GROUP FINANCIAL CONDITION REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022

Issue Date: 31 May 2023

FINANCIAL CONDITION REPORT

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INTRODUCTION

Somers Group Holdings Ltd. ("Somers" or "SGHL" or "the Company" or "the Group" or "we" or "our") (formerly known as Watford Holdings Ltd.) is a privately held, global specialty property and casualty insurance and reinsurance holding company headquartered in Bermuda. We are owned by Arch Capital Group Ltd. ("Arch"), with a 40% ownership interest, Kelso & Company ("Kelso"), with a 30% ownership interest and Warburg Pincus LLC ("Warburg Pincus"), with a 30% ownership interest.

Through our operating subsidiaries, including our Bermuda-based insurance and reinsurance subsidiary Somers Re Ltd. ("SRL"), we focus on delivering flexible and creative solutions to clients worldwide.

Underwriting at Somers Re Ltd. is performed by Arch Capital Group Property & Casualty subsidiaries through a services agreement. We write a variety of products across a wide range of geographies, providing important capacity to existing and new clients.

We provide services internationally via a geographically diverse group of subsidiaries. Our U.S. business is carried out by Watford Specialty Insurance Company and Watford Insurance Company. Our UK business is underwritten by Watford Insurance Company Limited. Our business in the European Union is underwritten by Axeria IARD ("Axeria").

We and our operating subsidiaries all carry a financial strength rating of "A-" (Excellent) from A.M. Best Company, or A.M. Best, which is the fourth highest of 15 ratings that A.M. Best confers. Each of our operating subsidiaries also carry a financial strength rating of "A" with a stable outlook from Kroll Bond Rating Agency, or KBRA, which is the sixth highest of 22 ratings that KBRA confers.

Commentary, results and financial information presented herein reflect both SGHL and those of SRL, on a consolidated basis. Where differences between SGHL and SRL are relevant separate analysis has been provided. Such differences relate entirely to eligible capital amounts.

SECTION A – BUSINESS AND PERFORMANCE

Name of the Designated Insurer

Somers Re Ltd.
Waterloo House, 1st Floor
100 Pitts Bay Road
Pembroke, HM 08
Bermuda

Insurance and Group Supervisor:

Bermuda Monetary Authority
BMA House
43 Victoria Street
Hamilton, HM 12
Bermuda

Approved Auditor

PricewaterhouseCoopers Ltd.
Washington House
4th Floor
16 Church Street
Hamilton HM 11
Bermuda

Ownership details

In the fourth quarter of 2020, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement"). Under the Merger Agreement, Greysbridge Holdings Ltd., a newly formed entity, acquired the Company with Arch owning approximately 40% and funds managed by Warburg Pincus and Kelso each owning approximately 30%.

The acquisition of the Company by Greysbridge Holdings Ltd., pursuant to the Merger Agreement, was completed on July 1, 2021 (such completed transaction, the "Merger"). At the closing of the Merger, the Company's common shares (other than common shares contributed to Greysbridge by Arch, Kelso or Warburg Pincus, as applicable) were cancelled. Following the closing of the Merger, the Company's common and preference shares were delisted from the NASDAQ and periodic reporting to the SEC was suspended.

The Company was rebranded on November 4, 2021, as Somers Group Holdings Ltd. (and its principal operating Bermuda subsidiary was rebranded as Somers Re Ltd.). This rebranding was a part of the Company's strategic repositioning.

Somers' investors are well established, globally recognized and leading practitioners in their respective fields, with proven track records, and bring fresh perspectives and a collaborative and innovative approach to Somers' new strategy.
All entities of the Group are 100% owned by their respective parent. Please refer to Appendix 1 for an overview of the corporate structure.

Insurance Business Written (figures provided are US GAAP)

The Group writes insurance and reinsurance specialty lines on a worldwide basis. Product lines include: (i) casualty reinsurance; (ii) property catastrophe reinsurance; (iii) other specialty lines reinsurance (consisting of mortgage, other specialty lines, property excluding property catastrophe, marine and aviation and other lines); and (iv) insurance programs and coinsurance (consisting primarily of casualty, other specialty, and property excluding property catastrophe).

Gross premiums written were $1,621.0 million for the year ended December 31, 2022 compared to $1,275.4 million for the year ended December 31, 2021, an increase of $345.6 million, or +27%. The increase is primarily driven by organic growth of the whole account quota share agreements entered into as part of the Merger in 2021 and the growth in Axeria during the year.

	(Successor) Year Ended December 31, 2022	(Successor) Period From July 1, 2021 through December 31, 2021	(Predecessor) Period From January 1, 2021 through June 30, 2021
Revenues			
Gross premiums written	$ 1,620,986	$ 817,900	$ 457,465
Gross premiums ceded	(445,481)	(168,050)	(102,763)
Net premiums written	1,175,505	649,850	354,702
Change in unearned premiums	(3,695)	(136,745)	(22,733)
Net premiums earned	1,171,810	513,105	331,969
Other underwriting income (loss)	998	656	739
Net investment income (loss)	(58,203)	26,829	100,390
Total revenues	1,114,605	540,590	433,098
Expenses			
Losses and loss adjustment expenses	(857,505)	(405,296)	(259,042)
Acquisition expenses	(290,697)	(96,665)	(77,615)
General and administrative expenses	(25,355)	(12,488)	(17,995)
Interest expense	(14,267)	(5,830)	(5,823)
Net foreign exchange gains (losses)	33,368	2,541	(341)
Gain on bargain purchase, net of transaction costs	—	—	18,187
Amortization of intangible assets	(8,843)	(9,742)	(898)
Total expenses	(1,163,299)	(527,480)	(343,527)
Income (loss) before income taxes	(48,694)	13,110	89,571
Income tax benefit (expense)	(1,887)	(692)	353
Net income (loss) before preference dividends	(50,581)	12,418	89,924
Preference dividends	(2,203)	(2,076)	(2,088)
Net income (loss) available to common shareholders	$ (52,784)	$ 10,342	$ 87,836

Investment Performance (figures provided are US GAAP)

The components of our net investment income (loss) for the years ended 31 December 2022 and 2021 were as follows (in thousands):

($ in thousands)	12 months ended Dec 31, 2022	12 months ended Dec 31, 2021
Interest Income	101,778	95,210
Other Investment Expenses	(10,039)	(21,364)
Net Interest Income	91,739	73,846
Net Realized Gains (Losses) on Investments	(90,796)	(20,762)
Net Unrealized Gains (Losses) on Investments	(59,146)	84,479
Investment Performance Fees - related parties	-	(10,344)
Net Investment Income (loss)	(58,203)	127,219
Average Net Assets	**2,446,659**	**2,388,084**
Net Interest Income yield on Average Net Assets	**3.70%**	**3.10%**
Net Investment Income Return on Average Net Assets	**(2.40)%**	**5.30%**

The investment performance for 2022 and 2021 is broken down into the following asset classes:

	(Successor) Year Ended December 31, 2022			
	Net Interest Income	Net Unrealized Gains (Losses)	Net Realized Gains (Losses)	Net Investment Income (Loss)
	($ in thousands)			
Net investment income (loss) by asset class:				
Term loan investments	$ 39,615	$ (44,069)	$ (11,982)	$ (16,436)
Fixed maturities - available for sale (1)	55,597	—	(86,809)	(31,212)
Short-term investments	3,676	192	224	4,092
Equities, fair value through net income	2,890	(5,697)	4,765	1,958
Other (2)	—	(9,572)	3,006	(6,566)
Management fees and other investment expenses	(10,039)	—	—	(10,039)
	$ 91,739	$ (59,146)	$ (90,796)	$ (58,203)

(1) Net realized gains (losses) from the fixed maturities available for sale portfolio consists of realized gains and realized losses of $3.1 million and $89.9 million, respectively. Realized losses include an allowance for expected credit losses on available for sale securities of $38.8 million for the year ended December 31, 2022.

