099	1,513,621	3,942,222	3,713,874
Due in 5 to 10 years	3,722,097	3,195,703	3,715,310	3,065,665
Over 10 years	8,060,623	7,176,622	8,131,809	6,938,555
	<u>\$ 15,718,864</u>	<u>\$ 14,183,366</u>	<u>\$ 17,333,522</u>	<u>\$ 15,256,367</u>

Proceeds from the sale or maturity of fixed maturities classified as available for sale were \$1,545,000 and \$2,830,000 in 2023 and 2022, respectively. Gross realized income included in the statement of income and comprehensive income amounted to \$0 in 2023 (2022 income - \$677).

At December 31, 2023, a deferred tax asset of \$322,454 (2022 deferred tax asset \$436,203) has been recognized in relation to unrealized gains and losses on investments (See Note 12).

TRAVELERS (BERMUDA) LIMITED

Statements of Cash Flows

December 31, 2023 and 2022
(Expressed in United States Dollars)

4. Investments (continued)

Net investment income for the period ended December 31, 2023 and 2022 consist of:

	<u>2023</u>	<u>2022</u>
Interest income on investments	\$ 1,063,464	\$ 622,016
Interest income on bank deposits	33,883	12,999
Bond amortization	(69,658)	(62,750)
Realized gain on investments	-	677
Investment manager fees (See Note 10)	<u>(8,906)</u>	<u>(8,278)</u>
	<u>\$ 1,018,783</u>	<u>\$ 564,664</u>

Fair value of financial instruments

The Company's estimates of fair value for financial assets and financial liabilities are based on the framework established in fair value accounting guidance. The framework is based on the inputs used in valuation, gives the highest priority to quoted prices in active markets, and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the fair value accounting guidance hierarchy is based on whether the significant inputs into the valuation are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect the Company's significant market assumptions. The level in the fair value hierarchy within which the fair value measurement is reported is based on the lowest level input that is significant to the measurement in its entirety. The three levels of the hierarchy are as follows:

Level 1 - Unadjusted quoted market prices for identical assets or liabilities in active markets that the Company has the ability to access.

Level 2 - Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; or valuations based on models where the significant inputs are observable (e.g., interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.

Level 3 - Valuations based on models where significant inputs are not observable. The unobservable inputs reflect the Company's own assumptions about the inputs that market participants would use.

Valuation of investments reported at fair value in financial statements

The fair value of a financial instrument is the estimated amount at which the instrument could be exchanged in an orderly transaction between knowledgeable, unrelated willing parties, i.e., not in a forced transaction. The estimated fair value of a financial instrument may differ from the amount that could be realized if the security was sold in an immediate sale, e.g., a forced transaction. Additionally, the valuation of fixed maturity investments is more subjective when markets are less liquid due to the lack of market based inputs, which may increase the potential that the estimated fair value (i.e., the carrying amount) of an investment is not reflective of the price at which an actual transaction would occur.

For investments that have quoted market prices in active markets, the Company uses the quoted market prices as fair value and includes these prices in the amounts disclosed in Level 1 of the hierarchy. The Company receives the quoted market prices from a third party, nationally recognized pricing service ("pricing service"). When quoted market prices are unavailable, the Company utilizes a pricing service to determine an estimate of fair value, which is mainly for its fixed maturity investments. The fair value estimates provided from this pricing service are included in the amount disclosed in Level 2 of the hierarchy. If quoted market prices and an estimate from a pricing service are unavailable, the Company produces an estimate of fair value based on internally developed valuation techniques, which, depending on the level of observable market inputs, will render the fair value estimate as Level 2 or Level 3. The Company bases all of its estimates of fair value for assets on the bid price as it represents what a third party market participant would be willing to pay in an arm's length transaction. The following section describes the valuation methods used by the Company for its investments in fixed maturities.

TRAVELERS (BERMUDA) LIMITED

Statements of Cash Flows

December 31, 2023 and 2022
(Expressed in United States Dollars)

4. Investments (continued)

Fixed maturities

The Company utilizes a pricing service to estimate fair value measurements for 100% of its fixed maturities. The pricing service utilizes market quotations for fixed maturity securities that have quoted prices in active markets. Since fixed maturities other than U.S. Treasury securities generally do not trade on a daily basis, the pricing service prepares estimates of fair value measurements for these securities using its proprietary pricing applications which include available relevant market information, benchmark curves, benchmarking of like securities, sector groupings and matrix pricing. Additionally, the pricing service uses an Option Adjusted Spread model to develop prepayment and interest rate scenarios.

