Helios Underwriting plc

Issuer: Helios Underwriting plc			
Assigned	**Type**	**Rating**	**Outlook**
$75 million 9.5% Fixed Rate Series A Senior Unsecured Notes due 2030 ("Notes")	Debt	A-	Stable

Methodology

Insurer & Insurance Holding Company Global Rating Methodology

ESG Global Rating Methodology

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Rating Summary:

On November 14, 2023, KBRA assigned an unpublished A- preliminary debt rating with a Stable Outlook to $75 million 9.5% fixed rate Series A senior unsecured notes due 2030 issued by Helios Underwriting plc (HUW:LSE) ("Helios"). Helios is an investment management company which provides its shareholders with access to a select curated portfolio of Lloyd's of London (AA-/Stable) insurance risk, offering investment growth and returns uncorrelated to the broader financial markets. In addition, the company provides owners of Limited Liability Vehicles in Lloyd's with an exit strategy by buying their capacity and redeploying it to syndicates within its own portfolio.

The rating reflects the company's position as a key provider of private capital to Lloyd's, unique offering of uncorrelated insurance-linked returns to investors, experienced management team, consistent selection of high performing syndicates, manageable financial leverage and strong debt service coverage (inclusive of the $75 million Notes) and successful track record of accessing various sources of capital to support the growth of its business. Balancing these strengths are exposure to natural catastrophe event risk and key person risk.

Outlook

The Stable Outlook reflects KBRA's expectation that Helios will prudently deploy the proceeds from the Notes to grow its business while maintaining strong liquidity. Further, KBRA expects that Helios will maintain manageable financial leverage over the medium term.

Key Credit Considerations	+/−
Key Provider of Private Capital to the Lloyd's Market Helios acquires Limited Liability Vehicles (freehold capacity) owned by individuals wishing to exit the Lloyd's market. Through management's extensive relationships, Helios also supports annual tenancy capacity in the Lloyd's market. Helios' consolidated capacity is then used to build its own portfolio of diversified (re)insurance risk across various syndicates for a year of account. At end-2022, Helios' capacity supported syndicates that represented nearly 24% of the Lloyd's market, with a large portion classified by Lloyd's as top performing syndicates. As the only consolidator of private capital, Helios holds a unique position as part of Lloyd's efforts to attract new investors to the market.	+
Helios Offers Investors Unique Access to Uncorrelated Insurance-Linked Returns Helios is a publicly traded investment management company that offers its shareholders growth and returns that are uncorrelated to the broader financial markets via a select curated portfolio of Lloyd's (re)insurance risk.	+
Experienced Management Team Helios has a management team and Board with extensive, expert knowledge of Lloyd's from lengthy working experience in various capacities across the market.	+
Consistent Selection of Outperforming Syndicates The portfolio of syndicate exposure within Helios has reported combined ratios that are 5.4% below the overall market over the last seven closed years of account and 7.9% below the market since 2013. Helios has reported syndicate calendar year combined ratios under 100% in four of the past five years.	+

Manageable Financial Leverage and Strong Debt Service Coverage At end-2022, debt/capital was 11.3%. Debt consisted of a £15 million loan on a bank revolving facility. Based on forecast data supplied by the company, KBRA estimates that the $75 million debt issuance will raise debt/capital to 31% by end-2024. The net proceeds from the issuance will be used to pay down a £15 million bank loan, increase 2024 Funds at Lloyd's (FAL) to take advantage of the continuing favorable pricing environment and to acquire additional freehold capacity rights. Based on forecast data supplied by Helios, KBRA estimates interest coverage of 6.3x during 2024. Given its business model and earnings track record, KBRA believes that the Notes present manageable financial leverage to Helios. KBRA further believes that interest coverage is strong and is further supported by material amounts of free working capital[1] at the group and liquidity at the parent.	+
Access to Capital To support the growth of its business, Helios has raised nearly £90 million between 2019 and 2022 through common share issuances. Helios also has access to a secured bank revolver/loan facility and uses quota share and excess of loss reinsurance to manage its net retention and provide FAL to Lloyd's. While successful to date, KBRA believes that Helios' approaches to date for accessing additional capital have been short-term in nature or dilutive to its original investors. All current sources of external capital are very dependent on market conditions outside of Helios' control. KBRA believes that the Notes enhance the company's ability to access additional capital in the future to support the company's operations and growth.	+/–
Exposure to Event Risk While Helios assesses its own downside risk by monitoring the aggregate net losses estimated by managing agents to the catastrophe risk scenarios (CRS) prescribed by Lloyd's, the impact on net asset value increased in 2023 despite a reduction in catastrophe exposure due to Helios retaining more exposure on a net basis. Net exposure to natural catastrophe event risk was partially offset by a whole account stop loss cover above a retention of 7.5% of capacity.	–
Key Person Risk Helios has a lean management team. While not an issue to date, loss of any member of the team without an immediate, suitable replacement could have a negative impact on the company.	–

