

Cadenza Re Limited

**Financial Statements
December 31, 2023 and 2022**

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Cadenza Re Limited
Company Information

For the year ended December 31, 2023 and period from March 25, 2022 to December 31, 2022

Directors

Scott Cobon
Matthew Cannan
Thomas Hulst
Paul Rayner
Chris Fisher
Phillippe Trahan

Company Secretary

Appleby Global Corporate Services (Bermuda) Ltd.

Insurance Manager

Artex Insurance Management (Bermuda) Ltd.

Independent Auditor

Ernst & Young Ltd.
3 Bermudiana Road
Hamilton, HM08
Bermuda

Registered Office

Canon's Court
22 Victoria Street
Hamilton, HM12
Bermuda

Cadenza Re Limited**Directors' Report****For the year ended December 31, 2023 and period from March 25, 2022 to December 31, 2022**

The Directors present their Report together with the audited Financial Statements of the Company for the year ended December 31, 2023.

Directors

The Directors who served at any time during the year to the date the Financial Statements were as follows:

	Appointed	Resigned
Scott Cobon	May 12, 2022	
Matthew Cannan	May 12, 2022	
Thomas Hulst	May 12, 2022	
Paul Rayner	May 12, 2022	
Chris Fisher	September 27, 2022	
Phillippe Trahan	September 27, 2022	February 12, 2024

Financial Results

The result for the financial year is a profit of \$1,682,664. The Company did not receive additional capital contributions during the year. No dividends were paid throughout the period. The Directors do not recommend the payment of a dividend for the year ended December 31, 2023.

The Company has one employee and has outsourced various operational functions to appropriate service providers appointed by the Board.

Future Outlook

The Company is expected to grow in size through writing new policies and growth in the in-force policies in place at the reporting period.

Going Concern

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and Financial Statements.

Post balance sheet events

There have been no post balance sheet events since December 31, 2023, through to the date of this Report, that are required to be reflected in these Financial Statements.

Directors' responsibilities statement

The Directors are responsible for preparing the Directors' Report and the Financial Statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have prepared the Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law, the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those Financial Statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS102, have been followed, subject to any material departures disclosed and explained in the Financial Statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the Financial Statements comply with the Bermuda Insurance Act 1978.

Auditor

Ernst & Young Ltd. was appointed and has expressed its willingness to continue in office as auditor.

Statement of disclosure of information to the auditors

Each of the persons who are Directors of the Company at the date of approval of this report confirms that:

- So far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- Each Director has taken all the steps that ought to have been taken in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Approval by the Board of Directors on April 30, 2024 and signed on its behalf by:



Scott Cobon, Director

Canon's Court
22 Victoria Street
Hamilton, HM12
Bermuda

Independent Auditor's Report

The Board of Directors
Cadenza Re Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Cadenza Re Limited (the “Company”) which comprise the statements of financial position as at December 31, 2023 and 2022, and the income statements, statements of changes in equity and statements of cash flows for the year ended December 31, 2023 and for period from March 25, 2022 (date of incorporation) to December 31, 2022, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2023 and 2022, and its financial performance and its cash flows for the year ended December 31, 2023 and for period from March 25, 2022 (date of incorporation) to December 31, 2022 in accordance with United Kingdom Accounting Standards including FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland” and FRS 103 “Insurance Contracts” (UK GAAP).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and the Board of Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with UK GAAP, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Management and the Board of Directors are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with Management and the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young Ltd.

April 30, 2024

Cadenza Re Limited**Income Statement - Technical Account - General business**

For the year ended December 31, 2023 and period from March 25 2022 to December 31, 2022

Technical Account for General Business

	Note	2023	2022
		USD	USD
Earned premium			
Gross premium written	7	17,139,039	3,289,816
Change in the provision for unearned premium		(5,512,525)	(2,813,901)
Total technical income		11,626,514	475,915
Claims incurred			
Claims paid		(130,540)	-
Change in the provision for claims		(4,892,387)	(233,793)
Total claims incurred	8	(5,022,927)	(233,793)
Acquisition costs	9	(5,038,389)	(209,859)
Administrative expenses	9	(513,907)	(523,790)
Total technical charges		(5,552,296)	(733,649)
Balance on the technical account for general business		1,051,291	(491,527)

The accompanying notes are an integral part of these Financial Statements.

