

Vantage Risk Ltd.  
For the years ended  
December 31, 2023 and 2022

Vantage Risk Ltd.

For the years ended December 31, 2023, and 2022

Report of Independent Auditors .....2  
Balance Sheets as of December 31, 2023, and December 31, 2022 .....4  
Statements of Operations for the years ended December 31, 2023, and 2022.....5  
Statements of Comprehensive Income for the years ended December 31, 2023 and 2022 .....6  
Statements of Changes in Equity for the years ended December 31, 2023, and 2022.....7  
Statements of Cash Flows for the years ended December 31, 2023, and 2022.....8  
Notes to Financial Statements .....9



April 30, 2024

## Report of Independent Auditors

To the Board of Directors and Shareholder of Vantage Risk Ltd.

### Opinion

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

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

### Basis for opinion

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

### Responsibilities of management for the financial statements

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

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

### Auditors' responsibilities for the audit of the financial statements

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



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

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

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

### **Required supplemental information**

Accounting principles generally accepted in the United States of America require that the required supplemental information pertaining to Short-Duration Contracts disclosures labelled as "Unaudited" within Note 6 on pages 17 to 20 be presented to supplement the basic consolidated financial statements. Such information is the responsibility of management and, although not a part of the basic consolidated financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*PricewaterhouseCoopers Ltd.*

**Chartered Professional Accountants**

**Vantage Risk Ltd.**  
**BALANCE SHEETS**

(Expressed in 000's U.S. dollars, except number of shares and per share amounts)

	December 31, 2023	December 31, 2022
<b>ASSETS</b>		
Fixed maturity securities available for sale, at fair value (amortized cost - \$1,034,367 and \$844,336 at December 31, 2023 and 2022, respectively)	\$ 1,009,415	\$ 798,325
Short term investments, at fair value	-	14,728
Total investments	1,009,415	813,053
Cash and cash equivalents	123,569	99,882
Restricted cash	3,483	7,799
Accrued investment income	7,200	5,111
Premiums receivable	242,312	240,874
Reinsurance recoverable on paid and unpaid losses	154,741	182,810
Prepaid reinsurance premiums	41,394	43,388
Deferred acquisition costs	55,421	45,262
Fee income receivable	27,862	-
Funds held by third parties	25,704	355
Other assets	15,223	16,691
<b>Total assets</b>	<b>\$ 1,706,324</b>	<b>\$ 1,455,225</b>
<b>LIABILITIES</b>		
Reserves for claims and claim expenses	\$ 642,947	\$ 570,426
Unearned premiums	278,910	231,148
Claims in course of payment	8,621	10,615
Reinsurance balances payable	48,797	64,917
Payable for investments purchased	31,996	39
Other liabilities	35,376	32,499
<b>Total liabilities</b>	<b>1,046,647</b>	<b>909,644</b>
<b>SHAREHOLDER'S EQUITY</b>		
Common shares, \$10.00 par value, 10,000,000 shares authorized, issued and outstanding at December 31, 2023 and 2022	100,000	100,000
Additional paid-in capital	602,000	602,000
Retained deficit	(17,371)	(110,379)
Accumulated other comprehensive loss	(24,952)	(46,040)
<b>Total equity</b>	<b>659,677</b>	<b>545,581</b>
<b>Total liabilities and shareholder's equity</b>	<b>\$ 1,706,324</b>	<b>\$ 1,455,225</b>

The accompanying notes are an integral part of these financial statements.

**Vantage Risk Ltd.**  
**STATEMENTS OF OPERATIONS**  
**(Expressed in 000's U.S. dollars)**

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	<b>Year Ended December 31, 2023</b>	<b>Year Ended December 31, 2022</b>
<b>Revenues</b>		
Net earned premiums	\$ 385,454	\$ 391,204
Net investment income	30,333	12,343
Net realized losses on investments	(187)	(974)
Fee income	35,571	-
<b>Total revenues</b>	<u>451,171</u>	<u>402,573</u>
<b>Expenses</b>		
Claims and claim expenses incurred, net	229,036	320,312
Acquisition expenses, net	77,591	76,830
General and administrative expenses	50,043	40,891
Other expenses	1,493	3,369
<b>Total expenses</b>	<u>358,163</u>	<u>441,402</u>
<b>Net income (loss)</b>	<u>\$ 93,008</u>	<u>\$ (38,829)</u>

The accompanying notes are an integral part of these financial statements.

**Vantage Risk Ltd.**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
**(Expressed in 000's U.S. dollars)**

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	<b>Year Ended December 31, 2023</b>	<b>Year Ended December 31, 2022</b>
<b>Net income (loss)</b>	\$ 93,008	\$ (38,829)
Other comprehensive income (loss)		
Change in net unrealized loss on investments, net of tax	<u>21,088</u>	<u>(39,228)</u>
Total other comprehensive income (loss)	<u>21,088</u>	<u>(39,228)</u>
<b>Total comprehensive income (loss)</b>	<u><u>\$ 114,096</u></u>	<u><u>\$ (78,057)</u></u>

The accompanying notes are an integral part of these financial statements.

**Vantage Risk Ltd.**  
**STATEMENTS OF CHANGES IN EQUITY**  
**(Expressed in 000's U.S. dollars)**

	<b>Year Ended December 31, 2023</b>				
	<b>Common shares</b>	<b>Additional paid-in capital</b>	<b>Retained deficit</b>	<b>Accumulated other comprehensive loss</b>	<b>Total</b>
Balance as of December 31, 2022	\$ 100,000	\$ 602,000	\$ (110,379)	\$ (46,040)	\$ 545,581
Other comprehensive income	-	-	-	21,088	21,088
Net income	-	-	93,008	-	93,008
Balance as of December 31, 2023	<u>\$ 100,000</u>	<u>\$ 602,000</u>	<u>\$ (17,371)</u>	<u>\$ (24,952)</u>	<u>\$ 659,677</u>
	<b>Year Ended December 31, 2022</b>				
	<b>Common shares</b>	<b>Additional paid-in capital</b>	<b>Retained deficit</b>	<b>Accumulated other comprehensive loss</b>	<b>Total</b>
Balance as of December 31, 2021	\$ 100,000	\$ 602,000	\$ (71,550)	\$ (6,812)	\$ 623,638
Other comprehensive loss	-	-	-	(39,228)	(39,228)
Net loss	-	-	(38,829)	-	(38,829)
Balance as of December 31, 2022	<u>\$ 100,000</u>	<u>\$ 602,000</u>	<u>\$ (110,379)</u>	<u>\$ (46,040)</u>	<u>\$ 545,581</u>

