



Report & Financial Statements

Group Ark Insurance Limited

Registered number: 39617

2023

Contents

Directors and administration	2
Independent auditor's report	3
Income statement and Statement of comprehensive income	4
Balance sheet	5
Statement of changes in equity	6
Notes to the financial statements	7

Directors and administration

Directors

A Ayliffe
I Beaton (Chairman)
N Bonnar
J Clements (Chief Executive)
G Rountree
J Reardon
J Wardrop

Company secretary

Conyers Corporate Services (Bermuda) Ltd

Registered office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Company registration number

39617

Bankers

HSBC Bank of Bermuda Limited
6 Front Street
Hamilton HM 11
Bermuda

Registered auditors

PwC
4th Floor
Washington House
16 Church Street
Hamilton HM 11
Bermuda

Independent auditor's report

To the Board of Directors and Shareholder of Group Ark Insurance Limited

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Group Ark Insurance Limited (the Company) as at December 31, 2023, and its financial performance 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".

What we have audited

The Company's financial statements comprise:

- the balance sheet as at December 31, 2023;
- the income statement for the year then ended;
- the statement of changes in equity for the year then ended;
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements of the Chartered Professional Accountants of Bermuda Rules of Professional Conduct (CPA Bermuda Rules) that are relevant to our audit of the financial statements in Bermuda. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the CPA Bermuda Rules.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and FRS 103 "Insurance Contracts", 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.

Those charged with governance 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 those charged with governance 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.



Chartered Professional Accountants
Hamilton, Bermuda
March 20 2024

Income statement

For the year ended 31 December 2023

	Notes	2023 USD'000	2022 USD'000
Revenue			
Gross premiums written		1,344,842	993,398
Outward reinsurance premiums		(327,993)	(154,042)
Net premiums written		1,016,849	839,356
Expenses			
Gross premiums earned		1,252,190	859,130
Premiums ceded to reinsurers		(313,309)	(140,765)
Net premiums earned		938,881	718,365
Investment result	4	71,184	(14,960)
Total revenue		1,010,065	703,405
Claims and claim adjustment expenses		(711,636)	(631,581)
Reinsurance recoveries		52,835	141,955
Claims and claim adjustment expenses, net of reinsurance		(658,801)	(489,626)
Expenses for the acquisition of insurance contracts		(67,977)	(80,241)
Operating expenses	5	(38,703)	(46,575)
Total expenses		(765,481)	(616,442)
Profit on operating activities		244,584	86,963
Finance costs	6	(21,330)	(15,063)
Profit for the year before tax		223,254	71,900
Taxation benefit	7	51,000	-
Profit for the year after tax		274,254	71,900

Statement of comprehensive income

	Notes	2023 USD'000	2022 USD'000
Profit for the year after tax		274,254	71,900
		274,254	71,900

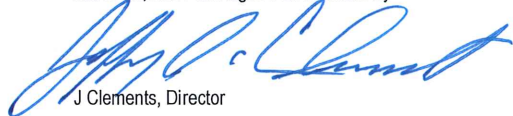
The notes on pages 7 to 27 form part of these financial statements.

Balance sheet

As at 31 December 2023

	Notes	2023 USD'000	2022 USD'000
Assets			
Financial assets carried at fair value	8	1,383,691	967,462
Fixed assets		1,038	536
Deferred acquisition costs	9	42,384	36,543
Insurance receivables	10	664,884	996,531
Reinsurance assets	11	241,386	181,832
Other receivables	12	5,536	43,219
Cash and cash equivalents	13	46,590	39,396
Prepayments and accrued income		11,292	8,547
Deferred tax asset	18	51,000	-
Total assets		2,447,801	2,274,066
Equity and liabilities			
<i>Equity</i>			
Called up share capital	14	1,000	1,000
Share premium	14	595,399	595,399
Retained earnings		387,882	128,628
Total equity		984,281	725,027
<i>Liabilities</i>			
Insurance liabilities	15	1,186,358	1,315,327
Financial liabilities	8, 16	189,682	188,339
Other payables	17	59,730	18,796
Payable for investments purchased		10,000	-
Accruals and deferred income		17,750	26,577
Total liabilities		1,463,520	1,549,039
Total equity and liabilities		2,447,801	2,274,066

The notes on pages 7 to 27 form part of these financial statements. The financial statements were approved by the Board of Group Ark Insurance Limited on March 20, 2024 and signed on its behalf by



J Clements, Director
March 20, 2024

Statement of changes in equity

For the year ended 31 December 2023

	Share capital USD'000	Share premium USD'000	Retained earnings USD'000	Total USD'000
At 1 January 2022	120	596,279	56,728	653,127
Profit for the year	-	-	71,900	71,900
Reallocation from Share premium to Share capital	880	(880)	-	-
At 31 December 2022	1,000	595,399	128,628	725,027
Profit for the year	-	-	274,254	274,254
Dividends	-	-	(15,000)	(15,000)
At 31 December 2023	1,000	595,399	387,882	984,281

The notes on pages 7 to 27 form part of these financial statements.

Notes to the financial statements

General Information

Group Ark Insurance Limited ("GAIL") is a subsidiary of Ark Insurance Holdings Limited ("AIHL"). AIHL is a subsidiary of White Mountains Insurance Group, Ltd ("WTM"). The Company underwrites property, casualty and specialty (re)insurance. Prior to 2021 the Company underwrote a quota share reinsurance contract with Ark Capital Management Limited ("ACML"). In 2021, GAIL started to underwrite third-party insurance and reinsurance from Bermuda, as such the Company employs 35 people in Bermuda.

1. Statement of accounting policies

Statement of compliance

The financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* ("FRS 102").

Basis of preparation

The financial statements are prepared using the historical cost convention except that financial investments and derivative financial instruments are stated at their fair value. All amounts presented are stated in US dollars, unless stated otherwise.

The financial statements have been prepared on a going concern basis. The directors of GAIL have performed an assessment of the Company's ability to continue as a going concern. A going concern assessment has been undertaken, taking into consideration availability of capital, liquidity and stress testing. The directors of GAIL have therefore concluded that there are no material uncertainties that could have cast significant doubt over the ability of the Company to continue as a going concern for at least a year from the date of approval of the financial statements.

The Company is considered to be a qualifying entity (for the purposes of FRS) and has applied exemptions available under FRS 102 in respect of the requirement to include a cash flow statement and related notes. The results of the Company are consolidated in the financial statements of AIHL and WTM. The consolidated financial statements of the AIHL and WTM group can be obtained from the registered office as set out on page two.

