Lumen Re

Lumen Re Ltd.
Financial Statements

For the years ended 31 December 2023 and 2022
(expressed in U.S. dollars)

April 12, 2024

Report of Independent Auditors

To the Board of Directors and Shareholders of Lumen Re Ltd.

Opinion

We have audited the accompanying financial statements of Lumen Re Ltd. (the "Company"), which comprise the balance sheets as of December 31, 2023 and 2022, and the related statements of income and comprehensive income, changes in shareholders' equity and cash flows for the years then ended, including the related notes (collectively referred to as the "financial statements").

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

Basis for opinion

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

Responsibilities of management for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

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

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

Required supplemental information

Accounting principles generally accepted in the United States of America require that the required supplemental information pertaining to *Short-Duration Contracts* disclosures labelled as "Unaudited" within Note 9 on pages 14 to 18 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

PricewaterhouseCoopers Ltd.

Chartered Professional Accountants

(expressed in USD)

Balance Sheets

	2023 USD	2022 USD
Assets		
Cash and cash equivalents	3,823,267	34,503,082
Restricted cash and cash equivalents	186,345,980	254,664,092
Trading securities, at fair value	214,663,168	180,821,698
Restricted trading securities, at fair value	1,258,062,427	1,572,520,154
Deferred acquisition costs	1,912,413	1,861,776
Premium receivable	25,180,862	25,306,715
Unpaid losses and loss adjustment expenses recoverable	407,340,909	722,352,071
Prepaid reinsurance	11,380,587	13,065,773
Total assets	**2,108,709,613**	**2,805,095,361**
Liabilities		
Unearned premiums	16,861,707	17,596,936
Ceded deferred acquisition costs	1,298,101	1,380,093
Reserve for losses and loss adjustment expenses	480,021,678	824,484,783
Reinsurance balances payable	1,164,903,241	1,595,928,293
Accounts payable and accrued liabilities	979,625	1,118,388
Total liabilities	**1,664,064,352**	**2,440,508,493**
Shareholders’ equity		
Common shares (par value USD 1; issued and outstanding 368,045,140 shares)	368,045,140	353,501,238
Contributed surplus	1,953,279	1,497,181
Retained earnings	74,646,842	9,588,449
Total shareholders’ equity	**444,645,261**	**364,586,868**
Total liabilities and shareholders’ equity	**2,108,709,613**	**2,805,095,361**

(expressed in USD)

Statements of Income and Comprehensive Income

	2023 USD	2022 USD
Revenues		
Gross written premiums	166,946,803	227,691,146
Reinsurance premiums ceded	(109,201,139)	(176,568,462)
Net premiums written	**57,745,664**	**51,122,684**
Net change in unearned premiums	(949,959)	(341,692)
Net premiums earned	**56,795,705**	**50,780,992**
Other insurance income	4,767,623	7,385,886
Net investment income	22,008,980	2,667,490
Foreign exchange (losses) / gains	(273,855)	(3,049,389)
Total revenues	**83,298,453**	**57,784,979**
Expenses		
Losses and loss adjustment expenses	(8,109,002)	(43,506,445)
Acquisition costs	(5,724,301)	(7,832,903)
General and administrative expenses	(4,406,757)	(4,499,723)
Total expenses	**(18,240,060)**	**(55,839,071)**
Net income for the year	**65,058,393**	**1,945,908**
Net income and other comprehensive income attributable to common shareholders for the year	**65,058,393**	**1,945,908**

(expressed in USD)

Statements of Changes in Shareholders' Equity

	2023 USD	**2022** USD
Share Capital		
Balance at beginning of year	353,501,238	310,000,001
Buy-back of non-voting shares	-	(41,100,592)
Issuance of non-voting shares 14,543,902 shares	14,543,902	84,601,829
Balance at end of year	**368,045,140**	**353,501,238**
Contributed Surplus		
Balance at beginning of year	1,497,181	–
Contributions from shareholders	456,098	2,896,588
Distributions to shareholders	-	(1,399,407)
Balance at end of year	**1,953,279**	**1,497,181**
Retained earnings		
Balance at beginning of year	9,588,449	7,642,541
Net income and comprehensive income	65,058,393	1,945,908
Dividends declared and paid	–	–
Balance at end of year	**74,646,842**	**9,588,449**
Total shareholders' equity	**444,645,261**	**364,586,868**

(expressed in USD)