The accompanying notes are an integral part of these financial statements



**Vantage Risk Ltd.**  
**STATEMENTS OF CASH FLOWS**  
**(Expressed in 000's U.S. dollars)**

	<b>Year Ended December 31, 2023</b>	<b>Year Ended December 31, 2022</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ 93,008	\$ (38,829)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, amortization and accretion	3,205	6,143
Net realized losses on investments	187	974
Net losses on foreign exchange	2,890	954
Change in:		
Accrued investment income	(2,089)	(2,530)
Premiums receivable	(1,158)	(106,947)
Reinsurance recoverable on paid and unpaid losses	28,069	(163,255)
Prepaid reinsurance premiums	1,994	(25,222)
Deferred acquisition costs	(10,159)	(14,465)
Fee income receivable	(27,862)	-
Funds held by third parties	(25,349)	2,243
Other assets	723	(3,086)
Reserves for claims and claim expenses	69,525	403,817
Unearned premiums	47,762	92,834
Claims in course of payment	(1,994)	(5,123)
Reinsurance balances payable	(16,294)	42,359
Payable for investments purchased	31,957	-
Other liabilities	2,877	22,690
Net cash provided by operating activities	<u>197,292</u>	<u>212,557</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of fixed maturity securities	(364,946)	(343,627)
Sales of fixed maturity securities	22,843	8,007
Maturities, calls, and paydowns of fixed maturity securities	151,517	139,828
Sales of equity securities	-	27,491
Net change in short term investments	14,728	(9,826)
Acquisition of property and equipment	(2,063)	(4,764)
Net cash used by investing activities	<u>(177,921)</u>	<u>(182,891)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net cash provided (used) by financing activities	<u>-</u>	<u>-</u>
Net increase in cash, cash equivalents, and restricted cash	19,371	29,666
Cash, cash equivalents, and restricted cash—beginning of year	<u>107,681</u>	<u>78,015</u>
Cash, cash equivalents, and restricted cash—end of year	<u>\$ 127,052</u>	<u>\$ 107,681</u>

The accompanying notes are an integral part of these financial statements.

## **Vantage Risk Ltd.**

### **Notes to Financial Statements**

**(Expressed in 000's U.S. dollars except number of shares and per share amounts)**

#### **1. Nature of Operations**

Effective October 19, 2020, Vantage Risk Ltd. (the “Company” or “Vantage” or “our”) was registered as a Class 4 insurer under The Insurance Act 1978 (Bermuda), amendments thereto and related regulations (the “Act”). The Company is a wholly owned subsidiary of Vantage Group Holdings Ltd., a privately held Bermuda exempted company that provides property, casualty, and specialty (re)insurance through its wholly owned subsidiaries. Vantage Group Holdings Ltd. was incorporated on July 28, 2020, and is majority owned by funds managed by The Carlyle Group, Inc. and Hellman & Friedman LLC.

The Company commenced writing business on January 1, 2021.

#### **2. Basis of Presentation**

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”). These financial statements cover the two years from January 1, 2022 to December 31, 2023. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities (and disclosure of contingent assets and liabilities) at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Ultimate actual results could differ, possibly materially, from those estimates. Amounts are presented in United States of America (“U.S.”) Dollars and all amounts are in thousands, except for number of shares, per share amounts and number of securities. Certain prior period amounts have been reclassified to conform to the 2023 presentation.

#### **3. Significant Accounting Policies**

##### **Cash, Cash Equivalents and Restricted Cash**

Cash equivalents include money market instruments with a maturity of ninety days or less when purchased.

Restricted cash represents amounts held for the benefit of third parties and is legally or contractually restricted as to withdrawal or usage by the Company.

##### **Investments**

###### ***Fixed maturity investments and short term investments***

Fixed maturity securities are classified as available for sale (“AFS”) securities and are reported at fair value, net of valuation allowance for expected credit losses (if necessary), with unrealized changes in fair value recorded as a separate component of accumulated other comprehensive income (loss) (“AOCI”) in shareholder’s equity.

Short term investments include securities due to mature within one year of the date of purchase and are recorded at fair value, which typically approximates cost.

Interest income, dividend income, amortization and accretion of fixed maturity market premiums and discounts are recorded in net investment income, net of investment management and custody fees in the statements of operations. The amortization of premium and accretion of discount for fixed maturity securities is computed using the effective yield method.

Realized gains and losses on investments are determined using cost calculated on a specific identification basis.

For mortgage-backed securities, and any other holdings for which there is a prepayment risk, prepayment assumptions are evaluated and revised as necessary. Any adjustments required due to the resultant change in effective yields and maturities are recognized prospectively. Prepayment fees or call premiums that are only payable when a security is called prior to its maturity are earned when received and reflected in net investment income.

### ***Valuation allowance for fixed maturity investments***

Management evaluates AFS securities with a fair value that has declined below amortized cost to determine how the decline in fair value should be recognized. If determined, based on the facts and circumstances related to the specific security, that management intends to sell a security or it is more likely than not that management would be required to sell a security before the recovery of its amortized cost, any existing allowance for expected credit losses is reversed with an offsetting entry to the security's amortized cost. In circumstances where the allowance has been reversed and the fair value is less than the amortized cost, the amortized cost of the security is written down to fair value. If neither of these conditions exist, management evaluates whether the decline in fair value has resulted from credit related or other factors.

For AFS securities, management qualitatively considers relevant facts and circumstances in evaluating whether a decline in fair value is credit related. Relevant facts and circumstances include but are not limited to: (i) the extent to which the fair value is less than amortized cost, (ii) changes in agency credit ratings, (iii) adverse conditions related to the security's industry or geographical area, (iv) failure to make scheduled payments, and (v) other known changes in the financial condition of the issuer or quality of any underlying collateral or credit enhancements.

If upon completion of this analysis it is determined that a potential credit loss exists, a valuation allowance for expected credit losses is established equal to the amount by which the present value of expected cash flows is less than amortized cost, limited to the amount by which fair value is less than amortized cost.

The Company performed a credit loss analysis for its AFS fixed maturity securities, (as well as its premiums receivable, reinsurance recoverable on paid and unpaid losses and fee income receivable) and determined an allowance was not necessary.

The Company elected not to measure a valuation allowance for expected credit losses for accrued investment income as uncollectible balances are written off in a timely manner.

### **Premiums and Acquisition Costs**

#### ***Insurance Premiums***

Insurance premiums written are recorded in accordance with the terms of the underlying policies, are generally recorded at the policy inception and are primarily earned on a pro rata basis over the term of the policies, usually 12 months. Unearned premiums represent the portion of premiums written that relate to the unexpired terms of the policies in force.

