UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2023

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ____________ to ____________

Commission file number 001-41591

SKYWARD SPECIALTY INSURANCE GROUP, INC.
(Exact name of registrant as specified in its charter)

Delaware	**14-1957288**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
800 Gessner Road, Suite 600 **Houston, Texas**	**77024-4284**
(Address of Principal Executive Offices)	(Zip Code)

(713) 935-4800
Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value $0.01	SKWD	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☐
		Emerging growth company	☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

As of November 2, 2023, the registrant had 37,677,586 shares of common stock outstanding.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

($ in thousands, except share and per share amounts)	September 30, 2023 (Unaudited)	December 31, 2022
Assets		
Investments:		
Fixed maturity securities, available-for-sale, at fair value (amortized cost of $942,841 and $662,616, respectively)	**$ 874,864**	$ 607,572
Fixed maturity securities, held-to-maturity, at amortized cost (net of allowance for credit losses of $320 as of September 30, 2023)	**44,437**	52,467
Equity securities, at fair value	**107,387**	120,169
Mortgage loans (at fair value as of September 30, 2023; at amortized cost as of December 31, 2022)	**59,318**	51,859
Other long-term investments	**115,823**	129,142
Short-term investments, at fair value	**194,049**	121,158
Total investments	**1,395,878**	1,082,367
Cash and cash equivalents	**53,730**	45,438
Restricted cash	**49,536**	79,573
Premiums receivable, net	**211,940**	139,215
Reinsurance recoverables, net	**615,675**	581,359
Ceded unearned premium	**218,784**	157,645
Deferred policy acquisition costs	**99,255**	68,938
Deferred income taxes	**35,006**	36,188
Goodwill and intangible assets, net	**88,808**	89,870
Other assets	**82,083**	82,846
Total assets	**$ 2,850,695**	$ 2,363,439
Liabilities and stockholders’ equity		
Liabilities:		
Reserves for losses and loss adjustment expenses	**$ 1,268,711**	$ 1,141,757
Unearned premiums	**596,011**	442,509
Deferred ceding commission	**41,704**	29,849
Reinsurance and premium payables	**161,832**	113,696
Funds held for others	**53,963**	36,858
Accounts payable and accrued liabilities	**64,407**	48,499
Notes payable	**50,000**	50,000
Subordinated debt, net of debt issuance costs	**78,670**	78,609
Total liabilities	**2,315,298**	1,941,777
Stockholders’ equity		
Series A preferred stock, $0.01 par value; 10,000,000 and 2,000,000 shares authorized, 0 and 1,969,660 shares issued and outstanding, respectively	**—**	20
Common stock, $0.01 par value, 500,000,000 and 168,000,000 shares authorized, 37,677,521 and 16,832,955 shares issued, respectively	**377**	168
Treasury stock, $0.01 par value, 0 and 233,289 shares, respectively	**—**	(2)
Additional paid-in capital	**645,292**	577,289
Stock notes receivable	**(5,625)**	(6,911)
Accumulated other comprehensive loss	**(53,673)**	(43,485)
Accumulated deficit	**(50,974)**	(105,417)
Total stockholders’ equity	**535,397**	421,662
Total liabilities and stockholders’ equity	**$ 2,850,695**	$ 2,363,439

The accompanying notes are an integral part of the consolidated financial statements.

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

($ in thousands, except share and per share amounts)	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Revenues:				
Net earned premiums	**$ 227,033**	$ 158,048	**$ 604,211**	$ 445,851
Commission and fee income	**2,085**	1,362	**5,817**	3,652
Net investment income	**13,089**	5,988	**26,318**	31,667
Net investment (losses) gains	**(2,984)**	(7,305)	**3,328**	(26,117)
Total revenues	**239,223**	158,093	**639,674**	455,053
Expenses:				
Losses and loss adjustment expenses	**138,536**	111,746	**377,841**	293,536
Underwriting, acquisition and insurance expenses	**68,315**	47,340	**176,653**	132,258
Interest expense	**2,632**	1,738	**7,250**	4,280
Amortization expense	**463**	387	**1,336**	1,160
Other expenses	**1,482**	—	**4,061**	—
Total expenses	**211,428**	161,211	**567,141**	431,234
Income (loss) before income taxes	**27,795**	(3,118)	**72,533**	23,819
Income tax expense (benefit)	**6,084**	(719)	**15,814**	4,842
Net income (loss)	**21,711**	(2,399)	**56,719**	18,977
Net income attributable to participating securities	**—**	—	**1,492**	9,124
Net income (loss) attributable to common stockholders	**$ 21,711**	$ (2,399)	**$ 55,227**	$ 9,853
Comprehensive income (loss):				
Net income (loss)	**$ 21,711**	$ (2,399)	**$ 56,719**	$ 18,977
Other comprehensive loss:				
Unrealized gains and losses on investments:				
Net change in unrealized losses on investments, net of tax	**(8,722)**	(17,806)	**(5,309)**	(49,308)
Reclassification adjustment for (losses) gains on securities no longer held, net of tax	**(3,667)**	31	**(4,879)**	362
Total other comprehensive loss	**(12,389)**	(17,775)	**(10,188)**	(48,946)
Comprehensive income (loss)	**$ 9,322**	$ (20,174)	**$ 46,531**	$ (29,969)
Per share data:				
Basic earnings (loss) per share	**$ 0.59**	$ (0.15)	**$ 1.56**	$ 0.60
Diluted earnings (loss) per share	**$ 0.57**	$ (0.15)	**$ 1.50**	$ 0.58
Weighted-average common shares outstanding				
Basic	**36,743,393**	16,465,588	**35,502,843**	16,464,313
Diluted	**38,403,843**	16,465,588	**37,830,431**	32,598,669

The accompanying notes are an integral part of the consolidated financial statements.

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

($ in thousands)	Preferred Stock	Common Stock	Treasury Stock	Additional Paid-in Capital	Stock Notes Receivable	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
Balance at January 1, 2023	$ 20	$ 168	$ (2)	$ 577,289	$ (6,911)	$ (43,485)	$ (105,417)	$ 421,662
Cumulative effect on adoption of ASU No. 2016-13	—	—	—	—	—	—	(2,276)	(2,276)
Employee equity transactions	—	—	—	1,864	193	—	—	2,057
Preferred stock conversion to common shares	(20)	161	2	(143)	—	—	—	—
Proceeds from initial public offering, net	—	48	—	62,358	—	—	—	62,406
Net income	—	—	—	—	—	—	15,556	15,556
Other comprehensive income, net of tax	—	—	—	—	—	7,741	—	7,741
Balance at March 31, 2023	$ —	$ 377	$ —	$ 641,368	$ (6,718)	$ (35,744)	$ (92,137)	$ 507,146
Employee equity transactions	—	—	—	2,011	—	—	—	2,011
Expenses from initial public offering	—	—	—	(391)	—	—	—	(391)
Net income	—	—	—	—	—	—	19,452	19,452
Other comprehensive loss, net of tax	—	—	—	—	—	(5,540)	—	(5,540)
Balance at June 30, 2023	$ —	$ 377	$ —	$ 642,988	$ (6,718)	$ (41,284)	$ (72,685)	$ 522,678
Employee equity transactions	—	—	—	2,304	1,093	—	—	3,397
Net income	—	—	—	—	—	—	21,711	21,711
Other comprehensive loss, net of tax	—	—	—	—	—	(12,389)	—	(12,389)
Balance at September 30, 2023	$ —	$ 377	$ —	$ 645,292	$ (5,625)	$ (53,673)	$ (50,974)	$ 535,397

The accompanying notes are an integral part of the consolidated financial statements.

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

($ in thousands)	Preferred Stock	Common Stock	Treasury Stock	Additional Paid-in Capital	Stock Notes Receivable	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
Balance at January 1, 2022	$ 20	$ 168	$ (2)	$ 575,159	$ (9,092)	$ 4,640	$ (144,813)	$ 426,080
Employee equity transactions	—	—	—	502	188	—	—	690
Reclassification of stock notes receivable to other assets	—	—	—	—	1,942	—	—	1,942
Net income	—	—	—	—	—	—	16,311	16,311
Other comprehensive loss, net of tax	—	—	—	—	—	(16,404)	—	(16,404)
Balance at March 31, 2022	$ 20	$ 168	$ (2)	$ 575,661	$ (6,962)	$ (11,764)	$ (128,502)	$ 428,619
Employee equity transactions	—	—	—	670	20	—	—	690
Net income	—	—	—	—	—	—	5,065	5,065
Other comprehensive loss, net of tax	—	—	—	—	—	(14,767)	—	(14,767)
Balance at June 30, 2022	$ 20	$ 168	$ (2)	$ 576,331	$ (6,942)	$ (26,531)	$ (123,437)	$ 419,607
Employee equity transactions	—	—	—	354	30	—	—	384
Net loss	—	—	—	—	—	—	(2,399)	(2,399)
Other comprehensive loss, net of tax	—	—	—	—	—	(17,775)	—	(17,775)
Balance at September 30, 2022	$ 20	$ 168	$ (2)	$ 576,685	$ (6,912)	$ (44,306)	$ (125,836)	$ 399,817

The accompanying notes are an integral part of the consolidated financial statements.

SKYWARD SPECIALTY INSURANCE GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Nine months ended September 30,	
($ in thousands)	**2023**	2022
Cash flows from operating activities		
Net income	**$ 56,719**	$ 18,977
Adjustments to reconcile net income to net cash provided by operating activities	**161,820**	105,936
Net cash provided by operating activities	**218,539**	124,913
Cash flows from investing activities:		
Purchase of fixed maturity securities, available-for-sale	**(342,088)**	(211,097)
Purchase of illiquid investments	**(1,156)**	(4,431)
Purchase of equity securities	**(22,436)**	(49,018)
Investment in direct and indirect loans	**(3,313)**	(13,134)
Sales and maturities of investment securities	**110,695**	76,765
Distributions from equity method investments	**1,704**	2,052
Change in short-term investments	**(72,891)**	59,363
Receivable for securities sold	**14,442**	3,273
Cash provided by deposit accounting	**8,631**	8,780
Other, net	**(1,421)**	(834)
Net cash used in investment activities	**(307,833)**	(128,281)
Cash flows from financing activities:		
Employee share purchases	**1,287**	2,180
Draw on revolving line of credit	**50,000**	—
Repayment of term loan	**(50,000)**	—
Proceeds from initial public offering	**66,262**	—
Net cash provided by financing activities	**67,549**	2,180
Net decrease in cash and cash equivalents and restricted cash	**(21,745)**	(1,188)
Cash and cash equivalents and restricted cash at beginning of period	**125,011**	107,274
Cash and cash equivalents and restricted cash at end of period	**$ 103,266**	$ 106,086
Supplemental disclosure of cash flow information:		
Cash paid for interest	**$ 8,503**	$ 3,860
Cash paid for federal income taxes	**$ 10,000**	$ —

The accompanying notes are an integral part of the consolidated financial statements.

1. Summary of Significant Accounting Policies

Basis of Presentation

The unaudited condensed consolidated financial statements of Skyward Specialty Insurance Group, Inc. (the "Company") have been prepared in accordance with generally accepted accounting principles ("GAAP") in the United States of America for interim financial reporting and with the instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all the disclosures required by GAAP for complete consolidated financial statements. Readers are urged to review the Company's Annual Report on Form 10-K for the year ended December 31, 2022 for a more complete description of the Company's business and accounting policies. In the opinion of management, all adjustments necessary for a fair statement of the condensed consolidated financial statements have been included. Such adjustments consist only of normal recurring items. Interim results are not necessarily indicative of results of operations for the full year. The consolidated balance sheet as of December 31, 2022 was derived from the Company's audited annual consolidated financial statements.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ materially from these estimates.

Recent Accounting Standards Adopted

In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments. ASU 2016-13 requires organizations to estimate credit losses on certain types of financial instruments, including receivables and fixed maturity securities, by introducing an approach based on expected losses. The expected loss approach required entities to incorporate considerations of historical information, current information, and reasonable and supportable forecasts. The Company adopted ASU 2016-13 effective January 1, 2023 using the modified retrospective approach, by which a cumulative-effect adjustment was made to retained earnings as of the date of adoption. In connection with the adoption of ASU 2016-13, the Company elected the fair value option in accounting for mortgage loans effective January 1, 2023 as targeted transition relief. The adoption of ASU 2016-13 resulted in a $2.3 million increase in accumulated deficit, net of tax.

Updates to Significant Accounting Policies

The following accounting policies have been updated to reflect the Company's adoption of ASU 2016-13, Measurement of Credit Losses on Financial Instruments as described above.

Investments

Available-for-sale

Investments in fixed maturities that are classified as available-for-sale are carried at fair value. For available-for-sale fixed maturities in an unrealized loss position, the Company first determines whether there is an intent to sell the security or if it is more likely than not that the Company will be required to sell the security before maturity or recovery of its cost basis. If either of these criteria were met, the amortized cost of the security is written down to fair value with the losses recognized in net investment (losses) gains on the consolidated statements of operations. If neither of the these criteria were met, the Company determines whether unrealized losses are due to credit-related factors. If the unrealized losses are due to credit-related factors, an allowance for credit losses is determined using a present value of cash flows compared to the amortized cost of the security.

The allowance for credit losses is limited to the amount by which fair value is below amortized cost. Changes in the allowance for credit losses are recognized in net investment income on the consolidated statements of operations. Credit losses that are limited by the fair value of the security are recognized in stockholders' equity, net of taxes, as a component of accumulated other comprehensive (loss) income. Unrealized losses that are not credit-related continue to be recognized in stockholders' equity, net of taxes, as a component of accumulated other comprehensive (loss) income.