Statements of Cash Flows

	2023 USD	2022 USD
Operating activities		
Net income	65,058,393	1,945,908
Adjustments to reconcile net income and other comprehensive income to cash (used in) provided by operating activities:		
Investment income	(67,122,899)	(13,813,465)
Foreign exchange	(16,847,039)	33,178,051
Charges/(credits) to reconcile comprehensive income to net cash from operations:		
Net change in:		
Premium receivable	125,853	15,798,307
Prepaid reinsurance premiums	1,685,186	8,078,659
Prepaid expenses	-	39,905
Deferred acquisition costs	(50,637)	1,241,250
Ceded deferred acquisition costs	(81,992)	1,380,093
Unearned premiums	(735,229)	(7,736,967)
Reserve for losses and loss adjustment expenses	(344,463,105)	(17,031,440)
Unpaid losses and loss adjustment expenses recoverable	315,011,162	24,197,763
Reinsurance balances payable	(431,025,052)	(1,156,400,096)
Accounts payable and accrued liabilities	(138,763)	57,328
Net cash (used in) provided by operating activities	**(478,584,122)**	**(1,109,064,704)**
Investing activities		
Purchases of investments	(2,924,872,135)	(4,080,796,702)
Proceeds from sale/maturity of trading securities, at fair value	3,289,458,330	5,011,181,228
Net cash provided by (used in) investing activity	**364,586,195**	**930,384,526**
Financing activities		
Buy-back of non-voting shares	-	(42,499,999)
Issuance of non-voting shares	15,000,000	87,498,417
Net cash provided by (used in) financing activities	**15,000,000**	**44,998,418**
Net decrease in cash and restricted cash during the year	**(98,997,927)**	**(133,681,760)**
Cash, cash equivalents and restricted cash – Beginning of year	**289,167,174**	**422,848,934**
Cash, cash equivalents and restricted cash – End of year	**190,169,247**	**289,167,174**
Represented by		
Cash and cash equivalents	3,823,267	34,503,082
Restricted cash and cash equivalents	186,345,980	254,664,092
	190,169,247	**289,167,174**

Notes to the Financial Statements

1 Organization

Lumen Re Ltd. (the "Company"), formerly Collateralised Re Ltd., was incorporated in Bermuda on 31 October 2013 and initially licensed as a Special Purpose Insurer ("SPI") pursuant to the Bermuda Insurance Act 1978 (the "Act"). On 1 May 2017 the Company obtained a Class 3A license in accordance with the Act. On 31 May 2023 the Company obtained a Class 3B license in accordance with the Act.

From incorporation to 30 April 2017, the Company was directly funded by insurance-linked investment funds ("Funds") managed by LGT ILS Partners Ltd. ("LGT ILS"), itself part of one of the largest privately held private banking and asset management groups in Europe. Due to structural changes that occurred effective 1 May 2017, a related company, Secundum Re Ltd. ("Secundum Re") provides the majority of the funding via a fully-funded variable quota share agreement, the collateral for which is 100% provided by the Funds. As part of this structural change, the Company issued non-voting preference shares worth USD 310,000,001 to the LGT (Lux) II – ILO Fund. In December 2018 these shares were re-classified as non-voting common shares. On 1 January 2022 and on 1 December 2022 the Company accepted capital from additional investors, while at the same time the LGT (Lux) II – ILO Fund slightly decreased its holdings. As a result, during 2022 there was a total share buy-back of 41,100,592 non-voting preference shares worth USD 42,499,999 and a total share issuance of 84,601,829 non-voting preference shares worth USD 87,498,417 to Lumen Holding LP. As a result, the issued non-voting preference shares increased from USD 310,000,001 to USD 353,501,238 as at 31 December 2022 with contributed surplus of USD 1,497,181. During 2023, there was a share issuance of 4,847,967 non-voting preference shares worth USD 5,000,000 to the LGT (Lux) II – ILO Fund and a share issuance of 9,695,935 non-voting shares worth USD 10,000,000 to Lumen Holding LP. As a result, the issued non-voting preference shares increased from USD 353,501,238 to USD 368,045,140 as at 31 December 2023 and an increase in the contributed surplus from USD 1,497,181 to USD 1,953,279.

The Company predominately writes non-proportional, property catastrophe reinsurance business with a well-diversified group of (re)insurance companies and with a geographic spread of coverage. As aforementioned, the vast majority of this business is retroceded to Secundum Re.

In December 2017, A.M. Best assigned the Company a Financial Strength Rating of "A" with a 'stable' outlook. The rating was re-affirmed by the rating agency in May 2023.

The registered office of the Company is located at Canons Court, 22 Victoria Street, Hamilton, HM12, Bermuda.

The functional currency of the Company is the United States dollar. The financial statements are presented in United States dollars.

2 Basis of Preparation and Significant Accounting Policies

(a) Basis of Accounting

The Company prepared its financial statements in accordance with accounting principles generally accepted in the United States ("US GAAP").

The preparation of financial statements in conformity with US GAAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Although these estimates are based on management's best knowledge of current events and conditions, actual results could differ from these estimates. The area involving a higher degree of judgement and or complexity, or area where assumptions and estimates are significant to the financial statements is reserves for losses and loss adjustment expenses. This is disclosed further in item (m) below. No prior-period information has been retrospectively adjusted. There has been no change on income from continuing operations, net income and no impact to the cumulative effect of the change on retained earnings or other components of equity or net assets in the Balance Sheet as of the beginning of the earliest period presented. Certain reclassifications have been made to comparative information to conform to the current year presentation. These changes in presentation had no effect on net income for the period.

