

DARAG Bermuda Ltd.

Financial Statements
December 31, 2023 and 2022
(expressed in U.S. dollars)

DARAG Bermuda Ltd.

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For the year ended December 31, 2023 and 2022

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May 28, 2024

Report of Independent Auditors

To the Board of Directors and Shareholder of DARAG Bermuda Ltd.

Opinion

We have audited the accompanying financial statements of DARAG Bermuda Ltd. (the “Company”), which comprise the balance sheets as of December 31, 2023 and 2022, and the related statements of income, other comprehensive income (loss), changes in equity and cash flows for the years then ended, including the related notes (collectively referred to as the “financial statements”).

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

Basis for opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the *Auditors’ responsibilities for the audit of the financial statements* section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors’ responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditors’ report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material



if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Required supplemental information

Accounting principles generally accepted in the United States of America require that the required supplemental information pertaining to Short-Duration Contracts disclosures labelled as "Unaudited" within Note 15 on pages 39 to 42 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

PricewaterhouseCoopers Ltd


Chartered Professional Accountants

DARAG Bermuda Ltd.
 Balance Sheets
 As at December 31, 2023 and 2022

(expressed in U.S. dollars)

	Notes	2023 \$	2022 (as adjusted) \$
Assets			
Intangible assets	7	260,458	292,208
Fixed income and variable yield available-for-sale investments, at fair value	8	77,789,994	82,825,566
Short term investments, at fair value	8	13,682,882	6,702,524
Deferred acquisition costs	9	2,389,203	2,545,646
Funds withheld	10	2,044,981	3,621,025
Reinsurance and other receivables	11	1,117,735	8,939,043
Other assets	12	724,939	657,319
Cash and cash equivalents	13	14,902,598	26,131,130
Total assets		112,912,790	131,714,461
Equity			
Share capital	14	120,000	120,000
Contributed surplus	14	154,380,000	152,380,000
Accumulated other comprehensive loss	14	(5,100,453)	(8,572,824)
Retained deficit		(110,237,318)	(116,639,824)
Total equity		39,162,229	27,287,352
Liabilities			
Losses and loss adjustment expenses	15	56,866,990	84,889,635
Deferred premiums	16	12,365,053	12,964,521
Provisions	17	-	250,000
Other liabilities	18	4,518,518	6,322,953
Total liabilities		73,750,561	104,427,109
Total equity and liabilities		112,912,790	131,714,461

Approved by the Board of Directors

 Director

 Director

The accompanying notes are an integral part of these financial statements.

DARAG Bermuda Ltd.

Statements of Income

For the years ended December 31, 2023 and 2022

(expressed in U.S. dollars)

		2023	2022
		\$	(as adjusted) \$
	Notes		
Income			
Net premiums earned	16, 19	2,598,298	1,949,112
Net investment income	20	2,838,472	1,652,363
Other income	21	5,688,409	15,483
		11,125,179	3,616,958
Expenses			
Net incurred losses and loss adjustment expenses	15	(4,666,132)	(4,232,854)
Commutation costs	25	-	40,898,270
Acquisition and brokerage costs	9	541,511	410,424
General and administrative expenses	22	7,992,020	13,617,765
Net realized investment losses		855,274	6,009,851
		4,722,673	56,703,456
Net income / (loss)		6,402,506	(53,086,498)

The accompanying notes are an integral part of these financial statements.

DARAG Bermuda Ltd.

Statements of Other Comprehensive Income (Loss) For the years ended December 31, 2023 and 2022

(expressed in U.S. dollars)

	2023	2022
	\$	(as adjusted) \$
	Notes	
Net income (loss)	6,402,506	(53,086,498)
Unrealised gains/(losses) on available-for-sale-investments	8 <u>3,472,371</u>	<u>(6,262,143)</u>
Other comprehensive income (loss)	<u>3,472,371</u>	<u>(6,262,143)</u>
Total comprehensive income (loss)	<u>9,874,877</u>	<u>(59,348,641)</u>

The accompanying notes are an integral part of these financial statements.

DARAG Bermuda Ltd.

Statements of Changes in Equity

For the years ended December 31, 2023 and 2022

(expressed in U.S. dollars)

	Note	Share capital \$	Contributed surplus \$	Accumulated other comprehensive loss \$	Retained deficit \$	Total \$
Balance as at January 1, 2023 (as adjusted)		120,000	152,380,000	(8,572,824)	(116,639,824)	27,287,352
Income for the year		-	-	-	6,402,506	6,402,506
Other comprehensive income						
Change in fair value of available- for-sale investments		-	-	3,472,371	-	3,472,371
Total other comprehensive income (loss)		-	-	(5,100,453)	(110,237,318)	37,162,229
Transactions with the owners of the Company						
Capital contributions	14	-	2,000,000	-	-	2,000,000
Balance as at December 31, 2023		120,000	154,380,000	(5,100,453)	(110,237,318)	39,162,229

The accompanying notes are an integral part of these financial statements.

DARAG Bermuda Ltd.

Statements of Changes in Equity

For the years ended December 31, 2023 and 2022

(expressed in U.S. dollars)

	Note	Share capital \$	Contributed surplus \$	Accumulated other comprehensive loss \$	Retained deficit \$	Total \$
Balance as at January 1, 2022 (as adjusted)		120,000	124,880,000	(2,310,681)	(63,553,326)	59,135,993
Loss for the year		-	-	-	(53,086,498)	(53,086,498)
Other comprehensive loss						
Change in fair value of available- for-sale investments		-	-	(6,262,143)	-	(6,262,143)
Total other comprehensive loss		-	-	(8,572,824)	(116,639,824)	(212,648)
Transactions with the owners of the Company						
Capital contributions	14	-	49,500,000	-	-	49,500,000
Return of capital		-	(22,000,000)	-	-	(22,000,000)
Balance as at December 31, 2022		120,000	152,380,000	(8,572,824)	(116,639,824)	27,287,352

The accompanying notes are an integral part of these financial statements.

DARAG Bermuda Ltd.

Statements of Cash Flows

For the years ended December 31, 2023 and 2022

(expressed in U.S. dollars)

		2023	2022
		\$	(as adjusted) \$
	Notes		
Cash flows from operating activities			
Net income (loss)		6,402,506	(53,086,498)
Adjustments for:			
Amortisation of intangible assets	7, 22	31,750	28,938
Amortisation of premium on debt securities		376,925	1,360,972
Changes in:			
Deferred acquisition costs	9	156,443	(1,228,870)
Funds withheld	10	1,576,044	170,536,073
Reinsurance and other receivables	11	7,821,308	(920,187)
Other assets	12	(67,620)	251,562
Losses and loss adjustment expenses	15	(28,022,645)	(210,131,874)
Deferred premiums	16	(599,468)	5,415,375
Provisions		(250,000)	250,000
Other liabilities	18	(1,804,435)	374,039
Net cash used in operating activities		<u>(14,379,192)</u>	<u>(87,150,470)</u>
Cash flows from investing activities			
Loan repayment from affiliates	26	-	1,212,715
Proceeds from sale of investments		23,196,574	77,188,692
Acquisition of available-for-sale investments		<u>(22,045,914)</u>	<u>(24,401,918)</u>
Net cash generated from investing activities		<u>1,150,660</u>	<u>53,999,489</u>
Cash flow from financing activities			
Proceeds from capital contributions	14	2,000,000	49,500,000
Return of capital to shareholder	14	<u>-</u>	<u>(22,000,000)</u>
Net cash generated from financing activities		<u>2,000,000</u>	<u>27,500,000</u>
Net decrease in cash and cash equivalents		<u>(11,228,532)</u>	<u>(5,650,981)</u>
Cash and cash equivalents at beginning of year		<u>26,131,130</u>	<u>31,782,111</u>
Cash and cash equivalents at end of the year	13	<u>14,902,598</u>	<u>26,131,130</u>

The accompanying notes are an integral part of these financial statements.

DARAG Bermuda Ltd.

Notes to the Financial Statements

For the years ended December 31, 2023 and 2022

(expressed in U.S. dollars)

1. *The Company and its activities*

DARAG Bermuda Ltd. (the “Company”) is an exempted company incorporated on January 10, 2020 and domiciled in Bermuda. The Company is registered as a Class 3A insurer under the Insurance Act 1978. Its registered office is Sofia House 3rd Floor, 48 Church Street, Hamilton HM 12, Bermuda.

From December 31, 2020 and onwards, the Company’s shares are wholly owned by DARAG Holding Guernsey 2 Limited. From inception to December 31, 2020, the Company’s shares were wholly owned directly by the DARAG group ultimate parent, DARAG Guernsey Limited (the “Ultimate Parent”). DARAG Holding Guernsey 2 Limited is also wholly owned by the Ultimate Parent.

The Company is a leading provider of finality solutions for legacy, non-life reinsurance, in the North American markets.

