FERGUS REINSURANCE LIMITED
FINANCIAL CONDITION REPORT

For the year ended December 31, 2023

Prepared in accordance with the reporting requirements of the Bermuda Monetary Authority

Fergus Reinsurance Limited
Financial Condition Report
For year ending December 31, 2023

Summary

Fergus Reinsurance Limited ("Fergus Re" or the "Company") was incorporated in Bermuda on June 11, 2008 and was originally licensed as a Class 3A Insurer by the Bermuda Monetary Authority ("BMA") on March 9, 2009, to write all classes of general business insurance and reinsurance. On January 1, 2023, the Company was licensed as a Class 3B Insurer. The Company was also registered as a segregated accounts company effective January 9, 2015.

During 2022, the Company's ownership structure was changed with the creation of Fergus Holdings Limited ("Holdings") and the Company becoming a wholly owned subsidiary of Holdings. At the time of the restructure, all existing shares issued by the Company were cancelled and exchanged for shares with identical rights issued by Holdings. Holdings was also registered as a segregated accounts company.

Holdings' General Account is privately owned by U.S persons. Redeemable preference shares which are linked to Holdings' segregated accounts are owned by various US private individuals and family trusts.

The Company is managed and has its principal place of business in Bermuda.

This FCR is prepared in accordance with the Insurance (Public Disclosure) Rules 2015 and Insurance (Group Supervision) Rules 2011. This FCR documents the measures governing the business operations, corporate governance framework, solvency and financial results of the Company for the year ended December 31, 2023.

Fergus Re uses the standard Bermuda Solvency Capital Requirement (BSCR) model, rather than an approved internal capital model, to assess the Enhanced Capital Requirement (ECR) or required statutory capital and surplus. The BSCR model is a risk-based capital model which provides a method for determining an insurer's capital requirements (statutory capital and surplus) by taking into account the risk characteristics of different aspects of an insurer's business. This FCR is based primarily on the Economic Balance Sheet ("EBS") of the Company as at December 31, 2023. In addition, certain sections include information based on the Company's December 31, 2023 Financial Statements, which have been prepared and audited in accordance with United States Generally Accepted Accounting Principles (U.S. GAAP).

1. BUSINESS AND PERFORMANCE

a. *Name of Insurer*

Fergus Reinsurance Limited

b. *Supervisors*

Insurance Supervisor
Bermuda Monetary Authority
BMA House
43 Victoria Street, Hamilton
Bermuda

Group Supervisor

The Company is not part of a group.

c. *Approved Auditor*

Statutory and GAAP Reporting
Mazars Limited
A.S. Cooper Building, 4th Floor
26 Reid Street, Hamilton HM11
Bermuda

d. *Ownership Details*

The Company is wholly owned by Fergus Holdings Limited, a Bermuda incorporated company.

e. Insurance Business Written by Business Segment and by Geographical Region

The Company primarily offers property and casualty reinsurance coverage in North America and Europe.

12/31/2023	UEP	Total Reserves	GWP ITD
ATE	0.00%	0.00%	0.00%
CAR	0.00%	0.00%	0.00%
Com AL	38.34%	38.75%	34.52%
Com APD	5.64%	5.62%	8.07%
Com BI	0.00%	0.00%	0.00%
Com Buildings	10.47%	1.78%	3.67%
Com Cargo	0.37%	0.11%	0.70%
Com Contents	0.00%	0.00%	0.00%
Com GL	16.11%	14.58%	12.87%
Con GL	14.13%	30.42%	30.42%
Con WC	0.00%	0.00%	0.00%
Cyber	0.50%	0.13%	0.18%
D&O	0.33%	0.02%	0.09%
E&O	0.00%	0.00%	0.00%
EAR	0.00%	0.00%	0.00%
EPLI	3.93%	0.60%	1.21%
Financial Crime	0.09%	0.01%	0.02%
Inland Marine	0.30%	0.35%	0.40%
Liquor	1.67%	1.10%	1.14%
Med Mal	2.31%	2.95%	2.25%
Pers AL	0.00%	0.00%	0.00%
Pers APD	0.00%	0.00%	0.00%
Pers Buildings	0.00%	0.00%	0.00%
Pers Contents	0.00%	0.00%	0.00%
PI	1.92%	0.70%	1.51%
Surety	3.89%	0.72%	1.32%
Theft	0.00%	0.00%	0.00%
WC	0.00%	2.17%	1.62%
WC Non-Stat	0.00%	0.00%	0.00%
Pers Acc	0.00%	0.00%	0.00%

BSCR Zone	UEP	Total Reserves	GWP(ITD)
Zone 1	0%	0%	0%
Zone 2	0%	0%	0%
Zone 3	0%	0%	0%
Zone 4	0%	0%	0%
Zone 5	0%	0%	0%
Zone 6	0%	0%	0%
Zone 7	0%	0%	0%
Zone 8	5%	1%	3%
Zone 9	0%	0%	0%
Zone 10	2%	0%	1%
Zone 11	0%	0%	0%
Zone 12	0%	0%	0%
Zone 13	0%	0%	0%
Zone 14	0%	0%	0%
Zone 15	21%	32%	26%
Zone 16	26%	23%	23%
Zone 17	12%	12%	9%
Zone 18	33%	32%	38%