(b) Fair Value Measurements

Fair value is defined as the price received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820, "Fair Value Measurement and Disclosure", provides a framework for measuring fair value by creating a hierarchy of fair value measurements that distinguishes market data between observable independent market inputs and unobservable market assumptions by the reporting entity. The guidance further expands disclosures about such fair value measurements. The guidance applies broadly to most existing accounting pronouncements that require or permit fair value measurements (including both financial and non-financial assets and liabilities) but does not require any new fair value measurements. The Company has adopted all authoritative guidance in effect as of the Balance Sheet date regarding certain market conditions that allow for fair value measurements that incorporate unobservable inputs where active market transaction-based measurements are unavailable.

(c) Foreign Exchange

The financial statements are presented in United States dollars which is the Company's functional currency. Foreign currency transactions are converted using the foreign exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are revalued at the exchange rate in effect at the Balance Sheet date. Foreign exchange gains and losses resulting from the revaluation and settlement of these assets and liabilities are recognized in the Statements of Income and Comprehensive Income.

(d) Cash and Cash Equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks. These amounts have an original maturity of 90 days or less.

(e) Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents serves as collateral, assigned as security for the Company's obligations under the various reinsurance contracts and for the business written on the Company's rated paper. The underlying balances are held in either money market funds or treasury bills to secure the aggregate amount of coverage. Money market funds are classified as Level 1 as defined below within item 7(a) Basis of Fair Value Measurements.

(f) Restricted Trading Securities, at Fair Value

Restricted trading securities serve as collateral, assigned as security for the Company's obligations under the various reinsurance contracts and for the business written on the Company's rated paper. The underlying balances are held in either money market funds or treasury bills to secure the aggregate amount of coverage provided. Restricted investments are measured at fair value with realized and unrealized gains included within Net Investment Income in the Statements of Income and Comprehensive Income.

(g) Trading Securities, at Fair Value

Trading securities serve as collateral, assigned as security for the Company's obligations under the various reinsurance contracts and for the business written on the Company's rated paper. The underlying balances are held in either money market funds or treasury bills to secure the aggregate amount of coverage provided. Investments are measured at fair value with realized and unrealized gains (losses) included within Net Investment Income in the Statements of Income and Comprehensive Income.

All trading securities transactions are recorded on a trade date basis and are valued using pricing data received from third parties.

Net investment income includes gains on restricted cash and cash equivalents; gains on restricted trading securities, unrealized gains/(loss) on trading securities; gains ceded to Secundum Re and interest income/(loss) on cash and cash equivalents.

(h) Premium Receivable

Premium receivable is recorded at face value less repayments and allowance for credit losses if applicable. The Company monitors credit risk associated with premiums receivable through its ongoing review of amounts outstanding, aging of the receivable, historical loss data and counterparty financial strength measures. The allowance also includes estimated uncollectible amounts related to dispute risk. Amounts deemed to be uncollectible, are written off against the allowance. In certain instances, credit risk may be reduced by the Company's right to offset loss obligations or unearned premiums against premiums receivable. Any allowance for credit losses is charged to the Company's statements of income in the period the receivable is recorded and revised in subsequent periods to reflect changes in the Company's estimate of expected credit losses.

(i) *Reinsurance*

The Company entered into a retrocession agreement with Secundum Re in order to mitigate its accumulation of loss, reduce its liability on individual risks, enable it to underwrite policies with higher limits and increase its aggregate capacity. Premiums ceded are recognized over the period of exposure to risk, with the unearned portion being deferred in the Balance Sheet as prepaid reinsurance.

The Company also entered into an adverse development cover agreement with an open-market reinsurer in order to be protected against an adverse loss development arising from an excess of loss agreement. The premium is recognized on inception of the contract.

Unpaid losses and loss adjustment expenses recoverable are recorded at face value and represent amounts that will be collectible from Secundum Re and the open-market reinsurer once the losses are paid. Unpaid losses and loss adjustment expenses recoverable on paid losses represents amounts currently due from reinsurers. The recognition of unpaid losses and loss adjustment expenses recoverable requires two key judgments: Firstly, the determination of gross assumed IBNR, and secondly the amount of gross IBNR that can be ceded to Secundum Re and the open-market reinsurer based on the reinsurance agreements in place. The Company is not relieved of its primary obligation to the policyholder in this reinsurance transaction.

The Company reports its reinsurance recoverables net of an allowance for expected credit losses in the Company's balance sheets. The amounts collectible from Secundum are outside of the scope of the ASU 2016-13, Financial Instruments – Credit Losses (Topic 326) ("ASU 2016-13") as Lumen Re and Secundum Re are both under common control. The allowance is based upon the Company's amounts that will be collectible from the open-market reinsurer and based on the ongoing review of amounts outstanding, the financial condition of the reinsurer, amounts and form of collateral obtained and other relevant factors. Any allowance for credit losses is charged to the Company's statements of income in the period the recoverable is recorded and revised in subsequent periods to reflect changes in the Company's estimate of expected credit losses.

(j) *Revenue Recognition*

Premiums are recognised as revenue upon inception of the reinsurance contracts and are earned by applying exposure earning profiles per the assumed risk.

