

# **Prospero Re Ltd.**

(Incorporated in Bermuda)

Condensed General Purpose Financial Statements

**For the year ended December 31, 2021**

(Expressed in thousands of United States Dollars  
except for number of shares)

## Report of Independent Auditor

To the Board of Directors of  
Prospero Re Ltd.

### Opinions

We have audited the accompanying condensed financial statements of Prospero Re Ltd. (the “Company”), which comprise the condensed balance sheets and condensed statements of capital and surplus as of December 31, 2021 and 2020, and the related condensed statements of income for the years then ended, including the related notes (collectively referred to as the “condensed financial statements”).

#### *Unmodified opinion on regulatory basis of accounting*

In our opinion, the accompanying condensed financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations for the years then ended in accordance with the financial reporting provisions of the Insurance Act 1978, amendments thereto and the Insurance Account Rules 2016 with respect to condensed general purpose financial Statements (the “Legislation”).

#### *Adverse opinion on U.S. generally accepted accounting principles*

In our opinion, because of the significance of the matter discussed in the *Basis for adverse opinion on U.S. generally accepted accounting principles* section of our report, the accompanying condensed financial statements do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2021 and 2020, or the results of its operations for the years then ended.

### Basis for Opinions

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

#### *Basis for adverse opinion on U.S. generally accepted accounting principles*

As described in Note 3 to the condensed financial statements, the condensed financial statements are prepared by the Company on the basis of the financial reporting provisions of the Legislation, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the Bermuda Monetary Authority.

The effects on the condensed financial statements of the variances between the regulatory basis of accounting described in Note 3 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

### Responsibilities of management for the condensed financial statements

Management is responsible for the preparation and fair presentation of the condensed financial statements in accordance with the financial reporting provisions of the Legislation. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the condensed financial statements that are free from material misstatement, whether due to fraud or error.

## Report of Independent Auditor (cont'd)

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

### **Auditor's responsibilities for the audit of the condensed financial statements**

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

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

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

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

*Deloitte Ltd.*

April 20, 2022

**CONDENSED BALANCE SHEET**

Prospero Re Ltd.

As at

**December 31, 2021**

expressed in ['000s]

**United States Dollars**

LINE No.		2021	2020
1.	CASH AND CASH EQUIVALENTS	\$ 237,204	\$ 298,521
2.	QUOTED INVESTMENTS:		
(a)	Bonds and Debentures		
	i. Held to maturity	-	-
	ii. Other	-	-
(b)	Total Bonds and Debentures	-	-
(c)	Equities		
	i. Common stocks	9,066	-
	ii. Preferred stocks	-	-
	iii. Mutual funds	-	-
(d)	Total equities	9,066	-
(e)	Other quoted investments	-	-
(f)	Total quoted investments	9,066	-
3.	UNQUOTED INVESTMENTS:		
(a)	Bonds and Debentures		
	i. Held to maturity	-	-
	ii. Other	-	-
(b)	Total Bonds and Debentures	-	-
(c)	Equities		
	i. Common stocks	-	-
	ii. Preferred stocks	-	-
	iii. Mutual funds	-	-
(d)	Total equities	-	-
(e)	Other unquoted investments	6,375	3,474
(f)	Total unquoted investments	6,375	3,474
4.	INVESTMENTS IN AND ADVANCES TO AFFILIATES		
(a)	Unregulated entities that conduct ancillary services	-	-
(b)	Unregulated non-financial operating entities	-	-
(c)	Unregulated financial operating entities	-	-
(d)	Regulated non-insurance financial operating entities	-	-
(e)	Regulated insurance financial operating entities	-	-
(f)	Total investments in affiliates	-	-
(g)	Advances to affiliates	8,000	9,880
(h)	Total investments in and advances to affiliates	8,000	9,880
5.	INVESTMENTS IN MORTGAGE LOANS ON REAL ESTATE:		
(a)	First liens	-	-
(b)	Other than first liens	-	-
(c)	Total investments in mortgage loans on real estate	-	-
6.	POLICY LOANS	-	-
7.	REAL ESTATE:		
(a)	Occupied by the company (less encumbrances)	-	-
(b)	Other properties (less encumbrances)	-	-
(c)	Total real estate	-	-
8.	COLLATERAL LOANS	-	-
9.	INVESTMENT INCOME DUE AND ACCRUED	1	7
10.	ACCOUNTS AND PREMIUMS RECEIVABLE:		
(a)	In course of collection	-	-
(b)	Deferred - not yet due	-	-
(c)	Receivables from retrocessional contracts	37,654	35,686
(d)	Total accounts and premiums receivable	37,654	35,686
11.	REINSURANCE BALANCES RECEIVABLE:		
(a)	Foreign affiliates	-	-
(b)	Domestic affiliates	-	-
(c)	Pools & associations	-	-
(d)	All other insurers	-	-
(e)	Total reinsurance balance receivable	-	-
12.	FUNDS HELD BY CEDING REINSURERS	-	-

**CONDENSED BALANCE SHEET**

Prospero Re Ltd.

