

Directors' Report

Audited Financial Statements

Black Kite Re Limited

Year ended 31 December 2023

Black Kite Re Limited

Directors' Report

The directors submit herewith their report and audited financial statements of Black Kite Re Limited (the "Company") for the year ended 31 December 2023.

Principal activity

The principal activity of the Company is to enter into contract(s) of insurance only with Peak Reinsurance Company Limited. The Company has been authorised by the Insurance Authority under section 8A of the Insurance Ordinance to carry on special purpose business in or from Hong Kong.

Results and dividends

The results of the Company for the year ended 31 December 2023 are set out in the statement of comprehensive income on page 6.

The directors do not recommend the payment of a dividend.

Directors

The directors who held office during the period and up to the date of this report were:

Timothy James Yip
Stephen John Tunstall
Stuart Sidney Herbert
Nisala Weerasooriya

(resigned on 25 January 2024)
(appointed on 25 January 2024)

There being no provision in the Company's Articles of Association for retirement by rotation, all directors shall continue in office.

Controller

The controller of the Company, within the meaning of Section 13A(12) of the Insurance Ordinance, during the period and up to the date of this report was:

Stuart Sidney Herbert
Nisala Weerasooriya

(resigned on 25 January 2024)
(appointed on 25 January 2024)

Arrangements for acquisition of shares or debentures

At no time during the year was the Company or its holding company a party to any arrangements to enable directors or controller of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other company.

Material interests in transactions, arrangements or contracts

After consideration, the directors are of the opinion that no transactions, arrangements and contracts of significance in relation to the Company's business to which the Company's holding company was a party and in which a director or controller of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Black Kite Re Limited

Directors' Report

Management contracts

The operational management, accounting and administrative functions are provided by Marsh Management Services Singapore Pte. Ltd. in accordance with the services agreement dated 2 June 2022.

Equity-linked agreements

No equity-linked agreements into which the Company entered subsisted at any time during the year.

Permitted indemnity provisions

No permitted indemnity provision was in force during the year, or is in force at the date of this report, for the benefit of a then director or a director of the Company (whether made by the Company or otherwise) or a then director or a director of its holding company (if made by the Company).

Auditor

A resolution will be submitted to the annual general meeting to re-appoint Forvis Mazars CPA Limited (formerly known as Mazars CPA Limited), *Certified Public Accountants*, as auditor of the Company.

Approved and signed by



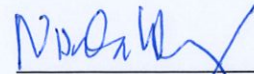
Stephen John Tunstall
Director

30 JUL 2024



Timothy James Yip
Director

30 JUL 2024



Nisala Weerasooriya
Director and Administrator

30 JUL 2024

Independent Auditor's Report

To the member of
Black Kite Re Limited
(incorporated in Hong Kong with limited liability)

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18 Harbour Road
Wanchai, Hong Kong
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Opinion

We have audited the financial statements of Black Kite Re Limited (the "Company") set out on pages 6 to 38, which comprise the statement of financial position as at 31 December 2023, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2023, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are independent of the Company in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the directors' report.

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

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

Independent Auditor's Report

To the member of

Black Kite Re Limited

(incorporated in Hong Kong with limited liability)

Responsibilities of Directors for the Financial Statements

The directors of the Company are responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Companies Ordinance, and for such internal control as the directors determine 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, the directors are 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 the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's 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 HKSA's, 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 the director.

Independent Auditor's Report

To the member of

Black Kite Re Limited

(incorporated in Hong Kong with limited liability)

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

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

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

A handwritten signature in blue ink, appearing to read "fmr".

Forvis Mazars CPA Limited

Certified Public Accountants

Hong Kong, 30 July 2024

The engagement director on the audit resulting in this independent auditor's report is:

Chan Hiu Fun

Practising Certificate number: P05709

Black Kite Re Limited

Statement of Comprehensive Income

Year ended 31 December 2023

		Year ended 31 December 2023 US\$	Period from 10 March 2022 (date of incorporation) to 31 December 2022 US\$ (Restated)
	Note		
Insurance revenue		10,696,890	11,277,886
Insurance service result	5	10,696,890	11,277,886
Interest income from money market funds	6	7,261,375	2,013,196
Investment return to noteholders	6	(17,713,735)	(11,215,672)
Administrative expenses		<u>(244,530)</u>	<u>(2,034,002)</u>
Profit before tax	7	-	41,408
Income tax expense	8	<u>(6,086)</u>	-
(Loss)/Profit and total comprehensive (loss)/income for the year/period		<u>(6,086)</u>	<u>41,408</u>


Black Kite Re Limited

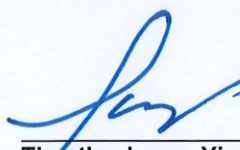
Statement of Financial Position

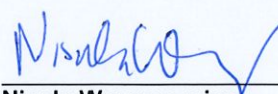
At 31 December 2023

	Note	2023 US\$	2022 US\$ (Restated)
ASSETS			
Financial assets at fair value through profit or loss	9	150,000,000	150,000,000
Prepayments and other receivables	10	698,760	511,577
Insurance contract assets	11	3,917,170	3,852,892
Cash and cash equivalents	12	46,363	493,627
Total assets		154,662,293	154,858,096
LIABILITIES AND EQUITY			
LIABILITIES			
Variable rate notes payable	13	150,000,000	150,000,000
Accrued expenses and other payables	14	4,620,785	4,816,588
Provision for Hong Kong tax		6,086	-
Total liabilities		154,626,871	154,816,588
EQUITY			
Share capital	15	100	100
Retained earnings		35,322	41,408
Total equity		35,422	41,508
Total liabilities and equity		154,662,293	154,858,096

These financial statements on pages 6 to 38 were approved and authorised for issue by the Board of Directors on 30 JUL 2024 and signed by


