



Balance
Re

Annual Report 2022

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1. Management Report

1.1. Business activity

BALANCE RE AG, Cologne, Germany (also referred to as “Balance Re” or the “Company”), is a company wholly owned by BalRe Technologies Ltd¹. In the second half of 2021, Balance Re received a licence from the German Federal Financial Supervisory Authority (BaFin) to operate life reinsurance activities. Subsequently, Balance Re has started to provide a new reinsurance offering to the German market to support life insurance companies in optimizing their capital management based on a unique technological Asset-Liability-Management approach.

The activities in 2022 focused on marketing, designing underwriting procedures and building up the business organization.

1.2. Market environment

The economic environment in 2022 has experienced very significant changes in paradigm after the difficult period of the Covid-19 epidemic. Two main events which were long forgotten in Europe stroke in 2022:

- the invasion of Ukraine by Russia in February 2022 brought war back to EU frontiers
- the inflation which started increasing late 2021 reached double-digit level as a consequence of lack of raw materials and industrial production after Covid-19 years and spiking gas and oil prices due to the war in Ukraine

In this fast-rising inflation context, developed countries switched the supporting economic policies promoted as a consequence of the Covid-19 epidemic in 2021 to measures targeted to help households face inflation in 2022.

In parallel, most central banks, including European Central Bank (ECB), implemented several interest rate hikes throughout the year in response to the rising core inflation. As a result, ECB increased its key rates four (4) times in 2022, with a total impact of 250 basis points (bp), and the government yields in Eurozone switched back to positive territory with 10-year German government yield increasing from -0.10% to 2.50% during 2022, after staying between -0.10% and -0.50% in 2021.

Despite measures described above, inflation in the Eurozone reached 10% in 2022 and 7.9% in Germany. After the rebound in GDP growth in 2021 at +5.3% (following a drop of -5.9% in 2020 due to COVID pandemic), GDP growth is expected to reach 3.5% in the Eurozone and 1.9% in Germany.

¹ BalRe Technologies Ltd is a private limited company incorporated in the United Kingdom with its registered office in London.

1.3. Business performance

During the financial year 2022, no reinsurance contract had yet been written by Balance Re. The business activities consisted mainly of the further development of the reinsurance setup and corresponding sales activities.

The net underwriting result amounts to EUR -1.374k (previous year EUR -424k) and is comprised exclusively of expenses incurred for insurance operations. After receiving the licence to operate as a life reinsurer in 2021, personnel and IT expenses increased accordingly to support the launch of the offer to the market.

The other expenses include all non-technical expenses for the company. In the previous year, all expenses incurred prior to receiving the insurance licence were accounted in this category. Therefore, non-technical expenses in 2022 at EUR 255k are significantly lower than prior year (EUR 674k).

The result from ordinary activities shows a loss of EUR -1.628k in 2022 (prior year EUR -1.098k). The net assets and financial position is adequate and essentially composed of cash at the bank and investments in fixed income securities. Assets decreased from 6,234k at end 2021 to 5,496k at end 2022 due to the payments of salaries and services used by the company. The reduction in assets is partly compensated by a capital reserve contribution made by the shareholder for EUR 900k. The assets always meet the company's solvency requirements.

1.4. Organisation

As of 31 December 2022, the Management Board is composed of three members:

- Mr Lucian Rautu, Chairman of the Management Board and responsible for product management, finance & operations and IT
- Mr Bernd Heistermann in charge of business origination, investments and HR
- Mr Frederic Puzenat, Chief Risk Officer, head of the Actuarial Function and head of the Compliance Function.

Mr Bernd Heistermann retired on 28 February 2023 and was replaced in his functions by Mr Michel Gauer, previously general manager of Balance Re.

The Management Board is supported on finance and operations matters by Mr Martin Liebich, general manager of Balance Re.

Besides the Management Board Balance Re currently employs four members of staff. Balance Re has partially or fully externalised functions such as technology, accounting, internal audit and compliance. Technology services are provided by BalRe Technologies Ltd, which is also the sole shareholder. Balance Re has concluded service agreements with rights of instruction and control with all service providers.