As at

**December 31, 2021**

expressed in ['000s]

**United States Dollars**

LINE No.		2021	2020
13.	SUNDRY ASSETS:		
(a)	Derivative instruments	-	-
(b)	Segregated accounts companies - long-term business - variable annuities	-	-
(c)	Segregated accounts companies - long-term business - other	-	-
(d)	Segregated accounts companies - general business		
	i. Cash and cash equivalents	-	-
	ii. Investment income due and accrued	-	-
	iii. Accounts and premiums receivable	-	-
	iv. Reinsurance balances receivable	-	-
	v. Deferred acquisition costs	-	-
	vi. Prepaid expenses	-	-
(e)	Deposit assets	-	-
(f)	Deferred acquisition costs	8,230	9,569
(g)	Net receivables for investments sold	-	-
(h)	Prepaid Expenses	141	413
(i)	Other Sundry Assets (Specify)	-	-
(j)	Other Sundry Assets (Specify)	-	-
(k)	Total sundry assets	8,371	9,982
14.	LETTERS OF CREDIT, GUARANTEES AND OTHER INSTRUMENTS		
(a)	Letters of credit	-	-
(b)	Guarantees	-	-
(c)	Other instruments	-	-
(e)	Total letters of credit, guarantees and other instruments	-	-
15.	TOTAL	306,671	357,550
	<b>TOTAL INSURANCE RESERVES, OTHER LIABILITIES AND STATUTORY CAPITAL AND SURPLUS</b>		
16.	UNEARNED PREMIUM RESERVE		
(a)	Gross unearned premium reserves	29,712	28,209
(b)	Less: Ceded unearned premium reserve		
	i. Foreign affiliates	-	-
	ii. Domestic affiliates	-	-
	iii. Pools & associations	-	-
	iv. All other insurers	478	-
(c)	Total ceded unearned premium reserve	478	-
(d)	Net unearned premium reserve	29,234	28,209
17.	LOSS AND LOSS EXPENSE PROVISIONS:		
(a)	Gross loss and loss expense provisions	98,500	99,951
(b)	Less : Reinsurance recoverable balance		
	i. Foreign affiliates	-	-
	ii. Domestic affiliates	-	-
	iii. Pools & associations	-	-
	iv. All other reinsurers	1,688	-
(c)	Total reinsurance recoverable balance	1,688	-
(d)	Net loss and loss expense provisions	96,812	99,951
18.	OTHER GENERAL BUSINESS INSURANCE RESERVES	-	-
19.	TOTAL GENERAL BUSINESS INSURANCE RESERVES	126,046	128,160
	<b>LONG-TERM BUSINESS INSURANCE RESERVES</b>		
20.	RESERVE FOR REPORTED CLAIMS	-	-
21.	RESERVE FOR UNREPORTED CLAIMS	-	-
22.	POLICY RESERVES - LIFE	-	-
23.	POLICY RESERVES - ACCIDENT AND HEALTH	-	-
24.	POLICYHOLDERS' FUNDS ON DEPOSIT	-	-
25.	LIABILITY FOR FUTURE POLICYHOLDERS' DIVIDENDS	-	-
26.	OTHER LONG-TERM BUSINESS INSURANCE RESERVES	-	-

**CONDENSED BALANCE SHEET**

Prospero Re Ltd.

As at

**December 31, 2021**

expressed in ['000s]