Stephen John Tunstall
Director


Timothy James Yip
Director


Nisala Weerasooriya
Director and Administrator

Black Kite Re Limited

Statement of Changes in Equity

Year ended 31 December 2023

	Share capital US\$	Retained earnings US\$	Total US\$
Shares issued upon incorporation	100	-	100
Profit and total comprehensive income for the period	-	41,408	41,408
At 31 December 2022 and 1 January 2023	100	41,408	41,508
Loss and total comprehensive loss for the year	-	(6,086)	(6,086)
At 31 December 2023	100	35,322	35,422

Black Kite Re Limited

Statement of Cash Flows

Year ended 31 December 2023

		Year ended 31 December 2023 US\$	Period from 10 March 2022 (date of incorporation) to 31 December 2022 US\$ (Restated)
	Note		
Operating activities			
Profit before tax		-	41,408
Adjustments for:			
Interest income from money market funds	6	(7,261,375)	(2,013,196)
Investment return to noteholders	6	17,713,735	11,215,672
Operating cash flows before changes in working capital		10,452,360	9,243,884
<i>Changes in working capital:</i>			
Prepayments and other receivables		(7,063)	(27,026)
Insurance contract asset		(64,278)	(3,852,892)
Accrued expenses and other payables		42,169	63,485
Net cash generated from operating activities		10,423,188	5,427,451
Investing activities			
Interest received		7,081,255	1,528,645
Purchase of financial assets at fair value through profit or loss	9	-	(150,000,000)
Net cash generated from (used in) investing activities		7,081,255	(148,471,355)
Financing activities			
Issue of share capital	15	-	100
Proceeds from issuance of variable rate notes	13	-	150,000,000
Investment return paid to noteholders		(17,951,707)	(6,462,569)
Net cash (used in) generated from financing activities		(17,951,707)	143,537,531
Net (decrease)/increase in cash and cash equivalents		(447,264)	493,627
Cash and cash equivalents at beginning of year		493,627	-
Cash and cash equivalents at end of year	12	46,363	493,627

Black Kite Re Limited

Statement of Cash Flows

Year ended 31 December 2023

Changes in liabilities arising from financing activities:

	At 10 March 2022 (date of incorporation) US\$	Financing cash inflow US\$ (Restated)	Non-cash movement		At 31 December 2022 US\$
			Investment return to noteholders US\$ (Restated)	Reclassified to other payables US\$ (Restated)	
Variable rate notes payable	-	143,537,431	11,215,672	(4,753,103)	150,000,000

	At 1 January 2023 US\$	Financing cash outflow US\$	Non-cash movement		At 31 December 2023 US\$
			Investment return to noteholders US\$	Reclassified to other payables US\$	
Variable rate notes payable	150,000,000	(17,951,707)	17,713,735	237,972	150,000,000

Black Kite Re Limited

Notes to the Financial Statements

Year ended 31 December 2023

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1. Corporate information

Black Kite Re Limited (the "Company") is a public company limited by shares incorporated in Hong Kong on 10 March 2022. The Company's registered office is located at 13/F, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong.

The principal activity of the Company is to enter into contract(s) of insurance only with Peak Reinsurance Company Limited. The Company has been authorised by the Insurance Authority under section 8A of the Insurance Ordinance to carry on special purpose business in or from Hong Kong.

The immediate and ultimate holding company of the Company is Walkers Fiduciary Limited (incorporated in the Cayman Islands) (in its capacity as trustee of the Black Kite Re Limited Charitable Trust registered in the Cayman Islands).

The financial statements of the Company for the financial year ended 31 December 2023 were authorised for issue by the Board of Directors on the date of the directors' statement.

2. Summary of material accounting policies

2.1 Basis of preparation and measurement and future changes in HKFRSs

Basis of preparation

The financial statements have been drawn up in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the Companies Ordinance.

These financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2022 financial statements except for the adoption of the following new / revised HKFRSs that are relevant to the Company and effective from the current year, and certain presentation and disclosures of financial statements items have been revised. Comparative information has been restated to achieve a consistent presentation.

Adoption of new / revised HKFRSs

The Company has applied, for the first time, the following new / revised HKFRSs that are relevant to the Company:

Amendments to HKAS 1: Disclosure of Accounting Policies

The amendments require companies to disclose their material accounting policy information rather than their significant accounting policies.

The amendments have no effect on the measurement, recognition or presentation of any items in the financial statements. Management has reviewed the disclosure of accounting policy information and considered it is consistent with the amendments.

Notes to the Financial Statements

Year ended 31 December 2023

2. Summary of material accounting policies (Continued)

2.1 Basis of preparation and measurement and future changes in HKFRSs (Continued)

Adoption of new / revised HKFRSs (Continued)

Amendments to HKAS 8: Definition of Accounting Estimates

The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates.

The adoption of the amendments does not have any significant impact on the financial statements.

HKFRS 17: Insurance Contracts

HKFRS 17 Insurance Contracts ("HKFRS 17") which replaces HKFRS 4 Insurance Contracts ("HKFRS 4"), establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued.

Refer to below section "Insurance contracts" for detailed explanation of how the Company accounts for insurance contracts issued under HKFRS 17.

Amendment to HKFRS 17: Initial Application of HKFRS 17 and HKFRS 9 - Comparative Information

The amendment is a transition option relating to comparative information about financial assets presented on initial application of HKFRS 17. The amendment is aimed at helping entities to avoid temporary accounting mismatches between financial assets and insurance contract liabilities, and therefore improve the usefulness of comparative information for users of financial statements. The Company has not applied the transition provisions in HKFRS 17 and adopted the full retrospective approach as explained in below section under "Insurance Contracts".

The adoption of the amendment does not have any significant impact on the financial statements.

A summary of the principal accounting policies adopted by the Company is set out below.

Basis of measurement

The measurement basis used in the preparation of these financial statements is historical cost, except for financial assets at fair value through profit or loss and variable rate notes payable, which are measured at fair value as explained in the accounting policies set out below.

Future changes in HKFRSs

At the date of authorisation of these financial statements, the HKICPA has issued a number of new / revised HKFRSs that are not yet effective for the current period, which the Company has not early adopted. The directors do not anticipate that the adoption of the new / revised HKFRSs in future periods will have any material impact on the results of the Company.

