

FERGUS REINSURANCE LIMITED

FINANCIAL STATEMENTS

(AND INDEPENDENT AUDITORS' REPORT THEREON)

FOR THE YEARS ENDED

DECEMBER 31, 2023 AND 2022

FERGUS REINSURANCE LIMITED
FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2023 AND 2022
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INDEPENDENT AUDITORS' REPORT

To the Shareholder,
Fergus Reinsurance Limited,

Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Fergus Reinsurance Limited 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 audits in accordance with auditing standards generally accepted in the United States of America ("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 audits. 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 that 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 GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

INDEPENDENT AUDITORS' REPORT *(continued)*

Auditors' Responsibilities for the Audit of the Financial Statements *(continued)*

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- 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 audits in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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



Chartered Professional Accountants
Hamilton, Bermuda
May 31, 2024

FERGUS REINSURANCE LIMITED
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2023 AND 2022
(Expressed in United States Dollars)

	December 31 2023 \$	December 31 2022 \$
	Note	
ASSETS:		
Cash and cash equivalents	3	9,350,701
Cash and cash equivalents – restricted	3,4	44,884,952
Investments	3,4,5,6	258,629,099
Accrued interest		1,676,359
Reinsurance balances receivable		51,534,931
Funds withheld	7	3,566,077
Deferred acquisition costs		38,800,907
Prepaid expenses		64,431
Due from Parent	8	11,180
Other receivables		305,000
Total assets		408,823,637
LIABILITIES AND SHAREHOLDER'S EQUITY:		
LIABILITIES		
Unearned premium	13	119,720,711
Losses and loss adjustment expenses	9	135,788,761
Funds held for reinsured company		10,303
Reinsurance balances payable		29,204,446
Deferred income	9	2,850,573
Deposit liabilities	10	925,331
Accounts payable and accrued expenses	8	1,607,256
Total liabilities		290,107,381
SHAREHOLDER'S EQUITY		
Share capital	11	120,000
Additional paid-in capital	12	105,486,773
Retained earnings		10,518,061
Accumulated other comprehensive income (loss)		2,591,422
Total shareholder's equity		118,716,256
Total liabilities and shareholder's equity		408,823,637

The accompanying notes should be read in conjunction with these financial statements

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS:

DIRECTOR

DIRECTOR

FERGUS REINSURANCE LIMITED
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

(Expressed in United States Dollars)

	Note	December 31 2023 \$	December 31 2022 \$
UNDERWRITING INCOME:			
Premiums earned, net	13	177,728,435	87,226,441
UNDERWRITING EXPENSES:			
Losses and loss adjustment expenses incurred	9	114,069,409	52,043,942
Acquisition costs		55,810,444	28,082,372
Change in deferred income	9	157,601	(967,211)
Other underwriting expense		-	152,393
Total underwriting expenses		170,037,454	79,311,496
NET UNDERWRITING PROFIT		7,690,981	7,914,945
OTHER INCOME AND EXPENSES:			
Investment income, net	5,8	6,904,925	1,134,432
Other income		610,000	-
General and administrative expenses	8	(3,581,598)	(1,982,765)
Total other income and expenses		3,933,327	(848,333)
NET INCOME FROM OPERATIONS		11,624,308	7,066,612
OTHER COMPREHENSIVE INCOME (LOSS):			
Net unrealized holding gains (losses) arising during the year		3,109,275	(410,425)
Less: Reclassification adjustment for net realized gains included in net income		(100,813)	(67,880)
COMPREHENSIVE INCOME		14,632,770	6,588,307

The accompanying notes should be read in conjunction with these financial statements

FERGUS REINSURANCE LIMITED
STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

(Expressed in United States Dollars)

	Share capital \$	Share premium \$	Additional paid-in capital \$	Retained (deficit) earnings \$	Accumulated other comprehensive income (loss) \$	Total \$
Shareholders' equity December 31, 2021	3,159,924	45,694,076	8,432,421	(5,862,797)	61,265	51,484,889
Contributed during the year	90,643	8,144,357	12,930,000	-	-	21,165,000
Redeemed during the year	(1,500)	(148,500)	-	138,236	-	(11,764)
Conversion of redeemable preference shares	(3,129,067)	(53,689,933)	56,819,000	-	-	-
Comprehensive income for the year	-	-	-	7,066,612	(478,305)	6,588,307
Shareholders' equity December 31, 2022	120,000	-	78,181,421	1,342,051	(417,040)	79,226,432
Contributed during the year	-	-	27,305,352	-	-	27,305,352
Comprehensive income for the year	-	-	-	11,624,308	3,008,462	14,632,770
Shareholder's dividend	-	-	-	(2,448,298)	-	(2,448,298)
Shareholder's equity December 31, 2023	120,000	-	105,486,773	10,518,061	2,591,422	118,716,256

The accompanying notes should be read in conjunction with these financial statements

FERGUS REINSURANCE LIMITED
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

(Expressed in United States Dollars)

	December 31 2023	December 31 2022
OPERATING ACTIVITIES:	\$	\$
Net income from operations	11,624,308	7,066,612
Adjustments to reconcile net income from operations to net cash and cash equivalents provided by operating activities:		
Amortization of net premiums on investments	(2,033,073)	(150,603)
Realized gains on sale of investments	(100,813)	(67,880)
Net changes in non-cash balances relating to operations:		
Accrued interest	(1,049,414)	(584,243)
Reinsurance balances receivable	(41,544,232)	7,200,414
Funds withheld	(1,186,524)	(372,058)
Deferred acquisition costs	(24,383,625)	(2,221,293)
Prepaid expenses	(34,295)	42,186
Due from parent	(11,180)	-
Other receivables	(305,000)	-
Unearned premium	73,012,776	9,184,463
Losses and loss adjustment expenses	63,176,954	23,410,569
Reinsurance balances payable	17,028,592	4,105,109
Deferred income	157,601	(967,211)
Deposit liabilities	-	(112,417)
Accounts payable and accrued expenses	965,382	233,434
Share subscriptions received in advance	-	(500,000)
Cash and cash equivalents provided by operating activities	95,317,457	46,267,082
FINANCING ACTIVITIES:		
Additional paid-in capital	27,305,352	12,930,000
Issuance of preference shares	-	7,735,000
Shareholder dividend	(2,448,298)	-
Cash and cash equivalents provided by financing activities	24,857,054	20,665,000
INVESTING ACTIVITIES:		
Purchase of investments	(330,712,687)	(157,341,330)
Proceeds from sale of investments	219,809,936	18,485,422
Cash and cash equivalents used in investing activities	(110,902,751)	(138,855,908)
Increase (decrease) in cash, cash equivalents and restricted cash and cash equivalents for the year	9,271,760	(71,923,826)
Cash, cash equivalents and restricted cash and cash equivalents, beginning of year	44,963,893	116,887,719
Cash, cash equivalents and restricted cash and cash equivalents, end of year	54,235,653	44,963,893
Comprised of:		
Cash and cash equivalents	9,350,701	9,007,067
Restricted cash and cash equivalents	44,884,952	35,956,826
Supplemental information:		
Additional paid-in capital in-kind	-	56,819,000

