Elbow Re Ltd.

Financial Condition Report
For the year ended December 31, 2023

Elbow Re Ltd. (“the Company”), formerly known as Acra Re Ltd., was incorporated in Bermuda on May 15, 2018, and licensed as a Class 3A Insurer and Class C Insurer by the Bermuda Monetary Authority (“BMA”) on July 6, 2018, to carry out business as both a general business insurer and a long-term insurer or reinsurer. The Company was also registered as a Segregated Account Company (“SAC”) under the Segregated Account Companies Act 2000, effective July 3, 2018. The name of the Company was changed from Acra Re Ltd. to Elbow Re Ltd. on August 29, 2019. Neither the activities of the Company, nor the structure was changed upon change of the Company name.

On May 19, 2023, Catalina Holdings (Bermuda) Ltd. (“CHBL”), through its wholly owned subsidiary Catalina Alpha Ltd. (“CatAlpha”), entered into a purchase agreement to acquire the Company. Upon receipt of regulatory approvals from the BMA, the transaction was completed on August 30, 2023, pursuant to which CatAlpha acquired 100% of the shares of the Company. This transaction allowed Catalina (“the Group” or “Catalina”) to consolidate 100% of the Company’s liabilities. The Group plans to complete a Part VII transfer of the entire Elbow portfolio into its UK-based regulated entity, Catalina Worthing Limited (“CWIL”), with effect in the 2025 calendar year. The Part VII transfer is planned to include a 50% quota share agreement between CWIL and Catalina General Insurance Ltd. (“CatGen”). CatGen is a wholly owned subsidiary of CatAlpha.

On February 6, 2024, the Company’s board of directors (“the Board”) approved the cancellation of its Class C license. The cancellation is not yet effective but is expected to be finalized, with appropriate approvals from the BMA, in 2024.

1. BUSINESS AND PERFORMANCE

a. Name of Insurer:
Elbow Re Ltd.

Address of its registered office:
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

b. Supervisors
Insurance Supervisor
Bermuda Monetary Authority
BMA House
43 Victoria Street
Hamilton
Bermuda

c. Approved Auditor

Deloitte Ltd.
Corner House
20 Parliament Street
Hamilton HM 12
Bermuda

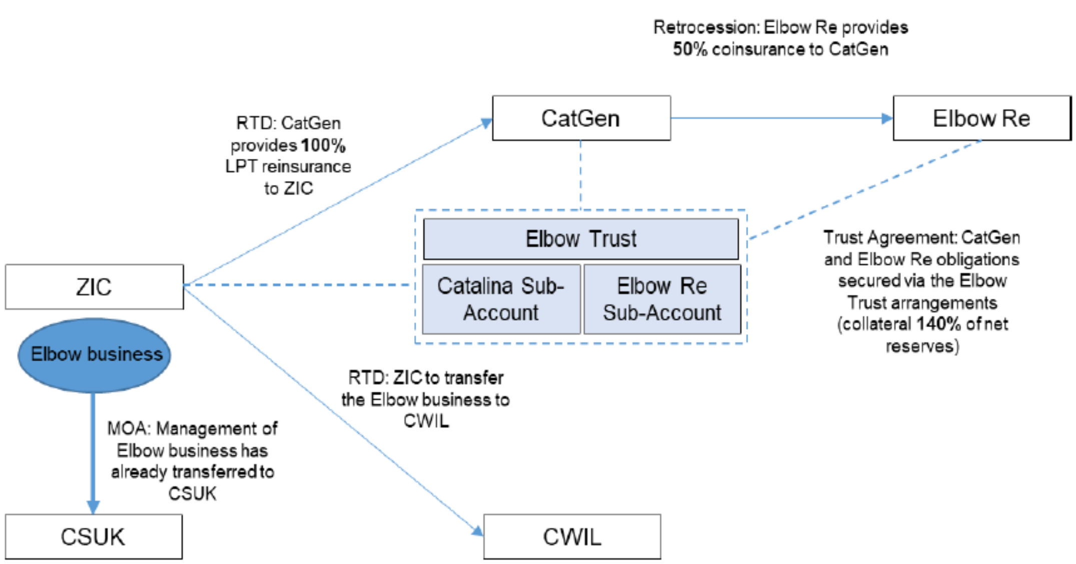
d. Ownership Details

CatAlpha acquired 100% of the shares of Elbow on August 30, 2023. Each transaction entered into by the Company is expected to be entered into through a distinct and separate segregated account, with the Company's exposure limited to the assets of the related segregated account. As of December 31, 2023, the Company had one Segregated Account (the "Elbow Cell"), through which the Company's sole business deal is conducted, and one administrative cell (the "Core Cell"). There are no plans to fund any other cells.

e. Group Structure

The diagram below depicts the group structure:

