

Pallas Reinsurance Company Ltd.

**Annual Report and Financial Statements
31 December 2023**

Pallas Reinsurance Company Ltd.

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Pallas Reinsurance Company Ltd.

Directors and Officers

Directors

William Bridger	
Andrew Smith	
Rhydian Williams	Resigned 25 March 2024
David Presley	Resigned 5 September 2023
Anup Seth	
Robin Masters	
Zameer Mitha	Appointed 5 September 2023

Company secretary

Carey Olsen Services Bermuda Limited
Susie Tindall

Registered office

Carey Olsen Services Bermuda Limited
Rosebank Centre, 5th Floor
11 Bermudiana Road
Pembroke, HM 08
Bermuda

Registered number

55121

Auditors

EY Bermuda Ltd.
3 Bermudiana Road
Hamilton
HM08 Bermuda

Bankers

HSBC Bermuda
Bank of New York Mellon

Under Bermuda Company law, disclosure of a performance review or a directors report is not required. Readers can obtain further information about the strategic direction of the business, and view the directors report for the Group in the Compré Group financial statements.

Independent Auditor's Report

The Board of Directors
Pallas Reinsurance Company Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Pallas Reinsurance Company Limited (the Company), which comprise the statement of financial position as at December 31, 2023, and the profit and loss account, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, 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 its financial performance and its cash flows for the year then ended in accordance with FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland” and FRS 103 “Insurance Contracts” (‘United Kingdom Generally Accepted Accounting Practice’ or ‘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.

Other Information

Other information consists of the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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.

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, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with 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.

May 29, 2024

Pallas Reinsurance Company Ltd.

Profit and loss account For the year ended 31 December 2023 Technical account – General business

	Note	2023 \$000	2022 \$000
Earned premiums, net of reinsurance			
Gross premiums written		2,331	1,946
Outward reinsurance premiums		(68)	–
Change in the gross provision for unearned premiums		5,284	4,086
Total technical income		7,547	6,032
Claims incurred, net of reinsurance			
Claims paid			
– gross amount		(279,606)	(66,531)
– reinsurers' share		6,917	13,102
		(272,689)	(53,429)
Change in the provision for claims			
– gross amount	5	568,972	217,562
– reinsurers' share	5	(31,699)	(7,422)
		537,273	210,140
Claims incurred, net of reinsurance		264,584	156,711
Net operating expenses	6	(58,432)	(29,232)
Total technical charges		206,152	127,479
Balance on the technical account for general business		213,699	133,511

The notes on pages 12 to 32 form an integral part of these financial statements.

Pallas Reinsurance Company Ltd.

Profit and loss account For the year ended 31 December 2023 Non-technical account

	Note	2023 \$000	2022 \$000
Balance on the general business technical account		213,699	133,511
Investment income	8	43,367	17,692
Unrealised gains/(losses) on investments	8	39,855	(65,445)
Investment income/(expenses) and charges	8	4,535	(4,085)
Unrealised gains on investments	8	619	287
Other income	9	4,716	7,302
Profit on ordinary activities before tax		306,791	89,262
Tax on profit on ordinary activities		—	—
Profit after tax		306,791	89,262

The notes on pages 12 to 32 form an integral part of these financial statements.

Pallas Reinsurance Company Ltd.

Statement of Comprehensive Income For the year ended 31 December 2023

	2023	2022
Note	\$000	\$000
Profit after tax	306,791	89,262
Other comprehensive income:		
Unrealised gain/(loss) on available-for-sale securities	991	(142)
Other comprehensive income/(expense), net of tax	991	(142)
Total comprehensive income	307,782	89,120

The notes on pages 12 to 32 form an integral part of these financial statements.

Pallas Reinsurance Company Ltd.

Statement of Financial Position As at 31 December 2023

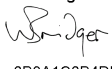
	Note	2023 \$000	2022 \$000
Assets			
Investments			
Other financial investments	10	1,305,121	893,595
Deposits with ceding undertakings	10	799,673	70,650
		<u>2,104,794</u>	<u>964,245</u>
Reinsurers' share of technical provisions			
Claims outstanding	5	107,942	56,563
		<u>107,942</u>	<u>56,563</u>
Debtors			
Debtors arising out of reinsurance operations		65,993	33,434
Other debtors		40,392	18,580
		<u>106,385</u>	<u>52,014</u>
Other assets			
Tangible assets	11	80	52
Cash at bank and in hand		4,649	22,460
		<u>4,729</u>	<u>22,512</u>
Prepayments and accrued income			
Accrued interest		8,435	5,364
Other prepayments and accrued income		595	425
		<u>9,030</u>	<u>5,789</u>
Total Assets		<u>2,332,880</u>	<u>1,101,123</u>

Pallas Reinsurance Company Ltd.

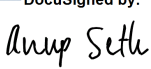
Statement of Financial Position As at 31 December 2023

	Note	2023 \$000	2022 \$000
Equity and Liabilities			
Capital and reserves			
Called up share capital	12	120	120
Revaluation reserve	12	849	(142)
Other reserves	12	401,192	333,192
Retained earnings		472,703	165,912
Total equity		874,864	499,082
Technical provisions			
Provision for unearned premiums	5	14,986	634
Claims outstanding	5	1,386,316	574,953
		1,401,302	575,587
Creditors			
Creditors arising out of reinsurance insurance operations		52,373	21,084
Other creditors including taxation and social security	13	256	3,507
		52,629	24,591
Accruals and deferred income			
		4,085	1,863
Total liabilities		1,458,016	602,041
Total equity and liabilities		2,332,880	1,101,123

The notes on pages 12 to 32 form an integral part of these financial statements.

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William Bridger
Director

29 May 2024

DocuSigned by:

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Anup Seth
Director

29 May 2024

Pallas Reinsurance Company Ltd.

Statement of Changes in Equity For the year ended 31 December 2023

	Notes	Called-up share capital \$000	Share premium \$000	Revaluation reserves \$000	Other reserves \$000	Retained earnings \$000	Total equity \$000
At 1 January 2022		120	—	—	178,678	76,650	255,448
Restatement for UK GAAP	18	—	—	—	—	14	14
At 1 January 2022 - as restated		120	—	—	178,678	76,664	255,462
Profit after tax		—	—	—	—	89,248	89,248
Other comprehensive income/ (expense), net of tax		—	—	(142)	—	—	(142)
Total comprehensive income		—	—	(142)	—	89,248	89,106
Capital Contributions		—	—	—	154,514	—	154,514
As at December 2022- as restated		120	—	(142)	333,192	165,912	499,082
At 1 January 2023		120	—	(142)	333,192	165,912	499,082
Profit after tax		—	—	—	—	306,791	306,791
Other comprehensive income/ (expense), net of tax		—	—	991	—	—	991
Total comprehensive income		—	—	991	—	306,791	307,782
Capital Contributions		—	—	—	68,000	—	68,000
At 31 December 2023		120	—	849	401,192	472,703	874,864

The notes on pages 12 to 32 form an integral part of these financial statements.