The accompanying notes should be read in conjunction with these financial statements

FERGUS REINSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

(Expressed in United States Dollars)

1. The Company

Fergus Reinsurance Limited (the “Company”), was incorporated under the laws of Bermuda on June 11, 2008 and is registered as a Class 3B insurer under The Insurance Act 1978, amendments thereto and related regulations (the “Act”). The Company is managed and has its principal place of business in Bermuda. The Company is owned by Fergus Holdings Limited, a Bermuda incorporated company, which is owned by a limited group of U.S. persons.

The Company is also registered under the Segregated Accounts Company Act 2000 of Bermuda. The Company may establish segregated accounts where directed by the related reinsurance agreement. For each segregated account, the Company has an account ownership governing instrument. These agreements describe the terms and conditions of establishing the segregated account including an obligation by the account owner to fund any deficiency of segregated account liabilities over segregated account assets. Creditors of segregated accounts established to date have no claim upon the assets of other segregated accounts or upon the Company’s general account assets.

The Company carries on reinsurance business, assuming risks from a number of international insurance markets. The Company has entered into one specific contract which does not involve a transfer of underwriting risk. Deposit accounting has been applied to this agreement. Certain contracts include a profit share with the ceding reinsurers. The brokers involved in placing certain other contracts with the Company participate by way of agreement with the Company in the profits and losses of the respective policies.

As of December 31, 2023, there was one (2022: one) active segregated account within the Company. The segregated account assumes all of the business within the Company’s general account.

2. Significant accounting policies

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, denominated in U.S. dollars, which is the Company’s functional currency, and which apply the following significant accounting policies adopted by the Company:

Use of estimates

To prepare the financial statements, management has to make estimates and assumptions that affect the book value of assets and liabilities, income and expenses, and data disclosed in the notes to the financial statements.

All estimates are subjective in nature and could materially influence the financial statements. Accordingly, management makes these estimates and assessments on an ongoing basis according to past experience and various factors that are deemed reasonable and which constitute the basis for these assessments. The amounts shown in the Company’s future financial statements are likely to differ from these estimates in accordance with changes in assumptions or different conditions.

The principal significant estimates made by the Company’s management primarily affect the provision for outstanding losses and loss expenses, unearned premiums, recoverability of deferred acquisition costs, fair value of investments and determination of other than temporary impairment (“OTTI”) of investments.

FERGUS REINSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 and 2022
(Expressed in United States Dollars)

2. Significant accounting policies *(continued)*

Presentation of amounts relating to segregated accounts

The Company consolidates the assets, liabilities, income and expenses of its segregated accounts with those of its general account in arriving at the amounts recorded in its financial statements. The liabilities of the segregated accounts and the liabilities of the general account have access to only the assets of the relevant cell or general account as the case may be in a winding up.

Cash and cash equivalents

Cash and cash equivalents include cash held in banks, money market funds and other short-term deposits having maturities within three months of the date of purchase.

Investments

Fixed maturity investments have been classified as available-for-sale and are carried at fair value with unrealized gains or losses included in the statements of financial position as a component of accumulated other comprehensive income (loss). Fair value of investments is based on market quotations. Realized gains and losses on sales of fixed maturity investments are accounted for using the first-in and first-out method and are reflected in the statements of comprehensive income in the period of sale. The amortized cost of fixed maturity investments is adjusted for amortization of premiums and accretion of discounts to maturity using the effective interest rate method. Such amortization is included in investment income. Interest and dividends on securities classified as available-for-sale are included in investment income and are recorded on the accrual basis and the ex-dividend date, respectively. Investment income is presented net of investment expenses.

Investments are reviewed periodically to determine if they have sustained an impairment. An investment is deemed to be impaired when the fair value is less than its amortized cost basis. The identification of potentially impaired investments involves significant management judgement. An allowance for credit losses is determined based on the below criteria:

- (i) if the Company intends to sell the security or it has sold the security subsequent to the financial reporting date;
- (ii) if it is more likely than not that the Company will be required to sell the security before its anticipated recovery, or;
- (iii) if a credit loss exists that would cause the Company to receive less cash flows in the future than the present amortized cost basis of the security.

If the Company intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis, the entire impairment is recognized as a charge against earnings. If the Company does not intend to sell the security and it is not more likely than not it will be required to sell the security before recovery of its amortized cost basis, the impairment is bifurcated into a credit related loss and a non-credit related loss.

The credit related loss is measured as the difference between the present value of cash flows expected to be collected from the fixed maturity security and the fixed maturity security's amortized cost. The amount of the credit related loss is recognized as a charge against earnings. The difference between the unrealized loss on the impaired fixed maturity security and the credit related loss charged against earnings is the non-credit related loss that is recognized in other comprehensive income.

FERGUS REINSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 and 2022
(Expressed in United States Dollars)

2. Significant accounting policies *(continued)*

Investments *(continued)*

After an impairment, the new cost basis is the prior amortized cost less the credit loss. The adjusted cost basis is generally not adjusted for subsequent recoveries in fair value. However, if the Company can reasonably estimate future cash flows after an impairment and the expected cash flows indicate some or all of the credit related loss will be recovered, the discount or reduced premium recorded is amortized over the remaining life of the security. Amortization in this instance is computed using the prospective method and is determined based on the current estimate of the amount and timing of future cash flows.

