FERGUS REINSURANCE LIMITED
FINANCIAL CONDITION REPORT

For the year ended December 31, 2022

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

Fergus Reinsurance Limited
Financial Condition Report
For year ending December 31, 2022

Summary

Fergus Reinsurance Limited ("Fergus Re" or the "Company") was incorporated in Bermuda on June 11, 2008 and 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. 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, 2022.

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, 2022. In addition, certain sections include information based on the Company's December 31, 2022 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.

As a registered segregated accounts company, Fergus has total shareholders' equity of $79.2 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 2020 and 2021, an additional $6,035,000 and $10,550,000 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, 2022, 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, 2022			Year ended December 31, 2021		
	Current	Legacy	Total	Current	Legacy	Total
UNDERWRITING INCOME:	$'000	$'000	$'000	$'000	$'000	$'000
Premiums written, gross and net	96,411	-	96,411	69,464	-	69,464
Change in unearned premiums	(9,185)	-	(9,185)	(20,941)	-	(20,941)
Premiums earned, net	**87,226**	-	**87,226**	**48,523**	-	**48,523**
UNDERWRITING EXPENSES:						
Losses and loss adjustment expenses	52,075	(31)	52,044	23,710	(80)	23,630
Acquisition costs	28,234	-	28,234	16,282	-	16,282
Change in deferred income	(967)	-	(967)	2,842	-	2,842
Total underwriting expenses	**79,342**	**(31)**	**79,312**	**42,834**	**(80)**	**42,754**
NET UNDERWRITING INCOME (LOSS)	**7,884**	**31**	**7,915**	**5,689**	**80**	**5,769**
Net Investment Income (Loss)	**1,135**	-	**1,135**	**(187)**	-	**(187)**
General & Administrative Expenses	**1,983**	-	**1,983**	**1,596**	-	**1,596**
NET INCOME (LOSS)	**7,036**	**31**	**7,067**	**3,906**	**80**	**3,986**

Performance of Underwriting Activities for Reporting Period

The Company wrote $96.4 million in gross premium during 2022 an increase of $26.9 million over 2021. There were no loss portfolio transfers during the year (2021 $3 million).

The growth is attributable to the Company's strategy of focusing on building relationships with a small number of brokers, ceding carriers and managing general agents. Two new programs were written in 2022 as well as the renewal of fourteen programs from 2021. One program was not renewed.

The Company's underwriting income relating to current programs was $7.9 million (2021 $5.6 million). Legacy programs (defined as programs written prior to 2018) contributed an underwriting income of $31k million (2021 income of $80k). One of the programs was the Citadel/AMIC commercial trucking program, which was not renewed effective January 1, 2018. During 2021 the Company agreed an aggregate stop loss with Citadel/AMIC, which was reached during the 2021. The other legacy program had a net income during the year of $31k from favorable loss development (2021: loss of $54k) resulting in the net underwriting income for those legacy programs of $31k.

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, 2022 the Company has provided its ceding companies with letters of credit and insurance trusts with cash and cash equivalents amounting to $35,956,826 and investments with a carrying value of $131,712,878 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,	
	2022	**2021**
	$'000	**$'000**
Cash and cash equivalents	44,964	116,888
Fixed income investments at fair value	142,584	3,500
Total cash and investments	**187,548**	**120,388**

Major categories of net investment income are summarized as follows:

	2022	**2021**
	$'000	**$'000**
Interest income	1,703	314
Amortization expense	151	(71)
Realized gains	68	78
Investment expense	(788)	(508)
Net investment income	**1,134**	**(187)**

Portfolio performance for the year ended December 31, 2022 was positive on an absolute basis with a return of 0.91%. 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 $2m compared to $1.5m in the prior year. 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 the capital restructure that took place during the year.

g. *Any Other Material Information*

None.

a. *GOVERNANCE STRUCTURE*

The Company has established the governance structure as outlined below taking into consideration the principle of proportionality and other such factors including the relationship between the Company, its ceding insurers and the parties insured, as well as the characteristics and volume of business written. The governance structure is commensurate with the nature, scale and low level of complexity of the Company.

As part of its re-licensing application to become a Class 3B reinsurer, the Company began to expand its governance framework. This included beginning to establish a more robust risk management and internal control framework ("RMF"), the establishment of six-subcommittees of the Board and the hiring of a full time Chief Risk and Compliance Officer, further details of which are given below.