**United States Dollars**

LINE No.		2021	2020
27.	TOTAL LONG-TERM BUSINESS INSURANCE RESERVES		
(a)	Total Gross Long-Term Business Insurance Reserves	-	-
(b)	Less: Reinsurance recoverable balance on long-term business		
	(i) Foreign Affiliates	-	-
	(ii) Domestic Affiliates	-	-
	(iii) Pools and Associations	-	-
	(iv) All Other Insurers	-	-
(c)	Total Reinsurance Recoverable Balance	-	-
(d)	<b>Total Net Long-Term Business Insurance Reserves</b>	-	-
	<b>OTHER LIABILITIES</b>		
28.	INSURANCE AND REINSURANCE BALANCES PAYABLE	-	5,046
29.	COMMISSIONS, EXPENSES, FEES AND TAXES PAYABLE	9,917	12,054
30.	LOANS AND NOTES PAYABLE	-	-
31.	(a) INCOME TAXES PAYABLE	-	-
	(b) DEFERRED INCOME TAXES	-	-
32.	AMOUNTS DUE TO AFFILIATES	4,123	1,471
33.	ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	482	380
34.	FUNDS HELD UNDER REINSURANCE CONTRACTS:	-	-
35.	DIVIDENDS PAYABLE	-	-
36.	SUNDRY LIABILITIES:		
(a)	Derivative instruments	-	-
(b)	Segregated accounts companies		
	i. Loss and loss expense provisions		
	ii. Amounts due to affiliates		
	iii. Commissions, expenses, fees and taxes payable		
	iv. Unearned premiums		
	v. Insurance and reinsurance balances payable		
	vi. Accounts payable and accrued expenses		
	vii. Equity		
(c)	Deposit liabilities	-	-
(d)	Net payable for investments purchased	-	-
(e)	Other sundry liabilities (specify)	-	-
(f)	Other sundry liabilities (specify)	-	-
(g)	Other sundry liabilities (specify)	-	-
(h)	Total sundry liabilities	-	-
37.	LETTERS OF CREDIT, GUARANTEES AND OTHER INSTRUMENTS:		
(a)	Letters of credit	-	-
(b)	Guarantees	-	-
(c)	Other instruments	-	-
(d)	Total letters of credit, guarantees and other instruments	-	-
38.	TOTAL OTHER LIABILITIES	14,522	18,951
39.	TOTAL INSURANCE RESERVES AND OTHER LIABILITIES	140,568	147,111
	<b>CAPITAL AND SURPLUS</b>		
40.	TOTAL CAPITAL AND SURPLUS	166,103	210,439
41.	TOTAL	306,671	357,550

**CONDENSED STATEMENT OF INCOME**

Prospero Re Ltd.

 As at **December 31, 2021**  
 expressed in ['000s] **United States Dollars**

LINE No.		2021	2020
	<b>GENERAL BUSINESS UNDERWRITING INCOME</b>		
1.	GROSS PREMIUMS WRITTEN		
	(a) Direct gross premiums written	\$ 91,272	\$ 69,875
	(b) Assumed gross premiums written	-	-
	(c) Total gross premiums written	91,272	69,875
2.	REINSURANCE PREMIUMS CEDED	4,049	825
3.	NET PREMIUMS WRITTEN	87,223	69,050
4.	INCREASE (DECREASE) IN UNEARNED PREMIUMS	(1,026)	77
5.	NET PREMIUMS EARNED	86,197	69,127
6.	OTHER INSURANCE INCOME	2,403	-
7.	TOTAL GENERAL BUSINESS UNDERWRITING INCOME	88,600	69,127
	<b>GENERAL BUSINESS UNDERWRITING EXPENSES</b>		
8.	NET LOSSES INCURRED AND NET LOSS EXPENSES INCURRED	69,224	55,603
9.	COMMISSIONS AND BROKERAGE	28,632	22,275
10.	TOTAL GENERAL BUSINESS UNDERWRITING EXPENSES	97,856	77,878
11.	<b>NET UNDERWRITING PROFIT (LOSS) - GENERAL BUSINESS</b>	(9,256)	(8,751)
	<b>LONG-TERM BUSINESS INCOME</b>		
12.	GROSS PREMIUMS AND OTHER CONSIDERATIONS:		
	(a) Direct gross premiums and other considerations	-	-
	(b) Assumed gross premiums and other considerations	-	-
	(c) Total gross premiums and other considerations	-	-
13.	PREMIUMS CEDED	-	-
14.	NET PREMIUMS AND OTHER CONSIDERATIONS:		
	(a) Life	-	-
	(b) Annuities	-	-
	(c) Accident and health	-	-
	(d) Total net premiums and other considerations	-	-
15.	OTHER INSURANCE INCOME	-	-
16.	TOTAL LONG-TERM BUSINESS INCOME	-	-
	<b>LONG-TERM BUSINESS DEDUCTIONS AND EXPENSES</b>		
17.	CLAIMS - LIFE	-	-
18.	POLICYHOLDERS' DIVIDENDS	-	-
19.	SURRENDERS	-	-
20.	MATURITIES	-	-
21.	ANNUITIES	-	-
22.	ACCIDENT AND HEALTH BENEFITS	-	-
23.	COMMISSIONS	-	-
24.	OTHER	-	-
25.	TOTAL LONG-TERM BUSINESS DEDUCTIONS AND EXPENSES	-	-

**CONDENSED STATEMENT OF INCOME**

Prospero Re Ltd.