Revenue recognition and acquisition costs

Premiums are recognized as revenue on a pro-rata basis over the periods of the respective policies or contracts of reinsurance, with the exception of premiums earned through Loss Portfolio Transfers which are recognized immediately. Premiums which are subject to adjustment are estimated based upon available information. Any variances from the estimates are recorded in the periods in which they become known. Commissions and other costs incurred on the acquisition of new and renewal business are deferred and amortized over the terms of the policies or contracts of reinsurance to which they relate. The method followed in determining the deferred acquisition costs limits the amount of deferral to its realizable value by giving consideration to losses and expenses expected to be incurred as premiums are earned and also considers anticipated investment income.

Realized gains on retrospective policies assumed through novation agreements are deferred and amortized over the anticipated payout period.

Interest income and general and administrative expenses

Interest income and general and administrative expenses are recognized on the accrual basis of accounting. Interest income is recognized net of withholding taxes.

Losses and loss adjustment expenses

Losses and loss expenses paid are recorded when advised by ceding companies. The liability for losses and loss expense provisions includes an amount determined from loss reports and individual cases and an amount, based on past experience and industry loss development factors, for losses incurred but not reported. These estimates are continually reviewed and are necessarily subject to the impact of future changes in such factors as claims severity and frequency. While management believes that the amount is adequate, the ultimate liability is subject to inherent uncertainty given the nature of the reinsurance coverage in place and may be materially in excess of, or less than, the amounts provided and any adjustments will be reflected in the periods in which they become known.

Foreign currency transactions

Assets and liabilities denominated in foreign currencies are translated into United States dollars at the rates prevailing at the reporting date. Revenues and expenses are translated at the rate of exchange prevailing as at the date of the transaction. Gains and losses arising from translation are included in the determination of comprehensive income for the year.

FERGUS REINSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 and 2022
(Expressed in United States Dollars)

2. Significant accounting policies *(continued)*

Taxation

The Bermuda Corporate Income Tax Act (Bermuda CIT Act) was enacted on December 27, 2023 and is effective in 2025 for Bermuda businesses that are part of multinational groups with annual revenue exceeding Euro 750 million. As the Company is not part of multinational groups with annual revenue exceeding Euro 750 million, it does not fall within the scope of the Bermuda CIT Act.

Legal/regulatory risk

Legal/regulatory risk is the risk that the legal or regulatory environment in which an insurer operates will change and create additional loss costs or expenses not anticipated by the insurer in pricing its products. That is, regulatory initiatives designed to reduce insurer profits or new legal theories may create costs for the insurer beyond those recorded in the financial statements. The Company mitigates this risk through its underwriting and loss adjusting practices which identify and minimize the adverse impact of this risk.

New accounting standards adopted during the year

A number of new and revised standards were effective for the year ended December 31, 2023, and have been applied in the preparation of these financial statements, including:

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The amendments in this update significantly change the impairment model for most financial assets that are measured at amortized cost and certain other instruments from an incurred loss model to an expected loss model. The update also provides for recording credit losses on available-for-sale debt securities through an allowance account. For nonpublic entities, the amendments are effective for annual periods beginning after December 15, 2022. A review of reinsurance balances receivable and funds withheld was conducted for the financial year ended December 31, 2023. Historically, settlement is typically within 60 to 90 days. As management is not aware of any conditions or events that could occur that would alter the assessment of collectability of receivables, management has determined a zero-credit loss allowance is reasonable.

In June 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The amendments in this update significantly change the impairment model for most financial assets that are measured at amortized cost and certain other instruments from an incurred loss model to an expected loss model. The update also provides for recording credit losses on available-for-sale debt securities through an allowance account.

In November 2018, the FASB issued ASU 2018-19, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*. This update defers the implementation date of the new credit loss standard for nonpublic entities by one year, and clarifies that operating lease receivables are not within its scope.

FERGUS REINSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 and 2022
(Expressed in United States Dollars)

2. Significant accounting policies *(continued)*

New accounting standards adopted during the year *(continued)*

In May 2019, the FASB issued ASU 2019-05, Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief. This update provides transition relief by providing entities with an alternative to irrevocably elect the fair value option for eligible financial assets measured at amortized cost upon adoption of the credit losses standard.

In November 2019, the FASB issued ASU 2019-11, Codification Improvements to Topic 326, Financial Instruments—Credit Losses. This update was issued to clarify the new credit impairment guidance in ASC 326 based on implementation issues raised by stakeholders.

New accounting standards to be adopted

A number of new and revised standards are effective for annual periods beginning after January 1, 2024 and have not been applied in the preparation of these financial statements. None of these are expected to have a material effect on the financial statements of the Company.

3. Concentration of credit risk

As of December 31, 2023 and 2022, cash and cash equivalents are held with four and four international financial institutions, respectively. As of December 31, 2023 and 2022, the Company's investment portfolios are held by three (2022: three) financial institutions.

4. Pledged assets

Pursuant to its reinsurance agreements, the Company is required to provide its ceding companies with collateral to secure its obligations to them. The Company has satisfied such obligations with letters of credit and reinsurance trusts which are issued and held by three financial institutions.

Accordingly, at December 31, 2023 and 2022, cash and cash equivalents amounting to \$44,844,952 and \$35,956,826, respectively, and investments with a carrying value of \$239,276,282 and \$131,712,878, respectively, are restricted.