(k) *Reinsurance Premiums Ceded*

Premiums ceded are recognised as expenditure upon inception applying exposure expense profiles per the risk ceded. Premiums ceded represent reinsurance protection purchased by the Company.

(l) *Deferred Acquisition Costs*

Acquisition expenses are costs that vary with, and are directly related to, the successful acquisition of new or renewal business and consist principally of commissions' expenses, brokerage costs and premium tax expenses. These costs are deferred and amortized over the periods in which the related premiums are earned. Deferred acquisition costs are limited to their estimated realizable value based on the related unearned premiums.

If the sum of a contract's expected losses and loss expenses and deferred acquisition costs exceeds related unearned premiums, a premium deficiency is determined to exist. In this event, deferred acquisition costs are immediately expenses to the extent necessary to eliminate the premium deficiency. If the premium deficiency exceeds deferred acquisition costs then a liability is accrued for the excess deficiency. There were no premium deficiency adjustments recognized during the period presented herein.

(m) *Insurance Reserves*

These consist of the following:

- Unearned premium

  Written premiums for future periods are accrued in unearned premiums.

- Reserve for losses and loss adjustment expenses

  Reserve for losses and loss adjustment expenses are recorded based on recommendations of LGT ILS. All provisions are periodically reviewed and evaluated by the Underwriting Unit of the Company. LGT ILS is in constant contact with the brokers and counterparties of each of the Company's reinsurance contracts. AIR Worldwide modelling is used on the portfolio and percentages are used to calculate reserves on contracts with losses. The Board of Directors believes that the amount provided is adequate to cover the ultimate net cost of losses incurred to the Balance Sheet date. However, estimating claims is, by its very nature, subject to uncertainty. Ongoing estimates will change and ultimately settlement of claims may deviate, perhaps substantially from amounts provided. Adjustments to provisions will be reflected in income during the period they are determined.

- Reinsurance balances payable

  Reinsurance balances payable are calculated according to the terms of the retrocession contract with Secundum Re.

(n) *Recent Accounting Pronouncements*

Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments

The Company adopted ASU 2016-13, Financial Instruments – Credit Losses (Topic 326) ("ASU 2016-13") which was issued in June 2016. This ASU applies a new credit loss model (current expected credit losses, or "CECL") for determining credit-related impairments for financial instruments measured at amortized cost (including reinsurance recoverables) and requires an entity to estimate the credit losses expected over the life of an exposure or pool of exposures. The estimate of expected credit losses should consider historical information, current information, as well as reasonable and supportable forecasts, including estimates of prepayments. The expected credit losses, and subsequent adjustments to such losses, are recorded through an allowance account that is deducted from the amortized cost basis of the financial asset, with the net carrying value of the financial asset presented on the Company's consolidated balance sheet.

The Company adopted this ASU as of 1 January 2023. For financial instruments measured at amortized cost, a cumulative effect adjustment of nil was determined when the updated guidance was applied by recognizing the opening balance of retained earnings as of 1 January 2023, the beginning of the period of adoption. This adjustment is associated with "premium receivable" and "Unpaid losses and loss adjustment expenses recoverable" in the Company's balance sheets. There has been no impact in the cumulative effect of the adjustment on the retained earnings as of 1 January 2023 and no impact on the allowance for estimated uncollectible reinsurance.

The accounting policies have been updated to reflect the Company's adoption of ASU 2016-13, as described above. Results for the reporting periods beginning 1 January 2023 and thereafter are presented under ASC 326, while prior period amounts continue to be reported in accordance with previous applicable GAAP.

3 Cash and cash equivalents

Cash and cash equivalents are comprised of cash held in accounts with HSBC Bank Bermuda Limited and Credit Suisse (Switzerland) Ltd. These amounts have an original maturity of 90 days or less.

4 Restricted cash and cash equivalents

Restricted cash and cash equivalents refer to the trust account balances held in money market funds at Computershare (f.k.a. Wells Fargo Bank) and Bank of New York Mellon Corporation.

This restricted cash is for the purpose of collateralising business written on a fully funded basis.

5 Reinsurance balances payable – Secundum Re

Through the Company's participation in a fully funded variable quota share agreement with Secundum Re, this balance represents the funding provided by Secundum Re to fully fund the portion of the insurance obligations to the various cedants that are then retroceded to Secundum Re.

6 Investment information

(a) *Trading securities, at fair value*

The Company's trading securities, at fair value at 31 December 2023 and 2022 are as follows:

2023 (expressed in USD)	**Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. government treasuries	209,957,678	4,705,490	-	214,663,168
Total	**209,957,678**	**4,705,490**	**-**	**214,663,168**

2022 (expressed in USD)	**Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. government treasuries	180,203,500	618,198	-	180,821,698
Total	**180,203,500**	**618,198**	**-**	**180,821,698**

(b) *Restricted trading securities, at fair value*

The restricted trading securities, at fair value are made up of investments that are for the purpose of collateralising business written on a fully funded basis and the equity investment of the Company.