As a registered segregated accounts company, Fergus has total shareholders' equity of $118.7 million (capital and surplus) relating to its common shareholders ("Core") and two segregated accounts:

- SAC 2018-01 was initially capitalized in 2018 with $10,000,000 in redeemable preference shares by two directors who are also Core shareholders. During 2022 and 2023, an additional $21,165,000 and $27,306,467 net of redemptions, respectively, was invested in this segregated account by private US investors seeking to diversify their personal investment portfolios. SAC 2015-02 which was initially capitalized with $150,000 and had taken a 2% quota share participation in certain business post October 1, 2014, was closed during the year ended December 31, 2022. This segregated account was owned by a US individual who was also a director of the Company.

The shareholders' equity of the segregated account inures solely to the respective redeemable preference shareholders.

As of December 31, 2023, there is no business retained in the Company's Core with all new business written since 2019 being ceded 100% to SAC 2018-01.

f. *Performance of Investments & Material Income & Expenses for the Reporting Period*

Income and expenses for Reporting Period

The Company's main sources of income and expenses are presented in the following table:

	Year ended December 31, 2023			Year ended December 31, 2022		
	Current	Legacy	Total	Current	Legacy	Total
UNDERWRITING INCOME:						
Premiums written, gross and net	$ 250,741,211	-	250,741,211	$ 96,410,905	-	96,410,905
Change in unearned premiums	(73,012,775)		(73,012,775)	(9,184,463)		(9,184,463)
Premiums earned, net	**177,728,436**	**-**	**177,728,436**	**87,226,441**	**-**	**87,226,441**
UNDERWRITING EXPENSES:						
Losses and loss adjustment expenses incurred	114,076,606	(7,197)	114,069,409	52,074,541	(30,599)	52,043,942
Acquisition costs	55,810,444	-	55,810,444	28,234,766	-	28,234,766
Change in deferred income	157,601	-	157,601	(967,211)	-	(967,211)
Other underwriting expenses (income)	(610,000)	-	(610,000)	-	-	-
Total underwriting expenses	**169,434,652**	**(7,197)**	**169,427,455**	**79,342,095**	**(30,599)**	**79,311,497**
NET UNDERWRITING INCOME (LOSS)	**8,293,784**	**7,197**	**8,300,981**	**7,884,346**	**30,599**	**7,914,945**
Net Investment Income (Loss)	6,904,925	-	**6,904,925**	1,134,432	-	**1,134,432**
General & Administrative Expenses	(3,581,598)	-	**(3,581,598)**	(1,982,765)	-	**(1,982,765)**
NET INCOME (LOSS)	**11,617,111**	**7,197**	**11,624,308**	**7,036,013**	**30,599**	**7,066,612**

Legacy business is defined as all TECIS and AMIC programs

Performance of Underwriting Activities for Reporting Period

The Company wrote $250.7 million in gross premium during 2023 an increase of $154.3 million over 2022.

The premium growth is attributable to the Company's strategy of focusing on building relationships with brokers, ceding carriers and managing general agents. In 2023, the Company wrote 31 new programs and renewed 16 programs. $130 million of the premium written in 2023 came from three deals that arose from a non-recurring event which took place in the industry.

The Company's underwriting income was $8.3 million in 2023 vs $7.9 million in 2022. Two programs, Koffie and Loop, contributed $4 million of underwriting losses in 2023 and have not been renewed. The Company wrote three opportunistic deals which were the result of an event that occurred in the industry, and these deals contributed $8.2 million of profit in the year on $69.8 million of earned premium ($130 million of written premium).

Pursuant to its reinsurance agreements, the Company is required to provide its ceding companies with collateral to secure its obligations to them. At December 31, 2023 the Company has provided its ceding companies with insurance trusts with cash and cash equivalents amounting to $44,884,952 and investments with a carrying value of $239,276,282 being restricted.

Performance of Investments for the Reporting Period

The Company's investment portfolio is substantially comprised of investment grade fixed income securities and cash management instruments.

	December 31,	
	2023	**2022**
	$'000	**$'000**
Cash and cash equivalents	54.236	44,964
Fixed income investments at fair value	258,629	142,584
Total cash and investments	**312,865**	**187,548**

Major categories of net investment income are summarized as follows:

	2023	**2022**
	$'000	**$'000**
Interest income	6,155	1,703
Amortization expense	2,030	151
Realized gains	103	68
Investment expense	(1,399)	(788)
Net investment income	**6,889**	**1,134**

Portfolio performance for the year ended December 31, 2023 was positive on an absolute basis with a return of 2.65%. The Company had decided to keep much higher levels of money market instruments in 2020 and 2021 due to historical low rates in fixed income securities and with the expectation that interest rates will rise. During 2022, rates did rise, and the Company were well positioned to take advantage