Cadenza Re Limited
Income Statement - Non-technical Account
For the year ended December 31, 2023 and period from March 25, 2022 to December 31, 2022

Non-technical account

	Note	2023	2022
		<u>USD</u>	<u>USD</u>
Balance on the technical account for general business		1,051,291	(491,527)
Net investment return	6	<u>631,373</u>	<u>9,445</u>
Net income (loss) for the year		1,682,664	(482,082)
Retained earnings brought forward		(482,082)	-
Retained earnings carried forward		<u><u>1,200,582</u></u>	<u><u>(482,082)</u></u>

All amounts related to continuing operations.

No other comprehensive income has been recognised and therefore no statement of other comprehensive income has been presented.

The accompanying notes are an integral part of these Financial Statements.

Cadenza Re Limited
Statement of Financial Position
As at December 31, 2023 and as at December 31, 2022

	Note	2023	2022
		USD	USD
Assets			
Cash and cash equivalents			
Cash and cash equivalents	10	4,834,578	4,204,187
		<u>4,834,578</u>	<u>4,204,187</u>
Debtors			
Debtors arising out of reinsurance operations	13	2,350,722	1,543,739
		<u>2,350,722</u>	<u>1,543,739</u>
Other assets			
Intercompany receivable	12	-	4,039,737
Deferred acquisition costs		3,611,317	1,240,819
Deposits with cedant undertakings	11	13,956,296	1,708,073
Prepaid expenses		55,606	-
		<u>17,623,219</u>	<u>6,988,629</u>
Total Assets		<u><u>24,808,519</u></u>	<u><u>12,736,555</u></u>
Equity and liabilities			
Equity			
Capital and reserves			
Called up share capital	14	120,000	120,000
Profit and loss account		1,200,582	(482,082)
Contributed surplus	14	9,920,000	9,920,000
Total Equity		<u>11,240,582</u>	<u>9,557,918</u>
Liabilities			
Technical provisions			
Provision for unearned premiums	7	8,326,426	2,813,901
Outstanding loss reserves (OSLR)	8	350,715	-
Incurred but Not Reported Reserves (IBNR)	8	4,775,465	233,793
Total technical provisions		<u>13,452,606</u>	<u>3,047,694</u>
Other creditors	15	115,331	130,943
Total Liabilities		<u>13,567,937</u>	<u>3,178,637</u>
Total Equity and Liabilities		<u><u>24,808,519</u></u>	<u><u>12,736,555</u></u>

The accompanying notes are an integral part of these Financial Statements.

Approved by the Board of Directors on April 30, 2024 and were signed on its behalf by:



Scott Cobon

Cadenza Re Limited**Statement of Changes in Equity****For the year ended December 31, 2023 and period from March 25, 2022 to December 31, 2022**

	Called-up share capital USD	Contributed surplus USD	Profit and loss account USD	Total Equity USD
Balance at March 25, 2022	-	-	-	-
Issuance of share capital	120,000	9,920,000	-	10,040,000
Net loss for the period	-	-	(482,082)	(482,082)
Balance at December 31, 2022	<u>120,000</u>	<u>9,920,000</u>	<u>(482,082)</u>	<u>9,557,918</u>
Issuance of share capital	-	-	-	-
Net income for the year	-	-	1,682,664	1,682,664
Balance at December 31, 2023	<u>120,000</u>	<u>9,920,000</u>	<u>1,200,582</u>	<u>11,240,582</u>

The accompanying notes are an integral part of these Financial Statements.

Cadenza Re Limited
Statement of Cash Flows

For the year ended December 31, 2023 and period from March 25, 2022 to December 31, 2022

	2023	2022
	USD	USD
Cash flows from operating activities		
Net income (loss) for the year	1,682,664	(482,082)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Change in:		
Debtors arising out of reinsurance operations	(806,983)	(1,543,739)
Intercompany receivable	4,039,737	(4,039,737)
Deferred acquisition costs	(2,370,498)	(1,240,819)
Deposits with cedant undertakings	(12,248,223)	(1,708,073)
Prepaid expenses	(55,606)	-
Provision for unearned premiums	5,512,525	2,813,901
IBNR	4,541,672	233,793
OSLR	350,715	-
Other creditors	(15,612)	130,943
Cash flow provided by (used in) operating activities	<u>630,391</u>	<u>(5,835,813)</u>
Cash flows from financing activities		
Proceeds from issuance of share capital	-	120,000
Contributed capital in the year	-	9,920,000
Cash flow provided by financing activities	<u>-</u>	<u>10,040,000</u>
Increase in cash and cash equivalents	630,391	4,204,187
Cash and cash equivalents - beginning of year	4,204,187	-
Cash and cash equivalents - end of year	<u><u>4,834,578</u></u>	<u><u>4,204,187</u></u>
Represented by:		
Cash and cash equivalents	4,834,578	4,204,187
Total cash and cash equivalents	<u><u>4,834,578</u></u>	<u><u>4,204,187</u></u>

The accompanying notes are an integral part of these Financial Statements.