Coverages

The Company offers an expansive range of reinsurance coverages and either through novation, loss portfolio transfer, reinsurance or acquisition, has assumed the following lines of business:

- Auto liability
- Commercial auto
- General liability
- Professional liability
- Workers’ compensation
- Other

2. *Basis of preparation*

The financial statements of the Company have been prepared in accordance with U.S. Generally Accepted Accounting Principles (“US GAAP”). The term “ASC” used in these notes refers to Accounting Standards Codification issue by the United States Financial Accounting Standards Board (“FASB”).

The Company’s financial statements prepared on a US GAAP basis are the financial statements for the years ended December 31, 2023 and 2022. Previously, the Company prepared financial statements in accordance with International Financial Reporting Standards (“IFRS”). The date of transition from IFRS to US GAAP was January 1, 2021 and applied on a retroactive basis. The impact of the transition is disclosed in Note 4.

The preparation of the financial statements in conformity with US GAAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

The balance sheets are organised in increasing order of liquidity, with additional disclosures provided within the notes to the financial statements. All amounts are shown in United States Dollars.

The financial statements have been prepared using the going concern basis of accounting.

DARAG Bermuda Ltd.

Notes to the Financial Statements

For the years ended December 31, 2023 and 2022

(expressed in U.S. dollars)

2. *Basis of preparation (continued)*

- (i) **Standards, amendments to published standards and interpretations early adopted by the Company:**

The Company did not early adopt any standards, amendments to published standards or interpretations.

- (ii) **Standards, amendments and interpretations to existing standards, expected to apply to the Company, that are not yet effective and have not been early adopted by the Company:**

There are no standards, amendments to published standards or interpretations that are not yet effective and that are expected to affect the Company that have not been early adopted.

3. *Summary of significant accounting policies*

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied year on year unless otherwise stated.

(a) **Consolidation**

- i) *Business combinations*

The Company accounts for business combinations using the acquisition method when control is transferred to the Company. The consideration transferred in the acquisition is measured at fair value, as are the identifiable net assets acquired. The fair values of each of the acquired reinsurance assets and liabilities are derived from probability-weighted ranges of the associated projected cash flows, based on actuarial analysis and the Company's strategy.

Goodwill is initially measured as the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Company's share of the identifiable net assets acquired. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

For the purpose of impairment testing, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The cash-generating units or groups of cash-generating units are identified according to operating segment.

Conversely, any gain on a bargain purchase is recognised in the statements of income immediately. Transaction costs are expensed as incurred, except if related to the issuance of debt or equity securities. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are recognised in the statements of income.

DARAG Bermuda Ltd.

Notes to the Financial Statements

For the years ended December 31, 2023 and 2022

(expressed in U.S. dollars)

3. Summary of significant accounting policies (continued)

(a) Consolidation (continued)

i) Business combinations (continued)

To evaluate whether the acquisition qualifies as a 'business' or 'concentration of asset', the Company evaluates whether substantially all of the fair value of the gross assets (excluding cash and cash equivalents and goodwill) acquired is concentrated in a single identifiable asset or group of similar identifiable asset. If that threshold is met, the set does not qualify as a 'business' and does not require further evaluation. If that threshold is not met, the set will be evaluated further.

ii) Subsidiaries

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company and are deconsolidated from the date that control ceases.

iii) Loss of control

When the Company loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interests and any other components of equity. Any resulting gain or loss is recognised in the statements of income. Any interest retained in the former subsidiary is measured at fair value when control is lost.

iv) Transactions eliminated on consolidation

Upon consolidation all intercompany assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities under the control of the Company, are eliminated in full. Unrealised profits and losses from intercompany transactions that are recognised in assets are also eliminated in full. Inter-company losses that indicate impairment are recognised in the consolidated financial statements. Accounting policies of subsidiaries are changed where necessary to ensure consistency with the Company's accounting policies. The annual financial information of the consolidated subsidiaries are subject to uniform accounting policies.

v) Functional and presentational currency

Items included in the consolidated financial information of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in U.S. dollars, which is also the functional currency of the Company.

vi) Transactions and balances

Transactions in foreign currencies are translated into the respective functional currencies at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are recognised in the statements of income.

DARAG Bermuda Ltd.
Notes to the Financial Statements
For the years ended December 31, 2023 and 2022

(expressed in U.S. dollars)

3. Summary of significant accounting policies (continued)

(a) Consolidation (continued)

vi) *Transactions and balances (continued)*

However, when a gain or loss on a non-monetary item is recognised in other comprehensive income (such as available-for-sale equity instruments), any exchange component of that gain or loss is recognised in other comprehensive income.

(b) Reinsurance contracts

i) *Classification*

The Company assumes reinsurance contracts that transfer significant reinsurance risk. As a general guideline, the Company defines significant insurance risk as the possibility of having to compensate the reinsurer or cedant if a specified uncertain future event (the insured event) adversely affects the reinsurer or cedant.

The essence of the Company's business model is technical finality for non-life reinsurance, also referred to as runoff business.

The Company classifies its reinsurance transactions as follows: 1) acquisition of a reinsurance entity, 2) assumption of reinsurance through novation and 3) retroactive reinsurance through loss portfolio transfer or other reinsurance policy. Each transaction is assessed individually to determine whether it meets the definition of a business combination. Where the transaction does not meet the definition of a business combination the Company applies the most appropriate accounting dependent on the nature of the transaction.

ii) *Recognition and measurement*

Premiums written

Premiums written relate to retroactive reinsurance written during the year, together with any differences between booked premiums for prior years and those previously accrued and include estimates of premiums due but not yet receivable or notified to the Company, less an allowance for cancellations.

Deferred premium

Deferred premiums represent the proportion of retroactive reinsurance premium written in the year or prior, which relates to unexpired terms of loss portfolio transfer or reinsurance agreements at the end of the reporting year.

Retroactive reinsurance

Under retroactive reinsurance, the Company assumes liabilities incurred as a result of past insurable events. A reinsurance liability is established equal to any loss reserves assumed. Consideration received in excess of estimated liabilities assumed is recognised as deferred premium at inception of such contracts. Deferred premium is subsequently amortised using the effective interest method over the estimated remaining claims settlement pattern. Subsequent changes to the estimated timing and amount of loss payments are applied retrospectively and reflected in the statements of income in the year in which the changes are made. Where the consideration received is less than the estimated liabilities assumed, the difference is charged to the statements of income.

DARAG Bermuda Ltd.
Notes to the Financial Statements
For the years ended December 31, 2023 and 2022

(expressed in U.S. dollars)

3. Summary of significant accounting policies (continued)

(b) Reinsurance contracts (continued)

ii) *Recognition and measurement (continued)*

Acquisition costs

Commissions and other external acquisition costs that vary with and are related to securing reinsurance contracts are deferred over the period in which the related premiums are earned. These are capitalised and shown as deferred acquisition costs ("DAC") in the statement of financial position. DAC are amortised over the term of the contracts as the premium is earned. All other costs are recognised as expenses when incurred.

Claims incurred

Losses and loss adjustment expenses are charged to the statements of income as incurred based on the estimated liability for compensation owed to reinsurers or cedants. They include direct and indirect claims settlement costs arising from events that have occurred up to the end of the reporting period even if they have not yet been reported to the Company.

Liabilities for unpaid claims consist of reported claims and incurred but not reported claims ("IBNR"). The IBNR is estimated by actuarial statistical analyses and consideration of individual claims circumstances by claims experts. Unpaid claim amounts depend on various factors that may be affected by external factors (such as jury decisions, legislative changes, public attitudes, inflation etc.).

Claims incurred include claims expenses paid during the financial year as well as changes in the provision for outstanding claims.

The provision for outstanding claims includes obligations arising from reinsurance contracts where the size of the claim and/or the timing of the payment is still uncertain. The provision pertains to:

- known claims for which the provision is based on individually determined case estimates;
- claims whose occurrence is not yet known (e.g., they have been incurred but not yet been reported or have not yet manifested themselves); and
- claims which are known but whose extent may turn out to be greater than originally foreseen (incurred but not enough reported).

Provisions include expenses for internal and external loss adjustments. The provision for outstanding claims is based on estimates and the actual payments may be higher or lower. The amounts recognised are the realistically estimated future amounts to be paid. They are calculated on the basis of past experience and assumptions about future developments (e.g., social, economic or technological factors).

Future payment obligations are not discounted. For determining the provision for outstanding claims, the Company uses a range of actuarial projection methods, including the chain ladder and other accepted methods. Specifically, for runoff claims, the standard actuarial methods used are applied both to the runoff triangles for the payments and to the runoff triangles for the reported claims, so that a range of estimates for the ultimate loss is attained. The realistic estimated value for the ultimate loss is determined from within this range.

DARAG Bermuda Ltd.
Notes to the Financial Statements
For the years ended December 31, 2023 and 2022

(expressed in U.S. dollars)

3. Summary of significant accounting policies (continued)

(b) Reinsurance contracts (continued)

ii) *Recognition and measurement (continued)*

Claims incurred (continued)

Provisions also include unallocated loss adjustment expenses ("ULAE"). The Company uses a mixture of either actuarially driven methods (in line with actual methods described above) or internally estimated provisions if the actual ULAE costs are not known. The Company has differing portfolios making use of both outsourced and affiliated group claims management which gives rise to differing treatments for ULAE provisions.