 As at **December 31, 2021**  
 expressed in ['000s] **United States Dollars**

LINE No.	2021	2020
26.		
INCREASE (DECREASE) IN POLICY RESERVES (ACTUARIAL LIABILITIES):		
(a) Life	-	-
(b) Annuities	-	-
(c) Accident and health	-	-
(d) Total increase (decrease) in policy reserves	-	-
27.	-	-
TOTAL LONG-TERM BUSINESS EXPENSES		
28.	-	-
<b>NET UNDERWRITING PROFIT (LOSS) - LONG-TERM BUSINESS</b>		
29.	(9,256)	(8,751)
<b>COMBINED NET UNDERWRITING RESULTS BEFORE THE UNDERNOTED ITEMS</b>		
<b>UNDERNOTED ITEMS</b>		
30.		
COMBINED OPERATING EXPENSE		
(a) General and administration	1,599	1,814
(b) Personnel cost	-	-
(c) Other	-	238
(d) Total combined operating expenses	1,599	2,052
31.	678	2,049
COMBINED INVESTMENT INCOME - NET		
32.	230	-
COMBINED OTHER INCOME (DEDUCTIONS)		
33.	(9,947)	(8,754)
COMBINED INCOME BEFORE TAXES		
34.		
COMBINED INCOME TAXES (IF APPLICABLE):		
(a) Current	-	-
(b) Deferred	-	-
(c) Total	-	-
35.	(9,947)	(8,754)
COMBINED INCOME BEFORE REALIZED GAINS (LOSSES)		
36.	-	-
COMBINED REALIZED GAINS (LOSSES)		
37.	-	-
COMBINED INTEREST CHARGES		
38.	(9,947)	(8,754)
<b>NET INCOME</b>		

**CONDENSED STATEMENT OF CAPITAL AND SURPLUS**

Prospero Re Ltd.

As at

**December 31, 2021**

expressed in ['000s]

**United States Dollars**

LINE No.		2021	2020
1.	<b>CAPITAL:</b>		
(a)	Capital Stock		
	(i) Common Shares	120	120
	authorized	120,000	
	value	\$ 1,000	
	fully paid	120,000	
		shares of par	
		each issued and	
		shares	
	(ii)		
	(A) Preferred shares:	302,256	285,886
	authorized	499,880	
	value	\$ 1,000,000	
	fully paid	302,256	
		shares of par	
		each issued and	
		shares	
	aggregate liquidation value for –		
	2021	-	
	2020	-	
	(B) Preferred shares issued by a subsidiary:	-	-
	authorized	-	
	value	-	
	fully paid	-	
		shares of par	
		each issued and	
		shares	
	aggregate liquidation value for –		
	2021	-	
	2020	-	
	(iii) Treasury Shares	-	-
	repurchased	-	
	value	-	
		shares of par	
		each issued	
(b)	Contributed surplus	8,000	9,880
(c)	Any other fixed capital	-	-
	(iii) Total any other fixed capital	-	-
(d)	Total Capital	310,376	295,886
2.	<b>SURPLUS:</b>		
(a)	Surplus - Beginning of Year	(85,447)	(86,742)
(b)	Add: Income for the year	(9,947)	(8,754)
(c)	Less: Dividends paid and payable	-	-
(d)	Add (Deduct) change in unrealized appreciation (depreciation) of investments	-	-
(e)	Add (Deduct) change in any other surplus	(48,879)	10,049
(f)	Surplus - End of Year	(144,273)	(85,447)
3.	<b>MINORITY INTEREST</b>	-	-
4.	<b>TOTAL CAPITAL AND SURPLUS</b>	166,103	210,439

# Prospero Re Ltd.

## Notes to the Condensed General Purpose Financial Statements For the year ended December 31, 2021

(Expressed in thousands of United States Dollars except for number of shares)

### **General Notes to the Condensed General Purpose Financial Statements**

#### **1. Nature of business**

Prospero Re Ltd. (the "Company") is a Bermuda exempted Class 3A insurance company, registered as a segregated accounts company under the Segregated Accounts Companies Act 2000 (the "SAC Act"). The Company was incorporated on November 7, 2013 and commenced operations on January 1, 2014.

All of the voting shares of the Company are wholly owned by ILS Capital Management Ltd. (the "Investment Manager") a Bermuda exempted company. The Company issues non-voting preferred shares to The 1609 Fund Ltd. (the "Fund"), a Bermuda exempted company incorporated on July 7, 2011, which has been classified as an institutional fund by the Bermuda Monetary Authority. The Company also issued non-voting preferred shares to Parliament Street Finance LLC ("Parliament"). Other investors, who enter into note purchase agreements with the Company, are issued principal-at-risk notes.

#### **2. General nature of the risks underwritten by the insurer**

The types of business written or assumed by the Company are primarily non-proportional property catastrophe, non-proportional offshore energy and marine as well as non-proportional property catastrophe retrocession. The Company reacts opportunistically to market conditions and anticipates over time that it may write or assume other types of business based on the prevailing customer concerns.