Held-to-maturity

Investments in fixed maturity securities that are held-to-maturity are carried at amortized cost net of an allowance for credit losses. The allowance for credit losses represents the current estimate of expected credit losses. The Company develops a historical loss rate from Moody's table of estimated multi-year cumulative loss rates for asset backed securities. This historical loss rate is adjusted for current conditions and reasonable and supportable forecasts. Changes in the allowance for credit losses are recognized in net investment income on the consolidated statements of operations.

Mortgage loans

The Company elected the fair value option in accounting for mortgage loans effective January 1, 2023 as targeted transition relief. Under the fair value option, mortgage loans are measured at fair value, and changes in unrealized gains and losses on mortgage loans are reported in net investment (losses) gains on the condensed consolidated statements of operations. Interest income and amortization continue to be recognized in net investment income on the consolidated statements of operations.

Reinsurance

Reinsurance Recoverables

Reinsurance recoverables are carried net of an allowance for credit losses. The allowance for credit losses represents the current estimate of expected credit losses. The Company develops a historical loss rate using the A.M. Best impairment rate and rating transition study which provides historical loss data of similarly rated reinsurance companies based on the expected duration of the receivables. This historical loss rate is adjusted for current conditions and reasonable and supportable forecasts and consideration of current economic conditions. Changes in the allowance for credit losses are recognized in underwriting, acquisition and insurance expenses on the consolidated statements of operations.

Premiums Receivable

Premiums receivable are carried net of an allowance for credit losses. The allowance for credit losses represents the current estimate of expected credit losses. The Company develops a historical loss rate using historical write-offs and aging of receivables. This historical loss rate is adjusted for current conditions, reasonable and supportable forecasts and our ability to cancel coverage on a policy after premium is considered past due. Changes in the allowance for credit losses are recognized in underwriting, acquisition and insurance expenses on the consolidated statements of operations.

2. Investments

The following tables set forth the amortized cost and the fair value by investment category at September 30, 2023 and December 31, 2022:

($ in thousands)	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
September 30, 2023					
Fixed maturity securities, available-for-sale:					
U.S. government securities	**$ 47,778**	**$ —**	**$ (1,396)**	**$ —**	**$ 46,382**
Corporate securities and miscellaneous	**357,652**	**228**	**(24,871)**	**—**	**333,009**
Municipal securities	**93,489**	**8**	**(10,130)**	**—**	**83,367**
Residential mortgage-backed securities	**255,083**	**36**	**(24,421)**	**—**	**230,698**
Commercial mortgage-backed securities	**19,877**	**—**	**(2,206)**	**—**	**17,671**
Asset-backed securities	**168,962**	**201**	**(5,426)**	**—**	**163,737**
Total fixed maturity securities, available-for-sale	**$ 942,841**	**$ 473**	**$ (68,450)**	**$ —**	**$ 874,864**
Fixed maturity securities, held-to-maturity:					
Asset-backed securities	**$ 44,757**	**$ —**	**$ (3,668)**	**$ (320)**	**$ 40,769**
Total fixed maturity securities, held-to-maturity	**$ 44,757**	**$ —**	**$ (3,668)**	**$ (320)**	**$ 40,769**

($ in thousands)	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Loss	Fair Value
December 31, 2022				
Fixed maturity securities, available-for-sale:				
U.S. government securities	$ 50,416	$ 1	$ (1,876)	$ 48,541
Corporate securities and miscellaneous	255,116	767	(20,754)	235,129
Municipal securities	65,836	24	(8,133)	57,727
Residential mortgage-backed securities	134,844	218	(15,206)	119,856
Commercial mortgage-backed securities	40,129	50	(3,684)	36,495
Asset-backed securities	116,275	91	(6,542)	109,824
Total fixed maturity securities, available-for-sale	$ 662,616	$ 1,151	$ (56,195)	$ 607,572
Fixed maturity securities, held-to-maturity:				
Asset-backed securities	$ 52,467	$ —	$ (5,696)	$ 46,771
Total fixed maturity securities, held-to-maturity	$ 52,467	$ —	$ (5,696)	$ 46,771

The following table sets forth the amortized cost and fair value of available-for-sale fixed maturity securities by contractual maturity at September 30, 2023:

($ in thousands)	Amortized Cost	Fair Value
Due in less than one year	$ 29,963	$ 29,280
Due after one year through five years	256,015	240,868
Due after five years through ten years	130,724	118,893
Due after ten years	82,217	73,717
Mortgage-backed securities	274,960	248,369
Asset-backed securities	168,962	163,737
Total	$ 942,841	$ 874,864

Expected maturities may differ from contractual maturities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Also, changing interest rates, tax considerations or other factors may result in portfolio sales prior to maturity.

The Company’s fixed maturity securities, held-to-maturity, at September 30, 2023 consisted entirely of asset backed securities that were not due at a single maturity date.

The following tables set forth the gross unrealized losses and the corresponding fair values of investments, aggregated by length of time that individual securities had been in a continuous unrealized loss position as of September 30, 2023 and December 31, 2022:

	Less than 12 Months		12 Months or More		Total	
($ in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
September 30, 2023						
Fixed maturity securities, available-for-sale:						
U.S. government securities	$ 24,001	$ (524)	$ 22,381	$ (872)	$ 46,382	$ (1,396)
Corporate securities and miscellaneous	143,712	(5,181)	170,048	(19,690)	313,760	(24,871)
Municipal securities	35,518	(1,667)	45,324	(8,463)	80,842	(10,130)
Residential mortgage-backed securities	122,385	(4,506)	100,990	(19,915)	223,375	(24,421)
Commercial mortgage-backed securities	7,648	(352)	10,023	(1,854)	17,671	(2,206)
Asset-backed securities	81,952	(1,317)	65,329	(4,109)	147,281	(5,426)
Total fixed maturity securities, available-for-sale	415,216	(13,547)	414,095	(54,903)	829,311	(68,450)
Fixed maturity securities, held-to-maturity:						
Asset-backed securities	—	—	40,769	(3,668)	40,769	(3,668)
Total fixed maturity securities, held-to-maturity:	—	—	40,769	(3,668)	40,769	(3,668)
Total	$ 415,216	$ (13,547)	$ 454,864	$ (58,571)	$ 870,080	$ (72,118)

	Less than 12 Months		12 Months or More		Total	
($ in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2022						
Fixed maturity securities, available-for-sale:						
U.S. government securities	$ 28,966	$ (603)	$ 18,577	$ (1,273)	$ 47,543	$ (1,876)
Corporate securities and miscellaneous	171,506	(16,063)	34,283	(4,691)	205,789	(20,754)
Municipal securities	51,701	(7,236)	3,689	(897)	55,390	(8,133)
Residential mortgage-backed securities	56,246	(4,152)	52,778	(11,054)	109,024	(15,206)
Commercial mortgage-backed securities	25,836	(1,488)	8,583	(2,196)	34,419	(3,684)
Asset-backed securities	74,684	(3,351)	25,820	(3,191)	100,504	(6,542)
Total fixed maturity securities, available-for-sale	408,939	(32,893)	143,730	(23,302)	552,669	(56,195)
Fixed maturity securities, held-to-maturity:						
Asset-backed securities	46,771	(5,696)	—	—	46,771	(5,696)
Total fixed maturity securities, held-to-maturity:	46,771	(5,696)	—	—	46,771	(5,696)
Total	$ 455,710	$ (38,589)	$ 143,730	$ (23,302)	$ 599,440	$ (61,891)

The Company regularly monitors its available-for-sale fixed maturity securities that have fair values less than cost or amortized cost for signs of impairment, an assessment that requires significant management judgment regarding the evidence known. Such judgments could change in the future as more information becomes known, which could negatively impact the amounts reported. Among the factors that management considers for fixed maturity securities are the financial condition of the issuer including receipt of scheduled principal and interest cash flows, and intent to sell, including if it is more likely than not that the Company will be required to sell the investments before recovery.

As of September 30, 2023, the Company had 869 lots of fixed maturity securities in an unrealized loss position. The Company does not have an intent to sell these securities and it is not more likely than not that the Company will be required to sell these securities before maturity or recovery of its cost basis. The Company determined that no credit impairment existed in the gross unrealized holding losses because the credit ratings of these securities were consistent with the credit ratings when purchased and/or at origination, there were no adverse changes in financial condition of the issuer and no adverse credit quality events in underlying assets. The Company attributed the unrealized losses to the changes in interest rates.

The following table sets forth the components of net investment (losses) gains for the three and nine months ended September 30, 2023 and 2022:

	Three months ended September 30,		Nine months ended September 30,	
($ in thousands)	**2023**	2022	**2023**	2022
Gross realized gains				
Fixed maturity securities, available-for sale	**$ 156**	$ 64	**$ 860**	$ 174
Equity securities	**3,959**	605	**6,000**	3,481
Other	**—**	—	**1**	36
Total	**4,115**	669	**6,861**	3,691
Gross realized losses				
Fixed maturity securities, available-for sale	**(381)**	(288)	**(837)**	(781)
Equity securities	**(245)**	(1,388)	**(5,006)**	(2,825)
Other	**(82)**	(1)	**(84)**	(22)
Total	**(708)**	(1,677)	**(5,927)**	(3,628)
Net unrealized (losses) gains on investments				
Equity securities	**(6,417)**	(6,297)	**2,367**	(26,180)
Mortgage loans	**26**	—	**27**	—
Net investment (losses) gains	**$ (2,984)**	$ (7,305)	**$ 3,328**	$ (26,117)

The following table sets forth the proceeds from sales of available-for-sale fixed maturity securities and equity securities for the nine months ended September 30, 2023 and 2022:

	Nine months ended September 30,	
($ in thousands)	**2023**	2022
Fixed maturity securities, available-for sale	**$ 25,465**	$ 9,646
Equity securities	**38,581**	32,356

The following table sets forth the components of net investment income for the three and nine months ended September 30, 2023 and 2022:

	Three months ended September 30,		Nine months ended September 30,	
($ in thousands)	**2023**	2022	**2023**	2022
Income:				
Fixed maturity securities, available-for sale	**$ 9,180**	$ 4,912	**$ 23,439**	$ 12,103
Fixed maturity securities, held-to-maturity	**1,067**	805	**3,321**	4,147
Equity securities	**769**	912	**2,539**	2,650
Equity method investments	**(4)**	(3,861)	**(6,772)**	7,615
Mortgage loans	**1,249**	1,275	**3,997**	3,109
Indirect loans	**(761)**	3,104	**(4,009)**	7,783
Short-term investments and cash	**3,165**	505	**8,140**	716
Other	**(115)**	(135)	**(106)**	(153)
Total investment income	**14,550**	7,517	**30,549**	37,970
Investment expenses	**(1,461)**	(1,529)	**(4,231)**	(6,303)
Net investment income	**$ 13,089**	$ 5,988	**$ 26,318**	$ 31,667

The following table sets forth the change in net unrealized losses on the Company's investment portfolio, net of deferred income taxes, included in other comprehensive loss for the three and nine months ended September 30, 2023 and 2022:

	Three months ended September 30,		Nine months ended September 30,	
($ in thousands)	**2023**	2022	**2023**	2022
Fixed maturity securities	**$ (15,706)**	$ (22,500)	**$ (12,933)**	$ (61,957)
Deferred income taxes	**3,317**	4,725	**2,745**	13,011
Total	**$ (12,389)**	$ (17,775)	**$ (10,188)**	$ (48,946)

3. Fair Value Measurements

The Company's financial instruments include assets and liabilities carried at fair value, as well as assets and liabilities carried at cost or amortized cost but disclosed at fair value in its consolidated financial statements. In determining fair value, the market approach is generally applied, which uses prices and other relevant data based on market transactions involving identical or comparable assets and liabilities.

The Company uses data primarily provided by third-party investment managers or pricing vendors to determine the fair value of its investments. Periodic analyses are performed on prices received from third parties to determine whether the prices are reasonable estimates of fair value. The analyses include a review of month-to-month price fluctuations and, as needed, a comparison of pricing services' valuations to other pricing services' valuations for the identical security.

The Company classifies its financial instruments into the following three-level hierarchy:

Level 1 - Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.

Level 2 - Inputs are other than quoted prices included in Level 1 that are observable for the asset or liability through corroboration with market data at the measurement date.

Level 3 - Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

The following methods and assumptions were used in estimating the fair value disclosures for financial instruments in the accompanying consolidated financial statements and in these notes:

U.S. government securities, mutual funds and common stock

The Company uses unadjusted quoted prices for identical instruments in an active exchange to measure fair value which represent Level 1 inputs.

Preferred stocks, municipal securities, corporate securities and miscellaneous

The Company uses a pricing model that utilizes market-based inputs such as trades in an illiquid market for a particular security or trades in active markets for securities with similar characteristics. The model considers other inputs such as benchmark yields, issuer spreads, security terms and conditions, and other market data. These represent Level 2 fair value inputs.

Commercial mortgage-backed securities, residential mortgage-backed securities and asset-backed securities

The Company uses a pricing model that utilizes market-based inputs that may include dealer quotes, market spreads, and yield curves. It may evaluate individual tranches in a security by determining cash flows using the security's terms and conditions, collateral performance, credit information benchmark yields and estimated prepayments. These represent Level 2 fair value inputs.

Mortgage loans

Mortgage loans have variable interest rates and are collateralized by real property. The Company determines fair value of mortgage loans using the income approach utilizing inputs that are observable and unobservable (Level 3). The unobservable input consists of the spread applied to a prime rate used to discount cash flows. The spread represents the incremental cost of capital based on the borrower’s ability to make future payments and the value of the collateral relative to the loan balance and is subject to judgement and uncertainty.