Use of judgements and estimates

In preparing these accounts, the directors have made judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively. The measurement of the provision for claims outstanding involves judgments and assumptions about the future that have the most significant effect on the amounts recognised in the financial statements.

Insurance contracts

Insurance contracts (including inwards reinsurance contracts) are defined as those containing significant insurance risk. Insurance risk is considered significant if, and only if, an insured event could cause GAIL to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire.

Premiums written and earned

Premiums written comprise premiums on contracts incepted during the financial year as well as adjustments made in the year to premiums written in prior accounting years. Premiums are shown gross of acquisition costs such as brokerage payable and taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due but not yet notified.

Written premiums are recognised as earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date. The provision is calculated on a policy by policy basis.

Reinsurance premiums ceded and earned

Outwards reinsurance premiums are accounted for in the same accounting year as the premiums for the direct or inwards business being reinsured.

Notes to the financial statements

1. Statement of accounting policies (continued)

Claims provisions and related recoveries

The provision for claims comprises amounts set aside for claims notified and claims incurred but not yet reported ("IBNR"). Claims incurred comprise claims and claims handling expenses paid in the year and the movement in provision for outstanding claims and future claims handling expenses. Recoverable amounts arising out of subrogation and salvage together with reinsurance recoveries are deducted from the cost of gross claims. Outstanding claims consist of amounts set aside for notified claims and a provision for IBNR claims. The amount included in respect of IBNR is arrived at by considering the actuarially calculated provision, using techniques that generally involve statistical techniques of estimation applied by GAIL actuaries and reviewed by external consulting actuaries, as well as the opinion of the class underwriters and executive management. The actuarial techniques generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting having regard to variations in the business accepted and the underlying terms and conditions. Large claims are generally assessed individually, being calculated on a case by case basis or projected separately to allow for the possible distortive effects of the developments of these claims on the balance of the data. The provision for claims also includes amounts in respect of internal and external claims handling costs.

The reinsurers' share of provisions for claims is based on calculated amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved.

Accordingly the two most critical assumptions with regards to claims provisions are that the past is a reasonable predictor of the likely level of claims development and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred. Ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amount of claims provisions established in prior years are reflected in the financial statements for the year in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

Acquisition costs

Acquisition costs, comprising brokerage and taxes and duties levied on them are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

Foreign currency translation

a) Functional and presentation currency

Items included in the financial statements of the Company are measured using the US dollar, the currency of the primary economic environment in which the Company operates (the "functional currency"). The financial statements are presented in US dollars, being the presentation currency of the Company.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using average exchange rates applicable to the period in which the transactions take place and where the Company considers these to be a reasonable approximation of the transaction rate. Foreign exchange gains and losses resulting from the settlement of such transactions and from translation at the period end of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss. Non-monetary items recorded at historical cost in foreign currencies are translated using the exchange rate on the date of the initial transaction. For the purposes of foreign currency translation, unearned premiums and deferred acquisition costs are treated as if they are monetary items.

Financial assets

Financial assets are recognised in the balance sheet at such time as the Company becomes a party to the contractual provisions of the asset. Purchases and sales of financial assets are recognised on the trade date, which is the date the Company commits to purchase or sell the asset. A financial asset is derecognised when the contractual rights to receive cash flows from the financial assets expire, or where the financial assets have been transferred, together with substantially all the risks and rewards of ownership. Financial liabilities are derecognised if the Company's obligations specified in the contract expire, are discharged or cancelled.

On acquisition of a financial asset, the Company is required to classify the asset into one of the following categories: financial assets at fair value through the statement of profit or loss, loans and receivables, assets held to maturity and assets available for sale.

Notes to the financial statements

1. Statement of accounting policies (continued)

Financial assets (continued)

Assets are designated as fair value through the statement of profit or loss upon initial recognition because they are managed and their performance is evaluated on a fair value basis. Information about these financial assets is provided internally on a fair value basis to the Company's key management. The Company's investment strategy is to invest and evaluate their performance with reference to their fair values.

Fair value is the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date.

When available, the Company measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. If a market for a financial instrument is not active, the Company establishes fair value using a valuation technique. Valuation techniques include using recent orderly transactions between market participants (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Company, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Company calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Upon initial recognition, attributable transaction costs relating to financial instruments at fair value through profit or loss are recognised in the statement of profit or loss when incurred. Financial assets at fair value through profit or loss are continually measured at fair value, and changes therein are recognised in the statement of profit or loss. Net changes in the fair value of financial assets at fair value through profit or loss exclude interest and dividend income, as these items are accounted for separately as set out below.

Insurance receivables and payables

Insurance receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. Insurance receivables are classified as 'loans and receivables' as they are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Insurance receivables are measured at amortised cost less any impairment losses. Insurance payables are stated at amortised cost.

Other receivables

Other receivables are carried at cost less any impairment losses.

Investment income

Investment income consists of dividends, interest, realised and unrealised gains and losses and foreign exchange gains and losses on financial assets at fair value through the statement of profit or loss. Dividends on equity securities are recorded as revenue on the ex-dividend date. Interest is recognised separately using the effective interest rate method for financial assets at fair value through the statement of profit or loss. The realised gains or losses on disposal of an investment are the difference between the proceeds and the original cost of the investment. Unrealised investment gains and losses represent the difference between the carrying value at the reporting date, and the carrying value at the previous period end or purchase value during the period.

Notes to the financial statements

1. Statement of accounting policies (continued)

Borrowings

Borrowings are stated at cost and interest is recognised in the statement of profit or loss over the period of the borrowings using the effective interest method.

Finance costs comprise interest, fees paid for the arrangement of debt and letter of credit facilities and commissions charged for the utilisation of letters of credit. These costs are recognised in the statement of profit or loss in the year they are incurred.

Other payables

Other payables are stated at cost determined on the effective interest rate method.

Hedge accounting and derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. The best evidence of fair value of a derivative at initial recognition is the transaction price. The method of recognising the resulting fair value gains or losses depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. Fair values are obtained from quoted market prices in active markets, recent market transactions, and valuation techniques which include discounted cash flow models. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand, deposits held at call with banks and other short-term highly liquid investments with maturities of three months or less from the date of acquisition. Cash and cash equivalents are classified as loans and receivables and carried at amortised cost less any impairment losses.