General and Administrative Expenses

General and administrative expenses incurred during the year were $3.6m compared to $2.0m in the prior year. The Company invested heavily in risk management in 2023 versus the prior year, hiring a Chief Risk and Compliance Officer, engaging Deloitte to conduct an internal audit, as well as hiring a vCSCO. The increase in the number of programs written incurred higher actuarial, audit and management fees. There was also a significant spend on legal fees relating to a potential legacy deal that ultimately did not close..

g. *Any Other Material Information*

None.

a. *GOVERNANCE STRUCTURE*

In March 2023, under the guidance of the Company's Chief Risk and Compliance Officer, the Board approved a Risk Management Framework ("RMF") to identify, assess, manage, and report on the key risks inherent to the Company's strategy. The RMF (which has been further refined at subsequent quarterly Board meetings) is an integral part of the decision-making process and includes:

- A clear risk governance structure with defined roles and responsibilities for the Board, Risk Committee, Governance and Compliance Committee, Audit Committee, Underwriting Committee as well as management, and control functions
- Risk appetite statements and tolerance levels that align with the Company's strategy and capital position
- Comprehensive policies and procedures covering all major risk categories
- Establishing processes for identifying, measuring, monitoring, and mitigating risks
- Regular risk reporting to management, the Board, and regulators
- Initiatives to promote a strong risk culture throughout the Company

All strategic decisions are being made within the boundaries of the RMF to ensure the Company operates within agreed risk parameters. The Board will review and approve the RMF annually. The Company's conservative investment strategy, which focuses on high-grade fixed income securities and asset-liability matching, helps to mitigate the Company's exposure to both market risk and ESG-related investment risks.

The Board of Directors and the various Sub committees set out under the "Committee" section of this report meet quarterly. The Risk Committee is tasked with monitoring strategic risks and the effectiveness of our mitigation strategies. These risks include those listed above. The Chief Risk and Compliance Officer who is independent from management, reports to the Risk Committee on a quarterly basis as well as to the full Board by way of a quarterly report.

b. *Board and Senior Executives*

i. Board and Senior Executive Structure - role, responsibilities and segregation of responsibilities

The Board is responsible for providing strategic direction and ensuring appropriate governance practices are in place to represent the interests of the common and preference shareholders.

The Senior Executives of the Company are responsible for day-to-day management and executing the strategic direction.

As mentioned above, the Company's Risk and Compliance Officer is independent of management and has direct reporting ability to the Board of Directors.

ii. Remuneration Policy

Since July 2020, Mr. Christopher Powell has served as the Company's Chief Underwriting Officer under an employment contract. In December 2022, Ms. Julie Stanton was hired as the Company's Risk and Compliance Officer. During 2023, Davies Captive Management Limited ("Davies") served as the insurance manager. This position is now being transitioned to Artex Insurance Management Limited. ("Artex").

Mr. Powell's remuneration and Ms Stanton's remuneration were both negotiated by the Company's President and approved by the Board of Directors.

All Directors, except for Mr. Fellowes, received no fees for serving as Directors of the Company.

iii. Pension or Early Retirement Schemes for Members, Board and Senior Employees

The Company has established a pension plan for its Bermuda based employees.

iv. Shareholder Controllers, Persons who Exercise Significant Influence, the Board or Senior Executive Material Transactions

None.

c. Fitness and Proprietary Requirements

i. Fit and Proper Process in assessing the Board and Senior Executive

The Company appoints members of the Board and Senior Executives based on the individual's expertise and work experiences as well as professional judgement and recommendations from third parties.

ii. Board and Senior Executives Professional Qualifications, Skills and Expertise

Each respective Board member and senior executive has significant experience in the insurance industry and or the investment sector, as well as in their respective fields, to provide the level of knowledge and expertise required to carry out their roles and responsibilities.

Below are details of the Board of Directors and Senior Executives' qualifications, skills and expertise:

Board of Directors

Navin Dadlani – Director & President

Mr. Dadlani has an MBA from Harvard Business School and has over 15 years of experience in financial services with direct involvement in management and investment of emerging market debt portfolios and equity portfolios.

Adam Checchi – Director

Mr. Checchi has an MBA from Harvard Business School and over 15 years of experience in financial services. He was an investment banker at Goldman Sachs prior to founding his investment management firm Checchi Capital Advisers, LLC in 2008 where he specializes in quantitative strategies across the global equity and fixed income markets.

Ankur Desai, CFA – Director

Mr. Desai is a Chartered Financial Analyst and has a BA in Economics from Tufts University. He worked as an Investment Banker for Robertson Stephens and Needham and Company and has 9 years of experience in the Hedge Fund industry working in the Long/Short Equity arena.

Robert "Chip" Harris – Director

Mr. Harris has served and continues to serve on a number of boards of directors for US organizations such as Acacia Research Corporation, Entertainment Properties Trust, the George L. Graziadio School of Business and Management and served as a member of senior management at both publicly traded and privately held companies.