The Company's restricted trading securities, at fair value at 31 December 2023 and 2022 are as follows:

2023 (expressed in USD)	**Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. government treasuries	857,064,623	14,002,192	(635)	871,066,180
Non-U.S. sovereign governments and supranationals	375,515,259	11,486,937	(5,949)	386,996,247
Total	**1,232,579,882**	**25,489,129**	**(6,584)**	**1,258,062,427**

2022 (expressed in USD)	**Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. government treasuries	1,019,611,015	8,095,883	-	1,027,706,898
Non-U.S. sovereign governments and supranationals	543,735,910	1,331,658	(254,312)	544,813,256
Total	**1,563,346,925**	**9,427,541**	**(254,312)**	**1,572,520,154**

Credit ratings for trading securities, restricted trading securities and restricted cash equivalents held by the Company as at 31 December 2023 range from A-1+ to A-1 (2022: A-1+ to A-1) as set out by Standard and Poor's.

2023 (expressed in USD)	**Fair Value**	**A-1+**	**A-1**
Restricted cash and cash equivalents	186,345,980	186,345,980	
Trading securities, at fair value	214,663,167	214,663,167	
Restricted trading securities, at fair value	1,258,062,425	1,251,380,430	6,681,995
Total	**1,659,071,572**	**1,652,389,577**	**6,681,995**

2022 (expressed in USD)	**Fair Value**	**A-1+**	**A-**
Restricted cash and cash equivalents	254,664,092	254,664,092	
Trading securities, at fair value	180,821,698	180,821,698	
Restricted trading securities, at fair value	1,572,520,154	1,554,194,777	18,325,377
Total	**2,008,005,944**	**1,989,680,567**	**18,325,377**

Net investment income contains the realized and unrealized gains on the restricted and unrestricted investments and the interest earned on cash and cash equivalents. The following table shows the balances contained within:

	2023 USD	**2022** USD
Gain on restricted cash and cash equivalents	7,560,162	2,852,151
Gain on restricted trading securities, at fair value	58,354,569	13,437,556
Unrealised gain/(loss) on trading securities, at fair value	8,768,330	727,732
Net gain ceded to Secundum Re Ltd.	(52,674,081)	(14,516,852)
Interest on cash and cash equivalents	-	166,903
Net investment income	**22,008,980**	**2,667,490**

The portion of trading gains and losses for the period relating to trading securities still held at 31 December 2023 and 2022:

	2023 USD	**2022** USD
Net gains and losses recognized during the period on trading securities and restricted securities	67,122,899	14,165,288
Less: net gains and losses recognized during the period on trading securities and restricted securities sold during the period	(44,085,810)	(3,865,237)
Unrealized gains and losses recognized during the reporting period on trading securities and restricted securities still held at the reporting date	**23,037,089**	**10,300,051**

7 Fair Value

Accounting guidance over fair value measurements requires that a fair value measurement reflect the assumptions market participants would use in pricing an asset or liability based on the best information available. Assumptions include the risks inherent in a particular valuation technique (such as a pricing model) and/or the risks inherent in the inputs to the model. The fair value of a financial instrument is the amount that would be received to sell as asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the 'exit price'). Instruments that the Company owns are marked to bid prices. Fair value measurements are not adjusted for transaction costs.

(a) Basis of Fair Value Measurements

Fair value measurement accounting guidance also establishes a fair value hierarchy that prioritizes the inputs to the respective valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The three levels of the fair value hierarchy are:

- Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date:
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active; and
- Level 3 – Inputs that are both significant to the fair value measurement and unobservable.

Details on assets and liabilities that have been included under the requirements of authoritative guidance on fair value measurements to illustrate the bases for determining the fair values of these items held by the Company are included in each respective section of this significant accounting policies note.

(b) Valuation Techniques

There have been no material changes in the Company's valuation techniques during the periods presented in these Financial Statements. The following methods and assumptions were used in estimating the fair value of each class of financial instrument recorded in the Balance Sheet.

(c) Trading securities, at fair value and Restricted trading securities, at fair value

The techniques generally used to determine the fair value of the Company's trading securities, at fair value and Restricted trading securities, at fair value are detailed below by asset class.

(d) U.S. Government Treasuries

U.S. government treasuries consist primarily of debt securities issued by the U.S. Treasury. Trading securities, at fair value included in U.S. government and government agency securities are primarily priced by pricing services. When evaluating these securities, the pricing services gather information from market sources and integrate other observations from markets and sector news. Evaluations are updated by obtaining broker dealer quotes and other market information including actual trade volumes, when available. The fair value of each security is individually computed using analytical models which incorporate option adjusted spreads and other daily interest rate data. On-the-Run U.S. Treasury issuances are considered Level 1 given the availability of quoted prices in active markets.

(e) Non-U.S. Government and Government Agency

Non-U.S. government and government agency securities consist of debt securities issued by non-U.S. governments and their agencies along with supranational organizations (also known as sovereign debt securities). Securities held in these sectors are primarily priced by pricing services who employ proprietary discounted cash flow models to value the securities. Key quantitative inputs for these models are daily observed benchmark curves for treasury, swap and high issuance credits. The pricing services then apply a credit spread for each security which is developed by in-depth and real time market analysis. For securities in which trade volume is low, the pricing services utilize data from more frequently traded securities with similar attributes. These models may also be supplemented by daily market and credit research for international markets. Bills, Bonds and Notes issued from Australia, Germany, Japan, and the United Kingdom within one year of the Balance Sheet date are considered Level 1 given the availability of quoted prices in active markets.