Pallas Reinsurance Company Ltd.

Statement of Cash Flows For the year ended 31 December 2023

	2023	2022
	\$000	\$000
Cash flow from operating activities		
Profit on ordinary activities before tax	306,791	89,262
Adjustment for:		
- Change in operating assets	(13,031)	138,563
- Change in operating liabilities	(126,421)	(77,585)
- Investment income	(42,344)	(15,209)
- Net finance costs	(4,535)	137
- Depreciation of tangible assets	12	13
- Fair value movements	(39,634)	68,559
- Foreign currency movements	(4,716)	–
	76,122	203,740
Interest received	39,606	12,682
Income tax paid	–	–
Net cash generated from operating activities	115,728	216,422
Cash flow from investing activities		
Purchases of investments	(1,050,179)	(563,258)
Proceeds from disposal of investments	847,218	210,854
Purchases of tangible assets	(59)	(72)
Proceeds from disposal of tangible assets	19	–
Net cash used in investing activities	(203,001)	(352,476)
Cash flow from financing activities		
Capital contributions received	68,000	130,496
Interest paid	1,462	(123)
Net cash generated from financing activities	69,462	130,373
Net decrease in cash at bank and in hand	(17,811)	(5,681)
Cash and cash equivalents at the beginning	22,460	28,141
Cash and cash equivalents at the end	4,649	22,460
Cash and cash equivalents consists of:		
Cash at bank and in hand	4,649	22,460
Cash and cash equivalents	4,649	22,460

The notes on pages 12 to 32 form an integral part of these financial statements.

Pallas Reinsurance Company Ltd.

Notes to the financial statements For the year ended 31 December 2023

1. General information

Pallas Reinsurance Company Ltd. ('the Company') is a global specialty reinsurance business that provides capital and liability solutions to its clients, thereby giving them certainty on their portfolios.

The Company is an exempted company limited by shares and is incorporated in Bermuda. The address of the registered office is Rosebank Centre, 5th Floor, 11 Bermudiana Road, Pembroke, HM 08. The parent entity is Compre Bermuda Holdings Limited ('the Parent'), domiciled in Bermuda, and the most senior parent company that prepares consolidated financial statements is Compre Group Holdings Limited ('Compre Group'), domiciled in Bermuda. Maple FeederCo Limited is the Group's ultimate controlling party.

The Company was licensed as a Class 3A reinsurer pursuant to The Insurance Act 1978 ('the Act'), and effective February 1, 2022, the Company relicensed as a Class 3B reinsurer due to changes in the scale of business.

2. Statement of compliance

The financial statements of Pallas Reinsurance Company Ltd. 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 the Republic of Ireland' ('FRS 102'), Financial Reporting Standard 103 and 'Insurance Contracts' (FRS 103). The financial statements were authorised for issue in accordance with a resolution of the directors on 29 May 2024.

As reported in the financial statements for the year ended 31 December 2022, the Company has adopted UK GAAP with effect from the financial period that began on 1 January 2023. The date of transition to UK GAAP, being the first day of the comparative period, is 1 January 2022. The necessary restatements and reconciliations from IFRS to UK GAAP have been presented in Note 18 to these financial statements.

3. Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The only changes in accounting policies from those that were disclosed in the Company's financial statements for the year ended 31 December 2022 are a result of the Company's transition to UK GAAP, details of which are disclosed in Note 18.

3.1. Basis of preparation

The preparation of financial statements in conformity with FRS 102 and FRS 103 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

3.2. Basis of measurement

The financial statements have been prepared on the historical cost basis with the exception of financial instruments measured at fair value, and insurance claims reserves that are measured at current value.

3.3. Going concern

The Directors have prepared a going concern assessment for the Company for the financial period to May 2025 (reflecting twelve months period from the date of the signing of the 2023 statutory accounts in May 2024). Business activities, together with the factors likely to affect the business' future development, financial position, financial risk management objectives, details of financial instruments and exposures to credit, liquidity and cash flow risk.

The Company has considerable financial resources together with long-term relationships with a number of customers and suppliers across different geographic areas and industries. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The Board expects the Company will continue to generate positive cash flows for the foreseeable future as it continues with the reinsurance business operations.

Taking account of the uncertainties arising as a result of the macroeconomic environment, the Directors of the Company are not aware of nor have any reason to believe in regard to the Company's ultimate parent entity Compre Group Holdings Limited that a material uncertainty exists that may cast significant doubt about the ability of the Group to continue as a going concern.

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Board continues to adopt the going concern basis in preparing the annual report and financial statements.

Notes to the financial statements For the year ended 31 December 2023

3.4. Foreign currency

The financial statements are presented in US Dollars and rounded to thousands. The Company's functional currency is US Dollars.

Transactions in foreign currencies are translated into the functional currency at the prior month's closing exchange rates of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at each reporting date are translated into the functional currency at the closing exchange rates as at that date. For this purpose all assets and liabilities arising from insurance contracts (including unearned premiums, deferred acquisition costs and unexpired risks provisions) are monetary items. Foreign currency differences are generally recognised in profit and loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

3.5. Insurance contracts

Gross written premiums

Gross written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period. They are recognised on the date on which the policy commences. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior accounting periods. Rebates that form part of the premium rate, such as no-claim rebates, are deducted from the gross premium; others are recognised as an expense.

Unearned premium

Unearned premiums represent the proportion of premiums written and unexpired policies acquired in that year that relate to unexpired terms of policies in force at the end of each accounting period. These premiums are calculated separately for each insurance policy on a pro-rata basis, and subsequently recognised in the profit and loss account over the period during which the policies are in force.

Claims paid

Gross claims paid comprises both claims approved for payment in the year and paid claims incorporated into the Company by way of a portfolio transfer. Claims are presented in the profit and loss account as 'claims paid' when payment has been approved and a creditor has been recognised; claims arising via a portfolio transfer are recognised when a legal agreement is reached between the original risk carrier and the third party transferring the risk and regulatory approval is received.

Technical provisions

Non-life technical provisions comprise the outstanding claims provision and the provision for unearned premium. The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with claims related costs, including future run-off expenses and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. No provision for equalisation or catastrophe reserves is recognised.

Technical provisions are discounted to present value to reflect an adjustment for the time value of money. Management considers this measurement to give more relevant information about the Company's financial position.

Technical provisions are derecognised when the obligation to pay a claim expires, is discharged or is cancelled.