1. General Information

Cadenza Re Limited (the "Company") was incorporated in Bermuda on March 25, 2022 and subsequently licenced in Bermuda as a Class 3A commercial insurer with the provisions of the Bermuda Insurance Act 1978. The Company's registered office is Canon's Court, 22 Victoria Street, Hamilton, Pembroke, HM 12, Bermuda.

The Company underwrites risks originally underwritten by underwriting franchises who are controlled and owned by Beat Capital Partners Limited ("Beat"). The Company underwrites risks in the specialty insurance markets based in the USA. A number of the Directors of the Company hold senior leadership positions with Beat.

The Company has entered into reinsurance contracts with cedant companies who are not affiliated with the Company.

The Company is a wholly owned subsidiary of Cadenza Holdings Limited ("the Parent"), a company incorporated in Bermuda. The Parent company's registered office is located at Canon's Court, 22 Victoria Street, Hamilton, HM 12, Bermuda. The Parent is the sole direct subsidiary of Cadenza Holdings Special Purpose Trust, a purpose trust. The Trustee is Appleby Global Services (Bermuda) Ltd.

2. Basis of preparation

The Financial Statements of the Company have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' ('FRS 102'), and Financial Reporting Standard 103, 'Insurance Contracts' ('FRS 103').

The Financial Statements have been prepared on a going concern basis, under the historical cost convention, as modified by the recognition of certain financial assets and liabilities measured at fair value. The Financial Statements are prepared in US Dollars which is the functional and presentational currency of the Company. All underlying transactions for the Company are in US Dollars.

Legislation applied in the preparation of these Financial Statements is the Bermuda Insurance Act 1978.

3. Accounting policies

The principal accounting policies are set out below.

(a) Use of estimates and judgments

The preparation of the Financial Statements in conformity with FRS102 requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

3. Accounting policies (continued)

(a) Use of estimates and judgments (continued)

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Estimates

The most significant estimates made by management are in relation to technical provisions. The carrying value of technical provisions at the reporting date is \$13,452,606 (2022: \$3,047,694). The estimates employed in the assessment of provisions for unearned premium are discussed in accounting policies (d). The estimates employed in the assessment of provisions for outstanding claims and IBNR are discussed in accounting policies (e).

Judgments

Management use judgments over the appropriate estimation techniques and assumptions to be applied for technical provisions. Judgments are based on actuaries' knowledge supplemented by industry data where appropriate.

(b) Insurance contracts

Insurance contracts are contracts where the Company accepts significant insurance risks, arising from both underwriting risk and timing risk, from a policyholder or reinsured by agreeing to compensate them if a specified uncertain future event (the insured or reinsured event) adversely affects them. The Company determines whether it has significant insurance risk by comparing the amount and timing of premiums, commissions, and claim settlement expenses with the amount and timing of such cash flows if the insured event did not occur. Insurance contracts can also transfer financial risk.

Once the Company classifies a contract as an insurance contract, it retains an insurance contract for the remainder of its term, even if the insurance risk decreases significantly during this period, unless all rights and obligations extinguish or expire.

(c) Basis of accounting for underwriting activities

The results are determined on an annual basis whereby the incurred cost of claims, commissions and related expenses are charged against the earned proportion of premiums as described below.

(d) Premiums

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

3. Accounting policies (continued)

(d) Premiums (continued)

Premiums are accreted to the Income Statement - Technical Account on a pro rata basis over the term of the related policy, except for those contracts where the period of risk differs significantly from the contract period. Premiums are recognised over the period of risk in proportion to the amount of reinsurance protection provided. Reinstatement premiums are accreted to the income statement on a pro rata basis over the term of the original policy to which they relate.

Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the statement of financial position date, generally calculated on a time apportioned basis. The movement in the provision is taken to the income statement technical account in order that premium is recognised over the period of the risk.