(2) Other includes unrealized gains and unrealized losses for total return swaps.

	(Successor) Period From July 1, 2021 through December 31, 2021			
	Net Interest Income	Net Unrealized Gains (Losses)	Net Realized Gains (Losses)	Net Investment Income (Loss)
	($ in thousands)			
Net investment income (loss) by asset class:				
Term loan investments	$ 20,776	$ (2,378)	$ (174)	$ 18,224
Fixed maturities - available for sale (1)	20,355	—	(7,122)	13,233
Short-term investments	15	1	505	521
Equities, fair value through net income (2)	395	5,545	(4,963)	977
Other (3)	—	(358)	1,600	1,242
Management fees and other investment expenses	(7,368)	—	—	(7,368)
	$ 33,987	$ 2,810	$ (10,154)	$ 26,829

(1) Net realized gains (losses) from the fixed maturities available for sale portfolio consists of realized gains and realized losses of $1.2 million and $8.3 million, respectively. Realized losses include an allowance for expected credit losses on available for sale securities of $4.5 million for the period from July 1, 2021 through December 31, 2021.

(2) Net interest income includes dividends for securities held in long and short positions.

(3) Other includes unrealized gains and unrealized losses for total return swaps.

	(Predecessor)			
	Period From January 1, 2021 through June 30, 2021			
	Net Interest Income	Net Unrealized Gains (Losses)	Net Realized Gains (Losses)	Net Investment Income (Loss)
	($ in thousands)			
Net investment income (loss) by asset class:				
Term loan investments	$ 29,278	$ 35,168	$ (16,412)	$ 48,034
Fixed maturities - Fair value option	18,599	20,318	9,435	48,352
Fixed maturities - Available for sale (1)	5,191	—	2,614	7,805
Short-term investments	299	(100)	(71)	128
Equities (2)	236	4,800	110	5,146
Equities, fair value through net income (2)	66	19,846	(8,110)	11,802
Other (3)	—	1,637	1,826	3,463
Management fees and other investment expenses	(13,810)	—	—	(13,810)
Investment performance fees - related parties	—	—	—	(10,530)
	$ 39,859	$ 81,669	$ (10,608)	$ 100,390

(1) Net realized gains (losses) from the fixed maturities available for sale portfolio consists of realized gains and realized losses of $3.8 million and $1.2 million, respectively. Realized losses include an allowance for expected credit losses on available for sale securities of $0.1 million for the period from January 1, 2021 through June 30, 2021.

(2) Net interest income includes dividends for securities held in long and short positions.

(3) Other includes unrealized gains and unrealized losses for total return swaps.

Net investment loss was $58.2 million for the year ended December 31, 2022 compared to net investment income of $127.2 million in the prior year, a decrease of $185.4 million. For the year ended December 31, 2022, the net investment income return on average net assets was -2.4% as compared to 5.4% in the prior year.

Net investment loss for the year ended December 31, 2022 is contributed by net realized and unrealized losses of $149.9 million partially offset by net interest income of $91.7 million. The net interest income increased 24.3% from $73.8 million over the prior year reflected a gradual shift to shorter duration investments in a rising interest rate environment. In addition, we continue to shift our investment to higher rated investments in our non-investment grade portfolio.

Material Income & Expenses (figures provided are US GAAP)

The following table summarizes the Group's revenues and expenses for 2022 and 2021.

	(Successor) Year Ended December 31, 2022	(Successor) Period From July 1, 2021 through December 31, 2021	(Predecessor) Period From January 1, 2021 through June 30, 2021
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Any other material information

There is no other material information about the Group's business and performance that has not been included above.

SECTION B – OVERVIEW OF GROUP STRUCTURE AND BUSINESS

Board and Senior Executives

Somers maintains an effective system of governance, which provides for sound and prudent management of the integrated operations. Somers has designed its system of governance to achieve an adequately transparent organizational structure that has well-defined, clear, consistent and documented lines of responsibility across the Group, as well as ensuring personnel have the skills, knowledge and expertise necessary to properly discharge their assigned responsibilities. This allows Somers to establish and maintain processes to achieve effective internal reporting and communication of information at all relevant levels within the integrated operations.

Somers is managed under the direction of eight directors. The Board is responsible for ensuring that there is an appropriate business strategy, effective governance, appropriate financial resources and adequate internal controls. Reporting to the Board of Directors for SRL are the following committees:

1. Audit Committee
2. Investment Committee
3. Risk, Governance and Compliance Committee
4. Underwriting Committee

Each committee has a charter which identifies the scope, authority and responsibilities of the committee. The committees report to the SRL Board which in turn reports to the SGHL Board. There are no committees are the SGHL level.

Fitness and Propriety Requirements

The Board identifies individuals qualified to become Board members and recommends to the Board the nominees for directorship. All prospective employees undergo a diligence and interview process by members of the Somers executive management team. In addition, new C-suite hires require approval by the Board. An annual performance management process is undertaken in accordance with established policies approved by the Board.

The composition of the Board is consistent at both the Group and SRL level. Board and senior executives are outlined below:

Board

Maamoun Rajeh, Director.

Maamoun Rajeh is the Chairman and Chief Executive Officer of Arch Worldwide Reinsurance Group. Previously, he was the Chairman and Chief Executive Officer of Arch Reinsurance Ltd., a position he held beginning in July 2014. Maamoun joined Arch Reinsurance Ltd. in 2001 as an underwriter and was ultimately promoted to Chief Underwriting Officer in November 2005. While maintaining that role, he also served as President and Chief Executive Officer of Arch Reinsurance Europe from October 2012 to July 2014. Prior to Arch, Maamoun served as Assistant Vice President at HartRe, a subsidiary of The Hartford Financial Services Group, Inc. and as an underwriter at F&G Re. Maamoun has a B.S. from The Wharton School of Business of the University of Pennsylvania.

We believe Mr. Rajeh's qualifications to serve on our board of directors include his many years of executive-level reinsurance industry leadership and his deep reinsurance industry underwriting experience.

Nicolas Papadopoulo, Director.

Nicolas Papadopoulo is the President and Chief Underwriting Officer of Arch Capital Group Ltd. and Chief Executive Officer of Arch Worldwide Insurance Group. From July 2014 to September 2017, he served as the Chief Executive Officer of Arch Reinsurance Group at Arch. He also serves as a member of Arch's Executive Strategy Committee. From November 2005 to July 2014, he served as President and Chief Executive Officer of Arch Reinsurance Ltd. From October 2004 to November 2005, Nicolas served as Chief Underwriting Officer of Arch Reinsurance Ltd. He joined Arch Reinsurance Ltd. in December 2001 as a Senior Property Underwriter.