Thomas McMahon – Director & Vice President (Stepped down as a Director on Feb 26th 2024)

Mr. McMahon is a Fellow of the Institute of Chartered Accountants of Ireland. He had 10 years of audit experience prior to 25 years in insurance company management in Bermuda. He is an Executive Vice President of Davies.

Brad Adderley– Director (Appointed 1st January 2024)

Mr. Adderley is the Bermuda Managing Partner at Appleby and is responsible for managing the operations of Appleby's Bermuda Office. He is also the Bermuda Group Head of the Corporate department and the Insurance and Reinsurance global sector leader. He has been a member of Appleby's insurance team for over 25 years.

Roy Fellowes – Director (Independent)

Mr. Fellowes was appointed to the Board in 2022. He has over 40 years' insurance experience that includes agency underwriting and claims, wholesale/retail broking, insurance management and life & pension sales and administration. He has spent the last 34 years working in the Bermuda insurance market.

Mr. Thomas McMahon stepped down from the Board in February 2024 as the Company changed its insurance manager to Artex Capital Solutions.The Company is currently undergoing a search to add an Independent Director with underwriting experience to the Board of Directors, and will continue to keep the BMA updated on its search. The Company aims to have this person in place for its September Board meeting.

Senior Executives

In addition to Mr. Dadlani serving as President, the following senior executives were also appointed:

Chris Powell – Chief Underwriting officer – (July 2020 to date)

Mr. Powell has 28 years of Property and Casualty Insurance underwriting experience in both insurance and Reinsurance. Prior to joining Fergus Re, Chris was Underwriting and Reinsurance manager for Colonial Group International, a Bermuda based insurer writing $350m of business in Bermuda and the Caribbean with responsibility for all underwriting and reinsurance purchases for the Group. Prior to this Chris was Vice President and Lead Underwriter Property Treaty for Endurance Specialty, a Global Specialty Insurance and Reinsurance company in Zurich, with responsibility for a $100m book of treaty business. Before moving to Zurich Chris held senior global treaty underwriting roles at Bermuda based companies: Endurance Specialty, Lehman Re and LaSalle Re.

Julie Stanton – Risk and Compliance Officer – (December 2022)

Ms. Stanton has a corporate law background with a focus on finance and insurance and was called to the Bermuda Bar in 1995. Since then, she has been appointed Partner at EY Law Bermuda, and Cox Hallett Wilkinson. More recently, she has been serving as an independent non-executive director for a range of international clients, including Bermuda, Cayman and BVI companies. In her role as an Independent Non-Executive Director, she has had responsibility for ensuring proper corporate governance frameworks including operational and risk frameworks are adopted and put in place. She sits on the Executive Committee of the Institute of Directors Bermuda Branch, holds a Certificate in Company Direction designation ("CICD") and is a current member of 100 Women in Hedge Funds Bermuda Branch.

Compass Administration Services Ltd serves as the Company's Corporate Secretary.

Consultants

The Company has contracted with Cedar Consulting LLC, a wholly-owned subsidiary of Davies Management Bermuda Limited, to provide risk management, underwriting and business development services.

The Company contracted with Dadlani Consulting to provide consultancy services during the year.

During 2022, the Company also contracted with Four Arches to provide consultancy services during the year.

During 2023, the Company contracted with Fergus Operations LLC, to assist with the Company's business strategy efforts.

Committees

During 2023, the following committees were established and operational

1. Underwriting Committee – Dennis Silvia, Chris Powell. The search for an independent director with Underwriting experience is ongoing.
2. Investment Committee - Navin Dadlani, Ankur Desai, Thomas McMahon;
3. Risk Committee - Roy Fellowes, , Adam Checchi, Ankur Desai, Julie Stanton
4. Audit Committee - Ankur Desai, Navin Dadlani, Roy Fellowes, Adam Checchi;
5. Governance and Compliance Committee - Ankur Desai, Roy Fellowes Tom McMahon, Julie Stanton

d. Risk Management and Solvency Self-Assessment

The Company's Risk Management Framework was adopted in March 2023 and is being implemented and integrated into the Company's operations through systems, processes and procedures being developed by management. The Risk Committee provides oversight for risk management activities and the Audit Committee has oversight of Internal Audit who will review the controls in place to ensure they are effective. During 2023 and the first quarter of 2024 the Company underwent an audit by Deloitte of its Corporate Governance and Risk Management functions. The results of both audits were positive and the results have been shared with the Bermuda Monetary Authority.

The Board monitor and manage the quantity and quality of capital required to support the Company's business. Quarterly reviews of the Company's solvency requirements are carried out to ensure capital adequacy and liquidity resources are sufficient.

i. Risk Management Process & Procedures to Identify, Measure, Manage and Report on Risk Exposures

The Company's Risk Management Framework comprises the following processes and procedures to Identify, Measure, Manage and Report on Risk Exposures:

Identify: identify material risks that could affect the corporate objectives of the Company's financial position; determine the risk appetite and include risk in the risk register.

Assess: each exposure is assessed based on the Company's risk appetite and provides the inherent and residual risk exposure following mitigating controls.