Reinsurance

The Company cedes insurance risk in the normal course of business. A reinsurance asset (reinsurers' share of technical provisions) is recognised to reflect the amount estimated to be recoverable under the reinsurance contracts in respect of the outstanding claims reported. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. Any impairment loss is recorded in profit or loss.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

Consistent with technical provisions, reinsurance assets are discounted to present value to reflect an adjustment for the time value of money.

Notes to the financial statements For the year ended 31 December 2023

Retroactive reinsurance

Under retroactive reinsurance, the Company assumes liabilities incurred as a result of past insurable events. Legal transfers and loss portfolio transfers that are not business combinations are also accounted for as retroactive reinsurance. The Company recognises assets acquired and liabilities assumed as a direct consequence of retroactive reinsurance agreements on the earlier of the following occurrences:

- the beginning of the coverage period; and
- the date when the first payment from a cedant becomes due.

The Company measures the assets acquired and the liabilities assumed in retroactive reinsurance agreements in accordance with the accounting policies for the respective assets and liabilities; these primarily include financial assets and technical provisions, policies for which are disclosed in notes 3.12, 3.14, and this note. Future adjustment premiums arising from retroactive reinsurance agreements are only recognised when there is a reliable measure for them, which is generally not expected to occur before such adjustment premiums crystallise and are notified to the Company.

Gains or losses on retroactive reinsurance, representing the difference between the assets acquired and the liabilities assumed, are recognised in profit or loss immediately upon initial recognition and are not amortised.

Subsequent changes to the estimated timing and amount of loss payments on retroactive reinsurance are reflected in profit or loss in accordance with the policies set out in this note.

Commissions and profit participation

Commissions and profit participation are recognised in the profit and loss on an accruals basis.

3.6. Insurance claims handling expenses

The provision for the costs of handling and settling claims to extinction and all other costs of managing the run-off included in technical provisions is based on an analysis of the expected costs to be incurred in run-off activities, incorporating expected savings from the reduction of transaction volumes over time. Changes in the estimates of such costs and future investment income are reflected in the year in which the estimates are made.

3.7. Taxation

Under current Bermuda law, the company is not required to pay any taxes in Bermuda on either income or capital gains. In December 2023, the Bermuda Government enacted legislation to introduce a new Corporate Income Tax, based upon the OECD Pillar II Globe rules, to be levied at a rate of 15% from FY2025 on all Bermuda entities where Group revenue exceeds €750m. Compre Group is not expected to meet this threshold.

3.8. Tangible assets

Tangible assets are recognised as an asset only if it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

A tangible asset that qualifies for recognition as an asset is measured at its cost. Cost of a tangible asset comprises the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and an initial estimate of the cost of dismantling and removing the asset and restoring the site on which it is located.

After recognition, all tangible assets are carried at cost less any accumulated depreciation or impairment losses.

Depreciation is provided at rates calculated to write down the cost of assets, less estimated residual value, over their expected useful lives on the following basis:

Computer equipment	4 years
Furniture and equipment	5 years

The residual value and the useful life of an asset is reviewed at least at each financial year-end and if expectations differ from previous estimates, the changes are accounted for prospectively as a change in an accounting estimate.

Gains or losses arising on the disposal of tangible assets are determined as the difference between the disposal proceeds and the carrying value of the asset and are recognised in profit or loss. Depreciation is presented in other charges in the non-technical account.

The assets are reviewed for impairment if there exist any factors that indicate that the carrying amount may be impaired.

Costs associated with maintaining tangible assets are recognised as an expense as incurred.

Notes to the financial statements For the year ended 31 December 2023

3.9. Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

3.10. Leased assets

At their inception, the Company assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

Leases of assets that transfer substantially all the risks and rewards incidental to ownership are classified as finance leases. Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

The Company has no leases classified as finance leases throughout the reporting period.

3.11. Financial instruments

The Company has chosen to apply the recognition and measurement provisions of IAS 39 and the disclosure requirements of FRS 102 in respect of financial instruments. As a result, the adoption of UK GAAP has not resulted in changes to the classification and measurement of the Company's financial assets and financial liabilities.

3.12. Financial assets

Initial recognition and measurement

Financial assets are recognised in the statement of financial position when, and only when, the Company becomes a party to the contractual provisions of the instrument.

Financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Subsequent measurement

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and those designated upon initial recognition at fair value through profit or loss. Investments typically bought with the intention to sell in the near future are classified as held for trading. For investments designated at fair value through profit or loss, the following criteria must be met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on a different basis; or
- The assets and liabilities are part of a group of financial assets, financial liabilities, or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

These investments are initially recorded at fair value. Subsequent to initial recognition, they are remeasured at fair value. Changes in fair value are recorded in 'Income from financial assets at fair value through profit and loss'. Interest is accrued and presented in 'Investment income' using the effective interest rate (EIR).

Dividend income is recorded in 'Investment income' when the right to the payment has been established.

Available-for-sale financial assets

Available-for-sale financial investments include equity and debt securities. Equity investments (including investments in funds) classified as available-for-sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial assets are subsequently measured at fair value, with unrealised gains or losses recognised in other comprehensive income in the revaluation reserve. Where the Company holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available-for-sale investments is reported as interest income using the EIR. Dividends earned whilst holding available-for-sale investments are recognised in the statement of comprehensive income as 'Investment income' when the right of the payment has been established. When the asset is derecognised or determined to be impaired, the cumulative gain or loss is reclassified from the revaluation reserve to the statement of profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction

Notes to the financial statements For the year ended 31 December 2023

costs directly attributable to the acquisition are also included in the cost of the investment. After initial measurement, loans and receivables are measured at amortised cost, using the EIR, less allowance for impairment. Amortised cost is calculated by considering any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in 'Investment income' in the profit and loss account. Gains and losses are recognised in the profit and loss account when the investments are derecognised or impaired, as well as through the amortisation process.

Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Company first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income (recorded as investment income in the profit and loss account) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the statement of profit or loss.

Available-for-sale financial assets

For available-for-sale financial investments, the Company assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments (including funds) classified as available-for-sale, objective evidence would include a 'significant or prolonged' decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the profit and loss account. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Company evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

3.13. Financial liabilities

Creditors are also financial liabilities and are recognised initially at fair value, net of directly attributable transaction costs. Creditors are subsequently stated at amortised cost, using the effective interest method.

3.14. Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less in the statement of financial position. Deposits, as well as insurance funds withheld, are only included within cash and cash equivalents if the Company is able to access the assets in the short term without requiring another party's consent, and the underlying instruments are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

3.15. Investment return

In respect of investment return:

- Interest income on financial assets at fair value through the profit and loss is recognised using the effective interest rate method.