Prior to his time at Arch, and commencing in 1990, Nicolas held various positions at Sorema N.A. Reinsurance Group, a subsidiary of Groupama, including Executive Vice President, and held the role of Chief Underwriting Officer beginning in 1997. Prior to 1990, Nicolas was an insurance examiner with the Ministry of Finance, Insurance Department, in France.

Nicolas graduated from École Polytechnique in France and École Nationale de la Statistique et de l'Administration Economique in France with a master's degree in statistics. He is also a member of the International Actuarial Association and a Fellow at the French Actuarial Society.

Somers believes Mr. Papadopoulo's qualifications to serve on Somers' board of directors include his many years of executive-level reinsurance industry leadership, his deep insurance and reinsurance industry underwriting experience, as well as his actuarial expertise.

Jerome Halgan, Director.

Mr. Halgan was appointed Chief Executive Officer of Arch Reinsurance Ltd. in January 2018. He joined Arch in 2009 as Senior Underwriter with Arch Reinsurance Ltd. in Bermuda before being promoted to Chief Underwriting Officer in June 2012. Jerome was then President of Arch Reinsurance Company in August 2014, a position he held until January 2016. He was then named Chairman, President and Chief Executive Officer of Arch Reinsurance Company before assuming his current role. Prior to Arch, Jerome worked with the Berkshire Hathaway Reinsurance Group as Vice President from 2001 to 2009 and with Sorema N.A. Reinsurance Group from 1996 to 2001 with responsibilities within property underwriting and business analysis. Jerome holds a Master of Business Administration from the NYU Stern School of Business and an engineering degree from the École Supérieure d'Électricité in France.

We believe Mr. Halgan's qualifications to serve on our board of directors include his many years of executive-level reinsurance industry leadership and his deep reinsurance industry underwriting experience.

Steve Dutton, Director

Mr. Dutton is an Investment Partner at Kelso. Steve joined Kelso in 2006 and spent the preceding two years in the investment banking division of Bear Stearns & Co. Inc.

Steve is primarily focused on investments in the financial services and services sectors. He is currently a director of American Beacon, J.S. Held, Newport Group, Premia Re and Risk Strategies. He was also formerly a director of Oasis Outsourcing. Steve was also active in Kelso's past investments in Third Point Re, Harbor Community Bank, PSAV, Sandler O'Neill + Partners and Wilton Re.

Steve received a B.S. in Commerce with Distinction from the McIntire School of Commerce at the University of Virginia in 2004. He is currently a member of the Advisory Board of Champions for Quality Education, a New York-based non-profit organization.

We believe Mr. Dutton's qualifications to serve on our board of directors include his many years of investment and company management and his familiarity with the Bermuda market.

Chris Collins, Director

Mr. Collins is an Investment Partner with Kelso and a member of Kelso's Management Committee. Chris joined Kelso in 2001 and was also previously an Analyst at Stonington Partners for three years.

Chris leads Kelso's financial services practice and also focuses on investments in the services sector. He is currently a director of American Beacon, Augusta Sportswear, J.S. Held, Newport Group, Premia Re, Renfro and Risk Strategies. Past directorships include Cronos, Harbor Community Bank, Oasis Outsourcing, Oceana Therapeutics, PSAV and Wilton Re. Chris was also active in Kelso's past investments, including Eagle Bulk Shipping, Overwatch Systems and Sandler O'Neill + Partners.

Chris received an M.B.A. from the Stanford Graduate School of Business in 2001 and received a B.A. in English with honors from Duke University in 1996. He is currently a Trustee of the Brunswick School in Greenwich and a member of the Board of Trustees of Greenwich Youth Lacrosse.

We believe Mr. Collins' qualifications to serve on our board of directors include his many years of investment and company management and his familiarity with the Bermuda market.

Michael Thompson, Director

Mr. Thompson is a Managing Director with Warburg Pincus and based in London. He joined Warburg Pincus in 2019 and focuses on special situations investments in the financial services sector. Prior to joining Warburg Pincus, Michael was a Managing Director at Och-Ziff Capital in the Private Investments Group investing across the capital structure in opportunistic credit and equity investments across private and public markets. Previously, Michael worked in Leveraged Finance and Mergers & Acquisitions roles at Merrill Lynch in London. He holds a B.A. in Economics from the University of Manchester and a M.A. in Corporate Strategy and Governance from the Nottingham University Business School.

We believe Mr. Thompson's qualifications to serve on our board of directors include his deep management and investment experience, and his expertise in financial services.

Nick Lee, Director

Mr. Lee is a Vice President with Warburg Pincus. Nick is based in London and joined Warburg Pincus in 2019. He focuses on financial services and special situations investments. Prior to joining Warburg Pincus, Nick worked in Apollo Global Management's Principal Finance Group and Gleacher Shacklock's Restructuring Group. He holds a B.A. in Economics from the University of Cambridge.

We believe Mr. Lee is appropriately qualified to serve on our board of directors.

Thomas Miller

Mr. Miller is an independent, non-executive director. Mr. Miller retired from PricewaterhouseCoopers Bermuda in 2016, having been with the firm since 1984. He became a partner of Coopers & Lybrand in 1991 and was managing partner of the firm at the time of the merger with Price Waterhouse in 1998 and was joint managing partner of the merged PwC firm until 2003. He served a wide variety of international clients, primarily financial services and specifically insurance and reinsurance companies. Mr. Miller obtained his professional designation as a Chartered Accountant in 1981. He received his Bachelor of Commerce from Queen's University, Kingston Ontario, and holds the professional designation of FCPA.

Mr. Miller lives in Bermuda and has a long history of community involvement serving on the boards of a number of organisations over the last 30 years including: Bermuda Government's Audit Committee, The Bermuda Institute of Chartered Accountants, Past Commodore of Royal Bermuda Yacht Club and Committees of the America's Cup in Bermuda.

Mr. Miller previously served on the Watford Re Ltd and Watford Holdings Ltd. boards.

Senior Executives

Liz Cunningham, Chief Executive Officer. Ms. Cunningham has served as Chief Executive Officer since November 2021, after previously serving in the role of Chief Risk Officer for Watford (joined in January 2020). Ms. Cunningham has 20 years of experience in the insurance and reinsurance industry, with a focus on risk management. From 2016 to 2019 she served as the Chief Risk Officer for Nautilus Indemnity Holdings Ltd. and its subsidiaries. Prior to joining Nautilus, Ms. Cunningham was a partner at Deloitte and led the Actuarial, Risk and Analytics practice across Bermuda and the Caribbean region. Ms. Cunningham provided actuarial, risk and consulting services to insurance and reinsurance clients writing property, casualty and specialty coverages across the globe. From 2006 to 2009, Ms. Cunningham worked as a Financial Risk Manager in the Insurance & Investments division of Scottish Widows, part of Lloyds Banking Group in the U.K. She started her career in 2003 as an actuarial consultant with PwC. Ms. Cunningham holds a Bachelor of Science (Honours) in Actuarial Mathematics and Statistics from Heriot Watt University and a MBA from Edinburgh Business School. She is a Fellow of the Institute and Faculty of Actuaries (U.K.) and a Chartered Enterprise Risk Actuary.