Premium deficiency

A premium deficiency occurs if the sum of anticipated losses and loss adjustment expenses exceed unearned premiums, deferred acquisition costs and anticipated investment income. A premium deficiency is initially recognized by charging any deferred acquisition costs to expense to the extent required in order to eliminate the deficiency. If the premium deficiency exceeds the deferred acquisition costs then a liability is accrued for the excess deficiency.

Anticipated losses and loss adjustment expenses include expected claim costs and claim adjustment expenses, DAC and maintenance costs. Maintenance costs are defined as costs associated with maintaining records relating to insurance contracts and with the processing of premium collections and commissions and exclude non-directly attributable administrative expenses.

Receivables and payables related to reinsurance contracts

Receivables and payables are recognised when due. These include amounts due from and to reinsurers and cedants. If there is objective evidence that a reinsurance receivable is impaired, the Company reduces the carrying amount of the reinsurance receivable accordingly and recognises that impairment loss in the statements of income. The Company gathers the objective evidence that a reinsurance receivable is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method. These processes are described in Note 3(f).

Salvage and subrogation reimbursements

Some reinsurance contracts permit the Company to sell (usually damaged) property acquired in settling a claim (for example, salvage). The Company may also have the right to pursue third parties for payment of some or all costs (for example, subrogation). Salvage property is recognised when recoverability is confirmed, and the respective liability is settled.

Deposit accounting

Reinsurance contracts are assessed to ensure that insurance risk is transferred by the ceding or assuming company to the reinsurer. Those contracts that do not transfer reinsurance risk are accounted for using the deposit method. The deposit method of accounting is applied to reinsurance contracts that do not indemnify the ceding company or the Company against loss or liability relating to reinsurance risk. Under the deposit method of accounting, the deposit asset or liability is initially measured based on the consideration paid or received less any explicitly identified premiums or fees to be retained by the ceding or assuming enterprise, irrespective of the experience of the contract.

DARAG Bermuda Ltd.
Notes to the Financial Statements
For the years ended December 31, 2023 and 2022

(expressed in U.S. dollars)

3. Summary of significant accounting policies (continued)

(b) Reinsurance contracts (continued)

ii) *Recognition and measurement (continued)*

Deposit accounting (continued)

For contracts that transfer neither significant timing nor underwriting risk, and contracts that transfer only significant timing risk, changes in estimates of the timing or amounts of cash flows are accounted for by recalculating the effective yield. The deposit is then adjusted to the amount that would have existed had the new effective yield been applied since the inception of the contract. Changes in the carrying amount of the deposit are reported as interest income or interest expense. For contracts that transfer only significant underwriting risk, once a loss is incurred, the deposit is adjusted by the present value of the incurred loss. At each subsequent reporting date, the portion of the deposit attributable to the incurred loss is recalculated by discounting the estimated future cash flows.

(c) Net investment income

Investment income primarily consists of interest income on debt securities and fair value gains other than those arising from unrealised components of available-for-sale instruments which are recognised in other comprehensive income. Interest income from investments not measured at fair value through profit or loss is recognised using the effective interest method.

Net investment expenses consist of costs relating to investment management services, trustee fees, impairment of investments and other fair value losses. These expenses are recognised on an accrual basis. Cost and expenses are recognised in profit or loss upon utilisation of goods or services or at the date they are incurred.

(d) Intangible assets

Fair value adjustment of reinsurance liabilities upon acquisition

The Company accounts for business combinations using the acquisition method of accounting, which requires that the acquirer record the assets and liabilities acquired at estimated fair value.

The difference between the carrying value of reinsurance liabilities acquired at the date of acquisition and the fair value is the Fair Value Adjustment, ("FVA") recognised as an intangible asset.

Intangible assets are amortised in line with the underlying claims payment pattern of the acquired reinsurance liabilities.

(e) Financial Instruments

i) *Classification*

The Company classifies its financial assets into the following categories: debt securities and receivables. The classification is determined by management at initial recognition and depends on the purpose for which the investments are acquired.

The Company classifies its financial liabilities into other liabilities.

DARAG Bermuda Ltd.
Notes to the Financial Statements
For the years ended December 31, 2023 and 2022

(expressed in U.S. dollars)

3. Summary of significant accounting policies (continued)

(e) **Financial Instruments (continued)**

ii) *Debt securities*

A debt security is an investment in the form of a security representing a credit relationship with another entity. The Company classifies debt securities into one of the following three categories:

- Trading securities
- Held-to-maturity securities
- Available-for-sale securities

Debt securities are classified as trading securities if they are acquired with the intent of selling them in the short term. Debt securities are classified as held-to-maturity only if at acquisition management has both the positive intent and ability to hold the individual debt securities to maturity. Debt securities not classified as either trading or held-to-maturity are classified as available-for-sale. The classification is determined by management at initial recognition and depends on the purpose for which the investments are acquired.

The Company's debt securities comprise of:

- Short term investments classified as available for sale
- Fixed-income and variable-yield debt securities classified as available for sale

Short term investments classified as available for sale comprise investments with a maturity greater than three months up to one year from the date of purchase. Fixed-income and variable-yield debt securities classified as available for sale are investments with a maturity of greater than one year from the date of purchase.

iii) *Receivables*

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Company intends to sell in the short term or available-for-sale. The Company's receivables comprise reinsurance and other receivables, funds withheld, accrued interest, prepayments and cash and cash equivalents in the statement of financial position.

iv) *Other liabilities*

Other liabilities are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market.

v) *Financial assets – recognition and measurement*

The Company initially recognises receivables and debt securities issued on the date when they are originated. All other financial assets are initially recognised on the trade date when the entity becomes a party to the contractual provisions of the instrument.

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3. Summary of significant accounting policies (continued)

(e) Financial Instruments (continued)

v) *Financial assets – recognition and measurement (continued)*

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through the statements of income.

Short-term and fixed-income and variable-yield investments classified as available-for-sale are subsequently carried at fair value, with unrealised gains and losses (including any translation differences for available for sale debt securities denominated in a foreign currency) recognised in accumulated other comprehensive income. Realised gains and losses on sales of investments classified as available-for-sale are recognised in the statements of income.

Receivables are subsequently carried at amortised cost using the effective interest method. Amortised cost is the initial measurement amount adjusted for the amortisation of any differences between the initial and maturity amounts using the effective interest method. Receivables and available for sale financial assets are reviewed for impairment assessment (see Note 6(b)).

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership or has not retained control of the financial asset.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the statements of income. On disposal, the difference between the net disposal proceeds and the carrying amount is included in the statements of income.

vi) *Financial liabilities - recognition and measurement*

All financial liabilities are initially recognised on the trade date when the entity becomes party to the contractual provisions of the instrument. The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial liabilities are recognised initially at fair value, net of directly attributable transaction costs. Financial liabilities are subsequently stated at amortised cost, using the effective interest method.

Financial liabilities are derecognised from the balance sheets only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in the statements of income.

vii) *Offsetting financial instruments*

Financial assets and liabilities are offset, and the net amount reported in the statements of income where the Company currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

viii) *Cash and cash equivalents*

Cash and cash equivalents are stated at face value and include deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

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3. Summary of significant accounting policies (continued)

(f) **Impairment**

i) *Impairment of non-financial assets*

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be fully recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets (other than goodwill) that incurred an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

ii) *Impairment of financial assets*

For available-for-sale debts securities, the Company assesses, at the reporting date, whether a decline in fair value below the amortised cost basis (i.e., impairment) is due to credit-related factors or non-credit-related factors. The assessment is performed at individual security level.

The Company first determines whether an investment is impaired. An investment is impaired if the fair value of the investment is less than its amortised cost. If the fair value of an investment is less than its amortised cost at the reporting date, the Company determines whether the impairment is temporary or other-than-temporary.

An impairment of a debt security is considered other-than-temporary if any of the following conditions exist:

- If the Company intends to sell the debt security (i.e. it has decided to sell the security);
- If the Company does not intend to sell the debt security but it is more likely than not that it will be required to sell the security before recovery of its amortised cost basis.
- If the Company does not expect to recover the entire amortised cost basis of the security even if the Company does not intend to sell the security.

If an other-than-temporary impairment has occurred, the amount of the other-than-temporary impairment recognised in earnings depends on whether the Company intends to sell the security or more likely than not will be required to sell the security before recovery of its amortised cost basis.

In instances where the Company intends to sell an impaired debt security or it is more likely than not that the Company will be required to sell prior to recovery of its amortised cost basis, an other-than-temporary impairment loss is recognised in earnings equal to the difference between the debt security's amortised cost basis and its fair value at the balance sheet date.

If the Company does not intend to sell an impaired debt security and, the Company cannot be compelled to sell the security prior to recovery of the amortised cost basis, the Company determines whether it will recover the amortised cost basis. If the Company concludes it will not recover the amortised cost basis, a credit loss exists. In these instances, the resulting other-than-temporary impairment is separated into the following two amounts:

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3. Summary of significant accounting policies (continued)

(g) Impairment (continued)

ii) *Impairment of financial assets (continued)*

- The amount representing the credit loss, which is recognised in the statements of income
- The amount related to all other factors (i.e. non-credit-related factors), which is recognised in other comprehensive income.