Rating Sensitivities	
▪ Strong internal generation of capital ▪ Reduction in financial leverage materially faster than the 5-year forecast provided to KBRA	+
▪ Unfavorable underwriting experience in deployed capacity over the medium-term ▪ Elevated financial leverage ▪ Loss of a key member of the management team or board without a suitable replacement	–

Overview

Underpinning KBRA's assessment of Helios' Notes is KBRA's view that Lloyd's is a single, indivisible market. As a member of the Lloyd's market, Helios is entitled to all the benefits of membership, but also must fully comply with all the requirements imposed on members by the Council.

Helios' business model is to build a diversified portfolio of Lloyd's syndicates through freehold and/or tenancy capacity in a year of account. For each syndicate, Helios participates on a whole account quota share basis and is entitled to a portion of the syndicate's profit arising from that year of account. To participate in the Lloyd's market, Helios must provide solvency capital via Fund's at Lloyd's (FAL). The FAL calculation allows for diversification credit due to participation across multiple years of account and multiple syndicates, making for more efficient use of Helios' capital. Subject to Lloyd's regulation, Helios optimizes its own capital structure for its Lloyd's FAL requirement using a combination of its own capital, reinsurance and/or debt. In addition to underwriting returns on the retained portfolio, Helios earns ceding commissions on the portion of the portfolio it reinsures. Other sources of returns include acquisition of Limited Liability Vehicles (LLVs) at a discount to fair value, investment income on FAL, and appreciation in the value of the freehold capacity it owns.

Organizational Structure

Helios Underwriting plc is a public limited company listed on the Alternative Investment Market (AIM), a specialized unit of the London Stock Exchange catering to smaller growth companies. As of October 30, 2023, the company had

[1] Free working capital is defined as group financial assets plus cash less group funds at Lloyd's.

77,945,833 ordinary shares of £0.10 in issue, including 1,274,612 which were held in treasury, leaving 76,671,221 ordinary shares outstanding. Each ordinary share carries the right to vote and there are no restrictions on transfer.

As of December 31, 2022, Helios owned 100% of 57 companies and limited liability partnerships, either directly or indirectly. Four of the subsidiaries were acquired in 2022.

Governance and Management Structure

The Helios Board of Directors is comprised of three Executive and four Non-Executive Directors, as shown in the table to the right. The Board has two standing committees: Audit Committee and Nomination and Remuneration Committee. The Board meets quarterly and more frequently if and as needed. Day-to-day operations of the company are delegated by the Board to management.

Helios Board of Directors		
Director	**Role**	**Committees**
Michael Wade	Non-executive Director	Chairman of Board Nomination and Remuneration
Nigel Hanbury	Executive Director	Executive Deputy Chairman
Arthur Manners	Executive Director	
Andrew Christie	Non-executive Director	Audit, Chairman Nomination and Remuneration, Chairman
Edward Firzalan-Howard	Non-executive Director	Audit Nomination and Remuneration
Martin Reith	Executive Director	
Tom Labassi	Non-executive Director	Nomination and Remuneration

