

**R&Q Re (Bermuda) Ltd.**

Consolidated Financial Statements

For the year ended December 31, 2020

(Expressed in US Dollars)

## INDEPENDENT AUDITORS' REPORT

To the Shareholder,  
R&Q Re (Bermuda) Ltd.

### Opinion

We have audited the consolidated financial statements of R&Q Re (Bermuda) Ltd. (the "Company") and its subsidiary, (together "the Group"), which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated statement of profit and other comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2020, and of its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") and the ethical requirements of the Chartered Professional Accountants of Bermuda Rules of Professional Conduct ("CPA Bermuda Rules") that are relevant to our audit of the consolidated financial statements in Bermuda. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the CPA Bermuda Rules. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## INDEPENDENT AUDITORS' REPORT *(continued)*

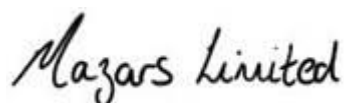
### Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group'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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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



CHARTERED PROFESSIONAL ACCOUNTANTS  
Hamilton, Bermuda  
May 27, 2021

**R&Q Re (Bermuda) Ltd.**  
**Consolidated statement of financial position**  
As at December 31, 2020  
(Expressed in United States Dollars)

<b>Assets</b>	<b>Note</b>	<b>2020</b>	<b>2019</b>
		<b>\$</b>	<b>\$</b>
Intangible asset	16	1,065,000	-
Financial assets	3	147,128,847	21,829,300
Funds withheld	10	226,337,504	84,805,272
Insurance receivables	10	162,969,909	129,058,948
Loans and other receivables	10	45,408,433	55,192,509
Cash and cash equivalents	17	33,758,637	18,051,972
<b>Total assets</b>		<u>616,668,330</u>	<u>308,938,001</u>
<b>Liabilities</b>			
Borrowings	14	19,828,571	19,771,430
Insurance liabilities	5	454,167,469	215,671,245
Trade and other payables	11	22,288,153	13,759,126
<b>Total liabilities</b>		<u>496,284,193</u>	<u>249,201,801</u>
<b>Equity</b>			
Share capital	15	138,900	138,900
Contributed surplus	15	63,503,459	36,502,749
Accumulated other comprehensive income (loss)	9	-	(434,103)
Retained earnings		56,741,778	23,528,654
<b>Total equity attributable to the owner</b>		<u>120,384,137</u>	<u>59,736,200</u>
<b>Total liabilities and equity</b>		<u>616,668,330</u>	<u>308,938,001</u>

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

Approved for issuance on behalf of the Board of Directors of R&Q Re (Bermuda) Ltd. on May 27, 2021 by:

  
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**R&Q Re (Bermuda) Ltd.**  
**Consolidated Statement of Profit and Comprehensive Income**  
For the year ended December 31, 2020  
(Expressed in United States Dollars)

	Note	2020 \$	2019 \$
Insurance premium written		333,053,576	110,184,343
Reinsurance premium ceded		(6,097,373)	(3,572,548)
Change in unearned premiums		1,174,759	4,478,635
Net insurance premium income		<u>328,130,962</u>	<u>111,090,430</u>
Investment income	9	7,413,844	4,880,380
Realised (losses) gains on financial assets	9	(361,730)	424,058
<b>Total revenue</b>		<u>335,183,076</u>	<u>116,394,868</u>
Insurance claim and loss adjustment expenses		294,244,281	103,537,113
Acquisition costs		6,010,222	5,703,459
Insurance benefits and claims		<u>300,254,503</u>	<u>109,240,572</u>
Foreign exchange gains		(4,078,355)	(1,169,820)
Operating expenses	6	6,439,882	4,431,332
<b>Total expenses</b>		<u>302,616,030</u>	<u>112,502,084</u>
<b>Results of operating activities</b>		<u>32,567,046</u>	<u>3,892,784</u>
Other income	18	3,389,469	1,212,922
Finance costs	19	(2,743,391)	(3,326,858)
Profit for the year		<u>33,213,124</u>	<u>1,778,848</u>
<b>Other comprehensive income (loss)</b>			
Items that may be reclassified to profit or loss:			
Change in unrealised gains (losses) in the fair value of available for sale financial assets		434,103	(300,638)
Other comprehensive income (loss) for the year		<u>434,103</u>	<u>(300,638)</u>
<b>Total comprehensive income for the year, all attributable to the owner</b>		<u>33,647,227</u>	<u>1,478,210</u>

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

**R&Q Re (Bermuda) Ltd.**  
**Consolidated Statement of Changes in Equity**  
For the year ended December 31, 2020  
(Expressed in United States Dollars)

		Attributable to the owner				
		Share	Contributed	Accumulated Other Comprehensive	Retained	Total
	Note	Capital \$	Surplus \$	Income (Loss) \$	Earnings \$	\$
At January 1, 2019	15	138,900	31,102,749	(133,465)	31,749,806	62,857,990
<b>Total comprehensive income for the year</b>						
Profit for the year		-	-	-	1,778,848	1,778,848
<b>Other comprehensive income</b>						
Change in unrealised gains (losses) in the fair value of available for sale financial assets		-	-	(300,638)	-	(300,638)
<b>Total comprehensive income for the year</b>		-	-	<b>(300,638)</b>	<b>1,778,848</b>	<b>1,478,210</b>
<b>Transactions with owners:</b>						
Additional paid-in capital	15	-	5,400,000	-	-	5,400,000
Dividends	15	-	-	-	(10,000,000)	(10,000,000)
<b>Total transactions with owners</b>		-	<b>5,400,000</b>	-	<b>(10,000,000)</b>	<b>(4,600,000)</b>
At December 31, 2019	15	<b>138,900</b>	<b>36,502,749</b>	<b>(434,103)</b>	<b>23,528,654</b>	<b>59,736,200</b>
<b>Total comprehensive income for the year</b>						
Profit for the year		-	-	-	33,213,124	33,213,124
<b>Other comprehensive income</b>						
Change in unrealised gains (losses) in the fair value of available for sale financial assets		-	-	434,103	-	434,103
<b>Total comprehensive income for the year</b>		-	-	<b>434,103</b>	<b>33,213,124</b>	<b>33,647,227</b>
<b>Transactions with owners:</b>						
Additional paid-in capital	15	-	27,000,710	-	-	27,000,710
<b>Total transactions with owners</b>		-	<b>27,000,710</b>	-	-	<b>27,000,710</b>
At December 31, 2020		<b>138,900</b>	<b>63,503,459</b>	-	<b>56,741,778</b>	<b>120,384,137</b>

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

**R&Q Re (Bermuda) Ltd.**  
**Consolidated Statement of Cash Flows**  
For the year ended December 31, 2020  
(Expressed in United States Dollars)