Control/Mitigate: the Company is in the process of designing risk controls in response to risk exposure in line with risk appetite statements, risk tolerances and risk limits.

Report: the risk management function reports to the Board on material risk exposures that are identified and ensure that these are monitored and any breaches reported to the Board.

Review: ensure that control and mitigation activities are reviewed periodically to ensure they are operating effectively.

ii. Risk Management and Solvency Self-Assessment Systems Implementation

The Company's Risk Management Framework has been implemented and is being integrated into operations through processes, procedures and controls being developed. The Company's Risk Committee will provide oversight for risk management activities and the Audit Committee will review the controls in place to ensure they are effective.

The Board monitor and manage the quantity and quality of capital required to support the Company's business. Quarterly reviews of the Company's solvency requirements are also carried out to ensure the Company's capital adequacy and liquidity are sufficient based on the risks that arise from the Company's operations

iii. Relationship Between Solvency Self-Assessment, Solvency Needs & Capital, and Risk Management

Due to the nature, scale and limited complexity of the Company's operations, the Board relies upon the Bermuda Regulatory capital model for purposes of determining its Solvency Self-Assessment capital requirements.

iv. Solvency Self-Assessment Approval Process

The Company's solvency assessment is prepared by the Company's management in conjunction with EY as well as input from the CUO and the outsourced actuarial function. The solvency assessment is reviewed by the Board. EY have also helped the Company develop a capital projection model which enables the company to assess the impact of any potential new business deal on the company's BSCR ratios.

c. Internal

e. Internal Controls

i. Internal Control System

The Company has developed a comprehensive Controls Schedule. This schedule captures all the requirements outlined in the Bermuda Monetary Authority's Acts, Codes, practices, and other regulatory guidelines. It also identifies the specific control owners responsible for each requirement.

The Company recognizes that an effective internal control system is fundamental to the successful operation of the Company.

The Company has implemented a Control Framework Policy to ensure a robust internal control system. The Internal Control Framework is linked with the Risk Management Framework through each risk in the Risk Register being allocated a series of mitigating controls to bring overall risk ratings to a level acceptable to the Company.

Roles and responsibilities of Sub Committees are set out within their respective Terms of Reference. Roles and responsibilities of the Risk and Control owners are detailed in the Risk Register.

The Internal Control Framework and well as the Risk Management Framework will be reviewed at least annually for ongoing appropriateness.

The Company has comprehensive operating Policies and Procedures for each of its functional areas. The Governance and Compliance Committee is tasked with reviewing these polices at least annually or whenever there is a material change if it occurs earlier.

ii. Compliance Function

As noted earlier, Ms. Julie Stanton has been appointed as the Company's Risk and Compliance Officer. Her role in the Compliance Function will be to monitor and evaluate the Company's compliance with the jurisdictional laws and regulations to which the Company is subject, as well as compliance with the Company's related internal policies and procedures. The Company has also appointed Appleby as Legal Counsel and they will also monitor and advise on regulatory changes including regulatory reporting and public disclosure requirements.

f. Internal Audit

In December 2022, the Company appointed Deloitte Bermuda as the Company's internal auditor. Deloitte completed its internal audit on the Governance and Risk Management functions in 2023 and found no high-risk findings. Deloitte will now be working on the Underwriting and Third Party Outsourcing Risk during the remainder of 2024.Actuarial Function

The Company has outsourced this to Pinnacle Actuarial Resources, Inc. ("Pinnacle"). Pinnacle is a full-service actuarial consulting firm based in Bloomington, Illinois. Our approved loss reserve specialist is Robert J. Walling III, a principal and consulting actuary of Pinnacle.

The Company has engaged Pinnacle as its actuarial consultant and Pinnacle is responsible for advising, monitoring and adjusting technical provisions for both premium and loss and loss expenses best estimates, and calculating discounting provisions and the risk margin. The technical provisions are reviewed internally by Davies Management, Ernst & Young and the Company's Chief Underwriting Officer to ensure accuracy in calculations and reasonability in assumptions.

During 2024, the Company will be engaging Pinnacle to perform quarterly evaluations of outstanding reserve liabilities.

g. Outsourcing

i. Outsourcing Policy and Key Functions that have been Outsourced

The Company had three employees during 2023, being its Chief Underwriting Officer, Chief Risk and Compliance Offer, and Junior Underwriter. . Therefore certain functions are performed by third parties.

During 2023. the Company contracted with Davies a Bermuda insurance management company specializing in the management of insurance companies. Davies is licensed and approved by the BMA to provide management services to the Company and to act as the Company's Principal Representative and Segregated Accounts Representative. During 2024, the Company will be transitioning this function to Artex Insurance Management Ltd..

Both Artex and Davies are licensed and approved by the BMA to provide management services to the Company and to act as the Company's Principal Representative and Segregated Accounts Representative.

The Company has contracted with Pinnacle a U.S. company specializing in actuarial services. Our approved loss reserve specialist is Robert J. Walling III, a principal and consulting actuary of Pinnacle.