The following table sets forth the range and weighted average, weighted by relative fair value, of the spread as of September 30, 2023:

	September 30, 2023
High	**15.28 %**
Low	**4.50 %**
Weighted average	**6.82 %**

The following tables set forth the Company’s investments within the fair value hierarchy at September 30, 2023 and December 31, 2022:

September 30, 2023 *($ in thousands)*	Level 1	Level 2	Level 3	Total
Fixed maturity securities, available-for-sale:				
U.S. government securities	$ 46,382	$ —	$ —	$ 46,382
Corporate securities and miscellaneous	—	333,009	—	333,009
Municipal securities	—	83,367	—	83,367
Residential mortgage-backed securities	—	230,698	—	230,698
Commercial mortgage-backed securities	—	17,671	—	17,671
Asset-backed securities	—	163,737	—	163,737
Total fixed maturity securities, available-for-sale	46,382	828,482	—	874,864
Fixed maturity securities, held-to-maturity:				
Asset-backed securities	—	—	40,769	40,769
Total fixed maturity securities, held-to-maturity	—	—	40,769	40,769
Common stocks:				
Consumer discretionary	1,687	—	—	1,687
Consumer staples	13,345	—	—	13,345
Energy	3,434	—	—	3,434
Finance	21,556	—	—	21,556
Industrial	10,681	—	—	10,681
Information technology	3,974	—	—	3,974
Materials	3,173	—	—	3,173
Other	2,291	—	—	2,291
Total common stocks	60,141	—	—	60,141
Preferred stocks:				
Consumer staples	—	404	—	404
Finance	—	4,756	—	4,756
Industrial	—	1,025	—	1,025
Other	—	714	—	714
Total preferred stocks	—	6,899	—	6,899
Mutual funds:				
Fixed income	5,197	—	—	5,197
Equity	34,678	—	—	34,678
Commodity	472	—	—	472
Total mutual funds	40,347	—	—	40,347
Total equity securities	100,488	6,899	—	107,387
Mortgage loans	—	—	59,318	59,318
Short-term investments	194,049	—	—	194,049
Total investments	$ 340,919	$ 835,381	$ 100,087	$ 1,276,387

December 31, 2022 *($ in thousands)*	Level 1	Level 2	Level 3	Total
Fixed maturity securities, available-for-sale:				
U.S. government securities	$ 48,541	$ —	$ —	$ 48,541
Corporate securities and miscellaneous	—	235,129	—	235,129
Municipal securities	—	57,727	—	57,727
Residential mortgage-backed securities	—	119,856	—	119,856
Commercial mortgage-backed securities	—	36,495	—	36,495
Asset-backed securities	—	109,824	—	109,824
Total fixed maturity securities, available-for-sale	48,541	559,031	—	607,572
Fixed maturity securities, held-to-maturity:				
Asset-backed securities	—	—	46,771	46,771
Total fixed maturity securities, held-to-maturity:	—	—	46,771	46,771
Common stocks:				
Consumer discretionary	1,948	—	—	1,948
Consumer staples	12,036	—	—	12,036
Energy	3,241	—	—	3,241
Finance	22,636	—	—	22,636
Industrial	9,452	—	—	9,452
Information technology	2,284	—	—	2,284
Materials	2,820	—	—	2,820
Other	1,579	—	—	1,579
Total common stocks	55,996	—	—	55,996
Preferred stocks:				
Consumer staples	—	117	—	117
Finance	—	7,085	—	7,085
Industrial	—	1,020	—	1,020
Other	—	549	—	549
Total preferred stocks	—	8,771	—	8,771
Mutual funds:				
Fixed income	5,068	—	—	5,068
Equity	49,773	—	—	49,773
Commodity	561	—	—	561
Total mutual funds	55,402	—	—	55,402
Total equity securities	111,398	8,771	—	120,169
Mortgage loans	—	—	52,842	52,842
Short-term investments	121,158	—	—	121,158
Total investments	$ 281,097	$ 567,802	$ 99,613	$ 948,512

The following table sets forth the changes in the fair value of instruments carried at fair value with a Level 3 measurement during the nine months ended September 30, 2023:

($ in thousands)	Mortgage Loans
Balance at December 31, 2022	**$ 52,842**
Total gains for the period recognized in net investment gains (losses)	**22**
Issuances	**892**
Settlements	**(11,421)**
Balance at March 31, 2023	**$ 42,335**
Total losses for the period recognized in net investment gains (losses) attributable to the change in unrealized gains or losses relating to assets held as of period end	**$ (14)**
Total gains for the period recognized in net investment gains (losses)	**(21)**
Issuances	**30**
Settlements	**(9,582)**
Balance at June 30, 2023	**$ 32,762**
Total losses for the period recognized in net investment gains (losses) attributable to the change in unrealized gains or losses relating to assets held as of period end	**$ 3**
Total gains for the period recognized in net investment gains (losses)	**26**
Issuances	**26,530**
Settlements	**—**
Balance at September 30, 2023	**$ 59,318**
Total losses for the period recognized in net investment gains (losses) attributable to the change in unrealized gains or losses relating to assets held as of period end	**$ 26**

The Company measures certain assets, including investments in indirect loans and loan collateral, equity method investments and other invested assets, at fair value on a nonrecurring basis only when they are deemed to be impaired.

In addition to the preceding disclosures on assets and liabilities recorded at fair value in the consolidated balance sheets, the Company is also required to disclose the fair values of certain other financial instruments for which it is practicable to estimate fair value. Estimated fair value amounts, defined as the quoted market price of a financial instrument, have been determined using available market information and other appropriate valuation methodologies. However, considerable judgements are required in developing the estimates of fair value where quoted market prices are not available. Accordingly, these estimates are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions or estimating methodologies may have an effect on the estimated fair value amounts.

The following methods and assumptions were used in estimating the fair value disclosures of other financial instruments:

Fixed maturity securities, held-to-maturity: Fixed maturity securities, held-to-maturity consists of senior and junior notes with target rates of return. As of September 30, 2023, the Company determined the fair value of these instruments using the income approach utilizing inputs that are unobservable (Level 3).

Notes payable: The carrying value approximates the estimated fair value for notes payable as the notes payable accrue interest at current market rates plus a spread. The Company determines fair value using the income approach utilizing inputs that are observable (Level 2).

Subordinated debt: Subordinated debt consists of two debt instruments, the Junior Subordinated Interest Debentures, due September 15, 2036, and Unsecured Subordinated Notes, due May 24, 2039. The carrying value of the Junior Subordinated Interest Debentures approximates the estimated fair value as the instrument accrues interest at current market rates plus a spread. Unsecured Subordinated Notes have a fixed interest rate. The Company determines the fair value of these instruments using the income approach utilizing inputs that are observable (Level 2).

The following table sets forth the Company's carrying and fair values of notes payable and subordinated debt as of September 30, 2023 and December 31, 2022:

	September 30, 2023		December 31, 2022	
($ in thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
Notes Payable				
Term loan, due December 31, 2024	**$ —**	**$ —**	$ 50,000	$ 50,000
Revolving credit facility	**50,000**	**50,000**	—	—
Notes payable	**$ 50,000**	**$ 50,000**	$ 50,000	$ 50,000
Subordinated Debt				
Junior subordinated interest debentures	**$ 59,174**	**$ 59,794**	$ 59,137	$ 59,794
Unsecured subordinated notes	**19,496**	**19,326**	19,472	18,934
Subordinated debt, net of debt issuance costs	**$ 78,670**	**$ 79,120**	$ 78,609	$ 78,728

Other financial instruments qualify as insurance-related products and are specifically exempted from fair value disclosure requirements.

4. Mortgage Loans

The Company has invested in Separately Managed Accounts ("SMA1" and "SMA2"), managed by Arena Investors, LP ("Arena"), which is affiliated with The Westaim Corporation ("Westaim") who, directly and through Westaim HIIG LP (a limited partnership controlled by Westaim), is the Company's largest stockholder. As of September 30, 2023 and December 31, 2022, the Company held direct investments in mortgage loans from various creditors through SMA1 and SMA2.

The Company's mortgage loan portfolios are primarily senior loans on real estate across the U.S. The loans earn interest at a fixed spread above a prime rate, mature in approximately 1 to 2 years from loan origination and the principal amounts of the loans range between 61% to 90% property's appraised value at the time the loans were made. Mortgage loan participations are carried at fair value as of September 30, 2023 and cost adjusted for unamortized premiums, discounts, and loan fees as of December 31, 2022.

The carrying value of the Company's mortgage loans as of September 30, 2023 and December 31, 2022 were as follows:

($ in thousands)	**September 30, 2023**	December 31, 2022
Commercial	**$ 16,469**	$ 15,309
Retail	**16,262**	16,516
Hospitality	**17,846**	4,915
Industrial	**6,117**	6,329
Multi-family	**2,624**	5,593
Office	**—**	3,197
	$ 59,318	$ 51,859

The Company's gross investment income for mortgage loans for the three and nine months ended September 30, 2023 and 2022 were as follows:

	Three months ended September 30,		Nine months ended September 30,	
($ in thousands)	**2023**	2022	**2023**	2022
Commercial	**$ 588**	$ 320	**$ 1,637**	$ 707
Retail	**364**	337	**1,375**	846
Hospitality	**204**	116	**497**	264
Office	**—**	84	**203**	306
Multi-family	**93**	237	**285**	553
Industrial	**—**	181	**—**	433
	$ 1,249	$ 1,275	**$ 3,997**	$ 3,109

The uncollectible amounts on loans, on an individual loan basis, are determined based upon consultations and advice from the Company's specialized investment manager and consideration of any adverse situations that could affect the borrower's ability to repay, the estimated value of underlying collateral, and other relevant factors. The Company writes off the uncollectible amount in the period it was determined to be uncollectible. There was no write-off for uncollectible amounts during the three and nine months ended September 30, 2023 and 2022.

As of September 30, 2023 and December 31, 2022, approximately $6.7 million and $6.4 million of mortgage loans, respectively, were in the process of foreclosure. The carrying value of the mortgage loans in foreclosure is the lower of cost adjusted for unamortized premiums, discounts, and loan fees or the fair value of the collateral less costs to sell.

5. Other Long-Term Investments

Equity Method Investments

The Company's ownership interests in most of its equity method investments range from approximately 3% to less than 50% where the Company has significant influence but not control.

The carrying value of the Company's equity method investments as of September 30, 2023 and December 31, 2022 were as follows:

($ in thousands)	**September 30, 2023**	December 31, 2022
Arena Special Opportunities Fund, LP units	**$ 41,531**	$ 44,504
JVM Funds LLC units	**20,651**	22,473
Arena SOP LP units	**4,797**	8,734
RISCOM	**4,810**	4,037
Hudson Ventures Fund 2 LP units	**4,365**	3,551
Dowling Capital Partners LP units	**2,305**	1,965
Universa Black Swan LP units	**—**	1,325
Brewer Lane Ventures Fund II LP units	**336**	200
	$ 78,795	$ 86,789

The following table sets forth the components of net investment (loss) income from equity method investments for the three and nine months ended September 30, 2023 and 2022:

	Three months ended September 30,		Nine months ended September 30,	
($ in thousands)	**2023**	2022	**2023**	2022
Dowling Capital Partners LP units	**$ 172**	$ (31)	**$ 777**	$ 524
RISCOM	**468**	373	**773**	1,199
Brewer Lane Ventures Fund II LP	**(25)**	—	**(54)**	—
Hudson Ventures Fund II LP units	**551**	(26)	**138**	371
JVM Funds LLC	**(252)**	220	**(893)**	(548)
Universa Black Swan LP units	**(84)**	(812)	**(988)**	(2,362)
Arena SOP LP units	**(1,160)**	(4,068)	**(3,938)**	3,702
Arena Special Opportunities Fund, LP units	**326**	483	**(2,587)**	4,729
	$ (4)	$ (3,861)	**$ (6,772)**	$ 7,615

The following table sets forth the unfunded commitment of equity method investments as of September 30, 2023 and December 31, 2022:

($ in thousands)	**September 30, 2023**	December 31, 2022
Brewer Lane Ventures Fund II LP units	**$ 4,610**	$ 4,800
Hudson Ventures Fund 2 LP units	**1,120**	1,796
Dowling Capital Partners LP units	**386**	386
	$ 6,116	$ 6,982

The difference between the cost of an investment and its proportionate share of the underlying equity in net assets is allocated to the various assets and liabilities of the equity method investment. The Company amortizes the difference in net assets over the same useful life of a similar asset as the underlying equity method investment. For investment in RISCOM, a similar asset would be agent relationships. The Company amortizes this difference over a 15-year useful life.

The following table sets forth the Company’s recorded investment in RISCOM compared to its share of underlying equity as of September 30, 2023 and December 31, 2022:

($ in thousands)	**September 30, 2023**	December 31, 2022
Investment in RISCOM:		
Underlying equity	**$ 3,248**	$ 2,292
Difference	**1,562**	1,745
Recorded investment balance	**$ 4,810**	$ 4,037

The following table sets forth the Company’s recorded investment in JVM Funds LLC compared to its share of underlying equity as of September 30, 2023 and December 31, 2022:

($ in thousands)	**September 30, 2023**	December 31, 2022
Investment in JVM Funds LLC:		
Underlying equity	**$ 19,856**	$ 21,565
Difference	**795**	908
Recorded investment balance	**$ 20,651**	$ 22,473

Investment in Indirect Loans and Loan Collateral

As of September 30, 2023 and December 31, 2022, the Company held indirect investments in collateralized loans and loan collateral through SMA1 and SMA2.