Risk Management Function

The Company has appointed Ms. Julie Stanton as the Company's Risk and Compliance Officer. Ms. Stanton will have oversight for the Company's risk management framework.

The role and responsibilities of Ms. Stanton in support of the Company's RMF shall include the following:

- Developing and implementing the RMF: This involves identifying and assessing risks, developing risk mitigation strategies, and monitoring and reporting on risk management activities.

- Ensuring compliance with laws and regulations: This involves developing and implementing compliance programs, monitoring, and reporting on compliance activities, and providing guidance and training to employees.

- Managing risk and compliance functions: This includes overseeing the development and implementation of risk and compliance policies and procedures, as well as ensuring that risk and compliance activities are consistent with the Company's risk appetite and goals.

- Providing risk and compliance expertise: This involves collaborating with other departments to develop risk management and compliance strategies, as well as providing guidance and support on risk and compliance-related matters.

- Reporting to senior management and the Board: This involves providing regular updates on risk and compliance activities, as well as presenting risk and compliance-related issues and recommendations to senior management and the Board.

The CRCO plays a critical role in supporting a company's RMF by developing and implementing effective risk management and compliance strategies, ensuring compliance with laws and regulations, managing risk and compliance functions, providing risk and compliance expertise, and reporting to senior management and the Board.

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

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 upon 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. The Company has engaged Davies Captive Management Limited ("Davies") as its insurance manager to provide management services.

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 is currently in the process of establishing 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 – 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

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.

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. Eric Fleiss and Ms. Alicia Dadlani stepped down from the Board in December 2022.

Senior Executives

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

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

Mr. Powell has 27 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 Mr Navin Dadlani, the President and Director, to provide consultancy services during the year.

During 2022, the Company also contracted with Ankur Desai to provide consultancy services.

Committees

The following committees were appointed by the Board and were in operation throughout 2022:

1. Underwriting committee – Christopher Powell, Stuart Grayston and Dennis Silvia (of Cedar Consulting LLC);
2. Strategic Planning committee – Navin Dadlani, Stuart Grayston, Dennis Silvia;
3. Investment committee – Navin Dadlani, Alicia Dadlani, Thomas McMahon; and
4. Reserving committee – Christopher Powell, Dennis Silvia, Thomas McMahon.

In December 2022, further committees were established/re-established with appointments as follows:

1. Underwriting Committee – Dennis Silvia, Chris Powell and Stuart Grayston;
2. Investment Committee - Navin Dadlani, Thomas McMahon Chip Harris;
3. Reserving Committee - Chris Powell, Dennis Silvia, Thomas McMahon;
4. Risk Committee - Roy Fellowes, Navin Dadlani, Adam Checchi, Ankur Desai, Julie Stanton;
5. Audit Committee - Ankur Desai, Navin Dadlani, Roy Fellowes, Adam Checchi;
6. Governance and Compliance Committee - Ankur Desai, Roy Fellowes ,Tom McMahon, Julie Stanton

d. Risk Management and Solvency Self-Assessment

The Company Risk Management and Solvency Self-Assessment process as outlined below takes into consideration the principle of proportionality and the volume of business written. The Risk Management and Solvency Self-Assessment processes are commensurate with the nature, scale and low level of complexity of the Company.

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

In accordance with the Insurance Code of Conduct ("Code") requirements, a complete assessment of material risks was completed during 2022 by the Board of Directors.

Davies Captive Management conducts a review of the Company's compliance with the Insurance Code of Conduct and presents such review to the Board of Directors on an annual basis. As the company continues on its risk management maturity evolution, this responsibility will be transitioned to the Chief Risk and Compliance Officer. On December 5, 2022, the Board of Directors reviewed the Company's compliance with the Code and adopted a resolution confirming that in their opinion, the Company was in compliance with the Code. However, it was noted that enhancements to the Insurance Code of Conduct become effective January 1, 2023 requiring an enhanced governance framework, with which the Company is confident of being in compliance.

ii. Risk Management and Solvency Self-Assessment Systems Implementation

Refer to paragraph 2.c.i Risk Management Process & Procedures to Identify, Measure, Manage and Report on Risk Exposures.