The pricing service evaluates each asset class based on relevant market information, relevant credit information, perceived market movements and sector news. The market inputs utilized in the pricing evaluation, listed in the approximate order of priority, include: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data, and industry and economic events. The extent of the use of each market input depends on the asset class and the market conditions. Depending on the security, the priority of the use of inputs may change or some market inputs may not be relevant. For some securities additional inputs may be necessary.

The pricing service utilized by the Company has indicated that they will only produce an estimate of fair value if there is objectively verifiable information to produce a valuation. If the pricing service discontinues pricing an investment, the Company would be required to produce an estimate of fair value using some of the same methodologies as the pricing service, but would have to make assumptions for market based inputs that are unavailable due to market conditions. The Company reviews the estimates of fair value provided by the pricing service and compares the estimates to the Company's knowledge of the market to determine if the estimates obtained are representative of the prices in the market. In addition, the Company has periodic discussions with the pricing service to discuss and understand any changes in process and their responsiveness to changes occurring in the markets. The Company also monitors all monthly price changes and further evaluates any securities whose value changed more than 10% from the prior month. The Company has implemented various other processes including randomly selecting purchased or sold securities and comparing execution prices to the estimates from the pricing service as well as reviewing securities whose valuation did not change from their previous valuation (stale price review).

The Company also uses a second independent pricing service to further test the primary pricing service's valuation of the Company's fixed maturity portfolio.

The fair value estimates of most fixed maturity investments are based on observable market information rather than market quotes. Accordingly, the estimates of fair value for such fixed maturities, other than U.S. Treasury securities, provided by the pricing service are included in the amount disclosed in Level 2 of the hierarchy. The estimated fair value of U.S. Treasury securities (all of which are short-term investments) is included in the amount disclosed in Level 1 as the estimates are based on unadjusted market prices.

The following table presents the level within the fair value hierarchy at which financial assets are measured on a recurring basis at December 31, 2023 and 2022.

At December 31, 2023

	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>	<u>Total</u>
U.S. Government securities	\$ 14,153,084	\$ –	\$ –	\$ 14,153,084
State and municipal securities	–	9,770,473	–	9,770,473
Corporate debt securities	–	<u>4,412,893</u>	–	<u>4,412,893</u>
Total	<u>\$ 14,153,084</u>	<u>\$ 14,183,366</u>	<u>\$ –</u>	<u>\$ 28,336,450</u>

TRAVELERS (BERMUDA) LIMITED

Statements of Cash Flows

December 31, 2023 and 2022
(Expressed in United States Dollars)**4. Investments** (continued)At December 31, 2022

	(Level 1)	(Level 2)	(Level 3)	Total
U.S. Government securities	\$ 12,472,597	\$ —	\$ —	\$ 12,472,597
State and municipal securities	—	9,424,939	—	9,424,939
Corporate debt securities	<u>—</u>	<u>5,831,428</u>	<u>—</u>	<u>5,831,428</u>
Total	<u>\$ 12,472,597</u>	<u>\$ 15,256,367</u>	<u>\$ —</u>	<u>\$ 27,728,964</u>

The Company held no Level 3 investments at the beginning or at the end of the year ending December 31, 2023 and 2022. In addition, there were no financial assets or financial liabilities that were measured at fair value on a non-recurring basis during the years ended December 31, 2023 and 2022.

5. Reinsurance

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; consequently, allowances are established for any amounts that are deemed uncollectible. The Company evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. The majority of the Company's reinsurers are captives.

At December 31, 2023, reinsurance recoverables from captive reinsurers were \$15,491,756 (2022 - \$16,202,975), reinsurance balances receivable from captive reinsurers were \$355,380 (2022 - \$398,588) and prepaid reinsurance premiums from captive reinsurers were \$7,279,121 (2022 - \$6,284,804). These balances were associated with 6 (2022 - 6) captive reinsurers. To secure amounts recoverable from these captive reinsurers, the Company also holds collateral, primarily letters of credit, under certain reinsurance agreements. All these amounts due are from carriers with a credit rating of at least BBB+. At December 31, 2023, the Company is the joint beneficiary of letters of credit and other collateral of \$22,986,306 (2022 - \$22,741,906).