FERGUS REINSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 and 2022
(Expressed in United States Dollars)

5. Investments

The cost or amortized cost, gross unrealized holding gains and losses, and estimated fair value of available for sale investments at December 31, 2023 and 2022 are as follows:

	Cost/ Amortized Cost \$	Gross Unrealized Gains \$	Gross Unrealized Losses \$	Allowance For Credit Losses \$	Fair Value \$
As at December 31, 2023					
Fixed maturity investments:					
U.S. government obligations	164,778,175	2,254,844	(179,547)	-	166,853,472
Agency bonds	52,235,442	270,479	(161,085)	-	52,344,836
Collateralized mortgage obligations	336,521	-	(61,980)	-	274,541
Corporate bonds	38,687,570	515,768	(47,088)	-	39,156,250
Total investments	256,037,708	3,041,091	(449,700)	-	258,629,099

	Cost/ Amortized Cost \$	Gross Unrealized Gains \$	Gross Unrealized Losses \$	Allowance for Credit Losses \$	Fair Value \$
As at December 31, 2022					
Fixed maturity investments:					
U.S. government obligations	51,938,003	147,333	(342,346)	-	51,742,990
Agency bonds	54,147,567	85,478	(339,723)	-	53,893,322
Collateralized mortgage obligations	342,299	5,913	-	-	348,212
Corporate bonds	36,573,171	144,101	(117,796)	-	36,599,476
Total investments	143,001,040	382,825	(799,865)	-	142,584,000

FERGUS REINSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 and 2022

(Expressed in United States Dollars)

5. Investments *(continued)*

The tables below summarize the Company's available for sale investments in an unrealized loss position and the aggregate fair value and gross unrealized loss by length of time the security has continuously been in an unrealized loss position:

	2023		2022	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	\$	\$	\$	\$
Fixed maturity investments:				
U.S. government obligations	8,894,910	(179,547)	18,645,927	(342,346)
Agency bonds	20,343,586	(161,085)	31,541,929	(339,723)
Collateralized mortgage obligations	274,541	(61,980)	-	-
Corporate bonds	6,511,873	(47,088)	16,951,475	(117,796)
Investments available for sale	36,024,910	(449,700)	67,139,331	(799,865)

As of December 31, 2023 and 2022, there were 135 and 311 securities, respectively, in an unrealized loss position with an estimated fair value of \$36,024,910 and \$67,139,331, respectively. Of these securities, there were 82 and 0 at December 31, 2023 and 2022 with an estimated fair value of \$25,917,995 and \$nil that had been in an unrealized loss position for 12 months or greater; none of these securities were considered to be other than temporarily impaired. The Company has no intent to sell, and it is not more likely than not that the Company will be required to sell these securities before their fair values recover above the adjusted cost. The unrealized losses from these securities were not a result of credit, collateral or structural issues.

In November 2019, the FASB issued ASU 2019-11, Codification Improvements to Topic 326, Financial Instruments—Credit Losses. This update was issued to clarify the new credit impairment guidance in ASC 326 based on implementation issues raised by stakeholders.

The Company's fixed maturity investments are classified as available-for-sale debt securities and are measured at fair value at the end of each reporting period. These securities fall outside the scope of ASC 326 and therefore no allowances for credit losses have been recognized.

The cost or amortized cost, estimated fair value, and contractual maturity of fixed maturity investments at December 31, 2023 and 2022 are shown below. Expected maturities may differ from contractual maturities as borrowers may have the right to call or prepay obligations without penalties.

	December 31, 2023		December 31, 2022	
	Amortized Cost/Cost	Fair Value	Amortized Cost/Cost	Fair Value
	\$	\$	\$	\$
Due within one year	228,158,950	230,609,036	75,484,614	75,600,574
Due after one year to five years	27,542,238	27,745,522	67,174,126	66,635,214
Due after five years to ten years	-	-	-	-
Due after more than ten years	336,520	274,541	342,300	348,212
Total fixed maturity securities	256,037,708	258,629,099	143,001,040	142,584,000

FERGUS REINSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 and 2022
(Expressed in United States Dollars)

5. Investments *(continued)*

The following table sets forth certain information regarding the investment ratings of the Company's available for sale fixed maturity securities for the years ended December 31, 2023 and 2022. Ratings are the lower of those assigned by Standard & Poor's or Moody's.

	December 31, 2023		December 31, 2022	
	Amortized Cost/Cost \$	%	Amortized Cost/Cost \$	%
AAA	336,521	-	4,954,331	3
AA	217,013,617	85	65,248,905	46
A	7,318,423	3	42,852,043	30
BBB	27,264,805	11	25,968,894	18
BB+ and lower	4,104,342	1	3,976,867	3
	<u>256,037,708</u>	<u>100</u>	<u>143,001,040</u>	<u>100</u>

Major categories of net investment income are summarized as follows:

	2023 \$	2022 \$
Interest income	6,170,099	1,702,801
Amortization income	2,033,073	150,603
Realized gains	100,813	67,880
Investment expenses	(1,399,060)	(786,852)
Net investment income	<u>6,904,925</u>	<u>1,134,432</u>

6. Fair value of financial instruments

The following methods and assumptions were used by the Company in estimating fair value disclosures for financial instruments:

Cash and cash equivalents: The carrying amounts reported in the statements of financial position for these instruments approximate their fair values.

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6. Fair value of financial instruments *(continued)*

Investments:

The following tables show the fair value of the Company's investments in accordance with ASC 820, Fair Value Measurements and Disclosures as of December 31, 2023 and 2022.

	Total fair value	Quoted prices in active markets for identical assets (Level 1)	Fair value measurement using	
			Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
December 31, 2023:	\$	\$	\$	\$
Fixed maturity investments:				
U.S. government obligations	166,853,472	166,853,472	-	-
Agency bonds	52,344,836	-	52,344,836	-
Collateralized mortgage obligations	274,541	-	274,541	-
Corporate bonds	39,156,250	-	39,156,250	-
Total investments	258,629,099	166,853,472	91,775,627	-

	Total fair value	Quoted prices in active markets for identical assets (Level 1)	Fair value measurement using	
			Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
December 31, 2022:	\$	\$	\$	\$
Fixed maturity investments:				
U.S. government obligations	51,742,990	51,742,990	-	-
Agency bonds	53,893,322	-	53,893,322	-
Collateralized mortgage obligations	348,212	-	348,212	-
Corporate bonds	36,599,476	-	36,599,476	-
Total investments	142,584,000	51,742,990	90,841,010	-

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6. Fair value of financial instruments *(continued)*

In accordance with U.S. GAAP, the Company is required to recognize certain assets at their fair value in the statements of financial position. This includes the Company's fixed maturity investments. In accordance with the Fair Value Measurements and Disclosures Topic of FASB's ASC 820 ("ASC 820"), fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon whether the inputs to the valuation of an asset or liability are observable or unobservable in the market at the measurement date, with quoted market prices being the highest level (Level 1) and unobservable inputs being the lowest level (Level 3). A fair value measurement will fall within the level of the hierarchy based on the input that is significant to determining such measurement.