#### ***Reinsurance Premiums***

Reinsurance premiums written are recorded based on the type of contract. For excess of loss reinsurance contracts, premiums are recorded as written based on the terms of the contract. For pro rata reinsurance contracts, reinsurance premiums are recorded as written based on amounts reported by brokers and ceding companies, supplemented by the Company's own estimates of premiums where reports have not been received. The determination of estimates requires a review by management based on experience with the ceding companies, familiarity with the market, timing of reported information, analysis and understanding of the characteristics of each line of business, and management's judgment of the impact of various factors, including premium or loss trends on the volume of business written and ceded to the Company. On an ongoing basis, the Company's underwriters review the amounts reported by these third parties for reasonableness based on their experience and knowledge of the subject class of business, taking into account management's historical experience with the brokers or ceding companies. In addition, reinsurance contracts under which the Company assumes business generally contain specific provisions which allow the Company to perform audits of the ceding company to ensure compliance with the terms and conditions of the contract, including accurate and timely reporting of information. Premium estimates are updated when new information is received and differences between such estimates and actual amounts are recorded in the period in which estimates are changed or the actual amounts are determined.

For multi-year reinsurance contracts which are payable in annual installments, generally only the initial annual installment is included as premiums written at policy inception, due to the ability of the reinsured to commute or cancel coverage under certain conditions during the term of the policy. The remaining annual installments are included as premiums written at each successive anniversary date within the multi-year term.

Reinsurance premiums written, irrespective of the class of business, are generally earned on a pro rata basis over the terms of the underlying policies or reinsurance contracts. Contracts and policies written on a "losses occurring" basis cover claims that may occur during the term of the contract or policy, which is typically 12 months. Accordingly, the reinsurance premium is earned evenly over the term. Contracts which are written on a "risks attaching" basis cover claims which attach to the underlying insurance policies written during the terms of these contracts. Premiums earned on "risks attaching" contracts usually extend beyond the original term of the reinsurance contract, typically resulting in recognition of reinsurance premiums earned over a 24-month period.

### ***Reinstatement Premiums***

Reinstatement premiums for the Company's reinsurance operations are recognized at the time a loss event occurs, where coverage limits for the remaining life of the contract are reinstated under pre-defined contract or policy terms. Reinsurance reinstatement premiums are fully earned when recognized. The accrual of reinstatement premiums is based on an estimate of claims and claim expenses, which reflects management's judgment.

### ***Premiums Receivable***

Premiums receivable include amounts receivable from agents, brokers and insureds that are both currently due and amounts not yet due on insurance policies and reinsurance contracts. Premiums receivable balances are reported net of an allowance for expected credit losses (if necessary). The measurement of an allowance for expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount.

The Company monitors credit risk associated with premiums receivable through its ongoing review of amounts outstanding, aging of the receivable, historical loss data, and counterparty financial strength measures (where available).

In certain instances, credit risk may be reduced by the Company's right to offset loss obligations and/or unearned premiums against premiums receivable. Any allowance for expected credit losses is recorded in the statements of operations in the period the receivable is recorded and updated in subsequent periods to reflect changes in the Company's estimate of expected credit losses.

### ***Deferred Acquisition Costs***

Acquisition costs are incurred when a contract or policy is issued and only the costs directly related to the successful acquisition of new and renewal contracts are deferred and amortized over the same period in which the related premiums are earned. Acquisition costs consist principally of commissions, brokerage and premium tax expenses. Certain reinsurance contracts contain profit sharing provisions or adjustable commissions that are estimated based on the expected claims and claim expenses on those contracts. Acquisition costs include accrual for such estimates of commissions and are shown net of commissions and profit commissions earned on ceded reinsurance. Deferred acquisition costs are limited to their estimated realizable value based on the related unearned premiums. Anticipated claims and claims expenses, based on historical and current experience, and anticipated investment income related to those premiums are considered in determining the recoverability of deferred acquisition costs. Acquisition costs are shown net of commissions on reinsurance purchased.

### ***Reserves for Claims and Claim Expenses***

The reserves for claims and claim expenses includes estimates for unpaid claims and claim expenses on reported losses as well as an estimate of losses incurred but not reported ("IBNR"). The reserve is based on individual claims, case reserves and other reserve estimates reported by insureds and ceding companies, as well as management estimates of ultimate losses. Inherent in the estimates of ultimate losses are expected trends in claim severity and frequency and other factors which could vary significantly as claims are settled.

Accordingly, claims and claim expenses ultimately paid may differ materially from the amounts recorded in the financial statements. These estimates are reviewed regularly and, as experience develops and new information becomes known, the reserves are adjusted as necessary. Such adjustments, if any, are reflected in the statements of operations in the period in which they become known and are accounted for as changes in estimates.

### ***Reinsurance***

The Company purchases reinsurance to increase capacity and to limit the impact of individual losses and events on its underwriting results by reinsuring certain levels of risk with other insurance enterprises or reinsurers. The Company uses pro rata, excess of loss and facultative reinsurance contracts. The premiums paid to reinsurers (i.e., ceded premiums written) are recognized over the coverage period. Prepaid reinsurance premiums represent the portion of premiums ceded which relate to the unexpired term of the contracts in force. Ceded reinsurance contracts do not relieve the Company of its primary obligation to its (re)insureds.

Reinsurance recoverable on unpaid losses and loss expenses are estimated in a manner consistent with the associated claim liability. Reinsurance recoverable related to IBNR is generally developed as part of the Company's loss reserving process, therefore, its estimation is subject to similar risks and uncertainties as the estimation of IBNR. In certain instances, the Company obtains collateral, including letters of credit and trust accounts to reduce the credit exposure on its reinsurance recoverables. The Company reports its reinsurance recoverable on paid and unpaid losses net of an allowance for expected credit loss (if necessary). The allowance is based upon the Company's ongoing review of amounts outstanding, the financial condition of its reinsurers, amounts and form of collateral obtained and other relevant factors. Any allowance for expected credit losses is recorded in the statements of operations in the period the recoverable is recorded and updated in subsequent periods to reflect changes in the Company's estimate of expected credit losses.

**Fee income receivable**

Fee income receivable primarily includes amounts from third parties relating to potential variable fees. Revenue is recognized when the variable fee is probable of being realized and the amount of the variable fee can be reliably estimated. The probability of the variable fee being realized is assessed based on an evaluation of the terms and conditions of the reinsurance contracts, historical experience, and any other relevant factors. The estimation of the amount of the variable fee to recognize takes into consideration the anticipated profitability of the underlying reinsurance contracts, as well as any limitations or contingencies specified in the contracts. GAAP requires that an entity include amounts only to the extent that it is probable that a significant reversal will not occur when the uncertainty associated with the variable consideration is subsequently resolved. In accordance with the guidance, management revisits the estimate at each reporting date throughout the contract period.