(e) Claims incurred

Claims incurred are recognised within the Income Statement - Technical Account, with the gross and ceded amounts disclosed separately. Claims incurred comprise:

- Claims paid during the financial year; and
- Movement in claims provisions during the financial year.

Claims provision and related reinsurance recoveries

Claims provisions within the Statement of Financial Position comprise the following:

- Estimated cost of claims notified but not yet settled at the financial year end; and
- Incurred but not reported claims at the financial year end ("IBNR").

Claims provisions are estimated at each financial year end based on best available information. The Company takes all reasonable steps to ensure that it has appropriate information regarding its estimated claim exposures and these are set so that no adverse claims development are envisaged. Given the uncertainty in establishing claims provisions, it is likely that the final liability will prove different from the original estimates established. Where such uncertainty is deemed considerable, a degree of caution is exercised in setting claims provisions.

Notified outstanding claims

In estimating outstanding claims within the Statement of Financial Position, the Company considers the claim circumstances as reported and amounts reported by cedant companies.

Incurred but not reported ("IBNR") claims

The estimation of IBNR claims within the Statement of Financial Position is generally subject to a greater degree of uncertainty than the estimation of notified outstanding claims as less information is available. IBNR claims may often not be apparent to the insured until many years have passed following the event which triggers such claims.

3. Accounting policies (continued)

(e) Claims incurred (continued)

Incurred but not reported ("IBNR") claims (continued)

In calculating the IBNR claims, the Company applies the reserving methodology of the initial target loss ratio and industry loss development factors. This method is selected given the historical claims activity for the Company being sparse. As the claims activity develops, the Company will be applying further actuarial techniques to calculate IBNR.

The IBNR is set to represent the best estimate of future claims with appropriate allowance for all risks faced.

(f) Acquisition costs

Acquisition costs within the Income Statement - Technical Account represent the commission expenses associated with acquiring insurance contracts written during the financial year. Acquisition costs are recognised in the financial year in which the related premiums are earned.

Deferred acquisition costs ("DAC")

Acquisition costs are deferred over the period in which related premiums are earned and are recognised within the Statement of Financial Position as DAC.

(g) Debtors arising out of reinsurance operations

Debtors arising out of reinsurance operations within the Statement of Financial Position represent the premiums to be collected at the year end. Commissions payable are netted off this balance where the commissions to be paid to the same counterparty as the premiums are being received (refer to accounting policy (h) - Financial Instruments - Offsetting).

As at the year end, no provision has been put in place against the recoverability of the balance.

(h) Financial Instruments

The Company has chosen to adopt FRS section 11 and 12 in respect to financial instruments.

Financial assets

Basic financial assets, including trade and other receivables, cash and bank balances, bonds and similar debt instruments are initially recognised at transaction price. Upon their initial recognition, debt instruments are designated by the entity as fair value through profit and loss as this results in more relevant information to management. Any changes in fair value are recognised in the Income Statement - Non Technical Account.

3. Accounting policies (continued)

(h) Financial Instruments (continued)

Financial assets (continued)

Financial assets are derecognised when; (a) the contractual rights to the cash flows from the asset expire or are settled; or (b) substantially all the risks and rewards of ownership of the asset are transferred to another party; or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Financial liabilities

Basic financial liabilities, including trade and other payables are initially recognised at transaction price and are subsequently measured at amortised cost. Trade payable are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised at the transaction price when recorded.

Offsetting

Financial assets and liabilities are offset and the net amounts presented in the Financial Statements when there is an enforceable right to set off the recognised amounts; and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

(i) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.

(j) Deposits with cedant undertakings - Funds withheld

Funds withheld comprise amounts held by the Company pursuant to the terms of the quota share reinsurance agreements.

(k) Investment return

Investment return is recognised within the Income Statement and comprises:

- Investment income earned during the financial year; and
- Investment expenses, charges or interest incurred during the financial year;

Investment Income

Investment income comprises:

- Interest on bank balances, which are accounted for on an accruals basis;
- Returns on funds withheld by as collateral by cedants, which are accounted for on an accruals basis;
- and
- Returns on money market funds, which are accounted for on an accruals basis.

3. Accounting policies (continued)

(k) Investment return (continued)

Investment expenses, charges or interest

These are recognised on an accruals basis.

The Company's presentational and functional currency is USD. All currency transactions are translated into USD at the actual rates prevailing at each year end.