	Note	2020 \$	2019 \$
<b>Cash flows from operating activities</b>			
Net income for the year		33,213,124	1,778,848
Adjust for non-cash and non-operating items			
Bargain purchase gain	18	(3,389,469)	(1,212,922)
Amortization of subordinated loan notes		57,141	57,144
Net change in unrealised gains		(290,445)	-
Financing costs	19	2,743,391	3,326,858
Changes in assets and liabilities			
Loans and other receivables		9,784,076	6,198,000
Insurance receivables		(33,910,414)	(67,525,771)
Funds withheld		(141,532,232)	27,066,364
Insurance liabilities		231,086,230	62,145,133
Trade and other payables		8,529,027	12,539,503
<b>Cash generated by operating activities</b>		<b>106,290,429</b>	<b>44,373,157</b>
<b>Cash flows from investing activities</b>			
(Cash paid) to acquire business, net of cash acquired	18	9,733,916	(3,247,452)
Proceeds on maturity, sales and paydowns of financial assets		151,406,958	-
Purchases of financial assets		(275,981,957)	(18,705,731)
Effect of exchange rate fluctuations on investing activities		-	(29,445)
<b>Cash used in investing activities</b>		<b>(114,841,083)</b>	<b>(21,982,628)</b>
<b>Cash flows from financing activities</b>			
Dividends paid		-	(10,000,000)
Finance costs paid	19	(2,743,391)	(3,326,858)
Additional paid in capital	15	27,000,710	5,400,000
<b>Cash provided by (used in) financing activities</b>		<b>24,257,319</b>	<b>(7,926,858)</b>
Net increase in cash and cash equivalents		15,706,665	14,463,671
Cash and cash equivalents at beginning of the year		18,051,972	3,588,301
<b>Cash and cash equivalents at the end of the year</b>		<b>33,758,637</b>	<b>18,051,972</b>
<b>Represented by:</b>			
Cash at Lloyd's		54,737	1,701
Other funds		33,703,900	18,050,271
<b>Cash and cash equivalents at the end of the year</b>		<b>33,758,637</b>	<b>18,051,972</b>

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

**R&Q Re (Bermuda) Ltd.**  
**Notes to the Consolidated Financial Statements**  
For the year ended December 31, 2020  
(Expressed in United States Dollars)

**1. Company information**

R&Q Re (Bermuda) Ltd. (“R&Q Re” or the “Company”) is a limited liability company incorporated and domiciled under the laws of Bermuda with registration number 41047. The Company is a subsidiary of Randall & Quilter II Holdings Limited, a company domiciled in the UK. The ultimate parent of the group is Randall & Quilter Investment Holdings Ltd. (the “Group”), a Bermuda domiciled company that is listed on the London AIM exchange (ticker: RQIH). The address of the Company’s registered office is:

2 Church Street  
Hamilton HM 11  
Bermuda

R&Q Re is registered as a Class 3A insurer under the Insurance Act 1978, amendments thereto and related Regulations (“the Insurance Act”) and underwrites short-term property and casualty insurance risks. Effective September 30, 2020, R&Q Re is also registered as a segregated account company under the provisions of the Segregated Accounts Company Act 2000.

On September 18, 2018, the Company purchased 100% of the share capital of R&Q Bermuda (SAC) Ltd (“R&Q Bermuda SAC”), a Bermuda limited liability company from a related entity. On June 26, 2019, the Company purchased 100% of the share capital of BERDA Developments Limited (“BERDA”), a Bermuda limited liability company from another related party. R&Q Bermuda SAC and BERDA were both merged into R&Q Re with effect from December 31, 2020. On December 31, 2019, the Company purchased 100% of the share capital of Distinguished Re Ltd (“Distinguished Re” a Barbados limited liability company), from Distinguished LLC.

On December 29, 2020, the Company purchased 100% of the share capital of Mondy Reinsurance Ltd. (“Mondy”), a Bermuda limited liability company from DSV Panalpina A/S. Mondy was merged into R&Q Re with effect from December 31, 2020.

These consolidated financial statements reflect the activity of the Company and its wholly owned subsidiary, Distinguished Re. Distinguished Re is an insurance company which has been in run-off since 2019.

During the year ended December 31, 2020, the Company entered into eight reinsurance transactions (2019 – eleven), six with related parties (2019: eleven) and two with external ceding companies (2019: none). The insurance liabilities assumed are primarily related to US casualty risks.

The Company’s consolidated financial statements have been authorised for issue by the Board of Directors on May 17, 2021.



**R&Q Re (Bermuda) Ltd.**  
**Notes to the Consolidated Financial Statements**  
For the year ended December 31, 2020  
(Expressed in United States Dollars)

**2. Significant accounting policies**

**2.1. Basis of preparation**

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”) and in accordance with the provisions of the Companies Act 1981, and amendments thereto.

The consolidated financial statements have been prepared on an historical cost basis, except for available for sale financial assets which are carried at fair value. The consolidated financial statements are presented in US dollars (\$) rounded to the nearest dollar, unless otherwise indicated.

The Company presents its consolidated statement of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (no more than 12 months) and more than 12 months after the reporting date (more than 12 months) is presented in the respective notes.

Certain prior period balances have been reclassified to conform to the presentation adopted in the current year.

**Consolidation**

The consolidated financial statements incorporate the financial statements of the Company, and entities controlled by the Company (its subsidiaries), for the years ended December 31, 2020 and 2019. Control exists when the Company is exposed to, or has the right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Company takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial results of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The Company uses the acquisition method of accounting to account for business combinations. The cost of an acquisition is measured as the fair value of the assets received, equity instruments issued and liabilities incurred or assumed at the date of the acquisition directly attributable to the acquisition. A purchase price paid that is in excess of the fair value of the net assets (“goodwill”) arising from a business combination is recorded as an asset and is not amortized. Where the total fair value of net assets acquired exceeds consideration paid (“negative goodwill”), the acquirer will record a gain as a result of the bargain purchase, to be recognized through the consolidated statement of profit and other comprehensive income at the close of the transaction. Acquisition related costs are charged to the consolidated statement of profit and other comprehensive income in the year in which they are incurred.

Intercompany transactions and balances are eliminated in preparing the consolidated financial statements.

**New and amended standards adopted by the Company**

In the current year, the Company has applied the following amendment to IFRSs issued by the IASB that are mandatory for an accounting period that began on or after January 1, 2020:

- Amendments to References to Conceptual Framework in IFRS standards
- Definition of Material (Amendments to International Accounting Standards (“IAS”) 1 and IAS 8

## R&Q Re (Bermuda) Ltd.

### Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

(Expressed in United States Dollars)

- Definition of a Business (Amendment to IFRS 3)
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7).

None of the above amendments had an impact on the Company's consolidated financial statements.

#### **New and amended standards yet to be adopted by the Company**

A number of new standards and amendments to standards in issue are not yet effective for the year ended December 31, 2020 and have not been applied in the preparation of these consolidated financial statements. Those which are relevant to the consolidated financial statements of the Company are as follows:

- IFRS 17, "Insurance Contracts" issued in May 2017, sets out the requirements that a Company should apply in reporting information about insurance contracts it issues and reinsurance contracts it holds. The standard is effective for annual periods beginning on or after January 1, 2023, with early adoption permitted.
- IFRS 9, "Financial Instruments" issued in July 2014, replaces IAS 39, "Financial Instruments: Recognition and Measurement", and will change the classification and measurement of financial assets and liabilities. Amendments in Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' (Amendments to IFRS 4) issued in September 2016 provide two options for entities that issue insurance contracts within the scope of IFRS 4:
  - an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets, the 'overlay approach';
  - an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4, the 'deferral approach'

The Company has taken the temporary exemption, and does not plan to adopt IFRS 9 and IFRS 17 early; instead it will apply them with effect from January 1, 2023.

The Company anticipates that IFRS 9 and IFRS 17 will have a material impact on the consolidated financial statements' presentation and disclosures. The accounting developments and implementation timelines of these standards are being closely monitored and the impacts of the standards themselves are being reviewed. Full impact analysis in respect of these standards is in the process of being completed. A brief overview of these standards is provided below:

- IFRS 17 allows insurers to continue to use various accounting practices already in place with a single principle-based accounting framework applicable to all types of insurance contracts (including reinsurance contracts)
- IFRS 9 provides a reform of accounting for financial instruments to supersede IAS 39, "Financial Instruments: Recognition and Measurement". The standard contains the requirements for a) the classification and measurement of financial liabilities; b) a new impairment methodology, and c) general hedge accounting.