**Property and Equipment, and Capitalized Software Costs**

Property and equipment, consisting of leasehold improvements, furniture, and computer hardware, are carried at historical cost, less accumulated depreciation and any impairment in value. Depreciation is computed using the straight-line method over the estimated useful economic lives of the assets (generally 3-5 years) or the remaining lease term, whichever is shorter.

The assets' residual value, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date. If such review indicates that the carrying amount of property and equipment assets is not recoverable, and the asset's fair value is less than the carrying amount, an impairment charge is recognized. The Company has not recorded any impairment charges during the years presented. An item of property or equipment is derecognized on disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Capitalized software costs, which represent costs directly related to obtaining, developing, or upgrading internal use software, are capitalized and amortized using the straight-line method over a period generally not exceeding ten years. Amortization begins when the software is ready for its intended use, regardless of whether the software has actually been placed in service.

Property and equipment and capitalized software costs are included in other assets in the balance sheets.

**Foreign Exchange**

The U.S. dollar is the functional currency of the Company. Monetary assets and liabilities denominated in foreign currencies are revalued at the prevailing exchange rate at the balance sheet date, and revenues and expenses denominated in foreign currencies are translated at the prevailing exchange rate on the transaction date, with the resulting foreign exchange gains (losses) included in the statements of operations. Non-monetary assets and liabilities denominated in foreign currencies are translated at the prevailing exchange rate on the transaction date and are not subsequently revalued or remeasured.

**Income Taxes**

On December 27, 2023 the Bermuda government enacted tax legislation referred to as the Bermuda Corporate Income Tax Act 2023 ("Bermuda CIT"). The Bermuda CIT establishes a 15% corporate income tax, for in-scope businesses, for fiscal years beginning on or after January 1, 2025. The enacted legislation includes a provision referred to as the Economic Transition Adjustment ("ETA"), which requires Bermuda Constituent entities to establish tax basis in their assets and liabilities, excluding goodwill, based on fair value as of September 30, 2023. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See note 15, "Income Taxes" for additional information.

**Leases**

The Company records expenses for operating leases on a straight-line basis over the lease term. The Company recognizes assets and liabilities associated with leases in the balance sheets. The Company does not record an asset or liability for leases with an initial term of 12 months or less.

The right-of-use asset and the lease liability are recorded in other assets and other liabilities, respectively, in the Company's balance sheets.

#### 4. Investments

The following tables present the cost or amortized cost, gross unrealized gains and losses, fair value and valuation allowance of the Company's AFS fixed maturity securities as of the dates indicated:

	<u>Cost or Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Valuation Allowance</u>
<u>December 31, 2023</u>					
U.S. Government	\$ 212,059	\$ 630	\$ (1,988)	\$ 210,701	\$ -
Asset-backed	111,706	427	(835)	111,298	-
U.S. Agencies	239,973	172	(17,444)	222,701	-
U.S. Corporate	423,300	2,269	(6,764)	418,805	-
Foreign Governments	6,779	-	(170)	6,609	-
Municipalities	40,550	7	(1,256)	39,301	-
	<u>\$ 1,034,367</u>	<u>\$ 3,505</u>	<u>\$ (28,457)</u>	<u>\$ 1,009,415</u>	<u>\$ -</u>

	<u>Cost or Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Valuation Allowance</u>
<u>December 31, 2022</u>					
U.S. Government	\$ 109,618	\$ -	\$ (3,578)	\$ 106,040	\$ -
Asset-backed	58,584	-	(1,835)	56,749	-
U.S. Agencies	243,130	170	(22,331)	220,969	-
U.S. Corporate	396,218	19	(15,845)	380,392	-
Foreign Governments	9,876	-	(420)	9,456	-
Municipalities	26,910	-	(2,191)	24,719	-
	<u>\$ 844,336</u>	<u>\$ 189</u>	<u>\$ (46,200)</u>	<u>\$ 798,325</u>	<u>\$ -</u>

The cost or amortized cost and estimated fair values of AFS fixed maturity securities, by remaining maturity are presented below. Expected maturities could differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	<u>Cost or Amortized Cost</u>	<u>Fair Value</u>
<u>December 31, 2023</u>		
Due in one year or less	\$ 207,895	\$ 205,311
Due after one year through five years	509,354	500,165
Due after five years through ten years	42,558	42,837
Total	759,807	748,313
Asset-backed	111,706	111,298
Mortgage-backed securities	162,854	149,804
Total	<u>\$ 1,034,367</u>	<u>\$ 1,009,415</u>

The following table presents the fair value and unrealized losses of the Company's AFS fixed maturity securities, aggregated by investment category and length of time that individual securities were in a continuous unrealized loss position, for which no valuation allowance for expected credit loss has been recorded, as of the dates indicated:

	Less than 12 months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<u>December 31, 2023</u>						
U.S. Government	\$ 66,734	\$ (164)	\$ 92,978	\$ (1,824)	\$ 159,712	\$ (1,988)
Asset-backed	34,202	(72)	35,665	(763)	69,867	(835)
U.S. Agencies	35,967	(253)	156,205	(17,191)	192,172	(17,444)
U.S. Corporate	59,804	(453)	223,926	(6,311)	283,730	(6,764)
Foreign Governments	-	-	6,610	(170)	6,610	(170)
Municipalities	12,181	(67)	25,699	(1,189)	37,880	(1,256)
Total	<u>\$ 208,888</u>	<u>\$ (1,009)</u>	<u>\$ 541,083</u>	<u>\$ (27,448)</u>	<u>\$ 749,971</u>	<u>\$ (28,457)</u>

	Less than 12 months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<u>December 31, 2022</u>						
U.S. Government	\$ 102,759	\$ (3,348)	\$ 3,281	\$ (230)	\$ 106,040	\$ (3,578)
Asset-backed	37,799	(1,036)	18,372	(799)	56,171	(1,835)
U.S. Agencies	51,689	(1,696)	147,933	(20,635)	199,622	(22,331)
U.S. Corporate	159,691	(4,020)	215,649	(11,825)	375,340	(15,845)
Foreign Governments	-	-	9,456	(420)	9,456	(420)
Municipalities	-	-	24,719	(2,191)	24,719	(2,191)
Total	<u>\$ 351,938</u>	<u>\$ (10,100)</u>	<u>\$ 419,410</u>	<u>\$ (36,100)</u>	<u>\$ 771,348</u>	<u>\$ (46,200)</u>

Total gross unrealized losses represented approximately 3.8% and 6.0% of the aggregate fair value of the related securities as of December 31, 2023, and December 31, 2022, respectively. The total gross unrealized losses are comprised of 289 and 314 individual securities as of December 31, 2023, and December 31, 2022, respectively. The Company concluded that for these securities, the gross unrealized losses as of December 31, 2023, and December 31, 2022 were related to noncredit factors and therefore, did not recognize any credit-related losses during the related periods. Additionally, the Company currently does not intend to and is not required to sell these investments prior to an anticipated recovery in value.