Current position



ZIC: Zurich Insurance Company Group
CSUK: Catalina Services UK Limited

f. Insurance Business Written

The Company's subject business is a closed block of legacy employer's liability policies, primarily from the United Kingdom, written prior to 2006. The book of business has been assumed by CatGen and retroceded via a quota share reinsurance agreement to the Company through its sole segregated cell. As part of the agreement, the Company also has a limit of 140% of the seller's reserves as of December 31, 2017, which erodes as claims are paid.

g. Performance of Investments, Material Income & Expenses for the Reporting Period

Performance of Investments for the Reporting Period

The Company has entered into an investment management agreement (the "IMA') with Apollo Asset Management Europe LLP (the "Investment Manager" or "AAME"), to provide investment management services to the Company. The Investment Manager is an affiliate of Apollo Global Management LLC ("Apollo"), the majority shareholder of CHBL.

The Company's investments are classified as "held for trading." Quoted and unquoted investments are carried at fair market value, with any unrealized gains or losses recognized through earnings. Realized gains or losses are based on the original cost of each position.

The Company adheres to a set of robust investment guidelines to ensure a high credit quality of the asset portfolio to protect value in the event of material adverse developments in broader financial market conditions. The asset portfolio has a maximum of 2.7% in unrated securities with the weighted average of the rated securities at A which is the lowest rating available from any rating agency accepted by the BMA.

The Company's assets are invested as follows:

	GBP reported in thousands	
Investments at Fair Value*	**2023**	**2022**
Collateral loans	5,523	43,080
Investments in advance and to affiliates	41,552	7,967
Investments in mortgage loans on real estate	48,559	46,808
Quoted investments	324,244	347,444
Unquoted investments	105,041	81,170
Equity investments	802	176
Total	**525,721**	**526,645**

* *Excludes cash, accrued interest, derivatives, reinsurance receivables, funds due from broker and counterparties, and the claims float*

The accrued income on investments as of December 31, 2023, was £5,838 (2022: £6,560).

Material Income and Expenses for the Reporting Period

The Company's primary source of income is from its investments. The total investment gain (loss) as of December 31, 2023, and a comparison with the previous year, is outlined in the table below:

	GBP reported in thousands	
Investment Income	**2023**	**2022**
Interest income	33,713	27,257
Realized (loss) on investments	(30,780)	(39,422)
Unrealized gain (loss) on investments	35,137	(41,667)
Investment management expenses	(1,908)	(2,180)
Total Net Investment income (loss)	**36,162**	**(56,012)**

The main source of underwriting (loss) income was mainly driven by the change in reinsurance receivables, as shown in the table below:

	GBP reported in thousands	
Sources of Underwriting Income/Expense	**2023**	**2022**
Change in reinsurance receivables	(3,710)	(6,108)
Change in outstanding loss reserve	32,211	38,795
Paid losses during the year	(31,869)	(29,062)
Net change in loss reserves	**(3,368)**	**3,625**
Accretion (amortization) of Deferred Profit Liability	2,232	(5,232)
Underwriting Expenses	(1,964)	(3,217)
Net Underwriting (Loss) Income	**(3,100)**	**(4,824)**
Deferred Profit Liability Roll forward	**2023**	**2022**
Deferred Profit Liability - at inception	(23,393)	(23,393)
Cumulative amortization	(7,612)	(9,844)
Deferred Profit Liability	**(31,005)**	**(33,237)**

The general and administrative expenses, including management fees are broken down as follows:

	GBP reported in thousands	
General and administrative expenses	**2023**	**2022**
Administrative expenses	159	1,847
Other expenses	385	263
Trustee fees	73	153
Audit fees	90	91
D&O insurance expenses	206	89
Director fees	33	50

Regulatory expenses	47	39
Legal expenses	47	-
Total	**1,040**	**2,532**

h. Any Other Material Information

No additional material information to report.

2. GOVERNANCE STRUCTURE

The Company has developed a governance structure that is proportionate to the nature, scale and complexity of its business model and is aligned to the Company's risk profile. The Corporate Governance Manual outlines the Company's approach to ensuring that business operations are conducted in a sound and prudent manner.

a. Board and Senior Executive

i. Board and Senior Executive Structure, Role, Responsibilities and Segregation of Responsibilities

The Board has the primary responsibility for the sound and prudent management of the Company. The Board meets at least twice a year and has a schedule of matters reserved for its approval. The Board's oversight role includes the review and approval of strategy and major policies, monitoring management performance, the approval of audited financial statements and major acquisitions and disposals. Board responsibilities also include the establishment and maintenance of systems of internal control and corporate governance. The Board consists of two directors and one alternate director.

ii. Remuneration Policy

The Company has no paid employees.

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

No pension or early retirement schemes are held by the Company for any of the members of the Board. It should also be noted that the Company has no employees and most of the services are outsourced or provided by employees and senior members of Catalina.