#### **3. Basis of presentation**

These condensed general purpose financial statements are prepared in accordance with financial reporting provisions of the Insurance Act 1978, amendments thereto and the Insurance Account Rules 2016 with respect to condensed general purpose financial statements (the "Legislation"). The recognition and measurement principles applied are in line with accounting principles generally accepted in the United States of America ("US GAAP"). The presentation of these financial statements in accordance with the guidance prescribed under the legislation differs from US GAAP in certain respects as follows:

- The format of the financial statements is prescribed by schedules IX and X of the Insurance Account Rules 2016;
- Statement of Cash Flows or equivalent is not included;
- Certain disclosures required by US GAAP are not included;
- Comprehensive income and its components are not presented in the condensed statement of income; and
- Reserves for loss and loss adjustment expenses and unearned premiums are to be reported net of reinsured amounts.

The effects of the foregoing variances from US GAAP on the accompanying condensed general purpose financial statements have not been determined, but are presumed to be material.

#### **4. Accounting policies of insurer**

##### **(a) Cash and cash equivalents**

Cash and cash equivalents include cash on demand and short-term, highly liquid investments, such as money market funds, that are readily convertible to known amounts of cash and have original maturities of three months or less.

# Prospero Re Ltd.

## Notes to Condensed General Purpose Financial Statements

### For the year ended December 31, 2021

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(Expressed in thousands of United States Dollars except for number of shares)

#### **General Notes to the Condensed General Purpose Financial Statements (continued)**

#### **4. Accounting policies of insurer (continued)**

##### (b) Premiums written

Premiums are recognized as written upon inception of the policy. The Company's insurance policies cover losses occurring during the term of the policy. Premiums written and ceded are earned on a seasonally adjusted basis over the terms of the policies to which they relate. Accordingly, unearned premiums represent the portion of premiums written which is applicable to the unexpired period of the policies in force.

Loss additional premiums are recorded after the occurrence of a significant loss in accordance with the contract terms based on paid losses and case reserves.

##### (c) Policy acquisition costs

Policy acquisition costs consist of commissions, brokerage fees, underwriting and other costs that vary with and are incrementally related to the production of premium. Policy acquisition costs are deferred and amortised over the period in which the related premiums are earned. Deferred policy acquisition costs are reviewed to determine if they are recoverable from future income, including investment income. If such costs are estimated to be unrecoverable, they are expensed.

Other income consists of the Company's share of the policy fees collected on insurance policies during the reported period.

##### (d) Loss and loss expense provisions

The provision for loss and loss reserve expenses includes estimates for losses incurred but not reported as well as losses pending settlement.

The Company makes a provision for losses on contracts only when an event that is covered by the contract has occurred. When a potential loss event has occurred, the Company obtains and uses assessments from counterparties as a baseline, incorporating its own models and historical data regarding loss development, to determine the level of reserves required.

Future adjustments to the amounts recorded as of period-end, resulting from the continual review process, as well as differences between estimates and ultimate settlements, will be reflected in the Company's condensed statements of income in future periods when such adjustments become known. Future changes in management estimates may result in losses and loss expenses materially greater or less than the reserve provided.

##### (e) Reinsurance premiums ceded

In the normal course of business, the Company purchases reinsurance from third-parties in order to manage its exposures. The amount of ceded reinsurance that the Company buys varies from year to year depending on its risk appetite, and the availability and cost of ceded reinsurance. Reinsurance premiums are accounted for on a basis consistent with those used in accounting for the underlying premiums assumed.

##### (f) Foreign currency translation

The U.S. dollar is the functional currency of the Company. These condensed financial statements are also presented in U.S. dollars.

# Prospero Re Ltd.

## Notes to Condensed General Purpose Financial Statements

### For the year ended December 31, 2021

(Expressed in thousands of United States Dollars except for number of shares)

#### **General Notes to the Condensed General Purpose Financial Statements (continued)**

#### **4. Accounting policies of insurer (continued)**

##### (f) Foreign currency translation (continued)

Revenues and expenses and the related unearned premiums and deferred acquisition costs denominated in non-U.S. dollar currencies are translated to the U.S. dollar at the rates of exchange at the transaction date. Monetary assets and liabilities are remeasured at the rates of exchange in effect at the balance sheet date. Transaction gains and losses resulting from foreign currency transactions are recorded in the condensed statements of income.

##### (g) Fair value measurements

FASB Accounting Standard Codification ("ASC") Topic 820, Fair Value Measurements and Disclosures requires additional disclosures for fair value measurements including the following: (i) levels in the fair value hierarchy into which the fair value measurements are categorized in their entirety, (ii) significant transfers between Level 1 and Level 2 and the reasons for those transfers; and (iii) fair value measurements that result from the use of significant unobservable inputs in valuation techniques (Level 3), disclosing separately changes during the period.