The following table presents the gross realized gains and gross realized losses from sales of our AFS securities:

	Year ended December 31, 2023	Year ended December 31, 2022
Gross realized gains from sales	\$ 59	\$ 7
Gross realized losses from sales	\$ (234)	\$ (757)

## Net Investment Income

The components of net investment income are as follows:

	Year ended December 31, 2023	Year ended December 31, 2022
Fixed maturity securities AFS	\$ 27,535	\$ 11,375
Equity securities	-	70
Short term investments, cash and other	<u>3,612</u>	<u>1,579</u>
Gross investment income	31,147	13,024
Investment expenses	<u>(814)</u>	<u>(681)</u>
Net investment income	<u>\$ 30,333</u>	<u>\$ 12,343</u>

## Pledged Investments

As of December 31, 2023, and 2022 the Company had restricted assets comprised of cash and cash equivalents and fixed maturity investments of \$344,196 and \$294,473, respectively, that were pledged during the normal course of business.

## 5. Fair Value Measurements

Fair value is defined as the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between open market participants at the measurement date.

FASB ASC Topic *Fair Value Measurements and Disclosures* prescribes a fair value hierarchy that prioritizes the inputs to the respective valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to valuation techniques that use at least one significant input that is unobservable (Level 3). The three levels of the fair value hierarchy are described below:

- Fair values determined by Level 1 inputs utilize unadjusted quoted prices obtained from active markets for identical assets or liabilities for which the Company has access at the measurement date. The fair value is determined by multiplying the quoted price by the quantity held by the Company;
- Fair values determined by Level 2 inputs utilize attributes (other than quoted prices included in Level 1) that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals, broker quotes and certain pricing indices; and
- Level 3 inputs are based all or in part on significant unobservable attributes for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. In these cases, significant management assumptions are used to establish management's best estimate of the assumptions used by other market participants in determining the fair value of the asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement of the asset. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and the Company considers factors specific to the asset.

In order to determine if a market is active or inactive for a security, a number of factors are considered, including, but not limited to, the spread between what a seller is asking for a security and what a buyer is bidding for the same security, the volume of trading activity for the security in question, the price of the security compared to its par value (for fixed maturity investments), and other factors that may be indicative of market activity.



There have been no material changes in the valuation techniques, nor have there been any transfers into or out of Level 3 during the years presented in these financial statements. Below is a summary of the assets that are measured at fair value on a recurring basis:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>December 31, 2023</u>				
Fixed maturity securities				
U.S. Government	\$ 210,701	\$ -	\$ 210,701	\$ -
Asset-backed	111,298	-	111,298	-
U.S. Agencies	222,701	-	222,701	-
U.S. Corporate	418,805	-	418,805	-
Foreign Governments	6,609	-	6,609	-
Municipalities	39,301	-	39,301	-
	<u>\$ 1,009,415</u>	<u>\$ -</u>	<u>\$ 1,009,415</u>	<u>\$ -</u>
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>December 31, 2022</u>				
Fixed maturity securities				
U.S. Government	106,040	-	106,040	-
Asset-backed	56,749	-	56,749	-
U.S. Agencies	220,969	-	220,969	-
U.S. Corporate	380,392	-	380,392	-
Foreign Governments	9,456	-	9,456	-
Municipalities	24,719	-	24,719	-
Short term investments	14,728	-	14,728	-
	<u>\$ 813,053</u>	<u>\$ -</u>	<u>\$ 813,053</u>	<u>\$ -</u>

### Level 1 and 3 Securities

The Company had no Level 1 or 3 securities as of December 31, 2023 and December 31, 2022, respectively.

### Level 2 Securities

The Company values Level 2 securities using various observable market inputs obtained from a pricing service. The pricing service prepares estimates of fair value measurements for the Company's Level 2 securities using proprietary valuation models based on techniques such as matrix pricing which include observable market inputs. The fair value measurements and disclosures guidance defines observable market inputs as the assumptions market participants would use in pricing the asset or liability developed on market data obtained from sources independent of the Company. The extent of the use of each observable market input for a security depends on the type of security and the market conditions at the balance sheet date. Depending on the security, the priority of the use of observable market inputs may change as some observable market inputs may not be relevant or additional inputs may be necessary. The Company uses the following observable market inputs ("standard inputs"), listed in the approximate order of priority, in the pricing evaluation of Level 2 securities: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research data.

The following describes the significant inputs generally used to determine the fair value of the Company's fixed maturity securities by asset class:

U.S. government and government agency securities – U.S. government and government agencies and authorities securities are priced by the Company's independent pricing service utilizing standard inputs.

Asset-backed securities – valuations provided by independent pricing services, substantially all through index providers and pricing vendors with an immaterial amount through broker-dealers. The fair values of these securities are generally determined through the use of pricing models which use spreads to determine the appropriate average life of the securities. These spreads are generally obtained from the new issue market, secondary trading and from broker-dealers who trade in the relevant security market.

U.S. Corporate securities – valuations provided by independent pricing services, substantially all through index providers and pricing vendors with an immaterial amount through broker-dealers. The fair values of these securities are generally determined using the spread above the risk-free yield curve. These spreads are generally obtained from the new issue market, secondary trading and from broker-dealers who trade in the relevant security market.

Foreign government securities – valuations provided by independent pricing services, with all prices provided through index providers and pricing vendors. The fair values of these securities are generally based on international indices or valuation models which include daily observed yield curves, cross-currency basis index spreads and country credit spreads.

Municipal securities – valuations provided by independent pricing services, with all prices provided through index providers and pricing vendors. The fair values of these securities are generally determined using spreads obtained from broker dealers who trade in the relevant security market, trade prices and the new issue market.

Short term investments - valuations provided by independent pricing services, generally determined using the spread above the risk-free yield curve.

Valuation models used by independent pricing services can change from period to period, depending on the appropriate observable inputs that are available at the balance sheet date to price a security.

#### **Financial Instruments Disclosed, But Not Carried, at Fair Value**

The Company uses various financial instruments in the normal course of its business. The Company's (re)insurance contracts are excluded from the fair value of financial instruments accounting guidance, unless the Company elects the fair value option. The carrying values of cash and cash equivalents, accrued investment income, certain other assets, certain other liabilities, and other financial instruments approximated their fair values.

#### **Fair value measurements on a non-recurring basis**

The Company measures the fair value of certain assets on a non-recurring basis, generally quarterly, annually or when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. These assets include certain fixed assets and intangible assets.