Notes to the Financial Statements

Year ended 31 December 2023

2. Summary of material accounting policies (Continued)

2.2 Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the reporting period. Taxable profit differs from profit before tax because it excludes items of income or expense that are taxable or deductible in other reporting periods and it further excludes items that are not taxable or deductible. The Company's liability for current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on the temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Current and deferred tax are recognised as an expense or income in profit or loss.

2.3 Foreign currencies transactions and translation

The financial statements of the Company are measured in the currency of the primary economic environment in which the Company operates (its functional currency). The financial statements of the Company are presented in United States dollar ("US\$") which is also the functional currency of the Company.

Foreign currency transactions are translated into the Company's functional currency at the exchange rates prevailing on the date of the transaction. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing as of the end of the reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on retranslation of monetary items are included in profit or loss for the reporting period.

Notes to the Financial Statements

Year ended 31 December 2023

2. Summary of material accounting policies (Continued)

2.4 Insurance contracts accounting treatment

Insurance Contracts

i. Classification of insurance contracts

Contracts under which the Company accepts significant insurance risk are classified as insurance contracts. Contracts held by the Company under which it transfers significant insurance risk related to underlying insurance contracts are classified as reinsurance contracts. Insurance and reinsurance contracts also expose the Company to financial risk.

Insurance contracts may be issued and reinsurance contracts may be initiated by the Company. All references in these accounting policies to 'insurance contracts' and 'reinsurance contracts' include contracts issued or initiated by the Company, unless otherwise stated.

Contracts that have a legal form of insurance but do not transfer significant insurance risk and expose the Company to financial risk are classified as investment contracts, and they follow financial instruments accounting under HKFRS 9. The Company does not have any contracts that fall under this category.

ii. Premium Allocation Approach ("PAA") model

The PAA simplifies the measurement of insurance contracts in comparison with the general model in HKFRS 17.

Under HKFRS 17, insurance contracts held are eligible for application of the PAA model. The PAA is an optional simplified measurement model in HKFRS 17 that is available for insurance and reinsurance contracts that meet the eligibility criteria.

The Company's insurance contracts issued are all eligible for application of the PAA model although the policy period of each contract within the portfolio of insurance contracts is more than one year, given the Company has the practical ability to reassess the risks of the portfolio of insurance contracts, and as a result, can reset a price or level of benefits that fully reflects those risks annually.

The measurement principles of the PAA model differ from the 'earned premium approach' used by the Company under HKFRS 4 in the following key areas:

- The liability for the remaining coverage reflects premiums received less deferred insurance acquisition cash flows and less amounts recognised in revenue for insurance services provided.
- Measurement of the liability for the remaining coverage includes an adjustment for the time value of money and the effect of financial risk where the premium due date and the related period of services are more than 12 months apart.

Black Kite Re Limited

Notes to the Financial Statements

Year ended 31 December 2023

2. Summary of material accounting policies (Continued)

2.4 Insurance contracts accounting treatment (Continued)

ii. Premium Allocation Approach ("PAA") model (Continued)

The measurement principles of the PAA model differ from the 'earned premium approach' used by the Company under HKFRS 4 in the following key areas (Continued):

- Measurement of the liability for the remaining coverage involves an explicit evaluation of risk adjustments for non-financial risks when a group of contracts is onerous in order to calculate a loss component (previously these may have formed part of the unexpired risk reserve provision).
- Measurement of the liability for incurred claims (previously claims outstanding and incurred but not reported ("IBNR") claims) is determined on a discounted probability-weighted expected value basis, and includes an explicit risk adjustment for non-financial risk. The liability includes the Company's obligation to pay other incurred insurance expenses.

iii. Full retrospective approach

HKFRS 17 requires an entity to use the same systematic and rational method expected to be used post transition to allocate any insurance acquisition cash flows paid (or for which a liability has been recognised applying another FRS standard) before the transition date to groups of insurance contracts recognised at transition date and after the transition date.

The full retrospective approach has been applied for the Company.

The adoption of HKFRS 17 did not have a material impact on the financial performance and position of the Company.

	As at 31 December 2022 As previously reported US\$	Effect of application HKFRS 17 US\$	As at 1 January 2023 As Restated US\$
Assets			
Insurance receivables	2,587,500	(2,587,500)	-
Insurance contract assets	-	3,852,892	3,852,892
Total effect on assets		1,265,392	
Liabilities			
Unearned premium reserves	1,848,214	(1,848,214)	-
Accrued expenses and other payables	1,702,982	3,113,606	4,816,588
Total effect on liabilities		1,265,392	
Equity			
Retained earnings	41,408	-	41,408
Total effects on equity		-	

Notes to the Financial Statements

Year ended 31 December 2023

2. Summary of material accounting policies (Continued)

2.4 Insurance contracts accounting treatment (Continued)

iv. Level of aggregation

HKFRS 17 requires an entity to determine the level of aggregation for applying its requirements. The level of aggregation for the Company is determined firstly by dividing the business written into portfolios. Portfolios comprise of contracts with similar risks which are managed together.

There is only one contract written, and as such, the contract would be held at the individual contract level.

Insurance contracts

Insurance contracts are aggregated into groups for measurement purposes. Groups of insurance contracts are determined by identifying portfolios of insurance contracts, each comprising contracts subject to similar risks and managed together, and dividing each portfolio into a minimum of:

- (i) contracts that are onerous at initial recognition;
- (ii) contracts that at initial recognition have no significant possibility of becoming onerous subsequently; or
- (iii) remaining group of contracts

These groups represent the level of aggregation at which insurance contracts are initially recognised and measured. The profitability groupings are not reassessed under subsequent remeasurement.

v. Onerous group of contracts

The Company has assessed the historical performance of the only contract written in order to conclude whether it should be classified as loss making. In addition, the expected combined operating ratio will be used to inform the contract as onerous. Specific analysis and justification will be made at each reporting period.

vi. Recognition

The Company recognises groups of insurance contracts issued from the earliest of the following dates:

- The beginning of the coverage period of the group of contracts;
- The date when the first payment from a policyholder in the group becomes due (in the absence of a contractual due date, this is deemed to be when the first payment is received); and
- The date when a group of contracts becomes onerous.