To calculate the amount of the credit loss, the present value of the expected future cash flows is compared with the amortised cost basis of the available for sale debt security, with the amount of the credit loss recognised being limited to the excess of the amortised cost basis over the fair value, effectively creating a “fair value floor”.

iii) *Financial assets measured at amortised cost*

The Company applies the current expected credit loss (CECL) impairment model under ASC 326-20 for financial assets measured at amortised cost such as insurance and reinsurance receivables and reinsurance assets.

The CECL impairment model requires an estimate of expected credit losses, measured over the contractual life of an instrument, that considers forecasts of future economic conditions in addition to information about past events and current conditions. The objective of the model is to recognise an allowance for credit losses that results in the financial statements reflecting the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortised cost basis of the financial asset to present the net carrying value at the amount expected to be collected on the financial asset.

The statements of income reflect the measurement of credit losses for newly recognised financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period.

The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The Company uses judgment in determining the relevant information and estimation methods that are appropriate in its circumstances.

(h) Equity

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issuance of equity instruments are shown in equity as a deduction from the proceeds, net of tax.

Equity consists of share capital, contributed surplus, retained earnings and accumulated other comprehensive income.

Share capital represents the par value of the shares issued.

Contributed surplus include any amounts contributed by the shareholder.

Accumulated other comprehensive loss consists of unrealised gains and losses from changes in the fair value of available-for-sale financial assets.

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3. Summary of significant accounting policies (continued)

(g) **Equity (continued)**

Retained deficit represents all current and prior period results of operations as reported in the statements of income.

4. Transition from IFRS to US GAAP

The Company's first financial statements prepared under a US GAAP basis are the financial statements for the years ended December 31, 2023 and 2022. Previously the Company prepared its financial statements under IFRS. The date of the transition from IFRS to US GAAP was January 1, 2022:

The following table reflects reclassifications and remeasurements in respect of the transition from IFRS to US GAAP as of December 31, 2022:

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	IFRS December 31, 2022 \$	Reclassifica tion \$	Remeasure ment \$	US GAAP December 31, 2022 \$
Assets				
Intangible assets	3,286,020	-	(2,993,812)	292,208
Available-for-sale investments	89,528,090	(89,528,090)		-
Fixed income and variable-yield available-for-sale-investments, at fair value	-	82,825,566		82,825,566
Short term investments, at fair value	-	6,702,524		6,702,524
Deferred acquisition costs	1,001,668	-	1,543,978	2,545,646
Funds withheld	3,621,025	-	-	3,621,025
Reinsurance and other receivables	8,939,043	-	-	8,939,043
Other assets	657,319	-	-	657,319
Cash and cash equivalents	26,131,130	-	-	26,131,130
Total assets	133,164,295	-	(1,449,834)	131,714,461
Equity				
Share capital	120,000	-	-	120,000
Contributed surplus	152,380,000	-	-	152,380,000
Accumulated other comprehensive loss	(8,572,824)	-	-	(8,572,824)
Retained deficit	(107,142,231)	-	(9,497,593)	(116,639,824)
Total equity	36,784,945	-	(9,497,593)	27,287,352
Liabilities				
Technical provisions	84,889,635	(84,889,635)	-	-
Losses and loss adjustment expenses	-	84,889,635	-	84,889,635
Deferred premiums	4,916,762	(4,916,762)	-	-
Deferred gain on reinsurance contracts	-	4,916,762	8,047,759	12,964,521
Provisions	250,000	-	-	250,000
Other liabilities	6,322,953	-	-	6,322,953
Total liabilities	96,379,350	-	8,047,759	104,427,109
Total equity and liabilities	133,164,295	-	(1,449,834)	131,714,461

The remeasurement adjustment are in relation to novation transactions previously treated as business combinations under IFRS but do not meet the criteria under US GAAP. This has resulted in the write off of intangible assets and the deferral of the previously recognised gain on reinsurance contracts along with the deferral of deferred acquisition costs.

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5. Critical accounting estimates and judgements in applying accounting policies

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also exercises judgement in applying the Company's accounting policies. This note provides an overview of the areas that involve a higher degree of judgement or complexity, and of items which are more likely to be adjusted due to estimates and assumptions ultimately being materially different compared to actual results. The only accounting estimates and judgements made in the course of preparing these financial statements which are difficult, subjective or complex to a degree that would warrant their description as critical are the estimates of the ultimate liability arising from claims made under reinsurance contracts.

i) *The ultimate liability arising from claims made under reinsurance contracts*

The estimation of the ultimate liability arising from claims made under reinsurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. The use of estimates for measuring losses and loss adjustment expenses is of substantial significance given that measurement is invariably based on statistical estimation techniques and the development of future cash flows from reinsurance contracts cannot be accurately predicted. The Company has applied conventional statistical estimation techniques in order to determine the ultimate liability of claims as further described in Notes 6 and 15.

6. Management of reinsurance and financial risk

The Company's business activities reflect the assumption of risks, being mainly reinsurance and financial risks. This section summarises the significant risks and the way the Company manages them.

(a) **Reinsurance risk**

The risk under any one reinsurance contract is the possibility that the reinsured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of a reinsurance contract, this risk is random and therefore unpredictable. The terms and conditions of the contracts set out the basis for the determination of the Company's liability should the reinsured event occur. The risks underwritten include motor (including third party liability), accident and health, transport, fire, other damage to property and liability and professional liability.

Reinsurance risk refers to the risks spanning many aspects of the Company's operations, including underwriting risk and reserving risk. This note contains information pertaining to the frequency and severity of claims, sources of uncertainty in the estimation of future claim payments, management's processes in managing uncertainty and the sensitivity to changes in assumptions.

Underwriting risk is an important source of risk in the Company's active underwriting operations. Underwriting risk is defined as the risk that the total cost of claims, claims adjustment expenses and premium acquisition expenses will exceed premiums received and can arise as a result of numerous factors, including pricing risk, reserving risk and catastrophe risk. Underwriting risk management strategies may differ depending on the line of business involved and the type of account being reinsured. The Company's strategy ensures that the risks underwritten are well diversified.

DARAG Bermuda Ltd.

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6. *Management of reinsurance and financial risk (continued)*

(a) **Reinsurance risk (continued)**

Reserving risk is a significant risk to the Company directly impacting the Company's financial performance and capital requirements. Reserving risk arises because actual claims experience can differ adversely from the assumptions included in setting reserves. This could occur because the frequency or severity of claims and benefits are greater than estimated. Reinsurance events are random and the actual number and amount of claims and benefits may vary from the estimate established using statistical techniques. Factors that may increase overall reinsurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

The time required to identify and settle claims is an important consideration in establishing the Company's reserves. Short-tail claims, such as property, automobile and motor are normally reported soon after the incident and are generally settled within months of the incident. Long-tail claims are considered by the Company to be those that often take years to develop and settle, such as general liability, workers' compensation, product liability, professional liability and motor claims including bodily injury. For such claims, information concerning the loss event may not be readily available. Accordingly, the reserving analysis of long-tail claims is more difficult and is subject to greater degree of uncertainty than for short-tail claims. The Company uses specialised techniques to estimate and evaluate the amount of reserves.

The Company is liable for all reinsured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term.

Reserving risk is managed through an appropriate reserving methodology and the performance of extensive due diligence on new portfolio and acquisitions, in determining best estimates prior to acceptance. The reserving calculations are performed by the affiliated service entity's actuarial teams and supplemented with external actuarial reviews through both planned and ad-hoc reviews. The Company's risk strategy therefore focuses on the review, assessment and management of claims provisions and settlements.

The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims' exposures, including direct claim expenses. The determination of losses and loss adjustment expenses follows a best estimate approach, which entails the projection of future cash flows expected to materialise upon the final settlement of all further obligations. They depend on future developments and are uncertain in several aspects. In particular, any future unforeseen changes in legal or regulatory frameworks cannot normally be predicted.

To assess the uncertainty in calculating the best estimate of losses and loss adjustment expenses, the Company uses several different techniques (depending on the type of risk):

- Consideration of the impact of using different reserving methods based on triangulated data, such as using paid or incurred data and applying different tail assumptions; and/or
- Comparison of the actual cash flows against the previously estimated cash flows.

The Company's methods for managing uncertainty include:

- Individual claims reviews, leading to a better understanding of underlying risk and current development;
- Robust interactions with claims teams, resulting in more detailed knowledge of individual claims; and
- Regular financial reporting to highlight significant developments in a timely manner.

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6. Management of reinsurance and financial risk (continued)

(a) **Reinsurance risk (continued)**

Furthermore, in relation to specific classes of business, the Company assesses uncertainty on individual claims assessments and different scenario assessments.