The carrying value and unfunded commitment of the SMA1 and SMA2 as of September 30, 2023 and December 31, 2022 were as follows:

	September 30, 2023		December 31, 2022	
($ in thousands)	Carrying Value	Unfunded Commitment	Carrying Value	Unfunded Commitment
SMA1	**$ 31,958**	**$ —**	$ 36,426	$ —
SMA2	**444**	**—**	2,010	—
Investment in indirect loans and loan collateral	**$ 32,402**	**$ —**	$ 38,436	$ —

Investment in Trust

The Company carries its investment in the common stock of the Delos Capital Trust n/k/a HIIG Capital Trust I ("Trust") at cost. There were no impairments or observable changes in price during the nine months ended September 30, 2023 and 2022.

6. <u>Allowance for Credit Losses</u>

Premiums Receivable

The following table sets forth the changes in the allowance for expected credit losses on premiums receivable for the nine months ended September 30, 2023.

($ in thousands)	Allowance for Credit Losses
Balance at December 31, 2022	**$ 629**
Cumulative effect of adoption of ASU 2016-13 at January 1, 2023	**—**
Current period change for estimated uncollectible premiums	**409**
Write-offs of uncollectible premiums receivable	**(56)**
Balance at March 31, 2023	**$ 982**
Current period change for estimated uncollectible premiums	**37**
Write-offs of uncollectible premiums receivable	**(96)**
Recoveries of amounts previously written off	**18**
Balance at June 30, 2023	**$ 941**
Current period change for estimated uncollectible premiums	**277**
Write-offs of uncollectible premiums receivable	**(228)**
Recoveries of amounts previously written off	**17**
Balance at September 30, 2023	**$ 1,007**

Reinsurance Recoverables

The Company analyzes the credit risk associated with its reinsurance recoverables by monitoring the financial strength rating of its reinsurers from A.M. Best, a widely recognized rating agency with an exclusive insurance industry focus. The Company assesses the financial strength rating annually and updated throughout the year as A.M. Best provides updates on ratings and outlooks. The Company assesses the adequacy of various forms of credit enhancements such as reinsurance payables, letters of credit and funds held. The Company's reinsurance recoverables net of credit enhancements by A.M. Best rating as of September 30, 2023 was as follows:

A.M. Best Rating	**September 30, 2023**
A- and above	**98.0 %**
B++ to B+	**2.0**
Not rated	**—**

The Company considers reinsurance balances to be past due when they are 90 days past due. The following table sets forth the changes in the allowance for estimated uncollectible reinsurance for the nine months ended September 30, 2023:

($ in thousands)		Allowance for Credit Losses
Balance at December 31, 2022	**$**	**—**
Cumulative effect of adoption of ASU 2016-13 at January 1, 2023		**2,295**
Current period change for estimated uncollectible reinsurance		**—**
Write-offs of uncollectible reinsurance recoverables		**—**
Balance at March 31, 2023	**$**	**2,295**
Current period change for estimated uncollectible reinsurance		**—**
Write-offs of uncollectible reinsurance recoverables		**—**
Balance at June 30, 2023	**$**	**2,295**
Current period change for estimated uncollectible reinsurance		**—**
Write-offs of uncollectible reinsurance recoverables		**—**
Balance at September 30, 2023	**$**	**2,295**

7. Notes Payable

The Company entered into an agreement to obtain a new unsecured revolving credit facility (the "Revolving Credit Facility") with a syndicate of participating banks during the first quarter of 2023. The Revolving Credit Facility provided the Company with up to a $150.0 million revolving credit facility, with an accordion that can increase the capacity by $50.0 million, and a letter of credit sub-facility of up to $30.0 million.

During the nine months ended September 30, 2023, the Company drew $50.0 million on the Revolving Credit Facility and used the proceeds to pay off the principal on its existing term loan. The Company subsequently terminated the existing term loan and revolving line of credit.

Interest on the Revolving Credit Facility is payable quarterly. The interest rate on the Revolving Credit Facility is the Secured Overnight Financing Rate ("SOFR") plus a margin of between 150 and 190 basis points based on the ratio of debt to total capital and a credit spread adjustment of 10 basis points. At September 30, 2023, the six-month SOFR on the Revolving Credit Facility was 5.47%, plus a margin of 1.60%.

The Company was subject to covenants on the Revolving Credit Facility based on minimum net worth, maximum debt to capital ratio, minimum A.M. Best Rating and minimum liquidity. As of September 30, 2023, the Company was in compliance with all covenants.

8. Stockholders' Equity

Reverse Stock Split

On September 23, 2022, the Board of Directors approved a 4-for-1 reverse stock split of the Company's common stock. The reverse stock split became effective January 3, 2023. All share and per share information included in the accompanying consolidated financial statements and notes to the consolidated financial statements have been retroactively adjusted to reflect the reverse stock split of common stock for all periods presented.

Initial Public Offering

On January 4, 2023, the Company announced the launch of its initial public offering ("IPO") of its common stock. On January 12, 2023, the Company priced its IPO of 8,952,383 shares of its common stock, with 4,750,000 shares offered by the Company and 4,202,383 shares sold by selling stockholders, at a price of $15.00 per share. The shares began trading on January 13, 2023 on the Nasdaq Global Select Market under the ticker symbol "SKWD."

The Company completed its IPO on January 18, 2023. The underwriters exercised in full their option to purchase 1,342,857 additional shares of common stock from the selling stockholders, at a price per share of $15.00. The Company's net proceeds from the IPO were approximately $62.0 million, after deducting underwriting discounts and specific incremental expenses directly attributable to the IPO.

Upon the closing of its IPO, the Company filed an amended and restated certificate of incorporation which, among other things, increased the number of authorized shares consisting of 500,000,000 shares of common stock, par value $0.01 per share, and 10,000,000 shares of preferred stock, par value $0.01 per share.

Preferred Shares Conversion

The Preferred Shares had preference in liquidation over common stock in the amount of the face value of $50.00 per share and any declared but unpaid dividends to related common shares at the applicable conversion rate. The Preferred Shares provided the holder the option at any time to convert the Preferred Shares into common stock based on the Option Conversion Rate. At December 31, 2022, the Company had 1,969,660 Preferred Shares that could be converted to 16,305,113 common shares based on a conversion price equal to $6.04 per common share.

The Preferred Shares were subject to mandatory conversion upon the closing of an IPO at the Mandatory Conversion Rate. At December 31, 2022, the Mandatory Conversion Rate allowed the holder of the Preferred Shares the right to convert into common stock based on a conversion price equal to $6.04 per common share. On January 18, 2023, the 1,969,660 Preferred Shares converted to 16,305,113 shares of common stock upon the Company's closing of its IPO.

9. Income Taxes

The following table sets forth the Company's income tax expense (benefit) and effective tax rates for the three and nine months ended September 30, 2023 and 2022:

	Three months ended September 30,		**Nine months ended September 30,**	
($ in thousands	**2023**	2022	**2023**	2022
Income tax expense (benefit)	**$ 6,084**	$ (719)	**$ 15,814**	$ 4,842
Effective tax rate	**21.9 %**	23.1 %	**21.8 %**	20.3 %

The effective tax rate will differ from the statutory rate of 21 percent due to permanent differences for disallowed expenses for tax and beneficial adjustments for tax-exempt income and dividends-received deduction.

The Company paid federal income taxes of $10.0 million during the nine months ended September 30, 2023.

10. Losses and Loss Adjustment Expenses

The following table sets forth the reconciliation of unpaid losses and loss adjustment expenses ("LAE") as reported in the condensed consolidated balance sheets as of and for the nine months ended September 30, 2023 and 2022:

	Nine months ended September 30,	
($ in thousands)	**2023**	2022
Reserves for losses and LAE, beginning of period	**$ 1,141,757**	$ 979,549
Less: reinsurance recoverable on unpaid claims, beginning of period	**(435,986)**	(381,338)
Reserves for losses and LAE, beginning of period, net of reinsurance	**705,771**	598,211
Incurred, net of reinsurance, related to:		
Current period	**378,811**	284,265
Prior years	**—**	14,385
Total incurred, net of reinsurance	**378,811**	298,650
Paid, net of reinsurance, related to:		
Current period	**67,267**	62,864
Prior years	**187,256**	158,749
Total paid	**254,523**	221,613
Net reserves for losses and LAE, end of period	**830,059**	675,248
Plus: reinsurance recoverable on unpaid claims, end of period	**438,652**	386,752
Reserves for losses and LAE, end of period	**$ 1,268,711**	$ 1,062,000

11. Commission and Fee Income

Skyward Underwriters Agency, Inc. ("SUA"), a subsidiary of the Company, is a managing general insurance agent and reinsurance broker for property and casualty and accident and health risks in specialty niche markets. Commission and fee income is primarily generated from SUA for the placement of insurance policies on either a third-party insurance or reinsurance company.

The following table sets forth the Company's disaggregated revenues from contracts with customers for the three and nine months ended September 30, 2023 and 2022:

	Three months ended September 30,		Nine months ended September 30,	
($ in thousands)	**2023**	2022	**2023**	2022
SUA commission revenue	**$ 1,357**	$ 967	**$ 3,599**	$ 2,626
SUA fee income	**672**	280	**1,933**	785
Other	**56**	115	**285**	241
Total commission and fee income	**$ 2,085**	$ 1,362	**$ 5,817**	$ 3,652

The Company's contract assets from commission and fee income as of September 30, 2023 and December 31, 2022 were $2.3 million and $1.3 million, respectively. Contract assets were $1.7 million and $1.2 million as of September 30, 2022 and December 31, 2021, respectively.

12. Underwriting, Acquisition and Insurance Expenses

The following table sets forth the components of underwriting, acquisition and insurance expenses for the three and nine months ended September 30, 2023 and 2022:

	Three months ended September 30,		Nine months ended September 30,	
($ in thousands)	**2023**	2022	**2023**	2022
Amortization of policy acquisition costs	**$ 34,071**	$ 17,379	**$ 78,442**	$ 45,514
Other operating and general expenses	**34,244**	29,961	**98,211**	86,744
Total underwriting, acquisition and insurance expenses	**$ 68,315**	$ 47,340	**$ 176,653**	$ 132,258

13. Reinsurance

Certain premiums and benefits are assumed from and ceded to other insurance companies under various reinsurance agreements. The reinsurance agreements provide the Company with increased capacity to write larger risks and maintain its exposure to loss within its capital resources. The Company remains obligated for amounts ceded in the event that the reinsurers do not meet their obligations.

The following table sets forth the effects of reinsurance on written and earned premiums and losses and loss adjustment expenses for the three and nine months ended September 30, 2023 and 2022:

	Three months ended September 30,			
	2023		2022	
($ in thousands)	Written	Earned	Written	Earned
Direct premiums	**$ 308,215**	**$ 299,294**	$ 246,339	$ 242,727
Assumed premiums	**47,517**	**51,665**	23,911	30,020
Ceded premiums	**(75,036)**	**(123,926)**	(98,795)	(114,699)
Net premiums	**$ 280,696**	**$ 227,033**	$ 171,455	$ 158,048
Ceded losses and LAE incurred		**$ 103,753**		$ 60,878

	Nine months ended September 30,			
	2023		2022	
($ in thousands)	Written	Earned	Written	Earned
Direct premiums	**$ 947,977**	**$ 845,200**	$ 771,668	$ 695,567
Assumed premiums	**190,247**	**139,522**	107,451	82,549
Ceded premiums	**(441,650)**	**(380,511)**	(383,532)	(332,265)
Net premiums	**$ 696,574**	**$ 604,211**	$ 495,587	$ 445,851
Ceded losses and LAE incurred		**$ 255,855**		$ 190,465

The following table sets forth the components of reinsurance recoverables and ceded unearned premium as of September 30, 2023 and December 31, 2022:

($ in thousands)	**September 30, 2023**	December 31, 2022
Ceded unpaid losses and LAE	**$ 438,652**	$ 435,986
Ceded paid losses and LAE	**153,735**	107,228
Loss portfolio transfer	**25,583**	38,145
Allowance for credit losses	**(2,295)**	—
Reinsurance recoverables	**$ 615,675**	$ 581,359
Ceded unearned premium	**$ 218,784**	$ 157,645

The Company entered into agreements with several of its reinsurers, whereby the reinsurer established funded trust accounts with the Company as the sole beneficiary. These trust accounts provide the Company additional security to collect claim recoverables under reinsurance contracts and the Company does not carry these on the balance sheet because the Company will only have custody over these accounts upon the failure of the reinsurer to pay amounts due. At September 30, 2023, the market value of these accounts was approximately $137.4 million. The agreements provide that, as was customary in the past, the reinsurer will continue claim payment reimbursements without disturbing the trust balances. The trust amount will be adjusted periodically, by mutual agreement, based on loss reserve recoverables.

Certain ceded reinsurance contracts that transfer only significant timing risk and do not transfer sufficient underwriting risk are accounted for using the deposit method of accounting. The Company's deposit asset at September 30, 2023 and December 31, 2022 was $33.2 million and $41.8 million, respectively, and was included in other assets on the condensed consolidated balance sheets.

14. Stock Based Compensation

On September 23, 2022, the Compensation Committee of the Company's Board of Directors ("Compensation Committee") approved the Company's 2022 Long-Term Incentive Plan (the "2022 Plan"), which became effective on January 12, 2023. The 2022 Plan provides for the granting of restricted stock, restricted stock units, performance stock units, stock options as well as cash-based performance awards, to select employees and non-employee directors of the Company. The 2022 Plan stated that 3,200,516 shares of common stock were available for issuance.