There have been no material changes in the Company's valuation techniques.

The fair value of assets and liabilities included on the condensed balance sheet, which qualify as financial instruments under FASB ASC 825, Financial Instruments, approximate the carrying amount presented in the condensed general purpose financial statements.

The following methods and assumptions were used by the Company in estimating fair value disclosures for other financial instruments:

Cash and cash equivalents and cash and cash equivalents held in trust accounts: The carrying amounts reported in the condensed balance sheets for these instruments approximate their fair values.

Other assets and liabilities: The fair values of accrued interest, reinsurance balance receivables, contribution receivables, reinsurance balance payable, amounts due to the Fund and Parliament, accrued expenses and other liabilities approximate their carrying values due to their short term nature. The estimates of fair values presented herein are subjective in nature and are not necessarily indicative of the amounts that the Company would actually realize in a current market exchange. However, any differences would not be expected to be material. Certain balances such as deferred acquisition costs, unearned premium ceded, prepaid expenses, loss and loss adjustment expense reserves and unearned premium are excluded from fair value disclosure. The total fair value amounts therefore cannot be aggregated to determine the underlying economic value of the Company.

##### (h) Investment income and expense

Interest income and expense are recognised on the accrual basis. Dividend income is recognised when the Company's right to receive payments is established on the ex-dividend date and is presented net of withholding tax. During the current year a dividend was received by the Company which was subject to United States Withholding tax of \$29,147. This is included in the combined investment income – net.

##### (i) Investment in Helios Underwriting PLC

The investment in Helios Underwriting PLC is valued using the closing published stock price on the London Stock Exchange and a Bloomberg foreign currency translation rate.

# Prospero Re Ltd.

## Notes to Condensed General Purpose Financial Statements

### For the year ended December 31, 2021

(Expressed in thousands of United States Dollars except for number of shares)

#### **General Notes to the Condensed General Purpose Financial Statements (continued)**

#### **4. Accounting policies of insurer (continued)**

##### (j) Unquoted Investments

The valuation of the investment in NameCo 056741N at December 31, 2021 is comprised of two parts. The capital Funds at Lloyd's ("FAL") are valued monthly by Lloyd's and the underwriting syndicate income is valued on a quarterly basis provided in arrears by third parties and audited on an annual basis.

##### (k) Change in Statutory Capital

The amount of capital surplus resulting after preferred shares is sold for more/ less than its par value.

##### (l) Income taxes

Under the laws of Bermuda, the Company is generally not subject to income taxes. The Company has received an undertaking from the Minister of Finance in Bermuda that in the event that there is enacted in Bermuda any legislation imposing income or capital gains tax, such tax shall not until March 31, 2035 be applicable to the Company. However, certain United States dividend income and interest income may be subject to a 30% withholding tax. Further, certain United States dividend income may be subject to a tax at prevailing treaty or standard withholding rates with the applicable country or local jurisdiction.

The Company is required to determine whether its tax positions are more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit recognised is measured as the largest amount of benefit that has a greater than fifty percent likelihood of being realised upon ultimate settlement with the relevant taxing authority. De-recognition of a tax benefit previously recognised results in the Company recording a tax liability that reduces ending net assets. Based on its analysis, the Company has determined that it has not incurred any liability for unrecognised tax benefits as of December 31, 2021 (2020: Nil). The Company's conclusions may however be subject to review and adjustment at a later date based on factors including, but not limited to, on-going analyses of and changes to tax laws, regulations and interpretations thereof.

The Company recognises interest and penalties related to unrecognised tax benefits in interest expense and other expenses, respectively. No interest, tax-related expense or penalties have been recognised as of and for the years ended December 31, 2021 and 2020. The Company may be subject to potential examination by U.S. federal or foreign jurisdiction authorities in the areas of income taxes for all years since its inception. These potential examinations may include questioning the timing and amount of deductions, the nexus of income among various tax jurisdictions and compliance with U.S. federal or foreign tax laws. The Company was not subjected to any tax examinations during the year ended December 31, 2021.

##### (m) Segregated accounts

The assets and liabilities of segregated accounts are recorded consistently with the general account assets and liabilities. The Company has established a cedant-facing segregated account (the "Cedant-Facing Cell"), which writes reinsurance contracts on behalf of the Company to cover worldwide business in respect of certain reinsured risks as noted above.

The Company has also created certain segregated accounts (the "Investor Segregated Cells") for the benefit of investors who have entered into quota share retrocession agreements with the Company. The quota share percentage per investor is determined by the Company to be applied to each underlying reinsurance contract, taking into account numerous factors, including without limitation the committed capital per investor.