**R&Q Re (Bermuda) Ltd.**  
**Notes to the Consolidated Financial Statements**  
For the year ended December 31, 2020  
(Expressed in United States Dollars)

2.2. Summary of significant accounting policies

a. Product classification

Insurance contracts are those contracts where the Company (the insurer) has accepted significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits payable after an insured event with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during the period, unless all rights and obligations are extinguished or expire.

b. Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

**Financial assets**

***Initial recognition and measurement***

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss ("FVPL"), loans and receivables, held to maturity ("HTM") investments, available-for-sale ("AFS") financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. Financial assets are recognised initially at fair value plus, in the case of investments not at FVPL, directly attributable transaction costs that are attributable to the acquisition of the financial asset.

The classification depends on the purpose for which the financial assets were acquired or originated. Financial assets are classified as at FVPL where the Company's documented investment strategy is to manage financial investments on a fair value basis.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e. the date that the Company commits to purchase or sell the asset.

The Company's financial assets include cash and cash equivalents, financial assets at fair value through profit and loss, financial assets classified as available for sale, funds withheld, insurance receivables and loans and other receivables.

***Subsequent measurement***

For purposes of subsequent measurement, financial assets are classified as either:

- Financial assets at FVPL
- Loans and receivables
- HTM investments
- AFS financial assets

**R&Q Re (Bermuda) Ltd.**  
**Notes to the Consolidated Financial Statements**  
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From January 1, 2020, the Company no longer classifies any of its financial assets as HTM investments or AFS financial assets. The Company reclassified its AFS financial assets to financial assets at fair value through profit and loss as of that date.

**Financial assets at fair value through profit and loss**

All financial assets, other than cash and cash equivalents, funds withheld, insurance receivables and loans and other receivables, are currently designated as fair value through profit and loss upon initial recognition because they are managed, and their performance is evaluated, on a fair value basis. Information about these financial assets is provided internally on a fair value basis to the Company's key management. The Company's investment strategy is to invest and evaluate their performance with reference to their fair values.

**Available-for-sale financial assets**

Until January 1, 2020, AFS financial assets included equity and debt securities. Equity investments classified as AFS were those that were neither classified as held for trading nor designated as FVPL. Debt securities in this category were those that were intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions. During 2020, any securities which were not sold or did not mature during the year were reclassified to financial assets at FVPL. This reclassification had an immaterial impact on current year income and was not retrospectively adjusted.

Prior to the reclassification of the AFS financial assets, at subsequent measurement, AFS financial assets were carried in the consolidated financial statements at fair value, with unrealised gains or losses recognised in other comprehensive income ("OCI").

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company has designated its cash and cash equivalents, funds withheld, insurance receivables and loans and other receivables as Loans and receivables. After initial measurement, loans and receivables are measured at amortised cost, using the effective interest rate ("EIR") method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in 'investment income' in the consolidated statement of profit and other comprehensive income. Gains and losses are recognised in the consolidated statement of profit and other comprehensive income when the investments are derecognised or impaired, as well as through the amortisation process.

**Derecognition of financial assets**

A financial asset (or, when applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired, or;
- The Company has transferred its right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either: (a) the Company has transferred substantially all the risks and rewards of the asset or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

**R&Q Re (Bermuda) Ltd.**  
**Notes to the Consolidated Financial Statements**  
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When the Company has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

***Impairment of financial assets***

The Company assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets, which are not classified as financial assets at FVPL is impaired. A financial asset, or a group of financial assets, is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

**Available-for-sale financial assets**

For AFS financial assets, the Company assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as AFS, objective evidence would include a 'significant or prolonged' decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of profit and other comprehensive income – is removed from OCI and recognised in the consolidated statement of profit and other comprehensive income. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised directly in OCI.

The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Company evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of profit and other comprehensive income.

Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of investment income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was

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recognised in the consolidated statement of profit and other comprehensive income, the impairment loss is reversed through the consolidated statement of profit and other comprehensive income.

Subsequent to January 1, 2020, all financial assets previously classified as AFS were reclassified to FVPL therefore no additional impairment adjustments are required.

**Financial liabilities**

***Initial recognition and measurement***

Financial liabilities are classified at initial recognition, as financial liabilities at FVPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and insurance liabilities, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables which are classified as payables, and borrowings in the form of floating rate subordinated notes (see Note 14) which is classified as loans and borrowings.

***Subsequent measurement***

After initial recognition, loans and borrowings are subsequently measured at amortised cost. Gains and losses are recognised in the consolidated statement of profit and other comprehensive income when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by considering any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in the consolidated statement of profit and other comprehensive income.

***Derecognition of financial liabilities***

A financial liability is derecognised when the obligation under the liability is discharged, cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated statement of profit and other comprehensive income.

c. **Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount is only reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

d. **Fair value measurement**

The Company measures the fair value of an instrument, classified as either financial assets at FVPL, available for sale financial assets or financial liabilities at FVPL, at fair value at each reporting date.

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Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability or;
- In the absence of a principal market, in the most advantageous market for the asset or liability; and
- The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, if market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets, liabilities and equity items for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole.

- Level 1 – Valuations based on quoted prices in active markets for identical instruments. An active market is a market in which transactions for the instrument occur with sufficient frequency and volume on an ongoing basis such that quoted prices reflect prices at which an orderly transaction would take place between market participants at the measurement date.
- Level 2 – Valuations based on quoted prices in markets that are not active or based on pricing models for which significant inputs can be corroborated by observable market data.
- Level 3 – Valuations based on inputs that are unobservable or for which there is limited activity against which to measure fair value.

For assets that are measured at fair value in the consolidated financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Refer to note 3 for disclosure on the fair value hierarchy of the Company's financial assets.

e. Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration receivable. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the consolidated statement of profit and other comprehensive income.

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f. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments maturing within 90 days from the date of acquisition that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above.

g. Taxes

At the present time, no income, profit, capital, or capital gain taxes are levied in Bermuda and accordingly, no provision for such taxes has been recorded by the Company. In the event that such taxes are levied, the Company has received an undertaking from the Bermuda Government exempting it from all such taxes until March 31, 2035.

The Company's wholly owned subsidiary, Distinguished Re is deemed liable for tax at a rate of 8% on the first \$125,000 of taxable income. Any taxable income exceeding this amount is tax exempt under the Barbados Exempt Insurance Act.

h. Foreign currency translation

The Company's functional currency and reporting currency is United States Dollars ("USD"). Transactions in foreign currencies are recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the end of the reporting period, the resulting exchange gain or loss is recognised in the consolidated statement of profit and other comprehensive income. Non-monetary items and equity items recorded at historical cost in foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently retranslated.

i. Insurance liabilities

Insurance liabilities include the outstanding claims provision, the provision for unearned premiums and the provision for premium deficiency. The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and net of assets established for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims. Therefore, the ultimate cost of these cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the obligation to pay a claim expires, is discharged, or is cancelled.