(expressed in USD)

(f) Other financial instrument

The carrying values of financial assets and liabilities, unless otherwise disclosed elsewhere in the notes to the financial statements, which consist of cash and cash equivalents, restricted cash and cash equivalents, premium receivable, reinsurance recoverable, reinsurance balances payable, accounts payable and accrued liabilities approximate their fair values due to the immediate or short-term nature of these financial instruments.

As at 31 December 2023 and 2022, the Company's investments were allocated to Level 1 only.

8 Reserves for Losses and Loss Adjustment Expenses

The following table provides a summary of activity in the provision for losses and loss adjustment expenses (**"**LAE**"**) for the years ended 31 December 2023 and 2022:

	2023 USD	**2022** USD
Gross unpaid loss and loss expense at beginning of year	824,484,783	841,516,223
Less: Reinsurance recoverable on unpaid losses at beginning of year	(722,352,071)	(746,549,834)
Net loss and loss expense provision at beginning of year	**102,132,712**	**94,966,389**
Net losses and loss expenses incurred in respect of losses occurring in:		
Current year	15,277,240	36,144,662
Prior years	(7,168,238)	7,361,783
Total net losses and loss expenses incurred	**8,109,002**	**43,506,445**
Net losses and loss expenses paid or payable in respect of losses occurring in:		
Current year	(2,981,765)	(1,573,344)
Prior years	(34,056,911)	(31,975,703)
Total losses and loss expenses paid or payable	**(37,038,676)**	**(33,549,047)**
Less: Foreign exchange revaluation	(522,269)	(2,791,075)
Net loss and loss expense provision at end of year	**72,680,769**	**102,132,712**
Add: Reinsurance recoverable at end of year	407,340,909	722,352,071
Gross loss and loss expense provision at end of year	**480,021,678**	**824,484,783**

The current year net incurred losses and loss expenses of USD 8,109,002 (2022: USD 43,506,445) are losses net of ceded contracts to the fully funded quota share with Secundum Re.

Net favorable prior year development of USD 7,168,238 for the year ended 31 December 2023 was comprised of USD 7,168,238 of favorable prior year development for property catastrophe risk.

Net unfavorable prior year development of USD 7,361,783 for the year ended 31 December 2022 was comprised of USD 7,361,783 of unfavorable prior year development for property catastrophe risk.

9 Short Duration Contracts

(a) Assumptions and methodology

The risks associated with insurance contracts are complex and subject to a number of variables that complicate quantitative sensitivity analysis. Uncertainty over both the timing and the amount of future claim payments necessitate the holding of significant reserves for liabilities that may only emerge a number of accounting periods later.

Reserve for losses and loss adjustment expenses (which includes provisions for unpaid and unreported claims) are recorded based on recommendations of LGT ILS as disclosed within Note 2(m) Insurance Reserves.

There have been no significant changes in the assumptions or methodology underlying the actuarial analysis in the year under review.

(b) Risk Management

The Company has policies and procedures in place to reduce the risk exposure, which include strict claims review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims. Further, the Company enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business.

The Company has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of its retrocession arrangement with Secundum Re in order to limit exposure to catastrophic events (e.g. hurricanes, earthquakes and flood damage). The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes based on the Company's risk appetite as determined by Management.

Estimates of losses are continually reviewed and modified to reflect current conditions. Although Management believes, based on recommendations of LGT ILS, that the provision for unpaid and unreported claims will be adequate to cover the ultimate losses to the date of the financial statements, the provision is necessarily an estimate and claims may ultimately be settled for greater or lesser amounts. It is reasonably possibly that Management will revise this estimate significantly in the near term. Any subsequent differences are recorded in the period in which they are determined.

(c) Claims Development and Frequency

As stated in Note 2, Reserves for losses and loss adjustment expenses are recorded based on the recommendations of LGT ILS, but are reviewed, challenged and approved by the Company's Underwriting Unit. Net property catastrophe reinsurance loss reserves of USD 72,680,769 were recorded at 31 December 2023 (2022: USD 102,132,712). The information provided herein about incurred and paid accident year claims development, net of reinsurance, for the years ended prior to 31 December 2023 and the annual percentage pay-outs of incurred claims by age, net of reinsurance, is presented as supplementary information. For incurred and paid accident year claims denominated in foreign currency, the Company used the current year-end Balance Sheet foreign exchange rate for all periods provided, thereby eliminating the effects of changes in foreign currency translation rates from the incurred and paid accident year claims development information included in the tables overleaf.

Note that whilst the Company was only established in 2017, it took on some reserves on a run-off basis from an associated entity. The majority of such reserves have been ceded to Secundum Re, whilst some are retained. Hence, the following loss triangles show reserves for events that occurred prior to the Company's establishment.