The three levels are defined as follows:

Level 1: Observable inputs to the valuation methodology that are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2: Observable inputs to the valuation methodology other than quoted market prices (unadjusted) for identical assets or liabilities in active markets. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical assets and liabilities in markets that are not active and inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology that are unobservable for the asset or liability.

At each measurement date, the Company estimates the fair value of the financial instrument using various valuation techniques. The Company utilizes, to the extent available, quoted market prices in active markets or observable market inputs in estimating the fair value of the investments. When quoted market prices or observable market inputs are not available, the Company utilizes valuation techniques that rely on unobservable inputs to estimate the fair value of investments. The following describes the valuation techniques used to determine the fair value of investments held as of December 31, 2023 and 2022 and what level within the fair value hierarchy each valuation technique resides:

Fixed maturity investments:

Comprised of fixed income obligations of the U.S. government, agency and corporate bonds, and collateralized mortgage obligations. The fair values of agency and corporate bonds, and collateralized mortgage obligations are based on quote and current market spread relationships and are classified as Level 2 in the fair value hierarchy. The fair values of U.S. government obligation securities are based on quoted prices and are classified as Level 1. The Company considers that there is a liquid market for the types of securities held. Broker quotes are not used for fair value pricing.

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6. Fair value of financial instruments *(continued)*

While the Company obtains pricing from independent pricing services, management is ultimately responsible for determining the fair value measurements for all securities. To ensure fair value measurement is applied consistently and in accordance with U.S. GAAP, the Company periodically updates its understanding of the pricing methodologies used by the independent pricing services. The Company also challenges any prices it believes may not be representative of fair value under current market conditions. The Company's review process includes, but is not limited to: (i) initial and ongoing evaluation of the pricing methodologies and valuation models used by outside parties to calculate fair value; (ii) quantitative analysis; (iii) a review of multiple quotes obtained in the pricing process and the range of resulting fair values for each security, if available, and (iv) randomly selecting purchased or sold securities and comparing the executed prices to the fair value estimates provided by the independent pricing sources.

There have been no material changes to any of the Company's valuation techniques from what was used as of December 31, 2022. Since the fair value of a financial instrument is an estimate of what a willing buyer would pay for the asset if sold, the Company will not know the ultimate value of the financial instruments until they are sold. The Company believes the valuation techniques utilized provide it with the best estimate of the price that would be received to sell the assets or transfer the liabilities in an orderly transaction between participants at the measurement date.

Other assets and liabilities:

The fair value of accrued interest, reinsurance balances receivable and payable, funds withheld, and accounts payable and accrued expenses approximates their carrying value due to their relative short-term nature.

The estimates of fair values presented herein are subjective in nature and are not necessarily indicative of the amounts that the Company would actually realize in a current market exchange. However, any differences would not be expected to be material. Certain instruments such as other assets, unearned premiums, outstanding losses and loss expenses and deposit liabilities are excluded from fair value disclosure. Thus the total fair value amounts cannot be aggregated to determine underlying economic value of the Company.

7. Funds withheld

Pursuant to certain reinsurance contracts, the Company is required to provide security for the payment of its obligations. Included in funds withheld is \$925,331 and \$925,331 at December 31, 2023 and 2022, respectively, provided as security for the policy recorded as a deposit liability as disclosed in Note 10.

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8. Related party transactions

Included in investment expenses for the years ended December 31, 2023 and 2022 are \$1,213,169 and \$735,287, respectively, relating to investment management fees charged by a company owned by a director and shareholder of the Company, of which \$379,452 and \$171,531 were payable at December 31, 2023 and 2022 and are included within accounts payable and accrued expenses of \$1,607,256 and \$641,874, respectively. An investment management agreement is in place and the fees charged are based on a percentage of assets under management.

Included in general and administrative expenses for year ended December 31, 2023 are fees paid to Directors and Shareholders of the Company for consulting services of \$600,000 (2022: \$535,000) and fees paid to Directors of \$40,000 (2022: \$13,333).

At December 31, 2023, there is an amount due from the Parent of \$11,180 (2022: \$nil). This balance is for general and administrative expenses paid for by the Company but not yet reimbursed by the Parent.

9. Losses and loss adjustment expenses

The liability for losses and loss adjustment expenses comprises:

	2023	2022
	\$	\$
Outstanding losses	61,159,581	32,692,022
Losses incurred but not reported ("IBNR")	74,629,180	39,919,785
	135,788,761	72,611,807

Activity in the liability for losses and loss adjustment expenses comprises:

	2023	2022
	\$	\$
Gross balance at beginning of year	72,611,807	49,201,238
Less: Reinsurance recoverable	-	-
Net balance at beginning of year	72,611,807	49,201,238
Incurred losses related to:		
Current year	100,671,419	46,866,419
Prior years	13,397,990	5,177,523
Total incurred	114,069,409	52,043,942
Paid losses related to:		
Current year	23,011,617	8,031,347
Prior years	27,880,838	20,602,026
Total paid	50,892,455	28,633,373
Net balance at end of year	135,788,761	72,611,807
Plus: Reinsurance recoverable	-	-
Gross balance at end of year	135,788,761	72,611,807

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9. Losses and loss adjustment expenses *(continued)*

Effective December 2020, the Company entered into two novation agreements for a combined premium of \$21,238,586. Effective January 2021, the Company entered into an additional novation agreement, for a premium of \$3,091,142. Effective July 2023, the Company entered into agreements with Clear Blue Re, Inc and Sutton Specialty Insurance Company, which included programs that incepted prior to January 1, 2023. Those programs were treated as loss portfolio transfers for the purposes of deferring any underwriting gain or loss. Any resulting expense or income on the agreements was deferred for amortization over the anticipated payout period. During 2023, \$157,601 was recognized as expense (2022: income of \$967,211) with the remaining \$2,850,573 (2022: \$2,692,972) deferred at year end.