On September 23, 2022, the Compensation Committee approved the Company's 2022 Employee Stock Purchase Plan (the "ESPP"), which became effective on May 15, 2023. Under the ESPP, all employees of the Company may choose, at two different specified time intervals each year, to have a percentage of their annual base earnings withheld to purchase the Company's common stock. The purchase price of the common stock is 85% of the lower of its beginning-of-interval or end-of-interval market price. As of September 30, 2023, 376,531 common stock were available for purchase under this plan.

In December 2020, the Compensation Committee approved a Long Term Incentive Plan (the "2021 Plan"). The 2021 Plan provides for the granting of restricted stock, restricted stock units and performance stock units (collectively "restricted stock units" or "stock units"), as well as cash-based performance awards, to select employees and non-employee directors of the Company.

The Compensation Committee granted 1,101,116 and 198,842 shares of restricted stock and restricted stock units during the nine months ended September 30, 2023 and 2022, under the 2022 Plan and 2021 Plan, respectively. Members of the Board of Directors were granted 22,742 and 15,196 shares of restricted stock during the nine months ended September 30, 2023 and 2022, respectively, with a service period of 1 year. The fair value of restricted stock and restricted stock units under the 2022 Plan for awards granted at the time of the Company's IPO were granted at the IPO price of $15.00 per share. The fair value of subsequent grants were equal to the closing stock price on the date the restricted stock units were granted.

The Compensation Committee granted 759,990 stock options during the nine months ended September 30, 2023. The grant date fair value of the options under the 2022 Plan was determined using the Black-Scholes model where the term was the contractual term of 10 years less the weighted average service period. The volatility was determined based on the historical volatility of comparable publicly traded insurance companies.

The grant date fair value of options under the ESPP was determined using the Black-Scholes model where the term was the length of time between the grant date and the date the options are exercisable of 6 months. The volatility was determined based on the historical volatility of comparable publicly traded insurance companies.

The restricted stock and restricted stock units granted to employees and the Board of Directors during the nine months ended September 30, 2023 and 2022 were valued at approximately $17.7 million and $2.6 million, respectively, based on the grant date fair value. The stock options granted to employees during the nine months ended September 30, 2023 were valued at approximately $4.4 million based on the grant date fair value.

The following table sets forth the Company’s equity awards, target payout ranges and authorized target restricted stock and stock units for the nine months ended September 30, 2023 and 2022:

	Award Payout Range	Requisite Service Period	Target Stock and Stock Units
Nine months ended September 30, 2023			
Market condition awards	**0%–150%**	**3 years**	**37,622**
Performance condition awards	**0%–150%**	**3 years**	**95,456**
Service condition awards	**N/A**	**1–4 years**	**968,038**
Stock options	**N/A**	**3–4 years**	**759,990**
			1,861,106
Nine months ended September 30, 2022			
Market condition awards	0%–150%	3 years	28,495
Performance condition awards	0%–150%	3 years	26,210
Service condition awards	N/A	1–3 years	144,137
			198,842

The following table sets forth option activity for the nine months ended September 30, 2023:

	Weighted-Average Exercise Price	Stock
Outstanding at January 1, 2023		—
Granted	**$ 15.00**	**759,990**
Exercised		—
Forfeited		—
Outstanding at September 30, 2023		**759,990**

The intrinsic value of each option is determined based on the difference between the fair value of the underlying share and the exercise price of the underlying option. The aggregate intrinsic value of options outstanding at September 30, 2023 was $9.4 million. The weighted-average remaining contractual life of the options outstanding at September 30, 2023 was 9.3 years.

The following table sets forth the Company’s restricted stock and restricted stock units activity for the nine months ended September 30, 2023 and 2022:

	Weighted-Average Grant-Date Fair Value	Stock and Stock Units
Non-vested at January 1, 2023	**$ 12.55**	**419,896**
Granted	**16.06**	**1,101,116**
Vested	**13.21**	**(35,954)**
Forfeited	**15.30**	**(36,354)**
Non-vested at September 30, 2023	**$ 15.12**	**1,448,704**
Non-vested at January 1, 2022	$ 13.23	375,643
Granted	14.17	198,842
Vested	15.55	(126,978)
Forfeited	12.51	(10,547)
Non-vested at September 30, 2022	$ 12.54	436,960

The total fair value of shares vested at September 30, 2023 and 2022 were $1.0 million and $2.0 million, respectively.

As of September 30, 2023 the total unrecognized compensation cost related to non-vested, stock-based compensation awards was $18.1 million and the weighted average period over which that cost is expected to be recognized is 1.7 years. For the three and nine months ended September 30, 2023, the Company recognized $2.3 million and $6.2 million of stock-based compensation expense, respectively. For the three and nine months ended September 30, 2022, the Company recognized $0.5 million and $1.7 million, of stock-based compensation expense, respectively.

15. Earnings Per Share

The following table sets forth a reconciliation of the numerator and denominator of basic and diluted earnings (loss) per share computations contained in the period-ended consolidated financial statements for the three and nine months ended September 30, 2023 and 2022:

	Three months ended September 30,		Nine months ended September 30,	
($ in thousands, except for share and per share amounts)	**2023**	2022	**2023**	2022
Numerator				
Net income (loss)	**$ 21,711**	$ (2,399)	**$ 56,719**	$ 18,977
Less: Undistributed income allocated to participating securities	**—**	—	**(1,492)**	(9,124)
Net income (loss) attributable to common stockholders (numerator for basic earnings per share)	**21,711**	(2,399)	**55,227**	9,853
Add back: Undistributed income allocated to participating securities	**—**	—	**1,492**	9,124
Net income (loss) (numerator for diluted earnings per share under the two-class method)	**$ 21,711**	$ (2,399)	**$ 56,719**	$ 18,977
Denominator				
Basic weighted-average common shares	**36,743,393**	16,465,588	**35,502,843**	16,464,313
Preferred shares (if converted method)	**—**	—	**959,124**	15,245,533
Contingently issuable instruments (treasury stock method)	**706,794**	—	**684,017**	518,727
Market condition awards (contingently issuable)	**93,935**	—	**89,467**	103,811
Performance awards (contingently issuable)	**87,297**	—	**52,223**	39,231
Restricted stock units (treasury stock method)	**618,750**	—	**467,911**	227,054
Options (treasury stock method)	**153,674**	—	**74,846**	—
Diluted weighted-average common share equivalents	**38,403,843**	16,465,588	**37,830,431**	32,598,669
Basic earnings (loss) per share	**$ 0.59**	$ (0.15)	**$ 1.56**	$ 0.60
Diluted earnings (loss) per share	**$ 0.57**	$ (0.15)	**$ 1.50**	$ 0.58

The Company’s preferred shares participate in dividends and distributions with common stock on an as-converted basis and represent a participating security. Instruments awarded to employees that provide the holder the right to purchase common stock at a fixed price were included as potential common shares, weighted for the portion of the period they were granted, if dilutive.

Anti-dilutive instruments are excluded from the calculation of diluted weighted-average common share equivalents as they would have an anti-dilutive impact. The following table sets forth the weighted-average instruments that were excluded from the calculation of diluted weighted-average common share equivalents during the three and nine months ended September 30, 2023 and 2022:

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	**2023**	2022
Preferred shares (if converted method)	**—**	15,247,437	**—**	—
Contingently issuable instruments (treasury stock method)	**—**	510,577	**—**	3,024
Market condition awards (contingently issuable)	**1,881**	112,454	**1,488**	—
Performance awards (contingently issuable)	**1,670**	42,411	**1,391**	—
Restricted stock units (treasury stock method)	**1,518**	252,180	**1,667**	—
Options (treasury stock method)	**2**	—	**364,714**	—

The Company’s common and preferred shares financed by stock notes are contingently issuable instruments where the holder must return, all or part of, the shares if the stock notes are not paid off. The following table sets forth common share equivalents of contingently issuable instruments (in shares) that were excluded from basic earnings (loss) per share for the three and nine months ended September 30, 2023 and 2022:

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	**2023**	2022
Common shares	**932,588**	80,526	**932,588**	80,526
Preferred shares, if converted	**—**	1,059,602	**—**	1,059,602
Total	**932,588**	1,140,128	**932,588**	1,140,128

The impact of the contingently issuable instruments on diluted earnings (loss) per share was calculated using the treasury stock method and included in the reconciliation of the denominator of the basic and diluted earnings (loss) per share computations for the three and nine months ended September 30, 2023 and 2022.

16. Related Party Transactions

Westaim

In July 2023, Westaim dissolved Westaim HIIG LP and obtained direct ownership of the Company’s common stock held by the partnership. As of September 30, 2023, Westaim owned 28.1% of the Company’s common stock. As of December 31, 2022, Westaim, including shares beneficially owned through Westaim HIIG LP, owned 44.5% of the Company’s common stock. The changes in ownership percentage were primarily due to the IPO, conversion of preferred stock to common stock, distribution of shares controlled by Westaim through a limited partnership, and secondary offering.

The Company’s investment in Westaim was included in equity securities on the consolidated balance sheets. The unrealized loss on this investment as of September 30, 2023 and December 31, 2022 was $1.3 million and $2.3 million, respectively.

Prior to the closing of the IPO, Westaim performed consulting and certain other services for the Company pursuant to a Management Services Agreement. This agreement terminated pursuant to its terms upon the closing of the IPO.

RISCOM

RISCOM provides the Company with wholesale brokerage services. RISCOM and the Company also have a managing general agency agreement. The Company holds a 20% ownership interest in RISCOM.

Net earned premium and gross commission expense related to these agreements for the three and nine months ended September 30, 2023 and 2022 were as follows:

	Three months ended September 30,		Nine months ended September 30,	
($ in thousands)	**2023**	2022	**2023**	2022
Net earned premium	**$ 31,649**	$ 23,712	**$ 73,750**	$ 67,239
Commissions	**6,119**	5,558	**19,122**	18,666

Premiums receivable as of September 30, 2023 and December 31, 2022 were $14.8 million and $9.9 million, respectively.

Reinsurance

The Company has reinsurance agreements with Everest Re, an affiliate of Mt. Whitney Securities, LLC, which was a limited partner of Westaim HIIG LP through November 30, 2022, and holder of preferred shares. During the nine months ended September 30, 2023, Mt. Whitney Securities divested their entire ownership of the Company's equity securities. Reinsurance premiums ceded during the three and nine months ended September 30, 2022 related to the agreement were $11.0 million and $53.2 million, respectively. Reinsurance recoverable from Everest Re, net of premium payables at December 31, 2022 were $177.5 million.

Other

Advisory and professional services fees and expense reimbursements paid to various affiliated stockholders and directors for the three and nine months ended September 30, 2023 were $0.5 million and $3.1 million, respectively, compared to $0.6 million and $2.8 million for the three and nine months ended September 30, 2022, respectively.

See Note 4 and 5 for investments involving affiliated companies and additional related party transactions.

17. Commitments and Contingencies

Litigation

The Company is named as a defendant in various legal actions arising from claims made under insurance policies and contracts. Those actions are considered by the Company in estimating the losses and loss adjustment expense reserves. Also, from time to time, the Company is a defendant in various legal actions that relate to bad faith claims, disputes with third parties or that involve alleged errors and omissions. The Company records accruals for these items to the extent the losses are probable and reasonably estimable. Although the ultimate outcome of these matters cannot be determined at this time, based on present information, the availability of insurance coverage and advice received from outside legal counsel, the Company believes the resolution of any such matters will not, individually or in the aggregate, have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Indemnification

In conjunction with the sale of business assets and subsidiaries, the Company has provided indemnifications to certain of the buyers. Certain indemnifications cover typical representations and warranties related to the responsibilities to perform under the sales contracts. The amount of potential exposure covered by the indemnifications is difficult to determine because the indemnifications cover a variety of matters, operations and scenarios. Certain of these indemnifications have no time limit. At this time, the Company does not have reason to believe any such significant claims exist.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The term "Skyward Specialty" as used below refers only to Skyward Specialty Insurance Group, Inc. and the terms "our Company," "we," "us," and "our" as used below refer to Skyward Specialty Insurance Group and its consolidated subsidiaries. The term "third quarter" as used below refers to the three and nine months ended September 30 for the time period then ended. Select insurance and accounting terms for Skyward Specialty are defined in the section entitled "Select Insurance and Financial Terms" included in our Annual Report on Form 10-K for the year ended December 31, 2022 (the "2022 Form 10-K").

The discussion and analysis below include certain forward-looking statements that are subject to risks, uncertainties and other factors described in "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2022. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of many factors.

The results of operations for the three and nine months ended September 30, 2023 are not necessarily indicative of the results that may be expected for the full year ended December 31, 2023, or for any other future period. The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and the notes thereto included in Part I, Item 1 of this Quarterly Report, and in conjunction with our audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2022.

The accompanying condensed consolidated financial statements and related notes have been prepared in accordance with United States ("U.S.") generally accepted accounting principles ("GAAP").

Overview

Founded in 2006, Skyward Specialty is a specialty insurance holding company incorporated in Delaware. We have one reportable segment through which we offer a broad array of commercial property and casualty products and solutions on a non-admitted (or E&S) and admitted basis, predominantly in the United States. We focus our business on markets that are underserved, dislocated and/or for which standard insurance coverages are insufficient or inadequate to meet the needs of businesses, including our customers and prospective customers operating in these markets. Our customers typically require highly specialized, customized underwriting solutions and claims capabilities. As such, we develop and deliver tailored insurance products and services to address each of the niche markets we serve.