The following table shows the breakdown of the losses and loss adjustment expenses by line of business:

	2023	2022
	\$	\$
Auto liability	1,266,236	1,508,720
Commercial auto	-	20,470,369
General liability	3,164,979	9,777,484
Professional liability	1,326,156	1,859,737
Workers' compensation	51,109,619	51,273,325
Total	56,866,990	84,889,635

In order to stress the net result for the reporting year, the net losses and loss adjustment expenses were increased and decreased by 2.5%. The table below discloses changes in the net Company result.

	2023	2022
	\$	\$
Change in net income (loss)		
Reserves + 2.5%	(1,421,675)	(2,122,241)
Reserves – 2.5%	1,421,675	2,122,241

(b) **Financial risk**

The Company is exposed to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to manage and control risk exposures within acceptable parameters, while optimising the investment return.

i) *Market risk*

The key element of market risk for the Company is interest rate risk. The sensitivity analysis below illustrates how changes in the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. The Company does not have any significant exposure to foreign currency risk and as management assesses there is minimal risk of significant losses due to exchange rate fluctuations, the Company does not hedge its foreign currency exposure.

Financial instruments carrying variable rates expose the Company to cash flow interest rate risk. Financial instruments carrying fixed rates expose the Company to fair value interest rate risk. The Company manages this risk by implementing detailed investment guidelines and through the Ultimate Parent's investment committees. The interest-rate profile of the Company's interest-bearing financial instruments is as follows:

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6. Management of reinsurance and financial risk (continued)

(b) **Financial risk (continued)**

i) *Market risk (continued)*

	2023	2022
	\$	\$
Fixed-rate instruments		
Fixed income and variable yield available-for-sale investments	77,789,994	82,825,566
Short term investments	13,682,882	6,702,524
Deposits on funds withheld basis	2,044,981	3,621,025
Cash equivalents	-	1,180,028
	<u>93,517,857</u>	<u>94,329,143</u>
Variable-rate instruments		
Cash	36,054	16,147,966
Cash equivalents	14,866,544	8,803,136
	<u>14,902,598</u>	<u>24,951,102</u>

The Company's main interest rate risk arises from fixed income available-for-sale financial assets and exposes the Company to fair value interest rate risk. The Company outsources its investment management function to external investment managers who are involved in the evaluation of risks and reports on these to the Company on a regular basis. Management receives and monitors quarterly stress tests from the investment managers.

Available-for-sale and short term investments subject to fair value interest rate risk and their maturities are analysed below:

	2023	2022
	\$	\$
Available-for-sale investments		
Due within one year	13,682,882	6,702,524
More than one year, up to two years	12,246,457	14,407,637
More than two years, up to three years	22,418,296	15,146,018
More than three years, up to four years	12,939,624	25,399,567
More than four years, up to ten years	29,816,872	27,451,883
More than ten years	368,745	420,461
Total	<u>91,472,876</u>	<u>89,528,090</u>

Fixed-rate cash equivalents subject to fair value interest rate risk and their maturities are analysed below:

	2023	2022
	\$	\$
Cash equivalents instruments		
Due within one year	-	1,180,028
Total	<u>-</u>	<u>1,180,028</u>

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6. Management of reinsurance and financial risk (continued)

(b) **Financial risk (continued)**

i) *Market risk (continued)*

Fair value sensitivity analysis for fixed-rate instruments

The Company does not account for any fixed-rate financial assets or liabilities at fair value through the statements of income. Therefore, a change in interest rates at the reporting date would not affect the statements of income. A change of 25 basis points in interest rates would have increased or decreased equity by \$668,699 (2022: \$678,170) assuming all other variables remained constant.

Cash flow sensitivity analysis for variable-rate instruments

A change of 25 basis points in interest rates would have increased or decreased profit by \$38,885 (2022: \$81,185).

ii) *Credit risk*

The Company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Company is exposed to credit risk are:

- Available-for-sale and short term investments
- Reinsurance and other receivables
- Cash and cash equivalents

The Company's policy is to maintain a broad mix of diversified assets in order to minimise concentration risk. Concentration risk is limited by a system of limits and thresholds and by the Company's investment guidelines which are continuously monitored.

Default risks from reinsurance contracts relate mainly to receivables from cedants and receivables from reinsured parties. The latter are assumed by the Company in the course of loss portfolio transfers and largely concern recourse claims. The collection process is monitored closely in order to mitigate this risk.

When entering into reinsurance contracts or company takeovers, the credit rating of the reinsurer is analysed as part of due diligence. Where appropriate or meaningful from a risk or business perspective, targeted loss adjustments are made, or additional reinsurance cover is purchased from companies with good credit ratings.

Reinsurance can be used to manage insurance risk, although the Company currently has no outwards reinsurance policies. However, the Company policy on placing outwards reinsurance contracts is that these are to be with listed multinational reinsurance companies with high credit ratings (not less than 'A-').

The Company's management also monitor issuer risk, that is, the risk of a decline in the credit rating or the default of an issuer of securities and/or credit institutions. In addition to mixing and diversifying its investments, the Company minimises default risk by investing in securities rated investment grade or higher and by means of a risk-appropriate selection of issuers.

The Company has a target average minimum rating of 'A-' for its portfolio of collateralized assets. Risks are monitored in the course of investment management.

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6. Management of reinsurance and financial risk (continued)

(b) **Financial risk (continued)**

ii) *Credit risk (continued)*

Exposure

Maximum exposure to credit risk:

	2023	2022
	\$	\$
Fixed income and variable yield available-for-sale investments	77,789,994	82,825,566
Short term investments	13,682,882	6,702,524
Reinsurance and other receivables	1,117,735	1,751,366
Other assets	724,939	657,319
Cash and equivalents	14,902,598	26,131,130
Total	108,218,148	118,067,905

The maximum exposure to credit risk at the reporting period in respect of the financial assets presented above is equivalent to the gross carrying amount. These assets are analysed in the following table using Fitch's credit ratings or equivalent:

	2023	2022
	\$	\$
Fixed income and variable-yield available-for-sale investments and short term investments		
AAA	480,622	18,912,550
AA	32,554,036	15,954,994
A	55,469,712	53,581,776
BBB	2,968,506	1,078,770
Total	91,472,876	89,528,090
	2023	2022
	\$	\$
Reinsurance and other receivables		
AA	175,220	-
A	-	1,418,519
Not rated	887,125	-
Receivables from cedants	55,390	332,847
Total	1,117,735	1,751,366

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6. Management of reinsurance and financial risk (continued)

(b) **Financial risk (continued)**

ii) *Credit risk (continued)*

	2023	2022
	\$	\$
Other assets		
AA	498,029	603,369
A	226,910	48,280
Not rated	-	5,670
Total	724,939	657,319
	2023	2022
	\$	\$
Cash and cash equivalents		
AAA	-	8,803,136
AA	13,119,530	359,983
A	1,783,068	16,968,011
Total	14,902,598	26,131,130

Impairment of financial assets

Amounts above are shown net of impairment allowance on reinsurance and other receivables at the reporting date amounting to \$nil (2022: \$nil). All amounts past due but not impaired are expected to be recovered in the normal course of business.

Credit quality

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates. The ageing of funds withheld and reinsurance and other receivables is analysed as follows:

	2023	2022
	\$	\$
Not past due	3,162,716	3,684,354
Past due but not impaired up to 3 months	-	13,756
Past due but not impaired from 3 to 6 months	-	11,937
Past due but not impaired from 6 to 9 months	-	21,868
Past due but not impaired from 9 to 12 months	-	24,483
Past due but not impaired over 12 months	-	8,803,670
Total	3,162,716	12,560,068

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6. Management of reinsurance and financial risk (continued)

(b) Financial risk (continued)

iii) Liquidity risk

The Company is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which principally comprise losses and loss adjustment expenses and reinsurance and other payables.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities to meet obligations when due. Given the nature of its business model, the Company, in contrast to conventional reinsurers, does not receive a continuous supply of liquidity from regular premium income. Therefore, particular attention is paid to liquidity. In general, the Company manages the liquidity risk by means of a liquidity plan on a rolling basis. The weighting of all immediately tradeable investments in relation to the overall portfolio is also regularly monitored. The necessary liquidity is assured by means of a balanced maturity profile for investments.

There are three main ways to generate liquidity for the Company: capital contributions, covering assets of new acquisitions and selling/maturity of existing investments. The maturity structure of the Company's financial assets is short term, as the Company needs liquidity to meet costs and to settle claims. Liquidity is also a major requirement of transferring new portfolios or acquiring whole companies. The Company uses ongoing integrated liquidity planning to ensure that all claims and costs are covered at all times and to reach the goals in growth by acquiring new portfolios.

The following table shows the expected maturity of the Company's losses and loss adjustment expenses and deferred premiums:

	Losses and loss adjustment expenses	Deferred premiums
2023		
Up to one year	17.6%	16.3%
Over one year and up to five years	38.9%	34.7%
Over five years and up to ten years	20.2%	19.0%
Over ten years and up to fifteen years	10.2%	11.0%
Over fifteen years	13.1%	19.0%
	Losses and loss adjustment expenses	Deferred premiums (as adjusted)
2022		
Up to one year	36.0%	13.9%
Over one year and up to five years	28.8%	33.4%
Over five years and up to ten years	17.2%	21.6%
Over ten years and up to fifteen years	7.8%	11.5%
Over fifteen years	10.2%	19.6%

The expected timing of payments from the provisions for outstanding claims may involve considerable uncertainty.