The Company has contracted with Checchi Capital Advisors, LLC, ("CCA") based in California, USA to provide investment management services to the Company. Mr. Adam Checchi, a shareholder and director of the Company is a principal of CCA.

ii. Material Intra-Group Outsourcing

Not applicable.

h. Other Material Information

No other material information to report.

2. RISK PROFILE

a. Material Risks the Insurer is Exposed to During the Reporting Period

The Company's overall risk appetite is to maintain a strong capital position and generate stable returns while prudently growing the business. The Company has a low tolerance for risks that could threaten solvency, reputation, or operational resilience. Key risk appetites and tolerances include:

- Underwriting Risk: Moderate appetite for low volatility, high frequency casualty lines that has no qualitative correlation with economic risk (no catastrophe, property or economic guarantee). Tolerance for combined ratio of 95% across the cycle. These risks have high predictability due to the number of insurable incidents and amount of data available to assess them as well as limited payouts in the event of bad outcomes. To integrate the risk function into the underwriting process, the Company has developed and approved a new Underwriting Checklist and a New Transaction Policy, endorsed by the Board of Directors. These tools establish a framework of controls, requiring the CRCO to sign off on underwriting deals to ensure compliance with Underwriting Guidelines initially. If a deal does not comply, it must receive Board approval before proceeding.
- Investment Risk: Low appetite for market risk. Tolerance for high-grade fixed income portfolio duration within 6 months to 2 years. Average duration of current portfolio is 6 months.
- Capital Risk: Maintain a buffer over the BMA's Economic Balance Sheet (EBS) capital requirements with a target BSCR ratio of 140-145%. The adequacy of capital is currently reported to the Board by EY and discussed at quarterly Board meetings. We are in the early stages of incorporating the Commercial Insurer's Solvency Self-Assessment (CISSA) into our strategic goals on a continuous, quarterly basis. Until now, capital adequacy has not been specifically assessed in relation to our strategic objectives.
- Market Risk (Liquidity and Concentration: The Company maintains a low appetite for liquidity and concentration risk. This risk is mitigated through proactive cash flow projections and continuous liquidity monitoring.

1. Outsourcing Risk: The Company has a low tolerance for outsourcing risk. This risk is mitigated through thorough risk assessments of outsource providers, the establishment of robust contracts, and continuous monitoring. Additionally, we ensure annual attestations to company contractual obligations, adherence to regulatory best practices such as ISO27001 and SOC II, and compliance with Bermuda Monetary Authority (BMA) regulatory requirements.

- Operational Risk: The Company maintains a low tolerance for Operational Risk. Risk mitigated through implementation of robust assessment processes, policies, and procedures – including ongoing expense reviews, a dependable financial and management reporting control framework, employment of appropriately skilled staff supported by robust business continuity / disaster recovery capabilities.
- Credit Risk: Low tolerance for credit risk. Risk mitigated through monitoring of credit ratings, concentration levels and collateral sufficiency alongside evaluating any significant counterparty.
- Reputation, Compliance and Legal Risk: No appetite for any major regulatory infringement or non-compliance with relevant laws and regulations. The Company seeks to actively manage relationships with its regulators and implement a robust governance framework.
- Environment, Social & Governance (ESG) Risk: Low tolerance and risk appetite for ESG risks. Steps being taken to prioritize adherence to sustainability standards, ethical business practices and regulatory compliance to safeguard the Company's reputation and stakeholder trust.

The Risk Committee is tasked with monitoring strategic risks and the effectiveness of our mitigation strategies. These risks include adverse regulatory changes, increased competition, adverse loss experience, investment volatility, and operational failures. The CRCO reports to the Risk Committee on a quarterly basis as well as to the full Board by way of a quarterly CRCO report.

b. Risk Mitigation in the Organization

The Company has implemented a comprehensive risk management framework using a three line defense model. Operational Risk owners are clearly identified and Risk oversight is facilitated by the Risk Committee which reports directly to the board.

c. Material Risk Concentrations

The Company's investment guidelines address concentrations within the investment portfolio.

The Company's Underwriting guidelines address concentrations within the underwriting book of business.The Company receives submissions for reinsurance via reinsurance brokers and directly from issuing carriers and MGAs. Our focus is program business in the U.S.A, UK and Western Europe.

d. Investment in Assets in Accordance with the Prudent Person Principles of the Code of Conduct

The Company's investment portfolio is managed by external investment managers – Checchi Capital Advisors, LLC in accordance with the Company's investment guidelines.

The primary use of the Company's cash is to pay policyholder obligations and, thereafter, to meet working capital requirements for day-to-day operations. As a result, on an overall basis, investment decisions attempt to satisfy the following criteria:

- Preservation of principal;
- Maintenance of appropriate liquidity reasonably sufficient to meet the known, and potentially unanticipated, cash requirements; and
- Maximize total return given applicable constraints.

Portfolios in general are managed on a total return basis within applicable legal, regulatory, and business constraints. The portfolio management process includes both business and economic inputs that are analyzed as part of the overall investment framework. Duration, convexity, yield and the liability cash flow characteristics are key evaluation inputs taken into consideration when making investment decisions.