Each of our eight distinct underwriting divisions has dedicated underwriting leadership supported by high-quality technical staff with deep experience in their respective niches. We believe this structure and expertise allows us to serve the needs of our customers effectively and be a value-add partner to our distributors, while earning attractive risk-adjusted returns.

All of our insurance company subsidiaries are group rated and have financial strength ratings of "A-" (Excellent) with positive outlook from the A.M. Best Company.

Key Operating and Financial Metrics

We discuss certain key metrics, described below, which provide useful information about our business and the operational factors underlying our financial performance. These metrics are generally standard among insurance companies and help to provide comparability with our peers.

Net retention, expressed as a percentage, is the ratio of net written premiums to gross written premiums.

Underwriting income (loss) is a non-GAAP financial measure defined as income (loss) before income taxes excluding net investment income, net realized and unrealized gains and losses on investments, impairment charges, interest expense, amortization expense and other income and expenses. See "Reconciliation of Non-GAAP Financial Measures" for a reconciliation of underwriting income (loss) to net income, which is the most directly comparable financial metric prepared in accordance with GAAP.

Loss and LAE ratio, expressed as a percentage, is the ratio of losses and LAE to net earned premiums.

Expense ratio, expressed as a percentage, is the ratio of underwriting, acquisition and insurance expenses less commission and fee income to net earned premiums.

Combined ratio is the sum of loss ratio and expense ratio. A combined ratio under 100% indicates an underwriting profit. A combined ratio over 100% indicates an underwriting loss.

Adjusted loss and LAE ratio, expressed as a percentage, is a non-GAAP financial measure defined as the ratio of losses and LAE, excluding losses and LAE related to the loss portfolio transfer ("LPT") and all development on reserves fully or partially covered by the LPT, to net earned premiums. See "Reconciliation of Non-GAAP Financial Measures" for a reconciliation of adjusted loss ratio to loss ratio, which is the most directly comparable financial metric prepared in accordance with GAAP.

Adjusted combined ratio is a non-GAAP financial measure defined as the sum of the adjusted loss ratio and the expense ratio. See "Reconciliation of Non-GAAP Financial Measures" for a reconciliation of adjusted combined ratio to combined ratio, which is the most directly comparable financial metric prepared in accordance with GAAP.

Adjusted operating income (loss) is a non-GAAP financial measure defined as net income excluding the net impact of the LPT, net realized and unrealized gains or losses on investments, goodwill impairment charges and other income and expenses. See "Reconciliation of Non-GAAP Financial Measures" for a reconciliation of adjusted operating income (loss) to net income (loss), which is the most directly comparable financial metric prepared in accordance with GAAP.

Return on equity is annualized net income as a percentage of average beginning and ending stockholders' equity.

Adjusted return on equity is a non-GAAP financial measure defined as annualized adjusted operating income as a percentage of average beginning and ending stockholders' equity during the applicable period. See "Reconciliation of Non-GAAP Financial Measures" for a reconciliation of adjusted return on equity to return on equity, which is the most directly comparable financial metric prepared in accordance with GAAP.

Tangible stockholders' equity is a non-GAAP financial measure defined as stockholders' equity less goodwill and intangible assets. See "Reconciliation of Non-GAAP Financial Measures" for a reconciliation of tangible stockholders' equity to stockholders' equity, which is the most directly comparable financial metric prepared in accordance with GAAP.

Return on tangible equity is a non-GAAP financial measure defined as annualized net income as a percentage of average beginning and ending tangible stockholders' equity during the applicable period. See "Reconciliation of Non-GAAP Financial Measures" for a reconciliation of return on tangible equity to return on equity, which is the most comparable financial metric prepared in accordance with GAAP.

Adjusted return on tangible equity is a non-GAAP financial measure defined as annualized adjusted operating income as a percentage of average beginning and ending tangible stockholders' equity during the applicable period.

Results of Operations

The following table summarizes our results for the three and nine months ended September 30, 2023 and 2022:

($ in thousands)	**Three months ended September 30, 2023**	Three months ended September 30, 2022	**Nine months ended September 30, 2023**	Nine months ended September 30, 2022
Gross written premiums	**$ 355,732**	$ 270,250	**$ 1,138,224**	$ 879,119
Ceded written premiums	**(75,036)**	(98,795)	**(441,650)**	(383,532)
Net written premiums	**$ 280,696**	$ 171,455	**$ 696,574**	$ 495,587
Net earned premiums	**$ 227,033**	$ 158,048	**$ 604,211**	$ 445,851
Commission and fee income	**2,085**	1,362	**5,817**	3,652
Losses and LAE	**138,536**	111,746	**377,841**	293,536
Underwriting, acquisition and insurance expenses	**68,315**	47,340	**176,653**	132,258
Underwriting income[1]	**$ 22,267**	$ 324	**$ 55,534**	$ 23,709
Net investment income	**$ 13,089**	$ 5,988	**$ 26,318**	$ 31,667
Net investment (losses) gains	**$ (2,984)**	$ (7,305)	**$ 3,328**	$ (26,117)
Income (loss) before income taxes	**$ 27,795**	$ (3,118)	**$ 72,533**	$ 23,819
Net income (loss)	**$ 21,711**	$ (2,399)	**$ 56,719**	$ 18,977
Adjusted operating income[1]	**$ 25,029**	$ 10,696	**$ 56,532**	$ 46,934
Loss and LAE ratio	**61.0 %**	70.7 %	**62.5 %**	65.9 %
Expense ratio	**29.2 %**	29.1 %	**28.3 %**	28.8 %
Combined ratio	**90.2 %**	99.8 %	**90.8 %**	94.7 %
Adjusted loss and LAE ratio[1]	**61.1 %**	64.8 %	**62.7 %**	63.8 %
Expense ratio	**29.2 %**	29.1 %	**28.3 %**	28.8 %
Adjusted combined ratio[1]	**90.3 %**	93.9 %	**91.0 %**	92.6 %
Annualized return on equity	**16.4 %**	(2.3)%	**15.8 %**	6.1 %
Annualized return on tangible equity[1]	**19.7 %**	(3.0)%	**19.4 %**	7.9 %
Annualized adjusted return on equity[1]	**18.9 %**	10.4 %	**15.8 %**	15.2 %
Annualized adjusted return on tangible equity[1]	**22.8 %**	13.4 %	**19.4 %**	19.4 %

[1] *See "Reconciliation of Non-GAAP Financial Measures" in this Item 2*

Reconciliation of Non-GAAP Financial Measures

Adjusted Operating Income (Loss)

The following table provides a reconciliation of adjusted operating income to net income for the three and nine months ended September 30, 2023 and 2022:

	Three months ended September 30,				Nine months ended September 30,			
	2023		2022		**2023**		2022	
($ in thousands)	Pre-tax	After-tax	Pre-tax	After-tax	Pre-tax	After-tax	Pre-tax	After-tax
Income (loss) as reported	**$ 27,795**	**$ 21,711**	$ (3,118)	$ (2,399)	**$ 72,533**	**$ 56,719**	$ 23,819	$ 18,977
Add:								
Other expenses	**1,482**	**1,171**	—	—	**4,061**	**3,208**	—	—
Less:								
Net impact of loss portfolio transfer	**266**	**210**	(9,271)	(7,324)	**970**	**766**	(9,271)	(7,324)
Net investment (losses) gains	**(2,984)**	**(2,357)**	(7,305)	(5,771)	**3,328**	**2,629**	(26,117)	(20,633)
Adjusted operating income	**$ 31,995**	**$ 25,029**	$ 13,458	10,696	**$ 72,296**	**$ 56,532**	$ 59,207	$ 46,934

Underwriting Income (Loss)

The following table provides a reconciliation of underwriting income (loss) to income (loss) before federal income tax for the three and nine months ended September 30, 2023 and 2022:

	Three months ended September 30,		Nine months ended September 30,	
($ in thousands)	**2023**	2022	**2023**	2022
Income (loss) before federal income tax expense (benefit)	**$ 27,795**	$ (3,118)	**$ 72,533**	$ 23,819
Add:				
Interest expense	**2,632**	1,738	**7,250**	4,280
Amortization expense	**463**	387	**1,336**	1,160
Other expenses	**1,482**	—	**4,061**	—
Less:				
Net investment income	**13,089**	5,988	**26,318**	31,667
Net investment (losses) gains	**(2,984)**	(7,305)	**3,328**	(26,117)
Underwriting income	**$ 22,267**	$ 324	**$ 55,534**	$ 23,709

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Adjusted Loss Ratio / Adjusted Combined Ratio

The following table provides a reconciliation of the adjusted loss and LAE ratio and adjusted combined ratio to the loss and LAE ratio and combined ratio for the three and nine months ended September 30, 2023 and 2022:

	Three months ended September 30,		Nine months ended September 30,	
($ in thousands)	**2023**	2022	**2023**	2022
Net earned premiums	**$ 227,033**	$ 158,048	**$ 604,211**	$ 445,851
Losses and LAE	**138,536**	111,746	**377,841**	293,536
Pre-tax net impact of loss portfolio transfer	**(266)**	9,271	**(970)**	9,271
Adjusted losses and LAE	**$ 138,802**	$ 102,475	**$ 378,811**	$ 284,265
Loss ratio	**61.0 %**	70.7%	**62.5 %**	65.9 %
Net impact of LPT	**(0.1)%**	5.9%	**(0.2)%**	2.1%
Adjusted Loss Ratio	**61.1 %**	64.8 %	**62.7 %**	63.8 %
Combined ratio	**90.2 %**	99.8 %	**90.8 %**	94.7 %
Less: Net impact of LPT	**(0.1)%**	5.9%	**(0.2)%**	2.1%
Adjusted Combined Ratio	**90.3 %**	93.9 %	**91.0 %**	92.6 %

Tangible Stockholders' Equity

The following table provides a reconciliation of tangible stockholders' equity to stockholders' equity for the periods ended September 30, 2023 and 2022:

($ in thousands)	**2023**	2022
Stockholders' equity	**$ 535,397**	$ 399,817
Less: Goodwill and intangible assets	**88,808**	90,237
Tangible stockholders' equity	**$ 446,589**	$ 309,580

Adjusted Return on Equity

The following table provides a reconciliation of annualized adjusted return on equity to annualized return on equity for the three and nine months ended September 30, 2023 and 2022:

	Three months ended September 30,		Nine months ended September 30,	
($ in thousands)	**2023**	2022	**2023**	2022
Numerator: annualized adjusted operating income	**$ 100,116**	$ 42,784	**$ 75,376**	$ 62,579
Denominator: average stockholders' equity	**$ 529,038**	$ 409,712	**$ 478,530**	$ 412,949
Annualized adjusted return on equity	**18.9 %**	10.4 %	**15.8 %**	15.2 %

Return on Tangible Equity

Annualized return on tangible equity for the three and nine months ended September 30, 2023 and 2022 reconciles to annualized return on equity as follows:

	Three months ended September 30,		Nine months ended September 30,	
($ in thousands)	**2023**	2022	**2023**	2022
Numerator: annualized net income	**$ 86,844**	$ (9,596)	**$ 75,625**	$ 25,303
Denominator: average tangible stockholders' equity	**$ 440,043**	$ 319,292	**$ 389,191**	$ 322,162
Annualized return on tangible equity	**19.7 %**	(3.0)%	**19.4 %**	7.9 %

Adjusted Return on Tangible Equity

Annualized adjusted return on tangible equity for the three and nine months ended September 30, 2023 and 2022 reconciles to annualized return on equity as follows:

	Three months ended September 30,		Nine months ended September 30,	
($ in thousands)	**2023**	2022	**2023**	2022
Numerator: annualized adjusted operating income	**$ 100,116**	$ 42,784	**$ 75,376**	$ 62,579
Denominator: average tangible stockholders' equity	**$ 440,043**	$ 319,292	**$ 389,191**	$ 322,162
Annualized adjusted return on tangible equity	**22.8 %**	13.4 %	**19.4 %**	19.4 %

Underwriting Results

Premiums

The following tables presents gross written premiums by underwriting division for the three and nine months ended September 30, 2023 and 2022:

	Three months ended September 30,			
($ in thousands)	**2023**	**2022**	**Change**	**% Change**
Global Property & Agriculture	**$ 48,775**	$ 40,808	$ 7,967	19.5 %
Industry Solutions	**79,798**	64,866	14,932	23.0 %
Programs	**41,735**	37,239	4,496	12.1 %
Captives	**41,886**	27,413	14,473	52.8 %
Professional Lines	**48,259**	27,215	21,044	77.3 %
Accident & Health	**39,554**	33,368	6,186	18.5 %
Transactional E&S	**30,699**	21,311	9,388	44.1 %
Surety	**24,977**	18,206	6,771	37.2 %
Total continuing business	**$ 355,683**	$ 270,426	$ 85,257	31.5 %
Exited business	**49**	(176)	225	N/M[1]
Total gross written premiums	**$ 355,732**	$ 270,250	$ 85,482	31.6 %

[1] N/M = Not Meaningful

	Nine months ended September 30,			
($ in thousands)	**2023**	**2022**	**Change**	**% Change**
Global Property & Agriculture	**$ 247,195**	$ 177,565	$ 69,630	39.2 %
Industry Solutions	**226,680**	202,237	24,443	12.1 %
Programs	**143,032**	131,752	11,280	8.6 %
Captives	**127,249**	97,579	29,670	30.4 %
Professional Lines	**114,420**	62,127	52,293	84.2 %
Accident & Health	**112,819**	97,107	15,712	16.2 %
Transactional E&S	**90,948**	52,645	38,303	72.8 %
Surety	**75,899**	53,734	22,165	41.2 %
Total continuing business	**$ 1,138,242**	$ 874,746	$ 263,496	30.1 %
Exited business	**(18)**	4,373	(4,391)	N/M[1]
Total gross written premiums	**$ 1,138,224**	$ 879,119	$ 259,105	29.5 %

[1] N/M = Not Meaningful

The increase in gross written premiums for the third quarter of 2023, when compared to the same 2022 period, was driven by double-digit premium growth from all eight of our underwriting divisions. The double-digit premium growth was due to (i) new business across all of our underwriting divisions, and (ii) increased rates, primarily in industry solutions, captives and transactional E&S.