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6. Management of reinsurance and financial risk (continued)

(b) **Financial risk (continued)**

iii) *Liquidity risk (continued)*

All other liabilities included in the balance sheets mature within one year, unless otherwise stated.

Capital management

The Company's objectives when managing capital are to comply with the insurance capital requirements applicable, safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders; and to maintain an optimal capital structure to reduce the cost of capital. The Company's capital structure is monitored with appropriate reference to its financial condition and prospects.

Under the Insurance Act 1978 (the "Act"), the Company is required to prepare and file Statutory Financial Statements and a Statutory Financial Return. The Act requires the Company to maintain certain measures of liquidity, which were met during the year, and to maintain a minimum statutory capital as detailed below:

	2023	2022
	\$	(as adjusted)
	\$	\$
(a) Statutory capital and surplus	38,901,773	26,989,475
(b) Minimum statutory capital and surplus required by The Act	8,530,048	12,733,445

The Company was compliant with its Minimum Solvency Margin, Liquidity Ratio and Enhanced Capital Requirements ("ECR") during the years ended December 2023 and 2022.

The Company is prohibited from declaring or paying a dividend if its statutory capital and surplus is less than its ECR, or if it is in breach of its Minimum Solvency Margin or Liquidity Ratio or if the declaration or payment of such a dividend would cause such breaches. The Company has not declared or paid any dividends in the years ended December 31, 2022 or 2023.

Fair value hierarchy

A number of the Company's accounting policies and disclosures require the measure of fair value for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or liability, the Company uses observable market data as far as possible. Fair values are categorised into different levels of fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (i.e., unobservable inputs).

DARAG Bermuda Ltd.
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6. Management of reinsurance and financial risk (continued)

(b) **Financial risk (continued)**

iii) *Liquidity risk (continued)*

If inputs from different levels are used to measure an instrument, the lowest level input that is significant to the measurement is used to categorise the fair value measurement in its entirety. Allocation to the fair value hierarchy levels is reviewed at a minimum at the end of each reporting period. Transfers are shown as if they had taken place at the beginning of the year.

There are no financial liabilities measured at fair value.

In the case of Level 1, a market is deemed active if transactions take place with sufficient frequency and in sufficient quantity for price information to be available on an ongoing basis. Since a quoted price in an active market is the most reliable indicator of fair value, this should always be used if available. The financial instruments allocated to this level would comprise of equities and equity funds for which either a stock market price is available, or prices are provided by a price quoter on the basis of actual market transactions. There are no investments classified within Level 1 during the year.

In the case of Level 2, the inputs used for valuation of financial instruments with a fixed-contract period must be observable during the full period of such contracts. Furthermore, the investments for which prices are provided by price quoters, but for which there is no evidence that these prices are based on actual market transactions, are also allocated to this level.

In the case of Level 3, the inputs used reflect the Company's assumptions regarding the factors that market players would consider in their pricing. These investments are mainly measured using valuation models and techniques. There are no investments classified within Level 3 during the year.

The following table shows the carrying amounts and fair values of financial assets and their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

2023	Level 1 \$	Level 2 \$	Level 3 \$	Carrying amount \$
Investments measured at fair value:				
Available-for-sale investments				
Fixed income and variable yield available-for-sale investments	-	77,789,994		77,789,994
Short-term investments	-	13,682,882	-	13,682,882
Total	-	91,472,876	-	91,472,876
Portfolio composition	0%	100%	0%	100%

DARAG Bermuda Ltd.
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6. Management of reinsurance and financial risk (continued)

(b) **Financial risk (continued)**

iii) *Liquidity risk (continued)*

2022	Level 1	Level 2	Level 3	Carrying amount
	\$	\$	\$	\$
Investments measured at fair value:				
Available-for-sale investments				
Fixed income and variable yield available-for-sale investments	-	82,825,566		82,825,566
Short-term investments	-	6,702,524	-	16,702,524
Total	-	89,528,090	-	89,528,090
Portfolio composition	0%	100%	0%	100%

The majority of the securities classified as Level 2 are bonds where the source for fair value is not prices quoted directly in active markets, but prices sourced from Bloomberg using observable interest rate curves.

7. Intangible assets

	2023	2022
	\$	(as adjusted)
	\$	\$
December 31		
Opening carrying balance	292,208	321,146
Amortisation	(31,750)	(28,938)
Closing carrying balance	260,458	292,208
At December 31		
Cost	339,758	339,758
Accumulated amortisation	(79,300)	(47,550)
Net carrying amount	260,458	292,208

Intangible assets arose during the year ended December 31, 2020 from the fair value discount of acquired losses and loss adjustment expenses of \$4,783,352.

DARAG Bermuda Ltd.
Notes to the Financial Statements
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8. Available-for-sale investments

2023	Cost or amortised cost \$	Unrealised gains \$	Unrealised losses \$	Fair value \$
Debt securities				
Government debt securities	18,663,810	-	(1,490,713)	17,173,097
Mortgage-backed securities	399,829	-	(31,083)	368,746
Corporate debt securities	46,719,596	49,056	(2,115,881)	44,652,771
Bonds issued by financial institutions	30,790,094	33,669	(1,545,501)	29,278,262
Total	96,573,329	82,725	(5,183,178)	91,472,876

2022	Cost or amortised cost \$	Unrealised gains \$	Unrealised losses \$	Fair value \$
Debt securities				
Government debt securities	24,494,543	-	(2,495,725)	21,998,818
Mortgage-backed securities	461,471	-	(41,010)	420,461
Corporate debt securities	56,621,709	18,930	(4,861,046)	51,779,593
Bonds issued by financial institutions	16,523,191	-	(1,193,973)	15,329,218
Total	98,100,914	18,930	(8,591,754)	89,528,090

9. Deferred acquisition costs

	2023 \$	2022 (as adjusted) \$
Beginning balance	2,545,646	1,316,775
Arising on acquisition of reinsurance contract	322,568	1,639,294
Amortisation	(479,011)	(410,423)
Balance at December 31	2,389,203	2,545,646

DARAG Bermuda Ltd.
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10. Funds withheld

	2023	2022
	\$	\$
Deposits on funds withheld basis	2,044,981	3,621,025
Balance at December 31	2,044,981	3,621,025

11. Reinsurance and other receivables

	2023	2022
	\$	\$
Receivables arising from inwards reinsurance	1,117,735	8,939,043
Balance at December 31	1,117,735	8,939,043

All reinsurance and other receivables are unsecured, interest free and repayable as described in Note 6.

12. Other assets

	2023	2022
	\$	\$
Prepayments and accrued income	724,939	657,319
Balance at December 31	724,939	657,319

13. Cash and cash equivalents

The Company considers all time deposits and highly liquid instruments with an original maturity of three months or less as cash equivalents. At year end, cash and cash equivalents comprise cash at bank amounting to \$14,902,598 (2022: \$26,131,130).

The range of interest rates earned during the year ended December 31, 2023 was between 0% and 5.03%. (2022: 0% and 3.47%)

DARAG Bermuda Ltd.
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14. Capital and reserves

(a) **Share Capital**

	<u>2023</u>	<u>2022</u>
Ordinary shares of \$1 par value Authorised 120,000 shares Issued:		
Balance at beginning of year	120,000	120,000
Balance at December 31	<u>120,000</u>	<u>120,000</u>

On February 10, 2020, the Company issued 120,000 of \$1 par value common shares to its Ultimate Parent (which was the Company's parent at that time). These were fully paid by March 30, 2020 and there were no issuance costs associated with this issuance.

On December 31, 2020, the Ultimate Parent transferred these shares in their entirety, to its subsidiary, DARAG Holding Guernsey 1 Limited at book value. Subsequently, on the same date, DARAG Holding Guernsey 1 Limited transferred these shares in their entirety to its subsidiary, DARAG Holding Guernsey 2 Limited at book value.

(b) **Contributed surplus**

During the year ended December 31, 2023, the Ultimate Parent contributed capital to the Company in the aggregate of \$2,000,000.

During the year ended December 31, 2022, the Ultimate Parent contributed capital to the Company in the aggregate of \$49,500,000. A reduction of contributed surplus in the aggregate of \$22,000,000 was returned to the Ultimate Parent during August 2022.

(c) **Accumulated other comprehensive loss**

The accumulated other comprehensive loss comprises the cumulative net change in the fair value of available-for-sale financial assets until the assets are derecognised or impaired.

15. Losses and loss adjustment expenses

(a) **Losses and loss adjustment expenses are analysed as follows:**

	<u>2023</u>	<u>2022</u>
	\$	\$
Provision for outstanding claims	56,866,990	84,889,635
Total	<u>56,866,990</u>	<u>84,889,635</u>

DARAG Bermuda Ltd.
Notes to the Financial Statements
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15. Losses and loss adjustment expenses (continued)

(b) **Provisions for outstanding claims**

Losses and loss adjustment expenses include amounts that are both current and non-current in nature. The expected maturity is disclosed in liquidity risk management in Note 5. The Company currently has no outwards reinsurance contracts.