The insurance liabilities including incurred but not reported ("IBNR") provisions are based upon actuarial and other studies of the ultimate cost of liabilities including exposure based and statistical estimation techniques. There are significant uncertainties inherent in the estimation of the Company's insurance liabilities. There are many assumptions and estimation techniques that may be applied in assessing the amount of those provisions which individually could have a material impact on the amounts of liabilities and reported shareholder's equity. Actual experience will often vary from these assumptions, and any consequential adjustments to amounts previously reported will be reflected in the results of the year in which they are identified. Potential adjustments arising in the future could, if adverse in the aggregate, exceed the amount of shareholder's equity funds.



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The provision for unearned premiums represents that portion of premiums received or receivable that relates to risks that have not yet expired at the reporting date. The provision is recognised when contracts are entered into and premiums are charged and is brought to account as premium income over the term of the contract in accordance with the pattern of insurance service provided under the contract.

At each reporting date, the Company reviews its unexpired risk and a liability adequacy test is performed in accordance with IFRS to determine whether there is any overall excess of expected claims and deferred acquisition costs (“DAC”) over unearned premiums. This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to the insurance liabilities. If these estimates show that the carrying amount of the unearned premiums (less related DAC) is inadequate, the deficiency is recognised in the consolidated statement of profit and other comprehensive income by setting up a provision for premium deficiency.

j. Insurance payables

Insurance payables are recognised when due and measured on initial recognition at the fair value of the consideration payable. Insurance payables are included within Trade and other payables in the consolidated statement of financial position. Insurance payables are derecognised when the obligation under the liability is discharged, cancelled or expires.

k. Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statement of profit and other comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

l. Intangible assets

Intangible assets, other than goodwill, that are acquired separately are stated at cost less accumulated amortisation and impairment.

Intangible assets acquired in a business combination, and recognised separately from goodwill, are recognised initially at fair value at the acquisition date. Intangible assets comprise the value of business acquired and are amortized over the estimated payment pattern through operating expenses in the consolidated statement of profit and other comprehensive income.

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the consolidated statement of profit and other comprehensive income to reduce the carrying amount to the recoverable amount.

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m. Equity movements

**Ordinary share capital**

The Company has ordinary shares that are classified as equity instruments. Incremental external costs that are directly attributable to the issue of these shares are recognised in equity.

**Additional paid-in capital**

The Company records amounts received from its parent as contributions to its capital, other than from the issuance of shares, as additional paid-in capital on the consolidated statement of financial position.

**Dividends on ordinary share capital**

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Company's shareholders.

Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date.

n. Revenue recognition

**Gross premiums**

Gross insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the reporting period. They are recognised on the date on which the policy commences. Premiums include any adjustments arising in the reporting period for premiums receivable in respect of business written in prior accounting periods. Premiums collected by intermediaries, but not yet received, are included as pipeline premiums in premiums written based on estimates from underwriters or past experience.

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are calculated on a daily pro rata basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

**Adverse development cover ("ADC"), Excess of loss ("XoL") and Loss portfolio transfers ("LPT")**

Premiums arising from ADC, XoL and LPT contracts covering expired risks are recognised as written and earned premiums in the consolidated statement of profit and other comprehensive income on the effective date of the contract. Where insurance liabilities have been assumed as part of an ADC contract, the liabilities are recognised in the consolidated statement of financial position as part of Insurance Liabilities.

**Investment income**

Interest income is recognised in the consolidated statement of profit and other comprehensive income as it accrues.

Investment income also includes dividends when the right to receive payment is established.

**Realised gains and losses**

Realised gains and losses recorded in the consolidated statement of profit and other comprehensive income include gains and losses on financial assets. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original, or amortised cost and are recorded on occurrence of the sale transaction.

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**Finance costs**

Interest paid is recognised in the consolidated statement of profit and other comprehensive income as it accrues. Accrued interest is included within the carrying value of the interest-bearing financial liability.

**2.3 Significant accounting judgements, estimates and assumptions**

The preparation of the Company's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future reporting periods.

Other disclosures relating to the Company's exposure to risks and uncertainties include:

- Capital management - Note 3
- Financial risk management and policies - Note 3
- Sensitivity analyses disclosures - Note 3

**3. Management of insurance and financial risks**

The Company's activities expose it to a variety of insurance and financial risks. The Board is responsible for managing the Company's exposure to these risks and, where possible, for introducing controls and procedures that mitigate the effects of the exposure to risk.

The Audit, Risk and Compliance Committee of the Company, which is a formal Committee of the Board, is responsible for maintaining the effectiveness of the Company's Risk Management Framework, systems of internal control, risk policies and procedures and adherence to risk appetite.

The following describes the Company's exposure to the more significant risks and the steps management has taken to mitigate their impact from a quantitative and qualitative perspective.

**a. *Investment risks (including market risk and interest rate risk)***

The Group Capital and Investment Committee ("GCIC") recommends to the Board, an investment strategy for the management of the Company's assets. The investment of the Company's financial assets, except certain deposits with ceding undertakings, is managed by external investment managers, appointed by the Company upon the advice of GCIC. The policy to be followed by the investment managers is determined by the Company, having regard for the regulatory requirements that the Company is subject to. The investment strategy strives to mitigate the impact of interest rate fluctuation and credit risks and to provide appropriate liquidity, in addition to monitoring and managing foreign exchange exposures.

The GCIC is responsible for monitoring the investment control procedures, monitoring and recommending amendments (where appropriate) to the investment policies and oversight, monitoring the Company's cash flow, oversight of all banking and other financial commitments and covenants across the Company, as well as any regulatory requirements in relation to the Company's solvency.

The main objective of the investment policy is to maximise return whilst maintaining and protecting the principal value of funds under management.

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The investment allocation at December 31, 2020 and 2019 is shown below:

	2020		2019	
	\$	%	\$	%
Government and government agency	18,022,005	12%	3,959,421	18%
Corporate bonds	110,908,160	76%	-	0%
Equities	408,903	0%	677,550	3%
Bond mutual funds	17,789,779	12%	-	0%
Fixed term deposits	-	0%	17,192,329	79%
	<u>147,128,847</u>	<u>100%</u>	<u>21,829,300</u>	<u>100%</u>

Corporate bonds include asset backed securities/mortgage obligations totalling \$15,367,537 (2019: \$nil).

**(i) Pricing risk**

Pricing risk is the risk of volatility of earnings as a result of changes in the price of the Company's invested assets.

The following table shows the fair values of financial assets using the valuation hierarchy as disclosed in note 2(d):

2020	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Government and government agencies	5,925,007	12,096,998	-	18,022,005
Corporate bonds	14,623,811	96,284,349	-	110,908,160
Equities	408,903	-	-	408,903
Bond mutual funds	17,789,779	-	-	17,789,779
<b>Total financial assets measured at fair value</b>	<u>38,747,500</u>	<u>108,381,347</u>	<u>-</u>	<u>147,128,847</u>
<b>2019</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	\$	\$	\$	\$
Government and government agencies	3,959,421	-	-	3,959,421
Equities	677,550	-	-	677,550
Fixed term deposits	17,192,329	-	-	17,192,329
<b>Total financial assets measured at fair value</b>	<u>21,829,300</u>	<u>-</u>	<u>-</u>	<u>21,829,300</u>

Based on invested assets at external managers with a value of \$152,158,759 (2019: \$26,054,937) comprising of financial assets and cash deposited with investment managers, as at December 31, 2020, a 1% increase/decrease in market values would result in an increase/decrease in the profit before income taxes of \$1,521,588 (2019: \$260,549).

There were no transfers between Level 1, 2 and 3 during the years ended December 31, 2020 and 2019.