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

Upon receipt of regulatory approvals from the BMA, the transaction was completed on August 30, 2023, pursuant to which CatAlpha acquired 100% of the shares of the Company.

b. Fitness and Proprietary Requirements

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

The Company appoints members of the Board based on the individual's expertise and work experience, their role within the Company, as well as professional judgment.

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

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

- **Derrick Irby (Director, CHBL Group Chief Financial Officer)** Derrick has over 20 years' experience advising and leading the finance activities of insurance and reinsurance companies, including managing finance operations, structuring (re)insurance and capital markets transactions, strategic investments, mergers and acquisitions and related integration activities. His corporate finance and insurance industry accounting and finance experience was obtained from 17 years at AXA XL and 8+ years in public accounting. Prior to AXA XL, Derrick worked at PwC's Philadelphia and Bermuda offices where he provided audit and assurance services to insurance companies.

- **Johann Hunter (Alternate Director, CHBL Chief Accounting Officer and CatGen Chief Financial Officer)** Johann has over 20 years of experience advising and leading the finance activities of insurance and reinsurance companies and has served as the Group Financial Controller for Catalina Holdings (Bermuda) Ltd. since joining the company in April 2021. In his current role, Mr. Hunter is responsible for the oversight and day-to-day management of the Group Finance function. Prior to joining Catalina, Mr. Hunter served as Senior Vice President, Bermuda Chief Financial Officer of Allied World Assurance Company, Ltd. Mr. Hunter joined Allied World Bermuda in 2008 and held various positions within the company until his departure in April 2021. Before joining Allied World, Mr. Hunter held various managerial audit roles at PricewaterhouseCoopers Ltd. in Bermuda and RSM International in South Africa. Mr. Hunter holds a Bachelor of Commerce (Accounting) Degree and a Postgraduate Diploma in Accounting from the University of Johannesburg. Mr. Hunter is a member of the Chartered Professional Accountants of Bermuda and the South African Institute of Chartered Accountants.

- **Max Boivin (Chief Risk Officer)** Max is CatGen Chief Risk Officer since August 2022. Prior to joining CatGen, he brings 17 years of work experience from two consulting companies in the United States, one P&C company in Canada and one reinsurance in Bermuda. He hold a bachelor's degree in Actuarial science from Universite Laval in Quebec City, Canada. He joined from Nissan Global Reinsurance, Ltd. in Bermuda where he was a Senior Manager of Actuarial, business development and risk function for more than 8 years. During his last 10 years living in Bermuda, he has attended industry seminars on risk and actuarial providing insights on the latest trends from the insurance and reinsurance industry globally.

- **Tom Duggan (Chief Investment Officer)** Tom is CatGen Chief Investment Officer since March 2023. Mr. Duggan has over 10 years of experience managing investments. His investment experience has been obtained as a credit research analyst, from which he has advised Pension Funds, Insurance Companies, Endowments and Family Offices on their asset allocation and investment portfolios. His investment career started following a professional sporting career, during which undergraduate and postgraduate degrees were obtained. He holds a B.A. in Business Management and Accounting from the University of Sheffield and an MSc in Accounting and Finance from the University of Surrey.

c. Risk Management and Solvency Self-Assessment

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

The overall risk management strategy is to ensure that a proper balance is struck between:

- The risks that are economically attractive to take. These must be properly modelled, measured and priced; and
- The risks that are economically unattractive to take. These should be identified and avoided, managed, mitigated or reduced where it is efficient to do so.

Within the Company's risk management framework, there are measures in place to ensure that:

- Appropriate risk tolerances are in place to govern risk-taking activities;
- Appropriate risk culture and risk appetite form an essential part of its strategic decision-making;
- Risks are measured, appropriately monitored and key risk metrics are reported to both group and local senior management and the Board; and
- Appropriate business planning and capital planning processes are in place to support the risk-taking activities.

In line with the internal risk management policies of the Group, business unit owners, acting as the 'first line of defense' are primarily responsible for the running of the business and the operation of controls within their own areas as well as the management of the business' risk profile, in line with Board expectations. Acting as part of the 'second line of defense', the Risk Management Function is then responsible for risk oversight, by monitoring business operations, and the effectiveness and integrity of the risk management framework. The General Risk Management Principles provide key inputs into several of the components and facilitate the monitoring of the current and future risk profile of the Company. The Chief Risk Officer ("CRO") coordinates the risk monitoring process, with formal reporting to, and review by, the Board Risk Committee ("RC").

The Board RC reviews:

- The Company's risk appetite, tolerance and strategy;
- The systems of risk management to identify, measure, aggregate, control and report risks;
- The alignment of strategy with the Company's risk appetite;
- The key risks and metrics on a quarterly basis in order to assess the current risk profile and identify where the risk appetite and/or risk tolerances have been exceeded;
- Any material changes to the risk register, including where new risks are identified, or where control failures or external factors are causing the risk assessments to change;
- Existing risks and considers whether there are additional new emerging risks on a quarterly basis;
- Non-financial risks such as operational risk, strategic risks and IT resilience;
- Emerging risks, in the context of salience to the assets and liabilities; and
- The macroeconomic and geopolitical risks that the Company is exposed to.