Liquidity and marketability of the overall portfolio are important attributes that facilitate timely availability of cash to meet business needs. Portfolio liquidity will be maintained such that reasonably expected cash flow needs can be satisfied with minimal disruption to the investment portfolio.

There is no substitute for acting prudently, which requires that investment personnel act always with an appropriate amount of care and in the best interests of the Company in the management of its investment portfolio. Consistent and constant awareness of the condition of the marketplace and the safety of the Company's investments is required.

e. Stress Testing and Sensitivity Analysis to Assess Material Risks

The Company performs various stress tests on an annual basis to determine the adequacy of capital/solvency/liquidity to ensure regulatory requirements are met. The stress tests performed relate to underwriting (adverse inflation experience and adverse reserve development) and economic/market factors (yield curve stress, widening of credit spreads and inflation and monetary policy risk).

Interest Rate Risk

The Company external investment manager monitors sensitivity to interest rate changes by revaluing financial assets and liabilities using a variety of different interest rates.

Active management of market risk is integral to operations. The Company's manager may change the character of future investments purchased or sold to manage exposure to market risk within defined tolerance ranges.

3. SOLVENCY VALUATION

a. Valuation Bases, Assumptions and Methods to Derive the Value of Each Asset Class

The Company has used the valuation principles outlined by the BMA's "Guidance Note for Statutory Reporting Regime" for the reporting period's statutory filing.

The fair value principles used for assets are as follows:

- Cash and cash equivalents – include cash held in banks, money market funds and other short-term deposits having maturities within three months of the date of purchase. The fair value of these holdings is determined by using mark to market principles;
- Fixed income securities – are valued in accordance with mark to market principles where possible or quoted market prices in active markets for similar assets with adjustments to reflect differences if mark to market valuation is not possible; and
- Premium receivable and funds held by ceding reinsurers – are recorded at fair value.

b. Valuation Bases, Assumptions and Methods to Derive the Value of Technical Provisions

Insurance technical provisions are calculated as follows:

i) Nominal Best Estimate of the Loss Reserves; less
ii) Discount in the Best Estimate of the Loss Reserves; plus
iii) Premium Provisions; plus
iv) A Risk Margin.

The Nominal Best Estimate of the Loss Reserves is calculated using United States Generally Accepted Accounting Principles ("US GAAP") as a starting point and includes consideration of Events Not in Data ("ENID").

The discount in the best estimate of the Loss Reserves is calculated based on the best estimate of the projected cash flows and a risk-free yield curve prescribed by the BMA.

The best estimate for the Premium Provision is calculated by using the unearned premium, adjusting for bound but not incepted business as at December 31, 2022 and applying expected future loss ratios, expense ratios and appropriate claims pay-out patterns to derive cash flows which are then discounted using a risk-free yield curve prescribed by the BMA.

The Risk Margin is calculated using a cost of capital approach and a risk-free yield curve prescribed by the BMA. The risk margin considers the uncertainty inherent to the estimation of the Discounted Nominal Best Estimate of the Loss Reserves ("Reserve Risk"); the risk inherent to the collectability of ceded reinsurance ("Default Risk Charge"); the risk inherent to the operations of the Company ("Operational Risk Charge") and the favorable impact of diversification.

At 31st December 2023, total Technical Provisions amounted to **$185,353,985** (2022 $82,499,176) comprising the following:

	At December 31,	
	2023	**2022**
Best estimate net premium provision	45,455,537	11,275,219
Best estimate net loss and loss expense provision	123,147,820	64,057,264
Risk Margin	16,750,628	7,166,693

c. Description of Recoverables from Reinsurance Contracts

The Company has no reinsurance recoverable from reinsurance contracts at 2022 and 2021.

Funds held by ceding reinsurers amounted to $2,845,790 at December 31, 2023 (2022 $2,379,553).

d. Valuation Bases, Assumptions and Methods to Derive the Value of Other Liabilities

Similar to the valuation principles for assets, the Company's liabilities follow the valuations principles outlined by the BMA's "Guidance Note for Statutory Reporting Regime" which values liabilities at a fair value basis. All Other Liabilities are valued in accordance with US GAAP.

e. Any Other Material Information

No additional material information to report.

4. CAPITAL MANAGEMENT

a. Eligible Capital

i. Capital Management Policy and Process for Capital Needs, How Capital is Managed and Material Changes During the Reporting Period

The Company manages its capital in a prudent and effective manner to maximise long-term shareholder value for its investors while meeting regulatory and solvency requirements as determined by the Bermuda Monetary Authority's ("BMA") Economic Balance Sheet ("EBS") framework.

Ultimate responsibility for the Company's capital management lies with the Board of Directors, which oversees the implementation of a Capital Management Policy and the supporting framework and methodology.

The Board currently delegates responsibility to its President and Davies Captive Management ("DCM"), its insurance manager for the operational aspects of providing actual, modelled and projected capital ratios, and the ongoing monitoring, reporting, and implementation of any related management action.