Depreciation

Depreciation has been provided on a straight line basis to write off the costs of fixed assets, less their residual values, over their estimated useful lives. The rates used are as follows - Computer equipment and software 33%; and Office equipment 20%.

Operating leases

Rentals payable under operating leases are charged to the profit and loss account over the term of the lease.

Pensions

Contributions to defined contribution pension funds are charged to the profit and loss account when payable. The assets of all the schemes supported are held separately from those of the Company in independently administered funds.

Taxation

The company was not subject to income tax in Bermuda in 2023 and prior years. On December 27, 2023, Bermuda enacted a 15% corporate income tax that will generally become effective on January 1, 2025. The Bermuda legislation defers the effective date for five years for Bermuda companies in consolidated groups that meet certain requirements. The Company expects to meet the requirements to be exempt from the Bermuda corporate income tax until January 1, 2030. The Bermuda legislation also provides for an economic transition adjustment that will reduce future years' taxable income. Under GAAP, this economic transition adjustment was required to be recognized as a net deferred tax asset as of December 31, 2023. Accordingly, GAIL's net income for 2023 included a net deferred tax benefit of \$51 million.

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognized in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Notes to the financial statements

1. Statement of accounting policies (continued)

Taxation

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the consolidated financial statements. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense. Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Profit commissions

Profit commissions expected to arise on (re)insurance contracts are recognised on an accruals basis subject to an assessment of certainty over the year's profitability.

2. Management of risk

Approach to risk management

GAIL's core business relies on the assumption of internal and external risk within the appetites and tolerances established by the Board. Primarily GAIL's business is the assumption of Insurance Risk and Market Risk, with the additional categories of Credit Risk, Liquidity Risk, Operational Risk and Group Risk. Managing these risks in a manner that is consistent with the strategy, appetites and tolerances established by the Board requires that GAIL has in place a systematic, objective, and robust set of governance arrangements and processes for identifying and quantifying the risks to which it is exposed. This enables GAIL to determine appropriate strategies and approaches for prevention and mitigation.

The effectiveness with which GAIL manages risk is a key determinant of the level of capital resources required to run the business and its ability to achieve its strategic objectives including, in relation to capital efficiency and the production of acceptable levels of return.

Insurance risk

This is the risk arising from the uncertainties in timing, frequency and severity of insured losses, relative to the expectations made at the time of business planning or underwriting. GAIL's business is based on the seeking and assumption of insurance risk. The Company writes a balanced and diversified book of business through a team of experienced underwriters with the objective of charging appropriate premiums to cover claims and operational costs whilst optimising the expected return on equity. Target returns are assessed each year, taking into account the insurance market outlook and realistic expectations of return on equity. Insurance risk comprises the following elements:

a) Exposure management risk

This is the risk of exposure to an event, or a series of events, which causes a potential financial loss that exceeds expectations. The nature of GAIL's business and underwriting portfolio includes the assumption of a high degree of catastrophe, non-catastrophe and accumulative exposure to different events. This is managed through the purchase of reinsurance and diversification of business lines and geographical areas to balance exposures, with the aim of reducing the risk that one event, or a series of events, will cause unacceptable loss to the business. GAIL's catastrophe and non-natural catastrophe modelling processes incorporate GAIL-specific disaster scenarios, aggregate caps and cross-class modelling which reflect the diversity of the portfolio.

b) Underwriting quality risk

This is the risk of inappropriate underwriting or the inadequate pricing of risks which can lead to unprofitable business or inefficient line utilisation and risk selection. The management of underwriting quality can be difficult in a competitive market where underwriters are often under pressure to meet premium and pricing targets. GAIL operates an underwriting controls framework which includes individual underwriting authorities, continual quality monitoring and peer review of risks. The framework aims to ensure a high quality of underwriting through monitoring of pricing and rate change, contract certainty and agreement of appropriate terms and conditions.

d) Claims management risk

This is the risk that claims made are not managed in an appropriate manner, leading to material adverse results through an increase in claims, payments or exposure to legal issues. The management of claims is conducted in accordance with claims procedures, which includes the management of claims workflows and response times, reviews of major claims to ensure accurate estimates, regular reserving reviews and discussions with underwriters.

Notes to the financial statements

2. Management of risk (continued)

e) Reserving risk

This is the risk that the estimated claims reserves differ materially from the ultimate cost of the claim or event. Reserving risk has the potential to significantly impact profitability. The potential impact is controlled through the use of a mix of actuarial models and methods, industry data and underwriter experience to produce reliable estimates that are based on up to date information, and consistently applied over time and across classes of business. These estimates are subject to an external review each year.

f) Reinsurance purchasing

This is the risk of purchasing insufficient or inappropriate reinsurance, or the exhaustion of reinsurance, leading to excessive or unexpected losses. The process of reinsurance purchasing forms a major part of GAIL's business planning process and includes the use of internal models as a tool for decision making. Reinsurance is purchased for a mixture of risk and event losses across the majority of classes, in a mixture of excess of loss and proportional cover, dependent on the scale and characteristics of the class or treaty concerned. GAIL also employs controls and monitoring around the use of insurers, credit ratings and concentration risk.

g) Underwriting management

This is the risk that returns from the policies written are different from expectations or are not in line with the business plan. Examples include a failure to reduce or exit from unprofitable business or a failure of underwriters to follow the business plan which sets out the parameters, classes, limitations and profitability expectation of underwriting teams for the forthcoming year. Communication of the business plan to the underwriting teams is therefore imperative. The performance of each class and the syndicate portfolio as a whole is reviewed against the business plan on a regular basis by the Board and various committees using information available from the management information portal. Various controls are in place to ensure constant vigilance including underwriting authorities, monitoring of risk codes, geographical aggregates and data quality.

	2023 Impact on profit USD'000	2022 Impact on profit USD'000	2023 Impact on net assets USD'000	2022 Impact on net assets USD'000
Sensitivity to movement in net claims liabilities				
5% increase in total net claim liabilities	(44,008)	(43,402)	(44,008)	(43,402)
5% decrease in total net claim liabilities	44,008	43,402	44,008	43,402

Credit risk

Credit risk arises when counterparties fail to meet their obligations in full as they fall due. The key area where credit risk can arise is investment counterparties. The investment portfolio is managed in line with asset allocation guidelines which are monitored by type, counterparty, quality and duration. GAIL outsources the management of a significant proportion of its investment portfolio to managers who monitor and report on performance and adherence to guidelines on a regular basis.