Notes to the financial statements For the year ended 31 December 2023

- Dividend income is recognised when the right to receive payment is established.
- Interest on financial assets at fair value through the profit and loss and expenses are accounted for on an accruals basis.

Realised gains and losses on investments carried at fair value through profit and loss are calculated as the difference between net sales proceeds and purchase price. In the case of investments included at amortised cost, realised gains and losses are calculated as the difference between sale proceeds and their latest carrying value. Movements in unrealised gains and losses on investments represent the difference between the fair value at the balance sheet date and their purchase price or their fair value at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

3.16. Equity and reserves

Share capital represents the nominal value of shares that have been issued.

Retained earnings include all current year profits and losses and prior years' profits and losses.

3.17. Distributions to equity holders

Dividends and other distributions to the Company's shareholders are recognised prior to settlement as a liability in the financial statements in the period in which the dividends and other distributions are approved by the shareholders.

These amounts are recognised in the statement of changes in equity.

3.18. Related party transactions

The Company discloses transactions with related parties which are owned with the same group.

3.19. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources to, and assessing performance of, the business, and of making strategic decisions, has been identified as the board of directors of Pallas Reinsurance Company Ltd.. Taking cognisance of the discrete financial information that is provided to the board of directors, the Company has been determined to constitute one reportable segment, that is as a global speciality reinsurance business that provides capital and liability solutions to its clients, thereby giving them certainty on their portfolios.

4. Significant management judgements in applying accounting policies and estimation uncertainty

When preparing the financial statements, management makes a number of judgements, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses.

The following are significant management judgements in applying accounting policies and estimation uncertainties of the Company that have a significant risk of resulting in a material adjustment to the carrying amount of the Company's assets and liabilities in the next financial year. Where there is uncertainty, the Company bases its assumptions and estimates on parameters available at the time when the financial statements are prepared. Existing circumstances and assumptions about future developments are however inherently subject to change (or changes in circumstances) that are beyond the Company's control. Any such changes are reflected in the assumptions when they occur.

The most significant management judgements and estimates have been applied in the calculation of insurance contract provisions and reinsurers' share of insurance liabilities, and future claims handling expenses. Information about these estimates and assumptions that have the most significant effect on the recognition of assets, liabilities, income and expenses is provided below.

Technical provisions for outstanding claims and reinsurers' share of insurance liabilities

The Company is exposed to technical provisions for outstanding claims, against which it holds assets representing reinsurers' share of those insurance liabilities. Claims outstanding include an estimate of provisions for claims incurred but not reported ("IBNR"). The carrying amount of the gross liabilities and of the reinsurers' share thereof is disclosed in note 5. Measurement of these provisions inherently gives rise to measurement uncertainty as the ultimate costs of gross claims, as well as amounts recovered from reinsurers, could vary materially from the amounts recognised in these financial statements.

Provisions for outstanding claims are established based on actuarial and statistical projections and other estimates of the ultimate cost of settlement. The Company estimates claims outstanding gross of reinsurance recoveries, and performs a netting down exercise to calculate the amounts that will be recoverable from reinsurers. Traditional actuarial techniques are used to estimate future liabilities for each major class of liabilities and other estimates of the ultimate cost of settlement, and to derive IBNR reserves for the Company's exposure. The models are designed explicitly to reflect the features of the risks and all information currently available in the market.

These techniques and projections are however dependent on a number of assumptions, and actual experience will often differ from these assumptions. Whilst management believe that the provisions for outstanding claims are fairly stated, these estimates inevitably contain inherent uncertainties, also because significant periods of time may elapse between the occurrence of an incurred loss, the reporting of that loss to the Company and the Company's payment of the loss and the receipt of reinsurance recoveries. These uncertainties are inherent in

Pallas Reinsurance Company Ltd.

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much of the business underwritten by the Company, and may cause the ultimate net costs of settling the liabilities to differ from the amounts previously estimated. Changes in the carrying amount of net claims outstanding that are attributable to changes in these estimates and assumptions are recognised in the Company's profit and loss account in the accounting period in which the estimates and assumptions are updated.

The Company calculates its actuarial liabilities using standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a management margin. Those projections of claims outstanding are discounted to present value; this calculation is based on the estimated timing of cash outflows required to settle the claims, and the determination of interest rates used to discount those cash flows. The discount rates used by the Company are aligned with the Bermuda Solvency Coverage Requirements rules.

Information about how the risk is managed, and how sensitive the carrying amounts are to changes in assumptions including with respect to the discounting of claims outstanding to present value, together with an analysis of claims development is disclosed in note 5.

Certain transactions that the Group enters into contain a profit participation feature under which payments may ultimately fall due from the cedant, being dependent on how the claims outstanding and/or related outward reinsurance develop.

Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The carrying value of these instruments is \$1,305,121k (2022: \$893,595k). The Company uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

5. Management of insurance and financial risks

The Company's activities expose it to a variety of insurance and financial risks. Management is responsible for managing the Company's exposure to these risks and, where possible, for introducing controls and procedures that mitigate the effects of the exposure to risk.

The following describes the Company's exposure to the more significant risks and the steps management have taken to mitigate their impact.

(a) Insurance risk

The Company includes insurance risk carriers who provide run-off services but do not provide live underwriting operations. The Company is therefore not exposed to underwriting risk except as provided below under reserving risk

Concentration risk

The Company's concentration of insurance risk by geographical location of risk is as follows:

	Gross liabilities	Reinsurance of liabilities	Net liabilities
	\$000	\$000	\$000
North America	(512,664)	39,491	(473,173)
Europe	(597,902)	46,056	(551,846)
United Kingdom	(129,442)	9,971	(119,471)
Others	(161,294)	12,424	(148,870)
As at 31 December 2023	(1,401,302)	107,942	(1,293,360)

	Gross liabilities	Reinsurance of liabilities	Net liabilities
	\$000	\$000	\$000
North America	(375,320)	44,392	(330,928)
Europe	(179,393)	12,171	(167,222)
United Kingdom	(20,445)	–	(20,445)
Others	(429)	–	(429)
As at 31 December 2022	(575,587)	56,563	(519,024)

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Notes to the financial statements For the year ended 31 December 2023

The Company's concentration of insurance risk by line of business is as follows:

	2023	2022
	\$000	\$000
Property	350,998	14,487
Medical Malpractice	330,970	126,878
US APH	211,594	173,797
Non-Marine Liability	91,950	51,172
General liability	74,678	132,887
Workers' Compensation	58,297	40,901
Other liability Incl. Motor	383,399	90,865
	<u>1,501,886</u>	<u>630,987</u>
Effect of discounting	(229,412)	(127,080)
Other technical provisions	20,886	15,117
Net insurance risk	<u>1,293,360</u>	<u>519,024</u>

Pallas Reinsurance Company Ltd.