There are two basic elements to the Company's requirements in relation to maintaining capital adequacy:

- The Minimum Capital Requirement (MCR), being the absolute minimum capital ratio that the Board requires the Company to hold.
- An additional requirement, as decided by the Board, to provide the Company with a reasonable "buffer" above the MCR to help address the possibility that the MCR may be breached at any time. The manner in which this "buffer" is maintained is through the application of a Target Capital Ratio requirement.

Eligible Capital Categorized by Tiers in Accordance with the Eligible Capital Rules.

The Company's GAAP capital at December 31, 2023 comprises:

Shareholders' equity At December 31,2022	**CORE** **$'000**	**2015-02** **$'000**	**2018-01** **$'000**	**Total** **$'000**
Share capital - common shares	120	-	-	120
Share capital - preference shares	-	-	-	-
Share premium	-	-	-	-
Contributed Surplus	10,912	-	94,574	105,487
Retained earnings	(11,021)	-	21,540	10,518
Unrealized appreciation	2,359	-	232	2,591
Total GAAP shareholder's equity	**2,370**	**-**	**116,346**	**118,716**

Capital is contributed from Holdings to the Company as contributed surplus when new preference shareholders are admitted to Holdings. The preference shares linked to Holdings Segregated Account 2018-01, which is the beneficial owner of the Company's Segregated Account 2018-01 are redeemable after one year by the shareholders' at a redemption price equal to valuation method defined in the Subscription agreement subject to approval by the Holdings Board of Directors. Such redemption would be funded by a return of capital from the Company to Holdings, subject to approval by the Company's Board of Directors, provided that the redemption would not cause the Company to breach any legal or statutory requirements.

ii. Eligible Capital Categorized by Tiers in Accordance to the Eligible Capital Rules Used to Meet ECR and MSM Requirements of the Insurance Act

At the end of the reporting period, the Company's eligible Capital for its Minimum Margin of solvency ("MSM") and Enhanced Capital Requirements ("ECR") was categorized as follows:

	$'000
Tier 1	152,857
Tier 2	-
Total Eligible Capital	**152,857**

iii. Confirmation of Eligible Capital That is Subject to Transitional Arrangements

Not applicable

iv. Identification of Any Factors Affecting Encumbrances on the Availability and Transferability of Capital to Meet the ECR

Not applicable.

v. Identification of Ancillary Capital Instruments Approved by the Authority

Not applicable.

vi. Identification of Differences in Shareholder's Equity as Stated in the Financial Statements Versus the Available Capital and Surplus

The difference between the Shareholder's Equity of $118,716,256 at December 31, 2023 as shown in the Consolidated Financial Statements prepared in accordance with US generally accepted accounting principles, and the Available Capital of $152,856,920 determined in accordance with the Eligible Capital Rules related to:

	$'000
Net impact of valuation of General Business Insurance Technical Provisions	70,155
Prepaid expenses	(64)
Deferred acquisition costs	(38,801)
Deferred income	2,851
Total difference	**34,141**

b. Regulatory capital requirements

i. ECR and MSM Requirements at the End of the Reporting Period

The Company's BSCR shows the following:

	$000s
Minimum MSM	37,911
ECR	106,539
Target Capital Level (120% of ECR)	127,847
Actual Statutory Economic Capital and Surplus	**152,857**

ii. Identification of Any Non-Compliance with the MSM and the ECR

None.

iii. A Description of the Amount and Circumstances Surrounding the Non-Compliance, the Remedial Measures and Their Effectiveness

Not applicable.

iv. Where the Non-Compliance is not Resolved, a Description of the Amount of the Non-Compliance

Not applicable.

c. Approved Internal Capital Model

i. Description of the Purpose and Scope of the Business and Risk Areas Where the Internal Model is Used

Not applicable – the Company has not applied to have its internal capital model approved to determine regulatory capital requirements.

ii. Where a Partial Internal Model is Used, Description of the Integration with the BSCR Model

Not applicable.

iii. Description of Methods Used in the Internal Model to Calculate the ECR

Not applicable.

iv. Description of Aggregation Methodologies and Diversification Effects

Not applicable.

v. Description of the Main Differences in the Methods and Assumptions Used for the Risk Areas in the Internal Model Versus the BSCR Model

Not applicable.

vi. Description of the Nature & Suitability of the Data Used in the Internal Model

Not applicable.

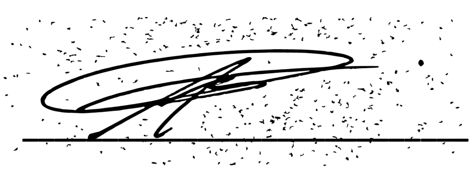
vii. Any Other Material Information

Not applicable.

5. SUBSEQUENT EVENTS

Through May 31, 2024, new investors in Fergus Holdings have contributed an additional $XXm to the Company's segregated account SAC 2018-01.

Signed



Ankur Desai – Director

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Navin Dadlani - Director