Notes to the Financial Statements

Year ended 31 December 2023

2. Summary of material accounting policies (Continued)

2.4 Insurance contracts accounting treatment (Continued)

vii. Contract Boundary

The Company includes in the measurement of insurance contracts all the future cash flows within the boundary of each contract. Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the Company can compel the policyholder to pay the premiums, or in which the Company has a substantive obligation to provide the policyholder with insurance contract services.

The analysis on the contract written is based on the following criteria:

- The pricing of the premiums up to the date when the risks are reassessed does not take into account the risks that relate to periods after the reassessment.

viii. Risk Adjustment

The risk adjustment for non-financial risk is applied to the present value of the estimated future cash flows and reflects the compensation the Company requires for bearing the uncertainty about the amount and timing of the cash flows from non-financial risk as the Company fulfils insurance contracts.

For those that are eligible for the PAA model, the risk adjustment valuation may therefore only be required for Liability for Incurred Claims ("LIC").

There are three methodologies for the calculation of the Risk Adjustment for products similar to the ones underwritten by the Company:

- Value at risk ("VaR")
- Tail value at risk ("TVaR")
- Cost-of-capital ("CoC")

The VaR approach is frequently used for internal economic capital calculations. This method uses a percentile of the loss distribution at which it is indifferent between a set of expected cash flows and the set of insurance cash flows. In cases where there are no notified losses and no losses expected to incur within the covered layer, no LIC risk adjustment shall be established.

Confidence level

For risk adjustment, the Company selects confidence level so that there is a certain probability of the reserves being sufficient. The Confidence level is commensurate to the Company's risk appetite.

The Company determined risk adjustment confidence level at the 75th percentile.

Notes to the Financial Statements

Year ended 31 December 2023

2. Summary of material accounting policies (Continued)

2.4 Insurance contracts accounting treatment (Continued)

ix. Measurement

General Measurement Model ("GMM") is the default model for all insurance contracts unless they have direct participation features or the contract is eligible for, and the entity elects to apply, the PAA model.

Given that the measurement is not materially from that under the general measurement model, the contract is eligible to apply the PAA model.

On initial recognition, the Company measures the asset/liability for remaining coverage ("ARC/LRC") at the amount of premiums received.

Premiums due to the Company for insurance contract services already provided in the period but not yet received at the end of the reporting period are included in the ARC/LRC. The carrying amount of the ARC/LRC at the end of each subsequent reporting period represents the carrying amount at the start of the reporting period adjusted for the premiums received in the period and the amount recognised as insurance revenue for insurance contract services provided in that period.

Insurance acquisition cash flows are expensed as incurred.

For insurance contracts issued, the carrying amount of the LIC is measured applying the PAA model, except that:

- For claims that the Company expects to be paid within one year or less from the date of incurrence, the Company does not adjust future cash flows for the time value of money and the effects of financial risks; and
- For claims expected to take more than one year to settle are discounted applying the discount rate at the time the incurred claim is initially recognised

In measuring the LIC, judgement is applied in determining the risk adjustment for non-financial risk.

Applying the PAA, the insurance revenue is measured at the amount allocated from the expected premium receipts. The allocation is done on the basis of the passage of time. The Company applies judgement in determining the basis of allocation.

When facts and circumstances indicate that a group of insurance contracts has become onerous, the Company will perform a test for onerousness. If the amount of the fulfilment cash flows exceeds the carrying amount of the ARC/LRC, the Company recognises the amount of the difference as a loss in profit or loss and increases the ARC/LRC for the corresponding amount.

Notes to the Financial Statements

Year ended 31 December 2023

2. Summary of material accounting policies (Continued)

2.4 Insurance contracts accounting treatment (Continued)

x. Changes to presentation and disclosure

For presentation in the statement of financial position, the Company aggregates insurance contracts issued and presents separately:

- Insurance contract issued that is assets
- Insurance contract issued that is liabilities

The line item descriptions in the statement of comprehensive income will be changed significantly compared to those disclosed under HKFRS 4. Under HKFRS 4, the Company reported the following line items in the statement of comprehensive income:

- Gross written premiums
- Change in provision for unearned premiums
- Net earned premiums

Under the adoption of HKFRS 17, the standard requires separate presentation of:

- Insurance revenue
- Insurance service expenses
- Insurance finance income or expenses

The Company provides disaggregated qualitative information about significant judgements and changes in those judgements when applying HKFRS 17.

xi. Insurance revenue

As the Company provides insurance contract services under the insurance contracts, it reduces the LRC and recognises insurance revenue. The amount of insurance revenue recognised in the reporting period depicts the transfer of promised services at an amount that reflects the portion of consideration that the Company expects to be entitled to in exchange for those services.

For groups of insurance contracts measured under the PAA, the Company recognises insurance revenue based on the seasonality over the coverage of a group of contracts.

Notes to the Financial Statements

Year ended 31 December 2023

2. Summary of material accounting policies (Continued)

2.4 Insurance contracts accounting treatment (Continued)

xii. Insurance service expenses

Insurance service expenses include the following:

- Incurred claims and benefits excluding investment components reduced by loss component allocations;
- Other incurred directly attributable expenses;
- Insurance acquisition cash flows amortisation;
- Adjustments to the liabilities for incurred claims that do not arise from the effects of the time value of money, financial risk and changes therein;
- Losses on onerous contracts and reversals of such losses; and
- Insurance acquisition cash flows assets impairment.

For contracts measured under the PAA, amortisation of insurance acquisition cash flows is reflected in insurance service expenses based on the passage of time.