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***(ii) Liquidity risk***

Liquidity risk is managed by GCIC who monitor the cash position of the Group, and for the Company, on a regular basis to ensure that sufficient funds are available to meet liabilities as they fall due. Liquidity risk is also managed by reference to the Company's overall tolerance for potential liquidity shortfalls, which is monitored by the Group's financial planning and treasury functions established cash flow and liquidity management processes.

A significant proportion of the Company's assets is in highly liquid instruments which could be converted to cash in a prompt fashion. The Company's equity investments can be sold at short notice and loans receivable from Group entities are repayable on demand. The maturity date and interest rate ranges of the Company's fixed income securities, comprising of corporate bonds and government and government agency securities is as follows:

<b>2020</b>	<b>Total</b>	<b>Less than 12 months</b>	<b>1 – 2 years</b>	<b>2 – 3 years</b>	<b>3 – 5 years</b>	<b>5 years +</b>
Maturity profile (\$)	128,930,165	6,394,250	9,054,753	14,576,701	47,137,495	51,766,966
Interest rate range		0.75-10.0%	0.13-6.88%	0.1-7.38%	0.25-9.75%	0.6-8.5%
<b>2019</b>	<b>Total</b>	<b>Less than 12 months</b>	<b>1 – 2 years</b>	<b>2 – 3 years</b>	<b>3 – 5 years</b>	<b>5 years +</b>
Maturity profile (\$)	3,959,421	579,744	2,254,825	1,124,702	-	150
Interest rate range		0.75-3.5%	1.5-4.65%	1.63-2.84%	-	1.49%

The Company's investments in equities and bond mutual funds have no stated maturity dates.

The Company's financial liabilities are made up primarily of subordinated loan notes, repayable only after the Company has satisfied all other liabilities (see note 14); and insurance liabilities, which are discussed in note 5.

***(iii) Interest rate risk***

The Company is exposed to interest rate risk relating to the Company's financial assets and loans to Group companies.

The GCIC continually monitors investment strategy to minimize and mitigate the impact of changes in interest rates on the Company's financial position.

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The Company has interest bearing assets and liabilities linked to the London Interbank Offered Rate (“Libor”). The effect of increases in Libor in the net assets of the Company is disclosed below:

	Gross value of assets/liabilities linked to Libor	Effect of 1% increase in Libor
	\$	\$
<b>2020</b>		
Interest earning assets	40,290,682	402,907
Interest paying liabilities	(23,582,263)	(235,823)
<b>2019</b>		
Interest earning assets	48,326,738	483,267
Interest paying liabilities	(19,771,430)	(197,714)

The Company has worked with its advisors to identify all of its Libor-based contracts and investments, with a view to transitioning to other risk-free rates ahead of the cessation of Libor at the end of 2021.

**b. Credit risk**

Credit risk arises where counterparties fail to meet their financial obligations as they fall due. The most significant area where it arises for the Company is where ceding insurers are withholding premium or collateral under funds withheld arrangements, in excess of the obligations ceded under those contracts. In addition, the Company is exposed to credit risk from its ultimate parent with respect to intercompany borrowings, if they are unable meet their obligations in full as they fall due. In addition, the Company is exposed to the risk of disputes on individual claims presented to its reinsurers or in relation to the contracts entered into with its reinsurers through its syndicate participations or from excess of loss protections purchased by the Company.

Balances receivable at the consolidated statement of financial position date are as follows:

	2020 \$	Reduction for 1% bad debt (\$)	2019 \$	Reduction for 1% bad debt (\$)
Receivable balances from/held at:				
Syndicate participations	151,361,275	1,513,613	96,261,512	962,615
Funds withheld	226,337,504	2,263,375	84,805,272	848,053
Group companies	54,862,726	548,627	85,459,616	854,596
Reinsurance recoverables	598,171	5,982	685,984	6,860
Other receivables	1,556,169	15,562	1,844,345	18,443
	<u>434,715,845</u>		<u>269,056,729</u>	

Balances receivable from syndicate participations comprise of cash of \$10,503,563 (2019: \$11,786,535), investments of \$92,479,165 (2019: \$26,395,251), other receivables of \$77,203,615 (2019: \$68,508,870), deferred acquisition costs of \$3,006,454 (2019: \$3,006,454), offset by other liabilities \$31,831,522 (2019: \$13,435,598) which are net settled in the syndicates. As the receivable relating to the syndicate participations relate to assets within the syndicate, there is reduced credit risk to the Company from not being able to collect those assets, as the assets within the syndicate are to be used first to settle losses of the syndicate.

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Balances receivable from Group companies are deemed to be collectible as the Group has strong liquidity, and has repaid amounts, upon the Company's demand, when required.

The Company considers balances receivable or recoverable from reinsurers to be collectible, either due to previous experience, withheld amounts due by the Company to the reinsurer which can be used to offset the credit risk or due to collateral posted by the Company's reinsurers.

**c. Currency risk**

Currency risk is the risk that the Company is exposed to losses or variability of earnings because of changes in foreign exchange rates.

The Company is exposed to foreign exchange risk primarily arising with respect to transactions carried out in British Pounds and Swiss Francs, with immaterial Canadian Dollar and Euro exposure.

The Company's main objective in managing currency risk is to mitigate exposure to fluctuations in foreign exchange rates. The Company manages this risk by way of matching assets and liabilities by individual business undertaking. Asset and liability matching are monitored by the Group's financial planning and treasury functions' established cash flow and liquidity management processes.

The table below summarises the Company's principal assets and liabilities by major currencies (expressed in equivalent US dollars):

<b>December 31, 2020 (Expressed in USD)</b>	<b>US Dollar</b>	<b>British Pound</b>	<b>Swiss Franc</b>	<b>Other</b>	<b>Total</b>
Intangible asset	1,065,000	-	-	-	1,065,000
Financial assets	130,995,483	16,133,364	-	-	147,128,847
Funds withheld	69,049,871	157,287,633	-	-	226,337,504
Insurance receivables	21,081,512	141,888,397	-	-	162,969,909
Loans and other receivables	29,875,826	15,532,060	547	-	45,408,433
Cash and cash equivalents	12,155,875	174,430	21,050,916	377,416	33,758,637
Borrowings	(19,828,571)	-	-	-	(19,828,571)
Insurance liabilities	(204,085,552)	(242,325,310)	(7,458,778)	(297,829)	(454,167,469)
Trade and other payables	(22,288,153)	-	-	-	(22,288,153)
<b>Net assets</b>	<b>18,021,291</b>	<b>88,690,574</b>	<b>13,592,685</b>	<b>79,587</b>	<b>120,384,137</b>

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<b>December 31, 2019 (Expressed in USD)</b>	<b>US Dollar</b>	<b>British Pound</b>	<b>Swiss Franc</b>	<b>Other</b>	<b>Total</b>
AFS financial assets	21,151,750	677,550	-	-	21,829,300
Funds withheld	84,805,272	-	-	-	84,805,272
Insurance receivables	32,236,242	96,261,512	-	561,194	129,058,948
Loans and other receivables	17,166,241	38,026,268	-	-	55,192,509
Cash and cash equivalents	17,364,796	327,630	-	359,546	18,051,972
Borrowings	(19,771,430)	-	-	-	(19,771,430)
Insurance liabilities	(118,874,677)	(96,360,194)	-	(436,374)	(215,671,245)
Trade and other payables	(13,759,126)	-	-	-	(13,759,126)
<b>Net assets</b>	<b>20,319,068</b>	<b>38,932,766</b>	<b>-</b>	<b>484,366</b>	<b>59,736,200</b>

The following tables reflect the effect of a 1% increase in the strength of the Swiss Franc and British Pound against the US dollar on the British Pound and Swiss Franc denominated net assets of the Company, assuming all other variables remain the same. Exposures in other currencies are immaterial.