1.5. Risk management

As a provider of reinsurance solutions for the life insurance sector, Balance Re considers risk management (“Risk Management“) to be one of its core competencies. In practice the Company promotes a strong risk management culture supported by a robust risk governance structure. As such, the Risk Management is an integral part of its business processes.

The Risk Management is anchored into the Solvency II requirements:

- General information on the system of governance
- Risk management system
- Key risks

1.5.1. General information on the system of governance

Balance Re has in place an effective system of governance which provides for sound and prudent management of its business. The key elements of the system of governance are the supervisory board, the management board and the key functions.

1.5.2. Risk management system

A key element of Balance Re’s risk management is the integration of risk considerations and capital requirements into the management and decision-making processes through the attribution of risk and allocation of capital to the various risk categories.

Balance Re’s Risk Management framework is comprised of strategies, policies, tools, processes, reporting procedures and governance arrangements necessary to identify, assess, monitor, report and manage risks to which Balance Re is, or could be, exposed to.

The Risk Management framework (“Framework“) ensures that all material risks are identified, measured, monitored, managed through response and control activities and reported. To achieve these goals, the following processes are part of Balance Re’s Framework: once identified (risk identification process), appropriately assessed and measured (risk assessment and measurement process), risks are captured in a holistic way from a qualitative (risk strategy) and quantitative perspective (business and capital planning). Also, they are continuously managed as an integral part of the business (management of risks) while they are reported (reporting of risks) and controlled (Internal Control) by the business activity owners and Risk Management.

1.5.2.1. Risk Identification

The risk identification process is a periodic analysis of all material risks, quantifiable and non-quantifiable, which could constitute material threats to the financial results, operational viability or the delivery of Balance Re’s key strategic objectives. This process is one component of the Own Risk and Solvency Assessment (“ORSA“) as prescribed by the Solvency II regulation.

1.5.2.2. Risk assessment and measurement

The risk assessment and measurement process quantify the impact of each material risks on the financial results and solvency position of Balance Re. This process forms an essential part of Solvency II, builds on the standard formula used by Balance Re to report its capital requirements and is reported among others in the ORSA. It will be used for any process where a measurement of risks is required.

When measuring risk, it must be demonstrated that the model and assumptions used are robust, that they have been challenged appropriately and that stress-tests outputs have been considered.

1.5.2.3. Risk strategy

The objective of the risk strategy process is to articulate the risk preferences of Balance Re in line with its business strategy. The expression of Balance Re's risk preferences provides an indication of how it desires its overall risk profile to evolve over the business planning horizon. Balance Re differentiates between the following three risk preference categories: risk seeking, risk limiting and risk adverse.

As part of the risk strategy, Balance Re categories its risk preferences to reflect its risk appetite. The risk appetite ("Risk Appetite") is the maximum amount of loss Balance Re is prepared to incur in pursuit of its business strategy in a given return period (e.g. one in a given number of years). The dimensions of the Risk Appetite include capital adequacy and liquidity. In other words, the Risk Appetite is the amount of risk related to its core businesses that Balance Re is willing to accept and tolerate to stay within regulatory requirements, achieve sustainable returns for the shareholders and meet other business objectives in a controlled manner.

1.5.2.4. Business and capital planning

A key element of the Risk Strategy is the projection over the planning period of three years of:

- The Solvency II balance sheet,
- The own funds available to cover capital requirements,
- The Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR) under the standard formula as prescribed by Solvency II, and
- The annual financial results.

The projections are performed for the base case as well as under a range of adverse stress scenarios. The stress scenarios are specific to Balance Re in order to truly reflect its business strategy and the material risks to which the Company is exposed to.

1.5.2.5. Management of risks

The principal activities of Balance Re involve taking on and managing risks for profit. In this context, the Management of Risks is broader than simply limiting downside risk.

Thus, first line activities such as underwriting and investments functions play a key role in managing risks by embedding them into their decision-taking processes and day-to-day management. This is reflected into the governance of the key risks being underwriting, investments, asset and liability management and operational risks. The underwriting and investments functions are also responsible for identifying, implementing, and managing mitigating actions if risks are increasing beyond the risk strategy, risk appetite or risk limits.