2.5 Financial instruments

The Company recognises a financial asset or a financial liability in its statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial instrument and allocating the interest income or expense over the relevant year. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or where appropriate, a shorter year, to the net carrying amount of the financial instrument. Income and expense are recognised on an effective interest basis for debt instruments other than those financial instruments at fair value through profit or loss.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

(i) Recognition and initial measurement

Non-derivative financial assets and financial liabilities

Trade receivables and debt investments issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit and loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Notes to the Financial Statements

Year ended 31 December 2023

2. Summary of material accounting policies (Continued)

2.5 Financial instruments (Continued)

(ii) Classification and subsequent measurement

Non-derivative financial assets

On initial recognition, a financial asset is classified as measured at amortised cost or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

Financial assets at amortised cost

A financial asset is subsequently measured at amortised cost if the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company's financial assets at amortised cost include other receivables and cash and cash equivalents.

Financial assets at FVTPL

A financial asset is measured at FVTPL if the financial asset is a financial asset held for trading, is not measured at amortised cost or at FVOCI, is irrevocably elected at initial recognition to be designated FVTPL if, by designating the financial asset as FVTPL, or is otherwise required to be measured at FVTPL. They are carried at fair value, with any resultant gain and loss recognised in profit or loss, which does not include any dividend or interest earned on the financial assets. Dividend or interest income is presented separately from fair value gain or loss.

The Company's financial assets mandatorily measured at FVTPL include money market funds.

Non-derivative financial liabilities

The Company's financial liabilities include variable rate notes payable and other payables.

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and any resultant gains and losses, including any interest expense, are recognised in profit or loss. Interest expenses are presented separately from fair value gain or loss.

Notes to the Financial Statements

Year ended 31 December 2023

2. Summary of material accounting policies (Continued)

2.5 Financial instruments (Continued)

(ii) Classification and subsequent measurement (Continued)

Non-derivative financial liabilities (Continued)

Financial liabilities are designated at initial recognition as at FVTPL only if:

- (i) the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains or losses on them on different bases;
- (ii) they are part of a group of financial liabilities or financial assets and financial liabilities that are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or
- (iii) they contain one or more embedded derivatives, in which case the entire hybrid contract may be designated as a financial liability at FVTPL, except where the embedded derivatives do not significantly modify the cash flows or it is clear that separation of the embedded derivatives is prohibited.

All financial liabilities, except for financial liabilities at FVTPL, are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss.

(iii) Derecognition

Financial assets

The Company derecognises a financial asset when and only when the contractual rights to the future cash flows from the financial asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the financial asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and recognises a collateralised borrowing for the proceeds receivables.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expired. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

Notes to the Financial Statements

Year ended 31 December 2023

2. Summary of material accounting policies (Continued)

2.6 Impairment of non-derivative financial assets

The Company recognises loss allowances for expected credit losses ("ECLs") on financial assets measured at amortised costs.

Loss allowances of the Company are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from default events that are possible within the 12 months after the reporting date (or for a shorter period if the expected life of the instrument is less than 12 months); or
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

General approach

The Company applies the general approach to provide for ECLs on all financial instruments. Under the general approach, the loss allowance is measured at an amount equal to 12-month ECLs at initial recognition.

At each reporting date, the Company assesses whether the credit risk of a financial instrument has increased significantly since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and includes forward-looking information.

If credit risk has not increased significantly since initial recognition or if the credit quality of the financial instruments improves such that there is no longer a significant increase in credit risk since initial recognition, loss allowance is measured at an amount equal to 12-month ECLs. When credit risk has increased significantly since initial recognition, loss allowance is measured at an amount equal to lifetime ECLs.

The Company assumes that the credit risk on a financial asset has increased significantly since initial recognition if it is more than 30 days past due.

The Company considers a financial asset to be in default when:

- the debtor is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held);
- there is a breach of financial covenants by the counterparty; or
- the financial asset is more than 90 days past due.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Notes to the Financial Statements

Year ended 31 December 2023

2. Summary of material accounting policies (Continued)

2.6 Impairment of non-derivative financial assets (Continued)

Measurement of ECLs

ECLs are probability-weighted estimates of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instruments. Credit losses are measured at the present value of all cash shortfalls (i.e. the difference between the contractual cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Low credit risk

A financial instrument is determined to have low credit risk if:

- (i) it has a low risk of default;
- (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; and
- (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

As detailed in note 16 to the financial statements, the following financial instruments are determined to have low credit risk:

- Interest receivables; and
- Cash and cash equivalent.

Credit-impaired financial assets

In determining whether financial assets are credit-impaired, the Company assesses whether one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- Significant financial difficulty of the debtor;
- Breach of contract, such as a default or being more than 365 days past due;
- It is becoming probable that the debtor will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for the financial asset because of financial difficulties.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. The Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due. Any subsequent recovery is recognised in profit or loss.

Black Kite Re Limited

Notes to the Financial Statements

Year ended 31 December 2023

2. Summary of material accounting policies (Continued)

2.7 Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired. For the purpose of the statement of financial position, cash and cash equivalents comprise cash at banks which are not restricted as to use and within three months when acquired.

2.8 Related party

A related party is defined as follows:

- a) A person or a close member of that person's family is related to the Company if that person:
 - (i) has control or joint control over the Company;
 - (ii) has significant influence over the Company; or
 - (iii) is a member of the key management personnel of the Company or of a parent of the Company.
- b) An entity is related to the Company if any of the following conditions applies:
 - (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (a) that person's children and spouse or domestic partner;
- (b) children of that person's spouse or domestic partner; and
- (c) dependants of that person or that person's spouse or domestic partner.

In the definition of a related party, an associate includes subsidiaries of the associate and a joint venture includes subsidiaries of the joint venture.

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any director (whether executive or otherwise) of that Company.

Notes to the Financial Statements

Year ended 31 December 2023

3. Critical accounting judgements and key sources of estimation uncertainty

The Company made judgements, estimates and assumptions about the carrying amounts of assets and liabilities that were not readily apparent from other sources in the application of the Company's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors that are considered to be reasonable under the circumstances. Actual results may differ from the estimates.