Financials

Helios' Syndicate Participation (IFRS)					
GBP in thousands	**2022**	**2021**	**2020**	**2019**	**2018**
Gross Written Premiums (GWP)	250,949	134,612	76,146	61,578	53,869
Net Written Premiums (NWP)	193,950	102,421	58,121	47,015	42,156
Net Earned Premiums	156,606	92,692	55,682	47,454	43,272
Net Loss and LAE Incurred	96,796	54,088	37,881	28,237	26,019
Acquisition & Other Underwriting Expenses	54,210	32,921	19,503	17,125	16,627
Net Underwriting Gain (Loss)	5,600	5,683	(1,702)	2,092	626
Net Investment Income (Loss)	(3,928)	185	2,126	2,387	586
Result before Tax	489	2,529	(364)	3,583	372
Loss & LAE Ratio	61.8%	58.4%	68.0%	59.5%	60.1%
Expense Ratio	34.6%	35.5%	35.0%	36.1%	38.4%
Combined Ratio	96.4%	93.9%	103.1%	95.6%	98.6%
GWP/Total Capital	2.1	1.6	1.3	1.8	2.0
NWP/Total Capital	1.6	1.2	1.0	1.4	1.5
Total Assets	440,181	279,428	160,426	132,107	128,930
Total Capital (includes FAL)	122,156	82,457	60,233	33,812	27,511
Lloyd's Market Wide Solvency Requirement	181%	177%	147%	156%	149%
Lloyd's Central Solvency Requirement	412%	388%	209%	238%	250%

Source: Audited Financial Statements

Stress Testing

In addition to benefiting from the various stress and scenario testing that Lloyd's performs on the market, Helios assesses its own downside risk by monitoring the aggregate net losses estimated by managing agents to the catastrophe risk scenarios (CRS) prescribed by Lloyd's to determine the aggregate exceedance probability (AEP) on its balance sheet across the portfolio from either single or multiple large losses with a probability of occurring greater than once in a 30-year period. KBRA believes that Helios' management of downside natural catastrophe risk is appropriate for its exposure.

Balance Sheet Management

Quality of Capital/Underwriting Leverage

Helios' syndicate capital[2] has grown at a much faster pace than the overall Lloyd's market given the company's shorter history and smaller size. Total capital has grown at a 35% CAGR over the past five years and increased by 48% in 2022 over the prior year despite a depressed result before tax due to a net investment loss of £3.9 million driven by the rising interest rate environment throughout the year. Gross and net premium leverage is elevated compared to Lloyd's overall, while gross reserve leverage is in line with the total Lloyd's market.

[2] Capital is syndicate equity plus total FAL (including solvency credits).

Asset Quality and Investment Risk

In 2022, Helios' share of syndicate investment returns was a loss of (2.2%). While on an absolute basis unfavorable, it compares favorably to the market's (3.5%) return over the same period. This investment loss depressed the overall result for the year and masked the improvement in underwriting margins attained during the year.

Financial Flexibility and Access to Capital

Helios has a track record of raising equity capital, as shown in the table to the right. Amounts shown are net of transaction costs and share buybacks.

Helios' Equity Raises (in GBP thousands)			
2022	2021	2020	2019
12,781	54,343	18,118	3,578

Source: Audited Financial Statements

Helios also maintains a £15 million revolving credit/loan facility with Barclays Bank plc that renews annually in December. The interest rate is 4.2% per annum, with draws secured by the assets of the company. At end-2022, the full amount was drawn and posted as FAL. In addition, Helios has a track record of securing reinsurance as capital to post as FAL.

Helios' FAL Supplied by Reinsurance and Credit Facility					
All in £m	2022	2021	2020	2019	2018
Quota Share Funds at Lloyd's at 12.31.XX (for the following YOA)	27.8	27.0	27.3	29.9	29.8
Excess of Loss Funds at Lloyds[1]:					
Total HXL FAL	26.2	5.3	8.1		
Total Barclays Facility	15.0	15.0			
Total	69.0	47.2	35.4	29.9	29.8

[1] at 12.31.XX this represent the capital for the proceeding YOA

Source: Company

KBRA believes that Helios' approaches for accessing additional capital to grow its business up to this point in its lifecycle have been either short-term in nature (annual bank facility and reinsurance) or dilutive (additional equity raises). All solutions are very dependent on market conditions outside of Helios' control. KBRA believes that the issuance of the seven-year Notes enhances the company's ability to access additional capital in the future to support the company's operations and growth.

Liquidity and Asset/Liability Management

Helios benefits from Lloyd's requirements with respect to syndicate asset quality and duration. KBRA views Helios' syndicate participation current liquidity ratio[3] of 114.6% at end-2022 as sound.

Operating Fundamentals

Drivers of Profitability

Like most market participants, Helios is benefitting from the current favorable pricing conditions for most lines of business across its portfolio. A unique driver for Helios is its proprietary model, in conjunction with the acumen of its management team and Board, to select the higher performing syndicates for capacity deployment. Also unique to Helios is the size of the addressable LLV market that allows for growth in capacity through acquisition on favorable terms.