1.5.2.6. Risk reporting

At least on a quarterly basis, the risk reporting process details the current and forward-looking overall risk position in strong relation with the Risk Strategy. The risk reporting must:

- Present an accurate, clear and timely picture of existing and emerging issues,
- Highlight threats to the achievement of business objectives by presenting risk exposures and risk management activities (including the outputs of stress-scenarios),
- Support the optimisation of performance by capturing all the material risks that Balance Re faces or may reasonably expect to face in the future,
- Provide demonstrable evidence to management, non-executives, regulators, investors, and other stakeholders that Balance Re manages its risks adequately, and
- Support the Management Board in meeting their responsibilities by facilitating the escalation of matters in a timely manner.

The preparation and validation of the risk reporting are the responsibilities of Risk Management.

The responsibility for ad hoc reporting of material risks lies with the risk owners. Once identified, these risks should be reported immediately to the Management Board, which is then responsible for informing BaFin of any relevant matter on risks.

1.5.3. Key risks

1.5.3.1. Underwriting risks

Balance Re has no underwriting risk given that no reinsurance contracts have been written yet during the 2022 financial year.

1.5.3.2. Market and counterparty risks

With Balance Re's assets being either invested in corporate bonds or kept in cash, the market risk of Balance Re is composed of credit spread, counterparty default, concentration and currency risks. Credit spread risk is limited by the quality of the corporate bond issuers, which are all investment grade and by the short-term duration of the corporate bonds. Bank counterparties holding the company's cash balances also entail some counterparty default risk. Concentration risk is related to the limited number of corporate bonds as investing into lower amounts was not materially feasible. The quality of the counterparties is largely mitigating this risk. Currency risk derives from the cash in GBP and USD that Balance Re holds to meet its future costs to be incurred in those currencies. This hedge will materialise when future costs are incurred.

1.5.3.3. Liquidity risks

Balance Re's exposure to liquidity risk is actively managed by sizing the liquidity needs of the company in the next 12 months and by defining the investment plan depending on those needs.

1.5.3.4. Operational risks

Given the size of its business, Balance Re carries limited operational risks.

1.5.3.5. Strategic risks

Balance Re regularly reviews its business strategy depending on the markets needs, in particular what its product offer is, how to access its client pool and how to run the Company. Strategic risks are monitored on a fortnightly basis within the Management Board.

1.5.3.6. Reputational risks

The reputational risk is managed directly by the Management Board members in their interaction with external stakeholders, mostly potential clients and supervisory authorities. The Company has decided to use outsourcing support for certain functions including accounting, internal audit and payroll. In order to mitigate reputational risks arising from outsourcing the Company utilises high quality professional services firms as service providers.

Regular risk monitoring and management ensures that the company's adequate solvency is always guaranteed. Capital requirements according to Solvency II are calculated on a regular basis. Based on the resulting risk utilisation, appropriate measures are derived to align capital requirements and risk-bearing capacity.

1.6. Other disclosures

BALANCE RE AG is a company wholly owned by BalRe Technologies Ltd. In this context, the Management Board of BALANCE RE AG has prepared a report in accordance with § 312 of the German Stock Corporation Act (AktG), which concludes with the following statement:

"In the legal transactions listed in the report on relationships with affiliated companies (dependency report), our company received appropriate consideration according to the circumstances known to us at the time the legal transactions were carried out. There were no reportable measures at the initiative of or in the interest of the controlling company".

1.7. Outlook

The company's activities during 2022 were centred on establishing Balance Re's offer in the market and continuing the development of the company's operations.

The focus in 2023 will be to underwrite first reinsurance contracts. Balance Re will continue to make use of external support in order to comply with both the legal requirements and the regulatory requirements demanded by the insurance supervisory authorities.

Balance Re considers itself well equipped to meet the challenge of building up reinsurance business activities in the coming period due to the equity capital available, including the resources still available from the organisational fund.

1.8. Opportunities

For insurers with large inforce portfolios of traditional life insurance business, the persistent low yield environment up to end 2021 has made it difficult to achieve investment return targets that were set when risk-free rates were much higher. This situation has been hurting the insurers current and expected future profitability, especially since the capital requirements for these products have become more onerous under Solvency II.

The past year has seen a significant change in the paradigm with the fast-rising inflation worldwide triggering a strong response from central banks with interest rate rising sharply in the course of 2022.