3.1 Critical judgements made in applying the Company's accounting policies

Determination of function currency

In determining the functional currency of the Company, judgement is required to determine the currency that mainly influences sales prices of goods and services and of the country whose competitive forces and regulations mainly determines the sales prices of its services. The functional currency of the Company is determined based on the local management's assessment of the economic environment in which the entity operates and its process of determining sales prices.

3.2 Key sources of estimation uncertainty

The estimates and assumptions that have a significant risk of causing a material adjustment to carrying amounts of assets and liabilities within the next financial year are discussed below.

Valuation of insurance contract liabilities – liability for incurred claims

Critical accounting judgments in applying the Company's accounting policies are related to the policyholder claims.

The Company's estimates for reported and unreported losses and the resulting provisions are continually reviewed and updated, and adjustments resulting from this review are reflected in the profit or loss. The process relies upon the use of external actuarial team and the assumption that past experience is an appropriate basis for predicting future events.

Black Kite Re Limited

Notes to the Financial Statements

Year ended 31 December 2023

4. Claims development

A claims development table discloses unpaid claims estimates into a context, allowing comparison of the development of provisions for claims with those seen in previous years. The table will provide a review of current estimates of cumulative claims and demonstrate how the estimated claims have changed at subsequent accident year-ends.

While the information in the table provides a historical perspective on the adequacy of unpaid claims estimate established in previous years, users of these financial statements are cautioned against extrapolating redundancies or deficiencies of the past on current unpaid loss balances.

A claims development table is not disclosed in the financial statements as there is no claims development to disclose.

The directors of the Company believe that the estimates of total claims outstanding as at the reporting date are adequate. However, due to the inherent uncertainties in the reserving process, it cannot be assured that such balances will ultimately prove to be adequate.

5. Insurance service result

	Year ended 31 December 2023 US\$	Period from 10 March 2022 (date of incorporation) to 31 December 2022 US\$ (Restated)
Insurance revenue		
Contracts measured under PAA	<u>10,696,890</u>	<u>11,277,886</u>

6. Net investment expense

	Year ended 31 December 2023 US\$	Period from 10 March 2022 (date of incorporation) to 31 December 2022 US\$ (Restated)
Interest income from money market funds	<u>7,261,375</u>	<u>2,013,196</u>
Investment return to noteholders	<u>(17,713,735)</u>	<u>(11,215,672)</u>

Black Kite Re Limited

Notes to the Financial Statements

Year ended 31 December 2023

7. Profit before tax

This is stated after charging:

	Year ended 31 December 2023 US\$	Period from 10 March 2022 (date of incorporation) to 31 December 2022 US\$
Auditor's remuneration	40,339	30,309
Directors' fees (<i>note 19</i>)	28,372	23,208
Exchange loss, net	376	2,563
Management service fee paid	45,150	32,405

8. Income tax expense

Hong Kong Profits Tax has not been provided as the Company had no assessable profits for the year ended 31 December 2023 and the period ended 31 December 2022.

	Year ended 31 December 2023 US\$	Period from 10 March 2022 (date of incorporation) to 31 December 2022 US\$
Reconciliation of tax expense		
Profit before tax	-	41,408
Income tax at applicable tax rate of 16.5%	-	6,832
Tax exempt revenue	-	(6,832)
Under provision in prior year	6,086	-
Tax expense for the year/period	6,086	-

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Notes to the Financial Statements

Year ended 31 December 2023

9. Financial assets at fair value through profit or loss

	Year ended 31 December 2023 US\$	Period from 10 March 2022 (date of incorporation) to 31 December 2022 US\$
Mandatorily measured at FVTPL		
Unlisted money market funds (<i>note 17</i>)	<u>150,000,000</u>	<u>150,000,000</u>

The Company has used the proceeds from the issuance of the variable rate notes (note 13) to purchase its investment in money market funds, which are deposited in a collateral account with a third-party financial institution. Following the purchase of the investment and until the agreed applicable redemption date, the collateral account is expected to contain only the investment in money market funds unless such investment is redeemed earlier.

When the investment in money market funds is redeemed, the cash proceeds of such redemption will be deposited in the collateral trust account. The financial assets are collateral for the variable rate notes of the Company and any funds made available through the disposal of the investment will be used to repay the principal and accrued interest of the variable rate notes.

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Notes to the Financial Statements

Year ended 31 December 2023

10. Prepayments and other receivables

	Year ended 31 December 2023 US\$	Period from 10 March 2022 (date of incorporation) to 31 December 2022 US\$
Interest receivables	664,671	484,551
Prepayments	34,089	27,026
	<u>698,760</u>	<u>511,577</u>

Information about the Company's exposure to credit risks and loss allowance for other receivables is included in note 16 to the financial statements.

The currency profile of the prepayments and other receivables as at 31 December 2023 was as follows:

	Year ended 31 December 2023 US\$	Period from 10 March 2022 (date of incorporation) to 31 December 2022 US\$
United States dollar	695,346	510,411
Hong Kong dollar	1,168	1,166
Singapore dollar	2,246	-
	<u>698,760</u>	<u>511,577</u>

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Notes to the Financial Statements

Year ended 31 December 2023

11. Insurance contract assets

	Year ended 31 December 2023 US\$	Period from 10 March 2022 (date of incorporation) to 31 December 2022 US\$ (Restated)
Insurance contract asset– ARC/LRC PAA	<u>(3,917,170)</u>	<u>(3,852,892)</u>
<i>Reconciliation of the asset/liability for remaining coverage</i>		
	ARC Year ended 31 December 2023 US\$	ARC Period from 10 March 2022 (date of incorporation) to 31 December 2022 US\$ (Restated)
Balance at 1 January	<u>(3,852,892)</u>	<u>-</u>
Insurance revenue	<u>10,696,890</u>	<u>11,277,886</u>
Total changes in statement of profit or loss and other comprehensive income	<u>10,696,890</u>	<u>11,277,886</u>
Premiums received	<u>(10,632,612)</u>	<u>(7,424,994)</u>
Total cash flows	<u>(10,632,612)</u>	<u>(7,424,994)</u>
Balance at 31 December	<u>(3,917,170)</u>	<u>(3,852,892)</u>

Black Kite Re Limited

Notes to the Financial Statements

Year ended 31 December 2023

12. Cash and cash equivalents

	Year ended 31 December 2023 US\$	Period from 10 March 2022 (date of incorporation) to 31 December 2022 US\$
Cash at bank	<u>46,363</u>	<u>493,627</u>

Cash and cash equivalents are denominated in United States dollar.