	A or above USD'000	BBB USD'000	Lower than BBB USD'000	Unrated USD'000	Total USD'000
2023 – credit risk analysis					
Financial assets at fair value	684,649	169,414	110,437	419,191	1,383,691
Reinsurance assets	169,409	-	-	71,977	241,386
Cash and cash equivalents	46,590	-	-	-	46,590
	900,648	169,414	110,437	491,168	1,671,667

	A or above USD'000	BBB USD'000	Lower than BBB USD'000	Unrated USD'000	Total USD'000
2022 – credit risk analysis					
Financial assets at fair value	484,959	154,396	99,267	228,840	967,462
Reinsurance assets	111,165	-	-	70,667	181,832
Cash and cash equivalents	39,396	-	-	-	39,396
	635,520	154,396	99,267	299,507	1,188,690

Notes to the financial statements

2. Management of risk (continued)

Market risk

This is the risk that the value of assets and liabilities changes as a result of market movements or events e.g. foreign exchange rates, interest rates and market prices.

a) Foreign exchange risk

The functional currency of the Company is the US dollar and the presentation currency in which the Company reports its results is the US dollar. Therefore, the Company is exposed to fluctuations in exchange rates for non-dollar denominated transactions.

The five main currencies of the Company are US dollars, Sterling, Canadian dollars, Australian dollars and Euros. The Company's underwriting capital is matched by currency to the principal underlying currencies of its written premiums. This helps to mitigate the risk that the capital required to underwrite business is materially affected by any future movements in exchange rates.

2023 – currency analysis	Sterling USD'000	Euros USD'000	Canadian dollars USD'000	Australian dollars USD'000	US dollars USD'000	Total USD'000
Assets	79,547	69,916	24,501	8,081	2,265,756	2,447,801
Liabilities	38,993	94,171	7,500	3,679	1,319,177	1,463,520
Net assets	40,554	(24,255)	17,001	4,402	946,579	984,281

2022 – currency analysis	Sterling USD'000	Euros USD'000	Canadian dollars USD'000	Australian dollars USD'000	US dollars USD'000	Total USD'000
Assets	90,250	82,237	40,616	11,853	2,049,110	2,274,066
Liabilities	85,041	106,355	24,088	10,718	1,322,837	1,549,039
Net assets	5,209	(24,118)	16,528	1,135	726,273	725,027

Sensitivity to foreign exchange risk	2023	2022	2023	2022
	Impact on profit after tax USD'000	Impact on profit after tax USD'000	Impact on net assets USD'000	Impact on net assets USD'000
USD weakens by 5% against other currencies	17,176	8,754	17,176	8,754
USD strengthens by 5% against other currencies	(15,827)	(10,506)	(15,827)	(10,506)

b) Interest rate risk

Some of the financial instruments, including certain financial assets at fair value, cash and cash equivalents and borrowings, are exposed to movements in market interest rates. The Company manages interest rate risk by primarily investing in short-duration financial assets and cash and cash equivalents. The duration of assets is monitored on a regular basis. The duration of assets exposed to movements in market interest rates is 0.9 (2022: 0.9). Changes in interest rates, with all other variables constant, would result in changes in the capital value of debt securities and borrowings as well as subsequent interest receipts and payments.

Sensitivity to interest rate risk	2023	2022	2023	2022
	Impact on profit USD'000	Impact on profit USD'000	Impact on net assets USD'000	Impact on net assets USD'000
50 basis point increase in interest rates	(7,793)	(6,392)	(7,793)	(6,392)
50 basis point decrease in interest rates	8,207	6,433	8,207	6,433

Notes to the financial statements

2. Management of risk (continued)

c) Price risk

Financial assets recognised at fair value are exposed to movements in market prices. Financial assets include primarily fixed and floating rate debt securities, which are well diversified across high quality, liquid securities. The risk associated with these securities is predominantly interest, foreign exchange and credit risk related.

	2023	2022	2023	2022
	Impact on profit USD'000	Impact on profit USD'000	Impact on net assets USD'000	Impact on net assets USD'000
Sensitivity to price risk				
5% increase in market prices	5,611	3,443	5,611	3,443
5% decrease in market prices	(5,271)	(3,443)	(5,271)	(3,443)

Liquidity risk

Liquidity risk arises where cash may not be available to pay obligations when they fall due without incurring unreasonable penalties or expense costs. The risk is minimised by holding sufficient liquid assets to enable large and unexpected payments, predominately claims, to be made in all but the most extreme scenarios. GAIL's Catastrophe Event Response Plan provides information to quantify liquidity implications of losses, reinsurance recoveries, cashflows and trust funds in the event of a catastrophe or large loss. The process is also stress tested using historic scenarios to determine the behaviour of the portfolio following an event or series of events.

	<1yr USD'000	1-2yrs USD'000	2-3yrs USD'000	3-5yrs USD'000	>5yrs USD'000	Total USD'000
2023 – maturity analysis						
Financial assets at fair value	1,071,386	43,155	64,566	81,559	123,025	1,383,691
Cash and cash equivalents	46,590	-	-	-	-	46,590
Financial liabilities	-	-	-	-	(189,682)	(189,682)
	1,117,976	43,155	64,566	81,559	(66,657)	1,240,599

	<1yr USD'000	1-2yrs USD'000	2-3yrs USD'000	3-5yrs USD'000	>5yrs USD'000	Total USD'000
2022 – maturity analysis						
Financial assets at fair value	587,895	145,805	40,655	81,910	111,197	967,462
Cash and cash equivalents	39,396	-	-	-	-	39,396
Financial liabilities	-	-	-	-	(188,339)	(188,339)
	627,291	145,805	40,655	81,910	(77,142)	815,519

In the above analysis, assets with no duration are included as "less than one year".

	<1yr USD'000	1-3yrs USD'000	3-5yrs USD'000	>5yrs USD'000	Total USD'000	Weighted average term of settlement (years)
Net claims liabilities – cashflow timing						
2023	273,784	285,454	74,354	54,118	687,710	2.20
2022	239,227	299,585	109,257	72,394	720,463	2.56

Notes to the financial statements

2. Management of risk (continued)

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes or systems. Risks are identified within the risk register and are modelled via operational scenarios. GAIL aims to minimise its exposure to operational risk by monitoring controls and management information in the form of key indicators that indicate changes to the risk profile.