This sharp rise in interest rates helped reducing the level of capital requirements. However, it also significantly changed life insurers balance sheet with large unrealised capital gains in the investment portfolio moving toward negative territories. This will significantly reduce the ability of life insurers to redeploy existing assets into higher yield investment without realising investment losses. The rise in interest rates will also heighten risk of higher lapses with policyholders finding opportunities to reinvest their savings into higher yield offers from banks or life insurers.

Lastly, high inflation rates are putting significant pressures on expense management and on policyholders' expectations for bonus declarations on their life policies only reinforcing the risk of lapses.

As a result, insurance companies have been looking to transfer these risks efficiently and comprehensively to optimise their resources (technology, people and capital).

In this fast-changing environment, Balance Re's technology first approach to risk, vestment and capital management is proving its value added by changing the status quo and enabling the offering of a comprehensive reinsurance to help life insurers:

- Lowering substantially their capital requirements at an attractive cost,
- Stabilizing consistently their solvency capital ratios until the natural expiry of the policies,
- Removing mismatch between assets and liabilities to build assets portfolio fit for changing interest rates environment and,
- Improving sustainably the return on the capital employed of their existing portfolios of traditional products.

Over the medium-term Balance Re expects further requirements for risk transfer transactions to arise through the provision of adequate support on the new product front: first and foremost, with capital, but also with actuarial, financial and technological expertise. This additional demand from insurance companies and pension funds will be driven by:

- The policyholders' need of guaranteed financial returns to deal with the complexity of financial planning in regions where an ageing population is saving for retirement, and
- The insurance companies' and pension funds' need to differentiate themselves from asset managers by offering guaranteed financial returns to their policyholders.

In the short term, management expects limited competition as Balance Re's technological head start is substantial. However, in the medium term, the creation of a new successful line of business in the life reinsurance market should inevitably attract newcomers with substantial financial resources (including incumbents). Balance Re will therefore continue to dedicate the significant investments to the continuous enhancement of its proprietary technology.

In the aftermath of a receding Covid-19 pandemic, the mortality experience is likely continuing to improve in 2023 but unknowns such as the potential medium and long term impact of Covid-19, other future pandemics as well as impact of climate change will keep mortality and longevity outlook uncertain.

On the macroeconomic front, the fight against the headline inflation rate is expected to continue strongly during 2023. In this context short term interest rates will remain at the level of 2022 and may even further increase.

Overall, such financial market environment will prove challenging to rebalance existing assets and improve returns for the investment portfolios of life insurance companies. Combined with ongoing pressures from in-force liabilities, yearly investment results of life insurers will be challenged on the short term while solvency positions will not improve quickly and likely return over the mid-term to low levels once inflation is bitten.

In such risk and macroeconomic environment, the propensity to actively consider risk transfers, asset-liability and capital management actions would be expected to increase among insurers. Balance Re through this product offering will be well placed to support implementations of such management actions.

Cologne, 05 April 2023

The Management Board

Lucian Rautu

Frederic Puzenat

Michel Gauer

2. Annual accounts

2.1. Balance sheet as of 31.12.2022

	EUR	EUR	Prior year EUR
Assets			
A. Intangible Assets			
I. Concessions, industrial property rights and similar rights and assets acquired for consideration, as well as licences to such rights and assets		4,498.00	4,057.00
B. Investments			
I. Other investments			
1. Bearer bonds and other fixed income securities		3,836,091.84	0.00
B. Other Assets			
I. Property, plant and equipment	4,320.00		0.00
II. Current balances with credit institutions, Cheques and cash in hand	1,618,803.38		6,221,087.88
III. Other assets	14,640.02	1,637,763.40	8,385.93
D. Prepaid expenses			
I. Accrued interest and rental income		17,623.98	0.00
Assets Total:		<u>5,495,977.22</u>	<u>6,233,530.81</u>

	EUR	EUR	Prior year EUR
Equities and Liabilities			
A. Equity			
I. Called up Capital			
Subscribed Capital		3,600,000.00	3,600,000.00
II. Capital Reserves	3,198,582.81		2,961,313.81