13. Variable rate notes payable

	Year ended 31 December 2023 US\$	Period from 10 March 2022 (date of incorporation) to 31 December 2022 US\$
Designated at FVTPL		
Variable rate notes (note 17)	<u>150,000,000</u>	<u>150,000,000</u>

Aside from the initial issuance on 2 June 2022, there have been no movements, no changes in unrealised fair value nor additions or redemptions during the year (2022: Nil).

On 2 June 2022, the Company issued US\$150,000,000 Series 2022-1 Class A Principal-at-Risk Variable Rate Notes due on 9 June 2025 (the "Notes"). The Notes are with limited recourse to certain assets of the Company. Noteholders will only have recourse to the collateral account relating to the Notes. In addition to the covered perils associated with the reinsurance agreement between the Company and Peak Reinsurance Company Limited, the noteholders are exposed to the credit risk of Peak Reinsurance Company Limited (as the reinsured) and The Bank of New York Mellon (as the indenture trustee).

Due to the limited recourse of the Notes, the repayment of the principal and accrued interest of the Notes is dependent upon funds being available to meet such liabilities as they fall due. If the Company has insufficient funds available for the purpose of redeeming the principal outstanding on any class of notes in full or interest thereon, such amounts shall not be payable to the noteholders.

The fair value of the Notes is calculated by adding the nominal value of the Notes and the fair value adjustment, which is US\$ Nil during the year (2022: US\$ Nil).

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Notes to the Financial Statements

Year ended 31 December 2023

14. Accrued expenses and other payables

	Year ended 31 December 2023 US\$	Period from 10 March 2022 (date of incorporation) to 31 December 2022 US\$ (Restated)
Investment return to noteholders	3,850,252	3,852,892
Accrued expenses	105,654	63,485
Notes interest payable	664,879	900,211
	<u>4,620,785</u>	<u>4,816,588</u>

The currency profile of accrued expenses and other payables as at 31 December is as follows:

	Year ended 31 December 2023 US\$	Period from 10 March 2022 (date of incorporation) to 31 December 2022 US\$ (Restated)
United States dollar	4,573,404	4,784,475
Hong Kong dollar	47,381	32,113
	<u>4,620,785</u>	<u>4,816,588</u>

15. Share capital

	2023		2022	
	Number of share	HK\$	Number of share	HK\$
Issued and fully paid:				
At beginning of the year/period	100	100	-	-
Issue of shares	-	-	100	100
At end of the year/period	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

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Notes to the Financial Statements

Year ended 31 December 2023

15. Share capital (Continued)

Capital risk management

The Company's objectives when managing capital are:

- to comply with the regulatory capital determined from time to time in accordance with the Insurance Ordinance and the capital requirements imposed by the Insurance Authority; and
- to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for the shareholder.

The Company, as a special purpose insurer ("SPI"), must be fully funded under the fund solvency and capital adequacy requirement, meaning that the value of the assets held by or on behalf of the SPI for the benefits of the cedant shall at all times be no less than the amount of liabilities borne by it under the reinsurance contracts entered into with the cedant.

The Company has met the regulatory capital requirements for the year ended 2023 and the period ended 31 December 2022.

There is no change in the Company's objectives, policies or processes to capital management during the year/period.

16. Financial and insurance risk management objectives and policies

Event risk

The Company has issued the Notes in order to obtain funding to support its obligations under the reinsurance agreement to make certain payments to Peak Reinsurance Company Limited. As a result of the reinsurance agreement in place, the Company and the noteholders are at risk in the event that the Japan typhoon occurs during the risk period, which exceeds the event attachment points or the event reset attachment points. The Company will be required to make payments to Peak Reinsurance Company Limited in the event of a Japan typhoon loss as set forth in a net of loss payment exceeding the event attachment level or the event reset attachment level.

Notes to the Financial Statements

Year ended 31 December 2023

16. Financial and insurance risk management objectives and policies (Continued)

Insurance risk

The Company, due to its licensing arrangements and conditions, is unable to insure a diversified portfolio of similar risks. The Company only underwrites permitted insurance securitization and reinsurance contracts as approved by the Insurance Authority. Such a focus on one insured group does result in concentration risks and creates a wider variability of outcome than a balanced portfolio. However, the nature of the business is such that the Company is fully collateralized, with the assets held on trust or otherwise under contract on behalf of the Company for the benefit of the ceding insurer, not less than the potential liabilities of the reinsurance contracts entered into.

The Company underwrites catastrophe aggregate excess of loss, indemnifying the reinsured for the part of its ultimate net loss which exceeds the applicable attachment on account of each and every covered event.

The key risks associated with this product are underwriting risk and claims experience.

Underwriting risk is the risk that the Company does not charge premiums appropriately for the coverage it insures. The risk on any policy will vary according to many factors such as location, safety measures in place, nature of the business insured and age of property. Therefore, determining a premium commensurate with the risk for these policies will be subjective, and hence risky.

Insurance risk is managed primarily through sensible pricing and appropriate investment strategy. The Company therefore monitors and reacts to changes in the general economic and commercial environment in which it operates.

Within the insurance process, concentration of risk may arise where a particular event or series of events could impact heavily upon the Company's liabilities. Such concentrations may arise from a single insurance contract or through a small number of related contracts and related to circumstances where significant liabilities could arise.

The Company manages the risk by capping its exposure with an aggregate limit of US\$150,000,000.