Sioned Butler, Chief Financial Officer. Ms. Butler originally joined Watford in June 2017 as Financial Controller. She has served as Chief Financial Officer since November 2021. She has over 15 years of experience in public accounting and reinsurance. From 2010 to 2017, she was a Senior Manager at KPMG in Bermuda providing audit and advisory services to insurance and reinsurance clients. Sioned is a Chartered Professional Accountant, Chartered Accountant and a Fellow of the Institute of Chartered Accountants in England and Wales (U.K.). She holds a Master of Engineering (with Honors) in Civil and Environmental Engineering from Cardiff University.

Cherry Chung, Head of Risk. Ms. Chung joined in January 2022 as Head of Risk. She has 20 years of international insurance and reinsurance experience specializing in capital modelling. From 2014 to 2022, she worked in the actuarial team at Oil Management Services Ltd. which services insurance companies in Bermuda. Prior to relocating to Bermuda, she worked at Talbot Underwriting Ltd., Allianz Global Corporate & Specialty and the Financial Service Authority in the United Kingdom. She commenced her actuarial career in 2001 as a consultant in Toronto. Cherry is an Associate in Risk Management (ARM), an Associate in Reinsurance (ARe) and holds a Bachelor of Mathematics (Honors) majoring in Actuarial Science with a minor in Statistics from University of Waterloo in Canada.

Remuneration

When Somers established its remuneration programs, consideration was given to whether such programs align the interests of Somers' directors and officers with those of Somers' shareholders and whether such programs encourage unnecessary or excessive risk taking. Annual cash bonus awards focus on achievement of annual goals as well as both corporate performance measures and the executive officer's individual performance and are at the discretion of the Board. Somers believes its compensation philosophy and programs encourage employees to strive to achieve both short- and long-term goals that are important to Somers' success and building shareholder value, without promoting unnecessary or excessive risk taking. Somers reviews its compensation policies and practices periodically to determine whether such policies and practices are appropriate in light of Somers' risk management objectives.

Directors

The Group paid cash retainers to our independent director for his service as a member of the Board of Directors and as Chair of the Audit Committee for the period ended 31 December 2022. Somers did not pay any cash or equity compensation to the non-independent directors.

All directors were reimbursed for reasonable out-of-pocket expenses incurred for their service as members of the Board of Directors and any committees of the Board of Directors.

Executives

For the year ended 31 December 2022, Somers' executive officers were paid a base salary, an annual performance-based bonus which varies with the individuals' performance, and pension and other benefits.

Somers offers a retirement plan to all employees (including our named executive officers) for retirement savings. The plan qualifies under both the IRS regulations related to 401(k) plans for employees who are U.S. taxpayers and under the Bermuda pension regulations for non-U.S. employees. Under this plan, employees are allowed to defer and invest up to 100% of their cash earnings, subject to the maximum 401(k) contribution amount (which, in 2022, was $20,500 for those under 50 years of age and $27,000 for those 50 years of age or older). Contributions can be invested in a diversified selection of mutual funds.

Material transactions with shareholder controllers

Arch Reinsurance Ltd. ("ARL") and other ACGL subsidiaries and affiliates are party to certain quota share agreements with one or more of Somers' operating subsidiaries.

In addition, SGHL has a long-term services agreement with Arch Investment Management Ltd ("AIM") to manage a portion of our investment grade portfolio. Other long-term service agreements exist with other ACGL subsidiaries and affiliates under which services relating to the management of the underwriting portfolio are performed.

Risk Management and Solvency Self-Assessment

The following narrative provides an overview of the Group's Risk Management Framework ("Framework"), which describes the Group's methodology for identifying, measuring, and reporting on the key risks affecting Somers. It outlines our approach to risk identification and assessment, and how risk management is implemented and integrated into the organizational structure of the business.

Description of Risk Management Process

Somers has developed its Framework and Risk Register to identify and assess the material risks faced by the Group. Somers has produced an enterprise-wide risk assessment which details all of the significant risks facing the Group. This risk assessment was performed at the highest levels of the Group and involved input from the Board and senior management.

Somers’ Framework and Risk Register lists the risks faced by Somers, as well as current and planned controls being implemented. The Framework documents Somers’ Corporate Governance, Risk Management, and material risks.

The Risk Register has been developed to identify and assess the material risks faced by Somers in more granular detail than the Framework. This register contains the following:

- The Board or Committee ultimately responsible for the risk
- The Risk Owner for each Risk
- A list of monitoring procedures for each risk, if applicable
- A list of mitigation procedures for each risk, if applicable
- A list of risk control procedures for each risk, if applicable

The rating of each risk is derived from an assessment of likelihood and impact. This assessment is made at both an inherent level and after consideration of Somers’ control environment, including mitigation techniques and controls in place at service providers.

The Risk Register is a key input into the risk management regime, and any material changes in the underlying risks will be modelled for potential impact upon Somers’ capital requirements. Such changes include, but are not limited to, changes in business mix, strategy and investment policy and investment performance. The rating of risks is considered by management on at least an annual basis and the rating for the most significant risks is reviewed by the Group’s Risk, Governance and Compliance Committee and presented to the Board of Directors.

The controls identified in the Risk Register to monitor, mitigate and control the risks facing Somers are reviewed for continued relevance and documented in the process documents for each function. Compliance with the components of these controls is verified via the ongoing management reviews and Internal Audit reviews undertaken at Somers. This is undertaken on a group-wide basis and any issues are reported to the Somers board.

The Board of Directors have reviewed and approved the Risk Register. Working with the Board, Somers has established Risk Appetites for each material risk. Somers has put into place procedures for risk measurement, mitigation, and controls, as well as monitoring compliance with the Board’s set Risk Appetite.

<u>Implementation and Integration of Solvency Self-Assessment</u>
Somers has built business processes that provide a forward looking analysis of our risks and capital management. Somers analyzes its exposure to adverse underwriting and investment scenarios on a regular basis. These tests help Somers quantify the magnitude of capital required under stressed scenarios.

Somers’ Solvency Self-Assessment process includes:

- A quarterly estimate of single name concentrations within the underwriting portfolio, a quarterly estimate of the PMLs, quarterly estimates of Underwriting Stress scenarios, as well as annual estimates of various Lloyd’s Realistic Disaster Scenarios (“RDS”).
- Stress tests of it its investment portfolio under historical and hypothetical periods of investment market turmoil, and the effects on Somers’ liquidity position.

- An annual planning analysis of our underwriting and investment activities, with quarterly monitoring and reforecasts presented to the Board. Somers has utilized the internal models calibrated to rating agency and regulatory requirements as part of our assessment of the capital requirements of our proposed business plans, and measures its projected forward looking capital adequacy and liquidity position in historical and hypothetical stressed scenarios.

Somers' annual business plan is prepared by the Group's senior management and is approved by the Board of Directors after review of the results of these solvency assessments.

The amount of capital required to cover our material risks is assessed through regulatory capital requirements, rating agency models, internally developed stress tests, internally developed default and recovery analysis for our credit investments, internally developed liquidity models and stress tests, and underwriting realistic disaster scenarios.

The risk management framework is designed to help Somers set a coherent risk management strategy and to enhance the likelihood of meeting its strategy. This framework has therefore been designed with the following objectives:

- Identify all significant risks assumed by Somers through its business, internal processes and relevant external environment.
- Measure identified risks on a consistent basis.
- Establish a set of responses to manage risks within the stated risk appetite and tolerances.
- Establish the principles by which Somers can evaluate the risk/reward trade-offs associated with key strategic and tactical decisions.
- Ensure return on capital goals are met through the efficient use and allocation of capital.
- Provide a regular assessment of Somers' solvency and liquidity through the use of quantitative metrics, including stress and scenario testing.