III. Balance Sheet Loss	<u>-1,563,178.26</u>	1,635,404.55	-598,053.76
B. Other Accruals			
I. Other Accruals		77,720.00	63,140.00
C. Other Liabilities			
I. Other Liabilities		182,852.67	207,130.76
thereof:			
from Taxes: 164.927,92 Euro (PY: 95.016,06 Euro)			
in the context of social security: 920,34 Euro (PY: 1.238,59 Euro)			
due to affiliated companies: 0,00 Euro (PY: 39.220,36 Euro)			
		<hr/>	<hr/>
Equities and Liabilities Total:		<u><u>5,495,977.22</u></u>	<u><u>6,233,530.81</u></u>

2.2. Profit and loss account for financial year from 01.01.2022 to 31.12.2022

	EUR	EUR	Prior year EUR
I. Technical Account			
1. Operating insurance business expenses for own account			
a) Gross insurance business expenses	1,374,352.21		
b) reduced by: Commissions and profit sharing received from ceded reinsurance business	<u>0.00</u>	1,374,352.21	424,432.98
2. Underwriting result for own account		-1,374,352.21	-424,432.98
II. Non-technical account			
1. Investment income			
a) Income from other investments		1,320.47	0.00
1. Other expenses		<u>254,823.76</u>	<u>673,860.48</u>
2. Result from ordinary activities		-253,503.29	-673,860.48
3. Loss for the year		<u>-1,627,855.50</u>	<u>-1,098,293.46</u>
4. Loss carried forward prior year		-598,053.76	-38,446.49
5. Withdrawals from the capital reserve		<u>662,731.00</u>	<u>538,686.19</u>
6. Balance Sheet Loss		<u><u>-1,563,178.26</u></u>	<u><u>-598,053.76</u></u>

3. Notes

3.1. General

The object of BALANCE RE AG, with its registered office in Cologne, Cologne Local Court with HRB number 100334, is to conduct life reinsurance business.

3.2. Accounting and valuation principles

The annual financial statements as at 31 December 2022 have been prepared in accordance with the provisions of the German Commercial Code (HGB), the German Stock Corporation Act (AktG), the German Insurance Supervision Act (VAG), the German Ordinance on Accounting for Insurance Companies (RechVersV), in each case in the version applicable as at 31 December 2022, and the Articles of Association.

As of the balance sheet date, the Company is a micro-corporation within the meaning of § 267a of the German Commercial Code (HGB). The annual financial statements and the management report were prepared in accordance with the regulations applicable to large corporations pursuant to § 341a para. 1 HGB.

Intangible assets are stated at acquisition cost and reduced by scheduled depreciation.

Bearer bonds, which are earmarked for permanent use in the business are shown on the balance sheet as financial investments in accordance with § 341 para. 2 of the German Commercial Code in conjunction with § 253 para. 3 (HGB). At the end of the business year all securities were categorized as fixed assets. In order to identify a prospective permanent impairment of value according to § 253 para. 3 sentence 5 German Commercial Code, all securities were examined regarding their credit ratings. As a result, no impairments were required. In the case of securities that were bought below their par value, the respective premiums are amortised on a pro rata basis across their term.

Property, plant and equipment are recorded at cost less accumulated depreciation, current bank balances, other assets and deferred items are stated at nominal value.

No use is made of the capitalisation option under § 274 para. 1 sentence 2 HGB and deferred tax assets are not recognised.

Other provisions correspond to the probable settlement amount based on prudent business judgement.

Other liabilities are stated at the settlement amount.

3.3. Notes to the balance sheet

3.3.1. Assets

Intangible assets and similar rights and values and licences from such rights and values

Development of asset item A in the financial year 2021

EUR	Balance sheet values	Re-				Write-ups	Depreciations	Balance sheet values
	prior year	Additions	classifications	Disposals	current year			
Assets								
A I. Intangibles								
II. Concessions, industrial property rights and similar rights and assets acquired for consideration, as well as licences to such rights and assets	4,057.00	2,380.00	0.00	0.00	0.00	1,939.00	4,498.00	
Total A	4,057.00	2,380.00	0.00	0.00	0.00	1,939.00	4,498.00	

Expenses for the creation of the corporate website and software licences are capitalised and amortised on a linear basis over the planned usage lifetime.