Notes to the financial statements For the year ended 31 December 2023

Analysis of technical provisions and movements therein

	Gross liabilities \$000	Reinsurance of liabilities \$000	Net liabilities \$000
2023			
Unearned premium reserve	14,986	–	14,986
Provision for outstanding claims	1,364,430	(106,942)	1,257,488
Other technical provisions	21,886	(1,000)	20,886
Total	1,401,302	(107,942)	1,293,360
	Gross liabilities \$000	Reinsurance of liabilities \$000	Net liabilities \$000
2022			
Unearned premium reserve	634	–	634
Provision for outstanding claims	558,189	(54,916)	503,273
Other technical provisions	16,764	(1,647)	15,117
Total	575,587	(56,563)	519,024

Unearned premium reserve

	Gross liabilities \$000	Reinsurance of liabilities \$000	Net liabilities \$000
2023			
Opening Balance	634	–	634
Arising on acquisition of portfolio transfer	14,989	–	14,989
Earned premiums	(661)	–	(661)
Exchange rate changes	24	–	24
Closing Balance	14,986	–	14,986
2022			
Opening balance	–	–	–
Arising on acquisition of portfolio transfer	4,720	–	4,720
Earned premiums	(4,086)	–	(4,086)
Exchange rate changes	–	–	–
Closing Balance	634	–	634

Pallas Reinsurance Company Ltd.

Notes to the financial statements For the year ended 31 December 2023

Provision for outstanding claims including other technical provisions

	Gross liabilities \$000	Reinsurance of liabilities \$000	Net liabilities \$000
2023			
Opening Balance	574,953	(56,563)	518,390
Movement through the income statement	(568,972)	31,699	(537,273)
Liabilities acquired on portfolio transfers	1,347,720	(81,261)	1,266,459
Exchange rate changes	32,615	(1,817)	30,798
Closing Balance	1,386,316	(107,942)	1,278,374
2022			
Opening balance	404,674	(84,807)	319,867
Movement through the income statement	(217,562)	7,422	(210,140)
Liabilities acquired on portfolio transfers	366,442	20,822	387,264
Exchange rate changes	21,399	—	21,399
Closing Balance	574,953	(56,563)	518,390

The movement for portfolio transfers reflects claims portfolio reserves taken on in the period which are matched by equivalent transfers of financial assets at fair value and reflected in investments and cash in the balance sheet.

Gross claims liabilities include a provision for future claims handling and run off expenses of \$21.9m (2022: \$16.8m).

Significant assumptions and sensitivity analysis

In accordance with the policy described in note 3.5, the amounts for technical provisions as disclosed in the above tables are discounted to their present value. The discount rate comprises risk-free yield curve in the relevant currencies of the technical provisions, adjusted by an illiquidity premium that reflects the characteristics and liquidity of fulfilment cash flows. In selecting a discount rate, regard is also given to the duration of the expected settlement dates of the claims.

If the cash outflows required to settle net technical provisions or if the discount rates were to be increased/decreased, the net result for the reporting period would be impacted as follows:

	Impact of change in estimate of cash outflows to settle technical provisions	
	2023	2022
	+/- 2.5%	+/- 2.5%
	\$000	\$000
Change in profit and loss (pre-tax)		
Increase in cash outflows	(32,334)	(12,976)
Decrease in cash outflows	32,334	12,976
	Impact of change in interest rate used for discounting	
	2023	2022
	+/-2.5%	+/-2.5%
	\$000	\$000
Change in profit and loss (pre-tax)		
Decrease in interest rates	(132,385)	(62,293)
Increase in interest rates	105,412	48,277

Reserving risk

Reserving risk represents a significant risk to the Company in terms of driving capital requirements and the threat to profit and loss.

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Notes to the financial statements For the year ended 31 December 2023

Reserving risk is managed through the application of an appropriate reserving approach and the application of extensive due diligence on new run-off acquisitions prior to acceptance.

The Company faces risk under insurance and reinsurance contracts from which the actual amounts of claims and benefit payments, or the timings thereof, differ from expectations. The frequency of claims, their severity, actual benefits paid, subsequent development of long-tail claims and external factors beyond the Company's control, especially inflation, legal and regulatory developments, and others, have an influence on the principal risk faced by the Company. Additionally, the Company is subject to the underwriting of cedants for certain reinsurance treaties and to claims management by companies and other data provided by them.

Despite these uncertainties, the Company seeks to ensure that sufficient reserves are available to cover its liabilities.

Claims development tables

Claims outstanding (gross)

Reporting year	2020 \$000	2021 \$000	2022 \$000	2023 \$000	Total \$000
Estimate of ultimate claims costs:					
- at end of reporting year	71,203	412,593	301,517	1,176,505	1,961,818
- One year later	62,228	399,217	318,102		779,547
- Two years later	70,612	376,312			446,924
- Three years later	96,488				96,488
Current estimate of cumulative claims	96,488	376,312	318,102	1,176,505	1,967,407
Cumulative payments to date	(48,078)	(93,511)	(64,287)	(169,067)	(374,943)
	48,410	282,801	253,815	1,007,438	1,592,464
Effect of discounting	(5,195)	(64,689)	(41,941)	(148,336)	(260,161)
Foreign exchange movements	490	(1,339)	27,622	27,240	54,013
Liability recognised in the balance sheet	43,705	216,773	239,496	886,342	1,386,316
Provision in respect of prior years					—
Total provision included in balance sheet					1,386,316

Claims outstanding (net)

Reporting year	2020 \$000	2021 \$000	2022 \$000	2023 \$000	Total \$000
Estimate of ultimate claims costs:					
- at end of reporting year	44,247	353,450	287,189	1,102,354	1,787,240
- One year later	42,452	336,436	303,195		682,083
- Two years later	44,776	325,473			370,249
- Three years later	70,652				70,652
Current estimate of cumulative claims	70,652	325,473	303,195	1,102,354	1,801,674
Cumulative payments to date	(22,242)	(84,658)	(63,103)	(168,254)	(338,257)
	48,410	240,815	240,092	934,100	1,463,417
Effect of discounting	(5,195)	(53,306)	(41,035)	(137,702)	(237,238)
Foreign exchange movements	490	(1,740)	27,425	26,020	52,195
Liability recognised in the balance sheet	43,705	185,769	226,482	822,418	1,278,374
Provision in respect of prior years					—
Total provision included in balance sheet					1,278,374

(b) Financial risk management

Other than in the case of exposures to technical insurance balances which were described above, the Company's risk primarily arises on its investments (including cash and cash equivalents).