Internal Controls

Somers maintains an effective internal control system, which includes administrative and accounting procedures, an internal control framework, appropriate reporting arrangements and a compliance function.

The Board is responsible for monitoring the establishment and maintenance of the system of controls used to assess and manage exposure to all areas of risk. The objectives of these controls are to ensure that Somers' risk strategy is maintained and risk remains within the appetite and tolerances approved by the Board.

As part of Somers' business model, many of the day-to-day operations are outsourced to third party service providers and the internal control environment has been structured to appropriately address the risks related to this business model. For more detail on the services outsourced, refer to the Outsourcing section below. All relevant controls in place at Somers' outsourced service providers have been included in Somers' Risk and Control Matrices to provide management oversight of all activities. Somers places reliance on controls that exist at the relevant third party providers and as such relies heavily on the internal audit function described below to review controls performed at these entities and perform on-site visits as required.

Somers' Compliance Function is led by our Chief Financial Officer. The function has established a compliance program to ensure compliance with all relevant laws, legislation, regulations and guidance. Somers' Compliance Function assists the Board in achieving its overall strategic objectives by promoting a culture of integrity, ethical conduct and compliance with the laws, regulations and administrative provisions that affect Somers. The compliance function also is responsible for the ongoing assessment of any possible impact of changes in the legal environment on our operations and for the identification and assessment of Legal / Litigation risk and for monitoring adherence to certain elements of the risk management framework and reporting thereon to the appropriate forums.

The Board has approved the establishment of a compliance and ethics program to ensure that all companies within the group promote an organizational culture that encourages the highest standards of ethical business conduct and compliance with the Group's Code of Business Conduct, policy statements and any laws and regulations which govern the Group's business activities (collectively referred to as the "Compliance Program"). The Compliance Program is intended to ensure that all companies within the Group exercise appropriate due diligence to prevent conduct which is in violation of its Compliance Program, thereby protecting the Group's reputation and good name.

The requirements of the Compliance Program apply to all employees, officers and directors of the Group and, where appropriate, to agents of the Group.

Internal Audit

The Group has outsourced its Internal Audit function to a third party who, along with their internal processes to ensure independence from the Group, has direct access to the Audit Committee, agree the audit plan with the Audit Committee, and provide findings reports from each audit for discussion at the Audit Committee. Internal Audit's primary objective is to work with management to identify and address risks relating to processes integral to the achievement of business objectives. The function serves as an independent and objective source of appraisal and assurance within Somers to support management, the Audit Committee and the Board of Directors in discharging their responsibilities. The Internal Audit function has direct and frequent communication with the Audit Committee where any issues identified are raised.

Internal Audit also assists management, the Audit Committee and the Board of Directors in evaluating the appropriateness and effectiveness of business processes, internal controls and the governance and risk management functions. Internal Audit also identifies process improvements, including those resulting from a changing operating environment and will make recommendations to management.

Internal Audit performs special examinations at the request of management, the Board and the Audit Committee.

Internal Audit performs a risk assessment on an annual basis to ensure that its work is focused on the key risks and how effectively management mitigates or manages these risks. Internal Audit evaluates all significant functions and bases its Annual Plan on a risk-based approach. As such, Internal Audit has sufficient knowledge and experience to provide insight into the effectiveness of the risk management system and is a key input into the system of internal control.

The Board of Directors has final responsibility, with delegation to the Audit Committee in the areas noted above. In respect of compliance with stated risk tolerances, the risk management function has responsibility for the identification and reporting of non-compliance, with much of the detailed work to review the effectiveness of risk controls delegated to the internal audit function, as well as through the reporting by the compliance function at key service providers.

Identification of risks as they relate to compliance with jurisdictional laws, regulations, policies and procedures, together with the appropriateness of the response to any risks identified, is a responsibility of the Chief Executive Officer with support from various legal teams (both within Arch, Kelso and Warburg Pincus and external).

Actuarial Function

The Somers Actuarial function is responsible for:

- Performing loss liability estimates, including assessing the quality of underlying data
- Assisting in the execution of the risk management framework
- Performing actuarial pricing analyses on assumed underwriting risks
- Provide support of financial information to the regulatory authorities

The day-to-day activities of the Actuarial Function is split between Somers and Arch as outlined in the Services Agreements. As part of the underwriting process, Arch actuaries are involved in the pricing of individual contracts. Procedures and controls surrounding these pricing mechanisms at Arch are reviewed by Somers CEO.

Also, as part of the Service Agreements, Arch actuaries provide loss and LAE liability reserve recommendations on a contract by contract basis. These reserve recommendations are derived from the same policies and procedures that Arch utilizes for its own portfolio. Somers Management (CEO, CFO, and Head of Risk) discuss and review the reserve recommendations with the Arch actuaries and underwriters.

Further, Somers has employed an external third party actuarial firm to provide an independent loss reserve review and serve as the appointed loss reserve specialist for annual regulatory filings in Bermuda and the United States. The loss reserve specialist is responsible for providing a professional opinion on the reasonableness (or adequacy[1]) of the carried reserves.

Ultimate responsibility and oversight of the Actuarial Function is assumed by Somers management and both the CEO and Head of Risk have actuarial experience.

The Actuarial Function is comprised of experienced individuals with in-depth knowledge of, and professional qualifications, in actuarial and financial mathematics. The Actuarial Function is structured appropriately given the nature, scale and complexity of the risks inherent in the Group's operations. This allows Somers to have a robust process for setting loss reserves, leveraging the established processes and procedures employed by Arch, making our own analyses and judgments, and through periodic reviews by external actuarial firms.

Outsourcing

Somers maintains a lean management team, and works closely with outsourced service providers to achieve our strategic goals. We outsource significant elements of our business to third party service providers. Key outsourced services include the following:

- Investment management services
- Investment accounting services

[1] The exact structure of the opinion as defined by local regulations.

- Underwriting management services
- Internal Audit
- Loss Reserve Specialist (as discussed above)

For our underwriting operations, Arch provides underwriting services including sourcing and evaluating underwriting opportunities, claims-handling, loss control, exposure management, portfolio management and modeling, as well as statistical, actuarial, and administrative support services, in each case, subject to Somers' underwriting and operational guidelines and the oversight of Somers' senior management and Board of Directors.

Regarding our investments, Somers has engaged five investment managers in managing the investment portfolios across the group.

Our investment grade portfolio and cash collateral accounts have been managed primarily by Arch Investment Management ("AIM").

All investment managers are subject to investment guidelines which have been mutually agreed and the oversight of the Somers' senior management and Board of Directors.

Somers outsources these functions in order to cost-effectively leverage the expertise and strong market positions of these trusted partners. Through Somers' association with Arch, we benefit from Arch's worldwide platform on a variable cost basis, thus avoiding the fixed expense of maintaining a multi-line platform for our underwriting operations. Similarly, we believe that the structure of the compensation we pay to AIM and other investment managers provide benefits to us both in terms of cost-effective access to the expertise required to execute our investment strategy and in aligning interests. Investment accounting services are performed by BlackRock.