Incurred claims and allocated claims adjustment expenses, net of reinsurance (denominated in USD millions, as of 31 December 2023)

	Unaudited												
	2012	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**IBNR[1]**
2012 and prior	–	–	–	–	–	–	–	–	–	–	–	–	–
2013	–	–	–	–	–	–	–	–	–	–	–	0.0	–
2014	–	–	–	–	–	–	–	–	–	–	–	–	–
2015	–	–	–	–	–	–	–	0.1	0.0	0.0	0.0	0.0	–
2016	–	–	–	–	–	–	–	–	–	–	–	(0.0)	–
2017	–	–	–	–	–	1.8	1.8	0.9	1.1	1.1	1.1	0.9	0.0
2018	–	–	–	–	–	–	18.3	22.1	19.9	20.1	19.6	18.1	(2.7)
2019	–	–	–	–	–	–	–	20.4	25.1	23.5	21.3	21.0	2.0
2020	–	–	–	–	–	–	–	–	39.2	54.7	58.7	58.2	3.6
2021	–	–	–	–	–	–	–	–	–	60.7	69.5	69.1	1.0
2022	–	–	–	–	–	–	–	–	–	–	34.4	26.5	7.0
2023	–	–	–	–	–	–	–	–	–	–	–	15.5	1.5
Sub–Total	**–**	**–**	**–**	**–**	**–**	**1.8**	**20.1**	**43.5**	**85.3**	**160.1**	**204.6**	**209.3**	**12.4**

[1] Incurred but Not Reported Liabilities, Net of Reinsurance

Cumulative paid claims and allocated claims adjustment expenses, net of reinsurance (denominated in USD millions, as of 31 December 2023)

	Unaudited											
	2012	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
2012 and prior	–	–	–	–	–	–	–	–	–	–	–	–
2013	–	–	–	–	–	–	–	–	–	–	–	–
2014	–	–	–	–	–	–	–	–	–	–	–	(0.0)
2015	–	–	–	–	–	–	–	–	(0.0)	(0.0)	(0.0)	(0.0)
2016	–	–	–	–	–	–	–	–	–	–	–	–
2017	–	–	–	–	–	–	–	(0.2)	(0.4)	(0.5)	(0.5)	(0.6)
2018	–	–	–	–	–	–	(0.5)	(12.2)	(13.5)	(15.0)	(15.6)	(15.8)
2019	–	–	–	–	–	–	–	(1.0)	(10.9)	(14.2)	(15.1)	(17.5)
2020	–	–	–	–	–	–	–	–	(9.1)	(23.9)	(33.8)	(37.6)
2021	–	–	–	–	–	–	–	–	–	(10.9)	(32.2)	(52.0)
2022	–	–	–	–	–	–	–	–	–	–	(1.1)	(7.9)
2023	–	–	–	–	–	–	–	–	–	–	–	(3.0)
Sub–Total	**–**	**–**	**–**	**–**	**–**	**–**	**(0.5)**	**(13.4)**	**(33.9)**	**(64.5)**	**(98.3)**	**(134.4)**
Foreign exchange revaluation												(2.2)
Reserve for losses and loss adjustment expenses												**72.7**

The following table presents the average annual percentage pay-out of incurred losses and allocated loss adjustment expenses by age, net of reinsurance, as of 31 December 2023:

Average annual percentage pay-out of incurred claims (Unaudited)

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
5.2%	16.1%	7.9%	3.0%	2.4%	10.6%	0.7%

The Company does not include claim count information in our short duration triangles for reinsurance. A significant percentage of our reinsurance business is written on a treaty basis, for which individual loss information is typically unavailable.

(expressed in USD)

The following table represents a reconciliation of the disclosures of net incurred and paid loss development tables to the reserve for losses and loss adjustments at 31 December 2023:

	2023 USD
Liabilities for unpaid claims and claim adjustment expenses, net of reinsurance: Property catastrophe reinsurance	72,680,769
Total reinsurance recoverable on unpaid claims: Property catastrophe reinsurance	407,340,909
Total gross liability for unpaid claims and claims adjustment expense:	**480,021,678**

10 Income Taxes and Uncertain Tax Positions

The Company provides for income taxes based upon amounts reported in the financial information and the provisions of currently enacted tax laws. The Company is registered in Bermuda and is subject to Bermuda law with respect to taxation. The Bermuda Corporate Income Tax Act (Bermuda CIT Act) was enacted on 27 December 2023 and is effective in 2025 for Bermuda businesses that are part of multinational groups with annual revenue exceeding Euro 750 million. The Company has determined that it does not fall within the scope of the Bermuda CIT Act.

11 Common and Preferred Shareholders' Equity

(a) Authorized and issued

The authorised and issued ordinary share capital of the Company is USD 1, issued to Lumen Investments Ltd.