6. Claims and claim adjustment expense reserves

The following table presents a reconciliation of beginning and ending reserve balances for claims and claim adjustment expenses:

	<u>2023</u>	<u>2022</u>
Gross balance at January 1	\$ 25,205,812	\$ 27,934,017
Less reinsurance recoverable	<u>(20,970,607)</u>	<u>(22,517,587)</u>
Net balance at January 1	4,235,205	5,416,430
Incurred claims and claim adjustment expenses related to:		
Current year	—	—
Prior years	<u>(15,625)</u>	<u>(1,059,961)</u>
Total incurred	(15,625)	(1,059,961)
Paid claims and claim adjustment expenses related to:		
Current year	—	—
Prior years	<u>550,058</u>	<u>121,264</u>
Total paid	550,058	121,264
Net balance at December 31	3,669,522	4,235,205
Plus reinsurance recoverable	<u>20,217,543</u>	<u>20,970,607</u>
Gross balance at December 31	<u>\$ 23,887,065</u>	<u>\$ 25,205,812</u>

TRAVELERS (BERMUDA) LIMITED

Statements of Cash Flows

December 31, 2023 and 2022
(Expressed in United States Dollars)

6. Claims and claim adjustment expense reserves (continued)

As a result of the changes in estimates of claims and claim adjustment expenses for claims arising in prior years, claims and claim adjustment expense reserves decreased by \$15,625 in 2023 (2022 - decreased by \$559,961).

The establishment of reserves for claims and claim adjustment expenses is based on known facts and interpretation of circumstances and is therefore a complex and dynamic process influenced by a large variety of factors. These factors include the Company's experience with similar cases and historical trends involving pending levels of unpaid claims, claims severity and claim frequency patterns.

Other factors include the continually evolving and changing regulatory and legal environment, professional experience and expertise of the Company's management and independent adjusters retained to handle individual claims, the quality of the data used for projection purposes, existing claims management and settlement practices.

Consequently, the establishment of reserves for claims and claim adjustment expenses relies on the judgement and opinion of a large number of individuals, and on expectations as to future developments.

U.S. generally accepted accounting principles require certain disclosures related to short-duration insurance contracts. These disclosures include disaggregated claim development disclosures, by accident year, as well as amounts of incurred but not reported losses and the number of reported claim counts for each accident year shown in the disaggregated claim development disclosures. This claim development information is required to be presented on a net of reinsurance basis for the most recent ten years, or the number of years for which claims incurred typically remain outstanding if less than ten years.

All of the Company's total net outstanding claims and claim adjustment expense reserves of \$3,052,664 at December 31, 2023 relate to accident years prior to 2011. Because the net claims and claim adjustment expense reserves relate to accident years prior to the maximum ten years required to be disclosed, the Company does not include these short-duration insurance contract disclosures in the notes to financial statements.

7. Share capital

	<u>2023</u>	<u>2022</u>
Authorized - 2,120,000 (2022 - 2,120,000) shares at par value of \$1 each		
Issued and fully paid – 1,658,605 (2022 - 1,658,605) shares	\$ <u>1,658,605</u>	\$ <u>1,658,605</u>

8. Additional paid-in capital

Additional paid-in capital represents amounts contributed by the shareholder in addition to its subscription to the issued share capital.

9. Due to related company

The Travelers Indemnity Company, an affiliate, pays claims on behalf of the Company. The amount due to a related party represents claims which have been paid on the Company's behalf which have yet to be reimbursed. This amount is current, unsecured, interest-free and payable on demand.

10. Related party transactions

The Company received investment management and administrative services from The Travelers Indemnity Company. The Company reimbursed The Travelers Indemnity Company \$8,906 for these services in 2023 (2022 - \$8,278).

In a guarantee agreement dated August 31, 2000, St Paul Fire and Marine Insurance Company, an affiliate of the Company guaranteed the timely payment of all obligations of St. Paul (Bermuda) Ltd., with respect to policies of insurance issued to clients of Marsh USA Inc. up to a maximum of \$50.0 million. The guarantee was amended on June 30, 2010 to limit the affiliate's guarantee to only those obligations of St. Paul (Bermuda) Ltd. that existed prior to the amendment date. The affiliate also waived certain rights in the amended guarantee until all creditors have been paid in full.

TRAVELERS (BERMUDA) LIMITED

Statements of Cash Flows

December 31, 2023 and 2022
(Expressed in United States Dollars)

10. Related party transactions (continued)

In a guarantee agreement dated December 11, 1998 and amended on January 2, 2001, The St. Paul Companies, Inc. guaranteed the timely payment of all financial obligations under contracts of reinsurance issued by St. Paul Re (Bermuda) Ltd. On June 29, 2010, The Travelers Companies Inc. (formerly known as The St. Paul Companies, Inc.) acknowledged that the guarantee would apply to the amalgamated company as of the effective date of the amalgamation.

11. Statutory requirements

The Company must at all times maintain a solvency margin and an enhanced capital requirement in accordance with the provisions of the Insurance Act 1978 of Bermuda.