Management ensures that any outsourced responsibilities are delegated and managed appropriately, with ultimate responsibility resting with the Somers Board.

Somers Internal Audit performs reviews of these controls on an ad-hoc basis to confirm that outsourced providers are acting as expected.

Any other material information

There is no other material information in regards to the Group's governance structure that has not been included above.

SECTION C – RISK PROFILE

Overview

Somers' risk appetite framework provides an expression of the level of risk the Group is willing to accept in pursuit of its strategic objectives. The risk appetite framework provides quantitative and qualitative statements which are used to define the general attitude within the organization towards the desired level of risk. It not only supports the Group's risk management framework, it also enables us to make informed business decisions having regard to the key risks to which it may be exposed by such a decision.

Underwriting Risk

Underwriting Risk comprises Pricing Risk, Reserve Risk and Catastrophe Risk and manifests itself as the risk of loss, or adverse change in the value of insurance liabilities, due to inadequate pricing and/or loss-provisioning assumptions.

Pricing Risk is defined as the risk that premiums plus any investment income earned thereon are not sufficient to cover losses when they come due in the future. If a contract is incorrectly priced at inception, then the total amount of revenue Somers ultimately collects related to that contract may not be sufficient to cover emerging claims.

Reserving Risk is defined as the risk that loss reserves set aside by Somers in respect of insurance claims (whether actual reported or potential future claims) will not be sufficient to fully cover the ultimate claim amounts, and includes the risk of loss from the uncertainty around the timing of the claims payments.

Catastrophic Risk is the risk of loss from infrequent, high-severity claims from natural or man-made disasters.

Somers understands the importance of proper pricing controls, risk selection, exposure monitoring and claims management in order reduce the underwriting risk to an acceptable level.

The Underwriting Committee and the Board retain overall responsibility to maintain adequate, sound and appropriate risk management processes and internal control mechanisms for the purpose of assessing and managing exposure to Underwriting Risk. The Board has delegated oversight of underwriting risk controls and day-to-day management of these risk controls to Arch. The Risk Function has been assigned the responsibility of monitoring Underwriting Risk.

The Group measures, manages, and reports on its Underwriting Risk in the following ways:

- Arch employs its established underwriting, pricing, and risk management procedures for the Somers portfolio on the same basis as it does for its own portfolio
- Somers and Arch have agreed a set of guidelines ("Underwriting Guidelines") pursuant to which Underwriting Risk is to be managed. The Underwriting Guidelines are monitored and reviewed to ensure compliance with Somers' objectives and risk tolerances set out therein
- As part of the Services Agreement between Arch and Somers, there is regular reporting of individual bound contracts, Probable Maximum Losses for Property Catastrophe Exposures, Realistic Disaster Scenarios, and other data points.
- The Group conducts quarterly loss liability reviews reflecting the input from the Arch reserving process, our 3rd party actuarial firm, as well as our own analyses

- The Group measures and monitors the underwriting results utilizing its own procedures including risk aggregation, Somers specific underwriting stressed scenarios, and actual performance relative to expectations

Somers Internal Audit conducts periodic reviews and tests the controls in place at Arch and Somers in order to confirm their operational effectiveness. Somers management also maintains detailed Risk and Control Matrices to identify the population of controls in place at Arch and Somers.

Market Risk

Market risk manifests itself as the risk of investment returns being lower than Somers' investment return targets, either through reduced market valuations of the investment assets or reduced income/yield from our investments, or a combination of the two factors, which is known as "total return". Ultimately, a failure of the total return from our investment portfolio might result in the inability to pay claims to policyholders. An assumed level of investment total return is a meaningful component in the original pricing of each contract and in the estimation of the level of loss reserves necessary to cover expected future losses. A shortfall in investment return (versus expectations) would have an adverse effect on Somers' results and potentially its ability to meet its obligations when they become due.

The Investment Committee and the Board retain overall responsibility to maintain adequate, sound and appropriate risk management processes and internal control mechanisms for the purpose of assessing and managing exposure to Market Risk. The Board has delegated oversight of Market risk controls and day-to-day management of these risk controls to the relevant investment managers per investment management agreements. The Risk Function has been assigned the responsibility of monitoring Market Risk.

The Group measures, manages, and reports on its Market Risk in the following ways:

- Somers and its Investment Managers have agreed a set of guidelines ("Investment Guidelines") pursuant to which Market Risk is to be managed. The Investment Guidelines are regularly monitored and reviewed seeking to ensure compliance with Somers' investment objectives and risk tolerances set out therein.
- Somers' Investment Manager's employ their own established risk management procedures on the behalf of the Somers portfolio
- There is regular reporting to Somers by its Investment Managers on the performance, material positions and risk profile of the portfolios
- The Group regularly measures and monitors its Market Risk across the enterprise including stress testing its market, credit, and liquidity risk as it relates to its investments

Somers Internal Audit reviews and tests the controls in place at Somers in order to confirm their operational effectiveness. Somers management also maintains detailed Risk and Control Matrices to identify the population of controls in place at Somers.

Liquidity Risk

Liquidity Risk is the risk that Somers is unable to liquidate/sell investments at or near market value in a timely fashion in order to settle financial obligations as they come due. Somers views its liquidity risk across four dimensions:

- Funding Liquidity Risk – the risk that Somers will be unable to meet cash, asset, margin, and collateral requirements of counterparties
- Asset Liquidity Risk – the risk that Somers will not be able to execute a transaction at the prevailing market price because there is temporarily no demand for the deal
- Market Risk – the risk that changes in financial market prices and rates will reduce the value of an asset or liability
- Reserve Risk – Reserving risk is defined as the risk that reserves set in financial statements in respect of insurance claims are not sufficient to fully cover the claim amounts, and includes the risk of loss from the uncertainty around the timing of the claims payments

The Risk, Governance and Compliance Committee and the Board retain overall responsibility to maintain adequate, sound and appropriate risk management processes and internal control mechanisms for the purpose of assessing and managing exposure to Liquidity Risk. The Board has delegated oversight of the risk controls and day-to-day management of these risk controls to the investment managers. The Risk Function has been assigned the responsibility of monitoring Liquidity Risk.

As part of its risk management program, Somers assesses its liquidity position as it relates to assets, liabilities, and collateral on a regular basis.

Credit Risk

Somers considers Credit Risk in terms of the risk of default of insureds/reinsurers and reinsurance intermediaries. Any change in the credit standing of Somers' insureds and reinsurers potentially affects the value of premiums receivable and reinsurance recoverable. As such Credit Risk relates to the risk of loss, or adverse change in financial condition, resulting from fluctuations in the credit standing of insureds and reinsurers.

In addition, the risk of default (credit risk) of individual investments is an investment credit risk to which Somers is subject. Credit risk can arise from borrowers suffering business or financial stress, from increased debt service costs due to rising interest rates and many other factors which eventually leads to obligator defaults or company failure.

The Risk, Governance and Compliance Committee and the Board retain overall responsibility to maintain adequate, sound and appropriate risk management processes and internal control mechanisms for the purpose of assessing and managing exposure to Credit Risk. The Board has delegated oversight of the risk controls and day-to-day management of these risk controls to Arch. The Risk Function has been assigned the responsibility of monitoring Credit Risk.