The authorised non-voting preference share capital of the Company is USD 400,000,000 with a par value of USD 1 per share. During 2023, there was a share issuance of 4,847,967 non-voting preference shares worth USD 5,000,000 to the LGT (Lux) II – ILO Fund and a share issuance of 9,695,935 non-voting shares worth USD 10,000,000 to Lumen Holding LP. As a result, the issued non-voting preference shares increased from USD 353,501,238 to USD 368,045,140 as at 31 December 2023 and an increase in the contributed surplus from USD 1,497,181 to USD 1,953,279.

(b) Dividends

The Company did not declare any dividends during the year ended 31 December 2023 (2022: USD NIL).

12 Related Party Transactions

Artex Risk Solutions (Bermuda) Ltd. ("Artex") provides certain management services to the Company. Scott Cobon, Executive Vice President of Artex, served as director of the Company during the year without a fee. Management fees included in general and administrative expenses for the year ended 31 December 2023 totalled USD 691,868 (2022: USD 641,112). The Company participates in a fully funded quota share agreement with Secundum Re. As part of this agreement the following balances have been ceded from the Company to Secundum Re:

(expressed in USD)

	2023 USD	2022 USD
Balance Sheets		
Assets		
Prepaid reinsurance	11,380,587	13,065,773
Unpaid losses and loss adjustment expenses recoverable	404,629,355	722,352,071
Liabilities		
Reinsurance balances payable	1,164,903,241	1,595,928,293
Ceded deferred acquisition costs	1,298,101	1,380,093
Statements of Income and Comprehensive Income		
Reinsurance premium ceded	(106,996,039)	(176,568,462)
Other insurance income	4,237,491	6,878,076
Net change in unearned premium	(1,685,186)	(8,078,660)
Losses and loss adjustment expenses	(24,722,934)	221,964,763
Acquisition costs	10,961,225	17,166,136
Net Investment income	(52,674,081)	(14,516,852)

The Company's voting share is held by Lumen Investments Ltd and Secundum Re's voting share is held by Indepar Stiftung. The Company and Secundum Re have the same ultimate beneficial owner.

LGT ILS provides certain advisory services to the Company.

The Company paid Director's Fees and Consultancy fees of USD 90,000 (2022: USD 82,500) during the year.

13 Commitments and Contingencies

The Company has a USD 300,000,000 credit facility granted by Credit Suisse (Switzerland) Ltd., the purpose of which is to issue letters of credit and to hedge its foreign exchange risk.

14 Regulatory requirements

From 4 December 2013 to 30 April 2017 the Company was registered as a Special Purpose Insurer pursuant to the Act.

On 1 May 2017 the Company obtained a Class 3A license in accordance with the Act. On 31 May 2023 the Company obtained a Class 3B license in accordance with the Act. The paid-up share capital of USD 368,045,140 is categorized as Tier 1 capital in accordance with the Eligible Capital Rules, of the Act.

The Company is required to annually prepare and file a statutory financial return with the Bermuda Monetary Authority ("BMA"). The Act also requires that the Company maintain minimum share capital of USD 1 million and must ensure that the value of our general business assets exceeds the amount of our general business liabilities by an amount greater than the prescribed minimum solvency margins and enhanced capital requirement pertaining to its general business. At 31 December 2023 and 2022, all such requirements were met.

The Company is also required to file a quarterly regulatory risk-based capital model that measures risks and determines enhanced capital requirements and a target capital level. In addition, all Class 3B Bermuda insurers must prepare and file with the BMA audited US GAAP basis annual financial statements, which must be made publicly available. Declarations of dividends from retained earnings and distributions from contributed surplus are subject to these requirements being met. For all applicable periods presented herein, the Company satisfied these requirements.

The Bermuda Companies Act 1981 limits the Company's ability to pay dividends and distributions to shareholders if there are reasonable grounds for believing that: (a) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or (b) the realizable value of the Company's assets would thereby be less than the aggregate of our liabilities and issued share capital and share premium accounts. Under the Act, the

Company is restricted with respect to the payment of dividends. The Company is prohibited from declaring or paying in any financial year dividends of more than 25% of its total statutory capital and surplus unless the Company files, at least seven days before payment of such dividends, with the Bermuda Monetary Authority an affidavit stating that the Company will continue to meet the required margins. In addition, the Company is prohibited, without prior approval of the Bermuda Monetary Authority, from reducing by 15% or more of its total statutory capital, as set out in our previous year's statutory financial statements.

In addition, Bermuda regulations include certain restrictions on the amount of dividends or other distributions available to shareholders without prior approval of the insurance regulatory authorities. For the year ended 31 December 2023, the Company paid no dividends.

The statutory capital and surplus for the Company was USD 444,645,261 and USD 364,586,868 at 31 December 2023 and 2022, respectively, and statutory income was USD 65,058,393 and USD 1,945,908, respectively. Statutory capital and surplus and net income determined in accordance with statutory accounting practices were not significantly different than the amounts determined under GAAP.

15 Subsequent Events

The Company has completed its subsequent events evaluation for the period subsequent to the Balance Sheet date of 31 December 2023 through 12 April 2024, the date the financial statements were available to be issued, and concluded that other than the events noted above there are no subsequent events requiring recognition or disclosure.