The increase in gross written premiums for the first nine months of 2023, when compared to the same 2022 period, was primarily driven by double-digit premium growth in our professional lines, transactional E&S, global property and agriculture, surety and captives underwriting divisions. The gross written premium increases were primarily driven by new business and rate increases. During the first nine months of 2023, we added new teams and products in our surety, captives, professional lines and global property and agriculture underwriting divisions.

Net written premiums for the third quarter of 2023 were $280.7 million, an increase of $109.2 million, or 63.7%, when compared to the same 2022 period. Net written premiums for the nine months ended September 30, 2023 were $696.6 million, an increase of $201.0 million or 40.6%. During the third quarter of 2023, the Company rescinded a quota share reinsurance contract, the impact of which increased net written premiums by $50.5 million, respectively, for the third quarter and first nine months of 2023, that had previously been ceded under the contract through the first six months of 2023.

Net earned premiums for the third quarter of 2023 were $227.0 million, an increase of $69.0 million, or 43.6%, when compared to the same 2022 period. Net earned premiums for the nine months ended September 30, 2023 were $604.2 million, an increase of $158.3 million, or 35.5%, when compared to the same 2022 period. The increases in net earned premiums were primarily driven by the same reasons that drove the increases in gross written premiums discussed above. Net earned premiums for the third quarter and first nine months of 2023 were also impacted by the Company's decision to rescind a quota share reinsurance contract, the impact of which increased net earned premiums by $13.1 million, respectively, that had previously been ceded under the contract through the first six months of 2023.

For additional information regarding our reinsurance programs, see the "Reinsurance" discussion included in this Item 2.

Losses and LAE

The following tables set forth the components of the loss and LAE ratios and adjusted loss and LAE ratios for the three and nine months ended September 30, 2023 and 2022:

	Three months ended September 30,					
	2023			2022		
($ in thousands)	Losses and LAE		% of Net Earned Premiums	Losses and LAE		% of Net Earned Premiums
Losses and LAE:						
Non-cat loss and LAE[1]	**$**	**137,802**	**60.7 %**	$	97,975	62.0 %
Cat loss and LAE[1]		**1,000**	**0.4 %**		4,500	2.8 %
Prior accident year development - LPT		**(266)**	**(0.1)%**		9,271	5.9%
Total losses and LAE	**$**	**138,536**	**61.0 %**	$	111,746	70.7 %
Adjusted losses and LAE[2]:						
Non-cat loss and LAE[1]	**$**	**137,802**	**60.7 %**	$	97,975	62.0 %
Cat loss and LAE[1]		**1,000**	**0.4 %**		4,500	2.8 %
Total adjusted losses and LAE[2]	**$**	**138,802**	**61.1 %**	$	102,475	64.8 %

[1] *Current accident year*
[2] *See "Reconciliation of Non-GAAP Financial Measures" included in this Item 2*

	Nine months ended September 30,					
	2023			2022		
($ in thousands)	Losses and LAE		% of Net Earned Premiums	Losses and LAE		% of Net Earned Premiums
Losses and LAE:						
Non-cat loss and LAE[1]	**$**	**367,767**	**60.9 %**	$	279,765	62.8 %
Cat loss and LAE[1]		**11,044**	**1.8 %**		4,500	1.0 %
Prior accident year development - LPT		**(970)**	**(0.2)%**		9,271	2.1%
Total losses and LAE	**$**	**377,841**	**62.5 %**	$	293,536	65.9 %
Adjusted losses and LAE[2]:						
Non-cat loss and LAE[1]	**$**	**367,767**	**60.9 %**	$	279,765	62.8 %
Cat loss and LAE[1]		**11,044**	**1.8 %**		4,500	1.0 %
Total adjusted losses and LAE[2]	**$**	**378,811**	**62.7 %**	$	284,265	63.8 %

[1] *Current accident year*
[2] *See "Reconciliation of Non-GAAP Financial Measures" included in this Item 2*

The loss ratio for the third quarter of 2023 improved 9.7 points when compared to the same 2022 period. The non-cat loss and LAE ratio improved 1.3 points when compared to the same 2022 period, primarily driven by the shift in the mix of business and continued run-off of exited business. Catastrophe losses only added 0.4 points to the current quarter loss ratio compared to the third quarter of 2022, which was impacted by 2.8 points of catastrophe losses from Hurricane Ian. The third quarter of 2022 was impacted by strengthening LPT reserves by $14.4 million partially offset by reinsurance recoveries of $5.1 million, which added 5.9 points to the 2022 loss ratio.

The loss ratio for the first nine months of 2023 improved 3.4 points when compared to the same 2022 period. The non-cat loss and LAE ratio improved 1.9 points when compared to the same 2022 period, primarily driven by the shift in the mix of business and continued run-off of exited business. Catastrophe losses from second and third quarter convective storms and first quarter wind and hail events, including tornadoes, added 1.8 points to the loss ratio compared to the first nine months of 2022, which was impacted by 1.0 point of catastrophe losses from Hurricane Ian. The loss ratio for the first nine months of 2022 included 2.1 points from the net impact of LPT reserve strengthening.

Expense Ratio

The following tables set forth the components of the expense ratios for the three and nine months ended September 30, 2023 and 2022:

	Three months ended September 30,			
	2023		2022	
($ in thousands)	Expenses	% of Net Earned Premiums	Expenses	% of Net Earned Premiums
Net policy acquisition expenses	**$ 34,071**	**15.0 %**	$ 17,379	11.0 %
Other operating and general expenses	**34,244**	**15.1 %**	29,961	19.0 %
Underwriting, acquisition and insurance expenses	**68,315**	**30.1 %**	47,340	30.0 %
Less: commission and fee income	**(2,085)**	**(0.9 %)**	(1,362)	(0.9 %)
Total net expenses	**$ 66,230**	**29.2 %**	$ 45,978	29.1 %

	Nine months ended September 30,			
	2023		2022	
($ in thousands)	Expenses	% of Net Earned Premiums	Expenses	% of Net Earned Premiums
Net policy acquisition expenses	**$ 78,442**	**13.0 %**	$ 45,514	10.2 %
Other operating and general expenses	**98,211**	**16.3 %**	86,744	19.5 %
Underwriting, acquisition and insurance expenses	**176,653**	**29.3 %**	132,258	29.7 %
Less: commission and fee income	**(5,817)**	**(1.0 %)**	(3,652)	(0.9 %)
Total net expenses	**$ 170,836**	**28.3 %**	$ 128,606	28.8 %

The expense ratios for the third quarter and first nine months of 2023 increased slightly and improved 0.5 points, respectively, when compared to the same 2022 periods. The increase in the net policy acquisition cost ratios for the third quarter and first nine months of 2023, when compared to the same 2022 periods, was primarily driven by the (i) shift in the mix of business, and (ii) impact of the cancellation of the quota share reinsurance contract. The improvement in the other operating and general expenses ratios for the third quarter and first nine months of 2023, when compared to the same 2022 periods, was primarily due to the increase in earned premiums.

The expense ratios for the third quarter and first nine months of 2023 exclude the impact of IPO related stock compensation and secondary offering expenses, which are reported in other expenses in our condensed consolidated statements of operations and comprehensive income (loss).

Investment Results

The following tables set forth the components of net investment income and net investment gains (losses) for the three and nine months ended September 30, 2023 and 2022:

$ in thousands	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	**2023**	2022
Short-term and money market investments	**$ 3,148**	$ 496	**$ 8,070**	$ 631
Core fixed income	**8,549**	4,682	**21,855**	10,637
Opportunistic fixed income	**(47)**	632	**(5,617)**	19,106
Equities	**1,438**	171	**2,007**	1,279
Net investment income[(1)]	**$ 13,088**	$ 5,981	**$ 26,315**	$ 31,653
Net unrealized (losses) gains on securities still held	**$ (6,391)**	$ (6,297)	**$ 2,394**	$ (26,180)
Net realized gains (losses)	**3,407**	(1,008)	**934**	63
Net investment (losses) gains	**$ (2,984)**	$ (7,305)	**$ 3,328**	$ (26,117)

[(1)] excludes income from operating cash for the third quarter and first nine months ended September, 30, 2023 and 2022.

Net investment income for the third quarter and first nine months of 2023 increased $7.1 million and decreased $5.3 million, respectively, when compared to the same 2022 periods.

The increase in income from our core fixed income portfolio for the third quarter and first nine months of 2023, when compared to the same 2022 periods, was due to (i) a larger asset base as we continued to increase our allocation to this part of our investment portfolio and (ii) a higher book yield of 4.2% at September 30, 2023 compared to 3.3% at September 30, 2022. The increase in income from short-term and money market investments for the third quarter and first nine months of 2023, when compared to the same 2022 periods, was due to a larger asset base and higher investment yields when compared to the same 2022 periods. The opportunistic fixed income portfolio was impacted by a decline in the fair value of limited partnership investments for the third quarter and first nine months of 2023 when compared to the same 2022 periods.

When a fixed maturity has been determined to have an impairment, the impairment charge is separated into an amount representing the credit loss, which is recognized in earnings as a realized loss and on the balance sheet as an allowance for credit losses netted with the amortized cost of fixed maturities. Future increases in fair value, if related to credit factors, are recognized through earnings limited to the amount previously recognized as an allowance for credit losses. The amount related to non-credit factors is recognized in accumulated other comprehensive income and future increases or decreases in fair value, if not credit losses, are included in accumulated other comprehensive (loss) income. We reviewed our available-for-sale fixed maturities at September 30, 2023 and determined that no credit impairment existed in the gross unrealized holding losses. See Note 2, "Investments" to our condensed consolidated financial statements included in Item 1 of this Form 10-Q for additional information.

Investments

Composition of Investment Portfolio

The following table sets forth the components of our investment portfolio at carrying value at September 30, 2023 and December 31, 2022:

($ in thousands)	**2023**		2022	
	Fair Value	% of Total	Fair Value	% of Total
Short-term and money market investments	**$ 194,844**	**14.0 %**	$ 121,268	11.2 %
Core fixed income	**874,864**	**62.7 %**	607,572	56.1 %
Opportunistic fixed income	**182,533**	**13.0 %**	196,021	18.1 %
Equities	**143,637**	**10.3 %**	157,506	14.6 %
Total investment portfolio	**$ 1,395,878**	**100.0 %**	$ 1,082,367	100.0 %

Core fixed income

The core fixed income portfolio consists primarily of investment grade fixed income securities which are predominantly highly-rated and liquid bonds. Our objective is to earn attractive risk-adjusted returns with a low risk of loss of principal. The portfolio is managed by third party managers. The average duration of the portfolio was approximately 4.4 years and 4.3 years, respectively, as of September 30, 2023 and December 31, 2022.

The following table sets forth the components of our core fixed income portfolio at September 30, 2023 and December 31, 2022:

	2023		2022	
($ in thousands)	Fair Value	% of Total	Fair Value	% of Total
U.S. government securities	**$ 46,382**	**5.3 %**	$ 48,541	8.0 %
Corporate securities and miscellaneous	**333,009**	**38.1 %**	235,129	38.7 %
Municipal securities	**83,367**	**9.5 %**	57,727	9.5 %
Residential mortgage-backed securities	**230,698**	**26.4 %**	119,856	19.7 %
Commercial mortgage-backed securities	**17,671**	**2.0 %**	36,495	6.0 %
Asset-backed securities	**163,737**	**18.7 %**	109,824	18.1 %
Core fixed income securities, available-for-sale	**$ 874,864**	**100.0 %**	$ 607,572	100.0 %

The weighted average credit rating of the portfolio was “AA-” by Standard & Poor’s Financial Services, LLC (“Standard & Poor’s”) at September 30, 2023 and “AA” by Standard & Poor’s at December 31, 2022. The following table sets forth the credit quality of our core fixed income portfolio at September 30, 2023 and December 31, 2022, as rated by Standard & Poor’s or equivalent designation:

	2023		2022	
($ in thousands)	Fair Value	% of Total	Fair Value	% of Total
AAA	**$ 420,240**	**48.0 %**	$ 283,733	46.7 %
AA	**102,939**	**11.8 %**	74,604	12.3 %
A	**194,438**	**22.2 %**	134,175	22.1 %
BBB	**126,493**	**14.5 %**	88,369	14.5 %
BB and Lower	**30,754**	**3.5 %**	26,691	4.4 %
Total core fixed income	**$ 874,864**	**100.0 %**	$ 607,572	100.0 %

Opportunistic fixed income

The opportunistic fixed income portfolio is managed by Arena which is affiliated with Westaim, our largest stockholder. The opportunistic fixed income portfolio consists of separately managed accounts, limited partnerships, promissory notes and equity interests. The underlying securities are primarily floating rate senior secured loans, comprised of short duration, collateralized, asset-oriented credit investments designed to generate attractive risk-adjusted returns. The limited partnerships are subject to future increases or decreases in asset value as asset values are monetized and the income is distributed. As of September 30, 2023, the opportunistic fixed income portfolio consisted of three components: diversified asset based lending (54.3%), commercial mortgage loans (32.5%) and cash and cash equivalents (13.2%).