As part of the service agreement between Arch and Somers, Arch provides administrative services for the direct business, retroceded business from Arch entities, and any outward reinsurance purchased by Somers. A key monitoring procedure performed by Arch with respect to credit risk is an aged receivable report, which measures and tracks the magnitude and age of outstanding balances due to Somers by its cedants. In addition, Somers monitors its own outward reinsurance recoverable.

At 31 December 2022 the majority of reinsurance recoverables for paid and unpaid losses were due from entities with a rating of A- or better from A.M. Best Company.

Operational Risk

Operational Risk presents itself as the risk of a loss from inadequate or failed internal processes, or from personnel and systems, or from external events. Somers also includes in Operational Risk the risk of loss resulting from failure to comply with laws as well as prudent ethical standards and contractual obligations. It also includes the exposure to litigation from all aspects of business activities.

The Risk, Governance and Compliance Committee and the Board retain overall responsibility to maintain adequate, sound and appropriate risk management processes and internal control mechanisms for the purpose of assessing and managing exposure to Operational Risk. The Risk Function has been assigned the responsibility of monitoring Operational Risk.

Key business and systems processes are documented by Somers to confirm understanding. These processes include procedures around Human Resources, Business Processes, Information Systems, Fraud, and Insurance Distribution.

Reputational Risk

We view Reputational Risk across four dimensions:

- Internal Reputational Risk – the Group suffers adverse impact due to negative publicity or perception of the Group due to its own acts
- Service Provider Reputational Risk – the Group suffers adverse impact due to negative publicity, perception, of its material business partners
- Rating Agency Risk – the Group fails to understand the rating methodologies, does not execute its business plan, or otherwise fails to mitigate a risk in another area resulting in a negative watch or downgrade
- Regulatory Risk – the Group fails to understand and comply with the legislative requirements or otherwise fails to mitigate a risk in another area resulting in a loss of its insurance license.

In attempting to manage reputational risk, the Risk Management Framework has been established to ensure that adverse impacts on Somers' reputation or credibility are appropriately monitored, controlled and mitigated.

Through our Risk Management process, we seek to avoid harming our brand and market credibility, our rating agency relationships, and our regulatory relationships at group and entity levels, including ensuring each entity maintains appropriate levels of capital and liquidity to operate as a standalone entity.

The CEO and the Board are responsible for managing the firm's reputational risk. The Audit and Risk, Governance and Compliance Committee and the Board retain overall responsibility to maintain adequate, sound and appropriate risk management processes and internal control mechanisms for the purpose of assessing and managing exposure to Reputational Risk.

Somers has regularly scheduled calls with rating agencies, regularly scheduled meetings with its Regulatory Authorities, and regularly scheduled meetings with its material service providers.

Strategic Risk

Strategic Risk arises when strategic business decisions prove to be incorrect or badly executed. The most common situations giving rise to a strategic risk are expansion into new markets/business lines, M&A, changes in operating model or failing to respond to market changes.

The Group measures, manages, and reports on its Strategic Risk in the following ways:

- We maintain appropriate processes to assess and identify potential strategic risks.
- New projects, including new lines of business, new markets, or rate changes, are thoroughly investigated by the business first line.
- Appropriate governance structures exist in order to ensure any strategic initiatives are reviewed and challenged at all levels throughout the business, including executive management and the Board.
- Where necessary, specialists are engaged (either from within the Somers or Arch groups or external) in order to manage and oversee any critical change initiatives.

The CEO and the Board are responsible for managing the firm's Strategic Risk. The Audit and Risk, Governance and Compliance Committee and the Board retain overall responsibility to maintain adequate, sound and appropriate risk management processes and internal control mechanisms for the purpose of overseeing strategic decision making and change management.

Sustainability Risk

Sustainability Risk relates to environmental (including climate change), social and governance issues which can affect Somers' business. We consider material environmental and social risks and opportunities across five key impact areas - Business, Operations, Investments, People and Communities.

The Group is committed to improving our understanding of the short- and long-term implications of climate change to our business and the global economy. We continuously monitor regulatory requirements and mandates related to climate -related issues.

We conduct regular reviews on emerging risks. We embed compliance, data protection and resiliency considerations across all areas of our operations. Partnering with Arch provides Somers access to wider sustainability initiatives. ESG considerations are integrated in underwriting across underwriting units.

The Risk, Governance and Compliance Committee and the Board retain overall responsibility to maintain adequate, sound and appropriate risk management processes and internal control mechanisms for the purpose of assessing and managing exposure to Sustainability Risk. The Risk Function has been assigned the responsibility of monitoring Sustainability Risk in all areas mentioned above.

Risk Mitigation in the Organization

Somers has developed a number of mitigation actions as discussed under each risk identified above. Mitigation strategies include the oversight of strategic partners in Somers' outsourced business model and rigorous review of the compliance with agreed guidelines. Somers' internal audit function will also review controls and escalate issues to the Audit Committee as required.

Material Risk Concentrations

Under Somers' internal underwriting policy, it is required that management ensures there is not excessive exposure to risk concentrations. In conjunction with the contract reviews, the Risk Function collates and maintains data sufficient to assess the common risk drivers and monitor concentrations of risk. The Risk Management Report also contains a summary of the portfolio against the concentration limits and recommendations for any actions to be taken. Concentration limits in respect of the underwriting portfolio include limiting Somers' occurrence Probable Maximum Loss ("PML") from a property catastrophe by region and other single man-made disaster scenarios to a maximum of 25% of capital.

It is also possible for material risk concentrations to arise in investment portfolios without proper mitigation and oversight. In order to reduce these, Somers limits single-name investment aggregations.

Investment in Assets in Accordance With the Prudent Person Principles of the Code of Conduct

The investment guidelines are monitored and reviewed continuously to ensure compliance with the investment objectives and risk tolerances outlined therein.

In all cases, Somers invest assets in accordance with the Prudent Person Principle. That is, the Board must discharge its duties with the care, skill, prudence and diligence that a prudent person acting in a similar capacity would use in the conduct of an enterprise of similar character and objectives.

Stress Testing

Somers analyzes its exposure to adverse underwriting and investment scenarios on a regular basis. These tests help Somers quantify the magnitude of capital required under stressed scenarios. Our Risk Management processes include estimates of single name concentrations within the underwriting portfolio, estimates of the PMLs, and estimates of Somers specific underwriting stressed scenarios. For investments, stress tests are performed on the results of the capital models on the pro-forma Group utilizing our budgeting analysis to ensure that risk in the investment portfolio is within internal tolerances. These stress tests focus on mark-to-market volatility in the investment portfolio. Additionally, we stress test our investment portfolio by estimating the valuation under both historical and hypothetical periods of investment market turmoil. These stress tests are presented to the Board on a regular basis. The results of our capital planning and stress scenario tests are important components of our management process.

Based upon these stress tests, the Group believes that it has sufficient capital and liquidity to comply with the contractual obligations of the organization and regulatory requirements upon experiencing losses within its risk tolerances.

Any other material information

There is no other material information in regards to the Group's risk profile that has not been included above.

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

The Group has used the valuation principles outlined by Bermuda Monetary Authority'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 Group uses its investment managers and/or pricing services to prepare inputs to assist the Group with mark to model valuations.

Equities and investment funds - includes 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.

Derivative instruments- are valued at quoted market prices. In the absence of an active market, prices are based on observable market inputs.