<b>Value of GBP denominated net assets at GBP 1: 1.3572 USD</b>	<b>Value of GBP denominated net assets at GBP 1: 1.3436</b>	<b>Reduction in Company's net assets</b>
\$	\$	\$
\$88,690,575	\$87,801,840	\$888,735
<b>Value of CHF denominated net assets at CHF 1: 1.1310 USD</b>	<b>Value of CHF denominated net assets at CHF 1: 1.1197 USD</b>	<b>Reduction in Company's net assets</b>
\$	\$	\$
\$13,592,685	\$13,456,878	\$135,807

**d. Capital management**

The Company's objectives with respect to capital sufficiency are to maintain capital at a level that provides a suitable margin over that deemed by the Company's regulators and supervisors as providing an acceptable level of policyholder protection, whilst remaining economically viable. This currently translates as maintaining capital, comprising share capital, contributed surplus and retained earnings at a level that exceeds the target capital level ("TCL") as calculated under the Bermuda Solvency Capital Requirement ("BSCR").

**Insurance risk**

**(i) Underwriting risk**

The Company reinsures third parties and other Group companies for short term property and casualty insurance risks. The Company's Underwriting Committee is responsible for establishing a framework for the acceptance and monitoring of underwriting risk including appropriate consideration of potential individual and aggregate occurrence exposures, adequacy of reinsurance coverage and potential geographical and demographic concentrations of risk exposure. The potential aggregation of risk concentrations across other operating entities of the Group is monitored by the Group Reinsurance Asset Committee.



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**(ii) Reserving risk**

Reserving risk represents a significant risk to the Company in terms of both driving required capital levels and the threat to volatility of earnings.

Reserving risk is managed through the application of an appropriate reserving approach to existing run-off portfolios and the performance of extensive due diligence on new run-off portfolios and acquisitions prior to acceptance. Reserving exercises undertaken by the in-house actuarial team are supplemented with both scheduled and ad hoc reviews conducted by external actuaries. Reserving risk is also mitigated by the Group through the selective use of reinsurance on certain portfolios and through assuming the inuring reinsurance treaties in place in respect of acquired run-off acquisitions/portfolios.

Note 5 outlines the significant uncertainties surrounding the actuarial projection of ultimate losses.

The sensitivity information given in each of the risk sections above demonstrates the estimated impact of a change in a major input assumption while other assumptions remain unchanged. In reality, there are normally significant levels of correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results. The sensitivity analysis does not take into consideration that the Company's assets and liabilities are actively managed.

**4. Reinsurance**

The Company benefits from reinsurance protection in three ways:

- Inuring reinsurance protection purchased by the syndicates which benefit the syndicate participants (the corporate members) and the Company through its reinsurance of the corporate member. The Company's exposure is net of this reinsurance.
- Inuring reinsurance protection related to specific legacy transactions which was acquired through previous legal entity acquisitions completed by the Company. The Company is exposed to the credit risk of the reinsurer but mitigates this risk by withholding amounts from the reinsurer which exceed the amounts due from that same counterparty.
- Excess of loss reinsurance protection ("XoL reinsurance"), which relates to a portfolio of legacy transactions, which attaches when losses incurred on a portfolio of legacy transactions reaches \$60 million (2019 - \$60 million), providing cover for the next \$40 million (2019 - \$40 million) above that attachment point. The reinsurers on this XoL reinsurance have posted collateral to cover 100% of the \$40 million limit offered.

As at December 31, 2020 the Company has amounts due from reinsurers of \$598,171 (2019 - \$685,982) and is withholding amounts due to reinsurers and collateral totalling \$1,062,392 (2019 - \$1,221,239).

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**5. Insurance liabilities**

Recognised liabilities in respect of insurance contracts obligations are as follows:

	2020	2019
	\$	\$
Outstanding loss reserves (“OSLR”)	152,503,894	89,194,328
Incurred but not reported (“IBNR”) reserve	293,130,760	111,883,529
Unallocated loss adjustment expenses (“ULAE”)	5,121,672	5,258,300
Total unpaid claims reserves	<u>450,756,326</u>	<u>206,336,157</u>
Unearned premium reserve (“UEPR”)	42,020	5,082,102
Losses payable	3,369,123	4,252,986
Total	<u>454,167,469</u>	<u>215,671,245</u>

Movements in OSLR and IBNR for the years ended December 31, 2020 and 2019 is shown in the following table. As the Company is a legacy reinsurer, all but an immaterial amount of the incurred and paid losses are in relation to prior years.

	2020	2019
	\$	\$
Opening balance at January 1	206,336,157	116,922,478
Add: New reinsurance transactions during the year	291,935,397	86,295,983
Add: Reserves acquired through acquisition	7,409,994	21,588,872
Less: Transferred through Reinsurance to Close (“RITC”)	(18,984,875)	-
Losses incurred during the year	1,894,653	20,715,850
Losses paid during the year	(46,566,031)	(40,095,428)
Foreign exchange movement	8,731,031	908,402
Closing balance at December 31	<u>450,756,326</u>	<u>206,336,157</u>

Restricted assets held as collateral securing insurance liabilities were in the form of restricted cash and trust accounts for the benefit of the Company’s ceding insurers, escrow accounts and funds withheld by the Company’s ceding insurers. The composition of the restricted assets as at December 31, 2020 and 2019 were as follows:

	2020	2019
	\$	\$
Financial assets	141,492,656	21,829,300
Funds withheld	226,337,504	84,805,272
Cash and cash equivalents	9,405,350	9,188,071
	<u>377,235,510</u>	<u>115,822,643</u>

***Assumptions, changes in assumptions and sensitivity***

The assumptions used in the estimation of provisions relating to insurance contracts are intended to result in provisions which are sufficient to settle the net liabilities from insurance contracts. The amounts presented above include estimates of future reinsurance recoveries expected to arise on the settlement of the gross insurance liabilities.

Provision is made at the period end date for the estimated ultimate cost of settling all claims incurred in respect of events and developments up to that date, whether reported or not.

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Significant uncertainty exists as to the likely outcome of any individual claim and the ultimate costs of completing the run-off of the Company's insurance operations.

The provisions carried by the Company for its insurance liabilities are calculated using a variety of actuarial techniques. The provisions are calculated and reviewed by the Group's actuarial team, in addition, the Company commissions independent reviews by external actuaries.

The provisions disclosed in the consolidated financial statements are sensitive to a variety of factors including:

- Future cost inflation of legal and other advisors who assist the Company with the settlement of claims
- Changes in statute and legal precedent which could impact provisions for asbestos, pollution, and other latent exposures

A 1 percent reduction in insurance liabilities would increase net assets by \$4,541,675 (2019: \$2,156,712), assuming no changes in other variable factors.

**6. Operating expenses**

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Operating expenses – Syndicates	2,547,219	1,553,546
Internal cost recharges	1,439,654	1,810,140
Actuarial fees	511,475	76,750
Brokerage	225,000	353,962
Audit fees	181,016	121,100
Company and license fees	300,289	175,572
Legal and professional fees	183,406	58,276
Investment expenses	267,552	86,419
Management fees	202,528	195,546
Other	581,743	21
	<u>6,439,882</u>	<u>4,431,332</u>

**7. Employees**

The Company had no employees during the year, but employees of the Group fulfil roles for R&Q Re (2019: nil). The Company receives an allocation of costs from other Group companies to reflect the time spent on the Company's business.