Consistency of Profitability

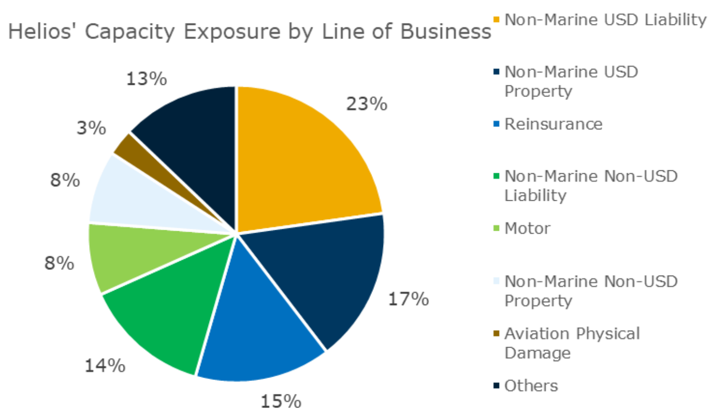
On a year of account basis, Helios has reported combined ratios that are 5.4% lower than the overall market over the last seven closed years of account and 7.9% lower since 2013. Helios' syndicate participation has reported IFRS calendar year combined ratios under 100% in four of the last five years, with 2020 being the outlier at 103.1% driven by Covid-19 reserves. On a comparable basis with Lloyd's, Helios PFFS combined ratio was 93.0% in 2022 which KBRA views as in line with the overall market.

Earnings Diversification: Product/Geography

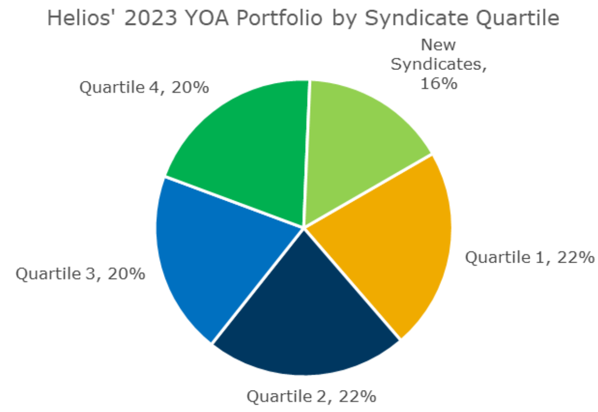
Helios participates in syndicate portfolios on a whole account quota share basis. At end-2022, Helios' capacity of £296 million was broadly deployed across lines of business as shown in the chart below. KBRA views Helios' capacity as well diversified across lines of business and syndicates.

KBRA notes that Helios continuously seeks additional capacity through acquiring freehold tenancy rights as well as annual tenancy capacity. In addition, Helios' monitors syndicate and line of business performance closely and adjusts the deployment of its capacity to the best opportunities for the coming year of account.

[3] Current liquidity ratio is defined as cash, premiums receivable, plus level 1 and level 2 assets in the fair value hierarchy divided by gross loss and loss adjustment expense reserves.



Source: Annual Report



Source: Company

Exposure to Event Risk

Despite capacity deployment to a diversified group of better performing syndicates and a reduction in natural catastrophe exposure in 2023, Helios is not immune to the impact of major losses sustained by the Lloyd's market. Helios' stress testing of catastrophe event scenarios heightens KBRA's confidence that Helios' capital level remains supportive of its exposure. KBRA believes that Helios' risk management framework for stress testing catastrophe events is strong.

Company Profile and Risk Management

Management Profile and Strategy

KBRA believes that Helios is led by a seasoned Board and management team that have extensive experience in all facets of the Lloyd's market.

Helios' strategy is twofold: (1) acquire Lloyd's capacity to build a diversified portfolio across high performing Lloyd's syndicates and, (2) offer investors growth and uncorrelated investment returns. KBRA views Helios' strategy as a variation on ILS funds that is more accessible to a broad array of investors since the company's shares are traded on a public exchange.

Market Position

At end-2022, Helios' capacity supported syndicates that represented nearly 24% of the market, with a large portion classified by Lloyd's as top performing syndicates.

Helios estimates that there is ~£1.5 billion of capacity owned by Lloyd's Limited Liability Vehicles (LLVs) that are potentially available for acquisition as their owners age or decide to exit the market for other reasons.