Each year the Company is required to file with the Bermuda Monetary Authority (the "Authority") a capital and solvency return within four months of its relevant financial year-end (unless specifically extended).

The prescribed form of capital and solvency return comprises the Company's Bermuda Solvency Capital Requirement ("BSCR") model, a schedule of fixed income investments by rating category, a schedule of net loss and loss expense provision by line of business, a schedule of premiums written by line of business, a schedule of risk management and a schedule of fixed income securities.

As a Class 3A insurer, the Company is required to maintain available statutory capital and surplus in an amount that is equal to or exceeds the target capital levels based on enhanced capital requirements ("ECR") calculated using the BSCR model. The BSCR model is a risk-based capital model introduced by the Authority that measures risk and determines ECR and a target capital level (defined as 120% of the ECR) based on the Company's statutory financial statements. In circumstances where the Authority concludes that the Company's risk profile deviates significantly from the assumptions underlying the ECR or the Company's assessment of its management policies and practices, it may issue an order requiring that the Company adjust its ECR. The company is compliant and have met the ECR requirement.

The Company is required by its license to maintain capital and surplus greater than a minimum statutory amount determined as the greater of a percentage of outstanding losses (net of reinsurance recoverable) or a given fraction of net written premiums. At December 31, 2023, the Company is required to maintain a minimum statutory capital and surplus of \$1,000,000 (2022 - \$1,000,000). Actual statutory capital and surplus was \$ 25,966,484 (2022 - \$24,850,797).

Actual statutory capital and surplus, as determined using statutory accounting principles, is as follows:

Total shareholder's equity	\$ 25,981,218
Less: Non-admitted assets	
Prepaid expenses	<u>14,734</u>
Statutory capital and surplus	<u>\$ 25,966,484</u>

The Company is prohibited from declaring or paying a dividend if its Class 3A statutory capital and surplus is less than its ECR, or if it is in breach of its solvency margin or minimum liquidity ratio, or if the declaration or payment of such dividend would cause such breach. The Company must obtain the Authority's prior approval for a reduction by 15% or more of the total statutory capital as set forth in its previous year's financial statements. These restrictions on declaring or paying dividends and distributions under the Insurance Act are in addition to those under the Companies Act 1981, which apply to all Bermuda companies.

The Company is also required to maintain a minimum liquidity ratio whereby the value of its relevant assets is not less than 75% of the amount of its relevant liabilities. Relevant assets include cash and cash equivalents, investments, investment income accrued, premiums receivable, reinsurance balances receivable and escrow fund. Certain categories of assets do not qualify as relevant assets under the statute. The relevant liabilities are total general business insurance reserves (net of reinsurance recoverable) and total other liabilities, less sundry liabilities.

TRAVELERS (BERMUDA) LIMITED

Statements of Cash Flows

December 31, 2023 and 2022
(Expressed in United States Dollars)

11. Statutory requirements (continued)

At December 31, 2023, the Company was required to maintain relevant assets of \$9,528,554 (2022 - \$9,529,004). At that date, relevant assets were \$37,276,635 (2022 - \$36,044,420) and the minimum liquidity ratio was therefore met.

12. Taxation

(a) Bermuda Taxes

Under current Bermuda law, the Company is not required 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 that in the event of any such taxes being imposed, the Company will be exempted from taxation until the year 2035.

On December 27, 2023, final legislation was passed in Bermuda to enact a 15% Corporate Income Tax that would apply to Bermuda businesses that are part of a multinational group with annual revenue over EUR 750 million. The law is effective starting on January 1, 2025. The exemption from taxation until 2035 previously mentioned does not apply to this tax. The Company will continue to monitor developments with respect to the legislation, but the financials as presented do not reflect an impact as the company expects to have a full credit against this Bermuda tax for the U.S. taxes incurred due to the section 953(d) election discussed in the subsequent paragraph.

(b) United States Federal Income Taxes

Effective June 30, 1998, the Company made an irrevocable election under Section 953(d) of the Internal Revenue Code of 1986, as amended, to treat the Company as a domestic insurance company for United States federal income tax purposes. As a result of the "domestic election", the Company is subject to U.S. taxation on its worldwide income as if it were a U.S. corporation. Current income taxes are calculated by applying currently enacted tax laws.

For the years ended December 31, 2023 and 2022, the Company is included in the consolidated federal income tax return filed by The Travelers Companies, Inc. ("TRV"). TRV allocates federal income taxes to its subsidiaries based on each subsidiary's relative contribution to the consolidated income tax expense or benefit. Any net operating losses or other tax attributes are characterized as realized by the Company when those tax attributes are utilized in a consolidated tax return. Any resulting liability or recoverable is settled currently with TRV.