(l) Distribution to equity shareholders

Dividends and other distributions to Company's shareholders are recognised as a liability in the Financial Statements in the period in which the dividends and other distributions are approved by the Company's shareholders. These amounts are recognised in the Statement of Changes in Equity.

(m) Taxation

The Company is incorporated under the laws of Bermuda and is not required to pay taxes in Bermuda based upon income or capital gains under the Exempted Undertakings Tax Protection Act of 1996. However, in December 2023, the Government of Bermuda enacted the Corporate Income Tax Act 2023 (the "Act"), which amended the Bermuda Exempted Undertakings Tax Protection Act of 1966. The Act introduces a 15% corporate income tax on Bermuda businesses that are part of an In Scope Multinational Enterprise Group ("MNE Group"), effective for tax years beginning on or after January 01, 2025. An MNE Group is an In Scope MNE Group if, with respect to any fiscal year beginning on or after January 1, 2025, the MNE Group had annual revenue of €750 million or more in the consolidated financial statements for at least two of the four fiscal years immediately preceding such fiscal year.

As at December 31, 2023, the Company does not meet the minimum criteria necessary to be in scope of the Act.

4. Risk management

The Company through its risk management function and the Board of Directors, seeks to identify all material risks inherent in its business including emerging risks, understand the manifestation of each risk, then assess, control, mitigate and manage these risks appropriately.

The key governance bodies of the Company are set out below:

- The Company's board, which is responsible for setting business and risk strategy and ensuring the principal risks and uncertainties facing the Company are managed; and
- Day-to-day management of the Company is provided through a service agreement between the Company and Artex Insurance Management (Bermuda) Ltd.

The Company is exposed to risks from several sources. These fall into the broad categories of; underwriting risk (comprising premium, catastrophe and reserve); financial risk (comprising credit and liquidity); operational risk; and strategic risk.

4. Risk management (continued)

Underwriting risk

Underwriting risk consists of premium risk, catastrophe risk and reserve risk.

Underwriting risk arise either from the acceptance of risks that do not comply with the Company's underwriting guidelines and corporate strategy, or from the acceptance of risks that result in losses and expenses greater than it had anticipated at the time of underwriting.

The Company's underwriter has underwriting guidelines, limits of authority and business plans which are binding. Underwriting proposals are ultimately approved by the Board of Directors.

Underwriting risk - premium

Premium risk is the risk that the premium to be earned over the next 12 month period from the in-force, new or renewal reinsurance contracts is insufficient to cover the claim cost, claim adjustment expenses as well as the acquisition costs to be incurred by those contracts over the same period.

Premiums written in the current financial year relate to USA environmental risks.

Underwriting risk - catastrophe

Catastrophe risk is the risk that the premium to be earned over the next 12 month period from the catastrophe exposed reinsurance contracts (in-force, new or renewal) is insufficient to cover potential claim costs, claim adjustment expenses as well as the acquisition costs associated with those contracts that may originate from extreme or exceptional catastrophic events over the same period, such as but not limited to hurricanes, earthquakes, windstorms, landslides and terrorist attacks.

Catastrophe risk is classified as a separate and distinct class of underwriting risk mainly due to its low frequency and high severity characteristics, its potential to affect numerous contracts simultaneously, and inflict significant erosion of the Company capital.

The Company has not assumed any catastrophe risk during the year.

Underwriting risk - reserve

Reserve risk is the risk that the best (point) estimate of unpaid loss and loss adjustment expenses (collectively "claims reserves") are inadequate to cover all future payments for the settlement of claims from all prior accident years occurring at or before the valuation date.

Reserve risk is distinct from premium risk and is related to premium exposures that have already been earned, as well as claims outstanding.

To manage reserving risk, the Company's actuaries uses a range of recognised actuarial techniques to project monitor claims development patterns, and stress test ultimate insurance liabilities.

A full analysis of claims reserves is performed on a quarterly basis. The analysis is provided to the Board of Directors to review the sufficiency of the estimated claims reserves and to critically assess the claims reserving practices of the Company.

4. Risk management (continued)**Underwriting risk - reserve (continued)**

The claims reserves established can be more or less than adequate to meet individual claims arising. The level of uncertainty varies significantly from class to class but can arise from inadequate reserves for large losses and catastrophes, or from inadequate provision for unknown losses. The Company believes that the claims reserves established are adequate, however a 1% improvement/deterioration in the total estimated losses would have an impact on loss before tax of USD 121,024 (2022: USD 4,759).