KBRA notes that Helios is a key provider of private capital to the Lloyd's market. As such, it holds a unique position as Lloyd's continues its efforts to attract new investors to the market.

Distribution

Helios' syndicate participation benefits from Lloyd's global, multi-channel network of brokers, coverholders and service companies.

Risk Management

Helios' syndicate participation benefits from the well-defined risk management and risk appetite frameworks at Lloyd's as well as the various ongoing and ad hoc activities undertaken by Lloyd's Performance Management Team. In addition, Helios has its own risk management framework. The major risks facing Helios are capital declines from underwriting losses and reduced asset value in tenancy rights. To manage its risks, Helios built a proprietary predictive analytics model to manage both of its major risks. KBRA reviewed model output along with the major assumptions and 2023 inputs for key parameters such as inflation and reinsurance program structure. In addition, the model has been back tested against both Lloyd's realistic disaster scenarios and actual historical events. As Helios relies heavily on the model for operational decisions, KBRA believes that an element of model risk permeates its portfolio.

Annually, Helios runs its model and conducts meetings with the management of various syndicates to determine where to deploy its capacity for the upcoming year of account (YOA). For the 2023 YOA, Helios deployed capacity to 30 syndicates. Helios provides capacity to each syndicate it supports on a whole account quote share basis with no exclusions for specific classes of business within a particular syndicate.

ESG Management

KBRA's ratings incorporate all material credit factors including those that relate to Environmental, Social and Governance (ESG) factors. KBRA captures the impact of ESG factors in the same manner as all other credit-relevant factors. KBRA does not deploy ESG scores, but instead analyzes ESG factors through the lens of how company management plans for and manages relevant ESG risks and opportunities. More information on KBRA's approach to ESG can be found here. KBRA believes stakeholder perspectives and emerging disclosure requirements will remain prominent components of (re)insurer approaches to ESG.

KBRA analyzes many sector- and issuer-specific ESG issues but our analysis is often anchored around three core topics: climate change, with particular focus on greenhouse gas emissions; stakeholder preferences; and cybersecurity. Under environmental, as the effects of climate change evolve and become more severe, issuers are increasingly facing an emerging array of challenges and potential opportunities that can influence financial assets, operations, and capital planning. Under social, the effects of stakeholder preferences on ESG issues can impact the demand for an issuer's product and services, the strength of its global reputation and branding, its relationship with employees, consumers, regulators, and lawmakers, and, importantly, its cost of and access to capital. Under governance, as issuers continue to become more reliant on technology, cybersecurity planning and information management are necessary for most issuers, regardless of size and industry.

On March 23, 2023, the Helios' Board approved an environmental, social and governance (ESG) policy statement.

As a key provider of capital to the market, Helios fully supports Lloyd's ESG strategy and its ambition to integrate sustainably into all its business activities. As part of Helios' decision-making process with respect to where its capacity will be deployed considerable emphasis is given to understanding individual syndicate actions with respect to ESG and sustainability. This includes understanding the risks contemplated as well as the various ESG initiatives adopted within the respective businesses and management teams.

Environmental Factors

The impact of climate change on (re)insurance entities will differ across short-, medium- and long-term horizons, and may materialize through a range of risk vectors, including physical exposures, energy/carbon transition, and liability profiles. Climate change effects could occur on either side of the balance sheet and while direct financial implications might be immaterial for a company in the short-term, over time, implications for the overall economic system could be material and may drive adjustments in a (re)insurer's operations or strategy. The effectiveness of mitigation efforts related to climate risk will drive materiality across the sector.

Greenhouse gas emissions, energy consumption and energy efficiency disclosures were not provided in Helios' most recent annual report as the company consumed less than 40,000KWh of energy during 2022.

Social Factors

Helios' key stakeholders are its employees, the Lloyd's market, and its investors. Helios has six employees, including the Chief Executive Officer, Executive Deputy Director and the Finance Director and actively seeks to understand each employee's values and what motivates them so the company can take this into account in the way it operates. Input from the managing agents is important and, periodically, they provide market updates and other information which is considered when Helios makes decisions about deploying capacity. The support of shareholders is important to the future success of the company and the Board is committed to communicating openly and effectively with all shareholders to understand their needs and expectations.