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 a risk-free discount rate term structure with an appropriate illiquidity adjustment. In addition, there is a risk margin to reflect the uncertainty contained inherent in the underlying cash flows which is calculated using the cost of capital approach and a risk-free discount rate term structure. The discount rate term structures are prescribed by the Bermuda Monetary Authority for each reporting period.

The best estimate for the loss and loss expense provision is calculated by using United States Generally Accepted Accounting Principles (US GAAP) reserves as the starting point and then performing a series of adjustments:

- Removal of prudence margins
- Incorporation of expected reinsurance counterparty defaults
- Incorporation of events not in data (ENID)
- Other adjustments related to consideration for investment expenses.
- Discounting of cash flows

The best estimate for the premium provision is calculated by using the unearned premium reserve on a US GAAP basis, adjusting for bound but not incepted business as at 31 December 2022 and applying expected future loss ratios, expense ratios and appropriate claims pay-out patterns to derive cash flows which are then discounted.

At 31 December 2022, the total Net Technical Provisions amounted to $1,487.4 M comprising of the following (on an EBS basis):

	2022	2021
Net premium provisions	$ (394.4 M)	$ (125.8 M)
Net loss and loss expense provisions	$ 1,750.5 M	$ 1,662.1 M
Risk Margin	$ 131.3 M	$ 144.1 M
Total general business insurance technical provisions	**$ 1,487.4 M**	**$ 1,680.4 M**

Description of Recoverable from Reinsurance Contracts

Recoverables from reinsurance contracts are based on principles similar to the gross best estimate and include reinstatement premiums required to be paid to the reinsurer, and expenses in relation to the management and administration of reinsurance claims. The balance is adjusted for counterparty credit rating based on rating agency and experience default statistics. Through reinsurance agreements with Arch and other 3rd party reinsurers, Somers cedes a portion of its premiums. At 31 December 2022 the majority of reinsurance recoverables for paid and unpaid losses were due from counterparties with a rating of A- or better from A.M. Best Company.

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

Similar to the valuation principles for assets, the Group's liabilities follow the valuations principles outlined by Bermuda Monetary Authority's "Guidance Note for Statutory Reporting Regime" which values liabilities at a fair value basis. All other liabilities are valued on a US GAAP basis and settlements not expected to be settled within a year are discounted using the prescribed discount rates provided by the Bermuda Monetary Authority as at 31 December 2022.

Any other material information

There is no other material information in regards to the Group's solvency valuation that has not be included above.

SECTION E – CAPITAL MANAGEMENT

Capital Management Policy

The primary capital management objectives of the Group are to maintain a strong capital base to support the development of its business and to meet regulatory and rating agency capital requirements at all times. The Group strives to be efficient and prudent user of capital, maintaining target capital levels at or above those required for an "A-" rating from A.M. Best, and above requirements of our insurance regulators.

In June 2022, Somers issued $63.5m of 6.5% Fixed Rate Reset Subordinated Notes due 2032. The subordinated notes are treated as Tier 2 Ancillary Capital in accordance with the Insurance (Eligible Capital) Rules 2021 and Insurance (Group Supervision) Rule 2011.

On July 13, 2022, the net proceeds of the subordinated notes were used to redeem the Company's outstanding preference shares.

In addition to the common shares, subordinated debt and senior notes we issued, we have arranged credit facilities to support our business operations. We believe that we hold sufficient capital to allow us to take advantage of market opportunities and to maintain our financial strength ratings, as well as to comply with all applicable statutory regulations.

We monitor our capital adequacy on a regular basis and will seek to adjust our capital base (up or down) according to the needs of our business. As part of our capital management program, we may seek to raise additional capital or may seek to return capital to our shareholders through share repurchases, cash dividends or other methods (or a combination of such methods). Any such determination will be at the discretion of our Board of Directors and will be dependent upon our profits, financial requirements and other factors, including legal restrictions, rating agency requirements and such other factors as our Board of Directors deems relevant.

At December 31, 2022 the Group's Eligible Capital was categorized as follows:

Tier	Eligible Capital	Applied to Minimum Margin of Solvency	Applied to Enhanced Capital Requirement
Tier 1	$ 1,025 M	$ 1,025 M	$ 1,025 M
Tier 2	$ 63 M	$ 63 M	$ 63 M
Tier 3	$ 173 M	$ 0 M	$ 173 M
Total	**$ 1,261 M**	**$ 1,088 M**	**$ 1,261 M**

At December 31, 2022 the eligible capital for SRL was categorized as follows:

Tier	Eligible Capital	Applied to Minimum Margin of Solvency	Applied to Enhanced Capital Requirement
Tier 1	$ 1,260 M	$ 1,260 M	$ 1,260 M
Tier 2	$ 0 M	$ 0 M	$ 0 M
Tier 3	$ 0 M	$ 0 M	$ 0 M
Total	**$ 1,260 M**	**$ 1,260 M**	**$ 1,260 M**

Tier 1 capital consists of capital stock, contributed surplus and statutory surplus.

Tier 2 capital consists of Subordinated Debt issued in June 2022.

Tier 3 capital consists of Senior Notes issued in July 2019.

Confirmation of Eligible Capital That is Subject to Transitional Arrangements

Not applicable

Identification of Any Factors Affecting Encumbrances on Capital

Somers utilizes letters of credit and trust accounts to meet collateral requirements and therefore is required to maintain assets on deposit to support its insurance and reinsurance obligations. Additionally, Somers maintains assets on deposit with various regulatory authorities to support our insurance business.

Identification of Ancillary Capital Instruments Approved by the Authority

Not applicable

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

The following is a reconciliation of US GAAP shareholders' equity to statutory capital and surplus as of December 31, 2022.

At December 31, 2022 the reconciliation of the SRL equity:

	December 31, 2022
Total US GAAP Shareholders' Equity	$ 1,007.3 M
Non-admitted assets	$ (5.2 M)
Statutory Capital and Surplus	$ 1,002.2 M

At December 31, 2022 the reconciliation of the Group equity:

	December 31, 2022
Total US GAAP Shareholders' Equity	$ 772.4 M
Non-admitted assets	$ (5.2 M)
Subordinated Debt	$ 62.5 M
Senior Notes	$ 173.0 M
Statutory Capital and Surplus	$1,003.0 M

ECR and MSM Requirements at the End of the Reporting Period

At December 31, 2022 the Group's regulatory capital requirements were assessed as follows:

- Minimum Margin of Solvency: $590.7 M
- Enhanced Capital Requirement: $838.3 M

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

At December 31, 2022 the SRL regulatory capital requirements were assessed as follows:

- Minimum Margin of Solvency: $565.3 M
- Enhanced Capital Requirement: $838.2 M

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

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

Not applicable.

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

Not applicable.

Approved Internal Capital Model

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

Any other material information

There is no other material information in regards to the Group's capital management during 2022 that has not be included above.

SECTION F – SUBSEQUENT EVENTS

No major company events occurred from January to May 2023.

Somers had no exposure to Silicon Valley Bank and has limited exposure to the US regional banks impacted by the banking crisis in Q1 2023.

SECTION G – DECLARATION

To the best of our knowledge and belief, the Financial Condition Report represents the financial condition of Somers Re Ltd. and the Somers Group in all material respects.

Liz Cunningham

Chief Executive Officer

Sioned Butler

Chief Financial Officer

Appendix 1 – Corporate Structure