# Prospero Re Ltd.

## Notes to Condensed General Purpose Financial Statements For the year ended December 31, 2021

(Expressed in thousands of United States Dollars except for number of shares)

### General Notes to the Condensed General Purpose Financial Statements (continued)

#### 4. Accounting policies of insurer (continued)

(m) Segregated accounts (continued)

An investor segregated cell is assigned to each investor of the Company, which issues non-voting preference shares or principal-at-risk notes through a subscription and shareholder agreement or a note purchase agreement. The proceeds from subscriptions for preference shares or from the issuance of notes are used to provide collateral to support the obligations of the cedant-facing cell in respect of the underlying reinsurance contract and the payment of fees required by the investor segregated cell.

The Company currently has two segregated accounts: Cedant-Facing Cell 001 and Investor-Segregated Cell 002. As at December 31, 2021 and 2020, all the Preference Shares of the Company were owned by Investor Segregated Cell 002.

The following is a summary of results of the segregated accounts included in the Company's financial statements:

	2021	2020
	\$	\$
Assets:		
Cash and cash equivalents	237,084	298,401
Investment income due and accrued	1	7
Common Stocks	9,066	0
Advances to Affiliates	8,000	9,880
Accounts and premiums receivable	37,654	35,686
Other unquoted investments	6,375	3,474
Deferred acquisition costs	8,230	9,569
Unearned premiums ceded	478	0
Loss Recoverable	1,688	0
Prepaid expenses	141	413
Total segregated account assets	<u>308,717</u>	<u>357,430</u>
Liabilities:		
Loss and loss expense provisions	98,500	99,951
Amounts due to affiliates	4,123	1,471
Commissions, expenses, fees and taxes payable	9,917	12,054
Unearned premiums	29,712	28,209
Insurance and reinsurance balances payable	0	5,046
Accounts payable and accrued expenses	482	380
Total liabilities	<u>142,734</u>	<u>147,111</u>
Equity	165,983	210,319
Total segregated account liabilities	<u>308,717</u>	<u>357,430</u>

5. **Basis of recognition of premium, investment and commission income** – See Note 4 (b), (h) and (c) respectively of the General Notes to the Condensed General Purpose Financial Statements.

6. **Foreign exchange translation** – See Note 4 (f) of the General Notes to the Condensed General Purpose Financial Statements.

7. **Foreign exchange control restrictions** – None

# Prospero Re Ltd.

## Notes to Condensed General Purpose Financial Statements For the year ended December 31, 2021

(Expressed in thousands of United States Dollars except for number of shares)

### **General Notes to the Condensed General Purpose Financial Statements (continued)**

8. **Contingencies or commitments** – None

9. **Default on credit agreements** – None

10. **Dividends** – None

11. **Loans to related parties** – N/A

12. **Retirement benefits** – N/A

13. **Fair value and hierarchy investments** – N/A

14. **Contractual maturity profile of investments** – N/A

15. **Related party transactions**

Pursuant to an underwriting and management services agreement between the Company and the Investment Manager, the Company will pay underwriting fees and profit commission in respect of the covered contracts applicable to the Investor Segregated Cells (See Note 4 (m) of the General Notes to the Condensed General Purpose Financial Statements). The Company will promptly reimburse the Investment Manager for any expenses paid by the Investment Manager on behalf of the Company. No underwriting fees and profit commission were incurred during the years ended December 31, 2021 and 2020.

During the year ended December 31, 2021, the Company commuted the unearned premium reserves quota share 2019 agreement (“UPR Quota Shares”) with Unique Insurance Company (“UIC”), Stonegate Insurance Company (“SIC”), Viva Seguros Insurance Company (“VIVA”) and Lighthouse Insurance Company (“LIC”) (collectively the “Reinsured”), and entered into one new UPR Quota Shares agreement with UIC. The Reinsured are member companies of the Producers National Corporation (“PNC”) holding company. The Fund holds 5,121,940 shares of PNC common stock, representing approximately 91% percent of PNC’s total shares outstanding.

The current year UPR Quota Shares cover losses incurred on or after December 31, 2021 for policies in force as of December 31, 2021 for covered lines of business. As a result, the Company has recorded \$10.8M of gross written premiums, of which \$10.8M is unearned as of December 31, 2021.

During the year ended, the Company also wrote \$36.98M (2020: \$9.09M) of gross premium reinsuring UIC, SIC and VIVA in the normal course of business.

16. **Subsequent events** – N/A

17. **Other information** – None

### **Notes to the Condensed Statement of Capital and Surplus**

1. (a) Capital Stock

(i) Common shares: The authorized common share capital of the Company is 120,000 shares of \$1.00 par value. The minimum subscribed share capital of the Company is 120,000 shares and is fully paid. The Company did not declare any dividends on Common Shares during the years ended December 31, 2021 and 2020.