Governance Factors

The Helios Board is committed to achieving a high standard of corporate governance, which it has sought to demonstrate by adopting and being compliant with the principles of the Quoted Companies Alliance's Corporate Governance Code (QCA Code). The Board considers the QCA Code as relevant and appropriate for the Company as the ten principles of the QCA Code focus on the "pursuit of medium to long-term value for shareholders without stifling the entrepreneurial spirit in which the company was created". There are limited systems and operational requirements of the core operations of the company, as all underwriting activities are conducted by syndicates who provide control over most system and operational risks inherent in Helios' business. Helios carries cyber insurance as part of its general commercial insurance policy.

External Considerations

As with all members of the Lloyd's market, Helios benefits from the Society of Lloyd's regulation and oversight of the market as well as the very strong solvency position of the Central Fund. The Central Fund has not undertaken any member obligations in the last five years and is a testament to overall strength of the market as members consistently honor their obligations in full. This reflects favorably on Helios' prudent management of its capacity.

Transfer Risk

At end-2022, the main currencies within the Helios portfolio were GBP, USD, EUR, and CAD. Other currencies comprised approximately 3.0% of total assets and 1.7% of total liabilities. As exposure is generally well-matched by currency and is predominantly to freely convertible currencies in stable jurisdictions, KBRA views Helios' exposure to currency transfer risk from sovereign capital controls as minimal.

Helios' Syndicates Assets and Liabilities at Translated Carrying Amounts at end-2022					
GBP thousands	GBP	USD	EUR	CAD	Other
Total Assets	60,777	317,487	13,921	35,008	12,988
Total Liabilities	(68,185)	(324,039)	(18,413)	(27,310)	(7,557)
(Deficiency)/Surplus	(7,408)	(6,552)	(4,492)	7,698	5,431

Source: Audited Financial Statements

Issuer Factors

Helios Underwriting plc (Consolidated IFRS)					
In GBP thousands, except percentages	**2022**	**2021**	**2020**	**2019**	**2018**
Balance Sheet					
Total Assets	592,549	405,601	229,432	179,938	173,242
Cash & Cash Equivalents	*25,300*	*24,624*	*8,495*	*6,037*	*12,202*
Goodwill	-	-	-	-	-
Borrowings	15,000	-	4,000	2,000	9,196
Shareholders Equity	117,178	107,746	50,549	28,148	21,045
Accumulated Other Comprehensive Income	-	-	-	-	-
Total Capital	132,178	107,746	54,549	30,148	30,241
Total Adjusted Capital	*132,178*	*107,746*	*54,549*	*30,148*	*30,241*
Debt/Capital	**11.3%**	**0.0%**	**7.3%**	**6.6%**	**30.4%**
Debt/Tangible Total Capital	11.3%	0.0%	7.3%	6.6%	30.4%
Total Intangibles/Total Capital	0.0%	0.0%	0.0%	0.0%	0.0%
Profitability					
Total Revenue	148,345	71,834	53,845	47,579	32,513
EBIT	(574)	(223)	336	4,287	327
Net Income (Loss)	(3,317)	(434)	301	4,054	456
Return on Average Revenue	-3.0%	-0.7%	0.6%	10.1%	2.8%
Return on Average Shareholders' Equity	-2.9%	-0.5%	0.8%	16.5%	2.1%
Key Metrics					
Net Earned Premium[2]	150,393	69,406	48,769	42,688	30,952
Change in NEP over prior period	*116.7%*	*42.3%*	*14.2%*	*37.9%*	*35.1%*
Combined Ratio[1]	99.5%	101.1%	106.6%	101.6%	99.1%
Interest Expense	891	-	-	-	-
EBIT/Interest Expense	**(0.6)**	**nm**	**nm**	**nm**	**nm**
Net Income/Interest Expense	(3.7)	nm	nm	nm	nm

[1] The Net Earned Premium and Combined Ratio include legacy experience on acquired syndicates. The Financials table Net Earned Premium and Combined ratio represent the Helios Syndicate Participation segment which is only the active Helios portfolio.

Source: Audited Financial Statement

Structural Subordination

In the Lloyd's market, policyholders are the senior most obligations of syndicates. The debtholders of Helios are structurally subordinated to the policyholders of the syndicates to which the company deploys its capacity.