The Board is responsible for setting an investment strategy for the management of the Company's assets. The investments of the Company are primarily managed by external investment managers, appointed by the Board. The Board is responsible for setting the policy to be followed by the investment managers. The Board strives to mitigate the impact of interest rate fluctuation and credit risks and to provide appropriate liquidity, in addition to monitoring and managing foreign exchange exposures.

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Notes to the financial statements For the year ended 31 December 2023

The main objective of the Company's investment policy is to maximise return whilst protecting the underlying value and ensuring the Company continues to meet its solvency requirements.

Market risk

Market risk is the risk that the fair value or cash flows of financial instrument will fluctuate due to changes in market prices. Market risk reflects interest rate risk, currency risk and other price risks.

The Company is exposed to market risk as a consequence of fluctuations in values or returns on assets which are influenced by one or more external factors. These include changes and volatility in interest rates and inflation expectations.

Interest rate risk

In general, the Company is exposed to risk associated with the effect of fluctuations in the prevailing level of market rates. Assets carrying variable rates expose the Company to cash flow interest rate risk. Assets carrying fixed rates expose the Company to fair value interest rate risk. The Company's exposure to interest rate risk is primarily to fair value interest rate risk arising on fixed rate investments and borrowings; its exposure to cash flow interest rate risk is not considered to be significant within the context of the Company's risk management strategy.

The Company manages this risk through a selection of well-diversified investments through the appointment of specialist investment managers who manage the portfolio duration and associated cash flows in line with the duration and cash flows of the technical provisions. Detailed investment guidelines are implemented, restricting the level of investment in any one instrument, and the maturity date of investments. Investment performance is regularly monitored against market-based benchmarks.

The Company's profit or loss is sensitive to the impact that movements in market rates of interest will have on the above financial instruments; other comprehensive income is not directly sensitive to interest rate movements. The following analysis shows what impact a reasonably possible shift in market rates of interest (when holding all other variables constant) would have on profit for the period:

	2023	2022
	\$000	\$000
Change in profit/(loss) and equity		
Increase by 100 basis points	(45,107)	(39,310)
Decrease by 50 basis points	22,553	19,655

In those instances where interest is payable on insurance policies (e.g. in the case of damages awarded by Courts), that interest is included in the claims cost. Technical provisions are however discounted to present value, and their sensitivity to the level of market interest rates is disclosed in note 5(a).

Currency risk

Currency risk is the risk that fair values or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. It arises wherever financial instruments are denominated in a currency other than the Company's functional currency. Currency risk also arises on technical insurance balances.

The Company's principal transactions giving rise to currency risk are denominated in EUR, USD and GBP, and therefore its exposure to foreign exchange risk arises primarily with respect to those currencies. The Company's financial assets are primarily denominated in the same currency as its insurance liabilities and reinsurance thereon. Assets and liabilities are reviewed on a quarterly basis, on a risk carrier level to ensure that these match for the major currencies subject to a tolerance limit. These are reported via the quarterly management accounts which are approved by the Company's Board.

	2023	2022
	\$000	\$000
Change in profit/(loss) and equity		
10% strengthening of the GBP	26	7
10% weakening of the GBP	(22)	(7)
10% strengthening of the EUR	30,818	(1,630)
10% weakening of the EUR	(25,215)	1,663

Credit risk

Credit risk is the risk that another party fails to perform their financial obligations or fails to perform them in a timely fashion. The Company's credit risk primarily arises on its investments in bonds and on its cash and cash equivalents; it also arises on receivables.

The Company seeks to manage this risk by having a concentration of assets that are rated externally and that are considered to be of investment grade quality.

Pallas Reinsurance Company Ltd.

Notes to the financial statements For the year ended 31 December 2023

In the case of the investment portfolio, the Company has established investment guidelines that are also designed to mitigate credit risk by ensuring diversification of holdings. The credit risk in respect of reinsurance debtors is managed by the monitoring of reinsurers' ratings and the exposure of the debt to each reinsurer.

The Company's exposure to counterparty credit risk arises on the below instruments. The following table sets out the credit risk exposure and ratings of financial investments which are susceptible to credit risk. The ratings used have been sourced from S&P, Moody's or Fitch. When ratings for the same instrument or issuer differ across the various rating agencies, the Company uses the second-best rating. The remaining unrated assets are not classified by S&P, Moody's or Fitch.

	AAA \$000	AA \$000	A \$000	BBB \$000	BB \$000	B \$000	Unrated \$000	Total \$000
2023								
Government Bonds	30,260	295,197	5,014	390	—	—	—	330,861
Corporate Bonds	11,419	67,768	376,688	250,869	24,630	4,408	387	736,169
Investment in Funds	183,411	—	—	—	—	—	54,680	238,091
Deposits with ceding undertakings	—	—	764,785	—	—	—	34,888	799,673
Cash and Cash equivalents	—	1,020	3,629	—	—	—	—	4,649
Reinsurer's share of claims outstanding	—	4,464	44,616	11	—	5,372	53,479	107,942
Debtors arising out of reinsurance operations	—	4,898	15,602	—	—	22,189	23,304	65,993
	225,090	373,347	1,210,334	251,270	24,630	31,969	166,738	2,283,378
	AAA \$000	AA \$000	A \$000	BBB \$000	BB \$000	B \$000	Unrated \$000	Total \$000
2022								
Government Bonds	21,027	269,332	6,594	1,306	—	—	—	298,259
Corporate Bonds	9,178	63,334	262,631	193,730	23,371	8,522	200	560,966
Investment in Funds	—	—	—	—	—	—	34,370	34,370
Deposits with ceding undertakings	—	—	36,672	—	—	—	33,978	70,650
Cash and Cash equivalents	—	18,294	4,166	—	—	—	—	22,460
Reinsurer's share of claims outstanding	—	9,331	20,699	—	—	7,333	19,200	56,563
Debtors arising out of reinsurance operations	—	4,931	5,185	—	—	11,097	12,221	33,434
	30,205	365,222	335,947	195,036	23,371	26,952	99,969	1,076,702

The carrying values in the above table represent the maximum exposure to credit risk at the financial position date in respect of these assets.

No financial assets are past due or impaired at the reporting date and management expects no significant losses from non-performance by these counterparties.

Liquidity risk

Liquidity risk is the risk that the Company may not have liquid assets available at the right times to be able to pay its liabilities, despite the fact that it meets its regulatory solvency requirements. The Company maintains adequate free cash flows to finance its day-to-day operations. The risk that the Company fails to hold cash balances that are sufficient to pay creditors is managed by the use of cash flow forecasts and related monitoring systems. A review is performed on a quarterly basis along with an assessment of asset liability management and a prudent policy is maintained and conducted with respect to the duration of investments. The investment policy is reviewed annually.

Pallas Reinsurance Company Ltd.