#### **6. Reserves for claims and claim expenses**

The Company believes the most significant accounting judgment made by management is its estimate of claims and claim expense reserves. Claims and claim expense reserves comprises case and IBNR reserves.

As claims and claim expense reserves are estimates, the Company's actual losses incurred may be more or less than the Company's previously developed estimates, which is referred to as either unfavorable or favorable development, respectively.

The following tables present a reconciliation of claims and claim expense reserves for the following periods:

	<u>Year Ended December 31, 2023</u>	<u>Year Ended December 31, 2022</u>
Reserve for claims and claim expenses, as of beginning of year	\$ 570,426	\$ 169,882
Reinsurance recoverable, as of beginning end of year (2)	<u>178,563</u>	<u>17,731</u>
Reserve for claims and claim expenses, net of reinsurance recoverable, as of beginning of year	<u>391,863</u>	<u>152,151</u>
Net losses incurred during the year related to:		
Current year	232,177	321,540
Prior period	<u>(3,141)</u>	<u>(1,228)</u>
Total net losses incurred	<u>229,036</u>	<u>320,312</u>
Net losses paid during the year related to		
Current year	19,602	36,104
Prior period	<u>115,815</u>	<u>41,158</u>
Total net losses paid	<u>135,417</u>	<u>77,262</u>
Foreign exchange losses (gains) (1)	2,996	(3,338)
Reserve for claims and claim expenses, net of reinsurance recoverable, as of end of year	488,478	391,863
Reinsurance recoverable, as of end of year (2)	<u>154,469</u>	<u>178,563</u>
Reserve for claims and claim expenses, as of end of year	<u>\$ 642,947</u>	<u>\$ 570,426</u>

(1) Reflects the impact of the foreign exchange revaluation of the reserve for claims and claim expenses, net of reinsurance recoverable, denominated in non-U.S. dollars as at the balance sheet date.

(2) Excludes reinsurance recoverable on paid losses of \$272 and \$4,247 as of December 31, 2023 and December 31, 2022, respectively.

The Company had \$3,141 of favorable prior year reserve development, primarily from property catastrophe reserves, mainly due to the release of Hurricane Ida reserves.

In February 2022, military conflict escalated between Russia and Ukraine. Following Russia's invasion of Ukraine, the U.S., the U.K., and the European Union governments, among others, have developed coordinated financial and economic sanctions targeting Russia that, in various ways, constrain transactions with numerous Russian entities, including major Russian banks, and individuals; transactions in Russian sovereign debt; and investment, trade and financing to, from, or in certain regions of Ukraine.

As of December 31, 2023, we have recorded \$33,808 of loss reserves related to this conflict and are monitoring the status of emerging (re)insurance claims. Our loss reserve estimate could materially change due to a number of factors, including, but not limited to; the presence of complex or novel legal theories, and the ongoing discovery and development of information important to potential claims by (re)insureds.

It is possible that our financial condition, results of operations or cash flows will be materially affected in future periods due to potential claims by (re)insureds.

#### ***Incurred and Paid Claims Development***

The following is information about incurred and paid claims development as of December 31, 2023, net of reinsurance, as well as cumulative claim frequency and the total of IBNR liabilities plus expected development on reported claims included within the net incurred claims amounts. Cumulative number of reported claims is reported on a per claim basis. The information about incurred and paid claims development for the years ended December 31, 2022 and 2021, is presented as unaudited supplementary information.

## Insurance

Accident Year	Ultimate Incurred Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance Years Ended December 31,			At December 31, 2023	
	2021 (unaudited)	2022 (unaudited)	2023	Total of IBNR Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
	2021	\$ 9,155	\$ 9,155	\$ 9,127	\$ 8,945
2022	-	50,957	51,047	50,261	1,711
2023	-	-	74,607	71,396	4,682
			<u>\$ 134,781</u>		

Accident Year	Cumulative Paid Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance Years Ended December 31,		
	2021 (unaudited)	2022 (unaudited)	2023
2021	\$ -	\$ -	\$ 8
2022	-	183	307
2023	-	-	455
			<u>\$ 770</u>
All outstanding liabilities prior to 2021, net of reinsurance			-
Liabilities for claims and claim adjustment expenses, net of reinsurance			<u>\$ 134,011</u>

Since 2021 was the first year writing business, historical loss payout patterns are not considered to be meaningful and have not been presented.

## Reinsurance

Accident Year	Ultimate Incurred Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance Years Ended December 31,			At December 31, 2023	
	2021 (unaudited)	2022 (unaudited)	2023	Total of IBNR Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
	2021	\$ 214,216	\$ 212,874	\$ 208,888	\$ 28,982
2022	-	270,696	271,514	99,189	N/A
2023	-	-	157,535	120,076	N/A
			<u>\$ 637,937</u>		

Accident Year	Cumulative Paid Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance Years Ended December 31,		
	2021 (unaudited)	2022 (unaudited)	2023
2021	\$ 71,242	\$ 106,501	\$ 143,099
2022	-	41,795	120,881
2023	-	-	19,145
			\$ 283,125
All outstanding liabilities prior to 2021, net of reinsurance			-
Liabilities for claims and claim adjustment expenses, net of reinsurance			\$ 354,812

Since 2021 was the first year writing business, historical loss payout patterns are not considered to be meaningful and have not been presented.

### Reconciliation

	December 31, 2023
<b>Net reserve for losses and loss expenses per the loss development triangles:</b>	
Insurance	\$ 134,011
Reinsurance	354,812
Total net reserves for losses and loss expenses per the loss development	488,823
<b>Reinsurance recoverable for each loss development triangle:</b>	
Insurance	43,430
Reinsurance	111,039
Total reinsurance recoverables included in the loss development triangles	154,469
Total gross reserves for losses and loss expenses included in the loss development triangles	643,292
<b>Other balances not included in the loss development triangles:</b>	
Currency translation adjustment	(345)
Total gross reserves for losses and loss expenses	\$ 642,947

### 7. Shareholder's Equity

The Company was formed on July 28, 2020, with authorized share capital of 10 common shares of \$1.00 par value. The 10 common shares were issued to Vantage Group Holdings Ltd. on August 17, 2020. Then on October 12, 2020, the Company's Board of Directors approved that the existing 10 common shares of \$1.00 par value be consolidated into a single share of \$10.00 par value and that the share capital be increased to \$100,000 representing 10,000,000 common shares of \$10.00 par value, subject to shareholder approval, which was obtained on October 14, 2020. All 10,000,000 common shares of \$10.00 par value were issued to Vantage Group Holdings Ltd.

The Company did not declare dividends during the years ended December 31, 2023 and 2022.