GAIL outsources a number of key functions, such as investment management, inwards premium credit control and human resources. This introduces the risk that the Company may be exposed to liability or may fail to achieve its objectives due to inappropriately arranged, or a failure of, outsource arrangements. This risk is mitigated through pre-contract due diligence and performance review throughout the contract life cycle.

GAIL recognises that the success of a business depends on the ability to retain the services of existing key staff and to attract and retain additional people in the future, both in underwriting and support functions. This risk is managed through the provision of sufficient education and development, support for qualifications and competitive remuneration packages.

GAIL is also impacted by the risk of information technology system failure or disruption. This is mitigated through a control framework which includes network security, data, hardware and applications and is complemented by detailed planning around back-ups, contingency and disaster recovery, all of which are monitored and tested on a regular basis.

Regulatory risk

Regulatory risk is the risk of censure following a breach of regulatory or legal requirements, or a failure to respond to deadlines or information requests from regulators in a satisfactory and timely manner.

The Company is regulated by the Bermuda Monetary Authority. In order to mitigate this, GAIL seeks to conform to the regulations as they apply to each functional area. Much of this is operated through training and awareness to promote correct behaviour at source, as opposed to corrective action at a later stage. The overall risk is managed by the legal department and designated "Principal Representative" which seeks to ensure that deadlines are met and changes in regulation are communicated in a timely manner.

Capital management risk

The total regulatory capital of the Company is as follows:	2023	2022
	USD'000	USD'000
Shareholder's equity	984,281	725,027
Financial liabilities reclassified as Tier 2 capital	159,682	158,339
Total Regulatory Capital	1,143,963	883,366

Risks associated with the effectiveness of the Company's capital management are mitigated as follows:

1. regular monitoring of current and prospective regulatory and rating agency capital requirements;
2. oversight of capital requirements by the Board of Directors;
3. ability to purchase sufficient, cost-effective reinsurance; and
4. maintaining contact with vendors, regulators and rating agencies in order to stay abreast of upcoming developments

The Company reviews the level and composition of capital on an ongoing basis with a view to:

5. maintaining sufficient capital for underwriting opportunities and to meet obligations to policyholders;
6. maximizing the risk-adjusted return to shareholders within predetermined risk tolerances;
7. maintaining adequate financial strength ratings; and
8. meeting internal, rating agency and regulatory capital requirements .

Notes to the financial statements

2. Management of risk (continued)

Capital management risk (continued)

GAIL is regulated by the Bermuda Monetary Authority (BMA) and the company is required to monitor their enhanced capital requirement under the BMA's regulatory framework, which has been assessed as equivalent to the EU's Solvency II regime. For 2023, the Company's capital requirement is calculated using the BSCR standard formula model, see Note 21 for more detail.

3. Segmental analysis

GAIL management considers it has one segment, being the reinsurance and insurance business.

4. Investment income

	2023 USD'000	2022 USD'000
Income on financial investments at fair value	17,777	8,988
Interest on cash and cash equivalents	428	268
Realised gains on investments	8,151	912
Unrealised gains on investments	45,970	654
Realised losses on investments	-	(426)
Unrealised losses on investments	(540)	(24,904)
Investment management charges	(602)	(452)
	71,184	(14,960)

5. Operating expenses

	2023 USD'000	2022 USD'000
Staff costs	28,467	23,383
Accommodation costs	531	531
Legal and professional fees	5,561	4,365
(Gain) / Loss on foreign exchange	(2,126)	13,377
Other expenses	6,270	4,919
	38,703	46,575

6. Finance costs

	2023 USD'000	2022 USD'000
Interest on subordinated debt	20,760	14,819
Interest and fees charged on credit facilities	570	244
	21,330	15,063

Notes to the financial statements

7. Taxation

The company was not subject to income tax in Bermuda in 2023 and prior years. On December 27, 2023, Bermuda enacted a 15% corporate income tax that will generally become effective on January 1, 2025. The Bermuda legislation defers the effective date for five years for Bermuda companies in consolidated groups that meet certain requirements. The Company expects to meet the requirements to be exempt from the Bermuda corporate income tax until January 1, 2030. The Bermuda legislation also provides for an economic transition adjustment that will reduce future years' taxable income. Under GAAP, this economic transition adjustment was required to be recognized as a net deferred tax asset as of December 31, 2023. Accordingly, GAIL's net income for 2023 included a net deferred tax benefit of \$51 million.

	2023	2022
	USD'000	USD'000
Tax benefit included in profit or loss		
Current tax	-	-
Deferred tax	51,000	-
Total tax charged to the income statement	51,000	-

	2023	2022
	USD'000	USD'000
Tax reconciliation		
Profit for the year before tax	223,254	71,900
Taxation effect of:		
Profits not taxable in Bermuda in the year	-	-
Economic transition adjustment (ETA)	51,000	-
Tax benefit for the year	51,000	-
Profit for the year after tax	274,254	-

Notes to the financial statements

8. Financial assets and liabilities

	2023	2022
	USD'000	USD'000
Financial assets at fair value:		
Shares and other variable yield securities	372,685	205,514
Debt and other fixed income securities	868,893	648,115
Other investments	142,113	113,833
	1,383,691	967,462
The amount expected to mature before and after one year is:		
Before one year	1,071,386	587,895
After one year	312,305	379,567
	1,383,691	967,462

As set out in note 22, investments held in trust by Lloyd's of London and as collateral and are not readily available to the Company.

	2023	2022
	USD'000	USD'000
Borrowings		
Subordinated debt - expected to mature after one year	189,682	188,339

Fair value measurement

The fair values of financial assets are based on prices provided by investment managers who obtain market data from numerous independent pricing services. The pricing services used by the investment manager obtain actual transaction prices for securities that have quoted prices in active markets. For those securities which are not actively traded, the pricing services use common market valuation pricing models. Observable inputs used in common market valuation pricing models include, but are not limited to, broker quotes, credit ratings, interest rates and yield curves, prepayment speeds, default rates and other such inputs which are available from market sources.

Level 1 includes fair values measured using quoted prices (unadjusted) in active markets for identical instruments. Level 2 includes fair values measured using directly or indirectly observable inputs or other similar valuation techniques for which all significant inputs are based on market observable data. Level 3 includes fair values measured using valuation techniques for which significant inputs are not based on market observable data.