Notes to the financial statements For the year ended 31 December 2023

The table below analyses the maturity of the Company's financial liabilities and outstanding claims. All liabilities are presented on a contractual cash flow basis except for the insurance liabilities, which are presented with their expected cash flows.

	Less than one year \$000	After one year but less than five years \$000	More than five years \$000	Total \$000	Carrying value \$000
2023					
Creditors arising out of reinsurance insurance operations	52,373	–	–	52,373	52,373
Accruals and deferred income	4,085	–	–	4,085	4,085
Other creditors including taxation and social security	256	–	–	256	256
Technical provisions	445,317	770,183	430,977	1,646,477	1,401,302
Financial liabilities and outstanding claims	502,031	770,183	430,977	1,703,191	1,458,016

	Less than one year \$000	After one year but less than five years \$000	More than five years \$000	Total \$000	Carrying value \$000
2022					
Creditors arising out of reinsurance insurance operations	21,084	–	–	21,084	52,373
Accruals and deferred income	1,863	–	–	1,863	4,085
Other creditors	3,507	–	–	3,507	3,507
Technical provisions	158,342	335,606	228,588	722,536	575,587
Financial liabilities and outstanding claims	184,796	335,606	228,588	748,990	602,041

In addition to the above recognised financial liabilities, the Company is also exposed to liquidity risk on open (unfunded) commitments to invest in financial assets. Open commitments at 31 December 2023 amounted to \$20.7m (2022: \$36.5m), and the Company could be requested on demand to fund these open commitments. Nevertheless, management expects that calls to fund the open commitments will be staggered over a period of time that is generally estimated to be of not less than two years from when the initial commitment is made.

Capital management

The Company's policy is to maintain a strong capital base to support its business plans and comply with all regulatory requirements on an ongoing basis whilst assessing the impact of capital employed on shareholder returns. The Company defines capital as shareholders' equity as presented within the statement of financial position.

The Company is required to maintain minimum solvency standards and to hold available statutory capital and surplus equal to or exceeding the Enhanced Capital Requirement as determined by the Bermuda Monetary Authority ("BMA").

The Company was in full compliance with the regulatory capital requirements throughout the financial year and at 31 December 2023. The Company's total statutory economic capital and surplus of \$734m (2022: \$432m) was in excess of the required ECR of \$410m (2022: \$196m).

Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices in an active market (Level 1).
- Recent transactions in an identical asset if there is unavailability of quoted prices (Level 2).
- Use of a valuation technique if there is no active market or other transactions which are a good estimate of fair value (Level 3).

Pallas Reinsurance Company Ltd.

Notes to the financial statements For the year ended 31 December 2023

The following table presents the Company's assets measured at fair value. No liabilities were measured at fair value.

	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total Balance \$000
2023				
Assets				
Financial assets at fair value through profit or loss:				
- Government bonds	—	330,861	—	330,861
- Corporate bonds	—	736,169	—	736,169
- Investments in funds (Open-end)	—	183,411	—	183,411
Available-for-sale financial assets:				
- Investments in funds (Closed-end)	—	—	54,680	54,680
	—	1,250,441	54,680	1,305,121
	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total Balance \$000
2022				
Assets				
Financial assets at fair value through profit or loss:				
- Government bonds	—	282,487	—	282,487
- Corporate bonds	—	576,738	—	576,738
Available-for-sale financial assets:				
- Investments in funds (Closed-end)	—	—	34,370	34,370
	—	859,225	34,370	893,595

The fair value of financial instruments traded in active markets is based on quoted bid prices at the balance sheet date as described in Note 3.11. These instruments are included in Level 1.

If observable prices are available for recent arm's length transactions, the instrument is included in Level 2.

Government and agencies fixed maturity securities – These securities are generally priced by pricing services or index providers. The pricing services or index providers may use current market trades for securities with similar quality, maturity and coupon. If no such trades are available, the pricing service typically uses analytical models which may incorporate option adjusted spreads, daily interest rate data and market/sector news. The Company generally classifies the fair values of government and agencies securities in Level 2.

Corporate fixed maturity securities – These securities are generally priced by pricing services or index providers. The pricing services or index providers typically use discounted cash flow models that incorporate benchmark curves for treasury, swap and high issuance credits. Credit spreads are developed from current market observations for like or similar securities. The Company generally classifies the fair values of its corporate securities in Level 2.

Investments in funds that the Company classifies as fair value through profit or loss - These investments are generally priced by the administrator. The administrator will value investments using mark-to-market where possible with securities at market price where quoted, listed or traded on a recognised market. Investments in other funds which are not on that basis will be valued on the latest available redemption price less any redemption charges. The group generally classifies the fair values of these investments in funds Level 2.

Investments in funds that the Company classifies as available-for-sale - These investments are generally priced on net asset values ("NAV") received from the fund managers or administrators. Due to the timing of the delivery of the final NAV by certain of the fund managers, valuations of certain alternative funds and specialty funds are estimated based on the most recently available information, including period end NAVs, period end estimates, or, in some cases, prior month or prior quarter NAVs. As this valuation technique incorporates both observable and significant unobservable inputs, the group generally classifies the fair value of its investments in funds as Level 3.

Due to the short-term nature of cash and cash equivalents, deposits with ceding undertakings, and other current receivables, their carrying amount is considered to be the same as their fair value.

Pallas Reinsurance Company Ltd.

Notes to the financial statements For the year ended 31 December 2023

6. Expenses

a) Net operating expenses

	2023	2022
	\$000	\$000
Administrative expenses	56,347	31,511
Reinsurance commissions and profit participation	2,085	(2,279)
	<u>58,432</u>	<u>29,232</u>

b) Operating lease rentals

Total operating lease charges paid during the year amounted to \$78k (2022: \$60k).

7. Employees and directors

	2023	2022
	\$000	\$000
Salaries and other short-term benefits	3,356	2,579
Other pension costs	153	123
	<u>3,509</u>	<u>2,702</u>

Directors remuneration

The compensation paid or payable to the Board of Directors for employee services is shown below:

	2023	2022
	\$000	\$000
Directors' emoluments	1,710	1,543
	<u>1,710</u>	<u>1,543</u>

Pallas Reinsurance Company Ltd.

Notes to the financial statements For the year ended 31 December 2023

8. Investment return and expenses

	2023	2022
	\$000	\$000
Investment income:		
Interest income on financial assets not at fair value through profit and loss	3,639	2,234
Income from financial assets at fair value through profit and loss	38,705	15,432
Income from financial investments	42,344	17,666
Net gains on the realisation of investments	1,023	26
	43,367	17,692
Net unrealised gains/ (losses) on investments	40,474	(65,158)
Total investment return	83,841	(47,466)
Investment expenses and charges:		
Other investment management expenses and amortisation on investments	6,398	(659)
Net losses on the realisation of investments	(1,863)	(3,426)
Total investment management expenses, including interest	4,535	(4,085)

Included in the above are net gains on financial assets at fair value through profit and loss of \$39,634k (2022: net losses of (\$68,558)k).