(ii) Preferred shares: The Company issued and fully paid 302,256 non-voting preference shares of \$1.00 par value. The Company declared Nil dividends on Preference Shares during the years ended December 31, 2021 and 2020, respectively.

(b) Contributed Surplus – The Company’s contributed surplus is \$8M (2020: \$9.88M)

# Prospero Re Ltd.

## Notes to Condensed General Purpose Financial Statements

### For the year ended December 31, 2021

(Expressed in thousands of United States Dollars except for number of shares)

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#### **Notes to the Condensed Statement of Capital and Surplus (continued)**

(c) Dividends paid and payable – N/A

(d) Change in Statutory Capital – The Company's change in statutory capital is \$48.88M (2020: (\$10.05M))

#### **Notes to the Condensed Balance Sheet**

1. Cash and cash equivalents – See Note 4 (a) of the General Notes to the Condensed General Purpose Financial Statements. As of December 31, 2021, \$222.27M of the Company's cash and cash equivalents were encumbered and held in trust to support its fully collateralized reinsurance transactions.
2. Investment in Helios Underwriting PLC – See Note 4 (i) of the General Notes to the Condensed General Purpose Financial Statements.
3. Unquoted Investments – See Note 4 (j) of the General Notes to the Condensed General Purpose Financial Statements.
4. Advances to affiliates - As of December 31, 2021, the Company had a \$8M (2020: \$9.88M) receivable from the Fund.
- 5-8. N/A
9. Investment income due and accrued – See Note 4 (h) of the General Notes to the Condensed General Purpose Financial Statements.
- 10-11. Premiums and reinsurance balances receivable – See Note 4 (b) and (g) of the General Notes to the Condensed General Purpose Financial Statements.
12. N/A
13. Sundry Assets: Segregated accounts companies – general business – See Note 4 (m) of the General Notes to the Condensed General Purpose Financial Statements.
14. N/A
16. Unearned premium reserve – See Note 4 (b) of the General Notes to the Condensed General Purpose Financial Statements.

# Prospero Re Ltd.

## Notes to Condensed General Purpose Financial Statements For the year ended December 31, 2021

(Expressed in thousands of United States Dollars except for number of shares)

### Notes to the Condensed Balance Sheet (continued)

17. Loss and loss expense provisions – See Note 4 (d) of the General Notes to the Condensed General Purpose Financial Statements.

a) The following table presents a reconciliation of the beginning and ending gross and net loss and loss expense provisions for the current and prior year:

	<u>2021</u>	<u>2020</u>
Gross loss and loss expense provisions at beginning of year	\$ 99,951	\$ 117,623
Less: Reinsurance balances receivable at beginning of year	-	-
Net loss and loss expense provisions at beginning of year	99,951	117,623
Net incurred losses and loss expenses:		
Current year	30,342	24,912
Prior years	38,882	30,691
Total net incurred losses and loss expenses	69,224	55,603
Net losses and loss expenses paid or payable related to:		
Current year	(3,636)	(572)
Prior years	(68,727)	(72,703)
Total losses and loss expenses paid or payable	(72,363)	(73,275)
Foreign exchange and other	-	-
Net loss and loss expense provisions at end of year	96,812	99,951
Add: Reinsurance recoverable as of end of period	1,688	-
<b>Gross loss and loss expense provisions at end of year</b>	<b>\$ 98,500</b>	<b>\$ 99,951</b>

b) Reasons for the Change in Net Losses Incurred and Net Loss Expenses: Prior year reserve development arises from changes to losses and loss expense estimates related to loss events that occurred in previous calendar years.

- c) Loss and Loss Expense Provisions
- i. Total restricted assets – N/A
  - ii. Unsecured policyholder obligations – N/A

18. N/A

20-27. N/A

28. Insurance and reinsurance balances payable – See Note 4 (g) of the General Notes to the Condensed General Purpose Financial Statements.

29. Commissions, expenses, fees and taxes payable – N/A

30-31. N/A

32. Amounts due to affiliates – As of December 31, 2021, the Company had a \$1.71M (December 31, 2020 \$1.47M) payable to the Fund and \$2.41M payable to Parliament.

33. Accounts payable and accrued liabilities – Accounts payable and accrued liabilities consist of operating expenses payable.

34-37. N/A

# Prospero Re Ltd.

Notes to Condensed General Purpose Financial Statements

**For the year ended December 31, 2021**

(Expressed in thousands of United States Dollars except for number of shares)

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## ***Notes to the Condensed Statement of Income***

**6.** Other insurance income – See Note 4 (c) of the General Notes to the Condensed General Purpose Financial Statements.

**15.** N/A

**32.** Other income – See Note 4 (h) of the General Notes to the Condensed General Purpose Financial Statements.

**36.** N/A