The Board receives the Risk Report at every meeting. This provides a summary of the key risk metrics against risk appetite, current risk profile by risk category and other relevant information such as details of any significant control breakdowns, breaches of regulation or legislation and the results of assurance work to date. On an annual basis, the Board is also provided with the CISSA.

Risk Policies

Management believes that the risks and exposures relating to a legacy insurance business can be viewed in the following eight categories:

- Insurance risk;
- Market risk;
- Credit risk;
- Liquidity risk;
- Operational risk;
- Regulatory and legal risk;
- Group risk; and
- Strategic risk.

To aid the management of risk, risk policies have been set as documented in the Risk Management Policy & Framework. In the event that risk appetite is breached, the Board RC will review the causes and implement appropriate action, such as:

- Avoidance: declining to acquire certain types and portfolios of business;
- Reduction: taking action to reduce the likelihood or impact related to a particular risk (for example reinvesting assets in lower risk instruments);
- Hedge: matching or sharing a portion of the risk, to reduce it (for example by currency matching to reduce foreign exchange risk); or
- Acceptance: no action is taken, due to a cost/benefit decision (for example, by formally choosing to change the risk appetite)

In addition to the Company's risk appetite and risk policies, a wide range of controls and monitoring tools have been developed and implemented to ensure risks are managed appropriately.

ii. <u>Risk Management and Solvency Self-Assessment Systems Implementation</u>

The Company's enterprise risk management is coordinated by the Chief Risk Officer and risk management employees, who work under the authority of the Board RC. The Board RC meets semi-annually and aims to identify and manage the key risks to which the Company is exposed on both the asset and liability sides of its balance sheet.

The Audit Committees and Risk Committees are governed by their respective charters or terms of reference and are charged with assisting the Board of that operating company in its oversight of the integrity of financial statements, compliance with legal and regulatory requirements, the qualifications, performance and independence of the external auditors, the performance of the internal audit function and oversight of the Risk Management Function. The CRO participates in all operating company board meetings and provides risk exhibits and counsel to board risk committees on all matters pertaining to Enterprise Risk Management, both in the local and group context. Therefore, risk is discussed at every board meeting, and the board members are kept fully informed on how risk silos are bridged at the Group and the Company level. The Board directs the CRO to use his team and resources in any way they see fit. In line with the internal risk management policies of the Group, management and operations employees, acting as the 'first line of defense' are primarily responsible for the running of the business and the operation of controls within their own areas, as well as the management of the business' risk profile. However, acting as part of the 'second line of defense', the Risk Management Function is responsible for the ongoing monitoring of business operations and the effectiveness and integrity of the risk management framework. The internal audit function acts as the 'third line of defense', providing independent assurance that the risk management framework, internal controls and the governance processes within the business are operating effectively.

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

The Company's Commercial Insurer Solvency Self-Assessment ("CISSA") is the entirety of the processes and procedures employed to identify, assess, monitor, manage, and report the short and long term risks a company faces or may face and to determine the own funds necessary to ensure that a company's overall solvency needs are always met. It is an internal assessment process and, as such, should be embedded in the strategic decisions and allows management and the Board to review the risk and capital requirements and take a strategic, forward-looking view of future risks and capital needs. Members of senior management and a number of functions including Finance, Operations, Actuarial, Compliance and Risk Management have been involved in the production of the CISSA. The CISSA will highlight key risk issues to management, and should allow management to confirm that:

- The current risk profile is understood and appropriate for the nature of a legacy portfolio and within the Company's risk appetite;
- Capital requirements during the reporting period have continuously been met (or if not, corrective action was taken);
- The Company's current capital and solvency position is appropriate;
- The various regulatory solvency models have been used appropriately for strategic decisions throughout the period;
- The risks to the enterprise that could likely change the risk profile are understood; and
- Plans to cover the solvency position and planned capital distributions over the required period are appropriate.

The Company manages capital to ensure a prudent cushion of Statutory Economic Capital and Surplus to protect economic viability and meet regulatory requirements. At the Group level, there is a business plan that feeds into the economic capital forecasts and demonstrates capital adequacy is expected throughout the three-year planning horizon. Capital management decisions are made in the light of this assessment. The Company targets a capital level of 150%, which is well in excess of 120% of the BMA Enhanced Capital Requirement (or the "Target Capital Level"), and present and future capital levels must reflect this. Where the board makes material surplus capital related decisions, the relevant regulatory capital model is run to test that the action proposed is not endangering the Company's solvency. Therefore, the regulatory capital model is effectively run each time the board wishes to present an application to the local regulator for capital release, or a material change in the risk profile of the Company.

iv. Solvency Self-Assessment Approval Process

The CISSA approval process is set out in the Company's CISSA Policy. The CISSA Policy document provides a description of the processes and procedures in place to conduct the CISSA Process. The CISSA Policy also sets out the roles and responsibilities of the various relevant functions and committees. The Risk Management Function is responsible for executing the Own Risk and Solvency Assessment process and for producing the CISSA.