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 Self-Assessment Report is prepared through a collaborative effort between Davies, the Company's Chief Underwriting Officer, Cedar Consulting LLC and Navin Dadlani.

e. Internal Controls

i. Internal Control System

As noted earlier, the Company has engaged Davies to manage the affairs of the Company and has relied on the internal control system in place at Davies. However, with the appointment of Ms. Julie Stanton as Chief Risk and Compliance Officer in December 2022, responsibility for the implementation and monitoring of internal control systems will transfer accordingly from Davies to the Chief Risk and Compliance Officer.

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.

f. Internal Audit

In December 2022, the Company appointed Deloitte Bermuda as the Company's internal audit. It is intended that Deloitte will gain an understanding of the Company's operations and develop and internal audit plan for presentation to the Board of Directors Spring 2023 meeting for implementation in Q2/Q3 2023.

g. 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 and the Company's Chief Underwriting Officer to ensure accuracy in calculations and reasonability in assumptions.

h. Outsourcing

i. Outsourcing Policy and Key Functions that have been Outsourced

The Company only had two employees during 2022, being its chief underwriting officer and Chief Risk and Compliance Officer (as of December 2022)Therefore certain key functions are performed by third parties.

The Company has 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.

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.

i. 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 main risk categories are as follows:

- Insurance Risk – the risk of loss arising from inadequate pricing or of adverse change in the value of insurance liabilities due to inadequate reserve setting assumptions.
- Market Risk – the risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and volatility of market prices of financial instruments.
- Credit Risk – the risk of loss or of adverse change in the financial situation, resulting from the deterioration of the credit quality of an issuer of a financial instrument or a counterparty in a reinsurance contract.
- Operational Risk – the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events.
- Liquidity Risk – the risk of not been able to meet obligations when obligations come due, due to a lack of sufficient liquid assets or the inability of selling assets without incurring significant losses or the difficulty of raising capital when needed.
- Strategic Risk – the risk of loss arising from the adverse effect of management decisions on both business strategies and their execution, as well as from unexpected changes in environmental trends that damages the operating economics of the business.

As the Company's operations continue to expand, exposure to these risks increases. Accordingly, the Company is continuing to strengthen and enhance its policies and procedures to mitigate against these increases in risk exposure.

b. Risk Mitigation in the Organization

The Company controls risk through a variety of means but ultimately risks are reported and monitored by the Risk Management Function, with which the Board of Directors is closely involved with. Adherence to the Company's underwriting and investment guidelines are closely monitored by the Board of Directors, and Davies Management.

c. Material Risk Concentrations

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

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

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.

Underwriting Risk Exposures

The Company monitors sensitivity for events that can lead to material losses across the portfolio.

Credit Risk

The Company's reinsurance receivables and funds held by ceding reinsurers are reviewed to assess the impact of a counterparty's ability to make payments in accordance with the contractual terms.

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 2022, total Technical Provisions amounted to **$82,499,176** (2021 $76,801,360) comprising the following:

	At December 31,	
	2022	**2021**
Best estimate net premium provision	11,275,219	15,636,056
Best estimate net loss and loss expense provision	64,057,264	47,913,474
Risk Margin	7,166,693	13,251,830

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 $2,379,553 at December 31, 2022 (2021 $2,007,495).

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 the 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, 2022 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	-	67,269	78,181
Retained earnings	(7,346)	-	8,688	1,342
Unrealized appreciation	(374)	-	(43)	(417)
Total GAAP shareholder's equity	**2,876**	-	**75,787**	**78,663**

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	103,218
Tier 2	-
Total Eligible Capital	**103,218**

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 $79,226,431 at December 31, 2022 as shown in the Consolidated Financial Statements prepared in accordance with US generally accepted accounting principles, and the Available Capital of $104,292,000 determined in accordance with the Eligible Capital Rules related to:

	$'000
Net impact of valuation of General Business Insurance Technical Provisions	36,821
Prepaid expenses	(30)
Deferred acquisition costs	(14,417)
Deferred income	2,693
Total difference	**25,067**

b. Regulatory capital requirements

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

The Company's BSCR shows the following:

	$'000
Minimum MSM	18,932
ECR	75,729
Target Capital Level (120% of ECR)	90,875
Actual Statutory Economic Capital and Surplus	**104,292**

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 19, 2023, new investors in Fergus Holdings have contributed an additional $12.2m to the Company's segregated account SAC 2018-01.

Signed

Thomas McMahon – Director

Navin Dadlani - Director