### 8. Commitments, Contingencies and Other Items

#### Concentrations of credit risk

The Company underwrites a significant amount of its (re)insurance business through brokers. There is credit risk associated with payments of (re)insurance balances to the Company in regard to these brokers' ability to fulfil their contractual obligations. In addition, in some jurisdictions, if the broker fails to make payments to the insured under the Company's policy, the Company may remain liable to the insured for the deficiency. These brokerage companies are large and well established, and there are no indications they are financially distressed.

The following table sets forth the Company's premiums written by broker that individually contributed more than 10% of total gross written premium for the years ended December 31, 2023 and 2022:

<b>Broker</b>	% of Gross Written Premium	
	2023	2022
Marsh & McLennan Companies Inc.	36.6%	31.9%
Aon Corporation and Subsidiaries	15.3%	27.4%
Arthur J. Gallagher & Co.	22.2%	12.9%

There was no other broker or (re)insured that accounted for more than 10% of gross written premiums for the years indicated.

### Operating leases

The Company leases office space and office equipment under various operating leases, which are set to expire in December 2026. Total rent expense with respect to these operating leases for the years ended December 31, 2023 and 2022 was \$454 and \$504, respectively. Supplemental information related to operating leases is as follows for the years indicated:

	Year Ended December 31, 2023	Year Ended December 31, 2022
Operating lease right of use assets	\$ 1,343	\$ 1,783
Operating lease liability	1,343	1,783

	Year Ended December 31, 2023	Year Ended December 31, 2022
Weighted average remaining operating lease term	3.0 years	4.0 years

Maturities of the existing lease liabilities are expected to occur as follows:

2024	\$ 452
2025	448
2026	443
Total operating lease liability	<u>\$ 1,343</u>

### Letters of Credit

Vantage has entered into several letter of credit facilities (“LOCs”) with commercial banks, these LOCs are required under the terms of certain insurance and reinsurance agreements.

The following table summarizes the outstanding letters of credit as of December 31, 2023:

Bank	Commitment	In Use
Wells Fargo Bank, N.A. (1)	\$ -	\$ 54,649
Lloyds Bank Corporate Markets plc	75,000	52,441
CitiBank Europe plc (1)	-	16,735
Total		<u>\$ 123,825</u>

(1) Uncommitted facility

### Contingencies

The Company may become involved in a variety of litigation and legal and regulatory proceedings relating to its business operations and, from time to time, it may become involved in other actions.

If necessary, the Company will establish an accrued liability for certain legal and regulatory proceedings. As of December 31, 2023 and 2022 no accrued liability was recorded.

## 9. Reinsurance

The Company evaluates the financial condition of its reinsurers and monitors concentration of credit risk arising from its exposure to individual reinsurers. The reinsurance program is generally placed with reinsurers whose rating, at the time of placement, was A- or better (or the equivalent) as rated by one or more nationally recognized statistical rating organizations or providing reinsurance on a collateralized basis. Exposure to a single reinsurer is also controlled with restrictions dependent on rating.

The following table sets forth the effect of reinsurance on premiums written and earned:

	<b>Year Ended December 31, 2023</b>	<b>Year Ended December 31, 2022</b>
<b>Premiums written</b>		
Direct	\$ 112,131	\$ 86,286
Assumed	397,940	527,275
Ceded	<u>(74,860)</u>	<u>(154,744)</u>
Net written premiums	<u>\$ 435,211</u>	<u>\$ 458,817</u>
<b>Premiums earned</b>		
Direct	\$ 90,108	\$ 56,357
Assumed	372,200	464,368
Ceded	<u>(76,854)</u>	<u>(129,521)</u>
Net earned premiums	<u>\$ 385,454</u>	<u>\$ 391,204</u>

### ***Retrocession Agreement with Vista Re***

On May 4, 2021 and April 28, 2022, VRL entered into separate retrocession agreements with Vista Re Ltd (“Vista Re”), a Bermuda exempted company registered as a special purpose insurer under the Act, to provide reinsurance coverage for protection against losses over respective three-year periods from named storm events in all 50 states of the U.S., the District of Columbia, Puerto Rico and the U.S. Virgin Islands and North American earthquake events in all 50 states of the U.S., the District of Columbia, Puerto Rico, the U.S. Virgin Islands and all provinces and territories of Canada. Vista Re financed the property catastrophe reinsurance coverage by issuing \$225,000 in principal-at-risk variable rate notes relating to the May 4, 2021 agreement (the “Series 2021-1 Notes”) and up to \$65,000 in principal-at-risk variable rate notes relating to the April 28, 2022 agreement (the “Series 2022-1 Notes”) to unrelated investors.

In 2023 the Company revised its underwriting strategy to reduce its property catastrophe exposure. As a result, in 2023 VRL wrote significantly less Property Catastrophe excess-of-loss premium relative to the amounts reported for the years ended December 31, 2022 and December 31, 2021, respectively. With this exposure reduction, VRL sold reinsurance protection to third party cedants that replicated the coverage provided by the Series 2021-1 Notes and Series 2022-1 Notes for the remaining risk periods covered by those arrangements (with those periods beginning May 15, 2023). As such, while the Company would expect to receive gross reinsurance recoveries under the Vista Re arrangements for covered events from and after May 15, 2023, it would likewise expect to pay equivalent amounts under the replicated coverage to third parties.

These agreements do not alter or amend the original agreements related to the Series 2021-1 Notes or Series 2022-1 Notes.

## 10. Statutory financial information

The Company is subject to insurance laws and regulations in Bermuda. These regulations include restrictions that limit the amount of dividends or other distributions, such as loans or cash advances, available to shareholders without prior approval of the insurance regulatory authorities.

The Company is registered under the Act which requires the Company to meet a minimum solvency margin and a minimum liquidity ratio. The Company has satisfied these requirements for 2023 and 2022. The Bermuda Statutory Capital Requirement (“BSCR”) is a risk-based capital model to measure risk and to determine an enhanced capital requirement (“ECR”) and target capital level (defined as 120% of the ECR) for Class 4 insurers.

A Class 4 insurer is prohibited from declaring or paying a dividend if in breach of its ECR, solvency margin or minimum liquidity ratio or if the declaration or payment of such dividend would cause such a breach. Where an insurer fails to meet its solvency margin or minimum liquidity ratio on the last day of any financial year, it is prohibited from declaring or paying any dividends during the next financial year without the approval of the Authority. Further, a Class 4 insurer is prohibited from declaring or paying in any financial year dividends of more than 25% of its total statutory capital and surplus (as shown on its previous financial year's statutory balance sheet) unless it files (at least seven days before payment of such dividends) with the Authority an affidavit signed by at least two directors and the insurer's principal representative stating that the declaration of such dividends has not caused the insurer to fail to meet its solvency margin or minimum liquidity ratio. Class 4 insurers must obtain the Authority's prior approval for a reduction by 15% or more of the total statutory capital as set forth in its previous year's statutory financial statements.