Management believes that the assumptions used to establish its provision for losses and loss adjustment expenses represent a realistic and appropriate basis for estimating those reserves as of December 31, 2023 and 2022.

However, these assumptions are subject to change and the Company continually reviews and adjusts its reserve estimates taking into account all currently known information and updated assumptions related to unknown information. While management believes it has made a reasonable estimate of loss expenses occurring up to the statements of financial position date, the ultimate costs of claims incurred could exceed the Company's reserves and have a materially adverse effect on its future results of operations and financial condition.

Changes in the prior years' provision for claims and claims adjustment are due to the ongoing analysis of loss development trends across all accident years on the Company's book of business which are not attributable to any specific occurrence or event.

The following tables present information about incurred and paid claims development as of December 31, 2023, net of reinsurance, as well as cumulative claim frequency and the total of IBNR reserves plus expected development on reported claims. The tables include unaudited information about incurred and paid claims development for the years ended December 31, 2014 through 2016, which presented as supplementary information.

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9. Losses and loss adjustment expenses *(continued)*

Workers compensation:

										At December 31, 2023		
Incurred claims and allocated claim adjustment expenses, net of reinsurance										Total IBNR	Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
Accident Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	\$	\$
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
	<u>Unaudited</u>											
2013	2,947,157	2,931,948	2,967,069	2,905,605	2,966,802	2,867,698	2,766,108	2,746,238	2,673,861	2,666,664	13,684	180
2020							8,854,075	6,893,813	9,323,914	9,416,227	1,219,898	20,239
										<u>12,802,891</u>	<u>1,233,582</u>	
Older years, prior to 2014										6,261,090	57,625	
										<u>18,343,981</u>	<u>1,291,207</u>	
Paid claims and allocated claim adjustment expenses, net of reinsurance												
For the years ended December 31												
Accident Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	\$	\$
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
	<u>Unaudited</u>											
2013	691,951	1,453,267	1,923,325	2,325,108	2,568,787	2,614,167	2,635,529	2,648,263	2,657,688	2,664,380		
2020							2,234,662	4,407,591	5,512,152	8,176,532		
Older years, prior to 2014										6,067,661		
										<u>14,244,193</u>		
Liability for losses and loss adjustment expenses, net of reinsurance										<u>4,099,788</u>		

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9. Losses and loss adjustment expenses *(continued)*

Commercial trucking:

Accident Year	Incurred claims and allocated claim adjustment expenses, net of reinsurance										At December 31, 2023	
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
	Unaudited											
2014	2,297,179	2,361,053	2,869,806	3,556,472	3,808,838	4,534,314	5,137,953	5,173,319	5,173,319	5,173,319	-	279
2015		4,574,069	4,204,849	5,668,278	6,797,732	7,816,984	8,098,669	8,208,428	8,208,428	8,208,428	-	1,306
2016			4,961,545	6,087,307	7,617,075	8,354,756	9,032,358	8,403,284	8,403,284	8,403,284	-	1,478
2017				3,338,271	3,611,956	4,465,960	5,166,910	5,126,131	5,126,131	5,126,131	-	901
2018					1,146,612	1,427,231	1,573,613	2,009,103	2,009,103	2,009,103	-	316
2019						76,094	-	-	-	-	-	-
2020							905,651	4,215,335	4,315,335	3,665,142	20,371	27,687
2021								1,644,512	1,533,350	6,116,751	-	50,222
2022									19,038,556	19,922,258	570,000	24,502
2023										45,981,494	28,936,109	13,134
										104,605,910	29,526,480	
Older years, prior to 2014										163,575	-	
										<u>104,769,485</u>	<u>29,526,480</u>	

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9. Losses and loss adjustment expenses *(continued)*

Commercial trucking *(continued)*:

Accident year	Paid claims and allocated claim adjustment expenses, net of reinsurance									
	For the years ended December 31									
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
	Unaudited									
2014	350,087	1,017,968	1,652,291	3,080,706	3,356,844	3,811,756	4,252,369	4,902,138	4,927,649	5,173,319
2015		734,021	1,778,851	3,108,288	4,932,447	6,313,001	8,003,303	8,141,354	8,144,717	8,208,428
2016			863,558	2,581,635	4,766,515	6,266,212	7,397,108	7,952,427	9,256,083	8,403,284
2017				661,842	1,364,560	2,655,072	3,918,608	4,503,382	4,899,489	5,126,131
2018					288,588	550,700	841,267	1,439,509	1,634,097	2,009,103
2019						-	-	-	-	-
2020							401,136	2,352,352	4,149,724	3,329,936
2021								69,786	1,532,924	4,698,584
2022									3,809,456	12,061,289
2023										10,448,149
										59,458,223
Older years, prior to 2014										163,575
										59,621,798
Liability for losses and loss adjustment expenses, net of reinsurance										45,147,687

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9. Losses and loss adjustment expenses *(continued)*

General liability:

Accident year	Incurred claims and allocated claim adjustment expenses, net of reinsurance									At December 31, 2023	
	For the years ended December 31									Total IBNR	Cumulative
	2015	2016	2017	2018	2019	2020	2021	2022	2023	Plus Expected Development on Reported Claims	Number of Reported Claims
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
	Unaudited										
2016		-	-	-	907,728	1,233,080	2,215,979	2,399,821	2,031,912	305,667	1,113
2017			-	-	1,827,225	2,729,495	3,481,127	3,667,895	2,766,301	372,761	1,859
2018				-	2,210,699	2,867,397	3,693,935	4,392,577	4,812,743	483,748	2,079
2019					4,157,205	5,034,237	7,494,547	8,535,825	9,807,097	1,339,886	2,702
2020						22,844,809	25,127,374	16,298,249	14,006,553	2,944,055	14,304
2021							9,380,397	10,581,300	19,900,398	2,175,912	17,900
2022								20,927,325	20,816,944	6,322,061	13,922
2023									26,886,615	20,673,993	3,880
									101,028,563	34,618,083	