	2023	2022
	USD'000	USD'000
Level 1	541,892	329,312
Level 2	725,859	539,157
Level 3	115,940	98,993
	1,383,691	967,462

Level 2 of the hierarchy contains corporate securities, asset backed securities and mortgage-backed securities. The fair value of these assets is based on the prices obtained from both investment managers and investment custodians. Level 3 includes the bank loan funds for which fair value is measured at NAV using the practical expedient.

Notes to the financial statements

9. Deferred acquisition costs

	2023	2022
	USD'000	USD'000
Balance at 1 January	36,543	27,890
Additions	73,766	88,946
Amortisation charge	(67,977)	(80,241)
Foreign exchange movements	52	(52)
Balance at 31 December	42,384	36,543

10. Insurance Receivables

	2023	2022
	USD'000	USD'000
Arising out of reinsurance operations	346,685	233,335
Amounts due from group companies	318,199	763,196
	664,884	996,531

	2023	2022
	USD'000	USD'000
Due within one year	402,937	286,812
Due after one year	261,947	709,719
	664,884	996,531

11. Reinsurance assets

	2023	2022
	USD'000	USD'000
Reinsurers' share of claims reported and loss adjustment expenses	31,642	683
Reinsurers' share of claims incurred but not reported	160,815	146,903
Reinsurers' share of claims liabilities	192,457	147,586
Reinsurers' share of unearned premiums	48,929	34,246
	241,386	181,832

12. Other Receivables

	2023	2022
	USD'000	USD'000
Amounts due from group companies	5,536	43,219

Notes to the financial statements

13. Cash and cash equivalents

	2023	2022
	USD'000	USD'000
Cash at bank and in hand	35,832	31,902
Cash equivalents	10,758	7,494
Cash and cash equivalents	46,590	39,396

As set out in note 22, cash held in trust is not readily available to the Company.

14. Share capital and share premium

	2023	2023	2023	2023
	Authorised Number	Authorised USD'000	Allotted, issued and fully paid Number	Allotted, issued and fully paid USD'000
Ordinary share capital of USD1 each	1,000,000	1,000	1,000,000	1,000

	2022	2022	2022	2022
	Authorised Number	Authorised USD'000	Allotted, issued and fully paid Number	Allotted, issued and fully paid USD'000
Ordinary share capital of USD1 each	1,000,000	1,000	1,000,000	1,000

	2023	2022
	USD'000	USD'000
Share premium	595,399	595,399

On June 24, 2022, the GAIL Board of Directors approved the issuance of an additional paid up share capital of \$0.8m. The increase in share capital was necessary to comply with Section 7 (1) (d) of Bermuda Insurance Act, 1978 which requires a Class 4 reinsurer to have minimum paid up share capital of \$1M. The increase in paid up share capital was funded by transferring \$0.8m. from additional paid up capital.

Notes to the financial statements

15. Insurance liabilities

	2023 USD'000	2022 USD'000
Claims reported and loss adjustment expenses	214,214	272,105
Claims incurred but not reported	665,952	595,944
Claims liabilities	880,166	868,049
Unearned premiums	306,192	447,278
	1,186,358	1,315,327

Movements in insurance liabilities and reinsurance assets are as follows:

	2023 Gross USD'000	2023 Reinsurance USD'000	2023 Net USD'000	2022 Gross USD'000	2022 Reinsurance USD'000	2022 Net USD'000
Claims and loss adjustment expenses						
At 1 January	868,049	(147,586)	720,463	428,256	(5,632)	422,624
Claims paid	(814,397)	7,964	(806,433)	(234,081)	-	(234,081)
Movement arising from current years	831,362	(28,334)	803,028	703,411	(141,954)	561,457
Movement arising from prior years	25,635	(24,500)	1,135	(71,830)	-	(71,830)
Net exchange differences	(30,483)	-	(30,483)	42,293	-	42,293
At 31 December	880,166	(192,456)	687,710	868,049	(147,586)	720,463

	2023 Gross USD'000	2023 Reinsurance USD'000	2023 Net USD'000	2022 Gross USD'000	2022 Reinsurance USD'000	2022 Net USD'000
Unearned premiums						
At 1 January	447,278	(34,246)	413,032	310,894	(20,967)	289,927
Increase in the year	1,427,951	(327,993)	1,099,958	1,081,241	(154,042)	927,199
Release in the year	(1,575,407)	313,310	(1,262,097)	(946,973)	140,763	(806,210)
Net exchange differences	6,370	-	6,370	2,116	-	2,116
At 31 December	306,192	(48,929)	257,263	447,278	(34,246)	413,032

Assumptions and processes

a) The reserving process

GAIL uses a quarterly process to set its reserves. Several actuarial and statistical methods are used to estimate the ultimate premium and claims costs, with the most appropriate method selected depending on the nature of each class of business. In addition, the underwriting teams review the development of the incurred loss ratio over time, work with the claims team to set reserve estimates for identified claims and utilise their detailed understanding of both risks underwritten and the nature of the claims to establish an alternative estimate of ultimate claims cost, which is compared to the actuarially established figures. The Reserving Committee then determines the reserves held for accounting purposes. An annual independent actuarial review is undertaken to ensure that the reserves established are not lower than an independently established best estimate.

Chain-ladder techniques are applied to premiums, paid claims and incurred claims (i.e. paid claims plus case estimates). The basic technique involves the analysis of historical claims development factors and the selection of estimated development factors based on historical patterns. The selected development factors are then applied to cumulative claims data for each underwriting year that is not yet fully developed to produce an estimated ultimate claims cost for each underwriting year. The Bornhuetter-Ferguson method uses a combination of a benchmark / market-based estimate and an estimate based on claims experience. The former is based on a measure of exposure such as premiums; the latter is based on the paid or incurred claims observed to date. The two estimates are combined using a formula that gives more weight to the experience-based estimate as time passes.

15. Insurance liabilities (continued)

The choice of selected results for each underwriting year of each class of business depends on an assessment of the technique that has been most appropriate to observed historical developments. In certain instances, this has meant that different techniques or combinations of techniques have been selected for individual underwriting years or groups of underwriting years within the same class of business. As such, there are many assumptions used to estimate general insurance liabilities.

We also review triangulations of the paid / outstanding claim ratios as a way of monitoring any changes in the strength of the outstanding claim estimates between underwriting years so that adjustments can be made to mitigate any subsequent over / (under)reserving.