Regulatory Restrictions

Lloyd's follows its own three-year accounting regime that all syndicates must adhere to. Under the three-year accounting regime, profits for any year of account (YOA) are released over a three-year period until that YOA is closed. Closing a year of account can be done by reinsuring it into an open YOA of the syndicate or to a third-party syndicate. KBRA views Lloyd's release of profits from a YOA as having a similar impact as a regulatory restriction on dividends and believes that Helios is capable of prudently managing these delayed profit flows due to management's extensive experience in, and knowledge of, the Lloyd's market as well as the company's access to a bank loan facility.

Financial Flexibility

As shown in the table above, debt/capital was 11.3% at end-2022. KBRA views short-term borrowings prior to 2022 as supplementing working capital. KBRA views the £15 million borrowing in March 2022 as debt which generated modest financial leverage for Helios.

KBRA notes that Helios group maintains material amounts of free working capital[4] as well as the parent company holding high levels of liquidity. These amounts have been more than sufficient to cover the modest interest and arrangement fees on bank borrowings over the past five years.

Helios (consolidated)					
GBP thousands	2022	2021	2020	2019	2018
Free Working Capital	10,985	16,463	5,205	3,058	9,722
Helios (parent only)					
GBP thousands	2022	2021	2020	2019	2018
Cash	9,348	14,094	4,106	2,191	8,430

Source: Audited Financial Statements

External Support

There is no external support.

Notching and Issuer Debt Rating

On December 14, 2023, Helios issued $75 million 9.5% Fixed Rate Series A Senior Unsecured Notes. Below is a summary of some key provisions in the Notes:

- Accrued and unpaid interest on outstanding balance of notes to be paid on each July 15 and January 15. First payment date to be January 15, 2024.
- No scheduled amortization of principal. Principal to be paid in full at maturity. Optional redemption of notes allowed, with prepayment premium if prior to 36 months of maturity.
- If at any payment date, total funded debt outstanding to net asset value of Helios is ≥40% but <50%, then 50% of Helios' free cash flow must be used to repay principal and accrued and unpaid interest on debt in order of priority. If the total is ≥50%, then 100% of Helios' free cash flow must be used to pay principal and accrued and unpaid interest on debt.
- Limitations on additional debt include (1) no more than £5 million secured revolving loan facilities to be used for working capital purposes (2) £8 million and £2 million revolving loan facilities with Barclays Bank Plc to be used for large losses (3) *pari passu* senior unsecured or subordinated unsecured debt may be issued provided the maturity date is at least 91 days after the maturity date of these notes.
- Dividends and distributions to common equity holders are unlimited so long as total funded debt outstanding to net asset value of Helios is <50% and no event of default has occurred and is continuing.
- Governing law is New York.

Helios will use the net debt proceeds to pay down the existing Barclays Bank loan, replace the current FAL XOL reinsurance contracts, deploy more FAL to grow during strong market conditions, and buy more capacity rights.

Helios supplied a 2024 forecast to KBRA. KBRA notes that the forecast was prepared using UK GAAP as the company changed its accounting standard from IFRS on June 30, 2023. The terms of the Notes align with the change in accounting standard.

Based on the forecast provided by Helios, KBRA estimates that debt/capital will be 31% at the end of 2024. KBRA believes that that level of financial leverage is manageable and that the probability of triggering the cash sweep feature of the Notes (which would necessitate payment of principal with free cash flow) is low as the Debt to Asset Value ratio is projected to be 29% at the end of the first year of the Notes' term. Based on the forecast provided by Helios, estimated interest coverage is 6.3x during the first year, which KBRA views as strong.

As Helios is exposed to event risk from natural catastrophes the company also supplied a 2024 stress scenario forecast to KBRA. KBRA views Helios' stress scenario assumptions as severe but estimates that even if the company were impacted by such a stress from major losses sustained by the market, debt/capital would remain manageable at 35%

[4] Free working capital is defined as group financial assets plus cash less group funds at Lloyd's.

at the end of 2024. Under the stress scenario forecast, pro forma coverage is negative during 2024 without taking account of alternative sources of liquidity accessible by Helios. KBRA believes that the stress scenario illustrates the extensive optionality and potential actions that Helios has at its disposal to meet its obligations to both Lloyd's and the Noteholders, including raising more equity, filling gaps with additional reinsurance or borrowing under the large loss facility provided for in the terms of the Notes.

KBRA's long-term credit rating on the Notes is based on the financial strength of the Lloyd's market, the structural subordination of Helios' Noteholders to the syndicates' policyholders, the manageable amount of debt in Helios capital structure and the delayed release of YOA profits over three years.