In considering the mitigation of insurance risk, the Company's philosophy is threefold: to reduce risk, to stabilize solvency and expansion of underwriting capacity.

Strategy in using financial instruments

The financial liabilities provided the funding to purchase the Company's investment in financial assets at fair value through profit or loss. Financial assets and liabilities represent the majority of the assets and liabilities of the Company. The Company has purchased money market funds as a means of investing the proceeds of the Notes.

The strategies used by the Company in achieving its objectives regarding the use of the financial assets and liabilities were established when the Company entered into the transactions. The Company has attempted to match the properties of its financial liabilities to its financial assets to avoid the risk generated by mismatches of investment performance against its obligations.

Notes to the Financial Statements

Year ended 31 December 2023

16. Financial and insurance risk management objectives and policies (Continued)

Financial risk

The Company's activities expose it to credit risk, market risk (including foreign currency risk) and liquidity risk. The Company's overall risk management strategy seeks to minimise adverse effects from the volatility of financial markets on the Company's financial performance.

Credit risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in a loss to the Company.

The carrying amounts of other receivables as well as cash and cash equivalents represent the Company's maximum exposure to credit risk. No other financial assets carry a significant exposure to credit risk.

There are policies in place to identify whether the debtors have adequate financial standing and appropriate credit history.

The directors considers its interest receivables are subject to low credit risk as the Notes has a high credit rating of "AAAm" by Standard & Poor's. At the end of the reporting period, there are no past due or impaired receivables.

The directors consider that cash and cash equivalents are subject to low credit risk due to the high credit rating of "A-1" by Standard & Poor's of the financial institution.

Foreign currency risk

Foreign currency risk arises from transactions denominated in currencies other than the functional currency of the Company. The Company has no significant foreign currency exchange rate risk as its financial assets and liabilities are substantially denominated in United States dollar. Hence, no disclosure on sensitivity analysis for changes in foreign exchange rate is made as the effect is not significant.

Liquidity risk

The Company is exposed to calls on its available cash resources mainly from claims arising from reinsurance contract. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Company's ability to meet its funding requirements is managed by maintaining sufficient cash and bank deposits, as well as investments.

The Company's main liabilities are the outstanding claims (if any), repayment of interest and principal on the Notes.

The directors do not foresee any issues in meeting the Company's claims obligations (if any) as its maximum exposure is limited to the liquidation proceeds of the permitted investments held in the collateral trust account. The risk is managed by maintaining the investments.

The contractual maturities of the financial liabilities at the end of the reporting period is on demand or within one year. The amounts are gross and undiscounted, and include contractual interest payments and exclude the impact of netting arrangements (if any).

Black Kite Re Limited

Notes to the Financial Statements

Year ended 31 December 2023

17. Fair value measurements

The following presents the assets and liabilities measured at fair value or required to disclose their fair value in these financial statements on a recurring basis across the three levels of the fair value hierarchy defined in HKFRS 13, *Fair Value Measurement*, with the fair value measurement categorised in its entirety based on the lowest level input that is significant to the entire measurement. The levels of inputs are defined as follows:

- Level 1 (highest level): quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 (lowest level): unobservable inputs for the asset or liability.

As at 31 December 2023, the Company held the following financial instruments measured at fair value:

	<u>Level 1</u> US\$	<u>Level 2</u> US\$	<u>Level 3</u> US\$
<u>Assets measured at fair value</u>			
Financial assets at fair value through profit or loss:			
- Investment in money market funds	<u>150,000,000</u>	<u>-</u>	<u>-</u>
<u>Liabilities measured at fair value</u>			
Variable rate notes	<u>-</u>	<u>-</u>	<u>150,000,000</u>

As at 31 December 2022, the Company held the following financial instruments measured at fair value:

	<u>Level 1</u> US\$	<u>Level 2</u> US\$	<u>Level 3</u> US\$
<u>Assets measured at fair value</u>			
Financial assets at fair value through profit or loss:			
- Investment in money market funds	<u>150,000,000</u>	<u>-</u>	<u>-</u>
<u>Liabilities measured at fair value</u>			
Variable rate notes	<u>-</u>	<u>-</u>	<u>150,000,000</u>

The fair value of the investment in money market funds is derived with reference to quoted market prices.

The fair value of the variable rate notes has been assessed as equal to the nominal value of the Notes and the fair value adjustment on investment in money market funds. Redemption, and therefore redeemable value of the Notes, is linked to the funds available upon redemption of the Notes.

Black Kite Re Limited

Notes to the Financial Statements

Year ended 31 December 2023

18. Related party transactions

Transactions with key management personnel

The key management personnel of the Company comprised directors and controller and their fees are as disclosed under note 19 to the financial statements.

During the year/period, the Company had no employees as the operational management, accounting and administrative functions are outsourced to Marsh Management Services Singapore Pte Ltd. The Company paid a management service fee of US\$45,150 as disclosed under note 7 to the financial statements.

Other related party transactions

Other than as disclosed elsewhere in the financial statements, there were no significant transactions between the Company and its related parties.

19. Information about the benefits of directors

The following disclosures are presented pursuant to section 383 of the Companies Ordinance.

(a) Directors' remuneration

Directors' remuneration disclosed pursuant to section 383 of the Companies Ordinance is as follows:

	Qualifying services		
	As a director	Other services in connection with the management of the affairs	Total
	US\$	US\$	US\$
<u>Year ended 31 December 2023</u>			
Emoluments	28,372	-	28,372
<u>Period ended 31 December 2022</u>			
Emoluments	23,208	-	23,208

(b) Loans, quasi-loans and other dealings in favour of directors

There are no loans, quasi-loans or other dealings in favour of the directors of the Company or its holding company, or their controlled companies that were entered into or subsisted during the year (2022: US\$Nil).

(c) Directors' material interests in transactions, arrangement or contracts

After consideration, the directors are of the opinion that no transactions, arrangements and contracts of significance in relation to the Company's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2022: US\$Nil).