Where significant large losses impact an underwriting year, the development is usually very different from the attritional losses. In these situations, the large loss total is extracted from the remainder of the data and analysed separately by the respective claims managers using exposure analysis of the policies in force in the areas affected. Further assumptions are required to convert gross of reinsurance estimates of ultimate claims cost to a net of reinsurance level and to establish reserves for unallocated claims handling expenses and reinsurance bad debt.

b) Major assumptions

The main assumption underlying these techniques is that the past claims development experience (with appropriate adjustments for known changes) can be used to project future claims development and hence ultimate claims costs. As such these methods extrapolate the development of premiums, paid and incurred losses, average costs per claim and claim numbers for each underwriting year based on the observed development of earlier years. Throughout, judgement is used to assess the extent to which past trends may not apply in the future; for example, to reflect changes in external or market factors such as economic conditions, public attitudes to claiming, levels of claims inflation, premium rate changes, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures.

The loss development table below provides information about historical claims development at a combined syndicate level, before the impact of the quota share arrangements with GAIL and third parties. The tables are by underwriting year which in our view provides the most transparent reserving basis. The top part of the table illustrates how the estimate of claims for each underwriting year has changed at successive year ends. The bottom half of the table reconciles the claims to the amount appearing in the balance sheet. While the information in the table provides a historical perspective on the adequacy of the claims liabilities established in previous years, users of these financial statements are cautioned against extrapolating past redundancies or deficiencies on current claims liabilities. The Company believes that the estimate of total claims liabilities selected is adequate. However, due to inherent uncertainties in the reserving process, it cannot be assured that such balances will ultimately prove to be adequate.

Notes to the financial statements

15. Insurance liabilities (continued)

Gross claims	2023 USD'000	2022 USD'000	2021 USD'000	Net claims	2023 USD'000	2022 USD'000	2021 USD'000
End of reporting year	422,831	511,026	263,717	End of reporting year	386,465	384,076	258,085
1 year later	-	571,775	436,665	1 year later	-	430,461	416,030
2 years later	-	-	348,103	2 years later	-	-	325,362

The gross and net claims have been presented using current period foreign exchange rates

	All years USD'000
Total claims	1,142,288
Less paid claims	(454,578)
Claims liabilities	687,710
Less amount not reinsured	-
Claims liabilities, Company	687,710

On a whole account basis, the claims experience in 2023 has been better than expected based on the prior year reserves.

16. Financial liabilities

	2023 USD'000	2022 USD'000
At carrying value:		
Subordinated debt	189,682	188,339

Management considers the fair value of the subordinated notes to be equivalent to the carrying value. The floating rate subordinated notes rank equally with all outstanding and future unsecured and subordinated debt, are effectively subordinated to all existing and future secured debt and are contractually subordinated to the rights of policyholders under insurance and reinsurance contracts issued by the Company. Each of the notes are callable at the Company's option on any interest payment date after 10 years of the issue date. A description of the notes is set out below:

Description	Interest at December 31, 2023	Issue date	Redemption date
USD30,000,000 Floating rate junior subordinated notes	SOFR plus CAS plus 4.6%	15 March 2007	15 June 2037
EUR39,100,000 Floating rate Tier 2 subordinated notes	3-month EURIBOR plus 5.75%%	13 July 2021	13 July 2041
USD47,000,000 Floating rate Tier 2 subordinated notes	SOFR plus CAS plus 5.75%	11 August 2021	11 August 2041
USD70,000,000 Floating rate Tier 2 subordinated notes	SOFR plus CAS plus 6.10%	08 September 2021	08 September 2041

	2023 USD'000	2022 USD'000
USD8,500,000 Floating rate junior subordinated notes	8,500	8,500
USD8,500,000 Floating rate junior subordinated notes	8,500	8,500
USD13,000,000 Floating rate junior subordinated notes	13,000	13,000
EUR39,100,000 Floating rate Tier 2 subordinated notes	42,682	41,339
USD47,000,000 Floating rate Tier 2 subordinated notes	47,000	47,000
USD70,000,000 Floating rate Tier 2 subordinated notes	70,000	70,000
	189,682	188,339

Notes to the financial statements

17. Other payables

	2023	2022
	USD'000	USD'000
Creditors arising out of reinsurance operations – payable within one year	58,214	17,425
Amounts due to related parties – payable within one year	1,516	1,371
	59,730	18,796

18. Deferred taxation

	2023	2022
	USD'000	USD'000
Deferred tax asset	51,000	-

	2023	2022
	USD'000	USD'000
Deferred taxation (asset) at 1 January	-	-
Economic transition adjustment (ETA)	51,000	-
Deferred taxation asset at 31 December	51,000	-

19. Commitments under operating leases

	2023	2022
	USD'000	USD'000
Non- cancellable operating lease rentals payment profile		
Within 1 year	536	524
Within 2 to 5 years	715	1,221
	1,251	1,745

During the year USD\$0.5 million (2022: USD\$0.5m) was recognized as an expense in the income statement in respect of operating leases.

Notes to the financial statements

20. Related parties

GAIL is a subsidiary undertaking of Group Ark Insurance Holdings Limited ("GAIHL") and AIHL. The ultimate parent company is White Mountains Insurance Group, Ltd. ("WTM"). The registered office of GAIHL, AIHL and WTM is Clarendon House, 2 Church Street, Hamilton, HM11, Bermuda.

In 2020 GAIL entered into a service agreement with an affiliated company, Richmond Risk Management, Inc. ("RRM") to provide certain services related to portfolio management and claims advisory services. Fees paid by GAIL to RRM in the year in respect of these services amounted to USD1.2m (2022: USD1.1m). The intercompany receivable at December 31, 2023 \$5.5m (2022: \$43.2m) and the intercompany payable as at December 31, 2023 \$1.5m (2022: \$1.4m) represents balances due from/to affiliates that are unsecured, non-interest bearing and due on demand.

GAIL provides intercompany reinsurance to an affiliate through the ACML Quote Share ("ACML QS"). The following table summarises the impact of the intercompany reinsurance.

	2023	2022
	USD'000	USD'000
Gross premiums written	474,272	374,817
Net premiums earned	425,209	313,423
Net claims and claims expenses	(278,159)	(240,554)
Profit on related party reinsurance	147,050	72,869

Included in the GAIL balance sheet are the following balances related to intercompany reinsurance

	2023	2022
	USD'000	USD'000
Insurance receivables	374,212	763,196
Insurance liabilities		
1. Claims liabilities	170,546	440,987
2. Unearned premiums	56,616	240,106

During the fourth quarter of 2022, Ark sponsored the formation of Outrigger Re Ltd, a Bermuda company registered as a special purpose insurer and segregated accounts company, to provide reinsurance capacity to Ark. As part of this WTM participated in this arrangement. The following table summarises the impact of their participation.