On August 16, 2022, the U.S. government enacted the Inflation Reduction Act (IRA) which, among other changes, created a new corporate alternative minimum tax (CAMT) based on adjusted financial statement income of a consolidated group. The effective date of these provisions is January 1, 2023. The IRA did not have any impact on the Company's financial statements upon enactment. While the Company is a member of a consolidated federal income tax return group that is considered an applicable corporation subject to the CAMT beginning in 2023 based on reported GAAP earnings for the past three years, the Company expects any current or future year CAMT incurred to be treated as a taxable temporary difference and have no direct impact on total income tax expense, subject to any additional guidance or regulations that may be issued.

The Organization for Economic Cooperation and Development (OECD) has developed guidance known as base erosion and profit sharing as part of its initiative to address corporate tax planning strategies used by some multinationals to shift profits from higher-tax jurisdictions to lower-tax jurisdictions or no-tax locations. This guidance generally imposes rules with a global minimum tax of 15%, which is expected to be effective in 2024 for jurisdictions in which the Company's parent operates. The Company does not expect to be subject to any global minimum taxes imposed by these rules in 2024.

The following table presents the components of income tax expense included in the amounts reported in the Company's financial statements:

	<u>2023</u>	<u>2022</u>
Income tax expense from continuing operations	\$ 157,572	\$ 241,186
Shareholder's equity, for tax on unrealized gains (losses) recognized for financial statement purposes	<u>113,748</u>	<u>(489,293)</u>
Total income tax expense (benefit) included in shareholder's equity	<u>\$ 271,320</u>	<u>\$ (248,107)</u>

TRAVELERS (BERMUDA) LIMITED

Statements of Cash Flows

December 31, 2023 and 2022
(Expressed in United States Dollars)**12. Taxation** (continued)(b) *United States Federal Income Taxes* (continued)

	<u>2023</u>	<u>2022</u>
Current tax expense	\$ 154,193	\$ 232,550
Deferred tax expense	<u>3,379</u>	<u>8,636</u>
Total income tax expense included in statement of income	<u>\$ 157,572</u>	<u>\$ 241,186</u>

The following is a reconciliation of income tax benefit at the U.S. federal statutory income tax rate to the income tax expense reported in the Company's statement of income:

	<u>2023</u>	<u>2022</u>
Net income before income taxes	\$ 854,413	\$ 1,253,673
Statutory rate	<u>21%</u>	<u>21%</u>
Expected federal income tax expense	179,427	263,271
Tax effect of:		
Non-taxable investment income	<u>(21,855)</u>	<u>(22,085)</u>
Total income tax expense	<u>\$ 157,572</u>	<u>\$ 241,186</u>
Effective tax rate	18.4%	19.2%

The net deferred tax asset comprises the tax effect of temporary differences related to the following assets and liabilities:

	<u>2023</u>	<u>2022</u>
<i>Deferred tax asset:</i>		
Net unrealized loss on securities available for sale	\$ 322,454	\$ 436,203
Loss reserve discount	37,448	47,476
Other	<u>6,556</u>	<u>3,942</u>
Deferred tax asset	<u>366,458</u>	<u>487,621</u>
<i>Deferred tax liability:</i>		
Bond amortization	<u>(3,167)</u>	<u>(7,202)</u>
Deferred tax liability	<u>(3,167)</u>	<u>(7,202)</u>
Net deferred tax asset	<u>\$ 363,291</u>	<u>\$ 480,419</u>

If the Company determines that any of its deferred tax assets will not result in future tax benefits, a valuation allowance must be established for the portion of these assets that are not expected to be realized. Based upon a review of the Company's anticipated future taxable income, and also including all other available evidence, both positive and negative, the Company's management concluded that it is more likely than not that the net deferred tax assets will be realized.

TRAVELERS (BERMUDA) LIMITED

Statements of Cash Flows

December 31, 2023 and 2022
(Expressed in United States Dollars)

12. Taxation (continued)

(b) United States Federal Income Taxes (continued)

Uncertain tax positions

The Company recognizes accrued interest and penalties, if any, related to unrecognized tax benefits in income taxes. The Company has not recorded any unrecognized tax benefits or interest and penalties as of December 31, 2023 or December 31, 2022.

The Internal Revenue Service has completed examination of the Company's U.S. income tax returns for all years through 2018. The statute of limitations for federal income tax purposes has closed for all tax years prior to 2020. The Company does not expect any significant changes to its liability for unrecognized tax benefits during the next twelve months.

13. Subsequent events

No subsequent events were noted by management as of the date of issuance of the financial statements on April 30, 2024.