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9. Losses and loss adjustment expenses *(continued)*

General liability *(continued)*:

Paid claims and allocated claim adjustment expenses, net of reinsurance									
For the years ended December 31									
Accident year	2015	2016	2017	2018	2019	2020	2021	2022	2023
	\$	\$	\$	\$	\$	\$	\$	\$	\$
	Unaudited								
2016		-	-	-	-	414,128	1,290,985	2,098,882	1,495,900
2017			-	-	-	582,168	1,469,978	2,385,869	2,262,772
2018				-	-	775,129	1,751,127	2,699,316	4,027,172
2019					171,111	735,837	2,421,893	4,171,597	6,152,044
2020						607,401	2,912,381	5,554,076	6,374,259
2021							316,052	2,266,827	7,080,340
2022								530,854	4,715,350
2023									1,049,218
									<u>33,157,055</u>
Liability for losses and loss adjustment expenses, net of reinsurance									<u>67,871,508</u>

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9. Losses and loss adjustment expenses *(continued)*

Professional liability:

Accident year	Incurred claims and allocated claim adjustment expenses, net of reinsurance								Total IBNR Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims	
	For the years ended December 31										
	2015	2016	2017	2018	2019	2020	2021	2022			2023
	\$	\$	\$	\$	\$	\$	\$	\$	\$		
	Unaudited										
2018				26,818	43,357	303,723	371,620	346,545	543,481	17,996	179
2019					285,525	241,229	330,228	277,584	847,421	83,661	181
2020						3,319,278	3,284,702	5,345,324	5,418,704	113,159	1,583
2021							130,248	90,753	287,133	35,134	6
2022								1,062,109	119,011	23,382	15
2023									3,694,702	3,394,405	109
									10,910,452	3,667,737	

Accident year	Paid claims and allocated claim adjustment expenses, net of reinsurance								2023	
	For the years ended December 31									
	2015	2016	2017	2018	2019	2020	2021	2022		
	\$	\$	\$	\$	\$	\$	\$	\$	\$	
	Unaudited									
2018				-	979	42,229	125,503	219,131	402,008	
2019					19,294	71,720	110,257	165,991	275,092	
2020						-	997,543	3,821,093	4,228,198	
2021							-	3,688	26,295	
2022								4,200	35,359	
2023									78,545	
									5,045,497	
									5,864,955	

Liability for losses and loss adjustment expenses, net of reinsurance

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9. Losses and loss adjustment expenses *(continued)*

Property:

Accident year	Incurred claims and allocated claim adjustment expenses, net of reinsurance								At December 31, 2023		
	For the years ended December 31								Total IBNR	Cumulative	
	2015	2016	2017	2018	2019	2020	2021	2022	2023	Plus Expected Development on Reported Claims	Number of Reported Claims
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
	Unaudited										
2020						30,231	1,796,580	161,200	5,563	-	1
2021							25,381	1,472,967	2,032,554	-	120
2022								5,873,620	6,520,715	44,892	414
2023									10,187,278	1,943,784	15,193
									18,746,110	1,988,676	

Accident year	Paid claims and allocated claim adjustment expenses, net of reinsurance								
	For the years ended December 31								
	2015	2016	2017	2018	2019	2020	2021	2022	2023
	\$	\$	\$	\$	\$	\$	\$	\$	\$
	Unaudited								
2020						-	558,531	5,563	5,563
2021							-	1,977,777	2,032,554
2022								3,686,837	6,426,142
2023									6,147,116
									14,611,375
									4,134,735

Liability for losses and loss adjustment expenses, net of reinsurance

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9. Losses and loss adjustment expenses *(continued)*

Surety:

Accident year	Incurred claims and allocated claim adjustment expenses, net of reinsurance								At December 31, 2023		
	For the years ended December 31								Total IBNR	Cumulative	
	2015	2016	2017	2018	2019	2020	2021	2022	2023	Plus Expected Development on Reported Claims	Number of Reported Claims
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
	Unaudited										
2023									817,945	650,204	3,778
								817,945	650,204		

Accident year	Paid claims and allocated claim adjustment expenses, net of reinsurance								
	For the years ended December 31								
	2015	2016	2017	2018	2019	2020	2021	2022	2023
	\$	\$	\$	\$	\$	\$	\$	\$	\$
	Unaudited								
2023									62,601
								62,601	
								755,344	

Liability for losses and loss adjustment expenses, net of reinsurance

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9. Losses and loss adjustment expenses *(continued)*

Personal Auto:

Accident year	Incurred claims and allocated claim adjustment expenses, net of reinsurance								At December 31, 2023		
	For the years ended December 31								Total IBNR	Cumulative	
	2015	2016	2017	2018	2019	2020	2021	2022	2023	Plus Expected Development on Reported Claims	Number of Reported Claims
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
	Unaudited										
2021									34,094	14,352	4
2022									229,515	3,000	1,560
2023									13,103,380	2,869,441	14,112
									13,366,989	2,886,793	

Accident year	Paid claims and allocated claim adjustment expenses, net of reinsurance								
	For the years ended December 31								
	2015	2016	2017	2018	2019	2020	2021	2022	2023
	\$	\$	\$	\$	\$	\$	\$	\$	\$
	Unaudited								
2021									19,743
2022									206,514
2023									5,225,988
									5,452,245
									7,914,744

Liability for losses and loss adjustment expenses, net of reinsurance

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9. Losses and loss adjustment expenses *(continued)*

The reconciliation of the incurred and paid claims development tables to the liability for losses and loss adjustment expenses in the statements of financial position is as follows:

	December 31, 2023 \$	December 31, 2022 \$
Net outstanding liabilities:		
Workers compensation	4,099,788	5,130,594
Commercial trucking	45,147,687	15,453,367
General liability	67,871,508	47,095,571
Professional liability	5,864,955	2,908,212
Property	4,134,735	1,837,610
Surety	755,344	-
Personal Auto	7,914,744	-
Other insurance lines	-	186,453
	135,788,761	72,611,807

The following table is unaudited supplementary information for average annual historical duration of claims:

Years	Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance						
	Unaudited						
	1	2	3	4	5	6	7
Workers compensation	54%	18%	15%	9%	2%	1%	0%
Commercial trucking	1%	6%	12%	39%	17%	14%	5%
General liability	14%	21%	20%	10%	0%	0%	0%
Professional liability	0%	1%	7%	12%	17%	7%	0%
Property	0%	0%	51%	26%	0%	0%	0%
Personal Auto	0%	1%	41%	0%	0%	0%	0%
Surety	8%	0%	0%	0%	0%	0%	0%

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10. Deposit liabilities

The Company entered into a multi-year loss portfolio transfer reinsurance contract with one reinsured company in 2010. As at December 31, 2023 and 2022, there is no significant transfer of underwriting risk.