The Actuarial Function performs the actuarial calculations required for the CISSA process and provides input on compliance with the requirements regarding the technical provisions and the risks arising from these calculations. The Finance Function provides finance inputs into the calculations required for the CISSA and is responsible for business planning, including capital and liquidity planning. The Board has delegated the approval of the CISSA to the Board RC. The Board RC is responsible for steering how the assessment is performed, for challenging its results and for final approval of the CISSA.

d. Internal Controls

The Internal Control System is all the policies and procedures that management uses to achieve the following goals:

- Safeguard assets - Well-designed internal controls protect assets from accidental loss or loss from fraud;
- Ensure the reliability and integrity of financial information - Internal controls ensure that management has accurate, timely and complete information, including accounting records, in order to plan, monitor and report business operations;
- Ensure compliance - Internal controls help to ensure the Group is in compliance with the many international and local laws and regulations affecting its business operations;
- Promote efficient and effective operations - Internal controls provide an environment in which managers and employees can maximize the efficiency and effectiveness of their operations; and
- Accomplishment of goals and objectives - Internal controls system provide a mechanism for management to monitor the achievement of operational goals and objectives.

The Board is ultimately responsible for overseeing and maintaining the adequacy and effectiveness of the risk management and internal control systems. The oversight and management of these systems necessarily involves participation of the Board, the Board Audit Committee, the Board Risk Committee, senior management, Finance, Legal, operational managers and Internal Audit.

e. Compliance Function

The Board is committed to ensuring it meets all regulatory requirements to conduct business in a prudent manner, and this includes taking the necessary steps to manage risks. The Compliance Function is tasked with providing second line assurance for specific areas of risk management. For this, the function engages with Legal, Risk and other relevant functions to ensure a clear understanding of the relevant risk exposure. Controls in the form of documented policies and procedures are then designed and embedded with first line operational engagement. The controls are monitored, and their likely effectiveness reported on. Only certain risks require such a compliance approach, typically, those that have a high inherent risk 'impact' from a violation of the law; and/or risks that have a materially high inherent "likelihood" of a violation occurring.

Seven such legal and regulatory "Compliance Risks" have been identified and assigned to the

Compliance function:

- data protection/privacy;
- sanctions;
- internal fraud;
- money laundering/terrorist financing;
- bribery & corruption (including its associated failure to prevent offences);
- market abuse; and
- certain forms of non-financial misconduct, including the treatment of policyholders.

The Board has set clear corporate values for fitness, propriety and personal accountability. As part of its risk assurance role, the Compliance function promotes this culture through employee training and regular engagement with management to discuss monitoring results:

- Employees are encouraged to report any misconduct that they may witness and are empowered to seek advice, help, support and feedback – as well as seek advice from outside experts to supplement internal competencies, if and when needed;
- Employees identified as material risk takers are assessed against fitness and propriety standards under the group's human resource management environment, which forms part of the wider conduct control environment for managing financial and non-financial misconduct (e.g., frameworks for conflicts of interest, remuneration risk and bribery/gifts and entertainment); and
- Employees receive practical scenario-based training on the Board's approach and support for ethical conduct, employee inclusivity/equality, data protection, money laundering and bribery risk exposures. Risk-based learning objectives are maintained and reviewed for this purpose, in line with scheduled policy reviews or change management events.

The Group Head of Compliance acts as the Company's Compliance Officer.

f. Internal Audit

The mission of the Internal Audit ("IA") function is to enhance and protect organisational value by providing risk-based, independent and objective assurance, advice, and insight to the Board and Catalina staff. The IA function is the Company's third line of defense, the Group Internal Audit Charter defines the function's purpose, authority and responsibility. The purpose of the function, described in further detail in its charter, is to add value and facilitate the improvement of the organisation's effectiveness and efficiency of governance, risk management, and internal control processes.

IA performs its own risk assessment as the basis for the annual internal audit plan that is reviewed and approved by the Audit Committee ("AC"). The audit plan is updated on a regular basis to reflect the Company's evolving risk landscape and assurance needs. The IA function regularly provides formal updates on its activities. These updates include audit opinions on the control environment of the specific processes, functions or themes audited, the status of any agreed management actions arising from audits, and the appropriateness of the resources and skills of the IA function.

IA is authorised to allocate resources, determine audit scopes, select the audit approach, and obtain the necessary assistance and specialised services within or outside the Group to accomplish its agreed audit objectives.