**8. Directors' emoluments**

All executive directors serve without any payment. Until June 30, 2020, three non-executive directors of the Company were compensated for their role as a director of the Company. Two new non-executive directors were appointed on December 11, 2020. The fees paid to non-executive directors are immaterial and, in respect of the three non-executives who served until June 30, 2020, were ancillary to fees charged for the provision of legal and management services to the Company.

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**9. Investment income and Realised (losses) gains on financial assets**

<b>Investment income</b>	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
<u>Financial assets</u>		
Interest earned	1,701,480	1,656,646
Dividend income	81,201	59,945
Unrealised gains (losses)	727,748	-
Recognition of unrealised losses on AFS financial assets reclassified to FVPL at January 1, 2020	(434,103)	-
	<u>2,076,326</u>	<u>1,716,591</u>
 <u>Loans and receivables</u>		
Interest earned on loans	1,727,039	2,086,617
Income earned on funds withheld	1,236,653	-
Income on receivables from Syndicate operations	2,373,826	1,077,172
	<u>5,337,518</u>	<u>3,163,789</u>
 <b>Total investment income</b>	 <u>7,413,844</u>	 <u>4,880,380</u>
 <b>Realised gains on financial assets</b>	 <b>2020</b>	 <b>2019</b>
	<b>\$</b>	<b>\$</b>
Realised (losses) gains	<u>(361,730)</u>	<u>424,058</u>

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**10. Insurance receivables, Funds withheld and Loans and other receivables**

<b>Insurance receivables</b>	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
<u>Due within one year</u>		
Amounts arising out of syndicate insurance operations	123,414,969	56,130,469
Premium receivables	10,262,747	31,451,550
	<u>133,677,716</u>	<u>87,582,019</u>
<u>Due in more than one year</u>		
Amounts arising out of syndicate insurance operations	27,946,307	40,131,043
Premium receivables	1,345,886	1,345,886
	<u>29,292,193</u>	<u>41,476,929</u>
<b>Insurance receivables</b>	<u><b>162,969,909</b></u>	<u><b>129,058,948</b></u>
<b>Funds withheld</b>	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
<u>Due within one year</u>		
Funds withheld	<u>159,255,029</u>	<u>1,967,396</u>
<u>Due in more than one year</u>		
Funds withheld	65,735,755	81,491,155
Amounts held in escrow	1,346,720	1,346,721
	<u>67,082,475</u>	<u>82,837,876</u>
<b>Funds withheld</b>	<u><b>226,337,504</b></u>	<u><b>84,805,272</b></u>
<b>Loans and other receivables</b>	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
<u>Due within one year</u>		
Loans to Group companies	43,670,909	54,643,915
Other debtors and prepayments	1,737,524	548,594
Total	<u>45,408,433</u>	<u>55,192,509</u>

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**11. Trade and other payables**

	2020 \$	2019 \$
<u>Due within one year</u>		
Accrued expenses	2,443,332	2,771,176
Investment payable	3,536,497	-
Intercompany loan payable	3,755,268	-
	<u>9,735,097</u>	<u>2,771,176</u>
<u>Due after one year</u>		
Other payables	12,553,056	10,987,950
	<u>22,288,153</u>	<u>13,759,126</u>

**12. Regulatory capital requirements**

The statutory net income for the Company for the years ended December 31, 2020 and 2019 was \$33,213,000 and \$1,779,000 respectively. Under the Insurance Act 1978, amendments thereto and related Regulations (the “Insurance Act”), the Company is required to prepare consolidated statutory financial statements and to file with the Bermuda Monetary Authority (“BMA”) a statutory financial return. The Insurance Act also requires the Company to maintain certain minimum measures of solvency and liquidity. At December 31, 2020, the statutory capital and surplus of the Company was \$138,339,000 (2019: \$79,459,000) and both the Minimum Margin of Solvency and Liquidity Ratio were met as at December 31, 2020 and 2019.

As a Class 3A (re)insurer, the Company must maintain capital at a level equal to its Enhanced Capital Requirement (“ECR”), which is established by reference to the Bermuda Solvency Capital Requirement (“BSCR”) model. The BSCR model is a risk-based capital model that provides a method for determining a (re)insurer’s capital requirements (statutory capital and surplus) by taking into account the risk characteristics of different aspects of the (re)insurer’s business. The BMA has also established a target capital level (“TCL”) for the Company equal to 120% of its ECR. While the Company is not required to maintain its statutory capital and surplus at this level, the TCL serves as an early warning tool for the BMA and failure to maintain statutory capital at least equal to the TCL will likely result in increased BMA regulatory oversight.

Under the Insurance Act, the Company is restricted as to the declaration and payment of dividends and distributions of more than 25% of its total statutory capital and surplus as shown in its previous year’s Statutory Balance Sheet, unless it files at least seven days prior with the BMA an affidavit stating that the declaration of those dividends has not caused the insurer to fail to meet its relevant margins.

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**13. Related parties**

The Company is a wholly owned subsidiary of Randall & Quilter Investment Holdings Ltd. (the “RQIH” or “the Group”), a company incorporated in Bermuda. As at December 31, 2020, K E Randall has an individual shareholding of less than 5% (2019: 5.68%) in RQIH. Included within the consolidated financial statements are the following balances arising out of contracts with other Group Companies:

	2020	2019
	\$	\$
Funds withheld	53,364,368	67,272,288
Insurance receivables	162,317,037	128,187,782
Loans and other receivables	43,883,513	53,560,589
Insurance liabilities	(201,956,016)	(156,386,731)
Trade and other payables	(16,308,325)	(10,987,949)
Net insurance premium revenue	112,665,363	99,006,136
Investment income	3,265,106	5,372,365
Insurance claim and loss adjustment expenses	(108,118,814)	(69,613,831)
Acquisition costs	(2,710,697)	(3,006,454)
Operating costs	(1,439,654)	(1,810,140)
Finance costs	(111,193)	(1,135,599)

Loans receivable from Group companies are repayable on demand and earn an annual interest of Libor plus 2.75%. The balances at year end are as follows:

- I. Consolidated Loan with Randall & Quilter Investment Holdings Ltd:
  - a. Loan 1 (GBP denominated) - principal \$13,402,422 (2019 – \$32,127,060), and interest receivable of \$2,113,572 (2019 - \$4,716,088)
  - b. Loan 2 (USD denominated) - principal \$(3,753,692) (2019 - \$4,597,319), and interest receivable of \$666,631 (2019 - \$957,018)
  - c. Loan 3 (USD denominated) - principal \$20,000,000 (2019 - \$(494,261)), and interest receivable of \$89,971 (2019 - \$253,675)
  - d. Loan 4 (USD denominated) - principal \$6,500,000 (2019 - \$8,540,000) and interest receivable of \$266,661 (2019 - \$436,830)
- II. R&Q Re (UK) Ltd:
  - a. Loan 1 (GBP denominated) - principal \$nil (2019 - \$nil) and interest receivable of \$16,066 (2019 - \$188,547), during the year, the principal was transferred to Randall & Quilter Investment Holdings Ltd
  - b. Loan 2 (USD denominated) - principal of \$nil (2019 - \$nil), and interest receivable of \$44,572 (2019 - \$410,637), during the year, the principal was transferred to Randall & Quilter Investment Holdings Ltd
- III. Randall and Quilter America Holdings, Inc. (USD denominated) - principal of \$388,260 (2019 - \$804,948), and interest receivable of \$182,754 (2019 - \$154,816)
- IV. Intercompany balances totalling \$533,054 at December 31, 2020 (2019 - \$94,937) which are interest free, unsecured and repayable on demand

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Subsequent to December 31, 2020, the above loans have been consolidated into a single, USD denominated, loan with R&Q Investment Holdings Ltd.