The table below summarises the development of gross ultimate cumulative claim estimates at the end of each financial year, illustrating how amounts estimated have changed from the first estimate made.

Gross ultimate liability estimates at the end of financial years	Accident years		
	2022 USD	2023 USD	Total USD
End of financial year 1	233,793	3,043,244	3,277,037
End of financial year 2	2,213,476		2,213,476
Ultimate liability	2,213,476	3,043,244	5,256,720
Paid to date	(4,939)	(125,601)	(130,540)
Unpaid liability at December 31, 2023	2,208,537	2,917,643	5,126,180

Financial risk

Financial risk refers to the risk of financial loss due to a change in the value of the Company's assets, or a change of market risk factors that affect the value of such assets. The Company has identified the following as its main source of financial risks; credit risk and liquidity risk.

Interest rate risk is not considered to be a significant risk given the nature of the financial assets the Company holds (money market funds and deposits with cedant undertakings) have minimal exposure to interest rate risk.

Money market funds held by the Company are rated AAAM.

There is no considerable price risk arising from its investments due to their nature.

Financial risk - credit

Credit risk is the risk of potential financial loss due to unexpected default, or deterioration in the credit ratings of asset counterparties - causing a loss in asset values. These include reinsurance debtors, receivable from brokers/cedants and financial investments with a diverse range of counterparty issuers.

The Company's premium debtor are with counterparties with a credit rating of A- or better by A.M. Best or similar credit rating agencies. The premium debtor risk is considered low.

4. Risk management (continued)

Financial risk - liquidity

This is the risk the Company may encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The predominant liquidity risk the Company faces is in respect of claims arising from insurance contracts.

The Company's administrator monitors the levels of cash and cash equivalents ensuring adequate liquidity to meet the expected cash flow requirements due over the short term.

Operational risk

Operational risk is the potential for losses arising from the failure of people, process or technology or the impact of external event. The nature of operational risk means that it is dispersed across all functional areas of the Company.

Outsourcing risk is considered part of operational risk. The Company is dependent upon a number of functions provided by Artex Insurance Management (Bermuda) Ltd through outsourcing agreements to support its operations.

Cyber security is also considered part of operational risk. Cyber security breaches, could if they occurred, cause significant financial losses and/or damage to the reputation of the Company.

Commercial and strategic risks

There is a risk that the Company's strategy is not appropriate or is not implemented effectively which could result in material losses.

5. Statutory matters

The objective of the Company in managing its capital is to ensure that it will be able to continue as a going concern and comply with Bermuda Monetary Authority (BMA) requirements, while maximising the return to capital providers.

As a Class 3A commercial insurer, the Company must at all times maintain a solvency margin and an enhanced capital requirement in accordance with the provisions of The Insurance Act 1978. Each year the Company is required to file with the BMA a capital and solvency return within four months of its relevant period end (unless specifically extended).

The prescribed form of capital and solvency return comprises the insurer's Bermuda Solvency Capital Requirement ("BSCR") model, a schedule of fixed income investments by rating category, a schedule of net loss and loss expense provision by line of business, a schedule of premiums written by line of business, a schedule of risk management and a schedule of fixed income securities by security type. The BSCR includes a standardized model used to measure the risk associated with an insurer's assets, liabilities and premiums, and a formula to take account of catastrophe risk exposure. The Authority requires all collateralized Insurers to maintain their capital at a target level which is 120% of the amount calculated in accordance with the BSCR (the Enhanced Capital Requirement). In addition, the Company is required to maintain a minimum solvency margin. Both requirements have been met.

5. Statutory matters (continued)

Under the Insurance Act, the Company is restricted as to the payment of dividends for amounts greater than 25% of the prior year's statutory capital and surplus, whereby an affidavit signed by at least two members of the Board of Directors is required, attesting that any dividend in excess of this amount would not cause the Company to fail to meet its relevant margins. In addition, the Company is restricted from reducing by 15% or more its prior year's total statutory capital without approval from the BMA.