	2023	2022
	USD'000	USD'000
Ceded Premium	109,965	-
Net premiums earned	104,244	-
Net claims and claims expenses	(15,613)	-
Acquisition expenses	(30,511)	-
Profit on related party reinsurance	58,120	-

Notes to the financial statements

20. Related parties (continued)

	2023	2022
	USD'000	USD'000
Insurance Assets		
1. Reinsurance recoverables	15,613	-
2. Prepaid reinsurance premium	5,721	-
3. Deferred acquisition costs	(1,056)	-
Insurance liabilities		
1. Reinsurance balances payable	27,703	-

21. Minimum statutory capital and liquidity ratio

GAIL is registered as an insurer under the Bermuda Insurance Act, 1978 and is required by its Class 4 license to maintain minimum statutory capital and surplus equal to the greater of a minimum solvency margin ("MSM") and the Enhanced Capital Requirement ("ECR") where applicable. The ECR is equal to the higher of the MSM or the Bermuda Solvency Capital Requirement ("BSCR") model or approved internal capital model.

The minimum statutory capital and surplus determined as the greater of a percentage of outstanding losses and loss expenses or a given fraction of net written premiums. At December 31, 2023 GAIL is required to maintain a minimum statutory capital and surplus of USD508.4m (2022: USD419.7m). At December 31, 2023 GAIL has statutory capital and surplus of USD1,138.5m (2022: USD877.6m). At December 2022 GAIL had an ECR of \$449.3m, the December 2023 BSCR has not been finalized.

GAIL is also required to maintain a minimum liquidity ratio whereby the value of its relevant assets is not less than 75% of the amount of its relevant liabilities. Relevant assets include cash and cash equivalents, catastrophe bonds, fixed maturity securities, accrued interest receivable, reinsurance balances receivable, funds withheld and other assets. Certain categories of assets do not qualify as relevant assets under the statute. Relevant liabilities are outstanding losses and loss expenses, unearned premiums, deferred fee income, dividends payable, accounts payable and accrued expenses, net of outstanding losses recoverable from reinsurers and prepaid reinsurance premiums. At December 31, 2023, GAIL was required to maintain relevant assets of at least USD796.8m (2022: USD906.7m). At that date relevant assets were USD2,101m (2022: USD2,006.1m) and the minimum liquidity ratio was therefore met.

The ability of the Company to pay dividends is limited under Bermuda law and regulations. The Insurance Act provides that a Class 4 insurer may not declare or pay, in any financial year, dividends of more than 25% of its total statutory capital and surplus (as shown on its statutory balance sheet in relation to the previous financial year) unless it files with the BMA at least seven days prior to the payment, an affidavit signed by at least two directors and the Company's principal representative, stating that in their opinion, the Company will continue to satisfy the required margins following declaration of those dividends, however, there is no additional requirement for BMA approval.

In addition, before reducing its total statutory capital by 15% or more, a Class 4 Bermuda insurer must make application to the BMA for permission to do so. Such application shall consist of an affidavit signed by at least two directors and the Company's principal representative stating that in their opinion the proposed reduction in capital will not cause such subsidiaries to fail to meet its relevant margins, and such other information as the BMA may require.

22. Pledged Assets

The company holds restricted assets comprising cash and cash equivalents and financial assets that were pledged and held in trust, these amounts are not readily available to the company.

ACML is required to arrange for additional capital to be held at Lloyd's, known as FAL, which is held in trust. Financial assets and cash and cash equivalents of USD337.9m (2022: USD318.4m) was provided on behalf of ACML by GAIL to Lloyd's. This amount may be drawn down by Lloyd's in the event that the assets of the Syndicates prove insufficient to meet the underwriting liabilities of ACML.

Notes to the financial statements

22. Pledged Assets (continued)

The company held \$198.9 m (2022: 90.3m) in trust to provide collateral for letters of credit issued to third parties as detailed in Note 23, "Credit Facilities".

The company held cash and cash equivalents of \$7.3m (2022: \$22.3m) in trusts for the benefit of a third parties.

23. Credit Facilities

The company has three letter of credit facilities provided by commercial banks. The facilities are utilised to provide collateral to companies reinsured by GAIL to the extent required under reinsurance arrangements.

On December 14, 2021, GAIL entered into an uncommitted letter of credit facility agreement with ING Bank N.V., London Branch ("ING") under which ING agreed to make available to GAIL an unsecured letter of credit facility, for a term as shall be notified to ING from GAIL from time to time. At December 31, 2023 there were no unsecured letters of credit outstanding under this agreement.

On December 15, 2021, GAIL entered into an uncommitted letter of credit facility agreement with Citibank Europe PLC ("Citi") under which Citi agreed to make available to GAIL a secured letter of credit facility, for a term as shall be notified to Citi from GAIL from time to time. As at December 31, 2023 this facility was secured by a fixed income security portfolio of \$134.8m (2022: of \$80.3m). At December 31, 2023, the Citi LOC facility had an outstanding principal balance of \$106.5m (2022: of 53.6m) under this agreement.

On September 22, 2022, GAIL entered into an uncommitted letter of credit facility agreement with Lloyd's Bank Corporate Markets PLC ("Lloyd's") under which Lloyd's agreed to make available to GAIL a secured letter of credit facility, for a term as shall be notified to Lloyd's from GAIL from time to time. As at December 31, 2023 this facility was secured by a fixed income security portfolio of \$64.1m (2022: \$10.0m). At December 31, 2023, the Lloyd's facility had an outstanding principal balance of \$28.6m (2022: \$6.8m) under this agreement.

The company's obligations under the letter of credit facilities require GAIL to comply with various representations, warranties and covenants that are customary for facilities of this type. The company was in compliance with all such covenants at December 31, 2023.

24. Post balance sheet events

There have been no events between December 31, 2023 and March 20, 2024 that require adjustment in the financial statements.

On January 8, 2024, GAIL notified US Bank National Association, as trustee, that the Company elects to exercise its right to redeem the \$30.0m floating rate junior subordinated notes in whole. \$30.7m was paid to US Bank on March 15, 2024 to redeem the subordinated notes.