The operating guidance for the IA function is set out in the Catalina Group Internal Audit Framework. This is updated on an annual basis and is aligned with the International Professional Practices

Framework (IPPF) issued by the Institute of Internal Auditors (IIA).

g. Actuarial Function

The Actuarial function for the Company is made up of an in-house actuarial team, located in Bermuda and London. All Property and Casualty ("P&C") reserves carried by the Company are based on internal actuarial loss reserve reviews. The Company also engages an outside actuarial consulting firm that provides an independent review of a sample of the carried P&C loss reserves of the Company. The Group Chief Actuary is responsible for the oversight of the actuarial function. The Group's actuaries use traditional methods to set the loss reserves for most of the books of business and do not assume any benefits of active liability management in their calculations, unless those savings are verifiable in the historical loss experience. An internal reserve analysis is performed for the Company in conjunction with the Zurich UK Employers' Liability ("EL") portfolio through December 31, 2023.

The Group Chief Actuary prepares a report and presents to the Executive Committee and the CHBL Board Reserving Subcommittee the current reserve position on, at least, an annual basis. There is also a separate Loss Reserve Committee for CatGen, where the Company's reserves are presented with the Zurich UK EL portfolio.

h. Outsourcing

<u>Outsourcing Policy and Key Functions that have been Outsourced</u>

The Group's core strategy is to utilise and enhance key and distinguishing in-house competencies in areas required to manage and extract value from books of business under its control; such competencies include claims adjustment, commutation negotiation, reinsurance collections, actuarial evaluation, capital modelling and developing and implementing the most effective and efficient exit strategies, whilst at all times properly meeting the rights and requirements of policyholders, reinsurers, regulators, capital providers and other stakeholders.

The Group has Vendor Management Policy, the purpose of which is to establish the requirements for identifying, justifying, and implementing multi-disciplinary cradle-to-grave risk-based assessment and oversight of material outsourcing arrangements for its critical or important operational functions or activities.

The objective of the Vendor Management Policy is to ensure that risk from material outsourcing and other non-outsourcing third party arrangements are consistently identified and managed across the Group, that the third party's culture is aligned with the Group's and that such arrangements do not lead to:

- Reduction in management's responsibility for, or influence over, key functions;
- Material impairment of the quality of the system of governance;
- Non-adherence to approved policies and procedures;
- Undue increases in operational risk or cost;
- Material impairment to fulfill obligations to stakeholders, nor impede effective supervision by regulators;
- Conflicts of Interest and the inadvertent introduction of risk from inappropriate remuneration models; or
- Breaches of legal and regulatory obligations.

The Board is ultimately responsible for the approval, performance monitoring and termination of all outsourcing arrangements of critical or important functions or activities. Critical or important functions or activities include key functions of the system of governance and all functions that are fundamental to carry out its core business.

i. Other Material Information
No other material information to report.

3. RISK PROFILE

The Company has business related to only one transaction – the Project Elbow reinsurance transaction. The transaction is a reinsurance agreement (the "Catalina Reinsurance Agreement") to reinsure a 50% quota share of the block of business up to a limit of approximately 140% of net reserves as of December 2017. The Company collateralizes the business in a separate collateral trust account holding assets equal to a minimum of 140% of net reserves for its respective quota share.

As of December 31, 2023, the amount of collateral in the collateral trust was 140% of Zurich Reserves, plus an additional 9.7% held in surplus outside of the collateral trust for a total collateral level of 149.7%, compared to the minimum requirement of 140%. The additional capital held outside of the collateral trust account is maintained to mitigate the risk of unexpected mark-to-market volatility of the trust assets. During periods of higher expected mark-to-market volatility, the Company may choose to hold more than this level.

The main risks inherent in the transaction are that a) ultimate claim payments are higher than projected and/or b) there are higher than expected defaults or Other-Than-Temporary-Impairments (OTTI) on its asset portfolio. The Board does not deem the Company's risk to be high, given the historically stable run off pattern of its liabilities and the high credit quality of its asset portfolio.

a. Material Risks the Insurer is Exposed to During the Reporting Period
The Company's main risk categories are:

- **Insurance Risk** – Given the nature of the book of business, reserving risk is the main insurance risk to which the Company is exposed. Specifically, this is the risk that, due to deficient provisioning assumptions or external factors, reserves set aside to cover insurance liabilities are inadequate. This risk is historically low, as the book of business has a stable claims history. Given this context, the likelihood of large, unexpected claim developments is low. Reserves are calculated by Catalina's internal actuaries and reviewed by the external auditors.

- **Market Risk** – This is the risk of a substantial decline in the value of the Company's holdings due to market volatility and/or concentrations resulting in market positions moving together in an unfavourable direction. The Company has robust investment management policies and guidelines in place, overseen by the Board, to evaluate and monitor its aggregate exposure to market risk. The risk is managed by maintaining an appropriate mix of investment instruments in line with the Strategic Asset Allocation ("SAA") defined by the Company's Chief Investments Officer. In addition, daily monitoring of the asset portfolio is performed by the Catalina Risk team.