The following table sets forth the components of our opportunistic fixed income portfolio by industry sector at September 30, 2023 and December 31, 2022:

($ in thousands)	2023 Fair Value	2023 % of Total	2022 Fair Value	2022 % of Total
Real Estate	**$ 96,353**	**52.8 %**	$ 90,370	46.1 %
Oil & Gas	**16,902**	**9.3 %**	20,725	10.6 %
Banking, Finance & Insurance	**13,254**	**7.3 %**	13,870	7.1 %
Other sectors[(1)]	**31,943**	**17.4 %**	34,072	17.4 %
Cash and cash equivalents[(2)]	**24,081**	**13.2 %**	36,984	18.8 %
Opportunistic fixed income	**$ 182,533**	**100.0 %**	$ 196,021	100.0 %

[(1)] *Other sectors primarily includes Financial Services and Commercial & Industrial.*

[(2)] *Includes cash on settlements that have not yet been reinvested.*

The average duration of the debt instruments in the portfolio is approximately 1.3 years and 1.4 years as of September 30, 2023 and December 31, 2022, respectively. During the third quarter of 2023, we provided Arena with notice to withdraw from our investment in the Arena Special Opportunities Fund, LP.

Equities

The equities portfolio primarily consists of domestic preferred stocks, common equities, exchange traded funds, limited partnerships, limited liability corporations and other types of equity interests, 74.8% of which are publicly traded. The portfolio is directed internally and includes both self-managed investments and portfolios managed by third-party investment management firms.

The following table sets forth the components of our equities portfolio by security type at September 30, 2023 and December 31, 2022:

($ in thousands)	2023 Fair Value	2023 % of Total	2022 Fair Value	2022 % of Total
Domestic common equities	**$ 62,889**	**43.8 %**	$ 76,929	48.8 %
International common equities	**37,599**	**26.2 %**	34,468	21.9 %
Preferred stock	**6,899**	**4.8 %**	8,772	5.6 %
Other[(1)]	**36,250**	**25.2 %**	37,337	23.7 %
Equities	**$ 143,637**	**100.0 %**	$ 157,506	100.0 %

[(1)] *Other includes limited partnerships, limited liability companies and other equity investments in unconsolidated subsidiaries.*

Other Items

Income Taxes

Income tax expense for the three and nine months ended September 30, 2023 was $6.1 million and $15.8 million, respectively, compared to an income tax benefit of $0.7 million and income tax expense of $4.8 million, respectively, for the same 2022 periods. Our effective tax rate for the three and nine months ended September 30, 2023 was 21.9% and 21.8%, respectively, compared to 23.1% and 20.3%, respectively, for the same 2022 periods. For additional information, see Note 9 of our condensed consolidated financial statements included in Item 1 of this Form 10-Q.

Liquidity and Capital Resources

Sources and Uses of Funds

Our most significant source of cash is from premiums received from our insureds, which, for most policies, we receive at the beginning of the coverage period, net of the related commission amount for the policies. Our most significant cash outflow is for claims that arise when a policyholder incurs an insured loss. Because the payment of claims occurs after the receipt of the premium, often years later, we invest the cash in various investment securities that generally earn interest and dividends. We also use cash to pay for operating expenses such as salaries, rent and taxes and capital expenditures such as technology systems. We use reinsurance to manage the risk that we take on our policies. We cede, or pay out, part of the premiums we receive to our reinsurers and collect cash back when losses subject to our reinsurance coverage are paid.

The timing of our cash flows from operating activities can vary among periods due to the timing by which payments are made or received. Some of our payments and receipts, including loss settlements and subsequent reinsurance receipts, can be significant, and as a result their timing can influence cash flows from operating activities in any given period. Management believes that cash receipts from premiums and proceeds from investment income are sufficient to cover cash outflows in the foreseeable future.

Our cash flows for the nine months ended September 30, 2023 and 2022 were:

($ in thousands)		2023		2022
Cash and cash equivalents provided by (used in):				
Operating activities	**$**	**218,539**	$	124,913
Investing activities		**(307,833)**		(128,281)
Financing activities		**67,549**		2,180
Change in cash and cash equivalents and restricted cash	**$**	**(21,745)**	$	(1,188)

The increase in cash provided by operating activities in 2023 and 2022 was primarily due to positive cash flow from our insurance operations. Cash from operations can vary from period to period due to the timing of premium receipts, claim payments and reinsurance activity. Cash flows from operations in each of the past two years were used primarily to fund investing activities.

Net cash used in investing activities in 2023 and 2022 was primarily driven by purchases of fixed maturity securities and short-term investments.

Net cash provided by financing activities in 2023 was primarily from proceeds of $66.3 million from our IPO.

Credit Agreements

Revolving Credit Facility

On March 29, 2023, we entered into an unsecured revolving credit facility (the “Revolving Credit Facility”) with a syndicate of participating banks. The Revolving Credit Facility provides us with up to a $150.0 million revolving credit facility, with an accordion that can increase the capacity by $50.0 million, and a letter of credit sub-facility of up to $30.0 million.

During the nine months ended September 30, 2023, we drew $50.0 million on the Revolving Credit Facility and used the proceeds to pay off the principal on our existing term loan. In connection with our entry into the Revolving Credit Facility, we terminated the existing term loan and revolving line of credit pursuant to our Credit Agreement dated as of December 11, 2019, with Prosperity Bank.

Interest on the Revolving Credit Facility is payable quarterly. The interest rate on the Revolving Credit Facility is the Secured Overnight Financing Rate (“SOFR”) plus a margin of between 150 and 190 basis points based on the ratio of debt to total capital and a credit spread adjustment of 10 basis points. At September 30, 2023, the six-month SOFR on the Revolving Credit Facility was 5.47%, plus a margin of 1.60%.

We are subject to covenants on the Revolving Credit Facility based on minimum net worth, maximum debt to capital ratio, minimum A.M. Best Rating and minimum liquidity. As of September 30, 2023, we are in compliance with all covenants.

Trust Preferred

In August 2006, we received $58.0 million of proceeds from a debenture offering through a statutory trust, Delos Capital Trust (the “Trust”). The sole asset of the Trust consists of Fixed/Floating Rate Junior Subordinated Deferrable Interest Debentures (the “Trust Preferred”) with a principal amount of $59.8 million issued by us and cash of $1.8 million from the issuance of Trust common shares purchased by us equal to 3% of the Trust capitalization. The Trust Preferred are an unsecured obligation, are redeemable, and have a maturity date of September 15, 2036. Interest on the Trust Preferred is payable quarterly at an annual rate based on the three-month LIBOR (5.66% and 4.77% at September 30, 2023 and December 31, 2022, respectively), plus 3.4%.

Subordinated Debt

In May 2019, we issued unsecured subordinated notes (the “Notes”) with an aggregate principal amount of $20.0 million. Interest on the subordinated notes is 7.25% fixed for the first eight years and 8.25% fixed thereafter. Early retirement of the debt ahead of the eight-year commitment requires all interest payments to be paid in full, as well as the return of all capital. Principal payment is due at maturity on May 24, 2039 and interest is payable quarterly.

At September 30, 2023 the ratio of total debt outstanding, including the Revolving Credit Facility, the Trust Preferred and the Notes, to total capitalization (defined as total debt plus stockholders' equity) was 19.4% and at December 31, 2022, the ratio of total debt outstanding, including the Term Loan, the Revolver, the Trust Preferred and the Notes, to total capitalization was 23.4%.

Reinsurance

We strategically purchase reinsurance from third parties which enhances our business by protecting capital from severity events (either large single event losses or catastrophes) and reducing volatility in our earnings. Our reinsurance contracts are predominantly one year in length and renew annually throughout the year. At each annual renewal, we consider several factors that influence any changes to our reinsurance purchases, including any plans to change the underlying insurance coverage we offer, updated loss activity, the level of our capital and surplus, changes in our risk appetite and the cost and availability of reinsurance treaties.

We purchase quota share reinsurance, excess of loss reinsurance, and facultative reinsurance coverage to limit our exposure from losses on any one occurrence. The mix of reinsurance purchased considers efficiency, cost, our risk appetite and specific factors of the underlying risks we underwrite.

- ***Quota share reinsurance*** refers to a reinsurance contract whereby the reinsurer agrees to assume a specified percentage of the ceding company's losses arising out of a defined class of business in exchange for a corresponding percentage of premiums, net of a ceding commission.
- ***Excess of loss reinsurance*** refers to a reinsurance contract whereby the reinsurer agrees to assume all or a portion of the ceding company's losses for an individual claim or an event in excess of a specified amount in exchange for a premium payable amount negotiated between the parties, which includes our catastrophe reinsurance program.
- ***Facultative coverage*** refers to a reinsurance contract on individual risks as opposed to a group or class of business. It is used for a variety of reasons, including supplementing the limits provided by the treaty coverage or covering risks or perils excluded from treaty reinsurance.

For the three and nine months ended September 30, 2023 our net retention on a written basis (calculated as net written premiums as a percentage of gross written premiums) was 78.9% and 61.2%, respectively, compared to 63.4% and 56.4%, respectively, for the same 2022 periods. Net retention for the three and nine months ended September 30, 2023 was impacted by the cancellation of a quota share reinsurance arrangement, the impact of which increased net written premiums by $50.5 million, respectively, that had previously been ceded under the contract through the first six months of 2023.

The following is a summary of our reinsurance programs as of September 30, 2023:

Line of Business	Maximum Company Retention
Accident & Health	$0.88 million per occurrence
Commercial Auto[(1)]	$1.00 million per occurrence
Excess Casualty[(1)(2)]	$1.24 million per occurrence
General Liability[(1)]	$1.25 million per occurrence
Professional Lines[(2)]	$2.70 million per occurrence
Property[(3)]	$2.80 million per occurrence
Surety[(2)]	$3.00 million per occurrence
Workers' Compensation[(2)]	$1.55 million per occurrence
Cyber	$2.69 million per occurrence
Representation and Warranty	$2.50 million per occurrence

(1) Legal defense expenses can force exposure above the maximum company retention for Excess Casualty, Commercial Auto and General Liability.

(2) Reinsurance is subject to a loss ratio cap or aggregate level of loss cover that exceeds a modeled 1:250-year PML event.

(3) Catastrophe loss protection is purchased up to $28.0 million in excess of $12.0 million retention, which provides cover for a 1:250-year PML event.

Credit and Financial Strength Ratings

On August 25, 2023, A.M. Best affirmed Skyward Specialty's financial strength rating of A- (Excellent) and revised the outlooks to positive from stable.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in market risk from the information provided in our Annual Report on Form 10-K for the year ended December 31, 2022.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports we file under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as appropriate, to allow timely decisions regarding required financial disclosure. In connection with the preparation of this quarterly report on Form 10-Q, our management carried out an evaluation, under the supervision and with the participation of our management, including the CEO and CFO, as of September 30, 2023, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) and 15d-15(e) under the Exchange Act. Based upon this evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of September 30, 2023.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

We are party to legal proceedings which arise in the ordinary course of business. We believe that the outcome of such matters, individually and in the aggregate, will not have a material adverse effect on our consolidated financial position.

Item 1A. Risk Factors

There have been no material changes in our risk factors in the quarter ended September 30, 2023 from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2022.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

During the quarter ended September 30, 2023, none of our directors or officers (as defined in Rule 16a-1(f) of the Securities Exchange Act of 1934) adopted, terminated or modified a Rule 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement (as such terms are defined in Item 408 of Regulation S-K).

Item 6. Exhibits

(a) Exhibits.

Exhibit Number	Exhibit Description
3.1	Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the Commission on January 18, 2023).
3.2	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the Commission on January 18, 2023).
4.1	Amended and Restated Stockholders' Agreement, by and among the Company and the stockholders listed therein (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1, filed with the SEC on November 14, 2022).
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial and Accounting Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

(b) *Financial Statement Schedules*. All financial statement schedules are omitted because the information called for is not required or is shown either in the consolidated financial statements or in the notes thereto.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

		Skyward Specialty Insurance Group, Inc.
Date: November 9, 2023	By:	/s/ Andrew Robinson
		Andrew Robinson Chief Executive Officer (Principal Executive Officer)
Date: November 9, 2023	By:	/s/ Mark Haushill
		Mark Haushill Chief Financial Officer (Principal Financial and Accounting Officer)

EXHIBIT 31.1

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Andrew Robinson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Skyward Specialty Insurance Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant is made known to me by others within those entities, particularly during the period in which this report is being prepared;

b. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date:	November 9, 2023	By:	/s/ Andrew Robinson
		Name:	Andrew Robinson
		Title:	Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Mark Haushill, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Skyward Specialty Insurance Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant is made known to me by others within those entities, particularly during the period in which this report is being prepared;

b. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date:	November 9, 2023	By:	/s/ Mark Haushill
		Name:	Mark Haushill
		Title:	Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Skyward Specialty Insurance Group, Inc. (the “Company”) for the three and six months ended September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), we, Andrew Robinson, as Chief Executive Officer of the Company, and Mark Haushill, Chief Financial Officer, hereby certify pursuant to Title 18, Chapter 63, Section 1350 of the United States Code, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of our knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date:	November 9, 2023	By:	/s/ Andrew Robinson
		Name:	Andrew Robinson
		Title:	Chief Executive Officer
Date:	November 9, 2023	By:	/s/ Mark Haushill
		Name:	Mark Haushill
		Title:	Chief Financial Officer