Sensitivity

A 1% increase in the longer-term rate of investment return	21,048	9,642
A 1% decrease in the longer-term rate of investment return	(21,048)	(9,642)

Investment returns over past five years	2018-2023	2017-2022
Actual return attributable to shareholders	62,963	15,060

Pallas Reinsurance Company Ltd.

Notes to the financial statements For the year ended 31 December 2023

9. Other income

Other non-technical income comprises the below amounts.

	2023	2022
	\$000	\$000
Net foreign exchange gain	4,716	7,302
	<u>4,716</u>	<u>7,302</u>

10. Investments

	Carrying Value	
	2023	2022
	\$000	\$000
Other financial assets		
Financial assets at fair value through profit or loss	1,250,441	859,225
Available-for-sale financial assets	54,680	34,370
	<u>1,305,121</u>	<u>893,595</u>
Deposits with ceding undertakings		
Loans and receivables	799,673	70,650
	<u>2,104,794</u>	<u>964,245</u>

Deposits with ceding undertakings increased in 2023 as a result of the transactions completed during the year.

The following table analyses the Company's financial investments by class of investment.

	2023	2022
	\$000	\$000
Other financial assets		
Investments in bonds:		
- Government bonds	330,861	298,259
- Corporate bonds	736,169	560,966
Investments in funds:		
- Open-end funds	183,411	-
- Closed-end funds	54,680	34,370
	<u>1,305,121</u>	<u>893,595</u>
Deposits with ceding undertakings	799,673	70,650
	<u>2,104,794</u>	<u>964,245</u>

Pallas Reinsurance Company Ltd.

Notes to the financial statements For the year ended 31 December 2023

11. Tangible assets

	Computer equipment \$000	Furniture and equipment \$000	Total \$000
2022			
Cost	60	6	66
Accumulated depreciation	(13)	(1)	(14)
Net book amount	47	5	52
2023			
Opening net book amount	47	5	52
Additions	9	50	59
Acquisitions	—	—	—
Disposals	(19)	—	(19)
Depreciation	(7)	(5)	(12)
Closing net book amount	30	50	80

12. Share capital and reserves

Class of share	31 December 2023 and 2022		
	Number of shares '000	Nominal value \$	Total \$000
Ordinary shares, allotted, called up and fully paid:	120	1	120
Total	120	1	120

The Ordinary shares are entitled to one vote per share, are entitled to discretionary dividends, and are entitled to the surplus assets in the event of a winding-up or dissolution of the Company.

The above number of shares are authorised, issued and fully paid.

Revaluation and other reserves

	Capital contribution \$000	Revaluation reserve \$000	Total \$000
At 1 January 2022	178,678	—	178,678
Capital contribution	154,514	—	154,514
Unrealised (loss)/gain on available for sale securities	—	(142)	(142)
At 31 December 2022	333,192	(142)	333,050
Capital contribution	68,000	—	68,000
Unrealised (loss)/gain on available for sale securities	—	991	991
At 31 December 2023	401,192	849	402,041

The nature and purpose of the above reserves have been disclosed in note 3.16.

Pallas Reinsurance Company Ltd.

Notes to the financial statements For the year ended 31 December 2023

13. Other creditors including tax and social security

	2023	2022
	\$000	\$000
Social security and other taxes	–	30
Other	256	3,477
	256	3,507

14. Commitments

Operating leases

The total future minimum lease payments under non-cancellable operating leases are as follows:

	2023	2022
	\$000	\$000
Operating leases which expire:		
Within one year	87	85
Between one and five years	172	242
After five years	–	–
	259	327

15. Contingencies

In June 2023 the Company entered into a Letter of Credit arrangement which provides a commitment from the provider to cover outstanding claims reserves if required. The Letter of Credit is for up to USD 50m expiring on 27 August 2024 and has been utilised to provide collateral on one of the transactions completed in the year.

There were no outstanding capital commitments, contingent assets or liabilities at 31 December 2023 (2022: \$nil).

16. Controlling parties

Pallas Reinsurance Company Ltd.'s immediate parent company is Compre Bermuda Holdings Limited and its ultimate parent company is Maple Feederco Limited. Maple Feederco Limited is also the Company's ultimate controlling party.

17. Related party transactions

The following table presents the impact in the Statements of Financial Position of the related party reinsurance arrangements at December 31, 2023 and 2022:

	2023	2022
	\$000	\$000
Debtors arising out of reinsurance operations	44	41
Deposits with ceding undertakings	34,889	33,979
Gross - Claims outstanding	391,926	109,279
Gross - Provision for unearned premiums	9	74
Creditors arising out of reinsurance insurance operations	20,317	6,791
	447,185	150,164

Pallas Reinsurance Company Ltd.

Notes to the financial statements For the year ended 31 December 2023

18. Transition to FRS 102

This is the first year that the Company have presented their results under FRS 102. The last financial statements under International Financial Reporting Standards ("IFRS") were for the year ended 31 December 2022. The date of transition to FRS 102 was 1 January 2023. Set out below are the changes in accounting policies which reconcile profit for the financial year ended 31 December 2022 and the total equity as at 1 January 2022 and 31 December 2022 between IFRS as previously reported and FRS 102.

Profit for the financial year

	2022
	\$000
IFRS - As previously reported	89,248
IFRS 9 Credit Losses	—
IFRS 16 Leases	14
Goodwill amortization under UK GAAP	—
Total adjustment to loss for the financial year	14
FRS 102	89,262

Other comprehensive loss

	2022
	\$000
IFRS - As previously reported	(142)
IFRS 9 Credit Losses	—
IFRS 16 Leases	—
Goodwill amortization under UK GAAP	—
Total adjustment to loss for the financial year	—
FRS 102	(142)

Total equity

	1 January 2022	31 December 2022
		\$000
IFRS - As previously reported	255,448	499,068
IFRS 16 Leases	—	14
FRS 102	255,448	499,082

IFRS 16 Leases

FRS 102 requires that leases need to be recorded separately according to their nature which can either be operating or financial. Pallas Reinsurance Company Ltd. only has operating leases which will be expensed to profit & loss over the life of the lease. As a result right of use assets and lease liabilities have been derecognized.

19. Events after the reporting period

In April 2022, Compré Group entered into a small loss portfolio transaction with a German re-insurer to acquire a portfolio of motor and marine business in run-off on the Netherlands. The initial deal completed in 2022 but a second deal relating to the original agreement was completed on 12 January 2024.