	2023	2022
	\$	\$
Gross and net losses and loss adjustment expenses, beginning of year	84,889,635	295,021,509
Net incurred losses and loss adjustment expenses occurring in:		
Current year – run-off gains	(126,280)	(2,903,065)
Prior years' – run-off gains	(4,539,852)	(1,329,789)
Total incurred losses and loss adjustment expenses	(4,666,132)	(4,232,854)
Arising on current year transactions	9,711,170	35,993,576
Arbitration award	(20,432,605)	-
Commutation of claims	-	(137,757,750)
Net paid losses and loss adjustment expenses occurring in:		
Current years – current year transactions	(2,482,005)	(8,449,284)
Prior years' – prior year transactions	(10,153,073)	(95,685,562)
Total paid losses and loss adjustment expenses	(12,635,078)	(104,134,846)
Gross and net losses and loss adjustment expenses, end of year	56,866,990	84,889,635
Losses and loss adjustment expenses are comprised of:		
	2023	2022
	\$	\$
Case reserve	28,526,406	51,335,252
IBNR reserve	26,892,591	31,062,720
Unallocated loss adjustment expenses	1,447,993	2,491,663
Balance at December 31	56,866,990	84,889,635

The case reserve reflects the amount expected to settle individual known claims that have already been reported at the reporting date. The major part of this provision is measured at face value. The IBNR reserve is calculated using actuarial methods on the basis of historical claims development data and taking into account foreseeable future trends. Implicit within the IBNR is IBNER (Incurred But Not Enough Reserved) which may have both positive and negative values. This is effectively an adjustment to the individual case reserves at an aggregate level. While on an individual basis, case reserves reflect expected future settlements, it is likely that in practice some claims will settle for less and others for more and the IBNER is the expected sum of the deviations based on past development.

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15. Losses and loss adjustment expenses (continued)

(b) **Provisions for outstanding claims (continued)**

Expenses arise throughout the claims cycle, both in settling and adjusting the estimates for future payments. The provisions set up for claims from previous years are regularly updated using best estimates based on exposure and claims information and past claims experience.

The following is information about incurred and paid claims development as well as cumulative frequency and the total of IBNR liabilities as of December 31, 2023. The incurred and paid claims development for the years ended December 2023 and prior is presented as supplementary information.

Auto Liability

Incurred claims and allocated claim adjustment expenses					December 31, 2023	
Acquisition year	For the years ended December 31,				IBNR reserves	Cumulative number of claims
	2020 (unaudited)	2021 (unaudited)	2022 (unaudited)	2023		
	\$	\$	\$	\$	\$	
2020	-	-	-	-	-	-
2021	-	23,474	23,474	23,474	-	-
2022	-	-	1,708,920	1,655,340	148,384	6,362
2023	-	-	-	489,270	137,191	5,497
			Total	2,168,084		

Cumulative paid claims and allocated loss adjustment expense				
Acquisition year	For the years ended December 31,			
	2020 (unaudited)	2021 (unaudited)	2022 (unaudited)	2023
	\$	\$	\$	\$
2020	73,305	1,859	(99,368)	(151,601)
2021	-	23,330	29,002	31,976
2022	-	-	294,040	838,725
2023	-	-	-	182,748
			Total	901,848
			Liabilities for losses and loss adjustment expenses	1,266,236

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15. Losses and loss adjustment expenses (continued)

(b) Provisions for outstanding claims (continued)

Commercial auto

Incurred claims and allocated claim adjustment expenses					December 31, 2023	
For the years ended December 31,						
Acquisition year	2020 (unaudited) \$	2021 (unaudited) \$	2022 (unaudited) \$	2023 \$	IBNR reserves \$	Cumulative number of claims
2020	161,037,392	181,134,260	183,832,284	183,210,915	-	57,846
2021	-	-	-	-	-	-
2022	-	-	-	-	-	-
2023	-	-	-	-	-	-
			Total	<u>183,210,916</u>		

Cumulative paid claims and allocated loss adjustment expense				
For the years ended December 31,				
Acquisition year	2020 (unaudited) \$	2021 (unaudited) \$	2022 (unaudited) \$	2023 \$
2020	99,466,992	153,020,650	163,361,915	183,210,916
2021	-	-	-	-
2022	-	-	-	-
2023	-	-	-	-
			Total	<u>183,210,916</u>
			Liabilities for losses and loss adjustment expenses	<u>-</u>

General liability

Incurred claims and allocated claim adjustment expenses					December 31, 2023	
For the years ended December 31,						
Acquisition year	2020 (unaudited) \$	2021 (unaudited) \$	2022 (unaudited) \$	2023 \$	IBNR reserves \$	Cumulative number of claims
2020	4,104,757	3,770,410	3,536,368	3,660,722	1,144,505	16,087
2021	-	3,441,047	3,037,689	2,490,190	1,276,178	2,751
2022	-	-	8,062,358	7,319,482	2,057,293	2,829
2023	-	-	-	336,215	144,476	220
			Total	<u>13,806,609</u>		

DARAG Bermuda Ltd.
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15. Losses and loss adjustment expenses (continued)

(b) Provisions for outstanding claims (continued)

General liability

Cumulative paid claims and allocated loss adjustment expense

Acquisition year	For the years ended December 31,			
	2020	2021	2022	2023
	(unaudited) \$	(unaudited) \$	(unaudited) \$	 \$
2020	285,930	640,275	1,099,244	4,990,351
2021	-	(31,622)	212,812	698,501
2022	-	-	3,546,875	4,499,658
2023	-	-	-	453,120
			Total	10,641,630
			Liabilities for losses and loss adjustment expenses	3,164,979

Professional liability

Incurred claims and allocated claim adjustment expenses

December 31, 2023

Acquisition year	For the years ended December 31,				IBNR reserves \$	Cumulative number of claims
	2020	2021	2022	2023		
	(unaudited) \$	(unaudited) \$	(unaudited) \$	 \$		
2020	-	-	-	-	-	-
2021	-	3,115,602	3,110,902	2,918,400	703,266	74
2022	-	-	-	-	-	-
2023	-	-	-	-	-	-
			Total	2,918,400		

Cumulative paid claims and allocated loss adjustment expense

Acquisition year	For the years ended December 31,			
	2020	2021	2022	2023
	(unaudited) \$	(unaudited) \$	(unaudited) \$	 \$
2020	-	-	-	-
2021	-	584,178	1,251,165	1,592,244
2022	-	-	-	-
2023	-	-	-	-
			Total	1,592,244
			Liabilities for losses and loss adjustment expenses	1,326,156

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15. Losses and loss adjustment expenses (continued)

(b) Provisions for outstanding claims (continued)

Workers' compensation

Incurred claims and allocated claim adjustment expenses					December 31, 2023	
For the years ended December 31,						
Acquisition year	2020 (unaudited) \$	2021 (unaudited) \$	2022 (unaudited) \$	2023 \$	IBNR reserves \$	Cumulative number of claims
2020	35,765,131	33,204,157	31,209,306	31,263,016	7,388,023	187,553
2021	-	12,149,281	10,763,583	9,365,078	3,259,806	13,905
2022	-	-	23,319,233	22,157,648	7,943,831	21,167
2023	-	-	-	8,759,406	4,137,632	67,130
				<u>71,545,148</u>		

Cumulative paid claims and allocated loss adjustment expense				
For the years ended December 31,				
Acquisition year	2020 (unaudited) \$	2021 (unaudited) \$	2022 (unaudited) \$	2023 \$
2020	1,834,541	5,043,946	7,384,635	9,714,625
2021	-	661,288	2,025,793	2,643,429
2022	-	-	4,608,369	6,231,338
2023				1,846,137
			Total	<u>20,435,529</u>
			Liabilities for losses and loss adjustment expenses	<u>51,109,619</u>

The following table presents the average annual percentage payout of incurred losses and loss adjustment expenses by age as of December 31, 2023 (unaudited):

Acquisition year	Year 1 \$	Year 2 \$	Year 3 \$	Year 4 \$
Auto liability	39%	19%	6%	0%
Commercial auto	54%	29%	6%	11%
General liability	47%	11%	16%	106%
Professional liability	20%	23%	12%	-
Workers' compensation	14%	11%	7%	7%

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15. Losses and loss adjustment expenses (continued)

(b) **Provisions for outstanding claims (continued)**

The ultimate loss of a portfolio post-acquisition comprises all payments made up to the reporting date, plus the claims reserve at the reporting date. Given complete information regarding all losses incurred up to the reporting date, the ultimate loss status for each reporting period would remain the same. In practice however, the ultimate-loss status (based on estimates) is exposed to fluctuations that reflect the growth in knowledge about the claims' cases. New reported claims will emerge in the reporting periods post acquisition for the younger portfolios which have more recent exposure.