6. Net investment return

	2023	2022
	USD	USD
Cash and cash equivalents	377,232	7,771
Funds withheld	254,141	1,674
Total investment return before expenses	<u>631,373</u>	<u>9,445</u>
Investment management expenses	-	-
Net investment return	<u><u>631,373</u></u>	<u><u>9,445</u></u>

7. Provision for unearned premium

	2023	2022
	USD	USD
Balance at beginning of year	(2,813,901)	-
Premiums written in the year	(17,139,039)	(3,289,816)
Premiums earned in the year	11,626,514	475,915
Balance at end of year	<u><u>(8,326,426)</u></u>	<u><u>(2,813,901)</u></u>

8. Claims incurred

	2023	2022
	USD	USD
Claims paid	130,540	-
Outstanding claims reserve movement	350,715	-
Claims incurred but not reported movement	4,541,672	233,793
Claims incurred	<u><u>5,022,927</u></u>	<u><u>233,793</u></u>

9. Operating expenses

	2023	2022
	USD	USD
Acquisition costs		
Acquisition costs	7,408,887	1,450,678
Change in deferred acquisition costs	<u>(2,370,498)</u>	<u>(1,240,819)</u>
Total acquisition costs	5,038,389	209,859
Administrative expenses		
Professional fees	366,419	302,242
Government fees	24,550	81,881
Directors & Officers Insurance	17,325	35,170
Audit fees	35,050	33,000
Director fees	50,000	23,750
Employee costs	-	20,000
Other general administrative expenses	<u>20,563</u>	<u>27,747</u>
Total administrative expenses	513,907	523,790
	<u>5,552,296</u>	<u>733,649</u>

10. Cash and cash equivalents

	2023	2022
	USD	USD
Money market funds	4,834,578	4,204,187
	<u>4,834,578</u>	<u>4,204,187</u>

All cash and cash equivalents are held in an overnight money market fund sweep fund rated AAAM. Funds are immediately available to meet liquidity requirements of the Company.

11. Deposits with cedant undertakings

	2023	2022
	USD	USD
Funds withheld	13,924,421	1,683,073
Loss fund	31,875	25,000
	<u>13,956,296</u>	<u>1,708,073</u>

12. Related party transactions

As at December 31, 2023, the Company had nil receivable due from Cadenza Holdings Limited, the parent of the Company (2022: \$4,039,737).

During the period, Director fees of \$50,000 (2022: \$23,750) were paid. No Director loans were provided during the year. The Director was the sole employee of the Company during the year.

As described in note 1, the insurance business written by the Company is with non-affiliated companies.

Pursuant to expense reimbursement agreement certain operating expenses incurred by the Company are from entities affiliated with the Directors of the Company.

The following table shows the amounts attributable to the related parties described above:

	2023	2022
	USD	USD
Statement of Financial Position		
Intercompany receivable	-	4,039,737
Other creditors	80,331	89,499
Income Statement		
Net operating expenses - Professional fees	(314,175)	(127,074)
Net operating expenses - D&O Insurance (note 9)	(17,325)	(35,170)
Net operating expenses - Director Fees (note 9)	(50,000)	(23,750)
Net operating expenses - Employee costs (note 9)	-	(20,000)

13. Debtors arising out of reinsurance operations

	2023	2022
	USD	USD
Amounts falling due within one year	2,350,722	1,543,739
	<u>2,350,722</u>	<u>1,543,739</u>

14. Share capital

The authorised share capital of the Company is \$120,000, comprising 120,000 common shares of \$1 par value (2022: \$120,000). 120,000 common shares have been allotted and fully paid. The shares entitle the holders to dividends, and on liquidation or dissolution, to any Company assets available for distribution to them. The remaining capital consists of \$9,920,000 (2022: \$9,920,000) contributed surplus. The reserve within equity consists entirely of retained earnings.

15. Other creditors

	2023	2022
	USD	USD
Amounts falling due within one year	115,331	130,943
	<u>115,331</u>	<u>130,943</u>

16. Directors emoluments

	2023	2022
	USD	USD
Aggregate emoluments - Director fees	50,000	23,750
	<u>50,000</u>	<u>23,750</u>

17. Auditor's remuneration

During the year, the Company obtained the following services from its auditor:

	2023	2022
	USD	USD
Fees payable to the Company's auditor for the audit of the Company's financial statements	35,050	33,000
	<u>35,050</u>	<u>33,000</u>

18. Post balance sheet events

In preparing these Financial Statements the Directors have evaluated and disclosed all material subsequent events up to April 30, 2024, the date that the Financial Statements were available to be issued.

No material subsequent events requiring disclosure were noted.