- **Liquidity Risk –** This is the risk that the Company is unable to meet short term financial demands and is a consequence of the inability to convert securities to cash without loss of value. The Risk team monitors and assess liquidity monthly of Elbow by modelling in/out cash flows for the next 12 months. The Company met its minimum risk requirements as of December 31, 2023, and does not deem this risk to be material given its current profile.

- **Credit Risk (Default Risk)** – This is the risk that one of those involved in the transaction might default on its contractual obligation. The Company has very little exposure to credit risk, given the structure of the transaction.

- **Collateral Risk** – This is the risk that the collateral supporting the Company's transaction is adversely impacted due to deficient assumptions, errors, or a security issuer's inability or unwillingness to meet its financial obligations to the Company in line with agreed terms. To mitigate this risk, the Company is required to maintain collateral at 140% of the nominal value of projected future claims.

- **Operational Risk** – This is the risk of financial loss or reputational damage due to failures/inadequacies in business processes, governance practices, people, systems or external events. Elbow leverage the current operational controls in place at the Group level to limit the operational risk. At a Board level, the Company monitors business performance and through various board reports, gains assurance that operational risks are appropriately managed.

- **Legal & Regulatory Risk** – This is the risk of financial losses, regulatory sanctions, and other non-financial adverse impacts such as reputational damage due to non-compliance with internal and external obligations i.e., laws, regulations, industry codes, internal policies, ethical practices, etc. This risk includes the Company's obligation to comply with regulatory capital and solvency requirements. The Company has appointed Aon Insurance Managers (Bermuda) Ltd. as Insurance Manager to assist with the oversight of operations and assess and monitor compliance with applicable regulations. As a second line of review, the Company relies on the skills and expertise of the Group capital reporting team. The Company also has a robust Bermuda Solvency and Capital Requirements (BSCR) process in place, with annual reporting to the Bermuda Monetary Authority.

b. Risk Mitigation in the Organization

The Company has an appointed Chief Risk Officer, responsible for the management of financial risks, with oversight from the Board. The Risk Management Function ensures that the Risk Management and Internal Control Framework is embedded across the organization. The Board oversees corporate governance practices, reviews the Company's risk appetite and risk strategy, oversees and monitors implementation of the risk appetite, and oversees the design, completeness and effectiveness of the risk management and internal control framework.

c. Material Risk Concentrations

The Company has developed investment policies and guidelines, which are used by the Risk Committee of the Board to monitor various concentration risks in relation to its investments.

The Company monitors its sector concentrations, issuer concentrations and country limits to ensure these are in line with the investment policies and guidelines in place.

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

The Company's investment portfolio is managed by AAME in line with the Company's investment guidelines and policies, which are reviewed and updated annually. The Company employs a prudent investment approach that requires that a highly liquid and well-balanced portfolio of primarily fixed income securities is maintained to support technical provisions and timely payment of claims. The size of the investment portfolio is determined by the amount of technical provisions recorded for a given period plus any additional capital.

The investment guidelines will be reviewed as required to ensure they remain fit for purpose, considering any significant deviations that may affect the financial markets and the asset portfolio.

e. Stress Testing and Sensitivity Analysis to Assess Material Risks

As part of the Bermuda Capital Solvency Requirements, the Company performs various stress tests on an annual basis to ensure regulatory requirements are met. In line with BMA stress testing guidelines, the Company performed Financial Market Scenarios stress tests in relation to inflation shocks, underwriting scenarios stress testing and worst-case annual aggregate loss scenario.

4. SOLVENCY VALUATION

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

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

The economic valuation principles outlined in this document are to measure assets and liabilities on a fair value basis (which is the value that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between open market participants at the measurement date). The fair value principles used for the assets are as follows:

- **Cash and Cash Equivalents** – includes cash time deposits and investments maturing within three months. The fair value of these holdings is determined by using mark-to-market valuation, or quoted market prices in active markets for similar assets with adjustments to reflect differences if mark to market valuation is not possible, or mark to model valuation otherwise.
- **Fixed Income Securities** – are valued in accordance with mark-to-market principles where possible or quoted market prices in active markets for similar assets with adjustments to reflect differences if mark-to-market valuation is not possible. For fixed income securities that are not actively traded and, for which similar assets are also not actively traded, the Company uses pricing services to prepare inputs to assist the Company with valuations.
- **Equities and investment funds** – include common stock and preferred shares and are valued using the quoted market prices.
- **Accounts Receivable and Premium Receivable** – are recorded at a fair value and balances due in more than one year have been discounted at the relevant risk-free rate.

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

Insurance technical provisions are valued based on best estimate cash flows, adjusted to reflect the time value of money using the scenario-based approach ("SBA"). In addition, there is a risk margin to reflect the uncertainty inherent in the underlying cash flows, which is calculated using the cost of capital approach and a risk-free discount rate term structure. These risk-free discount rate term structures are prescribed by the BMA for each reporting period.