16. Deferred premiums

	2023	2022
	\$	(as adjusted) \$
Beginning balance	12,964,521	7,549,146
Premiums written	1,998,830	7,364,487
Earned premiums	(2,598,298)	(1,949,112)
Balance at December 31	12,365,053	12,964,521

Deferred premiums relate to deferment of loss portfolio transfer premiums in line with actual claims experience. The expected maturity is disclosed in liquidity risk management in Note 6.

17. Provisions

	2023	2022
	\$	\$
Provisions for brokerage fees	-	250,000
Balance at December 31	-	250,000

Provisions in the year ended December 31, 2022 are in relation to a deferred brokerage fee associated with a transaction that occurred in the year ended December 31, 2022.

DARAG Bermuda Ltd.
Notes to the Financial Statements
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18. Other Liabilities

	2023	2022
	\$	\$
Accruals and other payables	1,416,570	2,769,859
Claims payable	3,101,948	3,553,094
Balance at December 31	4,518,518	6,322,953

All other liabilities are unsecured, interest-free and payable on demand.

19. Net premiums earned

	2023	2022
	\$	(as adjusted) \$
Reinsurance contracts		
Premium	1,998,830	7,364,487
Change in deferred premium	599,468	(5,415,375)
Net premium earned	2,598,298	1,949,112

The Company generated net reinsurance premium revenue from novation agreements written during the year and the earn out of facultative reinsurance agreements, novation agreements and a quota share contract written in prior years.

20. Net investment income

	2023	2022
	\$	(as adjusted) \$
Net interest income on available-for-sale investments	3,046,023	1,871,550
Investment management expenses	(155,017)	(193,469)
Other expenses	(52,534)	(25,718)
Net investment income	2,838,472	1,652,363

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21. Other income

	2023	2022
	\$	(as adjusted) \$
Loan interest income on affiliated loan	-	15,483
Award – Hallmark arbitration	705,724	-
Reimbursement of expenses from affiliate – Hallmark arbitration	4,982,685	-
Other income	5,688,409	15,483

The Company and affiliated entity, DARAG Insurance (Guernsey) Limited (“DIGL”) were parties to a Loss Portfolio Transfer (“LPT”) contract written in 2020 with American Hallmark Insurance Company of Texas, Hallmark Specialty Insurance Company, Hallmark Insurance Company, Hallmark National Insurance Company and Hallmark County Mutual Insurance Company (collectively the “Hallmark Insurers”). During 2022, the Company, DIGL and the Hallmark Insurers submitted to binding arbitration in relation to a dispute regarding the rights and obligations of the parties under the LPT. Pending resolution of the dispute, the Hallmark Insurers agreed to fund the payment of claims under the LPT without prejudice to their rights to seek reimbursement and other relief in the arbitration proceedings.

The arbitration hearing concluded in March 2023 and a Final Award (“Award”) was issued by the arbitration panel on June 2, 2023. The Award ordered DIGL to terminate and accordingly, release for its benefit the security it posted in the form of a letter of credit, in the amount of \$37,704,779. The Award ordered the Company to release all restricted trusts in exchange for the outstanding unpaid losses and loss adjustment expenses, resulting in other income of \$705,724 for the Company.

Following the receipt of the Award, DIGL reimbursed to the Company all legal and consulting expenditure outlaid by the Company during the arbitration in the amount of \$4,982,685.

22. General and administrative expenses

	2023	2022
	\$	(as adjusted) \$
Amortisation	31,750	28,938
Professional, travelling and other related expenses	2,767,358	4,845,574
Expenses for services and commissions	5,097,603	8,677,847
Regulatory expenses	51,275	52,275
Other expenses	44,034	13,131
General and administrative expenses	7,992,020	13,617,765

DARAG Bermuda Ltd.

Notes to the Financial Statements

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(expressed in U.S. dollars)

23. Employee benefit expenses

During the year ended December 31, 2023 directors' fees and emoluments for the Company were \$34,317 (2022: \$30,600). Amounts outstanding as at December 31, 2023 were \$16,667 (2022: \$7,650).

The Company does not directly employ any employees.

24. Income taxes

The Company is incorporated in Bermuda and in accordance with local law is not subject to income tax. The Bermuda Corporate Income Tax Act 2023 (Bermuda CIT Act) was enacted on December 27 2023 and is effective in 2025 for Bermuda businesses that are part of a multinational group with annual revenues exceeding Euro 750 million. The Company has determined that it does not fall within the scope of the Bermuda CIT Act.

25. Loss on Contract and Commutation

During the year ended December 31, 2021, the Company entered into a quota share reinsurance agreement with a total limit of \$435,000,000 and a gross premium of \$272,000,000. During the year ended December 31, 2022, the Company commuted this quota-share reinsurance agreement on June 22, 2022 for a commutation fee of \$40,898,270, resulting in the full extinguishment of the reinsurance contract.

26. Related party transactions

Related parties include DARAG group affiliates and parent entities.

A person or a close member of that person's family is related to the reporting entity if that person has control or joint control of the reporting entity, has significant influence over the reporting entity, or is a member of the key management personnel of the reporting entity or of a parent of the reporting entity. Key management personnel are the members of the Board of Directors of the Company.

(a) Transactions with related parties

The Company issued an unsecured loan to an affiliated DARAG US entity, DARAG North America Holding Company ("DNAHC") on July 15, 2021 for the principal amount of \$1,200,000. The loan was issued to assist with DNAHC working capital requirements in advance of DNAHC's transaction dependent cash inflow. The loan's original repayment date was December 31, 2021 but an amendment was issued on December 10, 2021 which altered the repayment date to be within 30 days of the close of DNAHC's transaction. The transaction closed during July 2022 and the loan was fully repaid on July 27, 2022. Interest was chargeable on the loan at 3.25% annually with interest calculated from day to day. Interest charged during the year was \$nil (2022: \$15,482).

The Company has engaged affiliated Bermuda service company, SOBC DARAG Services Company (Bermuda) Limited (the "Bermuda Service Company") whereby the Bermuda Service Company provides management services to the Company. During the year, the Bermuda Services Company charged the Company \$4,565,302 (2022: \$5,640,880) in management fees. At the year end, there was \$449,299 (2022: \$74,963) owing to the Bermuda Service Company and is included in other liabilities in the balance sheets.

DARAG Bermuda Ltd.

Notes to the Financial Statements

For the years ended December 31, 2023 and 2022

(expressed in U.S. dollars)

26. Related party transactions (continued)

(a) Transactions with related parties (continued)

The Company has engaged affiliated US service company, DARAG US Services Company (the "US Service Company") whereby the US Service Company provides management services to the Company. During the year, the US Services Company charged the Company \$532,302 (2022: \$1,875,993) in management fees. At the year end, there was \$7,963 (2022: \$2,410) owing to the US Service Company and is included in other liabilities in the balance sheets.

The Company has engaged affiliated US claims service company, SunPoint Insurance Services Corporation ("SISC") whereby SISC provides claim management services to the Company. During the year, the SISC charged the Company \$nil (2022: \$1,160,974) in management fees. SISC merged with DNAHC during the year ended December 31, 2022 and at the year end, there was \$nil (2022: \$468,998) owing to DNAHC.

The Ultimate Parent has provided a guarantee for the Company in respect of the Zurich novations transacted on August 20, 2020, November 5, 2021 and August 31, 2022. The Ultimate Parent will unconditionally and irrevocably guarantee the Company to American Guarantee & Liability Insurance Company, American Zurich Insurance Company, Zurich American Insurance Company of Illinois and Steadfast Insurance Company in the event that the Zurich novation liabilities were no longer fully collateralised. There were no drawings on the guarantee during the year ended December 31, 2023 (2022: \$nil).

The Ultimate Parent has also provided a guarantee for the Company in respect of a quota share reinsurance agreement on April 1, 2021. This quota-share reinsurance agreement was commuted on June 22, 2022 effectively cancelling the guarantee to the Ultimate Parent. The guarantee directed the Ultimate Parent to unconditionally and irrevocably guarantee the Company to Pacific Valley Insurance Company, Inc. in the event that the quota share liabilities were no longer fully collateralised. There were no drawings on the guarantee during the year ended December 31, 2022.

(b) Key management personnel remuneration

Directors' fees and emoluments for the Company are disclosed in Note 23.

27. Commitments and contingencies

The Company has provided contractual commitments and financial guarantees to external parties related to the reinsurance activities of the Company. These arrangements include commitments in the form of pledged assets and restricted accounts in favour of reinsurers and cedants.

As of December 31, the contingencies and commitments attributable to contracts that the Company had entered into, are as follows:

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Notes to the Financial Statements
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(expressed in U.S. dollars)

27. Commitments and contingencies (continued)

Pledged assets and restricted accounts

	2023	2022
	\$	\$
Available-for-sale investments	87,194,325	83,544,477
Cash and cash equivalents	6,842,824	22,703,756
Total	94,037,149	106,248,233

The amounts disclosed in the table above are stated at nominal amounts.

28. Subsequent events

(a) **Novation**

During February 2024, the Company wrote a CNA novation with a total premium of \$1,715,655.

29. Approval of the financial statements

The financial statements were approved by the Board of Directors on May 28, 2024. The Board of Directors do not have the power to amend these statements after issuance.