**14. Borrowings**

On December 22, 2016, the Company issued \$20,000,000 Floating Rate Subordinated Notes (“the Notes”). The Notes are redeemable after seven years, subject to the Company’s ability to repay after all other liabilities of the Company are satisfied; these Notes are classified as a non-current liability in the consolidated statement of financial position in accordance with IFRS.

The cash received from the issue of the notes was net of directly attributable costs of \$400,000. As such, the fair value of the notes recognised in the consolidated statement of financial position was initially \$19,600,000. At the year end, the fair value of the notes is \$19,828,571 (2019 - \$19,771,430).

The Bermuda Monetary Authority (“BMA”) granted to the Company the right to recognise the notes as a component of statutory capital. As such, the consolidated statutory statement of financial position reflects the balance of \$20,000,000 in equity which is not consistent with IFRS presentation.

The BMA imposed two conditions on this treatment: (1) Prior to the fifth anniversary of the issue, to give notice to the BMA of the Company’s intent to redeem or repurchase the notes so they can object if deemed necessary, and (2) To notify the BMA of any material change in the terms of the Notes.

At the year end, there was interest receivable of \$19,885 (2019 - receivable of \$20,185), calculated as Libor plus 7.75%, which has been recorded in loans and other receivables in the consolidated statement of financial position (interest accrues daily and is payable annually in June and December).

**15. Share capital**

	Number of shares	Share capital \$	Additional paid-in capital \$	Total \$
At January 1, 2019	70,000	138,900	31,102,749	31,241,649
Additional paid-in capital during the year	-	-	5,400,000	5,400,000
At December 31, 2019	70,000	138,900	36,502,749	36,641,649
Additional paid-in capital during the year	-	-	27,000,710	27,000,710
At December 31, 2020	70,000	138,900	63,503,459	63,642,359

The above represents the total number of shares authorised by the Company, issued and fully paid at GBP 1 par value per share. All capital carries full voting power.



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Contributed surplus represents additional capital contributed by the owner of the Company to enable it to carry out its insurance business activities. In the year to December 31, 2020 the parent contributed \$27,000,710 (2019 - \$5,400,000) to support the Company's growth. Dividends declared and paid were nil (2019: \$10,000,000).

**16. Intangible asset**

As part of the acquisition of Mondi Reinsurance Ltd., the Company recognised an intangible asset for the difference between the fair value of the insurance liabilities acquired and the IFRS basis of the insurance liability under the Company's accounting policies.

	2020
	\$
Opening balance	-
Acquired through business combination	1,065,000
Amortised	-
Closing balance	<u>1,065,000</u>

The intangible asset will be amortised over the expected payout pattern, which is estimated at thirteen years. No amortisation was recognised on the acquired intangible asset for the period from acquisition (December 29, 2020) to December 31, 2020.

**17. Cash and cash equivalents**

	2020	2019
	\$	\$
Cash and cash equivalents	<u>33,758,637</u>	<u>18,051,972</u>

Included in cash and cash equivalents is \$54,737 (2019: \$1,701) of Funds at Lloyd's, which are restricted to its use to support syndicate underwriting activities. The carrying amounts disclosed above reasonably approximate their fair values at the year-end date. Refer to Note 5 for disclosure of restricted cash balances.

Cash and cash equivalents of \$33,758,637 (2019: \$18,051,972) are on deposit with seven financial institutions with credit ratings of A- or higher.

**18. Business combination**

On December 29, 2020, the Company acquired the entire share capital of Mondi Reinsurance Ltd ("Mondi") a Bermuda-domicile, Class 1 reinsurer for consideration of \$11,317,000. Acquisitions of run-off insurance and reinsurance companies is one of the ways in which the Company obtains legacy insurance liabilities, which is its primary purpose. As a result of this transaction, the Company recorded a gain on bargain purchase of \$3,389,469 (2019 - \$1,212,922) in Other income in the consolidated statement of profit and other comprehensive income.

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The fair value of the net assets acquired are summarised as follows:

	\$	\$
<b>Total purchase price</b>		11,317,000
<b>Assets acquired</b>		
Cash and cash equivalents	21,050,916	
Intangible asset	1,065,000	
Loans and other receivables	547	
	<hr/>	22,116,463
<b>Liabilities acquired</b>		
Insurance liabilities	7,409,994	
	<hr/>	(7,409,994)
<b>Net assets acquired</b>		<hr/> 14,706,469
<b>Gain on bargain purchase</b>		<hr/> <hr/> 3,389,469

Due to the proximity of the acquisition date to year-end, the Company recorded the acquisition as if it had been effective on December 31, 2020. The impact on the Company's consolidated statement of profit and other comprehensive income was immaterial. Mondy was merged into the Company effective on December 31, 2020.

Effective June 26, 2019, the Company acquired the entire share capital of Berda, a Class 3 licensed company domiciled in Bermuda, from an affiliated company, Transport Insurance Company, a company incorporated in Ohio for consideration of \$10,554,155. As a result of this transaction, the Company recorded a gain on bargain purchase of \$133,565 in the consolidated statement of profit and other comprehensive income

Effective December 31, 2019, the Company acquired the entire share capital of Distinguished Re, a company incorporated in Barbados from Distinguished LLC, and licensed as an Exempt Insurance Company under the Exempt Insurance Act, Cap. 308A of the laws of Barbados for consideration of \$1. R&Q Re made a capital contribution of \$500,000 to bring the total consideration to \$500,001. As a result of this transaction, the Company recorded a gain on bargain purchase of \$1,079,357 in the consolidated statement of profit and other comprehensive income.

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The fair value of the net assets acquired in the two business combinations in 2019 is summarised as follows:

	\$	\$
<b>Total purchase price</b>		10,554,156
<b>Assets acquired</b>		
Cash and cash equivalents	7,806,704	
Funds withheld	16,589,343	
Insurance receivables	50,385	
Loans and other receivables	9,806,769	
	<u>                    </u>	34,253,201
<b>Liabilities acquired</b>		
Trade and other payables	397,251	
Insurance liabilities	21,588,872	
	<u>                    </u>	(21,986,123)
<b>Net assets acquired</b>		<u>12,267,078</u>
Capital Contribution by R&Q Re		500,000
<b>Gain on bargain purchase</b>		<u><u>1,212,922</u></u>

Berda's net income for the year ended December 31, 2019 was \$302,888, of which \$188,237 has been included in the Company's consolidated statement of profit and other comprehensive income since the date of acquisition.

**19. Finance costs**

	2020	2019
	\$	\$
Group finance charges	111,193	1,135,599
Letter of credit charges	790,955	112,123
Subordinated debt interest	1,841,243	2,079,136
	<u>2,743,391</u>	<u>3,326,858</u>

**20. Subsequent events**

The Company evaluated subsequent events through May 27, 2021 which was the date the consolidated financial statements were authorised for issuance by the Board and no matters were noted requiring disclosure.