Investments

Development of asset item B in the financial year 2022

EUR	Balance sheet values prior year	Re-				Write-ups	Depreciations	Balance sheet values
	EUR	Additions	classifications	Disposals	current year			
EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	
Assets								
B I. Other investments								
I. Bearer bonds and other fixed income securities	0.00	3,835,370.00	0.00	0.00	721.84	0.00	3,836,091.84	
Total B	0.00	3,835,370.00	0.00	0.00	721.84	0.00	3,836,091.84	

Market value of investments

The market value of the bearer bonds is measured by quotations on the last trading day of 2022 provided by Bloomberg:

	Book value current year EUR	Market value current year EUR
B I. Other investments		
1. Bearer bonds and other fixed income securities	<u>3,836,091.84</u>	<u>3,823,046.00</u>

Other assets

There are fixed assets items belonging to plant and equipment, current credit balances at a domestic bank and security deposit receivables.

3.3.2. Liabilities

Equity

The subscribed capital of EUR 3,600,000.00 is divided into 3,600,000 registered shares with a nominal value of EUR 1.00 each.

The capital reserve built in 2020 of EUR 50,000.00 results from premium amounts at the issuance of shares (§ 272 II No 1 HGB). The capital reserve built in 2021 of EUR 3,450,000 results of other additional payments by shareholders into equity (§ 272 II No. 4 HGB). Further payments of EUR 900k by shareholders into equity (§ 272 II No. 4 HGB) were made in 2022. At year-end 2022, an amount of EUR 662,731.00 (previous year: EUR 538,686.19) was released from the capital reserves according to § 272 II No 4 HGB. This amount agrees to the usage of the organisational fund according to § 9 II No 5 VAG.

The balance sheet loss results from the net loss for the year under review, the release from capital reserves and the previous year's loss carried forward.

Other Provisions

Other provisions mainly result from accruals for outstanding invoices for various external services and the costs of preparing and auditing the annual financial statements.

Other Liabilities

Other liabilities mainly relate to liabilities for services and value added tax. The remaining terms to maturity are less than 1 year.

3.4. Notes to the profit and loss account

3.4.1. Technical account

The net underwriting result is exclusively determined by expenses for insurance operations and amounts to EUR -1,374k (previous year EUR -424k). The operating expenses were exclusively related to the conclusion of insurance contracts.

3.4.2. Non-technical account

The other expenses mainly concern costs relating to the company as a whole, and costs for auditing.

3.4.3. Other disclosures

3.4.3.1. Administrative bodies

Supervisory board

The members of the supervisory board are:

- Dr. Hans-Peter Hagen, Entrepreneur, Vienna, Austria (Chairman)
- Dr. Johannes Lörper, Düsseldorf, former insurance executive (deputy Chairman)
- Inder Bir Singh, London, Investment Professional, London, United Kingdom (up to 11 March 2022)
- Robert Ferguson, General Counsel, London, United Kingdom (appointed on 11 March 2022)
- Matthew Jones, Managing Director, London, United Kingdom (appointed on 11 March 2022)

Management board

The members of the management board are:

- Lucian Rautu, London, United Kingdom (Chairman)
- Bernd Heistermann, Sankt Augustin (retired at the 28.02.2023)
- Michel Gauer (appointed on the 24.02.2023)
- Frédéric Puzenat, Paris, France

The members of the Supervisory Board received total remuneration of EUR 21k in the financial year. The members of the Management Board received in total EUR 279k as remuneration from the company for their activities in the 2022 financial year.

3.4.3.2. Employees

Besides the Management Board composed of three people, Balance Re has employed on average four employees in 2022.

3.4.3.3. Auditor's fees

The auditor's fee for the financial year amounts to EUR 17k.

3.4.3.4. Proposal for the appropriation of the net profit § 285 Nr. 34 HGB

The net loss for the year should be carried forward in total to the next accounting period.

3.4.3.5. Other financial obligations

Other financial obligations amount to a total of EUR 345k. They arise from the service contract with BalRe Technologies Ltd. under which Balance Re has the access to and the usage of an application software enabling the pricing and on-going management of reinsurance contracts.

3.4.3.6. Supplementary report

There were no significant events after the balance sheet date.