Total statutory capital and surplus as of December 31, 2023, the associated required amount and statutory net income for the year ended December 31, 2023, was as follows:

	<u>Bermuda</u>
Statutory capital and surplus, as of December 31, 2023	\$ 655,283
Required statutory capital and surplus, as of December 31, 2023	217,605
Net income, year ended December 31, 2023	\$ 93,008

At December 31, 2023, the Company has \$105,300 available for payment of dividends in 2024 without the need for prior regulatory approval.

## 11. Income Taxes

Under previous Bermuda law, no income or capital gains taxes are imposed on the Company and its Bermuda subsidiaries. The Minister of Finance of Bermuda had assured the Company and its Bermuda subsidiary that, pursuant to The Exempted Undertakings Tax Protection Amendment Act of 2011, they will be exempt until 2035 from imposition of any such taxes. However, on December 27, 2023, the Government of Bermuda enacted the Bermuda CIT, which will become effective for tax years beginning on or after January 1, 2025. ASC 740, Accounting for Income Taxes, requires the effects of changes in tax laws or rates to be recognized in the period in which the law is enacted, regardless of the effective date. Given the potential for the new corporate income tax regime in Bermuda to supersede the Minister of Finance's assurance, the Company is likely to become subject to taxes in Bermuda before 2035. The Bermuda CIT Act will apply a 15% corporate income tax to certain Bermuda constituent entities of multi-national groups in fiscal years beginning on or after January 1, 2025. The act includes a provision referred to as the ETA, which is intended to provide a fair and equitable transition into the tax regime. Another provision defers the effective date until 2030 for Bermuda companies that meet certain requirements. The Company expects to meet the requirements to remain exempt until 2030 at which time it expects to incur and pay increased taxes in Bermuda.

### *Effective Tax Rate*

The effective tax rate is the ratio of "Total income tax expense (benefit)" divided by "Income (loss) before income taxes". The statutory tax rate in Bermuda is 0% for 2023.

In assessing whether a deferred tax asset can be recovered and assessing the need for a valuation allowance, the Company considers all positive and negative evidence to determine whether it is more likely than not that the tax benefit of part or all of a deferred tax asset will be realized. The Company's framework for assessing the recoverability of deferred tax assets primarily considers future reversal of existing taxable temporary differences, available tax planning strategies and the expected occurrence of future taxable income. The weighting of the positive and negative evidence is commensurate with the extent to which they can be objectively verified. As of December 31, 2023, and 2022, we had a valuation allowance of \$11,902 and \$0, respectively. We maintained these valuation allowances following our conclusion that we could not demonstrate that it was more likely than not that the related deferred tax assets will be realized.



Significant components of the Company’s deferred income taxes as of December 31, 2023, and 2022 were as follows:

	Year ended December 31, 2023	Year ended December 31, 2022
Deferred tax assets:		
Intangible assets	\$ 11,636	\$ -
Fixed assets	267	-
Total deferred tax assets	<u>11,902</u>	<u>-</u>
Total deferred tax liabilities	<u>-</u>	<u>-</u>
Net deferred tax assets	11,902	-
Less: Valuation allowance	<u>(11,902)</u>	<u>-</u>
Total net deferred tax liabilities	<u>\$ -</u>	<u>\$ -</u>

The Company will file income tax returns as required by the tax laws of Bermuda. The Company expects to be subject to Bermuda income tax in 2030.

## 12. Variable Interest Entity

### *AdVantage Retro I Ltd.*

Effective December 14, 2020, AdVantage Retro I Ltd. (“AdVantage”) was incorporated under the laws of Bermuda and is a registered Collateralized Insurer and Segregated Accounts Company. AdVantage operates utilizing segregated accounts to maintain separation of investor funds. AdVantage is considered a VIE because it has equity at risk with non-substantive voting rights.

On December 15, 2022, AdVantage formed segregated account AV0003 (“AV0003”) in connection with a new Subscription and Shareholder Agreement with a Preference Shareholder (third-party investors).

As of January 1, 2023, VRL sources risk on behalf of AV0003 to match the risk and return appetite of the third-party investors pursuant to a Reinsurance Services Agreement among VRL, AV0003 and AdVantage. VRL receives compensation based on capital deployed and profits from AV0003.

There are three revenue components for VRL associated with AV0003:

- AV0003 will cede to VRL, and VRL will assume from AV0003, a 2.5% quota share of AV0003’s liabilities and premiums under each reinsurance agreement entered into by AV0003 that is sourced by VRL pursuant to the Reinsurance Services Agreement, subject to a cap.
- VRL will provide certain underwriting and related services to AV0003 and AV0003 will pay VRL a fixed quarterly fee based on AV0003’s share capital and reinsurance capital deployed.
- AV0003 will also pay VRL a variable fee based on AV0003’s performance calculated six months following the earlier of (i) the end of the last-expiring risk period under all reinsurance agreements and (ii) commutation of all reinsurance agreements. This variable fee will be trued up every six months thereafter until final amounts are known.
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The 2.5% quota share contract is recorded as assumed premiums and recognized ratably over the contract term. The quarterly fees for services provided to AV0003 are recognized over time in the period the services are provided on a proportional basis that corresponds to the time elapsed on the underlying reinsurance contract term. The variable fee was considered fully constrained and thus the transaction price at inception was zero. Management revisited this estimate at the reporting date and accrued for fees likely to be achievable.

Net earned premiums includes \$7,584 related to the 2.5% quota share, while fee and other income includes \$35,573 related to fixed and variable fees.

Because AdVantage is an independent company, the assets of AdVantage can be used only to settle obligations of AdVantage and AdVantage is solely responsible for its own liabilities and commitments. The Company's financial exposure to AdVantage is limited to VRL's participation on a stop-loss reinsurance arrangement provided to one of AdVantage's segregated accounts, VRL's quota share arrangement provided to AV0003, and counterparty credit risk (mitigated by collateral) arising from certain reinsurance cessions from VRL to AdVantage. The Company has not provided any financial or other support to AdVantage that it is not contractually required to provide.

As of December 31, 2023, AV0003 is considered a VIE because of the separate quota share reinsurance agreement, however the Company is not the primary beneficiary of AV0003 and therefore AV0003 is not consolidated by the Company.

### **13. Subsequent Events**

The Company has completed its subsequent events evaluation for the period subsequent to the balance sheet date of December 31, 2023, through April 30, 2023, the date the financial statements were available to be issued.

Effective February 28, 2024, the Company's Board of Directors approved a distribution of contributed surplus to its sole shareholder, Vantage Group Holdings Ltd., in the amount of \$50,000,000. The distribution was completed March 5, 2024.