11. Share capital

	2023 \$	2022 \$
<u>Authorized:</u>		
Common shares-par value \$10.00 (2022: \$10.00): 700,000 (2022 - 700,000)	7,000,000	7,000,000
Redeemable preference shares-par value \$1.00 (2022: \$1.00): 2,000,000 (2022 - 2,000,000)	2,000,000	2,000,000
Total authorized share capital	9,000,000	9,000,000
<u>Issued:</u>		
Common voting shares-par value \$10.00 (2022: \$10.00): 12,000 (2022 - 12,000)	120,000	120,000
Common non-voting shares-par value \$10.00 (2022 \$10.00): nil (2022 - nil)	-	-
Redeemable preference shares-par value \$1.00 (2022: \$1.00): nil (2022 - nil)	-	-
Total issued share capital	120,000	120,000

12. Share premium and contributed surplus

For the year ended December 31, 2022, 90,643 redeemable preference shares were issued at a premium above the par value amounting to \$8,144,357.

For the year ended December 31, 2022, 1,500 redeemable preference shares issued at a premium above the par value of \$148,500 were redeemed for total proceeds amounting to \$11,764.

Effective September 30, 2022, the Company underwent a capital restructure. The Company merged with Fergus Merger Sub Limited, a wholly owned subsidiary of Fergus Holding Limited, with the Company being the surviving company of the merger. As a result of the merger:

- All of the share capital of Fergus Merger Sub Limited was cancelled and converted into, and becomes the right to receive the issue of, US\$120,000 common shares in the Company;
- All of the voting and non-voting common shares of the Company were cancelled and converted into, and become the right to receive the issue of, voting and non-voting common shares of Fergus Holding Limited;
- All of the preference shares of Fergus Re were cancelled and converted into the right to be issued corresponding classes of preference shares in Fergus Holding Limited, in each case with the same rights and in the same proportions as previously held in the Company and linked to the Fergus Holding Limited Segregated Account.

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12. Share premium and contributed surplus *(continued)*

- Correspondingly, the merger agreement provides that Fergus Holding Limited is the new account owner of the Company's active segregated account in place of the preference shareholders, who retain the rights to participate in the Company's active segregated account through the agreement rather than by the issuance of shares. The cancelled preferred share capital of Fergus is considered contributed surplus capital of the Company's active segregated account in the amount of \$56,819,000.

The above restructuring enabled the Company's prior structure to be replicated in a new entity, Fergus Holding Limited, and that entity became the sole shareholder of the Company.

During the year ended December 31, 2023, Fergus Holding Limited contributed an additional \$27,305,352 (2022: \$12,930,000) to the Company.

13. Premiums

Activity in unearned premium for the years ended December 31, 2023 and 2022 is summarized as follows:

	2023			2022		
	Gross \$	Ceded \$	Net \$	Gross \$	Ceded \$	Net \$
At January 1	46,707,935	-	46,707,935	37,523,472	-	37,523,472
Premium assumed	250,741,211	-	250,741,211	96,410,904	-	96,410,904
Premiums earned	(177,728,435)	-	(177,728,435)	(87,226,441)	-	(87,226,441)
At December 31	119,720,711	-	119,720,711	46,707,935	-	46,707,935

14. Statutory requirements

The Company is registered as a Class 3B reinsurer under The Insurance Act 1978 (Bermuda), amendments thereto and related regulations (the "Insurance Act"). Under the Insurance Act, the Company is subject to enhanced capital requirements in addition to minimum solvency and liquidity requirements and must maintain statutory economic capital and surplus at a level at least equal to its ECR which is the greater of its minimum solvency margin ("MSM") and the required capital calculated by reference to the Bermuda Solvency Capital Requirement ("BSCR"). The BSCR is calculated using the standard risk-based capital model developed by the Bermuda Monetary Authority ("BMA"). The BSCR model follows a standard formula framework and capital attributed to each risk is calculated by applying capital factors to assets and liabilities. The BMA sets a Target Capital equivalent to 120% of the ECR. While the Company is not required to maintain statutory economic capital and surplus at this level, it serves as an early warning signal for the BMA, and failure to meet the target capital level may result in additional reporting requirements or increased regulatory oversight. The Company is currently completing its 2023 BSCR, which must be filed with the BMA on or before May 31, 2024, and the Company has exceeded the target level of required statutory economic capital and surplus.

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14. Statutory requirements *(continued)*

Under the Insurance Act, the Company is prohibited from declaring or paying dividends of more than 25% of its total statutory capital and surplus, as shown in its previous financial year statutory balance sheet, unless at least seven days before payment of the dividends it files with the BMA an affidavit that it will continue to meet its minimum capital requirements as described above. The Company must obtain the BMA's prior approval before reducing its total statutory capital, as shown in its previous financial year statutory balance sheet, by 15% or more. The Company is restricted in paying dividends that would result in a failure to comply with the ECR as calculated based on the BSCR or cause the Company to fail to meet its relevant margins.

15. Foreign currency risk

The Company is exposed to foreign currency risk due to reinsurance balances receivable and reserves for insurance contracts in British Pounds and Euros. Due to limited exposure to foreign currency risk, any weakening or strengthening of foreign currency balances would not have a material effect on the financial results of the Company.

16. Subsequent events

The Company has evaluated all known recognized and non-recognized subsequent events through May 31, 2024, the date the financial statements were available to be issued.