Cologne, 05 April 2023

Management Board

Lucian Rautu

Frederic Puzenat

Michel Gauer

4. Statement of auditors

REPORT ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND OF THE MANAGEMENT REPORT

Audit Opinions

We have audited the annual financial statements of BALANCE RE AG, Cologne – which comprises the balance sheet as at 31 December 2022 and the statement of profit and loss for the financial year from 1 January 2022 to 31 December 2022 and notes to the financial statement, including the presentation of the recognition and measurement policies. In addition, we have audited the management report of BALANCE RE AG for the financial year from 1 January 2022 to 31 December 2022.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2022 and of its financial performance for the financial year from 1 January 2022 to 31 December 2022 in compliance with German Legally Required Accounting Principles, and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.
- Pursuant to § 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the Audit Opinions

We conducted our audit of the annual financial statements and of the management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as “EU Audit Regulation”) in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the “Auditor’s Responsibilities for the Audit of the Annual Financial Statements and of the Management Report” section of our auditor’s report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our [audit] opinions on the annual financial statements and on the management report.

Key Audit Matters in the Audit of the Annual Financial Statements

We have determined that there are no key audit matters to be disclosed in our audit opinion.

Other information

The legal representatives or the Supervisory Board are responsible for the other information. The other information comprises the remaining parts of the annual report - without further cross-references to external information - with the exception of the audited financial statements, the audited management report and our auditor’s opinion.

Our audit opinions on the financial statements and the management report do not cover the other information and, accordingly, we do not express an audit opinion or any other form of conclusion thereon.

In connection with our audit, we have a responsibility to read the other information and, in doing so, consider whether the other information:

- is materially inconsistent with the financial statements, the management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Management Board and the Supervisory Board for the Annual Financial Statements and the Management Report

The Management Board members are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to business corporations, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, the Management Board members are responsible for such internal control as they, in accordance with German

Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error (i.e. manipulation of the accounting system or misstatement of assets).

In preparing the annual financial statements, the Management Board members are responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the Management Board members are responsible for the preparation of the management report that, as a whole, provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the Management Board members are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The supervisory board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our [audit] opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. 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 annual financial statements and this management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, 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 audit opinions. 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 controls.

- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an [audit] opinion on the effectiveness of these systems of the Company.
- Evaluate the appropriateness of accounting policies used by the Management Board members and the reasonableness of estimates made by the Management Board members and related disclosures.
- Conclude on the appropriateness of the Management Board members' 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 the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinions. 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 be able to continue as a going concern.
- Evaluate the presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with German law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by the Management Board members in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the Management Board members as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the shareholder meeting on July 14, 2022. We were engaged by the Management Board on November 25, 2022. We have been the auditor of BALANCE RE AG without interruption since the financial year 2020.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Torben Geppert.

Cologne, April 6, 2023

Mazars GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Dr. Thomas Varain
Wirtschaftsprüfer
[German Public Auditor]

Torben Geppert
Wirtschaftsprüfer
[German Public Auditor]

5. Report of the supervisory board

During the 2022 financial year of Balance Re, the Supervisory Board performed the duties incumbent upon it under the law and the Articles of Association and kept itself regularly informed about the course of business and important business transactions and monitored the Management Board's management of the Company. The Supervisory Board was informed in detail by the Management Board about the economic situation, the course of business, important corporate policy measures and the intended business policy by means of minutes and in discussions.

In accordance with the circular resolution of the Shareholder's meeting dated 14 July 2022, Mazars GmbH & Co. KG, Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, Gustav-Heinemann-Ufer 72 in 50968 Cologne was appointed as auditor for the financial year 2022.

We have reviewed the report on relations with affiliated companies prepared by the Management Board. The auditor raised no objections to this report and issued an unqualified audit opinion.

Following the final result of our own review of the annual financial statements, the management report and the Management Board's proposal for the appropriation of the Balance Re sheet profit, we concurred with the auditor's opinion. We agree with the management report and in particular with the statements made there on the further development of the company. At the Supervisory Board's meeting on 17 April 2023, we approved the annual financial statements prepared by the Management Board; they are thus adopted in accordance with § 172 AktG. We agree with the Management Board's proposal for the appropriation of the Balance Re sheet profit.

Cologne, 17 April 2023

Der Aufsichtsrat:

Dr. Hans-Peter Hagen, Vorsitzender

Dr. Johannes Lörper

Robert Ferguson

Matthew Jones

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