Under the SBA, the discount rate assumed in the Best Estimate Liability ("BEL", part of the technical provisions) is based on the prescribed methodology by the BMA as per paragraphs 255-261 of the Guidance Notes for Commercial Insurers and Insurance Groups' Statutory Reporting Regime ("Guideline") published by the BMA on November 30, 2016.

As of December 31, 2023, the total technical provisions of the Company amounted to £350,265 (2022: £339,641).

GBP reported in thousands		
Technical Provisions	**2023**	**2022**
Net loss and loss expense provision	284,714	300,889
Risk Margin	65,551	38,752
Total	**350,265**	**339,641**

c. Description of Recoverable from Reinsurance Contracts
The accounts receivable as of December 31, 2023, of £10,663 (2022: £14,373) relates to receivables from outward contracts of the cedant with other reinsurers on a gross basis.

d. Valuation Bases, Assumptions and Methods to Derive the Value of Other Liabilities.
Similar to the valuation principles for assets, the Company's liabilities follow the valuation principles outlined by the BMA's "Guidance Note for Statutory Reporting Regime" which values liabilities at fair value. In the absence of an active market, prices are based on observable market inputs.

e. Any Other Material Information
No additional material information to report.

5. CAPITAL MANAGEMENT

a. Eligible capital

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

The primary capital management objectives of the Company are to maintain a strong capital base to support its sole business project, Project Elbow. It strives for an appropriate capital structure that efficiently allocates the risk to the capital.

To maintain a strong capital base, the Company identifies, assesses, manages and monitors the various risk sources it faces in the course of business, both currently and as anticipated over a year planning horizon. This process culminates in an assessment of the capital necessary to maintain solvency at the threshold targeted by management given the Company's risk profile.

As a result of the planning strategies, the Company has been able to withstand the market stresses well. As of December 31, 2023, the Company's ECR ratio was 159%, which was above the internal target of 150%. As part of the transaction, the BMA requested that the

Company's ECR ratio be calculated under a Class 3B basis, even though it remains registered as a Class 3A.

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

To enable better assessment of a Company's capital resources, the BMA requires Class 3A and Class C insurers to disclose the makeup of their capital in accordance with a 3-tiered capital system with highest quality capital as tier 1 and lowest quality capital as tier 3.

At the end of the reporting period, the Company's Eligible Capital was categorized as follows:

	GBP reported in thousands	
Eligible Capital	**2023**	**2022**
Tier 1	241,331	313,870

All the capital is Tier 1, the highest capital, consisting of capital stock, contributed surplus, and statutory surplus.

iii Eligible Capital Categorised by Tiers in Accordance to the Eligible Capital Rules Used to Meet ECR and MSM Requirements of the Insurance Act

At the end of the reporting period, the Company's Eligible Capital for its Minimum Solvency Margin (MSM) and Enhanced Capital Requirement (ECR) was categorized as follows:

GBP reported in thousands				
	2023		2022	
	MSM	ECR	MSM	ECR
Tier 1 Eligible Capital	62,221	152,025	65,207	86,996

iv Confirmation of Eligible Capital That is Subject to Transitional Arrangements

Not Applicable.

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

Not Applicable.

vi Identification of Ancillary Capital Instruments Approved by the Authority

Not Applicable.

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

Other than the impact of employing statutory-based technical provision valuation techniques, the difference between GAAP shareholder equity and available statutory capital and surplus is the prepaid expense of £4m.

b. Regulatory Capital Requirements

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

At the end of the reporting period, the Company's regulatory capital requirements were assessed as follows:

GBP reported in thousands		
Requirement	**2023**	**2022**
Minimum Margin of Solvency	62,221	65,207
Enhanced Capital Requirement	152,025	86,996

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

The Company was compliant with the MSM and ECR requirement at the end of the reporting period.

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

Not applicable.

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

Not applicable.

c. Approved Internal Capital Model

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

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

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

Not applicable.

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

Not applicable.

iv Description of Aggregation Methodologies and Diversification Effects

Not applicable.

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

Not applicable.

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

Not applicable.

vii Any Other Material Information

Not applicable.

6. SUBSEQUENT EVENTS

The Company has evaluated the effects of events after December 31, 2023. There were no material events that occurred after December 31, 2023, through April 26, 2024.

DECLARATION ON FINANCIAL CONDITION

(Prepared in accordance with section 5 of the Insurance (Public Disclosure) Rules 2015
For the year ending –December 31, 2023

We, the undersigned Officers of the Company declare that to the best of our knowledge and belief, that this report fairly represents the financial condition of the Company in all material respects.

04/26/2024

Director: **Derrick Irby** Date

04/26/2024

Director: **Johann Hunter** Date